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H. R. 10612—201

actions brought under section 7428 of the Internal Revenue Code of 1954”.

(9) (A) Chapter 92 of title 28, United States Code, is amended by adding at the end thereof the following new section:

“§ 1507. Jurisdiction for certain declaratory judgments

“The Court of Claims shall have jurisdiction to hear any suit for and issue a declaratory judgment under section 7428 of the Internal Revenue Code of 1954.”.

(B) The table of sections for such chapter is amended by adding at the end thereof the following new item:

“1507. Jurisdiction for certain declaratory judgments.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to pleadings filed with the United States Tax Court, the district court of the United States for the District of Columbia, or the United States Court of Claims more than 6 months after the date of the enactment of this Act but only with respect to determinations (or requests for determinations) made after January 1, 1976.

SEC. 1307. LOBBYING BY PUBLIC CHARITIES.

(a) LOSS OF EXEMPT STATUS.—

(1) LOSS OF EXEMPT STATUS BECAUSE OF SUBSTANTIAL LOBBYING.—Section 501 (relating to exemption from income tax) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) EXPENDITURES BY PUBLIC CHARITIES TO INFLUENCE LEGISLATION.—

“(1) GENERAL RULE.—In the case of an organization to which this subsection applies, exemption from taxation under subsection (a) shall be denied because a substantial part of the activities of such organization consists of carrying on propaganda, or otherwise attempting, to influence legislation, but only if such organization normally—

“(A) makes lobbying expenditures in excess of the lobbying ceiling amount for such organization for each taxable year, or

“(B) makes grass roots expenditures in excess of the grass roots ceiling amount for such organization for each taxable year.

“(2) DEFINITIONS.—For purposes of this subsection—

“(A) LOBBYING EXPENDITURES.—The term ‘lobbying expenditures’ means expenditures for the purpose of influencing legislation (as defined in section 4911(d)).

“(B) LOBBYING CEILING AMOUNT.—The lobbying ceiling amount for any organization for any taxable year is 150 percent of the lobbying nontaxable amount for such organization for such taxable year, determined under section 4911.

“(C) GRASS ROOTS EXPENDITURES.—The term ‘grass roots expenditures’ means expenditures for the purpose of influencing legislation (as defined in section 4911(d) without regard to paragraph (1)(B) thereof).

“(D) GRASS ROOTS CEILING AMOUNT.—The grass roots ceiling amount for any organization for any taxable year is 150 percent of the grass roots nontaxable amount for such organization for such taxable year, determined under section 4911.

“(3) ORGANIZATIONS TO WHICH THIS SUBSECTION APPLIES.—This subsection shall apply to any organization which has elected (in such manner and at such time as the Secretary may prescribe) to have the provisions of this subsection apply to such organiza-

tion and which, for the taxable year which includes the date the election is made, is described in subsection (c) (3) and—

“(A) is described in paragraph (4), and

“(B) is not a disqualified organization under paragraph (5).

“(4) ORGANIZATIONS PERMITTED TO ELECT TO HAVE THIS SUBSECTION APPLY.—An organization is described in this paragraph if it is described in—

“(A) section 170(b) (1) (A) (ii) (relating to educational institutions),

“(B) section 170(b) (1) (A) (iii) (relating to hospitals and medical research organizations),

“(C) section 170(b) (1) (A) (iv) (relating to organizations supporting government schools),

“(D) section 170(b) (1) (A) (vi) (relating to organizations publicly supported by charitable contributions),

“(E) section 509(a) (2) (relating to organizations publicly supported by admissions, sales, etc.), or

“(F) section 509(a) (3) (relating to organizations supporting certain types of public charities) except that for purposes of this subparagraph, section 509(a) (3) shall be applied without regard to the last sentence of section 509(a).

“(5) DISQUALIFIED ORGANIZATIONS.—For purposes of paragraph (3) an organization is a disqualified organization if it is—

“(A) described in section 170(b) (1) (A) (i) (relating to churches),

“(B) an integrated auxiliary of a church or of a convention or association of churches, or

“(C) a member of an affiliated group of organizations (within the meaning of section 4911(f) (2)) if one or more members of such group is described in subparagraph (A) or (B).

“(6) YEARS FOR WHICH ELECTION IS EFFECTIVE.—An election by an organization under this subsection shall be effective for all taxable years of such organization which—

“(A) end after the date the election is made, and

“(B) begin before the date the election is revoked by such organization (under regulations prescribed by the Secretary).

“(7) NO EFFECT ON CERTAIN ORGANIZATIONS.—With respect to any organization for a taxable year for which—

“(A) such organization is a disqualified organization (within the meaning of paragraph (5)), or

“(B) an election under this subsection is not in effect for such organization,

nothing in this subsection or in section 4911 shall be construed to affect the interpretation of the phrase, ‘no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation,’ under subsection (c) (3).

“(8) AFFILIATED ORGANIZATIONS.—

“For rules regarding affiliated organizations, see section 4911(f).”.

(2) STATUS OF ORGANIZATION WHICH CEASES TO QUALIFY FOR EXEMPTION UNDER SECTION 501(C) (3) BECAUSE OF SUBSTANTIAL LOBBYING.—Part I of subchapter F of chapter 1 (relating to general rules as to exempt organizations) is amended by adding at the end thereof the following new section:

“SEC. 504. STATUS AFTER ORGANIZATION CEASES TO QUALIFY FOR EXEMPTION UNDER SECTION 501(c)(3) BECAUSE OF SUBSTANTIAL LOBBYING.

“(a) GENERAL RULE.—An organization which—

“(1) was exempt (or was determined by the Secretary to be exempt) from taxation under section 501(a) by reason of being an organization described in section 501(c)(3), and

“(2) is not an organization described in section 501(c)(3) by reason of carrying on propaganda, or otherwise attempting, to influence legislation,

shall not at any time thereafter be treated as an organization described in section 501(c)(4).

“(b) REGULATIONS TO PREVENT AVOIDANCE.—The Secretary shall prescribe such regulations as may be necessary or appropriate to prevent the avoidance of subsection (a), including regulations relating to a direct or indirect transfer of all or part of the assets of an organization to an organization controlled (directly or indirectly) by the same person or persons who control the transferor organization.

“(c) CHURCHES, ETC.—Subsection (a) shall not apply to any organization which is a disqualified organization within the meaning of section 501(h)(5) (relating to churches, etc.) for the taxable year immediately preceding the first taxable year for which such organization is described in paragraph (2) of subsection (a).”

(3) RULES OF INTERPRETATION.—It is the intent of Congress that enactment of this section is not to be regarded in any way as an approval or disapproval of the decision of the Court of Appeals for the Tenth Circuit in *Christian Echoes National Ministry, Inc. versus United States*, 470 F.2d 849 (1972), or of the reasoning in any of the opinions leading to that decision.

(4) DISCLOSURE.—Section 6033(b) (relating to information required to be furnished annually by certain exempt organizations) is amended by striking out “and” at the end of paragraph (6), by striking out the period at the end of paragraph (7) and inserting in lieu thereof “, and”, and by adding at the end thereof the following:

“(8) in the case of an organization with respect to which an election under section 501(h) is effective for the taxable year, the following amounts for such organization for such taxable year:

“(A) the lobbying expenditures (as defined in section 4911

(c)(1)),

“(B) the lobbying nontaxable amount (as defined in section 4911(c)(2)),

“(C) the grass roots expenditures (as defined in section 4911(c)(3)), and

“(D) the grass roots nontaxable amount (as defined in section 4911(c)(4)).

For purposes of paragraph (8), if section 4911(f) applies to the organization for the taxable year, such organization shall furnish the amounts with respect to the affiliated group as well as with respect to such organization.”

(b) TAXES ON EXCESS EXPENDITURES TO INFLUENCE LEGISLATION.—Subtitle D (relating to miscellaneous excise taxes) is amended by inserting before chapter 42 the following new chapter:

“CHAPTER 41—PUBLIC CHARITIES

“Sec. 4911. Tax on excess expenditures to influence legislation.

“SEC. 4911. TAX ON EXCESS EXPENDITURES TO INFLUENCE LEGISLATION.

“(a) TAX IMPOSED.—

“(1) IN GENERAL.—There is hereby imposed on the excess lobbying expenditures of any organization to which this section applies a tax equal to 25 percent of the amount of the excess lobbying expenditures for the taxable year.

“(2) ORGANIZATIONS TO WHICH THIS SECTION APPLIES.—This section applies to any organization with respect to which an election under section 501(h) (relating to lobbying expenditures by public charities) is in effect for the taxable year.

“(b) EXCESS LOBBYING EXPENDITURES.—For purposes of this section, the term ‘excess lobbying expenditures’ means, for a taxable year, the greater of—

“(1) the amount by which the lobbying expenditures made by the organization during the taxable year exceed the lobbying nontaxable amount for such organization for such taxable year, or

“(2) the amount by which the grass roots expenditures made by the organization during the taxable year exceed the grass roots nontaxable amount for such organization for such taxable year.

“(c) DEFINITIONS.—For purposes of this section—

“(1) LOBBYING EXPENDITURES.—The term ‘lobbying expenditures’ means expenditures for the purpose of influencing legislation (as defined in subsection (d)).

“(2) LOBBYING NONTAXABLE AMOUNT.—The lobbying nontaxable amount for any organization for any taxable year is the lesser of (A) \$1,000,000 or (B) the amount determined under the following table:

“If the proposed expenditures are—	The lobbying nontaxable amount is—
Not over \$500,000.....	20 percent of the exempt purpose expenditures.
Over \$500,000 but not over \$1,000,000..	\$100,000, plus 15 percent of the excess of the exempt purpose expenditures over \$500,000.
Over \$1,000,000 but not over \$1,500,000..	\$175,000 plus 10 percent of the excess of the exempt purpose expenditures over \$1,000,000.
Over \$1,500,000.....	\$225,000 plus 5 percent of the excess of the exempt purpose expenditures over \$1,500,000.

“(3) GRASS ROOTS EXPENDITURES.—The term ‘grass roots expenditures’ means expenditures for the purpose of influencing legislation (as defined in subsection (d) without regard to paragraph (1) (B) thereof).

“(4) GRASS ROOTS NONTAXABLE AMOUNT.—The grass roots nontaxable amount for any organization for any taxable year is 25 percent of the lobbying nontaxable amount (determined under paragraph (2)) for such organization for such taxable year.

“(d) INFLUENCING LEGISLATION.—

“(1) GENERAL RULE.—Except as otherwise provided in paragraph (2), for purposes of this section, the term ‘influencing legislation’ means—

“(A) any attempt to influence any legislation through an attempt to affect the opinions of the general public or any segment thereof, and

“(B) any attempt to influence any legislation through communication with any member or employee of a legislative body, or with any government official or employee who may participate in the formulation of the legislation.

“(2) EXCEPTIONS.—For purposes of this section, the term ‘influencing legislation’, with respect to an organization, does not include—

“(A) making available the results of nonpartisan analysis, study, or research;

“(B) providing of technical advice or assistance (where such advice would otherwise constitute the influencing of legislation) to a governmental body or to a committee or other subdivision thereof in response to a written request by such body or subdivision, as the case may be;

“(C) appearances before, or communications to, any legislative body with respect to a possible decision of such body which might affect the existence of the organization, its powers and duties, tax-exempt status, or the deduction of contributions to the organization;

“(D) communications between the organization and its bona fide members with respect to legislation or proposed legislation of direct interest to the organization and such members, other than communications described in paragraph (3); and

“(E) any communication with a government official or employee, other than—

“(i) a communication with a member or employee of a legislative body (where such communication would otherwise constitute the influencing of legislation), or

“(ii) a communication the principal purpose of which is to influence legislation.

“(3) COMMUNICATIONS WITH MEMBERS.—

“(A) A communication between an organization and any bona fide member of such organization to directly encourage such member to communicate as provided in paragraph (1) (B) shall be treated as a communication described in paragraph (1) (B).

“(B) A communication between an organization and any bona fide member of such organization to directly encourage such member to urge persons other than members to communicate as provided in either subparagraph (A) or subparagraph (B) of paragraph (1) shall be treated as a communication described in paragraph (1) (A).

“(e) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

“(1) EXEMPT PURPOSE EXPENDITURES.—

“(A) IN GENERAL.—The term ‘exempt purpose expenditures’ means, with respect to any organization for any taxable year, the total of the amounts paid or incurred by such organization to accomplish purposes described in section 170(c) (2) (B) (relating to religious, charitable, educational, etc., purposes).

“(B) CERTAIN AMOUNTS INCLUDED.—The term ‘exempt purpose expenditures’ includes—

“(i) administrative expenses paid or incurred for purposes described in section 170(c) (2) (B), and

“(ii) amounts paid or incurred for the purpose of influencing legislation (whether or not for purposes described in section 170(c)(2)(B)).

“(C) CERTAIN AMOUNTS EXCLUDED.—The term ‘exempt purpose expenditures’ does not include amounts paid or incurred to or for—

“(i) a separate fundraising unit of such organization, or

“(ii) one or more other organizations, if such amounts are paid or incurred primarily for fundraising.

“(2) LEGISLATION.—The term ‘legislation’ includes action with respect to Acts, bills, resolutions, or similar items by the Congress, any State legislature, any local council, or similar governing body, or by the public in a referendum, initiative, constitutional amendment, or similar procedure.

“(3) ACTION.—The term ‘action’ is limited to the introduction, amendment, enactment, defeat, or repeal of Acts, bills, resolutions, or similar items.

“(4) DEPRECIATION, ETC., TREATED AS EXPENDITURES.—In computing expenditures paid or incurred for the purpose of influencing legislation (within the meaning of subsection (b)(1) or (b)(2)) or exempt purpose expenditures (as defined in paragraph (1)), amounts properly chargeable to capital account shall not be taken into account. There shall be taken into account a reasonable allowance for exhaustion, wear and tear, obsolescence, or amortization. Such allowance shall be computed only on the basis of the straight-line method of depreciation. For purposes of this section, a determination of whether an amount is properly chargeable to capital account shall be made on the basis of the principles that apply under subtitle A to amounts which are paid or incurred in a trade or business.

“(f) AFFILIATED ORGANIZATIONS.—

“(1) IN GENERAL.—Except as otherwise provided in paragraph (4), if for a taxable year two or more organizations described in section 501(c)(3) are members of an affiliated group of organizations as defined in paragraph (2), and an election under section 501(h) is effective for at least one such organization for such year, then—

“(A) the determination as to whether excess lobbying expenditures have been made and the determination as to whether the expenditure limits of section 501(h)(1) have been exceeded shall be made as though such affiliated group is one organization,

“(B) if such group has excess lobbying expenditures, each such organization as to which an election under section 501(h) is effective for such year shall be treated as an organization which has excess lobbying expenditures in an amount which equals such organization’s proportionate share of such group’s excess lobbying expenditures,

“(C) if the expenditure limits of section 501(h)(1) are exceeded, each such organization as to which an election under section 501(h) is effective for such year shall be treated as an organization which is not described in section 501(c)(3) by reason of the application of 501(h), and

“(D) subparagraphs (C) and (D) of subsection (d)(2), paragraph (3) of subsection (d), and clause (i) of subsec-

tion (e) (1) (C) shall be applied as if such affiliated group were one organization.

“(2) DEFINITION OF AFFILIATION.—For purposes of paragraph (1), two organizations are members of an affiliated group of organizations but only if—

“(A) the governing instrument of one such organization requires it to be bound by decisions of the other organization on legislative issues, or

“(B) the governing board of one such organization includes persons who—

“(i) are specifically designated representatives of another such organization or are members of the governing board, officers, or paid executive staff members of such other organization, and

“(ii) by aggregating their votes, have sufficient voting power to cause or prevent action on legislative issues by the first such organization.

“(3) DIFFERENT TAXABLE YEARS.—If members of an affiliated group of organizations have different taxable years, their expenditures shall be computed for purposes of this section in a manner to be prescribed by regulations promulgated by the Secretary.

“(4) LIMITED CONTROL.—If two or more organizations are members of an affiliated group of organizations (as defined in paragraph (2) without regard to subparagraph (B) thereof), no two members of such affiliated group are affiliated (as defined in paragraph (2) without regard to subparagraph (A) thereof), and the governing instrument of no such organization requires it to be bound by decisions of any of the other such organizations on legislative issues other than as to action with respect to Acts, bills, resolutions, or similar items by the Congress, then—

“(A) in the case of any organization whose decisions bind one or more members of such affiliated group, directly or indirectly, the determination as to whether such organization has paid or incurred excess lobbying expenditures and the determination as to whether such organization has exceeded the expenditure limits of section 501(h) (1) shall be made as though such organization has paid or incurred those amounts paid or incurred by such members of such affiliated group to influence legislation with respect to Acts, bills, resolutions, or similar items by the Congress, and

“(B) in the case of any organization to which subparagraph (A) does not apply, but which is a member of such affiliated group, the determination as to whether such organization has paid or incurred excess lobbying expenditures and the determination as to whether such organization has exceeded the expenditure limits of section 501(h) (1) shall be made as though such organization is not a member of such affiliated group.”

(c) DISALLOWING OF DEDUCTION FOR CONTRIBUTION TO INFLUENCE LEGISLATION.—Section 170(f) (relating to disallowance of charitable contribution deductions in certain cases) is amended by striking out paragraph (6) and inserting in lieu thereof the following:

“(6) DEDUCTIONS FOR OUT-OF-POCKET EXPENDITURES.—No deduction shall be allowed under this section for an out-of-pocket expenditure made by any person on behalf of an organization described in subsection (c) (other than an organization described in section 501(h) (5) (relating to churches, etc.)) if the expendi-

ture is made for the purpose of influencing legislation (within the meaning of section 501(c)(3)).”.

(d) TECHNICAL AMENDMENTS.—

(1) AMENDMENTS CONFORMING TO NEW SECTION 501(h).—

(A) Section 501(c)(3) is amended by striking out “no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation,” and inserting in lieu thereof “no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)).”.

(B) The following sections are amended by striking out “no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation,” each place it appears and inserting in lieu thereof in each such place “which is not disqualified for tax exemption under section 501(c)(3) by reason of attempting to influence legislation,”:

(i) section 170(c)(2)(D) (relating to the definition of charitable contributions);

(ii) section 2055(a)(2) (relating to transfers for public, charitable, and religious uses);

(iii) section 2106(a)(2)(A)(ii) (relating to transfers for public, charitable, and religious uses);

(iv) section 2522(a)(2) (relating to charitable and similar gifts of citizens or residents); and

(v) section 2522(b)(2) (relating to charitable and similar gifts of nonresidents).

(C) Sections 2055(a)(3) and 2106(a)(2)(A)(iii) (relating to transfers for public, charitable, and religious uses) are amended by striking out “no substantial part of the activities of such trustee or trustees, or of such fraternal society, order, or association, is carrying on propaganda, or otherwise attempting, to influence legislation,” each place it appears and inserting in lieu thereof in each such place “such trust, fraternal society, order, or association would not be disqualified for tax exemption under section 501(c)(3) by reason of attempting to influence legislation.”.

(2) AMENDMENTS CONFORMING TO NEW CHAPTER 41.—

(A) Paragraph (6) of section 275(a) (denying deductions for certain taxes), as amended by this Act, is amended to read as follows:

“(6) Taxes imposed by chapters 41, 42, 43, and 44.”

(B) Section 6104(c)(1)(B) (relating to notification of state officers regarding taxes imposed on certain exempt organizations), is amended by striking out “chapter 42” and inserting in lieu thereof “chapter 41 or 42”.

(C) Section 6161(b) (relating to extensions of time for paying tax) is amended—

(i) in paragraph (1) by striking out “12” and inserting in lieu thereof “12, 41”; and

(ii) in the second sentence by striking out “42,” and inserting in lieu thereof “41, 42,”.

(D) Section 6201(d) (relating to assessment authority) is amended by striking out “chapter 42, and chapter 43 taxes” and inserting in lieu thereof “and certain excise taxes”.

(E) Section 6211(a) (defining deficiency) is amended by striking out "chapters 42" and inserting in lieu thereof "chapters 41, 42,".

(F) The following sections are amended by striking out "chapter 42" each place it appears and inserting in lieu thereof in each such place "chapter 41, 42,";

- (i) subsections (a) and (b) (2) of section 6211 (defining deficiency);
- (ii) section 6212(a) (relating to notice of deficiency);
- (iii) section 6213(a) (relating to restrictions applicable to deficiencies and petitions to Tax Court);
- (iv) subsections (c) and (d) of section 6214 (relating to determinations by Tax Court);
- (v) section 6344(a) (1) (relating to cross references);
- (vi) section 6501(e) (3) (relating to limitations on assessment and collection);
- (vii) subsections (a) and (b) (1) of section 6512 (relating to limitations in case of petition to Tax Court); and
- (viii) section 7422(e) (relating to civil actions for refund).

(G) Section 6212 (relating to notice of deficiency) is amended—

- (i) in subsection (b) (1) by striking out "chapter 42" each place it appears and inserting in lieu thereof in each place "chapter 41, chapter 42"; and
- (ii) in subsection (c) (1) by striking out "of chapter 43 tax for the same taxable years," and inserting in lieu thereof "of chapter 41 tax for the same taxable year, of chapter 43 tax for the same taxable year,".

(H) The headings of section 6214(c) (relating to determinations by Tax Court) and 6601(c) (relating to interest on underpayments, etc.) are amended by striking out "Chapter 42" and inserting in lieu thereof in each such place "Chapter 41, 42."

(3) AMENDMENTS TO TABLES OF CHAPTERS AND SECTIONS.—

(A) The table of chapters for subtitle D is amended by inserting before the item relating to chapter 42 the following:

"Chapter 41. Public charities."

(B) The table of sections for part I of subchapter F of chapter 1 is amended by adding at the end thereof the following:

"Sec. 504. Status after organization ceases to qualify for exemption under section 501(c) (3) because of substantial lobbying."

(e) **EFFECTIVE DATE.**—The amendments made by this section shall apply—

- (1) except as otherwise specified in paragraph (2), in the case of amendments to subtitle A, to taxable years beginning after December 31, 1976;
- (2) in the case of the amendments made by subsection (a) (2), to activities occurring after the date of the enactment of this Act;
- (3) in the case of amendments to chapter 11, to the estates of decedents dying after December 31, 1976;
- (4) in the case of amendments to chapter 12, to gifts in calendar years beginning after December 31, 1976;

(5) in the case of amendments to subtitle D, to taxable years beginning after December 31, 1976; and

(6) in the case of amendments to subtitle F, on and after the date of the enactment of this Act.

SEC. 1308. TAX LIENS, ETC., NOT TO CONSTITUTE ACQUISITION-INDEBTEDNESS.

(a) **GENERAL RULE.**—Section 514(c)(2) (relating to property acquired subject to mortgages, etc.) is amended by adding at the end thereof the following new subparagraph:

“(C) **LIENS FOR TAXES OR ASSESSMENTS.**—Where State law provides that—

“(i) a lien for taxes, or

“(ii) a lien for assessments,

made by a State or a political subdivision thereof attaches to property prior to the time when such taxes or assessments become due and payable, then such lien shall be treated as similar to a mortgage (within the meaning of subparagraph (A)) but only after such taxes or assessments become due and payable and the organization has had an opportunity to pay such taxes or assessments in accordance with State law.”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to taxable years ending after December 31, 1969.

SEC. 1309. EXTENSION OF SELF-DEALING TRANSITION RULES FOR PRIVATE FOUNDATIONS.

(a) **EXTENSION OF RULE.**—Section 101(1)(2)(B) of the Tax Reform Act of 1969 is amended by striking out “January 1, 1975” and inserting in lieu thereof “January 1, 1977”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to dispositions made after the date of the enactment of this Act.

SEC. 1310. IMPUTED INTEREST.

(a) **GENERAL RULE.**—Section 4942(f)(2) (relating to income modifications) is amended—

(1) by striking out “and” at the end of subparagraph (B),

(2) by striking out the period at the end of subparagraph (C) and inserting in lieu thereof “; and”, and

(3) by adding at the end thereof the following new subparagraph:

“(D) section 483 (relating to imputed interest) shall not apply in the case of a binding contract made in a taxable year beginning before January 1, 1970.”.

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 1311. CERTAIN HOSPITAL SERVICES.

(a) **IN GENERAL.**—Section 513 (relating to unrelated trade or business) is amended by adding at the end thereof the following new subsection:

“(e) **CERTAIN HOSPITAL SERVICES.**—In the case of a hospital described in section 170(b)(1)(A)(iii), the term ‘unrelated trade or business’ does not include the furnishing of one or more of the services described in section 501(e)(1)(A) to one or more hospitals described in section 170(b)(1)(A)(iii) if—

“(1) such services are furnished solely to such hospitals which have facilities to serve not more than 100 inpatients;

“(2) such services, if performed on its own behalf by the recipient hospital, would constitute activities in exercising or performing the purpose or function constituting the basis for its exemption; and

“(3) such services are provided at a fee or cost which does not exceed the actual cost of providing such services, such cost including straight line depreciation and a reasonable amount for return on capital goods used to provide such services.”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to all taxable years to which the Internal Revenue Code of 1954 applies.

SEC. 1312. CLINICAL SERVICES OF COOPERATIVE HOSPITALS.

(a) **IN GENERAL.**—Section 501(e)(1)(A) (relating to cooperative hospital service organizations) is amended by inserting “clinical,” after “food.”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to taxable years ending after December 31, 1976.

SEC. 1313. EXEMPTION OF CERTAIN AMATEUR ATHLETIC ORGANIZATIONS FROM TAX.

(a) **IN GENERAL.**—Paragraph (3) of section 501(c) (relating to exempt religious, charitable, etc., organizations) is amended by inserting after “or educational purposes,” the following: “or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment),”.

(b) **TREATMENT OF GIFTS TO SUCH ORGANIZATIONS FOR INCOME, ESTATE AND GIFT TAX PURPOSES.**—

(1) Subparagraph (B) of section 170(c)(2) (relating to definition of charitable contribution) is amended by inserting after “or educational purposes” the following: “, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment),”.

(2) Paragraph (2) of section 2055(a) (relating to transfers for public, charitable, and religious uses) is amended by inserting after “the encouragement of art” the following: “, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment),”.

(3) Paragraph (2) of section 2522(a) (relating to charitable and similar gifts) is amended by inserting after “or educational purposes” the following: “, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment),”.

(c) An organization which (without regard to the amendments made by this section) is an organization described in section 170(c)(2)(B), 501(c)(3), 2055(a)(2), or 2522(a)(2) of the Internal Revenue Code of 1954 shall not be treated as an organization not so described as a result of the amendments made by this section.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply on the day following the date of the enactment of this Act.

TITLE XIV—TREATMENT OF CERTAIN CAPITAL LOSSES; HOLDING PERIOD FOR CAPITAL GAINS AND LOSSES

SEC. 1401. INCREASE IN AMOUNT OF ORDINARY INCOME AGAINST WHICH CAPITAL LOSS MAY BE OFFSET.

(a) **GENERAL RULE.**—Subparagraph (B) of section 1211(b)(1) (relating to limitation on capital losses for taxpayers other than corporations) is amended by striking out “\$1,000” and inserting in lieu thereof “the applicable amount”.

(b) **APPLICABLE AMOUNT DEFINED.**—Paragraph (2) of section 1211(b) (relating to limitation on capital losses for taxpayers other than corporations) is amended to read as follows:

“(2) **APPLICABLE AMOUNT.**—For purposes of paragraph (1) (B), the term ‘applicable amount’ means—

“(A) \$2,000 in the case of any taxable year beginning in 1977; and

“(B) \$3,000 in the case of any taxable year beginning after 1977.

In the case of a separate return by a husband or wife, the applicable amount shall be one-half of the amount determined under the preceding sentence.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 1976.

SEC. 1402. INCREASE IN HOLDING PERIOD REQUIRED FOR CAPITAL GAIN OR LOSS TO BE LONG TERM.

(a) **INCREASE IN TWO STEPS FROM 6 MONTHS TO 1 YEAR.**—

(1) **TAXABLE YEARS BEGINNING IN 1977.**—Effective with respect to taxable years beginning in 1977, paragraphs (1), (2), (3), and (4) of section 1222 (relating to other terms relating to capital gains and losses) are each amended by striking out “6 months” and inserting in lieu thereof “9 months”.

(2) **TAXABLE YEARS BEGINNING AFTER 1977.**—Effective with respect to taxable years beginning after December 31, 1977, paragraphs (1), (2), (3), and (4) of section 1222 are each amended by striking out “9 months” and inserting in lieu thereof “1 year”.

(b) **CONFORMING AMENDMENTS.**—

(1) **TAXABLE YEARS BEGINNING IN 1977.**—Effective with respect to taxable years beginning in 1977, the following provisions are each amended by striking out “6 months” each place it appears and inserting in lieu thereof “9 months”:

(A) Paragraph (1) (B) of section 166(d) (relating to non-business debts).

(B) Subsection (a) of section 341 (relating to treatment of gain to shareholders in the case of collapsible corporations).

(C) Paragraph (2) of subsection (a) of section 402 (relating to capital gains treatment for certain distributions in the case of a beneficiary of an exempt employees' trust) and subparagraph (L) of paragraph (4) of section 402(e) (relating to election to treat pre-1974 participation as post-1973 participation).

(D) Subparagraph (A) of section 403(a)(2) (relating to capital gains treatment for certain distributions in the case of a beneficiary under a qualified annuity plan).

(E) Paragraph (1) of section 423(a) (relating to employee stock purchase plans).

(F) Paragraph (1) of subsection (a) and paragraphs (1) and (2) of subsection (c) of section 424 (relating to restricted stock options).

(G) Paragraph (2) of section 582(c) (relating to capital-gains of banks).

(H) Subparagraphs (A) and (B) of section 584(c)(1) (relating to inclusions in taxable income of participants in common trust funds).

(I) Section 631 (relating to gain or loss in the case of timber, coal, or domestic iron ore).

(J) Paragraphs (3) and (4) of section 642(c) (relating to charitable deductions for certain trusts).

(K) Section 644 (relating to special holding period rules for gain on property transferred to trust at less than fair market value).

(L) Paragraphs (1) and (2) of section 702(a) (relating to income and credits of partner).

(M) Subparagraph (A) of section 817(a)(1) (relating to certain gains and losses in the case of life insurance companies).

(N) Subparagraph (B) of paragraph (3), and paragraph (4), of section 852(b) (relating to taxation of shareholders of regulated investment companies).

(O) Subparagraph (A) of section 856(c)(4) (relating to definition of real estate investment trust).

(P) Subparagraph (B) of paragraph (3), and paragraph (5), of section 857(b) (relating to taxation of shareholders of real estate investment trusts).

(Q) Paragraph (11) of section 1223 (relating to holding period of property).

(R) Section 1231 (relating to property used in the trade or business and involuntary conversions).

(S) Paragraph (2) of section 1232(a) (relating to sale or exchange in the case of bonds and other evidences of indebtedness).

(T) Subsections (b), (d), and (e) of section 1233 (relating to gains and losses from short sales).

(U) Paragraph (1) of section 1234(b) (relating to special rule for gain on lapse of an option granted as part of a straddle), as amended by this Act.

(V) Subsection (a) of section 1235 (relating to sale or exchange of patents).

(W) Paragraph (4) of section 1246(a) (relating to holding period in the case of gain on foreign investment company stock).

(X) Subsection (i) of section 1247 (relating to loss on sale or exchange of certain stock in the case of foreign investment companies electing to distribute income currently).

(Y) Subsection (b), and subparagraph (C) of subsection (f)(3), of section 1248 (relating to gain from certain sales or exchanges of stock in certain foreign corporations).

(Z) Paragraph (1) of section 1251(e) (defining farm recapture property).

(2) TAXABLE YEARS BEGINNING AFTER 1977.—Effective with respect to taxable years beginning after December 31, 1977, each

provision referred to in paragraph (1) is amended by striking out "9 months" each place it appears and inserting in lieu thereof "1 year".

(3) **TECHNICAL AMENDMENT.**—Effective with respect to taxable years beginning after December 31, 1976, section 631(a) (relating to gain or loss in the case of timber) is amended by striking out "before the beginning of such year".

(c) **TRANSITIONAL RULE FOR CERTAIN INSTALLMENT OBLIGATIONS.**—In the case of amounts received from sales or other dispositions of capital assets pursuant to binding contracts, including sales or other dispositions the income from which is returned on the basis and in the manner prescribed in section 453(a) (1) of the Internal Revenue Code of 1954, if the gain or loss was treated as long-term for the taxable year for which the amount was realized, such gain or loss shall be treated as long-term for the taxable year for which the gain or loss is returned or otherwise recognized.

