The original documents are located in Box 60, folder "10/4/76 HR10612 Tax Reform Act of 1976 (7)" of the White House Records Office: Legislation Case Files at the Gerald R. Ford Presidential Library.

(12) AMENDMENT OF SECTION 5142.—Section 5142(c) (relating to payment of occupational taxes) is amended to read as follows:

"(c) HOW PAID.—

"(1) PAYMENT BY RETURN.—The special taxes imposed by this part shall be paid on the basis of a return under such regulations as the Secretary shall prescribe.

"(2) STAMP DENOTING PAYMENT OF TAX.—After receiving a properly executed return and remittance of any special tax imposed by this subpart, the Secretary shall issue to the taxpayer an appropriate stamp as a receipt denoting payment of the tax. This paragraph shall not apply in the case of a return covering liability for a past period."

(13) AMENDMENTS OF SECTION 5171.—Section 5171(b) (relating to permits for operation of business as distillers, etc.) is amended—

(A) in paragraph (1), by striking out "49 Stat. 978;", and

(B) by striking out paragraph (3) (relating to continuance of business after June 30, 1959, pending application for permit).

(14) AMENDMENT OF SECTION 5174.—Section 5174(a)(2)(A) (relating to withdrawal bonds for distilled spirits) is amended by striking out "such spirits" and inserting in lieu thereof "distilled spirits from bond".

(15) AMENDMENT OF SECTION 5232.—Section 5232(a) (relating to transfer of imported distilled spirits) is amended by striking out "and the importer" and inserting in lieu thereof "and the importer, or the person bringing such distilled spirits into the United States,".

(16) AMENDMENT OF SECTION 5233.—Section 5233(b)(4) (relating to bottling requirements) is amended by striking out "49 Stat. 977;".

(17) AMENDMENT OF SECTION 5234.—The first sentence of section 5234(a)(2) (relating to the mingling of distilled spirits) is amended by striking out "8 years" and inserting in lieu thereof "20 years".

(18) AMENDMENT OF SECTION 5314.—Section 5314(a)(2) (relating to application of certain provisions to Puerto Rico) is amended by striking out "section 5001(a)(4)" and inserting in lieu thereof "section 5001(a)(10)".

(19) REPEAL OF SECTION 5315.—Section 5315 (relating to the status of certain distilled spirits on July 1, 1959) is repealed.

(20) AMENDMENTS OF SECTION 5368.—

(A) The heading of section 5368 is amended to read as follows:

"SEC. 5368. GAUGING AND MARKING."

(B) Section 5368(b) (relating to removal of wines) is amended to read as follows:

"(b) MARKING.—Wines shall be removed in such containers (including vessels, vehicles, and pipelines) bearing such marks and labels, evidencing compliance with this chapter, as the Secretary may by regulations prescribe."

(21) AMENDMENT OF SECTION 5392.—Section 5392(f) (defining own production) is amended by striking out "49 Stat. 990;".

(22) AMENDMENTS OF SECTION 5601.—Section 5601(b) (relating to presumptions in the case of criminal penalties) is amended to read as follows:

"(b) PRESUMPTION.—Whenever on trial for violation of subsection (a)(4) the defendant is shown to have been at the site or place where, and at the time when, the business of a distiller or rectifier was so engaged in or carried on, such presence of the defendant shall be deemed sufficient evidence to authorize conviction, unless the defendant explains such presence to the satisfaction of the jury (or of the court when tried without jury)."

(23) AMENDMENTS OF SECTION 5685.—

(A) Section 5685(a) (relating to penalty for possession of devices for emitting gas, smoke, etc.) is amended by striking out "section 5848" and inserting in lieu thereof "section 5845".

(B) Section 5685(c) (relating to forfeiture of firearms, devices, etc.) is amended by striking out "section 5862" and inserting in lieu thereof "section 5872".

(C) Section 5685(d) (relating to the definition of machine gun) is amended to read as follows:

"(d) DEFINITION OF MACHINE GUN.—As used in this section, the term 'machine gun' means a machinegun as defined in section 5845(b)."

(24) AMENDMENT OF SECTION 5701.—Section 5701(e) (relating to imported tobacco products, etc.) is amended by striking out "such articles" and inserting in lieu thereof "such articles, unless such import duties are imposed in lieu of internal revenue tax".

(25) AMENDMENTS OF SECTION 5703.—

(A) Section 5703(a)(2) (relating to transfer of liability for tobacco taxes) is amended by adding at the end thereof the following new sentence: "All provisions of this chapter applicable to tobacco products and cigarette papers and tubes in bond shall be applicable to such articles returned to bond upon withdrawal from the market or returned to bond after previous removal for a tax-exempt purpose."

(B) The second sentence of section 5703(b) (relating to method of payment of tobacco taxes) is amended by striking out ", except that the taxes shall continue to be paid by stamp until the Secretary or his delegate provides, by regulations, for the payment of the taxes on the basis of a return".

(C) Section 5703 is amended by striking out subsection (c) (relating to stamps to evidence tobacco taxes) and by redesignating subsections (d) and (e) as subsections (c) and (d), respectively.

(26) AMENDMENTS OF SECTION 5704.—Subsections (c) and (d) of section 5704 (relating to exemptions from tobacco taxes) are each amended by inserting after "to a manufacturer of tobacco products or cigarette papers and tubes" the following: "or to the proprietor of an export warehouse".

(27) AMENDMENT OF SECTION 5712.—Section 5712 (relating to application for permit) is amended by striking out the last sentence.

(28) AMENDMENTS OF SECTION 5723.—

(A) The heading of section 5723 is amended by striking out "NOTICES, AND STAMPS" and inserting in lieu thereof "AND NOTICES".

(B) Section 5723(b) (relating to marks, and so forth, on packages) is amended to read as follows:

"(b) MARKS, LABELS, AND NOTICES.—Every package of tobacco products or cigarette papers or tubes shall, before removal, bear the marks, labels, and notices, if any, that the Secretary by regulation prescribes."

(b) CONFORMING AND CLERICAL AMENDMENTS.—

(1) AMENDMENTS CONFORMING TO AMENDMENT OF SECTION 5054.—

(A) Section 5676 (relating to beer stamp penalties) is repealed.

(B) The table of sections for part III of subchapter J of chapter 51 is amended by striking out the item relating to section 5676.

(2) AMENDMENTS CONFORMING TO AMENDMENTS OF SECTION 5061.—

(A) Section 5007(b)(1) is amended by striking out the second sentence.

(B) Section 5026(b) is amended by striking out "Except as provided in subsection (a)(2), the taxes" and inserting in lieu thereof "The taxes".

(C) Section 5043(b) is amended by striking out "Except as provided in subsection (a)(3), the taxes" and inserting in lieu thereof "The taxes".

(D) Section 5662 is amended by striking out "stamp," each place it appears.

(E)(i) Section 5689 (relating to penalty and forfeiture for tampering with a stamp machine) is repealed.

(ii) The table of sections for part IV of subchapter J of chapter 51 is amended by striking out the item relating to section 5689.

(iii) Section 5061 is amended by striking out subsection (d).

(3) AMENDMENTS CONFORMING TO AMENDMENT OF SECTION 5142.—

(A)(i) Section 5104 (relating to method of payment of tax on stills) is repealed.

(ii) The table of sections for subpart C of part II of subchapter A of chapter 51 is amended by striking out the item relating to section 5104.

(B) Section 5111(a) is amended by striking out the second sentence.

(C) Section 5121(a) is amended by striking out the second sentence.

(D)(i) Section 5144 (relating to supply of stamps) is repealed.

(ii) The table of sections for subpart G of part II of subchapter A of chapter 51 is amended by striking out the item relating to section 5144.

(E) Section 5148(3) is amended by striking out "penalties" and inserting in lieu thereof "penalties, authority for assessments,".

(4) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 5315.—The table of sections for part III of subchapter E of chapter 51 is amended by striking out the item relating to section 5315.

(5) AMENDMENT CONFORMING TO THE AMENDMENT OF SECTION 5368.—The item relating to section 5368 in the table of sections for part II of subchapter F of chapter 51 is amended to read as follows:

"Sec. 5368. Gauging and marking."

(6) AMENDMENTS CONFORMING TO THE AMENDMENT OF SECTION 5601.—

(A) Section 5105(b)(2) is amended by striking out ", 5601 (b)(1),".

(B) Section 5177(b)(2) is amended by striking out "5601 (b)(2)," and inserting in lieu thereof "5601(b),".

(C) Section 5179(b)(1) is amended by striking out ", 5601 (b)(1),".

(D) Section 5222(d) is amended by striking out "5601(b)(3), 5601(b)(4),".

(E) Section 5505(i) is amended by striking out "5601(b)(1),".

(7) AMENDMENTS CONFORMING TO THE AMENDMENT OF SECTION 5723.—

(A) Paragraphs (2) and (3) of section 5751(a) are each amended by striking out "notices, and stamps" and inserting in lieu thereof "and notices".

(B) (i) Section 5752 is amended to read as follows:

"SEC. 5752. RESTRICTIONS RELATING TO MARKS, LABELS, NOTICES, AND PACKAGES.

"No person shall, with intent to defraud the United States, destroy, obliterate, or detach any mark, label, or notice prescribed or authorized, by this chapter or regulations thereunder, to appear on, or be affixed to, any package of tobacco products or cigarette papers or tubes, before such package is emptied."

(ii) Section 5762(a) is amended by striking out paragraphs (6), (7), (8), (9), (10), and (11) and inserting in lieu thereof the following:

"(6) DESTROYING, OBLITERATING, OR DETACHING MARKS, LABELS, OR NOTICES BEFORE PACKAGES ARE EMPTIED.—Violates any provision of section 5752;".

(iii) The item relating to section 5752 in the table of sections for subchapter E of chapter 52 is amended to read as follows:

"Sec. 5752. Restrictions relating to marks, labels, notices, and packages."

(C)(i) Section 5763(a)(2) is amended by striking out "notices, and stamps" and inserting in lieu thereof "and notices".

(ii) Section 5763(b) is amended by striking out "internal revenue stamps,".

(D) The item relating to section 5723 in the table of sections for subchapter C of chapter 52 is amended to read as follows:

"Sec. 5723. Packages, marks, labels, and notices."

(c) AMENDMENTS TO PROVISIONS REFERRING TO TERRITORIES.—

(1) Section 5114(b) is amended by striking out "or Territory" each place it appears and by striking out "Territories,".

(2) Section 5214(a)(2) is amended by striking out "or Territory" each place it appears.

(3) Section 5272(b) is amended by striking out "and Territories".

(4) Section 5362(c)(9) is amended by striking out "and Territories".

(5) Section 5551(b)(2) is amended by striking out "Territory, or".

(6) Section 5685(a) is amended by striking out "Territory or".

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect on the first day of the first month which begins more than 90 days after the date of the enactment of this Act.

SEC. 1906. AMENDMENTS OF SUBTITLE F; PROCEDURE AND ADMINISTRATION.

(a) IN GENERAL.—

(1) AMENDMENTS OF SECTION 6013.—

(A) Section 6013(b)(2)(C) (relating to petition to the Tax Court) is amended by striking out "of the United States".

(B) The heading of section 6013(d) is amended to read as follows:

"(d) SPECIAL RULES.—".

(C) Section 6013(d)(1) (relating to joint return after death of one spouse) is amended by striking out "and" at the end of subparagraph (A) and inserting in lieu thereof "or", and by striking out "and" at the end of the subparagraph (B).

(2) AMENDMENT OF SECTION 6015.—Section 6015 (relating to declaration of estimated tax by individuals) is amended by striking out subsection (j) (relating to an effective date provision).

(3) AMENDMENT OF SECTION 6037.—Section 6037 (relating to returns of subchapter S corporations) is amended by striking out "section 1371(a)(2)" and inserting in lieu thereof "section 1371(b)".

(4) AMENDMENT OF SECTION 6046.—Section 6046(e) (relating to information as to organization of foreign corporation) is amended to read as follows:

"(e) LIMITATION.—No information shall be required to be furnished under this section with respect to any foreign corporation unless such information was required to be furnished under regulations which have been in effect for at least 90 days before the date on which the United States citizen, resident, or person becomes liable to file a return required under subsection (a)."

(5) AMENDMENT OF SECTION 6051.—Section 6051(a) (relating to information required to be furnished to employees) is amended by striking out "and" where it appears at the end of paragraph (6).

(6) AMENDMENTS OF SECTION 6065.—Section 6065 (relating to verification of returns) is amended by striking out subsection (b) (relating to verification by oath), and by striking out in subsection (a) the following: "(a) PENALTIES OF PERJURY.—".

(7) REPEAL OF SECTION 6105.—Section 6105 (relating to compilation of data for certain excess profits tax cases) is repealed.

(8) AMENDMENT OF SECTION 6111.—Section 6111 (relating to cross references), as redesignated by this Act, is amended to read as follows:

"SEC. 6111. CROSS REFERENCE.

"For inspection of records, returns, etc., concerning gasoline or lubricating oils, see section 4102."

(9) AMENDMENT OF SECTION 6152.—Section 6152(a)(1) (relating to installment payments by corporations) is amended to read as follows:

"(1) CORPORATIONS.—A corporation subject to the taxes imposed by chapter 1 may elect to pay the unpaid amount of such taxes in two equal installments."

(10) AMENDMENTS OF SECTION 6154.—

(A) Section 6154(c)(1)(B) (relating to definition of estimated tax) is amended—

(i) by adding "and" after the comma at the end of clause (i), and

(ii) by striking out clauses (ii) and (iii) and inserting in lieu thereof the following:

"(ii) in the case of a taxable year beginning before January 1, 1977, the amount of the corporation's temporary estimated tax exemption for such year."

(B) Section 6154(c)(2)(A)(ii) (relating to temporary estimated tax payments) is amended by striking out "clauses (ii) and (iii)" and inserting in lieu thereof "clause (ii)".

(C) Section 6154(c)(2)(B) (relating to estimated tax) is amended by striking out the following:

"1968, 1969, 1970, 1971, and 1972	100 percent
1973	80 percent
1974	60 percent".

(D) Section 6154(c) (relating to estimated tax) is amended by striking out paragraph (3) (relating to transitional exemption for taxable years beginning before 1972).

(11) AMENDMENTS OF SECTION 6157.—

(A) Section 6157 (relating to payment of Federal unemployment tax) is amended by striking out subsection (c) (relating to special rules for 1970 and 1971), and by redesignating subsection (d) as subsection (c).

(B) Section 6157(a) is amended by striking out "subsections (c) and (d)" and inserting in lieu thereof "subsection (c)".

(12) REPEAL OF SECTION 6162.—Section 6162 (relating to payment of tax on gain on liquidation of certain personal holding companies) is repealed.

(13) AMENDMENT OF SECTION 6205.—Section 6205(a)(4) (relating to District of Columbia as employer) is amended by striking out "Commissioners of the District of Columbia and each agent designated by them" and inserting in lieu thereof "Mayor of the District of Columbia and each agent designated by him".

(14) AMENDMENT OF SECTION 6207.—Section 6207 (relating to cross references) is amended by striking out paragraph (7).

(15) AMENDMENT OF SECTION 6213.—Section 6213(a) (relating to time for filing petition with the Tax Court) is amended by striking out "States of the Union and the District of Columbia" and inserting in lieu thereof "United States".

(16) AMENDMENT OF SECTION 6215.—Section 6215(b)(5) (a cross reference) is amended by striking out "60 Stat. 48;".

(17) AMENDMENT OF SECTION 6302.—Section 6302(b) (relating to collection of certain excise taxes) is amended by striking out "sections 4501(a) or 4511 of chapter 37, or section 4701 or 4721 of chapter 39" and inserting in lieu thereof "section 4501(a) of chapter 37".

(18) REPEAL OF SECTION 6304.—Section 6304 (relating to a cross reference) is repealed.

(19) AMENDMENT OF SECTION 6313.—Section 6313 (relating to fractional parts of a cent) is amended by striking out "not payable by stamp".

(20) AMENDMENTS OF SECTION 6326.—

(A) Paragraph (2) of section 6326 (cross references) is amended by striking out "52 Stat. 851;".

(B) Paragraph (3) of section 6326 is amended by striking out "52 Stat. 867;".

(C) Paragraph (4) of section 6326 is amended by striking out "52 Stat. 867–877;".

(D) Paragraph (5) of section 6326 is amended by striking out "52 Stat. 938;".

(21) AMENDMENT OF SECTION 6365.—Section 6365(b) (relating to definition of governor) is amended by striking out "Commissioner of the District of Columbia" and inserting in lieu thereof "Mayor of the District of Columbia".

(22) AMENDMENT OF SECTION 6412.—Section 6412(a) (relating to floor stock refunds) is amended by redesignating paragraphs (2) and (4) as paragraphs (1) and (2), respectively.

(23) AMENDMENTS OF SECTION 6413.—

(A) Section 6413(a)(4) (relating to District of Columbia as employer) is amended by striking out "Commissioners of the District of Columbia and each agent designated by them" and inserting in lieu thereof "Mayor of the District of Columbia and each agent designated by him".

(B)(i) Section 6413(c)(1) (relating to refunds of certain employment taxes) is amended to read as follows:

"(1) IN GENERAL.—If by reason of an employee receiving wages from more than one employer during a calendar year the wages received by him during such year exceed the contribution and benefit base (as determined under section 230 of the Social Security Act) which is effective with respect to such year, the employee shall be entitled (subject to the provisions of section 31(b)) to a credit or refund of any amount of tax, with respect to such wages, imposed by section 3101 or section 3201, or by both such sections, and deducted from the employee's wages (whether or not paid to the Secretary), which exceeds the tax with respect to the amount of such wages received in such year which is equal to such contribution and benefit base. The term 'wages' as used in this paragraph shall, for purposes of this paragraph, include 'compensation' as defined in section 3231(e)."

(ii) So much of section 6413(c)(2)(A) (relating to Federal employees) as follows "and the term 'wages' includes" is amended to read as follows: "for purposes of this subsection the amount, not to exceed an amount equal to the contribution and benefit base (as determined under section 230 of the Social Security Act) for any calendar year with respect to which such contribution and benefit base is effective, determined by each such head or agent as constituting wages paid to an employee."

(iii) The amendments made by clauses (i) and (ii) shall apply with respect to remuneration paid after December 31, 1976.

(C) Section 6413(c)(2)(F) (relating to government employees in the District of Columbia) is amended by striking out "Commissioners of the District of Columbia and each agent designated by them" and inserting in lieu thereof "Mayor of the District of Columbia and each agent designated by him".

(D) Section 6413(c)(3) (relating to special refunds) is amended by striking out "after 1967".

(24) AMENDMENTS OF SECTION 6416.—

(A) Section 6416(a)(3) (relating to special rules for refund of overpayment of tax) is amended by redesignating subparagraphs (C) and (D) as subparagraphs (A) and (B), respectively.

(B)(i) Section 6416(b)(2) (relating to overpayments of certain excise taxes), as amended by section 2108 of this Act, is amended by striking out subparagraphs (G), (H), (I), and (J), and by redesignating subparagraphs (F), (K), (L), (M), (R), (S), and (T) as subparagraphs (E), (F), (G), (H), (I), (J), and (K), respectively.

(ii) The repeals made by clause (i) shall apply with respect to the use or resale for use of liquids after December 31, 1976.

(25) REPEAL OF SECTION 6417.—Section 6417 (relating to coconut and palm oil) is repealed.

(26) AMENDMENTS OF SECTION 6420.—

(A) Section 6420(b) (relating to time for filing refund claims on gasoline) is amended to read as follows:

"(b) TIME FOR FILING CLAIMS; PERIOD COVERED.—Not more than one claim may be filed under this section by any person with respect to gasoline used during his taxable year, and no claim shall be allowed under this section with respect to gasoline used during any taxable year unless filed by such person not later than the time prescribed by law for filing a claim for credit or refund of overpayment of income tax for such taxable year. For purposes of this subsection, a person's taxable year shall be his taxable year for purposes of subtitle A."

(B) Section 6420(e)(1) (relating to application of other laws) is amended by striking out "apply in in respect" and inserting in lieu thereof "apply in respect".

(C)(i) Section 6420 is amended by striking out subsection (g) (relating to effective date) and by redesignating subsections (h) and (i) as subsections (g) and (h), respectively.

(ii) Section 6420(a) is amended by striking out "subsection (h)" and inserting in lieu thereof "subsection (g)".

(D) Section 6420(g) (relating to income tax credit in lieu of gas tax refund), as redesignated by subparagraph (C)(i) of this paragraph, is amended by striking out "with respect to gasoline used after June 30, 1965," and "for gasoline used after June 30, 1965".

(27) AMENDMENTS OF SECTION 6421.—

(A)(i) Subsections (a) and (e)(3) of section 6421 (relating to nonhighway use of gasoline) are each amended by striking out "after June 30, 1970,".

(ii) The amendments made by clause (i) shall only apply with respect to gasoline used as a fuel after June 30, 1970.

(B) Section 6421(c) (relating to nonhighway use of gasoline) is amended to read as follows:

"(c) TIME FOR FILING CLAIMS; PERIOD COVERED.—

"(1) IN GENERAL.—Except as provided in paragraph (2), not more than one claim may be filed under subsection (a), and not more than one claim may be filed under subsection (b), by any person with respect to gasoline used during his taxable year; and no claim shall be allowed under this paragraph with respect to gasoline used during any taxable year unless filed by such person

not later than the time prescribed by law for filing a claim for credit or refund of overpayment of income tax for such taxable year. For purposes of this subsection, a person's taxable year shall be his taxable year for purposes of subtitle A.

"(2) EXCEPTION.—If $1,000 or more is payable under this section to any person with respect to gasoline used during any of the first three quarters of his taxable year, a claim may be filed under this section by such person with respect to gasoline used during such quarter. No claim filed under this paragraph shall be allowed unless filed on or before the last day of the first quarter following the quarter for which the claim is filed."

(C) Section 6421(h) (relating to effective dates) is amended by striking out "after June 30, 1956, and".

(D) Section 6421(i) (relating to income tax credit in lieu of refund) is amended—

(i) by striking out, in paragraph (1), "with respect to gasoline used after June 30, 1965,",

(ii) by striking out, in paragraph (2), "subsection (c) (3)(B)" and inserting in lieu thereof "subsection (c) (2)", and

(iii) by striking out, in paragraph (3), "fo gasoline used after June 30, 1965."

(28) AMENDMENTS OF SECTION 6422.—

(A) Paragraph (9) of section 6422 (relating to ross references), as redesignated by section 1901(b)(3 (B), is amended by striking out "60 Stat. 48;".

(B) Paragraph (11) of section 6422, as so redes nated, is amended by striking out "47 Stat. 1516;".

(29) AMENDMENTS OF SECTION 6423.—

(A) Section 6423(b) (relating to filing of refund claim in case of alcohol and tobacco taxes) is amended to read as follows:

"(b) FILING OF CLAIMS.—No credit or refund of any amount to which subsection (a) applies shall be allowed or made unless a claim therefor has been filed by the person who paid the amount claimed, and unless such claim is filed within the time prescribed by law and in accordance with regulations prescribed by the Secretary. All evidence relied upon in support of such claim shall be clearly set forth and submitted with the claim."

(B) Section 6423 is amended by striking out subsection (c) (relating to suits barred on April 30, 1958) and by redesignating subsections (d) and (e) as subsections (c) and (d), respectively.

(C) Section 6423(c) (relating to application of section), as redesignated by subparagraph (B) of this paragraph, is amended by adding "and" at the end of paragraph (1), by striking out ", and" at the end of paragraph (2) and inserting in lieu thereof a period, and by striking out paragraph (3).

(30) AMENDMENTS OF SECTION 6424.—

(A) The last sentence of section 6424(b)(1) (relating to refund claims with respect to lubricating oil) is amended by striking out ", except that a person's first taxable year beginning after December 31, 1965, shall include the period after December 31, 1965, and before the beginning of such first taxable year".

(B) Section 6424 (relating to lubricating oil not used in highway motor vehicles) is amended by striking out subsection (f) (relating to effective date of section), and by redesignating subsections (g) and (h) as subsections (f) and (g), respectively.

(31) AMENDMENTS OF SECTION 6427.—

(A) Subsections (a), (b), and (c) of section 6427 (relating to fuels not used for taxable purposes) are each amended by striking out ", after June 30, 1970,".

(B) The amendments made by subparagraph (A) shall apply only with respect to fuel used or resold after June 30, 1970.

(32) AMENDMENTS OF SECTION 6504.—

(A) Section 6504 (relating to cross references) is amended by striking out paragraphs (13) and (14) and inserting in lieu thereof:

"(13) Assessments to recover excessive amounts paid under section 6420 (relating to gasoline used on farms), 6421 (relating to gasoline used for certain nonhighway purposes or by local transit systems), 6424 (relating to lubricating oil not used in highway motor vehicles), or 6427 (relating to fuels not used for taxable purposes) and assessments of civil penalties under section 6675 for excessive claims under section 6420, 6421, 6424, or 6427, see section 6206."

(B) Section 6504, as amended by this Act, is further amended by redesignating paragraphs (2), (3), (4), (5), (9), (10), (11), (12), (13), and (15) as paragraphs (1), (2), (3), (4), (5), (6), (7), (8), (9), and (10), respectively.

(33) AMENDMENTS OF SECTION 6511.—

(A) Section 6511(d)(2)(A)(ii) (relating to net operating loss carryback) is amended by striking out "September 1, 1959, or" and by striking out ", whichever is the later".

(B) Section 6511(d)(5) is amended by striking out "the later of the following dates: (A)", and by striking out ", or (B) December 31, 1965".

(34) AMENDMENT OF SECTION 6601.—Section 6601(h) (relating to interest on estimated tax payments) is amended by striking out "(or section 59 of the Internal Revenue Code of 1939)".

(35) AMENDMENT OF SECTION 6654.—Section 6654 (relating to payment of estimated income tax) is amended by striking out subsection (h) (relating to applicability of section).

(36) AMENDMENT OF SECTION 6802.—Section 6802(2) (relating to supply and distribution of stamps) is amended by striking out the semicolon at the end and inserting in lieu thereof a period.

(37) AMENDMENT OF SECTION 6803.—Section 6803 (relating to accounting and safeguarding is amended to read as follows:

"SEC. 6803. ACCOUNTING AND SAFEGUARDING.

"(a) BOND.—In cases coming within the provisions of paragraph (2) of section 6802, the Secretary may require a bond, with sufficient sureties, in a sum to be fixed by the Secretary, conditioned for the faithful return, whenever so required, of all quantities or amounts undisposed of and for the payment monthly for all quantities or amounts sold or not remaining on hand.

"(b) REGULATIONS.—The Secretary may from time to time make such regulations as he may find necessary to insure the safekeeping or prevent the illegal use of all adhesive stamps referred to in paragraph (2) of section 6802."

(38) AMENDMENT OF SECTION 6863.—Section 6863(b)(3) (relating to stay of sale of seized property pending Tax Court decision) is amended by striking out subparagraph (C) (relating to effective date).

(39) AMENDMENT OF SECTION 7012.—Section 7012 (relating to cross references), as amended by section 1904(b)(8)(C) of this Act, is amended to read as follows:

"SEC. 7012. CROSS REFERENCES.

"(1) For provisions relating to registration in connection with firearms, see sections 5802, 5841, and 5861.

"(2) For special rules with respect to registration by persons engaged in receiving wagers, see section 4412.

"(3) For provisions relating to registration in relation to the production or importation of gasoline, see section 4101.

"(4) For provisions relating to registration in relation to the manufacture or production of lubricating oils, see section 4101.

"(5) For penalty for failure to register, see section 7272.

"(6) For other penalties for failure to register with respect to wagering, see section 7262."

(40) AMENDMENT OF SECTION 7103.—Section 7103 (relating to cross references regarding bonds) is amended by striking out subsection (d).

(41) AMENDMENTS OF SECTION 7271.—Section 7271 (relating to penalties for offenses concerning stamps) is amended by striking out paragraph (2), and by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively.

(42) AMENDMENT OF SECTION 7272.—Section 7272(b) (relating to cross references) is amended by striking out "4722, 4753,".

(43) AMENDMENTS OF SECTION 7326.—Section 7326 (relating to disposal of forfeited property) is amended—

(A) by striking out "section 5862(b)" and inserting in lieu thereof "section 5872(b)", and

(B) by redesignating subsection (c) as subsection (b).

(44) AMENDMENTS OF SECTION 7422.—Section 7422(c) (relating to suits against collection officers) is amended by striking out "instituted after June 15, 1942,", and by striking out "where the petition to the Tax Court was filed after such date".

(45) AMENDMENTS OF SECTION 7428.—

(A) Paragraph (1) of section 7428 (cross references), as redesignated by this Act, is amended by striking out "52 Stat. 851;".

(B) Paragraph (2) of such section 7428 is amended by striking out "52 Stat. 867;".

(C) Paragraph (3) of such section 7428 is amended by striking out "52 Stat. 876–877;".

(D) Paragraph (4) of such section 7428 is amended by striking out "52 Stat. 938;".

(46) AMENDMENTS OF SECTION 7448.—

(A) Subsection (a)(6) of section 7448 (relating to annuities to widows and dependent children of Tax Court judges) is amended—

(i) by striking out "The term 'widow' means a surviving wife of" and inserting in lieu thereof "The term 'surviving spouse' means a surviving spouse of"; and

(ii) by striking out "the mother of issue" and inserting in lieu thereof "a parent of issue".

(B) Section 7448(h) is amended—

(i) by striking out "surviving widow or widower" and inserting in lieu thereof "surviving spouse";

(ii) by striking out "such widow" each place it appears and inserting in lieu thereof "such surviving spouse";

(iii) by striking out "a widow" each place it appears and inserting in lieu thereof "a surviving spouse";

(iv) by striking out "widow's" each place it appears and inserting in lieu thereof "surviving spouse's"; and

(v) by striking out "surviving her" and inserting in lieu thereof "surviving such spouse".

(C) Sections 7448 (h) and (o) are each amended by striking out "she" and inserting in lieu thereof "such spouse".

(D) Section 7448(o) is amended by striking out "her" and inserting in lieu thereof "such spouse's".

(E) Sections 7448 (d), (j), (m), (n), (o), and (q) are each amended by striking out "widow" each place it appears and inserting in lieu thereof "surviving spouse".

(F) The section heading for section 7448 is amended by striking out **"WIDOWS"** and inserting in lieu thereof **"SURVIVING SPOUSES".**

(47) AMENDMENTS OF SECTION 7471.—

(A) Subsection (a) of section 7471 (relating to Tax Court employees) is amended by striking out "is authorized in accordance with the civil service laws to appoint, and in accordance with the Classification Act of 1949 (63 Stat. 954; 5 U.S.C. chapter 21), as amended, to fix the compensation of," and inserting in lieu thereof "is authorized to appoint, in accordance with the provisions of title 5, United States Code, governing appointment in the competitive service, and to fix the basic pay of, in accordance with chapter 51 and subchapter III of chapter 53 of such title,".

(B) Subsection (b) of section 7471 is amended by striking out "as provided in the Travel Expense Act of 1949 (63 Stat. 166; 5 U.S.C. chapter 16)." and inserting in lieu thereof "as provided in chapter 57 of title 5, United States Code."

(48) AMENDMENT OF SECTION 7476.—Section 7476(a) (relating to declaratory judgments) is amended by striking out so much thereof as follows paragraph (2)(B) and inserting in lieu thereof the following:

"upon the filing of an appropriate pleading, the Tax Court may make a declaration with respect to such initial qualification or continuing qualification. Any such declaration shall have the force and effect of a decision of the Tax Court and shall be reviewable as such."

(49) AMENDMENT OF SECTION 7502.—Section 7502(b) (relating to timely mailing treated as timely filing and paying) is amended by striking out "United State Post Office" and inserting in lieu thereof "United States Postal Service".

(50) AMENDMENTS OF SECTION 7507.—Paragraphs (2) and (3) of section 7507(c) (relating to insolvent banks) are each amended by striking out "after May 28, 1938,".

(51) AMENDMENTS OF SECTION 7508.—

(A) The heading of section 7508 (relating to time for performing certain acts) is amended by striking out **"BY REASON OF WAR"** and inserting in lieu thereof **"BY REASON OF SERVICE IN COMBAT ZONE".**

(B) Section 7508(a) (relating to time to be disregarded) is amended by striking out "States of the Union and the District of Columbia" each place it appears and inserting in lieu thereof "United States".

(52) AMENDMENTS OF SECTION 7509.—Section 7509 (relating to expenditures incurred by the Post Office Department) is amended—

(A) in the section heading, by striking out **"POST OFFICE DEPARTMENT"** and inserting in lieu thereof **"UNITED STATES POSTAL SERVICE"**;

(B) by striking out "Post Office Department" each place it appears and inserting in lieu thereof "United States Postal Service";

(C) by striking out "such Department" and inserting in lieu thereof "such Service"; and

(D) by striking out ", together with the receipts required to be deposited under section 6803(a),".

(53) AMENDMENT OF SECTION 7621.—Section 7621(b) (relating to boundaries of internal revenue districts) is amended to read as follows:

"(b) BOUNDARIES.—For the purpose mentioned in subsection (a), the President may subdivide any State or the District of Columbia, or may unite into one district two or more States."

(54) REPEAL OF SECTION 7641.—Subchapter C of chapter 78 (relating to supervision of operations of certain manufacturers) is repealed.

(55) AMENDMENTS OF SECTION 7652.—Section 7652(b)(3) (relating to disposition of internal revenue collections) is amended—

(A) by striking out subparagraph (B) and by redesignating subparagraph (C) as subparagraph (B).

(B) by striking out "approved emergency relief purposes and essential public projects as provided in subparagraph (B)" and inserting in lieu thereof "emergency relief purposes and essential public projects, with the prior approval of the President or his designated representative", and

(C) by striking out ", including payments under subparagraph (B),".

(56) AMENDMENT OF SECTION 7653.—Section 7653(d) (a cross reference) is amended by striking out "c. 512, 64 Stat. 392, section 30;".

(57) AMENDMENTS OF SECTION 7701.—

(A) Section 7701(a)(11) (relating to definitions of Secretary) is amended to read as follows:

"(11) SECRETARY OF THE TREASURY AND SECRETARY.—

"(A) SECRETARY OF THE TREASURY.—The term 'Secretary of the Treasury' means the Secretary of the Treasury, personally, and shall not include any delegate of his.

"(B) SECRETARY.—The term 'Secretary' means the Secretary of the Treasury or his delegate.".

(B) Section 7701(a)(12)(A) (relating to definition of Secretary or his delegate) is amended to read as follows:

"(A) IN GENERAL.—The term 'or his delegate'—

"(i) when used with reference to the Secretary of the Treasury, means any officer, employee, or agency of the Treasury Department duly authorized by the Secretary

of the Treasury directly, or indirectly by one or more redelegations of authority, to perform the function mentioned or described in the context; and

"(ii) when used with reference to any other official of the United States, shall be similarly construed."

(58) AMENDMENT OF SECTION 7803.—Section 7803 (relating to other personnel) is amended by redesignating subsection (d) as subsection (c).

(59) AMENDMENT OF SECTION 7809.—Section 7809(a) (relating to deposit of collections) is amended by striking out "4735, 4762,".

(b) CONFORMING AND CLERICAL AMENDMENTS.—

(1) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 6105.—The table of sections for subchapter B of chapter 61 is amended by striking out the item relating to section 6105.

(2) AMENDMENT CONFORMING TO AMENDMENT OF SECTION 6111.—The item relating to section 6111 in the table of sections for subchapter B of chapter 61 is amended to read as follows:

"Sec. 6111. Cross reference."

(3) AMENDMENTS CONFORMING TO AMENDMENTS OF SECTION 6154.—

(A) Paragraph (1)(B) of section 6655(e) is amended:

(i) by adding "and" at the end of clause (i), and

(ii) by striking out clauses (ii) and (iii) and inserting in lieu thereof the following:

"(ii) in the case of a taxable year beginning before January 1, 1977, the amount of the corporation's temporary estimated tax exemption for such year."

(B) Paragraph (2)(B) of section 6655(e) is amended by striking out "clauses (ii) and (iii)" and inserting in lieu thereof "clause (ii)".

(C)(i) Section 6655(e) is amended by striking out paragraph (3) and by redesignating paragraph (4) as paragraph (3).

