The original documents are located in Box 60, folder "10/4/76 HR10612 Tax Reform Act of 1976 (5)" of the White House Records Office: Legislation Case Files at the Gerald R. Ford Presidential Library.

SEC. 1023. EXCLUSION FROM SUBPART F OF CERTAIN EARNINGS OF INSURANCE COMPANIES.

(a) IN GENERAL.—Paragraph (3) of section 954(c) (relating to foreign personal holding company income) is amended by striking out "or" at the end of subparagraph (A), by striking out the period at the end of subparagraph (B) and inserting in lieu thereof ", or", and by adding at the end thereof the following new subparagraph:

"(C) dividends, interest, and gains from the sale or exchange of stock or securities received from a person other than a related person (within the meaning of subsection (d)(3)) derived from investments made by an insurance company of an amount of its assets equal to one-third of its premiums earned on insurance contracts (other than life insurance and annuity contracts) during the taxable year (as defined in section 832(b)(4)) which are not directly or indirectly attributable to the insurance or reinsurance of risks of persons who are related persons (within the meaning of subsection (d)(3)).".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of foreign corporations beginning after December 31, 1975, and to taxable years of United States shareholders (within the meaning of section 951(b) of the Internal Revenue Code of 1954) within which or with which such taxable years of such foreign corporations end.

SEC. 1024. SHIPPING PROFITS OF FOREIGN CORPORATIONS.

(a) CERTAIN SHIPPING OPERATIONS.—Subsection (b) of section 954 (relating to foreign base company income) is amended by adding at the end thereof the following new paragraph:

"(7) SPECIAL EXCLUSION FOR FOREIGN BASE COMPANY SHIPPING INCOME.—Income of a corporation which is foreign base company shipping income under paragraph (4) of subsection (a) (determined without regard to the exclusion under paragraph (2) of this subsection) shall be excluded from foreign base company income if derived by a controlled foreign corporation from, or in connection with, the use (or hiring or leasing for use) of an aircraft or vessel in foreign commerce between two points within the foreign country in which such corporation is created or organized and such aircraft or vessel is registered."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years of foreign corporations beginning after December 31, 1975, and to taxable years of United States shareholders (within the meaning of section 951(b) of the Internal Revenue Code of 1954) within which or with which such taxable years of such foreign corporations end.

PART III—AMENDMENTS AFFECTING TREATMENT OF FOREIGN TAXES

SEC. 1031. REQUIREMENT THAT FOREIGN TAX CREDIT BE DETERMINED ON OVERALL BASIS.

(a) OVERALL LIMITATION ON FOREIGN TAX CREDIT.—Section 904 (relating to limitation on foreign tax credit) is amended to read as follows:

"SEC. 904. LIMITATION ON CREDIT.

"(a) LIMITATION.—The total amount of the credit taken under section 901(a) shall not exceed the same proportion of the tax against

which such credit is taken which the taxpayer's taxable income from sources without the United States (but not in excess of the taxpayer's entire taxable income) bears to his entire taxable income for the same taxable year.

"(b) TAXABLE INCOME FOR PURPOSES OF COMPUTING LIMITATION.—For purposes of subsection (a), the taxable income in the case of an individual, estate, or trust shall be computed without any deduction for personal exemptions under section 151 or 642(b).

"(c) CARRYBACK AND CARRYOVER OF EXCESS TAX PAID.—Any amount by which all taxes paid or accrued to foreign countries or possessions of the United States for any taxable year for which the taxpayer chooses to have the benefits of this subpart exceed the limitation under subsection (a) shall be deemed taxes paid or accrued to foreign countries or possessions of the United States in the second preceding taxable year, in the first preceding taxable year, and in the first, second, third, fourth, or fifth succeeding taxable years, in that order and to the extent not deemed taxes paid or accrued in a prior taxable year, in the amount by which the limitation under subsection (a) for such preceding or succeeding taxable year exceeds the sum of the taxes paid or accrued to foreign countries or possessions of the United States for such preceding or succeeding taxable year and the amount of the taxes for any taxable year earlier than the current taxable year which shall be deemed to have been paid or accrued in such preceding or subsequent taxable year (whether or not the taxpayer chooses to have the benefits of this subpart with respect to such earlier taxable year). Such amount deemed paid or accrued in any year may be availed of only as a tax credit and not as a deduction and only if the taxpayer for such year chooses to have the benefits of this subpart as to taxes paid or accrued for that year to foreign countries or possessions of the United States.

"(d) APPLICATION OF SECTION IN CASE OF CERTAIN INTEREST INCOME AND DIVIDENDS FROM A DISC OR FORMER DISC.—

"(1) IN GENERAL.—The provisions of subsections (a), (b), and (c) shall be applied separately with respect to each of the following items of income:

"(A) the interest income described in paragraph (2),

"(B) dividends from a DISC or former DISC (as defined in section 992(a)) to the extent such dividends are treated as income from sources without the United States, and

"(C) income other than the interest income described in paragraph (2) and dividends described in subparagraph (B).

"(2) INTEREST INCOME TO WHICH APPLICABLE.—For purposes of this subsection, the interest income described in this paragraph is interest other than interest—

"(A) derived from any transaction which is directly related to the active conduct by the taxpayer of a trade or business in a foreign country or a possession of the United States,

"(B) derived in the conduct by the taxpayer of a banking, financing, or similar business,

"(C) received from a corporation in which the taxpayer (or one or more includible corporations in an affiliated group, as defined in section 1504, of which the taxpayer is a member) owns, directly or indirectly, at least 10 percent of the voting stock, or

"(D) received on obligations acquired as a result of the disposition of a trade or business actively conducted by the taxpayer in a foreign country or possession of the United States or as a result of the disposition of stock or obligations of a corporation in which the taxpayer owned at least 10 percent of the voting stock.

For purposes of subparagraph (C), stock owned, directly or indirectly, by or for a foreign corporation, shall be considered as being proportionately owned by its shareholders.

"(e) TRANSITIONAL RULES FOR CARRYBACKS AND CARRYOVERS FOR TAXPAYERS ON THE PER-COUNTRY LIMITATION.—

"(1) APPLICATION OF SUBSECTION.—This subsection shall apply only to a taxpayer who is on the per-country limitation for his last taxable year beginning before January 1, 1976.

"(2) CARRYOVERS TO YEARS BEGINNING AFTER DECEMBER 31, 1975.—In the case of any taxpayer to whom this subsection applies, any carryover from a taxable year beginning before January 1, 1976, may be used in taxable years beginning after December 31, 1975, to the extent provided in subsection (c), but only to the extent such carryover could have been used in such succeeding taxable years if the per-country limitation continued to apply to all taxable years beginning after December 31, 1975.

"(3) CARRYBACKS TO YEARS BEGINNING BEFORE JANUARY 1, 1976.—In the case of any taxpayer to whom this subsection applies, any carryback from a taxable year beginning after December 31, 1975, may be used in taxable years beginning before January 1, 1976, to the extent provided in subsection (c), but only to the extent such carryback could have been used in such preceding taxable year if the per-country limitation continued to apply to all taxable years beginning after December 31, 1975.

"(4) APPLICATION OF LIMITATIONS.—For purposes of this subsection—

"(A) the overall limitation shall be applied before the per-country limitation, and

"(B) where the amount of any carryback or carryover is reduced by the overall limitation, the reduction shall be allocated to the amounts carried from each country or possession in proportion to the taxes paid or accrued to such country or possession in the taxable year from which such amount is being carried.

"(f) CROSS REFERENCE.—

"For increase of limitation under subsection (a) for taxes paid with respect to amounts received which were included in the gross income of the taxpayer for a prior taxable year as a United States shareholder with respect to a controlled foreign corporation, see section 960(b)."

(b) CONFORMING AMENDMENTS.—

(1) Sections 901(a), 901(b), and 960(b) are amended by striking out "applicable limitation" each place it appears and inserting in lieu thereof "limitation".

(2) Subparagraph (B) of section 243(b)(3) is amended to read as follows:

"(B) the members of such affiliated group shall be treated as one taxpayer for purposes of making the election under section 901(a) (relating to allowance of foreign tax credit), and".

(3) Paragraph (3) of section 1351(d) is amended to read as follows:

"(3) FOREIGN TAXES.—For purposes of this subsection, any choice made under subpart A of part III of subchapter N (relating to foreign tax credit) for any taxable year may be changed.".

(4) Section 1503(b)(1) is amended by striking out ", and if for the taxable year an election under section 904(b)(1) (relating to election of overall limitation on foreign tax credit) is in effect".

(5) Sections 383, 6038(b)(1)(A), and 6501(i) are each amended by striking out "section 904(d)" each place it appears therein and inserting in lieu thereof "section 904(c)".

(6) Subsection (e) of section 907 (relating to transitional rules) is amended—

(A) by striking out "(d) and (e) of section 904" in paragraphs (1) and (2) and inserting in lieu thereof "(d) and (e) of section 904 (as in effect on the day before the date of the enactment of the Tax Reform Act of 1976)";

(B) by striking out "section 904(a)(1)" in paragraph (2) and inserting in lieu thereof "section 904(a)(1) (as so in effect)"; and

(C) by striking out "section 904(e)(2)" in paragraph (2)(A) and inserting in lieu thereof "section 904(e)(2) (as so in effect)".

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the amendments made by this section shall apply to taxable years beginning after December 31, 1975.

(2) EXCEPTION FOR CERTAIN MINING OPERATIONS.—In the case of a domestic corporation or includible corporation in an affiliated group (as defined in section 1504 of the Internal Revenue Code of 1954) which has as of October 1, 1975—

(A) been engaged in the active conduct of the trade or business of the extraction of minerals (of a character with respect to which a deduction for depletion is allowable under section 613 of such Code) outside the United States or its possessions for less than 5 years preceding the date of enactment of this Act,

(B) had deductions properly apportioned or allocated to its gross income from such trade or business in excess of such gross income in at least 2 taxable years,

(C) 80 percent of its gross receipts are from the sale of such minerals, and

(D) made commitments for substantial expansion of such mineral extraction activities,

the amendments made by this section shall apply to taxable years beginning after December 31, 1978. In the case of losses sustained in taxable years beginning before January 1, 1979, by any corporation to which this paragraph applies, the provisions of section 904(f) of such Code shall be applied with respect to such losses under the principles of section 904(a)(1) of such Code as in effect before the enactment of this Act.

(3) EXCEPTION FOR INCOME FROM POSSESSIONS.—In the case of gross income from sources within a possession of the United States (and the deductions properly apportioned or allocated thereto), the amendments made by this section shall apply to taxable years beginning after December 31, 1978. In the case of losses sustained

in a possession of the United States in taxable years beginning before January 1, 1979, the provisions of section 904(f) of such Code shall be applied with respect to such losses under the principles of section 904(a)(1) of such Code as in effect before the enactment of this Act.

(4) CARRYBACKS AND CARRYOVERS IN THE CASE OF MINING OPERATIONS AND INCOME FROM A POSSESSION.—In the case of a taxpayer to whom paragraph (2) or (3) of this subsection applies, section 904(e) of such Code shall apply except that "January 1, 1979" shall be substituted for "January 1, 1976" each place it appears therein. If such a taxpayer elects the overall limitation for a taxable year beginning before January 1, 1979, such section 904(e) shall be applied by substituting "the January 1, of the last year for which such taxpayer is on the per-country limitation" for "January 1, 1976" each place it appears therein.

SEC. 1032. RECAPTURE OF FOREIGN LOSSES.

(a) IN GENERAL.—Section 904 (as amended by section 1031 of this Act) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) RECAPTURE OF OVERALL FOREIGN LOSS.—

"(1) GENERAL RULE.—For purposes of this subpart and section 936, in the case of any taxpayer who sustains an overall foreign loss for any taxable year, that portion of the taxpayer's taxable income from sources without the United States for each succeeding taxable year which is equal to the lesser of—

"(A) the amount of such loss (to the extent not used under this paragraph in prior taxable years), or

"(B) 50 percent (or such larger percent as the taxpayer may choose) of the taxpayer's taxable income from sources without the United States for such succeeding taxable year,

shall be treated as income from sources within the United States (and not as income from sources without the United States).

"(2) OVERALL FOREIGN LOSS DEFINED.—For purposes of this subsection, the term 'overall foreign loss' means the amount by which the gross income for the taxable year from sources without the United States (whether or not the taxpayer chooses the benefits of this subpart for such taxable year) for such year is exceeded by the sum of the deductions properly apportioned or allocated thereto, except that there shall not be taken into account—

"(A) any net operating loss deduction allowable for such year under section 172(a) or any capital loss carrybacks and carryovers to such year under section 1212, and

"(B) any—

"(i) foreign expropriation loss for such year, as defined in section 172(k)(1), or

"(ii) loss for such year which arises from fire, storm, shipwreck, or other casualty, or from theft,

to the extent such loss is not compensated for by insurance or otherwise.

"(3) DISPOSITIONS.—

"(A) IN GENERAL.—For purposes of this chapter, if property which has been used predominantly without the United States in a trade or business is disposed of during any taxable year—

"(i) the taxpayer, notwithstanding any other provision of this chapter (other than paragraph (1)), shall be deemed to have received and recognized taxable income

from sources without the United States in the taxable year of the disposition, by reason of such disposition, in an amount equal to the lesser of the excess of the fair market value of such property over the taxpayer's adjusted basis in such property or the remaining amount of the overall foreign losses which were not used under paragraph (1) for such taxable year or any prior taxable year, and

"(ii) paragraph (1) shall be applied with respect to such income by substituting '100 percent' for '50 percent'.

In determining for purposes of this subparagraph whether the predominant use of any property has been without the United States, there shall be taken into account use during the 3-year period ending on the date of the disposition (or, if shorter, the period during which the property has been used in the trade or business).

"(B) DISPOSITION DEFINED AND SPECIAL RULES.—

"(i) For purposes of this subsection, the term 'disposition' includes a sale, exchange, distribution, or gift of property whether or not gain or loss is recognized on the transfer.

"(ii) Any taxable income recognized solely by reason of subparagraph (A) shall have the same characterization it would have had if the taxpayer had sold or exchanged the property.

"(iii) The Secretary shall prescribe such regulations as he may deem necessary to provide for adjustments to the basis of property to reflect taxable income recognized solely by reason of subparagraph (A).

"(C) EXCEPTIONS.—Notwithstanding subparagraph (B), the term 'disposition' does not include—

"(i) a disposition of property which is not a material factor in the realization of income by the taxpayer, or

"(ii) a disposition of property to a domestic corporation in a distribution or transfer described in section 381(a).

"(4) DETERMINATION OF FOREIGN OIL RELATED LOSS WHERE SECTION 907 APPLIES.—In the case of a corporation to which section 907 (b)(1) applies, the foreign oil related loss shall be the amount by which the gross income for the taxable year from sources without the United States and its possessions (whether or not the taxpayer chooses the benefits of this subpart for such taxable year) taken into account in determining the foreign oil related income for such year is exceeded by the sum of the deductions properly apportioned or allocated thereto, except that there shall not be taken into account—

"(A) any net operating loss deduction allowable for such year under section 172(a) or any capital loss carrybacks and carryovers to such year under section 1212, and

"(B) any—

"(i) foreign expropriation loss for such year, as defined in section 172(k)(1), or

"(ii) loss for such year which arises from fire, storm, shipwreck, or other casualty, or from theft,

to the extent such loss is not compensated for by insurance or otherwise.".

(b) COORDINATION WITH SECTION 907.—Section 907 is amended—

(1) by striking out the last sentence of subsection (b) (as amended by section 1035(b)), and

(2) by striking out subsection (f), and by redesignating subsection (g) as subsection (f).

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the amendments made by subsections (a) and (b)(2) shall apply to losses sustained in taxable years beginning after December 31, 1975, and the amendment made by subsection (b)(1) shall apply to taxable years beginning after December 31, 1975.

(2) OBLIGATIONS OF FOREIGN GOVERNMENTS.—The amendments made by subsection (a) shall not apply to losses on the sale, exchange, or other disposition of bonds, notes, or other evidences of indebtedness issued before May 14, 1976, by a foreign government or instrumentality thereof for the acquisition of property located in that country or stock of a corporation (created or organized in or under the laws of that foreign country) or indebtedness of such corporation.

(3) SUBSTANTIAL WORTHLESSNESS BEFORE ENACTMENT.—The amendments made by subsection (a) shall not apply to losses incurred on the loss from stock or indebtedness of a corporation in which the taxpayer owned at least 10 percent of the voting stock and which has sustained losses in 3 out of the last 5 taxable years beginning before January 1, 1976, which has sustained an overall loss for those 5 years, and with respect to which the taxpayer has terminated or will terminate all operations by reason of sale, liquidation, or other disposition before January 1, 1977, of such corporation or its assets.

(4) LIMITATION BASED ON DEFICIT IN EARNINGS AND PROFITS.—If paragraph (3) would apply to a taxpayer but for the fact that the loss is sustained after December 31, 1976, and if the loss is sustained in a taxable year beginning before January 1, 1979, the amendments made by subsection (a) shall not apply to such loss to the extent that there was on December 31, 1975, a deficit in earnings and profits in the corporation from which the loss arose.

SEC. 1033. DIVIDENDS FROM LESS DEVELOPED COUNTRY CORPORATIONS TO BE GROSSED UP FOR PURPOSES OF DETERMINING UNITED STATES INCOME AND FOREIGN TAX CREDIT AGAINST THAT INCOME.

(a) FOREIGN TAXES DEEMED PAID BY DOMESTIC CORPORATIONS.—Section 902 (relating to credit for corporate stockholders in foreign corporations) is amended to read as follows:

"SEC. 902. CREDIT FOR CORPORATE STOCKHOLDER IN FOREIGN CORPORATION.

"(a) TREATMENT OF TAXES PAID BY FOREIGN CORPORATION.—For purposes of this subpart, a domestic corporation which owns at least 10 percent of the voting stock of a foreign corporation from which it receives dividends in any taxable year shall be deemed to have paid the same proportion of any income, war profits, or excess profits taxes paid or deemed to be paid by such foreign corporation to any foreign country or to any possession of the United States, on or with respect to the accumulated profits of such foreign corporation from which such dividends were paid, which the amount of such dividends (determined without regard to section 78) bears to the amount of such

accumulated profits in excess of such income, war profits, and excess profits taxes (other than those deemed paid).

"(b) FOREIGN SUBSIDIARY OF FIRST AND SECOND FOREIGN CORPORATION.—

"(1) ONE TIER.—If the foreign corporation described in subsection (a) (hereinafter in this subsection referred to as the 'first foreign corporation') owns 10 percent or more of the voting stock of a second foreign corporation from which it receives dividends in any taxable year, it shall be deemed to have paid the same proportion of any income, war profits, or excess profits taxes paid or deemed to be paid by such second foreign corporation to any foreign country or to any possession of the United States, on or with respect to the accumulated profits of such second foreign corporation from which such dividends were paid, which the amount of such dividends bears to the amount of such accumulated profits in excess of such income, war profits, and excess profits taxes (other than those deemed paid).

"(2) TWO TIERS.—If such first foreign corporation owns 10 percent or more of the voting stock of a second foreign corporation which, in turn, owns 10 percent or more of the voting stock of a third foreign corporation from which the second foreign corporation receives dividends in any taxable year, the second foreign corporation shall be deemed to have paid the same proportion of any income, war profits, or excess profits taxes paid by such third foreign corporation to any foreign country or to any possession of the United States, on or with respect to the accumulated profits of such third foreign corporation from which such dividends were paid, which the amount of such dividends bears to the amount of such accumulated profits in excess of such income, war profits, and excess profits taxes.

"(3) VOTING STOCK REQUIREMENT.—For purposes of this subpart—

"(A) paragraph (1) shall not apply unless the percentage of voting stock owned by the domestic corporation in the first foreign corporation and the percentage of voting stock owned by the first foreign corporation in the second foreign corporation when multiplied together equal at least 5 percent, and

"(B) paragraph (2) shall not apply unless the percentage arrived at for purposes of applying paragraph (1) when multiplied by the percentage of voting stock owned by the second foreign corporation in the third foreign corporation is equal to at least 5 percent.

"(c) APPLICABLE RULES.—

"(1) ACCUMULATED PROFITS DEFINED.—For purposes of this section, the term 'accumulated profits' means, with respect to any foreign corporation, the amount of its gains, profits, or income computed without reduction by the amount of the income, war profits, and excess profits taxes imposed on or with respect to such profits or income by any foreign country or by any possession of the United States. The Secretary shall have full power to determine from the accumulated profits of what year or years such dividends were paid, treating dividends paid in the first 60 days of any year as having been paid from the accumulated profits of the preceding year or years (unless to his satisfaction shown otherwise), and in other respects treating dividends as having

been paid from the most recently accumulated gains, profits, or earnings.

"(2) ACCOUNTING PERIODS.—In the case of a foreign corporation the income, war profits, and excess profits taxes of which are determined on the basis of an accounting period of less than 1 year, the word 'year' as used in this subsection, shall be construed to mean such accounting period.

"(d) CROSS REFERENCES.—

"(1) For inclusion in gross income of an amount equal to taxes deemed paid under subsection (a), see section 78.

"(2) For application of subsections (a) and (b) with respect to taxes deemed paid in a prior taxable year by a United States shareholder with respect to a controlled foreign corporation, see section 960.

"(3) For reduction of credit with respect to dividends paid out of accumulated profits for years for which certain information is not furnished, see section 6038."

(b) CONFORMING AMENDMENTS.—

(1) Section 78 (relating to dividends received from certain foreign corporations) is amended—

(A) by striking out "section 902(a)(1)" and inserting in lieu thereof "section 902(a)", and

(B) by striking out "section 960(a)(1)(C)" and inserting in lieu thereof "section 960(a)(1)".

(2) Paragraph (1) of section 960(a) (relating to special rules for foreign tax credit) is amended by striking out "bears to—" and all that follows down through the period at the end of such paragraph and inserting in lieu thereof "bears to the entire amount of the earnings and profits of such foreign corporation for such taxable year.".

(3) Section 535(b)(1) (relating to accumulated taxable income) is amended by striking out "section 902(a)(1) or 960(a)(1)(C)" and inserting in lieu thereof "section 902(a) or 960(a)(1)".

(4) Section 545(b)(1) (relating to undistributed personal holding company income) is amended by striking out "section 902(a)(1) or 960(a)(1)(C)" and inserting in lieu thereof "section 902(a) or 960(a)(1)".

(c) EFFECTIVE DATES.—The amendments made by this section shall apply—

(1) in respect of any distribution received by a domestic corporation after December 31, 1977, and

(2) in respect of any distribution received by a domestic corporation before January 1, 1978, in a taxable year of such corporation beginning after December 31, 1975, but only to the extent that such distribution is made out of the accumulated profits of a foreign corporation for a taxable year (of such foreign corporation) beginning after December 31, 1975.

For purposes of paragraph (2), a distribution made by a foreign corporation out of its profits which are attributable to a distribution received from a foreign corporation to which section 902(b) of the Internal Revenue Code of 1954 applies shall be treated as made out of the accumulated profits of a foreign corporation for a taxable year beginning before January 1, 1976, to the extent that such distribution was paid out of the accumulated profits of such foreign corporation for a taxable year beginning before January 1, 1976.

SEC. 1034. TREATMENT OF CAPITAL GAINS FOR PURPOSES OF FOREIGN TAX CREDIT.

(a) IN GENERAL.—Section (b) of section 904 (relating to taxable income for purposes of computing the foreign tax credit limitation), as amended by section 1031 of this Act, is amended to read as follows:

"(b) TAXABLE INCOME FOR PURPOSE OF COMPUTING LIMITATION.—

"(1) PERSONAL EXEMPTIONS.—For purposes of subsection (a), the taxable income in the case of an individual, estate, or trust shall be computed without any deduction for personal exemptions under section 151 or 642(b).

"(2) CAPITAL GAINS.—For purposes of subsection (a)—

"(A) CORPORATIONS.—In the case of a corporation—

"(i) the taxable income of such corporation from sources without the United States shall include gain from the sale or exchange of capital assets only in an amount equal to foreign source capital gain net income reduced by three-eighths of foreign source net capital gain,

"(ii) the entire taxable income of such corporation shall include gain from the sale or exchange of capital assets only in an amount equal to capital gain net income reduced by three-eights of net capital gain, and

"(iii) any net capital loss from sources without the United States to the extent taken into account in determining capital gain net income for the taxable year shall be reduced by an amount equal to three-eighths of the excess of net capital gain from sources within the United States over net capital gain.

"(B) OTHER TAXPAYERS.—In the case of a taxpayer other than a taxpayer described in subparagraph (A), taxable income from sources without the United States shall include gain from the sale or exchange of capital assets only to the extent of foreign source capital gain net income.

"(3) DEFINITIONS.—For purposes of this subsection—

"(A) FOREIGN SOURCE CAPITAL GAIN NET INCOME.—The term 'foreign source capital gain net income' means the lesser of—

"(i) capital gain net income from sources without the United States, or

"(ii) capital gain net income.

"(B) FOREIGN SOURCE NET CAPITAL GAIN.—The term 'foreign source net capital gain' means the lesser of—

"(i) net capital gain from sources without the United States, or

"(ii) net capital gain.

"(C) EXCEPTION FOR GAIN FROM THE SALE OF CERTAIN PERSONAL PROPERTY.—For purposes of this paragraph, there shall be included as gain from sources within the United States any gain from sources without the United States from the sale or exchange of a capital asset which is personal property which—

"(i) in the case of an individual, is sold or exchanged outside of the country (or possession) of the individual's residence,

"(ii) in the case of a corporation, is stock in a second corporation sold or exchanged other than in a country (or possession) in which such second corporation derived more than 50 percent of its gross income for the 3-year

period ending with the close of such second corporation's taxable year immediately preceding the year during which the sale or exchange occurred, or

"(iii) in the case of any taxpayer, is personal property (other than stock in a corporation) sold or exchanged other than in a country (or possession) in which such property is used in a trade or business of the taxpayer or in which such taxpayer derived more than 50 percent of its gross income for the 3-year period ending with the close of its taxable year immediately preceding the year during which the sale or exchange occurred,

unless such gain is subject to an income, war profits, or excess profits tax of a foreign country or possession of the United States, and the rate of tax applicable to such gain is 10 percent or more of the gain from the sale or exchange (computed under this chapter).

"(D) SECTION 1231 GAINS.—The term 'gain from the sale or exchange of capital assets' includes any gain so treated under section 1231."

(b) EFFECTIVE DATES.—The amendment made by this section shall apply to taxable years beginning after December 31, 1975, except that the provisions of section 904(b)(3)(C) shall only apply to sales or exchanges made after November 12, 1975.

SEC. 1035. FOREIGN OIL AND GAS EXTRACTION INCOME.

(a) REDUCTION IN LIMITATION ON FOREIGN TAX CREDITS ALLOWABLE FOR OIL AND GAS EXTRACTION INCOME.—Subsection (a) of section 907 (relating to reduction in amounts allowable as foreign tax under section 901) is amended to read as follows:

"(a) REDUCTION IN AMOUNT ALLOWED AS FOREIGN TAX UNDER SECTION 901.—In applying section 901, the amount of any oil and gas extraction taxes paid or accrued (or deemed to have been paid) during the taxable year which would (but for this subsection) be taken into account for purposes of section 901 shall be reduced by the amount (if any) by which the amount of such taxes exceeds the product of—

"(1) the amount of the foreign oil and gas extraction income for the taxable year, multiplied by

"(2) the percentage which is the sum of the normal tax rate and the surtax rate for the taxable year specified in section 11."

(b) FOREIGN OIL RELATED INCOME EARNED BY INDIVIDUALS.—Subsection (b) of section 907 (relating to special rules in case of foreign oil and gas income) is amended to read as follows:

"(b) APPLICATION OF SECTION 904 LIMITATION.—

"(1) CORPORATIONS.—In the case of a corporation, the provisions of section 904 shall be applied separately with respect to—

"(A) foreign oil related income, and

"(B) other taxable income.

"(2) OTHER TAXPAYERS.—In the case of a taxpayer other than a corporation, the provisions of subsection (a) shall not apply and the provisions of section 904 shall be applied separately with respect to—

"(A) foreign oil and gas extraction income, and

"(B) other taxable income (including other foreign oil related income).

In the case of a corporation, with respect to foreign oil-related income, and in the case of a taxpayer other than a corporation, with respect to foreign oil and gas extraction income, the overall limitation provided

by section 904(a)(2) shall apply and the per-country limitation provided by subsection (a)(1) shall not apply."

(c) TAX CREDIT FOR PRODUCTION-SHARING CONTRACTS.—

(1) For purposes of section 901 of the Internal Revenue Code of 1954, there shall be treated as income, war profits, and excess profits taxes to be taken into account under section 907(a) of such Code amounts designated as income taxes of a foreign government by such government (which otherwise would not be treated as taxes for purposes of section 901 of such Code) with respect to production-sharing contracts for the extraction of foreign oil or gas.

(2) The amounts specified in paragraph (1) shall not exceed the lesser of—

(A) the product of the foreign oil and gas extraction income with respect to all such production-sharing contracts multiplied by the sum of the normal tax rate and the surtax rate for the taxable year specified in section 11 of such Code, or

(B) the excess of the total amount of foreign oil and gas extraction income (as defined in section 907(c)(1) of such Code) for the taxable year multiplied by the sum of the normal tax rate and the surtax rate for the taxable year specified in section 11 of such Code over the amount of any income, war profits, and excess profits taxes paid or accrued (or deemed to have been paid) without regard to paragraph (1) during the taxable year with respect to foreign oil and gas extraction income.

(3) The production-sharing contracts taken into account for purposes of paragraph (1) shall be those contracts which were entered into before April 8, 1976, for the sharing of foreign oil and gas production with a foreign government (or an entity owned by such government) with respect to which amounts claimed as taxes paid or accrued to such foreign government for taxable years beginning before June 30, 1976, will not be disallowed as taxes. No such contract shall be taken into account for any taxable year ending after December 31, 1977.

(d) CARRYBACK AND CARRYOVER OF DISALLOWED CREDITS.—

(1) IN GENERAL.—Section 907 (as amended by section 1032) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) CARRYBACK AND CARRYOVER OF DISALLOWED CREDITS.—

"(1) IN GENERAL.—If the amount of the oil and gas extraction taxes paid or accrued during any taxable year exceeds the limitation provided by subsection (a) for such taxable year (hereinafter in this subsection referred to as the 'unused credit year'), so much of such excess as does not exceed 2 percent of foreign oil and gas extraction income for such taxable year shall be deemed to be oil and gas extraction taxes paid or accrued in the second preceding taxable year, in the first preceding taxable year, and in the first, second, third, fourth, or fifth succeeding taxable year, in that order and to the extent not deemed tax paid or accrued in a prior taxable year by reason of the limitation imposed by paragraph (2). Such amount deemed paid or accrued in any taxable year may be availed of only as a tax credit and not as a deduction and only if the taxpayer for such year chooses to have the benefits of this subpart as to taxes paid or accrued for that year to foreign countries or possessions. For purposes of this

subsection, the terms 'second preceding taxable year', and 'first preceding taxable year' do not include any taxable year ending before January 1, 1975. For purposes of determining the amount of such taxes which may be deemed paid or accrued in any taxable year ending in 1975, 1976, or 1977, the first sentence of this paragraph shall be applied by substituting 'such excess' for 'so much of such excess as does not exceed 2 percent of the foreign oil and gas extraction income for such taxable year'.

