Committee Reports

104th Congress; 1st Session

House Rpt. 280 Volume II

104 H. Rpt. 280; V.2 (Section 3 of 9;Due to its size, this report has been broken into 9 sections)

PROVIDING FOR RECONCILIATION PURSUANT TO SECTION 105 OF THE CONCURRENT RESOLUTION ON THE BUDGET FOR FISCAL YEAR 1996

**DATE:** October 17, 1995. Ordered to be printed

**SPONSOR:** Mr. Kasich submitted the following Report together with Minority, Additional, and Dissenting Views (Including cost estimate of the Congressional Budget Office)

**COMMITTEE:** from the Committee on the Budget

(To accompany H.R. 2491)

**TEXT:**

The Committee on the Budget, to whom reconciliation recommendations were submitted pursuant to section 105 of House Concurrent Resolution 67, the concurrent resolution on the budget for fiscal year 1996, having considered the same, report the bill without recommendation.

SEC. 14411. GAIN ON CERTAIN STOCK SALES BY CONTROLLED FOREIGN CORPORATIONS TREATED AS DIVIDENDS.

(a) General Rule. Section 964 (relating to miscellaneous provisions) is amended by adding at the end the following new subsection:

"(e) Gain on Certain Stock Sales by Controlled Foreign Corporations Treated as Dividends.

"(1) In general. If a controlled foreign corporation sells or exchanges stock in any other foreign corporation, gain recognized on such sale or exchange shall be included in the gross income of such controlled foreign corporation as a dividend to the same extent that it would have been so included under section 1248(a) if such controlled foreign corporation were a United States person. For purposes of determining the amount which would have been so includible, the determination of whether such other foreign corporation was a controlled foreign corporation shall be made without regard to the preceding sentence.

"(2) Same country exception not applicable. Clause (i) of section 954(c)(3)(A) shall not apply to any amount treated as a dividend by reason of paragraph (1).

"(3) Clarification of deemed sales. For purposes of this subsection, a controlled foreign corporation shall be treated as having sold or exchanged any stock if, under any provision of this subtitle, such controlled foreign corporation is treated as having gain from the sale or exchange of such stock."

(b) Amendment of Section 904(d). Clause (i) of section 904(d)(2)(E) is amended by striking "and except as provided in regulations, the taxpayer was a United States shareholder in such corporation".

(c) Effective Dates.

(1) The amendment made by subsection (a) shall apply to gain recognized on transactions occurring after the date of the enactment of this Act.

(2) The amendment made by subsection (b) shall apply to distributions after the date of the enactment of this Act.

SEC. 14412. MISCELLANEOUS MODIFICATIONS TO SUBPART F.

(a) Section 1248 Gain Taken Into Account in Determining Pro Rata Share.

(1) In general. Paragraph (2) of section 951(a) (defining pro rata share of subpart F income) is amended by adding at the end the following new sentence: "For purposes of subparagraph (B), any gain included in the gross income of any person as a dividend under section 1248 shall be treated as a distribution received by such person with respect to the stock involved."

(2) Effective date. The amendment made by paragraph (1) shall apply to dispositions after the date of the enactment of this Act.

(b) Basis Adjustments in Stock Held by Foreign Corporation.

(1) In general. Section 961 (relating to adjustments to basis of stock in controlled foreign corporations and of other property) is amended by adding at the end the following new subsection:

"(c) Basis Adjustments in Stock Held by Foreign Corporation. Under regulations prescribed by the Secretary, if a United States shareholder is treated under section 958(a)(2) as owning any stock in a controlled foreign corporation which is actually owned by another controlled foreign corporation, adjustments similar to the adjustments provided by subsections (a) and (b) shall be made to the basis of such stock in the hands of such other controlled foreign corporation, but only for the purposes of determining the amount included under section 951 in the gross income of such United States shareholder (or any other United States shareholder who acquires from any person any portion of the interest of such United States shareholder by reason of which such shareholder was treated as owning such stock, but only to the extent of such portion, and subject to such proof of identity of such interest as the Secretary may prescribe by regulations)."

(2) Effective date. The amendment made by paragraph (1) shall apply for purposes of determining inclusions for taxable years of United States shareholders beginning after December 31, 1995.

(c) Determination of Previously Taxed Income in Section 304 Distributions, Etc.

(1) In general. Section 959 (relating to exclusion from gross income of previously taxed earnings and profits) is amended by adding at the end the following new subsection:

"(g) Adjustments for Certain Transactions. If by reason of

"(1) a transaction to which section 304 applies,

"(2) the structure of a United States shareholders holdings in controlled foreign corporations, or

"(3) other circumstances,

there would be a multiple inclusion of any item in income (or an inclusion or exclusion without an appropriate basis adjustment) by reason of this subpart, the Secretary may prescribe regulations providing such modifications in the application of this subpart as may be necessary to eliminate such multiple inclusion or provide such basis adjustment, as the case may be."

(2) Effective date. The amendment made by paragraph (1) shall take effect on the date of the enactment of this Act.

(d) Clarification of Treatment of Branch Tax Exemptions or Reductions.

(1) In general. Subsection (b) of section 952 is amended by adding at the end the following new sentence: "For purposes of this subsection, any exemption (or reduction) with respect to the tax imposed by section 884 shall not be taken into account.".

(2) Effective date. The amendment made by paragraph (1) shall apply to taxable years beginning after December 31, 1986.

SEC. 14413. INDIRECT FOREIGN TAX CREDIT ALLOWED FOR CERTAIN LOWER TIER COMPANIES.

(a) Section 902 Credit.

(1) In general. Subsection (b) of section 902 (relating to deemed taxes increased in case of certain 2nd and 3rd tier foreign corporations) is amended to read as follows:

"(b) Deemed Taxes Increased in Case of Certain Lower Tier Corporations.

"(1) In general. If

"(A) any foreign corporation is a member of a qualified group, and

"(B) such foreign corporation owns 10 percent or more of the voting stock of another member of such group from which it receives dividends in any taxable year,

such foreign corporation shall be deemed to have paid the same proportion of such other members post-1986 foreign income taxes as would be determined under subsection (a) if such foreign corporation were a domestic corporation.

"(2) Qualified group. For purposes of paragraph (1), the term ualified group means

"(A) the foreign corporation described in subsection (a), and

"(B) any other foreign corporation if

"(i) the domestic corporation owns at least 5 percent of the voting stock of such other foreign corporation indirectly through a chain of foreign corporations connected through stock ownership of at least 10 percent of their voting stock,

"(ii) the foreign corporation described in subsection (a) is the first tier corporation in such chain, and

"(iii) such other corporation is not below the sixth tier in such chain.

The term ualified group shall not include any foreign corporation below the third tier in the chain referred to in clause (i) unless such foreign corporation is a controlled foreign corporation (as defined in section 957) and the domestic corporation is a United States shareholder (as defined in section 951(b)) in such foreign corporation. Paragraph (1) shall apply to those taxes paid by a member of the qualified group below the third tier only with respect to periods during which it was a controlled foreign corporation."

(2) Conforming amendments.

(A) Subparagraph (B) of section 902(c)(3) is amended by adding "or" at the end of clause (i) and by striking clauses (ii) and (iii) and inserting the following new clause:

"(ii) the requirements of subsection (b)(2) are met with respect to such foreign corporation."

(B) Subparagraph (B) of section 902(c)(4) is amended by striking "3rd foreign corporation" and inserting "sixth tier foreign corporation".

(C) The heading for paragraph (3) of section 902(c) is amended by striking "where domestic corporation acquires 10 percent of foreign corporation" and inserting "where foreign corporation first qualifies".

(D) Paragraph (3) of section 902(c) is amended by striking "ownership" each place it appears.

(b) Section 960 Credit. Paragraph (1) of section 960(a) (relating to special rules for foreign tax credits) is amended to read as follows:

"(1) Deemed paid credit. For purposes of subpart A of this part, if there is included under section 951(a) in the gross income of a domestic corporation any amount attributable to earnings and profits of a foreign corporation which is a member of a qualified group (as defined in section 902(b)) with respect to the domestic corporation, then, except to the extent provided in regulations, section 902 shall be applied as if the amount so included were a dividend paid by such foreign corporation (determined by applying section 902(c) in accordance with section 904(d)(3)(B))."

(c) Effective Date.

(1) In general. The amendments made by this section shall apply to taxes of foreign corporations for taxable years of such corporations beginning after the date of enactment of this Act.

(2) Special rule. In the case of any chain of foreign corporations described in clauses (i) and (ii) of section 902(b)(2)(B) of the Internal Revenue Code of 1986 (as amended by this section), no liquidation, reorganization, or similar transaction in a taxable year beginning after the date of the enactment of this Act shall have the effect of permitting taxes to be taken into account under section 902 of the Internal Revenue Code of 1986 which could not have been taken into account under such section but for such transaction.

SEC. 14414. REPEAL OF INCLUSION OF CERTAIN EARNINGS INVESTED IN EXCESS PASSIVE ASSETS.

(a) In General.

(1) Repeal of inclusion. Paragraph (1) of section 951(a) (relating to amounts included in gross income of United States shareholders) is amended by striking subparagraph (C), by striking "; and" at the end of subparagraph (B) and inserting a period, and by adding "and" at the end of subparagraph (A).

(2) Repeal of inclusion amount. Section 956A (relating to earnings invested in excess passive assets) is repealed.

(b) Conforming Amendments.

(1) Subparagraph (G) of section 904(d)(3) is amended by striking "subparagraph (B) or (C) of section 951(a)(1)" and inserting "section 951(a)(1)(B)".

(2) Paragraph (1) of section 956(b) is amended to read as follows:

"(1) Applicable earnings. For purposes of this section, the term pplicable earnings means, with respect to any controlled foreign corporation, the sum of

"(A) the amount (not including a deficit) referred to in section 316(a)(1), and

"(B) the amount referred to in section 316(a)(2),

but reduced by distributions made during the taxable year."

(3) Paragraph (3) of section 956(b) is amended to read as follows:

"(3) Special rule where corporation ceases to be controlled foreign corporation. If any foreign corporation ceases to be a controlled foreign corporation during any taxable year

"(A) the determination of any United States shareholders pro rata share shall be made on the basis of stock owned (within the meaning of section 958(a)) by such shareholder on the last day during the taxable year on which the foreign corporation is a controlled foreign corporation,

"(B) the average referred to in subsection (a)(1)(A) for such taxable year shall be determined by only taking into account quarters ending on or before such last day, and

"(C) in determining applicable earnings, the amount taken into account by reason of being described in paragraph (2) of section 316(a) shall be the portion of the amount so described which is allocable (on a pro rata basis) to the part of such year during which the corporation is a controlled foreign corporation."

(4) Subsection (a) of section 959 (relating to exclusion from gross income of previously taxed earnings and profits) is amended by adding "or" at the end of paragraph (1), by striking "or" at the end of paragraph (2), and by striking paragraph (3).

(5) Subsection (a) of section 959 is amended by striking "paragraphs (2) and (3)" in the last sentence and inserting "paragraph (2)".

(6) Subsection (c) of section 959 is amended by adding at the end the following flush sentence:

"References in this subsection to section 951(a)(1)(C) and subsection (a)(3) shall be treated as references to such provisions as in effect on the day before the date of the enactment of the Tax Simplification Act of 1995."

(7) Paragraph (1) of section 959(f) is amended to read as follows:

"(1) In general. For purposes of this section, amounts that would be included under subparagraph (B) of section 951(a)(1) (determined without regard to this section) shall be treated as attributable first to earnings described in subsection (c)(2), and then to earnings described in subsection (c)(3)."

(8) Paragraph (2) of section 959(f) is amended by striking "subparagraphs (B) and (C) of section 951(a)(1)" and inserting "section 951(a)(1)(B)".

(9) Subsection (b) of section 989 is amended by striking "subparagraph (B) or (C) of section 951(a)(1)" and inserting "section 951(a)(1)(B)".

(10) Paragraph (9) of section 1298(b), as redesignated by section 14402, is amended by striking "subparagraph (B) or (C) of section 951(a)(1)" and inserting "section 951(a)(1)(B)".

(11) Subsections (d)(3)(B) and (e)(2)(B)(ii) of section 1298, as redesignated by section 14402, are each amended by striking "or section 956A".

(c) Clerical Amendment. The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 956A.

(d) Effective Date. The amendments made by this section shall apply to taxable years of foreign corporations beginning after September 30, 1995, and to taxable years of United States shareholders within which or with which such taxable years of foreign corporations end.PART III OTHER PROVISIONS

SEC. 14421. EXCHANGE RATE USED IN TRANSLATING FOREIGN TAXES.

(a) Accrued Taxes Translated by Using Average Rate for Year to Which Taxes Relate.

(1) In general. Subsection (a) of section 986 (relating to translation of foreign taxes) is amended to read as follows:

"(a) Foreign Income Taxes.

"(1) Translation of accrued taxes.

"(A) In general. For purposes of determining the amount of the foreign tax credit, in the case of a taxpayer who takes foreign income taxes into account when accrued, the amount of any foreign income taxes (and any adjustment thereto) shall be translated into dollars by using the average exchange rate for the taxable year to which such taxes relate.

"(B) Exception for taxes not paid within following 2 years.

"(i) Subparagraph (A) shall not apply to any foreign income taxes paid after the date 2 years after the close of the taxable year to which such taxes relate.

"(ii) Subparagraph (A) shall not apply to taxes paid before the beginning of the taxable year to which such taxes relate.

"(C) Exception for inflationary currencies. Subparagraph (A) shall not apply to any foreign income taxes the liability for which is denominated in any currency determined to be an inflationary currency under regulations prescribed by the Secretary.

"(D) Cross reference. "For adjustments where tax is not paid within 2 years, see section 905(c).

"(2) Translation of taxes to which paragraph (1) does not apply. For purposes of determining the amount of the foreign tax credit, in the case of any foreign income taxes to which subparagraph (A) of paragraph (1) does not apply

"(A) such taxes shall be translated into dollars using the exchange rates as of the time such taxes were paid to the foreign country or possession of the United States, and

"(B) any adjustment to the amount of such taxes shall be translated into dollars using

"(i) except as provided in clause (ii), the exchange rate as of the time when such adjustment is paid to the foreign country or possession, or

"(ii) in the case of any refund or credit of foreign income taxes, using the exchange rate as of the time of the original payment of such foreign income taxes.

"(3) Foreign income taxes. For purposes of this subsection, the term oreign income taxes means any income, war profits, or excess profits taxes paid or accrued to any foreign country or to any possession of the United States."

(2) Adjustment when not paid within 2 years after year to which taxes relate. Subsection (c) of section 905 is amended to read as follows:

"(c) Adjustments to Accrued Taxes.

"(1) In general. If

"(A) accrued taxes when paid differ from the amounts claimed as credits by the taxpayer,

"(B) accrued taxes are not paid before the date 2 years after the close of the taxable year to which such taxes relate, or

"(C) any tax paid is refunded in whole or in part,

the taxpayer shall notify the Secretary, who shall redetermine the amount of the tax for the year or years affected.

"(2) Special rule for taxes not paid within 2 years. In making the redetermination under paragraph (1), no credit shall be allowed for accrued taxes not paid before the date referred to in subparagraph (B) of paragraph (1). Any such taxes if subsequently paid shall be taken into account for the taxable year in which paid and no redetermination under this section shall be made on account of such payment.

"(3) Adjustments. The amount of tax due on any redetermination under paragraph (1) (if any) shall be paid by the taxpayer on notice and demand by the Secretary, and the amount of tax overpaid (if any) shall be credited or refunded to the taxpayer in accordance with subchapter B of chapter 66 (section 6511 et seq.).

"(4) Bond requirements. In the case of any tax accrued but not paid, the Secretary, as a condition precedent to the allowance of the credit provided in this subpart, may require the taxpayer to give a bond, with sureties satisfactory to and approved by the Secretary, in such sum as the Secretary may require, conditioned on the payment by the taxpayer of any amount of tax found due on any such redetermination. Any such bond shall contain such further conditions as the Secretary may require.

"(5) Other special rules. In any redetermination under paragraph (1) by the Secretary of the amount of tax due from the taxpayer for the year or years affected by a refund, the amount of the taxes refunded for which credit has been allowed under this section shall be reduced by the amount of any tax described in section 901 imposed by the foreign country or possession of the United States with respect to such refund; but no credit under this subpart, or deduction under section 164, shall be allowed for any taxable year with respect to any such tax imposed on the refund. No interest shall be assessed or collected on any amount of tax due on any redetermination by the Secretary, resulting from a refund to the taxpayer, for any period before the receipt of such refund, except to the extent interest was paid by the foreign country or possession of the United States on such refund for such period."

(b) Authority to Use Average Rates.

(1) In general. Subsection (a) of section 986 (as amended by subsection (a)) is amended by redesignating paragraph (3) as paragraph (4) and inserting after paragraph (2) the following new paragraph:

"(3) Authority to permit use of average rates. To the extent prescribed in regulations, the average exchange rate for the period (specified in such regulations) during which the taxes or adjustment is paid may be used instead of the exchange rate as of the time of such payment."

(2) Determination of average rates. Subsection (c) of section 989 is amended by striking "and" at the end of paragraph (4), by striking the period at the end of paragraph (5) and inserting ", and", and by adding at the end the following new paragraph:

"(6) setting forth procedures for determining the average exchange rate for any period."

(3) Conforming amendments. Subsection (b) of section 989 is amended by striking "weighted" each place it appears.

(c) Effective Dates.

(1) In general. The amendments made by subsections (a)(1) and (b) shall apply to taxes paid or accrued in taxable years beginning after December 31, 1995.

(2) Subsection (a)(2). The amendment made by subsection (a)(2) shall apply to taxes which relate to taxable years beginning after December 31, 1995.

SEC. 14422. ELECTION TO USE SIMPLIFIED SECTION 904 LIMITATION FOR ALTERNATIVE MINIMUM TAX.

(a) General Rule. Subsection (a) of section 59 (relating to alternative minimum tax foreign tax credit) is amended by adding at the end the following new paragraph:

"(3) Election to use simplified section 904 limitation.