(ii) Section 243(b)(3)(C)(iv), as redesignated by section 1901(b)(20)(A) of this Act, is amended by striking out "sections 6154(c)(2) and (3)" and inserting in lieu thereof "section 6154(c)(2)", and by striking out "sections 6655(e)(2) and (3)" and inserting in lieu thereof "section 6655(e)(2)".

(4) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 6162.—The table of sections for subchapter B of chapter 62 is amended by striking out the item relating to section 6162.

(5) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 6304.—The table of sections for subchapter A of chapter 64 is amended by striking out the item relating to section 6304.

(6) AMENDMENTS CONFORMING TO THE AMENDMENT OF SECTION 6416.—

(A) Subparagraph (A) of section 6420(c)(3) is amended to read as follows:

"(A) by the owner, tenant, or operator of a farm, in connection with cultivating the soil, or in connection with raising or harvesting any agricultural or horticultural commodity, including the raising, shearing, feeding, caring for, training, and management of livestock, bees, poultry, and fur-bearing animals and wildlife, on a farm of which he is the owner. tenant, or operator; except that if such use is by any person

other than the owner, tenant, or operator of such farm, then for purposes of this subparagraph, in applying subsection (a) to this subparagraph, the owner, tenant, or operator of the farm on which gasoline or a liquid taxable under section 4041 issued shall be treated as the user and the ultimate purchaser of such gasoline or liquid;".

(B) The amendments made by subparagraph (A) shall apply with respect to the use of liquids after December 31, 1970.

(7) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 6417.—The table of sections for subchapter B of chapter 65 is amended by striking out the item relating to section 6417.

(8) AMENDMENT CONFORMING TO AMENDMENT OF SECTION 6420.—Section 39(a)(1) is amended by striking out "section 6420(h)" and inserting in lieu thereof "section 6420(g)".

(9) AMENDMENT CONFORMING TO AMENDMENT OF SECTION 6424.—Section 39(a)(3) is amended by striking out "section 6424(g)" and inserting in lieu thereof "section 6424(f)".

(10) AMENDMENT CONFORMING TO AMENDMENT OF SECTION 7448.—The item relating to section 7448 in the table of sections for part I of subchapter C of chapter 76 is amended to read as follows:

"Sec. 7448. Annuities of surviving spouses and dependent children.".

(11) AMENDMENT CONFORMING TO AMENDMENT OF SECTION 7508.—The item relating to section 7508 in the table of sections for chapter 77 is amended to read as follows:

"Sec. 7508. Time for performing certain acts postponed by reason of service in combat zone.".

(12) AMENDMENT CONFORMING TO AMENDMENT OF SECTION 7509.—The item relating to section 7509 in the table of sections for chapter 77 is amended to read as follows:

"Sec. 7509. Expenditures incurred by the United States Postal Service.".

(13) AMENDMENT CONFORMING TO REPEAL OF SECTION 7641.—The table of subchapters for chapter 78 is amended by striking out the item relating to subchapter C.

(A) The Internal Revenue Code of 1954, as amended by this Act, is amended by striking out "Secretary or his delegate" each place it appears and inserting in lieu thereof "Secretary".

(B) The following provisions are each amended by striking out "Secretary" each place it appears and inserting in lieu thereof "Secretary of the Treasury": sections 4293, 4483(b), 5551, 7801(b), 7802(a), 9006(a), 9006(b), and 9007(d).

(C) The following provisions are each amended by striking out "to the Secretary" each place it appears and inserting in lieu thereof "to the Secretary of the Treasury": sections 3121(b)(12)(B), 3303(b), 3304(a)(3), 3304(c), 3305(j), 3306(c)(12)(B), 9005(a), 9007(b), 9010(b), and 9012(e)(3).

(D) Section 31(b)(1) is amended by striking out "(or his delegate)".

(E) The last sentence of section 3304(c) is amended by striking out "the Secretary shall" and inserting in lieu thereof "the Secretary of Labor shall".

(F) Section 3310(d)(2) is amended by striking out "the Secretary's action" each place it appears and inserting in lieu thereof "the Secretary of Labor's action".

(G) Section 3221(a) and 3221(c) are each amended by striking out "of the Treasury" each place it appears.

(H) Section 3310(e) is amended by striking out "of the Secretary" and inserting in lieu thereof "of the Secretary of Labor".

(I) Section 4412(c) is amended by striking out "he or his delegate" and inserting in lieu thereof "the Secretary".

(J) Section 5845(f) is amended by striking out "of the Treasury or his delegate".

(K) Section 6402(b) is amended by striking out "(or his delegate)".

(L) Section 7458 is amended by striking out "nor his delegate".

(M) Section 7514 is amended by striking out "functions of the Secretary" and inserting in lieu thereof "functions of the Secretary of the Treasury".

(c) AMENDMENTS TO SECTIONS REFERRING TO TERRITORIES.—

(1) Section 6871(a) is amended by striking out "or Territory".

(2) Section 7622(b) is amended by striking out ", Territory,".

(3) Section 7701(a)(4) is amended by striking out "or Territory".

(d) EFFECTIVE DATE.—

(1) GENERAL RULE.—Except as otherwise expressly provided in this section, the amendments made by this section shall take effect on the first day of the first month which begins more than 90 days after the date of the enactment of this Act.

(2) AMENDMENTS RELATING TO INCOME TAX.—The amendments made by this section, when relating to a tax imposed by chapter 1 or chapter 2 of the Internal Revenue Code of 1954, shall take effect with respect to taxable years beginning after December 31, 1976.

SEC. 1907. AMENDMENTS OF SUBTITLE G; THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION.

(a) IN GENERAL.—

(1) AMENDMENT OF SECTION 8001.—Section 8001 (relating to creation of the Joint Committee) is amended by striking out "Joint Committee on Internal Revenue Taxation" and inserting in lieu thereof "Joint Committee on Taxation".

(2) AMENDMENT OF SECTION 8004.—Section 8004 (relating to compensation of staff) is amended by striking out "compensation of a clerk" and inserting in lieu thereof "compensation of the Chief of Staff of the Joint Committee".

(3) AMENDMENT OF SECTION 8021.—Section 8021(d) (relating to authority to make expenditures) is amended to read as follows:

"(d) TO MAKE EXPENDITURES.—The Joint Committee, or any subcommittee thereof, is authorized to make such expenditures as it deems advisable.".

(4) AMENDMENT OF SECTION 8023.—Section 8023(c) (relating to reorganization plans) is amended to read as follows:

"(c) APPLICATION OF SUBSECTIONS (a) AND (b).—Subsections (a) and (b) shall be applied in accordance with their provisions without regard to any reorganization plan becoming effective on, before, or after the date of the enactment of this subsection.".

(5) All references in any other statute, or in any rule, regulation, or order, to the Joint Committee on Internal Revenue Taxation shall be considered to be made to the Joint Committee on Taxation.

(b) AMENDMENTS CONFORMING TO THE AMENDMENT OF SECTION 8001.—

(1) The heading of subtitle G is amended by striking out "Internal Revenue".

(2) The table of subtitles for the Internal Revenue Code of 1954 is amended by striking out the item relating to subtitle G and inserting in lieu thereof the following:

"SUBTITLE G. The Joint Committee on Taxation.".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the first day of the first month which begins more than 90 days after the date of the enactment of this Act.

SEC. 1908. EFFECTIVE DATE OF CERTAIN DEFINITIONS AND DESIGNATIONS

For purposes of any amendment made by any provision of this Act (other than this title)—

(1) which contains a term the meaning of which is defined in or modified by any provision of this title, and

(2) which has an effective date earlier than the effective date of the provision of this title defining or modifying such term,

that definition or modification shall be considered to take effect as of such earlier effective date.

Subtitle B—Amendments of Code Provisions With Limited Current Application; Repeals and Savings Provisions

SEC. 1951. PROVISIONS OF SUBTITLE A.

(a) REFERENCES TO INTERNAL REVENUE CODE.—Except as otherwise expressly provided, whenever in this section a reference is made to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

(b) AMENDMENTS.—

(1) AMENDMENT OF SECTION 72.—

(A) REPEAL.—Section 72 (relatinfi to annuities) is amended by striking out subsection (i) (relating to joint and survivor annuities where first annuitant died in 1951, 1952, or 1953).

(B) SAVINGS PROVISION.—Notwithstanding subparagraph (A), if the provisions of section 72(i) applied to amounts received in taxable years beginning before January 1, 1977, under an annuity contract, then amounts received under such contract on or after such date shall be treated as if such provisions were not repealed.

(2) AMENDMENTS OF SECTION 108.—

(A) REPEAL.—Section 108 (relating to income from discharge of indebtedness) is amended by striking out subsection (b) (relating to certain railroad corporations) and by striking out of subsection (a) the following: "(a) SPECIAL RULE OF EXCLUSION.—".

(B) SAVINGS PROVISION.—If any discharge, cancellation, or modification of indebtedness of a railroad corporation occurs in a taxable year beginning after December 31, 1976, pursuant to an order of a court in a proceeding referred to in section 108(b) (A) or (B) which commenced before January 1, 1960, then, notwithstanding the amendments made by subparagraph (A), the provisions of subsection (b) of section 108 shall be considered as not repealed with respect to such discharge, cancellation, or modification of indebtedness.

(3) AMENDMENTS OF SECTION 164.—

(A) REPEAL.—Section 164 (relating to taxes) is amended by striking out subsection (f) (relating to payments for municipal services in atomic energy communities) and by redesignating subsection (g) as subsection (f).

(B) SAVINGS PROVISION.—Notwithstanding subparagraph (A), any amount paid or accrued in a taxable year beginning after December 31, 1976, to the Atomic Energy Commission or its successors for municipal-type services shall be allowed as a deduction under section 164 if such amount would have been deductible by reason of section 164(f) (as in effect for a taxable year ending on December 31, 1976) and if the amount is paid or accrued with respect to real property in a community (within the meaning of section 21 b. of the Atomic Energy Community Act of 1955 (42 U.S.C. 2304 (b))) in which the Commission on December 31, 1976, was rendering municipal-type services for which it received compensation from the owners of property within such community.

(4) REPEAL OF SECTION 168.—

(A) REPEAL.—Section 168 (relating to amortization of emergency facilities) is repealed.

(B) SAVINGS PROVISION.—Notwithstanding the repeal made by subparagraph (A), if a certificate was issued before January 1, 1960, with respect to an emergency facility which is or has been placed in service before the date of the enactment of this Act, the provisions of section 168 shall not, with respect to such facility, be considered repealed. The benefit of deductions by reason of the preceding sentence shall be allowed to estates and trusts in the same manner as in the case of an individual. The allowable deduction shall be apportioned between the income beneficiaries and the fiduciary in accordance with regulations prescribed under section 642(f).

(5) AMENDMENT OF SECTION 171.—

(A) REPEAL.—

(i) Section 171(b)(1)(B) (relating to amount of bond premium) is amended by striking out clause (iii) (relating to certain bonds acquired before 1958).

(ii) Section 171(b)(1)(B)(i) is amended by striking out "clause (ii) or (iii) applies," and inserting in lieu thereof "clause (ii) applies, or", and by inserting "and" at the end thereof.

(iii) Section 171(b)(1)(B)(ii) is amended by striking out ", or" and inserting ", and" in lieu thereof.

(iv) The second sentence in section 171(b)(2) is amended by striking out "or (iii)".

(B) SAVINGS PROVISION.—Notwithstanding the amendments made by subparagraph (A), in the case of a bond the interest on which is not excludable from gross income—

(i) which was issued after January 22, 1951, with a call date not more than 3 years after the date of such issue, and

(ii) which was acquired by the taxpayer after January 22, 1954, and before January 1, 1958,

the bond premium for a taxable year beginning after December 31, 1975, shall not be determined under section 171(b)(1)(B)(i) but shall be determined with reference to the amount payable on maturity, and if the bond is called before its maturity, the bond premium for the year in which the bond is called shall be determined in accordance with the provisions of section 171(b)(2).

(6) AMENDMENT OF SECTION 333.—

(A) REPEAL.—Section 333 (relating to election as to recognition of gain in certain liquidations) is amended by striking out subsection (g) (relating to the liquidation of certain personal holding companies).

(B) SAVINGS PROVISION.—Nothwithstanding subparagraph (A), if any corporation meets all the requirements of section 333(g)(2)(B), as in effect before its repeal by this Act, the liquidation of such corporation shall be treated as if paragraphs (2), (3), and (4) of section 333(g) had not been repealed.

(C) PHASE-IN OF 12-MONTH HOLDING PERIOD REQUIREMENT.—For purposes of subparagraph (B), the period for holding of stock specified in section 333(g)(2)(A)(ii), as in effect before such repeal, shall—

(i) in the case of taxable years beginning in 1977, be considered to be "9 months"; and

(ii) in the case of taxable years beginning after December 31, 1977, be considered to be "1 year".

(7) AMENDMENT OF SECTION 453.—

(A) REPEAL.—Section 453(b)(2) (relating to limitation on use of installment sales method) is amended to read as follows:

"(2) LIMITATION.—Paragraph (1) shall apply only if in the taxable year of the sale or other disposition—

"(A) there are no payments, or

"(B) the payments (exclusive of evidences of indebtedness of the purchaser) do not exceed 30 percent of the selling price.".

(B) SAVINGS PROVISION.—Notwithstanding subparagraph (A), in the case of installment payments received during taxable years beginning after December 31, 1976, on account of a sale or other disposition made during a taxable year beginning before January 1, 1954, subsection (b)(1) of section 453 (relating to sales of realty and casual sales of personalty) shall apply only if the income was (by reason of section 44(b) of the Internal Revenue Code of 1939) returnable on the basis and in the manner prescribed in section 44(a) of such Code.

(8) AMENDMENTS OF SECTION 512.—

(A) REPEAL.—Section 512(b) (relating to unrelated business taxable income) is amended by striking out paragraphs (13) and (14) and by redesignating paragraphs (15), (16), and (17) as paragraphs (13), (14), and (15), respectively.

(B) SAVINGS PROVISION.—Notwithstanding subparagraph (A), income received in a taxable year beginning after December 31, 1975, shall be excluded from gross income in determining unrelated business taxable income, if such income would have been excluded by paragraph (13) or (14) of section 512(b) if received in a taxable year beginning before such date. Any deductions directly connected with income excluded under the preceding sentence in determining unrelated business taxable income shall also be excluded for such purpose.

(9) AMENDMENT OF SECTION 545.—

(A) REPEAL.—Section 545(b) (relating to adjustments in computing undistributed personal holding company income) is amended by striking out paragraph (9) (relating to deductions on account of certain liens in favor of the United States).

(B) SAVINGS PROVISION.—Notwithstanding subparagraph (A), if any amount was deducted under paragraph (9) of section 545(b) in a taxable year beginning before January 1, 1977, on account of a lien which is satisfied or released in a taxable year beginning on or after such date, the amount so deducted shall be included in income, for purposes of section 545, as provided in the second sentence of such paragraph. Shareholders of any corporation which has amounts included in its income by reason of the preceding sentence may elect to compute the income tax on dividends attributable to amounts so included as provided in the third sentence of such paragraph.

(10) AMENDMENTS OF SECTION 691.—

(A) REPEAL.—Section 691 (relating to income in respect of decedents) is amended by striking out subsection (e) (relating to certain installment obligations transmitted at death) and by redesignating subsection (f) as subsection (e).

(B) SAVINGS PROVISION.—Notwithstanding subparagraph (A), any election made under section 691(e) to have subsection (a)(4) of such section apply in the case of an installment obligation shall continue to be effective with respect to taxable years beginning after December 31, 1976. Section 691(c) shall not apply in respect of any amount included in gross income by reason of the preceding sentence. The liability under bond filed under section 44(d) of the Internal Revenue Code of 1939 (or corresponding provisions of prior law) in respect of which such an election applies is hereby released with respect to taxable years to which such election applies.

(11) AMENDMENTS OF SECTION 817.—

(A) REPEAL.—Section 817 is amended by striking out subsection (d) (relating to certain gains occurring before 1959).

(B) SAVINGS PROVISION.—Notwithstanding subparagraph (A), any gain in a taxable year beginning after December 31, 1976, from any sale or other disposition of property prior to January 1, 1959, would be excluded or not taken into

account for purposes of part 1 of subchapter L of chapter 1 if subsection (d) of section 817 of such Code were still in effect for such taxable year, such gain shall be excluded for purposes of such part.

(12) REPEAL OF SECTION 1347.—

(A) REPEAL.—Section 1347 (relating to certain claims filed against the United States before January 1, 1958) is repealed.

(B) SAVINGS PROVISION.—Notwithstanding subparagraph (A), if amounts received in a taxable year beginning after December 31, 1976, would have been subject to the provisions of section 1347 if received in a taxable year beginning before such date, the tax imposed by section 1 attributable to such receipt shall be computed as if section 1347 had not been repealed.

(13) REPEAL OF SECTION 1471.—

(A) REPEAL.—Subchapter A of chapter 4 (relating to recovery of excessive profits on certain Government contracts) is repealed.

(B) SAVINGS PROVISION.—If the amount of profit required to be paid into the Treasury under section 2382 or 7300 of title 10, United States Code, is not voluntarily paid, the Secretary of the Treasury or his delegate shall collect the same under the methods employed to collect taxes under subtitle A. All provisions of law (including penalties) applicable with respect to such taxes and not inconsistent with section 2382 or 7300 of title 10 of such Code, shall apply with respect to the assessment, collection, or payment of excess profits to the Treasury as provided in the preceding sentence, and to refunds by the Treasury of overpayments of excess profits into the Treasury.

(14) AMENDMENT OF SECTION 1481.—

(A) REPEAL.—Section 1481 (relating to mitigation of effect of renegotiation of Government contracts) is amended by striking out subsection (d) (relating to renegotiation for years prior to 1954).

(B) SAVINGS PROVISION.—If, during a taxable year beginning after December 31, 1976, a recovery of excessive profits through renegotiation which relates to profits of a taxable year subject to the Internal Revenue Code of 1939, the adjustments in respect to such renegotiation shall be made under section 3806 of such Code.

(c) CONFORMING AND CLERICAL AMENDMENTS.—

(1) AMENDMENT CONFORMING TO THE AMENDMENT OF SECTION 108.—Section 1017 is amended by striking out "section 108(a)" each time it appears therein and inserting in lieu thereof "section 108".

(2) AMENDMENTS CONFORMING TO REPEAL OF SECTION 168.—

(A) Section 1238 is amended by striking out "(relating to amortization deduction of emergency facilities)" and inserting in lieu thereof "(as in effect before its repeal by the Tax Reform Act of 1976)".

(B) Sections 642(f) and 1082(a)(2)(B) are each amended by striking out "168,".

(C) Sections 1245(a)(2) and 1250(b)(3) are each amended by striking out "168," each place it appears and inserting in lieu thereof "168 (as in effect before its repeal by the Tax Reform Act of 1976),".

(D) The table of sections for part VI of subchapter B of chapter 1 is amended by striking out the item relating to section 168.

(3) AMENDMENTS CONFORMING TO THE REPEAL OF SECTION 1347.—

(A) Section 5(b) is amended by striking out paragraph (5) and by redesignating paragraphs (2), (3), and (4), as paragraphs (1), (2), and (3), respectively.

(B) The table of sections for part VI of subchapter Q of chapter 1 is amended by striking out the item relating to section 1347.

(C) The heading of part VI of subchapter Q of chapter 1 is amended to read as follows:

"PART VI—MAXIMUM RATE ON PERSONAL SERVICE INCOME."

(D) The table of parts for subchapter Q of chapter 1 is amended by striking out the item relating to part VI and inserting in lieu thereof the following:

"Part VI. Maximum rate on personal service income."

(4) AMENDMENT CONFORMING TO THE REPEAL OF SECTION 1471.—The table of subchapters for chapter 4 is amended by striking out the item relating to subchapter A.

(d) EFFECTIVE DATE.—Except as otherwise expressly provided, the amendments made by this section shall apply with respect to taxable years beginning after December 31, 1976.

SEC. 1952. PROVISIONS OF SUBCHAPTER D OF CHAPTER 39; COTTON FUTURES.

(a) SHORT TITLE.—This section may be cited as the "United States Cotton Futures Act".

(b) REPEAL OF TAX ON COTTON FUTURES.—Subchapter D of chapter 39 (relating to tax on cotton futures) is repealed.

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

(1) COTTON FUTURES CONTRACT.—The term "cotton futures contract" means any contract of sale of cotton for future delivery made at, on, or in any exchange, board of trade, or similar institution or place of business which has been designated a "contract market" by the Commodity Futures Trading Commission pursuant to the Commodity Exchange Act and the term "contract of sale" as so used shall be held to include sales, agreements of sale, and agreements to sell.

(2) FUTURE DELIVERY.—The term "future delivery" shall not include any cash sale of cotton for deferred shipment or delivery.

(3) PERSON.—The term "person" includes an individual, trust, estate, partnership, association, company, or corporation.

(4) SECRETARY.—The term "Secretary" means the Secretary of Agriculture of the United States.

(5) STANDARDS.—The term "standards" means the official cotton standards of the United States established by the Secretary pursuant to the United States Cotton Standards Act, as amended.

(d) BONA FIDE SPOT MARKETS AND COMMERCIAL DIFFERENCES.—

(1) DEFINITION.—For purposes of this section, the only markets which shall be considered bona fide spot markets shall be those which the Secretary shall, from time to time, after investigation, determine and designate to be such, and of which he shall give public notice.

(2) DETERMINATION.—In determining, pursuant to the provisions of this section, what markets are bona fide spot markets, the Secretary is directed to consider only markets in which spot cotton is sold in such volume and under such conditions as customarily to reflect accurately the value of middling cotton and the differences between the prices or values of middling cotton and of other grades of cotton for which standards shall have been established by the Secretary; except that if there are not sufficient places, in the markets of which are made bona fide sales of spot cotton of grades for which standards are established by the Secretary, to enable him to designate at least five spot markets in accordance with subsection (f)(3), he shall, from data as to spot sales collected by him, make rules and regulations for determining the actual commercial differences in the value of spot cotton of the grades established by him as reflected by bona fide sales of spot cotton, of the same or different grades, in the market selected and designated by him, from time to time, for that purpose, and in that event differences in value of cotton of various grades involved in contracts made pursuant to subsection (f) (1) and (2) shall be determined in compliance with such rules and regulations. It shall be the duty of any person engaged in the business of dealing in cotton, when requested by the Secretary or any agent acting under his instructions, to answer correctly to the best of his knowledge, under oath or otherwise, all questions touching his knowledge of the number of bales, the classification, the price or bona fide price offered, and other terms of purchase or sale, of any cotton involved in any transaction participated in by him, or to produce all books, letters, papers, or documents in his possession or under his control relating to such matter.

(3) WITHHOLDING INFORMATION.—Any person engaged in the business of dealing in cotton who shall, within a reasonable time prescribed by the Secretary or any agent acting under his instructions, willfully fail or refuse to answer questions or to produce books, letters, papers, or documents, as required under paragraph (2) of this subsection, or who shall willfully give any answer that is false or misleading, shall, upon conviction thereof, be fined not more than $500.

(e) FORM AND VALIDITY OF COTTON FUTURES CONTRACTS.—Each cotton futures contract shall be a basis grade contract, or a tendered grade contract, or a specific grade contract as specified in subsections (f), (g), or (h) and shall be in writing plainly stating, or evidenced by written memorandum showing, the terms of such contract, including the quantity of the cotton involved and the names and addresses of the seller and buyer in such contract, and shall be signed by the party to be charged, or by his agent in his behalf. No cotton futures contract which does not conform to such requirements shall be enforceable by, or on behalf of, any party to such contract or his privies.

(f) BASIS GRADE CONTRACTS.—

(1) CONDITIONS.—Each basis grade cotton futures contract shall comply with each of the following conditions:

(A) CONFORMITY WITH REGULATIONS.—Conform to the regulations made pursuant to this section.

(B) SPECIFICATION OF GRADE, PRICE, AND DATES OF SALE AND SETTLEMENT.—Specify the basis grade for the cotton involved in the contract, which shall be one of the grades for which standards are established by the Secretary, except grades prohibited from being delivered on a contract made under this

subsection by subparagraph (E), the price per pound at which the cotton of such basis grade is contracted to be bought or sold, the date when the purchase or sale was made, and the month or months in which the contract is to be fulfilled or settled; except that middling shall be deemed the basis grade incorporated into the contract if no other basis grade be specified either in the contract or in the memorandum evidencing the same.

(C) PROVISION FOR DELIVERY OF STANDARD GRADES ONLY.—Provide that the cotton dealt with therein or delivered thereunder shall be of or within the grades for which standards are established by the Secretary except grades prohibited from being delivered on a contract made under this subsection by subparagraph (E) and no other grade or grades.

(D) PROVISION FOR SETTLEMENT ON BASIS OF ACTUAL COMMERCIAL DIFFERENCES.—Provide that in case cotton of grade other than the basis grade be tendered or delivered in settlement of such contract, the differences above or below the contract price which the receiver shall pay for such grades other than the basis grade shall be the actual commercial differences, determined as hereinafter provided.

(E) PROHIBITION OF DELIVERY OF INFERIOR COTTON.—Provide that cotton that, because of the presence of extraneous matter of any character, or irregularities or defects, is reduced in value below that of low middling, or cotton that is below the grade of low middling, or, if tinged, cotton that is below the grade of strict middling, or, if yellow stained, cotton that is below the grade of good middling, the grades mentioned being of the official cotton standards of the United States, or cotton that is less than seven-eighths of an inch in length of staple, or cotton of perished staple, or of immature staple, or cotton that is "gin cut" or reginned, or cotton that is "repacked" or "false packed" or "mixed packed" or "water packed", shall not be delivered on, under, or in settlement of such contract.

(F) PROVISIONS FOR TENDER IN FULL, NOTICE OF DELIVERY DATE, AND CERTIFICATE OF GRADE.—Provide that all tenders of cotton under such contract shall be the full number of bales involved therein, except that such variations of the number of bales may be permitted as is necessary to bring the total weight of the cotton tendered within the provisions of the contract as to weight; that, on the fifth business day prior to delivery, the person making the tender shall give to the person receiving the same written notice of the date of delivery, and that, on or prior to the date so fixed for delivery, and in advance of final settlement of the contract, the person making the tender shall furnish to the person receiving the same a written notice or certificate stating the grade of each individual bale to be delivered and, by means of marks or numbers, identifying each bale with its grade.

(G) PROVISION FOR TENDER AND SETTLEMENT IN ACCORDANCE WITH GOVERNMENT CLASSIFICATION.—Provide that all tenders of cotton and settlements therefor under such contract shall be in accordance with the classification thereof made under the regulations of the Secretary by such officer or officers of the Government as shall be designated for the purpose, and the costs of such classification shall be fixed, assessed, col-

lected, and paid as provided in such regulations. The Secretary is authorized to prescribe regulations for carrying out the purposes of this subparagraph and the certificates of the officers of the Government as to the classification of any cotton for the purposes of this subparagraph shall be accepted in the courts of the United States in all suits between the parties to such contract, or their privies, as prima facie evidence of the true classification of the cotton involved.

(2) INCORPORATION OF CONDITIONS IN CONTRACTS.—The provisions of paragraphs (1) (C), (D), (E), (F), and (G) shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memorandums evidencing the same, at or prior to the time the same is signed, the phrase "Subject to United States Cotton Futures Act, subsection (f)."

(3) DELIVERY ALLOWANCES.—For the purpose of this subsection, the differences above or below the contract price which the receiver shall pay for cotton of grades above or below the basic grade in the settlement of a contract of sale for the future delivery of cotton shall be determined by the actual commercial differences in value thereof upon the sixth business day prior to the day fixed, in accordance with paragraph (1)(F), for the delivery of cotton on the contract, established by the sale of spot cotton in the spot markets of not less than five places designated for the purpose from time to time by the Secretary, as such values were established by the sales of spot cotton, in such designated five or more markets. For purposes of this paragraph, such values in the such spot markets shall be based upon the standards for grades of cotton established by the Secretary. Whenever the value of one grade is to be determined from the sale or sales of spot cotton of another grade or grades, such value shall be fixed in accordance with rules and regulations which shall be prescribed for the purpose by the Secretary.

(g) TENDERED GRADE CONTRACTS.—

(1) CONDITIONS.—Each tendered grade cotton future contract shall comply with each of the following conditions:

(A) COMPLIANCE WITH SUBSECTION (f).—Comply with all the terms and conditions of subsection (f) not inconsistent with this subsection; and

(B) PROVISION FOR CONTINGENT SPECIFIC PERFORMANCE.—Provide that, in case cotton of grade or grades other than the basis grade specified in the contract shall be tendered in performance of the contract, the parties to such contract may agree, at the time of the tender, as to the price of the grade or grades so tendered, and that if they shall not then agree as to such price, then, and in that event, the buyer of said contract shall have the right to demand the specific fulfillment of such contract by the actual delivery of cotton of the basis grade named therein and at the price specified for such basis grade in said contract.

(2) INCORPORATION OF CONDITIONS IN CONTRACT.—Contracts made in compliance with this subsection shall be known as "subsection (g) Contracts". The provisions of this subsection shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memorandum evidencing the same, at or prior to the time the same is signed, the phrase "Subject to United States Cotton Futures Act, subsection (g)".

(3) APPLICATION OF SUBSECTION.—Nothing in this subsection shall be so construed as to authorize any contract in which, or in the settlement of or in respect to which, any device or arrangement whatever is resorted to, or any agreement is made, for the determination or adjustment of the price of the grade or grades tendered other than the basis grade specified in the contract by any "fixed difference" system, or by arbitration, or by any other method not provided for by this section.

(h) SPECIFIC GRADE CONTRACTS.—

(1) CONDITIONS.—Each specific grade cotton futures contract shall comply with each of the following conditions:

(A) CONFORMITY WITH RULES AND REGULATIONS.—Conform to the rules and regulations made pursuant to this section.

(B) SPECIFICATION OF GRADE, PRICE, DATES OF SALE AND DELIVERY.—Specify the grade, type, sample, or description of the cotton involved in the contract, the price per pound at which such cotton is contracted to be bought or sold, the date of the purchase or sale, and the time when shipment or delivery of such cotton is to be made.

(C) PROHIBITION OF DELIVERY OF OTHER THAN SPECIFIED GRADE.—Provide that cotton of or within the grade or of the type, or according to the sample or description, specified in the contract shall be delivered thereunder and that no cotton which does not conform to the type, sample, or description, or which is not of or within the grade specified in the contract shall be tendered or delivered thereunder.

(D) PROVISION FOR SPECIFIC PERFORMANCE.—Provide that the delivery of cotton under the contract shall not be effected by means of "setoff" or "ring" settlement, but only by the actual transfer of the specified cotton mentioned in the contract.

(2) INCORPORATION OF CONDITIONS IN CONTRACT.—The provisions of paragraphs (1) (A), (C), and (D) shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the document or memorandum evidencing the same, at or prior to the time the same is entered into, the words "Subject to United States Cotton Futures Act, subsection (h)".

(3) APPLICATION OF SUBSECTION.—This subsection shall not be construed to apply to any contract of sale made in compliance with subsection (f) or (g).

(i) LIABILITY OF PRINCIPAL FOR ACTS OF AGENT.—When construing and enforcing the provisions of this section, the act, omission, or failure of any official, agent, or other person acting for or employed by any association, partnership, or corporation within the scope of his employment or office shall, in every case, also be deemed the act, omission, or failure of such association, partnership, or corporation, as well as that of the person.

(j) REGULATIONS.—The Secretary is authorized to make such regulations with the force and effect of law as he determines may be necessary to carry out the provisions of this section and the powers vested in him by this section.

(k) VIOLATIONS.—Any person who knowingly violates any regulation made in pursuance of this section, shall, upon conviction thereof, be fined not less than $100 nor more than $500, for each violation thereof, in the discretion of the court, and, in case of natural persons, may, in addition be punished by imprisonment for not less than 30 days nor more than 90 days, for each violation, in the discretion of the

court except that this subsection shall not apply to violations subject to subsection (d)(3).

(l) APPLICABILITY TO CONTRACTS PRIOR TO EFFECTIVE DATE.—The provisions of this section shall not apply to any cotton futures contract entered into prior to the effective date of this section or to any act or failure to act by any person prior to such effective date and all such prior contracts, acts or failure to act shall continue to be governed by the applicable provisions of the Internal Revenue Code of 1954 as in effect prior to the enactment of this section. All designations of bona fide spot markets and all rules and regulations issued by the Secretary pursuant to the applicable provisions of the Internal Revenue Code of 1954 which were in effect on the effective date of this section, shall remain fully effective as designations and regulations under this section until superseded, amended, or terminated by the Secretary.

(m) AUTHORIZATION.—There are authorized to be appropriated such sums as may be necessary to carry out this section.

(n) CONFORMING AND CLERICAL AMENDMENTS.—

(1) Section 6808 (relating to cross references) is amended by striking out paragraph (2), and by redesignating paragraphs (3), (6), and (11) as paragraphs (1), (2), and (3), respectively.

(2) (A) Section 7233 (relating to failure to pay tax on cotton futures) is repealed.

(B) The table of sections for part II of subchapter A of chapter 75 is amended by striking out the item relating to section 7233.

(3)(A) Section 7263 (relating to penalties concerning cotton futures) is repealed.

(B) The table of sections for subchapter B of chapter 75 is amended by striking out the item relating to section 7263.

(4)(A) Subchapter E of chapter 76 (relating to miscellaneous provisions regarding cotton futures contracts) is repealed.

(B) The table of subchapters for chapter 76 is amended by striking out the items relating to subchapter E.

(5) Chapter 39 (relating to regulatory taxes) is amended by striking out the chapter heading and the table of subchapters.

(6) The table of chapters for subtitle D is amended by striking out the item relating to chapter 39.

(o) EFFECTIVE DATE.—The provisions of this section shall take effect on the 90th day after the date of the enactment of this Act.

TITLE XX—ESTATE AND GIFT TAXES

SEC. 2001. UNIFIED RATE SCHEDULE FOR ESTATE AND GIFT TAXES; UNIFIED CREDIT IN LIEU OF SPECIFIC EXEMPTIONS.

(a) CHANGES IN ESTATE TAX.—

(1) IMPOSITION OF TAX; RATE SCHEDULE.—Section 2001 (relating to rate of tax) is amended to read as follows:

"SEC. 2001. IMPOSITION AND RATE OF TAX.

"(a) IMPOSITION.—A tax is hereby imposed on the transfer of the taxable estate of every decedent who is a citizen or resident of the United States.

"(b) COMPUTATION OF TAX.—The tax imposed by this section shall be the amount equal to the excess (if any) of—

"(1) a tentative tax computed in accordance with the rate schedule set forth in subsection (c) on the sum of—

"(A) the amount of the taxable estate, and

"(B) the amount of the adjusted taxable gifts, over

"(2) the aggregate amount of tax payable under chapter 12 with respect to gifts made by the decedent after December 31, 1976.

For purposes of paragraph (1)(B), the term 'adjusted taxable gifts' means the total amount of the taxable gifts (within the meaning of section 2503) made by the decedent after December 31, 1976, other than gifts which are includible in the gross estate of the decedent.

