

**Summary of the Chairman's Mark for
H.R. 4520: Jumpstart our Business Strength (JOBS) Act
October 4, 2004**

**TITLE I—PROVISIONS RELATING TO REPEAL OF EXCLUSION FOR
EXTRATERRITORIAL INCOME**

Sec. 101. Repeal of exclusion for extraterritorial income. Repeals the ETI system of tax benefits for transactions after 12/31/2004.

- Three years of transition relief (2004-2006)
- Grandfathers binding contracts entered into before 9/18/2003

Sec. 102. Deduction relating to income attributable to domestic production Activities. Provides a 9% deduction (equal to a 3% rate cut) on all manufacturing activity undertaken in the US, whether it is exported or not.

- Phased in over five years: 3% in 2005-2006, 6% for 2007-2009, 9% thereafter
- Applies to sale, lease, rental or license of any product manufactured, grown, or extracted in the US. Oil and gas extraction, qualified film production, electricity production, construction and related engineering or architectural services are included.
- Available to C-corporations, S-corporations, partnerships, sole proprietorships, cooperatives, and estates and trusts.
- Limited to 50% of wages paid.
- Provides AMT hold harmless.

TITLE II—BUSINESS TAX INCENTIVES

Subtitle A—Small Business Expensing

Sec. 201. 2-year extension of increased expensing for small business. Extends for an additional two years (i.e., for taxable years beginning in 2006 and 2007) the increased amounts that a taxpayer may deduct for qualifying property under Sec. 179 now in effect for taxable years beginning in 2003 through 2005.

Subtitle B—Depreciation

Sec. 211. Recovery period for depreciation of certain leasehold improvements and restaurant property. Reduces the recovery period for qualified leasehold improvement property and qualified restaurant property placed in service before January 1, 2006 to 15 years. Effective for property placed in service after the date of enactment.

Subtitle C—Community Revitalization

Sec. 221. Modification of targeted areas and low-income communities for new markets tax credit. Directs the Secretary to issue new regulations for the designation of targeted areas for the new markets tax credit. Effective for designations made after date of enactment.

Sec. 222. Expansion of designated renewal community area based on 2000 census data. Authorizes the Secretary of Housing and Urban Development to expand an area designated as a renewal community to include certain census tracts of general distress or with increased poverty rates based on 2000 census data. Effective as if included in the amendments made in Section 101 of the Community Renewal Relief Act of 2000.

Sec. 223. Modification of income requirement for census tracts within high migration rural counties. Modifies income requirements pertaining to families in low-income communities within high migration rural counties for purposes of the new markets tax credit. Effective as if included in the amendments made in Section 121(a) of the Community Renewal Relief Act of 2000.

Subtitle D—S Corporation Reform and Simplification

Sec. 231. Members of family treated as 1 shareholder. Allows an election for members of a family to be treated as one shareholder for purposes of determining the number of shareholders. Effective for taxable years beginning after 2004.

Sec. 232. Increase in number of eligible shareholders to 100. Increases the maximum number of shareholders from 75 to 100, effective for years beginning after 2004.

Sec. 233. Expansion of bank S corporation eligible shareholders to include IRAs. Allows an IRA to hold S corporation bank stock that the IRA held on date of enactment with the IRA owner treated as the shareholder. Allows the stock to be sold to the beneficiary for fair market value upon the corporation making an S election. Effective after date of enactment.

Sec. 234. Disregard of unexercised powers of appointment in determining potential current beneficiaries of ESBT. Disregards unexercised powers of appointment in determining the potential current beneficiaries; increases period during which trust can dispose of stock after ineligible shareholder becomes potential current beneficiary from 60 days to one year. Effective for taxable years beginning after 2004.

Sec. 235. Transfer of suspended losses incident to divorce, etc. Allows suspended losses to be transferred in the case of transfers of stock to a spouse or former spouse incident to divorce. Effective for taxable years beginning after 2004.

Sec. 236. Use of passive activity loss and at-risk amounts by qualified subchapter S trust income beneficiaries. A beneficiary can deduct suspended losses under the at-risk and passive loss rules when trust disposes of S corporation stock. Effective for taxable years beginning after 2004.

Sec. 237. Exclusion of investment securities income from passive income test for bank S corporations. Clarifies that interest income and certain dividend income received by a bank are not treated as passive investment income. Effective for taxable years beginning after 2004.

Sec. 238. Relief from inadvertently invalid qualified subchapter S subsidiary elections and terminations. Provides relief from inadvertently invalid subchapter S subsidiary elections and terminations. Effective for taxable years beginning after 2004.

Sec. 239. Information returns for qualified subchapter S subsidiaries. Allows information returns of qualified subchapter S subsidiaries to be filed by the subsidiary. Effective for taxable years beginning after 2004.

Sec. 240. Repayment of loans for qualifying employer securities. Permits S-Corporations to use distributions on stock held by the ESOP to repay loans, provided that stock of at least equal value is allocated to participant accounts. Effective January 1, 1998.

Subtitle E—Other Business Incentives

Sec. 241. Phaseout of 4.3-cent motor fuel excise taxes on railroads and inland waterway transportation which remain in general fund. Repeals the 4.3-cents-per-gallon General Fund excise tax on diesel fuel used in trains and fuels used in barges operating on the designated inland waterways system. Phases out from 2005 through 2009. Repealed after 2009.

Sec. 242. Modification of application of income forecast method of depreciation. Clarifies that, for purposes of the income forecast method, participations and residuals may be included in the adjusted basis of the property beginning in the year such property is placed in service. Clarifies that, rather than accounting for participations and residuals as a cost of the property under the income forecast method of depreciation, the taxpayer may deduct those payments as they are paid. Applies to property placed in service after the date of enactment.

Sec. 243. Improvements related to real estate investment trusts. Modifies and broadens the definition of “straight debt” securities for taxable years beginning after December 31, 2000. Permits a REIT to declare a correcting deficiency dividend without awaiting an IRS or court determination, and provides other expansions of the straight debt safe harbor, for taxable years after date of enactment.

Sec. 244. Special rules for certain film and television productions. Provides an election to deduct up to \$15 million per production of qualifying film and television production expenditures in the year the expenditure is incurred. The limit is increased to \$20 million if a significant amount of the expenditures are incurred in certain distressed areas. Expenditures in excess of the limit must be recovered over a three-year period using the straight-line method. Effective for qualifying productions started after the date of enactment and before December 31, 2008.

Sec. 245. Credit for maintenance of railroad track. Establishes a business tax credit equal to 50% of qualified expenditures for railroad track maintenance, capped at \$3,500 per mile. Applies to expenses incurred for 2005-2007.

Sec. 246. Suspension of occupational taxes relating to distilled spirits, wine, and beer. The special occupational taxes on producers and marketers of alcoholic beverages are suspended for a three-year period, July 1, 2005 through June 30, 2008.