"(A) In general. In determining the alternative minimum tax foreign tax credit for any taxable year to which an election under this paragraph applies

"(i) subparagraph (B) of paragraph (1) shall not apply, and

"(ii) the limitation of section 904 shall be based on the proportion which

"(I) the taxpayers taxable income (as determined for purposes of the regular tax) from sources without the United States (but not in excess of the taxpayers entire alternative minimum taxable income), bears to

"(II) the taxpayers entire alternative minimum taxable income for the taxable year.

"(B) Election.

"(i) In general. An election under this paragraph may be made only for the taxpayers first taxable year which begins after December 31, 1995, and for which the taxpayer claims an alternative minimum tax foreign tax credit.

"(ii) Election revocable only with consent. An election under this paragraph, once made, shall apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary."

(b) Effective Date. The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

SEC. 14423. MODIFICATION OF SECTION 1491.

(a) General Rule. So much of chapter 5 (relating to tax on transfers to avoid income tax) as precedes section 1492 is amended to read as follows:"CHAPTER 5 TREATMENT OF TRANSFERS TO AVOID INCOME TAX"Sec. 1491. Recognition of gain."Sec. 1492. Exceptions.

"SEC. 1491. RECOGNITION OF GAIN.

"In the case of any transfer of property by a United States person to a foreign corporation as paid-in surplus or as a contribution to capital, to a foreign estate or trust, or to a foreign partnership, for purposes of this subtitle (other than for purposes of section 679), such transfer shall be treated as a sale or exchange for an amount equal to the fair market value of the property transferred, and the transferor shall recognize as gain the excess of

"(1) the fair market value of the property so transferred, over

"(2) the adjusted basis (for purposes of determining gain) of such property in the hands of the transferor."

(b) Conforming Amendments.

(1) Section 1057 is hereby repealed.

(2) Section 1492 is amended to read as follows:

"SEC. 1492. EXCEPTIONS.

"The provisions of section 1491 shall not apply

"(1) If the transferee is an organization exempt from income tax under part I of subchapter F of chapter 1 (other than an organization described in section 401(a)),

"(2) To a transfer described in section 367, or

"(3) To any other transfer, to the extent provided in regulations in accordance with principles similar to the principles of section 367 or otherwise consistent with the purpose of section 1491."

(3) Section 1494 is hereby repealed.

(4) Paragraph (8) of section 6501(c) is amended by inserting "or on any transfer by reason of section 1491" after "section 367".

(5) Subsection (a) of section 6038B is amended by striking "or" at the end of paragraph (1), by adding "or" at the end of paragraph (2), and by inserting after paragraph (2) the following new paragraph:

"(3) makes any transfer described in section 1491,".

(6) The table of sections for part IV of subchapter O of chapter 1 is amended by striking the item relating to section 1057.

(7) The table of chapters for subtitle A is amended by striking "Tax on" in the item relating to chapter 5 and inserting "Treatment of".

(c) Effective Date. The amendments made by this section shall apply to transfers after December 31, 1995.

SEC. 14424. MODIFICATION OF SECTION 367(b).

(a) General Rule. Paragraph (1) of section 367(b) is amended to read as follows:

"(1) In general. In the case of any transaction described in section 332, 351, 354, 355, 356, or 361 in which the status of a foreign corporation as a corporation is a general condition for nonrecognition by 1 or more of the parties to the transaction, income shall be required to be recognized to the extent provided in regulations prescribed by the Secretary which are necessary or appropriate to prevent the avoidance of Federal income taxes. This subsection shall not apply to a transaction in which the foreign corporation is not treated as a corporation under subsection (a)(1)."

(b) Effective Date. The amendment made by subsection (a) shall apply to transfers after December 31, 1995.

SEC. 14425. INCREASE IN FILING THRESHOLDS FOR RETURNS AS TO ORGANIZATION OF FOREIGN CORPORATIONS AND ACQUISITIONS OF STOCK IN SUCH CORPORATIONS.

(a) In General. Subsection (a) of section 6046 (relating to returns as to organization or reorganization of foreign corporations and as to acquisitions of their stock) is amended to read as follows:

"(a) Requirement of return.

"(1) In general. A return complying with the requirements of subsection (b) shall be made by

"(A) each United States citizen or resident who becomes an officer or director of a foreign corporation if a United States person (as defined in section 7701(a)(30)) meets the stock ownership requirements of paragraph (2) with respect to such corporation,

"(B) each United States person

"(i) who acquires stock which, when added to any stock owned on the date of such acquisition, meets the stock ownership requirements of paragraph (2) with respect to a foreign corporation, or

"(ii) who acquires stock which, without regard to stock owned on the date of such acquisition, meets the stock ownership requirements of paragraph (2) with respect to a foreign corporation,

"(C) each person (not described in subparagraph (B)) who is treated as a United States shareholder under section 953(c) with respect to a foreign corporation, and

"(D) each person who becomes a United States person while meeting the stock ownership requirements of paragraph (2) with respect to stock of a foreign corporation.

In the case of a foreign corporation with respect to which any person is treated as a United States shareholder under section 953(c), subparagraph (A) shall be treated as including a reference to each United States person who is an officer or director of such corporation.

"(2) Stock ownership requirements. A person meets the stock ownership requirements of this paragraph with respect to any corporation if such person owns 10 percent or more of

"(A) the total combined voting power of all classes of stock of such corporation entitled to vote, or

"(B) the total value of the stock of such corporation."

(b) Effective Date. The amendment made by this section shall take effect on January 1, 1996.

SEC. 14426. APPLICATION OF UNIFORM CAPITALIZATION RULES TO FOREIGN PERSONS.

(a) In General. Section 263A(c) (relating to exceptions) is amended by adding at the end the following new paragraph:

"(7) Foreign persons. This section shall apply to any taxpayer who is not a United States person only for purposes of

"(A) tax liability with respect to income which is effectively connected with the conduct of a trade or business in the United States, and

"(B) tax liability of a United States shareholder (as defined in section 951(b)) with respect to amounts includible in gross income under section 951(a)."

(b) Effective Date. The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1995. Section 481 of the Internal Revenue Code of 1986 shall not apply to any change in a method of accounting by reason of such amendment.

SEC. 14427. CERTAIN PRIZES AND AWARDS.

(a) In General. Section 863 (relating to special rules for determining source) is amended by adding at the end the following new subsection:

"(f) Certain Prizes and Awards Associated With Amateur Sports Competitions.

"(1) In general. A prize or award received by a nonresident alien by reason of participating in an amateur sports competition in the United States shall not be treated as derived from sources within the United States if such alien performs no services for such prize or award.

"(2) Amateur sports competition. For purposes of paragraph (1), the term mateur sports competition means any competition in which the only prizes awarded by the sponsors of the competition are of nominal value."

(b) Effective Date. The amendment made by subsection (a) shall apply to prizes and awards granted after the date of the enactment of this Act.

SEC. 14428. TREATMENT FOR ESTATE TAX PURPOSES OF SHORT-TERM OBLIGATIONS HELD BY NONRESIDENT ALIENS.

(a) In General. Subsection (b) of section 2105 is amended by striking "and" at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting ", and", and by inserting after paragraph (3) the following new paragraph:

"(4) obligations which would be original issue discount obligations as defined in section 871(g)(1) but for subparagraph (B)(i) thereof, if any interest thereon (were such interest received by the decedent at the time of his death) would not be effectively connected with the conduct of a trade or business within the United States."

(b) Effective Date. The amendment made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.Subtitle E Other Income Tax ProvisionsPART I PROVISIONS RELATING TO S CORPORATIONS

SEC. 14501. S CORPORATIONS PERMITTED TO HAVE 75 SHAREHOLDERS.

Subparagraph (A) of section 1361(b)(1) (defining small business corporation) is amended by striking "35 shareholders" and inserting "75 shareholders".

SEC. 14502. ELECTING SMALL BUSINESS TRUSTS.

(a) General Rule. Subparagraph (A) of section 1361(c)(2) (relating to certain trusts permitted as shareholders) is amended by inserting after clause (iv) the following new clause:

"(v) An electing small business trust."

(b) Current Beneficiaries Treated as Shareholders. Subparagraph (B) of section 1361(c)(2) is amended by adding at the end the following new clause:

"(v) In the case of a trust described in clause (v) of subparagraph (A), each potential current beneficiary of such trust shall be treated as a shareholder; except that, if for any period there is no potential current beneficiary of such trust, such trust shall be treated as the shareholder during such period."

(c) Electing Small Business Trust Defined. Section 1361 (defining S corporation) is amended by adding at the end the following new subsection:

"(e) Electing Small Business Trust Defined.

"(1) Electing small business trust. For purposes of this section

"(A) In general. Except as provided in subparagraph (B), the term lecting small business trust means any trust if

"(i) such trust does not have as a beneficiary any person other than (I) an individual, (II) an estate, or (III) an organization described in paragraph (2), (3), (4), or (5) of section 170(c) which holds a contingent interest and is not a potential current beneficiary,

"(ii) no interest in such trust was acquired by purchase, and

"(iii) an election under this subsection applies to such trust.

"(B) Certain trusts not eligible. The term lecting small business trust shall not include

"(i) any qualified subchapter S trust (as defined in subsection (d)(3)) if an election under subsection (d)(2) applies to any corporation the stock of which is held by such trust, and

"(ii) any trust exempt from tax under this subtitle.

"(C) Purchase. For purposes of subparagraph (A), the term urchase means any acquisition if the basis of the property acquired is determined under section 1012.

"(2) Potential current beneficiary. For purposes of this section, the term otential current beneficiary means, with respect to any period, any person who at any time during such period is entitled to, or at the discretion of any person may receive, a distribution from the principal or income of the trust. If a trust disposes of all of the stock which it holds in an S corporation, then, with respect to such corporation, the term otential current beneficiary does not include any person who first met the requirements of the preceding sentence during the 60-day period ending on the date of such disposition.

"(3) Election. An election under this subsection shall be made by the trustee. Any such election shall apply to the taxable year of the trust for which made and all subsequent taxable years of such trust unless revoked with the consent of the Secretary.

"(4) Cross reference. "For special treatment of electing small business trusts, see section 641(d)."

(d) Taxation of Electing Small Business Trusts. Section 641 (relating to imposition of tax on trusts) is amended by adding at the end the following new subsection:

"(d) Special Rules for Taxation of Electing Small Business Trusts.

"(1) In general. For purposes of this chapter

"(A) the portion of any electing small business trust which consists of stock in 1 or more S corporations shall be treated as a separate trust, and

"(B) the amount of the tax imposed by this chapter on such separate trust shall be determined with the modifications of paragraph (2).

"(2) Modifications. For purposes of paragraph (1), the modifications of this paragraph are the following:

"(A) Except as provided in section 1(h), the amount of the tax imposed by section 1(e) shall be determined by using the highest rate of tax set forth in section 1(e).

"(B) The exemption amount under section 55(d) shall be zero.

"(C) The only items of income, loss, deduction, or credit to be taken into account are the following:

"(i) The items required to be taken into account under section 1366.

"(ii) Any gain or loss from the disposition of stock in an S corporation.

"(iii) To the extent provided in regulations, State or local income taxes or administrative expenses to the extent allocable to items described in clauses (i) and (ii).

No deduction or credit shall be allowed for any amount not described in this paragraph, and no item described in this paragraph shall be apportioned to any beneficiary.

"(D) No amount shall be allowed under paragraph (1) or (2) of section 1211(b).

"(3) Treatment of remainder of trust and distributions. For purposes of determining

"(A) the amount of the tax imposed by this chapter on the portion of any electing small business trust not treated as a separate trust under paragraph (1), and

"(B) the distributable net income of the entire trust,

the items referred to in paragraph (2)(C) shall be excluded. Except as provided in the preceding sentence, this subsection shall not affect the taxation of any distribution from the trust.

"(4) Treatment of unused deductions where termination of separate trust. If a portion of an electing small business trust ceases to be treated as a separate trust under paragraph (1), any carryover or excess deduction of the separate trust which is referred to in section 642(h) shall be taken into account by the entire trust.

"(5) Electing small business trust. For purposes of this subsection, the term lecting small business trust has the meaning given such term by section 1361(e)(1)."

(e) Technical Amendment. Paragraph (1) of section 1366(a) is amended by inserting ", or of a trust or estate which terminates," after "who dies".

SEC. 14503. EXPANSION OF POST-DEATH QUALIFICATION FOR CERTAIN TRUSTS.

Subparagraph (A) of section 1361(c)(2) (relating to certain trusts permitted as shareholders) is amended

(1) by striking "60-day period" each place it appears in clauses (ii) and (iii) and inserting "2-year period", and

(2) by striking the last sentence in clause (ii).

SEC. 14504. FINANCIAL INSTITUTIONS PERMITTED TO HOLD SAFE HARBOR DEBT.

Clause (iii) of section 1361(c)(5)(B) (defining straight debt) is amended by striking "or a trust described in paragraph (2)" and inserting "a trust described in paragraph (2), or a person which is actively and regularly engaged in the business of lending money."

SEC. 14505. RULES RELATING TO INADVERTENT TERMINATIONS AND INVALID ELECTIONS.

(a) General Rule. Subsection (f) of section 1362 (relating to inadvertent terminations) is amended to read as follows:

"(f) Inadvertent Invalid Elections or Terminations. If

"(1) an election under subsection (a) by any corporation

"(A) was not effective for the taxable year for which made (determined without regard to subsection (b)(2)) by reason of a failure to meet the requirements of section 1361(b) or to obtain shareholder consents, or

"(B) was terminated under paragraph (2) of subsection (d),

"(2) the Secretary determines that the circumstances resulting in such ineffectiveness or termination were inadvertent,

"(3) no later than a reasonable period of time after discovery of the circumstances resulting in such ineffectiveness or termination, steps were taken

"(A) so that the corporation is a small business corporation, or

"(B) to acquire the required shareholder consents, and

"(4) the corporation, and each person who was a shareholder in the corporation at any time during the period specified pursuant to this subsection, agrees to make such adjustments (consistent with the treatment of the corporation as an S corporation) as may be required by the Secretary with respect to such period,

then, notwithstanding the circumstances resulting in such ineffectiveness or termination, such corporation shall be treated as an S corporation during the period specified by the Secretary."

(b) Late Elections. Subsection (b) of section 1362 is amended by adding at the end the following new paragraph:

"(5) Authority to treat late elections as timely. If

"(A) an election under subsection (a) is made for any taxable year (determined without regard to paragraph (3)) after the date prescribed by this subsection for making such election for such taxable year, and

"(B) the Secretary determines that there was reasonable cause for the failure to timely make such election,

the Secretary may treat such election as timely made for such taxable year (and paragraph (3) shall not apply)."

(c) Effective Date. The amendments made by subsection (a) and (b) shall apply with respect to elections for taxable years beginning after December 31, 1982.

SEC. 14506. AGREEMENT TO TERMINATE YEAR.

Paragraph (2) of section 1377(a) (relating to pro rata share) is amended to read as follows:

"(2) Election to terminate year.

"(A) In general. Under regulations prescribed by the Secretary, if any shareholder terminates the shareholders interest in the corporation during the taxable year and all affected shareholders and the corporation agree to the application of this paragraph, paragraph (1) shall be applied to the affected shareholders as if the taxable year consisted of 2 taxable years the first of which ends on the date of the termination.

"(B) Affected shareholders. For purposes of subparagraph (A), the term ffected shareholders means the shareholder whose interest is terminated and all shareholders to whom such shareholder has transferred shares during the taxable year. If such shareholder has transferred shares to the corporation, the term ffected shareholders shall include all persons who are shareholders during the taxable year."

SEC. 14507. EXPANSION OF POST-TERMINATION TRANSITION PERIOD.

(a) In General. Paragraph (1) of section 1377(b) (relating to post-termination transition period) is amended by striking "and" at the end of subparagraph (A), by redesignating subparagraph (B) as subparagraph (C), and by inserting after subparagraph (A) the following new subparagraph:

"(B) the 120-day period beginning on the date of any determination pursuant to an audit of the taxpayer which follows the termination of the corporations election and which adjusts a subchapter S item of income, loss, or deduction of the corporation arising during the S period (as defined in section 1368(e)(2)), and".

(b) Determination Defined. Paragraph (2) of section 1377(b) is amended by striking subparagraphs (A) and (B), by redesignating subparagraph (C) as subparagraph (B), and by inserting before subparagraph (B) (as so redesignated) the following new subparagraph:

"(A) a determination as defined in section 1313(a), or".

(c) Repeal of Special Audit Provisions for Subchapter S Items.

(1) General rule. Subchapter D of chapter 63 (relating to tax treatment of subchapter S items) is hereby repealed.

(2) Consistent treatment required. Section 6037 (relating to return of S corporation) is amended by adding at the end the following new subsection:

"(c) Shareholders Return Must Be Consistent With Corporate Return or Secretary Notified of Inconsistency.

"(1) In general. A shareholder of an S corporation shall, on such shareholders return, treat a subchapter S item in a manner which is consistent with the treatment of such item on the corporate return.

"(2) Notification of inconsistent treatment.

"(A) In general. In the case of any subchapter S item, if

"(i)(I) the corporation has filed a return but the shareholders treatment on his return is (or may be) inconsistent with the treatment of the item on the corporate return, or

"(II) the corporation has not filed a return, and

"(ii) the shareholder files with the Secretary a statement identifying the inconsistency,

paragraph (1) shall not apply to such item.

"(B) Shareholder receiving incorrect information. A shareholder shall be treated as having complied with clause (ii) of subparagraph (A) with respect to a subchapter S item if the shareholder

"(i) demonstrates to the satisfaction of the Secretary that the treatment of the subchapter S item on the shareholders return is consistent with the treatment of the item on the schedule furnished to the shareholder by the corporation, and

"(ii) elects to have this paragraph apply with respect to that item.

"(3) Effect of failure to notify. In any case

"(A) described in subparagraph (A)(i)(I) of paragraph (2), and

"(B) in which the shareholder does not comply with subparagraph (A)(ii) of paragraph (2),

any adjustment required to make the treatment of the items by such shareholder consistent with the treatment of the items on the corporate return shall be treated as arising out of mathematical or clerical errors and assessed according to section 6213(b)(1). Paragraph (2) of section 6213(b) shall not apply to any assessment referred to in the preceding sentence.