(d) **RETENTION OF 6-MONTH PERIOD FOR FUTURES TRANSACTIONS IN COMMODITIES.**—Section 1222 (relating to other terms relating to capital gains and losses) is amended by adding at the end thereof the following new sentence:

"For purposes of this subtitle, in the case of futures transactions in any commodity subject to the rules of a board of trade or commodity exchange, the length of the holding period taken into account under this section or under any other section amended by section 1402 of the Tax Reform Act of 1976 shall be determined without regard to the amendments made by subsections (a) and (b) of such section 1402."

SEC. 1403. ALLOWANCE OF 8-YEAR CAPITAL LOSS CARRYOVER IN CASE OF REGULATED INVESTMENT COMPANIES.

(a) **GENERAL RULE.**—Paragraph (1) of section 1212(a) (relating to capital loss carrybacks and carryovers for corporations) is amended by striking out "and" at the end of subparagraph (A) and by striking out subparagraph (B) and inserting in lieu thereof the following:

"(B) except as provided in subparagraph (C), a capital loss carryover to each of the 5 taxable years succeeding the loss year; and

"(C) a capital loss carryover—

"(i) in the case of a regulated investment company (as defined in section 851) to each of the 8 taxable years succeeding the loss year, and

"(ii) to the extent such loss is attributable to a foreign expropriation capital loss, to each of the 10 taxable years exceeding the loss year."

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to loss years (within the meaning of section 1212(a) (1) of the Internal Revenue Code of 1954) ending on or after January 1, 1970.

SEC. 1404. SALE OF RESIDENCE BY ELDERLY.

(a) **IN GENERAL.**—Section 121(b) (1) (relating to gain from sale or exchange of residence of individual who has attained age 65) is amended by striking out "\$20,000" each place it appears therein and inserting in lieu thereof "\$35,000".

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1976.

TITLE XV—PENSION AND INSURANCE TAXATION

SEC. 1501. RETIREMENT SAVINGS FOR CERTAIN MARRIED INDIVIDUALS.

(a) ALLOWANCE OF DEDUCTION.—Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 220 as 221 and by inserting after section 219 the following new section:

“SEC. 220. RETIREMENT SAVINGS FOR CERTAIN MARRIED INDIVIDUALS.

“(a) DEDUCTION ALLOWED.—In the case of an individual, there is allowed as a deduction amounts paid in cash for a taxable year by or on behalf of such individual for the benefit of himself and his spouse—

- “(1) to an individual retirement account described in section 408(a),
- “(2) for an individual retirement annuity described in section 408(b), or
- “(3) for a retirement bond described in section 409 (but only if the bond is not redeemed within 12 months of the date of its issuance).

For purposes of this title, any amount paid by an employer to such a retirement account or for such a retirement annuity or retirement bond constitutes payment of compensation to the employee (other than a self-employed individual who is an employee within the meaning of section 401(c)(1)) includible in his gross income, whether or not a deduction for such payment is allowable under this section to the employee after the application of subsection (b).

“(b) LIMITATIONS AND RESTRICTIONS.—

“(1) MAXIMUM DEDUCTION.—The amount allowable as a deduction under subsection (a) to an individual for any taxable year may not exceed—

“(A) twice the amount paid to the account or annuity, or for the bond, established for the individual or for his spouse to or for which the lesser amount was paid for the taxable year,

“(B) an amount equal to 15 percent of the compensation includible in the individual's gross income for the taxable year, or

“(C) \$1,750,

whichever is the smallest amount.

“(2) ALTERNATIVE DEDUCTION.—No deduction is allowed under subsection (a) for the taxable year if the individual claims the deduction allowed by section 219 for the taxable year.

“(3) COVERAGE UNDER CERTAIN OTHER PLANS.—No deduction is allowed under subsection (a) for an individual for the taxable year if for any part of such year—

“(A) he or his spouse was an active participant in—

“(i) a plan described in section 401(a) which includes a trust exempt from tax under section 501(a),

“(ii) an annuity plan described in section 403(a),

“(iii) a qualified bond purchase plan described in section 405(a), or

“(iv) a plan established for its employees by the United States, by a State or political subdivision thereof, or by an agency or instrumentality of any of the foregoing, or
“(B) amounts were contributed by his employer, or his spouse’s employer, for an annuity contract described in section 403(b) (whether or not his, or his spouse’s, rights in such contract are nonforfeitable).

“(4) CONTRIBUTIONS AFTER AGE 70½.—No deduction is allowed under subsection (a) with respect to any payment which is made for a taxable year of an individual if either the individual or his spouse has attained age 70½ before the close of such taxable year.

“(5) RECONTRIBUTED AMOUNTS.—No deduction is allowed under this section with respect to a rollover contribution described in section 402(a)(5), 403(a)(4), 408(d)(3), or 409(b)(3)(C).

“(6) AMOUNTS CONTRIBUTED UNDER ENDOWMENT CONTRACT.—In the case of an endowment contract described in section 408(b), no deduction is allowed under subsection (a) for that portion of the amounts paid under the contract for the taxable year properly allocable, under regulations prescribed by the Secretary, to the cost of life insurance.

“(7) EMPLOYED SPOUSES.—No deduction is allowed under subsection (a) with respect to a payment described in subsection (a) made for any taxable year of the individual if the spouse of the individual has any compensation (determined without regard to section 911) for the taxable year of such spouse ending with or within such taxable year.

“(c) DEFINITIONS AND SPECIAL RULES.—

“(1) COMPENSATION.—For purposes of this section, the term ‘compensation’ includes earned income as defined in section 401(c)(2).

“(2) MARRIED INDIVIDUALS.—This section shall be applied without regard to any community property laws.

“(3) DETERMINATION OF MARITAL STATUS.—The determination of whether an individual is married for purposes of this section shall be made in accordance with the provisions of section 143(a).

“(4) TIME WHEN CONTRIBUTIONS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a contribution on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than 45 days after the end of such taxable year.

“(5) PARTICIPATION IN GOVERNMENTAL PLANS BY CERTAIN INDIVIDUALS.—A member of a reserve component of the armed forces or a volunteer firefighter is not considered to be an active participant in a plan described in subsection (b)(3)(A)(iv) if, under section 219(c)(4), he is not considered to be an active participant in such a plan.”

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (10) of section 62 (relating to retirement savings) is amended by inserting before the period the following: “and the deduction allowed by section 220 (relating to retirement savings for certain married individuals)”.

(2) Paragraph (2) of section 408(c) is amended by inserting “(or spouse of an employee or member)” after “member”.

(3) Subsection (a) of section 415 (relating to limitations on benefits and contributions under qualified plans) is amended—

(A) by striking out “In the case” in paragraph (2) and inserting in lieu thereof “Except as provided in paragraph (3), in the case”, and

(B) by adding at the end thereof the following new paragraph:

“(3) ACCOUNTS, ETC., ESTABLISHED FOR NON-EMPLOYED SPOUSE.—Paragraph (2) shall not apply for any year to an account, annuity, or bond described in section 408(a), 408(b), or 409, respectively, established for the benefit of the spouse of the individual contributing to such account, or for such annuity or bond, if a deduction is allowed under section 220 to such individual with respect to such contribution for such year.”

(4) Section 219 (relating to retirement savings) is amended—

(A) by striking out “during” in subsection (a) and inserting in lieu thereof “for”,

(B) by adding at the end of subsection (b) the following new paragraph:

“(6) ALTERNATIVE DEDUCTION.—No deduction is allowed under subsection (a) for the taxable year if the individual claims the deduction allowed by section 220 for the taxable year.”

(C) by adding at the end of subsection (c) (2) the following new sentence: “For purposes of this section, the determination of whether an individual is married shall be made in accordance with the provisions of section 143(a).”, and

(D) by adding at the end of subsection (c) the following new paragraph:

“(3) TIME WHEN CONTRIBUTIONS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a contribution on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than 45 days after the end of such taxable year.”

(5) Paragraph (4) of section 408(d) (relating to excess contributions returned before due date of return) is amended—

(A) by inserting “or 220” after “219”, and

(B) by striking out the last sentence and inserting in lieu thereof the following: “In the case of such a distribution, for purposes of section 61, any net income described in subparagraph (C) shall be deemed to have been earned and receivable in the taxable year in which such excess contribution is made.”

(6) Paragraph (4) of section 409(a) (relating to retirement bonds) is amended by striking out “in any taxable year” and inserting in lieu thereof “for any taxable year”.

(7) Paragraph (12) of section 3401(a) (relating to definition of wages) is amended by inserting “or 220(a)” after “219(a)”.

(8) Section 4973 (relating to tax on excess contributions to individual retirement accounts, etc.) is amended—

(A) by striking out “such individual” in the last sentence of subsection (a) and inserting in lieu thereof the following: “the individual to whom a deduction is allowed for the taxable year under section 219 (determined without regard to subsection (b) (1) thereof) or section 220 (determined without regard to subsection (b) (1) thereof), whichever is appropriate”;

(B) by inserting “or 220” after “219” in subsection (b) (1) (B); and

(C) by striking out paragraph (2) of subsection (b) and inserting in lieu thereof the following:

“(2) the amount determined under this subsection for the preceding taxable year, reduced by the excess (if any) of the maximum amount allowable as a deduction under section 219

or 220 for the taxable year over the amount contributed to the accounts or for the annuities or bonds for the taxable year and reduced by the sum of the distributions out of the account (for the taxable year and all prior taxable years) which were included in the gross income of the payee under section 408(d)(1).

For purposes of this subsection, any contribution which is distributed from the individual retirement account, individual retirement annuity, or bond in a distribution to which section 408(d)(4) applies shall be treated as an amount not contributed if such distribution consists of an excess contribution solely because of employer contributions to a plan or contract described in section 219(b)(2) or by reason of the application of section 219(b)(1) (without regard to the \$1,500 limitation) or section 220(b)(1) (without regard to the \$1,750 limitation) and only if such distribution does not exceed the excess of \$1,500 or \$1,750 if applicable, over the amount described in paragraph (1)(B).”

(9) Subsection (d) of section 6047 (relating to other programs) is amended by inserting “or 220(a)” after “219(a)”.

(10) Paragraph (1) of section 408(d) (relating to tax treatment of distributions) is amended by striking out the second sentence and inserting in lieu thereof the following: “Notwithstanding any other provision of this title (including chapters 11 and 12), the basis any person in such an account or annuity is zero.”

(c) CLERICAL AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 is amended by striking out the item relating to section 220 and inserting in lieu thereof the following:

“Sec. 220. Retirement savings for certain married individuals.
“Sec. 221. Cross references.”

(d) EFFECTIVE DATE.—The amendments made by this section, other than the amendment made by subsection (b)(3), shall apply to taxable years beginning after December 31, 1976. The amendment made by subsection (b)(3) shall apply to years beginning after December 31, 1976.

SEC. 1502. LIMITATION ON CONTRIBUTIONS TO CERTAIN PENSION, ETC., PLANS.

(a) IN GENERAL.—

(1) LIMIT ON CONTRIBUTIONS.—Section 415(c) (relating to limitation for defined contribution plans) is amended by adding at the end thereof the following new paragraph:

“(5) APPLICATION WITH SECTION 404(e)(4).—In the case of a plan which provides contributions or benefits for employees some or all of whom are employees within the meaning of section 401(c)(1), the amount determined under paragraph (1)(B) with respect to any participant shall not be less than the amount deductible under section 404(e) with respect to any individual who is an employee within the meaning of section 401(c)(1).”

(2) MINIMUM DEDUCTION LIMITATION.—Section 404(e)(4) of such Code (relating to minimum deductible amount for pension plan contributions by self-employed individuals) is amended by adding after subparagraph (B) the following: “This paragraph does not apply for any taxable year to any employee whose adjusted gross income for such taxable year (determined separately for each individual, without regard to any community property laws, and without regard to the deduction allowable under subsection (a)) exceeds \$15,000.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) (1) shall apply to years beginning after December 31, 1975. The amendment made by subsection (a) (2) shall apply to taxable years beginning after December 31, 1975.

SEC. 1503. PARTICIPATION BY MEMBERS OF RESERVES OR NATIONAL GUARD, AND VOLUNTEER FIREFIGHTERS IN INDIVIDUAL RETIREMENT ACCOUNTS, ETC.

(a) **GENERAL RULE.**—Section 219(c) (relating to definitions and special rules for retirement savings deduction) is amended by adding at the end thereof the following new paragraph:

“(4) **PARTICIPATION IN GOVERNMENTAL PLANS BY CERTAIN INDIVIDUALS.**—

“(A) **MEMBERS OF RESERVE COMPONENTS.**—A member of a reserve component of the armed forces (as defined in section 261(a) of title 10) is not considered to be an active participant in a plan described in subsection (b) (3) (A) (iv) for a taxable year solely because he is a member of a reserve component unless he has served in excess of 90 days on active duty (other than active duty for training) during the year.

“(B) **VOLUNTEER FIREFIGHTERS.**—An individual whose participation in a plan described in subsection (b) (3) (A) (iv) is based solely upon his activity as a volunteer firefighter and whose accrued benefit as of the beginning of the taxable year is not more than an annual benefit of \$1,800 (when expressed as a single life annuity commencing at age 65) is not considered to be an active participant in such a plan for the taxable year.”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to taxable years beginning after December 31, 1975.

SEC. 1504. CERTAIN INVESTMENTS BY ANNUITY PLANS.

(a) **IN GENERAL.**—Paragraph (7) of section 403(b) (relating to custodial accounts for regulated investment company stock) is amended by striking out “, and which issues only redeemable stock” in subparagraph (C).

(b) **EFFECTIVE DATE.**—The amendment made by this section applies to taxable years beginning after December 31, 1975.

SEC. 1505. SEGREGATED ASSET ACCOUNTS.

(a) **SEGREGATED ASSET ACCOUNTS OF LIFE INSURANCE COMPANIES.**—Paragraph (1) (B) of section 801(g) is amended—

(1) by striking out clause (ii) and inserting in lieu thereof the following:

“(ii) which is described in subparagraph (A), (B), (C), (D), or (E) of section 805(d) (1) (other than a life, health or accident, property, casualty, or liability insurance contract) or which provides for the payment of annuities, and”, and

(2) by striking out “as annuities” in clause (iii) and inserting in lieu thereof “out”.

(b) **CONFORMING AMENDMENT.**—Section 401 (relating to qualified pension, etc. plans) is amended by striking out subsection (f) and inserting in lieu thereof the following:

“(f) **CERTAIN CUSTODIAL ACCOUNTS AND CONTRACTS.**—For purposes of this title, a custodial account, an annuity contract, or a contract (other than a life, health or accident, property, casualty, or liability insurance contract) issued by an insurance company qualified to do

business in a State shall be treated as a qualified trust under this section if—

“(1) the custodial account or contract would, except for the fact that it is not a trust, constitute a qualified trust under this section, and

“(2) in the case of a custodial account the assets thereof are held by a bank (as defined in subsection (d)(1)) or another person who demonstrates, to the satisfaction of the Secretary, that the manner in which he will hold the assets will be consistent with the requirements of this section.

For purposes of this title, in the case of a custodial account or contract treated as a qualified trust under this section by reason of this subsection, the person holding the assets of such account or holding such contract shall be treated as the trustee thereof.”

(c) **EFFECTIVE DATE.**—The amendments made by this section apply for taxable years beginning after December 31, 1975.

SEC. 1506. STUDY OF SALARY REDUCTION PENSION PLANS.

Section 2006 of the Employee Retirement Income Security Act of 1974 is amended—

(1) by striking out “January 1, 1977” each place it appears and inserting in lieu thereof “January 1, 1978”, and

(2) by striking out “December 31, 1976” in subsection (d) and inserting in lieu thereof “December 31, 1977”.

SEC. 1507. CONSOLIDATED RETURNS FOR LIFE AND OTHER INSURANCE COMPANIES.

(a) **IN GENERAL.**—Section 1504(c) (relating to the definition of includible insurance companies) is amended to read as follows:

“(c) **INCLUDIBLE INSURANCE COMPANIES.**—Notwithstanding the provisions of paragraph (2) of subsection (b)—

“(1) Two or more domestic insurance companies each of which is subject to tax under section 802 shall be treated as includible corporations for purposes of applying subsection (a) to such insurance companies alone.

“(2) (A) If an affiliated group (determined without regard to subsection (b)(2) includes one or more domestic insurance companies taxed under section 802 or 821, the common parent of such group may elect (pursuant to regulations prescribed by the Secretary) to treat all such companies as includible corporations for purposes of applying subsection (a) except that no such company shall be so treated until it has been a member of the affiliated group for the 5 taxable years immediately preceding the taxable year for which the consolidated return is filed.

“(B) If an election under this paragraph is in effect for a taxable year—

“(i) section 243(b)(6) and the exception provided under section 243(b)(5) with respect to subsections (b)(2) and (c) of this section,

“(ii) section 542(b)(5), and

“(iii) subsection (a)(4) and (b)(2)(D) of section 1563, and the reference to section 1563(b)(2)(D) contained in section 1563(b)(3)(C),

shall not be effective for such taxable year.

(b) **SPECIAL RULES AND CONFORMING AMENDMENTS.**—

(1) Section 821 (relating to tax on mutual insurance companies to which part II applies, as amended by section 1901(a)(104)(C) of this Act,) is amended by redesignating subsection (e) as sub-

section (f), and by adding after subsection (d) the following new subsection:

“(e) **TAX APPLICABLE TO MEMBER OF GROUP FILING CONSOLIDATED RETURN.**—Notwithstanding any other provision of this section, if a mutual insurance company to which this section applies joins in the filing of a consolidated return (or is required to so file), the applicable tax shall consist of a normal tax and a surtax computed as provided in section 11 as though the mutual insurance company taxable income of such company were the taxable income referred to in section 11.”.

(2) Section 843 (relating to annual accounting period) is amended by adding at the end thereof the following sentence: “Under regulations prescribed by the Secretary, an insurance company which joins in the filing of a consolidated return (or is required to so file) may adopt the taxable year of the common parent corporation even though such year is not a calendar year.”

(3) Section 1503 (relating to computation and payment of tax) is amended by adding the following new subsection:

“(c) **SPECIAL RULE FOR APPLICATION OF CERTAIN LOSSES AGAINST INCOME OF INSURANCE COMPANIES TAXED UNDER SECTION 802.**—

“(1) **IN GENERAL.**—If an election under section 1504(c)(2) is in effect for the taxable year and the consolidated taxable income of the members of the group not taxed under section 802 results in a consolidated net operating loss for such taxable year, then under regulations prescribed by the Secretary, the amount of such loss which cannot be absorbed in the applicable carryback periods against the taxable income of such members not taxed under section 802 shall be taken into account in determining the consolidated taxable income of the affiliated group for such taxable year to the extent of 35 percent of such loss or 35 percent of the taxable income of the members taxed under section 802, whichever is less. The unused portion of such loss shall be available as a carryover, subject to the same limitations (applicable to the sum of the loss for the carryover year and the loss (or losses) carried over to such year), in applicable carryover years. For purposes of this subsection, in determining the taxable income of each insurance company subject to tax under section 802, section 802(b)(3) shall not be taken into account. For taxable years ending with or within calendar year 1981, ‘25 percent’ shall be substituted for ‘35 percent’ each place it appears in the first sentence of this subsection. For taxable years ending with or within calendar year 1982, ‘30 percent’ shall be substituted for ‘35 percent’ each place it appears in that sentence.

“(2) **LOSSES OF RECENT NONLIFE AFFILIATES.**—Notwithstanding the provisions of paragraph (1), a net operating loss for a taxable year of a member of the group not taxed under section 802 shall not be taken into account in determining the taxable income of a member taxed under section 802 (either for the taxable year or as a carryover or carryback) if such taxable year precedes the sixth taxable year such members have been members of the same affiliated group (determined without regard to section 1504(b)(2)).”

(c) **EFFECTIVE DATE AND TRANSITIONAL RULES.**—

(1) **EFFECTIVE DATE.**—The amendments made by subsections (a) and (b) shall apply to taxable years beginning after December 31, 1980.

(2) **TRANSITION RULES WITH RESPECT TO CARRYOVERS OR CARRYBACKS RELATING TO PRE-ELECTION TAXABLE YEARS AND NONTERMINATION OF GROUP.**—

(A) **LIMITATIONS ON CARRYOVERS OR CARRYBACKS FOR GROUPS ELECTING UNDER SECTION 1504(C)(2).**—If an affiliated group elects to file a consolidated return pursuant to section 1504(c)(2) of the Internal Revenue Code of 1954, a carryover of a loss or credit from a taxable year ending before January 1, 1981, and losses or credits which may be carried back to taxable years ending before such date, shall be taken into account as if this section had not been enacted.

(B) **NONTERMINATION OF AFFILIATED GROUP.**—The mere election to file a consolidated return pursuant to such section 1504(c)(2) shall not cause the termination of an affiliated group filing consolidated returns.

SEC. 1508. TREATMENT OF CERTAIN LIFE INSURANCE CONTRACTS GUARANTEED RENEWABLE.

(a) **IN GENERAL.**—Paragraph (d)(5) of section 809 (relating to certain nonparticipating contracts) is amended by adding at the end thereof the following sentence: “For purposes of this paragraph, the period for which any contract is issued or renewed includes the period for which such contract is guaranteed renewable.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1957.

SEC. 1509. STUDY OF EXPANDED PARTICIPATION IN INDIVIDUAL RETIREMENT ACCOUNTS.

The Joint Committee on Taxation shall carry out a study with respect to broadening the class of individuals who are eligible to claim a deduction for retirement savings under section 219 or 220 of the Internal Revenue Code of 1954 to include individuals who are participants in pension plans described in section 401(a) of such Code (relating to qualified pension, profit-sharing, and stock bonus plans) or similar plans established for its employees by the United States, by a State or political division thereof, or by an agency or instrumentality of the United States or a State or political division thereof. The Joint Committee shall report its findings to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate.

SEC. 1510. TAXABLE STATUS OF PENSION BENEFIT GUARANTY CORPORATION.

(a) **IN GENERAL.**—Section 4002(g)(1) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1302(f)(1)) is amended by inserting “by the United States (other than taxes imposed under chapter 21 of the Internal Revenue Code of 1954, relating to Federal Insurance Contributions Act, and chapter 23 of such Code, relating to Federal Unemployment Tax Act), or” immediately after “imposed”.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect on September 2, 1974.

SEC. 1511. LEVEL PREMIUM PLANS COVERING OWNER-EMPLOYEES.

(a) **IN GENERAL.**—Section 415(c) (relating to limitation for defined contribution plans) is amended by adding after paragraph (6) the following new paragraph:

“(7) **CERTAIN LEVEL PREMIUM ANNUITY CONTRACTS UNDER PLANS BENEFITTING OWNER-EMPLOYEES.**—Paragraph (1)(B) shall not apply to a contribution described in section 401(e) which is made on behalf of a participant for a year to a plan which benefits an owner-employee (within the meaning of section 401(c)(3)), if—

“(A) the annual addition determined under this section with respect to the participant for such year consists solely of such contribution, and

“(B) the participant is not an active participant at any time during such year in a defined benefit plan maintained by the employer.

For purposes of this section and section 401(e), in the case of a plan which provides contributions or benefits for employees who are not owner-employees, such plan will not be treated as failing to satisfy section 401(a)(4) merely because contributions made on behalf of employees who are not owner-employees are not permitted to exceed the limitations of paragraph (1)(B).”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply for years beginning after December 31, 1975.

SEC. 1512. LUMP-SUM DISTRIBUTIONS FROM QUALIFIED PENSION, ETC., PLANS.

(a) **IN GENERAL.**—Section 402(e)(4) (relating to definitions and special rules) is amended by adding at the end thereof the following new subparagraph:

“(L) **ELECTION TO TREAT PRE-1974 PARTICIPATION AS POST-1973 PARTICIPATION.**—For purposes of subparagraph (E), subsection (a)(2), and section 403(a)(2), if a taxpayer elects (at the time and in the manner provided under regulations prescribed by the Secretary), all calendar years of an employee's active participation in all plans in which the employee has been an active participant shall be considered years of active participation by such employee after December 31, 1973. An election made under this subparagraph, once made, shall be irrevocable and shall apply to all lump-sum distributions received by the taxpayer with respect to the employee. This subparagraph shall not apply if the taxpayer received a lump-sum distribution in a previous taxable year of the employee beginning after December 31, 1975, unless no portion of such lump-sum distribution was treated under subsection (a)(2) or section 403(a)(2) as gain from the sale or exchange of a capital asset held for more than 6 months.”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to distributions and payments made after December 31, 1975, in taxable years beginning after such date.

TITLE XVI—REAL ESTATE INVESTMENT TRUSTS

SEC. 1601. DEFICIENCY DIVIDEND PROCEDURE.

(a) **IN GENERAL.**—

(1) Part II of subchapter M of chapter 1 (relating to real estate investment trusts) is amended by adding at the end thereof the following new section:

“SEC. 859. DEDUCTION FOR DEFICIENCY DIVIDENDS.

“(a) **GENERAL RULE.**—If a determination (as defined in subsection (c)) with respect to a real estate investment trust results in any adjustment (as defined in subsection (b)(1)) for any taxable year, a deduction shall be allowed to such trust for the amount of deficiency dividends (as defined in subsection (d)) for purposes of determining

the deduction for dividends paid (for purposes of section 857) for such year.

“(b) RULES FOR APPLICATION OF SECTION.—

“(1) ADJUSTMENT.—For purposes of this section, the term ‘adjustment’ means—

“(A) any increase in the sum of—

“(i) the real estate investment trust taxable income of the real estate investment trust (determined without regard to the deduction for dividends paid (as defined in section 561) and by excluding any net capital gain), and

“(ii) the excess of the net income from foreclosure property (as defined in section 857(b)(4)(B)) over the tax on such income imposed by section 857(b)(4)(A),

“(B) any increase in the amount of the excess described in section 857(b)(3)(A)(ii) (relating to the excess of the net capital gain over the deduction for capital gains dividends paid), and

“(C) any decrease in the deduction for dividends paid (as defined in section 561) determined without regard to capital gains dividends.

“(2) INTEREST AND ADDITIONS TO TAX DETERMINED WITH RESPECT TO THE AMOUNT OF DEFICIENCY DIVIDEND DEDUCTION ALLOWED.—For purposes of determining interest, additions to tax, and additional amounts—

“(A) the tax imposed by this chapter (after taking into account the deduction allowed by subsection (a)) on the real estate investment trust for the taxable year with respect to which the determination is made shall be deemed to be increased by an amount equal to the deduction allowed by subsection (a) with respect to such taxable year,

“(B) the last date prescribed for payment of such increase in tax shall be deemed to have been the last date prescribed for the payment of tax (determined in the manner provided by section 6601(c)) for the taxable year with respect to which the determination is made, and

“(C) such increase in tax shall be deemed to be paid as of the date the claim for the deficiency dividend deduction is filed.

“(3) CREDIT OR REFUND.—If the allowance of a deficiency dividend deduction results in an overpayment of tax for any taxable year, credit or refund with respect to such overpayment shall be made as if on the date of the determination 2 years remained before the expiration of the period of limitations on the filing of claim for refund for the taxable year to which the overpayment relates.

“(c) DETERMINATION.—For purposes of this section, the term ‘determination’ means—

“(1) a decision by the Tax Court, or a judgment, decree, or other order by any court of competent jurisdiction, which has become final;

“(2) a closing agreement made under section 7121; or

“(3) under regulations prescribed by the Secretary, an agreement signed by the Secretary and by, or on behalf of, the real estate investment trust relating to the liability of such trust for tax.

“(d) DEFICIENCY DIVIDENDS.—

“(1) DEFINITION.—For purposes of this section, the term ‘deficiency dividends’ means a distribution of property made by the real estate investment trust on or after the date of the determination and before filing claim under subsection (e), which would have been includible in the computation of the deduction for dividends paid under section 561 for the taxable year with respect to which the liability for tax resulting from the determination exists, if distributed during such taxable year. No distribution of property shall be considered as deficiency dividends for purposes of subsection (a) unless distributed within 90 days after the determination, and unless a claim for a deficiency dividend deduction with respect to such distribution is filed pursuant to subsection (e).

“(2) LIMITATIONS.—

“(A) ORDINARY DIVIDENDS.—The amount of deficiency dividends (other than deficiency dividends qualifying as capital gain dividends) paid by a real estate investment trust for the taxable year with respect to which the liability for tax resulting from the determination exists shall not exceed the sum of—

“(i) the excess of the amount of increase referred to in subparagraph (A) of subsection (b)(1) over the amount of any increase in the deduction for dividends paid (computed without regard to capital gain dividends) for such taxable year which results from such determination, and

“(ii) the amount of decrease referred to in subparagraph (C) of subsection (b)(1).

“(B) CAPITAL GAIN DIVIDENDS.—The amount of deficiency dividends qualifying as capital gain dividends paid by a real estate investment trust for the taxable year with respect to which the liability for tax resulting from the determination exists shall not exceed the amount by which (i) the increase referred to in subparagraph (B) of subsection (b)(1) exceeds (ii) the amount of any dividends paid during such taxable year which are designated as capital gain dividends after such determination.

“(3) EFFECT ON DIVIDENDS PAID DEDUCTION.—

“(A) FOR TAXABLE YEAR IN WHICH PAID.—Deficiency dividends paid in any taxable year shall not be included in the amount of dividends paid for such year for purposes of computing the dividends paid deduction for such year.

“(B) FOR PRIOR TAXABLE YEAR.—Deficiency dividends paid in any taxable year shall not be allowed for purposes of section 858(a) in the computation of the dividends paid deduction for the taxable year preceding the taxable year in which paid.

“(e) CLAIM REQUIRED.—No deficiency dividend deduction shall be allowed under subsection (a) unless (under regulations prescribed by the Secretary) claim therefor is filed within 120 days after the date of the determination.

“(f) SUSPENSION OF STATUTE OF LIMITATIONS AND STAY OF COLLECTION.—

“(1) SUSPENSION OF RUNNING OF STATUTE.—If the real estate investment trust files a claim as provided in subsection (e), the

running of the statute of limitations provided in section 6501 on the making of assessments, and the bringing of distraint or a proceeding in court for collection, in respect of the deficiency established by a determination under this section, and all interest, additions to tax, additional amounts, or assessable penalties in respect thereof, shall be suspended for a period of 2 years after the date of the determination.

“(2) **STAY OF COLLECTION.**—In the case of any deficiency established by a determination under this section—

“(A) the collection of the deficiency, and all interest, additions to tax, additional amounts, and assessable penalties in respect thereof, shall, except in cases of jeopardy, be stayed until the expiration of 120 days after the date of the determination, and

“(B) if claim for a deficiency dividend deduction is filed under subsection (e), the collection of such part of the deficiency as is not reduced by the deduction for deficiency dividends provided in subsection (a) shall be stayed until the date the claim is disallowed (in whole or in part), and if disallowed in part collection shall be made only with respect to the part disallowed.

No distraint or proceeding in court shall be begun for the collection of an amount the collection of which is stayed under subparagraph (A) or (B) during the period for which the collection of such amount is stayed.

“(g) **DEDUCTION DENIED IN CASE OF FRAUD.**—No deficiency dividend deduction shall be allowed under subsection (a) if the determination contains a finding that any part of any deficiency attributable to an adjustment with respect to the taxable year is due to fraud with intent to evade tax or to willful failure to file an income tax return within the time prescribed by law or prescribed by the Secretary in pursuance of law.

“(h) **PENALTY.**—

“For assessable penalty with respect to liability for tax of real estate investment trust which is allowed a deduction under subsection (a), see section 6697.”

(2) The table of sections for such part II is amended by adding at the end thereof the following new item:

“Sec. 859. Deduction for deficiency dividends.”

(b) **PENALTY.**—

(1) Subchapter B of chapter 68 (relating to assessable penalties) is amended by adding at the end thereof the following new section:

“SEC. 6697. ASSESSABLE PENALTIES WITH RESPECT TO LIABILITY FOR TAX OF REAL ESTATE INVESTMENT TRUSTS.

“(a) **CIVIL PENALTY.**—In addition to any other penalty provided by law, any real estate investment trust whose tax liability for any taxable year is deemed to be increased pursuant to section 859(b)(2)(A) (relating to interest and additions to tax determined with respect to the amount of the deduction for deficiency dividends allowed) shall pay a penalty in an amount equal to the amount of interest for which such trust is liable that is attributable solely to such increase.

“(b) **50-PERCENT LIMITATION.**—The penalty payable under this section with respect to any determination shall not exceed one-half of the amount of the deduction allowed by section 859(a) for such taxable year.