"(2) LIMITATION.—The amount of the unused oil and gas extraction taxes which under paragraph (1) may be deemed paid or accrued in any preceding or succeeding taxable year shall not exceed the lesser of—

"(A) the amount by which the limitation provided by subsection (a) for such taxable year exceeds the sum of—

"(i) the oil and gas extraction taxes paid or accrued during such taxable year, plus

"(ii) the amounts of the oil and gas extraction taxes which by reason of this subsection are deemed paid or accrued in such taxable year and are attributable to taxable years preceding the unused credit year; or

"(B) the amount by which the limitation provided by section 904 on taxes paid or accrued with respect to foreign oil-related income for such taxable year exceeds the sum of—

"(i) the taxes paid or accrued (or deemed to have been paid under section 902 or 960) to all foreign countries and possessions of the United States with respect to such income during such taxable year,

"(ii) the amount of such taxes which were deemed paid or accrued in such taxable year under section 904(c) and which are attributable to taxable years preceding the unused credit year, plus

"(iii) the amount of the oil and gas extraction taxes which by reason of this subsection are deemed paid or accrued in such taxable year and are attributable to taxable years preceding the unused credit year.

"(3) SPECIAL RULES.—

"(A) In the case of any taxable year which is an unused credit year under this subsection and which is an unused credit year under section 904(c) with respect to oil-related income, the provisions of this subsection shall be applied before section 904(c).

"(B) For purposes of determining the amount of oil-related taxes paid or accrued in any taxable year which may be deemed paid or accrued in a preceding or succeeding taxable year under section 904(c), any tax deemed paid or accrued in such preceding or succeeding taxable year under this subsection shall be considered to be tax paid or accrued in such preceding or succeeding taxable year.

"(C) For purposes of determining the amount of the unused oil and gas extraction taxes which under paragraph (1) may be deemed paid or accrued in any taxable year ending before January 1, 1977, subparagraph (A) of paragraph (2) shall be applied as if the amendment made by section 1035(a) of the Tax Reform Act of 1976 applied to such taxable year."

(2) DEFINITION OF OIL AND GAS EXTRACTION TAXES.—Subsection (c) of section 907 is amended by adding at the end thereof the following new paragraph:

"(5) OIL AND GAS EXTRACTION TAXES.—The term 'oil and gas extraction taxes' means any income, war profits, and excess profits tax paid or accrued (or deemed to have been paid under section 902 or 960) during the taxable year with respect to foreign oil and gas extraction income (determined without regard to paragraph (4)) or loss which would be taken into account for purposes of section 901 without regard to this section."

(3) TECHNICAL AMENDMENT.—Subsection (i) of section 6501, as amended by section 1031, (relating to foreign tax carrybacks) is amended—

(A) by striking out "excess foreign taxes)" and inserting in lieu thereof "excess foreign taxes) or under section 907(f) (relating to carryback and carryover of disallowed oil and gas extraction taxes)"; and

(B) by striking out "section 904(c)" the second place it appears and inserting in lieu thereof "section 904(c) or 907(f)".

(e) EFFECTIVE DATES.—

(1) The amendment made by subsection (a) shall apply to taxable years ending after December 31, 1976.

(2) The amendment made by subsection (b) shall apply to taxable years ending after December 31, 1974; except that the last sentence of section 907(b) of the Internal Revenue Code of 1954 shall only apply to taxable years ending after December 31, 1975.

(3) The amendment made by subsection (c) shall apply to taxable years beginning after June 29, 1976.

(4) The amendments made by subsection (d) shall apply to taxes paid or accrued during taxable years ending after the date of the enactment of this Act.

SEC. 1036. UNDERWRITING INCOME.

(a) TREATMENT AS INCOME FROM SOURCES WITHIN THE UNITED STATES.—Section 861(a) (relating to gross income from sources within the United States) is amended by adding the following new paragraph:

"(7) Amounts received as underwriting income (as defined in section 832(b)(3)) derived from the insurance of United States risks (as defined in section 953(a))."

(b) TREATMENT AS FOREIGN SOURCE INCOME.—Section 862(a) (relating to gross income from sources without the United States) is amended by adding the following new paragraph:

"(7) Underwriting income other than that derived from sources within the United States as provided in section 861(a)(7)."

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

SEC. 1037. THIRD TIER FOREIGN TAX CREDIT WHEN SECTION 951 APPLIES.

(a) FOREIGN TAXES DEEMED PAID BY FOREIGN CORPORATIONS.—Section 960(a)(1) (relating to special rules for foreign tax credits), as amended in section 1033, is further amended to read as follows:

"(1) GENERAL RULE.—For purposes of subpart A of this part, if there is included, under section 951(a), in the gross income of a domestic corporation any amount attributable to earnings and profits—

"(A) of a foreign corporation (hereafter in this subsection referred to as the 'first foreign corporation') at least 10 per-

cent of the voting stock of which is owned by such domestic corporation, or

"(B) of a second foreign corporation (hereinafter in this subsection referred to as the 'second foreign corporation') at least 10 percent of the voting stock of which is owned by the first foreign corporation, or

"(C) of a third foreign corporation (hereinafter in this subsection referred to as the 'third foreign corporation') at least 10 percent of the voting stock of which is owned by the second foreign corporation,

then, under regulations prescribed by the Secretary, such domestic corporation shall be deemed to have paid the same proportion of the total income, war profits, and excess profits taxes paid (or deemed paid) by such foreign corporation to a foreign country or possession of the United States for the taxable year on or with respect to the earnings and profits of such foreign corporation which the amount of earnings and profits of such foreign corporation so included in gross income of the domestic corporation bears to the entire amount of the earnings and profits of such corporation for such taxable year. This paragraph shall not apply with respect to any amount included in the gross income of such domestic corporation attributable to earnings and profits of the second foreign corporation or of the third foreign corporation unless, in the case of the second foreign corporation, the percentage-of-voting-stock requirement of section 902(b)(3)(A) is satisfied, and in the case of the third foreign corporation, the percentage-of-voting-stock requirement of section 902(b)(3)(B) is satisfied."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply with respect to earnings and profits of a foreign corporation included, under section 951(a) of the Internal Revenue Code of 1954, in the gross income of a domestic corporation in taxable years beginning after December 31, 1976.

PART IV—MONEY OR OTHER PROPERTY MOVING OUT OF OR INTO THE UNITED STATES

SEC. 1041. PORTFOLIO DEBT INVESTMENTS IN UNITED STATES OF NONRESIDENT ALIENS AND FOREIGN CORPORATIONS.

The last sentence of section 861(c) (relating to interest on deposits, etc.) is hereby repealed.

SEC. 1042. CHANGES IN RULING REQUIREMENTS UNDER SECTION 367; CERTAIN CHANGES IN SECTION 1248.

(a) AMENDMENT OF SECTION 367.—Section 367 (relating to foreign corporations) is amended to read as follows:

"SEC. 367. FOREIGN CORPORATIONS.

"(a) TRANSFERS OF PROPERTY FROM THE UNITED STATES.—

"(1) GENERAL RULE.—If, in connection with any exchange described in section 332, 351, 354, 355, 356, or 361, there is a transfer of property (other than stock or securities of a foreign corporation which is a party to the exchange or a party to the reorganization) by a United States person to a foreign corporation, for purposes of determining the extent to which gain shall be recognized on such transfer, a foreign corporation shall not be considered to be a corporation unless, pursuant to a request filed not later than the close of the 183d day after the beginning of such

transfer (and filed in such form and manner as may be prescribed by regulations by the Secretary), it is established to the satisfaction of the Secretary that such exchange is not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes.

"(2) EXCEPTION FOR TRANSACTIONS DESIGNATED BY THE SECRETARY.—Paragraph (1) shall not apply to any exchange (otherwise within paragraph (1)), or to any type of property, which the Secretary by regulations designates as not requiring the filing of a request.

"(b) OTHER TRANSFERS.—

"(1) EFFECT OF SECTION TO BE DETERMINED UNDER REGULATIONS.—In the case of any exchange described in section 332, 351, 354, 355, 356, or 361 in connection with which there is no transfer of property described in subsection (a)(1), a foreign corporation shall be considered to be a corporation except to the extent provided in regulations prescribed by the Secretary which are necessary or appropriate to prevent the avoidance of Federal income taxes.

"(2) REGULATIONS RELATING TO SALE OR EXCHANGE OF STOCK IN FOREIGN CORPORATIONS.—The regulations prescribed pursuant to paragraph (1) shall include (but shall not be limited to) regulations dealing with the sale or exchange of stock or securities in a foreign corporation by a United States person, including regulations providing—

"(A) the circumstances under which—

"(i) gain shall be recognized currently, or amounts included in gross income currently as a dividend, or both, or

"(ii) gain or other amounts may be deferred for inclusion in the gross income of a shareholder (or his successor in interest) at a later date, and

"(B) the extent to which adjustments shall be made to earnings and profits, basis of stock or securities, and basis of assets.

"(c) TRANSACTIONS TO BE TREATED AS EXCHANGES.—

"(1) SECTION 355 DISTRIBUTION.—For purposes of this section, any distribution described in section 355 (or so much of section 356 as relates to section 355) shall be treated as an exchange whether or not it is an exchange.

"(2) CONTRIBUTION OF CAPITAL TO CONTROLLED CORPORATIONS.—For purposes of this chapter, any transfer of property to a foreign corporation as a contribution to the capital of such corporation by one or more persons who, immediately after the transfer, own (within the meaning of section 318) stock possessing at least 80 percent of the total combined voting power of all classes of stock of such corporation entitled to vote shall be treated as an exchange of such property for stock of the foreign corporation equal in value to the fair market value of the property transferred.

"(d) TRANSITIONAL RULE.—In the case of any exchange beginning before January 1, 1978—

"(1) subsection (a) shall be applied without regard to whether or not there is a transfer of property described in subsection (a)(1), and

"(2) subsection (b) shall not apply.".

(b) EARNINGS AND PROFITS OF SUBSIDIARIES OF FOREIGN CORPORATIONS FOR PURPOSES OF SECTION 1248.—Subparagraph (C) of section 1248(c)(2) is amended by striking out "; and" at the end thereof and inserting in lieu thereof the following: "(or on the date of any sale or exchange of the stock of such other foreign corporation occurring during the 5-year period ending on the date of the sale or exchange of the stock of such foreign corporation, to the extent not otherwise taken into account under this section but not in excess of the fair market value of the stock of such other foreign corporation sold or exchanged over the basis of such stock (for determining gain) in the hands of the transferor); and".

(c) CERTAIN SECTION 311, 336, OR 337 TRANSACTIONS.—

(1) GENERAL RULE.—Section 1248 (relating to gain from certain sales or exchanges of stock in certain foreign corporations) is amended by redesignating subsections (f) and (g) as subsections (g) and (h), respectively, and by inserting after subsection (e) the following new subsection:

"(f) CERTAIN SECTION 311, 336, OR 337 TRANSACTIONS.—

"(1) IN GENERAL.—If—

"(A) a domestic corporation satisfies the stock ownership requirements of subsection (a)(2) with respect to a foreign corporation, and

"(B) such domestic corporation distributes, sells, or exchanges stock of such foreign corporation in a transaction to which section 311, 336, or 337 applies,

then, notwithstanding any other provision of this subtitle, an amount equal to the excess of the fair market value of such stock over its adjusted basis in the hands of the domestic corporation shall be included in the gross income of the domestic corporation as a dividend to the extent of the earnings and profits of the foreign corporation attributable (under regulations prescribed by the Secretary) to such stock which were accumulated in taxable years of such foreign corporation beginning after December 31, 1962, and during the period or periods the stock was held by such domestic corporation while such foreign corporation was a controlled foreign corporation. For purposes of subsections (c)(2), (d), and (h), a distribution, sale, or exchange of stock to which this subsection applies shall be treated as a sale of stock to which subsection (a) applies.

"(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—In the case of any distribution of stock of a foreign corporation, paragraph (1) shall not apply if such distribution is to a domestic corporation—

"(A) which is treated under this section as holding such stock for the period for which the stock was held by the distributing corporation, and

"(B) which, immediately after the distribution, satisfies the stock ownership requirements of subsection (a)(2) with respect to such foreign corporation.

"(3) NONAPPLICATION OF PARAGRAPH (1) IN CERTAIN CASES.—Paragraph (1) shall not apply to a sale or exchange to which section 337 applies if—

"(A) throughout the period or periods the stock of the foreign corporation was held by the domestic corporation (or predecessor referred to in paragraph (2)) all the stock of such domestic corporation was owned by United States persons who satisfied the 10-percent stock ownership require-

ments of subsection (a)(2) with respect to such domestic corporation, and

"(B) subsection (a) applies to the proceeds of the sale or exchange and also applied to all transactions described in subsection (e)(1) which took place during the period or periods referred to in subparagraph (A).

"(4) APPLICATION TO CASES DESCRIBED IN SUBSECTION (e).—To the extent that earnings and profits are taken into account under this subsection, they shall be excluded and not taken into account for purposes of subsection (e).".

(2) INTEREST IN PARTNERSHIP HOLDING STOCK IN CERTAIN FOREIGN CORPORATIONS.—The last sentence of section 751(c) (relating to unrealized receivables) is amended—

(A) by striking out "(as defined in section 1245(a)(3))," and inserting in lieu thereof "as defined in section 1245(a)(3)), stock in certain foreign corporations (as described in section 1248)," and

(B) by striking out "1245(a)," and inserting in lieu thereof "1245(a), 1248(a),".

(3) CONFORMING AMENDMENTS.—

(A) Subparagraph (A) of paragraph (2) of subsection (c) of section 1248 is amended by striking out "subsection (a) applies to a sale or exchange" and inserting in lieu thereof "subsection (a) or (f) applies to a sale, exchange, or distribution".

(B) Subparagraph (A) of paragraph (3) of subsection (g) (as redesignated by paragraph (1) of this subsection) of section 1248 is amended to read as follows:

"(A) a dividend (other than an amount treated as a dividend under subsection (f)),".

(C) Subsection (h) (as redesignated by paragraph (1) of this subsection) of section 1248 is amended by striking out "subsection (a)" each place it appears and inserting in lieu thereof "subsection (a) or (f)".

(d) DECLARATORY JUDGMENT PROCEDURE FOR REVIEW BY THE TAX COURT OF SECTION 367 DETERMINATIONS.—

(1) IN GENERAL.—Part IV of subchapter C of chapter 76 (relating to declaratory judgments) is amended by adding at the end thereof the following new section:

"SEC. 7477. DECLARATORY JUDGMENTS RELATING TO TRANSFERS OF PROPERTY FROM THE UNITED STATES.

"(a) CREATION OF REMEDY.—

"(1) IN GENERAL.—In a case of actual controversy involving—

"(A) a determination by the Secretary—

"(i) that an exchange described in section 367(a)(1) is in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes, or

"(ii) of the terms and conditions pursuant to which an exchange described in section 367(a)(1) will be determined not to be in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes, or

"(B) a failure by the Secretary to make a determination as to whether an exchange described in section 367(a)(1) is in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes,

upon the filing of an appropriate pleading, the Tax Court may make the appropriate declaration referred to in paragraph (2). Such declaration shall have the force and effect of a decision of the Tax Court and shall be reviewable as such.

"(2) SCOPE OF DECLARATION.—The declaration referred to in paragraph (1) shall be—

"(A) in the case of a determination referred to in subparagraph (A) of paragraph (1), whether or not such determination is reasonable, and, if it is not reasonable, a determination of the issue set forth in subparagraph (A)(ii) of paragraph (1), and

"(B) in the case of a failure described in subparagraph (B) of paragraph (1), the determination of the issues set forth in subparagraph (A) of paragraph (1).

"(b) LIMITATIONS.—

"(1) PETITIONER.—A pleading may be filed under this section only by a petitioner who is a transferor or transferee of stock, securities, or property transferred in an exchange described in section 367(a)(1).

"(2) EXHAUSTION OF ADMINISTRATIVE REMEDIES.—The Tax Court shall not issue a declaratory judgment or decree under this section in any proceeding unless it determines that the petitioner has exhausted administrative remedies available to him within the Internal Revenue Service. A petitioner shall not be deemed to have exhausted his administrative remedies with respect to a failure by the Secretary to make a determination with respect to whether or not an exchange described in section 367(a)(1) is in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes before the expiration of 270 days after the request for such determination was made.

"(3) EXCHANGE SHALL HAVE BEGUN.—No proceeding may be maintained under this section unless the exchange is described in section 367(a)(1) with respect to which a decision of the Tax Court is sought has begun before the filing of the pleading.

"(4) TIME FOR BRINGING ACTION.—If the Secretary sends by certified or registered mail to the petitioners referred to in paragraph (1) notice of his determination with respect to whether or not an exchange described in section 367(a)(1) is in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes or with respect to the terms and conditions pursuant to which such an exchange will be determined not to be made in pursuance of such a plan, no proceeding may be initiated under this section by any petitioner unless the pleading is filed before the 91st day after the day after such notice is mailed to such petitioner.

"(c) COMMISSIONERS.—The chief judge of the Tax Court may assign proceedings under this section to be heard by the commissioners of the court, and the court may authorize a commissioner to make the decision of the court with respect to such proceeding, subject to such conditions and review as the court may by rule provide.".

(2) TECHNICAL AND CONFORMING AMENDMENTS.—

(A) Section 7482(b)(1) (relating to venue for review of Tax Court decisions) is amended by striking out "or" at the end of subparagraph (B), by striking out the period at the end of subparagraph (C) and inserting in lieu thereof ", or", and by inserting after subparagraph (C) the following new subparagraph:

"(D) in the case of a person seeking a declaratory judgment under section 7477, the legal residence of such person if such person is not a corporation, or the principal place of business or principal office or agency of such person if such person is a corporation.".

(B) Section 7482(b)(1) is further amended—

(i) by striking out "subparagraph (A), (B), and (C) do not apply" in the second sentence and inserting in lieu thereof "no subparagraph of the preceding sentence applies"; and

(ii) by striking out "section 7476" in the last sentence and inserting in lieu thereof "section 7476 or 7477".

(C) The heading for section 7476 is amended to read as follows:

"SEC. 7476. DECLARATORY JUDGMENTS RELATING TO QUALIFICATION OF CERTAIN RETIREMENT PLANS."

(D) The table of sections for part IV of subchapter C of chapter 76 is amended to read as follows:

"Sec. 7476. Declaratory judgments relating to qualification of certain retirement plans.
"Sec. 7477. Declaratory judgments relating to transfers of property from United States."

(E) The heading of part IV of subchapter C of chapter 76 is amended to read as follows:

"PART IV—DECLARATORY JUDGMENTS".

(F) The table of parts for subchapter C of chapter 76 is amended by striking out the item relating to part IV and inserting in lieu thereof the following:

"Part IV. Declaratory judgments."

(e) EFFECTIVE DATES.—

(1) The amendments made by this section (other than by subsection (d)) shall apply to transfers beginning after October 9, 1975, and to sales, exchanges, and distributions taking place after such date. The amendments made by subsection (d) shall apply with respect to pleadings filed with the Tax Court after the date of the enactment of this Act but only with respect to transfers beginning after October 9, 1975.

(2) In the case of any exchange described in section 367 of the Internal Revenue Code of 1954 (as in effect on December 31, 1974) in any taxable year beginning after December 31, 1962, and before the date of the enactment of this Act, which does not involve the transfer of property to or from a United States person, a taxpayer shall have for purposes of such section until 183 days after the date of the enactment of this Act to file a request with the Secretary of the Treasury or his delegate seeking to establish to the satisfaction of the Secretary of the Treasury or his delegate that such exchange was not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes and that for purposes of such section a foreign corporation is to be treated as a foreign corporation.

SEC. 1043. CONTIGUOUS COUNTRY BRANCHES OF DOMESTIC LIFE INSURANCE COMPANIES.

(a) AMENDMENT OF SUBCHAPTER L.—Subpart E of part I of subchapter L of chapter 1 (relating to life insurance companies) is amended by inserting after section 819 the following new section:

"SEC. 819A. CONTIGUOUS COUNTRY BRANCHES OF DOMESTIC LIFE INSURANCE COMPANIES.

"(a) EXCLUSION OF ITEMS.—In the case of a domestic mutual insurance company which—

"(1) is a life insurance company,

"(2) has a contiguous country life insurance branch, and

"(3) makes the election provided by subsection (g) with respect to such branch,

there shall be excluded from each and every item involved in the determination of life insurance company taxable income the items separately accounted for in accordance with subsection (c).

"(b) CONTIGUOUS COUNTRY LIFE INSURANCE BRANCH.—For purposes of this section, the term 'contiguous country life insurance branch' means a branch which—

"(1) issues insurance contracts insuring risks in connection with the lives or health of residents of a country which is contiguous to the United States,

"(2) has its principal place of business in such contiguous country, and

"(3) would constitute a mutual life insurance company if such branch were a separate domestic insurance company.

For purposes of this section, the term 'insurance contract' means any life, health, accident, or annuity contract or reinsurance contract or any contract relating thereto.

"(c) SEPARATE ACCOUNTING REQUIRED.—Any taxpayer which makes the election provided by subsection (g) shall establish and maintain a separate account for the various income, exclusion, deduction, asset, reserve, liability, and surplus items properly attributable to the contracts described in subsection (b). Such separate accounting shall be made—

"(1) in accordance with the method regularly employed by such company, if such method clearly reflects income derived from, and the other items attributable to, the contracts described in subsection (b), and

"(2) in all other cases, in accordance with regulations prescribed by the Secretary.

"(d) RECOGNITION OF GAIN ON ASSETS IN BRANCH ACCOUNT.—If the aggregate fair market value of all the invested assets and tangible property which are separately accounted for by the domestic life insurance company in the branch account established pursuant to subsection (c) exceeds the aggregate adjusted basis of such assets for purposes of determining gain, then the domestic life insurance company shall be treated as having sold all such assets on the first day of the first taxable year for which the election is in effect at their fair market value on such first day. Notwithstanding any other provision of this chapter, the net gain shall be recognized to the domestic life insurance company on the deemed sale described in the preceding sentence.

"(e) TRANSACTIONS BETWEEN CONTIGUOUS COUNTRY BRANCH AND DOMESTIC LIFE INSURANCE COMPANY.—

"(1) REIMBURSEMENT FOR HOME OFFICE SERVICES, ETC.—Any payment, transfer, reimbursement, credit, or allowance which is made from a separate account established pursuant to subsection (c) to one or more other accounts of a domestic life insurance company as reimbursement for costs incurred for or with respect to the insurance (or reinsurance) of risks accounted for in such separate account shall be taken into account by the domestic life insurance company in the same manner as if such payment, transfer, reim-

bursement, credit, or allowance had been received from a separate person.

"(2) REPATRIATION OF INCOME.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), any amount directly or indirectly transferred or credited from a branch account established pursuant to subsection (c) to one or more other accounts of such company shall, unless such transfer or credit is a reimbursement to which paragraph (1) applies, be added to the life insurance company taxable income of the domestic life insurance company (as computed without regard to this paragraph).

"(B) LIMITATION.—The addition provided by subparagraph (A) for the taxable year with respect to any contiguous country life insurance branch shall not exceed the amount by which—

"(i) the aggregate decrease in the life insurance company taxable income of the domestic life insurance company for the taxable year and for all prior taxable years resulting solely from the application of subsection (a) of this section with respect to such branch, exceeds

"(ii) the amount of additions to life insurance company taxable income pursuant to subparagraph (A) with respect to such contiguous country branch for all prior taxable years.

"(f) OTHER RULES.—

"(1) TREATMENT OF FOREIGN TAXES.—

"(A) IN GENERAL.—No income, war profits, or excess profits taxes paid or accrued to any foreign country or possession of the United States which is attributable to income excluded under subsection (a) shall be taken into account for purposes of subpart A of part III of subchapter N (relating to foreign tax credit) or allowable as a deduction.

"(B) TREATMENT OF REPATRIATED AMOUNTS.—For purposes of sections 78 and 902, where any amount is added to the life insurance company taxable income of the domestic life insurance company by reason of subsection (e)(2), the contiguous country life insurance branch shall be treated as a foreign corporation. Any amount so added shall be treated as a dividend paid by a foreign corporation. and the taxes paid to any foreign country or possession of the United States with respect to such amount shall be deemed to have been paid by such branch.

"(2) UNITED STATES SOURCE INCOME ALLOCABLE TO CONTIGUOUS COUNTRY BRANCH.—For purposes of sections 881, 882, and 1442, each contiguous country life insurance branch shall be treated as a foreign corporation. Such sections shall be applied to each such branch in the same manner as if such sections contained the provisions of any treaty to which the United States and the contiguous country are parties, to the same extent such provisions would apply if such branch were incorporated in such contiguous country.

"(g) ELECTION.—A taxpayer may make the election provided by this subsection with respect to any contiguous country for any taxable year beginning after December 31, 1975. An election made under this subsection for any taxable year shall remain in effect for all subsequent taxable years, except that it may be revoked with the consent of the Secretary. The election provided by this subsection shall be

made not later than the time prescribed by law for filing the return for the taxable year (including extensions thereof) with respect to which such election is made, and such election and any approved revocation thereof shall be made in the manner provided by the Secretary.

"(h) SPECIAL RULE FOR DOMESTIC STOCK LIFE INSURANCE COMPANIES.—At the election of a domestic stock life insurance company which has a contiguous country life insurance branch described in subsection (b) (without regard to the mutual requirement in subsection (b)(3)), the assets of such branch may be transferred to a foreign corporation organized under the laws of the contiguous country without the application of section 367 or 1491. Subsection (a) shall apply to the stock of such foreign corporation as if such domestic company were a mutual company and as if the stock were an item described in subsection (c). Subsection (e)(2) shall apply to amounts transferred or credited to such domestic company as if such domestic company and such foreign corporation constituted one domestic mutual life insurance company. The insurance contracts which may be transferred pursuant to this subsection shall include only those which are similar to the types of insurance contracts issued by a mutual life insurance company. Notwithstanding the first sentence of this subsection, if the aggregate fair market value of the invested assets and tangible property which are separately accounted for by the domestic life insurance company in the branch account exceeds the aggregate adjusted basis of such assets for purposes of determining gain, the domestic life insurance company shall be deemed to have sold all such assets on the first day of the taxable year for which the election under this subsection applies and the net gain shall be recognized to the domestic life insurance company on the deemed sale, but not in excess of the proportion of such net gain which equals the proportion which the aggregate fair market value of such assets which are transferred pursuant to this subsection is of the aggregate fair market value of all such assets."

(b) CLERICAL AMENDMENT.—The table of sections for such subpart E is amended by inserting after the item relating to section 819 the following new item:

"Sec. 819A. Contiguous country branches of domestic life insurance companies."

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

SEC. 1044. TRANSITIONAL RULE FOR BOND, ETC., LOSSES OF FOREIGN BANKS.

(a) GENERAL RULE.—Section 582(c) (relating to bond, etc., losses and gains of financial institutions) is amended by adding at the end thereof the following new paragraph:

"(4) TRANSITIONAL RULE FOR BANKS.—In the case of a corporation which would be a bank except for the fact that it is a foreign corporation, the net gain, if any, for the taxable year on sales and exchanges described in paragraph (1) shall be considered as gain from the sale or exchange of a capital asset to the extent such net gain does not exceed the portion of any capital loss carryover to such taxable year which is attributable to capital losses on sales or exchanges described in paragraph (1) for a taxable year beginning before July 12, 1969. For purposes of the preceding sentence, the portion of a net capital loss for a taxable year which is attributable to capital losses on sales or exchanges described in paragraph (1) is the amount of the net capital loss on such sales or exchanges

for such taxable year (but not in excess of the net capital loss for such taxable year)."

(b) EFFECTIVE DATE.—

(1) The amendment made by subsection (a) shall apply with respect to taxable years beginning after July 11, 1969.

(2) If the refund or credit of any overpayment attributable to the application of the amendment made by subsection (a) to any taxable year is otherwise prevented by the operation of any law or rule of law (other than section 7122 of the Internal Revenue Code of 1954, relating to compromises) on the day which is one year after the date of the enactment of this Act, such credit or refund shall be nevertheless allowed or made if claim therefor is filed on or before such day.

PART V—SPECIAL CATEGORIES OF FOREIGN TAX TREATMENT

SEC. 1051. TAX TREATMENT OF CORPORATIONS CONDUCTING TRADE OR BUSINESS IN PUERTO RICO AND POSSESSIONS OF THE UNITED STATES.

(a) ALLOWANCE OF PUERTO RICAN AND POSSESSION TAX CREDIT.—Section 33 (relating to taxes of foreign countries and possessions of the United States) is amended to read as follows:

"SEC. 33. TAXES OF FOREIGN COUNTRIES AND POSSESSIONS OF THE UNITED STATES; POSSESSION TAX CREDIT.

"(a) FOREIGN TAX CREDIT.—The amount of taxes imposed by foreign countries and possessions of the United States shall be allowed as a credit against the tax imposed by this chapter to the extent provided in section 901.

"(b) SECTION 936 CREDIT.—In the case of a domestic corporation, the amount provided by section 936 (relating to Puerto Rico and possession tax credit) shall be allowed as a credit against the tax imposed by this chapter."

(b) RULES ON POSSESSION TAX CREDIT.—Subpart D of part III of subchapter N of chapter 1 (relating to possessions of the United States) is amended by adding at the end thereof the following new section:

"SEC. 936. PUERTO RICO AND POSSESSION TAX CREDIT.

"(a) ALLOWANCE OF CREDIT.—

"(1) IN GENERAL.—Except as provided in paragraph (2), in the case of a domestic corporation which elects the application of this section, there shall be allowed as a credit against the tax imposed by this chapter an amount equal to the portion of the tax which is attributable to taxable income, from sources without the United States, from the active conduct of a trade or business within a possession of the United States, and from qualified possession source investment income, if the conditions of both subparagraph (A) and subparagraph (B) are satisfied:

"(A) 3-YEAR PERIOD.—If 80 percent or more of the gross income of such domestic corporation for the 3-year period immediately preceding the close of the taxable year (or for such part of such period immediately preceding the close of such taxable year as may be applicable) was derived from sources within a possession of the United States (determined without regard to section 904(f)); and

"(B) TRADE OR BUSINESS.—If 50 percent or more of the gross income of such domestic corporation for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States.

"(2) CREDIT NOT ALLOWED AGAINST CERTAIN TAXES.—The credit provided by paragraph (1) shall not be allowed against the tax imposed by—

"(A) section 56 (relating to minimum tax),

"(B) section 531 (relating to the tax on accumulated earnings),

"(C) section 541 (relating to personal holding company tax),

"(D) section 1333 (relating to war loss recoveries), or

"(E) section 1351 (relating to recoveries of foreign expropriation losses).

"(b) AMOUNTS RECEIVED IN UNITED STATES.—In determining taxable income for purposes of subsection (a), there shall not be taken into account as income from sources without the United States any gross income which was received by such domestic corporation within the United States, whether derived from sources within or without the United States.