"(4) Subchapter s item. For purposes of this subsection, the term ubchapter S item means any item of an S corporation to the extent that regulations prescribed by the Secretary provide that, for purposes of this subtitle, such item is more appropriately determined at the corporation level than at the shareholder level.

"(5) Addition to tax for failure to comply with section. "For addition to tax in the case of a shareholders negligence in connection with, or disregard of, the requirements of this section, see part II of subchapter A of chapter 68."

(3) Conforming amendments.

(A) Section 1366 is amended by striking subsection (g).

(B) Subsection (b) of section 6233 is amended to read as follows:

"(b) Similar Rules in Certain Cases. If a partnership return is filed for any taxable year but it is determined that there is no entity for such taxable year, to the extent provided in regulations, rules similar to the rules of subsection (a) shall apply."

(C) The table of subchapters for chapter 63 is amended by striking the item relating to subchapter D.

SEC. 14508. S CORPORATIONS PERMITTED TO HOLD SUBSIDIARIES.

(a) In General. Paragraph (2) of section 1361(b) (defining ineligible corporation) is amended by striking subparagraph (A) and by redesignating subparagraphs (B), (C), (D), and (E) as subparagraphs (A), (B), (C), and (D), respectively.

(b) Treatment of Certain Wholly Owned S Corporation Subsidiaries. Section 1361(b) (defining small business corporation) is amended by adding at the end the following new paragraph:

"(3) Treatment of certain wholly owned subsidiaries.

"(A) In general. For purposes of this title

"(i) a corporation which is a qualified subchapter S subsidiary shall not be treated as a separate corporation, and

"(ii) all assets, liabilities, and items of income, deduction, and credit of a qualified subchapter S subsidiary shall be treated as assets, liabilities, and such items (as the case may be) of the S corporation.

"(B) Qualified subchapter s subsidiary. For purposes of this paragraph, the term ualified subchapter S subsidiary means any domestic corporation which is not an ineligible corporation (as defined in paragraph (2)), if

"(i) 100 percent of the stock of such corporation is held by the S corporation, and

"(ii) the S corporation elects to treat such corporation as a qualified subchapter S subsidiary.

"(C) Treatment of terminations of qualified subchapter s subsidiary status. For purposes of this title, if any corporation which was a qualified subchapter S subsidiary ceases to meet the requirements of subparagraph (B), such corporation shall be treated as a new corporation acquiring all of its assets (and assuming all of its liabilities) immediately before such cessation from the S corporation in exchange for its stock."

(c) Certain Dividends Not Treated as Passive Investment Income. Paragraph (3) of section 1362(d) is amended by adding at the end the following new subparagraph:

"(F) Treatment of certain dividends. If an S corporation holds stock in a C corporation meeting the requirements of section 1504(a)(2), the term assive investment income shall not include dividends from such C corporation to the extent such dividends are attributable to the earnings and profits of such C corporation derived from the active conduct of a trade or business."

(d) Conforming Amendments.

(1) Subsection (c) of section 1361 is amended by striking paragraph (6).

(2) Subsection (b) of section 1504 (defining includible corporation) is amended by adding at the end the following new paragraph:

"(8) An S corporation."

SEC. 14509. TREATMENT OF DISTRIBUTIONS DURING LOSS YEARS.

(a) Adjustments for Distributions Taken Into Account Before Losses.

(1) Subparagraph (A) of section 1366(d)(1) (relating to losses and deductions cannot exceed shareholders basis in stock and debt) is amended by striking "paragraph (1)" and inserting "paragraphs (1) and (2)(A)".

(2) Subsection (d) of section 1368 (relating to certain adjustments taken into account) is amended by adding at the end the following new sentence:

"In the case of any distribution made during any taxable year, the adjusted basis of the stock shall be determined with regard to the adjustments provided in paragraph (1) of section 1367(a) for the taxable year."

(b) Accumulated Adjustments Account. Paragraph (1) of section 1368(e) (relating to accumulated adjustments account) is amended by adding at the end the following new subparagraph:

"(C) Net loss for year disregarded.

"(i) In general. In applying this section to distributions made during any taxable year, the amount in the accumulated adjustments account as of the close of such taxable year shall be determined without regard to any net negative adjustment for such taxable year.

"(ii) Net negative adjustment. For purposes of clause (i), the term et negative adjustment means, with respect to any taxable year, the excess (if any) of

"(I) the reductions in the account for the taxable year (other than for distributions), over

"(II) the increases in such account for such taxable year."

(c) Conforming Amendments. Subparagraph (A) of section 1368(e)(1) is amended

(1) by striking "as provided in subparagraph (B)" and inserting "as otherwise provided in this paragraph", and

(2) by striking "section 1367(b)(2)(A)" and inserting "section 1367(a)(2)".

SEC. 14510. TREATMENT OF S CORPORATIONS UNDER SUBCHAPTER C.

Subsection (a) of section 1371 (relating to application of subchapter C rules) is amended to read as follows:

"(a) Application of Subchapter C Rules. Except as otherwise provided in this title, and except to the extent inconsistent with this subchapter, subchapter C shall apply to an S corporation and its shareholders."

SEC. 14511. ELIMINATION OF CERTAIN EARNINGS AND PROFITS.

(a) In General. If

(1) a corporation was an electing small business corporation under subchapter S of chapter 1 of the Internal Revenue Code of 1986 for any taxable year beginning before January 1, 1983, and

(2) such corporation is an S corporation under subchapter S of chapter 1 of such Code for its first taxable year beginning after December 31, 1995,

the amount of such corporations accumulated earnings and profits (as of the beginning of such first taxable year) shall be reduced by an amount equal to the portion (if any) of such accumulated earnings and profits which were accumulated in any taxable year beginning before January 1, 1983, for which such corporation was an electing small business corporation under such subchapter S.

(b) Conforming Amendments.

(1) Paragraph (3) of section 1362(d) is amended

(A) by striking "Subchapter C" in the paragraph heading and inserting "Accumulated",

(B) by striking "subchapter C" in subparagraph (A)(i)(I) and inserting "accumulated", and

(C) by striking subparagraph (B) and redesignating the following subparagraphs accordingly.

(2)(A) Subsection (a) of section 1375 is amended by striking "subchapter C" in paragraph (1) and inserting "accumulated".

(B) Paragraph (3) of section 1375(b) is amended to read as follows:

"(3) Passive investment income, etc. The terms assive investment income and ross receipts have the same respective meanings as when used in paragraph (3) of section 1362(d)."

(C) The section heading for section 1375 is amended by striking "2subchapter c" and inserting "2accumulated".

(D) The table of sections for part III of subchapter S of chapter 1 is amended by striking "subchapter C" in the item relating to section 1375 and inserting "accumulated".

(3) Clause (i) of section 1042(c)(4)(A) is amended by striking "section 1362(d)(3)(D)" and inserting "section 1362(d)(3)(C)".

SEC. 14512. CARRYOVER OF DISALLOWED LOSSES AND DEDUCTIONS UNDER AT-RISK RULES ALLOWED.

Paragraph (3) of section 1366(d) (relating to carryover of disallowed losses and deductions to post-termination transition period) is amended by adding at the end the following new subparagraph:

"(D) At-risk limitations. To the extent that any increase in adjusted basis described in subparagraph (B) would have increased the shareholders amount at risk under section 465 if such increase had occurred on the day preceding the commencement of the post-termination transition period, rules similar to the rules described in subparagraphs (A) through (C) shall apply to any losses disallowed by reason of section 465(a)."

SEC. 14513. ADJUSTMENTS TO BASIS OF INHERITED S STOCK TO REFLECT CERTAIN ITEMS OF INCOME.

(a) In General. Subsection (b) of section 1367 (relating to adjustments to basis of stock of shareholders, etc.) is amended by adding at the end the following new paragraph:

"(4) Adjustments in case of inherited stock.

"(A) In general. If any person acquires stock in an S corporation by reason of the death of a decedent or by bequest, devise, or inheritance, section 691 shall be applied with respect to any item of income of the S corporation in the same manner as if the decedent had held directly his pro rata share of such item.

"(B) Adjustments to basis. The basis determined under section 1014 of any stock in an S corporation shall be reduced by the portion of the value of the stock which is attributable to items constituting income in respect of the decedent."

(b) Effective Date. The amendment made by subsection (a) shall apply in the case of decedents dying after the date of the enactment of this Act.

SEC. 14514. S CORPORATIONS ELIGIBLE FOR RULES APPLICABLE TO REAL PROPERTY SUBDIVIDED FOR SALE BY NONCORPORATE TAXPAYERS.

(a) In General. Subsection (a) of section 1237 (relating to real property subdivided for sale) is amended by striking "other than a corporation" in the material preceding paragraph (1) and inserting "other than a C corporation".

(b) Conforming Amendment. Subparagraph (A) of section 1237(a)(2) is amended by inserting "an S corporation which included the taxpayer as a shareholder," after "controlled by the taxpayer,".

SEC. 14515. EFFECTIVE DATE.

(a) In General. Except as otherwise provided in this part, the amendments made by this part shall apply to taxable years beginning after December 31, 1995.

(b) Treatment of Certain Elections Under Prior Law. For purposes of section 1362(g) of the Internal Revenue Code of 1986 (relating to election after termination), any termination under section 1362(d) of such Code in a taxable year beginning before January 1, 1996, shall not be taken into account.PART II PROVISIONS RELATING TO REGULATED INVESTMENT COMPANIES

SEC. 14521. REPEAL OF 30-PERCENT GROSS INCOME LIMITATION.

(a) General Rule. Subsection (b) of section 851 (relating to limitations) is amended by striking paragraph (3), by adding "and" at the end of paragraph (2), and by redesignating paragraph (4) as paragraph (3).

(b) Technical Amendments.

(1) The material following paragraph (3) of section 851(b) (as redesignated by subsection (a)) is amended

(A) by striking out "paragraphs (2) and (3)" and inserting "paragraph (2)", and

(B) by striking out the last sentence thereof.

(2) Subsection (c) of section 851 is amended by striking "subsection (b)(4)" each place it appears (including the heading) and inserting "subsection (b)(3)".

(3) Subsection (d) of section 851 is amended by striking "subsections (b)(4)" and inserting "subsections (b)(3)".

(4) Paragraph (1) of section 851(e) is amended by striking "subsection (b)(4)" and inserting "subsection (b)(3)".

(5) Paragraph (4) of section 851(e) is amended by striking "subsections (b)(4)" and inserting "subsections (b)(3)".

(6) Section 851 is amended by striking subsection (g) and redesignating subsection (h) as subsection (g).

(7) Subsection (g) of section 851 (as redesignated by paragraph (6)) is amended by striking paragraph (3).

(8) Section 817(h)(2) is amended

(A) by striking "851(b)(4)" in subparagraph (A) and inserting "851(b)(3)", and

(B) by striking "851(b)(4)(A)(i)" in subparagraph (B) and inserting "851(b)(3)(A)(i)".

(9) Section 1092(f)(2) is amended by striking "Except for purposes of section 851(b)(3), the" and inserting "The".

(c) Effective Date. The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act.PART III PROVISIONS RELATING TO REAL ESTATE INVESTMENT TRUSTS

SEC. 14531. CLARIFICATION OF LIMITATION ON MAXIMUM NUMBER OF SHAREHOLDERS.

(a) Rules Relating to Determination of Ownership.

(1) Failure to issue shareholder demand letter not to disqualify reit. Section 857(a) (relating to requirements applicable to real estate investment trusts) is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(2) Shareholder demand letter requirement; penalty. Section 857 (relating to taxation of real estate investment trusts and their beneficiaries) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) Real Estate Investment Trusts To Ascertain Ownership.

"(1) In general. Each real estate investment trust shall each taxable year comply with regulations prescribed by the Secretary for the purposes of ascertaining the actual ownership of the outstanding shares, or certificates of beneficial interest, of such trust.

"(2) Failure to comply.

"(A) In general. If a real estate investment trust fails to comply with the requirements of paragraph (1) for a taxable year, such trust shall pay (on notice and demand by the Secretary and in the same manner as tax) a penalty of $25,000.

"(B) Intentional disregard. If any failure under paragraph (1) is due to intentional disregard of the requirement under paragraph (1), the penalty under subparagraph (A) shall be $50,000.

"(C) Failure to comply after notice. The Secretary may require a real estate investment trust to take such actions as the Secretary determines appropriate to ascertain actual ownership if the trust fails to meet the requirements of paragraph (1). If the trust fails to take such actions, the trust shall pay (on notice and demand by the Secretary and in the same manner as tax) an additional penalty equal to the penalty determined under subparagraph (A) or (B), whichever is applicable.

"(D) Reasonable cause. No penalty shall be imposed under this paragraph with respect to any failure if it is shown that such failure is due to reasonable cause and not to willful neglect."

(b) Compliance With Closely Held Prohibition.

(1) In general. Section 856 (defining real estate investment trust) is amended by adding at the end the following new subsection:

"(k) Requirement That Entity Not Be Closely Held Treated as Met in Certain Cases. A corporation, trust, or association

"(1) which for a taxable year meets the requirements of section 857(f)(1), and

"(2) which does not know, or exercising reasonable diligence would not have known, whether the entity failed to meet the requirement of subsection (a)(6),

shall be treated as having met the requirement of subsection (a)(6) for the taxable year."

(2) Conforming amendment. Paragraph (6) of section 856(a) is amended by inserting "subject to the provisions of subsection (k)," before "which is not".

SEC. 14532. DE MINIMIS RULE FOR TENANT SERVICES INCOME.

(a) In General. Paragraph (2) of section 856(d) (defining rents from real property) is amended by striking subparagraph (C) and the last sentence and inserting:

"(C) any impermissible tenant service income (as defined in paragraph (7))."

(b) Impermissible Tenant Service Income. Section 856(d) is amended by adding at the end the following new paragraph:

"(7) Impermissible tenant service income. For purposes of paragraph (2)(C)

"(A) In general. The term mpermissible tenant service income means, with respect to any real or personal property, any amount received or accrued directly or indirectly by the real estate investment trust for

"(i) services furnished or rendered by the trust to the tenants of such property, or

"(ii) managing or operating such property.

"(B) Disqualification of all amounts where more than de minimis amount. If the amount described in subparagraph (A) with respect to a property for any taxable year exceeds 1 percent of all amounts received or accrued during such taxable year directly or indirectly by the real estate investment trust with respect to such property, the impermissible tenant service income of the trust with respect to the property shall include all such amounts.

"(C) Exceptions. For purposes of subparagraph (A)

"(i) services furnished or rendered, or management or operation provided, through an independent contractor from whom the trust itself does not derive or receive any income shall not be treated as furnished, rendered, or provided by the trust, and

"(ii) there shall not be taken into account any amount which would be excluded from unrelated business taxable income under section 512(b)(3) if received by an organization described in section 511(a)(2).

"(D) Amount attributable to impermissible services. For purposes of subparagraph (A), the amount treated as received for any service (or management or operation) shall not be less than 150 percent of the direct cost of the trust in furnishing or rendering the service (or providing the management or operation).

"(E) Coordination with limitations. For purposes of paragraphs (2) and (3) of subsection (c), amounts described in subparagraph (A) shall be included in the gross income of the corporation, trust, or association."

SEC. 14533. ATTRIBUTION RULES APPLICABLE TO TENANT OWNERSHIP.

Section 856(d)(5) (relating to constructive ownership of stock) is amended by adding at the end the following: "For purposes of paragraph (2)(B), section 318(a)(3)(A) shall be applied under the preceding sentence in the case of a partnership by taking into account only partners who own (directly or indirectly) 25 percent or more of the capital interest, or the profits interest, in the partnership."

SEC. 14534. CREDIT FOR TAX PAID BY REIT ON RETAINED CAPITAL GAINS.

(a) General Rule. Paragraph (3) of section 857(b) (relating to capital gains) is amended by redesignating subparagraph (D) as subparagraph (E) and by inserting after subparagraph (C) the following new subparagraph:

"(D) Treatment by shareholders of undistributed capital gains.

"(i) Every shareholder of a real estate investment trust at the close of the trusts taxable year shall include, in computing his long-term capital gains in his return for his taxable year in which the last day of the trusts taxable year falls, such amount as the trust shall designate in respect of such shares in a written notice mailed to its shareholders at any time prior to the expiration of 60 days after the close of its taxable year (or mailed to its shareholders or holders of beneficial interests with its annual report for the taxable year), but the amount so includible by any shareholder shall not exceed that part of the amount subjected to tax in subparagraph (A)(ii) which he would have received if all of such amount had been distributed as capital gain dividends by the trust to the holders of such shares at the close of its taxable year.

"(ii) For purposes of this title, every such shareholder shall be deemed to have paid, for his taxable year under clause (i), the tax imposed by subparagraph (A)(ii) on the amounts required by this subparagraph to be included in respect of such shares in computing his long-term capital gains for that year; and such shareholders shall be allowed credit or refund as the case may be, for the tax so deemed to have been paid by him.

"(iii) The adjusted basis of such shares in the hands of the holder shall be increased with respect to the amounts required by this subparagraph to be included in computing his long-term capital gains, by the difference between the amount of such includible gains and the tax deemed paid by such shareholder in respect of such shares under clause (ii).

"(iv) In the event of such designation, the tax imposed by subparagraph (A)(ii) shall be paid by the real estate investment trust within 30 days after the close of its taxable year.

"(v) The earnings and profits of such real estate investment trust, and the earnings and profits of any such shareholder which is a corporation, shall be appropriately adjusted in accordance with regulations prescribed by the Secretary.

"(vi) As used in this subparagraph, the terms hares and hareholders shall include beneficial interests and holders of beneficial interests, respectively."

(b) Conforming Amendments.

(1) Clause (i) of section 857(b)(7)(A) is amended by striking "subparagraph (B)" and inserting "subparagraph (B) or (D)".