“(c) DEFICIENCY PROCEDURES NOT TO APPLY.—Subchapter B of chapter 63 (relating to deficiency procedure for income, estate, gift, and certain excise taxes) shall not apply in respect of the assessment or collection of any penalty imposed by subsection (a).”

(2) The table of sections for such subchapter B is amended by adding at the end thereof the following:

“Sec. 6697. Assessable penalties with respect to liability for tax of real estate investment trusts.”

(c) LATE DESIGNATION AND PAYMENT OF CAPITAL GAIN DIVIDEND.—The first sentence of subparagraph (C) of section 857(b)(3) (defining capital gain dividend) is amended by inserting before the period at the end thereof the following: “; except that, if there is an increase in the excess described in subparagraph (A)(ii) of this paragraph for such year which results from a determination (as defined in section 859(c)), such designation may be made with respect to such increase at any time before the expiration of 120 days after the date of such determination”.

(d) DEFINITION OF DIVIDEND.—Subsection (b) of section 316 (relating to the definition of dividend) is amended by adding a new paragraph (3) at the end thereof, to read as follows:

“(3) DEFICIENCY DIVIDEND DISTRIBUTIONS BY A REAL ESTATE INVESTMENT TRUST.—The term ‘dividend’ also means any distribution of property (whether or not a dividend as defined in subsection (a)) which constitutes a ‘deficiency dividend’ as defined in section 859(d).”

(e) CARRYOVER OF DEFICIENCY DIVIDEND.—Section 381(c) (relating to carryovers in certain corporate acquisitions) is amended by adding a new paragraph (25) at the end thereof, to read as follows:

“(25) DEFICIENCY DIVIDEND OF REAL ESTATE INVESTMENT TRUST.—If the acquiring corporation pays a deficiency dividend (as defined in section 859(d)) with respect to the distributor or transferor corporation, such distributor or transferor corporation shall, with respect to such payments, be entitled to the deficiency dividend deduction provided in section 859.”

(f) TECHNICAL AMENDMENTS.—

(1) Section 6422 (relating to certain cross references) is amended by adding a new paragraph (14) at the end thereof to read as follows:

“(14) for credit or refund in case of deficiency dividends paid by a real estate investment trust, see section 859.”

(2) Section 6503(i) (relating to certain cross references) is amended by adding a new paragraph (5) at the end thereof, to read as follows:

“(5) Deficiency dividends of a real estate investment trust, see section 859(f).”

(3) Section 6515 (relating to certain cross references) is amended by adding a new paragraph (8) at the end thereof, to read as follows:

“(8) Deficiency dividends of a real estate investment trust, see section 859.”

SEC. 1602. TRUST NOT DISQUALIFIED IN CERTAIN CASES WHERE INCOME TESTS WERE NOT MET.

(a) DISQUALIFICATION NOT APPLIED.—Section 856(c) (relating to limitations) is amended by adding at the end thereof the following new paragraph:

“(7) A corporation, trust, or association which fails to meet the requirements of paragraph (2) or (3), or of both such paragraphs, for any taxable year shall nevertheless be considered to have satisfied the requirements of such paragraphs for such taxable year if—

“(A) the nature and amount of each item of its gross income described in such paragraphs is set forth in a schedule attached to its income tax return for such taxable year;

“(B) the inclusion of any incorrect information in the schedule referred to in subparagraph (A) is not due to fraud with intent to evade tax; and

“(C) the failure to meet the requirements of paragraph (2) or (3), or of both such paragraphs, is due to reasonable cause and not due to willful neglect.”

(b) IMPOSITION OF SPECIAL TAXES.—

(1) Section 857(b) (relating to method of taxation of real estate investment trusts, etc.) is amended by redesignating paragraph (5) as paragraph (7) and by inserting after paragraph (4) the following new paragraph:

“(5) IMPOSITION OF TAX IN CASE OF FAILURE TO MEET CERTAIN REQUIREMENTS.—If section 856(c)(7) applies to a real estate investment trust for any taxable year, there is hereby imposed on such trust a tax in an amount equal to the greater of—

“(A) the excess of—

“(i) 95 percent (90 percent in the case of taxable years beginning before January 1, 1980) of the gross income (excluding gross income from prohibited transactions) of the real estate investment trust, over

“(ii) the amount of such gross income which is derived from sources referred to in section 856(c)(2); or

“(B) the excess of—

“(i) 75 percent of the gross income (excluding gross income from prohibited transactions) of the real estate investment trust, over

“(ii) the amount of such gross income which is derived from sources referred to in section 856(c)(3), multiplied by a fraction the numerator of which is the real estate investment trust taxable income for the taxable year (determined without regard to the deductions provided in paragraphs (2)(B) and (2)(E), without regard to any net operating loss deduction, and by excluding any net capital gain) and the denominator of which is the gross income for the taxable year (excluding gross income from prohibited transactions; gross income and gain from foreclosure property (as defined in section 856(e), but only to the extent such gross income and gain is not described in subparagraph (A), (B), (C), (D), (E), or (G) of section 856(c)(3)); long-term capital gain; and short-term capital gain to the extent of any short-term capital loss).”

(2) Section 857(b)(2) (relating to real estate investment trust taxable income) is amended by inserting after subparagraph (D) (as redesignated by section 1606(a) of this Act) the following new subparagraph:

“(E) There shall be deducted an amount equal to the tax imposed by paragraph (5) for the taxable year.”

SEC. 1603. TREATMENT OF PROPERTY HELD FOR SALE TO CUSTOMERS.

(a) **ELIMINATION OF HOLDING FOR SALE RULE AS QUALIFICATION REQUIREMENT.**—Section 856(a) (defining real estate investment trust) is amended by striking out paragraph (4).

(b) **TAX ON INCOME FROM PROPERTY DESCRIBED IN SECTION 1221(1) THAT IS NOT FORECLOSURE PROPERTY.**—Section 857(b) (relating to method of taxation of real estate investment trusts, etc.) is amended by inserting after paragraph (5) (as added by section 1602(b)(1) of this Act) the following new paragraph:

“(6) **INCOME FROM PROHIBITED TRANSACTIONS.**—

“(A) **IMPOSITION OF TAX.**—There is hereby imposed for each taxable year of every real estate investment trust a tax equal to 100 percent of the net income derived from prohibited transactions.

“(B) **DEFINITIONS.**—For purposes of this part—

“(i) the term ‘net income derived from prohibited transactions’ means the excess of the gain from prohibited transactions over the deductions allowed by this chapter which are directly connected with prohibited transactions;

“(ii) the term ‘net loss derived from prohibited transactions’ means the excess of the deductions allowed by this chapter which are directly connected with prohibited transactions over the gain from prohibited transactions; and

“(iii) the term ‘prohibited transaction’ means a sale or other disposition of property described in section 1221(1) which is not foreclosure property.”

(c) **TECHNICAL AMENDMENTS.**—

(1) So much of paragraph (3) of section 856(c) (relating to limitations) as precedes subparagraph (A) thereof is amended to read as follows:

“(3) at least 75 percent of its gross income (excluding gross income from prohibited transactions) is derived from—”.

(2) Section 856(c)(2) (relating to limitations) is amended by inserting before the semicolon in subparagraph (D) thereof “which is not property described in section 1221(1)”.

(3) Section 856(c)(3) (relating to limitations) is amended by inserting before the semicolon in subparagraph (C) thereof “which is not property described in section 1221(1)”.

(4) Section 856(e)(1) (defining foreclosure property) is amended by adding at the end thereof the following sentence: “Such term does not include property acquired by the real estate investment trust as a result of indebtedness arising from the sale or other disposition of property of the trust described in section 1221(1) which was not originally acquired as foreclosure property.”

(5) Section 857(b)(2) (relating to real estate investment trust taxable income) is amended by adding a new subparagraph (F) immediately after subparagraph (E) (as added by section 1602(b)(2) of this Act), to read as follows:

“(F) There shall be excluded an amount equal to any net income derived from prohibited transactions and there shall be included an amount equal to any net loss derived from prohibited transactions.”

SEC. 1604. OTHER CHANGES IN LIMITATIONS AND REQUIREMENTS.

(a) **INCREASE IN 90-PERCENT GROSS INCOME REQUIREMENT TO 95 PERCENT.**—Section 856(c)(2) (relating to limitations) is amended by striking out “90 percent of its gross income” and inserting in lieu thereof “95 percent (90 percent for taxable years beginning before January 1, 1980) of its gross income (excluding gross income from prohibited transactions)”.

(b) **APPORTIONMENT OF RENTAL INCOME AND CHARGES FOR CUSTOMARY SERVICES; CHANGE IN DEFINITION OF INDEPENDENT CONTRACTOR.**—Subsection (d) of section 856 (defining rents from real property) is amended to read as follows:

“(d) **RENTS FROM REAL PROPERTY DEFINED.**—

“(1) **AMOUNTS INCLUDED.**—For purposes of paragraphs (2) and (3) of subsection (c), the term ‘rents from real property’ includes (subject to paragraph (2))—

“(A) rents from interests in real property,

“(B) charges for services customarily furnished or rendered in connection with the rental of real property, whether or not such charges are separately stated, and

“(C) rent attributable to personal property which is leased under, or in connection with, a lease of real property, but only if the rent attributable to such personal property for the taxable year does not exceed 15 percent of the total rent for the taxable year attributable to both the real and personal property leased under, or in connection with, such lease.

For purposes of subparagraph (C), with respect to each lease of real property, rent attributable to personal property for the taxable year is that amount which bears the same ratio to total rent for the taxable year as the average of the adjusted bases of the personal property at the beginning and at the end of the taxable year bears to the average of the aggregate adjusted bases of both the real property and the personal property at the beginning and at the end of such taxable year.

“(2) **AMOUNTS EXCLUDED.**—For purposes of paragraphs (2) and (3) of subsection (c), the term ‘rents from real property’ does not include—

“(A) except as provided in paragraph (4), any amount received or accrued, directly or indirectly, with respect to any real or personal property, if the determination of such amount depends in whole or in part on the income or profits derived by any person from such property (except that any amount so received or accrued shall not be excluded from the term ‘rents from real property’ solely by reason of being based on a fixed percentage or percentages of receipts or sales);

“(B) any amount received or accrued directly or indirectly from any person if the real estate investment trust owns, directly or indirectly—

“(i) in the case of any person which is a corporation, stock of such person possessing 10 percent or more of the total combined voting power of all classes of stock entitled to vote, or 10 percent or more of the total number of shares of all classes of stock of such person; or

“(ii) in the case of any person which is not a corporation, an interest of 10 percent or more in the assets or net profits of such person; and

“(C) any amount received or accrued, directly or indirectly, with respect to any real or personal property if the real

estate investment trust furnishes or renders services to the tenants of such property, or manages or operates such property, other than through an independent contractor from whom the trust itself does not derive or receive any income.

“(3) INDEPENDENT CONTRACTOR DEFINED.—For purposes of this subsection and subsection (e), the term ‘independent contractor’ means any person—

“(A) who does not own, directly or indirectly, more than 35 percent of the shares, or certificates of beneficial interest, in the real estate investment trust; and

“(B) if such person is a corporation, not more than 35 percent of the total combined voting power of whose stock (or 35 percent of the total shares of all classes of whose stock), or, if such person is not a corporation, not more than 35 percent of the interest in whose assets or net profits is owned, directly or indirectly, by one or more persons owning 35 percent or more of the shares or certificates of beneficial interest in the trust.

“(4) SPECIAL RULE FOR CERTAIN CONTINGENT RENTS.—Where a real estate investment trust receives or accrues, with respect to real or personal property, any amount which would be excluded from the term ‘rents from real property’ solely because the tenant of the real estate investment trust receives or accrues, directly or indirectly, from subtenants any amount the determination of which depends in whole or in part on the income or profits derived by any person from such property, only a proportionate part (determined pursuant to regulations prescribed by the Secretary) of the amount received or accrued by the real estate investment trust from that tenant will be excluded from the term ‘rents from real property’.

“(5) CONSTRUCTIVE OWNERSHIP OF STOCK.—For purposes of this subsection, the rules prescribed by section 318(a) for determining the ownership of stock shall apply in determining the ownership of stock, assets, or net profits of any person; except that ‘10 percent’ shall be substituted for ‘50 percent’ in subparagraph (C) of section 318(a) (2) and 318(a) (3).”

(c) COMMITMENT FEES.—

(1) IN GENERAL.—Paragraphs (2) and (3) of section 856(c) (relating to limitations) are each amended by striking out “and” after the semicolon at the end of subparagraph (E), by inserting “and” after the semicolon at the end of subparagraph (F), and by adding at the end thereof the following new subparagraph:

“(G) amounts (other than amounts the determination of which depends in whole or in part on the income or profits of any person) received or accrued as consideration for entering into agreements (i) to make loans secured by mortgages on real property or on interests in real property or (ii) to purchase or lease real property (including interests in real property and interests in mortgages on real property);”

(2) CONFORMING AMENDMENT.—Section 857(b) (4) (B) (relating to net income from foreclosure property) is amended by striking out “(D), or (E)” in subdivision (i) and inserting in lieu thereof “(D), (E), or (G)”.

(d) INCOME FROM SALE OF MORTGAGES HELD LESS THAN 4 YEARS.—Section 856(c) (4) (relating to limitations) is amended to read as follows:

“(4) less than 30 percent of its gross income is derived from the sale or other disposition of—

“(A) stock or securities held for less than 6 months;

“(B) section 1221(1) property (other than foreclosure property); and

“(C) real property (including interests in real property and interests in mortgages on real property) held for less than 4 years other than—

“(i) property compulsorily or involuntarily converted within the meaning of section 1033, and

“(ii) property which is foreclosure property within the definition of section 856(e); and”.

(e) **OPTIONS TO PURCHASE REAL PROPERTY TREATED AS INTERESTS IN REAL PROPERTY.**—Section 856(c) (6) (C) (relating to limitations) is amended to read as follows:

“(C) The term ‘interests in real property’ includes fee ownership and co-ownership of land or improvements thereon, leaseholds of land or improvements thereon, options to acquire land or improvements thereon, and options to acquire leaseholds of land or improvements thereon, but does not include mineral, oil, or gas royalty interests.”

(f) **REAL ESTATE INVESTMENT TRUSTS MAY BE INCORPORATED.**—

(1) **IN GENERAL.**—So much of subsection (a) of section 856 (defining real estate investment trust) as precedes paragraph (3) thereof is amended to read as follows:

“(a) **IN GENERAL.**—For purposes of this title, the term ‘real estate investment trust’ means a corporation, trust, or association—

“(1) which is managed by one or more trustees or directors;

“(2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;”.

(2) **EXCEPTION FOR FINANCIAL INSTITUTIONS AND INSURANCE COMPANIES.**—Section 856(a) (defining real estate investment trust) is amended by inserting after paragraph (3) the following new paragraph:

“(4) which is neither (A) a financial institution to which section 585, 586, or 593 applies, nor (B) an insurance company to which subchapter L applies;”.

(3) **CONFORMING AMENDMENTS.**—

(A) So much of section 856(c) (relating to limitations) as precedes paragraph (1) thereof is amended by striking out “A trust or association” and inserting in lieu thereof “A corporation, trust, or association”.

(B) The second sentence of section 857(d) (relating to earnings and profits) is amended by striking out “a domestic unincorporated trust” and inserting in lieu thereof “a domestic corporation, trust.”.

(g) **INTEREST.**—Section 856 (relating to definition of real estate investment trust) is amended by adding after subsection (e) the following new subsection:

“(f) **INTEREST.**—For purposes of paragraphs (2) (B) and (3) (B) of subsection (c), the term ‘interest’ does not include any amount received or accrued, directly or indirectly, if the determination of such amount depends in whole or in part on the income or profits of any person except that:

“(1) any amount so received or accrued shall not be excluded from the term ‘interest’ solely by reason of being based on a fixed percentage or percentages of receipts or sales, and

“(2) where a real estate investment trust receives or accrues any amount which would be excluded from the term ‘interest’

solely because the debtor of the real estate investment trust receives or accrues any amount the determination of which depends in whole or in part on the income or profits of any person, only a proportionate part (determined pursuant to regulations prescribed by the Secretary) of the amount received or accrued by the real estate investment trust from such debtor will be excluded from the term 'interest'.

The provisions of this subsection shall apply only with respect to amounts received or accrued pursuant to loans made after May 27, 1976. For purposes of the preceding sentence, a loan is considered to be made before May 28, 1976, if such loan is made pursuant to a binding commitment entered into before May 28, 1976."

(h) CERTAIN DIVIDENDS.—The first sentence of section 858(a) (relating to dividends paid by real estate investment trust after close of taxable year) is amended—

(1) by inserting "(and specifies in dollar amounts)" after "to the extent the trust elects in such return", and

(2) by striking out "paid during such taxable year" and inserting in lieu thereof "paid only during such taxable year".

(i) ADOPTION OF ANNUAL ACCOUNTING PERIOD.—

(1) Part II of subchapter M of chapter 1 (relating to real estate investment trusts) is amended by adding at the end thereof the following new section:

"SEC. 860. ADOPTION OF ANNUAL ACCOUNTING PERIOD.

"For purposes of this subtitle, a real estate investment trust shall not change to or adopt any annual accounting period other than the calendar year."

(2) The table of sections for such part II is amended by adding at the end thereof the following:

"Sec. 860. Adoption of annual accounting period."

(j) CHANGE IN DISTRIBUTION REQUIREMENTS.—Section 857(a) (1) (relating to requirements applicable to real estate investment trusts) is amended to read as follows:

"(1) the deduction for dividends paid during the taxable year (as defined in section 561, but determined without regard to capital gains dividends) equals or exceeds—

"(A) the sum of—

"(i) 95 percent (90 percent for taxable years beginning before January 1, 1980) of the real estate investment trust taxable income for the taxable year (determined without regard to the deduction for dividends paid (as defined in section 561) and by excluding any net capital gain); and

"(ii) 95 percent (90 percent for taxable years beginning before January 1, 1980) of the excess of the net income from foreclosure property over the tax imposed on such income by subsection (b) (4) (A); minus

"(B) the sum of—

"(i) the amount of any penalty imposed on the real estate investment trust by section 6697 which is paid by such trust during the taxable year; and

"(ii) the net loss derived from prohibited transactions, and"

(k) MANNER AND EFFECT OF TERMINATION OR REVOCATION OF ELECTION.—

(1) **IN GENERAL.**—Section 856 (relating to definition of real estate investment trust) is amended by adding after subsection (f) (as added by section 1604(g) of this Act) the following new subsection:

(g) TERMINATION OF ELECTION.—

“(1) **FAILURE TO QUALIFY.**—An election under subsection (c) (1) made by a corporation, trust, or association shall terminate if the corporation, trust, or association is not a real estate investment trust to which the provisions of this part apply for the taxable year with respect to which the election is made, or for any succeeding taxable year. Such termination shall be effective for the taxable year for which the corporation, trust, or association is not a real estate investment trust to which the provisions of this part apply, and for all succeeding taxable years.

“(2) **REVOCAION.**—An election under subsection (c) (1) made by a corporation, trust, or association may be revoked by it for any taxable year after the first taxable year for which the election is effective. A revocation under this paragraph shall be effective for the taxable year in which made and for all succeeding taxable years. Such revocation must be made on or before the 90th day after the first day of the first taxable year for which the revocation is to be effective. Such revocation shall be made in such manner as the Secretary shall prescribe by regulations.

“(3) **ELECTION AFTER TERMINATION OR REVOCAION.**—Except as provided in paragraph (4), if a corporation, trust, or association has made an election under subsection (c) (1) and such election has been terminated or revoked under paragraph (1) or paragraph (2), such corporation, trust, or association (and any successor corporation, trust, or association) shall not be eligible to make an election under subsection (c) (1) for any taxable year prior to the fifth taxable year which begins after the first taxable year for which such termination or revocation is effective.

“(4) **EXCEPTION.**—If the election of a corporation, trust, or association has been terminated under paragraph (1), paragraph (3) shall not apply if—

“(A) the corporation, trust, or association does not willfully fail to file within the time prescribed by law an income tax return for the taxable year with respect to which the termination of the election under subsection (c) (1) occurs;

“(B) the inclusion of any incorrect information in the return referred to in subparagraph (A) is not due to fraud with intent to evade tax; and

“(C) the corporation, trust, or association establishes to the satisfaction of the Secretary that its failure to qualify as a real estate investment trust to which the provisions of this part apply is due to reasonable cause and not due to willful neglect.”

(2) CONFORMING AMENDMENTS.—

(A) Section 856(c) (1) (relating to limitations) is amended by striking out the semicolon at the end and inserting in lieu thereof “, and such election has not been terminated or revoked under subsection (g);”.

(B) Section 857(a) (relating to requirements applicable to real estate investment trust) is amended by striking out “(other than subsection (d) of this section)” and inserting in lieu thereof “(other than subsection (d) of this section and subsection (g) of section 856)”.

SEC. 1605. EXCISE TAX.

(a) **IMPOSITION OF TAX.**—Subtitle D (relating to miscellaneous excise taxes) is amended by adding at the end thereof the following new chapter:

“CHAPTER 44—REAL ESTATE INVESTMENT TRUSTS

“Sec. 4981. Excise tax based on certain real estate investment trust taxable income not distributed during the taxable year.

“SEC. 4981. EXCISE TAX BASED ON CERTAIN REAL ESTATE INVESTMENT TRUST TAXABLE INCOME NOT DISTRIBUTED DURING THE TAXABLE YEAR.

“Effective with respect to taxable years beginning after December 31, 1979, there is hereby imposed on each real estate investment trust for the taxable year a tax equal to 3 percent of the amount (if any) by which 75 percent of the real estate investment trust taxable income (as defined in section 857(b)(2), but determined without regard to section 857(b)(2)(B), and by excluding any net capital gain for the taxable year) exceeds the amount of the dividends paid deduction (as defined in section 561, but computed without regard to capital gains dividends as defined in section 857(b)(2)(C) and without regard to any dividend paid after the close of the taxable year) for the taxable year. For purposes of the preceding sentence, the determination of the real estate investment trust taxable income shall be made by taking into account only the amount and character of the items of income and deduction as reported by such trust in its return for the taxable year.”

(b) **TECHNICAL AMENDMENTS.**—

(1) Paragraph (6) of section 275(a) (relating to denial of deduction for certain taxes) is amended by striking out “and chapter 43.” and inserting in lieu thereof “, chapter 43, and chapter 44.”

(2) Section 857 (relating to taxation of real estate investment trusts and their beneficiaries) is amended by adding at the end thereof the following new subsection:

“(e) **CROSS REFERENCE.**—

“For provisions relating to excise tax based on certain real estate investment trust taxable income not distributed during the taxable year, see section 4981.”

(3) Section 6161(b)(1) relating to extensions of time for payment of tax), as amended by this Act, is amended by striking out “42 or 43” and inserting in lieu thereof “42, 43, or 44”. The second sentence of section 6161(b) is amended by striking out “or chapter 43” and inserting in lieu thereof “43, or 44”.

(4) Section 6211 (defining deficiency) is amended—

(A) by striking out “and 43” in subsection (a) and inserting in lieu thereof “43, and 44”,

(B) by striking out “or 43” in subsection (a) and inserting in lieu thereof “43, or 44”, and

(C) by striking out “or 43” in subsection (b)(2) and inserting in lieu thereof “43, or 44”.

(5) Section 6212 (relating to notice of deficiency) is amended—

(A) by striking out “or 43” in subsection (a) and inserting in lieu thereof “43, or 44”,

(B) by striking out “or chapter 43” in subsection (b) (1) and inserting in lieu thereof “chapter 43, or chapter 44”,

(C) by striking out “chapter 43, and this chapter” in subsection (b) (1) and inserting in lieu thereof “chapter 43, chapter 44, and this chapter”, and

(D) by striking out “of chapter 43 tax for the same taxable years,” in subsection (c) (1) and inserting in lieu thereof “of chapter 43 tax for the same taxable years, of chapter 44 tax for the same taxable years,”.

(6) Section 6213(a) (relating to restrictions applicable to deficiencies and petition to Tax Court) is amended by striking out “or 43” and inserting in lieu thereof “43, or 44”.

(7) Section 6214 (relating to determinations by Tax Court) is amended—

(A) by striking out “or 43” in the heading of subsection (c) and inserting in lieu thereof “43, or 44”, and

(B) by striking out “or 43” each place it appears in subsection (c) and inserting in lieu thereof “43, or 44”, and

(C) by striking out “or 43” in subsection (d) and inserting in lieu thereof “43, or 44”.

(8) Section 6344(a) (1) (relating to cross references) is amended by striking out “or 43” and inserting in lieu thereof “43, or 44”.

(9) Section 6512 (relating to limitations in case of petition to Tax Court) is amended by striking out “or 43” each place it appears and inserting in lieu thereof “43, or 44”.

(10) Section 6601(c) (relating to suspension of interest in certain income, etc. tax cases) is amended by striking out in the heading thereof “or 43” and inserting in lieu thereof “43, or 44”.

(11) Section 7422 (relating to civil actions for refund) is amended by striking out “or 43” in subsection (e) and inserting in lieu thereof “43, or 44”.

(c) CLERICAL AMENDMENT.—The table of chapters for subtitle D is amended by adding at the end thereof the following:

“Chapter 44. Real estate investment trusts.”

SEC. 1606. ALLOWANCE OF NET OPERATING LOSS CARRYOVER.

(a) ALLOWANCE OF DEDUCTION.—Section 857(b) (2) (relating to real estate investment trust taxable income) is amended by striking out subparagraph (E) and by redesignating subparagraph (F) as subparagraph (D).

(b) YEARS TO WHICH LOSS MAY BE CARRIED.—Section 172(b) (1) (relating to years to which a net operating loss may be carried) is amended by inserting after subparagraph (D) thereof the following:

“(E) In the case of a taxpayer which has a net operating loss for any taxable year for which the provisions of part II of subchapter M (relating to real estate investment trusts) apply to such taxpayer, such loss shall not be a net operating loss carryback to any taxable year preceding the taxable year of such loss and shall be a net operating loss carryover to each of the 8 taxable years following the taxable year of such loss, except, in the case of a net operating loss for a taxable year ending before January 1, 1976, such loss shall not be carried to the 6th, 7th, or 8th taxable year following the taxable year of such loss unless part II of subchapter M applied to the taxpayer for the taxable year to which the loss is carried and for all intervening taxable years following the year of loss.

A net operating loss shall not be carried back to a taxable year for which part II of subchapter M applied to the taxpayer.”

(c) DETERMINATION OF THE AMOUNT OF THE NET OPERATING LOSS AND THE CARRYOVER.—Section 172(d) (relating to modifications in computing net operating loss) is amended by adding a new paragraph (7) at the end thereof, to read as follows:

“(7) In the case of any taxable year for which part II of subchapter M (relating to real estate investment trusts) applies to the taxpayer—

“(A) the net operating loss for such taxable year shall be computed by taking into account the adjustments described in section 857(b) (2) (other than the deduction for dividends paid described in section 857(b) (2) (B)); and

“(B) where such taxable year is a ‘prior taxable year’ referred to in paragraph (2) of subsection (b), the term ‘taxable income’ in such paragraph shall mean ‘real estate investment trust taxable income’ (as defined in section 857(b) (2)).”

(d) CONFORMING AMENDMENT.—Subparagraph (B) of section 857(b) (2) (relating to real estate investment trust taxable income), as redesignated by section 1607(b) of this Act, is amended by striking out “subparagraph (F)” and inserting in lieu thereof “subparagraph (D)”.

SEC. 1607. ALTERNATIVE TAX IN CASE OF CAPITAL GAINS.

(a) ALTERNATIVE TAX.—Section 857(b) (3) (A) (relating to imposition of tax on capital gain) is amended to read as follows:

“(A) ALTERNATIVE TAX IN CASE OF CAPITAL GAINS.—If for any taxable year a real estate investment trust has a net capital gain, then, in lieu of the tax imposed by subsection (b) (1), there is hereby imposed a tax (if such tax is less than the tax imposed by such subsection) which shall consist of the sum of—

“(i) a tax, computed as provided in subsection (b) (1), on the real estate investment trust taxable income (determined by excluding such net capital gain and by computing the deduction for dividends paid without regard to capital gain dividends), and

“(ii) a tax of 30 percent of the excess of the net capital gain over the deduction for dividends paid (as defined in section 561) determined with reference to capital gains dividends only.”

(b) CONFORMING AMENDMENTS.—

(1) (A) Section 857(b) (2) (relating to method of taxation of real estate investment trust taxable income) is amended by deleting subparagraph (A) and redesignating subparagraphs (B), (C), and (D) as subparagraphs (A), (B), and (C), respectively.

(B) Subsection (e) (2) of section 46 (relating to investment credit) is amended—

(i) by striking out “857(b) (2) (C)” in subparagraph (B) and inserting in lieu thereof “857(b) (2) (B)”, and

(ii) by inserting “determined without regard to any deduction for capital gains dividends (as defined in section 857(b) (3) (C)) and by excluding any net capital gain” immediately before the period at the end of the last sentence thereof.

(C) Section 443(e)(5) (relating to cross references) is amended by striking out "857(b)(2)(D)" and inserting in lieu thereof "857(b)(2)(C)".

(2) Subparagraph (B) of section 857(b)(2) (relating to real estate investment trust taxable income), as redesignated by paragraph (1) of this subsection, is amended by striking out "shall be computed without regard to capital gains dividends and".

(3) Section 857(b)(3)(C) (relating to definition of capital gain dividend) is amended by inserting after the second sentence thereof the following: "For purposes of this subparagraph, the net capital gain shall be deemed not to exceed the real estate investment trust taxable income (determined without regard to the deduction for dividends paid (as defined in section 561) for the taxable year)."

SEC. 1608. EFFECTIVE DATE FOR TITLE.

(a) **DEFICIENCY DIVIDEND PROCEDURES.**—The amendments made by section 1601 shall apply with respect to determinations (as defined in section 859(c) of the Internal Revenue Code of 1954) occurring after the date of the enactment of this Act. If the amendments made by section 1601 apply to a taxable year ending on or before the date of enactment of this Act:

(1) the reference to section 857(b)(3)(A)(ii) in sections 857(b)(3)(C) and 859(b)(1)(B) of such Code, as amended, shall be considered to be a reference to section 857(b)(3)(A) of such Code, as in effect immediately before the enactment of this Act, and

(2) the reference to section 857(b)(2)(B) in section 859(a) of such Code, as amended, shall be considered to be a reference to section 857(b)(2)(C) of such Code, as in effect immediately before the enactment of this Act.

(b) **TRUST NOT DISQUALIFIED IN CERTAIN CASES WHERE INCOME TESTS NOT MET.**—The amendment made by section 1602 shall apply to taxable years of real estate investment trusts beginning after the date of the enactment of this Act. In addition, the amendments made by section 1602 shall apply to a taxable year of a real estate investment trust beginning before the date of the enactment of this Act if, as the result of a determination (as defined in section 859(c) of the Internal Revenue Code of 1954) with respect to such trust occurring after the date of the enactment of this Act, such trust for such taxable years does not meet the requirements of section 856(c)(2) or section 856(c)(3), or of both such sections, of such Code as in effect for such taxable year. In any case, the amendment made by section 1602(a) requiring a schedule to be attached to the income tax return of certain real estate investment trusts shall apply only to taxable years of such trusts beginning after the date of the enactment of this Act. If the amendments made by section 1602 apply to a taxable year ending on or before the date of enactment of this Act, the reference to paragraph (2)(B) in section 857(b)(5) of such Code, as amended, shall be considered to be a reference to paragraph (2)(C) of section 857(b) of such Code, as in effect immediately before the enactment of this Act.

(c) **ALTERNATIVE TAX AND NET OPERATING LOSS.**—The amendments made by sections 1606 and 1607 shall apply to taxable years ending after the date of the enactment of this Act, except that in the case of a taxpayer which has a net operating loss (as defined in section 172(c) of the Internal Revenue Code of 1954) for any taxable year ending after the date of enactment of this Act for which the provisions of

part II of subchapter M of chapter 1 of subtitle A of such Code apply to such taxpayer, such loss shall not be a net operating loss carryback under section 172 of such Code to any taxable year ending on or before the date of enactment of this Act.

(d) OTHER AMENDMENTS.—

(1) Except as provided in paragraphs (2) and (3), the amendments made by sections 1603, 1604, and 1605 shall apply to taxable years of real estate investment trusts beginning after the date of the enactment of this Act.