"(c) TREATMENT OF CERTAIN FOREIGN TAXES.—For purposes of this title, any tax of a foreign country or a possession of the United States which is paid or accrued with respect to taxable income which is taken into account in computing the credit under subsection (a) shall not be treated as income, war profits, or excess profits taxes paid or accrued to a foreign country or possession of the United States, and no deduction shall be allowed under this title with respect to any amounts so paid or accrued.

"(d) DEFINITIONS.—For purposes of this section—

"(1) POSSESSION.—The term 'possession of the United States' includes the Commonwealth of Puerto Rico, but does not include the Virgin Islands of the United States.

"(2) QUALIFIED POSSESSION SOURCE INVESTMENT INCOME.—The term 'qualified possession source investment income' means gross income which—

"(A) is from sources within a possession of the United States in which a trade or business is actively conducted, and

"(B) the taxpayer establishes to the satisfaction of the Secretary is attributable to the investment in such possession (for use therein) of funds derived from the active conduct of a trade or business in such possession, or from such investment,

less the deductions properly apportioned or allocated thereto.

"(e) ELECTION.—

"(1) PERIOD OF ELECTION.—The election provided in subsection (a) shall be made at such time and in such manner as the Secretary may by regulations prescribe. Any such election shall apply to the first taxable year for which such election was made and for which the domestic corporation satisfied the conditions of subparagraphs (A) and (B) of subsection (a)(1) and for each taxable year thereafter until such election is revoked by the domestic corporation under paragraph (2). If any such election is revoked by the domestic corporation under paragraph (2), such domestic corporation may make a subsequent election under subsection (a) for any taxable year thereafter for which such domestic cor-

poration satisfies the conditions of subparagraphs (A) and (B) of subsection (a)(1) and any such subsequent election shall remain in effect until revoked by such domestic corporation under paragraph (2).

"(2) REVOCATION.—An election under subsection (a)—

"(A) may be revoked for any taxable year beginning before the expiration of the 9th taxable year following the taxable year for which such election first applies only with the consent of the Secretary; and

"(B) may be revoked for any taxable year beginning after the expiration of such 9th taxable year without the consent of the Secretary.

"(f) DISC OR FORMER DISC CORPORATION INELIGIBLE FOR CREDIT.—No credit shall be allowed under this section to a corporation for a taxable year for which it is a DISC or former DISC (as defined in section 992(a)) or in which it owns at any time stock in a DISC or former DISC.

"(g) EXCEPTION TO ACCUMULATED EARNINGS TAX.—

"(1) For purposes of section 535, the term 'accumulated taxable income' shall not include taxable income entitled to the credit under subsection (a).

"(2) For purposes of section 537, the term 'reasonable needs of the business' includes assets which produce income eligible for the credit under subsection (a)."

(c) AMENDMENTS OF SECTION 931.—

(1) Subsection (a) of section 931 (relating to general rule in the case of income from sources within possessions of the United States) is amended to read as follows:

"(a) GENERAL RULE.—In the case of individual citizens of the United States, gross income means only gross income from sources within the United States if the conditions of both paragraph (1) and paragraph (2) are satisfied:

"(1) 3-YEAR PERIOD.—If 80 percent or more of the gross income of such citizen (computed without the benefit of this section) for the 3-year period immediately preceding the close of the taxable year (or for such part of such period immediately preceding the close of such taxable year as may be applicable) was derived from sources within a possession of the United States; and

"(2) TRADE OR BUSINESS.—If 50 percent or more of his gross income (computed without the benefit of this section) for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States either on his own account or as an employee or agent of another.".

(2) Subsection (c) of section 931 (defining the term "possession") is amended to read as follows:

"(c) DEFINITION.—For purposes of this section, the term 'possession of the United States' does not include the Commonwealth of Puerto Rico, the Virgin Islands of the United States, or Guam.".

(3) Subsections (d), (e), and (f) of section 931 are each amended by striking out "persons" each place it appears and inserting in lieu thereof "a citizen of the United States".

(d) AMENDMENTS OF SECTION 901.—

(1) Section 901(d) (relating to certain corporations treated as foreign corporations) is amended to read as follows:

"(d) TREATMENT OF DIVIDENDS FROM A DISC OR FORMER DISC.—For purposes of this subpart, dividends from a DISC or former DISC

(as defined in section 992(a)) shall be treated as dividends from a foreign corporation to the extent such dividends are treated under part I as income from sources without the United States.".

(2) Section 901 (relating to taxes of foreign countries and possessions of the United States) is amended by redesignating subsection (g) as (h) and by inserting after subsection (f) the following new subsection:

"(g) CERTAIN TAXES PAID WITH RESPECT TO DISTRIBUTIONS FROM POSSESSIONS CORPORATIONS.—

"(1) IN GENERAL.—For purposes of this chapter, any tax of a foreign country or possession of the United States which is paid or accrued with respect to any distribution from a corporation, to the extent that such distribution is attributable to periods during which such corporation is a possessions corporation, shall not be treated as income, war profits, or excess profits taxes paid or accrued to a foreign country or possession of the United States, and no deduction shall be allowed under this title with respect to any amount so paid or accrued.

"(2) POSSESSIONS CORPORATION.—For purposes of paragraph (1), a corporation shall be treated as a possessions corporation for any period during which an election under section 936 applied to such corporation or during which section 931 (as in effect on the day before the date of the enactment of the Tax Reform Act of 1976) applied to such corporation."

(e) AMENDMENT OF SECTION 904(b).—Section 904(b) (as amended by sections 1031 and 1034(a) of this Act) is amended by adding at the end thereof the following new paragraph:

"(4) COORDINATION WITH SECTION 936.—For purposes of subsection (a), in the case of a corporation, the taxable income shall not include any portion thereof taken into account for purposes of the credit (if any) allowed by section 936."

(f) DIVIDENDS RECEIVED DEDUCTION ALLOWED.—

(1) Section 243(b)(1) (defining qualifying dividends) is amended by adding "either" at the end of subparagraph (A), by striking out the period at the end of subparagraph (B)(ii) and inserting in lieu thereof a comma and "or", and by adding at the end thereof the following new subparagraph:

"(C) such dividends are paid by a corporation with respect to which an election under section 936 is in effect for the taxable year in which such dividends are paid.".

(2) Section 243(b)(5) (defining affiliated group) is amended by inserting ", 1504(b)(4)," immediately after "1504(b)(2)".

(3) Section 246(a) (relating to dividends from certain corporations) is amended to read as follows:

"(a) DEDUCTION NOT ALLOWED FOR DIVIDENDS FROM CERTAIN CORPORATIONS.—The deductions allowed by sections 243, 244, and 245 shall not apply to any dividend from a corporation which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, is a corporation exempt from tax under section 501 (relating to certain charitable, etc., organizations) or section 521 (relating to farmers' cooperative associations)."

(g) CONSOLIDATED RETURN TREATMENT.—Section 1504(b)(4) (defining includible corporation) is amended to read as follows:

"(4) Corporations with respect to which an election under section 936 (relating to possession tax credit) is in effect for the taxable year.".

(h) CONFORMING AMENDMENTS.—

(1) Section 48(a)(2)(B)(vii) (relating to definition of section 38 property) is amended by striking out "(other than a corporation entitled to the benefits of section 931 or 934(b))" and inserting in lieu thereof the following: "(other than a corporation which has an election in effect under section 936 or which is entitled to the benefits of section 934(b))".

(2) Paragraph (2) of subsection 116(b) (relating to certain dividends excluded from partial exclusion of dividends received by individuals) is amended to read as follows:

"(2) a corporation which, for the taxable year of the corporation in which the distribution is made, or for the next preceding taxable year of the corporation, is a corporation exempt from tax under section 501 (relating to certain charitable, etc., organizations) or section 521 (relating to farmers' cooperative associations); or".

(3) Section 861(a)(2)(A) (relating to income from sources within the United States) is amended by striking out "other than a corporation entitled to the benefits of section 931," and inserting in lieu thereof the following: "other than a corporation which has an election in effect under section 936,".

(4) Section 6091(b)(2)(B)(ii) (relating to place of filing for corporations) is amended by striking out "section 931 (relating to income from sources within possessions of the United States)," and inserting in lieu thereof the following: "section 936 (relating to possession tax credit),".

(i) EFFECTIVE DATE.—

(1) Except as provided by paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1975, except that "qualified possession source investment income" as defined in section 936(d)(2) of the Internal Revenue Code of 1954 shall include income from any source outside the United States if the taxpayer establishes to the satisfaction of the Secretary of the Treasury or his delegate that the income from such sources was earned before October 1, 1976.

(2) The amendment made by subsection (d)(2) shall not apply to any tax imposed by a possession of the United States with respect to the complete liquidation occurring before January 1, 1979, of a corporation to the extent that such tax is attributable to earnings and profits accumulated by such corporation during periods ending before January 1, 1976.

SEC. 1052. WESTERN HEMISPHERE TRADE CORPORATIONS.

(a) PHASEOUT OF SPECIAL DEDUCTION FOR WESTERN HEMISPHERE TRADE CORPORATIONS.—Section 922 (special deduction for Western Hemisphere trade corporations) is amended by adding at the end thereof the following new subsection:

"(b) PHASEOUT OF DEDUCTION.—In the case of a taxable year beginning after December 31, 1975, and before January 1, 1980, the percent specified in subsection (a)(2)(A) shall be (in lieu of 14 percent) the percent specified in the following table:

"For a taxable year beginning in—	The percentage shall be—
1976	11
1977	8
1978	5
1979	2".

(b) REPEAL OF WESTERN HEMISPHERE TRADE CORPORATION DEDUCTION FOR TAXABLE YEARS BEGINNING AFTER 1979.—Subpart C of part III of subchapter N of chapter 1 (relating to Western Hemisphere trade corporations) is hereby repealed.

(c) CONFORMING AMENDMENTS.—

(1) The first sentence of section 922 (relating to special deduction) is amended by striking out "In the case of" and inserting in lieu thereof the following:

"(a) GENERAL RULE.—In the case of".

(2) Section 170(b)(2) (relating to percentage limitations on charitable contributions in the case of corporations) is amended by adding "and" at the end of subparagraph (C), by striking out subparagraph (D), and by redesignating subparagraph (E) as subparagraph (D).

(3) Section 172(d) (relating to modifications for purposes of the net operating loss deduction) is amended by striking out paragraph (5) and by redesignating paragraph (6) as paragraph (5).

(4) Subsection (g) of section 907 is hereby repealed.

(5) Section 1503 (relating to computation and payment of tax in the case of consolidated returns) is amended by striking out subsection (b) and by striking out "(a) GENERAL RULE.—".

(6) Section 6091(b)(2)(B)(ii) (relating to place for filing returns of corporations) is amended to read as follows:

"(ii) corporations which claim the benefits of section 936 (relating to possession tax credit), and".

(7) The table of subparts for part III of subchapter N of chapter 1 is amended by striking out the item relating to subpart C.

(d) EFFECTIVE DATES.—The amendments made by subsection (a) and paragraph (1) of subsection (c) shall apply with respect to taxable years beginning after December 31, 1975. The amendments made by subsection (b) and by subsection (c) (other than paragraph (1)) shall apply with respect to taxable years beginning after December 31, 1979.

SEC. 1053. REPEAL OF PROVISIONS RELATING TO CHINA TRADE ACT CORPORATIONS.

(a) PHASEOUT OF SECTION 941.—Section 941 (relating to special deductions for China Trade Act corporations) is amended by adding the following new subsection:

"(d) PHASEOUT OF DEDUCTION.—In the case of a taxable year beginning after December 31, 1975, and before January 1, 1978, the amount of the special deduction under subsection (a) (determined without regard to this subsection) shall be reduced by the percentage reduction specified in the following table:

"For a taxable year beginning in—	The percentage reduction shall be—
1976	33⅓
1977	66⅔."

(b) PHASEOUT OF SECTION 943.—Section 943 (relating to the exclusion of certain dividends to residents of Formosa or Hong Kong) is amended by adding at the end thereof the following new sentence: "In the case of a taxable year beginning after December 31, 1975, and before January 1, 1978, the amount of the distributions which are excludable from gross income under this section (determined without

regard to this sentence) shall be reduced by the percentage reduction specified in the following table:

"For a taxable year beginning in—	The percentage reduction shall be—
1976	33⅓
1977	66⅔."

(c) REPEAL.—Subpart E of part III of subchapter N of chapter 1 (relating to China Trade Act corporations) is hereby repealed.

(d) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Section 116(b) is amended by striking out paragraph (1) and redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(2) Section 1504(b) is amended by striking out paragraph (5).

(3) Section 6072 is amended by striking out subsection (e).

(4) Section 6091(b)(2)(B)(ii) is amended by striking out the comma after "trade corporations)" and inserting in lieu thereof "or" and by striking out "or section 941 (relating to the special deduction for China Trade Act corporations),".

(5) The table of subparts for part III of subchapter N of chapter 1 is amended by striking out the item relating to subpart E.

(e) EFFECTIVE DATES.—The amendments made by subsections (a) and (b) shall apply with respect to taxable years beginning after December 31, 1975. The amendments made by subsections (c) and (d) shall apply with respect to taxable years beginning after December 31, 1977.

PART VI—DENIAL OF CERTAIN TAX BENEFITS FOR COOPERATION WITH OR PARTICIPATION IN INTERNATIONAL BOYCOTTS AND IN CONNECTION WITH THE PAYMENT OF CERTAIN BRIBES

SEC. 1061. DENIAL OF FOREIGN TAX CREDIT.

(a) IN GENERAL.—Subpart A of part III of subchapter N (relating to income from sources without the United States) is amended by adding at the end thereof the following new section:

"SEC. 908. REDUCTION OF CREDIT FOR PARTICIPATION IN OR COOPERATION WITH AN INTERNATIONAL BOYCOTT.

"(a) IN GENERAL.—If a person, or a member of a controlled group (within the meaning of section 993(a)(3)) which includes such person, participates in or cooperates with an international boycott during the taxable year (within the meaning of section 999(b)), the amount of the credit allowable under section 901 to such person, or under section 902 or 960 to United States shareholders of such person, for foreign taxes paid during the taxable year shall be reduced by an amount equal to the product of—

"(1) the amount of the credit which, but for this section, would be allowed under section 901 for the taxable year, multiplied by

"(2) the international boycott factor (determined under section 999).

"(b) APPLICATION WITH SECTIONS 275(a)(4) AND 78.—Section 275(a)(4) and section 78 shall not apply to any amount of taxes denied credit under subsection (a)."

(b) CLERICAL AMENDMENT.—The table of sections for such subpart is amended by adding at the end thereof the following new item:

"Sec. 908. Reduction of credit for participation in or cooperation with an international boycott."

SEC. 1062. DENIAL OF DEFERRAL OF INTERNATIONAL BOYCOTT AMOUNTS.

(a) DENIAL OF DEFERRAL.—Section 952(a) (relating to general definition of subpart F income) is amended—

(1) by striking out "and" at the end of paragraph (1),

(2) by striking out the period at the end of paragraph (2) and inserting in lieu thereof a comma, and the word "and", and

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

"(3) an amount equal to the product of—

"(A) the income of such corporation other than income which—

"(i) is attributable to earnings and profits of the foreign corporation included in the gross income of a United States person under section 951 (other than by reason of this paragraph), or

"(ii) is described in subsection (b),

multiplied by

"(B) the international boycott factor (as determined under section 999)."

SEC. 1063. DENIAL OF DISC BENEFITS.

(a) INTERNATIONAL BOYCOTT ACTIVITY.—Subparagraph (D) of section 995(b)(1) (relating to distributions in qualified years) is amended to read as follows:

"(D) the sum of—

"(i) one-half of the excess of the taxable income of the DISC for the taxable year, before reduction for any distributions during the year, over the sum of the amounts deemed distributed for the taxable year under subparagraphs (A), (B), and (C), and

"(ii) an amount equal to the amount determined under clause (i) multiplied by the international boycott factor determined under section 999, and".

SEC. 1064. DETERMINATIONS AS TO PARTICIPATION IN OR COOPERATION WITH AN INTERNATIONAL BOYCOTT.

(a) IN GENERAL.—Subchapter N of chapter 1 (relating to tax based on income from sources within or without the United States) is amended by adding at the end thereof the following new part:

"PART V—INTERNATIONAL BOYCOTT DETERMINATIONS

"Sec. 999. Reports by taxpayers; determinations.

"SEC. 999. REPORTS BY TAXPAYERS; DETERMINATIONS.

"(a) INTERNATIONAL BOYCOTT REPORTS BY TAXPAYERS.—

"(1) REPORT REQUIRED.—If any person, or a member of a controlled group (within the meaning of section 993(a)(3)) which includes that person, has operations in, or related to—

"(A) a country (or with the government, a company, or a national of a country) which is on the list maintained by the Secretary under paragraph (3), or

"(B) any other country (or with the government, a company, or a national of that country) in which such person or such member had operations during the taxable year if such person (or, if such person is a foreign corporation, any United States shareholder of that corporation) knows or has reason to know that participation in or cooperation with an international boycott is required as a condition of doing business within such country or with such government, company, or national,

that person or shareholder (within the meaning of section 951(b)) shall report such operations to the Secretary at such time and in such manner as the Secretary prescribes, except that in the case of a foreign corporation such report shall be required only of a United States shareholder (within the meaning of such section) of such corporation.

"(2) PARTICIPATION AND COOPERATION; REQUEST THEREFOR.—A taxpayer shall report whether he, a foreign corporation of which he is a United States shareholder, or any member of a controlled group which includes the taxpayer or such foreign corporation has participated in or cooperated with an international boycott at any time during the taxable year, or has been requested to participate in or cooperate with such a boycott, and, if so, the nature of any operation in connection with which there was participation in or cooperation with such boycott (or there was a request to participate or cooperate).

"(3) LIST TO BE MAINTAINED.—The Secretary shall maintain and publish not less frequently than quarterly a current list of countries which require or may require participation in or cooperation with an international boycott (within the meaning of subsection (b)(3)).

"(b) PARTICIPATION IN OR COOPERATION WITH AN INTERNATIONAL BOYCOTT.—

"(1) GENERAL RULE.—If the person or a member of a controlled group (within the meaning of section 993(a)(3)) which includes the person participates in or cooperates with an international boycott in the taxable year, all operations of the taxpayer or such group in that country and in any other country which requires participation in or cooperation with the boycott as a condition of doing business within that country, or with the government, a company, or a national of that country, shall be treated as operations in connection with which such participation of cooperation occurred, except to the extent that the person can clearly demonstrate that a particular operation is a clearly separate and identifiable operation in connection with which there was no participation in or cooperation with an international boycott.

"(2) SPECIAL RULE.—

"(A) NONBOYCOTT OPERATIONS.—A clearly separate and identifiable operation of a person, or of a member of the controlled group (within the meaning of section 993(a)(3)) which includes that person, in or related to any country within the group of countries referred to in paragraph (1) shall not be treated as an operation in or related to a group of countries associated in carrying out an international boycott if the person can clearly demonstrate that he, or that such member, did not participate in or cooperate with the international boycott in connection with that operation.

"(B) SEPARATE AND IDENTIFIABLE OPERATIONS.—A taxpayer may show that different operations within the same country, or operations in different countries, are clearly separate and identifiable operations.

"(3) DEFINITION OF BOYCOTT PARTICIPATION AND COOPERATION.—For purposes of this section, a person participates in or cooperates with an international boycott if he agrees—

"(A) as a condition of doing business directly or indirectly within a country or with the government, a company, or a national of a country—

"(i) to refrain from doing business with or in a country which is the object of the boycott or with the government, companies, or nationals of that country;

"(ii) to refrain from doing business with any United States person engaged in trade in a country which is the object of the boycott or with the government, companies, or nationals of that country;

"(iii) to refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion; or

"(iv) to refrain from employing individuals of a particular nationality, race, or religion; or

"(B) as a condition of the sale of a product to the government, a company, or a national of a country, to refrain from shipping or insuring that product on a carrier owned, leased, or operated by a person who does not participate in or cooperate with an international boycott (within the meaning of subparagraph (A)).

"(4) COMPLIANCE WITH CERTAIN LAWS.—This section shall not apply to any agreement by a person (or such member)—

"(A) to meet requirements imposed by a foreign country with respect to an international boycott if United States law or regulations, or an Executive Order, sanctions participation in, or cooperation with, that international boycott,

"(B) to comply with a prohibition on the importation of goods produced in whole or in part in any country which is the object of an international boycott, or

"(C) to comply with a prohibition imposed by a country on the exportation of products obtained in such country to any country which is the object of an international boycott.

"(c) INTERNATIONAL BOYCOTT FACTOR.—

"(1) INTERNATIONAL BOYCOTT FACTOR.—For purposes of sections 908(a), 952(a)(3), and 995(b)(3), the international boycott factor is a fraction, determined under regulations prescribed by the Secretary, the numerator of which reflects the world-wide operations of a person (or, in the case of a controlled group (within the meaning of section 993(a)(3)) which includes that person, of the group) which are operations in or related to a group of countries associated in carrying out an international boycott in or with which that person or a member of that controlled group has participated or cooperated in the taxable year, and the denominator of which reflects the world-wide operations of that person or group.

"(2) SPECIFICALLY ATTRIBUTABLE TAXES AND INCOME.—If the taxpayer clearly demonstrates that the foreign taxes paid and income earned for the taxable year are attributable to specific operations, then, in lieu of applying the international boycott factor for such taxable year, the amount of the credit disallowed under section 908(a), the addition to subpart F income under section 952(a)(3), and the amount of deemed distribution under section 995(b)(1)(D)(ii) for the taxable year, if any, shall be the amount specifically attributable to the operations in which there was participation in or cooperation with an international boycott under section 999(b)(1).

"(3) WORLD-WIDE OPERATIONS.—For purposes of this subsection, the term 'world-wide operations' means operations in or related to countries other than the United States.

"(d) DETERMINATIONS WITH RESPECT TO PARTICULAR OPERATIONS.—Upon a request made by the taxpayer, the Secretary shall issue a determination with respect to whether a particular operation of a person, or of a member of a controlled group which includes that person, constitutes participation in or cooperation with an international boycott. The Secretary may issue such a determination in advance of such operation in cases which are of such a nature that an advance determination is possible and appropriate under the circumstances. If the request is made before the operation is commenced, or before the end of a taxable year in which the operation is carried out, the Secretary may decline to issue such a determination before close of the taxable year.

"(e) PARTICIPATION OR COOPERATION BY RELATED PERSONS.—If a person controls (within the meaning of section 304(c)) a corporation—

"(1) participation in or cooperation with an international boycott by such corporation shall be presumed to be such participation or cooperation by such person, and

"(2) participation in or cooperation with such a boycott by such person shall be presumed to be such participation or cooperation by such corporation.

"(f) WILLFUL FAILURE TO REPORT.—Any person (within the meaning of section 6671(b)) required to report under this section who willfully fails to make such report shall, in addition to other penalties provided by law, be fined not more than $25,000, imprisoned for not more than one year, or both.".

(b) CLERICAL AMENDMENT.—The table of parts for such subchapter is amended by adding at the end thereof the following new item:

"Part V. International boycott determinations."

SEC. 1065. FOREIGN BRIBES.

(a) DENIAL OF DEFERRAL.—

(1) CONTROLLED FOREIGN CORPORATIONS.—Section 952(a) (relating to general definition of subpart F income) is amended—

(A) by striking out "and" at the end of paragraph (2),

(B) by striking out the period at the end of paragraph (3) and inserting in lieu thereof a comma and the word "and", and

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

"(4) the sum of the amounts of any illegal bribes, kickbacks, or other payments (within the meaning of section 162(c)) paid by or on behalf of the corporation during the taxable year of

the corporation directly or indirectly to an official, employee, or agent in fact of a government."

(2) DISC's.—Subparagraph (D) of section 995(b)(1) (relating to distributions in qualified years) is amended—

(A) by striking out "and" at the end of clause (i),

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

"(iii) any illegal bribe, kickback, or other payment (within the meaning of section 162(c)) paid by or on behalf of the DISC directly or indirectly to an official, employee, or agent in fact of a government, and".

(b) BRIBES NOT TO REDUCE FOREIGN EARNINGS AND PROFITS.—Section 964(a) (relating to earnings and profits of foreign corporations) is amended by adding at the end thereof the following sentence: "In determining such earnings and profits, or the deficit in such earnings and profits, the amount of any illegal bribe, kickback, or other payment (within the meaning of section 162(c)) shall not be taken into account to decrease such earnings and profits or to increase such deficit.".

SEC. 1066. EFFECTIVE DATES.

(a) INTERNATIONAL BOYCOTTS.—

(1) GENERAL RULE.—The amendments made by this part (other than by section 1065) apply to participation in or cooperation with an international boycott more than 30 days after the date of enactment of this Act.

(2) EXISTING CONTRACTS.—In the case of operations which constitute participation in or cooperation with an international boycott and which are carried out in accordance with the terms of a binding contract entered into before September 2, 1976, the amendments made by this part (other than by section 1065) apply to such participation or cooperation after December 31, 1977.

(b) FOREIGN BRIBES.—The amendments made by section 1065 apply to payments described in section 162(c) of the Internal Revenue Code of 1954 made more than 30 days after the date of enactment of this Act.

SEC. 1067. REPORTS BY SECRETARY.

(a) REPORTS TO THE CONGRESS.—As soon after the close of each calendar year as the data become available, the Secretary shall transmit a report to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate setting forth, for that calendar year—

(1) the number of reports filed under section 999(a) of the Internal Revenue Code of 1954 for taxable years ending with or within such taxable year,

(2) the number of such reports on which the taxpayer indicated international boycott participation or cooperation (within the meaning of section 999(b)(3) of such Code), and

(3) a detailed description of the manner in which the provisions of such Code relating to international boycott activity have been administered during such calendar year.

(b) INITIAL LIST.—The Secretary of the Treasury shall publish an initial list of those countries which may require participation in or cooperation with an international boycott as a condition of doing business within such country, or with the government, a company, or a national of such country (within the meaning of section 999(b) of the Internal Revenue Code of 1954) within 30 days after the enactment of this Act.

TITLE XI—AMENDMENTS AFFECTING DISC

SEC. 1101. AMENDMENTS AFFECTING DISC.

(a) IN GENERAL.—Section 995 (relating to taxation of DISC income to shareholders) is amended—

(1) in paragraph (1) of subsection (b) thereof, by redesignating subparagraphs (D) and (E) as subparagraphs (F) and (G), respectively, by striking out "and (C)" in subparagraph (F) (as so redesignated) and inserting in lieu thereof "(C), (D), and (E)", and by inserting after subparagraph (C) the following new subparagraphs:

"(D) 50 percent of the taxable income of the DISC for the taxable year attributable to military property,

"(E) the taxable income for the taxable year attributable to base period export gross receipts (as defined in subsection (e)),";

(2) in paragraph (2) (B) of subsection (b) thereof, by striking out "more than the number" and inserting in lieu thereof "more than twice the number";

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

"(3) TAXABLE INCOME ATTRIBUTABLE TO MILITARY PROPERTY.—

"(A) IN GENERAL.—For purposes of paragraph (1)(D), taxable income of a DISC for the taxable year attributable to military property shall be determined by only taking into account—

"(i) the gross income of the DISC for the taxable year which is attributable to military property, and

"(ii) the deductions which are properly apportioned or allocated to such income.

"(B) MILITARY PROPERTY.—For purposes of subparagraph (A), the term 'military property' means any property which is an arm, ammunition, or implement of war designated in the munitions list published pursuant to the Military Security Act of 1954 (22 U.S.C. 1934)."; and

(4) by adding at the end thereof the following new subsections:

"(e) DEFINITIONS AND SPECIAL RULES RELATING TO COMPUTATION OF TAXABLE INCOME ATTRIBUTABLE TO BASE PERIOD EXPORT GROSS RECEIPTS.—

"(1) TAXABLE INCOME ATTRIBUTABLE TO BASE PERIOD EXPORT GROSS RECEIPTS.—For purposes of this section, the taxable income attributable to base period export gross receipts shall be an amount equal to that portion of the adjusted taxable income of a DISC which—

"(A) the amount of the adjusted base period export gross receipts, bears to

"(B) the amount of the export gross receipts of the DISC for the taxable year.

"(2) ADJUSTED TAXABLE INCOME.—For purposes of this section, the term 'adjusted taxable income' means the income of a DISC for the taxable year, reduced by the amounts described in subparagraphs (A), (B), (C), and (D) of paragraph (1) of subsection (b).

"(3) ADJUSTED BASE PERIOD EXPORT GROSS RECEIPTS.—For purposes of this section, the term 'adjusted base period export gross receipts' means 67 percent of the average of the export gross receipts of the DISC for taxable years during the base period (as defined in paragraph (5)). For purposes of the preceding sentence, if any property would not qualify during the taxable year as export property by reason of section 993(c)(2), gross receipts from such property shall be excluded from export gross receipts during the taxable years in the base period.

"(4) EXPORT GROSS RECEIPTS.—For purposes of this section, the term 'export gross receipts' means—

"(A) qualified export receipts described in subparagraphs (A), (B), (C), (G), and (H) of section 993(a)(1), reduced by

"(B) 50 percent of such qualified export receipts which are attributable to military property (as defined in subsection (b)(3)(B)).

"(5) BASE PERIOD.—For purposes of paragraph (3)—

"(A) for any taxable year beginning before 1980, the base period shall be the taxable years beginning in 1972, 1973, 1974, and 1975, and

"(B) for any taxable year beginning in any calendar year after 1979, the base period shall be the taxable years beginning in the fourth, fifth, sixth, and seventh calendar years preceding such calendar year.

"(6) NO BASE PERIOD YEAR.—If a DISC did not have a taxable year beginning in a calendar year specified in paragraph (5), then, for purposes of computing the adjusted base period export gross receipts, such DISC is deemed to have a taxable year and export gross receipts of zero for that year.

"(7) SHORT TAXABLE YEAR.—The Secretary shall prescribe such regulations as he deems necessary with respect to a short taxable year for purposes of computing base period export gross receipts of a DISC, or a short taxable year in which deemed distributions (as described in subsection (b)) are made, including the circumstances under which the short taxable year shall be annualized, and the proper method of annualization.

"(8) CONTROLLED GROUP.—If more than one member of a controlled group (as defined in section 993(a)(3)) for the taxable year qualifies as a DISC, then subsection (b)(1)(E), this subsection, and subsection (f) shall each be applied in a manner provided by regulations prescribed by the Secretary by aggregating the export gross receipts and taxable income of such DISCs for the taxable year and by aggregating the export gross receipts of such DISCs for each taxable year in the base period.

"(9) SPECIAL RULE WHERE THE OWNERSHIP OF DISC STOCK AND THE TRADE OR BUSINESS GIVING RISE TO EXPORT GROSS RECEIPTS OF THE DISC ARE SEPARATED.—

"(A) IN GENERAL.—If, at any time after the beginning of the base period, there has been a separation of the ownership of the stock in the DISC from the ownership of the trade or business which (during the base period) produced the export gross receipts of the DISC, then the persons who own the trade or business during the taxable year shall be treated as having had additional export gross receipts during the base period attributable to such trade or business.

"(B) EXCEPTIONS.—Subparagraph (A) shall not apply—

"(i) where the stock in the DISC and the trade or business are owned throughout the taxable year by members of the same controlled group, and

"(ii) to the extent that the taxpayer's ownership of the stock in the DISC for the taxable year is proportionate to his ownership during the taxable year of the trade or business.