(2) Clause (iii) of section 852(b)(3)(D) is amended by striking "by 65 percent" and all that follows and inserting "by the difference between the amount of such includible gains and the tax deemed paid by such shareholder in respect of such shares under clause (ii)."

SEC. 14535. REPEAL OF 30-PERCENT GROSS INCOME REQUIREMENT.

(a) General Rule. Subsection (c) of section 856 (relating to limitations) is amended

(1) by adding "and" at the end of paragraph (3),

(2) by striking paragraphs (4) and (8), and

(3) by redesignating paragraphs (5), (6), and (7) as paragraphs (4), (5), and (6), respectively.

(b) Conforming Amendments.

(1) Subparagraph (G) of section 856(c)(5), as redesignated by subsection (a), is amended by striking "and such agreement shall be treated as a security for purposes of paragraph (4)(A)".

(2) Paragraph (5) of section 857(b) is amended by striking "section 856(c)(7)" and inserting "section 856(c)(6)".

(3) Subparagraph (C) of section 857(b)(6) is amended by striking "section 856(c)(6)(B)" and inserting "section 856(c)(5)(B)".

SEC. 14536. MODIFICATION OF EARNINGS AND PROFITS RULES FOR DETERMINING WHETHER REIT HAS EARNINGS AND PROFITS FROM NON-REIT YEAR.

Subsection (d) of section 857 is amended by adding at the end the following new paragraph:

"(3) Distributions to meet requirements of subsection (a)(2)(B). Any distribution which is made in order to comply with the requirements of subsection (a)(2)(B)

"(A) shall be treated for purposes of this subsection and subsection (a)(2)(B) as made from the earliest accumulated earnings and profits (other than earnings and profits to which subsection (a)(2)(A) applies) rather than the most recently accumulated earnings and profits, and

"(B) to the extent treated under subparagraph (A) as made from accumulated earnings and profits, shall not be treated as a distribution for purposes of subsection (b)(2)(B)."

SEC. 14537. TREATMENT OF FORECLOSURE PROPERTY.

(a) Grace Periods.

(1) Initial period. Paragraph (2) of section 856(e) (relating to special rules for foreclosure property) is amended by striking "on the date which is 2 years after the date the trust acquired such property" and inserting "as of the close of the 3d taxable year following the taxable year in which the trust acquired such property".

(2) Extension. Paragraph (3) of section 856(e) is amended

(A) by striking "or more extensions" and inserting "extension", and

(B) by striking the last sentence and inserting: "Any such extension shall not extend the grace period beyond the close of the 3d taxable year following the last taxable year in the period under paragraph (2)."

(b) Revocation of Election. Paragraph (5) of section 856(e) is amended by striking the last sentence and inserting: "A real estate investment trust may revoke any such election for a taxable year by filing the revocation (in the manner provided by the Secretary) on or before the due date (including any extension of time) for filing its return of tax under this chapter for the taxable year. If a trust revokes an election for any property, no election may be made by the trust under this paragraph with respect to the property for any subsequent taxable year."

(c) Certain Activities Not To Disqualify Property. Paragraph (4) of section 856(e) is amended by adding at the end the following new flush sentence:

"For purposes of subparagraph (C), property shall not be treated as used in a trade or business by reason of any activities of the real estate investment trust with respect to such property to the extent that such activities would not result in amounts received or accrued, directly or indirectly, with respect to such property being treated as other than rents from real property."

SEC. 14538. PAYMENTS UNDER HEDGING INSTRUMENTS.

Section 856(c)(5)(G) (relating to treatment of certain interest rate agreements), as redesignated by section 14535, is amended to read as follows:

"(G) Treatment of certain hedging instruments. Except to the extent provided by regulations, any

"(i) payment to a real estate investment trust under an interest rate swap or cap agreement, option, futures contract, forward rate agreement, or any similar financial instrument, entered into by the trust in a transaction to reduce the interest rate risks with respect to any indebtedness incurred or to be incurred by the trust to acquire or carry real estate assets, and

"(ii) gain from the sale or other disposition of any such investment,

shall be treated as income qualifying under paragraph (2)."

SEC. 14539. EXCESS NONCASH INCOME.

Section 857(e)(2) (relating to determination of amount of excess noncash income) is amended

(1) by striking subparagraph (B),

(2) by striking the period at the end of subparagraph (C) and inserting a comma,

(3) by redesignating subparagraph (C) (as amended by paragraph (2)) as subparagraph (B), and

(4) by adding at the end the following new subparagraphs:

"(C) the amount (if any) by which

"(i) the amounts includible in gross income with respect to instruments to which section 860E(a) or 1272 applies, exceed

"(ii) the amount of money and the fair market value of other property received during the taxable year under such instruments, and

"(D) amounts includible in income by reason of cancellation of indebtedness."

SEC. 14540. PROHIBITED TRANSACTION SAFE HARBOR.

Clause (iii) of section 857(b)(6)(C) (relating to certain sales not to constitute prohibited transactions) is amended by striking "(other than foreclosure property)" in subclauses (I) and (II) and inserting "(other than sales of foreclosure property or sales to which section 1033 applies)".

SEC. 14541. SHARED APPRECIATION MORTGAGES.

(a) Bankruptcy Safe Harbor. Section 856(j) (relating to treatment of shared appreciation mortgages) is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

"(4) Coordination with 4-year holding period.

"(A) In general. For purposes of section 857(b)(6)(C), if a real estate investment trust is treated as having sold secured property under paragraph (3)(A), the trust shall be treated as having held such property for at least 4 years if

"(i) the secured property is sold or otherwise disposed of pursuant to a case under title 11 of the United States Code,

"(ii) the seller is under the jurisdiction of the court in such case, and

"(iii) the disposition is required by the court or is pursuant to a plan approved by the court.

"(B) Exception. Subparagraph (A) shall not apply if

"(i) the secured property was acquired by the trust with the intent to evict or foreclose, or

"(ii) the trust knew or had reason to know that default on the obligation described in paragraph (5)(A) would occur."

(b) Clarification of Definition of Shared Appreciation Provision. Clause (ii) of section 856(j)(5)(A) is amended by inserting before the period "or appreciation in value as of any specified date".

SEC. 14542. WHOLLY OWNED SUBSIDIARIES.

Section 856(i)(2) (defining qualified REIT subsidiary) is amended by striking "at all times during the period such corporation was in existence".

SEC. 14543. EFFECTIVE DATE.

The amendments made by this part shall apply to taxable years beginning after the date of the enactment of this Act.PART IV ACCOUNTING PROVISIONS

SEC. 14551. MODIFICATIONS TO LOOK-BACK METHOD FOR LONG-TERM CONTRACTS.

(a) Look-Back Method Not To Apply in Certain Cases. Subsection (b) of section 460 (relating to percentage of completion method) is amended by adding at the end the following new paragraph:

"(6) Election to have look-back method not apply in de minimis cases.

"(A) Amounts taken into account after completion of contract. Paragraph (1)(B) shall not apply with respect to any taxable year (beginning after the taxable year in which the contract is completed) if

"(i) the cumulative taxable income (or loss) under the contract as of the close of such taxable year, is within

"(ii) 10 percent of the cumulative look-back taxable income (or loss) under the contract as of the close of the most recent taxable year to which paragraph (1)(B) applied (or would have applied but for subparagraph (B)).

"(B) De minimis discrepancies. Paragraph (1)(B) shall not apply in any case to which it would otherwise apply if

"(i) the cumulative taxable income (or loss) under the contract as of the close of each prior contract year, is within

"(ii) 10 percent of the cumulative look-back income (or loss) under the contract as of the close of such prior contract year.

"(C) Definitions. For purposes of this paragraph

"(i) Contract year. The term ontract year means any taxable year for which income is taken into account under the contract.

"(ii) Look-back income or loss. The look-back income (or loss) is the amount which would be the taxable income (or loss) under the contract if the allocation method set forth in paragraph (2)(A) were used in determining taxable income.

"(iii) Discounting not applicable. The amounts taken into account after the completion of the contract shall be determined without regard to any discounting under the 2nd sentence of paragraph (2).

"(D) Contracts to which paragraph applies. This paragraph shall only apply if the taxpayer makes an election under this subparagraph. Unless revoked with the consent of the Secretary, such an election shall apply to all long-term contracts completed during the taxable year for which election is made or during any subsequent taxable year."

(b) Modification of Interest Rate.

(1) In general. Subparagraph (C) of section 460(b)(2) is amended by striking "the overpayment rate established by section 6621" and inserting "the adjusted overpayment rate (as defined in paragraph (7))".

(2) Adjusted overpayment rate. Subsection (b) of section 460 is amended by adding at the end the following new paragraph:

"(7) Adjusted overpayment rate.

"(A) In general. The adjusted overpayment rate for any interest accrual period is the overpayment rate in effect under section 6621 for the calendar quarter in which such interest accrual period begins.

"(B) Interest accrual period. For purposes of subparagraph (A), the term nterest accrual period means the period

"(i) beginning on the day after the return due date for any taxable year of the taxpayer, and

"(ii) ending on the return due date for the following taxable year.

For purposes of the preceding sentence, the term eturn due date means the date prescribed for filing the return of the tax imposed by this chapter (determined without regard to extensions)."

(c) Effective Date. The amendments made by this section shall apply to contracts completed in taxable years ending after the date of the enactment of this Act.

SEC. 14552. APPLICATION OF MARK TO MARKET ACCOUNTING METHOD TO TRADERS IN SECURITIES.

(a) In General. Section 475 (relating to mark to market accounting method for dealers in securities) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) Authority To Extend Method to Traders in Securities.

"(1) In general. A trader in securities may elect to have the provisions of this section (other than subsection (d)(3)) apply to securities held by the trader. Such election may be made only with the consent of the Secretary.

"(2) Trader in securities. For purposes of this subsection, the term rader in securities means a taxpayer who is regularly engaged in trading securities."

(b) Effective Date. The amendments made by this section shall apply to taxable years ending on and after December 31, 1995.

SEC. 14553. MODIFICATION OF RULING AMOUNTS FOR NUCLEAR DECOMMISSIONING COSTS.

(a) In General. Section 468A(d) (relating to ruling amount) is amended by adding at the end the following new paragraph:

"(4) Nonsubstantial modifications. A taxpayer may modify a schedule of ruling amounts under paragraph (1) without a review under paragraph (3) if such modification does not substantially modify the ruling amount. The taxpayer shall notify the Secretary of any such modification."

(b) Effective Date. The amendment made by this section shall apply to modifications after the date of the enactment of this Act.

SEC. 14554. ELECTION OF ALTERNATIVE TAXABLE YEARS BY PARTNERSHIPS AND S CORPORATIONS.

(a) Repeal of Limitation on What Taxable Year May Be Elected.

(1) In general. Section 444(b) (relating to limitations on taxable years which may be elected) is amended by adding at the end the following new paragraph:

"(5) Limitations not to apply to certain partnerships and s corporations.

"(A) In general. In the case of a partnership or an S corporation, this subsection shall not apply to an election under subsection (a) for a taxable year beginning after December 31, 1996.

"(B) Special rule for existing elections.

"(i) In general. If a partnership or S corporation has an election in effect for its last taxable year beginning before January 1, 1997, the partnership or S corporation may elect to have this paragraph apply beginning with any taxable year beginning after December 31, 1996. Such an election may be made without the consent of the Secretary and shall not be treated as a termination of an election for purposes of subsection (d).

"(ii) Treatment of required payments. A partnership or S corporation making an election under clause (i) may elect to have its net required payment balance (within the meaning of section 7519(e)(4))

"(I) credited against its first estimated tax payment under section 6654A for its first full taxable year for which such section applies, or

"(II) refunded to it at the time provided in section 7519(c)(3)."

(2) Effect of election. Paragraph (1) of section 444(c) (relating to effect of election) is amended to read as follows:

"(1) in the case of a partnership or S corporation, such entity shall

"(A) make the payments required by section 7519, or

"(B) if subsection (b)(5) applies to the election, make the estimated tax payments described in section 6654A, and".

(b) Estimated Tax for Partnerships and S Corporations Making Taxable Year Elections. Part I of subchapter A of chapter 68 (relating to additions to tax and additional amounts) is amended by inserting after section 6654 the following new section:

"SEC. 6654A. FAILURE BY ELECTING PARTNERSHIP OR S CORPORATION TO PAY ESTIMATED TAX.

"(a) Penalty. Except as otherwise provided in this section, in the case of a partnership or S corporation with respect to which an election to which section 444(b)(5) applies is in effect (hereafter referred to as he entity), there is hereby imposed a penalty for each quarter for which there is an underpayment in an amount determined by applying

"(1) the underpayment rate established under section 6621,

"(2) to the amount of the underpayment,

"(3) for the period of the underpayment.

"(b) Amount of Underpayment; Period of Underpayment. For purposes of subsection (a)

"(1) Amount. The amount of the underpayment shall be the excess of

"(A) the required installment, over

"(B) the amount (if any) of the installment paid on or before the due date for the installment.

"(2) Period of underpayment. The period of the underpayment shall run from the due date for the installment to the earlier of

"(A) the first April 15 more than 3 months after the close of the taxable year, or

"(B) with respect to any portion of the underpayment, the date on which such portion is paid.

"(3) Order of crediting payments. For purposes of paragraph (2)(B), a payment of estimated tax shall be credited against unpaid required installments in the order in which the installments are required to be paid.

"(c) Required Installments. For purposes of this section

"(1) Number and dates. An entity shall make 4 required installments which shall be due on the 15th day of the 3d, 5th, 8th, and 12th months of the taxable year.

"(2) No required payments where entitys liability is less than $5,000. An entity shall not be required to make estimated payments under this section for any taxable year for which (but for this paragraph) its aggregate liability under this section would be less than $5,000.

"(3) Amount. The amount of each required installment shall be 25 percent of the product of

"(A) the entitys applicable income determined under its applicable method for the quarter for which the installment is being made, and

"(B) the applicable rate.

"(4) Applicable rate.

"(A) In general. The term pplicable rate means 34 percent (39.6 percent in the case of an entity described in subparagraph (B)).

"(B) High average income entity.

"(i) In general. An entity is described in this subparagraph if

"(I) the average applicable income of 2-percent owners of the entity for its base year is $250,000 or more, or

"(II) in the case of a partnership, its applicable income for the base year is $10,000,000 or more.

An entity shall not be treated as so described if it has no base year.

"(ii) 2-percent owner. The term -percent owner means

"(I) in the case of a partnership, any person who owns (or is considered as owning within the meaning of section 318) on any day during the base year more than 2 percent of the capital interests of the partnerships, and

"(II) in the case of an S corporation, a 2-percent shareholder (as defined in section 1372(b)).

"(5) Adjustments under annualized income method. An entity using the annualized income method shall adjust its required installment for any quarter to reflect any change in its required installment for any prior quarter in the taxable year which would have been required if the annualized applicable income for the current quarter had been used for the prior quarter.

"(d) Applicable Method. For purposes of this section

"(1) In general. An entity shall determine its applicable income on the basis of the 100-percent method.

"(2) Exceptions.

"(A) Elections. An entity may determine its applicable income

"(i) for all quarters in a taxable year on the basis of the 110-percent method if it elects such method on or before the due date for the first quarterly installment, or

"(ii) for any quarter in a taxable year on the basis of the annualized income method if it elects such method on or before the due date for the quarterly installment for such quarter.

An election under clause (ii) shall apply for the quarter for which made and all subsequent quarters during the taxable year.

"(B) Large increase in income. If an entitys applicable income for the taxable year exceeds its applicable income for the base year by more than $750,000, the entity may not use the 110-percent method for the taxable year.

"(3) Methods.

"(A) 100-percent method. Under the 100-percent method, an entitys applicable income shall be its applicable income for the taxable year.

"(B) 110-percent method. Under the 110-percent method, an entitys applicable income shall be 110 percent of its applicable income for the base year.

"(C) Annualized income method. Under the annualized income method, the entitys applicable income for purposes of determining the required installment for any quarter shall be an amount equal to the product of

"(i) its applicable income for the period consisting of the months in the taxable year ending before the due date for the quarter, and

"(ii) a percentage equal to 12 divided by the number of such months.

"(e) Applicable Income.

"(1) In general. For purposes of this section, the applicable income for any taxable year shall be the net amount (not less than zero) determined

"(A) by taking into account the entitys items in the manner and with the exceptions provided in section 703(a) or 1363(b), as the case may be, and

"(B) by making the further adjustments provided in paragraphs (2), (3), (4), and (5) of this subsection.

"(2) Certain deductions allowed. In determining applicable income, the following amounts shall be allowed as deductions:

"(A) The deduction allowable under section 170 for charitable contributions of the entity.

"(B) The deduction allowable under section 901 for taxes described in section 901(c) paid or accrued to foreign countries or possessions of the United States.

"(3) Certain limitations disregarded. For purposes of paragraphs (1) and (2), any limitation on the amount of any item which may be taken into account for purposes of computing the taxable income of a partner or shareholder shall be disregarded.

"(4) Guaranteed payments to partners not deducted. In determining applicable income, a guaranteed payment to a partner shall not be treated as an item of deduction.

"(5) Disproportionate applicable payments during deferral period.

"(A) Deduction not allowed. In determining applicable income, no deduction shall be allowed for disproportionate deferral period applicable payments.

"(B) Disproportionate deferral period applicable payments. For purposes of subparagraph (A), the term isproportionate deferral period applicable payments means the excess (if any) of

"(i) the product of the deferral ratio and the aggregate applicable payments made to owners during the entitys entire taxable year, over

"(ii) the aggregate applicable payments made to owners during the deferral period.

"(C) Definitions. For purposes of this paragraph

"(i) the term pplicable payments has the meaning given to such term by section 7519(d)(3), except that in the case of an S corporation only payments to 2-percent shareholders (as defined in section 1372(b)) shall be taken into account,

"(ii) the term eferral period means the months in the period beginning with the first day of the entitys taxable year and ending on December 31, and

"(iii) the term eferral ratio means the ratio which the number of months in the deferral period bears to the total number of months in the taxable year.

"(6) Special rule where c corporation for base year. In applying the 110-percent method, if an S corporation was a C corporation for the base year, the S corporations applicable income shall be the taxable income of the C corporation for the base year.