"(c) RATE SCHEDULE.—

"If the amount with respect to which the tentative tax to be computed is:	The tentative tax is:
Not over $10,000	18 percent of such amount.
Over $10,000 but not over $20,000	$1,800, plus 20 percent of the excess of such amount over $10,000.
Over $20,000 but not over $40,000	$3,800, plus 22 percent of the excess of such amount over $20,000.
Over $40,000 but not over $60,000	$8,200, plus 24 percent of the excess of such amount over $40,000.
Over $60,000 but not over $80,000	$13,000, plus 26 percent of the excess of such amount over $60,000.
Over $80,000 but not over $100,000	$18,200, plus 28 percent of the excess of such amount over $80,000.
Over $100,000 but not over $150,000	$23,800, plus 30 percent of the excess of such amount over $100,000.
Over $150,000 but not over $250,000	$38,800, plus 32 percent of the excess of such amount over $150,000.
Over $250,000 but not over $500,000	$70,800, plus 34 percent of the excess of such amount over $250,000.
Over $500,000 but not over $750,000	$155,800, plus 37 percent of the excess of such amount over $500,000.
Over $750,000 but not over $1,000,000	$248,300, plus 39 percent of the excess of such amount over $750,000.
Over $1,000,000 but not over $1,250,000	$345,800 plus 41 percent of the excess of such amount over $1,000,000.
Over $1,250,000 but not over $1,500,000	$448,300, plus 43 percent of the excess of such amount over $1,250,000.
Over $1,500,000 but not over $2,000,000	$555,800, plus 45 percent of the excess of such amount over $1,500,000.
Over $2,000,000 but not over $2,500,000	$780,800, plus 49 percent of the excess of such amount over $2,000,000.
Over $2,500,000 but not over $3,000,000	$1,025,800, plus 53 percent of the excess of such amount over $2,500,000.
Over $3,000,000 but not over $3,500,000	$1,290,800, plus 57 percent of the excess of such amount over $3,000,000.
Over $3,500,000 but not over $4,000,000	$1,575,800, plus 61 percent of the excess of such amount over $3,500,000.
Over $4,000,000 but not over $4,500,000	$1,880,800, plus 65 percent over the excess of such amount over $4,000,000.
Over $4,500,000 but not over $5,000,000	$2,205,800, plus 69 percent of the excess of such amount over $4,500,000.
Over $5,000,000	$2,550,800, plus 70 percent of the excess of such amount over $5,000,000.

"(d) ADJUSTMENT FOR GIFT TAX PAID BY SPOUSE.—For purposes of subsection (b)(2), if—

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

"(2) the amount of such gift is includible in the gross estate of the decedent,

any tax payable by the spouse under chapter 12 on such gift (as determined under section 2012(d)) shall be treated as a tax payable with respect to a gift made by the decedent."

(2) ALLOWANCE OF UNIFIED CREDIT.—Part II of subchapter A of chapter 11 (relating to credits against the estate tax) is amended by inserting before section 2011 the following new section:

"SEC. 2010. UNIFIED CREDIT AGAINST ESTATE TAX.

"(a) GENERAL RULE.—A credit of $47,000 shall be allowed to the estate of every decedent against the tax imposed by section 2001.

"(b) PHASE-IN OF $47,000 CREDIT.—

"In the case of decedents dying in:	Subsection (a) shall be applied by substituting for '$47,000' the following amount:
1977	$30,000
1978	34,000
1979	38,000
1980	42,500

"(c) ADJUSTMENT TO CREDIT FOR CERTAIN GIFTS MADE BEFORE 1977.—The amount of the credit allowable under subsection (a) shall be reduced by an amount equal to 20 percent of the aggregate amount allowed as a specific exemption under section 2521 (as in effect before its repeal by the Tax Reform Act of 1976) with respect to gifts made by the decedent after September 8, 1976.

"(d) LIMITATION BASED ON AMOUNT OF TAX.—The amount of the credit allowed by subsection (a) shall not exceed the amount of the tax imposed by section 2001."

(3) TERMINATION OF CREDIT FOR GIFT TAX.—Section 2012 (relating to credit for gift tax) is amended by adding at the end thereof the following new subsection:

"(e) SECTION INAPPLICABLE TO GIFTS MADE AFTER DECEMBER 31, 1976.—No credit shall be allowed under this section with respect to the amount of any tax paid under chapter 12 on any gift made after December 31, 1976."

(4) REPEAL OF SPECIFIC EXEMPTION.—Section 2052 (relating to exemption for purposes of the estate tax) is hereby repealed.

(5) ADJUSTMENTS FOR GIFTS MADE WITHIN 3 YEARS OF DEATH.—Section 2035 (relating to transactions in contemplation of death) is amended to read as follows:

"SEC. 2035. ADJUSTMENTS FOR GIFTS MADE WITHIN 3 YEARS OF DECEDENT'S DEATH.

"(a) INCLUSION OF GIFTS MADE BY DECEDENT.—Except as provided in subsection (b), the value of the gross estate shall include the value of all property to the extent of any interest therein of which the decedent has at any time made a transfer, by trust or otherwise, during the 3-year period ending on the date of the decedent's death.

"(b) EXCEPTIONS.—Subsection (a) shall not apply to—

"(1) any bona fide sale for an adequate and full consideration in money or money's worth, and

"(2) any gift excludable in computing taxable gifts by reason of section 2503(b) (relating to $3,000 annual exclusion for purposes of the gift tax) determined without regard to section 2513(a).

"(c) INCLUSION OF GIFT TAX ON CERTAIN GIFTS MADE DURING 3 YEARS BEFORE DECEDENT'S DEATH.—The amount of the gross estate (determined without regard to this subsection) shall be increased by the amount of any tax paid under chapter 12 by the decedent or his estate on any gift made by the decedent or his spouse after Decem-

ber 31, 1976, and during the 3-year period ending on the date of the decedent's death."

(b) CHANGES IN GIFT TAX.—

(1) RATE OF TAX.—Subsection (a) of section 2502 (relating to rate of gift tax) is amended to read as follows:

"(a) COMPUTATION OF TAX.—The tax imposed by section 2501 for each calendar quarter shall be an amount equal to the excess of—

"(1) a tentative tax, computed in accordance with the rate schedule set forth in section 2001(c), on the aggregate sum of the taxable gifts for such calendar quarter and for each of the preceding calendar years and calendar quarters, over

"(2) a tentative tax, computed in accordance with such rate schedule, on the aggregate sum of the taxable gifts for each of the preceding calendar years and calendar quarters."

(2) UNIFIED CREDIT.—Subchapter A of chapter 12 (relating to determination of gift tax liability) is amended by adding at the end thereof the following new section:

"SEC. 2505. UNIFIED CREDIT AGAINST GIFT TAX.

"(a) GENERAL RULE.—In the case of a citizen or resident of the United States, there shall be allowed as a credit against the tax imposed by section 2501 for each calendar quarter an amount equal to—

"(1) $47,000, reduced by

"(2) the sum of the amounts allowable as a credit to the individual under this section for all preceding calendar quarters.

"(b) PHASE-IN OF $47,000 CREDIT.—

"In the case of gifts made:	Subsection (a)(1) shall be applied by substituting for '$47,000' the following amount:
After December 31, 1976, and before July 1, 1977	$6,000
After June 30, 1977, and before January 1, 1978	$30,000
After December 31, 1977, and before January 1, 1979	$34,000
After December 31, 1978, and before January 1, 1980	$38,000
After December 31, 1979, and before January 1, 1981	$42,500

"(c) ADJUSTMENT TO CREDIT FOR CERTAIN GIFTS MADE BEFORE 1977.—The amount allowable under subsection (a) shall be reduced by an amount equal to 20 percent of the aggregate amount allowed as a specific exemption under section 2521 (as in effect before its repeal by the Tax Reform Act of 1976) with respect to gifts made by the individual after September 8, 1976.

"(d) LIMITATION BASED ON AMOUNT OF TAX.—The amount of the credit allowed under subsection (a) for any calendar quarter shall not exceed the amount of the tax imposed by section 2501 for such calendar quarter."

(3) REPEAL OF SPECIFIC EXEMPTION.—Section 2521 (relating to specific exemption in the case of the gift tax) is hereby repealed.

(c) TECHNICAL, CLERICAL, AND CONFORMING CHANGES.—

(1) CHANGES IN ESTATE TAX.—

(A) CREDIT FOR STATE DEATH TAXES.—Section 2011 (relating to credit for State death taxes) is amended—

(i) by striking out "taxable estate" each place it appears in subsection (b) (including the heading to the table) and inserting in lieu thereof "adjusted taxable estate";

(ii) by adding at the end of subsection (b) the following new sentence:

"For purposes of this section, the term 'adjusted taxable estate' means the taxable estate reduced by $60,000.",

(iii) by striking out "taxable estate" each place it appears in subsection (e) and inserting in lieu thereof "adjusted taxable estate"; and

(iv) by adding at the end thereof the following new subsection:

"(f) LIMITATION BASED ON AMOUNT OF TAX.—The credit provided by this section shall not exceed the amount of the tax imposed by section 2001, reduced by the amount of the unified credit provided by section 2010."

(B) CREDIT FOR GIFT TAX.—Subsection (a) of section 2012 (relating to credit for gift tax) is amended by striking out "provided by section 2011" and inserting in lieu thereof "provided by section 2011 and the unified credit provided by section 2010".

(C) CREDIT FOR TAX ON PRIOR TRANSFERS.—

(i) The first sentence of section 2013(b) is amended by striking out "and increased by the exemption provided for by section 2052 or section 2106(a)(3), or the corresponding provisions of prior laws, in determining the taxable estate of the transferor for purposes of the estate tax".

(ii) Subparagraph (A) of section 2013(e)(1) is amended to read as follows:

"(A) the estate tax imposed by section 2001 or section 2101 (after deducting the credits provided for in sections 2010, 2011, 2012, and 2014) computed without regard to this section, exceeds".

(D) RATE OF TAX IN CASE OF NONRESIDENTS NOT CITIZENS.—Section 2101 (relating to tax imposed in the case of estates of nonresidents not citizens) is amended to read as follows:

"SEC. 2101. TAX IMPOSED.

"(a) IMPOSITION.—Except as provided in section 2107, a tax is hereby imposed on the transfer of the taxable estate (determined as provided in section 2106) of every decedent nonresident not a citizen of the United States.

"(b) COMPUTATION OF TAX.—The tax imposed by this section shall be the amount equal to the excess (if any) of—

"(1) a tentative tax computed in accordance with the rate schedule set forth in subsection (d) on the sum of—

"(A) the amount of the taxable estate, and

"(B) the amount of the adjusted taxable gifts, over

"(2) a tentative tax computed in accordance with the rate schedule set forth in subsection (d) on the amount of the adjusted taxable gifts.

"(c) ADJUSTMENTS FOR TAXABLE GIFTS.—

"(1) ADJUSTED TAXABLE GIFTS DEFINED.—For purposes of this section, the term 'adjusted taxable gifts' means the total amount of the taxable gifts (within the meaning of section 2503 as modified by section 2511) made by the decedent after December 31, 1976, other than gifts which are includible in the gross estate of the decedent.

"(2) ADJUSTMENT FOR CERTAIN GIFT TAX.—For purposes of this section, the rules of section 2001(d) shall apply.

"(d) RATE SCHEDULE.—

"If the amount with respect to which the tentative tax to be computed is:	The tentative tax is:
Not over $100,000	6% of such amount.
Over $100,000 but not over $500,000	$6,000, plus 12% of excess over $100,000.
Over $500,000 but not over $1,000,000	$54,000, plus 18% of excess over $500,000.
Over $1,000,000 but not over $2,000,000	$144,000, plus 24% of excess over $1,000,000.
Over 2,000,000	$384,000, plus 30% of excess over $2,000,000."

(E) CREDIT IN CASE OF ESTATE OF NONRESIDENTS NOT CITIZENS.—

(i) Section 2102 (relating to credits against tax in case of estates of nonresidents not citizens) is amended by adding at the end thereof the following new subsection:

"(c) UNIFIED CREDIT.—

"(1) IN GENERAL.—A credit of $3,600 shall be allowed against the tax imposed by section 2101.

"(2) RESIDENTS OF POSSESSIONS OF THE UNITED STATES.—In the case of a decedent who is considered to be a 'nonresident not a citizen of the United States' under section 2209, the credit under this subsection shall be the greater of—

"(A) $3,600, or

"(B) that proportion of $15,075 which the value of that part of the decedent's gross estate which at the time of his death is situated in the United States bears to the value of his entire gross estate wherever situated.

"(3) PHASE-IN OF PARAGRAPH (2)(B) AMOUNT.—In the case of a decedent dying before 1981, paragraph (2)(B) shall be applied—

"(A) in the case of a decedent dying during 1977, by substituting '$8,480' for '$15,075',

"(B) in the case of a decedent dying during 1978, by substituting '$10,080' for '$15,075',

"(C) in the case of a decedent dying during 1979, by substituting '$11,680' for '$15,075', and

"(D) in the case of a decedent dying during 1980, by substituting '$13,388' for '$15,075'.

"(4) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under this subsection shall not exceed the amount of the tax imposed by section 2101.

"(5) APPLICATION OF OTHER CREDITS.—For purposes of subsection (a), sections 2011 to 2013, inclusive, shall be applied as if the credit allowed under this subsection were allowed under section 2010."

(ii) Subsection (c) of section 2107 (relating to expatriation to avoid tax) is amended to read as follows:

"(c) CREDITS.—

"(1) UNIFIED CREDIT.—

"(A) IN GENERAL.—A credit of $13,000 shall be allowed against the tax imposed by subsection (a).

"(B) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under this paragraph shall not exceed the amount of the tax imposed by subsection (a).

"(2) OTHER CREDITS.—The tax imposed by subsection (a) shall be credited with the amounts determined in accordance with sub-

sections (a) and (b) of section 2102. For purposes of subsection (a) of section 2102, sections 2011 to 2013, inclusive, shall be applied as if the credit allowed under paragraph (1) were allowed under section 2010."

(F) REPEAL OF SPECIFIC EXEMPTION.—Paragraph (3) of section 2106(a) (relating to specific exemption in case of decedents nonresidents not citizens) is hereby repealed.

(G) CREDIT FOR FOREIGN DEATH TAXES.—Paragraph (2) of section 2014(b) (relating to limitations on credit) is amended by striking out "sections 2011 and 2012" and inserting in lieu thereof "sections 2010, 2011, and 2012".

(H) LIABILITY OF LIFE INSURANCE BENEFICIARIES.—The first sentence of section 2206 (relating to liability of life insurance beneficiaries) is amended by striking out "the sum of the taxable estate and the amount of the exemption allowed in computing the taxable estate, determined under section 2051" and inserting in lieu thereof "the taxable estate".

(I) LIABILITY OF RECIPIENTS OF CERTAIN PROPERTY.—The first sentence of section 2207 (relating to liability of recipient of property over which decedent had power of appointment) is amended by striking out "the sum of the taxable estate and the amount of the exemption allowed in computing the taxable estate, determined under section 2052, or section 2106(a), as the case may be" and inserting in lieu thereof "the taxable estate".

(J) RETURN BY EXECUTOR.—Subsection (a) of section 6018 (relating to estate tax returns by executor) is amended—

(i) by striking out "$60,000" in paragraph (1) and inserting in lieu thereof "$175,000";

(ii) by striking out "$30,000" in paragraph (2) and inserting in lieu thereof "$60,000"; and

(iii) by adding at the end thereof the following new paragraphs:

"(3) PHASE-IN OF FILING REQUIREMENT AMOUNT.—In the case of a decedent dying before 1981, paragraph (1) shall be applied—

"(A) in the case of a decedent dying during 1977, by substituting '$120,000' for '$175,000',

"(B) in the case of a decedent dying during 1978, by substituting '$134,000' for '$175,000',

"(C) in the case of a decedent dying during 1979, by substituting '$147,000' for '$175,000', and

"(D) in the case of a decedent dying during 1980, by substituting '$161,000' for '$175,000'.

"(4) ADJUSTMENT FOR CERTAIN GIFTS.—The amount applicable under paragraph (1) and the amount set forth in paragraph (2) shall each be reduced (but not below zero) by the sum of—

"(A) the amount of the adjusted taxable gifts (within the meaning of section 2001(b)) made by the decedent after December 31, 1976, plus

"(B) the aggregate amount allowed as a specific exemption under section 2521 (as in effect before its repeal by the Tax Reform Act of 1976) with respect to gifts made by the decedent after September 8, 1976."

(K) REVOCABLE TRANSFERS.—

(i) Paragraph (1) of section 2038(a) (relating to revocable transfers) is amended by striking out "in con-

templation of decedent's death" and inserting in lieu thereof "during the 3-year period ending on the date of the decedent's death".

(ii) Paragraph (2) of section 2038(a) (relating to revocable transfer) is amended by striking out "in contemplation of his death" and inserting in lieu thereof "during the 3-year period ending on the date of the decedent's death".

(L) PROPERTY WITHIN THE UNITED STATES.—Subsection (b) of section 2104 (relating to revocable transfers and transfers in contemplation of death) is amended by striking out "AND TRANSFERS IN CONTEMPLATION OF DEATH" in the subsection heading and inserting in lieu thereof "AND TRANSFERS WITHIN 3 YEARS OF DEATH".

(M) PRIOR INTERESTS.—Section 2044 (relating to prior interests) is amended by striking out "specifically provided therein" and inserting in lieu thereof "specifically provided by law".

(N) CLERICAL AMENDMENTS.—

(i) The item relating to section 2001 in the table of sections for part I of subchapter A of chapter 11 is amended to read as follows:

"Sec. 2001. Imposition and rate of tax."

(ii) The table of sections for part II of subchapter A of chapter 11 is amended by inserting before the item relating to section 2011 the following new item:

"Sec. 2010. Unified credit against estate tax."

(iii) The table of sections for part III of subchapter A of chapter 11 is amended by striking out the item relating to section 2035 and inserting in lieu thereof the following new item:

"Sec. 2035. Adjustments for gifts made within 3 years of decedent's death."

(iv) The table of sections for part IV of subchapter A of chapter 11 is amended by striking out the item relating to section 2052.

(2) CHANGES IN GIFT TAX.—

(A) TAXABLE GIFTS FOR PRECEDING YEARS AND QUARTERS.—Subsection (a) of section 2504 (relating to taxable gifts for preceding years and quarters) is amended by striking out "except that" and all that follows and inserting in lieu thereof "except that the specific exemption in the amount, if any, allowable under section 2521 (as in effect before its repeal by the Tax Reform Act of 1976) shall be applied in all computations in respect of calendar years or calendar quarters ending before January 1, 1977, for purposes of computing the tax for any calendar quarter."

(B) CLERICAL AMENDMENTS.—

(i) The table of sections for subchapter A of chapter 12 is amended by adding at the end thereof the following new item:

"Sec. 2505. Unified credit against gift tax."

(ii) The table of sections for subchapter C of chapter 12 is amended by striking out the item relating to section 2521.

(d) EFFECTIVE DATES.—

(1) The amendments made by subsections (a) and (c)(1) shall apply to the estates of decedents dying after December 31, 1976; except that the amendments made by subsection (a)(5) and subparagraphs (K) and (L) of subsection (c)(1) shall not apply to transfers made before January 1, 1977.

(2) The amendments made by subsections (b) and (c)(2) shall apply to gifts made after December 31, 1976.

SEC. 2002. INCREASE IN LIMITATIONS ON MARITAL DEDUCTIONS; FRACTIONAL INTERESTS OF SPOUSE.

(a) INCREASE IN ESTATE TAX MARITAL DEDUCTION.—Paragraph (1) of section 2056(c) (relating to limitation on marital deduction) is amended to read as follows:

"(1) LIMITATION.—

"(A) IN GENERAL.—The aggregate amount of the deductions allowed under this section (computed without regard to this subsection) shall not exceed the greater of—

"(i) $250,000, or

"(ii) 50 percent of the value of the adjusted gross estate (as defined in paragraph (2)).

"(B) ADJUSTMENT FOR CERTAIN GIFTS TO SPOUSE.—If a deduction is allowed to the decedent under section 2523 with respect to any gift made to his spouse after December 31, 1976, the limitation provided by subparagraph (A) (determined without regard to this subparagraph) shall be reduced (but not below zero) by the excess (if any) of—

"(i) the aggregate of the deductions allowed to the decedent under section 2523 with respect to gifts made after December 31, 1976, over

"(ii) the aggregate of the deductions which would have been allowable under section 2523 with respect to gifts made after December 31, 1976, if the amount deductible under such section with respect to any gift were 50 percent of its value.

"(C) COMMUNITY PROPERTY ADJUSTMENT.—The $250,000 amount set forth in subparagraph (A)(i) shall be reduced by the excess (if any) of—

"(i) the amount of the subtraction determined under clauses (i), (ii), and (iii) of paragraph (2)(B), over

"(ii) the excess of the aggregate of the deductions allowed under sections 2053 and 2054 over the amount taken into account with respect to such deductions under clause (iv) of paragraph (2)(B)."

(b) INCREASE IN GIFT TAX MARITAL DEDUCTION.—Subsection (a) of section 2523 (relating to deduction for gift to spouse) is amended to read as follows:

"(a) ALLOWANCE OF DEDUCTION.—

"(1) IN GENERAL.—Where a donor who is a citizen or resident transfers during the calendar quarter by gift an interest in property to a donee who at the time of the gift is the donor's spouse, there shall be allowed as a deduction in computing taxable gifts for the calendar quarter an amount with respect to such interest equal to its value.

"(2) LIMITATION.—The aggregate of the deductions allowed under paragraph (1) for any calendar quarter shall not exceed the sum of—

"(A) $100,000 reduced (but not below zero) by the aggregate of the deductions allowed under this section for preceding calendar quarters beginning after December 31, 1976; plus

"(B) 50 percent of the lesser of—

"(i) the amount of the deductions allowable under paragraph (1) for such calendar quarter (determined without regard to this paragraph); or

"(ii) the amount (if any) by which the aggregate of the amounts determined under clause (i) for the calendar quarter and for each preceding calendar quarter beginning after December 31, 1976, exceeds $200,000."

(c) FRACTIONAL INTEREST OF SPOUSE.—

(1) IN GENERAL.—Section 2040 (relating to joint interests) is amended by adding at the end thereof the following new subsection:

"(b) CERTAIN JOINT INTERESTS OF HUSBAND AND WIFE.—

"(1) INTERESTS OF SPOUSE EXCLUDED FROM GROSS ESTATE.—Notwithstanding subsection (a), in the case of any qualified joint interest, the value included in the gross estate with respect to such interest by reason of this section is one-half of the value of such qualified joint interest.

"(2) QUALIFIED JOINT INTEREST DEFINED.—For purposes of paragraph (1), the term 'qualified joint interest' means any interest in property held by the decedent and the decedent's spouse as joint tenants or as tenants by the entirety, but only if—

"(A) such joint interest was created by the decedent, the decedent's spouse, or both,

"(B) (i) in the case of personal property, the creation of such joint interest constituted in whole or in part a gift for purposes of chapter 12, or

"(ii) in the case of real property, an election under section 2515 applies with respect to the creation of such joint interest, and

"(C) in the case of a joint tenancy, only the decedent and the decedent's spouse are joint tenants."

(2) AMENDMENT OF RELATED GIFT TAX PROVISION.—Subsection (c) of section 2515 (relating to election with respect to tenancies by the entirety) is amended to read as follows:

"(c) EXERCISE OF ELECTION.—

"(1) IN GENERAL.—The election provided by subsection (a) shall be exercised by including such creation of a tenancy by the entirety as a transfer by gift, to the extent such transfer constitutes a gift (determined without regard to this section), in the gift tax return of the donor for the calendar quarter in which such tenancy by the entirety was created, filed within the time prescribed by law, irrespective of whether or not the gift exceeds the exclusion provided by section 2503(b).

"(2) SUBSEQUENT ADDITIONS IN VALUE.—If the election provided by subsection (a) has been made with respect to the creation of any tenancy by the entirety, such election shall also apply to each addition made to the value of such tenancy by the entirety.

"(3) CERTAIN ACTUARIAL COMPUTATIONS NOT REQUIRED.—In the case of any election under subsection (a) with respect to any property, the retained interest of each spouse shall be treated as one-half of the value of their joint interest."

(3) CLERICAL AMENDMENT.—Section 2040 is amended by striking out "The value" and inserting in lieu thereof the following:
"(a) GENERAL RULE.—The value".

(d) EFFECTIVE DATES.—

(1)(A) Except as provided in subparagraph (B), the amendment made by subsection (a) shall apply with respect to the estates of decedents dying after December 31, 1976.

(B) If—

(i) the decedent dies after December 31, 1976, and before January 1, 1979,

(ii) by reason of the death of the decedent property passes from the decedent or is acquired from the decedent under a will executed before January 1, 1977, or a trust created before such date, which contains a formula expressly providing that the spouse is to receive the maximum amount of property qualifying for the marital deduction allowable by Federal law,

(iii) the formula referred to in clause (ii) was not amended at any time after December 31, 1976, and before the death of the decedent, and

(iv) the State does not enact a statute applicable to such estate which construes this type of formula as referring to the marital deducton allowable by Federal law as amended by subsection (a),

then the amendment made by subsection (a) shall not apply to the estate of such decedent.

(2) The amendment made by subsection (b) shall apply to gifts made after December 31, 1976.

(3) The amendments made by subsection (c) shall apply to joint interests created after December 31, 1976.

SEC. 2003. VALUATION FOR PURPOSES OF THE FEDERAL ESTATE TAX OF CERTAIN REAL PROPERTY DEVOTED TO FARMING OR CLOSELY HELD BUSINESSES.

(a) GENERAL RULE.—Part III of subchapter A of chapter 11 (relating to gross estate) is amended by inserting after section 2032 the following new section:

"SEC. 2032A. VALUATION OF CERTAIN FARM, ETC., REAL PROPERTY.

"(a) VALUE BASED ON USE UNDER WHICH PROPERTY QUALIFIES.—

"(1) GENERAL RULE.—If—

"(A) the decedent was (at the time of his death) a citizen or resident of the United States, and

"(B) the executor elects the application of this section and files the agreement referred to in subsection (d)(2),

then, for purposes of this chapter, the value of qualified real property shall be its value for the use under which it qualifies, under subsection (b), as qualified real property.

"(2) LIMITATION.—The aggregate decrease in the value of qualified real property taken into account for purposes of this chapter which results from the application of paragraph (1) with respect to any decedent shall not exceed $500,000.

"(b) QUALIFIED REAL PROPERTY.—

"(1) IN GENERAL.—For purposes of this section, the term 'qualified real property' means real property located in the United States which, on the date of the decedent's death, was being used for a qualified use, but only if—

"(A) 50 percent or more of the adjusted value of the gross estate consists of the adjusted value of real or personal property which—

"(i) on the date of the decedent's death, was being used for a qualified use, and

"(ii) was acquired from or passed from the decedent to a qualified heir of the decedent.

"(B) 25 percent or more of the adjusted value of the gross estate consists of the adjusted value of real property which meets the requirements of subparagraphs (A)(ii) and (C),

"(C) during the 8-year period ending on the date of the decedent's death there have been periods aggregating 5 years or more during which—

"(i) such real property was owned by the decedent or a member of the decedent's family and used for a qualified use, and

"(ii) there was material participation by the decedent or a member of the decedent's family in the operation of the farm or other business, and

"(D) such real property is designated in the agreement referred to in subsection (d)(2).

"(2) QUALIFIED USE.—For purposes of this section, the term 'qualified use' means the devotion of the property to any of the following:

"(A) use as a farm for farming purposes, or

"(B) use in a trade or business other than the trade or business of farming.

"(3) ADJUSTED VALUE.—For purposes of paragraph (1), the term 'adjusted value' means—

"(A) in the case of the gross estate, the value of the gross estate for purposes of this chapter (determined without regard to this section), reduced by any amounts allowable as a deduction under paragraph (4) of section 2053(a), or

"(B) in the case of any real or personal property, the value of such property for purposes of this chapter (determined without regard to this section), reduced by any amounts allowable as a deduction in respect of such property under paragraph (4) of section 2053(a).

"(c) TAX TREATMENT OF DISPOSITIONS AND FAILURES TO USE FOR QUALIFIED USE.—

"(1) IMPOSITION OF ADDITIONAL ESTATE TAX.—If, within 15 years after the decedent's death and before the death of the qualified heir—

"(A) the qualified heir disposes of any interest in qualified real property (other than by a disposition to a member of his family), or

"(B) the qualified heir ceases to use for the qualified use the qualified real property which was acquired (or passed) from the decedent,

then, there is hereby imposed an additional estate tax.

"(2) AMOUNT OF ADDITIONAL TAX.—

"(A) IN GENERAL.—The amount of the additional tax imposed by paragraph (1) with respect to any interest shall be the amount equal to the lesser of—

"(i) the adjusted tax difference attributable to such interest, or

"(ii) the excess of the amount realized with respect to the interest (or, in any case other than a sale or exchange at arm's length, the fair market value of the interest) over the value of the interest determined under subsection (a).

"(B) ADJUSTED TAX DIFFERENCE ATTRIBUTABLE TO INTEREST.—For purposes of subparagraph (A), the adjusted tax difference attributable to an interest is the amount which bears the same ratio to the adjusted tax difference with respect to the estate (determined under subparagraph (C)) as—

"(i) the excess of the value of such interest for purposes of this chapter (determined without regard to subsection (a)) over the value of such interest determined under subsection (a), bears to

"(ii) a similar excess determined for all qualified real property.

"(C) ADJUSTED TAX DIFFERENCE WITH RESPECT TO THE ESTATE.—For purposes of subparagraph (B), the term 'adjusted tax difference with respect to the estate' means the excess of what would have been the estate tax liability but for subsection (a) over the estate tax liability. For purposes of this subparagraph, the term 'estate tax liability' means the tax imposed by section 2001 reduced by the credits allowable against such tax.

"(D) PARTIAL DISPOSITIONS.—For purposes of this paragraph, where the qualified heir disposes of a portion of the interest acquired by (or passing to) such heir (or a predecessor qualified heir) or there is a cessation of use of such a portion—

"(i) the value determined under subsection (a) taken into account under subparagraph (A)(ii) with respect to such portion shall be its pro rata share of such value of such interest, and

"(ii) the adjusted tax difference attributable to the interest taken into account with respect to the transaction involving the second or any succeeding portion shall be reduced by the amount of the tax imposed by this subsection with respect to all prior transactions involving portions of such interest.

"(3) PHASEOUT OF ADDITIONAL TAX BETWEEN 10TH AND 15TH YEARS.—If the date of the disposition or cessation referred to in paragraph (1) occurs more than 120 months and less than 180 months after the date of the death of the decedent, the amount of the tax imposed by this subsection shall be reduced (but not below zero) by an amount determined by multiplying the amount of such tax (determined without regard to this paragraph) by a fraction—

"(A) the numerator of which is the number of full months after such death in excess of 120, and

"(B) the denominator of which is 60.

"(4) ONLY 1 ADDITIONAL TAX IMPOSED WITH RESPECT TO ANY 1 PORTION.—In the case of an interest acquired from (or passing from) any decedent, if subparagraph (A) or (B) of paragraph (1) applies to any portion of an interest, subparagraph (B) or

(A), as the case may be, of paragraph (1) shall not apply with respect to the same portion of such interest.

"(5) DUE DATE.—The additional tax imposed by this subsection shall become due and payable on the day which is 6 months after the date of the disposition or cessation referred to in paragraph (1).

"(6) LIABILITY FOR TAX.—The qualified heir shall be personally liable for the additional tax imposed by this subsection with respect to his interest.

"(7) CESSATION OF QUALIFIED USE.—For purposes of paragraph (1)(B), real property shall cease to be used for the qualified use if—

"(A) such property ceases to be used for the qualified use set forth in subparagraph (A) or (B) of subsection (b)(2) under which the property qualified under subsection (b), or

"(B) during any period of 8 years ending after the date of the decedent's death and before the date of the death of the qualified heir, there had been periods aggregating 3 years or more during which—

"(i) in the case of periods during which the property was held by the decedent, there was no material participation by the decedent or any member of his family in the operation of the farm or other business, and

"(ii) in the case of periods during which the property was held by any qualified heir, there was no material participation by such qualified heir or any member of his family in the operation of the farm or other business.

"(d) ELECTION; AGREEMENT.—

"(1) ELECTION.—The election under this section shall be made not later than the time prescribed by section 6075(a) for filing the return of tax imposed by section 2001 (including extensions thereof), and shall be made in such manner as the Secretary shall by regulations prescribe.

"(2) AGREEMENT.—The agreement referred to in this paragraph is a written agreement signed by each person in being who has an interest (whether or not in possession) in any property designated in such agreement consenting to the application of subsection (c) with respect to such property.

"(e) DEFINITIONS; SPECIAL RULES.—For purposes of this section—

"(1) QUALIFIED HEIR.—The term 'qualified heir' means, with respect to any property, a member of the decedent's family who acquired such property (or to whom such property passed) from the decedent. If a qualified heir disposes of any interest in qualified real property to any member of his family, such member shall thereafter be treated as the qualified heir with respect to such interest.

"(2) MEMBER OF FAMILY.—The term 'member of the family' means, with respect to any individual, only such individual's ancestor or lineal descendant, a lineal descendant of a grandparent of such individual, the spouse of such individual, or the spouse of any such descendant. For purposes of the preceding sentence, a legally adopted child of an individual shall be treated as a child of such individual by blood.

"(3) CERTAIN REAL PROPERTY INCLUDED.—In the case of real property which meets the requirements of subparagraph (C) of subsection (b)(1), residential buildings and related improvements on such real property occupied on a regular basis by the

owner or lessee of such real property or by persons employed by such owner or lessee for the purpose of operating or maintaining such real property, and roads, buildings, and other structures and improvements functionally related to the qualified use shall be treated as real property devoted to the qualified use.

"(4) FARM.—The term 'farm' includes stock, dairy, poultry, fruit, furbearing animal, and truck farms, plantations, ranches, nurseries, ranges, greenhouses or other similar structures used primarily for the raising of agricultural or horticultural commodities, and orchards and woodlands.

"(5) FARMING PURPOSES.—The term 'farming purposes' means—

"(A) cultivating the soil or raising or harvesting any agricultural or horticultural commodity (including the raising, shearing, feeding, caring for, training, and management of animals) on a farm;

"(B) handling, drying, packing, grading, or storing on a farm any agricultural or horticultural commodity in its unmanufactured state, but only if the owner, tenant, or operator of the farm regularly produces more than one-half of the commodity so treated; and

"(C) (i) the planting, cultivating, caring for, or cutting of trees, or

"(ii) the preparation (other than milling) of trees for market.

"(6) MATERIAL PARTICIPATION.—Material participation shall be determined in a manner similar to the manner used for purposes of paragraph (1) of section 1402(a) (relating to net earnings from self-employment).

"(7) METHOD OF VALUING FARMS.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), the value of a farm for farming purposes shall be determined by dividing—

"(i) the excess of the average annual gross cash rental for comparable land used for farming purposes and located in the locality of such farm over the average annual State and local real estate taxes for such comparable land, by

"(ii) the average annual effective interest rate for all new Federal Land Bank loans.

For purposes of the preceding sentence, each average annual computation shall be made on the basis of the 5 most recent calendar years ending before the date of the decedent's death.

"(B) EXCEPTION.—The formula provided by subparagraph (A) shall not be used—

"(i) where it is established that there is no comparable land from which the average annual gross cash rental may be determined, or

"(ii) where the executor elects to have the value of the farm for farming purposes determined under paragraph (8).

"(8) METHOD OF VALUING CLOSELY HELD BUSINESS INTERESTS, ETC.—In any case to which paragraph (7)(A) does not apply, the following factors shall apply in determining the value of any qualified real property:

"(A) The capitalization of income which the property can be expected to yield for farming or closely held business pur-

poses over a reasonable period of time under prudent management using traditional cropping patterns for the area, taking into account soil capacity, terrain configuration, and similar factors,

"(B) The capitalization of the fair rental value of the land for farm land or closely held business purposes,

"(C) Assessed land values in a State which provides a differential or use value assessment law for farmland or closely held business,

"(D) Comparable sales of other farm or closely held business land in the same geographical area far enough removed from a metropolitan or resort area so that nonagricultural use is not a significant factor in the sales price, and

"(E) Any other factor which fairly values the farm or closely held business value of the property.

"(f) STATUTE OF LIMITATIONS.—If qualified real property is disposed of or ceases to be used for a qualified use, then—

"(1) the statutory period for the assessment of any additional tax under subsection (c) attributable to such disposition or cessation shall not expire before the expiration of 3 years from the date the Secretary is notified (in such manner as the Secretary may by regulations prescribe) of such disposition or cessation, and

"(2) such additional tax may be assessed before the expiration of such 3-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment.

"(g) APPLICATION OF THIS SECTION AND SECTION 6324B TO INTERESTS IN PARTNERSHIPS, CORPORATIONS, AND TRUSTS.—The Secretary shall prescribe regulations setting forth the application of this section and section 6324B in the case of an interest in a partnership, corporation, or trust which, with respect to the decedent, is an interest in a closely held business (within the meaning of paragraph (1) of section 6166(b))."