Sec. 247. Modification of unrelated business income limitation on investment in certain small business investment companies. Excludes from the debt-financed property rules indebtedness incurred by an SBIC that is evidenced by a debenture issued by the SBIC under section 303(a) of the Small Business Investment Act of 1958 and that is held or guaranteed by the Small Business Administration. The exclusion does not apply during any period that any exempt organization (other than a government) owns more than 25 percent of the SBIC, or exempt organizations (including governments other than the Federal government) own in the aggregate 50 percent or more of the SBIC. Effective date.—Small business investment companies formed after the date of enactment.

Sec. 248. Election to determine corporate tax on certain international shipping activities using per ton rate. The provision generally allows corporations to elect a “tonnage tax” on their taxable income from certain shipping activities in lieu of the U.S. corporate income tax. Effective for taxable years beginning after the date of enactment.

Subtitle F—Stock Options and Employee Stock Purchase Plan Stock Options

Sec. 251. Exclusion of incentive stock options and employee stock purchase plan stock options from wages. This section clarifies that certain types of stock options and stock purchase plans are excluded from employee wages for payroll tax and income tax withholding purposes. Effective with regard to options exercised after enactment.

TITLE III—AGRICULTURAL TAX RELIEF AND INCENTIVES

Subtitle A—Volumetric Ethanol Excise Tax Credit

Sec. 301. Alcohol and biodiesel excise tax credit and extension of alcohol fuels

income tax credit. Repeals reduced-rate sales of fuel for blending with alcohol. Provides a per-gallon excise tax credit for each gallon of alcohol used to produce a qualified fuel mixture to be used against 4081 liability. Effective date.—Generally for fuel sold or used after September 30, 2004. The repeal of the General Fund retention requirement is effective for taxes imposed after September 30, 2003.

Sec. 302. Biodiesel income tax credit. Provides a 50 cent-per-gallon income tax credit similar to the present-law ethanol benefits for each gallon biodiesel used or sold as fuel or used in the production of a qualified biodiesel mixture that is used or sold as fuel. Effective date.—Fuel produced and sold or used after September 30, 2004 in taxable years ending after such date and before January 1, 2007.

Sec. 303. Information reporting for persons claiming certain tax benefits.

Subtitle B—Agricultural Incentives. Importers and producers of biodiesel must be registered with the Secretary. Effective date.—Fuel produced and sold, used or removed after September 30, 2004. Registration requirements are effective April 1, 2005.

Sec. 311. Special rules for livestock sold on account of weather-related conditions.

Under current law, if a rancher is forced to sell livestock as a result of drought he must pay tax on any gain unless he reinvests in livestock within 2 years. This is difficult for ranchers to do when drought persists for several years. The provision allows ranchers 4 years to replace the livestock. It also gives them the option of investing in other ranch equipment or property, instead of livestock. Effective date – applies to any taxable year with respect to which the due date (without regard for extensions) for the return is after December 31, 2002.

Sec. 312. Payment of dividends on stock of cooperatives without reducing patronage dividends. Provides that, to the extent provided in organizational documents of the cooperative, dividends on capital stock would not reduce patronage income, and not prevent the cooperative from being treated as operating on a cooperative basis. Effective date – after the date of enactment.

Sec. 313. Apportionment of small ethanol producer credit. Provision clarifies that the small producers tax credit flows through to members of a cooperative. Effective date – applies to taxable years after the date of enactment.

Sec. 314. Coordinate farmers and fishermen income averaging and the alternative minimum tax. Extends the option of income averaging, which is currently available to farmers, to individuals engaged in the trade or business of fishing. Coordinates farmers and fishermen income averaging with the AMT. Effective date – taxable years after December 31, 2003.

Sec. 315. Capital gain treatment under section 631(b) to apply to outright sales by landowners. Provides capital gains treatment on the outright sale of timber by a landowner. Effective date – December 31, 2004.

Sec. 316. Modification to cooperative marketing rules to include value added processing involving animals. For purposes of section 521, cooperative marketing rules will include the feeding of such products to cattle, hogs, fish and chickens. Effective date – applies to taxable years after date of enactment.

Sec. 317. Extension of declaratory judgment procedures to farmers' cooperative organizations. Effective date – after the date of enactment.

Sec. 318. Modification of safe harbor rules for timber REITs. Establish a safe harbor rule to allow Real Estate Investment Trusts (REITs) involved in the production of timber to sell property without being deemed a real estate dealer. Effective Date – date of enactment.

Sec. 319. Expensing of certain reforestation expenditures. The proposal would allow tax exempt revenue bonds to be issued by the state for acquiring forest land by qualified conservation organizations. Bond issuance would be capped nationally at \$1.5 billion. The bonds are allocated nationally according to forest service regions. Effective date – applies to expenditures paid or incurred after the date of the enactment.

Subtitle C—Other Incentives

Sec. 321. Net income from publicly traded partnerships treated as qualifying income of regulated investment companies. Modifies the 90 percent test to include as qualifying income of a RIC the income derived from a publicly traded partnership, and modifies the look-through rule to apply to partnerships other than publicly traded partnerships. Effective for taxable years beginning after date of enactment.

Sec. 322. Simplification of excise tax imposed on bows and arrows. Modifies the excise taxes on bows and arrows, effective for sales after 2004.

Sec. 323. Reduction of excise tax on fishing tackle boxes. Fishing tackle boxes will be taxed at a rate of 3 percent instead of 10 percent and applies to the articles sold by the manufacturer, producer or importer after December 31, 2004.

Sec. 324. Sonar devices suitable for finding fish. Not treated as sport fishing equipment. Effective December 31, 2004.

Sec. 325. Charitable contribution deduction for certain expenses incurred in support of Native Alaskan subsistence whaling. Individuals who is recognized by the Alaska Eskimo Whaling Commission as a whaling captain may deduct expenses for whaling (up to \$10,000) as a charitable contribution. Effective date – December 31, 2004.

Sec. 326. Modification of depreciation allowance for aircraft. Extends the 50% bonus depreciation for small aircraft by one year (prior to 1/1/2006).

Sec. 327. Modification of placed in service rule for bonus depreciation property. Clarifies the availability of 50% bonus depreciated for syndicated property, effective for property placed in service after 9/10/2001 (sold after 6/4/2004 for multiple units subject to the same lease).

Sec. 328. Expensing of capital costs incurred in complying with Environmental Protection Agency sulfur regulations. AND Sec. 329. Credit for production of low sulfur diesel fuel. These provisions permit small business refiners to claim an immediate deduction (i.e., expensing) for up to 75 percent of the costs paid to comply with the EPA sulfur regulations. In addition, a small business refiner may claim a credit equal to 5 cents per gallon. The total production credit is limited to 25 percent of the capital costs incurred to come into compliance with the EPA requirements. A small business refiner employs not more than 1,500 employees directly in refining and has average daily refinery runs less than 205,000 barrels. The allowable deduction and production credit are both phased out on a pro rata basis from 155,000 barrels. In addition, the production credit may be passed through to members of a cooperative. The provision is effective for expenses paid after December 31, 2002 (and before January 1, 2006.)