"(f) Coordination Between Entity and Owners.

"(1) Treatment of payments of required installments.

"(A) In general. For purposes of this title, an owner in an entity shall be treated as having paid, for the owners first taxable year ending with or after the close of the entitys taxable year, an amount of tax imposed by section 1 equal to the owners allocable share of the entitys payments of required installments under this section (determined without regard to excess payments described in subparagraph (C)(ii)(II) or amounts the entity is treated as paying under paragraph (2)).

"(B) Coordination with owners estimated tax. For purposes of section 6654, an individual shall be treated as having paid on the due date for the estimated tax installment for each quarter of the individuals taxable year described in subparagraph (A)

"(i) except as provided in clause (ii), 25 percent of the tax deemed paid under subparagraph (A), or

"(ii) if the annualized income method was used by the entity for any quarter of the entitys taxable year described in subparagraph (A), an amount for the corresponding quarter in the individualss taxable year equal to the portion of such tax attributable to the individuals allocable share of the entitys applicable income for the entitys quarter.

In no event shall the aggregate estimated tax payments treated as paid under this subparagraph exceed the amount of tax determined under subparagraph (A).

"(C) Amounts determined on basis of return.

"(i) In general. The determination of the amount of tax payments under subparagraph (A) shall be made on the basis of amounts shown on the entitys return for the taxable year.

"(ii) Reconciliation of differences. If, as of the first April 15 more than 3 months after the close of the entitys taxable year, the aggregate amounts paid as required installments under this section are less or more than the aggregate amounts described in clause (i) shown on the entitys return of tax for the taxable year, then

"(I) subject to paragraph (2), there is hereby imposed on the entity under chapter 1 an additional tax equal to the amount of the shortfall, the due date for which is such April 15, or

"(II) the entity shall be treated as having made a payment of tax under chapter 1 on such April 15 in an amount equal to the excess.

"(2) Treatment of payments by owners. For purposes of subsection (b)(2)(B) and paragraph (1)(C), an entity shall be treated as paying any portion of an underpayment attributable to an owners allocable share of applicable income at the time the tax imposed by chapter 1 on the owner with respect to such income is paid.

"(3) Allocable share. For purposes of this subsection

"(A) In general. An owners allocable share of an item for a taxable year shall be an amount which bears the same ratio to the amount of such item as the owners applicable income for the taxable year bears to the sum of the applicable incomes of all owners. For purposes of this subparagraph, applicable income of an owner shall be determined in the same manner as subsection (e).

"(B) Application other than on taxable year basis. If

"(i) the entity elects the annualized income method for any quarter, subparagraph (A) shall be applied on a quarter-by-quarter basis, or

"(ii) there is an interim closing of the books of an entity under this title, subparagraph (A) shall be applied separately for the periods before and after the closing.

"(g) Special Rules for Short Year Created by Election.

"(1) Additional required installment. If, by reason of an election under this section, an entity has a taxable year of less than 12 months, the entity shall make a required installment under this section for such taxable year

"(A) which shall be in an amount equal to the applicable rate multiplied by the lesser of

"(i) the entitys applicable income for such taxable year as determined under subsection (e), or

"(ii) 110 percent of the entitys applicable income for the base year (as so determined but ratably reduced to reflect the period of such taxable year), and

"(B) the due date for which shall be the last day for which an election under this section could be made for the taxable year.

"(2) Treatment of losses. Any net operating loss arising in the taxable year described in paragraph (1) shall be treated as arising one-third in such taxable year and each of the 2 following taxable years. This paragraph shall not apply to an entity not in existence before such taxable year unless more than one-half of the equity interests in the entity are held by persons who owned another entity carrying on the same business before such taxable year.

"(h) Other Definitions and Special Rules. For purpose of this section

"(1) Base year. The term ase year means the most recent preceding taxable year containing 12 months.

"(2) Equity interest. The term quity interest means

"(A) in the case of a partnership, the capital interests, and

"(B) in the case of an S corporation, the shares of stock in the corporation (whether voting or nonvoting).

"(3) Owner. The term wner means a partner in a partnership or a shareholder in an S corporation, whichever is applicable.

"(4) Common control.

"(A) In general. For purposes of subsections (c)(2), (c)(4)(B), and (d)(2)(B), entities under common control shall be treated as 1 entity.

"(B) Common control. Entities shall be treated as under common control under subparagraph (A) if they are treated as a single employee under subsection (a) or (b) of section 52.

"(5) Waiver. No penalty shall be imposed under subsection (a) with respect to any underpayment to the extent the Secretary determines that by reason of casualty, disaster, or other unusual circumstances the imposition of the penalty would be against equity and good conscience."

(c) Modification of Elections.

(1) Time for making. Paragraph (1) of section 444(d) is amended by adding at the end the following new sentence: "Such election may be made at any time on or before the 15th day of the 3d month of the first taxable year of 12 months under the election."

(2) Terminations. Paragraph (2) of section 444(d) is amended by striking subparagraph (B) and inserting:

"(B) Terminations.

"(i) Revocation. An election under subsection (a) may be terminated by revocation but only if owners of more than one-half of the equity interests in the entity on the date of the revocation consent to it.

"(ii) Entity terminations. In the case of a partnership or S corporation, an election under subsection (a) terminates when the partnership terminates under section 708(b)(1) or the corporation ceases to be an S corporation.

"(C) Subsequent elections. If an election under subsection (a) has been terminated, no such election may be made with respect to such entity or any successor entity for any taxable year before its 5th taxable year beginning after the 1st taxable year for which the termination was effective, unless the Secretary consents to the election."

(d) Conforming Amendments.

(1) Section 6665(b) is amended

(A) by inserting "6654A," after "6654,", and

(B) by striking "6654 or" and inserting "6654, 6654A, or".

(2) The table of sections for part I of subchapter A of chapter 68 is amended by inserting after the item relating to section 6654 the following new item: "Sec. 6654A. Failure by electing partnership or S corporation to pay estimated tax."

(e) Effective Date. The amendments made by this section shall apply to taxable years beginning after December 31, 1996.

SEC. 14555. SPECIAL RULE FOR CROP INSURANCE PROCEEDS AND DISASTER PAYMENTS.

(a) In General. Section 451(d) of the Internal Revenue Code of 1986 (relating to special rule for crop insurance proceeds and disaster payments) is amended to read as follows:

"(d) Special Rule for Crop Insurance Proceeds and Disaster Payments.

"(1) General rule. In the case of any payment described in paragraph (2), a taxpayer reporting on the cash receipts and disbursements method of accounting

"(A) may elect to treat any such payment received in the taxable year of destruction or damage of crops as having been received in the following taxable year if the taxpayer establishes that, under the taxpayers practice, income from such crops involved would have been reported in a following taxable year, or

"(B) may elect to treat any such payment received in a taxable year following the taxable year of the destruction or damage of crops as having been received in the taxable year of destruction or damage, if the taxpayer establishes that, under the taxpayers practice, income from such crops involved would have been reported in the taxable year of destruction or damage.

"(2) Payments described. For purposes of this subsection, a payment is described in this paragraph if such payment

"(A) is insurance proceeds received on account of destruction or damage to crops, or

"(B) is disaster assistance received under any Federal law as a result of

"(i) destruction or damage to crops caused by drought, flood, or other natural disaster, or

"(ii) inability to plant crops because of such a disaster.".

(b) Effective Date. The amendment made by subsection (a) applies to payments received after December 31, 1995, as a result of destruction or damage occurring after such date.PART V TAX-EXEMPT BOND PROVISIONS

SEC. 14561. REPEAL OF $100,000 LIMITATION ON UNSPENT PROCEEDS UNDER 1-YEAR EXCEPTION FROM REBATE.

Subclause (I) of section 148(f)(4)(B)(ii) (relating to additional period for certain bonds) is amended by striking "the lesser of 5 percent of the proceeds of the issue or $100,000" and inserting "5 percent of the proceeds of the issue".

SEC. 14562. EXCEPTION FROM REBATE FOR EARNINGS ON BONA FIDE DEBT SERVICE FUND UNDER CONSTRUCTION BOND RULES.

Subparagraph (C) of section 148(f)(4) is amended by adding at the end the following new clause:

"(xvii) Treatment of bona fide debt service funds. If the spending requirements of clause (ii) are met with respect to the available construction proceeds of a construction issue, then paragraph (2) shall not apply to earnings on a bona fide debt service fund for such issue."

SEC. 14563. REPEAL OF DEBT SERVICE-BASED LIMITATION ON INVESTMENT IN CERTAIN NONPURPOSE INVESTMENTS.

Subsection (d) of section 148 (relating to special rules for reasonably required reserve or replacement fund) is amended by striking paragraph (3).

SEC. 14564. REPEAL OF EXPIRED PROVISIONS.

(a) Paragraph (2) of section 148(c) is amended by striking subparagraph (B) and by redesignating subparagraphs (C), (D), and (E) as subparagraphs (B), (C), and (D), respectively.

(b) Paragraph (4) of section 148(f) is amended by striking subparagraph (E).

SEC. 14565. EFFECTIVE DATES.

The amendments made by this part shall apply to bonds issued after the date of the enactment of this Act.PART VI INSURANCE PROVISIONS

SEC. 14571. TREATMENT OF CERTAIN INSURANCE CONTRACTS ON RETIRED LIVES.

(a) General Rule.

(1) Paragraph (2) of section 817(d) (defining variable contract) is amended by striking "or" at the end of subparagraph (A), by striking "and" at the end of subparagraph (B) and inserting "or", and by inserting after subparagraph (B) the following new subparagraph:

"(C) provides for funding of insurance on retired lives as described in section 807(c)(6), and".

(2) Paragraph (3) of section 817(d) is amended by striking "or" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting ", or", and by inserting after subparagraph (B) the following new subparagraph:

"(C) in the case of funds held under a contract described in paragraph (2)(C), the amounts paid in, or the amounts paid out, reflect the investment return and the market value of the segregated asset account."

(b) Effective Date. The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

SEC. 14572. TREATMENT OF MODIFIED GUARANTEED CONTRACTS.

(a) General Rule. Subpart E of part I of subchapter L of chapter 1 (relating to definitions and special rules) is amended by inserting after section 817 the following new section:

"SEC. 817A. SPECIAL RULES FOR MODIFIED GUARANTEED CONTRACTS.

"(a) Computation of Reserves. In the case of a modified guaranteed contract, clause (ii) of section 807(e)(1)(A) shall not apply.

"(b) Segregated Assets Under Modified Guaranteed Contracts Marked to Market.

"(1) In general. In the case of any life insurance company, for purposes of this subtitle

"(A) Any gain or loss with respect to a segregated asset shall be treated as ordinary income or loss, as the case may be.

"(B) If any segregated asset is held by such company as of the close of any taxable year

"(i) such company shall recognize gain or loss as if such asset were sold for its fair market value on the last business day of such taxable year, and

"(ii) any such gain or loss shall be taken into account for such taxable year.

Proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain or loss taken into account under the preceding sentence. The Secretary may provide by regulations for the application of this subparagraph at times other than the times provided in this subparagraph.

"(2) Segregated asset. For purposes of paragraph (1), the term egregated asset means any asset held as part of a segregated account referred to in subsection (d)(1) under a modified guaranteed contract.

"(c) Special Rule in Computing Life Insurance Reserves. For purposes of applying section 816(b)(1)(A) to any modified guaranteed contract, an assumed rate of interest shall include a rate of interest determined, from time to time, with reference to a market rate of interest.

"(d) Modified Guaranteed Contract Defined. For purposes of this section, the term odified guaranteed contract means a contract not described in section 817

"(1) all or part of the amounts received under which are allocated to an account which, pursuant to State law or regulation, is segregated from the general asset accounts of the company and is valued from time to time with reference to market values,

"(2) which

"(A) provides for the payment of annuities,

"(B) is a life insurance contract, or

"(C) is a pension plan contract which is not a life, accident, or health, property, casualty, or liability contract,

"(3) for which reserves are valued at market for annual statement purposes, and

"(4) which provides for a net surrender value or a policyholders fund (as defined in section 807(e)(1)).

If only a portion of a contract is not described in section 817, such portion shall be treated for purposes of this section as a separate contract.

"(e) Regulations. The Secretary may prescribe regulations

"(1) to provide for the treatment of market value adjustments under sections 72, 7702, 7702A, and 807(e)(1)(B),

"(2) to determine the interest rates applicable under sections 807(c)(3), 807(d)(2)(B), and 812 with respect to a modified guaranteed contract annually, in a manner appropriate for modified guaranteed contracts and, to the extent appropriate for such a contract, to modify or waive the applicability of section 811(d),

"(3) to provide rules to limit ordinary gain or loss treatment to assets constituting reserves for modified guaranteed contracts (and not other assets) of the company,

"(4) to provide appropriate treatment of transfers of assets to and from the segregated account, and

"(5) as may be necessary or appropriate to carry out the purposes of this section."

(b) Clerical Amendment. The table of sections for subpart E of part I of subchapter L of chapter 1 is amended by inserting after the item relating to section 817 the following new item:"Sec. 817A. Special rules for modified guaranteed contracts."

(c) Effective Date.

(1) In general. The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

(2) Treatment of net adjustments. In the case of any taxpayer required by the amendments made by this section to change its calculation of reserves to take into account market value adjustments and to mark segregated assets to market for any taxable year

(A) such changes shall be treated as a change in method of accounting initiated by the taxpayer,

(B) such changes shall be treated as made with the consent of the Secretary, and

(C) the adjustments required by reason of section 481 of the Internal Revenue Code of 1986 shall be taken into account as ordinary income or loss by the taxpayer for the taxpayers first taxable year beginning after December 31, 1995.

SEC. 14573. MINIMUM TAX TREATMENT OF CERTAIN PROPERTY AND CASUALTY INSURANCE COMPANIES.

(a) In General. Clause (i) of section 56(g)(4)(B) (relating to inclusion of items included for purposes of computing earnings and profits) is amended by adding at the end the following new sentence: "In the case of any insurance company taxable under section 831(b), this clause shall not apply to any amount not described in section 834(b)."

(b) Effective Date. The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1995.PART VII OTHER PROVISIONS

SEC. 14581. CLOSING OF PARTNERSHIP TAXABLE YEAR WITH RESPECT TO DECEASED PARTNER, ETC.

(a) General Rule. Subparagraph (A) of section 706(c)(2) (relating to disposition of entire interest) is amended to read as follows:

"(A) Disposition of entire interest. The taxable year of a partnership shall close with respect to a partner whose entire interest in the partnership terminates (whether by reason of death, liquidation, or otherwise)."

(b) Clerical Amendment. The paragraph heading for paragraph (2) of section 706(c) is amended to read as follows:

"(2) Treatment of dispositions. ".

(c) Effective Date. The amendments made by this section shall apply to partnership taxable years beginning after December 31, 1995.

SEC. 14582. CREDIT FOR SOCIAL SECURITY TAXES PAID WITH RESPECT TO EMPLOYEE CASH TIPS.

(a) Reporting Requirement Not Considered. Subparagraph (A) of section 45B(b)(1) (relating to excess employer social security tax) is amended by inserting "(without regard to whether such tips are reported under section 6053)" after "section 3121(q)".

(b) Taxes paid. Subsection (d) of section 13443 of the Revenue Reconciliation Act of 1993 is amended by inserting ", with respect to services performed before, on, or after such date" after "1993".

(c) Effective Date. The amendments made by this section shall take effect as if included in the amendments made by, and the provisions of, section 13443 of the Revenue Reconciliation Act of 1993.

SEC. 14583. DUE DATE FOR FIRST QUARTER ESTIMATED TAX PAYMENTS BY PRIVATE FOUNDATIONS.

(a) In General. Paragraph (3) of section 6655(g) is amended by inserting after subparagraph (C) the following new subparagraph:

"(D) In the case of any private foundation, subsection (c)(2) shall be applied by substituting ay 15 for pril 151A ".

(b) Effective Date. The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1995.

SEC. 14584. TREATMENT OF DUES PAID TO AGRICULTURAL OR HORTICULTURAL ORGANIZATIONS.

(a) General Rule. Section 512 (defining unrelated business taxable income) is amended by adding at the end thereof the following new subsection:

"(d) Treatment of Dues of Agricultural or Horticultural Organizations.

"(1) In general. If

"(A) an agricultural or horticultural organization described in section 501(c)(5) requires annual dues to be paid in order to be a member of such organization, and

"(B) the amount of such required annual dues does not exceed $100,

in no event shall any portion of such dues be treated as derived by such organization from an unrelated trade or business by reason of any benefits or privileges to which members of such organization are entitled.

"(2) Indexation of $100 amount. In the case of any taxable year beginning in a calendar year after 1995, the $100 amount in paragraph (1) shall be increased by an amount equal to

"(A) $100, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting alendar year 1994 for alendar year 1992 in subparagraph (B) thereof.

"(3) Dues. For purposes of this subsection, the term ues includes any payment required to be made in order to be recognized by the organization as a member of the organization."

(b) Effective Date. The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1994.Subtitle F Estates and TrustsPART I INCOME TAX PROVISIONS

SEC. 14601. CERTAIN REVOCABLE TRUSTS TREATED AS PART OF ESTATE.

(a) In General. Subpart A of part I of subchapter J (relating to estates, trusts, beneficiaries, and decedents) is amended by adding at the end the following new section:

"SEC. 646. CERTAIN REVOCABLE TRUSTS TREATED AS PART OF ESTATE.

"(a) General Rule. For purposes of this subtitle, if both the executor of an estate and the trustee of a qualified revocable trust elect the treatment provided in this section, such trust shall be treated and taxed as part of such estate (and not as a separate trust) for all taxable years of the estate ending after the date of the decedents death and before the applicable date.

"(b) Definitions. For purposes of subsection (a)

"(1) Qualified revocable trust. The term ualified revocable trust means any trust all of which was treated under section 676 as owned by the decedent of the estate referred to in subsection (a).