(2) If, as a result of a determination (as defined in section 859(c) of the Internal Revenue Code of 1954), occurring after the date of enactment of this Act, with respect to the real estate investment trust, such trust does not meet the requirement of section 856(a)(4) of the Internal Revenue Code of 1954 (as in effect before the amendment of such section by this Act) for any taxable year beginning on or before the date of the enactment of this Act, such trust may elect, within 60 days after such determination in the manner provided in regulations prescribed by the Secretary of the Treasury or his delegate, to have the provisions of section 1603 (other than paragraphs (1), (2), (3), and (4) of section 1603(c)) apply with respect to such taxable year. Where the provisions of section 1603 apply to a real estate investment trust with respect to any taxable year beginning on or before the date of the enactment of this Act—

(A) credit or refund of any overpayment of tax which results from the application of section 1603 to such taxable year shall be made as if on the date of the determination (as defined in section 859(c) of the Internal Revenue Code of 1954) 2 years remained before the expiration of the period of limitation prescribed by section 6511 of such Code on the filing of claim for refund for the taxable year to which the overpayment relates,

(B) the running of the statute of limitations provided in section 6501 of such Code on the making of assessments, and the bringing of distraint or a proceeding in court for collection, in respect of any deficiency (as defined in section 6211 of such Code) established by such a determination, and all interest, additions to tax, additional amounts, or assessable penalties in respect thereof, shall be suspended for a period of 2 years after the date of such determination, and

(C) the collection of any deficiency (as defined in section 6211 of such Code) established by such determination and all interest, additions to tax, additional amounts, and assessable penalties in respect thereof shall, except in cases of jeopardy, be stayed until the expiration of 60 days after the date of such determination.

No distraint or proceeding in court shall be begun for the collection of an amount the collection of which is stayed under subparagraph (C) during the period for which the collection of such amount is stayed.

(3) Section 856(g)(3) of the Internal Revenue Code of 1954, as added by section 1604 of this Act, shall not apply with respect to a termination of an election, filed by a taxpayer under section 856(c)(1) of such Code on or before the date of the enactment of this Act, unless the provisions of part II of subchapter M of chapter 1 of subtitle A of such Code apply to such taxpayer for a taxable year ending after the date of the enactment of this Act for which such election is in effect.

TITLE XVII—RAILROAD AND AIRLINE PROVISIONS

SEC. 1701. CERTAIN PROVISIONS RELATING TO RAILROADS.

(a) **TREATMENT OF CERTAIN RAILROAD TIES.**—Section 263 (relating to capital expenditures) is amended by adding at the end thereof the following new subsection:

“(g) **RAILROAD TIES.**—In the case of a domestic common carrier by rail (including a railroad switching or terminal company) which uses the retirement-replacement method of accounting for depreciation of its railroad track, expenditures for acquiring and installing replacement ties of any material (and fastenings related to such ties) shall be accorded the same tax accounting treatment as expenditures for replacement ties of wood (and fastenings related to such ties).”

(b) **INCREASE IN 50-PERCENT LIMITATION.**—Subsection (a) of section 46 (relating to determination of amount of investment credit) is amended by adding at the end thereof the following new paragraph:

“(8) **ALTERNATIVE LIMITATION IN THE CASE OF CERTAIN RAILROADS.**—

“(A) **IN GENERAL.**—If, for a taxable year ending after calendar year 1976, and before calendar year 1983, the amount of the qualified investment of the taxpayer which is attributable to railroad property is 25 percent or more of his aggregate qualified investment, then subparagraph (C) of paragraph (3) of this subsection shall be applied by substituting for 50 percent his applicable percentage for such year.

“(B) **APPLICABLE PERCENTAGE.**—The applicable percentage of any taxpayer for any taxable year under this paragraph is—

“(i) 50 percent, plus

“(ii) that portion of the tentative percentage for the taxable year which the taxpayer’s amount of qualified investment which is railroad property bears to his aggregate qualified investment.

If the proportion referred to in clause (ii) is 75 percent or more, the applicable percentage of the taxpayer for the year shall be 50 percent plus the tentative percentage for such year.

“(C) **TENTATIVE PERCENTAGE.**—For purposes of subparagraph (B), the tentative percentage shall be determined under the following table:

“If the taxable year ends in:	The tentative percentage is:
1977 or 1978.....	50
1979.....	40
1980.....	30
1981.....	20
1982.....	10

“(D) **RAILROAD PROPERTY DEFINED.**—For purposes of this paragraph, the term ‘railroad property’ means section 38 property used by the taxpayer directly in connection with the trade or business carried on by the taxpayer of operating a railroad (including a railroad switching or terminal company).”

SEC. 1702. AMORTIZATION OVER 50-YEAR PERIOD OF RAILROAD GRADING AND TUNNEL BORES PLACED IN SERVICE BEFORE 1969.

(a) **IN GENERAL.**—Section 185 (relating to amortization of railroad grading and tunnel bores) is amended by redesignating subsections (d), (e), (f), (g), and (h) as subsections (f), (g), (h), (i), and (j), respectively, and by inserting after subsection (c) the following new subsections:

“(d) **ELECTION WITH RESPECT TO PRE-1969 PROPERTY.**—A taxpayer may, for any taxable year beginning after December 31, 1974, elect for purposes of this section to treat the term ‘qualified railroad grading and tunnel bores’ as including pre-1969 railroad grading and tunnel bores. An election under this subsection shall be made by filing with the Secretary, in such manner, in such form, and within such time, as the Secretary may by regulations prescribe, a statement of such election. The election under this subsection shall remain in effect for all taxable years, after the first year for which it is effective, for which an election under subsection (c) is effective. The election under this subsection shall apply to all pre-1969 railroad grading and tunnel bores of the taxpayer, unless, on application by the taxpayer, the Secretary permits him, subject to such conditions as the Secretary deems necessary, to revoke such election.

“(e) **ADJUSTED BASIS FOR PRE-1969 RAILROAD GRADING AND TUNNEL BORES.**—

“(1) **IN GENERAL.**—The adjusted basis of any pre-1969 railroad grading and tunnel bore shall be determined under this subsection.

“(2) **PROPERTY ACQUIRED OR CONSTRUCTED AFTER FEBRUARY 28, 1913.**—

“(A) In the case of pre-1969 railroad grading and tunnel bores—

“(i) acquired by the taxpayer after February 28, 1913,

or

“(ii) the construction of which was completed by the taxpayer after February 28, 1913,

the adjusted basis of such property shall be equal to the adjusted basis (for determining gain) of such property in the hands of the taxpayer.

“(B) In the case of property described in subparagraph

(A) (i)—

“(i) which was in existence on February 28, 1913,

“(ii) for which the taxpayer has a substituted basis,

and

“(iii) such substituted basis for which would, but for the provisions of this section, be determined under section 1053,

then the adjusted basis of such property shall be determined as if such property were property described in paragraph

(3) (A).

“(3) **PROPERTY ACQUIRED OR CONSTRUCTED BEFORE MARCH 1, 1913.**—

“(A) In the case of pre-1969 railroad grading and tunnel bores—

“(i) acquired by the taxpayer before March 1, 1913, or

“(ii) the construction of which was completed by the taxpayer before March 1, 1913,

the adjusted basis of such property shall be determined under the provisions of subparagraph (B), (C), or (D) of this paragraph.

“(B) In the case of any property valued under an original valuation made by the Interstate Commerce Commission pursuant to section 19a of part I of the Interstate Commerce Act (49 U.S.C. 19a), the adjusted basis of such property shall be equal to the amount ascertained by the Interstate Commerce Commission as of the date of such valuation to be such property's cost of reproduction new (as the term 'cost of reproduction new' is used in such section 19a).

“(C) In the case of property which was not valued by the Interstate Commerce Commission in the manner described in subparagraph (B), but which was valued under an original valuation made by a comparable State regulatory body, the adjusted basis of such property shall be equal to the amount ascertained by such State regulatory body as of the date of its original valuation to be such property's value.

“(D) If, in the case of any property to which this paragraph applies—

“(i) neither subparagraph (B) nor (C) applies, or

“(ii) notwithstanding subparagraphs (B) and (C), either the taxpayer or the Secretary can establish the adjusted basis (for purposes of determining gain) of such property in the hands of the taxpayer,

then the adjusted basis of such property shall be equal to its adjusted basis (for purposes of determining gain) in the hands of the taxpayer.”

(b) **DEFINITION OF PRE-1969 RAILROAD GRADING AND TUNNEL BORES.**—Subsection (f) of section 185 (as redesignated by subsection (a) of this section) is amended by adding at the end thereof the following new paragraph:

“(3) **PRE-1969 RAILROAD GRADING AND TUNNEL BORES.**—The term 'pre-1969 railroad grading and tunnel bores' means railroad grading and tunnel bores the original use of which commences before January 1, 1969.”

SEC. 1703. CERTAIN PROVISIONS RELATING TO AIRLINES.

Subsection (a) of section 46 (relating to determination of amount of investment credit) is amended by adding at the end thereof the following new paragraph:

“(9) **ALTERNATIVE LIMITATION IN THE CASE OF CERTAIN AIRLINES.**—

“(A) **IN GENERAL.**—If, for a taxable year ending after calendar year 1976 and before calendar year 1983, the amount of the qualified investment of the taxpayer which is attributable to airline property is 25 percent or more of his aggregate qualified investment, then subparagraph (C) of paragraph (3) of this subsection shall be applied by substituting for 50 percent his applicable percentage for such year.

“(B) **APPLICABLE PERCENTAGE.**—The applicable percentage of any taxpayer for any taxable year under this paragraph is—

“(i) 50 percent, plus

“(ii) that portion of the tentative percentage for the taxable year which the taxpayer's amount of qualified

investment which is airline property bears to his aggregate qualified investment.

If the proportion referred to in clause (ii) is 75 percent or more, the applicable percentage of the taxpayer for the year shall be 50 percent plus the tentative percentage for such year.

“(C) TENTATIVE PERCENTAGE.—For purposes of subparagraph (B), the tentative percentage shall be determined under the following table:

“If the taxable year ends in:	The tentative percentage is:
1977 or 1978.....	50
1979	40
1980	30
1981	20
1982	10

“(D) AIRLINE PROPERTY DEFINED.—For purposes of this paragraph, the term ‘airline property’ means section 38 property used by the taxpayer directly in connection with the trade or business carried on by the taxpayer of the furnishing or sale of transportation as a common carrier by air subject to the jurisdiction of the Civil Aeronautics Board or the Federal Aviation Administration.”

TITLE XVIII—INTERNATIONAL TRADE AMENDMENTS

SEC. 1801. UNITED STATES INTERNATIONAL TRADE COMMISSION.

(a) TERMS OF OFFICE.—The last sentence of section 330(b) of the Tariff Act of 1930 (19 U.S.C. 1330(b)) is amended to read as follows: “The term of office of each commissioner appointed after such date shall expire 9 years from the date of the expiration of the term for which his predecessor was appointed, except that—

- “(1) any commissioner appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed shall be appointed for the remainder of such term, and
- “(2) any commissioner may continue to serve as a commissioner after an expiration of his term of office until his successor is appointed and qualified.”

(b) VOTING PROCEDURES.—Section 330(d) of the Tariff Act of 1930 is amended by—

- (1) redesignating paragraph (2) as paragraph (5); and
- (2) striking out paragraph (1) and inserting in lieu thereof the following new paragraphs:

“(1) In a proceeding in which the Commission is required to determine—

“(A) under section 201 of the Trade Act of 1974, whether increased imports of an article are a substantial cause of serious injury, or the threat thereof, as described in subsection (b) (1) of that section (hereafter in this subsection referred to as ‘serious injury’), or

“(B) under section 406 of such Act, whether market disruption exists,

and the commissioners voting are equally divided with respect to such determination, then the determination agreed upon by

either group of commissioners may be considered by the President as the determination of the Commission.

“(2) If under section 201 or 406 of the Trade Act of 1974 there is an affirmative determination of the Commission, or a determination of the Commission which the President may consider an affirmative determination under paragraph (1), that serious injury or market disruption exists, respectively, and a majority of the commissioners voting are unable to agree on a finding or recommendation described in section 201(d)(1) of such Act or the finding described in section 406(a)(3) of such Act, as the case may be (hereafter in this subsection referred to as a ‘remedy finding’), then—

“(A) if a plurality of not less than three commissioners so voting agree on a remedy finding, such remedy finding shall, for purposes of sections 202 and 203 of such Act, be treated as the remedy finding of the Commission, or

“(B) if two groups, both of which include not less than 3 commissioners, each agree upon a remedy finding and the President reports under section 203(b) of such Act that—

“(i) he is taking the action agreed upon by one such group, then the remedy finding agreed upon by the other group shall, for purposes of sections 202 and 203 of such Act, be treated as the remedy finding of the Commission, or

“(ii) he is taking action which differs from the action agreed upon by both such groups, or that he will not take any action, then the remedy finding agreed upon by either such group may be considered by the Congress as the remedy finding of the Commission and shall, for purposes of sections 202 and 203 of such Act, be treated as the remedy finding of the Commission.

“(3) In any proceeding to which paragraph (1) applies in which the commissioners voting are equally divided on a determination that serious injury exists, or that market disruption exists, the Commission shall report to the President the determination of each group of commissioners. In any proceeding to which paragraph (2) applies, the Commission shall report to the President the remedy finding of each group of commissioners voting.

“(4) In a case to which paragraph (2)(B)(ii) applies, for purposes of section 203(c)(1) of the Trade Act of 1974, notwithstanding section 152(a)(1)(A) of such Act, the second blank space in the concurrent resolution described in such section 152 shall be filled with the appropriate date and the following: ‘The action which shall take effect under section 203(c)(1) of the Trade Act of 1974 is the finding or recommendation agreed upon by Commissioners _____, _____, and _____.’ The three blank spaces shall be filled with the names of the appropriate Commissioners.”

(c) EFFECTIVE DATE.—The amendments made by subsection (b) shall apply to determinations, findings, and recommendations made under sections 201 and 406 of the Trade Act of 1974 after the date of the enactment of this Act.

SEC. 1802. TRADE ACT OF 1974 AMENDMENTS.

Section 502(b) of the Trade Act of 1974 (Public Law 93-618; 88 Stat. 1978) is amended—

(1) by striking out “and” at the end of paragraph (5),

(2) by striking out the period at the end of paragraph (6) and inserting in lieu thereof “; and”,

(3) by inserting immediately after paragraph (6) the following new paragraph:

“(7) if such country aids or abets, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism.”; and

(4) by striking out “and (6)” in the unnumbered paragraph at the end of such section and inserting in lieu thereof “(6), and (7)”.

TITLE XIX—REPEAL AND REVISION OF OBSOLETE, RARELY USED, ETC., PROVI- SIONS OF INTERNAL REVENUE CODE OF 1954

SUBTITLE A—AMENDMENTS OF INTERNAL REVENUE CODE GENERALLY

SEC. 1901. AMENDMENTS OF SUBTITLE A; INCOME TAXES.

(a) IN GENERAL.—

(1) AMENDMENT OF SECTION 2.—Subsection (c) of section 2 (relating to certain married individuals living apart) is amended to read as follows:

“(c) CERTAIN MARRIED INDIVIDUALS LIVING APART.—For purposes of this part, an individual shall be treated as not married at the close of the taxable year if such individual is so treated under the provisions of section 143 (b).”

(2) REPEAL OF SECTION 35.—Section 35 (relating to partially tax-exempt interest received by individuals) is repealed.

(3) AMENDMENT OF SECTION 39.—Section 39 (relating to certain uses of gasoline, special fuels, and lubricating oil) is amended by striking out subsections (b) and (c) and inserting after subsection (a) the following new subsection:

“(b) EXCEPTION.—Credit shall not be allowed under subsection (a) for any amount payable under section 6421, 6424, or 6427, if a claim for such amount is timely filed and, under section 6421 (i), 6424 (f), or 6427 (f), is payable under such section.”

(4) AMENDMENTS OF SECTION 46.—

(A) The second sentence of section 46 (a) (4), as redesignated by this Act, is amended by striking out “section 408 (e)” and inserting in lieu thereof “section 408 (f)”.

(B) Clause (iii) of section 46 (c) (3) (B) (relating to public utility property) is amended by striking out “47 U.S.C., sec. 222 (a) (5)” and inserting in lieu thereof “47 U.S.C. 222 (a) (5)”.

(5) AMENDMENTS OF SECTION 48.—

(A) Section 48 (a) (2) (B) (vi) (relating to section 38 property used outside the United States) is amended by striking out “; 43 U.S.C., sec. 1331)” and inserting in lieu thereof “(43 U.S.C. 1331)”.

(B) Section 48 (a) (2) (B) (viii) is amended by striking out “47 U.S.C., sec. 702” and inserting in lieu thereof “47 U.S.C. 702”.

(6) AMENDMENT OF SECTION 50A.—The second sentence of section 50A(a)(3) (relating to liability for tax) is amended by striking out “section 408(e)” and inserting in lieu thereof “section 408(f)”.

(7) REPEAL OF SECTION 51.—Subchapter A of chapter 1 is amended by striking out part V (relating to tax surcharge).

(8) AMENDMENTS OF SECTION 62.—Section 62 (relating to definition of adjusted gross income) is amended by redesignating paragraph (11), as added by the Act of October 26, 1974 (Public Law 93-483), as paragraph (12).

(9) ADDITIONAL AMENDMENT OF SECTION 62.—Section 62(12), as redesignated by subparagraph (A) of this paragraph, is amended by striking out “trade or business to the extent” and inserting in lieu thereof “trade or business, to the extent”.

(10) DEFINITION OF ORDINARY INCOME.—Part I of subchapter B of chapter 1 (relating to definitions of gross income, adjusted gross income, and taxable income) is amended by adding at the end thereof the following new section:

“SEC. 64. ORDINARY INCOME DEFINED.

“For purposes of this subtitle, the term ‘ordinary income’ includes any gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b). Any gain from the sale or exchange of property which is treated or considered, under other provisions of this subtitle, as ‘ordinary income’ shall be treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b).”

(11) DEFINITION OF ORDINARY LOSS.—Part I of subchapter B of chapter 1 (relating to definitions of gross income, adjusted gross income, and taxable income) is amended by adding at the end thereof the following new section:

“SEC. 65. ORDINARY LOSS DEFINED.

“For purposes of this subtitle, the term ‘ordinary loss’ includes any loss from the sale or exchange of property which is not a capital asset. Any loss from the sale or exchange of property which is treated or considered, under other provisions of this subtitle, as ‘ordinary loss’ shall be treated as loss from the sale or exchange of property which is not a capital asset.”

(12) AMENDMENT OF SECTION 72.—Section 72(d)(1) (relating to employees’ annuities) is amended by striking out “(whether or not before January 1, 1954)” and by striking out “(under this paragraph and prior income tax laws)”.

(13) ADDITIONAL AMENDMENT OF SECTION 72.—Section 72(m)(4)(A) (relating to assignments or pledges) is amended by striking out “an individual retirement amount” and inserting in lieu thereof “an individual retirement account”.

(14) REPEAL OF SECTION 76.—Section 76 (relating to mortgages made or obligations issued by joint stock land banks) is repealed.

(15) AMENDMENT OF SECTION 83.—Section 83(b)(2) (relating to election to include the value of restricted property in gross income) is amended by striking out “(or, if later, 30 days after the date of the enactment of the Tax Reform Act of 1969)”.

(16) AMENDMENT OF SECTION 101.—Section 101 is amended by striking out subsection (f) (relating to effective date of section).

(17) AMENDMENTS OF SECTION 103.—

(A) Section 103(a) (relating to tax-exempt interest), as amended by this Act, is amended by inserting “and” at the

end of paragraph (1), by striking out paragraphs (2) and (3), and by redesignating paragraph (4) as paragraph (2).

(B) Section 103 is amended by striking out subsection (b) (relating to certain exceptions) and by redesignating subsections (c), (d), (e), (f), and (g) (as added by this Act) as subsections (b), (c), (d), (e), and (f) respectively.

(C) Section 103(b)(1) (relating to industrial development bonds), as redesignated by subparagraph (B) of this paragraph, is amended by inserting "or (2)" after "(a)(1)".

(D) Section 103(c)(2)(A) (relating to definition of arbitrage bonds), as redesignated by subparagraph (B) of this paragraph, is amended by inserting "or (2)" after "(a)(1)".

(E) Section 103(e) (relating to certain cross references) as redesignated by subparagraph (B) of this paragraph, is amended to read as follows:

"(e) CROSS REFERENCES.—

"For provisions relating to the taxable status of—

"(1) Puerto Rican bonds, see section 3 of the Act of March 2, 1917, as amended (48 U.S.C. 745).

"(2) Virgin Islands insular and municipal bonds, see section 1 of the Act of October 27, 1919 (48 U.S.C. 1403).

"(3) Certain obligations issued under title I of the Housing Act of 1949, see section 102(g) of title I of such Act (42 U.S.C. 1452(g))."

(18) AMENDMENTS OF SECTION 104.—

(A) Section 104(a)(4) (relating to exclusion of compensation for injuries or sickness) is amended by striking out "; 60 Stat. 1021".

(B) Section 104(c)(2) as redesignated by section 505 of this Act, is amended to read as follows:

"(2) For exclusion of part of disability retirement pay from the application of subsection (a)(4) of this section, see section 1403 of title 10, United States Code (relating to career compensation laws)."

(19) AMENDMENT OF SECTION 115.—Section 115 (relating to income of States, municipalities, etc.) is amended to read as follows:

"SEC. 115. INCOME OF STATES, MUNICIPALITIES, ETC.

"Gross income does not include—

"(1) income derived from any public utility or the exercise of any essential governmental function and accruing to a State or any political subdivision thereof, or the District of Columbia; or

"(2) income accruing to the government of any possession of the United States, or any political subdivision thereof."

(20) AMENDMENT OF SECTION 116.—Subsection (a) of section 116 (relating to partial exclusion of dividends received by individuals) is amended by striking out "Effective with respect to any taxable year ending after July 31, 1954, gross income" and inserting in lieu thereof "Gross income".

(21) AMENDMENT OF SECTION 124.—Section 124 (relating to cross references to other Acts) is amended to read as follows:

"SEC. 124. CROSS REFERENCES TO OTHER ACTS.

"(a) For exemption of—

"(1) Adjustments of indebtedness under wage earners' plans, see section 679 of the Bankruptcy Act (11 U.S.C. 1079).

"(2) Allowances and expenditures to meet losses sustained by persons serving the United States abroad, due to appreciation of foreign currencies, see section 5943 of title 5, United States Code.

“(3) Amounts credited to the Maritime Administration under section 9(b)(6) of the Merchant Ship Sales Act of 1946, see section 9(c)(1) of that Act (50 U.S.C. App. 1742).

“(4) Benefits under laws administered by the Veterans’ Administration, see section 3101 of title 38, United States Code.

“(5) Earnings of ship contractors deposited in special reserve funds, see section 607(d) of the Merchant Marine Act, 1936 (46 U.S.C. 1177).

“(6) Income derived from Federal Reserve banks, including capital stock and surplus, see section 7 of the Federal Reserve Act (12 U.S.C. 531).

“(7) Railroad retirement annuities and pensions, see section 12 of the Railroad Retirement Act of 1935 (45 U.S.C. 2231).

“(8) Railroad unemployment benefits, see section 2(e) of the Railroad Unemployment Insurance Act (45 U.S.C. 352).

“(9) Special pensions of persons on Army and Navy medal of honor roll, see 38 U.S.C. 562(a)–(c).

“(b) For extension of military income-tax-exemption benefits to commissioned officers of Public Health Service in certain circumstances, see section 212 of the Public Health Service Act (42 U.S.C. 213).”

(22) AMENDMENT OF SECTION 143.—Section 143 (relating to determination of marital status) is amended by striking out “this part” each place it appears and inserting in lieu thereof “this part and part V”.

(23) AMENDMENT OF SECTION 151.—Section 151(e)(4) (defining student and educational institution) is amended to read as follows:

“(4) STUDENT DEFINED.—For purposes of paragraph (1)(B)(ii), the term ‘student’ means an individual who during each of 5 calendar months during the calendar year in which the taxable year of the taxpayer begins—

“(A) is a full-time student at an educational organization described in section 170(b)(1)(A)(ii); or

“(B) is pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational organization described in section 170(b)(1)(A)(ii) or of a State or political subdivision of a State.”

(24) AMENDMENTS OF SECTION 152.—

(A) Section 152(a) (defining dependent) is amended—

(i) by inserting “or” at the end of paragraph (8),

(ii) by striking out “, or” at the end of paragraph (9) and inserting in lieu thereof a period, and

(iii) by striking out paragraph (10).

(B) Section 152(b)(3) (relating to rules concerning the definition of dependent) is amended to read as follows:

“(3) The term ‘dependent’ does not include any individual who is not a citizen or national of the United States unless such individual is a resident of the United States or of a country contiguous to the United States. The preceding sentence shall not exclude from the definition of ‘dependent’ any child of the taxpayer legally adopted by him, if, for the taxable year of the taxpayer, the child has as his principal place of abode the home of the taxpayer and is a member of the taxpayer’s household, and if the taxpayer is a citizen or national of the United States.”

(25) AMENDMENTS OF SECTION 164.—Section 164(d)(2) (relating to apportionment of taxes on real property between the seller and purchaser) is amended by striking out subparagraphs (B) and (C), and by redesignating subparagraph (D) as subparagraph (B).

(26) AMENDMENTS OF SECTION 165.—Section 165 (relating to deduction of losses) is amended by striking out subsection (i)

(relating to property confiscated by Cuba), and by redesignating subsection (j) as subsection (i).

(27) AMENDMENTS OF SECTION 167.—

(A) Section 167(d) (relating to agreement as to useful life for depreciation) is amended by striking out “after the date of enactment of this title” and inserting in lieu thereof “after August 16, 1954”.

(B) Section 167(f)(2) (defining personal property) is amended by striking out “the date of the enactment of the Revenue Act of 1962” and inserting in lieu thereof “October 16, 1962”.

(C) Section 167(1)(4)(A) (relating to election as to increased-capacity property) is amended by striking out “within 180 days after the date of the enactment of this subparagraph” and inserting in lieu thereof “before June 29, 1970.”

(28) AMENDMENTS OF SECTION 170.—

(A) (i) Section 170 (relating to charitable deductions) is amended by striking out subsections (f)(6) and (g) (relating to unlimited charitable deductions allowed for taxable years beginning before January 1, 1975), and by redesignating subsections (h), (i), and (j) as subsections (g), (h), and (i), respectively.

(ii) Section 170(b)(1) (relating to percentage limitations on deductions for individuals) is amended by striking out subparagraph (C) (relating to unlimited deductions), and by redesignating subparagraphs (D), (E), and (F) as subparagraphs (C), (D), and (E), respectively.

(iii) Section 170(b)(1)(A)(vii) is amended by striking out “subparagraph (E)” and inserting in lieu thereof “subparagraph (D)”.

(iv) Section 170(b)(1)(B)(ii) is amended by striking out “subparagraph (D)” and inserting in lieu thereof “subparagraph (C)”.

(v) Section 170(c) (relating to definition of charitable contribution) is amended by striking out in the last sentence “subsection (h)” and inserting in lieu thereof “subsection (g)”.

(vi) Section 170(e)(1)(B)(ii) (relating to certain contributions of ordinary income and capital gain property) is amended by striking out “subsection (b)(1)(E)” and inserting in lieu thereof “subsection (b)(1)(D)”.

(B) Section 170(d)(1)(A) (relating to carryover of excess charitable contributions) is amended by striking out “(30 percent, in the case of a contribution year beginning before January 1, 1970)”.

(C) Section 170(h) (relating to disallowance of deductions in certain cases), as redesignated by subparagraph (A)(i) of this paragraph, is amended by striking out “64 Stat. 996;”.

(D) Section 170(i) (relating to cross references), as redesignated by subparagraph (A)(i) of this paragraph, is amended to read as follows:

“(i) OTHER CROSS REFERENCES.—

“(1) For charitable contributions of estates and trusts, see section 642(c).”

"(2) For nondeductibility of contributions by common trust funds, see section 534.

"(3) For charitable contributions of partners, see section 702.

"(4) For charitable contributions of nonresident aliens, see section 873.

"(5) For treatment of gifts for benefit of or use in connection with the Naval Academy as gifts to or for use of the United States, see section 6973 of title 10, United States Code.

"(6) For treatment of gifts accepted by the Secretary of State under the Foreign Service Act of 1946 as gifts to or for the use of the United States, see section 1021(e) of that Act (22 U.S.C. 809(e)).

"(7) For treatment of gifts of money accepted by the Attorney General for credit to the 'Commissary Funds, Federal Prisons' as gifts to or for the use of the United States, see section 2 of the Act of May 15, 1952, as amended by the Act of July 9, 1952 (31 U.S.C. 725s-4)."

(29) AMENDMENTS OF SECTION 172.—

(A) (i) Section 172(b) (1) (relating to years to which loss may be carried) is amended by striking out subparagraph (E).

(ii) Section 172(b) (3) is amended by striking out subparagraphs (E) and (F).

(B) Section 172(c) (relating to definition of net operating loss) is amended by striking out "(for any taxable year ending after December 31, 1953)".

(C) (i) Section 172 (relating to net operating loss deduction) is amended by striking out subsections (f), (g), and (i), and by redesignating subsections (h), (j), (k), and (l) as subsections (f), (g), (h), and (i), respectively.

(ii) Section 172(b) (1) (C) (relating to regulated transportation corporations) is amended by striking out "subsection (j) (1)" and "subsection (j)", and inserting in lieu thereof "subsection (g) (1)" and "subsection (g)", respectively.

(iii) Paragraphs (1) (D) and (3) (C) (i) of section 172 (b) (relating to net operating loss carryovers and carrybacks) are each amended by striking out "subsection (k)" and inserting in lieu thereof "subsection (h)".

(iv) Section 172(b) (2) (relating to amount of carrybacks and carryovers) is amended by striking out "subsections (i) and (j)" and inserting in lieu thereof "subsection (g)".

(D) Section 172(e) (relating to law applicable to computations) is amended by striking out the last sentence.

(E) Section 172(g) (2) (relating to certain regulated transportation corporations), as redesignated by subparagraph (C) of this paragraph, is amended by striking out paragraph (4).

(30) AMENDMENTS OF SECTIONS 174 AND 175.—Section 174(a) (2)

(A) (i) (relating to research and development expenditures) and section 175(d) (1) (A) (relating to soil and water conservation expenditures) are each amended by striking out "the date on which this title is enacted," and inserting in lieu thereof "August 16, 1954."

(31) REPEAL OF SECTION 187.—Section 187 (relating to rapid amortization for certain coal mine safety equipment) is repealed.

(32) AMENDMENT OF SECTION 219.—Section 219(b) (2) (A) (iv) (disqualifying governmental plan participants from contributing to individual retirement accounts, etc.) is amended by striking out "division" and inserting in lieu thereof "subdivision".

(33) REPEAL OF SECTION 242.—Section 242 (relating to partially tax-exempt interest received by corporations) is repealed.

(34) AMENDMENTS OF SECTION 243.—

(A) Section 243(a)(2) (relating to the dividends received deduction) is amended by inserting after "Small Business Investment Act of 1958" the following: "(15 U.S.C. 661 and following)".

(B) Section 243(b)(2)(A) (relating to dividends received by a member of an affiliated group) is amended by striking out "(except that in the case of a taxable year of a member beginning in 1963 and ending in 1964, if the election is effective for the taxable year of the common parent corporation which includes the last day of such taxable year of such member, such election shall be effective for such taxable year of such member, if such member consents to such election with respect to such taxable year)".

(35) AMENDMENT OF SECTION 247.—Section 247(b)(2) (relating to preferred stock) is amended to read as follows:

"(2) PREFERRED STOCK.—

"(A) IN GENERAL.—The term 'preferred stock' means stock issued before October 1, 1942, which during the whole of the taxable year (or the part of the taxable year after its issue) was stock the dividends in respect of which were cumulative, limited to the same amount, and payable in preference to the payment of dividends on other stock.

"(B) CERTAIN STOCK ISSUED ON OR AFTER OCTOBER 1, 1942.—Stock issued on or after October 1, 1942, shall be deemed for purposes of this paragraph to have been issued before October 1, 1942, if it was issued to refund or replace bonds or debentures issued before October 1, 1942, or to refund or replace other preferred stock (including stock which is preferred stock by reason of this subparagraph or subparagraph (D)), but only to the extent that the par or stated value of the new stock does not exceed the par, stated, or face value of the bonds or debentures issued before October 1, 1942, or the other preferred stock, which such new stock is issued to refund or replace.

"(C) DETERMINATION UNDER REGULATIONS.—The determination of whether stock was issued to refund or replace bonds or debentures issued before October 1, 1942, or to refund or replace other preferred stock, shall be made under regulations prescribed by the Secretary.