"(10) DISC BASE PERIOD ATTRIBUTED THROUGH SHAREHOLDERS IN CERTAIN CASES.—

"(A) IN GENERAL.—If—

"(i) any person owns 5 percent or more of the stock of a DISC (hereinafter in this paragraph referred to as 'first DISC'), and

"(ii) such person at any time during the base period of the first DISC owned 5 percent or more of the stock of a second DISC,

then, to the extent provided in such regulations as the Secretary may prescribe to prevent circumvention of the application of subsection (b)(1)(E), an amount equal to such shareholder's share of the base period export gross receipts of the second DISC shall be added to the base period export gross receipts of the first DISC.

"(B) OWNERSHIP OF STOCK.—For purposes of subparagraph (A), the ownership of stock shall be determined under section 318.

"(f) SMALL DISCs.—

"(1) ADJUSTED TAXABLE INCOME OF $100,000 OR LESS.—If a DISC has adjusted taxable income of $100,000 or less for a taxable year, subsection (b)(1)(E) shall not apply with respect to such year.

"(2) SPECIAL RULE.—If a DISC has adjusted taxable income of more than $100,000 for a taxable year, then the amount taken into account under subsection (b)(1)(E) shall be deemed to be an amount equal to the excess (if any) of—

"(A) the amount which would (but for this paragraph) be taken into account under subsection (b)(1)(E), over

"(B) twice the excess (if any) of $150,000 over the adjusted taxable income.

"(g) CERTAIN TRANSFERS OF DISC ASSETS.—If—

"(1) a corporation owns, directly or indirectly, all of the stock of a subsidiary and a DISC,

"(2) the subsidiary has been engaged in the active conduct of a trade or business (within the meaning of section 355(b)) throughout the 5-year period ending on the date of the transfer and continues to be so engaged thereafter, and

"(3) during the taxable year of the subsidiary in which its stock is transferred and its preceding taxable year, such trade or business gives rise to qualified export receipts of the subsidiary and the DISC,

then, under such terms and conditions as the Secretary by regulations shall prescribe, transfers of assets, stock, or both, will be deemed to be a reorganization within the meaning of section 368, a transaction to which section 355 applies, an exchange of stock to which section 351 applies, or a combination thereof. The preceding sentence shall apply only to the extent that the transfer or transfers involved are for the purpose of preventing the separation of the ownership of the stock in

the DISC from the ownership of the trade or business which (during the base period) produced the export gross receipts of the DISC."

(b) AMENDMENT OF SECTION 993(c)(2).—Section 993(c)(2) (relating to property excluded from export property) is amended—

(1) by striking out "or" at the end of subparagraph (B), and

(2) by striking out "under section 611" in subparagraph (C) and inserting in lieu thereof "under section 613 or 613A".

(c) AMENDMENTS TO SECTION 993(d).—Section 993(d) (relating to definition of producer's loans) is amended—

(1) by inserting in paragraph (1)(C) immediately after "export property", the following: "determined without regard to subparagraph (C) or (D) of subsection (c)(2),".

(2) by inserting in paragraph (2) immediately after "of property which would be export property" the following: "(determined without regard to subparagraph (C) or (D) of subsection (c)(2))".

(d) RECAPTURE OF ACCUMULATED DISC INCOME ON DISPOSITION OF STOCK IN A DISC OR FORMER DISC.—

(1) Section 995(c) is amended to read as follows:

"(c) GAIN ON DISPOSITION OF STOCK IN A DISC.—

"(1) IN GENERAL.—If—

"(A) a shareholder disposes of stock in a DISC or former DISC any gain recognized on such disposition shall be included in gross income as a dividend to the extent provided in paragraph (2),

"(B) stock of a DISC or former DISC is disposed of in a transaction in which the separate corporate existence of the DISC or former DISC is terminated other than by a mere change in place of organization, however effected, any gain realized on the disposition of such stock in the transaction shall be recognized notwithstanding any other provision of this title to the extent provided in paragraph (2) and to the extent so recognized shall be included in gross income as a dividend, or

"(C) a shareholder distributes, sells, or exchanges stock in a DISC or former DISC in a transaction to which section 311, 336, or 337 applies, then an amount equal to the excess of the fair market value of such stock over its adjusted basis in the hands of the shareholder shall, notwithstanding any provision of this title, be included in gross income of the shareholder as a dividend to the extent provided in paragraph (2).

"(2) AMOUNT INCLUDED.—The amounts described in paragraph (1) shall be included in gross income as a dividend to the extent of the accumulated DISC income of the DISC or former DISC which is attributable to the stock disposed of and which was accumulated in taxable years of such corporation during the period or periods the stock disposed of was held by the shareholder which disposed of such stock."

(2) INTEREST IN A PARTNERSHIP HOLDING STOCK IN A DISC.—The last sentence of section 751(c) (relating to unrealized receivables) is amended—

(A) by striking out "(as defined in section 617(f)(2))," and inserting in lieu thereof "(as defined in section 617(f)(2), stock in a DISC (as described in section 992(a))," and

(B) by striking out "617(d)(1), 1245(a)," and inserting in lieu thereof "617(d)(1), 995(c), 1245(a),".

(e) RULES FOR ALLOCATING DISTRIBUTIONS MADE TO MEET QUALIFICATION REQUIREMENTS.—Paragraph (2) of section 996(a) (relating to rules for actual distributions and certain deemed distributions) is amended by adding at the end thereof the following new sentence: "In the case of any amount of any actual distribution made pursuant to section 992(c) which is required to satisfy the condition of section 992(a)(1)(A), the preceding sentence shall apply to one-half of such amount, and paragraph (1) shall apply to the remaining one-half of such amount."

(f) AMENDMENT OF SECTION 603(b) OF TAX REDUCTION ACT OF 1975.—Section 603(b) of the Tax Reduction Act of 1975 (relating to effective date) is amended to read as follows:

"(b) EFFECTIVE DATES.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by subsection (a) shall apply to sales, exchanges, and other dispositions made after March 18, 1975, in taxable years ending after such date.

"(2) BINDING CONTRACT.—The amendments made by subsection (a) shall not apply to sales, exchanges, and other dispositions made after March 18, 1975, but before March 19, 1980, if such sales, exchanges, and other dispositions are made pursuant to a fixed contract. The term 'fixed contract' means a contract which was, on March 18, 1975, and is at all times thereafter binding on the DISC or a taxpayer which was a member of the same controlled group (within the meaning of section 993(a)(3) of the Internal Revenue Code of 1954) as the DISC, which was entered into after the date on which the DISC qualified as a DISC and the DISC and the taxpayer became members of the same controlled group, and under which the price and quantity of the products sold, exchanged, or otherwise disposed of cannot be increased."

(g) EFFECTIVE DATES.—

(1) FOR SUBSECTIONS (a) AND (e).—The amendments made by subsections (a) and (e) shall apply to taxable years beginning after December 31, 1975.

(2) FOR SUBSECTION (b).— The amendments made by subsection (b) shall apply to sales, exchanges, and other dispositions made after March 18, 1975, in taxable years ending after such date.

(3) FOR SUBSECTIONS (c) AND (f).—The amendments made by subsections (c) and (f) shall apply to taxable years ending after March 18, 1975.

(4) FOR SUBSECTION (d).—The amendments made by subsection (d) shall apply to sales, exchanges, or other dispositions after December 31, 1975, in taxable years ending after such date.

(5) PRORATION OF BASE PERIOD IN CASE OF FIXED CONTRACTS.—For purposes of determining adjusted base period export gross receipts (under section 995(e)(3) of the Internal Revenue Code of 1954, as amended by this section), if any DISC has export gross receipts from export property by reason of paragraph (2) of section 603(b) of the Tax Reduction Act of 1975, then the export gross receipts of such DISC for the taxable years of the base period shall be increased by an amount equal to the amount of gross receipts which were excluded from export gross receipts during each taxable year of the base period by reason of the last sentence of section 993(e)(3) of such Code multiplied by a fraction, the numerator of which is the amount of the gross receipts in the taxable year which are export gross receipts by reason of

paragraph (2) of section 603(b) of the Tax Reduction Act of 1975 and the denominator of which is the amount of total gross receipts which are excluded from export gross receipts in the taxable year by reason of subparagraph (C) or (D) of paragraph (2) of section 993(c) (determined without regard to paragraph (2) of section 603(b) of the Tax Reduction Act of 1975).

TITLE XII—ADMINISTRATIVE PROVISIONS

SEC. 1201. PUBLIC INSPECTION OF WRITTEN DETERMINATIONS BY INTERNAL REVENUE SERVICE.

(a) REQUIREMENT THAT WRITTEN DETERMINATIONS BE OPEN TO PUBLIC INSPECTION.—Subchapter B of chapter 61 (relating to miscellaneous provisions) is amended by redesignating section 6110 as 6111 and by inserting after section 6109 the following new section:

"SEC. 6110. PUBLIC INSPECTION OF WRITTEN DETERMINATIONS.

"(a) GENERAL RULE.—Except as otherwise provided in this section, the text of any written determination and any background file document relating to such written determination shall be open to public inspection at such place as the Secretary may by regulations prescribe.

"(b) DEFINITIONS.—For purposes of this section—

"(1) WRITTEN DETERMINATION.—The term 'written determination' means a ruling determination letter, or technical advice memorandum.

"(2) BACKGROUND FILE DOCUMENT.—The term 'background file document' with respect to a written determination includes the request for that written determination, any written material submitted in support of the request, and any communication (written or otherwise) between the Internal Revenue Service and persons outside the Internal Revenue Service in connection with such written determination (other than any communication between the Department of Justice and the Internal Revenue Service relating to a pending civil or criminal case or investigation) received before issuance of the written determination.

"(3) REFERENCE AND GENERAL WRITTEN DETERMINATIONS.—

"(A) REFERENCE WRITTEN DETERMINATION.—The term 'reference written determination' means any written determination which has been determined by the Secretary to have significant reference value.

"(B) GENERAL WRITTEN DETERMINATION.—The term 'general written determination' means any written determination other than a reference written determination.

"(c) EXEMPTIONS FROM DISCLOSURE.—Before making any written determination or background file document open or available to public inspection under subsection (a), the Secretary shall delete—

"(1) the names, addresses, and other identifying details of the person to whom the written determination pertains and of any other person, other than a person with respect to whom a notation is made under subsection (d)(1), identified in the written determination or any background file document;

"(2) information specifically authorized under criteria established by an Executive order to be kept secret in the interest of national defense or foreign policy, and which is in fact properly classified pursuant to such Executive order;

"(3) information specifically exempted from disclosure by any statute (other than this title) which is applicable to the Internal Revenue Service;

"(4) trade secrets and commercial or financial information obtained from a person and privileged or confidential;

"(5) information the disclosure of which would constitute a clearly unwarranted invasion of personal privacy;

"(6) information contained in or related to examination, operating, or condition reports prepared by, or on behalf of, or for use of an agency responsible for the regulation or supervision of financial institutions; and

"(7) geological and geophysical information and data, including maps, concerning wells.

The Secretary shall determine the appropriate extent of such deletions and, except in the case of intentional or willful disregard of this subsection, shall not be required to make such deletions (nor be liable for failure to make deletions) unless the Secretary has agreed to such deletions or has been ordered by a court (in a proceeding under subsection (f)(3)) to make such deletions.

"(d) PROCEDURES WITH REGARD TO THIRD PARTY CONTACTS.—

"(1) NOTATIONS.—If, before the issuance of a written determination, the Internal Revenue Service receives any communication (written or otherwise) concerning such written determination, any request for such determination, or any other matter involving such written determination from a person other than an employee of the Internal Revenue Service or the person to whom such written determination pertains (or his authorized representative with regard to such written determination), the Internal Revenue Service shall indicate, on the written determination open to public inspection, the category of the person making such communication and the date of such communication.

"(2) EXCEPTION.—Paragraph (1) shall not apply to any communication made by the Chief of Staff of the Joint Committee on Taxation.

"(3) DISCLOSURE OF IDENTITY.—In the case of any written determination to which paragraph (1) applies, any person may file a petition in the United States Tax Court or file a complaint in the United States District Court for the District of Columbia for an order requiring that the identity of any person to whom the written determination pertains be disclosed. The court shall order disclosure of such identity if there is evidence in the record from which one could reasonably conclude that an impropriety occurred or undue influence was exercised with respect to such written determination by or on behalf of such person. The court may also direct the Secretary to disclose any portion of any other deletions made in accordance with subsection (c) where such disclosure is in the public interest. If a proceeding is commenced under this paragraph, the person whose identity is subject to being disclosed and the person about whom a notation is made under paragraph (1) shall be notified of the proceeding in accordance with the procedures described in subsection (f)(4)(B) and shall have the right to intervene in the proceeding (anonymously, if appropriate).

"(4) PERIOD IN WHICH TO BRING ACTION.—No proceeding shall be commenced under paragraph (3) unless a petition is filed before the expiration of 36 months after the first day that the written determination is open to public inspection.

"(e) BACKGROUND FILE DOCUMENTS.—Whenever the Secretary makes a written determination open to public inspection under this section, he shall also make available to any person, but only upon the written request of that person, any background file document relating to the written determination.

"(f) RESOLUTION OF DISPUTES RELATING TO DISCLOSURE.—

"(1) NOTICE OF INTENTION TO DISCLOSE.—The Secretary shall upon issuance of any written determination, or upon receipt of a request for a background file document, mail a notice of intention to disclose such determination or document to any person to whom the written determination pertains (or a successor in interest, executor, or other person authorized by law to act for or on behalf of such person).

"(2) ADMINISTRATIVE REMEDIES.—The Secretary shall prescribe regulations establishing administrative remedies with respect to—

"(A) requests for additional disclosure of any written determination of any background file document, and

"(B) requests to restrain disclosure.

"(3) ACTION TO RESTRAIN DISCLOSURE.—

"(A) CREATION OF REMEDY.—Any person—

"(i) to whom a written determination pertains (or a successor in interest, executor, or other person authorized by law to act for or on behalf of such person), or who has a direct interest in maintaining the confidentiality of any such written determination or background file document (or portion thereof),

"(ii) who disagrees with any failure to make a deletion with respect to that portion of any written determination or any background file document which is to be open or available to public inspection, and

"(iii) who has exhausted his administrative remedies as prescribed pursuant to paragraph (2),

may, within 60 days after the mailing by the Secretary of a notice of intention to disclose any written determination or background file document under paragraph (1), together with the proposed deletions, file a petition in the United States Tax Court (anonymously, if appropriate) for a determination with respect to that portion of such written determination or background file document which is to be open to public inspection.

"(B) NOTICE TO CERTAIN PERSONS.—The Secretary shall notify any person to whom a written determination pertains (unless such person is the petitioner) of the filing of a petition under this paragraph with respect to such written determination or related background file document, and any such person may intervene (anonymously, if appropriate) in any proceeding conducted pursuant to this paragraph. The Secretary shall send such notice by registered or certified mail to the last known address of such person within 15 days after such petition is served on the Secretary. No person who has received such a notice may thereafter file any petition under this paragraph with respect to such written determination or background file document with respect to which such notice was received.

"(4) ACTION TO OBTAIN ADDITIONAL DISCLOSURE.—

"(A) CREATION OF REMEDY.—Any person who has exhausted the administrative remedies prescribed pursuant to para-

graph (2) with respect to a request for disclosure may file a petition in the United States Tax Court or a complaint in the United States District Court for the District of Columbia for an order requiring that any written determination or background file document (or portion thereof) be made open or available to public inspection. Except where inconsistent with subparagraph (B), the provisions of subparagraphs (C), (D), (E), (F), and (G) of section 552(a)(4) of title 5, United States Code, shall apply to any proceeding under this paragraph. The Court shall examine the matter de novo and without regard to a decision of a court under paragraph (3) with respect to such written determination or background file document, and may examine the entire text of such written determination or background file document in order to determine whether such written determination or background file document or any part thereof shall be open or available to public inspection under this section. The burden of proof with respect to the issue of disclosure of any information shall be on the Secretary and any other person seeking to restrain disclosure.

"(B) INTERVENTION.—If a proceeding is commenced under this paragraph with respect to any written determination or background file document, the Secretary shall, within 15 days after notice of the petition filed under subparagraph (A) is served on him, send notice of the commencement of such proceeding to all persons who are identified by name and address in such written determination or background file document. The Secretary shall send such notice by registered or certified mail to the last known address of such person. Any person to whom such determination or background file document pertains may intervene in the proceeding (anonymously, if appropriate). If such notice is sent, the Secretary shall not be required to defend the action and shall not be liable for public disclosure of the written determination or background file document (or any portion thereof) in accordance with the final decision of the court.

"(5) EXPEDITION OF DETERMINATION.—The Tax Court shall make a decision with respect to any petition described in paragraph (3) at the earliest practicable date and the Court of Appeals shall expedite any review of such decision in every way possible.

"(6) PUBLICITY OF TAX COURT PROCEEDINGS.—Notwithstanding sections 7458 and 7461, the Tax Court may, in order to preserve the anonymity, privacy, or confidentiality of any person under this section, provide by rules adopted under section 7453 that portions of hearings, testimony, evidence, and reports in connection with proceedings under this section may be closed to the public or to inspection by the public.

"(g) TIME FOR DISCLOSURE.—

"(1) IN GENERAL.—Except as otherwise provided in this section, the text of any written determination or any background file document (as modified under subsection (c)) shall be open or available to public inspection—

"(A) no earlier than 75 days, and no later than 90 days, after the notice provided in subsection (f)(1) is mailed, or, if later,

"(B) within 30 days after the date on which a court decision under subsection (f)(3) becomes final.

"(2) POSTPONEMENT BY ORDER OF COURT.—The court may extend the period referred to in paragraph (1)(B) for such time as the court finds necessary to allow the Secretary to comply with its decision.

"(3) POSTPONEMENT OF DISCLOSURE FOR UP TO 90 DAYS.—At the written request of the person by whom or on whose behalf the request for the written determination was made, the period referred to in paragraph (1)(A) shall be extended (for not to exceed an additional 90 days) until the day which is 15 days after the date of the Secretary's determination that the transaction set forth in the written determination has been completed.

"(4) ADDITIONAL 180 DAYS.—If—

"(A) the transaction set forth in the written determination is not completed during the period set forth in paragraph (3), and

"(B) the person by whom or on whose behalf the request for the written determination was made establishes to the satisfaction of the Secretary that good cause exists for additional delay in opening the written determination to public inspection,

the period referred to in paragraph (3) shall be further extended (for not to exceed an additional 180 days) until the day which is 15 days after the date of the Secretary's determination that the transaction set forth in the written determination has been completed.

"(5) SPECIAL RULES FOR CERTAIN WRITTEN DETERMINATIONS, ETC.—Notwithstanding the provisions of paragraph (1), the Secretary shall not be required to make available to the public—

"(A) any technical advice memorandum and any related background file document involving any matter which is the subject of a civil fraud or criminal investigation or jeopardy or termination assessment until after any action relating to such investigation or assessment is completed, or

"(B) any general written determination and any related background file document that relates solely to approval of the Secretary of any adoption or change of—

"(i) the funding method or plan year of a plan under section 412,

"(ii) a taxpayer's annual accounting period under section 442,

"(iii) a taxpayer's method of accounting under section 446(e), or

"(iv) a partnership's or partner's taxable year under section 706,

but the Secretary shall make any such written determination and related background file document available upon the written request of any person after the date on which (except for this subparagraph) such determination would be open to public inspection.

"(h) DISCLOSURE OF PRIOR WRITTEN DETERMINATIONS AND RELATED BACKGROUND FILE DOCUMENTS.—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, a written determination issued pursuant to a request made

before November 1, 1976, and any background file document relating to such written determination shall be open or available to public inspection in accordance with this section.

"(2) TIME FOR DISCLOSURE.—In the case of any written determination or background file document which is to be made open or available to public inspection under paragraph (1)—

"(A) subsection (g) shall not apply, but

"(B) such written determination or background file document shall be made open or available to public inspection at the earliest practicable date after funds for that purpose have been appropriated and made available to the Internal Revenue Service.

"(3) ORDER OF RELEASE.—Any written determination or background file document described in paragraph (1) shall be open or available to public inspection in the following order starting with the most recent written determination in each category:

"(A) reference written determinations issued under this title;

"(B) general written determinations issued after July 4, 1967; and

"(C) reference written determinations issued under the Internal Revenue Code of 1939 or corresponding provisions of prior law.

General written determinations not described in subparagraph (B) shall be open to public inspection on written request, but not until after the written determinations referred to in subparagraphs (A), (B), and (C) are open to public inspection.

"(4) NOTICE THAT PRIOR WRITTEN DETERMINATIONS ARE OPEN TO PUBLIC INSPECTION.—Notwithstanding the provisions of subsections (f)(1) and (f)(3)(A), not less than 90 days before making any portion of a written determination described in this subsection open to public inspection, the Secretary shall issue public notice in the Federal Register that such written determination is to be made open to public inspection. The person who received a written determination may, within 75 days after the date of publication of notice under this paragraph, file a petition in the United States Tax Court (anonymously, if appropriate) for a determination with respect to that portion of such written determination which is to be made open to public inspection. The provisions of subsections (f)(3)(B), (5), and (6) shall apply if such a petition is filed. If no petition is filed, the text of any written determination shall be open to public inspection no earlier than 90 days, and no later than 120 days, after notice is published in the Federal Register.

"(5) EXCLUSION.—Subsection (d) shall not apply to any written determination described in paragraph (1).

"(i) CIVIL REMEDIES.—

"(1) CIVIL ACTION.—Whenever the Secretary—

"(A) fails to make deletions required in accordance with subsection (c), or

"(B) fails to follow the procedures in subsection (g),

the recipient of the written determination or any person identified in the written determination shall have as an exclusive civil remedy an action against the Secretary in the Court of Claims, which shall have jurisdiction to hear any action under this paragraph.

"(2) DAMAGES.—In any suit brought under the provisions of paragraph (1)(A) in which the Court determines that an em-

ployee of the Internal Revenue Service intentionally or willfully failed to delete in accordance with subsection (c), or in any suit brought under subparagraph (1)(B) in which the Court determines that an employee intentionally or willfully failed to act in accordance with subsection (g), the United States shall be liable to the person in an amount equal to the sum of—

"(A) actual damages sustained by the person but in no case shall a person be entitled to receive less than the sum of $1,000, and

"(B) the costs of the action together with reasonable attorney's fees as determined by the Court.

"(j) SPECIAL PROVISIONS.—

"(1) FEES.—The Secretary is authorized to assess actual costs—

"(A) for duplication of any written determination or background file document made open or available to the public under this section, and

"(B) incurred in searching for and making deletions required under subsection (c) from any written determination or background file document which is available to public inspection only upon written request.

The Secretary shall furnish any written determination or background file document without charge or at a reduced charge if he determines that waiver or reduction of the fee is in the public interest because furnishing such determination or background file document can be considered as primarily benefiting the general public.

"(2) RECORDS DISPOSAL PROCEDURES.—Nothing in this section shall prevent the Secretary from disposing of any general written determination or background file document described in subsection (b) in accordance with established records disposition procedures, but such disposal shall, except as provided in the following sentence, occur not earlier than 3 years after such written determination is first made open to public inspection. In the case of any general written determination described in subsection (h), the Secretary may dispose of such determination and any related background file document in accordance with such procedures but such disposal shall not occur earlier than 3 years after such written determination is first made open to public inspection if funds are appropriated for such purpose before January 20, 1979, or not earlier than January 20, 1979, if funds are not appropriated before such date. The Secretary shall not dispose of any reference written determinations and related background file documents.

"(3) PRECEDENTIAL STATUS.—Unless the Secretary otherwise establishes by regulations, a written determination may not be used or cited as precedent. The preceding sentence shall not apply to change the precedential status (if any) of written determinations with regard to taxes imposed by subtitle D of this title.

"(k) SECTION NOT TO APPLY.—This section shall not apply to—

"(1) any matter to which section 6104 applies, or

"(2) any—

"(A) written determination issued pursuant to a request made before November 1, 1976, with respect to the exempt status under section 501(a) of an organization described in section 501 (c) or (d), the status of an organization as a private foundation under section 509(a), or the status of

an organization as an operating foundation under section 4942(j)(3),

"(B) written determination described in subsection (g)(5)(B) issued pursuant to a request made before November 1, 1976,

"(C) determination letter not otherwise described in subparagraph (A), (B), or (E) issued pursuant to a request made before November 1, 1976,

"(D) background file document relating to any general written determination issued before July 5, 1967, or

"(E) letter or other document described in section 6104(a)(1)(B)(iv) issued before September 2, 1974.

"(l) EXCLUSIVE REMEDY.—Except as otherwise provided in this title, or with respect to a discovery order made in connection with a judicial proceeding, the Secretary shall not be required by any Court to make any written determination or background file document open or available to public inspection, or to refrain from disclosure of any such documents."

(b) EFFECT UPON PENDING REQUESTS.—Any written determination or background file document which is the subject of a judicial proceeding pursuant to section 552 of title 5, United States Code, commenced before January 1, 1976, shall not be treated as a written determination subject to subsection (h)(1), but shall be available to the complainant along with the background file document, if requested, as soon as practicable after July 1, 1976.

(c) CLERICAL AMENDMENT.—The table of sections for subchapter B of chapter 61 is amended by striking out the item relating to section 6110 and inserting in lieu thereof the following:

"Sec. 6110. Public inspection of written determinations.
"Sec. 6111. Cross references."

(d) LETTERS MADE PUBLIC.—

(1) Section 6104(a)(1)(A) (relating to inspection of applications for tax exemption) is amended—

(A) by inserting after "such application," in the first sentence thereof the following: "and any letter or other document issued by the Internal Revenue Service with respect to such application"; and

(B) by inserting after "such application" in the second sentence thereof the following: "and such letter or document".

(2) The amendments made by this subsection apply to any letter or other document issued with respect to applications filed after October 31, 1976.

(e) EFFECTIVE DATE.—Except as otherwise provided in this section, the amendments made by this section shall take effect on November 1, 1976.

SEC. 1202. CONFIDENTIALITY AND DISCLOSURE OF RETURNS AND RETURN INFORMATION.

(a) CONFIDENTIALITY.—

(1) IN GENERAL.—Section 6103 (relating to publicity of tax returns and disclosure of information as to persons filing tax returns) is amended to read as follows:

"SEC. 6103. CONFIDENTIALITY AND DISCLOSURE OF RETURNS AND RETURN INFORMATION.

"(a) GENERAL RULE.—Returns and return information shall be confidential, and except as authorized by this title—

"(1) no officer or employee of the United States,

"(2) no officer or employee of any State or of any local child support enforcement agency who has or had access to returns or return information under this section, and

"(3) no other person (or officer or employee thereof) who has or had access to returns or return information under subsection (e) (1) (D) (iii) or subsection (n),

shall disclose any return or return information obtained by him in any manner in connection with his service as such an officer or an employee or otherwise or under the provisions of this section. For purposes of this subsection, the term 'officer or employee' includes a former officer or employee.

"(b) DEFINITIONS.—For purposes of this section—

"(1) RETURN.—The term 'return' means any tax or information return, declaration of estimated tax, or claim for refund required by, or provided for or permitted under, the provisions of this title which is filed with the Secretary by, on behalf of, or with respect to any person, and any amendment or supplement thereto, including supporting schedules, attachments, or lists which are supplemental to, or part of, the return so filed.

"(2) RETURN INFORMATION.—The term 'return information' means—

"(A) a taxpayer's identity, the nature, source, or amount of his income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, overassessments, or tax payments, whether the taxpayer's return was, is being, or will be examined or subject to other investigation or processing, or any other data, received by, recorded by, prepared by, furnished to, or collected by the Secretary with respect to a return or with respect to the determination of the existence, or possible existence, of liability (or the amount thereof) of any person under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense, and

"(B) any part of any written determination or any background file document relating to such written determination (as such terms are defined in section 6110(b)) which is not open to public inspection under section 6110,

but such term does not include data in a form which cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

"(3) TAXPAYER RETURN INFORMATION.—The term 'taxpayer return information' means return information as defined in paragraph (2) which is filed with, or furnished to, the Secretary by or on behalf of the taxpayer to whom such return information relates.

"(4) TAX ADMINISTRATION.—The term 'tax administration'—

"(A) means—

"(i) the administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws or related statutes (or equivalent laws and statutes of a State) and tax conventions to which the United States is a party, and

"(ii) the development and formulation of Federal tax policy relating to existing or proposed internal revenue laws, related statutes, and tax conventions, and

"(B) includes assessment, collection, enforcement, litigation, publication, and statistical gathering functions under such laws, statutes, or conventions.

"(5) STATE.—The term 'State' means any of the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, the Canal Zone, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands.

"(6) TAXPAYER IDENTITY.—The term 'taxpayer identity' means the name of a person with respect to whom a return is filed, his mailing address, his taxpayer identifying number (as described in section 6109), or a combination thereof.

"(7) INSPECTION.—The terms 'inspected' and 'inspection' mean any examination of a return or return information.

"(8) DISCLOSURE.—The term 'disclosure' means the making known to any person in any manner whatever a return or return information.

"(9) FEDERAL AGENCY.—The term 'Federal agency' means an agency within the meaning of section 551(1) of title 5, United States Code.

"(c) DISCLOSURE OF RETURNS AND RETURN INFORMATION TO DESIGNEE OF TAXPAYER.—The Secretary may, subject to such requirements and conditions as he may prescribe by regulations, disclose the return of any taxpayer, or return information with respect to such taxpayer, to such person or persons as the taxpayer may designate in a written request for or consent to such disclosure, or to any other person at the taxpayer's request to the extent necessary to comply with a request for information or assistance made by the taxpayer to such other person. However, return information shall not be disclosed to such person or persons if the Secretary determines that such disclosure would seriously impair Federal tax administration.

"(d) DISCLOSURE TO STATE TAX OFFICIALS.—Returns and return information with respect to taxes imposed by chapters 1, 2, 6, 11, 12, 21, 23, 24, 44, 51, and 52 and subchapter D of chapter 36, shall be open to inspection by or disclosure to any State agency, body, or commission, or its legal representative, which is charged under the laws of such State with responsibility for the administration of State tax laws for the purpose of, and only to the extent necessary in, the administration of such laws, including any procedures with respect to locating any person who may be entitled to a refund. Such inspection shall be permitted, or such disclosure made, only upon written request by the head of such agency, body, or commission, and only to the representatives of such agency, body, or commission designated in such written request as the individuals who are to inspect or to receive the return or return information on behalf of such agency, body, or commission. Such representatives shall not include any individual who is the chief executive officer of such State or who is neither an employee or legal representative of such agency, body, or commission nor a person described in subsection (n). However, such return information shall not be disclosed to the extent that the Secretary determines that such disclosure would identify a confidential informant or seriously impair any civil or criminal tax investigation.