(b) SPECIAL LIEN.—Subchapter C of chapter 64 (relating to lien for taxes) is amended by inserting after section 6324A the following new section:

"SEC. 6324B. SPECIAL LIEN FOR ADDITIONAL ESTATE TAX ATTRIBUTABLE TO FARM, ETC., VALUATION.

"(a) GENERAL RULE.—In the case of any interest in qualified real property (within the meaning of section 2032A(b)), an amount equal to the adjusted tax difference attributable to such interest (within the meaning of section 2032A(c)(2)(B)) shall be a lien in favor of the United States on the property in which such interest exists.

"(b) PERIOD OF LIEN.—The lien imposed by this section shall arise at the time an election is filed under section 2032A and shall continue with respect to any interest in the qualified farm real property—

"(1) until the liability for tax under subsection (c) of section 2032A with respect to such interest has been satisfied or has become unenforceable by reason of lapse of time, or

"(2) until it is established to the satisfaction of the Secretary that no further tax liability may arise under section 2032A(c) with respect to such interest.

"(c) CERTAIN RULES MADE APPLICABLE.—The rules set forth in paragraphs (1), (3), and (4) of section 6324A(d) shall apply with respect to the lien imposed by this section as if it were a lien imposed by section 6324A.

"(d) SUBSTITUTION OF SECURITY FOR LIEN.—To the extent provided in regulations prescribed by the Secretary, the furnishing of security may be substituted for the lien imposed by this section."

(c) CREDIT FOR TAX ON PRIOR TRANSFERS.—Section 2013 (relating to credit for tax on prior transfers) is amended by adding at the end thereof the following new subsection:

"(f) TREATMENT OF ADDITIONAL TAX IMPOSED UNDER SECTION 2032A.—If section 2032A applies to any property included in the gross estate of the transferor and an additional tax is imposed with respect to such property under section 2032A(c) before the date which is 2 years after the date of the decedent's death, for purposes of this section—

"(1) the additional tax imposed by section 2032A(c) shall be treated as a Federal estate tax payable with respect to the estate of the transferor; and

"(2) the value of such property and the amount of the taxable estate of the transferor shall be determined as if section 2032A did not apply with respect to such property."

(d) CLERICAL AMENDMENTS.—

(1) The table of sections for part III of subchapter A of chapter 11 is amended by inserting after the item relating to section 2032 the following new item:

"Sec. 2032A. Valuation of certain farm, etc., real property."

(2) The table of sections for subchapter C of chapter 64 is amended by inserting after the item relating to section 6324A the following new item:

"Sec. 6324B. Special lien for additional estate tax attributable to farm, etc., valuation."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to the estates of decedents dying after December 31, 1976.

SEC. 2004. EXTENSION OF TIME FOR PAYMENT OF ESTATE TAX.

(a) GENERAL RULE.—Subchapter B of chapter 62 (relating to extensions of time for payment of tax) is amended by redesignating section 6166 as section 6166A and by inserting after section 6165 the following new section:

"SEC. 6166. ALTERNATE EXTENSION OF TIME FOR PAYMENT OF ESTATE TAX WHERE ESTATE CONSISTS LARGELY OF INTEREST IN CLOSELY HELD BUSINESS.

"(a) 5-YEAR DEFERRAL; 10-YEAR INSTALLMENT PAYMENT.—

"(1) IN GENERAL.—If the value of an interest in a closely held business which is included in determining the gross estate of a decedent who was (at the date of his death) a citizen or resident of the United States exceeds 65 percent of the adjusted gross estate, the executor may elect to pay part or all of the tax imposed by section 2001 in 2 or more (but not exceeding 10) equal installments.

"(2) LIMITATION.—The maximum amount of tax which may be paid in installments under this subsection shall be an amount which bears the same ratio to the tax imposed by section 2001 (reduced by the credits against such tax) as—

"(A) the closely held business amount, bears to

"(B) the amount of the adjusted gross estate.

"(3) DATE FOR PAYMENT OF INSTALLMENTS.—If an election is made under paragraph (1), the first installment shall be paid on or before the date selected by the executor which is not more than

5 years after the date prescribed by section 6151(a) for payment of the tax, and each succeeding installment shall be paid on or before the date which is 1 year after the date prescribed by this paragraph for payment of the preceding installment.

"(4) ELIGIBILITY FOR ELECTION.—No election may be made under this section by the executor of the estate of any decedent if an election under section 6166A applies with respect to the estate of such decedent.

"(b) DEFINITIONS AND SPECIAL RULES.—

"(1) INTEREST IN CLOSELY HELD BUSINESS.—For purposes of this section, the term 'interest in a closely held business' means—

"(A) an interest as a proprietor in a trade or business carried on as a proprietorship;

"(B) an interest as a partner in a partnership carrying on a trade or business, if—

"(i) 20 percent or more of the total capital interest in such partnership is included in determining the gross estate of the decedent, or

"(ii) such partnership had 15 or fewer partners; or

"(C) stock in a corporation carrying on a trade or business if—

"(i) 20 percent or more in value of the voting stock of such corporation is included in determining the gross estate of the decedent, or

"(ii) such corporation had 15 or fewer shareholders.

"(2) RULES FOR APPLYING PARAGRAPH (1).—For purposes of paragraph (1)—

"(A) TIME FOR TESTING.—Determinations shall be made as of the time immediately before the decedent's death.

"(B) CERTAIN INTERESTS HELD BY HUSBAND AND WIFE.—Stock or a partnership interest which—

"(i) is community property of a husband and wife (or the income from which is community income) under the applicable community property law of a State, or

"(ii) is held by a husband and wife as joint tenants, tenants by the entirety, or tenants in common,

shall be treated as owned by one shareholder or one partner, as the case may be.

"(C) INDIRECT OWNERSHIP.—Property owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries. For purposes of the preceding sentence, a person shall be treated as a beneficiary of any trust only if such person has a present interest in the trust.

"(3) FARMHOUSES AND CERTAIN OTHER STRUCTURES TAKEN INTO ACCOUNT.—For purposes of the 65-percent requirement of subsection (a)(1), an interest in a closely held business which is the business of farming includes an interest in residential buildings and related improvements on the farm which are occupied on a regular basis by the owner or lessee of the farm or by persons employed by such owner or lessee for purposes of operating or maintaining the farm.

"(4) VALUE.—For purposes of this section, value shall be value determined for purposes of chapter 11 (relating to estate tax).

"(5) CLOSELY HELD BUSINESS AMOUNT.—For purposes of this section, the term 'closely held business amount' means the value of

the interest in a closely held business which qualifies under subsection (a)(1).

"(6) ADJUSTED GROSS ESTATE.—For purposes of this section, the term, 'adjusted gross estate' means the value of the gross estate reduced by the sum of the amounts allowable as a deduction under section 2053 or 2054. Such sum shall be determined on the basis of the facts and circumstances in existence on the date (including extensions) for filing the return of tax imposed by section 2001 (or, if earlier, the date on which such return is filed).

"(c) SPECIAL RULE FOR INTERESTS IN 2 OR MORE CLOSELY HELD BUSINESSES.—For purposes of this section, interests in 2 or more closely held businesses, with respect to each of which there is included in determining the value of the decedent's gross estate more than 20 percent of the total value of each such business, shall be treated as an interest in a single closely held business. For purposes of the 20-percent requirement of the preceding sentence, an interest in a closely held business which represents the surviving spouse's interest in property held by the decedent and the surviving spouse as community property or as joint tenants, tenants by the entirety, or tenants in common shall be treated as having been included in determining the value of the decedent's gross estate.

"(d) ELECTION.—Any election under subsection (a) shall be made not later than the time prescribed by section 6075(a) for filing the return of tax imposed by section 2001 (including extensions thereof), and shall be made in such manner as the Secretary shall by regulations prescribe. If an election under subsection (a) is made, the provisions of this subtitle shall apply as though the Secretary were extending the time for payment of the tax.

"(e) PRORATION OF DEFICIENCY TO INSTALLMENTS.—If an election is made under subsection (a) to pay any part of the tax imposed by section 2001 in installments and a deficiency has been assessed, the deficiency shall (subject to the limitation provided by subsection (a)(2)) be prorated to the installments payable under subsection (a). The part of the deficiency so prorated to any installment the date for payment of which has not arrived shall be collected at the same time as, and as a part of, such installment. The part of the deficiency so prorated to any installment the date for payment of which has arrived shall be paid upon notice and demand from the Secretary. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

"(f) TIME FOR PAYMENT OF INTEREST.—If the time for payment of any amount of tax has been extended under this section—

"(1) INTEREST FOR FIRST 5 YEARS.—Interest payable under section 6601 of any unpaid portion of such amount attributable to the first 5 years after the date prescribed by section 6151(a) for payment of the tax shall be paid annually.

"(2) INTEREST FOR PERIODS AFTER FIRST 5 YEARS.—Interest payable under section 6601 on any unpaid portion of such amount attributable to any period after the 5-year period referred to in paragraph (1) shall be paid annually at the same time as, and as a part of, each installment payment of the tax.

"(3) INTEREST IN THE CASE OF CERTAIN DEFICIENCIES.—In the case of a deficiency to which subsection (e) applies which is assessed after the close of the 5-year period referred to in paragraph (1), interest attributable to such 5-year period, and interest

assigned under paragraph (2) to any installment the date for payment of which has arrived on or before the date of the assessment of the deficiency, shall be paid upon notice and demand from the Secretary.

"(4) SELECTION OF SHORTER PERIOD.—If the executor has selected a period shorter than 5 years under subsection (a)(3), such shorter period shall be substituted for 5 years in paragraphs (1), (2), and (3) of this subsection.

"(g) ACCELERATION OF PAYMENT.—

"(1) DISPOSITION OF INTEREST; WITHDRAWAL OF FUNDS FROM BUSINESS.—

"(A) If—

"(i) one-third or more in value of an interest in a closely held business which qualifies under subsection (a)(1) is distributed, sold, exchanged, or otherwise disposed of, or

"(ii) aggregate withdrawals of money and other property from the trade or business, an interest in which qualifies under subsection (a)(1), made with respect to such interest, equal or exceed one-third of the value of such trade or business,

then the extension of time for payment of tax provided in subsection (a) shall cease to apply, and any unpaid portion of the tax payable in installments shall be paid upon notice and demand from the Secretary.

"(B) In the case of a distribution in redemption of stock to which section 303 (or so much of section 304 as relates to section 303) applies—

"(i) subparagraph (A)(i) does not apply with respect to the stock redeemed; and for purposes of such subparagraph the interest in the closely held business shall be considered to be such interest reduced by the value of the stock redeemed, and

"(ii) subparagraph (A)(ii) does not apply with respect to withdrawals of money and other property distributed; and for purposes of such subparagraph the value of the trade or business shall be considered to be such value reduced by the amount of money and other property distributed.

This subparagraph shall apply only if, on or before the date prescribed by subsection (a)(3) for the payment of the first installment which becomes due after the date of the distribution (or, if earlier, on or before the day which is 1 year after the date of the distribution), there is paid an amount of the tax imposed by section 2001 not less than the amount of money and other property distributed.

"(C) Subparagraph (A)(i) does not apply to an exchange of stock pursuant to a plan of reorganization described in subparagraph (D), (E), or (F) of section 368(a)(1) nor to an exchange to which section 355 (or so much of section 356 as relates to section 355) applies; but any stock received in such an exchange shall be treated for purposes of subparagraph (A)(i) as an interest qualifying under subsection (a)(1).

"(D) Subparagraph (A)(i) does not apply to a transfer of property of the decedent to a person entitled by reason of the decedent's death to receive such property under

the decedent's will, the applicable law of descent and distribution, or a trust created by the decedent.

"(2) UNDISTRIBUTED INCOME OF ESTATE.—

"(A) If an election is made under this section and the estate has undistributed net income for any taxable year ending on or after the due date for the first installment, the executor shall, on or before the date prescribed by law for filing the income tax return for such taxable year (including extensions thereof), pay an amount equal to such undistributed net income in liquidation of the unpaid portion of the tax payable in installments.

"(B) For purposes of subparagraph (A), the undistributed net income of the estate for any taxable year is the amount by which the distributable net income of the estate for such taxable year (as defined in section 643) exceeds the sum of—

"(i) the amounts for such taxable year specified in paragraphs (1) and (2) of section 661(a) (relating to deductions for distributions, etc.);

"(ii) the amount of tax imposed for the taxable year on the estate under chapter 1; and

"(iii) the amount of the tax imposed by section 2001 (including interest) paid by the executor during the taxable year (other than any amount paid pursuant to this paragraph).

"(3) FAILURE TO PAY INSTALLMENT.—If any installment under this section is not paid on or before the date fixed for its payment by this section (including any extension of time for the payment of such installment), the unpaid portion of the tax payable in installments shall be paid upon notice and demand from the Secretary.

"(h) ELECTION IN CASE OF CERTAIN DEFICIENCIES.—

"(1) IN GENERAL.—If—

"(A) a deficiency in the tax imposed by section 2001 is assessed,

"(B) the estate qualifies under subsection (a)(1), and

"(C) the executor has not made an election under subsection (a),

the executor may elect to pay the deficiency in installments. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

"(2) TIME OF ELECTION.—An election under this subsection shall be made not later than 60 days after issuance of notice and demand by the Secretary for the payment of the deficiency, and shall be made in such manner as the Secretary shall by regulations prescribe.

"(3) EFFECT OF ELECTION ON PAYMENT.—If an election is made under this subsection, the deficiency shall (subject to the limitation provided by subsection (a)(2)) be prorated to the installments which would have been due if an election had been timely made under subsection (a) at the time the estate tax return was filed. The part of the deficiency so prorated to any installment the date for payment of which would have arrived shall be paid at the time of the making of the election under this subsection. The portion of the deficiency so prorated to installments the date

for payment of which would not have so arrived shall be paid at the time such installments would have been due if such an election had been made.

"(i) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to the application of this section.

"(j) CROSS REFERENCES.—

"(1) Security.—
"For authority of the Secretary to require security in the case of an extension under this section, see section 6165.

"(2) Lien.—
"For special lien (in lieu of bond) in the case of an extension under this section, see section 6324A.

"(3) Period of limitation.—
"For extension of the period of limitation in the case of an extension under this section, see section 6503(d).

"(4) Interest.—
"For provisions relating to interest on tax payable in installments under this section, see subsection (j) of section 6601."

(b) 4-PERCENT INTEREST RATE.—Section 6601 (relating to interest on underpayment, nonpayment, or extension of time for payment of tax) is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

"(j) 4-PERCENT RATE ON CERTAIN PORTION OF ESTATE TAX EXTENDED UNDER SECTION 6166.—

"(1) IN GENERAL.—If the time for payment of an amount of tax imposed by chapter 11 is extended as provided in section 6166, interest on the 4-percent portion of such amount shall (in lieu of the annual rate provided by subsection (a)) be paid at the rate of 4 percent. For purposes of this subsection, the amount of any deficiency which is prorated to installments payable under section 6166 shall be treated as an amount of tax payable in installments under such section.

"(2) 4-PERCENT PORTION.—For purposes of this subsection, the term '4-percent portion' means the lesser of—

"(A) $345,800 reduced by the amount of the credit allowable under section 2010(a); or

"(B) the amount of the tax imposed by chapter 11 which is extended as provided in section 6166.

"(3) TREATMENT OF PAYMENTS.—If the amount of tax imposed by chapter 11 which is extended as provided in section 6166 exceeds the 4-percent portion, any payment of a portion of such amount shall, for purposes of computing interest for periods after such payment, be treated as reducing the 4-percent portion by an amount which bears the same ratio to the amount of such payment as the amount of the 4-percent portion (determined without regard to this paragraph) bears to the amount of the tax which is extended as provided in section 6166."

(c) REASONABLE CAUSE SUBSTITUTED FOR UNDUE HARDSHIP IN DETERMINING ELIGIBILITY FOR EXTENSIONS OF PAYMENT OF ESTATE TAX.—

(1) Paragraph (2) of section 6161(a) (relating to extension of time for paying estate tax) is amended to read as follows:

"(2) ESTATE TAX.—The Secretary may, for reasonable cause, extend the time for payment of—

"(A) any part of the amount determined by the executor as the tax imposed by chapter 11, or

"(B) any part of any installment under section 6166 or 6166A (including any part of a deficiency prorated to any installment under such section),

for a reasonable period not in excess of 10 years from the date prescribed by section 6151(a) for payment of the tax (or, in the case of an amount referred to in subparagraph (B), if later, not beyond the date which is 12 months after the due date for the last installment)."

(2) Subsection (b) of section 6161 (relating to extension of time for payment of certain deficiencies) is amended to read as follows:

"(b) AMOUNT DETERMINED AS DEFICIENCY.—

"(1) INCOME, GIFT, AND CERTAIN OTHER TAXES.—Under regulations prescribed by the Secretary, the Secretary may extend the time for the payment of the amount determined as a deficiency of a tax imposed by chapter 1, 12, 41, 42, 43, or 44 for a period not to exceed 18 months from the date fixed for the payment of the deficiency, and in exceptional cases, for a further period not to exceed 12 months. An extension under this paragraph may be granted only where it is shown to the satisfaction of the Secretary that payment of a deficiency upon the date fixed for the payment thereof will result in undue hardship to the taxpayer in the case of a tax imposed by chapter 1, 41, 42, 43, or 44, or to the donor in the case of a tax imposed by chapter 12.

"(2) ESTATE TAX.—Under regulations prescribed by the Secretary, the Secretary may, for reasonable cause, extend the time for the payment of any deficiency of a tax imposed by chapter 11 for a reasonable period not to exceed 4 years from the date otherwise fixed for the payment of the deficiency.

"(3) NO EXTENSION FOR CERTAIN DEFICIENCIES.—No extension shall be granted under this subsection for any deficiency if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax."

(3) Subsection (b) of section 6163 (relating to extension to prevent undue hardship in case of reversionary or remainder interest) is amended to read as follows:

"(b) EXTENSION FOR REASONABLE CAUSE.—At the expiration of the period of postponement provided for in subsection (a), the Secretary may, for reasonable cause, extend the time for payment for a reasonable period or periods not in excess of 3 years from the expiration of the period of postponement provided in subsection (a)."

(4) Subsection (d) of section 6503 (relating to extensions of time for payment of estate tax) is amended by striking out "section 6166" and inserting in lieu thereof "section 6163, 6166, or 6166A".

(d) SPECIAL LIEN FOR ESTATE TAX DEFERRED UNDER SECTION 6166.—

(1) IN GENERAL.—Subchapter C of chapter 64 (relating to lien for taxes) is amended by inserting after section 6324 the following new section:

"SEC. 6324A. SPECIAL LIEN FOR ESTATE TAX DEFERRED UNDER SECTION 6166 OR 6166A.

"(a) GENERAL RULE.—In the case of any estate with respect to which an election has been made under section 6166 or 6166A, if the executor makes an election under this section (at such time and in such manner as the Secretary shall by regulations prescribe) and files the agreement referred to in subsection (c), the deferred amount (plus any interest, additional amount, addition to tax, assessable penalty, and costs attributable to the deferred amount) shall be a lien in favor of the United States on the section 6166 lien property.

"(b) SECTION 6166 LIEN PROPERTY.—

"(1) IN GENERAL.—For purposes of this section, the term 'section 6166 lien property' means interests in real and other property to the extent such interests—

"(A) can be expected to survive the deferral period, and

"(B) are designated in the agreement referred to in subsection (c).

"(2) MAXIMUM VALUE OF REQUIRED PROPERTY.—The maximum value of the property which the Secretary may require as section 6166 lien property with respect to any estate shall be a value which is not greater than the sum of—

"(A) the deferred amount, and

"(B) the aggregate interest amount.

For purposes of the preceding sentence, the value of any property shall be determined as of the date prescribed by section 6151 (a) for payment of the tax imposed by chapter 11 and shall be determined by taking into account any encumbrance such as a lien under section 6324B.

"(3) PARTIAL SUBSTITUTION OF BOND FOR LIEN.—If the value required as section 6166 lien property pursuant to paragraph (2) exceeds the value of the interests in property covered by the agreement referred to in subsection (c), the Secretary may accept bond in an amount equal to such excess conditioned on the payment of the amount extended in accordance with the terms of such extension.

"(c) AGREEMENT.—The agreement referred to in this subsection is a written agreement signed by each person in being who has an interest (whether or not in possession) in any property designated in such agreement—

"(1) consenting to the creation of the lien under this section with respect to such property, and

"(2) designating a responsible person who shall be the agent for the beneficiaries of the estate and for the persons who have consented to the creation of the lien in dealings with the Secretary on matters arising under section 6166 or 6166A or this section.

"(d) SPECIAL RULES.—

"(1) REQUIREMENT THAT LIEN BE FILED.—The lien imposed by this section shall not be valid as against any purchaser, holder of a security interest, mechanic's lien, or judgment lien creditor until notice thereof which meets the requirements of section 6323 (f) has been filed by the Secretary. Such notice shall not be required to be refiled.

"(2) PERIOD OF LIEN.—The lien imposed by this section shall arise at the time the executor is discharged from liability under section 2204 (or, if earlier, at the time notice is filed pursuant to paragraph (1)) and shall continue until the liability for the deferred amount is satisfied or becomes unenforceable by reason of lapse of time.

"(3) PRIORITIES.—Even though notice of a lien imposed by this section has been filed as provided in paragraph (1), such lien shall not be valid—

"(A) REAL PROPERTY TAX AND SPECIAL ASSESSMENT LIENS.—To the extent provided in section 6323(b)(6).

"(B) REAL PROPERTY SUBJECT TO A MECHANIC'S LIEN FOR REPAIRS AND IMPROVEMENTS.—In the case of any real property subject to a lien for repair or improvement, as against a mechanic's lienor.

"(C) REAL PROPERTY CONSTRUCTION OR IMPROVEMENT FINANCING AGREEMENT.—As against any security interest set forth in paragraph (3) of section 6323(c) (whether such security interest came into existence before or after tax lien filing).

Subparagraphs (B) and (C) shall not apply to any security interest which came into existence after the date on which the Secretary filed notice (in a manner similar to notice filed under section 6323(f)) that payment of the deferred amount has been accelerated under section 6166(g) or 6166A(h).

"(4) LIEN TO BE IN LIEU OF SECTION 6324 LIEN.—If there is a lien under this section on any property with respect to any estate, there shall not be any lien under section 6324 on such property with respect to the same estate.

"(5) ADDITIONAL LIEN PROPERTY REQUIRED IN CERTAIN CASES.—If at any time the value of the property covered by the agreement is less than the unpaid portion of the deferred amount and the aggregate interest amount, the Secretary may require the addition of property to the agreement (but he may not require under this paragraph that the value of the property covered by the agreement exceed such unpaid portion). If property having the required value is not added to the property covered by the agreement (or if other security equal to the required value is not furnished) within 90 days after notice and demand therefor by the Secretary, the failure to comply with the preceding sentence shall be treated as an act accelerating payment of the installments under section 6166(g) or 6166a(h).

"(6) LIEN TO BE IN LIEU OF BOND.—The Secretary may not require under section 6165 the furnishing of any bond for the payment of any tax to which an agreement which meets the requirements of subsection (c) applies.

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

"(1) DEFERRED AMOUNT.—The term 'deferred amount' means the aggregate amount deferred under section 6166 or 6166A (determined as of the date prescribed by section 6151(a) for payment of the tax imposed by chapter 11).

"(2) AGGREGATE INTEREST AMOUNT.—The term 'aggregate interest amount' means the aggregate amount of interest which will be payable over the deferral period with respect to the deferred amount (determined as of the date prescribed by section 6151(a) for payment of the tax imposed by chapter 11).

"(3) DEFERRAL PERIOD.—The term 'deferral period' means the period for which the payment of tax is deferred pursuant to the election under section 6166 or 6166A.

"(4) APPLICATION OF DEFINITIONS IN CASE OF DEFICIENCIES.—In the case of a deficiency, a separate deferred amount, aggregate interest amount, and deferral period shall be determined as of the due date of the first installment after the deficiency is prorated to installments under section 6166 or 6166A."

(2) DISCHARGE OF EXECUTOR FROM PERSONAL LIABILITY.—Section 2204 (relating to discharge of fiduciary from personal liability) is amended by adding at the end thereof the following new subsection:

"(c) SPECIAL LIEN UNDER SECTION 6324A.—For purposes of the second sentence of subsection (a) and the last sentence of subsection (b), an agreement which meets the requirements of section 6324A (relating to special lien for estate tax deferred under section 6166 or 6166A) shall be treated as the furnishing of bond with respect to the

amount for which the time for payment has been extended under section 6166 or 6166A."

(e) AMENDMENTS OF SECTION 303.—

(1) EXTENSION OF PERIOD FOR DISTRIBUTION.—Paragraph (1) of section 303(b) (relating to distributions in redemption of stock to pay death taxes) 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) If an election has been made under section 6166 or 6166A and if the time prescribed by this subparagraph expires at a later date than the time prescribed by subparagraph (B) of this paragraph, within the time determined under section 6166 or 6166A for the payment of the installments."

(2) RELATIONSHIP OF STOCK TO DECEDENT'S ESTATE.—

(A) Subparagraph (A) of section 303(b)(2) is amended to read as follows:

"(A) IN GENERAL.—Subsection (a) shall apply to a distribution by a corporation only if the value (for Federal estate tax purposes) of all of the stock of such corporation which is included in determining the value of the decedent's gross estate exceeds 50 percent of the excess of—

"(i) the value of the gross estate of such decedent, over

"(ii) the sum of the amounts allowable as a deduction under section 2053 or 2054."

(B) The first sentence of subparagraph (B) of section 303(b)(2) is amended by striking out "the 35 percent and 50 percent requirements" and inserting in lieu thereof "the 50 percent requirement".

(3) RELATIONSHIP OF SHAREHOLDER TO ESTATE TAX.—Subsection (b) of section 303 is amended by adding at the end thereof the following new paragraphs:

"(3) RELATIONSHIP OF SHAREHOLDER TO ESTATE TAX.—Subsection (a) shall apply to a distribution by a corporation only to the extent that the interest of the shareholder is reduced directly (or through a binding obligation to contribute) by any payment of an amount described in paragraph (1) or (2) of subsection (a).

"(4) ADDITIONAL REQUIREMENTS FOR DISTRIBUTIONS MADE MORE THAN 4 YEARS AFTER DECEDENT'S DEATH.—In the case of amounts distributed more than 4 years after the date of the decedent's death, subsection (a) shall apply to a distribution by a corporation only to the extent of the lesser of—

"(A) the aggregate of the amounts referred to in paragraph (1) or (2) of subsection (a) which remained unpaid immediately before the distribution, or

"(B) the aggregate of the amounts referred to in paragraph (1) or (2) of subsection (a) which are paid during the 1-year period beginning on the date of such distribution."

(4) STOCK WITH SUBSTITUTED BASIS.—Subsection (c) of section 303 (relating to stock with substituted basis) is amended by striking out "limitation specified in subsection (b)(1)" and inserting in lieu thereof "limtations specified in subsection (b)".

(f) TECHNICAL, CLERICAL, AND CONFORMING CHANGES.—

(1) The table of sections for subchapter C of chapter 64 is amended by inserting after the item relating to section 6324 the following new item:

"Sec. 6324A. Special lien for estate tax deferred under section 6166 or 6166A."

(2) Section 7403(a) (relating to action to enforce lien or to subject property to payment of tax) is amended by adding at the end thereof the following new sentence: "For purposes of the preceding sentence, any acceleration of payment under section 6166 (g) or 6166A(h) shall be treated as a neglect to pay tax."

(3) Paragraph (2) of section 2011(c) (relating to credit for State death taxes) is amended by striking out "section 6161" and inserting in lieu thereof "section 6161, 6166 or 6166A".

(4) The last sentence of section 2204(b) is amended by striking out "has not been extended under" and inserting in lieu thereof "has been extended under".

(5) The table of sections for subchapter B of chapter 62 is amended by striking out the item relating to section 6166 and inserting in lieu thereof the following:

"Sec. 6166. Alternate extension of time for payment of estate tax where estate consists largely of interest in closely held business.
"Sec. 6166A. Extension of time for payment of estate tax where estate tax consists largely of interest in closely held business.".

(6) Subsections (a) and (b) of section 2204 (relating to discharge of fiduciary from personal liability) are as amended by striking out "or 6166" and inserting in lieu thereof "6166 or 6166A".

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to the estates of decedents dying after December 31, 1976.

SEC. 2005. CARRYOVER BASIS.

(a) GENERAL RULE.—

(1) AMENDMENT OF SECTION 1014.—Subsection (d) of section 1014 (relating to basis of property acquired from a decedent) is amended to read as follows:

"(d) DECEDENTS DYING AFTER DECEMBER 31, 1976.—In the case of a decedent dying after December 31, 1976, the section shall not apply to any property for which a carryover basis is provided by section 1023."

(2) CARRYOVER BASIS.—Part II of subchapter O of chapter 1 (relating to basis rules of general application) is amended by redesignating section 1023 as section 1024 and by inserting after section 1022 the following new section:

"SEC. 1023. CARRYOVER BASIS FOR CERTAIN PROPERTY ACQUIRED FROM A DECEDENT DYING AFTER DECEMBER 31, 1976.

"(a) GENERAL RULE.—

"(1) CARRYOVER BASIS.—Except as otherwise provided in this section, the basis of carryover basis property acquired from a decedent dying after December 31, 1976, in the hands of the person so acquiring it shall be the adjusted basis of the property immediately before the death of the decedent, further adjusted as provided in this section.

"(2) LOSS ON PERSONAL AND HOUSEHOLD EFFECTS.—In the case of any carryover basis property which, in the hands of the decedent, was a personal or household effect, for purposes of determining loss, the basis of such property in the hands of the person acquiring such property from the decedent shall not exceed its fair market value.

"(b) CARRYOVER BASIS PROPERTY DEFINED.—

"(1) IN GENERAL.—For purposes of this section, the term 'carryover basis property' means any property which is acquired from

or passed from a decedent (within the meaning of section 1014(b)) and which is not excluded pursuant to paragraph (2) or (3).

"(2) CERTAIN PROPERTY NOT CARRYOVER BASIS PROPERTY.—The term 'carryover basis property' does not include—

"(A) any item of gross income in respect of a decedent described in section 691;

"(B) property described in section 2042 (relating to proceeds of life insurance);

"(C) a joint and survivor annuity under which the surviving annuitant is taxable under section 72, and payments and distributions under a deferred compensation plan described in part I of subchapter D of chapter 1 to the extent such payments and distributions are taxable to the decedent's beneficiary under chapter 1;

"(D) property included in the decedent's gross estate by reason of section 2035, 2038, or 2041 which has been disposed of before the decedent's death in a transaction in which gain or loss is recognizable for purposes of chapter 1;

"(E) stock or a stock option passing from the decedent to the extent income in respect of such stock or stock option is includable in gross income under section 422(c)(1), 423(c), or 424(c)(1); and

"(F) property described in section 1014(b)(5).

"(3) $10,000 EXCLUSION FOR CERTAIN ASSETS.—

"(A) EXCLUSION.—The term 'carryover basis property' does not include any asset—

"(i) which, in the hands of the decedent, was a personal or household effect, and

"(ii) with respect to which the executor has made an election under this paragraph.

"(B) LIMITATION.—The fair market value of all assets designated under this subsection with respect to any decedent shall not exceed $10,000.

"(C) ELECTION.—An election under this paragraph with respect to any asset shall be made by the executor not later than the date prescribed by section 6075(a) for filing the return of the tax imposed by section 2001 or 2101 (including extensions thereof), and shall be made in such manner as the Secretary shall by regulations prescribe.

"(c) INCREASE IN BASIS FOR FEDERAL AND STATE ESTATE TAXES ATTRIBUTABLE TO APPRECIATION.—The basis of appreciated carryover basis property (determined after any adjustment under subsection (h)) which is subject to the tax imposed by section 2001 or 2101 in the hands of the person acquiring it from the decedent shall be increased by an amount which bears the same ratio to the Federal and State estate taxes as—

"(1) the net appreciation in value of such property, bears to

"(2) the fair market value of all property which is subject to the tax imposed by section 2001 or 2101.

"(d) $60,000 MINIMUM FOR BASES OF CARRYOVER BASIS PROPERTIES.—

"(1) IN GENERAL.—If $60,000 exceeds the aggregate bases (as determined after any adjustment under subsection (h) or (c)) of all carryover basis property, the basis of each appreciated carryover basis property (after any adjustment under subsection (h) or (c)) shall be increased by an amount which bears the same ratio to the amount of such excess as—

"(A) the net appreciation in value of such property, bears to

"(B) the net appreciation in value of all such property.

"(2) SPECIAL RULE FOR PERSONAL OR HOUSEHOLD EFFECT.—For purposes of paragraph (1), the basis of any property which is a personal or household effect shall be treated as not greater than the fair market value of such property.

"(3) NONRESIDENT NOT CITIZEN.—This subsection shall not apply to any carryover basis property acquired from any decedent who was (at the time of his death) a nonresident not a citizen of the United States.

"(e) FURTHER INCREASE IN BASIS FOR CERTAIN STATE SUCCESSION TAX PAID BY TRANSFEREE OF PROPERTY.—If—

"(1) any person acquires appreciated carryover basis property from a decedent, and

"(2) such person actually pays an amount of estate, inheritance, legacy, or succession taxes with respect to such property to any State or the District of Columbia for which the estate is not liable.

then the basis of such property (after any adjustment under subsection (h), (c), or (d)) shall be increased by an amount which bears the same ratio to the aggregate amount of all such taxes paid by such person as—

"(A) the net appreciation in value of such property, bears to

"(B) the fair market value of all property acquired by such person which is subject to such taxes.

"(f) SPECIAL RULES AND DEFINITIONS FOR APPLICATION OF SUBSECTIONS (c), (d), AND (e).—

"(1) FAIR MARKET VALUE LIMITATION.—The adjustments under subsections (c), (d), and (e) shall not increase the basis of property above its fair market value.

"(2) NET APPRECIATION.—For purposes of this section, the net appreciation in value of any property is the amount by which the fair market value of such property exceeds the adjusted basis of such property immediately before the death of the decedent (as determined after any adjustment under subsection (h)). For purposes of subsection (d), such adjusted basis shall be increased by the amount of any adjustment under subsection (c), and, for purposes of subsection (e), such adjusted basis shall be increased by the amount of any adjustment under subsection (c) or (d).

"(3) FEDERAL AND STATE ESTATE TAXES.—For purposes of subsection (c), the term 'Federal and State estate taxes' means—

"(A) the tax imposed by section 2001 or 2101, reduced by the credits against such tax, and

"(B) any estate, inheritance, legacy, or succession taxes, for which the estate is liable, actually paid by the estate to any State or the District of Columbia.

"(4) CERTAIN MARITAL AND CHARITABLE DEDUCTION PROPERTY TREATED AS NOT SUBJECT TO TAX.—For purposes of subsections (c) and (e), property shall be treated as not subject to a tax—

"(A) with respect to the tax imposed by section 2001 or 2101, to the extent that a deduction is allowable with respect to such property under section 2055 or 2056 or under section 2106(a)(2), and

"(B) with respect to State estate taxes and with respect to the State taxes referred to in subsection (e)(2), to the extent that such property is not subject to such taxes.

"(5) APPRECIATED CARRYOVER BASIS PROPERTY.—For purposes of this section, the term 'appreciated carryover basis property' means any carryover basis property if the fair market value of such property exceeds the adjusted basis of such property immediately before the death of the decedent.

"(g) OTHER SPECIAL RULES AND DEFINITIONS.—

"(1) FAIR MARKET VALUE.—For purposes of this section, when not otherwise distinctly expressed, the term 'fair market value' means value as determined under chapter 11.

"(2) PROPERTY PASSING FROM THE DECEDENT.—For purposes of this section, property passing from the decedent shall be treated as property acquired from the decedent.

"(3) DECEDENT'S BASIS UNKNOWN.—If the facts necessary to determine the basis (unadjusted) of carryover basis property immediately before the death of the decedent are unknown to the person acquiring such property from the decedent, such basis shall be treated as being the fair market value of such property as of the date (or approximate date) at which such property was acquired by the decedent or by the last preceding owner in whose hands it did not have a basis determined in whole or in part by reference to its basis in the hands of a prior holder.