"(D) ISSUANCE OF STOCK.—For purposes of subparagraph (B), issuance of stock includes issuance either by the same or another corporation in a transaction which is a reorganization (as defined in section 368(a)), a transaction to which section 371 (relating to insolvency reorganizations) applies, or a transaction subject to part VI of subchapter O (relating to exchanges in SEC obedience orders), or the respectively corresponding provisions of the Internal Revenue Code of 1939."

(36) AMENDMENT OF SECTION 248.—Section 248(c) (relating to organizational expenditures) is amended by striking out "the date of enactment of this title" and inserting in lieu thereof "August 16, 1954".

(37) AMENDMENT OF SECTION 265.—Section 265(2) (relating to tax-exempt interest) is amended by striking out "(other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer)".

(38) AMENDMENT OF SECTION 269.—Section 269 (relating to acquisitions made to evade or avoid income tax) is amended by striking out subsection (c) (relating to presumption in the case of disproportionate purchase price).

(39) AMENDMENT OF SECTION 275.—Section 275(a)(1)(C) (relating to nondeductible taxes) is amended by striking out “, and corresponding provisions of prior revenue laws”.

(40) AMENDMENTS OF SECTION 281.—

(A) Section 281(d)(1)(A) (relating to definition of terminal railroad corporation) is amended by inserting after “Interstate Commerce Act” the following: “(49 U.S.C. 1 and following)”.

(B) Section 281 (relating to terminal railroad corporations and their shareholders) is amended by striking out subsection (e) (relating to taxable years ending before October 23, 1962) and by redesignating subsection (f) as subsection (e).

(41) AMENDMENT OF SECTION 301.—Section 301 (relating to distributions of property) is amended by striking out subsection (e) (relating to certain distributions by personal service corporations).

(42) AMENDMENTS OF SECTION 311.—

(A) Section 311(d)(1) (relating to appreciated property used to redeem stock) is amended by striking out “then again shall be recognized” and inserting in lieu thereof “then a gain shall be recognized”.

(B)(i) Section 311(d)(2) (relating to exceptions and limitations) is amended by striking out subparagraph (C) (relating to certain distributions before December 1, 1974) and by redesignating subparagraphs (D), (E), (F), and (G) as subparagraphs (C), (D), (E), and (F), respectively.

(ii) The amendments made by clause (i) shall apply only with respect to distributions after November 30, 1974.

(C) Section 311(d)(2)(C), as redesignated by subparagraph (B) of this paragraph, is amended by striking out “26 Stat. 209;” and “38 Stat. 730;”.

(43) AMENDMENTS OF SECTION 312.—

(A) Section 312(d)(1) (relating to certain distributions of stock and securities) is amended by striking out “this Code” each place it appears and inserting in lieu thereof “this title”.

(B) Section 312 (relating to earnings and profits) is amended by striking out subsection (h) (relating to personal service corporations) and by redesignating subsections (i) and (j) as subsections (h) and (i), respectively.

(C) Subsection (i) of section 312 (relating to distribution of proceeds of certain loans), as redesignated by subparagraph (B) of this paragraph, is amended to read as follows:

“(i) DISTRIBUTION OF PROCEEDS OF LOAN INSURED BY THE UNITED STATES.—If a corporation distributes property with respect to its stock and if, at the time of distribution—

“(1) there is outstanding a loan to such corporation which was made, guaranteed, or insured by the United States (or by any agency or instrumentality thereof), and

“(2) the amount of such loan so outstanding exceeds the adjusted basis of the property constituting security for such loan, then the earnings and profits of the corporation shall be increased by

the amount of such excess, and (immediately after the distribution) shall be decreased by the amount of such excess. For purposes of paragraph (2), the adjusted basis of the property at the time of distribution shall be determined without regard to any adjustment under section 1016(a)(2) (relating to adjustment for depreciation, etc.). For purposes of this subsection, a commitment to make, guarantee, or insure a loan shall be treated as the making, guaranteeing, or insuring of a loan."

(D) Section 312(j)(3) (relating to foreign investment companies), as redesignated by subsection (b)(32)(B)(i), is amended to read as follows:

"(3) PARTIAL LIQUIDATIONS AND REDEMPTIONS.—If a foreign investment company (as defined in section 1246) distributes amounts in partial liquidation or in a redemption to which section 302(a) or 303 applies, the part of such distribution which is properly chargeable to earnings and profits shall be an amount which is not in excess of the ratable share of the earnings and profits of the company accumulated after February 28, 1913, attributable to the stock so redeemed."

(44) AMENDMENT OF SECTION 333.—Section 333(a)(1) (relating to election as to recognition of gain in certain liquidations) is amended by striking out "on or after June 22, 1954".

(45) AMENDMENT OF SECTION 334.—Section 334(b)(2)(A) (relating to liquidation of subsidiary) is amended to read as follows:

"(A) the distribution is pursuant to a plan of liquidation adopted not more than 2 years after the date of the transaction described in subparagraph (B) (or, in the case of a series of transactions, the date of the last such transaction); and"

(46) AMENDMENTS OF SECTION 337.—

(A) Section 337(a) (relating to nonrecognition of gain or loss on certain liquidations) is amended to read as follows:

"(a) GENERAL RULE.—If, within the 12-month period beginning on the date on which a corporation adopts a plan of complete liquidation, all of the assets of the corporation are distributed in complete liquidation, less assets retained to meet claims, then no gain or loss shall be recognized to such corporation from the sale or exchange by it of property within such 12-month period."

(B) The first sentence of section 337(d) (relating to certain minority stockholders) is amended by striking out "on or after January 1, 1958".

(47) REPEAL OF SECTION 342.—Section 342 (relating to the liquidation of certain foreign personal holding companies) is repealed.

(48) AMENDMENTS OF SECTION 351.—

(A) Section 351(a) (relating to transfer to corporation controlled by transferor) is amended by striking out "(including, in the case of transfers made on or before June 30, 1967, an investment company)".

(B) Section 351(d) (relating to application of June 30, 1967, date) is amended to read as follows:

"(d) EXCEPTION.—This section shall not apply to a transfer of property to an investment company."

(C) The amendments made by this paragraph shall take effect with respect to transfers of property occurring after the date of the enactment of this Act.

(49) REPEAL OF SECTION 363.—Section 363 (a cross reference to other sections) is repealed.

(50) AMENDMENTS OF SECTION 371.—Section 371(a)(1) (relating to certain reorganization exchanges by corporations) is amended—

(A) by striking out “49 Stat. 922;” and

(B) by striking out “(52 Stat. 883–905; 11 U.S.C., chapter 10) or the corresponding provisions of prior law” and inserting in lieu thereof “(11 U.S.C. 501 and following)”.

(51) AMENDMENT OF SECTION 372.—Section 372(a) (relating to basis in connection with bankruptcy proceedings) is amended by striking out “54 Stat. 709;”.

(52) REPEAL OF SECTION 373.—Section 373 (relating to nonrecognition of loss in certain railroad reorganizations) is repealed.

(53) AMENDMENT OF SECTION 374.—Section 374(a)(1) (relating to nonrecognition of gain or loss in certain railroad reorganizations) is amended by striking out “49 Stat. 922;”.

(54) AMENDMENT OF SECTION 381.—Section 381(c) (relating to items carried over in certain corporate acquisitions) is amended by striking out paragraph (20).

(55) REPEAL OF SECTIONS 391 THROUGH 395.—Subchapter C of chapter 1 (relating to corporate distributions and adjustments) is amended by striking out part VII (relating to effective dates of subchapter C).

(56) AMENDMENTS OF SECTION 401.—

(A) Paragraphs (12) and (13) of section 401(a) (relating to requirements for qualification) are each amended by striking out “the date of the enactment of the Employee Retirement Income Security Act of 1974” and inserting in lieu thereof “September 2, 1974”.

(B) Paragraph (15) of section 401(a) is amended by striking out “the date of the enactment of the Employee Retirement Income Security Act of 1974” and inserting in lieu thereof “September 2, 1974;”.

(C) Paragraph (19) of section 401(a) is amended by striking out “enactment of the Employee Retirement Income Security Act of 1974” and inserting in lieu thereof “September 2, 1974”.

(D) The last sentence of section 401(a) is amended to read as follows:

“Paragraphs (11), (12), (13), (14), (15), (19), and (20) shall apply only in the case of a plan to which section 411 (relating to minimum vesting standards) applies without regard to subsection (e) (2) of such section.”

(57) AMENDMENTS OF SECTION 402.—

(A) Section 402(a)(4) (relating to distributions made to non-resident alien individuals) is amended by striking out “basic salary” each place it appears therein and inserting in lieu thereof “basic pay”, and by amending the last sentence in such paragraph to read as follows:

“In the case of distributions under the civil service retirement laws, the term ‘basic pay’ shall have the meaning provided in section 8331(3) of title 5, United States Code.”

(B) Section 402 (relating to taxability of beneficiary of employees’ trusts) is amended by striking out subsection (d) (relating to certain trust agreements made before October 21, 1942).

(C) (i) So much of the third sentence of section 402(e) (4) (A) (relating to definition of lump sum distributions) as precedes "a distribution of an annuity contract" is amended to read as follows: "Except for purposes of subsection (a) (2) and section 403(a) (2),".

(ii) The amendment made by clause (i) shall apply with respect to distributions or payments made after December 31, 1973, in taxable years beginning after such date.

(58) AMENDMENT OF SECTION 403.—The last two sentences of section 403(a) (4) (relating to taxation of employee annuities) are amended to read as follows: "For purposes of this title, a transfer described in subparagraph (B) (i) shall be treated as a rollover contribution described in section 408(d) (3). Subparagraph (B) (ii) does not apply in the case of a transfer to an employees' trust, or annuity plan if any part of a payment described in subparagraph (A) is attributable to an annuity plan under which the employee was an employee within the meaning of section 401(c) (1) at the time contributions were made on his behalf under the plan."

(59) AMENDMENT OF SECTION 404.—Section 404 (relating to deduction for contributions to pension plans, etc.) is amended by striking out subsection (d) (relating to carryover of pre-1954 unused deductions).

(60) AMENDMENT OF SECTION 409.—Section 409(b) (3) (C) (relating to tax-free rollovers of individual retirement bonds) is amended by striking out "section 403(d) (3)." and inserting in lieu thereof "section 408(d) (3)."

(61) AMENDMENTS OF SECTION 410.—

(A) Subparagraphs (C) and (D) of section 410(a) (5) (relating to breaks in service) are each amended by striking out "purposes of subsection (a) (1)" and inserting in lieu thereof "purposes of paragraph (1)".

(B) Paragraph (1) (C) of section 410(c) (relating to application of minimum participation standards) is amended by striking out "the date of the enactment of the Employee Retirement Income Security Act of 1974" and inserting in lieu thereof "September 2, 1974".

(C) Paragraph (2) of section 410(c) is amended by striking out "the day before the date of the enactment of this section" and inserting in lieu thereof "September 1, 1974".

(62) AMENDMENTS OF SECTION 411.—

(A) Subsection (a) of section 411 (relating to minimum vesting standards) is amended by striking out "subsection (a) (8)" and inserting in lieu thereof "paragraph (8)".

(B) Subsection (a) (3) (D) (iii) of section 411 is amended—

(i) by striking out "the date of the enactment of the Employee Retirement Income Security Act of 1974" and "the date of the enactment of such Act" and inserting in lieu thereof in both such places "September 2, 1974", and

(ii) by striking out "the date of the enactment of the Act" and inserting in lieu thereof "September 2, 1974".

(C) The heading for subparagraph (C) of section 411

(a) (7) is amended to read as follows:

"(C) REPAYMENT OF SUBPARAGRAPH (B) DISTRIBUTIONS.—"

(D) Subsection (b) (1) (D) (i) and (e) (1) (C) of section 411 are each amended by striking out "the date of the

enactment of the Employee Retirement Income Security Act of 1974” and inserting in lieu thereof “September 2, 1974”.

(E) Subsection (e) (2) of section 411 is amended by striking out “the date before the date of the enactment of the Employee Retirement Income Security Act of 1974” and inserting in lieu thereof “September 1, 1974”.

(63) AMENDMENTS OF SECTION 412.—

(A) Subsection (h) of section 412 (relating to minimum funding standards) is amended by striking out “the day before the date of the enactment of the Employee Retirement Income Security Act of 1974” and inserting in lieu thereof “September 1, 1974”.

(B) Subsection (h) (5) of section 412 is amended by striking out “the date of the enactment of the Employee Retirement Income Security Act of 1974” and inserting in lieu thereof “September 2, 1974”.

(64) AMENDMENTS OF SECTION 414.—

(A) The heading for section 414(f) (relating to multi-employer plans) is amended to read as follows:

“(f) MULTIEmployer PLAN.—”

(B) Section 414(l) (relating to mergers and consolidations of plans or transfers of plan assets) is amended by striking out “the date of the enactment of the Employee Retirement Income Security Act of 1974” and inserting in lieu thereof “September 2, 1974”.

(65) AMENDMENTS OF SECTION 415.—

(A) Section 415(b) (2) (A) (relating to adjustments for certain forms of benefits) is amended by striking out “and 409(b) (3) (C)” and inserting in lieu thereof “and 409(b) (3) (C)”.

(B) Section 415(b) (2) (B) is amended by striking out “(as defined in section 401(a) (11) (H) (iii))” and inserting in lieu thereof “(as defined in section 401(a) (11) (G) (iii))”.

(66) AMENDMENTS OF SECTION 453.—

(A) Section 453(c) (3) (relating to adjustment in tax for amounts previously taxed) is amended by striking out “corresponding provisions of the Internal Revenue Code of 1939” and inserting in lieu thereof “corresponding provisions of the Internal Revenue Code of 1954”.

(B) Section 453(d) (4) (B) (relating to liquidations to which section 337 applies) is amended by striking out “or section 617(d) (1)” and inserting in lieu thereof “, 617(d) (1)”.

(67) AMENDMENT OF SECTION 455.—Section 455(c) (3) (B) (relating to prepaid subscription income) is amended by striking out “for his first taxable year (i) which begins after December 31, 1957, and (ii) in which he receives prepaid subscription income in the trade or business” and inserting in lieu thereof “for his first taxable year in which he receives prepaid subscription income in the trade or business”.

(68) AMENDMENT OF SECTION 456.—Section 456(c) (3) (B) (relating to election without consent with respect to treatment of prepaid dues) is amended by striking out “for its first taxable year (i) which begins after December 31, 1960, and (ii)” and inserting in lieu thereof “for its first taxable year”.

(69) AMENDMENTS OF SECTION 461.—

(A) Section 461(c) (relating to accrual of real property taxes) is amended by striking out paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(B) Section 461(c)(2) (relating to elections without consent), as redesignated by subparagraph (A), is amended by striking out "his first taxable year which begins after December 31, 1953, and ends after the date of enactment of this title in which the taxpayer" and inserting in lieu thereof "his first taxable year in which he".

(70) AMENDMENTS OF SECTION 481.—

(A) Section 481(b) (relating to limitation on tax where substantial adjustments are required by a change in accounting method) is amended by striking out paragraphs (4), (5), and (6) (relating to pre-1954 adjustments).

(B) Section 481(b)(1) and (2) are each amended by striking out "other than the amount of such adjustments to which paragraph (4) or (5) applies," each place it appears.

(71) AMENDMENTS OF SECTION 508.—

(A) Subsections (a) and (b) of section 508 (relating to special rules relating to 501(c)(3) organizations) are each amended by striking out the last sentence therein.

(B) Section 508(e)(2) (relating to special rules for existing private foundations) is amended by striking out subparagraph (A) (relating to taxable years beginning before 1972), by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively, and by striking out "(B)" in subparagraph (B) (as so redesignated) and inserting in lieu thereof "(A)".

(C) Section 508(d)(2)(A) (relating to disallowance of deductions for certain charitable gifts or bequests) is amended by striking out "(e)(2)(B) and (C)" and inserting in lieu thereof "(e)(2)".

(72) AMENDMENTS OF SECTION 514.—

(A) Section 514(c)(1) (relating to definition of acquisition indebtedness) is amended by striking out the comma at the end of subparagraph (C) and all that follows, and inserting in lieu thereof a period.

(B) Section 514 (relating to unrelated debt-financed income) is amended by striking out subsection (f) (relating to definition of business lease), by striking out subsection (g) (relating to definition of business lease indebtedness), and by redesignating subsection (h) as subsection (f).

(C) Section 514(b)(3)(C)(iii) (relating to definition of debt-financed property) is amended to read as follows:

"(iii) shall not apply to property subject to a lease which is a business lease (as defined in this section immediately before the enactment of the Tax Reform Act of 1976)."

(D) Section 514(f) (relating to personal property leased with real property), as redesignated by subparagraph (B) of this paragraph, is amended by striking out "and the term 'premises' include" and inserting in lieu thereof "includes".

(73) AMENDMENTS OF SECTION 534.—

(A) Section 534(b) (relating to mailing notices of deficiency) is amended by striking out the last sentence.

(B) Subsection (e) of section 534 (relating to effective date of section) is repealed.

(74) AMENDMENT OF SECTION 535.—Section 535(b)(1) (relating to adjustments in computing accumulated taxable income) is amended by striking out “(other than the excess profits tax imposed by subchapter E of chapter 2 of the Internal Revenue Code of 1939 for taxable years beginning after December 31, 1940)”.

(75) AMENDMENTS OF SECTION 537.—

(A) Section 537(b)(2) (relating to definition of excess business holdings redemption needs) is amended by striking out “, with respect to taxable years of the corporation ending after May 26, 1969,”.

(B) Section 537(b)(4) (relating to inferences as to prior years) is amended by striking out “or (2)”.

(76) AMENDMENTS OF SECTION 542.—

(A) Section 542(a)(2) (relating to definition of personal holding company) is amended by striking out the last sentence.

(B) Section 542(b)(2) (relating to ineligible affiliated group) is amended by striking out “, other than an affiliated group of railroad corporations the common parent of which would be eligible to file a consolidated return under section 141 of the Internal Revenue Code of 1939 prior to its amendment by the Revenue Act of 1942,”.

(C) Section 542(c)(2) (relating to financial institutions) is amended by striking out “without regard to subparagraphs (D) and (E) thereof”.

(D) Section 542(c)(8) (relating to small business investment companies) is amended by inserting after “Small Business Investment Act of 1958” the following: “(15 U.S.C. 661 and following)”.

(77) AMENDMENTS OF SECTION 545.—

(A) Section 545(b)(1) (relating to deduction of taxes in computing undistributed personal holding company income) is amended—

(i) in the first sentence, by striking out “(other than the excess profits tax imposed by subchapter E of chapter 2 of the Internal Revenue Code of 1939 for taxable years beginning after December 31, 1940)”;

(ii) by striking out the last two sentences (relating to deduction of taxes).

(B) Section 545(b) (relating to adjustments in computing undistributed personal holding company income) is amended by striking out paragraph (7) (relating to payment of indebtedness incurred before 1934).

(C) Section 545(c)(2)(A) (relating to corporations to which special adjustment applies) is amended by striking out “the date of enactment of this subsection” and inserting in lieu thereof “February 26, 1964”.

(78) AMENDMENT OF SECTION 547.—Section 547 (relating to the deduction of deficiency dividends) is amended by striking out subsection (h) (relating to the effective date).

(79) AMENDMENT OF SECTION 551.—Section 551(c) (relating to foreign personal holding company income tax returns), as redesignated by subsection (b)(1)(F) of this section, is amended by striking out “taxable income, foreign personal holding com-

pany,” and inserting in lieu thereof “taxable income, foreign personal holding company income.”

(80) AMENDMENT OF SECTION 556.—The first sentence of section 556(b)(1) (relating to deduction of taxes in computing undistributed foreign personal holding company income) is amended by striking out “(other than the excess profits tax imposed by subchapter E of chapter 2 of the Internal Revenue Code of 1939 for taxable years beginning after December 1, 1940)”.

(81) AMENDMENT OF SECTION 564.—Section 564 (relating to dividend carryovers) is amended by striking out subsection (c) (relating to carryovers from pre-1954 years).

(82) REPEAL OF SECTION 583.—Section 583 (relating to deduction of dividends paid on certain preferred stock by banks or trust companies) is repealed.

(83) REPEAL OF SECTION 592.—Section 592 (relating to the deduction by mutual savings banks for repayment of certain loans) is repealed.

(84) AMENDMENTS OF SECTION 593.—

(A) Section 593(b)(2) (relating to additions to bad debt reserves for mutual savings banks, etc.) is amended by striking out, in the table in subparagraph (A), the following:

“1969	-----	60 percent.
1970	-----	57 percent.
1971	-----	54 percent.
1972	-----	51 percent.
1973	-----	49 percent.
1974	-----	47 percent.
1975	-----	45 percent.”

(B) Section 593(c) (relating to reserves for mutual savings banks) is amended by striking out paragraphs (2), (3), (4), and (5), by redesignating paragraph (6) as paragraph (3), and by inserting immediately after paragraph (1) the following:

“(2) CERTAIN PRE-1963 RESERVES.—Notwithstanding the second sentence of paragraph (1), any amount allocated pursuant to paragraph (5) (as in effect immediately before the enactment of the Tax Reform Act of 1976) during a taxable year beginning before January 1, 1977, to the reserve for losses on qualifying real property loans out of the surplus, undivided profits, and bad debt reserves (determined as of December 31, 1962) attributable to the period before the first taxable year beginning after December 31, 1951, shall not be treated as a reserve for bad debts for any purpose other than determining the amount referred to in subsection (b)(1)(B), and for such purpose such amount shall be treated as remaining in such reserve.”

(C) Section 593 is amended by striking out subsection (d) (relating to taxable years beginning in 1962 and ending in 1963), and by redesignating subsections (e) and (f) as subsections (d) and (e), respectively.

(D) Section 593(b)(2)(E)(i) is amended by striking out “subsection (f)” and inserting in lieu thereof “subsection (e)”.

(85) REPEAL OF SECTION 601.—Subchapter H of chapter 1 relating to banking institutions) is amended by striking out part III (relating to special deduction for bank affiliates).

(86) AMENDMENTS OF SECTION 613A.—

(A) Section 613A(b)(1)(C) (relating to exemption for certain domestic gas wells) is amended by striking out “within the meaning of section 613(b)(1)(A)”.

(B) Section 613A(c)(6)(i) (relating to limitations on percentage depletion in case of oil and gas wells) is amended by striking out “determined with” and inserting in lieu thereof “determined without”.

(87) AMENDMENTS OF SECTION 614.—

(A) (i) Section 614(c) (relating to aggregation of mineral interests in mines) is amended by striking out paragraph (4) (relating to special rule as to exploration deductions prior to aggregation).

(ii) The amendment made by clause (i) shall apply with respect to elections to form aggregations of operating mineral interests made under section 614(c)(1) of the Internal Revenue Code of 1954 for taxable years beginning after December 31, 1976.

(B) The third sentence of section 614(c)(2) (relating to election to treat a single interest as more than one property) is amended to read as follows: “A separate property so formed may, under regulations prescribed by the Secretary, be included as a part of an aggregation in accordance with paragraphs (1) and (3).”

(C) Section 614(c)(3) (relating to manner and scope of election) is amended to read as follows:

“(3) MANNER AND SCOPE OF ELECTION.—The elections provided by paragraphs (1) and (2) shall be made in accordance with regulations prescribed by the Secretary, not later than the time prescribed for filing the return (including extensions thereof) for the first taxable year—

“(A) in which, in the case of an election under paragraph (1), any expenditure for development or operation in respect of the separate operating mineral interest is made by the taxpayer after the acquisition of such interest, or

“(B) in which, in the case of an election under paragraph (2), expenditures for development or operation of more than one mine in respect of a property are made by the taxpayer after the acquisition of the property.

An election made under paragraph (1) or (2) for a taxable year shall be binding upon the taxpayer for such year and all subsequent taxable years, except that the Secretary may consent to a different treatment of any interest with respect to which an election has been made.”

(88) REPEAL OF SECTION 615.—Section 615 (relating to deduction of pre-1970 exploration expenses) is repealed.

(89) AMENDMENT OF SECTION 617.—Section 617(a)(2)(B) (relating to time and scope of election to deduct certain mining exploration expenditures) is amended by striking out “may not be revoked after the last day of the third month following the month in which the final regulations issued under the authority of this subsection are published in the Federal Register, unless” and inserting in lieu thereof “may not be revoked unless”.

(90) REPEAL OF SECTION 632.—Section 632 (relating to tax in case of sale of oil and gas properties) is repealed.

(91) AMENDMENT OF SECTION 691.—Section 691(c)(1)(B) (relating to deduction for estate tax) is amended by striking out the last sentence.

- (92) AMENDMENT OF SECTION 692.—The heading of section 692 (relating to income taxes of members of Armed Forces who die in a combat zone) is amended by striking out “ON” the first time it appears in the section heading and inserting in lieu thereof “OF”.
- (93) AMENDMENT OF SECTION 751.—Section 751(c) (relating to unrealized receivables) is amended by striking out “1254(a), or 1250(a),” and inserting in lieu thereof “1245(a), 1250(a),”.
- (94) REPEAL OF SECTION 771.—Part IV of subchapter K of chapter 1 (relating to effective date of subchapter K) is repealed.
- (95) AMENDMENTS OF SECTION 802.—
- (A) Section 802(a)(1) (relating to tax imposed on life insurance companies) is amended by striking out “beginning after December 31, 1957,”.
- (B) Section 802(a)(2) (relating to alternative tax in case of capital gains) is amended by striking out “beginning after December 31, 1961,”.
- (C) Section 802(a) is amended by striking out paragraph (3) (relating to special rules for 1959 and 1960).
- (96) AMENDMENTS OF SECTION 804.—
- (A) Section 804(a) is amended by striking out paragraph (6) (relating to certain exceptions).
- (B) Section 804(b)(2) (relating to short-term capital gains) is amended by striking out “In the case of a taxable year beginning after December 31, 1958, the” and inserting in lieu thereof “The”.
- (97) AMENDMENTS OF SECTION 805.—
- (A) Section 805(b)(3)(B) (relating to average earnings rate) is amended to read as follows:
- “(B) SPECIAL RULE.—For purposes of subparagraph (A), the current earnings rate for any taxable year of any company which, for such year, is an insurance company (but not a life insurance company) shall be determined as if this part applied to such company for such year.”
- (B) Section 805(b)(4)(B) (relating to basis of assets) is amended by striking out “(determined without regard to fair market value on December 31, 1958)”.
- (C) Section 805(d) (relating to pension plan reserves) is amended to read as follows:
- “(d) PENSION PLAN RESERVES.—For purposes of this part, the term ‘pension plan reserves’ means that portion of the life insurance reserves which is allocable to contracts—
- “(1) purchased under contracts entered into with trusts which (as of the time the contracts were entered into) were deemed to be (A) trusts described in section 401(a) and exempt from tax under section 501(a), or (B) trusts exempt from tax under section 165 of the Internal Revenue Code of 1939 or the corresponding provisions of prior revenue laws;
- “(2) purchased under contracts entered into under plans which (as of the time the contracts were entered into) were deemed to be plans described in section 403(a), or plans meeting the requirements of paragraphs (3), (4), (5), and (6) of section 165(a) of the Internal Revenue Code of 1939;
- “(3) provided for employees of the life insurance company under a plan which, for the taxable year, meets the requirements of paragraphs (3), (4), (5), (6), (7), (8), (11), (12), (13), (14), (15), (16), (19), and (20) of section 401(a);

“(4) purchased to provide retirement annuities for its employees by an organization which (as of the time the contracts were purchased) was an organization described in section 501(c)(3) which was exempt from tax under section 501(a) or was an organization exempt from tax under section 101(6) of the Internal Revenue Code of 1939 or the corresponding provisions of prior revenue laws, or purchased to provide retirement annuities for employees described in section 403(b)(1)(A)(ii) by an employer which is a State, a political subdivision of a State, or an agency or instrumentality of any one or more of the foregoing; or

“(5) purchased under contracts entered into with trusts which (at the time the contracts were entered into) were individual retirement accounts described in section 408(a) or under contracts entered into with individual retirement annuities described in section 408(b).”

(98) AMENDMENTS OF SECTION 809.—

(A) Section 809(b) (relating to definition of gain and loss from operations) is amended by striking out paragraph (4).

(B) (i) Section 809(d) (relating to life insurance company deductions) is amended by striking out paragraph (11) relating to mutualization distributions before 1963), and by redesignating paragraph (12) as paragraph (11).

(ii) Section 809(e) is amended by striking out “subsection (d)(12)” and inserting in lieu thereof “subsection (d)(11)”.

(C) Section 809 (relating to computation of gain and loss from operations) is amended by striking out subsection (g) (relating to deduction for certain mutualization distributions before 1963).

(99) AMENDMENT OF SECTION 812.—Section 812(b)(1) (relating to years to which operating losses of an insurance company may be carried), other than the last sentence thereof, as added by section 806(d)(1)(A) of this Act, is amended to read as follows:

“(1) YEARS TO WHICH LOSS MAY BE CARRIED.—The loss from operations for any taxable year (hereinafter in this section referred to as the ‘loss year’) shall be—

“(A) an operations loss carryback to each of the 3 taxable years preceding the loss year,

“(B) an operations loss carryover to each of the 5 taxable years following the loss year, and

“(C) subject to subsection (e), if the life insurance company is a new company for the loss year, an operations loss carryover to each of the 3 taxable years following the 5 taxable years described in subparagraph (B).”

(100) AMENDMENTS OF SECTION 817.—Section 817 (relating to rules applicable to certain gains and losses) is amended by striking out subsection (c) (relating to treatment of pre-1959 capital losses) and subsection (e) (relating to certain 1958 reinsurance transactions).

(101) AMENDMENT OF SECTION 818.—Section 818 (relating to life insurance accounting provisions) is amended by striking out subsection (e) (relating to certain rules applicable to taxable years 1957, 1958, and 1959), and by redesignating subsections (f) and (g) as subsections (e) and (f), respectively.

(102) AMENDMENTS OF SECTION 819.—

(A) The first sentence of section 819(a)(2)(A) (relating to definition of minimum figure for foreign life insurance companies) is amended to read as follows: “The minimum figure is the amount determined by multiplying the tax-

payer's total insurance liabilities on United States business by a percentage for the taxable year to be determined and proclaimed by the Secretary."

(B) The second sentence of section 819(a)(2)(A) is amended by striking out "under clause (ii)" and inserting in lieu thereof "under the preceding sentence".

(C) Clause (i) of section 819(b)(2)(B) (relating to distributions pursuant to certain mutualizations) is amended to read as follows:

"(i) the minimum figure for 1958 determined under subsection (a)(2)(A) computed by using a percentage of 9 percent in lieu of the percentage determined and proclaimed by the Secretary, or".

(103) AMENDMENTS OF SECTION 820.—

(A) Section 820(c) (relating to optional treatment of certain reinsured policies) is amended by striking out paragraph (6) (relating to reimbursement for 1957 income taxes), and by redesignating paragraph (7) as paragraph (6).

(B) The last sentence of section 820(c) is amended by striking out "(5), and (6) and the rules prescribed under paragraph (7)" and inserting in lieu thereof "and (5) and the rules prescribed under paragraph (6)".

(104) AMENDMENTS OF SECTION 821.—

(A) Section 821(a) (relating to imposition of tax on certain mutual insurance companies) is amended by striking out "beginning after December 31, 1963,".

(B) Section 821(c)(1) (relating to alternative tax for certain small insurance companies) is amended by striking out "In the case of taxable years beginning after December 31, 1963, there is" and inserting in lieu thereof "There is".

(C) Section 821 (relating to tax on certain mutual insurance companies) is amended by striking out subsection (e) (relating to 1962 transitional rules) and by redesignating subsection (f) as subsection (e).

(105) AMENDMENTS OF SECTION 822.—

(A) Section 822(c)(5) (relating to deduction of interest) is amended by striking out "(other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer)".

(B) The last sentence of section 822(d)(2) (relating to amortization of premium and accrual of discount) is amended by striking out "For taxable years beginning after December 31, 1962, no accrual" and inserting in lieu thereof "No accrual".

(106) AMENDMENTS OF SECTION 825.—Section 825(g) (relating to unused loss deduction of certain insurance companies) is amended by striking out paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(107) AMENDMENT OF SECTION 831.—Section 831(a) (relating to tax on certain insurance companies) is amended by striking out "or the taxable income" and inserting in lieu thereof "on the taxable income."

(108) AMENDMENTS OF SECTION 832.—Paragraphs (1) and (6) of section 832(b) (definitions relating to insurance company taxable income) are each amended by striking out "Convention" and inserting in lieu thereof "Association".