"(e) DISCLOSURE TO PERSONS HAVING MATERIAL INTEREST.—

"(1) IN GENERAL.—The return of a person shall, upon written request, be open to inspection by or disclosure to—

"(A) in the case of the return of an individual—

"(i) that individual,

"(ii) if property transferred by that individual to a trust is sold or exchanged in a transaction described in section 644, the trustee or trustees, jointly or separately, of such trust to the extent necessary to ascertain any amount of tax imposed upon the trust by section 644, or

"(iii) the spouse of that individual if the individual and such spouse have signified their consent to consider a gift reported on such return as made one-half by him and one-half by the spouse pursuant to the provisions of section 2513;

"(B) in the case of an income tax return filed jointly, either of the individuals with respect to whom the return is filed;

"(C) in the case of the return of a partnership, any person who was a member of such partnership during any part of the period covered by the return;

"(D) in the case of the return of a corporation or a subsidiary thereof—

"(i) any person designated by resolution of its board of directors or other similar governing body,

"(ii) any officer or employee of such corporation upon written request signed by any principal officer and attested to by the secretary or other officer,

"(iii) any bona fide shareholder of record owning 1 percent or more of the outstanding stock of such corporation,

"(iv) if the corporation was a foreign personal holding company, as defined by section 552, any person who was a shareholder during any part of a period covered by such return if with respect to that period, or any part thereof, such shareholder was required under section 551 to include in his gross income undistributed foreign personal holding company income of such company,

"(v) if the corporation was an electing small business corporation under subchapter S of chapter 1, any person who was a shareholder during any part of the period covered by such return during which an election was in effect, or

"(vi) if the corporation has been dissolved, any person authorized by applicable State law to act for the corporation or any person who the Secretary finds to have a material interest which will be affected by information contained therein;

"(E) in the case of the return of an estate—

"(i) the administrator, executor, or trustee of such estate, and

"(ii) any heir at law, next of kin, or beneficiary under the will, of the decedent, but only if the Secretary finds that such heir at law, next of kin, or beneficiary has a material interest which will be affected by information contained therein; and

"(F) in the case of the return of a trust—

"(i) the trustee or trustees, jointly or separately, and

"(ii) any beneficiary of such trust, but only if the Secretary finds that such beneficiary has a material interest which will be affected by information contained therein.

"(2) INCOMPETENCY.—If an individual described in paragraph (1) is legally incompetent, the applicable return shall, upon written request, be open to inspection by or disclosure to the committee, trustee, or guardian of his estate.

"(3) DECEASED INDIVIDUALS.—The return of a decedent shall, upon written request, be open to inspection by or disclosure to—

"(A) the administrator, executor, or trustee of his estate, and

"(B) any heir at law, next of kin, or beneficiary under the will, of such decedent, or a donee of property, but only if the Secretary finds that such heir at law, next of kin, beneficiary, or donee has a material interest which will be affected by information contained therein.

"(4) BANKRUPTCY.—If substantially all of the property of the person with respect to whom the return is filed is in the hands of a trustee in bankruptcy or receiver, such return or returns for prior years of such person shall, upon written request, be open to inspection by or disclosure to such trustee or receiver, but only if the Secretary finds that such receiver or trustee, in his fiduciary capacity, has a material interest which will be affected by information contained therein.

"(5) ATTORNEY IN FACT.—Any return to which this subsection applies shall, upon written request, also be open to inspection by or disclosure to the attorney in fact duly authorized in writing by any of the persons described in paragraph (1), (2), (3), or (4) to inspect the return or receive the information on his behalf, subject to the conditions provided in such paragraphs.

"(6) RETURN INFORMATION.—Return information with respect to any taxpayer may be open to inspection by or disclosure to any person authorized by this subsection to inspect any return of such taxpayer if the Secretary determines that such disclosure would not seriously impair Federal tax administration.

"(f) DISCLOSURE TO COMMITTEES OF CONGRESS.—

"(1) COMMITTEE ON WAYS AND MEANS, COMMITTEE ON FINANCE, AND JOINT COMMITTEE ON TAXATION.—Upon written request from the chairman of the Committee on Ways and Means of the House of Representatives, the chairman of the Committee on Finance of the Senate, or the chairman of the Joint Committee on Taxation, the Secretary shall furnish such committee with any return or return information specified in such request, except that any return or return information which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer shall be furnished to such committee only when sitting in closed executive session unless such taxpayer otherwise consents in writing to such disclosure.

"(2) CHIEF OF STAFF OF JOINT COMMITTEE ON TAXATION.—Upon written request by the Chief of Staff of the Joint Committee on Taxation, the Secretary shall furnish him with any return or return information specified in such request. Such Chief of Staff may submit such return or return information to any committee described in paragraph (1), except that any return or return information which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer shall be furnished to such committee only when sitting in closed executive session unless such taxpayer otherwise consents in writing to such disclosure.

"(3) OTHER COMMITTEES.—Pursuant to an action by, and upon

written request by the chairman of, a committee of the Senate or the House of Representatives (other than a committee specified in paragraph (1)) specially authorized to inspect any return or return information by a resolution of the Senate or the House of Representatives or, in the case of a joint committee (other than the joint committee specified in paragraph (1)) by concurrent resolution, the Secretary shall furnish such committee, or a duly authorized and designated subcommittee thereof, sitting in closed executive session, with any return or return information which such resolution authorizes the committee or subcommittee to inspect. Any resolution described in this paragraph shall specify the purpose for which the return or return information is to be furnished and that such information cannot reasonably be obtained from any other source.

"(4) AGENTS OF COMMITTEES AND SUBMISSION OF INFORMATION TO SENATE OR HOUSE OF REPRESENTATIVES.—

"(A) COMMITTEES DESCRIBED IN PARAGRAPH (1).—Any committee described in paragraph (1) or the Chief of Staff of the Joint Committee on Taxation shall have the authority, acting directly, or by or through such examiners or agents as the chairman of such committee or such chief of staff may designate or appoint, to inspect returns and return information at such time and in such manner as may be determined by such chairman or chief of staff. Any return or return information obtained by or on behalf of such committee pursuant to the provisions of this subsection may be submitted by the committee to the Senate or the House of Representatives, or to both. The Joint Committee on Taxation may also submit such return or return information to any other committee described in paragraph (1), except that any return or return information which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer shall be furnished to such committee only when sitting in closed executive session unless such taxpayer otherwise consents in writing to such disclosure.

"(B) OTHER COMMITTEES.—Any committee or subcommittee described in paragraph (3) shall have the right, acting directly, or by or through no more than four examiners or agents, designated or appointed in writing in equal numbers by the chairman and ranking minority member of such committee or subcommittee, to inspect returns and return information at such time and in such manner as may be determined by such chairman and ranking minority member. Any return or return information obtained by or on behalf of such committee or subcommittee pursuant to the provisions of this subsection may be submitted by the committee to the Senate or the House of Representatives, or to both, except that any return or return information which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer, shall be furnished to the Senate or the House of Representatives only when sitting in closed executive session unless such taxpayer otherwise consents in writing to such disclosure.

"(g) DISCLOSURE TO PRESIDENT AND CERTAIN OTHER PERSONS.—

"(1) IN GENERAL.—Upon written request by the President, signed by him personally, the Secretary shall furnish to the Presi-

dent, or to such employee or employees of the White House Office as the President may designate by name in such request, a return or return information with respect to any taxpayer named in such request. Any such request shall state—

"(A) the name and address of the taxpayer whose return or return information is to be disclosed,

"(B) the kind of return or return information which is to be disclosed,

"(C) the taxable period or periods covered by such return or return information, and

"(D) the specific reason why the inspection or disclosure is requested.

"(2) DISCLOSURE OF RETURN INFORMATION AS TO PRESIDENTIAL APPOINTEES AND CERTAIN OTHER FEDERAL GOVERNMENT APPOINTEES.—The Secretary may disclose to a duly authorized representative of the Executive Office of the President or to the head of any Federal agency, upon written request by the President or head of such agency, or to the Federal Bureau of Investigation on behalf of and upon written request by the President or such head, return information with respect to an individual who is designated as being under consideration for appointment to a position in the executive or judicial branch of the Federal Government. Such return information shall be limited to whether such individual—

"(A) has filed returns with respect to the taxes imposed under chapter 1 for not more than the immediately preceding 3 years;

"(B) has failed to pay any tax within 10 days after notice and demand, or has been assessed any penalty under this title for negligence, in the current year or immediately preceding 3 years;

"(C) has been or is under investigation for possible criminal offenses under the internal revenue laws and the results of any such investigation; or

"(D) has been assessed any civil penalty under this title for fraud.

Within 3 days of the receipt of any request for any return information with respect to any individual under this paragraph, the Secretary shall notify such individual in writing that such information has been requested under the provisions of this paragraph.

"(3) RESTRICTION ON DISCLOSURE.—The employees to whom returns and return information are disclosed under this subsection shall not disclose such returns and return information to any other person except the President or the head of such agency without the personal written direction of the President or the head of such agency.

"(4) RESTRICTION ON DISCLOSURE TO CERTAIN EMPLOYEES.—Disclosure of returns and return information under this subsection shall not be made to any employee whose annual rate of basic pay is less than the annual rate of basic pay specified for positions subject to section 5316 of title 5, United States Code.

"(5) REPORTING REQUIREMENTS.—Within 30 days after the close of each calendar quarter, the President and the head of any agency requesting returns and return information under this subsection shall each file a report with the Joint Committee on Taxation setting forth the taxpayers with respect to whom such requests were

made during such quarter under this subsection, the returns or return information involved, and the reasons for such requests. The President shall not be required to report on any request for returns and return information pertaining to an individual who was an officer or employee of the executive branch of the Federal Government at the time such request was made. Reports filed pursuant to this paragraph shall not be disclosed unless the Joint Committee on Taxation determines that disclosure thereof (including identifying details) would be in the national interest. Such reports shall be maintained by the Joint Committee on Taxation for a period not exceeding 2 years unless, within such period, the Joint Committee on Taxation determines that a disclosure to the Congress is necessary.

"(h) DISCLOSURE TO CERTAIN FEDERAL OFFICERS AND EMPLOYEES FOR PURPOSES OF TAX ADMINISTRATION, ETC.—

"(1) DEPARTMENT OF THE TREASURY.—Returns and return information shall, without written request, be open to inspection by or disclosure to officers and employees of the Department of the Treasury whose official duties require such inspection or disclosure for tax administration purposes.

"(2) DEPARTMMENT OF JUSTICE.—A return or return information shall be open to inspection by or disclosure to attorneys of the Department of Justice (including United States attorneys) personally and directly engaged in, and solely for their use in, preparation for any proceeding (or investigation which may result in such a proceeding) before a Federal grand jury or any Federal or State court in a matter involving tax administration, but only if—

"(A) the taxpayer is or may be a party to such proceeding;

"(B) the treatment of an item reflected on such return is or may be related to the resolution of an issue in the proceeding or investigation; or

"(C) such return or return information relates or may relate to a transactional relationship between a person who is or may be a party to the proceeding and the taxpayer which affects, or may affect, the resolution of an issue in such proceeding or investigation.

"(3) FORM OF REQUEST.—In any case in which the Secretary is authorized to disclose a return or return information to the Department of Justice pursuant to the provisions of this subsection—

"(A) if the Secretary has referred the case to the Department of Justice, or if the proceeding is authorized by subchapter B of chapter 76, the Secretary may make such disclosure on his own motion, or

"(B) if the Secretary receives a written request from the Attorney General, the Deputy Attorney General, or an Assistant Attorney General for a return of, or return information relating to, a person named in such request and setting forth the need for the disclosure, the Secretary shall disclose return or return the information so requested.

"(4) DISCLOSURE IN JUDICIAL AND ADMINISTRATIVE TAX PROCEEDINGS.—A return or return information may be disclosed in a Federal or State judicial or administrative proceeding pertaining to tax administration, but only—

"(A) if the taxpayer is a party to such proceeding;

"(B) if the treatment of an item reflected on such return is directly related to the resolution of an issue in the proceeding;

"(C) if such return or return information directly relates to a transactional relationship between a person who is a party to the proceeding and the taxpayer which directly affects the resolution of an issue in the proceeding; or

"(D) to the extent required by order of a court pursuant to section 3500 of title 18, United States Code, or rule 16 of the Federal Rules of Criminal Procedure, such court being authorized in the issuance of such order to give due consideration to congressional policy favoring the confidentiality of returns and return information as set forth in this title.

However, such return or return information shall not be disclosed as provided in subparagraph (A), (B), or (C) if the Secretary determines that such disclosure would identify a confidential informant or seriously impair a civil or criminal tax investigation.

"(5) PROSPECTIVE JURORS.—In connection with any judicial proceeding described in paragraph (4) to which the United States is a party, the Secretary shall respond to a written inquiry from an attorney of the Department of Justice (including a United States attorney) involved in such proceeding or any person (or his legal representative) who is a party to such proceeding as to whether an individual who is a prospective juror in such proceeding has or has not been the subject of any audit or other tax investigation by the Internal Revenue Service. The Secretary shall limit such response to an affirmative or negative reply to such inquiry.

"(i) DISCLOSURE TO FEDERAL OFFICERS OR EMPLOYEES FOR ADMINISTRATION OF FEDERAL LAWS NOT RELATING TO TAX ADMINISTRATION.—

"(1) NONTAX CRIMINAL INVESTIGATION.—

"(A) INFORMATION FROM TAXPAYER.—A return or taxpayer return information shall, pursuant to, and upon the grant of, an ex parte order by a Federal district court judge as provided by this paragraph, be open, but only to the extent necessary as provided in such order, to officers and employees of a Federal agency personally and directly engaged in and solely for their use in, preparation for any administrative or judicial proceeding (or investigation which may result in such a proceeding) pertaining to the enforcement of a specifically designated Federal criminal statute (not involving tax administration) to which the United States or such agency is or may be a party.

"(B) APPLICATION FOR ORDER.—The head of any Federal agency described in subparagraph (A) or, in the case of the Department of Justice, the Attorney General, the Deputy Attorney General, or an Assistant Attorney General, may authorize an application to a Federal district court judge for the order referred to in subparagraph (A). Upon such application, such judge may grant such order if he determines on the basis of the facts submitted by the applicant that—

"(i) there is reasonable cause to believe, based upon information believed to be reliable, that a specific criminal act has been committed;

"(ii) there is reason to believe that such return or return information is probative evidence of a matter in

issue related to the commission of such criminal act; and

"(iii) the information sought to be disclosed cannot reasonably be obtained from any other source, unless it is determined that, notwithstanding the reasonable availability of the information from another source, the return or return information sought constitutes the most probative evidence of a matter in issue relating to the commission of such criminal act.

However, the Secretary shall not disclose any return or return information under this paragraph if he determines and certifies to the court that such disclosure would identify a confidential informant or seriously impair a civil or criminal tax investigation.

"(2) RETURN INFORMATION OTHER THAN TAXPAYER RETURN INFORMATION.—Upon written request from the head of a Federal agency described in paragraph (1)(A), or in the case of the Department of Justice, the Attorney General, the Deputy Attorney General, or an Assistant Attorney General, the Secretary shall disclose return information (other than taxpayer return information) to officers and employees of such agency personally and directly engaged in, and solely for their use in, preparation for any administrative or judicial proceeding (or investigation which may result in such a proceeding) described in paragraph (1)(A). Such request shall set forth—

"(A) the name and address of the taxpayer with respect to whom such return information relates;

"(B) the taxable period or periods to which the return information relates;

"(C) the statutory authority under which the proceeding or investigation is being conducted; and

"(D) the specific reason or reasons why such disclosure is or may be material to the proceeding or investigation.

However, the Secretary shall not disclose any return or return information under this paragraph if he determines that such disclosure would identify a confidential informant or seriously impair a civil or criminal tax investigation.

"(3) DISCLOSURE OF RETURN INFORMATION CONCERNING POSSIBLE CRIMINAL ACTIVITIES.—The Secretary may disclose in writing return information, other than taxpayer return information, which may constitute evidence of a violation of Federal criminal laws to the extent necessary to apprise the head of the appropriate Federal agency charged with the responsibility for enforcing such laws.

"(4) USE IN JUDICIAL OR ADMINISTRATIVE PROCEEDING.—Any return or return information obtained under paragraph (1), (2), or (3) may be entered into evidence in any administrative or judicial proceeding pertaining to enforcement of a specifically designated Federal criminal statute (not involving tax administration) to which the United States or an agency described in paragraph (1)(A) is a party but, in the case of any return or return information obtained under paragraph (1), only if the court finds that such return or return information is probative of a matter in issue relevant in establishing the commission of a crime or the guilt of a party. However, any return or return information obtained under paragraph (1), (2), or (3) shall not be admitted into evidence in such proceeding if the Secretary determines and

notifies the Attorney General or his delegate or the head of such agency that such admission would identify a confidential informant or seriously impair a civil or criminal tax investigation. The admission into evidence of any return or return information contrary to the provisions of this paragraph shall not, as such, constitute reversible error upon appeal of a judgment in such proceeding.

"(5) RENEGOTIATION OF CONTRACTS.—A return or return information with respect to the tax imposed by chapter 1 upon a taxpayer subject to the provisions of the Renegotiation Act of 1951 shall, upon request in writing by the Chairman of the Renegotiation Board, be open to officers and employees of such board personally and directly engaged in, and solely for their use in, verifying or analyzing financial information required by such Act to be filed with, or otherwise disclosed to, the board, or to the extent necessary to implement the provisions of section 1481 or 1482. The Chairman of the Renegotiation Board may, upon referral of any matter with respect to such Act to the Department of Justice for further legal action, disclose such return and return information to any employee of such department charged with the responsibility for handling such matters.

"(6) COMPTROLLER GENERAL.—

"(A) RETURNS AVAILABLE FOR INSPECTION.—Except as provided in subparagraph (B), upon written request by the Comptroller General of the United States, returns and return information shall be open to inspection by, or disclosure to, officers and employees of the General Accounting Office for the purpose of, and to the extent necessary in, making—

"(i) an audit of the Internal Revenue Service or the Bureau of Alcohol, Tobacco and Firearms which may be required by section 117 of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 67), or

"(ii) any audit authorized by subsection (p)(6),

except that no such officer or employee shall, except to the extent authorized by subsection (f) or (p)(6), disclose to any person, other than another officer or employee of such office whose official duties require such disclosure, any return or return information described in section 4424(a) in a form which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer, nor shall such officer or employee disclose any other return or return information, except as otherwise expressly provided by law, to any person other than such other officer or employee of such office in a form which can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

"(B) DISAPPROVAL BY JOINT COMMITTEE ON TAXATION.—Returns and return information shall not be open to inspection or disclosed under subparagraph (A) with respect to an audit—

"(i) unless the Comptroller General of the United States notifies in writing the Joint Committee on Taxation of such audit, and

"(ii) if the Joint Committee on Taxation disapproves such audit by a vote of at least two-thirds of its members within the 30-day period beginning on the day the Joint Committee on Taxation receives such notice.

"(j) STATISTICAL USE.—

"(1) DEPARTMENT OF COMMERCE.—Upon request in writing by the Secretary of Commerce, the Secretary shall furnish—

"(A) such returns, or return information reflected thereon, to officers and employees of the Bureau of the Census, and

"(B) such return information reflected on returns of corporations to officers and employees of the Bureau of Economic Analysis,

as the Secretary may prescribe by regulation for the purpose of, but only to the extent necessary in, the structuring of censuses and national economic accounts and conducting related statistical activities authorized by law.

"(2) FEDERAL TRADE COMMISSION.—Upon request in writing by the Chairman of the Federal Trade Commission, the Secretary shall furnish such return information reflected on any return of a corporation with respect to the tax imposed by chapter 1 to officers and employees of the Division of Financial Statistics of the Bureau of Economics of such commission as the Secretary may prescribe by regulation for the purpose of, but only to the extent necessary in, administration by such division of legally authorized economic surveys of corporations.

"(3) DEPARTMENT OF THE TREASURY.—Returns and return information shall be open to inspection by or disclosure to officers and employees of the Department of the Treasury whose official duties require such inspection or disclosure for the purpose of, but only to the extent necessary in, preparing economic or financial forecasts, projections, analyses, and statistical studies and conducting related activities. Such inspection or disclosure shall be permitted only upon written request which sets forth the specific reason or reasons why such inspection or disclosure is necessary and which is signed by the head of the bureau or office of the Department of the Treasury requesting the inspection or disclosure.

"(4) ANONYMOUS FORM.—No person who receives a return or return information under this subsection shall disclose such return or return information to any person other than the taxpayer to whom it relates except in a form which cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

"(k) DISCLOSURE OF CERTAIN RETURNS AND RETURN INFORMATION FOR TAX ADMINISTRATION PURPOSES.—

"(1) DISCLOSURE OF ACCEPTED OFFERS-IN-COMPROMISE.—Return information shall be disclosed to members of the general public to the extent necessary to permit inspection of any accepted offer-in-compromise under section 7122 relating to the liability for a tax imposed by this title.

"(2) DISCLOSURE OF AMOUNT OF OUTSTANDING LIEN.—If a notice of lien has been filed pursuant to section 6323(f), the amount of the outstanding obligation secured by such lien may be disclosed to any person who furnishes satisfactory written evidence that he has a right in the property subject to such lien or intends to obtain a right in such property.

"(3) DISCLOSURE OF RETURN INFORMATION TO CORRECT MISSTATEMENTS OF FACT.—The Secretary may, but only following approval by the Joint Committee on Taxation, disclose such return information or any other information with respect to any specific taxpayer to the extent necessary for tax administration purposes to correct a misstatement of fact published or disclosed

with respect to such taxpayer's return or any transaction of the taxpayer with the Internal Revenue Service.

"(4) DISCLOSURE TO COMPETENT AUTHORITY UNDER INCOME TAX CONVENTION.—A return or return information may be disclosed to a competent authority of a foreign government which has an income tax convention with the United States but only to the extent provided in, and subject to the terms and conditions of, such convention.

"(5) STATE AGENCIES REGULATING TAX RETURN PREPARERS.—Taxpayer identity information with respect to any income tax return preparer, and information as to whether or not any penalty has been assessed against such income tax return preparer under section 6694, 6695, or 7216, may be furnished to any agency, body, or commission lawfully charged under any State or local law with the licensing, registration, or regulation of income tax return preparers. Such information may be furnished only upon written request by the head of such agency, body, or commission designating the officers or employees to whom such information is to be furnished. Information may be furnished and used under this paragraph only for purposes of the licensing, registration, or regulation of income tax return preparers.

"(6) DISCLOSURE BY INTERNAL REVENUE OFFICERS AND EMPLOYEES FOR INVESTIGATIVE PURPOSES.—An internal revenue officer or employee may, in connection with his official duties relating to any audit, collection activity, or civil or criminal tax investigation or any other offense under the internal revenue laws, disclose return information to the extent that such disclosure is necessary in obtaining information, which is not otherwise reasonably available, with respect to the correct determination of tax, liability for tax, or the amount to be collected or with respect to the enforcement of any other provision of this title. Such disclosures shall be made only in such situations and under such conditions as the Secretary may prescribe by regulation.

"(l) DISCLOSURE OF RETURNS AND RETURN INFORMATION FOR PURPOSES OTHER THAN TAX ADMINISTRATION.—

"(1) DISCLOSURE OF CERTAIN RETURNS AND RETURN INFORMATION TO SOCIAL SECURITY ADMINISTRATION AND RAILROAD RETIREMENT BOARD.—The Secretary may, upon written request, disclose returns and return information with respect to—

"(A) taxes imposed by chapters 2, 21, and 24, to the Social Security Administration for purposes of its administration of the Social Security Act;

"(B) a plan to which part I of subchapter D of chapter 1 applies, to the Social Security Administration for purposes of carrying out its responsibility under section 1131 of the Social Security Act, limited, however to return information described in section 6057(d); and

"(C) taxes imposed by chapter 22, to the Railroad Retirement Board for purposes of its administration of the Railroad Retirement Act.

"(2) DISCLOSURE OF RETURNS AND RETURN INFORMATION TO THE DEPARTMENT OF LABOR AND PENSION BENEFIT GUARANTY CORPORATION.—The Secretary may, upon written request, furnish returns and return information to the proper officers and employees of the Department of Labor and the Pension Benefit Guaranty Corporation for purposes of, but only to the extent necessary in, the

administration of titles I and IV of the Employee Retirement Income Security Act of 1974.

"(3) DISCLOSURE OF RETURNS AND RETURN INFORMATION TO PRIVACY PROTECTION STUDY COMMISSION.—The Secretary may, upon written request, disclose returns and return information to the Privacy Protection Study Commission, or to such members, officers, or employees of such commission as may be named in such written request, to the extent provided under section 5 of the Privacy Act of 1974.

"(4) DISCLOSURE OF RETURNS AND RETURN INFORMATION FOR USE IN PERSONNEL OR CLAIMANT REPRESENTATIVE MATTERS.—The Secretary may disclose returns and return information—

"(A) upon written request—

"(i) to an employee or former employee of the Department of the Treasury, or to the duly authorized legal representative of such employee or former employee, who is or may be a party to any administrative action or proceeding affecting the personnel rights of such employee or former employee; or

"(ii) to any person, or to the duly authorized legal representative of such person, whose rights are or may be affected by an administrative action or proceeding under section 3 of the Act of July 7, 1884 (23 Stat. 258; 31 U.S.C. 1026),

solely for use in the action or proceeding, or in preparation for the action or proceeding, but only to the extent that the Secretary determines that such returns or return information is or may be relevant and material to the action or proceeding; or

"(B) to officers and employees of the Department of the Treasury for use in any action or proceeding described in subparagraph (A), or in preparation for such action or proceeding, to the extent necessary to advance or protect the interests of the United States.

"(5) DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE.—Upon written request by the Secretary of Health, Education, and Welfare, the Secretary may disclose information returns filed pursuant to part III of subchapter A of chapter 61 of this subtitle for the purpose of carrying out, in accordance with an agreement entered into pursuant to section 232 of the Social Security Act, an effective return processing program.

"(6) DISCLOSURE OF RETURN INFORMATION TO FEDERAL, STATE, AND LOCAL CHILD SUPPORT ENFORCEMENT AGENCIES.—

"(A) RETURN INFORMATION FROM INTERNAL REVENUE SERVICE.—The Secretary may, upon written request, disclose to the appropriate Federal, State, or local child support enforcement agency—

"(i) available return information from the master files of the Internal Revenue Service relating to the address, filing status, amounts and nature of income, and the number of dependents reported on any return filed by, or with respect to, any individual with respect to whom child support obligations are sought to be established or enforced pursuant to the provisions of part D of title IV of the Social Security Act and with respect

to any individual to whom such support obligations are owing, and

"(ii) available return information reflected on any return filed by, or with respect to, any individual described in clause (i) relating to the amount of such individual's gross income (as defined in section 61) or consisting of the names and addresses of payors of such income and the names of any dependents reported on such return, but only if such return information is not reasonably available from any other source.

"(B) RESTRICTION ON DISCLOSURE.—The Secretary shall disclose return information under subparagraph (A) only for purposes of, and to the extent necessary in, establishing and collecting child support obligations from, and locating, individuals owing such obligations.

"(m) DISCLOSURE OF TAXPAYER IDENTITY INFORMATION.—The Secretary is authorized—

"(1) to disclose taxpayer identity information to the press and other media for purposes of notifying persons entitled to tax refunds when the Secretary, after reasonable effort and lapse of time, has been unable to locate such persons, and

"(2) upon written request, to disclose the mailing address of a taxpayer to officers and employees of an agency personally and directly engaged in, and solely for their use in, preparation for any administrative or judicial proceeding (or investigation which may result in such a proceeding) pertaining to the collection or compromise of a Federal claim against such taxpayer in accordance with the provisions of section 3 of the Federal Claims Collection Act of 1966.

"(n) CERTAIN OTHER PERSONS.—Pursuant to regulations prescribed by the Secretary, returns and return information may be disclosed to any person, including any person described in section 7513(a), to the extent necessary in connection with the processing, storage, transmission, and reproduction of such returns and return information, and the programming, maintenance, repair, testing, and procurement of equipment, for purposes of tax administration.

"(o) DISCLOSURE OF RETURNS AND RETURN INFORMATION WITH RESPECT TO CERTAIN TAXES.—

"(1) TAXES IMPOSED BY SUBTITLE E.—Returns and return information with respect to taxes imposed by subtitle E (relating to taxes on alcohol, tobacco, and firearms) shall be open to inspection by or disclosure to officers and employees of a Federal agency whose official duties require such inspection or disclosure.

"(2) TAXES IMPOSED BY CHAPTER 35.—Returns and return information with respect to taxes imposed by chapter 35 (relating to taxes on wagering) shall, notwithstanding any other provision of this section, be open to inspection by or disclosure only to such person or persons and for such purpose or purposes as are prescribed by section 4424.

"(p) PROCEDURE AND RECORDKEEPING.—

"(1) MANNER, TIME, AND PLACE OF INSPECTIONS.—Requests for the inspection or disclosure of a return or return information and such inspection or disclosure shall be made in such manner and at such time and place as shall be prescribed by the Secretary.

"(2) PROCEDURE.—

"(A) REPRODUCTION OF RETURNS.—A reproduction or certified reproduction of a return shall, upon written request, be furnished to any person to whom disclosure or inspection

of such return is authorized under this section. A reasonable fee may be prescribed for furnishing such reproduction or certified reproduction.

"(B) DISCLOSURE OF RETURN INFORMATION.—Return information disclosed to any person under the provisions of this title may be provided in the form of written documents, reproductions of such documents, films or photoimpressions, or electronically produced tapes, disks, or records, or by any other mode or means which the Secretary determines necessary or appropriate. A reasonable fee may be prescribed for furnishing such return information.

"(C) USE OF REPRODUCTIONS.—Any reproduction of any return, document, or other matter made in accordance with this paragraph shall have the same legal status as the original, and any such reproduction shall, if properly authenticated, be admissible in evidence in any judicial or administrative proceeding as if it were the original, whether or not the original is in existence.

"(3) RECORDS OF INSPECTION AND DISCLOSURE.—

"(A) SYSTEM OF RECORDKEEPING.—Except as otherwise provided by this paragraph, the Secretary shall maintain a permanent system of standardized records or accountings of all requests for inspection or disclosure of returns and return information (including the reasons for and dates of such requests) and of returns and return information inspected or disclosed under this section. Notwithstanding the provisions of section 552a(c) of title 5, United States Code, the Secretary shall not be required to maintain a record or accounting of requests for inspection or disclosure of returns and return information, or of returns and return information inspected or disclosed, under the authority of subsections (c), (e), (h)(1), (3)(A), or (4), (i)(4) or (6)(A)(ii), (k)(1), (2), or (6), (l)(1) or (4)(B) or (5), (m), or (n). The records or accountings required to be maintained under this paragraph shall be available for examination by the Joint Committee on Taxation or the Chief of Staff of such joint committee. Such record or accounting shall also be available for examination by such person or persons as may be, but only to the extent, authorized to make such examination under section 552a(c)(3) of title 5, United States Code.

"(B) REPORT BY THE SECRETARY.—The Secretary shall, within 90 days after the close of each calendar year, furnish to the Joint Committee on Taxation a report with respect to, or summary of, the records or accountings described in subparagraph (A) in such form and containing such information as such joint committee or the Chief of Staff of such joint committee may designate. Such report or summary shall not, however, include a record or accounting of any request by the President under subsection (g) for, or the disclosure in response to such request of, any return or return information with respect to any individual who, at the time of such request, was an officer or employee of the executive branch of the Federal Government. Such report or summary, or any part thereof, may be disclosed by such joint committee to such persons and for such purposes as the joint committee may,

by record vote of a majority of the members of the joint committee, determine.