TITLE IV—TAX REFORM AND SIMPLIFICATION FOR UNITED STATES BUSINESSES

Sec. 401. Interest expense allocation rules. This provision replaces the present-law method for interest expense allocation with a worldwide fungibility approach, which reduces the risk of double taxation of cross-border income. Effective date – applies to taxable years beginning after December 31, 2008.

Sec. 402. Recharacterization of overall domestic loss. The provision applies a resourcing rule to U.S.-source income in cases in which a taxpayer's foreign tax credit limitation has been reduced as a result of an overall domestic loss. Under the provision, a portion of the taxpayer's U.S.-source income for each succeeding taxable year is recharacterized as foreign-source income. Effective Date – applies to losses for taxable years beginning after December 31, 2006.

Sec. 403. Look-thru rules to apply to dividends from noncontrolled section 902 corporations. The proposal extends the look-through approach to all dividends paid by a 10/50 company, regardless of the year in which the earnings and profits were accumulated, and eliminates the 10/50 company basket. This proposal was recommended by the Joint Committee on Taxation in their simplification report. Effective date – taxable years after December 31, 2002.

Sec. 404. Reduction to 2 foreign tax credit baskets. This provision reduces the 9 foreign tax credit baskets in current law to 2: a general basket and a passive basket. Effective date – taxable years after December 31, 2004.

Sec. 405. Attribution of stock ownership through partnerships to apply in

determining section 902 and 960 credits. A domestic corporation that receives a dividend from a foreign corporation in which it owns 10% or more of the voting stock is deemed to have paid a portion of the foreign taxes paid by such foreign corporation, thus making the domestic corporation eligible for foreign tax credits. Similarly, a domestic corporation with subpart F inclusions from a controlled CFC can claim deemed-paid foreign tax credits with respect to a portion of the foreign taxes paid by the CFC. This proposal clarifies that the same deemed-paid treatment described above is applied with respect to foreign stock that is owned indirectly through a partnership. This proposal was recommended by the Joint Committee on Taxation in their simplification report. Effective date – taxable years after the date of enactment.

Sec. 406. Clarification of treatment of certain transfers of intangible property. Provides taxpayers an election to deduct up to \$5,000 each of start-up and organizational expenditures in taxable year in which the trade or business begins. Effective date – amounts incurred after date of enactment. Effective date – amounts treated as received pursuant to 367 (d) (2) of IRC of 1986 on or after August 5, 1997.

Sec. 407. United States property not to include certain assets of controlled foreign corporation. Present law requires benefits of a controlled group of corporations be limited to one corporation for purposes of graduated corporate rate brackets, amt exemption and accumulated earnings credit. If five or fewer persons who are individuals, estates or trusts own at least 80-percent of the combined voting power and value of all classes of stock. Senate proposal that eliminates the 80-percent test from the brother-sister controlled group definition for purposes of determining the specified benefits. Effective date – taxable years after December 31, 2004.

Sec. 408. Translation of foreign taxes. Effective date – taxable years after December 31, 2004.

Sec. 409. Repeal of withholding tax on dividends from certain foreign corporations. The secondary withholding tax is a 30% withholding tax on certain U.S.-source passive income (including some dividends) earned by foreign persons. The branch profits tax effectively replaced the secondary withholding tax with respect to dividends paid by certain foreign corporations. This proposal eliminates the secondary withholding tax with respect to such dividends. This proposal was recommended by the Joint Committee on Taxation in their simplification report. Effective date – payments made after December 31, 2004.

Sec. 410. Equal treatment of interest paid by foreign partnerships and foreign corporations. Treats interest paid by foreign partnerships in a manner similar to the treatment of interest paid by foreign corporations. Effective date – after December 31, 2003.

Sec. 411. Treatment of certain dividends of regulated investment companies. Provides that a RIC that earns certain interest income that would not be subject to U.S. tax if earned by a foreign person directly may, to the extent of such income, designate a

dividend it pays as derived from such interest income. A foreign person who is a shareholder in the RIC generally would treat such a dividend as exempt from gross-basis U.S. tax, as if the foreign person had earned the interest directly. Effective date – after December 31, 2004.

Sec. 412. Look-thru treatment for sales of partnership interests. This provision would allow further exceptions to current taxation where dividends, rents, and interest are received from related corporations located outside the foreign subsidiary's country of incorporation. Deferral would be available with respect to that portion of any dividend, rent, or interest payment that was attributable to active income. Effective date – after December 31, 2004.

Sec. 413. Repeal of foreign personal holding company rules and foreign investment company rules. This provision eliminates a longstanding area of overlap in the international income tax rules. This proposal was recommended by the Joint Committee on Taxation in their simplification report. Effective date – after December 31, 2004.

Sec. 414. Determination of foreign personal holding company income with respect to transactions in commodities. Modifies the requirements that must be satisfied for gains or losses from a commodities hedging transaction to qualify for exclusion from the definition of subpart F foreign personal holding company income. Also changes the requirements that must be satisfied for active business gains or losses from the sale of commodities to qualify for exclusion from the definition of foreign. Effective date – after December 31, 2004.

Sec. 415. Modifications to treatment of aircraft leasing and shipping income. This amendment would modify the Subpart F rules to provide that rents and gains derived in the active conduct of an aircraft leasing business would not be either Subpart F personal holding company income or Subpart F shipping income. Effective date – after December 31, 2004.

Sec. 416. Modification of exceptions under subpart F for active financing. Modifies the temporary exceptions from subpart F foreign personal holding company income and foreign base company services income for income derived in the active conduct of a banking, financing, or similar business. In certain circumstances, provides that an activity is treated as conducted directly by the CFC or QBU in its home country if the activity is performed by employees of a related person. Effective date – after December 31, 2004.

Sec. 417. 10-year foreign tax credit carryover; 1-year foreign tax credit carryback. This provision extends the carryforward of FTCs from 5 years to 10 years, more effectively eliminating the double taxation that results from the expiration of credits. The provision also reduces the carryback period from two years to one year.

Sec. 418. Modification of the treatment of certain REIT distributions attributable to gain from sales or exchanges of United States real property interests. A REIT distribution to a foreign investor of the REIT capital gain from dispositions of U.S. real property interests is no longer treated as though such gain were effectively connected with a U.S. trade or business, provided that 1) the distribution is received with respect to a class of stock that is regularly traded on an established securities market located in the U.S. and 2) the foreign investor does not own more than 5 percent of the class of stock at any time during the taxable year. Effective date – taxable years after date of enactment.