(109) AMENDMENTS OF SECTION 851.—

(A) Section 851(a)(1) (relating to definition of regulated investment company) is amended by striking out “54 Stat. 789;”.

(B) Section 851(b)(1) (relating to regulated investment companies) is amended by striking out “which began after December 31, 1941”.

(110) AMENDMENTS OF SECTION 852.—

(A) Subparagraph (C) of section 852(b)(3) (relating to method of taxation of regulated investment companies and their shareholders) is amended by striking out the third sentence.

(B)(i) Section 852(b)(3)(D)(iii) is amended by striking out “by 75 percent of so much of such amounts as equals the amount subject to tax in accordance with section 1201(a)(1)(A) and by 70 percent (72 percent in the case of a taxable year beginning after December 31, 1969, and before January 1, 1971) of so much of such amounts as equals the amount subject to tax in accordance with section 1201(a)(1)(B) or (2)” and inserting in lieu thereof “by 70 percent of so much of such amounts as equals the amount subject to tax in accordance with section 1201(a)”.

(ii) The amendment made by clause (i) shall not be considered to affect the amount of any increase in the basis of stock under the provisions of section 852(b)(3)(D)(iii) of the Internal Revenue Code of 1954 which is based upon amounts subject to tax under section 1201 of such Code in taxable years beginning before January 1, 1975.

(C) Section 852(d) is amended by inserting after “Investment Company Act of 1940” the following: “(15 U.S.C. 80a-1 and following)”.

(111) AMENDMENTS OF SECTION 856.—

(A) Section 856(c)(1) (relating to real estate investment trusts) is amended by striking out “which began after December 31, 1960”.

(B) Section 856(c)(6)(D) (relating to definition of other terms) is amended by inserting after “Investment Company Act of 1940, as amended” the following: “(15 U.S.C. 80a-1 and following)”.

(112) AMENDMENT OF SECTION 857.—Section 857(b)(3)(C) (relating to the taxation of capital gains in the case of real estate investment trusts) is amended by striking out the last sentence.

(113) AMENDMENTS OF SECTION 864.—

(A) Subsection (a) of section 864 (definitions relating to determinations of sources of income) is amended to read as follows:

“(a) PRODUCED.—For purposes of this part, the term ‘produced’ includes created, fabricated, manufactured, extracted, processed, cured, or aged.”

(B) Clauses (i) and (iii) of section 864(c)(4)(B) and subparagraph (C) of section 864(c)(5) (relating to effectively connected income) are each amended by striking out “sale” each place it appears and inserting in lieu thereof “sale or exchange”.

(C) Section 864(c)(4)(B)(iii) (relating to effectively connected income) is amended by striking out “sold” and inserting in lieu thereof “sold or exchanged”.

H. R. 10612—265

(114) AMENDMENT OF SECTION 905.—Section 905(b) (relating to proof of foreign tax credits) is amended by striking out the last sentence (relating to the treatment of certain royalty payments).

(115) AMENDMENT OF SECTION 911.—Section 911(c) (relating to earned income from sources without the United States) is amended by striking out paragraph (7) (relating to taxable years ending in 1963, 1964, or 1965).

(116) AMENDMENT OF SECTION 921.—Section 921 (relating to definition of Western Hemisphere Trade Corporation) is amended by striking out the last sentence (relating to taxable years before 1954).

(117) AMENDMENTS OF SECTION 931.—Section 931 (relating to income from sources within possession) is amended by striking out subsection (h) (relating to certain persons taken as prisoners of war while working in a possession), and by redesignating subsection (i) as subsection (h).

(118) AMENDMENT OF SECTION 934.—Section 934(b) (relating to gross income received by a corporation from the Virgin Islands) is amended by striking out the last sentence.

(119) AMENDMENT OF SECTION 951.—Section 951(a) (1) (relating to treatment of subpart F income) is amended by striking out “beginning after December 31, 1962”.

(120) REPEAL OF SECTION 972.—Section 972 (relating to consolidation of export trade corporations) is repealed.

(121) AMENDMENT OF SECTION 1001.—Section 1001(c) (relating to recognition of gain or loss) is amended to read as follows:
“(c) RECOGNITION OF GAIN OR LOSS.—Except as otherwise provided in this subtitle, the entire amount of the gain or loss, determined under this section, on the sale or exchange of property shall be recognized.”

(122) AMENDMENTS OF SECTION 1015.—

(A) Subparagraph (A) of section 1015(d) (1) (relating to increased basis for gift tax paid) is amended by striking out “the date of the enactment of the Technical Amendments Act of 1958” and inserting in lieu thereof “September 2, 1958”.

(B) Subparagraph (B) of section 1015(d) (1) is amended by striking out “the date of the enactment of the Technical Amendments Act of 1958” and inserting in lieu thereof “September 2, 1958”.

(123) AMENDMENT OF SECTION 1016.—Section 1016(a) (relating to adjustments to basis) is amended by striking out paragraph (19).

(124) AMENDMENT OF SECTION 1018.—Section 1018 (relating to adjustment of capital structure before September 22, 1938) is amended by striking out “54 Stat. 709;”.

(125) REPEAL OF SECTION 1020.—Section 1020 (relating to election in respect of depreciation allowed before 1952) is repealed.

(126) REPEAL OF SECTION 1022.—

(A) Section 1022 (relating to the basis of certain foreign personal holding company stock) is repealed.

(B) The repeal made by subparagraph (A) shall apply with respect to stock or securities acquired from a decedent dying after the date of the enactment of this Act.

(127) AMENDMENT OF SECTION 1024.—Section 1024 (containing cross references) is amended by striking out paragraph (4).

(128) AMENDMENTS OF SECTION 1033.—

(A) Section 1033(a) (relating to involuntary conversions) is amended by striking out paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(B) Section 1033(a)(2) (relating to conversion into money), as redesignated by subparagraph (A) of this paragraph and as amended by this Act, is amended—

(i) by striking out “WHERE DISPOSITION OCCURRED AFTER 1950” in the paragraph heading;

(ii) by striking out “(g)” each place it appears and inserting in lieu thereof “(h)”;

(iii) by striking out “and the disposition of the converted property (as defined in paragraph (2)) occurred after December 31, 1950,” in the text; and

(iv) by adding at the end thereof the following new subparagraph:

“(E) DEFINITIONS.—For purposes of this paragraph—

“(i) CONTROL.—The term ‘control’ means the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote and at least 80 percent of the total number of shares of all other classes of stock of the corporation.

“(ii) DISPOSITION OF THE CONVERTED PROPERTY.—The term ‘disposition of the converted property’ means the destruction, theft, seizure, requisition, or condemnation of the converted property, or the sale or exchange of such property under threat or imminence of requisition or condemnation.”

(C) Section 1033 (relating to involuntary conversions) is amended by striking out subsection (b) (relating to certain conversions occurring before 1954) and by redesignating subsections (c), (d), (e), (f), (g), and (h), as subsections (b), (c), (d), (e), (f), and (g), respectively.

(D) The first sentence of section 1033(b) (relating to basis of a property acquired through involuntary conversions), as redesignated by subparagraph (C) of this paragraph, is amended by striking out “or (2)” and inserting in lieu thereof “or section 112(f)(2) of the Internal Revenue Code of 1939”.

(E) Section 1033(f)(2) (relating to condemnation of real property), as redesignated by subparagraph (C) of this paragraph, is amended to read as follows:

“(2) LIMITATION.—Paragraph (1) shall not apply to the purchase of stock in the acquisition of control of a corporation described in subsection (a)(2)(A).”

(F) Section 1033(g)(4) (relating to condemnation of real property), as amended by section 2140(a) of this Act, is amended by striking out “(a)(3)(B)(i)” and inserting in lieu thereof “(a)(2)(B)(i)”.

(129) AMENDMENTS OF SECTION 1034.—

(A) Section 1034(a) (relating to gain on sale of residence) is amended by striking out “after December 31, 1953,”.

(B) Section 1034(b) (defining adjusted sales price) is amended by striking out paragraph (3) (relating to effective date of subsection (b)).

(C) Section 1034(d) (relating to certain limitations) is amended by striking out “or section 112(n) of the Internal Revenue Code of 1939”.

* (D) Section 1034(i) (relating to involuntary conversions) is amended to read as follows:

“(ii) SPECIAL RULE FOR CONDEMNATION.—In the case of the seizure, requisition, or condemnation of a residence, or the sale or exchange of a residence under threat or imminence thereof, the provisions of this section, in lieu of section 1033 (relating to involuntary conversions), shall be applicable if the taxpayer so elects. If such election is made, such seizure, requisition, or condemnation shall be treated as the sale of the residence. Such election shall be made at such time and in such manner as the Secretary shall prescribe by regulations.”

(E) Section 1034(j) (relating to statute of limitations) is amended by striking out “after December 31, 1950.”

(130) AMENDMENT OF SECTION 1037.—Section 1037(b)(1) (relating to certain exchanges of United States obligations) is amended by striking out “section 1232(a)(2)(A)” and inserting in lieu thereof “section 1232(a)(2)(B)”.

(131) AMENDMENT OF SECTION 1051.—Section 1051 (relating to property acquired before 1929 during affiliation) is amended by striking out the last two sentences.

(132) AMENDMENTS OF SECTION 1081.—

(A) Subsection (c) of section 1081 (relating to distributions required by the SEC) is amended to read as follows:

“(c) DISTRIBUTION OF STOCK OR SECURITIES ONLY.—If there is distributed, in obedience to an order of the Securities and Exchange Commission, to a shareholder in a corporation which is a registered holding company or a majority-owned subsidiary company, stock or securities (other than stock or securities which are nonexempt property), without the surrender by such shareholder of stock or securities in such corporation, no gain to the distributee from the receipt of the stock or securities so distributed shall be recognized.”

(B) Section 1081(f) (relating to conditions for application of section) is amended by striking out “Except in the case of a distribution described in subsection (c)(2), the provisions” and inserting in lieu thereof “The provisions”, and by striking out “49 Stat. 820;”.

(C) Section 1081(g) (relating to applicability of other provisions) is amended by striking out “If a distribution described in subsection (c)(2), or an” and inserting in lieu thereof “If an”, and by striking out the comma after “Commission”.

(133) AMENDMENTS OF SECTION 1083.—

(A) Section 1083(a) is amended by striking out “49 Stat. 820;”.

(B) Section 1083(b) is amended by striking out “49 Stat. 804;”.

(C) Section 1083(e)(4) is amended by striking out “49 Stat. 820;”.

(134) REPEAL OF SECTION 1111.—Part IX of subchapter O of chapter 1 (relating to distributions pursuant to orders enforcing the antitrust laws) is repealed.

(135) AMENDMENTS OF SECTION 1201.—

(A) Section 1201(a) (relating to the alternative tax on capital gain) is amended to read as follows:

“(a) CORPORATIONS.—If for any taxable year a corporation has a net capital gain, then, in lieu of the tax imposed by sections 11, 511, 821 (a) or (c) and 831 (a), there is hereby imposed a tax (if such tax is less than the tax imposed by such sections) which shall consist of the sum of—

“(1) a tax computed on the taxable income reduced by the amount of the net capital gain, at the rates and in the manner as if this subsection had not been enacted, plus

“(2) a tax of 30 percent of the net capital gain.”

(B) Section 1201(c) (relating to computation of alternative tax) is amended to read as follows:

“(c) COMPUTATION OF TAX WHERE CAPITAL GAIN EXCEEDS \$50,000.—The tax computed for purposes of subsection (b)(3) shall be the amount by which a tax determined under section 1 or 511 on an amount equal to the taxable income (but not less than 50 percent of the net capital gain) for the taxable year exceeds a tax determined under section 1 or 511 on an amount equal to the sum of (A) the amount subject to tax under subsection (b)(1) plus (B) an amount equal to 50 percent of the sum referred to in subsection (b)(2)(A).”

(C) (i) Section 1201 is amended by striking out subsection (d) (defining subsection (d) gain) and by redesignating subsection (e) as subsection (d).

(ii) Section 1201(b)(2)(A) (relating to alternative tax on noncorporate taxpayers) is amended by striking out “the amount of the subsection (d) gain” and inserting in lieu thereof “the sum of the long-term capital gains for the taxable year, but not to exceed \$50,000 (\$25,000 in the case of a married individual filing a separate return)”.

(iii) Section 1201(b)(3) is amended by striking out “the amount of the subsection (d) gain” and inserting in lieu thereof “the sum referred to in subparagraph (A)”.

(136) AMENDMENTS OF SECTION 1222.—

(A) Paragraph (9) of section 1222 (relating to definition of terms applicable to capital gains and losses) is amended to read as follows:

“(9) CAPITAL GAIN NET INCOME.—The term ‘capital gain net income’ means the excess of the gains from sales or exchanges of capital assets over the losses from such sales or exchanges.”

(B) Paragraph (11) of section 1222 (relating to definition of terms applicable to capital gains and losses) is amended to read as follows:

“(11) NET CAPITAL GAIN.—The term ‘net capital gain’ means the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year.”

(137) AMENDMENT OF SECTION 1233.—Section 1233(c) (relating to certain options to sell) is amended by striking out “the date of enactment of this title” and inserting in lieu thereof “August 16, 1954”.

(138) AMENDMENT OF SECTION 1237.—Section 1237 (relating to real property subdivided for sale) is amended by striking out subsection (d) (relating to effective date).

(139) REPEAL OF SECTION 1240.—Section 1240 (relating to taxability to employee of certain termination payments) is repealed.

(140) AMENDMENT OF SECTION 1245.—Section 1245(b)(7)(B) (relating to transfers to tax-exempt organization where property will be used in unrelated business) is amended by striking out “such organization acquiring such property”.

(141) AMENDMENT OF SECTION 1246.—Section 1246(f) (relating to gain on foreign investment company stock) is amended by striking out “beginning after December 31, 1962”.

(142) AMENDMENT OF SECTION 1311.—Paragraphs (2) (A), (2) (B), and (3) of section 1311(b) (relating to mitigation of effect of limitations) are each amended by striking out “Tax Court of the United States” and inserting in lieu thereof “Tax Court”.

(143) REPEAL OF SECTION 1315.—Section 1315 (relating to effective date of part II of subchapter Q of chapter 1) is repealed.

(144) REPEAL OF SECTION 1321.—Part III of subchapter Q of chapter 1 (relating to involuntary liquidation of LIFO inventories) is repealed.

(145) REPEAL OF SECTIONS 1331 THROUGH 1337.—

(A) Part IV of subchapter Q of chapter 1 (relating to war loss recoveries) is repealed.

(B) The repeal by subparagraph (A) shall apply with respect to war loss recoveries in taxable years beginning after December 31, 1976.

(146) AMENDMENT OF SECTION 1341.—Section 1341(b) (2) (relating to claim of right) is amended by striking out the last sentence.

(147) REPEAL OF SECTION 1342.—Section 1342 (relating to computation of tax on certain amounts recovered as a result of a patent infringement suit) is repealed.

(148) REPEAL OF SECTION 1346.—Section 1346 (relating to recovery of unconstitutional Federal taxes) is repealed.

(149) AMENDMENTS OF SECTION 1372.—

(A) Section 1372(b) (1) (relating to effect of election under subchapter S) is amended by striking out “(other than the tax imposed by section 1378)” and inserting in lieu thereof “(other than as provided by section 561(d) (2) and by section 1378)”.

(B) Section 1372(c) (relating to subchapter S elections by small business corporations) is amended to read as follows:

“(c) WHERE AND HOW MADE.—An election under subsection (a) may be made by a small business corporation for any taxable year at any time during the first month of such taxable year, or at any time during the month preceding such first month. Such election shall be made in such manner as the Secretary shall prescribe by regulations.”

(C) Section 1372 is amended by striking out subsection (g) (relating to certain elections for years beginning before 1961).

(150) AMENDMENTS OF SECTION 1374.—

(A) Section 1374(b) (relating to net operating losses of subchapter S corporations) is amended by adding at the end thereof the following new sentence: “The deduction allowed by this subsection shall, for purposes of this chapter, be considered as a deduction attributable to a trade or business carried on by the shareholder.”

(B) Subsection (d) of section 1374 (relating to treatment of net operating losses of subchapter S corporations) is repealed.

(151) AMENDMENTS OF SECTION 1375.—

(A) The heading of subsection (b) of section 1375 is amended by striking out “RECEIVED CREDIT NOT ALLOWED” and inserting in lieu thereof “NOT TREATED AS SUCH FOR CERTAIN PURPOSES”.

(B) Section 1375(f) (relating to elections as to certain distributions) is amended by striking out paragraph (3).

(152) AMENDMENT OF SECTION 1378.—Section 1378(b) (relating to the taxation of capital gain in the case of electing small business corporations) is amended by striking out the last sentence.

(153) AMENDMENTS OF SECTION 1388.—

(A) Section 1388(c)(2)(B)(i) (relating to patronage dividends) is amended by striking out “the date of the enactment of the Revenue Act of 1962” and inserting in lieu thereof “October 16, 1962”.

(B) Section 1388(h)(2)(B)(i) (relating to per-unit retain certificates) is amended by striking out “the date of the enactment of this subsection” and inserting in lieu thereof “November 13, 1966”.

(154) AMENDMENTS OF SECTION 1401.—

(A) Section 1401(a) (relating to rate of tax on self-employment income) is amended to read as follows:

“(a) OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.—In addition to other taxes, there shall be imposed for each taxable year, on the self-employment income of every individual, a tax equal to 7.0 percent of the amount of the self-employment income for such taxable year.”

(B) Section 1401(b) (relating to rate of tax on self-employment income for hospital insurance) is amended by striking out paragraphs (1) and (2) and by redesignating paragraphs (3), (4), (5), and (6), as paragraphs (1), (2), (3) and (4), respectively.

(155) AMENDMENTS OF SECTION 1402.—

(A) Paragraph (1) of section 1402(b) (relating to definition of self-employment income) is amended to read as follows:

“(1) that part of the net earnings from self-employment which is in excess of (i) an amount equal to the contribution and benefit base (as determined under section 230 of the Social Security Act) which is effective for the calendar year in which such taxable year begins, minus (ii) the amount of the wages paid to such individual during such taxable years; or”.

(B) Section 1402 amended by striking out subsection (g) (relating to treatment of self-employment income for years prior to 1962), and by redesignating subsections (h) and (i) as subsections (g) and (h), respectively.

(C) Section 1402(g)(2) (relating to self-employment income of members of certain religious faiths), as redesignated by subparagraph (B) of this paragraph, is amended to read as follows:

“(2) TIME FOR FILING APPLICATIONS.—For purposes of this subsection, an application must be filed on or before the time prescribed for filing the return (including any extension thereof) for the first taxable year for which the individual has self-employment income (determined without regard to this subsection or subsection (c)(6)), except that an application filed after such date but on or before the last day of the third calendar month following the calendar month in which the taxpayer is first notified in writing by the Secretary that a timely application for an exemption from the tax imposed by this chapter has not been filed by him shall be deemed to be filed timely.”

(156) REPEAL OF SECTION 1465.—Section 1465 (relating to definition of withholding agent) is repealed.

(157) AMENDMENTS OF SECTION 1481.—

(A) Section 1481(a)(1)(A) (relating to mitigation of effect of renegotiation of Government contracts) is amended

by striking out “within the meaning of the Federal renegotiation act applicable to such transaction” and inserting in lieu thereof “within the meaning of the Renegotiation Act of 1951, as amended (50 U.S.C. App. 1211 and following)”.

(B) Section 1481(a)(1) (relating to renegotiation) is amended by striking out subparagraph (D).

(C) Subparagraphs (B) and (C) of section 1481(a)(1) are each amended by striking out “applicable Federal renegotiation act” and inserting in lieu thereof “Renegotiation Act of 1951, as amended”.

(158) AMENDMENT OF SECTION 1551.—Section 1551(a) (relating to disallowance of surtax exemption) is amended by striking out “determined under subsection (d)” and inserting in lieu thereof “determined under subsection (c)”.

(159) AMENDMENT OF SECTION 1552.—The first sentence of section 1552(a) (relating to earnings and profits of an affiliated group) is amended by striking out “beginning after December 31, 1953, and ending after the date of enactment of this title.”

(b) CONFORMING AND CLERICAL AMENDMENTS.—

(1) AMENDMENTS CONFORMING TO REPEAL OF SECTIONS 35 AND 242.—

(A) Section 36, as amended by this Act, is amended by striking out “sections 32 and 35” and inserting in lieu thereof “section 32”.

(B) Section 41(b)(2) is amended by striking out “section 35 (relating to partially tax-exempt interest),”.

(C) Section 46(a)(3) is amended by striking out subparagraph (B), by inserting “and” at the end of subparagraph (A), and by redesignating subparagraph (C) as subparagraph (B).

(D) Section 50A(a)(3) is amended by striking out subparagraph (B) and redesignating subparagraphs (C), (D), and (E), as subparagraphs (B), (C), and (D), respectively.

(E) (i) The heading of paragraph (1) of section 171(a) is amended to read “(1) TAXABLE BONDS.—”.

(ii) The heading of paragraph (2) of section 171(a) is amended to read “(2) TAX-EXEMPT BONDS.—”.

(iii) Section 171(a) is amended by striking out paragraph (3) and by redesignating paragraph (4) as paragraph (3).

(iv) Section 171(b)(1)(B)(ii) is amended by striking out “subsection (c)(1)(B)” and inserting in lieu thereof “subsection (a)(1)”.

(v) So much of section 171(c) as precedes paragraph (2) is amended to read as follows:

“(c) ELECTION AS TO TAXABLE BONDS.—

“(1) ELIGIBILITY TO ELECT; BONDS WITH RESPECT TO WHICH ELECTION PERMITTED.—In the case of bonds the interest on which is not excludible from gross income, this section shall apply only if the taxpayer has so elected.”

(F) (i) Section 551 is amended by striking out subsection (c), and by redesignating subsections (d), (e), (f), and (g), as subsections (c), (d), (e), and (f), respectively.

(ii) Section 1016(a)(13) is amended by striking out “section 551(f)” and inserting in lieu thereof “section 551(e)”.

(G) Section 584(c)(2) is amended to read as follows:

“(2) DIVIDENDS RECEIVED.—The proportionate share of each participant in the amount of dividends received by the common

trust fund and to which section 116 applies shall be considered for purposes of such section as having been received by such participant.”

(H) (i) Section 642(a) is amended by striking out paragraph (1), and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(ii) Section 41(d) is amended by striking out “section 642(a) (3)” and inserting in lieu thereof “section 642(a) (2)”.

(iii) Section 901(g)(3), as amended by this Act, is amended by striking out “section 642(a) (2)” and inserting in lieu thereof “section 642(a) (1)”.

(I) (i) Section 702(a) is amended by striking out paragraph (7) and by redesignating paragraphs (8) and (9) as paragraphs (7) and (8), respectively.

(ii) Section 702(b) is amended by striking out “paragraphs (1) through (8)” and inserting in lieu thereof “paragraphs (1) through (7)”.

(iii) Section 1402(a) is amended by striking out “702(a) (9)” each place it appears and inserting in lieu thereof “702(a) (8)”.

(J) (i) Section 804(a) is amended by striking out paragraph (3), and by redesignating paragraphs (4) and (5) as paragraphs (3) and (4), respectively.

(ii) Section 243(b) (3) (C) (iii), as redesignated by paragraph (21) (A) of this subsection, is amended by striking out “sections 804(a) (4)” and inserting in lieu thereof “sections 804(a) (3)”.

(iii) Section 804(a) (2) is amended by striking out “paragraph (5)” and inserting in lieu thereof “paragraph (4)”, and by striking out “paragraph (4)” and inserting in lieu thereof “paragraph (3)”.

(iv) Section 809(d) (10) is amended by striking out “section 804(a) (4)”, and inserting in lieu thereof “section 804(a) (3)”.

(v) Section 1561(a) (3) is amended by striking out “sections 804(a) (4)” and inserting in lieu thereof “sections 804(a) (3)”.

(vi) Section 1564(a) (1) (C) is amended by striking out “sections 804(a) (4)” inserting in lieu thereof “sections 804(a) (3)”.

(K) Section 804(a) (2) (A) is amended by striking out clause (ii), by inserting “and” at the end of clause (i), and by redesignating clause (iii) as clause (ii).

(L) (i) Section 809(d) (8) (A) is amended by striking out clause (ii), by inserting “and” at the end of clause (i), and by redesignating clause (iii) as clause (ii).

(ii) Section 809(d) (8) (B) is amended by striking out “subparagraph (A) (iii)” and inserting in lieu thereof “subparagraph (A) (ii)”.

(M) Sections 804(a) (1), 804(a) (2), 809(a) (1), 809(b) (1) (A) and 809(b) (2) (A) are each amended by striking out “, partially tax-exempt interest.”.

(N) Section 809(e) is amended by striking out paragraph (6), and by redesignating paragraph (7) as paragraph (6).

(O) Section 815(b) (2) (A) (iii) is amended by striking out “the deduction for partially tax-exempt interest provided

by section 242 (as modified by section 804(a)(3)),” and by striking out the comma after “809(d)(8)(B)”.

(P) Section 822(c)(2) is amended by striking out “partially tax-exempt interest and”.

(Q) Section 822(c)(6)(A) is amended by striking out “or to the deduction provided in section 242 for partially tax-exempt interest”.

(R) Section 822(c)(7) is amended by striking out “partially tax-exempt interest and to”.

(S) Section 822(d)(2) is amended by striking out “, the deduction provided in subsection (c)(1), and the deduction allowed by section 242 (relating to partially tax-exempt interest)” and inserting in lieu thereof “and the deduction provided in subsection (c)(1)”.

(T) Section 832(c)(5)(A) is amended by striking out “or to the deductions provided in section 242 for partially tax-exempt interest”.

(U) Section 832(c)(12) is amended by striking out “partially tax-exempt interest and to”.

(V) Sections 852(b)(1) and 857(b)(1) are each amended by striking out the last sentence.

(W) Section 1244(c)(1)(E) is amended by striking out “sections 172, 242, 243” and inserting in lieu thereof “sections 172, 243”.

(X) Section 1402(a)(2) is amended by striking out “(other than interest described in section 35)”.

(Y) Section 1503(b)(3) is amended by striking out subparagraph (C).

(Z) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by striking out the item relating to section 35.

(AA) The table of sections for part VIII of subchapter B of chapter 1 is amended by striking out the item relating to section 242.

(2) AMENDMENT CONFORMING TO REPEAL OF SECTION 51.—The table of parts for subchapter A of chapter 1 is amended by striking out the item relating to part V.

(3) AMENDMENTS CONFORMING TO ADDITIONS OF SECTIONS 64 AND 65.—

(A) Paragraphs (1)(C), (5)(A), (6)(D), and (12) of section 341(e) are each amended by striking out “gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231(b)” each place it appears and inserting in lieu thereof “ordinary income”.

(B) Section 483(f)(3) is amended by striking out “no part of any gain on such” and inserting in lieu thereof “all of the gain, if any, on such” and by striking out “gain from the sale or exchange of a capital asset or property described in section 1231” and inserting in lieu thereof “ordinary income”.

(C) Section 707(b)(2) is amended by striking out “as gain from the sale or exchange of property other than a capital asset” and inserting in lieu thereof “as ordinary income”.

(D) Paragraphs (1) and (2) of section 735(a) are each amended by striking out “gain or loss from the sale or exchange of property other than a capital asset” and inserting in lieu thereof “as ordinary income or as ordinary loss, as the case may be”.

(E) Section 1236(b) is amended by striking out "loss from the sale or exchange of property which is not a capital asset" and inserting in lieu thereof "ordinary loss".

(F) Sections 1242 and 1243 are each amended by striking out "a loss from the sale or exchange of property which is not a capital asset" each place it appears and inserting in lieu thereof "an ordinary loss".

(G) Section 1244 is amended by striking out "a loss from the sale or exchange of an asset which is not a capital asset" each place it appears and inserting in lieu thereof "an ordinary loss".

(H) Section 1248(g)(3)(B), as redesignated by this Act, is amended by striking out "gain from the sale of an asset which is not a capital asset" and inserting "ordinary income".

(I) The following provisions are each amended by striking out "gain from the sale or exchange of property which is not a capital asset" each place it appears and inserting in lieu thereof "ordinary income": sections 341(a), 871(a)(1)(C)(i) and (ii), 881(a)(3)(A) and (B), 996(d)(1) and (2), 1037(b)(1)(A), 1232(a)(2)(A) and (B), 1232(c), 1246(a), and 1385(c)(2)(C).

(J) The following provisions are each amended by striking out "gain from the sale of property which is not a capital asset" and inserting in lieu thereof "ordinary income": sections 306(a)(1)(A), 306(a)(1)(B), and 306(f).

(K) The following provisions are each amended by striking out "gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231" each place it appears and inserting in lieu thereof "ordinary income": sections 80(c)(1), 163(d)(3) and (5), 613(a), 617(d)(1), 995(b)(1)(C), 1238, 1245(a)(1), 1249(a), 1250(f) and (g), 1251(b)(3)(B), (c)(1), and (c)(2), and 1252(a)(1).

(4) CLERICAL AMENDMENTS CONFORMING TO ADDITIONS OF SECTIONS 64 AND 65.—

(A) The table of sections for part I of subchapter B of chapter 1 is amended by adding at the end thereof the following new items:

"Sec. 64. Ordinary income defined.
"Sec. 65. Ordinary loss defined."

(B) The heading for part I of subchapter B of chapter 1 is amended by striking out "AND TAXABLE INCOME" and inserting in lieu thereof "TAXABLE INCOME, ETC."

(C) The table of parts for subchapter B of chapter 1 is amended by striking out "and taxable income." in the item relating to part I and inserting in lieu thereof "taxable income, etc."

(5) AMENDMENT CONFORMING TO REPEAL OF SECTION 76.—The table of sections for part II of subchapter B of chapter 1 is amended by striking out the item relating to section 76.

(6) AMENDMENTS CONFORMING TO AMENDMENT OF SECTION 103.—

(A) Section 6049(b)(2)(A) is amended by striking out "section 103(a)(1) or (3)" and inserting in lieu thereof "section 103(a)".

(B) Section 852(a)(1)(B), as added by this Act, is amended by striking out “section 103(a)(1)” and inserting in lieu thereof “section 103(a)”.

(7) AMENDMENTS CONFORMING TO AMENDMENT OF SECTION 143.—

(A)(i) Part V of subchapter B of chapter 1 is amended by striking out section 153 (relating to determination of marital status) and by redesignating section 154 as section 153.

(ii) The table of sections for part V of subchapter B of chapter 1 is amended by striking out the items relating to sections 153 and 154 and inserting in lieu thereof the following:

“Sec. 153. Cross references.”

(B) Section 152(a)(9) is amended by striking out “section 153” and inserting in lieu thereof “section 143”.

(C) Section 153, as redesignated by subparagraph (A) of this paragraph, is amended by adding at the end thereof the following new paragraph:

“(5) For determination of marital status, see section 143.”

(8) AMENDMENTS CONFORMING TO AMENDMENT OF SECTION 151.—

(A) The following provisions are each amended by striking out “educational institution (as defined in section 151(e)(4))” each place it appears and inserting in lieu thereof “educational organization described in section 170(b)(1)(A)(ii)”: sections 117(a)(1)(A), 117(b)(1), 117(b)(2), 152(d), 170(g)(1)(B) (as redesignated by subsection (a)(28)(A)(i) of this section), and 403(b)(1)(A)(ii).

(B) Section 103(c)(3)(A), as redesignated by subsection (a)(17) of this section, is amended by striking out “educational institution (within the meaning of section 151(e)(4))” and inserting in lieu thereof “educational organization described in section 170(b)(1)(A)(ii)”.

(C) Section 163(b)(1) is amended by striking out “educational institution (as defined in section 151(e)(4)) and which is provided for a student of such institution” and inserting in lieu thereof “educational organization described in section 170(b)(1)(A)(ii) and which is provided for a student of such organization”.

(D)(i) Subparagraphs (A), (B), and (C) of section 415(c)(4) are each amended by striking out “educational institution” each place it appears and inserting in lieu thereof “educational organization”.

(ii) Subparagraph (D)(ii) of section 415(c)(4) is amended to read as follows:

“(ii) For purposes of this paragraph the term ‘educational organization’ means an educational organization described in section 170(b)(1)(A)(ii).”

(iii) Section 415(c)(4) is amended by striking out “EDUCATIONAL INSTITUTIONS” from the paragraph heading and inserting in lieu thereof “EDUCATIONAL ORGANIZATIONS”.

(E) Section 508(c)(2)(A) is amended to read as follows:

“(A) educational organizations described in section 170(b)(1)(A)(ii), and”.