"(C) PUBLIC REPORT ON DISCLOSURES.—The Secretary shall, within 90 days after the close of each calendar year, furnish to the Joint Committee on Taxation for disclosure to the public a report with respect to the records or accountings described in subparagraph (A) which—

"(i) provides with respect to each Federal agency, each agency, body, or commission described in subsection (d) or (l)(3) or (6), and the General Accounting Office the number of—

"(I) requests for disclosure of returns and return information,

"(II) instances in which returns and return information were disclosed pursuant to such requests,

"(III) taxpayers whose returns, or return information with respect to whom, were disclosed pursuant to such requests, and

"(ii) describes the general purposes for which such requests were made,

"(4) SAFEGUARDS.—Any Federal agency described in subsection (h)(2), (i)(1), (2) or (5), (j)(1) or (2), (l)(1), (2), or (5), or (o)(1), the General Accounting Office, or any agency, body, or commission described in subsection (d) or (l)(3) or (6) shall, as a condition for receiving returns or return information—

"(A) establish and maintain, to the satisfaction of the Secretary, a permanent system of standardized records with respect to any request, the reason for such request, and the date of such request made by or of it and any disclosure of return or return information made by or to it;

"(B) establish and maintain, to the satisfaction of the Secretary, a secure area or place in which such returns or return information shall be stored;

"(C) restrict, to the satisfaction of the Secretary, access to the returns or return information only to persons whose duties or responsibilities require access and to whom disclosure may be made under the provisions of this title;

"(D) provide such other safeguards which the Secretary determines (and which he prescribes in regulations) to be necessary or appropriate to protect the confidentiality of the returns or return information;

"(E) furnish a report to the Secretary, at such time and containing such information as the Secretary may prescribe, which describes the procedures established and utilized by such agency, body, or commission or the General Accounting Office for ensuring the confidentialty of returns and return information required by this paragraph; and

"(F) upon completion of use of such returns or return information—

"(i) in the case of an agency, body, or commission described in subsection (d) or (l)(6), return to the Secretary such returns or return information (along with any copies made therefrom) or make such returns or return information undisclosable in any manner and furnish a written report to the Secretary describing such manner; and

"(ii) in the case of an agency described in subsections (h)(2), (i)(1), (2), or (5), (j)(1) or (2), (l)(1), (2), or (5), or (o)(1), the commission described in subsection (l)(3), or the General Accounting Office, either—

"(I) return to the Secretary such returns or return information (along with any copies made therefrom),

"(II) otherwise make such returns or return information undisclosable, or

"(III) to the extent not so returned or made undisclosable, ensure that the conditions of subparagraphs (A), (B), (C), (D), and (E) of this paragraph continue to be met with respect to such returns or return information,

except that the conditions of subparagraphs (A), (B), (C), (D), and (E) shall cease to apply with respect to any return or return information if, and to the extent that, such return or return information is disclosed in the course of any judicial or administrative proceeding and made a part of the public record thereof. If the Secretary determines that any such agency, body, or commission or the General Accounting Office has failed to, or does not, meet the requirements of this paragraph, he may, after any proceedings for review established under paragraph (7), take such actions as are necessary to ensure such requirements are met, including refusing to disclose returns or return information to such agency, body, or commission or the General Accounting Office until he determines that such requirements have been or will be met.

"(5) REPORT ON PROCEDURES AND SAFEGUARDS.—After the close of each calendar quarter, the Secretary shall furnish to each committee described in subsection (f)(1) a report which describes the procedures and safeguards established and utilized by such agencies, bodies, or commissions and the General Accounting Office for ensuring the confidentiality of returns and return information as required by this subsection. Such report shall also describe instances of deficiencies in, and failure to establish or utilize, such procedures.

"(6) AUDIT OF PROCEDURES AND SAFEGUARDS.—

"(A) AUDIT BY COMPTROLLER GENERAL.—The Comptroller General may audit the procedures and safeguards established by such agencies, bodies, or commissions pursuant to this subsection to determine whether such safeguards and procedures meet the requirements of this subsection and ensure the confidentiality of returns and return information. The Comptroller General shall notify the Secretary before any such audit is conducted.

"(B) RECORDS OF INSPECTION AND REPORTS BY THE COMPTROLLER GENERAL.—The Comptroller General shall—

"(i) maintain a permanent system of standardized records and accountings of returns and return information inspected by officers and employees of the General Accounting Office under subsection (i)(6)(A)(ii) and shall, within 90 days after the close of each calendar year, furnish to the Secretary a report with respect to, or summary of, such records or accountings in such form and containing such information as the Secretary may prescribe, and

"(ii) furnish an annual report to each committee described in subsection (f) and to the Secretary setting forth his findings with respect to any audit conducted pursuant to subparagraph (A).

The Secretary may disclose to the Joint Committee any report furnished to him under clause (i).

"(7) ADMINISTRATIVE REVIEW.—The Secretary shall by regulations prescribe procedures which provide for administrative review of any determination under paragraph (4) that any agency, body, or commission described in subsection (d) has failed to meet the requirements of such paragraph.

"(8) STATE LAW REQUIREMENTS.—

"(A) SAFEGUARDS.—Notwithstanding any other provision of this section, no return or return information shall be disclosed after December 31, 1978, to any officer or employee of any State which requires a taxpayer to attach to, or include in, any State tax return a copy of any portion of his Federal return, or information reflected on such Federal return, unless such State adopts provisions of law which protect the confidentiality of the copy of the Federal return (or portion thereof) attached to, or the Federal return information reflected on, such State tax return.

"(B) DISCLOSURE OF RETURNS OR RETURN INFORMATION IN STATE RETURNS.—Nothing in subparagraph (A) shall be construed to prohibit the disclosure by an officer or employee of any State of any copy of any portion of a Federal return or any information on a Federal return which is required to be attached or included in a State return to another officer or employee of such State (or political subdivision of such State) if such disclosure is specifically authorized by State law.

"(q) REGULATIONS.—The Secretary is authorized to prescribe such other regulations as are necessary to carry out the provisions of this section."

(2) CONFORMING AMENDMENT.—The table of sections for subchapter B of chapter 61 is amended by striking out the item relating to section 6103 and inserting in lieu thereof the following:

"Sec. 6103. Confidentiality and disclosure of returns and return information."

(b) STATISTICAL PUBLICATIONS AND STUDIES.—Section 6108 (relating to publication of statistics of income) is amended to read as follows:

"SEC. 6108. STATISTICAL PUBLICATIONS AND STUDIES.

"(a) PUBLICATION OR OTHER DISCLOSURE OF STATISTICS OF INCOME.—The Secretary shall prepare and publish not less than annually statistics reasonably available with respect to the operations of the internal revenue laws, including classifications of taxpayers and of income, the amounts claimed or allowed as deductions, exemptions, and credits, and any other facts deemed pertinent and valuable.

"(b) SPECIAL STATISTICAL STUDIES.—The Secretary may, upon written request by any party or parties, make special statistical studies and compilations involving return information (as defined in section 6103(b)(2)) and furnish to such party or parties transcripts of any such special statistical study or compilation. A reasonable fee may be prescribed for the cost of the work or services performed for such party or parties.

"(c) ANONYMOUS FORM.—No publication or other disclosure of statistics or other information required or authorized by subsection (a) or special statistical study authorized by subsection (b) shall in any manner permit the statistics, study, or any information so published, furnished, or otherwise disclosed to be associated with, or otherwise identify, directly or indirectly, a particular taxpayer."

(c) INSPECTION OF CERTAIN RECORDS BY LOCAL OFFICERS.—

(1) IN GENERAL.—Section 4102 (relating to inspection of records, returns, etc., by local officers) is amended to read as follows:

"SEC. 4102. INSPECTION OF RECORDS BY LOCAL OFFICERS.

"Under regulations prescribed by the Secretary, records required to be kept with respect to taxes under this part shall be open to inspection by such officers of a State, or a political subdivision of any such State, as shall be charged with the enforcement or collection of any tax on gasoline or lubricating oils."

(2) CONFORMING AMENDMENT.—The table of sections for subpart B of part III of chapter 32 is amended by striking out the item relating to section 4102 and inserting in lieu thereof the following:

"Sec. 4102. Inspection of records by local officers."

(d) PENALTY FOR UNAUTHORIZED DISCLOSURE OF INFORMATION.—Section 7213 (relating to unauthorized disclosure of information) is amended by striking out subsection (c), redesignating subsections (d) and (e) as (c) and (d), respectively, and by amending subsection (a) to read as follows:

"(a) RETURNS AND RETURN INFORMATION.—

"(1) FEDERAL EMPLOYEES AND OTHER PERSONS.—It shall be unlawful for any officer or employee of the United States or any person described in section 6103(n) (or an officer or employee of any such person), or any former officer or employee, to disclose to any person, except as authorized in this title, any return or return information (as defined in section 6103(b)). Any violation of this paragraph shall be a felony punishable upon conviction by a fine in any amount not exceeding $5,000, or imprisonment of not more than 5 years, or both, together with the costs of prosecution, and if such offense is committed by any officer or employee of the United States, he shall, in addition to any other punishment, be dismissed from office or discharged from employment upon conviction for such offense.

"(2) STATE AND OTHER EMPLOYEES.—It shall be unlawful for any officer, employee, or agent, or former officer, employee, or agent, of any State (as defined in section 6103(b)(5)) or any local child support enforcement agency to disclose to any person, except as authorized in this title, any return or return information (as defined in section 6103(b)) acquired by him or another person under section 6103(d) or (l)(6). Any violation of this paragraph shall be a felony punishable by a fine in any amount not exceeding $5,000, or imprisonment of not more than 5 years, or both, together with the costs of prosecution.

"(3) OTHER PERSONS.—It shall be unlawful for any person to whom any return or return information (as defined in section 6103(b)) is disclosed in a manner unauthorized by this title to thereafter print or publish in any manner not provided by law any such return or return information. Any violation of this paragraph shall be a felony punishable by a fine in any amount

not exceeding $5,000, or imprisonment of not more than 5 years, or both, together with the costs of prosecution.

"(4) SOLICITATION.—It shall be unlawful for any person to offer any item of material value in exchange for any return or return information (as defined in section 6103(b)) and to receive as a result of such solicitation any such return or return information. Any violation of this paragraph shall be a felony punishable by a fine in any amount not exceeding $5,000, or imprisonment of not more than 5 years, or both, together with the costs of prosecution.

"(5) SHAREHOLDERS.—It shall be unlawful for any person to whom a return or return information (as defined in section 6103(b)) is disclosed pursuant to the provisions of section 6103(e)(1)(D)(iii) to disclose such return or return information in any manner not provided by law. Any violation of this paragraph shall be a felony punishable by a fine in any amount not to exceed $5,000, or imprisonment of not more than 5 years, or both, together with the costs of prosecution."

(e) CIVIL DAMAGES FOR UNAUTHORIZED DISCLOSURE OF RETURNS AND RETURN INFORMATION.—

(1) IN GENERAL.—Part I of subchapter A of chapter 75 (relating to miscellaneous penalties and forfeitures) is amended by adding at the end thereof the following new section:

"SEC. 7217. CIVIL DAMAGES FOR UNAUTHORIZED DISCLOSURE OF RETURNS AND RETURN INFORMATION.

"(a) GENERAL RULE.—Whenever any person knowingly, or by reason of negligence, discloses a return or return information (as defined in section 6103(b)) with respect to a taxpayer in violation of the provisions of section 6103, such taxpayer may bring a civil action for damages against such person, and the district courts of the United States shall have jurisdiction of any action commenced under the provisions of this section.

"(b) DAMAGES.—In any suit brought under the provisions of subsection (a), upon a finding of liability on the part of the defendant, the defendant shall be liable to the plaintiff in an amount equal to the sum of—

"(1) actual damages sustained by the plaintiff as a result of the unauthorized disclosure of the return or return information and, in the case of a willful disclosure or a disclosure which is the result of gross negligence, punitive damages, but in no case shall a plaintiff entitled to recovery receive less than the sum of $1,000 with respect to each instance of such unauthorized disclosure; and

"(2) the costs of the action.

"(c) An action to enforce any liability created under this section may be brought, without regard to the amount in controversy, within 2 years from the date on which the cause of action arises or at any time within 2 years after discovery by the plaintiff of the unauthorized disclosure."

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

"Sec. 7217. Civil damages for unauthorized disclosure of returns and return information."

(f) PROCESSING OF RETURNS, RETURN INFORMATION, AND OTHER DOCUMENTS.—Section 7513 (relating to reproduction of returns and other documents) is amended by striking out subsection (c) and redesignating subsection (d) as subsection (c).

(g) OTHER APPLICABLE RULES.—Section 7852 (relating to other rules applicable under title 26) is amended by adding at the end thereof the following new subsection:

"(e) PRIVACY ACT OF 1974.—The provisions of subsections (d) (2), (3), and (4), and (g) of section 552a of title 5, United States Code, shall not be applied, directly or indirectly, to the determination of the existence or possible existence of liability (or the amount thereof) of any person for any tax, penalty, interest, fine, forfeiture, or other imposition or offense to which the provisions of this title apply."

(h) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Section 6106 (relating to publicity of unemployment tax returns) is hereby repealed.

(2) Section 6323 (relating to validity and priority of tax liens against certain persons) is amended by striking out paragraph (3) of subsection (i).

(3) Subsection (d) of section 7213 (relating to cross references) is amended by striking out paragraph (1) and inserting in lieu thereof:

"(1) Penalties for disclosure of information by preparers of returns.—For penalty for disclosure or use of information by preparers of returns, see section 7216."

(4) Section 7515 (relating to special statistical studies and compilations and other services on request) is hereby repealed.

(5) Subsection (c) of section 7809 (relating to deposit of collections) is amended by striking out in paragraph (1) "section 7515 (relating to special statistical studies and compilations for other services on request)" and inserting in lieu thereof "section 6103(p) (relating to furnishing of copies of returns or of return information), and section 6108(b) (relating to special statistical studies and compilations)".

(6) Subsection (d) of section 4424 (relating to disclosure of wagering tax information) is amended by striking out "6103(d)" and inserting in lieu thereof "6103(f)".

(i) EFFECTIVE DATE.—The amendments made by this section take effect January 1, 1977.

SEC. 1203. INCOME TAX RETURN PREPARERS.

(a) DEFINITION.—Section 7701(a) (relating to definitions) is amended by adding at the end thereof the following new paragraph:

"(36) INCOME TAX RETURN PREPARER.—

"(A) IN GENERAL.—The term 'income tax return preparer' means any person who prepares for compensation, or who employs one or more persons to prepare for compensation, any return of tax imposed by subtitle A or any claim for refund of tax imposed by subtitle A. For purposes of the preceding sentence, the preparation of a substantial portion of a return or claim for refund shall be treated as if it were the preparation of such return or claim for refund.

"(B) EXCEPTIONS.—A person shall not be an 'income tax return preparer' merely because such person—

"(i) furnishes typing, reproducing, or other mechanical assistance,

"(ii) prepares a return or claim for refund of the employer (or of an officer or employee of the employer) by whom he is regularly and continuously employed,

"(iii) prepares a return or claim for refund for any trust or estate with respect to which he is a fiduciary, or

"(iv) prepares a claim for refund for a taxpayer in response to any notice of deficiency issued to such taxpayer or in response to any waiver of restriction after the commencement of an audit of such taxpayer or another taxpayer if a determination in such audit of such other taxpayer directly or indirectly affects the tax liability of such taxpayer."

(b) ASSESSABLE PENALTIES WHERE PREPARER UNDERSTATES TAXPAYER'S LIABILITY.—

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

"SEC. 6694. UNDERSTATEMENT OF TAXPAYER'S LIABILITY BY INCOME TAX RETURN PREPARER.

"(a) NEGLIGENT OR INTENTIONAL DISREGARD OF RULES AND REGULATIONS.—If any part of any understatement of liability with respect to any return or claim for refund is due to the negligent or intentional disregard of rules and regulations by any person who is an income tax return preparer with respect to such return or claim, such person shall pay a penalty of $100 with respect to such return or claim.

"(b) WILLFUL UNDERSTATEMENT OF LIABILITY.—If any part of any understatement of liability with respect to any return or claim for refund is due to a willful attempt in any manner to understate the liability for a tax by a person who is an income tax return preparer with respect to such return or claim, such person shall pay a penalty of $500 with respect to such return or claim. With respect to any return or claim, the amount of the penalty payable by any person by reason of this subsection shall be reduced by the amount of the penalty paid by such person by reason of subsection (a).

"(c) EXTENSION OF PERIOD OF COLLECTION WHERE PREPARER PAYS 15 PERCENT OF PENALTY.—

"(1) IN GENERAL.—If, within 30 days after the day on which notice and demand of any penalty under subsection (a) or (b) is made against any person who is an income tax return preparer, such person pays an amount which is not less than 15 percent of the amount of such penalty and files a claim for refund of the amount so paid, no levy or proceeding in court for the collection of the remainder of such penalty shall be made, begun, or prosecuted until the final resolution of a proceeding begun as provided in paragraph (2). Notwithstanding the provisions of section 7421 (a), the beginning of such proceeding or levy during the time such prohibition is in force may be enjoined by a proceeding in the proper court.

"(2) PREPARER MUST BRING SUIT IN DISTRICT COURT TO DETERMINE HIS LIABILITY FOR PENALTY.—If, within 30 days after the day on which his claim for refund of any partial payment of any penalty under subsection (a) or (b) is denied (or, if earlier, within 30 days after the expiration of 6 months after the day on which he filed the claim for refund), the income tax return preparer fails to begin a proceeding in the appropriate United States district court for the determination of his liability for such penalty, paragraph (1) shall cease to apply with respect to such penalty, effective on the day following the close of the applicable 30-day period referred to in this paragraph.

"(3) SUSPENSION OF RUNNING OF PERIOD OF LIMITATIONS ON COLLECTION.—The running of the period of limitations provided in

section 6502 on the collection by levy or by a proceeding in court in respect of any penalty described in paragraph (1) shall be suspended for the period during which the Secretary is prohibited from collecting by levy or a proceeding in court.

"(d) ABATEMENT OF PENALTY WHERE TAXPAYER'S LIABILITY NOT UNDERSTATED.—If at any time there is a final administrative determination or a final judicial decision that there was no understatement of liability in the case of any return or claim for refund with respect to which a penalty under subsection (a) or (b) has been assessed, such assessment shall be abated, and if any portion of such penalty has been paid the amount so paid shall be refunded to the person who made such payment as an overpayment of tax without regard to any period of limitations which, but for this subsection, would apply to the making of such refund.

"(e) UNDERSTATEMENT OF LIABILITY DEFINED.—For purposes of this section, the term 'understatement of liability' means any understatement of the net amount payable with respect to any tax imposed by subtitle A or any overstatement of the net amount creditable or refundable with respect to any such tax. Except as otherwise provided in subsection (d), the determination of whether or not there is an understatement of liability shall be made without regard to any administrative or judicial action involving the taxpayer.

"(f) CROSS REFERENCE.—

"For definition of income tax return preparer, see section 7701 (a)(36)."

(2) BURDEN OF PROOF UNDER 6694(b).—

(A) Subchapter B of chapter 76 (relating to proceedings by taxpayers and third parties) is amended by redesignating section 7427 as section 7428 and by inserting after section 7426 the following new section:

"SEC. 7427. INCOME TAX RETURN PREPARERS.

"In any proceeding involving the issue of whether or not an income tax return preparer has willfully attempted in any manner to understate the liability for tax (within the meaning of section 6694(b)), the burden of proof in respect to such issue shall be upon the Secretary."

(B) The table of sections for such subchapter B is amended by striking out the last item and inserting in lieu thereof the following:

"Sec. 7427. Income tax return preparers.
"Sec. 7428. Cross references."

(c) PREPARER MUST FURNISH COPY OF RETURN TO TAXPAYER AND MUST RETAIN COPY OR LIST.—Subchapter B of chapter 61 (relating to information and returns) is amended by inserting after section 6106 the following new section:

"SEC. 6107. INCOME TAX RETURN PREPARER MUST FURNISH COPY OF RETURN TO TAXPAYER AND MUST RETAIN A COPY OR LIST.

"(a) FURNISHING COPY TO TAXPAYER.—Any person who is an income tax return preparer with respect to any return or claim for refund shall furnish a completed copy of such return or claim to the taxpayer not later than the time such return or claim is presented for such taxpayer's signature.

"(b) COPY OR LIST TO BE RETAINED BY INCOME TAX RETURN PREPARER.—Any person who is an income tax return preparer with

respect to a return or claim for refund shall, for the period ending 3 years after the close of the return period—

"(1) retain a completed copy of such return or claim, or retain, on a list, the name and taxpayer identification number of the taxpayer for whom such return or claim was prepared, and

"(2) make such copy or list available for inspection upon request by the Secretary.

"(c) REGULATIONS.—The Secretary shall prescribe regulations under which, in cases where 2 or more persons are income tax return preparers with respect to the same return or claim for refund, compliance with the requirements of subsection (a) or (b), as the case may be, of one such person shall be deemed to be compliance with the requirements of such subsection by the other persons.

"(d) DEFINITIONS.—For purposes of this section, the terms 'return' and 'claim for refund' have the respective meanings given to such terms by section 6696(e), and the term 'return period' has the meaning given to such term by section 6060(c)."

(d) TAXPAYER IDENTIFYING NUMBER OF PREPARER TO BE FURNISHED.—Section 6109(a) (relating to supplying of identifying numbers) is amended by adding at the end thereof the following:

"(4) FURNISHING IDENTIFYING NUMBER OF INCOME TAX RETURN PREPARER.—Any return or claim for refund prepared by an income tax return preparer shall bear such identifying number for securing proper identification of such preparer, his employer, or both, as may be prescribed. For purposes of this paragraph, the terms 'return' and 'claim for refund' have the respective meanings given to such terms by section 6696(e).

For purposes of this subsection, the identifying number of an individual (or his estate) shall be such individual's social security account number."

(e) PREPARER MUST FILE ANNUAL INFORMATION RETURN.—Part III of subchapter A of chapter 61 (relating to information returns) is amended by adding at the end thereof the following new subpart:

"Subpart F—Information Concerning Income Tax Return Preparers

"Sec. 6060. Information returns of income tax return preparers.

"SEC. 6060. INFORMATION RETURNS OF INCOME TAX RETURN PREPARERS.

"(a) GENERAL RULE.—Any person who employs an income tax return preparer to prepare any return or claim for refund other than for such person at any time during a return period shall make a return setting forth the name, taxpayer identification number, and place of work of each income tax return preparer employed by him at any time during such period. For purposes of this section, any individual who in acting as an income tax return preparer is not the employee of another income tax return preparer shall be treated as his own employer. The return required by this section shall be filed, in such manner as the Secretary may by regulations prescribe, on or before the first July 31 following the end of such return period.

"(b) ALTERNATIVE REPORTING.—In lieu of the return required by subsection (a), the Secretary may approve an alternative reporting method if he determines that the necessary information is available to him from other sources.

"(c) RETURN PERIOD DEFINED.—For purposes of subsection (a), the term 'return period' means the 12-month period beginning on

July 1 of each year, except that the first return period shall be the 6-month period beginning on January 1, 1977, and ending on June 30, 1977."

(f) OTHER ASSESSABLE PENALTIES WITH RESPECT TO THE PREPARATION OF INCOME TAX RETURNS FOR OTHER PERSONS.—Subchapter B of chapter 68 (relating to assessable penalties) is amended by adding at the end thereof the following new sections:

"SEC. 6695. OTHER ASSESSABLE PENALTIES WITH RESPECT TO THE PREPARATION OF INCOME TAX RETURNS FOR OTHER PERSONS.

"(a) FAILURE TO FURNISH COPY TO TAXPAYER.—Any person who is an income tax return preparer with respect to any return or claim for refund who fails to comply with section 6107(a) with respect to such return or claim shall pay a penalty of $25 for such failure, unless it is shown that such failure is due to reasonable cause and not due to willful neglect.

"(b) FAILURE TO SIGN RETURN.—Any person who is an income tax return preparer with respect to any return or claim for refund, who is required by regulations prescribed by the Secretary to sign such return or claim, and who fails to comply with such regulations with respect to such return or claim shall pay a penalty of $25 for such failure, unless it is shown that such failure is due to reasonable cause and not due to willful neglect.

"(c) FAILURE TO FURNISH IDENTIFYING NUMBER.—Any person who is an income tax return preparer with respect to any return or claim for refund and who fails to comply with section 6109(a)(4) with respect to such return or claim shall pay a penalty of $25 for such failure, unless it is shown that such failure is due to reasonable cause and not due to willful neglect.

"(d) FAILURE TO RETAIN COPY OR LIST.—Any person who is an income tax return preparer with respect to any return or claim for refund who fails to comply with section 6107(b) with respect to such return or claim shall pay a penalty of $50 for each such failure, unless it is shown that such failure is due to reasonable cause and not due to willful neglect. The maximum penalty imposed under this subsection on any person with respect to any return period shall not exceed $25,000.

"(e) FAILURE TO FILE CORRECT INFORMATION RETURN.—Any person required to make a return under section 6060 who fails to comply with the requirements of such section shall pay a penalty of—

"(1) $100 for each failure to file a return as required under such section, and

"(2) $5 for each failure to set forth an item in the return as required under such section,

unless it is shown that such failure is due to reasonable cause and not due to willful neglect. The maximum penalty imposed under this subsection on any person with respect to any return period shall not exceed $20,000.

"(f) NEGOTIATION OF CHECK.—Any person who is an income tax return preparer who endorses or otherwise negotiates (directly or through an agent) any check made in respect of the taxes imposed by subtitle A which is issued to a taxpayer (other than the income tax return preparer) shall pay a penalty of $500 with respect to each such check.

"SEC. 6696. RULES APPLICABLE WITH RESPECT TO SECTIONS 6694 AND 6695.

"(a) PENALTIES TO BE ADDITIONAL TO ANY OTHER PENALTIES.—The penalties provided by section 6694 and 6695 shall be in addition to any other penalties provided by law.

"(b) DEFICIENCY PROCEDURES NOT TO APPLY.—Subchapter B of chapter 63 (relating to deficiency procedures for income, estate, gift, and certain excise taxes) shall not apply with respect to the assessment or collection of the penalties provided by sections 6694 and 6695.

"(c) PROCEDURE FOR CLAIMING REFUND.—Any claim for credit or refund of any penalty paid under section 6694 or 6695 shall be filed in accordance with regulations prescribed by the Secretary.

"(d) PERIODS OF LIMITATION.—

"(1) ASSESSMENT.—The amount of any penalty under section 6694(a) or under section 6695 shall be assessed within 3 years after the return or claim for refund with respect to which the penalty is assessed was filed, and no proceeding in court without assessment for the collection of such tax shall be begun after the expiration of such period. In the case of any penalty under section 6694(b), the penalty may be assessed, or a proceeding in court for the collection of the penalty may be begun without assessment, at any time.

"(2) CLAIM FOR REFUND.—Except as provided in section 6694(d), any claim for refund of an overpayment of any penalty assessed under section 6694 or 6695 shall be filed within 3 years from the time the penalty was paid.

"(e) DEFINITIONS.—For purposes of sections 6694 and 6695—

"(1) RETURN.—The term 'return' means any return of any tax imposed by subtitle A.

"(2) CLAIM FOR REFUND.—The term 'claim for refund' means a claim for refund of, or credit against, any tax imposed by subtitle A."

(g) AUTHORITY TO SEEK INJUNCTION AGAINST INCOME TAX RETURN PREPARERS.—Subchapter A of chapter 76 (relating to civil actions by the United States) is amended by redesignating section 7407 as section 7408 and by inserting after section 7406 the following new section:

"SEC. 7407. ACTION TO ENJOIN INCOME TAX RETURN PREPARERS.

"(a) AUTHORITY TO SEEK INJUNCTION.—Except as provided in subsection (c), a civil action in the name of the United States to enjoin any person who is an income tax return preparer from further engaging in any conduct described in subsection (b) or from further acting as an income tax return preparer may be commenced at the request of the Secretary. Any action under this section shall be brought in the District Court of the United States for the district in which the income tax preparer resides or has his principal place of business or in which the taxpayer with respect to whose income tax return the action is brought resides. The court may exercise its jurisdiction over such action (as provided in section 7402(a)) separate and apart from any other action brought by the United States against such income tax preparer or any taxpayer.

"(b) ADJUDICATION AND DECREES.—In any action under subsection (a), if the court finds—

"(1) that an income tax return preparer has—

"(A) engaged in any conduct subject to penalty under section 6694 or 6695, or subject to any criminal penalty provided by this title,

"(B) misrepresented his eligibility to practice before the Internal Revenue Service, or otherwise misrepresented his experience or education as an income tax return preparer,

"(C) guaranteed the payment of any tax refund or the allowance of any tax credit, or

"(D) engaged in any other fraudulent or deceptive conduct which substantially interferes with the proper administration of the Internal Revenue laws, and

"(2) that injunctive relief is appropriate to prevent the recurrence of such conduct,

the court may enjoin such person from further engaging in such conduct. If the court finds that an income tax return preparer has continually or repeatedly engaged in any conduct described in subparagraphs (A) through (D) of this subsection and that an injunction prohibiting such conduct would not be sufficient to prevent such person's interference with the proper administration of this title, the court may enjoin such person from acting as an income tax return preparer.

"(c) BOND TO STAY INJUNCTION.—No action to enjoin under subsection (b)(1)(A) shall be commenced or pursued with respect to any income tax return preparer who files and maintains, with the Secretary in the internal revenue district in which is located such preparer's legal residence or principal place of business, a bond in a sum of $50,000 as surety for the payment of penalties under section 6694 and 6695."

(h) CROSS REFERENCES.—

(1) Section 6503(h), as redesignated by this Act, is amended by adding at the end thereof the following new paragraph:

"(4) Income tax return preparers, see section 6694(c)(3)."

(2) Section 6504, as amended by this Act, is amended by adding at the end thereof the following new paragraph:

"(11) Assessment of civil penalties under section 6694 or 6695, see section 6696(d)(1)."

(3) Section 6511(g) is amended by adding at the end thereof the following new paragraph:

"(7) For a period of limitations for refund of an overpayment of penalties imposed under section 6694 or 6695, see section 6696(d)(2)."

(i) CONFORMING AMENDMENTS.—

(1) The table of subparts for part III of suchapter A of chapter 61 is amended by adding at the end thereof the following new item:

"Subpart F. Information concerning income tax return preparers."

(2) The table of sections for subchapter B of chapter 61 is amended by inserting immediately after the item relating to section 6106 the following new item:

"Sec. 6107. Income tax return preparer must furnish copy of return to taxpayer and must retain a copy or list."

(3) The table of sections for subchapter B of chapter 68 is amended by adding at the end thereof the following new items:

"Sec. 6694. Understatement of taxpayer's liability by income tax return preparer.

"Sec. 6695. Other assessable penalties with respect to the preparation of income tax returns for other persons.

"Sec. 6696. Rules applicable with respect to sections 6694 and 6695."

(4) The table of sections for subchapter A of chapter 76 is amended by striking out the last item and inserting in lieu thereof the following:

"Sec. 7407. Action to enjoin income tax return preparers.
"Sec. 7408. Cross references."

(j) EFFECTIVE DATE.—The amendments made by this section shall apply to documents prepared after December 31, 1976.