Sec. 419. Exclusion of income derived from certain wagers on horse races and dog races from gross income of nonresident alien individuals. Provides an exclusion from gross income for winnings paid to a nonresident alien resulting from a legal wager initiated outside the United States in a pari-mutuel pool on a live horse or dog race in the United States, regardless of whether the pool is a separate foreign pool or a merged U.S.-foreign pool. Effective date – after date of enactment.

Sec. 420. Limitation of withholding tax for Puerto Rico corporations. Lowers the withholding income tax rate on U.S. source dividends paid to a corporation created or organized in Puerto Rico from 30 percent to 10 percent, to create parity with the 10 percent withholding tax imposed by Puerto Rico on dividends paid to non- Puerto Rico corporations. Effective date – taxable years after date of enactment.

Sec. 421. Foreign tax credit under alternative minimum tax. The proposal eliminates the 90% limitation on the use of foreign tax credits against the AMT, allowing taxpayers with sufficient AMT foreign tax credits to completely offset their AMT liability. Effective date – after December 31, 2004.

Sec. 422. Incentives to reinvest foreign earnings in United States. Picks up the House version of the “repatriation” provision, with several modifications generally aimed at preventing abuse. Effective date – after the date of enactment.

Sec. 423. Delay in effective date of final regulations governing exclusion of income from international operation of ships or aircraft. Delays the effective date for the Treasury regulations so that they apply to taxable years of foreign corporations seeking qualified foreign corporation status beginning after September 24, 2004.

Sec. 424. Study of earnings stripping provisions.

TITLE V—DEDUCTION OF STATE AND LOCAL GENERAL SALES TAXES

Sec. 501. Deduction of State and local general sales taxes in lieu of State and local income taxes. Permits deduction of sales tax in lieu of state income tax for 2004 and 2005. IRS will publish tables that estimate sales taxes for taxpayers in each state with various incomes and family situations.

TITLE VI—FAIR AND EQUITABLE TOBACCO REFORM

Subtitle A—Termination of Federal Tobacco Quota and Price Support Programs

Sec. 611. –Sec. 614. Amends and repeals specified agricultural Acts to eliminate tobacco quota and price support programs. Amends the Agricultural Act of 1949 to eliminate tobacco from the definition of "basic agricultural commodity."

Subtitle B—Transitional Payments to Tobacco Quota Holders and Producers of Tobacco

Sec. 621 . Definitions. Defines "active tobacco producer" and "tobacco quota holder."

Sec. 622.- Sec. 623. Contract payments. Directs the Secretary of Agriculture to make transitional payments based on the 2002 marketing year to tobacco quota holders (\$7/lb.) and active producers (\$3/lb.) of quota tobacco.

Sec. 624. Administration. Provides for: (1) county committee resolution of payment disputes; and (2) inheritance of the right to receive payments.

Sec. 625. Use of assessments as source of funds for payments. Imposes a quarterly assessment on tobacco product manufacturers and importers during 2005 through 2014 to cover the cost of the buyout.

Sec. 626. Tobacco Trust Fund. The Tobacco Trust Fund is established to implement the buyout.

Sec. 627. Limitation on total expenditures. Total expenditures are limited to \$10.14 billion.

Subtitle C—Implementation and Transition

Sec. 641. – Sec. 642. Provides for the orderly disposition of tobacco loan pool stock and payment of costs. Authorizes the Secretary to promulgate any necessary regulations.

Sec. 643. Effective date. Applies to the 2005 and subsequent crops.

TITLE VII—MISCELLANEOUS PROVISIONS

Sec. 701. Brownfields demonstration program for qualified green building and sustainable design projects. Authorizes the issuance of tax-exempt facility bonds for certain green building and sustainable design projects (projects) designated by the Secretary. Limits the amount of bonds that may be issued to \$2 billion. Requires designated projects to: (1) register at least 75 percent of the square footage of the structures included in a project for certification by the U.S. Green Building Council's Leadership in Energy and Environmental Design; (2) include a brownfield site; (3) identify other State or local financial contributions that will be provided to support a project; (4) include at least one million square feet of building or 20 acres of land; and (5) provide at least 1,500 full time jobs (150 jobs in rural States) when completed and at least 1,000 full time jobs (100 jobs in rural States) during construction. Prohibits more than one project in a single State and requires at least one project in an empowerment zone and one project in a rural State. Effective for bonds issued after 2004. Terminates the authority for issuing bonds after September 30, 2009.

Sec. 702. Exclusion of gain or loss on sale or exchange of certain brownfield sites from unrelated business taxable income. Under current law, income produced from debt financed property generally produces UBIT to tax-exempt investors. The proposal waives UBIT for tax exempt investors that invest in the clean up and remediation of qualified brownfield sites. Applies to property acquired after 2004.

Sec. 703. Civil rights tax relief. Allows a deduction for attorney's fees and court costs incurred in connection with an unlawful discrimination claim. Effective for fees and costs paid with regard to a judgment or settlement occurring after date of enactment.

Sec. 704. Modification of class life for certain track facilities. Race track facilities would be treated similarly to theme and amusement park facilities for purposes of categorical asset depreciation, depreciated over 7-years. Effective for property placed in service after date of enactment and before January 1, 2008.

Sec. 705. Suspension of policyholders surplus account provisions. Suspends the application of rules imposing income tax on distributions to shareholders from the policyholder's surplus account of a life insurance company for taxable years beginning in 2005 and 2006.

Sec. 706. Certain Alaska natural gas pipeline property treated as 7-year property. Allows 7-year depreciation for certain Alaska natural gas pipelines placed in service after 2013, or treated as placed in service after 2013 at the taxpayer's election. Effective for property placed in service after December 31, 2004.

Sec. 707. Extension of enhanced oil recovery credit to certain Alaska facilities. The enhanced oil recovery credit is extended to Alaskan gas treatment plants. Effective for costs paid or incurred in taxable years beginning after December 31, 2004.

Sec. 708. Method of accounting for naval shipbuilders. Under current law, small shipbuilders who enter into contracts to build ships are permitted to use a method of accounting that results in more favorable income tax treatment when reporting their income from these contracts. The proposal will provide comparable tax treatment to naval shipbuilders. Effective for contracts with construction commencement after the date of enactment.

Sec. 709. Modification of minimum cost requirement for transfer of excess pension assets. Modifies the minimum cost requirements for transfers of excess pension assets to retiree health accounts for companies with retiree medical expenses in excess of 5% of gross receipts. Allows the company to reduce coverage across the board instead of reducing the number of covered lives. Effective for taxable years ending after enactment.

Sec. 710. Blue Ribbon Commission on Comprehensive Tax Reform. The issue of tax law complexity is an ongoing concern for both taxpayers and tax professionals. The proposal will establish a bipartisan 15 member Commission to develop recommendations on how to comprehensively reform the Federal tax system in a manner that generates appropriate revenue for the Federal Government.

Sec. 711. Expansion of credit for electricity produced from certain renewable resources. Provides a tax credit for electricity produced from renewable resources, including wind, closed-loop biomass and poultry waste. Extends the placed-in-service date for qualified facilities by one year to include those facilities placed in service prior to January 1, 2005. This is a one-year extension of present law.