"(4) CERTAIN MORTGAGES.—For purposes of subsections (c), (d), and (e), if—

"(A) there is an unpaid mortgage on, or indebtedness in respect of, property,

"(B) such mortgage or indebtedness does not constitute a liability of the estate, and

"(C) such property is included in the gross estate undiminished by such mortgage or indebtedness,

then the fair market value of such property to be treated as included in the gross estate shall be the fair market value of such property, diminished by such mortgage or indebtedness.

"(h) ADJUSTMENT TO BASIS FOR DECEMBER 31, 1976, FAIR MARKET VALUE.—

"(1) MARKETABLE BONDS AND SECURITIES.—If the adjusted basis immediately before the death of the decedent of any property which is carryover basis property reflects the adjusted basis of any marketable bond or security on December 31, 1976, and if the fair market value of such bond or security on December 31, 1976, exceeded its adjusted basis on such date, then, for purposes of determining gain, the adjusted basis of such property shall be increased by the amount of such excess.

"(2) PROPERTY OTHER THAN MARKETABLE BONDS AND SECURITIES.—

"(A) IN GENERAL.—If—

"(i) the adjusted basis immediately before the death of the decedent of any property which is carryover basis property reflects the adjusted basis on December 31, 1976, of any property other than a marketable bond or security, and

"(ii) the value of such carryover basis property (as determined with respect to the estate of the decedent without regard to section 2032) exceeds the adjusted basis of such property immediately before the death of the decedent (determined without regard to this subsection),

then, for purposes of determining gain, the adjusted basis of such property immediately before the death of the decedent

(determined without regard to this subsection) shall be increased by the amount determined under subparagraph (B).

"(B) AMOUNT OF INCREASE.—The amount of the increase under this subparagraph for any property is the sum of—

"(i) the excess referred to in subparagraph (A)(ii), reduced by an amount equal to all adjustments for depreciation, amortization, or depletion for the holding period of such property, and then multiplied by the applicable fraction determined under subparagraph (C), and

"(ii) the adjustments to basis for depreciation, amortization, or depletion which are attributable to that portion of the holding period for such property which occurs before January 1, 1977.

"(C) APPLICABLE FRACTION.—For purposes of subparagraph (B)(i), the term 'applicable fraction' means, with respect to any property, a fraction—

"(i) the numerator of which is the number of days in the holding period with respect to such property which occurs before January 1, 1977, and

"(ii) the denominator of which is the total number of days in such holding period.

"(D) SUBSTANTIAL IMPROVEMENTS.—Under regulations prescribed by the Secretary, if there is a substantial improvement of any property, such substantial improvement shall be treated as a separate property for purposes of this paragraph.

"(E) DEFINITIONS.—For purposes of this paragraph—

"(i) The term 'marketable bond or security' means any security for which, as of December 1976, there was a market on a stock exchange, in an over-the-counter market, or otherwise.

"(ii) The term 'holding period' means, with respect to any carryover basis property, the period during which the decedent (or, if any other person held such property immediately before the death of the decedent, such other person) held such property as determined under section 1223; except that such period shall end on the date of the decedent's death.

"(i) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this section."

(3) AMENDMENT OF SECTION 1016.—Section 1016(a) (relating to adjustments to basis) is amended by striking out the period at the end thereof and by inserting in lieu thereof a semicolon and by adding at the end thereof the following new paragraph:

"(23) to the extent provided in section 1023, relating to carryover basis for certain property acquired from a decedent dying after December 31, 1976."

(4) AMENDMENTS OF SECTION 691.—

(A) Section 691(c)(2)(A) (relating to deduction for estate tax in case of income in respect of decedents) is amended to read as follows:

"(A) The term 'estate tax' means Federal and State estate taxes (within the meaning of section 1023(f)(3))."

(B) Section 691(c)(2)(C) is amended to read as follows:

"(C) The estate tax attributable to such net value shall be an amount which bears the same ratio to the estate tax as such net value bears to the value of the gross estate."

(5) REPEAL OF SECTION 1246(e).—Section 1246 (relating to gain on foreign investment company stock) is amended by striking out subsection (e) and by redesignating subsections (f) and (g) as subsections (e) and (f), respectively.

(b) NONRECOGNITION OF GAIN WHERE CERTAIN APPRECIATED CARRYOVER BASIS PROPERTY IS USED IN SATISFACTION OF A PECUNIARY REQUEST.—Part III of subchapter O of chapter 1 (relating to common nontaxable exchanges) is amended by adding at the end thereof the following new section:

"SEC. 1040. USE OF CERTAIN APPRECIATED CARRYOVER BASIS PROPERTY TO SATISFY PECUNIARY REQUEST.

"(a) GENERAL RULE.—If the executor of the estate of any decedent satisfies the right of any person to receive a pecuniary bequest with appreciated carryover basis property (as defined in section 1023(f)(5)), then gain on such exchange shall be recognized to the estate only to the extent that, on the date of such exchange, the fair market value of such property exceeds the value of such property for purposes of chapter 11.

"(b) SIMILAR RULE FOR CERTAIN TRUSTS.—To the extent provided in regulations prescribed by the Secretary, a rule similar to the rule provided in subsection (a) shall apply where—

"(1) by reason of the death of the decedent, a person has a right to receive from a trust a specific dollar amount which is the equivalent of a pecuniary bequest, and

"(2) the trustee of the trust satisfies such right with carryover basis property to which section 1023 applies.

"(c) BASIS OF PROPERTY ACQUIRED IN EXCHANGE DESCRIBED IN SUBSECTION (a) OR (b).—The basis of property acquired in an exchange with respect to which gain realized is not recognized by reason of subsection (a) or (b) shall be the basis of such property immediately before the exchange, increased by the amount of the gain recognized to the estate or trust on the exchange."

(c) LIMITATION OF INCREASE IN BASIS FOR GIFT TAX PAID TO THAT PORTION OF GIFT TAX ATTRIBUTABLE TO NET APPRECIATION IN VALUE.—Subsection (d) of section 1015 (relating to increased basis for gift tax paid) is amended by adding at the end thereof the following new paragraph:

"(6) SPECIAL RULE FOR GIFTS MADE AFTER DECEMBER 31, 1976.—

(A) IN GENERAL.—In the case of any gift made after December 31, 1976, the increase in basis provided by this subsection with respect to any gift for the gift tax paid under chapter 12 shall be an amount (not in excess of the amount of tax so paid) which bears the same ratio to the amount of tax so paid as—

"(i) the net appreciation in value of the gift, bears to

"(ii) the amount of the gift.

"(B) NET APPRECIATION.—For purposes of paragraph (1), the net appreciation in value of any gift is the amount by which the fair market value of the gift exceeds the donor's adjusted basis immediately before the gift."

(d) INFORMATION REQUIREMENT.—

(1) IN GENERAL.—Subpart A of part III of subchapter A of chapter 61 (relating to information concerning persons subject to special provisions) is amended by inserting after section 6039 the following new section:

"SEC. 6039A. INFORMATION REGARDING CARRYOVER BASIS PROPERTY ACQUIRED FROM A DECEDENT.

"(a) IN GENERAL.—Every executor (as defined in section 2203) shall furnish the Secretary such information with respect to carryover basis property to which section 1023 applies as the Secretary may by regulations prescribe.

"(b) STATEMENTS TO BE FURNISHED TO PERSONS WHO ACQUIRE PROPERTY FROM A DECEDENT.—Every executor who is required to furnish information under subsection (a) shall furnish in writing to each person acquiring an item of such property from the decedent (or to whom the item passes from the decedent) the adjusted basis of such item."

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

"SEC. 6694. FAILURE TO FILE INFORMATION WITH RESPECT TO CARRYOVER BASIS PROPERTY.

"(a) INFORMATION REQUIRED TO BE FURNISHED TO THE SECRETARY.—Any executor who fails to furnish information required under subsection (a) of section 6039A on the date prescribed therefor (determined with regard to any extension of time for filing), unless it is shown that such failure is due to reasonable cause and not to willful neglect, shall pay a penalty of $100 for each such failure, but the total amount imposed for all such failures shall not exceed $5,000.

"(b) INFORMATION REQUIRED TO BE FURNISHED TO BENEFICIARIES.—Any executor who fails to furnish in writing to each person described in subsection (b) of section 6039A the information required under such subsection, unless it is shown that such failure is due to reasonable cause and not to willful neglect, shall pay a penalty of $50 for each such failure, but the total amount imposed for all such failures shall not exceed $2,500."

(e) CLERICAL AMENDMENTS.—

(1) The table of sections for part II of subchapter O of chapter 1 is amended by striking out the item relating to section 1023 and inserting in lieu thereof the following:

"Sec. 1023. Carryover basis for certain property acquired from a decedent dying after December 31, 1976.
"Sec. 1024. Cross references."

(2) The table of sections for part III of subchapter O of chapter 1 is amended by adding at the end thereof the following:

"Sec. 1040. Use of certain appreciated carryover basis property to satisfy pecuniary bequest."

(3) The table of sections for part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6039 the following:

"Sec. 6039A. Information regarding carryover basis property acquired from a decedent."

(4) The table of sections for subchapter B of chapter 68 is amended by adding at the end thereof the following:

"Sec. 6694. Failure to file information with respect to carryover basis property."

(f) EFFECTIVE DATES.—

(1) Except as provided in paragraph (2), the amendments made by this section shall apply in respect of decedents dying after December 31, 1976.

(2) The amendment made by subsection (c) shall apply to gifts made after December 31, 1976.

SEC. 2006. CERTAIN GENERATION-SKIPPING TRANSFERS.

(a) IMPOSITION OF TAX.—Subtitle B (relating to estate and gift taxes) is amended by adding at the end thereof the following new chapter:

"CHAPTER 13—TAX ON CERTAIN GENERATION-SKIPPING TRANSFERS

"Subchapter A—Tax Imposed

"SEC. 2601. TAX IMPOSED.

"A tax is hereby imposed on every generation-skipping transfer in the amount determined under section 2602.

"SEC. 2602. AMOUNT OF TAX.

"(a) GENERAL RULE.—The amount of the tax imposed by section 2601 with respect to any transfer shall be the excess of—

"(1) a tentative tax computed in accordance with the rate schedule set forth in section 2001(c) (as in effect on the date of transfer) on the sum of—

"(A) the fair market value of the property transferred determined as of the date of transfer (or in the case of an election under subsection (d), as of the applicable valuation date prescribed by section 2032),

"(B) the aggregate fair market value (determined for purposes of this chapter) of all prior transfers of the deemed transferor to which this chapter applied,

"(C) the amount of the adjusted taxable gifts (within the meaning of section 2001(b)) made by the deemed transferor before this transfer, and

"(D) if the deemed transferor has died at the same time as, or before, this transfer, the taxable estate of the deemed transferor, over

"(2) a tentative tax (similarly computed) on the sum of the amounts determined under subparagraphs (B), (C), and (D) of paragraph (1).

"(b) MULTIPLE SIMULTANEOUS TRANSFERS.—If two or more transfers which are taxable under section 2601 and which have the same deemed transferor occur by reason of the same event, the tax imposed by section 2601 on each such transfer shall be the amount which bears the same ratio to—

"(1) the amount of the tax which would be imposed by section 2601 if the aggregate of such transfers were a single transfer, as

"(2) the fair market value of the property transferred in such transfer bears to the aggregate fair market value of all property transferred in such transfers.

"(c) DEDUCTIONS, CREDITS, ETC.—

"(1) GENERAL RULE.—Except as otherwise provided in this subsection, no deduction, exclusion, exemption, or credit shall be allowed against the tax imposed by section 2601.

"(2) CHARITABLE DEDUCTIONS ALLOWED.—The deduction under section 2055, 2106(a)(2), or 2522, whichever is appropriate, shall be allowed in determining the tax imposed by section 2601.

"(3) UNUSED PORTION OF UNIFIED CREDIT.—If the generation-skipping transfer occurs at the same time as, or after, the death of the deemed transferor, then the portion of the credit under section 2010(a) (relating to unified credit) which exceeds the sum of—

"(A) the tax imposed by section 2001, and

"(B) the taxes theretofore imposed by section 2601 with respect to this deemed transferor,

shall be allowed as a credit against the tax imposed by section 2601. The amount of the credit allowed by the preceding sentence shall not exceed the amount of the tax imposed by section 2601.

"(4) CREDIT FOR TAX ON PRIOR TRANSFERS.—The credit under section 2013 (relating to credit for tax on prior transfers) shall be allowed against the tax imposed by section 2601. For purposes of the preceding sentence, section 2013 shall be applied as if so much of the property subject to tax under section 2601 as is not taken into account for purposes of determining the credit allowable by section 2013 with respect to the estate of the deemed transferor passed from the transferor (as defined in section 2013) to the deemed transferor.

"(5) COORDINATION WITH ESTATE TAX.—

"(A) ADJUSTMENTS TO MARITAL DEDUCTION.—If the generation-skipping transfer occurs at the same time as, or within 9 months after, the death of the deemed transferor, for purposes of section 2056 (relating to bequests, etc., to surviving spouse), the value of the gross estate of the deemed transferor shall be deemed to be increased by the amount of such transfer.

"(B) CERTAIN EXPENSES ATTRIBUTABLE TO GENERATION-SKIPPING TRANSFER.—If the generation-skipping transfer occurs at the same time as, or after, the death of the deemed transferor, for purposes of this section, the amount taken into account with respect to such transfer shall be reduced—

"(i) in the case of a taxable termination, by any item referred to in section 2053 or 2054 to the extent that a deduction would have been allowable under such section for such item if the amount of the trust had been includible in the deemed transferor's gross estate and if the deemed transferor had died immediately before such transfer, or

"(ii) in the case of a taxable distribution, by any expense incurred in connection with the determination, collection, or refund of the tax imposed by section 2601 on such transfer.

"(C) CREDIT FOR STATE INHERITANCE TAX.—If the generation-skipping transfer occurs at the same time as, or after, the death of the deemed transferor, there shall be allowed as a credit against the tax imposed by section 2601 an amount equal to that portion of the estate, inheritance, legacy, or succession tax actually paid to any State or the District of Columbia in respect of any property included in the genera-

tion-skipping transfer, but only to the extent of the lesser of—

"(i) that portion of such taxes which is levied on such transfer, or

"(ii) the excess of the limitation applicable under section 2011(b) if the adjusted taxable estate of the decedent had been increased by the amount of the transfer and all prior generation-skipping transfers to which this subparagraph applied which had the same deemed transferor, over the sum of the amount allowable as a credit under section 2011 with respect to the estate of the decedent plus the aggregate amounts allowable under this subparagraph with respect to such prior generation-skipping transfers.

"(d) ALTERNATE VALUATION.—

"(1) IN GENERAL.—In the case of—

"(A) 1 or more generation-skipping transfers from the same trust which have the same deemed transferor and which are taxable terminations occurring at the same time as the death of such deemed transferor; or

"(B) 1 or more generation-skipping transfers from the same trust with different deemed transferors—

"(i) which are taxable terminations occurring on the same day; and

"(ii) which would, but for section 2613(b)(2), have occurred at the same time as the death of the individuals who are the deemed transferors with respect to the transfers;

the trustee may elect to value all of the property transferred in such transfers in accordance with section 2032.

"(2) SPECIAL RULES.—If the trustee makes an election under paragraph (1) with respect to any generation-skipping transfer, section 2032 shall be applied by taking into account (in lieu of the date of the decedent's death) the following date:

"(A) in the case of any generation-skipping transfer described in paragraph (1)(A), the date of the death of the deemed transferor described in such paragraph, or

"(B) in the case of any generation-skipping transfer described in paragraph (1)(B), the date on which such transfer occurred.

"(e) TRANSFERS WITHIN 3 YEARS OF DEATH OF DEEMED TRANSFEROR.—Under regulations prescribed by the Secretary, the principles of section 2035 shall apply with respect to transfers made during the 3-year period ending on the date of the deemed transferor's death. In the case of any transfer to which this subsection applies, the amount of the tax imposed by this chapter shall be determined as if the transfer occurred after the death of the deemed transferor and appropriate adjustments shall be made with respect to the amount of any prior transfer which is taken into account under subparagraph (B) or (C) of subsection (a)(1).

"SEC. 2603. LIABILITY FOR TAX.

"(a) PERSONAL LIABILITY.—

"(1) IN GENERAL.—If the tax imposed by section 2601 is not paid, when due then—

"(A) except to the extent provided in paragraph (2), the trustee shall be personally liable for any portion of such tax which is attributable to a taxable termination, and

"(B) the distributee of the property shall be personally liable for such tax to the extent provided in paragraph (3).

"(2) LIMITATION OF PERSONAL LIABILITY OF TRUSTEE WHO RELIES ON CERTAIN INFORMATION FURNISHED BY THE SECRETARY.—

"(A) INFORMATION WITH RESPECT TO RATES.—The trustee shall not be personally liable for any increase in the tax imposed by section 2601 which is attributable to the application to the transfer of rates of tax which exceeds the rates of tax furnished by the Secretary to the trustee as being the rates at which the transfer may reasonably be expected to be taxed.

"(B) AMOUNT OF REMAINING EXCLUSION.—The trustee shall not be personally liable for any increase in the tax imposed by section 2601 which is attributable to the fact that—

"(i) the amount furnished by the Secretary to the trustee as being the amount of the exclusion for a transfer to a grandchild of the grantor of the trust which may reasonably be expected to remain with respect to the deemed transferor, is less than

"(ii) the amount of such exclusion remaining with respect to such deemed transferor.

"(3) LIMITATION ON PERSONAL LIABILITY OF DISTRIBUTEE.—The distributee of the property shall be personally liable for the tax imposed by section 2601 only to the extent of an amount equal to the fair market value (determined as of the time of the distribution) of the property received by the distributee in the distribution.

"(b) LIEN.—The tax imposed by section 2601 on any transfer shall be a lien on the property transferred until the tax is paid in full or becomes unenforceable by reason of lapse of time.

"Subchapter B—Definitions and Special Rules

"SEC. 2611. GENERATION-SKIPPING TRANSFER.

"(a) GENERATION-SKIPPING TRANSFER DEFINED.—For purposes of this chapter, the terms 'generation-skipping transfer' and 'transfer' mean any taxable distribution or taxable termination with respect to a generation-skipping trust or trust equivalent.

"(b) GENERATION-SKIPPING TRUST.—For purposes of this chapter, the term 'generation-skipping trust' means any trust having younger generation beneficiaries (within the meaning of section 2613(c)(1)) who are assigned to more than one generation.

"(c) ASCERTAINMENT OF GENERATION.—For purposes of this chapter, the generation to which any person (other than the grantor) belongs shall be determined in accordance with the following rules:

"(1) an individual who is a lineal descendent of a grandparent of the grantor shall be assigned to that generation which results from comparing the number of generations between the grandparent and such individual with the number of generations between the grandparent and the grantor,

"(2) an individual who has been at any time married to a person described in paragraph (1) shall be assigned to the generation of the person so described and an individual who has been at any

time married to the grantor shall be assigned to the grantor's generation,

"(3) a relationship by the half blood shall be treated as a relationship by the whole blood,

"(4) a relationship by legal adoption shall be treated as a relationship by blood,

"(5) an individual who is not assigned to a generation by reason of the foregoing paragraphs shall be assigned to a generation on the basis of the date of such individual's birth, with—

"(A) an individual born not more than 12½ years after the date of the birth of the grantor assigned to the grantor's generation,

"(B) an individual born more than 12½ years but not more than 37½ years after the date of the birth of the grantor assigned to the first generation younger than the grantor, and

"(C) similar rules for a new generation every 25 years,

"(6) an individual who, but for this paragraph, would be assigned to more than one generation shall be assigned to the youngest such generation, and

"(7) if any beneficiary of the trust is an estate or a trust, partnership, corporation, or other entity (other than an organization described in section 511(a)(2) and other than a charitable trust described in section 511(b)(2)), each individual having an indirect interest or power in the trust through such entity shall be treated as a beneficiary of the trust and shall be assigned to a generation under the foregoing provisions of this subsection.

"(d) GENERATION-SKIPPING TRUST EQUIVALENT.—

"(1) IN GENERAL.—For purposes of this chapter, the term 'generation-skipping trust equivalent' means any arrangement which, although not a trust, has substantially the same effect as a generation-skipping trust.

"(2) EXAMPLES OF ARRANGEMENTS TO WHICH SUBSECTION RELATES.—Arrangements to be taken into account for purposes of determining whether or not paragraph (1) applies include (but are not limited to) arrangements involving life estates and remainders, estates for years, insurance and annuities, and split interests.

"(3) REFERENCES TO TRUST INCLUDE REFERENCES TO TRUST EQUIVALENTS.—Any reference in this chapter in respect of a generation-skipping trust shall include the appropriate reference in respect of a generation-skipping trust equivalent.

"SEC. 2612. DEEMED TRANSFEROR.

"(a) GENERAL RULE.—For purposes of this chapter, the deemed transferor with respect to a transfer is—

"(1) except as provided in paragraph (2), the parent of the transferee of the property who is more closely related to the grantor of the trust than the other parent of such transferee (or if neither parent is related to such grantor, the parent having a closer affinity to the grantor), or

"(2) if the parent described in paragraph (1) is not a younger generation beneficiary of the trust but 1 or more ancestors of the transferee is a younger generation beneficiary related by blood or adoption to the grantor of the trust, the youngest of such ancestors.

"(b) DETERMINATION OF RELATIONSHIP.—For purposes of subsection (a), a parent related to the grantor of the trust by blood or adoption is more closely related than a parent related to such grantor by marriage.

"SEC. 2613. OTHER DEFINITIONS.

"(a) TAXABLE DISTRIBUTION.—For purposes of this chapter—

"(1) IN GENERAL.—The term 'taxable distribution' means any distribution which is not out of the income of the trust (within the meaning of section 643(b)) from a generation-skipping trust to any younger generation beneficiary who is assigned to a generation younger than the generation assignment of any other person who is a younger generation beneficiary. For purposes of the preceding sentence, an individual who at no time has had anything other than a future interest or future power (or both) in the trust shall not be considered as a younger generation beneficiary.

"(2) SOURCE OF DISTRIBUTION.—If, during the taxable year of the trust, there are distributions out of the income of the trust (within the meaning of section 643(b)) and out of other amounts, for purposes of paragraph (1) the distributions of such income shall be deemed to have been made to the beneficiaries (to the extent of the aggregate distributions made to each such beneficiary during such year) in descending order of generations, beginning with the beneficiaries assigned to the oldest generation.

"(3) PAYMENT OF TAX.—If any portion of the tax imposed by this chapter with respect to any transfer is paid out of the income or corpus of the trust, an amount equal to the portion so paid shall be deemed to be a generation-skipping transfer.

"(4) CERTAIN DISTRIBUTIONS EXCLUDED FROM TAX.—The term 'taxable distribution' does not include—

"(A) any transfer to the extent such transfer is to a grandchild of the grantor of the trust and does not exceed the limitation provided by subsection (b)(6), and

"(B) any transfer to the extent such transfer is subject to tax imposed by chapter 11 or 12.

"(b) TAXABLE TERMINATION.—For purposes of this chapter—

"(1) IN GENERAL.—The term 'taxable termination' means the termination (by death, lapse of time, exercise or nonexercise, or otherwise) of the interest or power in a generation-skipping trust of any younger generation beneficiary who is assigned to any generation older than the generation assignment of any other person who is a younger generation beneficiary of that trust. Such term does not include a termination of the interest or power of any person who at no time has had anything other than a future interest or future power (or both) in the trust.

"(2) TIME CERTAIN TERMINATIONS DEEMED TO OCCUR.—

"(A) WHERE 2 OR MORE BENEFICIARIES ARE ASSIGNED TO SAME GENERATION.—In any case where 2 or more younger generation beneficiaries of a trust are assigned to the same generation, except to the extent provided in regulations prescribed by the Secretary, the transfer constituting the termination with respect to each such beneficiary shall be treated as occurring at the time when the last such termination occurs.

"(B) SAME BENEFICIARY HAS MORE THAN 1 INTEREST OR POWER.—In any case where a younger generation beneficiary of a trust has both an interest and a power, or more than 1 interest or power, in the trust, except to the extent provided in regulations prescribed by the Secretary, the termination with respect to each such interest or power shall be treated as occurring at the time when the last such termination occurs.

"(C) UNUSUAL ORDER OF TERMINATION.—

"(i) IN GENERAL.—If—

"(I) but for this subparagraph, there would have been a termination (determined after the application of subparagraphs (A) and (B)) of an interest or power of a younger generation beneficiary (hereinafter in this subparagraph referred to as the 'younger beneficiary'), and

"(II) at the time such termination would have occurred, a beneficiary (hereinafter in this subparagraph referred to as the 'older beneficiary') of the trust assigned to a higher generation than the generation of the younger beneficiary has a present interest or power in the trust,

then, except to the extent provided in regulations prescribed by the Secretary, the transfer constituting the termination with respect to the younger beneficiary shall be treated as occurring at the time when the termination of the last present interest or power of the older beneficiary occurs.

"(ii) SPECIAL RULES.—If clause (i) applies with respect to any younger beneficiary—

"(I) this chapter shall be applied first to the termination of the interest or power of the older beneficiary as if such termination occurred before the termination of the power or interest of the younger beneficiary; and

"(II) the value of the property taken into account for purposes of determining the tax (if any) imposed by this chapter with respect to the termination of the interest or power of the younger beneficiary shall be reduced by the tax (if any) imposed by this chapter with respect to the termination of the interest or power of the older beneficiary.

"(D) SPECIAL RULE.—Subparagraphs (A) and (C) shall also apply where a person assigned to the same generation as, or a higher generation than, the person whose power or interest terminates has a present power or interest immediately after the termination and such power or interest arises as a result of such termination.

"(3) DEEMED TRANSFEREES OF CERTAIN TERMINATIONS.—Where, at the time of any termination, it is not clear who will be the transferee of any portion of the property transferred, except to the extent provided in regulations prescribed by the Secretary, such portion shall be deemed transferred pro rata to all beneficiaries of the trust in accordance with the amount which each of them would receive under a maximum exercise of discretion on their behalf. For purposes of the preceding sentence, where it is not clear whether discretion will be exercised per stirpes or per capita, it shall be presumed that the discretion will be exercised per stirpes.

"(4) TERMINATION OF POWER.—In the case of the termination of any power, the property transferred shall be deemed to be the property subject to the power immediately before the termination (determined without the application of paragraph (2)).

"(5) CERTAIN TERMINATIONS EXCLUDED FROM TAX.—The term 'taxable termination' does not include—

"(A) any transfer to the extent such transfer is to a grandchild of the grantor of the trust and does not exceed the limitation provided by paragraph (6), and

"(B) any transfer to the extent such transfer is subject to a tax imposed by chapter 11 or 12.

"(6) $250,000 LIMIT ON EXCLUSION OF TRANSFERS TO GRANDCHILDREN.—In the case of any deemed transferor, the maximum amount excluded from the terms 'taxable distribution' and 'taxable termination' by reason of provisions exempting from such terms transfers to the grandchildren of the grantor of the trust shall be $250,000. The preceding sentence shall be applied to transfers from one or more trusts in the order in which such transfers are made or deemed made.

"(7) COORDINATION WITH SUBSECTION (a).—

"(A) TERMINATIONS TAKE PRECEDENCE OVER DISTRIBUTIONS.—If—

"(i) the death of an individual or any other occurrence is a taxable termination with respect to any property, and

"(ii) such occurrence also requires the distribution of part or all of such property in a distribution which would (but for this subparagraph) be a taxable distribution,

then a taxable distribution shall be deemed not to have occurred with respect to the portion described in clause (i).

"(B) CERTAIN PRIOR TRANSFERS.—To the extent that—

"(i) the deemed transferor in any prior transfer of the property of the trust being transferred in this transfer was assigned to the same generation as (or a lower generation than) the generation assignment of the deemed transferor in this transfer,

"(ii) the transferee in such prior transfer was assigned to the same generation as (or a higher generation than) the generation assignment of the transferee in this transfer, and

"(iii) such transfers do not have the effect of avoiding tax under this chapter with respect to any transfer,

the terms 'taxable termination' and 'taxable distribution' do not include this later transfer.

"(c) YOUNGER GENERATION BENEFICIARY; BENEFICIARY.—For purposes of this chapter—

"(1) YOUNGER GENERATION BENEFICIARY.—The term 'younger generation beneficiary' means any beneficiary who is assigned to a generation younger than the grantor's generation.

"(2) TIME FOR ASCERTAINING YOUNGER GENERATION BENEFICIARIES.—A person is a younger generation beneficiary of a trust with respect to any transfer only if such person was a younger generation beneficiary of the trust immediately before the transfer (or, in the case of a series of related transfers, only if such person was a younger generation beneficiary of the trust immediately before the first of such transfers).

"(3) BENEFICIARY.—The term 'beneficiary' means any person who has a present or future interest or power in the trust.

"(d) INTEREST OR POWER.—For purposes of this chapter—

"(1) INTEREST.—A person has an interest in a trust if such person—

"(A) has a right to receive income or corpus from the trust, or

"(B) is a permissible recipient of such income or corpus.

"(2) POWER.—The term 'power' means any power to establish or alter beneficial enjoyment of the corpus or income of the trust.

"(e) LIMITED POWER TO APPOINT AMONG LINEAL DESCENDANTS OF GRANTOR NOT TAKEN INTO ACCOUNT IN CERTAIN CASES.—For purposes of this chapter, if any individual does not have any present or future power in the trust other than a power to dispose of the corpus of the trust or the income therefrom to a beneficiary or a class of beneficiaries who are lineal descendants of the grantor assigned to a generation younger than the generation assignment of such individual, then such individual shall be treated as not having any power in the trust.

"(f) EFFECT OF ADOPTION.—For purposes of this chapter, a relationship by legal adoption shall be treated as a relationship by blood.

"SEC. 2614. SPECIAL RULES.

"(a) BASIS ADJUSTMENT.—If property is transferred to any person pursuant to a generation-skipping transfer which occurs before the death of the deemed transferor, the basis of such property in the hands of the transferee shall be increased (but not above the fair market value of such property) by an amount equal to that portion of the tax imposed by section 2601 with respect to the transfer which is attributable to the excess of the fair market value of such property over its adjusted basis immediately before the transfer. If property is transferred in a generation-skipping transfer subject to tax under this chapter which occurs at the same time as, or after, the death of the deemed transferor, the basis of such property shall be adjusted in a manner similar to the manner provided by section 1023 without regard to subsection (d) thereof (relating to basis of property passing from a decedent dying after December 31, 1976).

"(b) NONRESIDENTS NOT CITIZENS OF THE UNITED STATES.—If the deemed transferor of any transfer is, at the time of the transfer, a nonresident not a citizen of the United States and—

"(1) if the deemed transferor is alive at the time of the transfer, there shall be taken into account only property which would be taken into account for purposes of chapter 12, or

"(2) if the deemed transferor has died at the same time as, or before, the transfer, there shall be taken into account only property which would be taken into account for purposes of chapter 11.

"(c) DISCLAIMERS.—

"For provisions relating to the effect of a qualified disclaimer for purposes of this chapter, see section 2518.

"Subchapter C—Administration

"SEC. 2621. ADMINISTRATION.

"(a) GENERAL RULE.—Insofar as applicable and not inconsistent with the provisions of this chapter—

"(1) if the deemed transferor is not alive at the time of the transfer, all provisions of subtitle F (including penalties) applicable to chapter 11 or section 2001 are hereby made applicable in respect of this chapter or section 2601, as the case may be, and

"(2) if the deemed transferor is alive at the time of the transfer, all provisions of subtitle F (including penalties) applicable to chapter 12 or section 2501 are hereby made applicable in respect of this chapter or section 2601, as the case may be.

"(b) SECTIONS 6166 AND 6166A NOT APPLICABLE.—For purposes of this chapter, sections 6166 and 6166A (relating to extensions of time

for payment of estate tax where estate consists largely of interest in closely held business) shall not apply.

"(c) RETURN REQUIREMENTS.—

"(1) IN GENERAL.—The Secretary shall prescribe by regulations the person who is required to make the return with respect to the tax imposed by this chapter and the time by which any such return must be filed. To the extent practicable, such regulations shall provide that—

"(A) the person who is required to make such return shall be—

"(i) in the case of a taxable distribution, the distributee, or

"(ii) in the case of a taxable termination, the trustee; and

"(B) the return shall be filed—

"(i) in the case of a generation-skipping transfer occurring before the death of the deemed transferor, on or before the 90th day after the close of the taxable year of the trust in which such transfer occurred, or

"(ii) in the case of a generation-skipping transfer occurring at the same time as, or after, the death of the deemed transferor, on or before the 90th day after the last day prescribed by law (including extensions) for filing the return of tax under chapter 11 with respect to the estate of the deemed transferor (or if later, the day which is 9 months after the day on which such generation-skipping transfer occurred).

"(2) INFORMATION RETURNS.—The Secretary may by regulations require the trustee to furnish the Secretary with such information as he determines to be necessary for purposes of this chapter.

"SEC. 2622. REGULATIONS.

"The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this chapter, including regulations providing the extent to which substantially separate and independent shares of different beneficiaries in the trust shall be treated as separate trusts."

(b) TECHNICAL, CLERICAL, AND CONFORMING CHANGES.—

(1) CLERICAL CHANGE.—The table of chapters for subtitle B is amended by adding at the end thereof the following new item:

"CHAPTER 13. Tax on certain generation-skipping transfers."

(2) CREDIT FOR TAX ON PRIOR TRANSFERS.—Section 2013 (relating to credit for tax on prior transfers) is amended by adding at the end thereof the following new subsection:

"(g) TREATMENT OF TAX IMPOSED ON CERTAIN GENERATION-SKIPPING TRANSFERS.—If any property was transferred to the decedent in a transfer which is taxable under section 2601 (relating to tax imposed on generation-skipping transfers) and if the deemed transferor (as defined in section 2612) is not alive at the time of such transfer, for purposes of this section—

"(1) such property shall be deemed to have passed to the decedent from the deemed transferor;

"(2) the tax payable under section 2601 on such transfer shall be treated as a Federal estate tax payable with respect to the estate of the deemed transferor; and

"(3) the amount of the taxable estate of the deemed transferor shall be increased by the value of such property as determined for purposes of the tax imposed by section 2601 on the transfer."

(3) INCOME IN RESPECT OF A DECEDENT.—Subsection (c) of section 691 (relating to deduction for estate tax) is amended by adding at the end thereof the following new paragraph:

"(3) SPECIAL RULE FOR GENERATION-SKIPPING TRANSFERS.—For purposes of this section—

"(A) the tax imposed by section 2601 or any State inheritance tax described in section 2602(c)(5)(C) on any generation-skipping transfer shall be treated as a tax imposed by section 2001 on the estate of the deemed transferor (as defined in section 2612(a);

"(B) any property transferred in such a transfer shall be treated as if it were included in the gross estate of the deemed transferor at the value of such property taken into account for purposes of the tax imposed by section 2601; and

"(C) under regulations prescribed by the secretary, any item of gross income subject to the tax imposed under section 2601 shall be treated as income described in subsection (a) if such item is not properly includible in the gross income of the trust on or before the date of the generation-skipping transfer (within the meaning of section 2611(a)) and if such transfer occurs at or after the death of the deemed tranferor (as so defined)."

(4) SPECIAL RULES FOR GENERATION-SKIPPING TRANSFERS.—Section 303 is amended by adding at the end thereof the following new subsection:

"(d) SPECIAL RULES FOR GENERATION-SKIPPING TRANSFERS.—Under regulations prescribed by the Secretary, where stock in a corporation is subject to tax under section 2601 as a result of a generation-skipping transfer (within the meaning of section 2611(a)), which occurs at or after the death of the deemed transferor (within the meaning of section 2612)—

"(1) the stock shall be deemed to be included in the gross estate of the deemed transferor;

"(2) taxes of the kind referred to in subsection (a)(1) which are imposed because of the generation-skipping transfer shall be treated as imposed because of the deemed transferor's death (and for this purpose the tax imposed by section 2601 shall be treated as an estate tax);

"(3) the period of distribution shall be measured from the date of the generation-skipping transfer; and

"(4) the relationship of stock to the decedent's estate shall be measured with reference solely to the amount of the generation-skipping transfer."

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to any generation-skipping transfer (within the meaning of section 2611(a) of the Internal Revenue Code of 1954) made after April 30, 1976.