"(2) Applicable date. The term pplicable date means

"(A) if no return of tax imposed by chapter 11 is required to be filed, the date which is 2 years after the date of the decedents death, and

"(B) if such a return is required to be filed, the date which is 6 months after the date of the final determination of the liability for tax imposed by chapter 11.

"(c) Election. The election under subsection (a) shall be made not later than the time prescribed for filing the return of tax imposed by this chapter for the first taxable year of the estate (determined with regard to extensions) and, once made, shall be irrevocable."

(b) Comparable Treatment Under Generation-Skipping Tax. Paragraph (1) of section 2652(b) is amended by adding at the end the following new sentence: "Such term shall not include any trust during any period the trust is treated as part of an estate under section 646."

(c) Clerical Amendment. The table of sections for such subpart A is amended by adding at the end the following new item:"Sec. 646. Certain revocable trusts treated as part of estate."

(d) Effective Date. The amendments made by this section shall apply with respect to estates of decedents dying after the date of the enactment of this Act.

SEC. 14602. DISTRIBUTIONS DURING FIRST 65 DAYS OF TAXABLE YEAR OF ESTATE.

(a) In General. Subsection (b) of section 663 (relating to distributions in first 65 days of taxable year) is amended by inserting "an estate or" before "a trust" each place it appears.

(b) Conforming Amendment. Paragraph (2) of section 663(b) is amended by striking "the fiduciary of such trust" and inserting "the executor of such estate or the fiduciary of such trust (as the case may be)".

(c) Effective Date. The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 14603. SEPARATE SHARE RULES AVAILABLE TO ESTATES.

(a) In General. Subsection (c) of section 663 (relating to separate shares treated as separate trusts) is amended

(1) by inserting before the last sentence the following new sentence: "Rules similar to the rules of the preceding provisions of this subsection shall apply to treat substantially separate and independent shares of different beneficiaries in an estate having more than 1 beneficiary as separate estates.", and

(2) by inserting "or estates" after "trusts" in the last sentence.

(b) Conforming Amendment. The subsection heading of section 663(c) is amended by inserting "Estates or" before "Trusts".

(c) Effective Date. The amendments made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.

SEC. 14604. EXECUTOR OF ESTATE AND BENEFICIARIES TREATED AS RELATED PERSONS FOR DISALLOWANCE OF LOSSES, ETC.

(a) Disallowance of Losses. Subsection (b) of section 267 (relating to losses, expenses, and interest with respect to transactions between related taxpayers) is amended by striking "or" at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting "; or", and by adding at the end the following new paragraph:

"(13) Except in the case of a sale or exchange in satisfaction of a pecuniary bequest, an executor of an estate and a beneficiary of such estate."

(b) Ordinary Income From Gain From Sale of Depreciable Property. Subsection (b) of section 1239 is amended by striking the period at the end of paragraph (2) and inserting ", and" and by adding at the end the following new paragraph:

"(3) except in the case of a sale or exchange in satisfaction of a pecuniary bequest, an executor of an estate and a beneficiary of such estate."

(c) Effective Date. The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 14605. LIMITATION ON TAXABLE YEAR OF ESTATES.

(a) In General. Section 645 (relating to taxable year of trusts) is amended to read as follows:

"SEC. 645. TAXABLE YEAR OF ESTATES AND TRUSTS.

"(a) Estates. For purposes of this subtitle, the taxable year of an estate shall be a year ending on October 31, November 30, or December 31.

"(b) Trusts.

"(1) In general. For purposes of this subtitle, the taxable year of any trust shall be the calendar year.

"(2) Exception for trusts exempt from tax and charitable trusts. Paragraph (1) shall not apply to a trust exempt from taxation under section 501(a) or to a trust described in section 4947(a)(1)."

(b) Clerical Amendment. The table of sections for subpart A of part I of subchapter J of chapter 1 is amended by striking the item relating to section 645 and inserting the following new item:"Sec. 645. Taxable year of estates and trusts."

(c) Effective Date. The amendments made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.

SEC. 14606. REPEAL OF CERTAIN THROWBACK RULES APPLICABLE TO DOMESTIC TRUSTS.

(a) Accumulation Distributions.

(1) In general. Section 665 is amended by adding at the end the following new subsection:

"(f) Accumulation Distributions After 1995. For purposes of this subpart, in the case of a trust other than a foreign trust, any distribution in any taxable year beginning after December 31, 1995, shall be computed without regard to any undistributed net income."

(2) Conforming amendment. Subsection (b) of section 665 is amended by inserting "except as provided in subsection (f)," after "subpart,"

(b) Property Transferred to Trusts. Subsection (e) of section 644 is amended by striking "or" at the end of paragraph (3), by striking the period at the end of paragraph (4) and inserting ", or ", and by adding at the end the following new paragraph:

"(5) in the case of a trust other than a foreign trust, any sale or exchange of property after December 31, 1995."

(c) Effective Dates.

(1) Accumulation distribution. The amendments made by subsection (a) shall apply to distributions in taxable years beginning after December 31, 1995.

(2) Transferred property. The amendments made by subsection (b) shall apply to sales or exchanges after December 31, 1995.

SEC. 14607. TREATMENT OF FUNERAL TRUSTS.

(a) In General. Subpart F of part I of subchapter J of chapter 1 is amended by adding at the end the following new section:

"SEC. 684. TREATMENT OF FUNERAL TRUSTS.

"(a) In General. In the case of a qualified funeral trust

"(1) subparts B, C, D, and E shall not apply, and

"(2) no deduction shall be allowed by section 642(b).

"(b) Qualified Funeral Trust. For purposes of this subsection, the term ualified funeral trust means any trust (other than a foreign trust) if

"(1) the trust arises as a result of a contract with a person engaged in the trade or business of providing funeral or burial services or property necessary to provide such services,

"(2) the sole purpose of the trust is to hold, invest, and reinvest funds in the trust and to use such funds solely to make payments for such services or property for the benefit of the beneficiaries of the trust,

"(3) the only beneficiaries of such trust are individuals who have entered into contracts described in paragraph (1) to have such services or property provided at their death,

"(4) the only contributions to the trust are contributions by or for the benefit of such beneficiaries,

"(5) the trustee elects the application of this subsection, and

"(6) the trust would (but for the election described in paragraph (5)) be treated as owned by the beneficiaries under subpart E.

"(c) Dollar Limitation on Contributions.

"(1) In general. The term ualified funeral trust shall not include any trust which accepts contributions by or for the benefit of an individual in excess of $5,000.

"(2) Related trusts. For purposes of paragraph (1), all trusts having trustees which are related persons shall be treated as 1 trust. For purposes of the preceding sentence, persons are related if

"(A) the relationship between such persons would result in the disallowance of losses under section 267 or 707(b),

"(B) such persons are treated as a single employer under subsection (a) or (b) of section 52, or

"(C) the Secretary determines that treating such persons as related is necessary to prevent avoidance of the purposes of this section.

"(3) Inflation adjustment. In the case of any contract referred to in subsection (b)(1) which is entered into during any calendar year after 1996, the dollar amount referred to paragraph (1) shall be increased by an amount equal to

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, by substituting alendar year 1995 for alendar year 1992 in subparagraph (B) thereof.

If any dollar amount after being increased under the preceding sentence is not a multiple of $100, such dollar amount shall be rounded to the nearest multiple of $100.

"(d) Application of Rate Schedule. Section 1(e) shall be applied to each qualified funeral trust by treating each beneficiarys interest in each such trust as a separate trust.

"(e) Treatment of Amounts Refunded to Beneficiary on Cancellation. No gain or loss shall be recognized to a beneficiary described in subsection (b)(3) of any qualified funeral trust by reason of any payment from such trust to such beneficiary by reason of cancellation of a contract referred to in subsection (b)(1). If any payment referred to in the preceding sentence consists of property other than money, the basis of such property in the hands of such beneficiary shall be the same as the trusts basis in such property immediately before the payment.

"(f) Simplified Reporting. The Secretary may prescribe rules for simplified reporting of all trusts having a single trustee."

(b) Clerical Amendment. The table of sections for subpart F of part I of subchapter J of chapter 1 is amended by adding at the end the following new item:"Sec. 684. Treatment of funeral trusts."

(c) Effective Date. The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.PART II ESTATE AND GIFT TAX PROVISIONS

SEC. 14611. CLARIFICATION OF WAIVER OF CERTAIN RIGHTS OF RECOVERY.

(a) Amendment to Section 2207A. Paragraph (2) of section 2207A(a) (relating to right of recovery in the case of certain marital deduction property) is amended to read as follows:

"(2) Decedent may otherwise direct. Paragraph (1) shall not apply with respect to any property to the extent that the decedent in his will (or a revocable trust) specifically indicates an intent to waive any right of recovery under this subchapter with respect to such property."

(b) Amendment to Section 2207B. Paragraph (2) of section 2207B(a) (relating to right of recovery where decedent retained interest) is amended to read as follows:

"(2) Decedent may otherwise direct. Paragraph (1) shall not apply with respect to any property to the extent that the decedent in his will (or a revocable trust) specifically indicates an intent to waive any right of recovery under this subchapter with respect to such property."

(c) Effective Date. The amendments made by this section shall apply with respect to the estates of decedents dying after the date of the enactment of this Act.

SEC. 14612. ADJUSTMENTS FOR GIFTS WITHIN 3 YEARS OF DECEDENTS DEATH.

(a) General Rule. Section 2035 is amended to read as follows:

"SEC. 2035. ADJUSTMENTS FOR CERTAIN GIFTS MADE WITHIN 3 YEARS OF DECEDENTS DEATH.

"(a) Inclusion of Certain Property in Gross Estate. If

"(1) the decedent made a transfer (by trust or otherwise) of an interest in any property, or relinquished a power with respect to any property, during the 3-year period ending on the date of the decedents death, and

"(2) the value of such property (or an interest therein) would have been included in the decedents gross estate under section 2036, 2037, 2038, or 2042 if such transferred interest or relinquished power had been retained by the decedent on the date of his death,

the value of the gross estate shall include the value of any property (or interest therein) which would have been so included.

"(b) Inclusion of Gift Tax on Gifts Made During 3 Years Before Decedents Death. The amount of the gross estate (determined without regard to this subsection) shall be increased by the amount of any tax paid under chapter 12 by the decedent or his estate on any gift made by the decedent or his spouse during the 3-year period ending on the date of the decedents death.

"(c) Other Rules Relating to Transfers Within 3 Years of Death.

"(1) In general. For purposes of

"(A) section 303(b) (relating to distributions in redemption of stock to pay death taxes),

"(B) section 2032A (relating to special valuation of certain farms, etc., real property), and

"(C) subchapter C of chapter 64 (relating to lien for taxes),

the value of the gross estate shall include the value of all property to the extent of any interest therein of which the decedent has at any time made a transfer, by trust or otherwise, during the 3-year period ending on the date of the decedents death.

"(2) Coordination with section 6166. An estate shall be treated as meeting the 35 percent of adjusted gross estate requirement of section 6166(a)(1) only if the estate meets such requirement both with and without the application of paragraph (1).

"(3) Marital and small transfers. Paragraph (1) shall not apply to any transfer (other than a transfer with respect to a life insurance policy) made during a calendar year to any donee if the decedent was not required by section 6019 (other than by reason of section 6019(2)) to file any gift tax return for such year with respect to transfers to such donee.

"(d) Exception. Subsection (a) shall not apply to any bona fide sale for an adequate and full consideration in money or moneys worth.

"(e) Treatment of Certain Transfers From Revocable Trusts. For purposes of this section and section 2038, any transfer from any portion of a trust during any period that such portion was treated under section 676 as owned by the decedent shall be treated as a transfer made directly by the decedent."

(b) Clerical Amendment. The table of sections for part III of subchapter A of chapter 11 is amended by striking "gifts" in the item relating to section 2035 and inserting "certain gifts".

(c) Effective Date. The amendments made by this section shall apply to the estates of decedents dying after the date of the enactment of this Act.

SEC. 14613. CLARIFICATION OF QUALIFIED TERMINABLE INTEREST RULES.

(a) General Rule.

(1) Estate tax. Subparagraph (B) of section 2056(b)(7) (defining qualified terminable interest property) is amended by adding at the end the following new clause:

"(vi) Treatment of certain income distributions. An income interest shall not fail to qualify as a qualified income interest for life solely because income for the period after the last distribution date and on or before the date of the surviving spouses death is not required to be distributed to the surviving spouse or to the estate of the surviving spouse."

(2) Gift tax. Paragraph (3) of section 2523(f) is amended by striking "and (iv)" and inserting "(iv), and (vi)".

(b) Clarification of Subsequent Inclusions. Section 2044 is amended by adding at the end the following new subsection:

"(d) Clarification of Inclusion of Certain Income. The amount included in the gross estate under subsection (a) shall include the amount of any income from the property to which this section applies for the period after the last distribution date and on or before the date of the decedents death if such income is not otherwise included in the decedents gross estate."

(c) Effective Date.

(1) In general. The amendments made by this section shall apply with respect to the estates of decedents dying, and gifts made, after the date of the enactment of this Act.

(2) Application of section 2044 to transfers before date of enactment. In the case of the estate of any decedent dying after the date of the enactment of this Act, if there was a transfer of property on or before such date

(A) such property shall not be included in the gross estate of the decedent under section 2044 of the Internal Revenue Code of 1986 if no prior marital deduction was allowed with respect to such a transfer of such property to the decedent, but

(B) such property shall be so included if such a deduction was allowed.

SEC. 14614. TRANSITIONAL RULE UNDER SECTION 2056A.

(a) General Rule. In the case of any trust created under an instrument executed before the date of the enactment of the Revenue Reconciliation Act of 1990, such trust shall be treated as meeting the requirements of paragraph (1) of section 2056A(a) of the Internal Revenue Code of 1986 if the trust instrument requires that all trustees of the trust be individual citizens of the United States or domestic corporations.

(b) Effective Date. The provisions of subsection (a) shall take effect as if included in the provisions of section 11702(g) of the Revenue Reconciliation Act of 1990.

SEC. 14615. OPPORTUNITY TO CORRECT CERTAIN FAILURES UNDER SECTION 2032A.

(a) General Rule. Paragraph (3) of section 2032A(d) (relating to modification of election and agreement to be permitted) is amended to read as follows:

"(3) Modification of election and agreement to be permitted. The Secretary shall prescribe procedures which provide that in any case in which the executor makes an election under paragraph (1) (and submits the agreement referred to in paragraph (2)) within the time prescribed therefor, but

"(A) the notice of election, as filed, does not contain all required information, or

"(B) signatures of 1 or more persons required to enter into the agreement described in paragraph (2) are not included on the agreement as filed, or the agreement does not contain all required information,

the executor will have a reasonable period of time (not exceeding 90 days) after notification of such failures to provide such information or signatures."

(b) Effective Date. The amendment made by subsection (a) shall apply to the estates of decedents dying after the date of the enactment of this Act.

SEC. 14616. UNIFIED CREDIT OF DECEDENT INCREASED BY UNIFIED CREDIT OF SPOUSE USED ON SPLIT GIFT INCLUDED IN DECEDENTS GROSS ESTATE.

(a) In General. Section 2010 (relating to unified credit against estate tax) is amended by adding at the end the following new subsection:

"(d) Treatment of Unified Credit Used By Spouse on Split-Gift Included in Decedents Gross Estate. If

"(1) the decedent was the donor of any gift one-half of which was considered under section 2513 as made by the decedents spouse, and

"(2) the amount of such gift is includible in the gross estate of the decedent by reason of section 2035, 2036, 2037, or 2038,

the amount of the credit allowable by subsection (a) to the estate of the decedent shall be increased by the amount of the unified credit allowed against the tax imposed by section 2501 on the amount of such gift considered under section 2513 as made by such spouse."

(b) Effective Date. The amendment made by subsection (a) shall apply to gifts made after the date of the enactment of this Act.

SEC. 14617. REFORMATION OF DEFECTIVE BEQUESTS, ETC. TO SPOUSE OF DECEDENT.

(a) In General. Subsection (b) of section 2056 (relating to bequests, etc., to surviving spouse) is amended by adding at the end the following new paragraph:

"(11) Reformations permitted.

"(A) In general. In the case of any interest in property with respect to which a deduction would be allowable under subsection (a) but for a provision of this subsection, if

"(i) the surviving spouse is entitled to all of the income from the property for life,

"(ii) no person other than such spouse is entitled to any distribution of such property during such spouses life, and

"(iii) there is a change of a governing instrument (by reformation, amendment, construction, or otherwise) as of the applicable date which results in the satisfaction of the requirements of such provision as of the date of the decedents death,

the determination of whether such deduction is allowable shall be made as of the applicable date.

"(B) Special rule where timely commencement of reformation. Clauses (i) and (ii) of subparagraph (A) shall not apply to any interest if, not later than the date described in subparagraph (C)(i), a judicial proceeding is commenced to change such interest into an interest which satisfies the requirements of the provision by reason of which (but for this paragraph) a deduction would not be allowable under subsection (a) for such interest.

"(C) Applicable date. For purposes of subparagraph (A), the term pplicable date means

"(i) the last date (including extensions) for filing the return of tax imposed by this chapter, or

"(ii) if a judicial proceeding is commenced to comply with such provision, the time when the changes pursuant to such proceeding are made.

"(D) Special rule. If the change referred to in subparagraph (A)(iii) is to qualify the passage of the interest under paragraph (7), subparagraph (A) shall apply only if the election under subparagraph (B) thereof is made.

"(E) Statute of limitations. If a judicial proceeding described in subparagraph (C)(ii) is commenced with respect to any interest, the period for assessing any deficiency of tax attributable to such interest shall not expire before the date 1 year after the date on which the Secretary is notified that such provision has been complied with or that such proceeding has been terminated."

(b) Comparable Rule for Gift Tax. Section 2523 (relating to gift to spouse) is amended by adding at the end the following new subsection:

"(j) Reformations permitted. Rules similar to the rules of section 2056(b)(11) shall apply for purposes of this section."

(c) Effective Date. The amendments made by this section shall apply to estates of decedents dying, and gifts made, after the date of the enactment of this Act.