SEC. 1204. JEOPARDY AND TERMINATION ASSESSMENTS.

(a) REVIEW OF JEOPARDY AND TERMINATION ASSESSMENTS.—Subchapter B of chapter 76 (relating to proceedings by taxpayers and third parties) is amended by inserting after section 7428 the following new section:

"SEC. 7429. REVIEW OF JEOPARDY ASSESSMENT PROCEDURES.

"(a) ADMINISTRATIVE REVIEW.—

"(1) INFORMATION TO TAXPAYER.—Within 5 days after the day on which an assessment is made under section 6851(a), 6861(a), or 6862, the Secretary shall provide the taxpayer with a written statement of the information upon which the Secretary relies in making such assessment.

"(2) REQUEST FOR REVIEW.—Within 30 days after the day on which the taxpayer is furnished the written statement described in paragraph (1), or within 30 days after the last day of the period within which such statement is required to be furnished, the taxpayer may request the Secretary to review the action taken.

"(3) REDETERMINATION BY SECRETARY.—After a request for review is made under paragraph (2), the Secretary shall determine whether or not—

"(A) the making of the assessment under section 6851, 6861, or 6862, as the case may be, is reasonable under the circumstances, and

"(B) the amount so assessed or demanded as a result of the action taken under section 6851, 6861, or 6862 is appropriate under the circumstances.

"(b) JUDICIAL REVIEW.—

"(1) ACTIONS PERMITTED.—Within 30 days after the earlier of—

"(A) the day the Secretary notifies the taxpayer of his determination described in subsection (a)(3), or

"(B) the 16th day after the request described in subsection (a)(2) was made,

the taxpayer may bring a civil action against the United States in a district court of the United States for a determination under this subsection.

"(2) DETERMINATION BY DISTRICT COURT.—Within 20 days after an action is commenced under paragraph (1), the district court shall determine whether or not—

"(A) the making of the assessment under section 6851, 6861, or 6862, as the case may be, is reasonable under the circumstances, and

"(B) the amount so assessed or demanded as a result of the action taken under section 6851, 6861, or 6862, is appropriate under the circumstances.

"(3) ORDER OF DISTRICT COURT.—If the court determines that the making of such assessment is unreasonable or that the amount assessed or demanded is inappropriate, the court may order the Secretary to abate such assessment, to redetermine (in whole or

in part) the amount assessed or demanded, or to take such other action as the court finds appropriate.

"(c) EXTENSION OF 20-DAY PERIOD WHERE TAXPAYER SO REQUESTS.—If the taxpayer requests an extension of the 20-day period set forth in subsection (b) (2) and establishes reasonable grounds why such extension should be granted, the district court may grant an extension of not more than 40 additional days.

"(d) COMPUTATION OF DAYS.—For purposes of this section, Saturday, Sunday, or a legal holiday in the District of Columbia shall not be counted as the last day of any period.

"(e) VENUE.—A civil action under subsection (b) shall be commenced only in the judicial district described in section 1402(a) (1) or (2) of title 28, United States Code.

"(f) FINALITY OF DETERMINATION.—Any determination made by a district court under this section shall be final and conclusive and shall not be reviewed by any other court.

"(g) BURDEN OF PROOF.—

"(1) REASONABLENESS OF TERMINATION OR JEOPARDY ASSESSMENT.—In an action under subsection (b) involving the issue of whether the making of an assessment under section 6851, 6861, or 6862 is reasonable under the circumstances, the burden of proof in respect to such issue shall be upon the Secretary.

"(2) REASONABLENESS OF AMOUNT OF ASSESSMENT.—In an action under subsection (b) involving the issue of whether an amount assessed or demanded as a result of action taken under section 6851, 6861, or 6862 is appropriate under the circumstances, the Secretary shall provide a written statement which contains any information with respect to which his determination of the amount assessed was based, but the burden of proof in respect of such issue shall be upon the taxpayer."

(b) JEOPARDY ASSESSMENT OF INCOME TAX.—

(1) TERMINATION ASSESSMENTS.—So much of section 6851 (relating to termination of taxable year) as precedes subsection (c) is amended to read as follows:

"SEC. 6851. TERMINATION ASSESSMENTS OF INCOME TAX.

"(a) AUTHORITY FOR MAKING.—

"(1) IN GENERAL.—If the Secretary finds that a taxpayer designs quickly to depart from the United States or to remove his property therefrom, or to conceal himself or his property therein, or to do any other act (including in the case of a corporation distributing all or a part of its assets in liquidation or otherwise) tending to prejudice or to render wholly or partially ineffectual proceedings to collect the income tax for the current or the immediately preceding taxable year unless such proceeding be brought without delay, the Secretary shall immediately make a determination of tax for the current taxable year or for the preceding taxable year, or both, as the case may be, and notwithstanding any other provision of law, such tax shall become immediately due and payable. The Secretary shall immediately assess the amount of the tax so determined (together with all interest, additional amounts, and additions to the tax provided by law) for the current taxable year or such preceding taxable year, or both, as the case may be, and shall cause notice of such determination and assessment to be given the taxpayer, together with a demand for immediate payment of such tax.

"(2) COMPUTATION OF TAX.—In the case of a current taxable year, the Secretary shall determine the tax for the period beginning on the first day of such current taxable year and ending on the date of the determination under paragraph (1) as though such period were a taxable year of the taxpayer, and shall take into account any prior determination made under this subsection with respect to such current taxable year.

"(3) TREATMENT OF AMOUNTS COLLECTED.—Any amounts collected as a result of any assessments under this subsection shall, to the extent thereof, be treated as a payment of tax for such taxable year.

"(4) THIS SECTION INAPPLICABLE WHERE SECTION 6861 APPLIES.—This section shall not authorize any assessment of tax for the preceding taxable year which is made after the due date of the taxpayer's return for such taxable year (determined with regard to any extensions).

"(b) NOTICE OF DEFICIENCY.—If an assessment of tax is made under the authority of subsection (a), the Secretary shall mail a notice under section 6212(a) for the taxpayer's full taxable year (determined without regard to any action taken under subsection (a)) with respect to which such assessment was made within 60 days after the later of (i) the due date of the taxpayer's return for such taxable year (determined with regard to any extensions), or (ii) the date such taxpayer files such return. Such deficiency may be in an amount greater or less than the amount assessed under subsection (a)."

(2) BONDS.—Section 6851 is amended by striking out subsection (e) (relating to bonds) and inserting in lieu thereof the following:

"(e) SECTIONS 6861 (f) AND (g) TO APPLY.—The provisions of section 6861(f) (relating to collection of unpaid amounts) and 6861(g) (relating to abatement if jeopardy does not exist) shall apply with respect to any assessment made under subsection (a).

"(f) CROSS REFERENCES.—

"(1) For provisions permitting immediate levy in case of jeopardy, see section 6331(a).

"(2) For provisions relating to the review of jeopardy, see section 7429."

(c) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Section 1346(e) of title 28, United States Code (relating to jurisdiction of district courts with the United States as defendant) is amended by inserting "or section 7429" immediately after "section 7426".

(2) Section 443(a)(3) (relating to returns for terminated period) is repealed.

(3) Section 6091(b) (relating to place for filing returns) is amended—

(A) by striking out "and" at the end of paragraph (1)(B)(iii) thereof, and by striking out paragraph (1)(B)(iv) and the matter following such paragraph and inserting in lieu thereof the following:

"(iv) nonresident alien persons, and

"(v) persons with respect to whom an assessment was made under section 6851(a) (relating to termination assessments) with respect to the taxable year,

shall be made at such place as the Secretary may by regulations designate."; and

(B) by striking out "and" at the end of paragraph (2)(B)(ii), and by striking out paragraph (2)(B)(iii) and the

matter following such paragraph and inserting in lieu thereof the following:

"(iii) foreign corporations, and

"(iv) corporations with respect to which an assessment was made under section 6851(a) (relating to termination assessments) with respect to the taxable year,

shall be made at such place as the Secretary may by regulations designate."

(4) Section 6211(b)(1) (relating to rules for determining deficiencies) is amended by striking out "and" after "31," and by inserting before the period at the end thereof the following: ", and without regard to any credits resulting from the collection of amounts assessed under section 6851 (relating to termination assessments)".

(5) Section 6212(c) (relating to restrictions on further deficiency letters) is amended by inserting after "errors)," the following: "in section 6851 (relating to termination assessments),".

(6) Section 6213(a) (relating to time for filing petition with the Tax Court) is amended by inserting "section 6851 or" before "section 6861".

(7) Section 6863(a) (relating to bond to stay collection) is amended—

(A) by striking out "6861" and inserting in lieu thereof "6851, 6861,";

(B) by striking out "a jeopardy assessment" in the first sentence thereof and inserting in lieu thereof "an assessment"; and

(C) by striking out "the jeopardy assessment" each place it appears therein and inserting in lieu thereof "such assessment".

(8) Section 6863(b)(3)(A) (relating to stay of sale of seized property) is amended to read as follows:

"(A) GENERAL RULE.—Where, notwithstanding the provisions of section 6213(a), an assessment has been made under section 6851 or 6861, the property seized for collection of the tax shall not be sold—

"(i) before the expiration of the periods described in subsection (c)(1) (A) and (B),

"(ii) before the issuance of the notice of deficiency described in section 6851(b) or 6861(b), and the expiration of the period provided in section 6213(a) for filing a petition with the Tax Court, and

"(iii) if a petition is filed with the Tax Court (whether before or after the making of such assessment), before the expiration of the period during which the assessment of the deficiency would be prohibited if neither sections 6851(a) nor 6861(a) were applicable.

Clauses (ii) and (iii) shall not apply in the case of a termination assessment under section 6851 if the taxpayer does not file a return for the taxable year by the due date (determined with regard to any extensions)."

(9) Section 6863 (relating to stay of collection of jeopardy assessments) is amended by adding at the end thereof the following new subsection:

"(c) STAY OF SALE OF SEIZED PROPERTY PENDING DISTRICT COURT DETERMINATION UNDER SECTION 7429.—

"(1) GENERAL RULE.—Where a jeopardy assessment has been made under section 6862(a), the property seized for the collection of the tax shall not be sold—

"(A) if a civil action is commenced in accordance with section 7429(b), on or before the day on which the district court judgment in such action becomes final, or

"(B) if subparagraph (A) does not apply, before the day after the expiration of the period provided in section 7429(a) for requesting an administrative review, and if such review is requested, before the day after the expiration of the period provided in section 7429(b), for commencing an action in the district court.

"(2) EXCEPTIONS.—With respect to any property described in paragraph (1), the exceptions provided by subsection (b)(3)(B) shall apply."

(10) Section 7103(a)(4) (relating to a cross reference) is repealed.

(11) Section 7421(a) (relating to prohibition of suits to restrain assessment or collection of taxes) is amended by striking out "and 7426 (a) and (b)(1)" and inserting in lieu thereof "7426 (a) and (b)(1), and 7429(b)".

(12) The table of sections for part I of subchapter A of chapter 70 is amended to read as follows:

"Sec. 6851. Termination assessments of income tax."

(13) The table of sections for subchapter B of chapter 76 is amended by inserting after the item relating to section 7428 the following:

"Sec. 7429. Review of jeopardy assessment procedures."

(d) EFFECTIVE DATE.—The amendments made by this section apply with respect to action taken under section 6851, 6861, or 6862 of the Internal Revenue Code of 1954 where the notice and demand takes place after December 31, 1976.

SEC. 1205. ADMINISTRATIVE SUMMONS.

(a) REQUIREMENT THAT NOTICE BE SERVED ON PERSON WHOSE BOOKS, ETC., ARE BEING SUMMONED.—Subchapter A of chapter 78 (relating to examination and inspection) is amended by redesignating section 7609 as section 7611 and by inserting after section 7608 the following new sections:

"SEC. 7609. SPECIAL PROCEDURES FOR THIRD-PARTY SUMMONSES.

"(a) NOTICE.—

"(1) IN GENERAL.—If—

"(A) any summons described in subsection (c) is served on any person who is a third-party recordkeeper, and

"(B) the summons requires the production of any portion of records made or kept of the business transactions or affairs of any person (other than the person summoned) who is identified in the description of the records contained in the summons,

then notice of the summons shall be given to any person so identified within 3 days of the day on which such service is made, but no later than the 14th day before the day fixed in the summons as the day upon which such records are to be examined. Such notice shall be accompanied by a copy of the summons which has been served and shall contain directions for staying compliance with the summons under subsection (b)(2).

"(2) SUFFICIENCY OF NOTICE.—Such notice shall be sufficient if, on or before such third day, such notice is served in the manner provided in section 7603 (relating to service of summons) upon the person entitled to notice, or is mailed by certified or registered mail to the last known address of such person, or, in the absence of a last known address, is left with the person summoned. If such notice is mailed, it shall be sufficient if mailed to the last known address of the person entitled to notice or, in the case of notice to the Secretary under section 6903 of the existence of a fiduciary relationship, to the last known address of the fiduciary of such person, even if such person or fiduciary is then deceased, under a legal disability, or no longer in existence.

"(3) THIRD-PARTY RECORDKEEPER DEFINED.—For purposes of this subsection, the term 'third-party recordkeeper' means—

"(A) any mutual savings bank, cooperative bank, domestic building and loan association, or other savings institution chartered and supervised as a savings and loan or similar association under Federal or State law, any bank (as defined in section 581), or any credit union (within the meaning of section 501(c)(14)(A));

"(B) any consumer reporting agency (as defined under section 603(d) of the Fair Credit Reporting Act (15 U.S.C. 1681a(f)));

"(C) any person extending credit through the use of credit cards or similar devices;

"(D) any broker (as defined in section 3(a)(4) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(4)));

"(E) any attorney; and

"(F) any accountant.

"(4) EXCEPTIONS.—Paragraph (1) shall not apply to any summons—

"(A) served on the person with respect to whose liability the summons is issued, or any officer or employee of such person,

"(B) to determine whether or not records of the business transactions or affairs of an identified person have been made or kept, or

"(C) described in subsection (f).

"(5) NATURE OF SUMMONS.—Any summons to which this subsection applies (and any summons in aid of collection described in subsection (c)(2)(B)) shall identify the taxpayer to whom the summons relates or the other person to whom the records pertain and shall provide such other information as will enable the person summoned to locate the records required under the summons.

"(b) RIGHT TO INTERVENE; RIGHT TO STAY COMPLIANCE.—

"(1) INTERVENTION.—Notwithstanding any other law or rule of law, any person who is entitled to notice of a summons under subsection (a) shall have the right to intervene in any proceeding with respect to the enforcement of such summons under section 7604.

"(2) RIGHT TO STAY COMPLIANCE.—Notwithstanding any other law or rule of law, any person who is entitled to notice of a summons under subsection (a) shall have the right to stay compliance with the summons if, not later than the 14th day after the day such notice is given in the manner provided in subsection (a)(2)—

"(A) notice in writing is given to the person summoned not to comply with the summons, and

"(B) a copy of such notice not to comply with the summons is mailed by registered or certified mail to such person and to such office as the Secretary may direct in the notice referred to in subsection (a)(1).

"(c) SUMMONS TO WHICH SECTION APPLIES.—

"(1) IN GENERAL.—Except as provided in paragraph (2), a summons is described in this subsection if it is issued under paragraph (2) of section 7602 or under section 6420(e)(2), 6421(f)(2), 6424(d)(2), or 6427(e)(2) and requires the production of records.

"(2) EXCEPTIONS.—A summons shall not be treated as described in this subsection if—

"(A) it is solely to determine the identity of any person having a numbered account (or similar arrangement) with a bank or other institution described in subsection (a)(3)(A), or

"(B) it is in aid of the collection of—

"(i) the liability of any person against whom an assessment has been made or judgment rendered, or

"(ii) the liability at law or in equity of any transferee or fiduciary of any person referred to in clause (i).

"(3) RECORDS; CERTAIN RELATED TESTIMONY.—For purposes of this section—

"(A) the term 'records' includes books, papers, or other data, and

"(B) a summons requiring the giving of testimony relating to records shall be treated as a summons requiring the production of such records.

"(d) RESTRICTION ON EXAMINATION OF RECORDS.—No examination of any records required to be produced under a summons as to which notice is required under subsection (a) may be made—

"(1) before the expiration of the 14-day period allowed for the notice not to comply under subsection (b)(2), or

"(2) when the requirements of subsection (b)(2) have been met, except in accordance with an order issued by a court of competent jurisdiction authorizing examination of such records or with the consent of the person staying compliance.

"(e) SUSPENSION OF STATUTE OF LIMITATIONS.—If any person takes any action as provided in subsection (b) and such person is the person with respect to whose liability the summons is issued (or is the agent, nominee, or other person acting under the direction or control of such person), then the running of any period of limitations under section 6501 (relating to the assessment and collection of tax) or under section 6531 (relating to criminal prosecutions) with respect to such person shall be suspended for the period during which a proceeding, and appeals therein, with respect to the enforcement of such summons is pending.

"(f) ADDITIONAL REQUIREMENT IN THE CASE OF A JOHN DOE SUMMONS.—Any summons described in subsection (c) which does not identify the person with respect to whose liability the summons is issued may be served only after a court proceeding in which the Secretary establishes that—

"(1) the summons relates to the investigation of a particular person or ascertainable group or class of persons,

"(2) there is a reasonable basis for believing that such person or group or class of persons may fail or may have failed to comply with any provision of any internal revenue law, and

"(3) the information sought to be obtained from the examination of the records (and the identity of the person or persons with respect to whose liability the summons is issued) is not readily available from other sources.

"(g) SPECIAL EXCEPTION FOR CERTAIN SUMMONSES.—In the case of any summons described in subsection (c), the provisions of subsections (a)(1) and (b) shall not apply if, upon petition by the Secretary, the court determines, on the basis of the facts and circumstances alleged, that there is reasonable cause to believe the giving of notice may lead to attempts to conceal, destroy, or alter records relevant to the examination, to prevent the communication of information from other persons through intimidation, bribery, or collusion, or to flee to avoid prosecution, testifying, or production of records.

"(h) JURISDICTION OF DISTRICT COURT.—

"(1) The United States district court for the district within which the person to be summoned resides or is found shall have jurisdiction to hear and determine proceedings brought under subsections (f) or (g). The determinations required to be made under subsections (f) and (g) shall be made ex parte and shall be made solely upon the petition and supporting affidavits. An order denying the petition shall be deemed a final order which may be appealed.

"(2) Except as to cases the court considers of greater importance, a proceeding brought for the enforcement of any summons, or a proceeding under this section, and appeals, take precedence on the docket over all cases and shall be assigned for hearing and decided at the earliest practicable date.

"SEC. 7610. FEES AND COSTS FOR WITNESSES.

"(a) IN GENERAL.—The Secretary shall by regulations establish the rates and conditions under which payment may be made of—

"(1) fees and mileage to persons who are summoned to appear before the Secretary, and

"(2) reimbursement for such costs that are reasonably necessary which have been directly incurred in searching for, reproducing, or transporting books, papers, records, or other data required to be produced by summons.

"(b) EXCEPTIONS.—No payment may be made under paragraph (2) of subsection (a) if—

"(1) the person with respect to whose liability the summons is issued has a proprietary interest in the books, papers, records or other data required to be produced, or

"(2) the person summoned is the person with respect to whose liability the summons is issued or an officer, employee, agent, accountant, or attorney of such person who, at the time the summons is served, is acting as such.

"(c) SUMMONS TO WHICH SECTION APPLIES.—This section applies with respect to any summons authorized under section 6420(e)(2), 6421(f)(2), 6424(d)(2), 6427(e)(2), or 7602."

(b) CLERICAL AMENDMENT.—The table of sections for such subchapter A is amended by striking out the item relating to section 7609 and inserting in lieu thereof the following:

"Sec. 7609. Special procedures for third-party summonses.
"Sec. 7610. Fees and costs for witnesses.
"Sec. 7611. Cross references."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to any summons issued after December 31, 1976.

SEC. 1206. ASSESSMENTS IN CASE OF MATHEMATICAL OR CLERICAL ERRORS.

(a) IN GENERAL.—Section 6213(b) (relating to exceptions to restrictions on assessment in certain cases) is amended—

(1) by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and

(2) by striking out paragraph (1) and inserting in lieu thereof the following new paragraphs:

"(1) ASSESSMENTS ARISING OUT OF MATHEMATICAL OR CLERICAL ERRORS.—If the taxpayer is notified that, on account of a mathematical or clerical error appearing on the return, an amount of tax in excess of that shown on the return is due, and that an assessment of the tax has been or will be made on the basis of what would have been the correct amount of tax but for the mathematical or clerical error, such notice shall not be considered as a notice of deficiency for the purposes of subsection (a) (prohibiting assessment and collection until notice of the deficiency has been mailed), or of section 6212(c)(1) (restricting further deficiency letters), or of section 6512(a) (prohibiting credits or refunds after petition to the Tax Court), and the taxpayer shall have no right to file a petition with the Tax Court based on such notice, nor shall such assessment or collection be prohibited by the provisions of subsection (a) of this section. Each notice under this paragraph shall set forth the error alleged and an explanation thereof.

"(2) ABATEMENT OF ASSESSMENT OF MATHEMATICAL OR CLERICAL ERRORS.—

"(A) REQUEST FOR ABATEMENT.—Notwithstanding section 6404(b), a taxpayer may file with the Secretary within 60 days after notice is sent under paragraph (1) a request for an abatement of any assessment specified in such notice, and upon receipt of such request, the Secretary shall abate the assessment. Any reassessment of the tax with respect to which an abatement is made under this subparagraph shall be subject to the deficiency procedures prescribed by this subchapter.

"(B) STAY OF COLLECTION.—In the case of any assessment referred to in paragraph (1), notwithstanding paragraph (1), no levy or proceeding in court for the collection of such assessment shall be made, begun, or prosecuted during the period in which such assessment may be abated under this paragraph."

(b) DEFINITIONS RELATING TO MATHEMATICAL OR CLERICAL ERRORS.—Section 6213 is amended by redesignating subsection (f) as subsection (g), and by inserting immediately after subsection (e) the following new subsection:

"(f) DEFINITIONS.—For purposes of this section—

"(1) RETURN.—The term 'return' includes any return, statement, schedule, or list, and any amendment or supplement thereto, filed with respect to any tax imposed by subtitle A or B, or chapter 42 or 43.

"(2) MATHEMATICAL OR CLERICAL ERROR.—The term 'mathematical or clerical error' means—

"(A) an error in addition, subtraction, multiplication, or division shown on any return,

"(B) an incorrect use of any table provided by the Internal Revenue Service with respect to any return if such incorrect use is apparent from the existence of other information on the return,

"(C) an entry on a return of an item which is inconsistent with another entry of the same or another item on such return,

"(D) an omission of information which is required to be supplied on the return to substantiate an entry on the return, and

"(E) an entry on a return of a deduction or credit in an amount which exceeds a statutory limit imposed by subtitle A or B, or chapter 42 or 43, if such limit is expressed—

"(i) as a specified monetary amount, or

"(ii) as a percentage, ratio, or fraction,

and if the items entering into the application of such limit appear on such return."

(c) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Section 6213(b)(3) (relating to assessments arising out of tentative carryback adjustments), as redesignated by subsection (a), is amended—

(A) by striking out "he may assess" and inserting in lieu thereof "he may assess without regard to the provisions of paragraph (2)", and

(B) by striking out "mathematical error" and inserting in lieu thereof "mathematical or clerical error".

(2) Section 6201(a)(3) (relating to assessments regarding erroneous income tax prepayment credits) and section 6213(a)(4) (relating to assessments regarding erroneous credit under section 39 or 43) are each amended—

(A) by striking out "mathematical error" and inserting in lieu thereof "mathematical or clerical error", and

(B) by inserting immediately before the period at the end thereof the following: ", except that the provisions of section 6213(b)(2) (relating to abatement of mathematical or clerical error assessments) shall not apply with regard to any assessment under this paragraph".

(3) Section 6212(c)(1) (relating to deficiency letters) is amended by striking out "(relating to mathematical errors)" and inserting in lieu thereof "(relating to mathematical or clerical errors)".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to returns (within the meaning of section 6213(f)(1) of the Internal Revenue Code of 1954) filed after December 31, 1976.

SEC. 1207. WITHHOLDING.

(a) WITHHOLDING STATE AND DISTRICT INCOME TAXES FROM COMPENSATION OF MEMBERS OF ARMED FORCES WHO ARE RESIDENTS OF THE STATE OR DISTRICT OF COLUMBIA.—

(1) WITHHOLDING OF STATE INCOME TAXES.—The last sentence of section 5517(a) of title 5, United States Code, is amended to read as follows: "In the case of pay for service as a member of the armed forces, the preceding sentence shall be applied by substituting 'who are residents of the State with which the agree-

ment is made' for 'whose regular place of Federal employment is within the State with which the agreement is made'."

(2) WITHHOLDING OF DISTRICT INCOME TAXES.—Subsection (a) of section 5516 of title 5, United States Code, is amended—

(A) by striking out in the third sentence "pay for service as a member of the armed forces, or to"; and

(B) by adding after the third sentence the following new sentence: "In the case of pay for service as a member of the armed forces, the second sentence of this subsection shall be applied by substituting 'who are residents of the District of Columbia' for 'whose regular place of employment is within the District of Columbia'."

(b) WITHHOLDING STATE AND CITY INCOME TAXES FROM THE COMPENSATION OF MEMBERS OF THE NATIONAL GUARD OR THE READY RESERVE.—Section 5517 of title 5, United States Code, is amended by adding at the end thereof the following new subsection:

"(d) For the purpose of this section and sections 5516 and 5520, the terms 'serve as a member of the armed forces' and 'service as a member of the Armed Forces' do not include—

"(1) participation in exercises or the performance of duty under section 502 of title 32, United States Code, by a member of the National Guard; and

"(2) participation in scheduled drills or training periods, or service on active duty for training, under section 270(a) of title 10, United States Code, by a member of the Ready Reserve."

(c) VOLUNTARY WITHHOLDING OF STATE INCOME TAXES FROM THE COMPENSATION OF FEDERAL EMPLOYEES.—Paragraphs (1) and (2) of section 5517(a) of title 5, United States Code, are amended to read as follows:

"(1) provides for the collection of a tax either by imposing on employers generally the duty of withholding sums from the pay of employees and making returns of the sums to the State, or by granting to employers generally the authority to withhold sums from the pay of employees if any employee voluntarily elects to have such sums withheld; and

"(2) imposes the duty or grants the authority to withhold generally with respect to the pay of employees who are residents of the State;".

(d) WITHHOLDING TAX ON CERTAIN GAMBLING WINNINGS.—Section 3402 (relating to income tax collected at source) is amended by adding at the end thereof the following new subsection:

"(q) EXTENSION OF WITHHOLDING TO CERTAIN GAMBLING WINNINGS.—

"(1) GENERAL RULE.—Every person, including the Government of the United States, a State, or a political subdivision thereof, or any instrumentalities of the foregoing, making any payment of winnings which are subject to withholding shall deduct and withhold from such payment a tax in an amount equal to 20 percent of such payment.

"(2) EXEMPTION WHERE TAX OTHERWISE WITHHELD.—In the case of any payment of winnings which are subject to withholding made to a nonresident alien individual or a foreign corporation, the tax imposed under paragraph (1) shall not apply to any such payment subject to tax under section 1441(a) (relating to withholding on nonresident aliens) or tax under section 1442(a) (relating to withholding on foreign corporations).

"(3) WINNINGS WHICH ARE SUBJECT TO WITHHOLDING.—For purposes of this subsection, the term 'winnings which are subject to withholding' means proceeds from a wager determined in accordance with the following:

"(A) IN GENERAL.—Except as provided in subparagraphs (B) and (C), proceeds of more than $1,000 from a wagering transaction, if the amount of such proceeds is at least 300 times as large as the amount wagered.

"(B) STATE-CONDUCTED LOTTERIES.—Proceeds of more than $5,000 from a wager placed in a lottery conducted by an agency of a State acting under authority of State law, but only if such wager is placed with the State agency conducting such lottery, or with its authorized employees or agents.

"(C) SWEEPSTAKES, WAGERING POOLS, AND OTHER LOTTERIES.—Proceeds of more than $1,000 from a wager placed in a sweepstakes, wagering pool, or lottery (other than a wager described in subparagraph (B)).

"(4) RULES FOR DETERMINING PROCEEDS FROM A WAGER.—For purposes of this subsection—

"(A) proceeds from a wager shall be determined by reducing the amount received by the amount of the wager, and

"(B) proceeds which are not money shall be taken into account at their fair market value.

"(5) EXEMPTION FOR BINGO, KENO, AND SLOT MACHINES.—The tax imposed under paragraph (1) shall not apply to winnings from a slot machine, keno, and bingo.

"(6) STATEMENT BY RECIPIENT.—Every person who is to receive a payment of winnings which are subject to withholding shall furnish the person making such payment a statement, made under the penalties of perjury, containing the name, address, and taxpayer identification number of the person receiving the payment and of each person entitled to any portion of such payment.

"(7) COORDINATION WITH OTHER SECTIONS.—For purposes of sections 3403 and 3404 and for purposes of so much of subtitle F (except section 7205) as relates to this chapter, payments to any person of winnings which are subject to withholding shall be treated as if they were wages paid by an employer to an employee."

(e) WITHHOLDING OF FEDERAL TAXES ON CERTAIN INDIVIDUALS ENGAGED IN FISHING.—

(1) IN GENERAL.—

(A) Section 3121(b) (defining employment) is amended by striking out "or" at the end of paragraph (18), by striking out the period at the end of paragraph (19) and inserting in lieu thereof "; or", and by adding after paragraph (19) the following new paragraph:

"(20) service performed by an individual on a boat engaged in catching fish or other forms of aquatic animal life under an arrangement with the owner or operator of such boat pursuant to which—

"(A) such individual does not receive any cash remuneration (other than as provided in subparagraph (B)),

"(B) such individual receives a share of the boat's (or the boats' in the case of a fishing operation involving more than one boat) catch of fish or other forms of aquatic animal

life or a share of the proceeds from the sale of such catch, and

"(C) the amount of such individual's share depends on the amount of the boat's (or the boats' in the case of a fishing operation involving more than one boat) catch of fish or other forms of aquatic animal life,

but only if the operating crew of such boat (or each boat from which the individual receives a share in the case of a fishing operation involving more than one boat) is normally made up of fewer than 10 individuals."

(B) Section 1402(c)(2) (defining trade or business) is amended by striking out "and" at the end of subparagraph (D), by striking out the semicolon at the end of subparagraph (E) and inserting in lieu thereof ", and", and by adding after subparagraph (E) the following new subparagraph:

"(F) service described in section 3121(b)(20);".

(C) Section 3401(a) (defining wages for purposes of withholding) is amended by striking out the period at the end of paragraph (16) and inserting in lieu thereof "; or", and by adding after paragraph (16) the following new paragraph:

"(17) for service described in section 3121(b)(20)."