(2) EXCEPTIONS.—The amendments made by this section shall not apply to any generation-skipping transfer—

(A) under a trust which was irrevocable on April 30, 1976, but only to the extent that the transfer is not made out of corpus added to the trust after April 30, 1976, or

(B) in the case of a decedent dying before January 1, 1982, pursuant to a will (or revocable trust) which was in existence on April 30, 1976, and was not amended at any time after that date in any respect which will result in the creation of, or increasing the amount of, any generation-skipping transfer.

For purposes of subparagraph (B), if the decedent on April 30, 1976, was under a mental disability to change the disposition of his property, the period set forth in such subparagraph shall not expire before the date which is 2 years after the date on which he first regains his competence to dispose of such property.

(3) TRUST EQUIVALENTS.—For purposes of paragraph (2), in the case of a trust equivalent within the meaning of subsection (d) of section 2611 of the Internal Revenue Code of 1954, the provisions of such subsection (d) shall apply.

SEC. 2007. ORPHANS' EXCLUSION.

(a) GENERAL RULE.—Part IV of subchapter A of chapter 11 (relating to taxable estate) is amended by adding at the end thereof the following new section:

"SEC. 2057. BEQUESTS, ETC., TO CERTAIN MINOR CHILDREN.

"(a) ALLOWANCE OF DEDUCTION.—For purposes of the tax imposed by section 2001, if—

"(1) the decedent does not have a surviving spouse, and

"(2) the decedent is survived by a minor child who, immediately after the death of the decedent, has no known parent,

then the value of the taxable estate shall be determined by deducting from the value of the gross estate an amount equal to the value of any interest in property which passes or has passed from the decedent to such child, but only to the extent that such interest is included in determining the value of the gross estate.

"(b) LIMITATION.—The aggregate amount of the deductions allowed under this section (computed without regard to this subsection) with respect to interests in property passing to any minor child shall not exceed an amount equal to $5,000 multiplied by the excess of 21 over the age (in years) which such child has attained on the date of the decedent's death.

"(c) LIMITATION IN THE CASE OF LIFE ESTATE OR OTHER TERMINABLE INTEREST.—A deduction shall be allowed under this section with respect to any interest in property passing to a minor child only to the extent that a deduction would have been allowable under section 2056(b) if such interest had passed to a surviving spouse of the decedent. For purposes of this subsection, an interest shall not be treated as terminable solely because the property will pass to another person if the child dies before the youngest child of the decedent attains age 21.

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

"(1) MINOR CHILD.—The term 'minor child' means any child of the decedent who has not attained the age of 21 before the date of the decedent's death.

"(2) ADOPTED CHILDREN.—A relationship by legal adoption shall be treated as replacing a relationship by blood.

"(3) PROPERTY PASSING FROM THE DECEDENT.—The determination of whether an interest in property passes from the decedent to any person shall be made in accordance with section 2056(d)."

(b) CLERICAL AMENDMENT.—The table of sections for part IV of

subchapter A of chapter 11 is amended by adding at the end thereof the following new item:

"Sec. 2057. Bequests, etc., to certain minor children."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to the estates of decedents dying after December 31, 1976.

SEC. 2008. ADMINISTRATIVE CHANGES.

(a) FURNISHING OF STATEMENT EXPLAINING ESTATE OR GIFT VALUATION.—

(1) IN GENERAL.—Chapter 77 (relating to miscellaneous provisions) is amended by adding at the end thereof the following new section:

"SEC. 7517. FURNISHING ON REQUEST OF STATEMENT EXPLAINING ESTATE OR GIFT VALUATION.

"(a) GENERAL RULE.—If the Secretary makes a determination or a proposed determination of the value of an item of property for purposes of the tax imposed under chapter 11, 12, or 13, he shall furnish, on the written request of the executor, donor, or the person required to make the return of the tax imposed by chapter 13 (as the case may be), to such executor, donor, or person a written statement containing the material required by subsection (b). Such statement shall be furnished not later than 45 days after the later of the date of such request or the date of such determination or proposed determination.

"(b) CONTENTS OF STATEMENT.—A statement required to be furnished under subsection (a) with respect to the value of an item of property shall—

"(1) explain the basis on which the valuation was determined or proposed,

"(2) set forth any computation used in arriving at such value, and

"(3) contain a copy of any expert appraisal made by or for the Secretary.

"(c) EFFECT OF STATEMENT.—Except to the extent otherwise provided by law, the value determined or proposed by the Secretary with respect to which a statement is furnished under this section, and the method used in arriving at such value, shall not be binding on the Secretary."

(2) CONFORMING AND CLERICAL AMENDMENTS.—

(A) Section 2031 (defining gross estate) is amended by adding at the end thereof the following new subsection:

"(c) CROSS REFERENCE.—

"For executor's right to be furnished on request a statement regarding any valuation made by the Secretary within the gross estate, see section 7517."

(B) Section 2512 (relating to valuation of gifts) is amended by adding at the end thereof the following new subsection:

"(c) CROSS REFERENCE.—

"For individual's right to be furnished on request a statement regarding any valuation made by the Secretary of a gift by that individual, see section 7517."

(C) The table of sections for chapter 77 is amended by adding at the end thereof the following:

"Sec. 7517. Furnishing on request of statement explaining estate or gift valuation."

(b) SPECIAL RULE FOR FILING RETURNS WHERE GIFTS IN CALENDAR QUARTER TOTAL $25,000 OR LESS.—Subsection (b) of section 6075 relating to gift tax returns) is amended to read as follows:

"(b) GIFT TAX RETURNS.—

"(1) GENERAL RULE.—Except as provided in paragraph (2), returns made under section 6019 (relating to gift taxes) shall be filed on or before the 15th day of the second month following the close of the calendar quarter.

"(2) SPECIAL RULE WHERE GIFTS IN A CALENDAR QUARTER TOTAL $25,000 OR LESS.—If the total amount of taxable gifts made by a person during a calendar quarter is $25,000 or less, the return under section 6019 for such quarter shall be filed on or before the 15th day of the second month after—

"(A) the close of the first subsequent calendar quarter in the calendar year in which the sum of—

"(i) the taxable gifts made during such subsequent quarter, plus

"(ii) all other taxable gifts made during the calendar year and for which a return has not yet been required to be filed under this subsection,

exceeds $25,000, or

"(B) if a return is not required to be filed under subparagraph (A), the close of the fourth calendar quarter of the calendar year.

"(3) NONRESIDENTS NOT CITIZENS OF THE UNITED STATES.—In the case of a nonresident not a citizen of the United States, paragraph (2) shall be applied by substituting '$12,500' for '$25,000' each place it appears."

(c) PUBLIC INDEX OF FILED TAX LIENS.—

(1) INITIAL FILING OF NOTICE.—

(A) Section 6323(f) (relating to filing of notice of lien) is amended by adding at the end thereof the following new paragraph:

"(4) INDEX.—The notice of lien referred to in subsection (a) shall not be treated as meeting the filing requirements under paragraph (1) unless the fact of filing is entered and recorded in a public index at the district office of the Internal Revenue Service for the district in which the property subject to the lien is situated."

(B) Paragraph (2) of section 6323(f) is amended by striking out "paragraph (1)" and inserting in lieu thereof "paragraphs (1) and (4)".

(2) REFILING OF NOTICE.—Section 6323(g)(2)(A) (relating to refiling of notice of lien) is amended to read as follows:

"(A) if such notice of lien is refiled in the office in which the prior notice of lien was filed and the fact of refiling is entered and recorded in an index in accordance with subsection (f)(4); and ".

(d) EFFECTIVE DATES.—

(1) The amendments made by subsection (a)—

(A) insofar as they relate to the tax imposed under chapter 11 of the Internal Revenue Code of 1954, shall apply to the estates of decedents dying after December 31, 1976, and

(B) insofar as they relate to the tax imposed under chapter 12 of such Code, shall apply to gifts made after December 31, 1976.

(2) The amendment made by subsection (b) shall apply to gifts made after December 31, 1976.

(3) The amendment made by subsection (c) shall take effect—

(A) in the case of liens filed before the date of the enactment of this Act, on the 270th day after such date of enactment, or

(B) in the case of liens filed on or after the date of enactment of this Act, on the 120th day after such date of enactment.

SEC. 2009. MISCELLANEOUS PROVISIONS.

(a) INCLUSION OF STOCK IN DECEDENT'S ESTATE WHERE DECEDENT RETAINED VOTING RIGHTS.—Subsection (a) of section 2036 (relating to transfer with retained life estate) is amended by adding at the end thereof the following new sentence:

"For purposes of paragraph (1), the retention of voting rights in retained stock shall be considered to be a retention of the enjoyment of such stock."

(b) DISCLAIMERS.—

(1) AMENDMENT OF GIFT TAX PROVISIONS.—Subchapter B of chapter 12 (relating to transfers for purposes of the gift tax) is amended by adding at the end thereof the following new section:

"SEC. 2518. DISCLAIMERS.

"(a) GENERAL RULE.—For purposes of this subtitle, if a person makes a qualified disclaimer with respect to any interest in property, this subtitle shall apply with respect to such interest as if the interest had never been transferred to such person.

"(b) QUALIFIED DISCLAIMER DEFINED.—For purposes of subsection (a), the term 'qualified disclaimer' means an irrevocable and unqualified refusal by a person to accept an interest in property but only if—

"(1) such refusal is in writing,

"(2) such writing is received by the transferor of the interest, his legal representative, or the holder of the legal title to the property to which the interest relates not later than the date which is 9 months after the later of—

"(A) the day on which the transfer creating the interest in such person is made, or

"(B) the day on which such person attains age 21,

"(3) such person has not accepted the interest or any of its benefits, and

"(4) as a result of such refusal, the interest passes to a person other than the person making the disclaimer (without any direction on the part of the person making the disclaimer).

"(c) OTHER RULES.—For purposes of subsection (a)—

"(1) DISCLAIMER OF UNDIVIDED PORTION OF INTEREST.—A disclaimer with respect to an undivided portion of an interest which meets the requirements of the preceding sentence shall be treated as a qualified disclaimer of such portion of the interest.

"(2) POWERS.—A power with respect to property shall be treated as an interest in such property."

(2) AMENDMENT OF ESTATE TAX PROVISIONS.—Part III of subchapter A of chapter 11 (relating to gross estate) is amended by adding at the end thereof the following new section:

"SEC. 2045. DISCLAIMERS.

"For provisions relating to the effect of a qualified disclaimer for purposes of this chapter, see section 2518."

(3) CLERICAL AMENDMENTS.—

(A) The table of sections for subchapter B of chapter 12 is amended by adding at the end thereof the following:

"Sec. 2518. Disclaimers."

(B) The table of sections for part III of subchapter A of chapter 11 is amended by adding at the end thereof the following:

"Sec. 2045. Disclaimers."

(4) TECHNICAL AND CONFORMING CHANGES.—

(A) Paragraph (2) of section 2041(a) (relating to release of general powers of appointment) is amended by striking out the second sentence thereof.

(B) The first sentence of subsection (a) of section 2055 (relating to transfers for public, charitable, and religious uses) is amended by striking out "(including the interest which falls into any such bequest, legacy, devise, or transfer as a result of an irrevocable disclaimer of a bequest, legacy, devise, transfer, or power, if the disclaimer is made before the date prescribed for the filing of the estate tax return)".

(C) The second sentence of subsection (a) of section 2055 is amended—

(i) by striking out "an irrevocable" and inserting in lieu thereof "a qualified", and

(ii) by striking out "such irrevocable" and inserting in lieu thereof "such qualified".

(D) Section 2056 (relating to bequests, etc., to surviving spouse) is amended by striking out subsection (d) and by redesignating subsection (e) as subsection (d).

(E) Subsection (a) of section 2056 is amended by striking out "subsections (b), (c), and (d)" and inserting in lieu thereof "subsections (b) and (c)".

(F) Subsection (b) of section 2514 (relating to powers of appointment for purposes of the gift tax) is amended by striking out the second sentence thereof.

(c) CERTAIN RETIREMENT BENEFITS.—

(1) EXCLUSION FROM GROSS ESTATE OF INDIVIDUAL RETIREMENT ACCOUNTS, ETC.—Section 2039 (relating to annuities) is amended by adding at the end thereof the following new subsection:

"(e) EXCLUSION OF INDIVIDUAL RETIREMENT ACCOUNTS, ETC.—Notwithstanding the provisions of this section or of any other provision of law, there shall be excluded from the value of the gross estate the value of an annuity receivable by any beneficiary (other than the executor) under—

"(1) an individual retirement account described in section 408(a),

"(2) an individual retirement annuity described in section 408(b), or

"(3) a retirement bond described in section 409(a).

If any payment to an account described in paragraph (1) or for an annuity described in paragraph (2) or a bond described in paragraph

(3) was not allowable as a deduction under section 219 and was not a rollover contribution described in section 402(a)(5), 403(a)(4), 408(d)(3), or 409(b)(3)(C), the preceding sentence shall not apply to that portion of the value of the amount receivable under such account, annuity, or bond (as the case may be) which bears the same ratio to the total value of the amount so receivable as the total amount which was paid to or for such account, annuity, or bond and which was not allowable as a deduction under section 219 and was not such a rollover contribution bears to the total amount paid to or for such account, annuity, or bond. For purposes of this subsection, the term 'annuity' means an annuity contract or other arrangement providing for a series of substantially equal periodic payments to be made to a beneficiary (other than the executor) for his life or over a period extending for at least 36 months after the date of the decedent's death."

(2) EXCLUSION FROM GROSS ESTATE OF SELF-EMPLOYED PLANS.—The fifth sentence of section 2039(c) (relating to exemption of annuities under certain trusts and plans) is amended to read as follows: "For purposes of this subsection, contributions or payments on behalf of the decedent while he was an employee within the meaning of section 401(c)(1) made under a trust or plan described in paragraph (1) or (2) shall, to the extent allowable as a deduction under section 404, be considered to be made by a person other than the decedent and, to the extent not so allowable, shall be considered to be made by the decedent."

(3) EXCLUSION INAPPLICABLE IN CASE OF LUMP SUM DISTRIBUTIONS.—The first sentence of subsection (c) of section 2039 (relating to exemption of annuities under certain trusts and plans) is amended by striking out "other payment receivable by any beneficiary" and inserting in lieu thereof "other payment (other than a lump sum distribution described in section 402(e)(4), determined without regard to the next to the last sentence of section 402(e)(4)(A)) receivable by any beneficiary".

(4) GIFT TAX TREATMENT OF ELECTIONS UNDER CERTAIN RETIREMENT PLANS.—

(A) INDIVIDUAL RETIREMENT ACCOUNTS, ETC.—

(i) Subsection (a) of section 2517 (relating to certain annuities under qualified plans) is amended by striking out "or" at the end of paragraph (3), by striking out the period at the end of paragraph (4) and inserting in lieu thereof "; or", and by inserting after paragraph (4) the following new paragraph:

"(5) an individual retirement account described in section 408(a) an individual retirement annuity described in section 408(b), or a retirement bond described in section 409(a)."

(ii) Subsection (b) of section 2517 (relating to transfers attributable to employee contributions) is amended by striking out "other than paragraph (4)" and inserting in lieu thereof "other than paragraphs (4) and (5)".

(iii) Subsection (c) of section 2517 (defining employee) is amended by adding at the end thereof the following new sentence: "In the case of a retirement plan described in paragraph (5) of subsection (a), such term means the individual for whose benefit the plan was established."

(B) SELF-EMPLOYED PLANS.—The last sentence of section 2517(b) (relating to transfers attributable to employee con-

tributions) is amended to read as follows: "For purposes of this subsection, contributions or payments on behalf of an individual while he was an employee within the meaning of section 401(c)(1) made under a trust or plan described in paragraph (1) or (2) of subsection (a) shall, to the extent allowable as a deduction under section 404, be considered to be made by a person other than such individual and, to the extent not so allowable, shall be considered to be made by such individual."

(5) GIFT TAX TREATMENT OF CERTAIN COMMUNITY PROPERTY.—Section 2517 (relating to certain annuities under qualified plans) is amended by redesignating subsection (c) (as amended by paragraph (4)(A)(iii)) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) EXEMPTION OF CERTAIN ANNUITY INTERESTS CREATED BY COMMUNITY PROPERTY LAWS.—Notwithstanding any other provision of law, in the case of an employee on whose behalf contributions or payments are made—

"(1) by his employer or former employer under a trust or plan described in paragraph (1) or (2) of subsection (a), or toward the purchase of a contract described in paragraph (3) of subsection (a), which under subsection (b) are not considered as contributed by the employee, or

"(2) by the employee to a retirement plan described in paragraph (5) of subsection (a),

a transfer of benefits attributable to such contributions or payments shall, for purposes of this chapter, not be considered as a transfer by the spouse of the employee to the extent that the value of any interest of such spouse in such contributions or payments or in such trust or plan or such contract—

"(A) is attributable to such contribution or payments, and

"(B) arises solely by reason of such spouse's interest in community income under the community property laws of the State."

(d) INCOME TAX TREATMENT OF CERTAIN EXPENSES OF ESTATE.—Section 642(g) (relating to disallowance of double deductions) is amended by inserting after "shall not be allowed as a deduction" the following: "(or as an offset against the sales price of property in determining gain or loss)".

(e) EFFECTIVE DATES.—

(1) FOR SUBSECTION (a).—The amendment made by subsection (a) shall apply to transfers made after June 22, 1976.

(2) FOR SUBSECTION (b).—The amendments made by subsection (b) shall apply with respect to transfers creating an interest in the person disclaiming made after December 31, 1976.

(3) FOR SUBSECTION (c).—

(A) The amendments made by paragraphs (1), (2), and (3) of subsection (c) shall apply to the estates of decedents dying after December 31, 1976.

(B) The amendments made by paragraphs (4) and (5) of subsection (c) shall apply to transfers made after December 31, 1976.

(4) FOR SUBSECTION (d).—The amendment made by subsection (d) shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 2010. CREDIT AGAINST CERTAIN ESTATE TAXES

(a) IN GENERAL.—Subject to the provisions of subsections (b), (c), and (d), credit against the tax imposed by chapter 11 of the Internal Revenue Code of 1954 (relating to estate tax) with respect to the estate of LaVere Redfield shall be allowed by the Secretary of the Treasury or his delegate for the conveyance of real property located within the boundaries of the Toiyabe National Forest.

(b) AMOUNT OF CREDIT.—The amount treated as a credit shall be equal to the fair market value of the real property transferred as of the valuation date used for purposes of the tax imposed (and interest thereon) by chapter 11 of the Internal Revenue Code of 1954.

(c) DEED REQUIREMENTS.—The provisions of this section shall apply only if the executrixes of the estate execute a deed (in accordance with the laws of the State in which such real estate is situated) transferring title to the United States which is satisfactory to the Attorney General or his designee.

(d) ACCEPTANCE AS NATIONAL FOREST.—The provisions of this section shall apply only if the real property transferred is accepted by the Secretary of Agriculture and added to the Toiyabe National Forest. The lands shall be transferred to the Secretary of Agriculture without reimbursement or payment from the Department of Agriculture.

(e) INTEREST.—Unless the Secretary of Agriculture determines and certifies to the Secretary of the Treasury that there has been an expeditious transfer of the real property under this section, no interest payable with respect to the tax imposed by chapter 11 of the Internal Revenue Code of 1954 shall be deemed to be waived by reason of the provisions of this section for any period before the date of such transfer.

(f) EFFECTIVE DATE.—The provisions of this section shall be effective on the date of the enactment of this Act.

TITLE XXI—MISCELLANEOUS PROVISIONS

SEC. 2101. TAX TREATMENT OF CERTAIN HOUSING ASSOCIATIONS.

(a) GENERAL RULE.—Subchapter F of chapter 1 (relating to exempt organizations) is amended by adding at the end thereof the following new part:

"PART VII—CERTAIN HOMEOWNERS ASSOCIATIONS

"Sec. 528. Certain homeowners associations.

"SEC. 528. CERTAIN HOMEOWNERS ASSOCIATIONS.

"(a) GENERAL RULE.—A homeowners association (as defined in subsection (c)) shall be subject to taxation under this subtitle only to the extent provided in this section. A homeowners association shall be considered an organization exempt from income taxes for the purpose of any law which refers to organizations exempt from income taxes.

"(b) TAX IMPOSED.—

"(1) IN GENERAL.—A tax is hereby imposed for each taxable year on the homeowners association taxable income of every homeowners association. Such tax shall consist of a normal tax and surtax computed as provided in section 11 as though the homeowners association were a corporation and as though the

homeowners association taxable income were the taxable income referred to in section 11. For purposes of this subsection, the surtax exemption provided by section 11(d) shall not be allowed.

"(2) ALTERNATIVE TAX IN CASE OF CAPITAL GAINS.—If for any taxable year any homeowners association has a net capital gain, then in lieu of the tax imposed by paragraph (1), there is hereby imposed a tax (if such tax is less that the tax imposed by paragraph (1)) which shall consist of the sum of—

"(A) a partial tax, computed as provided by paragraph (1), on the homeowners association taxable income determined by reducing such income by the amount of such gain, and

"(B) a tax of 30 percent of such gain.

"(c) HOMEOWNERS ASSOCIATION DEFINED.—For purposes of this section—

"(1) HOMEOWNERS ASSOCIATION.—The term 'homeowners association means an organization which is a condominium management association or a residential real estate management association if—

"(A) such organization is organized and operated to provide for the acquisition, construction, management, maintenance, and care of association property,

"(B) 60 percent or more of the gross income of such organization for the taxable year consists solely of amounts received as membership dues, fees, or assessments from—

"(i) owners of residential units in the case of a condominium management association, or

"(ii) owners of residences or residential lots in the case of a residential real estate management association.

"(C) 90 percent or more of the expenditures of the organization for the taxable year are expenditures for the acquisition, construction, management, maintenance, and care of association property,

"(D) no part of the net earnings of such organization inures (other than by acquiring, constructing, or providing management, maintenance, and care of association property, and other than by a rebate of excess membership dues, fees, or assessments) to the benefit of any private shareholder or individual, and

"(E) such organization elects (at such time and in such manner as the Secretary by regulations prescribes) to have this section apply for the taxable year.

"(2) CONDOMINIUM MANAGEMENT ASSOCIATION.—The term 'condominium management association' means any organization meeting the requirement of subparagraph (A) of paragraph (1) with respect to a condominium project substantially all of the units of which are used as residences.

"(3) RESIDENTIAL REAL ESTATE MANAGEMENT ASSOCIATION.—The term 'residential real estate management association' means any organization meeting the requirements of subparagraph (A) of paragraph (1) with respect to a subdivision, development, or similar area substantially all the lots or buildings of which may only be used by individuals for residences.

"(4) ASSOCIATION PROPERTY.—The term 'association property' means—

"(A) property held by the organization,

"(B) property commonly held by the members of the organization,

"(C) property within the organization privately held by the members of the organization, and

"(D) property owned by a governmental unit and used for the benefit of residents of such unit.

"(d) HOMEOWNERS ASSOCIATION TAXABLE INCOME DEFINED.—

"(1) TAXABLE INCOME DEFINED.—For purposes of this section, the homeowners association taxable income of any organization for any taxable year is an amount equal to the excess (if any) of—

"(A) the gross income for the taxable year (excluding any exempt function income), over

"(B) the deductions allowed by this chapter which are directly connected with the production of the gross income (excluding exempt function income), computed with the modifications provided in paragraph (2).

"(2) MODIFICATIONS.—For purposes of this subsection—

"(A) there shall be allowed a specific deduction of $100,

"(B) no net operating loss deduction shall be allowed under section 172, and

"(C) no deduction shall be allowed under part VIII of subchapter B (relating to special deductions for corporations).

"(3) EXEMPT FUNCTION INCOME.—For purposes of this subsection, the term 'exempt function income' means any amount received as membership dues, fees, or assessments from—

"(A) owners of condominium housing units in the case of a condominium management association, or

"(B) owners of real property in the case of a residential real estate management association."

(b) Section 216(c) (relating to treatment of property subject to depreciation) is amended by adding at the end thereof the following new sentence: "The preceding sentence shall not be construed to limit or deny a deduction for depreciation under 167(a) by a cooperative housing corporation with respect to property owned by such a corporation and leased to tenant-stockholders."

(c) REQUIREMENT OF RETURN.—Section 6012(a) (relating to persons required to make returns of income) is amended by striking out "and" at the end of paragraph (5), by inserting "and" at the end of paragraph (6), and by inserting after paragraph (6) the following new paragraph:

"(7) Every homeowners association (within the meaning of section 528(c)(1)) which has homeowners association taxable income (within the meaning of section 528(d)) for the taxable year."

(d) CLERICAL AMENDMENT.—The table of parts for subchapter F of chapter 1 is amended by adding at the end thereof the following new item:

"Part VII. Certain homeowners associations."

(e) EFFECTIVE DATE.—Except as provided in subsection (f)(2), the amendments made by this section shall apply to taxable years beginning after December 31, 1973.

(f) CERTAIN STOCK OF COOPERATIVE HOUSING CORPORATIONS.—

(1) Section 216(b) is amended by adding at the end thereof the following new paragraph:

"(5) STOCK ACQUIRED THROUGH FORECLOSURE BY LENDING INSTITUTION.—If a bank or other lending institution acquires by foreclosure (or by instrument in lieu of foreclosure) the stock of a tenant-stockholder, and a lease or the right to occupy an apartment or house to which such stock is appurtenant, such bank or other lending institution shall be treated as a tenant-stockholder for a period not to exceed three years from the date of acquisition. The preceding sentence shall apply even though, by agreement with the cooperative housing corporation, the bank (or other lending institution) or its nominee may not occupy the house or apartment without the prior approval of such corporation."

(2) The amendment made by paragraph (1) shall apply to stock acquired by banks or other lending institutions after the date of the enactment of this Act.

SEC. 2102. TREATMENT OF CERTAIN DISASTER PAYMENTS.

(a) GENERAL RULE.—Subsection (d) of section 451 (relating to special rule for crop insurance proceeds) is amended by inserting after the first sentence the following new sentence: "For purposes of the preceding sentence, payments received under the Agricultural Act of 1949, as amended, as a result of (1) destruction or damage to crops caused by drought, flood, or any other natural disaster, or (2) the inability to plant crops because of such a natural disaster shall be treated as insurance proceeds received as a result of destruction or damage to crops."

(b) TECHNICAL AMENDMENT.—The subsection heading for such subsection (d) is amended by striking out "Proceeds" and inserting in lieu thereof "Proceeds or Disaster Payments".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to payments received after December 31, 1973, in taxable years ending after such date.

SEC. 2103. TAX TREATMENT OF CERTAIN 1972 DISASTER LOSSES.

(a) APPLICATION OF SECTION.—This section shall apply to any individual—

(1) who was allowed a deduction under section 165 of the Internal Revenue Code of 1954 (relating to losses) for a loss attributable to a disaster occurring during calendar year 1972 which was determined by the President, under section 102 of the Disaster Relief Act of 1970, to warrant disaster assistance by the Federal Government,

(2) who in connection with such disaster—

(A) received income in the form of cancellation of a disaster loan under section 7 of the Small Business Act or an emergency loan under subtitle C of the Consolidated Farm and Rural Development Act, or

(B) received income in the form of compensation (not taken into account in computing the amount of the deduction) for such loss in settlement of any claim of the taxpayer against a person for that person's liability in tort for the damage or destruction of that taxpayer's property in connection with the disaster, and

(3) who elects (at such time and in such manner as the Secretary of the Treasury or his delegate may by regulations prescribe) to take the benefits of this section.

(b) EFFECT OF ELECTION.—In the case of any individual to whom this section applies—

(1) the tax imposed by chapter 1 of the Internal Revenue Code of 1954 for the taxable year in which the income taken into account is received or accrued which is attributable to such income shall not exceed the additional tax under such chapter which would have been payable for the year in which the deduction for the loss was taken if such deduction had not been taken for such year,

(2) any amount of tax imposed by chapter 1 attributable to the income taken into account which, on October 1, 1975, was unpaid may be paid in 3 equal annual installments (with the first such installment due and payable on April 15, 1977), and

(3) no interest on any deficiency shall be payable for any period before April 16, 1977, to the extent such deficiency is attributable to the receipt of such compensation, and no interest on any installment referred to in paragraph (2) shall be payable for any period before the due date of such installment.

(c) INCOME TAKEN INTO ACCOUNT.—For purposes of this section, the income taken into account is—

(1) in the case of an individual described in subsection (a) (2) (A), the amount of income (not in excess of $5,000) attributable to the cancellation of a disaster loan under section 7 of the Small Business Act or an emergency loan under subtitle C of the Consolidated Farm and Rural Development Act received by reason of the disaster described in subsection (a) (1), or

(2) in the case of an individual described in subsection (a) (2) (B), the amount of compensation (not in excess of $5,000) for the loss in settlement of any claim of the taxpayer against a person for that person's liability in tort for the damage or destruction of that taxpayer's property in connection with the disaster described in subsection (a) (1).

(d) PHASEOUT WHERE ADJUSTED GROSS INCOME EXCEEDS $15,000.—If for the taxable year for which the deduction for the loss was taken the individual's adjusted gross income exceeded $15,000, the $5,000 limit set forth in paragraph (1) or (2) of subsection (c) (whichever applies) shall be reduced by one dollar for each full dollar that such adjusted gross income exceeds $15,000. In the case of a married individual filing a separate return, the preceding sentence shall be applied by substituting "$7,500" for "$15,000".

(e) STATUTE OF LIMITATIONS.—If refund or credit of any overpayment of income tax resulting from an election made under this section is prevented on the date of the enactment of this Act, or at any time within one year after such date, by the operation of any law, or rule of law, refund or credit of such overpayment (to the extent attributable to such election) may, nevertheless, be made or allowed if claim therefor is filed within one year after such date. If the taxpayer makes an election under this section and if assessment of any deficiency for any taxable year resulting from such election is prevented on the date of the enactment of this Act, or at any time within one year after such date, by the operation of any law or rule of law, such assessment (to the extent attributable to such election) may, nevertheless, be made if made within one year after such date.

SEC. 2104. TAX TREATMENT OF CERTAIN DEBTS OWED BY POLITICAL PARTIES, ETC., TO ACCRUAL BASIS TAXPAYERS.

(a) IN GENERAL.—Section 271 (relating to debts owed by political parties, etc.) is amended by adding at the end thereof the following new subsection:

"(c) EXCEPTION.—In the case of a taxpayer who uses an accrual method of accounting, subsection (a) shall not apply to a debt which accrued as a receivable on a bona fide sale of goods or services in the ordinary course of the taxpayer's trade or business if—

"(1) for the taxable year in which such receivable accrued, more than 30 percent of all receivables which accrued in the ordinary course of the trades and businesses of the taxpayer were due from political parties, and

"(2) the taxpayer made substantial continuing efforts to collect on the debt."

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

SEC. 2105. TAX-EXEMPT BONDS FOR STUDENT LOANS.

(a) IN GENERAL.—Section 103(a) (relating to interest on certain governmental obligations) is amended by striking out "or" at the end of paragraph (2), striking out the period at the end of paragraph (3) and inserting in lieu thereof "; or", and by adding at the end thereof the following:

"(4) qualified scholarship funding bonds."

(b) DEFINITION OF QUALIFIED SCHOLARSHIP FUNDING BONDS.—Section 103 is amended by redesignating subsection (f) as (g), and by inserting after subsection (e) the following new subsection:

"(f) QUALIFIED SCHOLARSHIP FUNDING BONDS.—For purposes of subsection (a), the term 'qualified scholarship funding bonds' means obligations issued by a corporation which—

"(1) is a corporation not for profit established and operated exclusively for the purpose of acquiring student loan notes incurred under the Higher Education Act of 1965, and

"(2) is organized at the request of a State or one or more political subdivisions thereof or is requested to exercise such power by one or more political subdivisions and required by its corporate charter and bylaws, or required by State law, to devote any income (after payment of expenses, debt service, and the creation of reserves for the same) to the purchase of additional student loan notes or to pay over any income to the State or a political subdivision thereof."

(c) CONFORMING AMENDMENTS.—

(1) Section 103(d) (relating to arbitrage bonds) is amended by redesignating paragraph (5) as paragraph (6) and inserting after paragraph (4) the following new paragraph:

"(5) STUDENT LOAN INCENTIVE PAYMENTS.—Payments made by the Commissioner of Education pursuant to section 2 of the Emergency Insured Student Loan Act of 1969 are not to be taken into account, for purposes of subsection (d)(2)(A), in determining yields on student loan notes."

(2) Section 103(d) (relating to arbitrage bonds) is amended by striking out "(a)(1)" each place it appears in paragraph (1) (including the heading) and paragraph (2) and inserting in lieu thereof "(a)(1) or (4)".

(d) EFFECTIVE DATE.—The amendments made by this section apply to obligations issued on or after the date of the enactment of this Act.

SEC. 2106. PERSONAL HOLDING COMPANY INCOME AMENDMENTS.

(a) IN GENERAL.—Section 543(a)(6) (relating to definition of personal holding company income) is amended to read as follows:

"(6) USE OF CORPORATE PROPERTY BY SHAREHOLDER.—

"(A) Amounts received as compensation (however designated and from whomever received) for the use of, or the right to use, tangible property of the corporation in any case where, at any time during the taxable year, 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for an individual entitled to the use of the property (whether such right is obtained directly from the corporation or by means of a sublease or other arrangement).

"(B) Subparagraph (A) shall apply only to a corporation which has personal holding company income in excess of 10 percent of its ordinary gross income.

"(C) For purposes of the limitation in subparagraph (B), personal holding company income shall be computed—

"(i) without regard to subparagraph (A) or paragraph (2),

"(ii) by excluding amounts received as compensation for the use of (or right to use) intangible property (other than mineral, oil, or gas royalties or copyright royalties) if a substantial part of the tangible property used in connection with such intangible property is owned by the corporation and all such tangible and intangible property is used in the active conduct of a trade or business by an individual or individuals described in subparagraph (A), and

"(iii) by including copyright royalties and adjusted income from mineral, oil, and gas royalties."

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

SEC. 2107. WORK INCENTIVE PROGRAM EXPENSES.

(a) INCREASE IN LIMITATION BASED ON AMOUNT OF TAX.—

(1) Paragraph (2) of section 50A(a) (relating to limitation based on amount of tax) is amended by striking out "$25,000" each place it appears and inserting in lieu thereof "$50,000".

(2) Paragraph (4) of section 50A(a) (relating to married individuals) is amended—

(A) by striking out "$12,500" and inserting in lieu thereof "$25,000", and

(B) by striking out "$25,000" and inserting in lieu thereof "$50,000".

(3) Paragraph (5) of section 50A(a) (relating to controlled groups) is amended by striking out "$25,000" each place it appears therein and inserting in lieu thereof "$50,000".

(4) Paragraph (3) of section 50B(e) is amended by striking out "$25,000" each place it appears therein and inserting in lieu thereof "$50,000".

(b) REDUCTION OF PERIOD DURING WHICH DISCHARGE OF EMPLOYEE CAUSES RECAPTURE.—Subparagraph (A) of section 50A(c)(1) (relating to work incentive program expenses) is amended—

(1) by striking out "12 months" each place it appears and inserting in lieu thereof "90 days",

(2) by striking out "12th calendar month" and inserting in lieu thereof "90th calendar day", and

(3) by striking out "the calendar month" and inserting in lieu thereof "the day".

(c) RECAPTURE NOT TO APPLY WHERE TERMINATION IS RESULT OF DECLINING BUSINESS.—Subparagraph (A) of section 50A(c)(2) (relating to certain terminations of employment) is amended—

(1) by striking out "or" at the end of clause (iii),

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

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

"(v) a termination of employment of an individual due to a substantial reduction in the trade or business operations of the taxpayer."

(d) EXTENSION OF WELFARE EMPLOYEE INCENTIVES.—Paragraph (2) of section 50B(a) (relating to definition of Federal welfare recipient employment incentive expenses) is amended by striking out "before July 1, 1976," and inserting in lieu thereof "before January 1, 1980,".

(e) LIMITATION OF FEDERAL WELFARE RECIPIENT EMPLOYMENT INCENTIVE EXPENSES TO FIRST 12 MONTHS OF EMPLOYMENT.—Subparagraph (B) of section 50B(a)(1) is amended to read as follows:

"(B) the amount of Federal welfare recipient employment incentive expenses paid or incurred by the taxpayer for services rendered during the first 12 months of employment (whether or not consecutive)."