SEC. 14618. GIFTS MAY NOT BE REVALUED FOR ESTATE TAX PURPOSES AFTER EXPIRATION OF STATUTE OF LIMITATIONS.

(a) In General. Section 2001 (relating to imposition and rate of estate tax) is amended by adding at the end the following new subsection:

"(f) Valuation of Gifts. If

"(1) the time has expired within which a tax may be assessed under chapter 12 (or under corresponding provisions of prior laws) on the transfer of property by gift made during a preceding calendar period (as defined in section 2502(b)), and

"(2) the value of such gift is shown on the return for such preceding calendar period or is disclosed in such return, or in a statement attached to the return, in a manner adequate to apprise the Secretary of the nature of such gift,

the value of such gift shall, for purposes of computing the tax under this chapter, be the value of such gift as finally determined for purposes of chapter 12."

(b) Modification of Application of Statute of Limitations. Paragraph (9) of section 6501(c) is amended to read as follows:

"(9) Gift tax on certain gifts not shown on return. If any gift of property the value of which (or any increase in taxable gifts required under section 2701(d)) is required to be shown on a return of tax imposed by chapter 12 (without regard to section 2503(b)), and is not shown on such return, any tax imposed by chapter 12 on such gift may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time. The preceding sentence shall not apply to any item which is disclosed in such return, or in a statement attached to the return, in a manner adequate to apprise the Secretary of the nature of such item. The value of any item which is so disclosed may not be redetermined by the Secretary after the expiration of the period under subsection (a)."

(c) Declaratory Judgment Procedure for Determining Value of Gift.

(1) In general. Part IV of subchapter C of chapter 76 is amended by inserting after section 7476 the following new section:

"SEC. 7477. DECLARATORY JUDGMENTS RELATING TO VALUE OF CERTAIN GIFTS.

"(a) Creation of Remedy. In a case of an actual controversy involving a determination by the Secretary of the value of any gift shown on the return of tax imposed by chapter 12 or disclosed on such return or in any statement attached to such return, upon the filing of an appropriate pleading, the Tax Court may make a declaration of the value of such gift. Any such declaration shall have the force and effect of a decision of the Tax Court and shall be reviewable as such.

"(b) Limitations.

"(1) Petitioner. A pleading may be filed under this section only by the donor.

"(2) Exhaustion of administrative remedies. The court shall not issue a declaratory judgment or decree under this section in any proceeding unless it determines that the petitioner has exhausted all available administrative remedies within the Internal Revenue Service.

"(3) Time for bringing action. If the Secretary sends by certified or registered mail notice of his determination as described in subsection (a) to the petitioner, no proceeding may be initiated under this section unless the pleading is filed before the 91st day after the date of such mailing."

(2) Clerical amendment. The table of sections for such part IV is amended by inserting after the item relating to section 7476 the following new item: "Sec. 7477. Declaratory judgments relating to value of certain gifts."

(d) Conforming Amendment. Subsection (c) of section 2504 is amended by striking ", and if a tax under this chapter or under corresponding provisions of prior laws has been assessed or paid for such preceding calendar period".

(e) Effective Dates.

(1) In general. The amendments made by subsections (a) and (c) shall apply to gifts made after the date of the enactment of this Act.

(2) Subsection (b). The amendment made by subsection (b) shall apply to gifts made in calendar years ending after the date of the enactment of this Act.

SEC. 14619. CLARIFICATIONS RELATING TO DISCLAIMERS.

(a) Partial Transfer-Type Disclaimers Permitted. Paragraph (3) of section 2518(c) (relating to certain transfers treated as disclaimers) is amended by inserting "(or an undivided portion of such interest)" after "entire interest in the property".

(b) Retention of Interest by Decedents Spouse Permitted in Transfer-Type Disclaimers. Paragraph (3) of section 2518(c) is amended by adding at the end the following new flush sentence:

"For purposes of the preceding sentence, a written transfer by the spouse of the decedent of property to a trust shall not fail to be treated as a transfer of such spouses interest in such property by reason of such spouse having an interest in such trust."

(c) Disclaimers Are Effective For Income Tax Purposes. Subsection (a) of section 2518 is amended by inserting "and subtitle A" after "this subtitle" each place it appears.

(d) Effective Date. The amendments made by this section shall apply to transfers creating an interest in the person disclaiming, and disclaimers, made after the date of the enactment of this Act.

SEC. 14620. CLARIFICATION OF TREATMENT OF SURVIVOR ANNUITIES UNDER QUALIFIED TERMINABLE INTEREST RULES.

(a) In General. Subparagraph (C) of section 2056(b)(7) is amended by inserting "(or, in the case of an interest in an annuity arising under the community property laws of a State, included in the gross estate of the decedent under section 2033)" after "section 2039".

(b) Effective Date. The amendment made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.

SEC. 14621. TREATMENT UNDER QUALIFIED DOMESTIC TRUST RULES OF FORMS OF OWNERSHIP WHICH ARE NOT TRUSTS.

(a) In General. Subsection (c) of section 2056A (defining qualified domestic trust) is amended by adding at the end the following new paragraph:

"(3) Trust. To the extent provided in regulations prescribed by the Secretary, the term rust includes other arrangements which have substantially the same effect as a trust."

(b) Effective Date. The amendment made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.

SEC. 14622. AUTHORITY TO WAIVE REQUIREMENT OF UNITED STATES TRUSTEE FOR QUALIFIED DOMESTIC TRUSTS.

(a) In General. Subparagraph (A) of section 2056A(a)(1) is amended by inserting "except as provided in regulations prescribed by the Secretary," before "requires".

(b) Effective Date. The amendment made by this section shall apply to estates of decedents dying after the date of the enactment of this Act.PART III GENERATION-SKIPPING TAX PROVISIONS

SEC. 14631. SEVERING OF TRUSTS HOLDING PROPERTY HAVING AN INCLUSION RATIO OF GREATER THAN ZERO.

(a) In General. Subsection (a) of section 2642 (relating to inclusion ratio) is amended by adding at the end the following new paragraph:

"(3) Severing of trusts holding property having an inclusion ratio of greater than zero.

"(A) In general. If a trust holding property having an inclusion ratio of greater than zero is severed in a qualified severance, at the election of the trustee of such trust, the trusts resulting from such severance shall be treated as separate trusts for purposes of this chapter.

"(B) Qualified severance. For purposes of subparagraph (A), the term ualified severance means the creation of 2 trusts from a single trust if each property held by the single trust was divided between the 2 created trusts such that one trust received an interest in each such property equal to the applicable fraction of the single trust. Such term includes any other severance permitted under regulations prescribed by the Secretary.

"(C) Election. The election under this paragraph shall be made at the time prescribed by the Secretary. Such an election, once made, shall be irrevocable."

(b) Effective Date. The amendment made by subsection (a) shall apply to severances after the date of the enactment of this Act.

SEC. 14632. CLARIFICATION OF WHO IS TRANSFEROR WHERE SUBSEQUENT GIFT BY REASON OF POWER OF APPOINTMENT.

(a) In General. Paragraph (1) of section 2652(a) (defining transferor) is amended by adding at the end the following new sentence: "A transferor described in subparagraph (A) shall not be treated as the transferor of any property if another individual is treated as the transferor of such property under subparagraph (B) by reason of the exercise, release, or lapse of a general power of appointment with respect to such property."

(b) Effective Date. The amendment made by subsection (a) shall apply to the exercise, release, or lapse of a general power of appointment after the date of the enactment of this Act.

SEC. 14633. TAXABLE TERMINATION NOT TO INCLUDE DIRECT SKIPS.

(a) In General. Paragraph (1) of section 2612(a) (defining taxable termination) is amended by adding at the end the following new flush sentence:

"Such term shall not include a direct skip."

(b) Effective Date. The amendment made by subsection (a) shall apply to generation-skipping transfers (as defined in section 2611 of the Internal Revenue Code of 1986) after the date of the enactment of this Act.

SEC. 14634. EXPANSION OF EXCEPTION FROM GENERATION-SKIPPING TRANSFER TAX FOR TRANSFERS TO INDIVIDUALS WITH DECEASED PARENTS.

(a) In General. Section 2651 (relating to generation assignment) is amended by redesignating subsection (e) as subsection (f), and by inserting after subsection (d) the following new subsection:

"(e) Special Rule for Persons With a Deceased Parent.

"(1) In general. For purposes of determining whether any transfer is a generation-skipping transfer, if

"(A) an individual is a descendant of a parent of the transferor (or the transferors spouse or former spouse), and

"(B) such individuals parent who is a lineal descendant of the parent of the transferor (or the transferors spouse or former spouse) is dead at the time the transfer (from which an interest of such individual is established or derived) is subject to a tax imposed by chapter 11 or 12 upon the transferor (and if there shall be more than 1 such time, then at the earliest such time),

such individual shall be treated as if such individual were a member of the generation which is 1 generation below the lower of the transferors generation or the generation assignment of the youngest living ancestor of such individual who is also a descendant of the parent of the transferor (or the transferors spouse or former spouse), and the generation assignment of any descendant of such individual shall be adjusted accordingly.

"(2) Limited application of subsection to collateral heirs. This subsection shall not apply with respect to a transfer to any individual who is not a lineal descendant of the transferor (or the transferors spouse or former spouse) if, at the time of the transfer, such transferor has any living lineal descendant."

(b) Conforming Amendments.

(1) Section 2612(c) (defining direct skip) is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(2) Section 2612(c)(2) (as so redesignated) is amended by striking "section 2651(e)(2)" and inserting "section 2651(f)(2)".

(c) Effective Date. The amendments made by this section shall apply to terminations, distributions, and transfers occurring after the date of the enactment of this Act.Subtitle G Excise Tax SimplificationPART I PROVISIONS RELATED TO DISTILLED SPIRITS, WINES, AND BEER

SEC. 14701. CREDIT OR REFUND FOR IMPORTED BOTTLED DISTILLED SPIRITS RETURNED TO DISTILLED SPIRITS PLANT.

(a) In General. Paragraph (1) of section 5008(c) (relating to distilled spirits returned to bonded premises) is amended by striking "withdrawn from bonded premises on payment or determination of tax" and inserting "on which tax has been determined or paid".

(b) Effective Date. The amendment made by subsection (a) shall take effect at the beginning of the first calendar quarter beginning more than 180 days after the date of the enactment of this Act.

SEC. 14702. AUTHORITY TO CANCEL OR CREDIT EXPORT BONDS WITHOUT SUBMISSION OF RECORDS.

(a) In General. Subsection (c) of section 5175 (relating to export bonds) is amended by striking "on the submission of" and all that follows and inserting "if there is such proof of exportation as the Secretary may by regulations require."

(b) Effective Date. The amendment made by subsection (a) shall take effect at the beginning of the first calendar quarter beginning more than 180 days after the date of the enactment of this Act.

SEC. 14703. REPEAL OF REQUIRED MAINTENANCE OF RECORDS ON PREMISES OF DISTILLED SPIRITS PLANT.

(a) In General. Subsection (c) of section 5207 (relating to records and reports) is amended by striking "shall be kept on the premises where the operations covered by the record are carried on and".

(b) Effective Date. The amendment made by subsection (a) shall take effect at the beginning of the first calendar quarter beginning more than 180 days after the date of the enactment of this Act.

SEC. 14704. FERMENTED MATERIAL FROM ANY BREWERY MAY BE RECEIVED AT A DISTILLED SPIRITS PLANT.

(a) In General. Paragraph (2) of section 5222(b) (relating to production, receipt, removal, and use of distilling materials) is amended to read as follows:

"(2) beer conveyed without payment of tax from brewery premises, beer which has been lawfully removed from brewery premises upon determination of tax, or".

(b) Clarification of Authority To Permit Removal of Beer Without Payment of Tax for Use as Distilling Material. Section 5053 (relating to exemptions) is amended by redesignating subsection (f) as subsection (i) and by inserting after subsection (e) the following new subsection:

"(f) Removal for Use as Distilling Material. Subject to such regulations as the Secretary may prescribe, beer may be removed from a brewery without payment of tax to any distilled spirits plant for use as distilling material."

(c) Clarification of Refund and Credit of Tax. Section 5056 (relating to refund and credit of tax, or relief from liability) is amended

(1) by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) Beer Received at a Distilled Spirits Plant. Any tax paid by any brewer on beer produced in the United States may be refunded or credited to the brewer, without interest, or if the tax has not been paid, the brewer may be relieved of liability therefor, under regulations as the Secretary may prescribe, if such beer is received on the bonded premises of a distilled spirits plant pursuant to the provisions of section 5222(b)(2), for use in the production of distilled spirits.", and

(2) by striking "or rendering unmerchantable" in subsection (d) (as so redesignated) and inserting "rendering unmerchantable, or receipt on the bonded premises of a distilled spirits plant".

(d) Effective Date. The amendments made by this section shall take effect at the beginning of the first calendar quarter beginning more than 180 days after the date of the enactment of this Act.

SEC. 14705. REPEAL OF REQUIREMENT FOR WHOLESALE DEALERS IN LIQUORS TO POST SIGN.

(a) In General. Section 5115 (relating to sign required on premises) is hereby repealed.

(b) Conforming Amendments.

(1) Subsection (a) of section 5681 is amended by striking ", and every wholesale dealer in liquors," and by striking "section 5115(a) or".

(2) Subsection (c) of section 5681 is amended

(A) by striking "or wholesale liquor establishment, on which no sign required by section 5115(a) or" and inserting "on which no sign required by", and

(B) by striking "or wholesale liquor establishment, or who" and inserting "or who".

(3) The table of sections for subpart D of part II of subchapter A of chapter 51 is amended by striking the item relating to section 5115.

(c) Effective Date. The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 14706. REFUND OF TAX ON WINE RETURNED TO BOND NOT LIMITED TO UNMERCHANTABLE WINE.

(a) In General. Subsection (a) of section 5044 (relating to refund of tax on unmerchantable wine) is amended by striking "as unmerchantable".

(b) Conforming Amendments.

(1) Section 5361 is amended by striking "unmerchantable".

(2) The section heading for section 5044 is amended by striking "unmerchantable".

(3) The item relating to section 5044 in the table of sections for subpart C of part I of subchapter A of chapter 51 is amended by striking "unmerchantable".

(c) Effective Date. The amendments made by this section shall take effect at the beginning of the first calendar quarter beginning more than 180 days after the date of the enactment of this Act.

SEC. 14707. USE OF ADDITIONAL AMELIORATING MATERIAL IN CERTAIN WINES.

(a) In General. Subparagraph (D) of section 5384(b)(2) (relating to ameliorated fruit and berry wines) is amended by striking "loganberries, currants, or gooseberries," and inserting "any fruit or berry with a natural fixed acid of 20 parts per thousand or more (before any correction of such fruit or berry)".

(b) Effective Date. The amendment made by this section shall take effect at the beginning of the first calendar quarter beginning more than 180 days after the date of the enactment of this Act.

SEC. 14708. DOMESTICALLY PRODUCED BEER MAY BE WITHDRAWN FREE OF TAX FOR USE OF FOREIGN EMBASSIES, LEGATIONS, ETC.

(a) In General. Section 5053 (relating to exemptions) is amended by inserting after subsection (f) the following new subsection:

"(g) Removals for Use of Foreign Embassies, Legations, Etc.

"(1) In general. Subject to such regulations as the Secretary may prescribe

"(A) beer may be withdrawn from the brewery without payment of tax for transfer to any customs bonded warehouse for entry pending withdrawal therefrom as provided in subparagraph (B), and

"(B) beer entered into any customs bonded warehouse under subparagraph (A) may be withdrawn for consumption in the United States by, and for the official and family use of, such foreign governments, organizations, and individuals as are entitled to withdraw imported beer from such warehouses free of tax.

Beer transferred to any customs bonded warehouse under subparagraph (A) shall be entered, stored, and accounted for in such warehouse under such regulations and bonds as the Secretary may prescribe, and may be withdrawn therefrom by such governments, organizations, and individuals free of tax under the same conditions and procedures as imported beer.

"(2) Other rules to apply. Rules similar to the rules of paragraphs (2) and (3) of section 5362(e) of such section shall apply for purposes of this subsection."

(b) Effective Date. The amendment made by subsection (a) shall take effect at the beginning of the first calendar quarter beginning more than 180 days after the date of the enactment of this Act.

SEC. 14709. BEER MAY BE WITHDRAWN FREE OF TAX FOR DESTRUCTION.

(a) In General. Section 5053 is amended by inserting after subsection (g) the following new subsection:

"(h) Removals for Destruction. Subject to such regulations as the Secretary may prescribe, beer may be removed from the brewery without payment of tax for destruction."

(b) Effective Date. The amendment made by subsection (a) shall take effect at the beginning of the first calendar quarter beginning more than 180 days after the date of the enactment of this Act.

SEC. 14710. AUTHORITY TO ALLOW DRAWBACK ON EXPORTED BEER WITHOUT SUBMISSION OF RECORDS.

(a) In General. The first sentence of section 5055 (relating to drawback of tax on beer) is amended by striking "found to have been paid" and all that follows and inserting "paid on such beer if there is such proof of exportation as the Secretary may by regulations require."

(b) Effective Date. The amendment made by subsection (a) shall take effect at the beginning of the first calendar quarter beginning more than 180 days after the date of the enactment of this Act.

SEC. 14711. TRANSFER TO BREWERY OF BEER IMPORTED IN BULK WITHOUT PAYMENT OF TAX.

(a) In General. Part II of subchapter G of chapter 51 is amended by adding at the end the following new section:

"SEC. 5418. BEER IMPORTED IN BULK.

"Beer imported or brought into the United States in bulk containers may, under such regulations as the Secretary may prescribe, be withdrawn from customs custody and transferred in such bulk containers to the premises of a brewery without payment of the internal revenue tax imposed on such beer. The proprietor of a brewery to which such beer is transferred shall become liable for the tax on the beer withdrawn from customs custody under this section upon release of the beer from customs custody, and the importer, or the person bringing such beer into the United States, shall thereupon be relieved of the liability for such tax."

(b) Clerical Amendment. The table of sections for such part II is amended by adding at the end the following new item:"Sec. 5418. Beer imported in bulk."