(F) Section 512(b)(15)(B), as redesignated by section 1951(b)(8)(A) of this Act, is amended by striking out “edu-

ational institution (as defined in section 151(e)(4))” and inserting in lieu thereof “educational organization described in section 170(b)(1)(A)(ii)”.

(G) Section 1303(d) is amended by striking out “educational institution (as defined in section 151(e)(4))” each place it appears and inserting in lieu thereof “educational organization described in section 170(b)(1)(A)(ii)”.

(H) Sections 4941(d)(2)(G)(ii) and 4945(g)(1) each are amended by striking out “educational institution described in section 151(e)(4)” and inserting in lieu thereof “educational organization described in section 170(b)(1)(A)(ii)”.

(9) AMENDMENTS CONFORMING TO THE AMENDMENTS OF SECTION 152.—Section 2(b)(3)(B) is amended by striking out clause (ii), by adding “or” at the end of clause (i), and by redesignating clause (iii) as clause (ii).

(10) AMENDMENT CONFORMING TO THE AMENDMENT OF SECTION 172.—

(A) Section 374(e)(2) is amended by striking out “section 172(j)” and inserting in lieu thereof “172(g)”.

(B) Section 904(f)(2)(B)(i) and 904(f)(4)(B)(i), as amended by this Act, are each amended by striking out “section 172(k)(1)” and inserting in lieu thereof “section 172(h)”.

(11) AMENDMENTS CONFORMING TO REPEAL OF SECTION 187.—

(A) Section 48(a)(8) (relating to section 38 property) is amended by striking out “187.”

(B) The table of sections for part VI of subchapter B of chapter 1 is amended by striking out the item relating to section 187.

(C) Section 1082(a)(2)(B) (relating to basis for determining gain or loss) is amended by striking out “187.”

(D) Section 1245(a)(2) (relating to gain from dispositions of certain depreciable property) is amended by striking out “187,” each place it appears.

(12) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 342.—

(A) Section 551(f), as redesignated by paragraph (1)(F) of this subsection, is amended by striking out paragraph (3).

(B) The table of subparts for part II of subchapter C of chapter 1 is amended by striking out the item relating to subpart C and inserting in lieu thereof:

“Subpart C. Collapsible corporations.”

(C) The table of sections for subpart C of part II of subchapter C of chapter 1 is amended by striking out the item relating to section 342.

(D) The heading of subpart C of part II of subchapter C of chapter 1 is amended to read as follows:

“Subpart C—Collapsible Corporations”.

(13) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 363.—The table of sections for subpart C of part III of subchapter C of chapter 1 is amended by striking out the item relating to section 363.

(14) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 373.—

(A) Section 372(b)(1) is amended by striking out “373 (b) or”.

(B) Section 374(b) is amended to read as follows:

“(b) BASIS.—

“(1) RAILROAD CORPORATIONS.—If the property of a railroad corporation, as defined in section 77(m) of the Bankruptcy Act (11 U.S.C. 205(m)), was acquired after December 31, 1938, in pursuance of an order of the court having jurisdiction of such corporation—

“(A) in a receivership proceeding, or

“(B) in a proceeding under section 77 of the Bankruptcy Act,

and the acquiring corporation is a railroad corporation (as defined in section 77(m) of the Bankruptcy Act) organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding, the basis shall be the same as it would be in the hands of the railroad corporation whose property was so acquired, increased in the amount of gain recognized under subsection (a) (2) to the transferor on such transfer.

“(2) PROPERTY ACQUIRED BY STREET, SUBURBAN, OR INTERURBAN ELECTRIC RAILWAY CORPORATION.—If the property of any street, suburban, or interurban electric railway corporation engaged as a common carrier in the transportation of persons or property in interstate commerce was acquired after December 31, 1934, in pursuance of an order of the court having jurisdiction of such corporation in a proceeding under section 77 of the Bankruptcy Act (11 U.S.C. 501 and following), and the acquiring corporation is a street, suburban, or interurban electric railway engaged as a common carrier in the transportation of persons or property in interstate commerce, organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding, then, notwithstanding the provisions of section 270 of the Bankruptcy Act (11 U.S.C. 670), the basis shall be the same as it would be in the hands of the corporation whose property was so acquired.”

(C) Section 374(c) (3) is amended by striking out “subsection (b)” and inserting in lieu thereof “subsection (b) (1)”.

(D) Section 1232(b) (2) is amended by striking out “section 371, 373, or 374” and inserting in lieu thereof “section 371 or 374”.

(E) The table of sections for part IV of subchapter C of chapter 1 is amended by striking out the item relating to section 373.

(15) AMENDMENT CONFORMING TO REPEAL OF SECTIONS 391 THROUGH 395.—The table of parts for subchapter C of chapter 1 is amended by striking out the item relating to part VII.

(16) AMENDMENT CONFORMING TO THE AMENDMENTS OF SECTION 481.—Section 381(c) is amended by striking out paragraph (21).

(17) AMENDMENT CONFORMING TO THE AMENDMENTS OF SECTION 545.—Section 381(c) (15) is amended by striking out “subsections (b) (7) and (c)” and inserting in lieu thereof “subsection (c)”.

(18) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 583.—The table of sections for part I of subchapter H of chapter 1 is amended by striking out the item relating to section 583.

(19) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 592.—The table of sections for part II of subchapter H of chapter 1 is amended by striking out the item relating to section 592.

(20) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 601.—

(A) Section 535(b) is amended by striking out paragraph (8).

(B) (i) Section 545(b) is amended by striking out paragraph (6), and by redesignating paragraph (3) as paragraph (6).

(ii) Section 545(b) (2) is amended by striking out “paragraph (8)” and inserting in lieu thereof “paragraph (6)”.

(iii) Section 545(c) (5) is amended by striking out “subsection (b) (8)” and inserting in lieu thereof “subsection (b) (6)”.

(C) The table of parts for subchapter H of chapter 1 is amended by striking out the item relating to part III.

(21) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 615.—

(A) (i) Section 243(b) (3) (C) is amended—

(I) by striking out clauses (ii) and (iii) and inserting in lieu thereof the following:

“(ii) \$400,000 limitation for certain exploration expenditures under section 617(h) (1),” and

(II) by redesignating clauses (iv) and (v) as clauses (iii) and (iv), respectively.

(ii) Section 1564(b) (2) (C) is amended by striking out “section 243(b) (3) (C) (v)” and inserting in lieu thereof “243(b) (3) (C) (iv)”.

(B) Section 381(c) (10) is amended to read as follows:

“(10) TREATMENT OF CERTAIN MINING DEVELOPMENT AND EXPLORATION EXPENSES OF DISTRIBUTOR OR TRANSFEROR CORPORATION.—The acquiring corporation shall be entitled to deduct as if it were the distributor or transferor corporation, expenses deferred under section 616 (relating to certain development expenditures) if the distributor or transferor corporation has so elected. For the purpose of applying the limitation provided in section 617(h), if, for any taxable year, the distributor or transferor corporation was allowed a deduction under section 617(a), the acquiring corporation shall be deemed to have been allowed such deduction.”

(C) Section 617(h) (1) is amended by striking out “and section 615(a) and the amounts which are or have been treated as deferred expenses under section 615(b)” and inserting in lieu thereof “and subsection (a) of section 615 (as in effect before the enactment of the Tax Reform Act of 1976)”.

(D) Section 617(h) (3) is amended to read as follows:

“(3) APPLICATION OF PARAGRAPH (2) (B).—Paragraph (2) (B) shall apply with respect to all amounts deducted before the latest such transfer from the individual or corporation to the taxpayer. Paragraph (2) (B) shall apply only if—

“(A) the taxpayer acquired any mineral property from the individual or corporation under circumstances which make paragraph (7), (8), (11), (15), (17), (20), or (22) of section 113(a) of the Internal Revenue Code of 1939 apply to such transfer; or

“(B) the taxpayer acquired any mineral property from the individual or corporation under circumstances which make section 334(b), 362 (a) and (b), 372(a), 374(b) (1), 1051, or 1082 apply to such transfer.”

(E) Section 617 is amended by adding at the end thereof the following new subsection:

“(i) CERTAIN PRE-1970 EXPLORATION EXPENDITURES.— If—

“(1) the taxpayer receives mineral property in a transaction as a result of which the basis of such property in the hands of the transferee is determined by reference to the basis in the hands of the transferor,

“(2) an election made by the transferor under subsection (e) of section 615(e) (as in effect before the enactment of the Tax Reform Act of 1976) applied with respect to expenditures which were made by him and which were properly chargeable to such property, and

“(3) the taxpayer has made or makes an election under subsection (a),

then in the application of this section with respect to the transferee, the amounts allowed as deductions under such section 615 to the transferor, which (but for the transferor's election) would be reflected in the adjusted basis of such property in the hands of the transferee, shall be treated as expenditures allowed as deductions under subsection (a) to the transferor.”

(F) Section 703(b) is amended by striking out “under section 615 (relating to pre-1970 exploration expenditures),”.

(G) Section 1016(a) is amended by striking out paragraph (10).

(H) The table of sections for part I of subchapter I of chapter 1 is amended by striking out the item relating to section 615.

(22) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 632.—

(A) The table of sections for part III of subchapter I of chapter 1 is amended by striking out the item relating to section 632.

(B) Section 5(b) is amended by striking out paragraph (1).

(23) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 771.—

The table of parts for subchapter K of chapter 1 is amended by striking out the item relating to part IV.

(24) AMENDMENT CONFORMING TO THE AMENDMENT OF SECTION 802.—Section 815(c)(3)(B) is amended by striking out “(determined without regard to section 802(a)(3))”.

(25) AMENDMENT CONFORMING TO THE AMENDMENT OF SECTION 812.—Section 844(b)(2) is amended by striking out “section 812(b)(1)(A)(iii)” and inserting in lieu thereof “section 812(b)(1)(C)”.

(26) AMENDMENTS CONFORMING TO THE AMENDMENTS OF SECTION 864.—

(A) Paragraphs (5) and (6) of section 861(a) (relating to items treated as income from within United States) are each amended by striking out in the heading “SALE” and inserting in lieu thereof “SALE OR EXCHANGE”, and by striking out “sale” in the text and inserting in lieu thereof “sale or exchange”.

(B) Section 861(e)(1) (relating to income from certain aircraft and vessels) is amended by striking out “sale or other disposition” and inserting in lieu thereof “sale, exchange, or other disposition”.

(C) Paragraphs (5) and (6) of section 862(a) (relating to items treated as income from without the United States) and paragraphs (2) and (3) of section 863(b) (relating to sources of income) are each amended by striking out “sale” and inserting in lieu thereof “sale or exchange”.

(D) Paragraph (2) of section 863(b) (relating to sources of income) is amended by striking out “sold” each place it appears and inserting in lieu thereof “sold or exchanged”.

(27) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 972.—

(A) Section 970(b)(1) (relating to inclusion of certain previously excluded amounts of subpart F income) is amended by striking out “application of section 972” and inserting in lieu thereof “treatment (under section 972 as in effect before the date of the enactment of the Tax Reform Act of 1976) of two or more controlled foreign corporations which are export trade corporations as a single controlled foreign corporation”.

(B) The table of sections for subpart G of part III of subchapter N of chapter 1 is amended by striking out the item relating to section 972.

(28) AMENDMENTS CONFORMING TO THE AMENDMENT OF SECTION 1001.—

(A) Subsection (c) of section 331 is amended to read as follows:

“(c) CROSS REFERENCE.—

“For general rule for determination of the amount of gain or loss recognized, see section 1001.”

(B) (i) Section 1002 (relating to recognition of gain or loss) is repealed.

(ii) The table of sections for part I of subchapter O of chapter 1 is amended by striking out the item relating to section 1002.

(29) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 1020.—

(A) The third sentence of subsection (a) of section 1016 is amended by striking out “under section 1020” and inserting in lieu thereof “under section 1020 (as in effect before the date of the enactment of the Tax Reform Act of 1976)”.

(B) The table of sections for part II of subchapter O of chapter 1 is amended by striking out the item relating to section 1020.

(30) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 1022.—

(A) Section 1016(a) is amended—

(i) by striking out paragraph (21), and

(ii) by redesignating paragraphs (20) and (22) as paragraphs (19) and (20), respectively.

(B) The amendment made by subparagraph (A) (i) shall apply with respect to stock or securities acquired from a decedent dying after the date of the enactment of this Act.

(C) The table of sections for part II of subchapter O of chapter 1 is amended by striking out the item relating to section 1022.

(31) AMENDMENTS CONFORMING TO AMENDMENTS OF SECTION 1033.—

(A) Section 1250(d)(4)(B) is amended by striking out “1033(a)(3)(A)” and inserting in lieu thereof “1033(a)(2)(A)”.

(B) Section 1250(d)(4)(C) and (D) are each amended by striking out “1033(a)(3)” and inserting in lieu thereof “1033(a)(2)”.

(C) Section 6212(c)(2)(B) is amended by striking out “1033(a)(3)(C) and (D)” and inserting in lieu thereof “1033(a)(2)(C) and (D)”.

(D) Section 6504(4) is amended by striking out “1033(a)(3)(C) and (D)” and inserting in lieu thereof “1033(a)(2)(C) and (D)”.

(E) Sections 1071(b) and 1250(d)(4)(D) are each amended by striking out “1033(c)” and inserting in lieu thereof “1033(b)”.

(32) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 1111.—

(A) Section 301 is amended by striking out subsection (f), and by redesignating subsection (g) as subsection (e).

(B) (i) Section 312 is amended by striking out subsection (k), and by redesignating subsections (l) and (m) as subsections (j) and (k), respectively.

(ii) Section 1246(g) is amended by striking out “312(l)” and inserting in lieu thereof “312(j)”.

(iii) Sections 964(a) and 1248(c)(1) are each amended by striking out “312(m)(3)” and inserting in lieu thereof “312(k)(3)”.

(iv) Subsection (d) of section 1377, as added by this Act, is amended by striking out “312(m)” and inserting in lieu thereof “312(k)”.

(C) Section 535(b) is amended by striking out paragraphs (9) and (10).

(D) Section 543(a)(1) is amended by inserting “and” at the end of subparagraph (A), and by striking out subparagraphs (B) and (C) and inserting in lieu thereof the following:

“(B) interest on amounts set aside in a reserve fund under section 511 or 607 of the Merchant Marine Act, 1936 (46 U.S.C. 1161 or 1177).”

(E) Section 545(b) is amended by striking out paragraphs (10) and (11).

(F) Section 553(a)(1) is amended to read as follows:

“(1) DIVIDENDS, ETC.—Dividends, interest, royalties, and annuities.”

(G) Section 556(b) is amended by striking out paragraphs (7) and (8).

(H) Section 561(b) is amended to read as follows:

“(b) SPECIAL RULES APPLICABLE.—In determining the deduction for dividends paid, the rules provided in section 562 (relating to rules applicable in determining dividends eligible for dividends paid deduction) and section 563 (relating to dividends paid after the close of the taxable year) shall be applicable.”

(I) The table of parts for subchapter O of chapter 1 is amended by striking out the item relating to part IX.

(33) AMENDMENTS CONFORMING TO AMENDMENT OF SECTION 1222.—

(A) Section 57(a)(9)(A) is amended by striking out “the amount by which the net long-term capital gain exceeds the net short-term capital loss” and inserting in lieu thereof “the net capital gain”.

(B) So much of the first sentence of section 57(a)(9)(B) as precedes “by a fraction” is amended to read as follows: “In the case of a corporation having a net capital gain for the

taxable year, an amount equal to the product obtained by multiplying the net capital gain”.

(C) Section 527(b)(2) is amended by striking out “net section 1201 gain” and inserting in lieu thereof “net capital gain”.

(D) Sections 535(b)(6) and 545(b)(5) are each amended—

(1) by striking out from the paragraph heading “LONG-TERM” and inserting in lieu thereof “NET”,

(2) by striking out from the text “the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year” each place it appears and inserting in lieu thereof “the net capital gain for the taxable year”, and

(3) by striking out from the text “such excess” each place it appears and inserting in lieu thereof “such net capital gain”.

(E) Section 802(a)(2) is amended—

(i) by striking out “the net long-term capital gain of any life insurance company exceeds the net short-term capital loss” and inserting in lieu thereof “any life insurance company has a net capital gain”, and

(ii) by striking out “such excess” each place it appears and inserting in lieu thereof “such net capital gain”.

(F) Section 804(a)(2) is amended by striking out “by which the net long-term capital gain exceeds the net short-term capital loss” and inserting in lieu thereof “of the net capital gain”.

(G) Sections 809(b)(1)(B) and 809(b)(2)(B) are each amended by striking out “by which the net long-term capital gain exceeds the net short-term capital loss” and inserting in lieu thereof “of the net capital gain”.

(H) Section 815(b)(2)(A)(ii) is amended by striking out “by which the net long-term capital gain exceeds the net short-term capital loss” and inserting in lieu thereof “of the net capital gain”.

(I) Section 852(b)(2)(A) is amended by striking out “the excess, if any, of the net long-term capital gain over the net short-term capital loss” and inserting in lieu thereof “the amount of the net capital gain, if any”.

(J)(i) Section 852(b)(3)(A) is amended to read as follows:

“(A) IMPOSITION OF TAX.—There is hereby imposed for each taxable year in the case of every regulated investment company a tax, determined as provided in section 1201(a), on the excess, if any, of the net capital gain over the deduction for dividends paid (as defined in section 561) determined with reference to capital gain dividends only.”

(ii) The second sentence of section 852(b)(3)(C) is amended by striking out “excess of the net long-term capital gain over the net short-term capital loss” each place it appears and inserting in lieu thereof “net capital gain”.

(K) The second sentence of section 857(b)(3)(C) is amended by striking out “excess of the net long-term capital gain over the net short-term capital loss” each place it appears and inserting in lieu thereof “net capital gain”.

(L) Section 1201(b) is amended by striking out “net section 1201 gain” each place it appears and inserting in lieu thereof “net capital gain”.

(M) The first sentence of section 1202 is amended to read as follows: "If for any taxable year, a taxpayer other than a corporation has a net capital gain, 50 percent of the amount of the net capital gain shall be a deduction from gross income."

(N) Sections 381(c)(3)(B), 381(c)(3)(C), 852(d), 4940(c)(1), and 4940(c)(4) are each amended by striking out "net capital gain" and inserting in lieu thereof "capital gain net income".

(O) Section 1212(a)(1) is amended by striking out "net capital gain" each place it appears and inserting in lieu thereof "capital gain net income", and by striking out "net capital gains" and inserting in lieu thereof "capital gain net income".

(P) Section 1247(a)(1)(B) is amended by striking out "the excess (determined as if such corporation were a domestic corporation) of the net long-term capital gain over the net short-term capital loss" and inserting in lieu thereof "the amount (determined as if such corporation were a domestic corporation) of the net capital gain".

(Q)(i) Section 1375(a)(1) is amended by striking out "the excess of the corporation's net long-term capital gain over its short-term capital loss" and inserting in lieu thereof "the corporation's net capital gain".

(ii) The second sentence of section 1375(a)(1) is amended by striking out "such excess" and inserting in lieu thereof "such net capital gain".

(iii) Section 1375(a)(3) is amended by striking out "the excess of an electing small business corporation's net long-term capital gain over its net short-term capital loss" and inserting in lieu thereof "an electing small business corporation's net capital gain".

(R) The following provisions are each amended by striking out "the excess of the net long-term capital gain over the net short-term capital loss," and inserting in lieu thereof "the net capital gain": Sections 1247(a)(2)(A)(i), 1247(a)(2)(C), 1247(d)(1) and (2), 1378(a)(1), 1378(b)(1), and 1378(c)(3).

(34) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 1240.—The table of sections of part IV of subchapter P of chapter 1 is amended by striking out the item relating to section 1240.

(35) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 1315.—The table of sections for part II of subchapter Q of chapter 1 is amended by striking out the item relating to section 1315.

(36) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 1321.—

(A) Section 472 is amended by striking out subsection (f).

(B) Section 6422, as amended by this Act, is amended by striking out paragraph (2), and by redesignating paragraphs (3) through (13) as paragraphs (2) through (12), respectively.

(C) Section 6504 is amended by striking out paragraph (1).

(D) Section 6515 is amended by striking out paragraph (1).

(E) The table of parts for subchapter Q of chapter 1 is amended by striking out the item relating to part III.

(37) AMENDMENTS CONFORMING TO THE REPEAL OF SECTIONS 1331 THROUGH 1337.—

(A) The third sentence of section 901(a) is amended by striking out “under section 1333 (relating to war loss recoveries) or”.

(B) Section 936(a)(2), as added by this Act, is amended—

(i) by inserting “or” at the end of subparagraph (C), and

(ii) by striking out subparagraph (D).

(C) Section 6212(c)(2) is amended by striking out subparagraph (D).

(D) Section 6515 is amended by striking out paragraph (6).

(E) Section 6515, as amended by this Act, is amended by striking out paragraph (2), and by redesignating paragraphs (3), (4), (5), (6), (7), and (8) as paragraphs (1), (2), (3), (4), (5), and (6) respectively.

(F) The table of parts for subchapter Q of chapter 1 is amended by striking out the item relating to part IV.

(38) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 1342.—The table of sections for part V of subchapter Q of chapter 1 is amended by striking out the item relating to section 1342.

(39) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 1346.—

(A) The table of sections for part VI of subchapter Q of chapter 1 is amended by striking out the item relating to section 1346.

(B) Section 6504 is amended by striking out paragraph (7).

(40) AMENDMENT CONFORMING TO AMENDMENT OF SECTION 1372.—Section 58(d)(2) is amended by striking out “, notwithstanding the provisions of section 1371(b)(1),”.

(41) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 1465.—The table of sections for subchapter C of chapter 3 is amended by striking out the item relating to section 1465.

(c) AMENDMENTS TO PROVISIONS REFERRING TO TERRITORIES.—

(1) Section 37(f) is amended by striking out “a Territory,”.

(2) Sections 105(e)(2), 273, and 454(b)(2) are each amended by striking out “, a Territory,”.

(3) Section 117(b)(2)(A)(iv) is amended by striking out “a territory,”.

(4) Section 162(a) is amended by striking out “territory”.

(5) Section 581 is amended by striking out “, of any State, or of any Territory” and inserting in lieu thereof “or of any State”, and by striking out “, Territorial,”.

(6) Section 801(b)(3) is amended by striking out “or Territorial”.

(7) Section 861(a)(1) is amended by striking out “, any Territory, any political subdivision of a Territory,”.

(8) Paragraphs (6) and (7) of section 1014(b) are each amended by striking out “Territory,”.

(9) Section 1221(5) is amended by striking out “or Territory,”.

(d) EFFECTIVE DATE.—Except as otherwise expressly provided in this section, the amendments made by this section shall apply with respect to taxable years beginning after December 31, 1976. The amendments made by subsections (a)(29) and (b)(10) shall apply with respect to taxable years ending after the date of the enactment of this Act.

SEC. 1902. AMENDMENTS OF SUBTITLE B; ESTATE AND GIFT TAXES.

(a) IN GENERAL.—

(1) AMENDMENTS OF SECTION 2012.—

(A) Section 2012(b) (relating to credit for gift tax) is amended—

(i) by striking out “(b) In applying,” and inserting in lieu thereof “(b) VALUATION REDUCTIONS.—In applying,” and

(ii) by striking out in paragraphs (2) and (3) “deduction)—then” and inserting in lieu thereof “deduction), then”.

(B) Section 2012(c) (relating to gift by spouse or third party) is amended by striking out “(c) Where the decedent” and inserting in lieu thereof “(c) WHERE GIFT CONSIDERED MADE ONE-HALF BY SPOUSE.—Where the decedent”.

(C) Section 2012(d)(1) (relating to computation of amount of gift tax) is amended by striking out “(d)(1) For purposes of” and inserting in lieu thereof the following:

“(d) COMPUTATION OF AMOUNT OF GIFT TAX PAID.—

“(1) AMOUNT OF TAX.—For purposes of”.

(D) Section 2012(d)(2) (relating to credit for gift tax) is amended by striking out “(2) For purposes” and inserting in lieu thereof: “(2) AMOUNT OF GIFT.—For purposes”.

(2) AMENDMENTS OF SECTION 2013.—Section 2013(d)(3) is amended by striking out “, or the corresponding provision of prior law,”.

(3) AMENDMENT OF SECTION 2038.—Section 2038 (relating to revocable transfers) is amended by striking out subsection (c) (relating to effect of disability in certain cases).

(4) AMENDMENTS OF SECTION 2055.—

(A) Section 2055(b) (relating to powers of appointment) is amended to read as follows:

“(b) POWERS OF APPOINTMENT.—Property includible in the decedent’s gross estate under section 2041 (relating to powers of appointment) received by a donee described in this section shall, for purposes of this section, be considered a bequest of such decedent.”

(B) Section 2055(f) (relating to cross references) is amended to read as follows:

(f) CROSS REFERENCES.—

“(1) For option as to time for valuation for purpose of deduction under this section, see section 2032.

“(2) For exemption of gifts and bequests to or for the benefit of Library of Congress, see section 5 of the Act of March 3, 1925, as amended (2 U.S.C. 161).

“(3) For treatment of gifts and bequests for the benefit of the Office of Naval Records and History as gifts or bequests to or for the use of the United States, see section 7222 of title 10, United States Code.

“(4) For treatment of gifts and bequests to or for the benefit of National Park Foundation as gifts or bequests to or for the use of the United States, see section 8 of the Act of December 18, 1967 (16 U.S.C. 191).

“(5) For treatment of gifts, devises, or bequests accepted by the Secretary of State under the Foreign Service Act of 1946 as gifts, devises, or bequests to or for the use of the United States, see section 1021(e) of that Act (22 U.S.C. 809(e)).

“(6) For treatment of gifts or bequests of money accepted by the Attorney General for credit to ‘Commissary Funds, Federal Prisons,’ as gifts or bequests to or for the use of the United States, see section 2 of the Act of May 15, 1952, as amended by the Act of July 9, 1952 (31 U.S.C. 725s-4).

"(7) For payment of tax on gifts and bequests of United States obligations to the United States, see section 24 of the Second Liberty Bond Act (31 U.S.C. 757e).

"(8) For treatment of gifts and bequests for benefit of the Naval Academy as gifts or bequests to or for the use of the United States, see section 6973 of title 10, United States Code.

"(9) For treatment of gifts and bequests for benefit of the Naval Academy Museum as gifts or bequests to or for the use of the United States, see section 6974 of title 10, United States Code.

"(10) For exemption of gifts and bequests received by National Archives Trust Fund Board, see section 2308 of title 44, United States Code."

(5) AMENDMENTS OF SECTION 2106.—

(A) Section 2106(a)(2)(F) (relating to cross references concerning the charitable deduction for estate tax purposes) is amended to read as follows:

"(F) CROSS REFERENCES.—

"(1) For option as to time for valuation for purposes of deduction under this section, see section 2032.

"(2) For exemption of certain bequests for the benefit of the United States and for rules of construction for certain bequests, see section 2055(f)."

(B) Section 2106 (relating to taxable estate of nonresidents) is amended by striking out subsection (c) (relating to treatment of United States bonds).

(6) AMENDMENT OF SECTIONS 2107 AND 2108.—Section 2107(a) (relating to estate tax on expatriates) and section 2108(a) (relating to application of pre-1967 estate tax provisions) are each amended by striking out "the date of enactment of this section" and inserting in lieu thereof "November 13, 1966".

(7) AMENDMENT RELATING TO SECTION 2201.—

(A) Section 6(b)(1) of the Act of January 2, 1975 (Public Law 93-597; 88 Stat. 1950) is amended by striking out "Section 2210" and inserting in lieu thereof "Section 2201".

(B) The amendment made by subsection (A) is effective July 1, 1973.

(8) REPEAL OF SECTION 2202.—Section 2202 (relating to missionaries in foreign service) is repealed.

(9) AMENDMENT OF SECTION 2204.—The last sentence of section 2204(b) (relating to the discharge from personal liability of a fiduciary other than the executor) is amended by striking out "has not been" and inserting in lieu thereof "has been".

(10) AMENDMENT OF SECTION 2501.—Section 2501(a)(1) (relating to imposition of gift tax) is amended to read as follows:

"(1) GENERAL RULE.—A tax, computed as provided in section 2502, is hereby imposed for each calendar quarter on the transfer of property by gift during such calendar quarter by any individual, resident or nonresident."

(11) AMENDMENT OF SECTION 2522.—Subsection (d) of section 2522 (relating to cross references) is amended to read as follows:

"(d) CROSS REFERENCE.—

"For exemption of certain gifts to or for the benefit of the United States and for rules of construction with respect to certain gifts, see section 2055(f)."

(12) AMENDMENTS TO SECTIONS REFERRING TO TERRITORIES.—

(A) The following provisions are each amended by striking out "Territory,": sections 2055(a)(1), 2056(c)(2)(B), and 2106(a)(2)(A)(i).

(B) The following provisions are each amended by striking out “or Territory”: sections 2011(a), 2011(e), and 2053 (d).

(C) Section 2016 is amended by striking out “Territory or”.

(D) Sections 2522(a)(1) and 2522(b)(1) are each amended by striking out “Territory”.

(E) Section 2523(f)(1) is amended by striking out “Territory, or”.

(b) CONFORMING AND CLERICAL AMENDMENTS.—

(1) **AMENDMENT CONFORMING TO REPEAL OF SECTION 2202.—**The table of sections for subchapter C of chapter 11 is amended by striking out the item relating to section 2202.

(2) **AMENDMENTS CONFORMING TO AMENDMENT OF SECTION 2055.—**

(A) Section 6503, as amended by this Act, is amended by striking out subsection (e), and by redesignating subsections (f), (g), (h), and (i) as subsections (e), (f), (g), and (h), respectively.

(B) Section 6167(h)(2) is amended by striking out “section 6503(f)” and inserting in lieu thereof “section 6503(e)”.

(c) EFFECTIVE DATES.—

(1) **ESTATE TAX AMENDMENTS.—**The amendments made by paragraphs (1) through (10), and paragraphs (14) (A), (B), and (C), of subsection (a), and by subsection (b) shall apply in the case of estates of decedents dying after the date of the enactment of this Act, and the amendment made by paragraph (1) of subsection (a) shall apply in the case of estates of decedents dying after December 31, 1970.

(2) **GIFT TAX AMENDMENTS.—**The amendments made by paragraphs (12), (13), and (14) (D) and (E) of subsection (a) shall apply with respect to gifts made after December 31, 1976.

SEC. 1903. AMENDMENTS OF SUBTITLE C; EMPLOYMENT TAXES.

(a) IN GENERAL.—

(1) **AMENDMENTS OF SECTIONS 3101 AND 3111.—**

(A) Section 3101(a) (relating to rate of tax on employees for old-age, survivors, and disability insurance) and section 3111(a) (relating to rate of tax on employers for such insurance) are each amended by striking out paragraphs (1), (2), (3), and (4), and by redesignating paragraphs (5) and (6) as paragraphs (1) and (2), respectively.

(B) Section 3101(b) (relating to rate of tax on employees for hospital insurance) and section 3111(b) (relating to rate of tax on employers for such insurance) are each amended by striking out paragraphs (1) and (2), and by redesignating paragraphs (3), (4), (5), and (6) as paragraphs (1), (2), (3), and (4), respectively.

(2) **REPEAL OF SECTION 3113.—**Section 3113 (relating to application of social security tax on District of Columbia credit unions) is repealed.

(3) **AMENDMENTS OF SECTION 3121.—**

(A) Section 3121(b) (relating to employment) is amended—

(i) by striking out “performed after 1936 and prior to 1955 which was employment for purposes of subchapter A of chapter 9 of the Internal Revenue Code of 1939 under the law applicable to the period in which such service was performed, and any service, of whatever

nature, performed after 1954” and inserting in lieu thereof “, of whatever nature, performed”, and
(ii) by striking out “, in the case of service performed after 1954,”.

(B) Section 3121(b)(1) is amended by striking out “65—Stat. 119;”.

(C) Section 3121(b)(6)(B)(v) is amended by striking out “Secretary of the Treasury” and inserting in lieu thereof “Secretary of Transportation”.

(D) Section 3121(g)(3) (relating to agricultural labor) is amended by striking out “46 Stat. 1550, § 3;”.

(E) Section 3121(k)(1) (relating to exemption of certain organizations) is amended by striking out subparagraphs (F) and (H) and by redesignating subparagraph (G) as subparagraph (F).

(F) Section 3121(l)(2) (relating to employees of foreign subsidiaries) is amended by striking out “, but in no case prior to January 1, 1955”.

(G) Section 3121(m)(1) (relating to service in the uniformed services) is amended by striking out “after December 1956”.