(f) CERTIFICATION OF WELFARE RECIPIENT EMPLOYEES BY SECRETARY OF LABOR.—Subparagraph (A) of section 50B(g)(1) (relating to eligible employees) is amended by inserting "the Secretary of Labor or by" after "certified by".

(g) TECHNICAL AMENDMENTS.—

(1) The second sentence of section 6411(a) (relating to application for adjustment) is amended by inserting "(or, in the case of a work incentive program carryback, to an investment credit carryback)" after "capital loss carryback".

(2) The following provisions are each amended by inserting ", an investment credit carryback," after "net operating loss carryback":

(A) Section 6501(o).
(B) Section 6511(d)(7).
(C) Section 6601(d)(4).
(D) Section 6611(f)(4).

SEC. 2108. REPEAL OF EXCISE TAX ON LIGHT-DUTY TRUCK PARTS.

(a) IN GENERAL.—Section 6416(b)(2) (relating to special cases in which tax payments are considered overpayments) is amended—

(1) by striking "or" at the end of subparagraph (R);

(2) by striking the period at the end of subparagraph (S) and inserting in lieu thereof "; or "; and

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

"(T) in the case of any article taxable under section 4061(b), sold on or in connection with the first retail sale of a light-duty truck, as described in section 4061(a)(2), if credit or refund of such tax is not available under any other provisions of law."

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to parts and accessories sold after the date of the enactment of this Act.

SEC. 2109. EXCLUSION FROM EXCISE TAX ON CERTAIN ARTICLES RESOLD AFTER MODIFICATION.

(a) IN GENERAL.—Section 4063 (relating to exemptions from excise tax on motor vehicles) is amended by adding at the end thereof the following new subsection:

"(d) RESALE AFTER CERTAIN MODIFICATIONS.—Under regulations prescribed by the Secretary, the tax imposed by section 4061 shall not apply to the resale of any article described in section 4061(a)(1) if before such resale such article was merely combined with any coupling device (including any fifth wheel), wrecker crane, loading and unloading equipment (including any crane, hoist, winch, or power liftgate), aerial ladder or tower, snow and ice control equipment, earthmoving, excavation and construction equipment, spreader, sleeper cab, cab shield, or wood or metal floor."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to the resale of any article on or after the date of the enactment of this Act.

SEC. 2110. FRANCHISE TRANSFERS.

(a) APPLICATION OF FRANCHISE RULES TO PARTNERSHIPS.—Section 751(c) (relating to unrealized receivables of a partnership), as amended by this Act, is amended—

(1) by striking out "farm land (as defined in section 1252(a))," and inserting in lieu thereof "farm land (as defined in section 1252(a)), franchises, trademarks, or trade names (referred to in section 1253(a))," and

(2) by striking out "1252(a)" and inserting in lieu thereof "1252(a), 1253(a)".

(b) EFFECTIVE DATE.—Subsection (a) shall apply to transactions described in sections 731, 736, 741, or 751 of the Internal Revenue Code of 1954 which occur after December 31, 1976, in taxable years ending after that date.

SEC. 2111. EMPLOYER'S DUTIES IN CONNECTION WITH THE RECORDING AND REPORTING OF TIPS.

(a) SUSPENSION OF RULINGS.—Until January 1, 1979, the law with respect to the duty of an employer under section 6041(a) of the Internal Revenue Code of 1954 to report charge account tips of employees to the Internal Revenue Service (other than charge account tips included in statements furnished to the employer under section 6053(a) of such Code) shall be administered—

(1) without regard to Revenue Rulings 75–400 and 76–231, and

(2) in accordance with the manner in which such law was administered before the issuance of such rulings.

(b) EFFECTIVE DATE.—This section shall take effect on January 1, 1976.

SEC. 2112. TREATMENT OF CERTAIN POLLUTION CONTROL FACILITIES.

(a) AVAILABILITY OF INVESTMENT CREDIT FOR CERTAIN POLLUTION CONTROL FACILITIES.—

(1) IN GENERAL.—Section 48(a)(8) (relating to amortized property) is amended by striking out "169," and by striking out the second sentence thereof.

(2) APPLICABLE PERCENTAGE IN DETERMINING AMOUNT OF CREDIT.—Section 46(c) (relating to qualified investment) is amended by adding at the end thereof the following new paragraph:

"(5) APPLICABLE PERCENTAGE IN THE CASE OF CERTAIN POLLUTION CONTROL FACILITIES.—Notwithstanding subsection (c)(2), in the case of property—

"(A) with respect to which an election under section 169 applies, and

(B) the useful life of which (determined without regard to section 169) is not less than 5 years,

50 percent shall be the applicable percentage for purposes of applying paragraph (1) with respect to so much of the adjusted basis of the property as (after the application of section 169(f)) constitutes the amortizable basis for purposes of section 169."

(b) DEFINITION OF CERTIFIED POLLUTION CONTROL FACILITIES.—Paragraph (1) of section 169(d) (defining certified pollution control facilities) is amended—

(1) by striking out "January 1, 1969," and inserting in lieu thereof "January 1, 1976,";

(2) by striking out "or storing" and inserting in lieu thereof "storing, or preventing the creation or emission of"; and

(3) by striking out "and" at the end of subparagraph (A), by striking out the period at the end of subparagraph (B) and inserting in lieu thereof "; and", and by adding at the end thereof the following new subparagraph:

"(C) does not significantly—

"(i) increase the output or capacity, extend the useful life, or reduce the total operating costs of such plant or other property (or any unit thereof), or

"(ii) alter the nature of the manufacturing or production process or facility."

(c) EXTENSION OF AMORTIZATION.—Paragraph (4) of section 169(d) (relating to new identifiable treatment facility) is amended to read as follows:

"(4) NEW IDENTIFIABLE TREATMENT FACILITY.—

"(A) IN GENERAL.—For purposes of paragraph (1), the term 'new identifiable treatment facility' includes only tangible property (not including a building and its structural components, other than a building which is exclusively a treatment facility) which is of a character subject to the allowance for depreciation provided in section 167, which is identifiable as a treatment facility, and which is property—

"(i) the construction, reconstruction, or erection of which is completed by the taxpayer after December 31, 1968, or

"(ii) acquired after December 31, 1968, if the original use of the property commences with the taxpayer and commences after such date.

In applying this section in the case of property described in clause (i) there shall be taken into account only that portion of the basis which is properly attributable to construction, reconstruction, or erection after December 31, 1968.

"(B) CERTAIN PLANTS, ETC., PLACED IN OPERATION AFTER 1968.—In the case of any treatment facility used in connection with any plant or other property not in operation before January 1, 1969, the preceding sentence shall be applied by substituting December 31, 1975, for December 31, 1968."

(d) EFFECTIVE DATES.—

(1) The amendments made by subsection (a) shall apply to—

(A) property acquired by the taxpayer after December 31, 1976, and

(B) property the construction, reconstruction, or erection of which was completed by the taxpayer after December 31, 1976, (but only to the extent of the basis thereof attributable

to construction, reconstruction, or erection after such date), in taxable years beginning after such date.

(2) The amendments made by subsection (b) shall apply to taxable years beginning after December 31, 1975. Such amendments shall not apply in the case of any property with respect to which the amortization period under section 169 of the Internal Revenue Code of 1954 has begun before January 1, 1976.

SEC. 2113. CLARIFICATION OF STATUS OF CERTAIN FISHERMEN'S ORGANIZATIONS.

(a) IN GENERAL.—Section 501 (relating to exemption from tax on corporations, etc.) is amended by redesignating subsection (g) as (h) and by inserting after subsection (f) the following new subsection:

"(g) DEFINITION OF AGRICULTURAL.—For purposes of subsection (c)(5), the term 'agricultural' includes the art or science of cultivating land, harvesting crops or aquatic resources, or raising livestock."

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

SEC. 2114. APPLICATION OF SECTION 6013(e) OF THE INTERNAL REVENUE CODE OF 1954.

(a) IN GENERAL.—Section 3 of the Act of January 12, 1971, Public Law 91-679 (84 Stat. 2064), is amended by adding at the end thereof the following new sentences: "Upon application by a taxpayer, the Secretary of the Treasury shall redetermine the liability for tax (including interest, penalties, and other amounts) of such taxpayer for taxable years beginning after December 31, 1961, and ending before January 13, 1971. The preceding sentence shall apply solely to a taxpayer to whom the application of the provisions of section 6013(e) of the Internal Revenue Code of 1954, as added by this Act, for such taxable years is prevented by the operation of res judicata, and such redetermination shall be made without regard to such rule of law. Any overpayment of tax by such taxpayer for such taxable years resulting from the redetermination made under this Act shall be refunded to such taxpayer."

(b) EFFECTIVE DATE.—The application permitted under the amendment made by subsection (a) of this section must be filed with the Secretary of the Treasury during the first calendar year beginning after the date of the enactment of this Act.

SEC. 2115. AMENDMENTS TO RULES RELATING TO LIMITATION ON PERCENTAGE DEPLETION IN CASE OF OIL AND GAS WELLS, TRANSFERS OF OIL AND GAS PROPERTY WITHIN THE SAME CONTROLLED GROUP OR FAMILY.

(a) RETAILER EXCLUSION.—Paragraph (2) of section 613A(d) (relating to the retailer exclusion) is amended by inserting "(excluding bulk sales of such items to commercial or industrial users)" after "natural gas" where it first appears, and by adding at the end thereof the following:

"Notwithstanding the preceding sentence this paragraph shall not apply in any case where the combined gross receipts from the sale of such oil, natural gas, or any product derived therefrom, for the taxable year of all retail outlets taken into account for purposes of this paragraph do not exceed $5,000,000. For purposes of this paragraph, sales of oil, natural gas, or any product derived from oil or natural gas shall not include sales made of such items outside the United States, if no domestic production of the taxpayer

or a related person is exported during the taxable year or the immediately preceding taxable year."

(b) TRANSFER RULE.—

(1) IN GENERAL.—Subparagraph (B) of section 613A(c)(9) (relating to exceptions to the transfer rule) is amended by striking out "or" at the end of clause (i), by striking out the period at the end of clause (ii) and inserting in lieu thereof ", or", and by adding at the end thereof the following new clause:

"(iii) a change of beneficiaries of a trust by reason of the death, birth, or adoption of any vested beneficiary if the transferee was a beneficiary of such trust or is a lineal descendant of the settlor or any other vested beneficiary of such trust, except in the case of any trust where any beneficiary of such trust is a member of the family (as defined in section 267(c)(4)) of a settlor who created inter vivos and testamentary trusts for members of the family and such settlor died within the last six days of the fifth month in 1970, and the law in the jurisdiction in which such trust was created requires all or a portion of the gross or net proceeds of any royalty or other interest in oil, gas, or other mineral representing any percentage depletion allowance to be allocated to the principal of the trust."

(2) CONFORMING AMENDMENTS.—Paragraph (1) of section 613A(d) (relating to the limitation on percentage depletion based upon taxable income) is amended—

(A) by striking out subparagraph (A) and inserting in lieu thereof the following:

"(A) any depletion on production from an oil or gas property which is subject to the provisions of subsection (c),",

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

(C) by striking out the period at the end of subparagraph (C) and inserting in lieu thereof ", and", and

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

"(D) in the case of a trust, any distributions to its beneficiary, except in the case of any trust where any beneficiary of such trust is a member of the family (as defined in section 267(c)(4)) of a settlor who created inter vivos and testamentary trusts for members of the family and such settlor died within the last six days of the fifth month in 1970, and the law in the jurisdiction in which such trust was created requires all or a portion of the gross or net proceeds of any royalty or other interest in oil, gas, or other mineral representing any percentage depletion allowance to be allocated to the principal of the trust."

(c) PARTNERSHIP RULES.—

(1) Subparagraph (D) of section 613A(c)(7) (relating to the computation of depletion in the case of partnerships) is amended to read as follows:

"(D) PARTNERSHIPS.—In the case of a partnership, the depletion allowance shall be computed separately by the partners and not by the partnership. The partnership shall allocate to each partner his proportionate share of the adjusted basis of each partnership oil or gas property. The allocation

is to be made as of the later of the date of acquisition of the oil or gas property by the partnership, or January 1, 1975. A partner's proportionate share of the adjusted basis of partnership property shall be determined in accordance with his interest in partnership capital or income and, in the case of an agreement described in section 704(c)(2) (relating to effect of a partnership agreement on contributed property), such share shall be determined by taking such agreement into account. Each partner shall separately keep records of his share of the adjusted basis in each oil and gas property of the partnership, adjust such share of the adjusted basis for any depletion taken on such property, and use such adjusted basis each year in the computation of his cost depletion or in the computation of his gain or loss on the disposition of such property by the partnership. For purposes of section 732 (relating to basis of distributed property other than money), the partnership's adjusted basis in mineral property shall be an amount equal to the sum of the partners' adjusted basis in such property as determined under this paragraph."

(2) Subparagraph (G) of section 703(a)(2) (relating to deductions not allowed to a partnership) is amended by striking out "production subject to the provisions of section 613A(c)" and inserting in lieu thereof "wells".

(3) Subsection (a) of section 705 (relating to the determination of basis of a partner's interest in a partnership) is amended—

(A) by striking out "and" in paragraph (1)(C),

(B) by striking out the period at the end of paragraph (2) and inserting in lieu thereof "; and", and

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

"(3) decreased (but not below zero), by the amount of the partner's deduction for depletion under section 611 with respect to oil and gas wells."

(d) RELATED PERSON.—Paragraph (3) of section 613A(d) (relating to the definition of related person) is amended by adding at the end thereof the following:

"For purposes of determining a significant ownership interest, an interest owned by or for a corporation, partnership, trust, or estate shall be considered as owned directly both by itself and proportionately by its shareholders, partners, or beneficiaries, as the case may be."

(e) TRANSFERS OF OIL AND GAS PROPERTY WITHIN THE SAME CONTROLLED GROUP OR FAMILY.—Subparagraph (B) of section 613A(c)(9) (relating to transfer of oil or gas property), as amended by subsection (b)(1), is amended—

(1) by striking out "or" at the end of clause (ii),

(2) by striking out the period at the end of clause (iii) and inserting in lieu thereof a comma, and

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

"(iv) a transfer of property between corporations which are members of the same controlled group of corporations (as defined in paragraph (8)(D)(i)), or

"(v) a transfer of property between business entities which are under common control (within the meaning of paragraph (8)(B)) or between related persons in the same family (within the meaning of paragraph (8)(C)), or

"(vi) a transfer of property between a trust and related persons in the same family (within the meaning of paragraph (8)(C)) to the extent that the beneficiaries of that trust are and continue to be related persons in the family that transferred the property, and to the extent that the tentative oil quantity is allocated among the members of the family (within the meaning of paragraph (8)(C)).

Clause (iv) or (v) shall apply only so long as the tentative oil quantity determined under the table contained in paragraph (3)(B) is allocated under paragraph (8) between the transferor and transferee."

(f) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 1975, and shall apply to taxable years ending after December 31, 1974.

SEC. 2116. IMPLEMENTATION OF FEDERAL-STATE TAX COLLECTION ACT OF 1972.

(a) ELECTION BY STATES TO PARTICIPATE.—Section 204(b)(2) of the Federal-State Tax Collection Act of 1972 is amended to read as follows:

"(2) the first January 1 which is more than one year after the first date on which at least one State has notified the Secretary of the Treasury or his delegate of an election to enter into an agreement under section 6363 of such Code."

(b) ADJUSTMENTS TO QUALIFIED RESIDENT TAXES FOR PURPOSES OF FEDERAL COLLECTION OF STATE INDIVIDUAL INCOME TAXES.—

(1) QUALIFIED RESIDENT TAX BASED ON TAXABLE INCOME.—

(A) REQUIRED ADJUSTMENTS.—Section 6362(b)(1) (relating to required adjustments) is amended—

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

(ii) by striking out the period at the end of subparagraph (C) and inserting in lieu thereof ", and", and

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

"(D) if a credit is allowed against such tax for State or local sales tax in accordance with paragraph (2)(C), by adding an amount equal to the amount of his deduction under section 164(a)(4) for such sales tax."

(B) PERMITTED ADJUSTMENTS.—Section 6362(b)(2) (relating to permitted adjustments) is amended by adding at the end thereof the following new subparagraph:

"(C) A credit is allowed against such tax for all or a portion of any general sales tax imposed by the same State or a political subdivision thereof with respect to sales to the taxpayer or his dependents."

(2) QUALIFIELD RESIDENT TAX WHICH IS A PERCENTAGE OF THE FEDERAL TAX—

(A) PERMITTED ADJUSTMENTS.—Section 6362(c)(3) (relating to permitted adjustments) is amended—

(i) by striking out "both" and inserting in lieu thereof "all",

(ii) by striking out "and" at the end of subparagraph (A),

(iii) by striking out the period at the end of subparagraph (B) and inserting in lieu thereof ", and", and

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

"(C) if a credit is allowed against such tax for State or local sales tax in accordance with paragraph (4)(B), the liability for tax is increased by the increase in such liability which would result from including as an item of income an amount equal to the amount of his deduction under section 164(a)(4) for such sales tax."

(B) FURTHER PERMITTED ADJUSTMENTS.—Section 6362(c)(4) (relating to further permitted adjustments) is amended to read as follows:

"(4) FURTHER PERMITTED ADJUSTMENTS.—A tax which otherwise meets the requirements of paragraphs (1) and (2) shall not be deemed to fail to meet such requirements solely because it provides for one or both of the following adjustments:

"(A) A credit determined under rules prescribed by the Secretary is allowed against such tax for income tax paid to another State or a political subdivision thereof.

"(B) A credit is allowed against such tax for all or a portion of any general sales tax imposed by the same State or a political subdivision thereof with respect to sales to the taxpayer or his dependents."

(c) PROHIBITION ON CHARGES FOR FEDERAL COLLECTION OF STATE INCOME TAXES.—Section 6361(a) (relating to general rules for Federal collection and administration of State individual income taxes) is amended by inserting, after the first sentence thereof, the following: "No fee or other charge shall be imposed upon any State for the collection or administration of the qualified State individual income taxes of such State or any other State.".

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 2117. CANCELLATION OF CERTAIN STUDENT LOANS.

(a) IN GENERAL.—In the case of an individual, no amount shall be included in gross income for purposes of section 61 of the Internal Revenue Code of 1954 by reason of the discharge of all or part of the indebtedness of the individual under a student loan if such discharge was pursuant to a provision of such loan under which all or part of the indebtedness of the individual would be discharged if the individual worked for a certain period of time in certain geographical areas or for certain classes of employers.

(b) STUDENT LOAN.—For purposes of this section the term "student loan" means any loan to an individual to assist the individual in attending an educational organization described in section 170(b)(1)(A)(ii) of such Code—

(1) by the United States, or an instrumentality or agency thereof, or a State, territory, or possession of the United States, or any political subdivision thereof, or the District of Columbia, or

(2) by any such educational organization pursuant to an agreement with the United States, or an instrumentality or agency thereof, or a State, territory, or possession of the United States, or any political subdivision thereof, or the District of Columbia under which the funds from which the loan was made were provided to such educational organization.

(c) EFFECTIVE DATE.—The provisions of this section shall apply to discharges of indebtedness made before January 1, 1979.

SEC. 2118. TREATMENT OF GAIN OR LOSS ON SALES OR EXCHANGES IN CONNECTION WITH SIMULTANEOUS LIQUIDATION OF A PARENT AND SUBSIDIARY CORPORATION.

(a) IN GENERAL.—Section 337 (relating to gain or loss on sales or exchanges in connection with certain liquidations) is amended by adding the following sentence at the end of subsection (c)(2) thereof:

"This paragraph shall not apply to a sale or exchange by a member of an affiliated group of corporations, as defined in section 1504(a) (but without regard to the exceptions contained in section 1504(b)), if each member of such group (including the common parent corporation) which receives, within the 12-month period beginning on the date of the adoption of a plan of complete liquidation by the corporation which made the sale or exchange, a distribution in complete liquidation from any other member of such group is itself completely liquidated within such 12-month period."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to sales or exchanges made pursuant to a plan of complete liquidation adopted after December 31, 1975.

SEC. 2119. REGULATIONS RELATING TO TAX TREATMENT OF CERTAIN PREPUBLICATION EXPENDITURES OF PUBLISHERS.

(a) GENERAL RULE.—With respect to taxable years beginning on or before the date on which regulations dealing with prepublication expenditures are issued after the date of the enactment of this Act, the application of sections 61 (as it relates to cost of goods sold), 162, 174, 263, and 471 of the Internal Revenue Code of 1954 to any prepublication expenditure shall be administered—

(1) without regard to Revenue Ruling 73–395, and

(2) in the manner in which such sections were applied consistently by the taxpayer to such expenditures before the date of the issuance of such revenue ruling.

(b) REGULATIONS TO BE PROSPECTIVE ONLY.—Any regulations issued after the date of the enactment of this Act which deal with the application of sections 61 (as it relates to cost of goods sold), 162, 174, 263, and 471 of the Internal Revenue Code of 1954 to prepublication expenditures shall apply only with respect to taxable years beginning after the date on which such regulations are issued.

(c) PREPUBLICATION EXPENDITURES DEFINED.—For purposes of this section, the term "prepublication expenditures" means expenditures paid or incurred by the taxpayer (in connection with his trade or business of publishing) for the writing, editing, compiling, illustrating, designing, or other development or improvement of a book, teaching aid, or similar product.

SEC. 2120. CONTRIBUTIONS IN AID OF CONSTRUCTION FOR CERTAIN UTILITIES.

(a) IN GENERAL.—Section 118 (relating to contributions to the capital of a corporation) is amended by redesignating subsection (b) as subsection (c) and inserting immediately after subsection (a) the following new subsection:

"(b) CONTRIBUTIONS IN AID OF CONSTRUCTION.—

"(1) GENERAL RULE.—For purposes of this section, the term 'contribution to the capital of the taxpayer' includes any amount

of money or other property received from any person (whether or not a shareholder) by a regulated public utility which provides water or sewerage disposal services if—

"(A) such amount is a contribution in aid of construction,

"(B) where the contribution is in property which is other than water or sewerage disposal facilities, such amount meets the requirements of the expenditure rule of paragraph (2), and

"(C) such amounts (or any property acquired or constructed with such amounts) are not included in the taxpayer's rate base for rate-making purposes.

"(2) EXPENDITURE RULE.—An amount meets the requirements of this paragraph if—

"(A) an amount equal to such amount is expended for the acquisition or construction of tangible property described in section 1231(b)—

"(i) which was the purpose motivating the contribution, and

"(ii) which is used predominantly in the trade or business of furnishing water or sewerage disposal services,

"(B) the expenditure referred to in subparagraph (A) occurs before the end of the second taxable year after the year in which such amount was received, and

"(C) accurate records are kept of the amounts contributed and expenditures made on the basis of the project for which the contribution was made and on the basis of the year of contribution or expenditure.

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

"(A) CONTRIBUTION IN AID OF CONSTRUCTION.—The term 'contribution in aid of construction' shall be defined by regulations prescribed by the Secretary; except that such term shall not include amounts paid as customer connection fees (including amounts paid to connect the customer's property to a main water or sewer line and amounts paid as service charges for starting or stopping services).

"(B) PREDOMINANTLY.—The term 'predominantly' means 80 percent or more.

"(C) REGULATED PUBLIC UTILITY.—The term 'regulated public utility' has the meaning given such term by section 7701(a)(33); except that such term shall not include any such utility which is not required to provide water or sewerage disposal services to members of the general public in its service area.

"(4) DISALLOWANCE OF DEDUCTIONS AND INVESTMENT CREDIT; ADJUSTED BASIS.—Notwithstanding any other provision of this subtitle, no deduction or credit shall be allowed for, or by reason of, the expenditure which constitutes a contribution in aid of construction to which this subsection applies. The adjusted basis of any property acquired with contributions in aid of construction to which this subsection applies shall be zero."

(b) CONFORMING AMENDMENT.—Section 362(c) (relating to special rule for contributions to capital) is amended by adding the following new paragraph immediately after paragraph (2):

"(3) EXCEPTION FOR CONTRIBUTIONS IN AID OF CONSTRUCTION.—The provisions of this subsection shall not apply to contributions in aid of construction to which section 118(b) applies."

(c) EFFECTIVE DATE.—The amendments made by this section apply to contributions made after January 31, 1976.

SEC. 2121. PROHIBITION OF DISCRIMINATORY STATE TAXES ON PRODUCTION AND CONSUMPTION OF ELECTRICITY.

(a) IN GENERAL.—The Act entitled "An Act relating to the power of the States to impose net income taxes on income derived from interstate commerce, and authorizing studies by congressional committees of matters pertaining thereto", approved September 14, 1959 (73 Stat. 555; 15 U.S.C. 381 et seq.) is amended by striking out title II (relating to studies) and inserting in lieu thereof the following:

"TITLE II—DISCRIMINATORY TAXES

"Sec. 201. No State, or political subdivision thereof, may impose or assess a tax on or with respect to the generation or transmission of electricity which discriminates against out-of-State manufacturers, producers, wholesalers, retailers, or consumers of that electricity. For purposes of this section a tax is discriminatory if it results, either directly or indirectly, in a greater tax burden on electricity which is generated and transmitted in interstate commerce than on electricity which is generated and transmitted in intrastate commerce."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect beginning June 30, 1974.

SEC. 2122. ALLOWANCE OF DEDUCTION FOR ELIMINATING ARCHITECTURAL AND TRANSPORTATION BARRIERS FOR THE HANDICAPPED.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 (relating to itemized deductions for individuals and corporations) is amended by adding at the end thereof the following new section:

"SEC. 190. EXPENDITURES TO REMOVE ARCHITECTURAL AND TRANSPORTATION BARRIERS TO THE HANDICAPPED AND ELDERLY.

"(a) TREATMENT AS EXPENSES.—

"(1) IN GENERAL.—A taxpayer may elect to treat qualified architectural and transportation barrier removal expenses which are paid or incurred by him during the taxable year as expenses which are not chargeable to capital account. The expenditures so treated shall be allowed as a deduction.

"(2) ELECTION.—An election under paragraph (1) shall be made at such time and in such manner as the Secretary prescribes by regulations.

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

"(1) ARCHITECTURAL AND TRANSPORTATION BARRIER REMOVAL EXPENSES.—The term 'architectural and transportation barrier removal expenses' means an expenditure for the purpose of making any facility or public transportation vehicle owned or leased by the taxpayer for use in connection with his trade or business more accessible to, and usable by, handicapped and elderly individuals.

"(2) QUALIFIED ARCHITECTURAL AND TRANSPORTATION BARRIER REMOVAL EXPENSE.—The term 'qualified architectural and transportation barrier removal expense' means, with respect to any such facility or public transportation vehicle, an architectural or transportation barrier removal expense with respect to which the taxpayer establishes, to the satisfaction of the Secretary, that the resulting removal of any such barrier meets the standards promulgated by the Secretary with the concurrence of the Archi-

tectural and Transportation Barriers Compliance Board and set forth in regulations prescribed by the Secretary.

"(3) HANDICAPPED INDIVIDUAL.—The term 'handicapped individual' means any individual who has a physical or mental disability (including, but not limited to, blindness or deafness) which for such individual constitutes or results in a functional limitation to employment, or who has any physical or mental impairment (including, but not limited to, a sight or hearing impairment) which substantially limits one or more major life activities of such individual.

"(c) LIMITATION.—The deduction allowed by subsection (a) for any taxable year shall not exceed $25,000.

"(d) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this section within 180 days after the date of the enactment of the Tax Reform Act of 1976."

(b) TECHNICAL AND CONFORMING AMENDMENTS.—

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

"Sec. 190. Expenditures to remove architectural and transportation barriers to the handicapped and elderly."

(2) Section 263(a)(1) (relating to capital expenditures) is amended—

(A) by striking out "or" at the end of subparagraph (D) thereof,

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

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

"(F) expenditures for removal of architectural and transportation barriers to the handicapped and elderly which the taxpayer elects to deduct under section 190."

(3) Section 1245(a) (relating to gain from dispositions of certain depreciable property) is amended—

(A) by striking out "or 188" each place it appears in paragraphs (2) and (3)(D) and inserting in lieu thereof "188, or 190",

(B) by striking out "or 185" in paragraph (2)(D) and inserting in lieu thereof "185, or 190"; and

(C) by adding at the end of paragraph (2) the following new sentence: "For purposes of this section, any deduction allowable under section 190 shall be treated as if it were a deduction allowable for amortization."

(4) Section 1250(b)(3) (relating to depreciation adjustments) is amended by striking out "or 188" and inserting in lieu thereof "188, or 190".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1976, and before January 1, 1980.

SEC. 2123. HIGH INCOME TAXPAYER REPORT.

The Secretary of the Treasury shall publish annually information on the amount of tax paid by individual taxpayers with high total incomes. Total income for this purpose is to be calculated and set forth in three ways:

(1) by adding to adjusted gross income any items of tax preference excluded from, or deducted in arriving at, adjusted gross income,

(2) by subtracting any investment expenses incurred in the production of such income to the extent of the investment income, and

(3) by making both of the adjustments referred to in paragraphs (1) and (2).

In any event these data are to include the number of such individuals with total income over $200,000 who owe no Federal income tax (after credits) and the deductions, exclusions or credits used by them to avoid tax.

SEC. 2124. TAX INCENTIVES TO ENCOURAGE THE PRESERVATION OF HISTORIC STRUCTURES.

(a) AMORTIZATION OF REHABILITATION EXPENDITURES.—

(1) ALLOWANCE OF DEDUCTION.—Part VI of subchapter B of chapter 1 (relating to itemized deductions) is amended by adding at the end thereof the following new section:

"SEC. 191. AMORTIZATION OF CERTAIN REHABILITATION EXPENDITURES FOR CERTIFIED HISTORIC STRUCTURES.

"(a) ALLOWANCE OF DEDUCTION.—Every person, at his election, shall be entitled to a deduction with respect to the amortization of the amortizable basis of any certified historic structure (as defined in subsection (d)) based on a period of 60 months. Such amortization deduction shall be an amount, with respect to each month of such period within the taxable year, equal to the amortizable basis at the end of such month divided by the number of months (including the month for which the deduction is computed) remaining in the period. Such amortizable basis at the end of the month shall be computed without regard to the amortization deduction for such month. The amortization deduction provided by this section with respect to any month shall be in lieu of the depreciation deduction with respect to such basis for such month provided by section 167. The 60-month period shall begin, as to any historic structure, at the election of the taxpayer, with the month following the month in which the basis is acquired, or with the succeeding taxable year.

"(b) ELECTION OF AMORTIZATION.—The election of the taxpayer to take the amortization deduction and to begin the 60-month period with the month following the month in which the basis is acquired, or with the taxable year succeeding the taxable year in which such basis is acquired, shall be made by filing with the Secretary, in such manner, in such form, and within such time as the Secretary may by regulations prescribe, a statement of such election.

"(c) TERMINATION OF AMORTIZATION DEDUCTION.—A taxpayer who has elected under subsection (b) to take the amortization deduction provided in subsection (a) may, at any time after making such election, discontinue the amortization deduction with respect to the remainder of the amortization period, such discontinuance to begin as of the beginning of any month specified by the taxpayer in a notice in writing filed with the Secretary before the beginning of such month. The depreciation deduction provided under section 167 shall be allowed, beginning with the first month as to which the amortization deduction does not apply, and the taxpayer shall not be entitled to any further amortization deduction under this section with respect to such certified historic structure.

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

"(1) CERTIFIED HISTORIC STRUCTURE.—The term 'certified historic structure' means a building or structure which is of a character subject to the allowance for depreciation provided in section 167 which—

"(A) is listed in the National Register,

"(B) is located in a Registered Historic District and is certified by the Secretary of the Interior as being of historic significance to the district, or

"(C) is located in an historic district designated under a statute of the appropriate State or local government if such statute is certified by the Secretary of the Interior to the Secretary as containing criteria which will substantially achieve the purpose of preserving and rehabilitating buildings of historic significance to the district.

"(2) AMORTIZABLE BASIS.—The term 'amortizable basis' means the portion of the basis attributable to amounts expended in connection with certified rehabilitation.

"(3) CERTIFIED REHABILITATION.—The term 'certified rehabilitation' means any rehabilitation of a certified historic structure which the Secretary of the Interior has certified to the Secretary as being consistent with the historic character of such property or the district in which such property is located.

"(e) DEPRECIATION DEDUCTION.—The depreciation deduction provided by section 167 shall, despite the provisions of subsection (a), be allowed with respect to the portion of the adjusted basis which is not the amortizable basis.

"(f) LIFE TENANT AND REMAINDERMAN.—In the case of property held by one person for life with remainder to another person, the deduction under this section shall be computed as if the life tenant were the absolute owner of the property and shall be allowable to the life tenant.

"(g) CROSS REFERENCES.—

"(1) For rules relating to the listing of buildings and structures in the National Register and for definitions of 'National Register' and 'Registered Historic District', see section 470 et seq. of title 16 of the United States Code.

"(2) For special rule with respect to certain gain derived from the disposition of property the adjusted basis of which is determined with regard to this section, see section 1245."

(2) GAIN ON DISPOSITION.—Section 1245(a) (relating to gain from dispositions of certain depreciable property) is amended by striking out "or 190" each place it appears and inserting in lieu thereof "190, or 191".

(3) CONFORMING AMENDMENTS.—

(A) The table of sections for part VI of subchapter B of chapter 1 is amended by inserting at the end thereof the following new item:

"Sec. 191. Amortization of certain rehabilitation expenditures for certified historic structures."

(B) Section 642(f) (relating to amortization deductions of estates and trust) is amended by striking out "and 188" and inserting in lieu thereof "188, and 191".

(C) Section 1082(a)(2)(B) (relating to basis for determining gain or loss) is amended by striking out "or 188" and inserting in lieu thereof "188, or 191".

(D) Section 1250(b)(3) (relating to depreciation adjustments) is amended by striking out "or 190" and inserting in lieu thereof "190 or 191".

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply with respect to additions to capital account made after June 14, 1976 and before June 15, 1981.

(b) DEMOLITION.—

(1) DISALLOWANCE OF DEDUCTIONS.—Part IX of subchapter B of chapter 1 (relating to items not deductible) is amended by adding at the end thereof the following new section:

"SEC. 280B. DEMOLITION OF CERTAIN HISTORIC STRUCTURES.

"(a) GENERAL RULE.—In the case of the demolition of a certified historic structure (as defined in section 191(d)(1))—

"(1) no deduction otherwise allowable under this chapter shall be allowed to the owner or lessee of such structure for—

"(A) any amount expended for such demolition, or

"(B) any loss sustained on account of such demolition; and

"(2) amounts described in paragraph (1) shall be treated as properly chargeable to capital account with respect to the land on which the demolished structure was located.

"(b) SPECIAL RULE FOR REGISTERED HISTOR[illegible] DISTRICTS.—For purposes of this section, any building or other str[illegible]ture located in a Registered Historic District shall be treated as a ce[illegible]tified historic structure unless the Secretary of the Interior has certif[illegible]l, prior to the demolition of such structure, that such structure is n[illegible] of historic significance to the district."

(2) CLERICAL AMENDMENT.—The table [illegible]f sections for part IX of subchapter B of chapter 1 is amende[illegible] by adding at the end thereof the following new item:

"Sec. 280B. Demolition of certain historic structures."

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply with respect to demolitions commencing after June 30, 1976, and before January 1, 1981.

(c) DEPRECIATION OF IMPROVEMENTS.—

(1) METHOD OF DEPRECIATION.—Section 167 (relating to depreciation) is amended by redesignating subsection (n) as (p), and by inserting after subsection (m) the following new subsection:

"(n) STRAIGHT LINE METHOD IN CERTAIN CASES.—

"(1) IN GENERAL.—In the case of any property in whole or in part constructed, reconstructed, erected, or used on a site which was, on or after June 30, 1976, occupied by a certified historic structure (as defined in section 191(d)(1)) which is demolished or substantially altered (other than by virtue of a certified rehabilitation as defined in section 191(d)(3)) after such date—

"(A) subsections (b), (j), (k), an[illegible](l) shall not apply,

"(B) the term 'reasonable allowance' as used in subsection (a) shall mean only an allowance computed under the straight line method.