Sec. 712. Certain business credits allowed against regular and minimum tax. Allows the tax credits for alcohol fuels and for the production of electricity to be applied against income tax and alternative minimum tax liabilities. Effective for taxable years ending after the date of enactment.

Sec. 713. Inclusion of primary and secondary medical strategies for children and adults with sickle cell disease as medical assistance under the Medicaid program. Amends title XIX (Medicaid) of the Social Security Act to include as an optional Medicaid benefit primary and secondary medical strategies and treatment for individuals with sickle cell anemia. Effective on date of enactment.

Sec. 714. Ceiling fans. Amends the Harmonized Tariff Schedule of the United States to suspend duties on ceiling fans through December 31, 2006. Effective on the 15th day after enactment.

Sec. 715. Certain steam generators, and certain reactor vessel heads and pressurizers, used in nuclear facilities. Amends the Harmonized Tariff Schedule of the United States to extend duty-free entry of nuclear steam generators and suspend duties on nuclear reactor vessel heads through December 31, 2008. Effective on the 15th day after enactment.

TITLE VIII – REVENUE PROVISIONS

Subtitle A – Provisions to Reduce Tax Avoidance Through Individual and Corporate Expatriation

Sec. 801. Tax Treatment of expatriated entities and their foreign parents.

Sec. 802. Excise tax on stock compensation of insiders in expatriated corporations.

Upon certain inversion transactions, imposes an excise tax on certain executives (including executives of the expanded affiliated group) holding stock options and other stock-based compensation equal to 20 percent of the value of the specified stock compensation. Generally effective *March 4, 2003*.

Sec. 803. Reinsurance of United States Risks in foreign Jurisdictions. Clarifies the rules giving Treasury the authority to allocate items among the parties to a reinsurance agreement, recharacterize items, or make any other adjustment, in order to reflect the proper source, character or amount of the items for each party. Effective for any risk reinsured after *date of enactment*.

Sec. 804. Revision of tax rules on expatriation of individuals. Modifies the special tax rules applicable to an individual who relinquishes U.S. citizenship or terminates U.S. residency with a principal purpose of avoiding U.S. taxes. Applies to individuals who relinquish citizenship or terminate long-term residency after *June 3, 2004*.

Sec. 805. Reporting of taxable mergers and acquisitions. Requires reporting of transactions where a gain or loss is recognized in whole or in part by shareholders of a corporation by reason of a merger or acquisition, effective for transactions after the date of enactment.

Sec. 806. Studies. Requires the Treasury Secretary to conduct and submit to the Congress three studies: the effectiveness of the transfer pricing rules of section 482 with an emphasis on transactions involving intangible property; income tax treaties to which the United States is a party, with a view toward identifying any inappropriate reductions in withholding tax or opportunities for abuse that may exist; and the impact of the provisions of this bill on inversion transactions. The tax treaty and transfer pricing studies are by June 30, 2005, the inversions study by December 31, 2005.

Subtitle B – Provisions Relating to Tax Shelters

PART I – TAXPAYER-RELATED PROVISIONS

Sec. 811. Penalty for failing to disclose reportable transaction. Creates new penalty for failure to include adequate information about a reportable transaction in any return or statement. Penalty is applied in addition to any accuracy-related penalty and is applied whether or not there is an understatement. Penalty amount is: (1) \$50,000 penalty for

any person who fails to disclose a reportable transaction, (2) \$100,000 if the failure is with respect to a listed transaction, and (3) doubled for large entities and high net worth individuals. Publicly traded entities must report penalties to the SEC.

Sec. 812. Accuracy-related penalty for listed transactions, other reportable transactions having a significant tax avoidance purpose, etc.

Sec. 813. Tax shelter exception to confidentiality privileges relating to taxpayer communications. Expands the corporate tax shelter exception to confidentiality privileges to all tax shelters for communications after the date of enactment.

Sec. 814. Statute of limitations for taxable years for which required listed transactions are not reported. Extends the statute of limitations with respect to a listed transaction to one year after the earlier of (1) the date on which the Treasury Secretary is furnished the required information, or (2) the date that a material advisor satisfies the list maintenance requirements with respect to a request by the Secretary. Effective for taxable years with respect to which the period for assessing a deficiency did not expire before the date of enactment.

Sec. 815. Disclosure of reportable transactions. Replaces present-law rules for tax shelter registration with clearer set of rules for disclosing information with respect to “reportable transactions.” Strengthens rules requiring material advisors to maintain lists of tax-shelter investors. Effective after date of enactment.

Sec. 816. Failure to furnish information regarding reportable transactions. Modifies the penalty for failure to include adequate information about a reportable transaction in any return or statement. Penalty is applied in addition to any accuracy-related penalty and is applied whether or not there is an understatement. Effective after date of enactment.

Sec. 817. Modification to penalty for failure to maintain list of investors. Modifies rules applicable to “material advisors” with respect to the proper disclosure of reportable transactions. Increases the penalty for failure to properly maintain lists of tax-shelter investors. Effective after date of enactment.

Sec. 818. Penalty on promoters of tax shelters. Imposes a penalty on promoters of abusive tax shelters equal to 50% of the gross income received from the activity. Effective for activities after date of enactment.

Sec. 819. Modifications of substantial understatement penalty for nonreportable transactions. Strengthens definition of “substantial understatement” for purposes of applying penalty. Penalty applies if the amount of the understatement for the taxable year exceeds the lesser of (1) 10 percent of the tax required to be shown on the return for the taxable year (or, if greater, \$10,000), or (2) \$10 million. Also: (1) elevates the standard that a taxpayer must satisfy in order to reduce the amount of an understatement for undisclosed items, and (2) authorizes (but does not require) the Secretary to publish a

list of positions for which it believes there is not substantial authority or reasonable belief that the tax treatment is more likely than not the proper treatment.

Sec. 820. Modification of actions to enjoin certain conduct related to tax shelters and reportable transactions. Provides that an injunction may be sought against a material advisor to enjoin the advisor from (1) failing to file an information return with respect to a reportable transaction, or (2) failing to maintain, or to timely furnish upon written request by the Secretary, a list of investors with respect to each reportable transaction. Also allows injunctions for violations of circular 230.

Sec. 821. Penalty on failure to report interests in foreign financial accounts. Provides a new civil penalty for failure to report interests in foreign financial accounts. The maximum additional civil penalty for non-willful act is \$10,000 and the maximum present-law penalty for willful behavior is increased to the greater of \$100,000 or 100% of the amount of the transaction or account.

Sec. 822. Regulation of individuals practicing before the Department of the Treasury. Gives the Secretary authority to censure or impose monetary penalties upon tax advisors (present law only includes a right to regulate, suspend or disbar practitioners).