(4) AMENDMENTS OF SECTION 3122.—The last sentence of section 3122 (relating to Federal service) is amended by striking out “Secretary” each place it appears and inserting in lieu thereof “Secretary of Transportation”.

(5) AMENDMENT OF SECTION 3125.—Section 3125(c) (relating to returns in the case of Governmental employees in the District of Columbia) is amended by striking out “Commissioners of the District of Columbia or such agents as they may designate” and by inserting in lieu thereof “Mayor of the District of Columbia or such agents as he may designate”.

(6) AMENDMENT OF SECTION 3201.—Section 3201 (relating to rate of tax on railroad employees) is amended—

(A) by striking out “of the Internal Revenue Code of 1954” each place it appears;

(B) by striking out “of such Code”;

(C) by striking out “after September 30, 1973, as is” and inserting in lieu thereof “as is”; and

(D) by striking out “any month after September 30, 1973” and inserting in lieu thereof “any month”.

(7) AMENDMENTS OF SECTION 3202.—

(A) The second sentence of section 3202(a) (relating to reduction of tax by railroad employer) is amended—

(i) by striking out “after September 30, 1973,” each place it appears;

(ii) by striking out “after September 30, 1973 and the aggregate” and inserting in lieu thereof “and the aggregate”;

(iii) by striking out “of the Internal Revenue Code of 1954” each place it appears; and

(iv) by inserting a comma immediately after “for any month” each place it appears.

(B) Section 3202(b) (relating to indemnification of employer) is amended by striking out “made”.

(8) AMENDMENTS OF SECTION 3211.—Section 3211(a) (relating to rate of tax on railroad employee representatives) is amended—

(A) by striking out “3111(a), 3111(b)” and inserting in lieu thereof “3111(a), and 3111(b)”;

(B) by striking out “of the Internal Revenue Code of 1954” each place it appears;

(C) by striking out “rendered by him after September 30, 1973,” and inserting in lieu thereof “rendered by him”; and

(D) by striking out “after September 30, 1973”.

(9) AMENDMENTS OF SECTION 3221.—

(A) The first sentence of section 3221(a) (relating to rate of tax on railroad employers) is amended—

(i) by striking out “after September 30, 1973,” each place it appears;

(ii) by striking out “after September 30, 1973; except that” and inserting in lieu thereof “, except that”;

(iii) by striking out “after September 30, 1973 of the aggregate” and inserting in lieu thereof “of the aggregate”;

(iv) by striking out “of the Internal Revenue Code of 1954” each place it appears; and

(v) by inserting a comma before “the tax imposed”.

(B) Section 3221(b) (relating to rate of tax on railroad employers) is amended to read as follows:

“(b) The rate of tax imposed by subsection (a) shall be increased by the rate of tax imposed with respect to wages by section 3111(a) plus the rate imposed by section 3111(b).”

(C) Section 3221(c) (relating to additional railroad retirement tax) is amended—

(i) by striking out “(1) at the rate of 2 cents for the period beginning November 1, 1966, and ending March 31, 1970, and (2) commencing April 1, 1970,” and

(ii) by striking out “commencing with the quarter beginning April 1, 1970”.

(10) AMENDMENTS OF SECTION 3231.—

(A) Section 3231(a) (defining employer) is amended by striking out “44 Stat. 577;”.

(B) Section 3231(b) (defining employee) is amended by striking out “50 Stat. 312;”.

(C) Section 3231(c) (defining employee representative) is amended by striking out “44 Stat. 577;”.

(D) Section 3231(d) (7) (defining service) is amended by striking out “50 Stat. 308;”.

(11) AMENDMENTS OF SECTION 3301.—Section 3301 (relating to Federal unemployment tax rate) is amended—

(A) by striking out “the calendar year 1970 and each calendar year thereafter” and inserting in lieu thereof “each calendar year”, and

(B) by striking out the last sentence.

(12) AMENDMENTS OF SECTION 3302.—

(A) Section 3302(a) (relating to credits against tax) is amended by striking out “(10-month period in the case of October 31, 1972)”.

(B) Section 3302(b) (relating to additional credit) is amended—

(i) by striking out “(10-month period in the case of October 31, 1972)”, and

(ii) by striking out "12 or 10-month period, as the case may be," and inserting in lieu thereof "12-month period".

(C)(i) Section 3302(c) (relating to limitation on credits against unemployment tax) is amended by striking out paragraph (2) and the unnumbered paragraph immediately following such paragraph (2) (relating to advances made to a State unemployment account before September 13, 1960), and by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively.

(ii) Section 3302(c)(2) (relating to advances made to a State unemployment account after September 12, 1960), as redesignated by clause (i) of this subparagraph, is amended by striking out "on or after the date of the enactment of the Employment Security Act of 1960", and by striking out "paragraphs (1) and (2)" and inserting in lieu thereof "paragraph (1)".

(iii) Section 3302(c)(3) (relating to reductions with respect to certain agreements under the Trade Act of 1974), as redesignated by clause (i) of this subparagraph, is amended by striking out "paragraphs (1), (2), and (3)" and inserting in lieu thereof "paragraphs (1) and (2)".

(iv) Section 3302(d)(3) (relating to effect of repayment of advances) is amended by striking out "or (3)".

(v) Section 3302(d)(4), (5), and (6) (relating to special rules) are each amended by striking out "subsection (c)(3)" each place it appears and inserting in lieu thereof "subsection (c)(2)".

(vi) Section 3302(d)(7) (relating to determination and certification of percentages) is amended by striking out "subsection (c)(3)(B) or (C)" and inserting in lieu thereof "subsection (c)(2)(B) or (C)".

(D) Section 3302(d) (relating to special rules for credits against the unemployment tax) is amended by striking out paragraph (8) (a cross reference).

(13) AMENDMENTS TO SECTION 3303.—Section 3303(b) (relating to certification with respect to additional credit allowance) is amended—

(A) by striking out "(10-month period in the case of October 31, 1972)" each place it appears,

(B) by striking out "12 or 10-month period, as the case may be," each place it appears in paragraphs (1) and (2), and inserting in lieu thereof "12-month period", and

(C) by striking out "12 or 10-month period, as the case may be," in paragraph (3) and inserting in lieu thereof "12-month period,".

(14) AMENDMENTS TO SECTION 3304.—

(A) Section 3304(a)(3) (relating to requirements) is amended by striking out "49 Stat. 640; 52 Stat. 1104, 1105";.

(B) Section 3304(c) (relating to certification) is amended by striking out "(10-month period in the case of October 31, 1972)".

(15) AMENDMENTS OF SECTION 3305.—

(A) Section 3305(g) (relating to vessels operated by general agents of the United States) is amended by striking out "on or after July 1, 1953,".

(B) Section 3305(h) (relating to certain contributions to States) is amended by striking out “on or after July 1, 1953, and”.

(C) Section 3305(j) (relating to denial of credits in certain cases) is amended by striking out “after December 31, 1971.”.

(16) AMENDMENTS OF SECTION 3306.—

(A) Section 3306(c) (9) (relating to the exclusion of service performed by certain employees and employee representatives from the definition of employment) is amended by striking out “52 Stat. 1094, 1095;”.

(B) Section 3306(c) (18) (relating to the exclusion of certain service performed by nonresident aliens from the definition of employment) is amended by inserting after the “Immigration and Nationality Act, as amended” the following: “(8 U.S.C. 1101(a) (15) (F) or (J))”.

(C) Section 3306(f) (relating to the definition of an unemployment fund) is amended by striking out “49 Stat. 640; 52 Stat. 1104, 1105;”.

(D) Section 3306(n) (relating to vessels operated by general agents of the United States) is amended by striking out “on or after July 1, 1953,”.

(17) AMENDMENT OF SECTION 3402.—Section 3402(1) (3) (B) (relating to marital status) is amended by striking out “section 2(b)” and inserting in lieu thereof “section 2(a)”.

(b) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 3113.—The table of sections for subchapter B of chapter 21 is amended by striking out the item relating to section 3113.

(c) AMENDMENTS TO PROVISIONS REFERRING TO TERRITORIES.—Sections 3401(c) and 3404 are each amended by striking out “Territory,” each place it appears.

(d) EFFECTIVE DATES.—The amendments made by this section shall apply with respect to wages paid after December 31, 1976, except that the amendments made to chapter 22 of the Internal Revenue Code of 1954 shall apply with respect to compensation paid for services rendered after December 31, 1976.

SEC. 1904. AMENDMENTS OF SUBTITLE D; MISCELLANEOUS EXCISE TAXES.

(a) IN GENERAL.—

(1) AMENDMENTS OF CHAPTER 31.—

(A) So much of chapter 31 (relating to retailers excise taxes) as precedes section 4041 is amended to read as follows:

“CHAPTER 31—SPECIAL FUELS

“Sec. 4041. Imposition of tax.”

(B) Section 4041(g) (relating to exemptions from fuel taxes) is amended to read as follows:

“(g) OTHER EXEMPTIONS.—Under regulations prescribed by the Secretary, no tax shall be imposed under this section—

“(1) on any liquid sold for use or used as supplies for vessels or aircraft (within the meaning of section 4221(d) (3));

“(2) with respect to the sale of any liquid for the exclusive use of any State, any political subdivision of a State, or the District of Columbia, or with respect to the use by any of the foregoing of any liquid as a fuel;

“(3) upon the sale of any liquid for export, or for shipment to a possession of the United States, and in due course so exported or shipped; and

“(4) with respect to the sale of any liquid to a nonprofit educational organization for its exclusive use, or with respect to the use by a nonprofit educational organization of any liquid as a fuel. For purposes of paragraph (4), the term ‘nonprofit educational organization’ means an educational organization described in section 170(b)(1)(A)(ii) which is exempt from income tax under section 501(a). The term also includes a school operated as an activity of an organization described in section 501(c)(3) which is exempt from income tax under section 501(a), if such school normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on.”

(C) Section 4041 (relating to tax on fuels) is amended by adding at the end thereof the following new subsection:

“(i) SALES BY UNITED STATES, ETC.—The taxes imposed by this section shall apply with respect to liquids sold at retail by the United States, or by any agency or instrumentality of the United States, unless sales by such agency or instrumentality are by statute specifically exempted from such taxes.”

(D) Chapter 31 is amended by striking out section 4042 (a cross reference) and subchapter F (special provisions applicable to retailers taxes).

(2) AMENDMENTS OF SECTION 4216.—

(A) Section 4216 (relating to definition of price) is amended by redesignating subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively.

(B) Paragraphs (3), (4), and (5) of section 4216(b) (relating to constructive sales price) are each amended by striking out “subsections (a) and (f)” each place it appears and inserting in lieu thereof “subsections (a) and (e)”.

(3) AMENDMENT OF SECTION 4217.—Section 4217(d) (relating to lease treated as sale) is amended by striking out paragraph (4) (relating to certain 1958 transitional rules).

(4) REPEAL OF SECTION 4226.—Section 4226 (relating to floor-stock taxes imposed before 1967) is repealed.

(5) AMENDMENT OF SECTION 4227.—Section 4227 (relating to cross references) is amended to read as follows:

“SEC. 4227. CROSS REFERENCE.

“For credit for taxes on tires and inner tubes, see section 6416(c).”

(6) AMENDMENT OF SECTION 4253.—Section 4253 (relating to exemptions from the tax on communications services) is amended by adding at the end thereof the following new subsections:

“(i) STATE AND LOCAL GOVERNMENTAL EXEMPTION.—Under regulations prescribed by the Secretary, no tax shall be imposed under section 4251 upon any payment received for services or facilities furnished to the government of any State, or any political subdivision thereof, or the District of Columbia.

“(j) EXEMPTION FOR NONPROFIT EDUCATIONAL ORGANIZATIONS.—Under regulations prescribed by the Secretary, no tax shall be imposed under section 4251 on any amount paid by a nonprofit educational organization for services or facilities furnished to such organization. For purposes of this subsection, the term ‘nonprofit educational organization’ means an educational organization described in section

170(b)(1)(A)(ii) which is exempt from income tax under section 501(a). The term also includes a school operated as an activity of an organization described in section 501(c)(3) which is exempt from income tax under section 501(a), if such school normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on."

(7) AMENDMENTS OF SECTION 4261.—

(A) Subsections (a) and (b) of section 4261 (relating to tax on transportation of persons by air) are each amended by striking out "which begins after June 30, 1970,".

(B) Section 4261(c) is amended by striking out "and begins after June 30, 1970".

(8) AMENDMENT OF SECTION 4271.—Section 4271(a) (relating to tax on transportation of property by air) is amended by striking out "which begins after June 30, 1970,".

(9) REPEAL OF SECTION 4292.—Section 4292 (relating to State and local governmental exemption from the tax on communications services) is repealed.

(10) REPEAL OF SECTION 4294.—Section 4294 (relating to exemption of nonprofit educational organizations from the tax on communications services) is repealed.

(11) REPEAL OF SECTION 4295.—Section 4295 (a cross reference) is repealed.

(12) AMENDMENT OF CHAPTER 34.—Chapter 34 (relating to documentary stamp taxes) is amended to read as follows:

"CHAPTER 34—POLICIES ISSUED BY FOREIGN INSURERS

"Sec. 4371. Imposition of tax.

"Sec. 4372. Definitions.

"Sec. 4373. Exemptions.

"Sec. 4374. Liability for tax.

"SEC. 4371. IMPOSITION OF TAX.

"There is hereby imposed, on each policy of insurance, indemnity bond, annuity contract, or policy of reinsurance issued by any foreign insurer or reinsurer, a tax at the following rates:

"(1) CASUALTY INSURANCE AND INDEMNITY BONDS.—4 cents on each dollar, or fractional part thereof, of the premium paid on the policy of casualty insurance or the indemnity bond, if issued to or for, or in the name of, an insured as defined in section 4372(d);

"(2) LIFE INSURANCE, SICKNESS AND ACCIDENT POLICIES, AND ANNUITY CONTRACTS.—1 cent on each dollar, or fractional part thereof, of the premium paid on the policy of life, sickness, or accident insurance, or annuity contract, unless the insurer is subject to tax under section 819; and

"(3) REINSURANCE.—1 cent on each dollar, or fractional part thereof, of the premium paid on the policy of reinsurance covering any of the contracts taxable under paragraph (1) or (2).

"SEC. 4372. DEFINITIONS.

"(a) FOREIGN INSURER OR REINSURER.—For purposes of section 4371, the term 'foreign insurer or reinsurer' means an insurer or reinsurer who is a nonresident alien individual, or a foreign partnership, or a

foreign corporation. The term includes a nonresident alien individual, foreign partnership, or foreign corporation which shall become bound by an obligation of the nature of an indemnity bond. The term does not include a foreign government, or municipal or other corporation exercising the taxing power.

“(b) **POLICY OF CASUALTY INSURANCE.**—For purposes of section 4371(1), the term ‘policy of casualty insurance’ means any policy (other than life) or other instrument by whatever name called whereby a contract of insurance is made, continued, or renewed.

“(c) **INDEMNITY BOND.**—For purposes of this chapter, the term ‘indemnity bond’ means any instrument by whatever name called whereby an obligation of the nature of an indemnity, fidelity, or surety bond is made, continued, or renewed. The term includes any bond for indemnifying any person who shall have become bound or engaged as surety, and any bond for the due execution or performance of any contract, obligation, or requirement, or the duties of any office or position, and to account for money received by virtue thereof, where a premium is charged for the execution of such bond.

“(d) **INSURED.**—For purposes of section 4371(1), the term ‘insured’ means—

“(1) a domestic corporation or partnership, or an individual resident of the United States, against, or with respect to, hazards, risks, losses, or liabilities wholly or partly within the United States, or

“(2) a foreign corporation, foreign partnership, or nonresident individual, engaged in a trade or business within the United States, against, or with respect to, hazards, risks, losses, or liabilities within the United States.

“(e) **POLICY OF LIFE, SICKNESS, OR ACCIDENT INSURANCE, OR ANNUITY CONTRACT.**—For purposes of section 4371(2), the term ‘policy of life, sickness, or accident insurance, or annuity contract’ means any policy or other instrument by whatever name called whereby a contract of insurance or an annuity contract is made, continued, or renewed with respect to the life or hazards to the person of a citizen or resident of the United States.

“(f) **POLICY OF REINSURANCE.**—For purposes of section 4371(3), the term ‘policy of reinsurance’ means any policy or other instrument by whatever name called whereby a contract of reinsurance is made, continued, or renewed against, or with respect to, any of the hazards, risks, losses, or liabilities covered by contracts taxable under paragraph (1) or (2) of section 4371.

“SEC. 4373. EXEMPTIONS.

“The tax imposed by section 4371 shall not apply to—

“(1) **DOMESTIC AGENT.**—Any policy, indemnity bond, or annuity contract signed or countersigned by an officer or agent of the insurer in a State, or in the District of Columbia, within which such insurer is authorized to do business; or

“(2) **INDEMNITY BOND.**—Any indemnity bond required to be filed by any person to secure payment of any pension, allowance, allotment, relief, or insurance by the United States, or to secure a duplicate for, or the payment of, any bond, note, certificate of indebtedness, war-saving certificate, warrant, or check, issued by the United States.

“SEC. 4374. LIABILITY FOR TAX.

“The tax imposed by this chapter shall be paid, on the basis of a return, by any person who makes, signs, issues, or sells any of the

documents and instruments subject to the tax, or for whose use or benefit the same are made, signed, issued, or sold. The United States or any agency or instrumentality thereof shall not be liable for the tax."

(13) AMENDMENT OF SECTION 4493.—

(A) Section 4493(b)(1) (relating to certain persons engaged in foreign air commerce) is amended by striking out "beginning on or after July 1, 1970".

(B) Section 4493(b)(2) is amended by striking out the last sentence.

(14) AMENDMENT OF CHAPTER 37.—So much of chapter 37 as precedes section 4501 (relating to tax on sugar) is amended to read as follows:

"CHAPTER 37—SUGAR

"Sec. 4501. Imposition of tax.

"Sec. 4502. Definitions.

"Sec. 4503. Exemptions for sugar manufactured for home consumption."

(15) REPEAL OF SECTIONS 4591 THROUGH 4597.—Chapter 38 (relating to import taxes on oleomargarine) is repealed.

(16) REPEAL OF SECTIONS 4801 THROUGH 4806.—Subchapter B of chapter 39 (relating to tax on white phosphorus matches) is repealed.

(17) REPEAL OF SECTIONS 4811 THROUGH 4826.—Subchapter C of chapter 39 (relating to tax on unadulterated butter) is repealed.

(18) REPEAL OF SECTIONS 4881 THROUGH 4886.—Subchapter E of chapter 39 (relating to tax on circulation other than of national banks) is repealed.

(19) AMENDMENT OF SECTION 4901.—Section 4901 (relating to payment of occupational taxes) is amended by striking out subsection (c).

(20) AMENDMENT OF SECTION 4905.—Section 4905(a) (relating to liability for occupational taxes in case of death or change of location) is amended by striking out "wife" and inserting in lieu thereof "spouse".

(21) REPEAL OF SECTION 4911 THROUGH 4931.—

(A) Chapter 41 (relating to interest equalization tax) is repealed.

(B) The repeal made by subparagraph (A) shall apply with respect to acquisitions of stock and debt obligations made after June 30, 1974.

(22) AMENDMENTS OF SECTION 4973.—

(A) So much of section 4973(a) (relating to tax on excess contributions) as follows "of any individual," in paragraph

(3) thereof is amended to read as follows:

"there is imposed for each taxable year a tax in an amount equal to 6 percent of the amount of the excess contributions to such individual's accounts, annuities, or bonds (determined as of the close of the taxable year). The amount of such tax for any taxable year shall not exceed 6 percent of the value of the account, annuity, or bond (determined as of the close of the taxable year). In the case of an endowment contract described in section 408(b), the tax imposed by this section does not apply to any amount allocable to life, health, accident, or other insurance under such contract. The tax imposed by this subsection shall be paid by such individual."

(B) Section 4973(c) is amended by striking out “subsection (a)(3)” and inserting in lieu thereof “subsection (a)(2)”.

(b) CONFORMING AND CLERICAL AMENDMENTS.—

(1) AMENDMENTS CONFORMING TO AMENDMENT OF CHAPTER 31.—

(A) Section 6416(a)(1) is amended by striking out “(retailers taxes)” and inserting in lieu thereof “(special fuels)”.

(B) Section 6416(e) is amended by striking out “subchapter E of”.

(2) AMENDMENT CONFORMING TO AMENDMENT OF SECTION 4216.—Section 6416(b)(1) is amended by striking out “section 4216(f)(2) and (3)” and inserting in lieu thereof “section 4216(e)(2) and (3)”.

(3) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 4226.—The table of sections for subchapter G of chapter 32 is amended by striking out the item relating to section 4226.

(4) AMENDMENT CONFORMING TO THE REPEAL OF SECTIONS 4292, 4294, AND 4295.—The table of sections for subchapter E of chapter 33 is amended by striking out the items relating to sections 4292, 4294, and 4295.

(5) AMENDMENTS CONFORMING TO THE AMENDMENT OF CHAPTER 34.—

(A) Section 7270 is amended by striking out “the affixing of stamps on insurance policies, etc.” and inserting in lieu thereof “liability for tax on policies issued by foreign insurers”.

(B) Section 6808 is amended by striking out paragraph (4).

(6) AMENDMENTS CONFORMING TO THE AMENDMENT OF CHAPTER 37.—

(A) Section 7240 is amended by striking out “subchapter A of”.

(B) Section 7655(a) is amended—

(i) by striking out “Subchapter A of chapter 37” in paragraph (5) and inserting in lieu thereof “Chapter 37”, and

(ii) by redesignating paragraph (5) as paragraph (3).

(7) AMENDMENTS CONFORMING TO REPEAL OF SECTIONS 4591 THROUGH 4597.—

(A) Section 6808 is amended by striking out paragraph (7).

(B)(i) Section 7234 (relating to violations of laws concerning oleomargarine or adulterated butter operation) is repealed.

(ii) The table of sections for part II of subchapter A of chapter 75 is amended by striking out the item relating to section 7234.

(C)(i) Section 7265 (relating to other offenses concerning oleomargarine or adulterated butter operations) is repealed.

(ii) The table of sections for subchapter B of chapter 75 is amended by striking out the item relating to section 7265.

(D) Section 7611(a), as redesignated by this Act, is amended by striking out paragraph (1).

(E) The table of chapters for subtitle D is amended by striking out the item relating to chapter 38.

(8) AMENDMENTS CONFORMING TO REPEAL OF SECTIONS 4801 THROUGH 4806.—

(A) Section 4905(b) is amended to read as follows:

“(b) REGISTRATION.—

“For registration in case of wagering, see section 4412.”

(B) Section 6808 is amended by striking out paragraph (12).

(C) Section 7012 is amended by striking out subsection (e).

(D) (i) Section 7239 (relating to violations of laws concerning white phosphorus matches) is repealed.

(ii) The table of sections for part II of subchapter A of chapter 75 is amended by striking out the item relating to section 7239.

(E) (i) Sections 7267 and 7274 (relating to offenses and penalties concerning white phosphorus matches) are each repealed.

(ii) The table of sections for subchapter B of chapter 75 is amended by striking out the items relating to sections 7267 and 7274.

(F) Section 7272(b) is amended by striking out “4804 (d).”

(G) Section 7303 is amended by striking out paragraph (6).

(H) (i) Part II of subchapter C of chapter 75 (relating to provisions common to forfeitures) is amended by striking out section 7328 (relating to confiscation of white phosphorus matches), and by redesignating section 7329 (relating to cross references) as section 7328.

(ii) The table of sections for part II of subchapter C of chapter 75 is amended by striking out the last two items and inserting in lieu thereof the following:

“Sec. 7328. Cross references.”

(9) AMENDMENTS CONFORMING TO REPEAL OF SECTIONS 4811 THROUGH 4826.—

(A) Section 6808 (relating to cross references) is amended by striking out paragraph (10).

(B) (i) Section 7235 (relating to violations of laws concerning adulterated butter and process or renovated butter) is repealed.

(ii) The table of sections for part II of subchapter A of chapter 75 is amended by striking out the item relating to section 7235.

(C) (i) Section 7264 (relating to offenses concerning renovated or adulterated butter) is repealed.

(ii) The table of sections for subchapter B of chapter 75 is amended by striking out the item relating to section 7264.

(D) Section 7303 is amended by striking out paragraphs (3), (4), and (5), and by redesignating paragraphs (7) and (8) as paragraphs (2) and (3), respectively.

(E) Section 7611(a), as redesignated by this Act, is amended by striking out paragraph (2), and by redesignating paragraphs (5) and (6) as paragraphs (1) and (2), respectively.

(10) AMENDMENTS CONFORMING TO THE REPEAL OF SECTIONS 4911 THROUGH 4931.—

(A) (i) (I) Section 263, as amended by this Act, is amended by striking out subsections (a) (3) and (d) (relating to the allowance of deductions for payment of interest equalization tax), and by redesignating subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively.

(II) Section 263(d), as redesignated by clause (i) (I) of this subparagraph, is amended by striking out "subsection (f)" and inserting in lieu thereof "subsection (e)".

(ii) Section 6011 (relating to requirement of return, statement, or list) is amended by striking out subsection (d) (relating to interest equalization tax returns, etc.), and by redesignating subsections (e) and (f) as subsections (c) and (d), respectively.

(iii) (I) Section 6076 (relating to time for filing interest equalization tax returns) is repealed.

(II) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6076.

(iv) Section 6611 (relating to interest on overpayments) is amended by striking out subsection (h) (relating to overpayments of interest equalization tax) and by redesignating subsection (i) as subsection (h).

(v) Section 6651 (relating to failure to file tax return or to pay tax) is amended by striking out subsection (e) (relating to certain interest equalization tax returns).

(vi) (I) Section 6680 (relating to failure to file interest equalization tax returns) is repealed.

(II) The table of sections for subchapter B of chapter 68 is amended by striking out the item relating to section 6680.

(vii) The amendments made by this subparagraph shall apply with respect to acquisitions of stock or debt obligations made after June 30, 1974, except that the repeal of paragraph (2) of section 6011(d) under clause (ii) shall apply with respect to loans and commitments made after such date.

(B) Section 861(a)(1)(G) (relating to income from sources within the United States) is amended—

(i) by striking out "section 4912(c)" and inserting in lieu thereof "subsection (c) of section 4912 (as in effect before July 1, 1974)"; and

(ii) by striking out "section 4912(c)(2)" and inserting in lieu thereof "subsection (c)(2) of such section".

(C) The second sentence of section 1232(b)(2) (relating to the definition of the issue price of bonds and other evidences of indebtedness) is amended by striking out "section 4911" and inserting in lieu thereof "section 4911, as in effect before July 1, 1974".

(D) (i) Section 6681 (relating to false equalization tax certificates) is repealed.

(ii) The table of sections for subchapter B of chapter 68 is amended by striking out the item relating to section 6681.

(iii) The amendments made by this subparagraph shall apply with respect to actions occurring after June 30, 1974.

(E) (i) Section 6689 (relating to failure by certain foreign issuers and obligors to comply with United States investment equalization tax requirements) is repealed.

(ii) The table of sections for subchapter B of chapter 68 is amended by striking out the item relating to section 6689.

(iii) The amendments made by this subparagraph shall apply with respect to stock or debt obligations issued after June 30, 1974.

(F) (i) Section 7241 (relating to penalty for fraudulent equalization tax certificates) is repealed.

(ii) The table of sections for part II of subchapter A of chapter 75 is amended by striking out the item relating to section 7241.

(iii) The amendments made by this subparagraph shall apply with respect to statements and certificates executed after June 30, 1974.

(G) The table of chapters for subtitle D is amended by striking out the item relating to chapter 41.

(c) AMENDMENT TO PROVISION REFERRING TO TERRITORIES.—Section 4482(c)(1) is amended by striking out “, a Territory of the United States,”.

(d) EFFECTIVE DATE.—Except as otherwise provided in this section, the amendments made by this section shall take effect on the first day of the first month which begins more than 90 days after the date of the enactment of this Act.

SEC. 1905. AMENDMENTS OF SUBTITLE E; ALCOHOL, TOBACCO, AND CERTAIN OTHER EXCISE TAXES.

(a) IN GENERAL.—

(1) AMENDMENT OF SECTION 5005.—Section 5005(c)(2) (relating to transfers in bond of distilled spirits) is amended by striking out the last two sentences and inserting in lieu thereof the following: “Such relief from liability shall be effective from the time of removal from the transferor’s bonded premises, or from the time of divestment of interest, whichever is later.”

(2) AMENDMENTS OF SECTION 5008.—

(A) Section 5008(b)(1) (relating to abatement, remission, refund, and allowance for loss of destruction of distilled spirits) is amended by inserting immediately after “the tax imposed by this chapter” the following: “or by section 7652”.

(B) Section 5008(b)(2) is amended by striking out “the taxes imposed under section 5001(a)(1)” and all that follows and inserting in lieu thereof the following: “the taxes imposed under section 5001(a)(1), under subpart B of this part, or under section 7652 on the spirits so destroyed, to the proprietor of the distilled spirits plant who withdrew the distilled spirits on payment or determination of tax.”

(C) Subsections (c)(1) and (d)(1) of section 5008 are each amended by inserting immediately after “under section 5001(a)(1)” the following: “or under section 7652”.

(D) Section 5008(d)(1) is amended by striking out “, on or after July 1, 1959,”.

(3) AMENDMENT OF SECTION 5009.—Section 5009(b)(3) is amended by striking out “46 Stat. 694;”.

(4) AMENDMENT OF SECTION 5025.—Section 5025(j) (relating to stabilization of distilled spirits) is amended by striking out “the bottling of distilled spirits,” and inserting in lieu thereof “the bottling of distilled spirits, or preparatory to exportation,”.

(5) AMENDMENT OF SECTION 5054.—Section 5054 (relating to determination and collection of tax on beer) is amended by striking out subsection (c) (relating to stamps or other devices as

evidence of payment of tax) and by redesignating subsection (d) as subsection (c).

(6) AMENDMENTS OF SECTION 5061.—

(A) Section 5061(a) (relating to collections of alcohol taxes) is amended by striking out the last sentence.

(B) Section 5061(b) (relating to methods of collection) is amended to read as follows:

“(b) EXCEPTIONS.—Notwithstanding the provisions of subsection (a), any taxes imposed on, or amounts to be paid or collected in respect of, distilled spirits, wines, rectified distilled spirits and wines, and beer under—

“(1) section 5001(a) (5), (6), or (7),

“(2) section 5006(c) or (d),

“(3) section 5026(a) (2),

“(4) section 5041(d),

“(5) section 5043(a) (3),

“(6) section 5054(a) (3) or (4), or

“(7) section 5505(a),

shall be immediately due and payable at the time provided by such provisions (or if no specific time for payment is provided, at the time the event referred to in such provision occurs). Such taxes and amounts shall be assessed and collected by the Secretary on the basis of the information available to him in the same manner as taxes payable by return but with respect to which no return has been filed.”

(C) Section 5061(c) (relating to applicability of other provisions of law) is amended to read as follows:

“(c) IMPORT DUTIES.—The internal revenue taxes imposed by this part shall be in addition to any import duties unless such duties are specifically designated as being in lieu of internal revenue tax.”

(7) AMENDMENT OF SECTION 5113.—Section 5113(f) (1) (relating to retail dealers in liquors) is amended by striking out “wines or beer” and inserting in lieu thereof “distilled spirits, wines, or beer”.

(8) AMENDMENTS OF SECTION 5117.—Section 5117 (relating to prohibited purchases by dealers) is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

“(b) LIMITED RETAIL DEALERS.—A limited retail dealer may lawfully purchase distilled spirits for resale from a retail dealer in liquors.”

(9) AMENDMENT OF SECTION 5121.—Section 5121(c) (relating to limited retail dealers) is amended to read as follows:

“(c) LIMITED RETAIL DEALERS.—Every limited retail dealer shall pay a special tax of \$4.50 for each calendar month in which sales are made as such dealer; except that the special tax shall be \$2.20 for each calendar month in which only sales of beer or wine are made.”

(10) AMENDMENT OF SECTION 5122.—Section 5122(c) (relating to definition of limited retail dealer) is amended by striking out “beer or wine” each place it appears and inserting in lieu thereof “distilled spirits, wine, or beer”.

(11) AMENDMENT OF SECTION 5131.—Section 5131(a) (relating to eligibility for drawback) is amended by striking out “produced in a domestic registered distillery or industrial alcohol plant and withdrawn from bond, or using distilled spirits withdrawn from the bonded premises of a distilled spirits plant.”