"(2) EXCEPTION.—The limitations imposed by this subsection shall not apply to personal property."

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to that portion of the basis which is attributable to construction, reconstruction, or erection after December 31, 1975, and before January 1, 1981.

(d) SUBSTANTIALLY REHABILITATED PROPERTY.—

(1) Section 167 (relating to depreciation) is amended by insert-

ing after subsection (n) (as added by subsection (c) of this section) the following new subsection:

"(o) SUBSTANTIALLY REHABILITATED HISTORIC PROPERTY.—

"(1) GENERAL RULE.—Pursuant to regulations prescribed by the Secretary, the taxpayer may elect to compute the depreciation deduction attributable to substantially rehabilitated historic property as though the original use of such property commenced with him. The election shall be effective with respect to the taxable year referred to in paragraph (2) and all succeeding taxable years.

"(2) SUBSTANTIALLY REHABILITATED PROPERTY.—For purposes of paragraph (1), the term 'substantially rehabilitated historic property' means any certified historic structure (as defined in section 191(d)(1)) with respect to which the additions to capital account for any certified rehabilitation (as defined in section 191(d)(3)) during the 24-month period ending on the last day of any taxable year, reduced by any amounts allowed or allowable as depreciation or amortization with respect thereto, exceeds the greater of—

"(A) the adjusted basis of such property, or

"(B) $5,000.

The adjusted basis of the property shall be determined as of the beginning of the first day of such 24-month period, or of the holding period of the property (within the meaning of section 1250(e)), whichever is later."

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply with respect to additions to capital account occurring after June 30, 1976, and before July 1, 1981.

(e) TRANSFERS OF PARTIAL INTERESTS IN PROPERTY FOR CONSERVATION PURPOSES.—

(1) INCOME TAX DEDUCTIONS FOR CHARITABLE CONTRIBUTIONS OF PARTIAL INTERESTS IN PROPERTY FOR CONSERVATION PURPOSES.—Section 170(f)(3) (relating to charitable contributions) is amended—

(A) by striking out "or" at the end of subparagraph (B)(i),

(B) by striking out "property.", at the end of subparagraph (B)(ii) and inserting in lieu thereof "property,",

(C) by adding after clause (ii) of subparagraph (B) the following new clauses:

"(iii) a lease on, option to purchase, or easement with respect to real property of not less than 30 years' duration granted to an organization described in subsection (b)(1)(A) exclusively for conservation purposes, or

"(iv) a remainder interest in real property which is granted to an organization described in subsection (b)(1)(A) exclusively for conservation purposes.", and

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

"(C) CONSERVATION PURPOSES DEFINED.—For purposes of subparagraph (B), the term 'conservation purposes' means—

"(i) the preservation of land areas for public outdoor recreation or education, or scenic enjoyment;

"(ii) the preservation of historically important land areas or structures; or

"(iii) the protection of natural environmental systems.".

(2) ESTATE TAX DEDUCTION FOR TRANSFER OF PARTIAL INTERESTS IN PROPERTY FOR CONSERVATIONS PURPOSES.—Section 2055(e)(2)

(relating to deductions from gross estate) is amended by striking out "(other than a remainder interest in a personal residence or farm or an undivided portion of the decedent's entire interest in property)" and inserting in lieu thereof "(other than an interest described in section 170(f)(3)(B))".

(3) GIFT TAX DEDUCATION FOR TRANSFERS OF PARTIAL INTERESTS IN PROPERTY FOR CONSERVATION PURPOSES.—Section 2522(c)(2) (relating to deductions from taxable gifts) is amended by striking out "(other than a remainder interest in a personal residence or farm or an undivided portion of the donor's entire interest in property)" and inserting in lieu thereof "(other than an interest described in section 170(f)(3)(B))".

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply with respect to contributions or transfers made after June 13, 1976, and before June 14, 1977.

SEC. 2125. AMENDMENT TO SUPPLEMENTAL SECURITY INCOME PROGRAM.

Section 1612(a)(2)(A)(iii) of the Social Security Act is amended by striking out "fifth month" and inserting in lieu thereof "seventeenth month".

SEC. 2126. EXTENSION OF CARRY-OVER PERIOD FOR CUBAN EXPROPRIATION LOSSES

Subparagraph (D) of section 172(b)(1) (relating to years to which loss may be carried) is amended by striking out "15" and inserting in lieu thereof "20".

SEC. 2127. OUTDOOR ADVERTISING DISPLAYS.

(a) IN GENERAL.—Section 1033(g) (relating to condemnation of real property held for productive use in trade or business or for investment) is amended by adding at the end thereof the following new paragraph:

"(3) ELECTION TO TREAT OUTDOOR ADVERTISING DISPLAYS AS REAL PROPERTY.—

"(A) IN GENERAL.—A taxpayer may elect, at such time and in such manner as the Secretary may prescribe, to treat property which constitutes an outdoor advertising display as real property for purposes of this chapter. The election provided by this subparagraph may not be made with respect to any property with respect to which the credit allowed by section 38 (relating to investment in certain depreciable property) is or has been claimed or with respect to which an election under section 179(a) (relating to additional first-year depreciation allowance for small business) is in effect.

"(B) ELECTION.—An election made under subparagraph (A) may not be revoked without the consent of the Secretary.

"(C) OUTDOOR ADVERTISING DISPLAY.—For purposes of this paragraph, the term 'outdoor advertising display' means a rigidly assembled sign, display, or device permanently affixed to the ground or permanently attached to a building or other inherently permanent structure constituting, or used for the display of, a commercial or other advertisement to the public.

"(D) CHARACTER OF REPLACEMENT PROPERTY.—For purposes of this subsection, an interest in real property purchased as replacement property for a compulsorily or involuntarily converted outdoor advertising display defined in subparagraph (C) (and treated by the taxpayer as real property) shall be

considered property of a like kind as the property converted without regard to whether the taxpayer's interest in the replacement property is the same kind of interest the taxpayer held in the converted property."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 1970.

SEC. 2128. TAX TREATMENT OF LARGE CIGARS.

(a) IN GENERAL.—So much of section 5701(a) (relating to the manner of taxation and the rates of tax on cigars) as follows paragraph (1) is amended to read as follows:

"(2) LARGE CIGARS.—On cigars weighing more than 3 pounds per thousand, a tax equal to 8½ percent of the wholesale price, but not more than $20 per thousand.

Cigars not exempt from tax under this chapter which are removed but not intended for sale shall be taxed at the same rate as similar cigars removed for sale."

(b) DEFINITION OF WHOLESALE PRICE.—Section 5702 is amended by adding at the end thereof the following new subsection:

"(m) WHOLESALE PRICE.—'Wholesale price' means the manufacturer's, or importer's, suggested delivered price at which the cigars are to be sold to retailers, inclusive of the tax imposed by this chapter or section 7652, but exclusive of any State or local taxes imposed on cigars as a commodity, and before any trade, cash, or other discounts, or any promotion, advertising, display, or similar allowances. Where the manufacturer's or importer's suggested delivered price to retailers is not adequately supported by bona fide arm's length sales, or where the manufacturer or importer has no suggested delivered price to retailers, the wholesale price shall be the price for which cigars of comparable retail price are sold to retailers in the ordinary course of trade as determined by the Secretary."

(c) RECORDKEEPING REQUIREMENT.—Section 5741 is amended to read as follows:

"SEC. 5741. RECORDS TO BE MAINTAINED.

"Every manufacturer of tobacco products or cigarette papers and tubes, every importer, and every export warehouse proprietor shall keep such records in such manner as the Secretary shall by regulation prescribe. The records required under this section shall be available for inspection by any internal revenue officer during business hours."

(d) CLERICAL AMENDMENTS.—

(1) The heading of subchapter D of chapter 52 is amended to read as follows:

"Subchapter D—Records of Manufacturers and Importers of Tobacco Products and Cigarette Papers and Tubes, and Export Warehouse Proprietors".

(2) The table of subchapters for chapter 52 is amended by striking out the item relating to subchapter D and inserting in lieu thereof the following:

"SUBCHAPTER D. Records of manufacturers and importers of tobacco products and cigarette papers and tubes, and export warehouse proprietors."

(e) EFFECTIVE DATE.—The amendments made by this section shall take effect on the first month which begins more than 90 days after the date of the enactment of this Act.

SEC. 2129. TREATMENT OF GAIN FROM SALES OR EXCHANGES BETWEEN RELATED PARTIES.

(a) IN GENERAL.—Section 1239 (relating to gain from sale of certain property between spouses or between an individual and a controlled corporation) is amended to read as follows:

"SEC. 1239. GAIN FROM SALE OF DEPRECIABLE PROPERTY BETWEEN CERTAIN RELATED TAXPAYERS.

"(a) TREATMENT OF GAIN AS ORDINARY INCOME.—In the case of a sale or exchange of property, directly or indirectly, between related persons, any gain recognized to the transferor shall be treated as ordinary income if such property is, in the hands of the transferee, subject to the allowance for depreciation provided in section 167.

"(b) RELATED PERSONS.—For purposes of subsection (a), the term 'related persons' means—

"(1) a husband and wife,

"(2) an individual and a corporation 80 percent or more in value of the outstanding stock of which is owned, directly or indirectly, by or for such individual, or

"(3) two or more corporations 80 percent or more in value of the outstanding stock of each of which is owned, directly or indirectly, by or for the same individual.

"(c) CONSTRUCTIVE OWNERSHIP OF STOCK.—Section 318 shall apply in determining the ownership of stock for purposes of this section, except that sections 318(a)(2)(C) and 318(a)(3)(C) shall be applied without regard to the 50-percent limitation contained therein."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to sales or exchanges after the date of the enactment of this Act. For purposes of the preceding sentence, a sale or exchange is considered to have occurred on or before such date of enactment if such sale or exchange is made pursuant to a binding contract entered into on or before that date.

SEC. 2130. APPLICATION OF SECTION 117 TO CERTAIN EDUCATION PROGRAMS FOR MEMBERS OF THE UNIFORMED SERVICES.

Subsection (c) of section 4 of the Act entitled an Act to suspend until the close of June 30, 1975, the duty on certain carboxymethyl cellulose salts, and for other purposes, approved October 26, 1974 (88 Stat. 1457; Public Law 93-483), is amended by striking out "and 1975" and inserting in lieu thereof the following: "and 1975, and, in the case of a member of a uniformed service receiving training in programs described in subsection (a) during calendar year 1976, with respect to amounts received during calendar years 1976, 1977, 1978, and 1979."

SEC. 2131. EXCHANGE FUNDS.

(a) CORPORATE REORGANIZATIONS.—Paragraph (2) of section 368(a) (special rules relating to definition of reorganization) is amended by adding at the end thereof the following new subparagraph:

"(F) CERTAIN TRANSACTIONS INVOLVING 2 OR MORE INVESTMENT COMPANIES.—

"(i) If immediately before a transaction described in paragraph (1) (other than subparagraph (E) thereof), 2 or more parties to the transaction were investment companies, then the transaction shall not be considered to be a reorganization with respect to any such investment company (and its shareholders and security holders)

unless it was a regulated investment company, a real estate investment trust, or a corporation which meets the requirements of clause (ii).

"(ii) A corporation meets the requirements of this clause if not more than 25 percent of the value of its total assets is invested in the stock and securities of any one issuer, and not more than 50 percent of the value of its total assets is invested in the stock and securities of 5 or fewer issuers. For purposes of this clause, all members of a controlled group of corporations (within the meaning of section 1563(a)) shall be treated as one issuer.

"(iii) For purposes of this subparagraph the term 'investment company' means a regulated investment company, a real estate investment trust, or a corporation more than 50 percent of the value of whose total assets are stock and securities and more than 80 percent of the value of whose total assets are assets held for investment. In making the 50-percent and 80-percent determinations under the preceding sentence, stock and securities in any subsidiary corporation shall be disregarded and the parent corporation shall be deemed to own its ratable share of the subsidiary's assets, and a corporation shall be considered a subsidiary if the parent owns 50 percent or more of the combined voting power of all classes of stock entitled to vote, or 50 percent or more of the total value of shares of all classes of stock outstanding.

"(iv) For purposes of this subparagraph, in determining total assets there shall be excluded cash and cash items (including receivables). Government securities, and, under regulations prescribed by the Secretary, assets acquired (through incurring indebtedness or otherwise) for purposes of meeting the requirements of clause (ii) or ceasing to be an investment company.

"(v) This subparagraph shall not apply if the stock of each investment company is owned substantially by the same persons in the same proportions.

"(vi) If an investment company which is not diversified within the meaning of clause (ii) acquires assets of another corporation, clause (i) shall be applied to such investment company and its shareholders and security holders as though its assets had been acquired by such other corporation. If such investment company acquires stock of another corporation in a reorganization described in section 368(a)(1)(B) (hereafter referred to as the 'actual acquisition'), clause (i) shall be applied to the shareholders and security holders of such investment company as though they had exchanged with such other corporation all of their stock in such investment company for a percentage of the value of the total outstanding stock of the other corporation equal to the percentage of the value of the total outstanding stock of such investment company which such shareholders own immediately after the actual acquisition. For purposes of section 1001, the deemed acquisition or exchange referred to in the two preceding sentences shall be treated as a sale or exchange of property by the corporation and by the shareholders and security holders to which clause (i) is applied."

(b) PARTNERSHIPS.—Section 721 (relating to nonrecognition of gain or loss on transfers to partnerships) is amended to read as follows:

"SEC. 721. NONRECOGNITION OF GAIN OR LOSS ON CONTRIBUTION.

"(a) GENERAL RULE.—No gain or loss shall be recognized to a partnership or to any of its partners in the case of a contribution of property to the partnership in exchange for an interest in the partnership.

"(b) SPECIAL RULE.—Subsection (a) shall not apply to gain realized on a transfer of property to a partnership which would be treated as an investment company (within the meaning of section 351) if the partnership were incorporated."

(c) CONFORMING AMENDMENT.—Sections 722 and 723 (relating to tax basis) are each amended by striking out "contribution." and inserting in lieu thereof "contribution increased by the amount (if any) of gain recognized to the contributing partner at such time."

(d) COMMON TRUST FUNDS.—Subsection (e) of section 584 (relating to admission to and withdrawal from a common trust fund) is amended by inserting after the first sentence the following new sentence: "The admission of a participant shall be treated with respect to the participant as the purchase of, or an exchange for, the participating interest."

(e) TRUSTS.—

(1) IN GENERAL.—Section 683 (relating to applicability of provisions) is amended to read as follows:

"SEC. 683. USE OF TRUST AS AN EXCHANGE FUND.

"(a) GENERAL RULE.—Except as provided in subsection (b), if property is transferred to a trust in exchange for an interest in other trust property and if the trust would be an investment company (within the meaning of section 351) if it were a corporation, then gain shall be recognized to the transferor.

"(b) EXCEPTION FOR POOLED INCOME FUNDS.—Subsection (a) shall not apply to any transfer to a pooled income fund (within the meaning of section 642(c)(5))."

(2) CONFORMING AMENDMENT.—The table of sections for subpart F of part I of subchapter J of chapter 1 is amended by striking out the item relating to section 683 and inserting in lieu thereof the following:

"Sec. 683. Use of trust as an exchange fund."

(f) EFFECTIVE DATES.—

(1) Except as provided in paragraph (2), the amendment made by subsection (a) shall apply to transfers made after February 17, 1976, in taxable years ending after such date.

(2) The amendment made by subsection (a) shall not apply to transfers made in accordance with a ruling issued by the Internal Revenue Service before February 18, 1976, holding that a proposed transaction would be a reorganization described in paragraph (1) of section 368(a) of the Internal Revenue Code of 1954.

(3) Except as provided in paragraph (4), the amendments made by subsections (b) and (c) shall apply to transfers made after February 17, 1976, in taxable years ending after such date.

(4) The amendments made by subsections (b) and (c) shall not apply to transfers to a partnership made on or before the 90th day after the date of the enactment of this Act if—

(A) either—

(i) a ruling request with respect to such transfers was filed with the Internal Revenue Service before March 27, 1976, or

(ii) a registration statement with respect to such transfers was filed with the Securities and Exchange Commission before March 27, 1976,

(B) the securities transferred were deposited on or before the 60th day after the date of the enactment of this Act, and

(C) either—

(i) the aggregate value (determined as of the close of the 60th day referred to in subparagraph (B), or, if earlier, the close of the deposit period) of the securities so transferred does not exceed $100,000,000, or

(ii) the securities transferred were all on deposit on February 29, 1976, pursuant to a registration statement referred to in subparagraph (A)(ii).

(5) If no registration statement was required to be filed with the Securities and Exchange Commission with respect to the transfer of securities to any partnership, then paragraph (4) shall be applied to such transfers—

(A) as if paragraph (4) did not contain subparagraph (A)(ii) thereof, and

(B) by substituting "$25,000,000" for "$100,000,000" in subparagraph (C)(i) thereof.

(6) The amendments made by subsections (d) and (e) shall take effect on April 8, 1976, in taxable years ending on or after such date.

SEC. 2132. CONTRIBUTIONS OF CERTAIN GOVERNMENT PUBLICATIONS.

(a) IN GENERAL.—Section 1221 (relating to definition of capital asset) is amended by—

(1) striking out "or" at the end of paragraph (4);

(2) striking out the period at the end of paragraph (5) and inserting in lieu thereof "; or", and

(3) adding after paragraph (5) the following new paragraph:

"(6) a publication of the United States Government (including the Congressional Record) which is received from the United States Government or any agency thereof, other than by purchase at the price at which it is offered for sale to the public, and which is held by—

"(A) a taxpayer who so received such publication, or

"(B) a taxpayer in whose hands the basis of such publication is determined, for purposes of determining gain from a sale or exchange, in whole or in part by reference to the basis of such publication in the hands of a taxpayer described in subparagraph (A).".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to sales, exchanges, and contributions made after the date of enactment of this Act.

SEC. 2133. TAX INCENTIVES STUDY.

(a) STUDY.—The Joint Committee on Taxation, in consultation with the Treasury, shall make a full and complete study and comparative analysis of the cost effectiveness of different kinds of tax incentives, including an analysis and study of the most effective way to use tax cuts in a period of business recession to provide a stimulus to the economy.

(b) REPORT.—The Joint Committee on Taxation shall submit to the Committee on Finance of the Senate and to the Committee on Ways and Means of the House of Representatives a final report of its study and investigation together with its recommendations, including recommendations for legislation, as it deems advisable.

(c) REPORTING DATE.—The final report called for in subsection (b) of this section shall be submitted no later than September 30, 1977.

SEC. 2134. PREPAID LEGAL EXPENSES.

(a) EXCLUSION.—Part III of subchapter B of chapter 1 is amended by inserting after section 119 the following new section:

"SEC. 120. AMOUNTS RECEIVED UNDER QUALIFIED GROUP LEGAL SERVICES PLANS.

"(a) EXCLUSION BY EMPLOYEE FOR CONTRIBUTIONS AND LEGAL SERVICES PROVIDED BY EMPLOYER.—Gross income of an employee, his spouse, or his dependents, does not include—

"(1) amounts contributed by an employer on behalf of an employee, his spouse, or his dependents under a qualified group legal services plan (as defined in subsection (b)); or

"(2) the value of legal services provided, or amounts paid for legal services, under a qualified group legal services plan (as defined in subsection (b)) to, or with respect to, an employee, his spouse, or his dependents.

"(b) QUALIFIED GROUP LEGAL SERVICES PLAN.—For purposes of this section, a qualified group legal services plan is a separate written plan of an employer for the exclusive benefit of his employees or their spouses or dependents to provide such employees, spouses, or dependents with specified benefits consisting of personal legal services through prepayment of, or provision in advance for, legal fees in whole or in part by the employer, if the plan meets the requirements of subsection (c).

"(c) REQUIREMENTS.—

"(1) DISCRIMINATION.—The contributions or benefits provided under the plan shall not discriminate in favor of employees who are officers, shareholders, self-employed individuals, or highly compensated.

"(2) ELIGIBILITY.—The plan shall benefit employees who qualify under a classification set up by the employer and found by the Secretary not to be discriminatory in favor of employees who are described in paragraph (1). For purposes of this paragraph, there shall be excluded from consideration employees not included in the plan who are included in a unit of employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and one or more employers, if there is evidence that group legal services plan benefits were the subject of good faith bargaining between such employee representatives and such employer or employers.

"(3) CONTRIBUTION LIMITATION.—Not more than 25 percent of the amounts contributed under the plan during the year may be provided for the class of individuals who are shareholders or owners (or their spouses or dependents), each of whom (on any day of the year) owns more than 5 percent of the stock or of the capital or profits interest in the employer.

"(4) NOTIFICATION.—The plan shall give notice to the Secretary, in such manner as the Secretary may by regulations prescribe, that it is applying for recognition of the status of a qualified group legal services plan.

"(5) CONTRIBUTIONS.—Amounts contributed under the plan shall be paid only (A) to insurance companies, or to organizations or persons that provide personal legal services, or indemnification against the cost of personal legal services, in exchange for a prepayment or payment of a premium, (B) to organizations or trusts described in section 501(c)(20), (C) to organizations described in section 501(c) which are permitted by that section to receive payments from an employer for support of one or more qualified group legal services plan or plans, except that such organizations shall pay or credit the contribution to an organization or trust described in section 501(c)(20), (D) as prepayments to providers of legal services under the plan, or (E) a combination of the above.

"(d) OTHER DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) SELF-EMPLOYED INDIVIDUAL; EMPLOYEE.—The term 'self-employed individual' means, and the term 'employee' includes, for any year, an individual who is an employee within the meaning of section 401(c)(1) (relating to self-employed individuals).

"(2) EMPLOYER.—An individual who owns the entire interest in an unincorporated trade or business shall be treated as his own employer. A partnership shall be treated as the employer of each partner who is an employee within the meaning of paragraph (1).

"(3) ALLOCATIONS.— Allocations of amounts contributed under the plan shall be made in accordance with regulations prescribed by the Secretary and shall take into account the expected relative utilization of benefits to be provided from such contributions or plan assets and the manner in which any premium or other charge was developed.

"(4) DEPENDENT.—The term 'dependent' has the meaning given to it by section 152.

"(5) EXCLUSIVE BENEFIT.—In the case of a plan to which contributions are made by more than one employer, in determining whether the plan is for the exclusive benefit of an employer's employees or their spouses or dependents, the employees of any employer who maintains the plan shall be considered to be the employees of each employer who maintains the plan.

"(6) ATTRIBUTION RULES.—For purposes of this section—

"(A) ownership of stock in a corporation shall be determined in accordance with the rules provided under subsections (d) and (e) of section 1563 (without regard to section 1563(e)(3)(C)), and

"(B) the interest of an employee in a trade or business which is not incorporated shall be determined in accordance with regulations prescribed by the Secretary, which shall be based on principles similar to the principles which apply in the case of subparagraph (A).

"(7) TIME OF NOTICE TO SECRETARY.—A plan shall not be a qualified group legal services plan for any period prior to the time notification was provided to the Secretary in accordance with subsection (c)(4), if such notice is given after the time prescribed by the Secretary by regulations for giving such notice."

(b) EXEMPT STATUS.—Section 501(c) (relating to exempt organizations) is amended by adding at the end thereof the following new paragraph:

"(20) an organization or trust created or organized in the United States, the exclusive function of which is to form part of

a qualified group legal services plan or plans, within the meaning of section 120. An organization or trust which receives contributions because of section 120(c)(5)(C) shall not be prevented from qualifying as an organization described in section 501(c)(20) merely because it provides legal services or indemnification against the cost of legal services unassociated with a qualified group legal services plan."

(c) TECHNICAL AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by inserting after the item relating to section 119 the following new item:

"Sec. 120. Amounts received under qualified group legal services plans."

(d) STUDY AND REPORT BY SECRETARIES OF TREASURY AND LABOR.—

(1) A complete study and investigation with respect to the desirability and feasibility of continuing the exclusion from income of certain prepaid group legal services benefits under section 120 of the Internal Revenue Code of 1954 shall be made by the Secretary of Labor and by the Secretary of the Treasury.

(2) The Secretary of Labor and the Secretary of the Treasury shall report to the President and the Congress with respect to the study and investigation conducted under paragraph (1) not later than December 31, 1980.

(e) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1976, and ending before January 1, 1982.

(2) NOTICE REQUIREMENT.—For purposes of section 120(d)(6) of the Internal Revenue Code of 1954, the time prescribed by the Secretary of the Treasury by regulations for giving the notice required by section 120(c)(4) of such Code shall not expire before the 90th day after the day on which regulations prescribed under such section 120(c)(4) first become final.

(3) EXISTING PLANS.—

(A) For purposes of section 120 of the Internal Revenue Code of 1954, a written group legal services plan which was in existence on June 4, 1976, shall be considered as satisfying the requirements of subsections (b) and (c) of such section 120 for the period ending with the compliance date (determined under subparagraph (B)).

(B) COMPLIANCE DATE.—For purposes of this paragraph, the term "compliance date" means—

(i) the date occurring 180 days after the date of the enactment of this Act, or

(ii) if later, in the case of a plan which is maintained pursuant to one or more agreements which the Secretary of Labor finds to be collective bargaining agreements, the earlier of December 31, 1981, or the date on which the last of the collective bargaining agreements relating to the plan terminates (determined without regard to any extension thereof agreed to after the date of the enactment of this Act).

SEC. 2135. SPECIAL RULE FOR CERTAIN CHARITABLE CONTRIBUTIONS OF INVENTORY AND OTHER PROPERTY.

(a) IN GENERAL.—Section 170(e) (relating to certain contributions of ordinary income and capital gain property) is amended by adding at the end thereof the following new paragraph:

"(3) SPECIAL RULE FOR CERTAIN CONTRIBUTIONS OF INVENTORY AND OTHER PROPERTY.—

"(A) QUALIFIED CONTRIBUTIONS.—For purposes of this paragraph, a qualified contribution shall mean a charitable contribution of property described in paragraph (1) or (2) of section 1221, by a corporation (other than a corporation which is an electing small business corporation within the meaning of section 1371(b)) to an organization which is described in section 501(c)(3) and is exempt under section 501(a) (other than a private foundation, as defined in section 509(a), which is not an operating foundation, as defined in section 4942(j)(3)), but only if—

"(i) the use of the property by the donee is related to the purpose or function constituting the basis for its exemption under section 501 and the property is to be used by the donee solely for the care of the ill, the needy, or infants;

"(ii) the property is not transferred by the donee in exchange for money, other property, or services;

"(iii) the taxpayer receives from the donee a written statement representing that its use and disposition of the property will be in accordance with the provisions of clauses (i) and (ii); and

"(iv) in the case where the property is subject to regulation under the Federal Food, Drug, and Cosmetic Act, as amended, such property must fully satisfy the applicable requirements of such Act and regulations promulgated thereunder on the date of transfer and for one hundred and eighty days prior thereto.

"(B) AMOUNT OF REDUCTION.—The reduction under paragraph (1)(A) for any qualified contribution (as defined in subparagraph (A)) shall be no greater than the sum of—

"(i) one-half of the amount computed under paragraph (1)(A) (computed without regard to this paragraph), and

"(ii) the amount (if any) by which the charitable contribution deduction under this section for any qualified contribution (computed by taking into account the amount determined in clause (i), but without regard to this clause) exceeds twice the basis of such property.

"(C) This paragraph shall not apply to so much of the amount of the gain described in paragraph (1)(A) which would be long-term capital gain but for the application of sections 617, 1245, 1250, 1251, or 1252."

(b) EFFECTIVE DATE.—The amendment made by this section applies to charitable contributions made after the date of enactment of this Act, in taxable years ending after such date.

SEC. 2136. TAX TREATMENT OF THE GRANTOR OF OPTIONS OF STOCK, SECURITIES, AND COMMODITIES.

(a) Section 1234 (relating to options to buy or sell) is amended to read as follows:

"SEC. 1234. OPTIONS TO BUY OR SELL.

"(a) TREATMENT OF GAIN OR LOSS IN THE CASE OF THE PURCHASER.—

"(1) GENERAL RULE.—Gain or loss attributable to the sale or exchange of, or loss attributable to failure to exercise, an option

to buy or sell property shall be considered gain or loss from the sale or exchange of property which has the same character as the property to which the option relates has in the hands of the taxpayer (or would have in the hands of the taxpayer if acquired by him).

"(2) SPECIAL RULE FOR LOSS ATTRIBUTABLE TO FAILURE TO EXERCISE OPTION.—For purposes of paragraph (1), if loss is attributable to failure to exercise an option, the option shall be deemed to have been sold or exchanged on the day it expired.

"(3) NONAPPLICATION OF SUBSECTION.—This subsection shall not apply to—

"(A) an option which constitutes property described in paragraph (1) of section 1221;

"(B) in the case of gain attributable to the sale or exchange of an option, any income derived in connection with such option which, without regard to this subsection, is treated as other than gain from the sale or exchange of a capital asset; and

"(C) a loss attributable to failure to exercise an option described in section 1233(c).

"(b) TREATMENT OF GRANTOR OF OPTION IN THE CASE OF STOCK, SECURITIES, OR COMMODITIES.—

"(1) GENERAL RULE.—In the case of the grantor of the option, gain or loss from any closing transaction with respect to, and gain on lapse of, an option in property shall be treated as a gain or loss from the sale or exchange of a capital asset held not more than 6 months.

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

"(A) CLOSING TRANSACTION.—The term 'closing transaction' means any termination of the taxpayer's obligation under an option in property other than through the exercise or lapse of the option.

"(B) PROPERTY.—The term 'property' means stocks and securities (including stocks and securities dealt with on a 'when issued' basis), commodities, and commodity futures.

"(3) NONAPPLICATION OF SUBSECTION.—This subsection shall not apply to any option granted in the ordinary course of the taxpayer's trade or business of granting options."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to options granted after September 1, 1976.

SEC. 2137. EXEMPT-INTEREST DIVIDENDS OF REGULATED INVESTMENT COMPANIES.

(a) GENERAL.—Section 852(a)(1) (relating to regulated investment companies) is amended to read as follows:

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

"(A) 90 percent of its investment company taxable income for the taxable year determined without regard to subsection (b)(2)(D); and

"(B) 90 percent of the excess of (i) its interest income excludable from gross income under section 103(a)(1) over (ii) its deductions disallowed under sections 265, 171(a)(2), and".

(b) DIVIDENDS PAID DEDUCTION.—Section 852(b)(2)(D) (relating to taxable income) is amended to read as follows:

"(D) the deduction for dividends paid (as defined in section 561) shall be allowed, but shall be computed without regard to capital gain dividends and exempt-interest dividends."

(c) EXEMPT-INTEREST DIVIDENDS.—Section 852(b) (relating to method of taxation of regulated investment companies and shareholders) is amended by inserting after paragraph (4) the following new paragraph (5):

"(5) EXEMPT-INTEREST DIVIDENDS.—If, at the close of each quarter of its taxable year, at least 50 percent of the value (as defined in section 851(c)(4)) of the total assets of the regulated investment company consists of obligations described in section 103(a)(1), such company shall be qualified to pay exempt-interest dividends, as defined herein, to its shareholders.

"(A) DEFINITION.—An exempt-interest dividend means any dividend or part thereof (other than a capital gain dividend) paid by a regulated investment company and designated by it as an exempt-interest dividend in a written notice mailed to its shareholders not later than 45 days after the close of its taxable year. If the aggregate amount so designated with respect to a taxable year of the company (including exempt-interest dividends paid after the close of the taxable year as described in section 855) is greater than the excess of—

"(i) the amount of interest excludable from gross income under section 103(a)(1), over

"(ii) the amounts disallowed as deductions under sections 265 and 171(a)(2),

the portion of such distribution which shall constitute an exempt-interest dividend shall be only that proportion of the amount so designated as the amount of such excess for such taxable year bears to the amount so designated.

"(B) TREATMENT OF EXEMPT-INTEREST DIVIDENDS BY SHAREHOLDERS.—An exempt-interest dividend shall be treated by the shareholders for all purposes of this subtitle as an item of interest excludable from gross income under section 103(a)(1). Such purposes include but are not limited to—

"(i) the determination of gross income and taxable income,

"(ii) the determination of distributable net income under subchapter J,

"(iii) the allowance of, or calculation of the amount of, any credit or deduction, and

"(iv) the determination of the basis in the hands of any shareholder of any share of stock of the company."

(d) TECHNICAL AMENDMENT.—Section 103(g), as redesignated by section 1305 of this Act (relating to exclusions from gross income of interest on certain government obligations) is amended by inserting after paragraph (23) the following new paragraph:

"(24) Exempt-interest dividends.—For treatment of exempt-interest dividends, see section 852(b)(5)(B)."

(e) DISALLOWANCE OF DEDUCTIONS.—Section 265 (relating to nonallowance of deductions for expenses and interest relating to tax-exempt income) is amended by adding at the end thereof the following new paragraphs:

"(3) CERTAIN REGULATED INVESTMENT COMPANIES.—In the case of a regulated investment company which distributes during the taxable year an exempt-interest dividend (including exempt-interest dividends paid after the close of the taxable year as described in section 855), that portion of any amount otherwise allowable as a deduction which the amount of the income of such company wholly exempt from taxes under this subtitle bears to the total of such exempt income and its gross income (excluding from gross income, for this purpose, capital gain net income, as defined in section 1222(9)).

"(4) INTEREST RELATED TO EXEMPT-INTEREST DIVIDENDS.—Interest on indebtedness incurred or continued to purchase or carry shares of stock of a regulated investment company which during the taxable year of the holder thereof distributes exempt-interest dividends."

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

SEC. 2138. COMMON TRUST FUND TREATMENT OF CERTAIN CUSTODIAL ACCOUNTS.

(a) IN GENERAL.—Section 584(a)(1) (relating to definition of common trust fund) is amended to read as follows:

"(1) exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity—

"(A) as a trustee, executor, administrator, or guardian, or

"(B) as a custodian of accounts—

"(i) which the Secretary determines are established pursuant to a State law which is substantially similar to the Uniform Gifts to Minors Act as published by the American Law Institute, and

"(ii) with respect to which the bank establishes, to the satisfaction of the Secretary, that it has duties and responsibilities similar to duties and responsibilities of a trustee or guardian; and".

SEC. 2139. SUPPORT TEST FOR DEPENDENT CHILDREN OF DIVORCED ETC., PARENTS.

(a) IN GENERAL.—Section 152 (relating to definition of dependents) is amended by striking the word "all" in subsection (e)(2)(B)(i) thereof and inserting in lieu thereof "each".

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

SEC. 2140. INVOLUNTARY CONVERSION OF REAL PROPERTY.

(a) IN GENERAL.—Section 1033(g) (relating to involuntary conversions), as amended by this Act, is amended by adding at the end thereof the following new paragraph:

"(4) SPECIAL RULE.—In the case of a compulsory or involuntary conversion described in paragraph (1), subsection (a)(3)(B)(i) shall be applied by substituting '3 years' for '2 years'".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply with respect to any disposition of converted property (within the meaning of section 1033(a)(2) of the Internal Revenue Code of 1954) after December 31, 1974, unless a condemnation proceeding with respect to such property began before the date of the enactment of this Act.

SEC. 2141. LIVESTOCK SOLD ON ACCOUNT OF DROUGHT.

(a) IN GENERAL.—Section 451 (relating to general rules for taxable year of inclusion) is amended by adding at the end thereof the following new subsection:

"(e) SPECIAL RULE FOR PROCEEDS FROM LIVESTOCK SOLD ON ACCOUNT OF DROUGHT.—

"(1) IN GENERAL.—In the case of income derived from the sale or exchange of livestock (other than livestock described in section 1231(b)(3)) in excess of the number the taxpayer would sell if he followed his usual business practices, a taxpayer reporting on the cash receipts and disbursements method of accounting may elect to include such income for the taxable year following the taxable year in which such sale or exchange occurs if he establishes that, under his usual business practices, the sale or exchange would not have occurred in the taxable year in which it occurred if it were not for drought conditions, and that these drought conditions had resulted in the area being designated as eligible for assistance by the Federal Government.

"(2) LIMITATION.—Paragraph (1) shall apply only to a taxpayer whose principal trade or business is farming (within the meaning of section 6420(c)(3))."

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

Speaker of the House of Representatives.

Vice President of the United States and
President of the Senate.