PART II – OTHER PROVISIONS

Sec. 831. Treatment of stripped interests in bond and preferred stock funds. Authorizes the Treasury Department to promulgate regulations that, in appropriate cases, apply rules that are similar to the present-law rules for stripped bonds and stripped preferred stock to direct or indirect interests in an entity or account substantially all of the assets of which consist of bonds, preferred stock, or any combination thereof. Effective for purchases and dispositions occurring after the date of enactment.

Sec. 832. Minimum holding period for foreign tax credit on withholding taxes on income other than dividends. Applies the minimum holding period for foreign tax credit on withholding taxes to income other than dividends. Effective for amounts paid or accrued more than 30 days after the date of enactment.

Sec. 833. Disallowance of certain partnership loss transfers. Modifies the rules for contribution of property with built-in loss, effective after date of enactment.

Sec. 834. No reduction of basis under section 734 in stock held by partnership in corporate partner Where a partnership owns stock in one of its partners (or a related person) and is required to adjust the basis of its assets under section 734, the provision prevents a reduction to the basis of the stock of the partner (or related person). The proposal would apply to distributions after February 13, 2003.

Sec. 835. Repeal of special rules for FASITs. Repeals special rule for FASITs (financial asset securitization trusts), which, under current law, are untaxed at the entity level (the income is taxed to the owner of the FASIT). Modifies the definitions of REMIC regular interests, qualified mortgages, and permitted investments so that reverse mortgage loans and government originated loan pools can be transferred to, or purchased by, a REMIC. The proposal would take effect on February 14, 2003.

Sec. 836. Limitation on transfer or importation of built-in losses. Prevents taxpayers from importing built-in losses into the U.S. in tax-free reorganizations. Applies to liquidations after the date of enactment.

Sec. 837. Clarification of banking business for purposes of determining investment of earnings in United States property. Clarifies that a banking business includes an entity owned by a bank or other financial holding company. Effective after the date of enactment.

Sec. 838. Denial of deduction for interest on underpayments attributable to nondisclosed reportable transactions. Provides that taxpayers may not deduct interest paid to the government on underpayments of tax with respect to nondisclosed reportable and listed transactions and noneconomic substance transactions.

Sec. 839. Clarification of rules for payment of estimated tax for certain deemed asset sales. Clarifies the rules for payment of estimated tax to provide that the section 338(h)(13) exception for estimated tax purposes does not apply with respect to a qualified stock purchase for which an election is made under section 338(h)(10). Applies to transactions after enactment.

Sec. 840. Recognition of gain from the sale of a principal residence acquired in a like-kind exchange within 5 years of sale. Provides that the exclusion for gain on the sale or exchange of a principal residence does not apply if the principal residence was acquired in a like-kind exchange in which any gain was not recognized within the prior five years. Effective for sales or exchanges of principal residences after the date of enactment.

Sec. 841. Prevention of mismatching of interest and original discount deductions and income exclusions in transactions with related foreign persons. Prevents mismatching of interest and original issue discount deductions and income inclusions in transactions with related foreign persons. Effective for payments accrued on or after the date of enactment.

Sec. 842. Deposits made to suspend running of interest on potential underpayments. Allows a taxpayer to deposit cash with the IRS that may subsequently be used to pay an underpayment of taxes. Applies to deposits after date of enactment.

Sec. 843. Partial payment of tax liability in installment agreements. Clarifies that the IRS is authorized to enter into installment agreements with taxpayers which do not provide for full payment of the taxpayer's liability over the life of the agreement.

Requires the IRS to review partial payment installment agreements at least every two years. Effective for installment agreements entered into on or after the date of enactment.

Sec. 844. Affirmation of consolidated return regulation authority. Confirms that the Treasury Department may provide rules treating corporations filing consolidated returns differently from corporations filing separate returns. Effective for taxable years beginning before, on, or after the date of enactment.

Sec. 845. Expanded disallowance of deduction for interest on convertible debt
Expands disallowance of deduction for interest on convertible debt. Interest on convertible debt or debt that is otherwise linked to equity in an entity is not deductible, even if the underlying equity represents less than a 50% ownership interest in the entity. The proposal would apply to debt instruments issued after February 13, 2003.

PART III- LEASING

Sec. 847.- Reform of tax treatment of certain leasing arrangements. Clarifies recovery period rules for technological equipment and certain other property subject to a lease.

Sec. 848. Limitation on deductions allocable to property used by governments or other tax-exempt entities. (SILOS) Limits allowable deductions and losses with respect to leases with certain tax-exempt entities. Provides certain carve-outs to protect “true” leases with economic substance, as developed by the Treasury Department.

Sec. 849. Effective Date. Generally applies to leases entered into after March 12, 2004.

Subtitle C – Reduction of Fuel Tax Evasion

Sec 851. Exemption from certain excise taxes for mobile machinery. If a vehicle meets the design-based test and the use-based test, it will not be treated as a highway vehicle & will be exempted from the 3 taxes: retail tax on heavy vehicles, heavy vehicles tax, and tire tax. Must not have traveled more than 7,500 miles on public highways for owner’s taxable year. Refunds of fuel taxes are permitted on an annual basis only. Generally effective after the date of enactment. For fuel taxes, it is effective for taxable years after date of enactment.

Sec 852. Modification of definition of off-highway vehicle. Such vehicle must be specifically designed for transporting a particular type of load other than over the public highway and its capability must be substantially limited. Effective on date of enactment.

Sec 853. Taxation of aviation-grade kerosene. Revises rules for the taxation of aviation-grade kerosene to 21.8 cents, but allows a reduced rate of 4.3 percent (as under current law) for fuel which is removed from any refinery or terminal directly into the fuel tank of a commercial aircraft. Effective September 30, 2004.

Sec 854. Dye injection equipment. Changes the dyeing process for the diesel fuel and kerosene tax exemption from manual to mechanical injection. Requires the Secretary (within 180 days of enactment) to issue regulations on mechanical dye injection systems, including making such systems tamper resistant. Imposes a penalty of the greater of \$25,000 or \$10 for each gallon of fuel involved for tampering with a mechanical dye injection system. Imposes a penalty upon the operator of a mechanical dye injection system of \$1,000 for each failure to maintain security standards and \$1,000 for each day such operator fails to correct a violation. Imposes joint and several liability. Effective 180 days after regulations are issued.

Sec 855. Elimination of administrative review for taxable use of dyed fuel. No administrative appeal for third and subsequent violations except for claims of fraud or mistake in the chemical analysis or mathematical calculation of the penalty amount. Effective for penalties assessed after date of enactment.

Sec 856. Penalty on untaxed chemically altered dyed fuel mixtures. Extends present law penalties to any person who knows that the a dyed fuel has been altered or who knowingly sells or holds for sell such fuel for any taxable use. Effective on date of enactment.