(c) Effective Date. The amendments made by this section shall take effect at the beginning of the first calendar quarter beginning more than 180 days after the date of the enactment of this Act.PART II CONSOLIDATION OF TAXES ON AVIATION GASOLINE

SEC. 14721. CONSOLIDATION OF TAXES ON AVIATION GASOLINE.

(a) In General. Subparagraph (A) of section 4081(a)(2) (relating to imposition of tax on gasoline and diesel fuel) is amended by redesignating clause (ii) as clause (iii) and by striking clause (i) and inserting the following:

"(i) in the case of gasoline other than aviation gasoline, 18.3 cents per gallon,

"(ii) in the case of aviation gasoline, 19.3 cents per gallon, and".

(b) Termination. Subsection (d) of section 4081 is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following new paragraph:

"(2) Aviation gasoline. On and after January 1, 1996, the rate specified in subsection (a)(2)(A)(ii) shall be 4.3 cents per gallon."

(c) Repeal of Retail Level Tax.

(1) Subsection (c) of section 4041 is amended by striking paragraphs (2) and (3) and by redesignating paragraphs (4) and (5) as paragraphs (2) and (3), respectively.

(2) Paragraph (3) of section 4041(c), as redesignated by paragraph (1), is amended by striking "paragraphs (1) and (2)" and inserting "paragraph (1)".

(d) Conforming Amendments.

(1) Paragraph (1) of section 4041(k) is amended by adding "and" at the end of subparagraph (A), by striking ", and" at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C).

(2) Paragraph (1) of section 4081(d) is amended by striking "each rate of tax specified in subsection (a)(2)(A)" and inserting "the rates of tax specified in clauses (i) and (iii) of subsection (a)(2)(A)".

(3) Sections 6421(f)(2)(A) and 9502(f)(1)(A) are each amended by striking "section 4041(c)(4)" and inserting "section 4041(c)(2)".

(4) Paragraph (2) of section 9502(b) is amended by striking "14 cents" and inserting "15 cents".

(e) Effective Date. The amendments made by this section shall take effect on January 1, 1996.

(f) Floor Stocks Tax.

(1) Imposition of tax. In the case of aviation gasoline on which tax was imposed under section 4081 of the Internal Revenue Code of 1986 before January 1, 1996, and which is held on such date by any person, there is hereby imposed a floor stocks tax of 1 cent per gallon of such gasoline.

(2) Liability for tax and method of payment.

(A) Liability for tax. A person holding aviation gasoline on January 1, 1996, to which the tax imposed by paragraph (1) applies shall be liable for such tax.

(B) Method of payment. The tax imposed by paragraph (1) shall be paid in such manner as the Secretary shall prescribe.

(C) Time for payment. The tax imposed by paragraph (1) shall be paid on or before June 30, 1996.

(3) Definitions. For purposes of this subsection:

(A) Held by a person. Gasoline shall be considered as "held by a person" if title thereto has passed to such person (whether or not delivery to the person has been made).

(B) Secretary. The term "Secretary" means the Secretary of the Treasury or his delegate.

(4) Exception for exempt uses. The tax imposed by paragraph (1) shall not apply to gasoline held by any person exclusively for any use to the extent a credit or refund of the tax imposed by section 4081 of such Code is allowable for such use.

(5) Exception for fuel held in aircraft tank. No tax shall be imposed by paragraph (1) on aviation gasoline held in the tank of an aircraft.

(6) Exception for certain amounts of fuel.

(A) In general. No tax shall be imposed by paragraph (1) on aviation gasoline held on January 1, 1996, by any person if the aggregate amount of aviation gasoline held by such person on such date does not exceed 6,000 gallons. The preceding sentence shall apply only if such person submits to the Secretary (at the time and in the manner required by the Secretary) such information as the Secretary shall require for purposes of this paragraph.

(B) Exempt fuel. For purposes of subparagraph (A), there shall not be taken into account fuel held by any person which is exempt from the tax imposed by paragraph (1) by reason of paragraph (4) or (5).

(C) Controlled groups.

(i) Corporations. In the case of a controlled group, the 6,000 gallon amount in subparagraph (A) shall be apportioned among the component members of such group in such manner as the Secretary shall by regulations prescribe. For purposes of the preceding sentence, the term "controlled group" has the meaning given to such term by subsection (a) of section 1563 of such Code; except that for such purposes the phrase "more than 50 percent" shall be substituted for the phrase "at least 80 percent" each place it appears in such subsection.

(ii) Nonincorporated persons under common control. Under regulations prescribed by the Secretary, principles similar to the principles of clause (i) shall apply to a group under common control where 1 or more of the members is not a corporation.

(7) Other laws applicable. All provisions of law, including penalties, applicable with respect to the taxes imposed by section 4081 of such Code shall, insofar as applicable and not inconsistent with the provisions of this subsection, apply with respect to the floor stock taxes imposed by paragraph (1) to the same extent as if such taxes were imposed by such section 4081.PART III OTHER EXCISE TAX PROVISIONS

SEC. 14731. AUTHORITY TO GRANT EXEMPTIONS FROM REGISTRATION REQUIREMENTS.

(a) In General. The first sentence of section 4222 (relating to registration) is amended to read as follows: "Except as provided in subsection (b), section 4221 shall not apply with respect to the sale of any article by or to any person who is required by the Secretary to be registered under this section and who is not so registered."

(b) Effective Date. The amendment made by subsection (a) shall apply to sales after the 180th day after the date of the enactment of this Act.

SEC. 14732. CERTAIN COMBINATIONS NOT TREATED AS MANUFACTURE UNDER RETAIL SALES TAX ON HEAVY TRUCKS.

(a) In General. Paragraph (2) of section 4052(c) (relating to certain combinations not treated as manufacture) is amended by striking "or wood or metal floor" and inserting "wood or metal floor, or a power take-off and dump body".

(b) Removal of Fifth Wheel. Paragraph (1) of section 4052(c) is amended by inserting before the period "or the removal of any coupling device (including any fifth wheel)".

(c) Effective Date. The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 14733. EXEMPTION FROM DIESEL FUEL DYEING REQUIREMENTS WITH RESPECT TO CERTAIN STATES.

(a) In General. Section 4082 (relating to exemptions for diesel fuel) is amended by redesignating subsections (c) and (d) as subsections (d) and (e), respectively, and by inserting after subsection (b) the following new subsection:

"(c) Exception to Dyeing Requirements. Paragraph (2) of subsection (a) shall not apply with respect to any diesel fuel

"(1) removed, entered, or sold in a State for ultimate sale or use in an area of such State which is exempted from the fuel dyeing requirements under subsection (i) of section 211 of the Clean Air Act (as in effect on the date of the enactment of this subsection) by the Administrator of the Environmental Protection Agency under paragraph (4) of such subsection, and

"(2) the use of which is certified pursuant to regulations issued by the Secretary."

(b) Effective Date. The amendments made by this section shall take effect on the first day of the first calendar quarter beginning after the date of the enactment of this Act.

SEC. 14734. REPEAL OF EXPIRED PROVISIONS.

(a) Piggy-Back Trailers. Section 4051 is amended by striking subsection (d) and by redesignating subsection (e) as subsection (d).

(b) Deep Seabed Mining.

(1) Subchapter F of chapter 36 (relating to tax on removal of hard mineral resources from deep seabed) is hereby repealed.

(2) The table of subchapters for chapter 36 is amended by striking the item relating to subchapter F.Subtitle H Administrative ProvisionsPART I GENERAL PROVISIONS

SEC. 14801. REPEAL OF AUTHORITY TO DISCLOSE WHETHER PROSPECTIVE JUROR HAS BEEN AUDITED.

(a) In General. Subsection (h) of section 6103 (relating to disclosure to certain Federal officers and employees for purposes of tax administration, etc.) is amended by striking paragraph (5) and by redesignating paragraph (6) as paragraph (5).

(b) Conforming Amendment. Paragraph (4) of section 6103(p) is amended by striking "(h)(6)" each place it appears and inserting "(h)(5)".

(c) Effective Date. The amendments made by this section shall apply to judicial proceedings pending on, or commenced after, the date of the enactment of this Act.

SEC. 14802. CLARIFICATION OF STATUTE OF LIMITATIONS.

(a) In General. Subsection (a) of section 6501 (relating to limitations on assessment and collection) is amended by adding at the end the following new sentence: "For purposes of this chapter, the term eturn means the return required to be filed by the taxpayer (and does not include a return of any person from whom the taxpayer has received an item of income, gain, loss, deduction, or credit)."

(b) Effective Date. The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 14803. CERTAIN NOTICES DISREGARDED UNDER PROVISION INCREASING INTEREST RATE ON LARGE CORPORATE UNDERPAYMENTS.

(a) General Rule. Subparagraph (B) of section 6621(c)(2) (defining applicable date) is amended by adding at the end the following new clause:

"(iii) Exception for letters or notices involving small amounts. For purposes of this paragraph, any letter or notice shall be disregarded if the amount of the deficiency or proposed deficiency (or the assessment or proposed assessment) set forth in such letter or notice is not greater than $100,000 (determined by not taking into account any interest, penalties, or additions to tax)."

(b) Effective Date. The amendment made by subsection (a) shall apply for purposes of determining interest for periods after December 31, 1995.

SEC. 14804. CLARIFICATION OF AUTHORITY TO WITHHOLD PUERTO RICO INCOME TAXES FROM SALARIES OF FEDERAL EMPLOYEES.

(a) In General. Subsection (c) of section 5517 of title 5, United States Code, is amended by striking "or territory or possession" and inserting ", territory, possession, or commonwealth".

(b) Effective Date. The amendment made by subsection (a) shall take effect on the date of the enactment of this Act.PART II TAX COURT PROCEDURES

SEC. 14811. OVERPAYMENT DETERMINATIONS OF TAX COURT.

(a) Appeal of Order. Paragraph (2) of section 6512(b) (relating to jurisdiction to enforce) is amended by adding at the end the following new sentence: "An order of the Tax Court disposing of a motion under this paragraph shall be reviewable in the same manner as a decision of the Tax Court, but only with respect to the matters determined in such order."

(b) Denial of Jurisdiction Regarding Certain Credits and Reductions. Subsection (b) of section 6512 (relating to overpayment determined by Tax Court) is amended by adding at the end the following new paragraph:

"(4) Denial of jurisdiction regarding certain credits and reductions. The Tax Court shall have no jurisdiction under this subsection to restrain or review any credit or reduction made by the Secretary under section 6402."

(c) Effective Date. The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 14812. AWARDING OF ADMINISTRATIVE COSTS.

(a) Right To Appeal Tax Court Decision. Subsection (f) of section 7430 (relating to right of appeal) is amended by adding at the end the following new paragraph:

"(3) Appeal of tax court decision. An order of the Tax Court disposing of a petition under paragraph (2) shall be reviewable in the same manner as a decision of the Tax Court, but only with respect to the matters determined in such order."

(b) Period for Applying to IRS for Costs. Subsection (b) of section 7430 (relating to limitations) is amended by adding at the end the following new paragraph:

"(5) Period for applying to irs for administrative costs. An award may be made under subsection (a) by the Internal Revenue Service for reasonable administrative costs only if the prevailing party files an application with the Internal Revenue Service for such costs before the 91st day after the date on which the final decision of the Internal Revenue Service as to the determination of the tax, interest, or penalty is mailed to such party."

(c) Period for Petitioning of Tax Court for Review of Denial of Costs. Paragraph (2) of section 7430(f) (relating to right of appeal) is amended

(1) by striking "appeal to" and inserting "the filing of a petition for review with", and

(2) by adding at the end the following new sentence: "If the Secretary sends by certified or registered mail a notice of such decision to the petitioner, no proceeding in the Tax Court may be initiated under this paragraph unless such petition is filed before the 91st day after the date of such mailing."

(d) Effective Date. The amendments made by this section shall apply to civil actions or proceedings commenced after the date of the enactment of this Act.

SEC. 14813. REDETERMINATION OF INTEREST PURSUANT TO MOTION.

(a) In General. Paragraph (3) of section 7481(c) (relating to jurisdiction over interest determinations) is amended by striking "petition" and inserting "motion".

(b) Effective Date. The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 14814. APPLICATION OF NET WORTH REQUIREMENT FOR AWARDS OF LITIGATION COSTS.

(a) In General. Paragraph (4) of section 7430(c) (defining prevailing party) is amended by adding at the end the following new subparagraph:

"(C) Special rules for applying net worth requirement. In applying the requirements of section 2412(d)(2)(B) of title 28, United States Code, for purposes of subparagraph (A)(iii) of this paragraph

"(i) the net worth limitation in clause (i) of such section shall apply to

"(I) an estate but shall be determined as of the date of the decedents death, and

"(II) a trust but shall be determined as of the last day of the taxable year involved in the proceeding, and

"(ii) individuals filing a joint return shall be treated as 1 individual for purposes of clause (i) of such section, except in the case of a spouse relieved of liability under section 6013(e)."

(b) Effective Date. The amendment made by this section shall apply to proceedings commenced after the date of the enactment of this Act.PART III AUTHORITY FOR CERTAIN COOPERATIVE AGREEMENTS

SEC. 14821. COOPERATIVE AGREEMENTS WITH STATE TAX AUTHORITIES.

(a) General Rule. Chapter 77 (relating to miscellaneous provisions) is amended by adding at the end the following new section:

"SEC. 7524. COOPERATIVE AGREEMENTS WITH STATE TAX AUTHORITIES.

"(a) Authorization of Agreements. The Secretary is hereby authorized to enter into cooperative agreements with State tax authorities for purposes of enhancing joint tax administration. Such agreements may provide for

"(1) joint filing of Federal and State income tax returns,

"(2) single processing of such returns,

"(3) joint collection of taxes (other than Federal income taxes), and

"(4) such other provisions as may enhance joint tax administration.

"(b) Services on Reimbursable Basis. Any agreement under subsection (a) may require reimbursement for services provided by either party to the agreement.

"(c) Availability of Funds. Any funds appropriated for purposes of the administration of this title shall be available for purposes of carrying out the Secretarys responsibility under an agreement entered into under subsection (a). Any reimbursement received pursuant to such an agreement shall be credited to the amount so appropriated.

"(d) State Tax Authority. For purposes of this section, the term tate tax authority means agency, body, or commission referred to in section 6103(d)(1)."

(b) Clerical Amendment. The table of sections for chapter 77 is amended by adding at the end the following new item:"Sec. 7524. Cooperative agreements with State tax authorities."TITLE XV MEDICARE(Text to be inserted)TITLE XVI TRANSFORMATION OF THE MEDICAID PROGRAM

SEC. 16000. SHORT TITLE.

This title may be cited as the "Medicaid Transformation Act of 1995".

SEC. 16001. TRANSFORMATION OF MEDICAID PROGRAM.

The Social Security Act is amended by adding at the end the following new title:"TITLE XXI MEDIGRANT PROGRAM FOR LOW-INCOME INDIVIDUALS AND FAMILIES

"table of contents of title

"Sec. 2100. Purpose; State MediGrant plans."Part A Objectives, Goals, and Performance Under State Plans

"Sec. 2101. Description of strategic objectives and performance goals.

"Sec. 2102. Annual reports.

"Sec. 2103. Periodic, independent evaluations.

"Sec. 2104. Description of process for MediGrant plan development.

"Sec. 2105. Consultation in MediGrant plan development.

"Sec. 2106. MediGrant Task Force."Part B Eligibility, Benefits, and Set-asides

"Sec. 2111. General description of eligibility and benefits.

"Sec. 2112. Set-asides of funds for population groups.

"Sec. 2113. Premiums and cost-sharing.

"Sec. 2114. Description of process for developing capitation payment rates.

"Sec. 2115. Construction.

"Sec. 2116. Limitations on causes of action."Part C Payments to States

"Sec. 2121. Allotment of funds among States.

"Sec. 2122. Payments to States.

"Sec. 2123. Limitation on use of funds; disallowance."Part D Program Integrity and Quality

"Sec. 2131. Use of audits to achieve fiscal integrity.

"Sec. 2132. Fraud prevention program.

"Sec. 2133. Information concerning sanctions taken by State licensing authorities against health care practitioners and providers.

"Sec. 2134. State MediGrant fraud control units.

"Sec. 2135. Recoveries from third parties and others.

"Sec. 2136. Assignment of rights of payment.

"Sec. 2137. Quality assurance standards for nursing facilities.

"Sec. 2138. Other provisions promoting program integrity."Part E Establishment and Amendment of State MediGrant Plans

"Sec. 2151. Submittal and approval of MediGrant plans.

"Sec. 2152. Submittal and approval of plan amendments.

"Sec. 2153. Process for State withdrawal from program.

"Sec. 2154. Sanctions for substantial noncompliance.

"Sec. 2155. Secretarial authority."Part F General Provisions

"Sec. 2171. Definitions.

"Sec. 2172. Treatment of territories.

"Sec. 2173. Description of treatment of Indian Health Service facilities.

"Sec. 2174. Application of certain general provisions.

"Sec. 2175. MediGrant master drug rebate agreements.

"SEC. 2100. PURPOSE; STATE MEDIGRANT PLANS.

"(a) Purpose. The purpose of this title is to provide block grants to States to enable them to provide medical assistance to low-income individuals and families in a more effective, efficient, and responsive manner.

"(b) State Plan Required. A State is not eligible for payment under section 2122 of this title unless the State has submitted to the Secretary under part E a plan (in this title referred to as a ediGrant plan) that

"(1) sets forth how the State intends to use the funds provided under this title to provide medical assistance to needy individuals and families consistent with the provisions of this title, and

"(2) is approved under such part.

"(c) Continued Approval. An approved MediGrant plan shall continue in effect unless and until

"(1) the State amends the plan under section 2152,

"(2) the State terminates participation under this title under section 2153, or

"(3) the Secretary finds substantial noncompliance of the plan with the requirements of this title under section 2154.

"(d) State Entitlement. This title constitutes budget authority in advance of appropriations Acts, and represents the obligation of the Federal Government to provide for the payment to States of amounts provided under part C."Part A Objectives, Goals, and Performance Under State Plans