(2) CONFORMING AMENDMENTS.—

(A) Section 210(a) of the Social Security Act is amended by striking out "or" at the end of paragraph (18), by striking out the period at the end of paragraph (19) and inserting in lieu thereof "; or," and by adding after paragraph (19) the following new paragraph:

"(20) Service performed by an individual on a boat engaged in catching fish or other forms of aquatic animal life under an arrangement with the owner or operator of such boat pursuant to which—

"(A) such individual does not receive any cash remuneration (other than as provided in subparagraph (B)),

"(B) such individual receives a share of the boat's (or the boats' in the case of a fishing operation involving more than one boat) catch of fish or other forms of aquatic animal life or a share of the proceeds from the sale of such catch, and

"(C) the amount of such individual's share depends on the amount of the boat's (or boats' in the case of a fishing operation involving more than one boat) catch of fish or other forms of aquatic animal life,

but only if the operating crew of such boat (or each boat from which the individual receives a share in the case of a fishing operation involving more than one boat) is normally made up of fewer than 10 individuals."

(B) Section 211(c)(2) of such Act is amended by striking out "and" at the end of subparagraph (D), by striking out the semicolon at the end of subparagraph (E), and inserting in lieu thereof ", and" and by adding after subparagraph (E) the following new paragraph:

"(F) service described in section 210(a)(20);".

(3) REPORTING REQUIREMENT.—

(A) Subpart B of part III of subchapter A of chapter 61 (relating to information concerning transactions with other

persons) is amended by adding at the end thereof the following new section:

"SEC. 6050A. REPORTING REQUIREMENTS OF CERTAIN FISHING BOAT OPERATORS.

"(a) REPORTS.—The operator of a boat on which one or more individuals, during a calendar year, perform services described in section 3121(b)(20) shall submit to the Secretary (at such time, and in such manner and form, as the Secretary shall by regulations prescribe) information respecting—

"(1) the identity of each individual performing such services;

"(2) the percentage of each such individual's share of the catches of fish or other forms of aquatic animal life, and the percentage of the operator's share of such catches;

"(3) if such individual receives his share in kind, the type and weight of such share, together with such other information as the Secretary may prescribe by regulations reasonably necessary to determine the value of such share; and

"(4) if such individual receives a share of the proceeds of such catches, the amount so received.

"(b) WRITTEN STATEMENT.—Every person making a return under subsection (a) shall furnish to each person whose name is set forth in such return a written statement showing the information relating to such person contained in such return. The written statement required under the preceding sentence shall be furnished to the person on or before January 31 of the year following the calendar year for which the return under subsection (a) was made."

(B) Section 6652(b) (relating to failure to file certain information returns) is amended by inserting after "withheld)," the following: "in the case of each failure to make a return required by section 6050A(a) (relating to reporting requirements of certain fishing boat operators),".

(C) Section 6652(b) is further amended by inserting after "tips)," the following: "or section 6050A(b) (relating to statements furnished by certain fishing boat operators),".

(f) EFFECTIVE DATES.—

(1) SUBSECTION (a).—The amendments made by subsection (a) shall apply to wages withheld after the 120-day period following any request for an agreement after the date of the enactment of this Act.

(2) SUBSECTIONS (b) AND (c).—The amendments made by subsections (b) and (c) shall apply to wages withheld after the 120-day period following the date of the enactment of this Act.

(3) SUBSECTION (d).—The amendments made by subsection (d) shall apply to payments of winnings made after the 90th day after the date of the enactment of this Act.

(4) SUBSECTION (e).—

(A) The amendments made by paragraphs (1)(A) and (2)(A) of subsection (e) shall apply to services performed after December 31, 1971. The amendments made by paragraphs (1)(B), (1)(C), and (2)(B) of such subsection shall apply to taxable years ending after December 31, 1971. The amendments made by paragraph (3) of such subsection shall apply to calendar years beginning after the date of the enactment of this Act.

(B) Notwithstanding subparagraph (A), if the owner or operator of any boat treated a share of the boat's catch of fish

or other aquatic animal life (or a share of the proceeds therefrom) received by an individual after December 31, 1971, and before the date of the enactment of this Act for services performed by such individual after December 31, 1971, on such boat as being subject to the tax under chapter 21 of the Internal Revenue Code of 1954, then the amendments made by paragraphs (1) (A) and (B) and (2) of subsection (e) shall not apply with respect to such services performed by such individual (and the share of the catch, or proceeds therefrom, received by him for such services).

SEC. 1208. STATE-CONDUCTED LOTTERIES.

(a) EXEMPTION FROM WAGERING TAX.—Paragraph (3) of section 4402 (relating to State-conducted sweepstakes) is amended to read as follows:

"(3) STATE-CONDUCTED LOTTERIES, ETC.—On any wager placed in a sweepstakes, wagering pool, or lottery which is conducted by an agency of a State acting under authority of State law, but only if such wager is placed with the State agency conducting such sweepstakes, wagering pool, or lottery, or with its authorized employees or agents."

(b) EXEMPTION FROM OCCUPATIONAL TAX ON COIN-OPERATED DEVICES.—Section 4462(b) (relating to exclusions from definition of coin-operated gaming devices) is amended—

(1) by striking out "or" at the end of paragraph (1),

(2) by striking out the period at the end of paragraph (2) and inserting in lieu thereof "; or", and

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

"(3) a vending machine which—

"(A) dispenses tickets on a sweepstakes, wagering pool, or lottery which is conducted by an agency of a State acting under authority of State law, and

"(B) is maintained by the State agency conducting such sweepstakes, wagering pool, or lottery, or by its authorized employees or agents."

(c) EFFECTIVE DATES.—

(1) The amendment made by subsection (a) shall apply with respect to wagers placed after March 10, 1964.

(2) The amendments made by subsection (b) shall apply with respect to periods after March 10, 1964.

SEC. 1209. MINIMUM EXEMPTION FROM LEVY FOR WAGES, SALARY, AND OTHER INCOME.

(a) GENERAL RULE.—Subsection (a) of section 6334 (relating to property exempt from levy) is amended by adding at the end thereof the following new paragraph:

"(9) MINIMUM EXEMPTION FOR WAGES, SALARY, AND OTHER INCOME.—Any amount payable to or received by an individual as wages or salary for personal services, or as income derived from other sources, during any period, to the extent that the total of such amounts payable to or received by him during such period does not exceed the applicable exempt amount determined under subsection (d)."

(b) DETERMINATION OF EXEMPT AMOUNT.—Section 6334 is amended by adding at the end thereof the following new subsection:

"(d) EXEMPT AMOUNT OF WAGES, SALARY, OR OTHER INCOME.—

"(1) INDIVIDUALS ON WEEKLY BASIS.—In the case of an individual who is paid or receives all of his wages, salary, and other in-

come on a weekly basis, the amount of the wages, salary, and other income payable to or received by him during any week which is exempt from levy under subsection (a)(9) shall be—

"(A) $50, plus

"(B) $15 for each individual who is specified in a written statement which is submitted to the person on whom notice of levy is served and which is verified in such manner as the Secretary shall prescribe by regulations and—

"(i) over half of whose support for the payroll period was received from the taxpayer,

"(ii) who is the spouse of the taxpayer, or who bears a relationship to the taxpayer specified in paragraphs (1) through (9) of section 152(a) (relating to definition of dependents), and

"(iii) who is not a minor child of the taxpayer with respect to whom amounts are exempt from levy under subsection (a)(8) for the payroll period.

For purposes of subparagraph (B)(ii) of the preceding sentence, 'payroll period' shall be substituted for 'taxable year' each place it appears in paragraph (9) of section 152(a).

"(2) INDIVIDUALS ON BASIS OTHER THAN WEEKLY.—In the case of any individual not described in paragraph (1), the amount of the wages, salary, and other income payable to or received by him during any applicable pay period or other fiscal period (as determined under regulations prescribed by the Secretary) which is exempt from levy under subsection (a)(9) shall be an amount (determined under such regulations) which as nearly as possible will result in the same total exemption from levy for such individual over a period of time as he would have under paragraph (1) if (during such period of time) he were paid or received such wages, salary, and other income on a regular weekly basis."

(c) CONFORMING AMENDMENT.—The paragraph heading for paragraph (8) of section 6334(a) is amended to read as follows:

"(8) JUDGMENTS FOR SUPPORT OF MINOR CHILDREN.—".

(d) LEVY ON WAGES, ETC., TO BE CONTINUING.—

(1) Subsection (d) of section 6331 (relating to levy on salaries and wages) is amended by adding at the end thereof the following new paragraph:

"(3) CONTINUING LEVY ON SALARY AND WAGES.—

"(A) EFFECT OF LEVY.—The effect of a levy on salary or wages payable to or received by a taxpayer shall be continuous from the date such levy is first made until the liability out of which such levy arose is satisfied or becomes unenforceable by reason of lapse of time.

"(B) RELEASE AND NOTICE OF RELEASE.—With respect to a levy described in subparagraph (A), the Secretary shall promptly release the levy when the liability out of which such levy arose is satisfied or becomes unenforceable by reason of lapse of time, and shall promptly notify the person upon whom such levy was made that such levy has been released."

(2) The second sentence of section 6331(b) (relating to seizure and sale of property) is amended by striking out "A levy" and inserting in lieu thereof "Except as otherwise provided in subsection (d)(3), a levy".

(3) The first sentence of section 6332(c)(1) (relating to enforcement of levy) is amended by striking out "from the date of such levy" and inserting in lieu thereof "from the date of such levy

(or, in the case of a levy described in section 6331(d)(3), from the date such person would otherwise have been obligated to pay over such amounts to the taxpayer)".

(4) Paragraph (1) of section 6331(d) (relating to levy on salaries and wages) is amended by striking out the last sentence.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply only with respect to levies made after December 31, 1976.

SEC. 1210. JOINT COMMITTEE REFUND CASES.

(a) IN GENERAL.—Section 6405(a) (relating to reports of refunds and credits) is amended to read as follows:

"(a) BY TREASURY TO JOINT COMMITTEE.—No refund or credit of any income, war profits, excess profits, estate, or gift tax, or any tax imposed with respect to private foundations and pension plans under chapters 42 and 43, in excess of $200,000 shall be made until after the expiration of 30 days from the date upon which a report giving the name of the person to whom the refund or credit is to be made, the amount of such refund or credit, and a summary of the facts and the decision of the Secretary, is submitted to the Joint Committee on Taxation."

(b) TENTATIVE REFUNDS.—Section 6405(c) is amended by striking out "$100,000" and inserting in lieu thereof "$200,000".

(c) AUDIT.—Section 8023(a) (relating to powers to obtain information from the Internal Revenue Service) is amended by adding at the end thereof the following new sentence: "In the investigation by the Joint Committee on Taxation of the administration of the internal revenue taxes by the Internal Revenue Service, the Chief of Staff of the Joint Committee on Taxation is authorized to secure directly from the Internal Revenue Service such tax returns, or copies of tax returns, and other relevant information, as the Chief of Staff deems necessary for such investigation, and the Internal Revenue Service is authorized and directed to furnish such tax returns and information to the Chief of Staff together with a brief report, with respect to each return, as to any action taken or proposed to be taken by the Service as a result of any audit of the return."

(d) EFFECTIVE DATES.—

(1) The amendments made by subsections (a) and (b) shall take effect on the date of the enactment of this Act, except that such amendments shall not apply with respect to any refund or credit with respect to which a report has been made before the date of the enactment of this Act under subsection (a) or (c) of section 6405 of the Internal Revenue Code of 1954.

(2) The amendment made by subsection (c) shall take effect on January 1, 1977.

SEC. 1211. SOCIAL SECURITY ACCOUNT NUMBERS.

(a) Section 208(g) of the Social Security Act is amended, in the matter preceding clause (1) thereof, by striking out "entitled—" and inserting in lieu thereof "entitled, or for any other purpose—".

(b) Section 205(c)(2) of such Act is amended by adding at the end thereof the following new subparagraphs:

"(C)(i) It is the policy of the United States that any State (or political subdivision thereof) may, in the administration of any tax, general public assistance, driver's license, or motor vehicle registration law within its jurisdiction, utilize the social security account numbers issued by the Secretary for the purpose of establishing the identification of individuals affected by such law, and may require any individ-

ual who is or appears to be so affected to furnish to such State (or political subdivision thereof) or any agency thereof having administrative responsibility for the law involved, the social security account number (or numbers, if he has more than one such number) issued to him by the Secretary.

"(ii) If and to the extent that any provision of Federal law heretofore enacted is inconsistent with the policy set forth in clause (i) of this subparagraph, such provision shall, on and after the date of the enactment of this subparagraph, be null, void, and of no effect.

"(iii) For purposes of clause (i) of this subparagraph, an agency of a State (or political subdivision thereof) charged with the administration of any general public assistance, driver's license, or motor vehicle registration law which did not use the social security account number for identification under a law or regulation adopted before January 1, 1975, may require an individual to disclose his or her social security number to such agency solely for the purpose of administering the laws referred to in clause (i) above and for the purpose of responding to requests for information from an agency operating pursuant to the provisions of part A or D of title IV of the Social Security Act.

"(iv) For purposes of this subparagraph, the term 'State' includes the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, the Commonwealth of the Northern Marianas, and the Trust Territory of the Pacific Islands."

(c) Section 6109 (relating to identifying numbers) is amended by adding at the end thereof the following new subsection:

"(d) USE OF SOCIAL SECURITY ACCOUNT NUMBER.—The social security account number issued to an individual for purposes of section 205(c)(2)(A) of the Social Security Act shall, except as shall otherwise be specified under regulations of the Secretary, be used as the identifying number for such individual for purposes of this title."

(d)(1) Section 208 of the Social Security Act is amended by inserting after subsection (g) the following new subsection:

"(h) discloses, uses, or compels the disclosure of the social security number of any person in violation of the laws of the United States;"

(2) section 208(g)(2) of such Act is amended by adding "or" at the end thereof.

SEC. 1212. ABATEMENT OF INTEREST WHEN RETURN IS PREPARED FOR TAXPAYER BY THE INTERNAL REVENUE SERVICE.

(a) IN GENERAL.—Section 6404 (relating to abatements) is amended by adding at the end thereof the following new subsection:

"(d) ASSESSMENTS ATTRIBUTABLE TO CERTAIN MATHEMATICAL ERRORS BY INTERNAL REVENUE SERVICE.—In the case of an assessment of any tax imposed by chapter 1 attributable in whole or in part to a mathematical error described in section 6213(f)(2)(A), if the return was prepared by an officer or employee of the Internal Revenue Service acting in his official capacity to provide assistance to taxpayers in the preparation of income tax returns, the Secretary is authorized to abate the assessment of all or any part of any interest on such deficiency for any period ending on or before the 30th day following the date of notice and demand by the Secretary for payment of the deficiency."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to returns filed for taxable years ending after the date of the enactment of this Act.

TITLE XIII—TAX EXEMPT ORGANIZATIONS

SEC. 1301. DISPOSITION OF PRIVATE FOUNDATION PROPERTY UNDER TRANSITION RULES OF TAX REFORM ACT OF 1969.

(a) IN GENERAL.—Paragraph (2) of section 101(l) of the Tax Reform Act of 1969 (relating to private foundations savings provisions) is amended—

(1) by striking out "and" at the end of subparagraph (D);

(2) by striking out the period at the end of subparagraph (E) and inserting in lieu thereof "; and"; and

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

"(F) the sale, exchange, or other disposition (other than by lease) of property which is owned by a private foundation to a disqualified person if—

"(i) such foundation is leasing substantially all of such property under a lease to which subparagraph (C) applies.

"(ii) the disposition to such disqualified person occurs before January 1, 1978, and

"(iii) such foundation receives in return for the disposition to such disqualified person an amount which equals or exceeds the fair market value of such property at the time of the disposition or at the time (after June 30, 1976) a contract for the disposition was previously executed in a transaction which would not constitute a prohibited transaction (within the meaning of section 503(b) or any corresponding provision of prior law).".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to dispositions after the date of the enactment of this Act in taxable years ending after such date.

SEC. 1302. NEW PRIVATE FOUNDATION SET-ASIDES.

(a) IN GENERAL.—Section 4942(g)(2) (relating to definition of qualifying distributions) is amended to read as follows:

"(2) CERTAIN SET-ASIDES.—

"(A) IN GENERAL.—For all taxable years beginning on or after January 1, 1975, subject to such terms and conditions as may be prescribed by the Secretary, an amount set aside for a specific project which comes within one or more purposes described in section 170(c)(2)(B) may be treated as a qualifying distribution if it meets the requirements of subparagraph (B).

"(B) REQUIREMENTS.—An amount set aside for a specific project shall meet the requirements of this subparagraph if at the time of the set-aside the foundation establishes to the satisfaction of the Secretary that the amount will be paid for the specific project within 5 years, and either—

"(i) at the time of the set-aside the private foundation establishes to the satisfaction of the Secretary that the project is one which can better be accomplished by such set-aside than by immediate payment of funds, or

"(ii)(I) the project will not be completed before the end of the taxable year of the foundation in which the set-aside is made,

"(II) the private foundation in each taxable year beginning after December 31, 1975 (or after the end of the fourth taxable year following the year of its creation, whichever is later), distributes amounts, in cash or its equivalent, equal to not less than the distributable amount determined under subsection (d) (without regard to subsection (i)) for purposes described in section 170(c)(2)(B) (including but not limited to payments with respect to set-asides which were treated as qualifying distributions in one or more prior years), and

"(III) the private foundation has distributed (including but not limited to payments with respect to set-asides which were treated as qualifying distributions in one or more prior years) during the four taxable years immediately preceding its first taxable year beginning after December 31, 1975, or the fifth taxable year following the year of its creation, whichever is later, an aggregate amount, in cash or its equivalent, of not less than the sum of the following: 80 percent of the first preceding taxable year's distributable amount; 60 percent of the second preceding taxable year's distributable amount; 40 percent of the third preceding taxable year's distributable amount; and 20 percent of the fourth preceding taxable year's distributable amount.

"(C) CERTAIN FAILURES TO DISTRIBUTE.—If, for any taxable year to which clause (ii)(II) of subparagraph (B) applies, the private foundation fails to distribute in cash or its equivalent amounts not less than those required by such clause and—

"(i) the failure to distribute such amounts was not willful and was due to reasonable cause, and

"(ii) the foundation distributes an amount in cash or its equivalent which is not less than the difference between the amounts required to be distributed under clause (ii)(II) of subparagraph (B) and the amounts actually distributed in cash or its equivalent during that taxable year within the initial correction period provided in subsection (j)(2),

such distribution in cash or its equivalent shall be treated for the purposes of this subparagraph as made during such year.

"(D) REDUCTION IN DISTRIBUTION AMOUNT.—If, during the taxable years in the adjustment period for which the organization is a private foundation, the foundation distributes amounts in cash or its equivalent which exceed the amount required to be distributed under clause (ii)(II) of subparagraph (B) (including but not limited to payments with respect to set-asides which were treated as qualifying distributions in prior years), then for purposes of this subsection the distribution required under clause (ii)(II) of subparagraph (B) for the taxable year shall be reduced by an amount equal to such excess.

"(E) ADJUSTMENT PERIOD.—For purposes of subparagraph (D), with respect to any taxable year of a private foundation, the taxable years in the adjustment period are the taxable years (not exceeding 5) beginning after December 31, 1975, and immediately preceding the taxable year.

In the case of a set-aside which satisfies the requirements of clause (i) of subparagraph (B), for good cause shown, the period for paying the amount set aside may be extended by the Secretary."

(b) STATUTE OF LIMITATIONS.—Subsection (n) of section 6501 (relating to limitations on assessments and collections) is amended by adding at the end thereof the following new paragraph:

"(3) CERTAIN SET-ASIDES DESCRIBED IN SECTION 4942(g)(2).—In the case of a deficiency attributable to the failure of an amount set aside by a private foundation for a specific project to be treated as a qualifying distribution under the provisions of section 4942(g)(2)(B)(i)(II), such deficiency may be assessed at any time before the expiration of 2 years after the expiration of the period within which a deficiency may be assessed for the taxable year to which the amount set aside relates."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1974.

SEC. 1303. MINIMUM DISTRIBUTION AMOUNT FOR PRIVATE FOUNDATIONS.

(a) IN GENERAL.—Subsection (e) of section 4942 (relating to minimum investment return) is amended to read as follows:

"(e) MINIMUM INVESTMENT RETURN.—

"(1) IN GENERAL.—For purposes of subsection (d), the minimum investment return for any private foundation for any taxable year is 5 percent of the excess of—

"(A) the aggregate fair market value of all assets of the foundation other than those which are used (or held for use) directly in carrying out the foundation's exempt purpose, over

"(B) the acquisition indebtedness with respect to such assets (determined under section 514(c)(1) without regard to the taxable year in which the indebtedness was incurred).

"(2) VALUATION.—

"(A) IN GENERAL.—For purposes of paragraph (1)(A), the fair market value of securities for which market quotations are readily available shall be determined on a monthly basis. For all other assets, the fair market value shall be determined at such times and in such manner as the Secretary shall by regulations prescribe.

"(B) REDUCTIONS IN VALUE FOR BLOCKAGE OR SIMILAR FACTORS.—In determining the value of any securities under this paragraph, the fair market value of such securities (determined without regard to any reduction in value) shall not be reduced unless, and only to the extent that, the private foundation establishes that as a result of—

"(i) the size of the block of such securities,

"(ii) the fact that the securities held are securities in a closely held corporation, or

"(iii) the fact that the sale of such securities would result in a forced or distress sale,

the securities could not be liquidated within a reasonable period of time except at a price less than such fair market value. Any reduction in value allowable under this subparagraph shall not exceed 10 percent of such fair market value."

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

SEC. 1304. EXTENSION OF TIME TO AMEND CHARITABLE REMAINDER TRUST GOVERNING INSTRUMENT.

(a) EXTENSION OF TIME.—Section 2055(e)(3) (relating to the allowance of deductions in certain cases) is amended—

(1) by striking out "September 21, 1974," and inserting in lieu thereof "December 31, 1977,", and

(2) by striking out "December 31, 1975" each place it appears and inserting in lieu thereof "December 31, 1977".

(b) EXTENSION OF PERIOD FOR FILING CLAIM FOR REFUND OF ESTATE TAX PAID.—A claim for refund or credit of an overpayment of the tax imposed by section 2001 of the Internal Revenue Code of 1954 allowable under section 2055(e)(3) of such Code (as amended by subsection (a)) shall not be denied because of the expiration of the time for filing such a claim under section 6511(a) if such claim is filed not later than June 30, 1978.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply in the case of decedents dying after December 31, 1969.

SEC. 1305. UNRELATED TRADE OR BUSINESS INCOME OF TRADE SHOWS, STATE FAIRS, ETC.

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

"(d) CERTAIN ACTIVITIES OF TRADE SHOWS, STATE FAIRS, ETC.—

"(1) GENERAL RULE.—The term 'unrelated trade or business' does not include qualified public entertainment activities of an organization described in paragraph (2)(C), or qualified convention and trade show activities of an organization described in paragraph (3)(C).

"(2) QUALIFIED PUBLIC ENTERTAINMENT ACTIVITIES.—For purposes of this subsection—

"(A) PUBLIC ENTERTAINMENT ACTIVITY.—The term 'public entertainment activity' means any entertainment or recreational activity of a kind traditionally conducted at fairs or expositions promoting agricultural and educational purposes, including, but not limited to, any activity one of the purposes of which is to attract the public to fairs or expositions or to promote the breeding of animals or the development of products or equipment.

"(B) QUALIFIED PUBLIC ENTERTAINMENT ACTIVITY.—The term 'qualified public entertainment activity' means a public entertainment activity which is conducted by a qualifying organization described in subparagraph (C) in—

"(i) conjunction with an international, national, State, regional, or local fair or exposition,

"(ii) accordance with the provisions of State law which permit the activity to be operated or conducted solely by such an organization, or by an agency, instrumentality, or political subdivision of such State, or

"(iii) accordance with the provisions of State law which permit such an organization to be granted a license to conduct not more than 20 days of such activity on payment to the State of a lower percentage of the revenue from such licensed activity than the State requires from organizations not described in section 501(c)(3), (4), or (5).

"(C) QUALIFYING ORGANIZATION.—For purposes of this paragraph, the term 'qualifying organization' means an organization which is described in section 501(c)(3), (4), or (5) which regularly conducts, as one of its substantial exempt purposes, an agricultural and educational fair or exposition.

"(3) QUALIFIED CONVENTION AND TRADE SHOW ACTIVITIES.—

"(A) CONVENTION AND TRADE SHOW ACTIVITY.—The term 'convention and trade show activity' means any activity of a kind traditionally conducted at conventions, annual meetings, or trade shows, including, but not limited to, any activity one

of the purposes of which is to attract persons in an industry generally (without regard to membership in the sponsoring organization) as well as members of the public to the show for the purpose of displaying industry products or to stimulate interest in, and demand for, industry products or services, or to educate persons engaged in the industry in the development of new products and services or new rules and regulations affecting the industry.

"(B) QUALIFIED CONVENTION AND TRADE SHOW ACTIVITY.—The term 'qualified convention and trade show activity' means a convention and trade show activity carried out by a qualifying organization described in subparagraph (C) in conjunction with an international, national, State, regional, or local convention, annual meeting, or show conducted by an organization described in subparagraph (C) if one of the purposes of such organization in sponsoring the activity is the promotion and stimulation of interest in, and demand for, the products and services of that industry in general, and the show is designed to achieve such purpose through the character of the exhibits and the extent of the industry products displayed.

"(C) QUALIFYING ORGANIZATION.—For purposes of this paragraph, the term 'qualifying organization' means an organization described in section 501(c)(5) or (6) which regularly conducts as one of its substantial exempt purposes a show which stimulates interest in, and demand for, the products of a particular industry or segment of such industry.

"(4) SUCH ACTIVITIES NOT TO AFFECT EXEMPT STATUS.—An organization described in section 501(c) (3), (4), or (5) shall not be considered as not entitled to the exemption allowed under section 501(a) solely because of qualified public entertainment activities conducted by it."

(b) EFFECTIVE DATES.—The amendments made by subsection (a) apply to qualified public entertainment activities in taxable years beginning after December 31, 1962, and to qualified convention and trade show activities in taxable years beginning after the date of enactment of this Act.

SEC. 1306. DECLARATORY JUDGMENTS WITH RESPECT TO SECTION 501(c)(3) STATUS AND CLASSIFICATION.

(a) GENERAL RULE.—Subchapter B of chapter 76 (relating to proceedings by taxpayers and third parties) is amended by redesignating section 7428 as 7430, and by inserting after section 7427 the following new section:

"SEC. 7428. DECLARATORY JUDGMENTS RELATING TO STATUS AND CLASSIFICATION OF ORGANIZATIONS UNDER SECTION 501(c)(3), ETC.

"(a) CREATION OF REMEDY.—In a case of actual controversy involving—

"(1) a determination by the Secretary—

"(A) with respect to the initial qualification or continuing qualification of an organization as an organization described in section 501(c)(3) which is exempt from tax under section 501(a) or as an organization described in section 170(c)(2),

"(B) with respect to the initial classification or continuing classification of an organization as a private foundation (as defined in section 509(a)), or

"(C) with respect to the initial classification or continuing classification of an organization as a private operating foundation (as defined in section 4942(j)(3)), or

"(2) a failure by the Secretary to make a determination with respect to an issue referred to in paragraph (1),

upon the filing of an appropriate pleading, the United States Tax Court, the United States Court of Claims, or the district court of the United States for the District of Columbia may make a declaration with respect to such initial qualification or continuing qualification or with respect to such initial classification or continuing classification. Any such declaration shall have the force and effect of a decision of the Tax Court or a final judgment or decree of the district court or the Court of Claims, as the case may be, and shall be reviewable as such.

"(b) LIMITATIONS.—

"(1) PETITIONER.—A pleading may be filed under this section only by the organization the qualification or classification of which is at issue.

"(2) EXHAUSTION OF ADMINISTRATIVE REMEDIES.—A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service. An organization requesting the determination of an issue referred to in subsection (a)(1) shall be deemed to have exhausted its administrative remedies with respect to a failure by the Secretary to make a determination with respect to such issue at the expiration of 270 days after the date on which the request for such determination was made if the organization has taken, in a timely manner, all reasonable steps to secure such determination.

"(3) TIME FOR BRINGING ACTION.—If the Secretary sends by certified or registered mail notice of his determination with respect to an issue referred to in subsection (a)(1) to the organization referred to in paragraph (1), no proceeding may be initiated under this section by such organization unless the pleading is filed before the 91st day after the date of such mailing.

"(c) VALIDATION OF CERTAIN CONTRIBUTIONS MADE DURING PENDENCY OF PROCEEDINGS.—

"(1) IN GENERAL.—If—

"(A) the issue referred to in subsection (a)(1) involves the revocation of a determination that the organization is described in section 170(c)(2),

"(B) a proceeding under this section is initiated within the time provided by subsection (b)(3), and

"(C) either—

"(i) a decision of the Tax Court has become final (within the meaning of section 7481), or

"(ii) a judgment of the district court of the United States for the District of Columbia has been entered, or

"(iii) a judgment of the Court of Claims has been entered,".

and such decision or judgment, as the case may be, determines that the organization was not described in section 170(c)(2),

then, notwithstanding such decision or judgment, such organization shall be treated as having been described in section 170(c)(2) for purposes of section 170 for the period beginning on the date on which the notice of the revocation was published and ending on the date on which the court first determined in such proceeding that the organization was not described in section 170(c)(2).

"(2) LIMITATION.—Paragraph (1) shall apply only—

"(A) with respect to individuals, and only to the extent that the aggregate of the contributions made by any individual to or for the use of the organization during the period specified in paragraph (1) does not exceed $1,000 (for this purpose treating a husband and wife as one contributor), and

"(B) with respect to organizations described in section 170(c)(2) which are exempt from tax under section 501(a) (for this purpose excluding any such organization with respect to which there is pending a proceeding to revoke the determination under section 170(c)(2)).

"(3) EXCEPTION.—This subsection shall not apply to any individual who was responsible, in whole or in part, for the activities (or failures to act) on the part of the organization which were the basis for the revocation.".

(b) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Section 7451 (relating to fee for filing petition) is amended by inserting before the period at the end thereof the following: "or under section 7428".

(2) Section 7459(c) (relating to date of decision) is amended by inserting after "under part IV of this subchapter" the following: "or under section 7428".

(3) Section 7476(c) (relating to use of Tax Court commissioners) is amended by striking out "this section" and inserting in lieu thereof "this section or section 7428".

(4) Section 7482(b)(1) (relating to venue for review of Tax Court decisions) is amended by striking out "or" at the end of subparagraph (C), by striking out the period at the end of subparagraph (D) and inserting in lieu thereof ", or", and by inserting after subparagraph (D) the following new subparagraph:

"(E) in the case of an organization seeking a declaratory decision under section 7428, the principal office or agency of the organization.".

(5) Section 7482(b)(1) is further amended by striking out "section 7476" in the last sentence and inserting in lieu thereof "section 7428, 7476,".

(6) The table of sections for subchapter B of chapter 76 is amended by striking out the item relating to section 7428 and inserting in lieu thereof the following:

"Sec. 7428. Declaratory judgments relating to status and classification of organizations under section 501(c)(3), etc.
"Sec. 7430. Cross references."

(7) Section 1346(e) of title 28, United States Code (relating to jurisdiction of district courts with the United States as defendant), is amended by inserting "or section 7428 (in the case of the United States district court for the District of Columbia)" immediately after "section 7426".

(8) Section 2201 of title 28, United States Code (relating to creation of declaratory judgment remedy), is amended by striking out "taxes" and inserting in lieu thereof "taxes other than