Sec 857. Termination of dyed diesel use by intercity buses. Eliminates the ability of intercity buses to buy dyed diesel and self assess the 7.4 cents per gallon. Bus operators must buy clear fuel and seek a refund and seek a refund of the difference between 24.2 and 7.4 cents. Effective date: Fuel sold after December 30, 2004.

Sec 858. Authority to inspect on-site records. The provision expands the scope of the inspection to include any books, records, or shipping papers pertaining to the sale and transportation of taxable fuel, located in any authorized inspection locations or possessed by any carrier. Effective date: date of enactment.

Sec 859. Accessable penalty for refusal of entry. Any person who refuses to admit entry or refuses to permit any other action by the Secretary must pay a \$1,000 penalty except for reasonable cause. Provides for joint and several liability. Effective: January 1, 2005.

Sec 860. Registration of pipeline or vessel operators required for exemption of bulk transfers to registered terminals or refineries. Extends the bulk transfer exemption from taxable fuels to registered pipeline or vessel operators. Effective date: March 1, 2005 except that the Secretary is required to publish periodically the list of registered persons beginning January 1, 2005.

Sec 861. Display of registration. Requires every operator of a vessel who is required to register for the bulk transfer exemption to display proof of registration through a prescribed identification device on each vessel used by such operator to transport taxable fuels (only one penalty imposed for calendar year). Imposes a penalty for \$500 for each failure to display proof of registration, with increased penalties for multiple violations.

Allows penalties to be waived upon a showing that failure to register was due to reasonable cause. Effective dates: Failure to display takes effect January 1, 2005. Multiple violations penalties take effect December 31, 2004.

Sec 862. Registration of persons within foreign trade zones, etc. Requires registration of certain operators of terminals or refineries within a foreign trade zone or within a customs bonded storage facility or holds an inventory position with respect to a taxable fuel in such a terminal. Effective date: January 1, 2005.

Sec 863. Penalties for failure to register and failure to report. Increases to \$10,000 certain civil and criminal penalties for failure to register or for falsely representing registration status with respect to a taxable fuel. Allows a reasonable cause exception. The provision is effective for penalties imposed after December 31, 2004.

Sec 864. Electronic filing of required information reports. Requires electronic reporting for taxpayers with 25 or more reportable transactions a month. Effective: January 1, 2006

Sec 865. Taxable fuel refunds for certain ultimate vendors. A registered vendor of taxable fuels on which excise tax has been paid shall be treated as the ultimate vendor for purposes of claiming credits and refunds of tax. Effective date: January 1, 2005.

Sec 866. Two-party exchanges. Exempts the delivering person from liability for fuel excise tax in two-party exchanges as defined by the section. Effective date: date of enactment.

Sec 867. Modifications of tax on use of certain vehicles. Allows for the proration of the use tax on heavy vehicles (weighing more than 55,000 pounds) that are sold before the end of the taxable period. Repeals provisions allowing installment payments of tax on use of highway motor vehicles. Requires a taxpayer with 25 or more heavy vehicles to file returns electronically. Effective date: Applies to taxable periods beginning after the date of the enactment.

Sec 868. Dedication of revenues from certain penalties to the Highway Trust Fund. Appropriates amounts equivalent to specified penalties created or increased by this Act are dedicated to the Highway Trust Fund. Effective date: Applies to penalties assessed on or after the date of enactment.

Sec 869. Simplification of tax on tires. Replaces the present-law tax rates with a tax rate based on the load capacity of the tire. In general, the tax is 9.4 cents for each 10 pounds of tire load capacity in excess of 3,500 pounds. DOD and Coast Guard are tax exempt. Effective date: Applies to sales in calendar years beginning more than 30 days after the date of enactment.

Sec 870. Transmix and diesel fuel blend stocks treated as taxable fuel. Modifies the definition of diesel fuel to include any liquid (other than gasoline) to include any liquid

sold or offered for sale as fuel for use in a diesel-powered highway vehicle or train, transmix, and diesel fuel blend stocks identified by the Secretary. Effective date: Applies to sales in calendar years beginning more than 30 days after the date of enactment.

Sec 871. Study regarding fuel tax compliance. Not later than January 31, 2005, the Treasury Secretary shall submit a report regarding fuel tax compliance to include taxable fuel blendstocks, waste products added to taxable fuels, and erroneous claims of fuel tax exemptions.

Subtitle D – Other Revenue Provisions

Sec. 881. Qualified tax collection contracts. Authorizes the Secretary to enter into qualified tax collection contracts with private collection agencies to perform certain services related to the collection of unpaid tax. Provides that the United States shall not be liable for any act or omission of any such collection agency. Permits a civil action against a collection agency, but not against the United States, for unauthorized collection actions. Effective date: DOE

Sec. 882. Treatment of charitable contributions of patents and similar property. Sets forth rules for the tax deduction for charitable contributions of patents and similar intellectual properties. Revises requirements for informational returns relating to certain donated property to include rules for the contribution of patents and similar intellectual property. Authorizes the Secretary to prescribe regulations to prevent abuse of the tax deduction. Effective date: June 3, 2004.

Sec. 883. Increased reporting for noncash charitable contributions. Donor must obtain a qualified appraisal of the property if the deduction exceeds \$5,000. For property more than \$500,000 the donor must attach to the return for the taxable year a qualified appraisal. Effective date: June 3, 2004.

Sec. 884. Donations of motor vehicles, boats and airplanes. For contributions of a qualified vehicle over \$500 unless the donor substantiates the contribution with a written acknowledgment from the donee organization. The deduction may not exceed the value of the property at the time of contribution. Effective date: Applies to contributions made after December 31, 2004.

Sec. 885. Treatment of nonqualified deferred compensation plans. Under current law, compensation deferred under a nonqualified deferred compensation plan is taxed when there is no longer a “substantial risk of forfeiture”. The proposal clarifies that a substantial risk of forfeiture does not exist if distributions can be made for any reason other than passage of a certain period of time, termination of employment, death, disability or unforeseen hardship, or change of control (subject to a 1 year deferral for section 16(a) individuals). There is also no substantial risk of forfeiture if funds are held in an off-shore rabbi trust. The plan must require that compensation for services performed during a taxable year may be deferred at the participant’s election only if the

election is made no later than the close of the preceding taxable year or at such time provided by regulations. For performance-based compensation based on services performed over a period of at least 12 months, such election must be made no longer than 6 months before the end of the period. The penalty applies to only those participants to whom the failure relates. Effective date: After December 31, 2004.

Sec. 886. Extension of amortization of intangibles to sports franchises. Permits the amortization of intangibles by sports franchises. Generally, the same rules for amortization of intangibles that apply to other acquisitions under present law will apply to sports franchises. Effective date: property acquired after DOE.

Sec. 887. Modification of continuing levy on payments to federal vendors. Under present law, if any person is liable for any federal tax and does not pay it within 10 days of when the tax is assessed and a demand that payment be made, a continuous levy attaches up to 15 percent of any specified payment due the taxpayer. This provision would permit a levy of up to 100 percent of a Federal payment to a vendor of goods or services to the government. Effective date: DOE.

Sec. 888. Modification of straddle rules. Permits taxpayers to identify offsetting positions of a straddle; provides a special rule to clarify the present-law treatment of certain physically settled positions of a straddle; and repeals the stock and qualified covered call exceptions of the straddle rules. Effective date: Applies to positions established on or after DOE.

Sec. 889. Addition of vaccines against hepatitis A to list of taxable vaccines. Adds to list of current 12 vaccines (e.g., rubella, mumps, Hepatitis B, chicken pox) that are manufactured or produced in the U.S., or entered into the U.S. for use, and for the purposes of the vaccine injury compensation trust fund. Effective at beginning of first month at least 4 weeks after enactment through December 31, 2013.

Sec. 890. Addition of vaccines against influenza to list of taxable vaccines. Adds to list of current 12 vaccines (e.g., rubella, mumps, Hepatitis B, chicken pox) that are manufactured or produced in the U.S., or entered into the U.S. for use, and for the purposes of the vaccine injury compensation trust fund. Effective at beginning of first month at least 4 weeks after enactment through December 31, 2013.

Sec. 891. Extension of IRS user fees. Extends IRS user fees through 2014.

Sec. 892. COBRA fees. Extends the passenger and conveyance processing fees and the merchandise processing fees under COBRA through September 30, 2014. For fiscal years after September 30, 2005, the Secretary is to charge fees in amounts that are reasonably related to the service costs. Sense of Congress that the fees have been reasonably related to the costs of providing custom services. The Treasury Secretary is to study all fees collected by Dept. of Homeland Security and shall be submitted to Congress no later than September 30, 2005. Effective date: DOE.

Sec. 893. Prohibition on nonrecognition of gain through complete liquidation of holding company. Treats as a dividend any distribution of earnings by a U.S. holding company to a foreign corporation in a complete liquidation, if the U.S. holding company was in existence for less than five years. The Treasury Secretary shall provide regulations to prevent abuse of these provisions. Effective date: Applies to distributions in complete liquidation occurring on or after DOE.

Sec. 894. Effectively connected income to include certain foreign source income. Expands categories of foreign-source income connected with a U.S. trade or business to include economic equivalents of such income. Effective date: taxable years beginning after the DOE.

Sec. 895. Recapture of overall foreign losses on sale of controlled foreign corporation. Applies the special recapture rule for overall foreign losses that currently applies to dispositions of foreign trade or business assets to the disposition of controlled foreign corporation stock. Effective date: Applies to dispositions after DOE.

Sec. 896. Recognition of cancellation of indebtedness income realized on satisfaction of debt with partnership interest. Provides that a partnership recognizes cancellation of indebtedness income upon the transfer of a capital or profits interest to a creditor in satisfaction of partnership debt. Effective date: Applies to cancellations of indebtedness occurring on or after the date of enactment.

Sec. 897. Denial of installment sale treatment for all readily tradable debt. . Denies installment sale treatment with respect to all sales in which the taxpayer receives indebtedness that is readily tradable, regardless of the issuer. Effective date: Applies to sales on or after DOE.

Sec. 898. Modification of treatment of transfers to creditors in divisive reorganizations. Limits the amount of money and other property that a distributing corporation can distribute to its creditors pursuant to a divisive reorganization without gain recognition. Effective date: Applies to transfers of money or other property, or liabilities assumed, in connection with a reorganization occurring on or after DOE.

Sec. 899. Clarification of definition of nonqualified preferred stock. – Clarifies definition of nonqualified preferred stock to ensure that stock is not treated as participating in corporate growth to any significant extent unless there is a meaningful likelihood of the shareholder actually participating in the earnings and growth of the corporation. Effective date: Applies to transactions after May 14, 2003.

Sec. 900. Modification of definition of controlled group of corporations. Provides that a brother-sister controlled group means two or more corporations if five or fewer person individuals, estates or trust own at least 80 percent of the total combined voting power of all classes, or at least 80 percent of the total value of shares of all classes of stock, of each corporation and more than 50 percent of the total combined stock (by vote or value), taking into account the stock ownership of each person only to the extent the

stock ownership is identical with respect to each corporation. Effective date: Applies to taxable years beginning after DOE.

Sec. 901. Class lives for utility grading costs. Assigns a class life to depreciable electric and gas utility clearing and grading costs incurred to locate transmission and distribution lines and pipelines. Includes these assets in the asset classes of the property to which the clearing and grading costs relate. Effective date: Applies to property placed in service after date of enactment.

Sec. 902. Consistent amortization of periods for intangibles. Allows a fixed amount of start-up and organizational costs to be deductible and provides that the amounts that are not deductible are to be amortized over 15 years. Applies to amounts paid or incurred after date of enactment.

Sec. 903. Freeze of provisions regarding suspension of interest where Secretary fails to contact taxpayer Under current law, if the Secretary fails to notify a taxpayer of an understatement on a timely-filed tax return within a specified period of time, interest on the understatement is suspended until notice is given. For taxable years beginning before 2004, the specified period is 18 months from the earlier of the date of filing and the due date. This period is scheduled to be reduced to 12 months for taxable years beginning in 2004. The provision eliminates the 12-month rule and makes the 18-month rule permanent. Effective for taxable years beginning after December 31, 2003.

Sec. 904. Increase in withholding from supplemental wage payments in excess of \$1,000,000. Mandates income tax withholding at the maximum corporate rate for bonuses over \$1 million. Effective for payments made after 2004.

Sec. 905. Treatment of sale of stock acquired pursuant to exercise of stock options to comply with conflict-of interest requirements. Federal employees considered to have met holding period requirements when required to sell stock in order to comply with conflict of interest rules. Effective for sales after date of enactment.

Sec. 906. Application of basis rules to nonresident aliens. The provision ensures that an amount distributed from a foreign pension plan is included in the calculation of the recipient's basis only to the extent that the recipient previously has been subject to taxation on such amount, either in the United States or the foreign jurisdiction. Effective for distributions after the date of enactment.

Sec. 907. Limitation of employer deduction for certain entertainment expenses. Limits the tax deduction allowed employers for the entertainment expenses of certain key employees (Sec. 16 for public companies, equivalent for non-publicly traded companies). Applies to expenses incurred after date of enactment.

Sec. 908. Residence and source rules relating to United States possessions. Strengthens the residency requirements and tightens the source rules for U.S. citizens who become residents of Guam, American Samoa, the Northern Mariana Islands, Puerto Rico, or the Virgin Islands . Effective for taxable years ending after date of enactment.

Sec. 909. Sales or dispositions to implement Federal Energy Regulatory Commission or State electric restructuring policy. Provides special rules for sales or dispositions of assets sales before January 1, 2007 to implement an electric restructuring policy. Applies to transactions after the date of enactment, for taxable years ending after the date of enactment.