

Union Calendar No.

109TH CONGRESS
1ST SESSION

H. R. 4297

[Report No. 109-]

To provide for reconciliation pursuant to section 201(b) of the concurrent resolution on the budget for fiscal year 2006.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 10, 2005

Mr. THOMAS introduced the following bill; which was referred to the Committee on Ways and Means

NOVEMBER --, 2005

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

[For text of introduced bill, see copy of bill as introduced on November 10, 2005]

A BILL

To provide for reconciliation pursuant to section 201(b) of the concurrent resolution on the budget for fiscal year 2006.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE, ETC.**

4 (a) *SHORT TITLE.—This Act may be cited as the “Tax*
5 *Relief Extension Reconciliation Act of 2005”.*



1 (b) *AMENDMENT OF 1986 CODE.*—*Except as otherwise*
2 *expressly provided, whenever in this Act an amendment or*
3 *repeal is expressed in terms of an amendment to, or repeal*
4 *of, a section or other provision, the reference shall be consid-*
5 *ered to be made to a section or other provision of the Inter-*
6 *nal Revenue Code of 1986.*

7 (c) *TABLE OF CONTENTS.*—*The table of contents for*
8 *this Act is as follows:*

Sec. 1. Short title, etc.

TITLE I—EXTENSIONS OF CERTAIN PROVISIONS THROUGH 2006

- Sec. 101. Allowance of nonrefundable personal credits against regular and minimum tax liability.*
- Sec. 102. Tax incentives for business activities on Indian reservations.*
- Sec. 103. Work opportunity credit.*
- Sec. 104. Welfare-to-work credit.*
- Sec. 105. Deduction for corporate donations of computer technology and equipment.*
- Sec. 106. Availability of medical savings accounts.*
- Sec. 107. 15-year cost recovery for leasehold improvements.*
- Sec. 108. 15-year cost recovery for restaurant improvements.*
- Sec. 109. Taxable income limit on percentage depletion for oil and natural gas produced from marginal properties.*
- Sec. 110. District of Columbia Enterprise Zone.*
- Sec. 111. Possession tax credit with respect to American Samoa.*
- Sec. 112. Parity in the application of certain limits to mental health benefits.*
- Sec. 113. Research credit.*
- Sec. 114. Qualified Zone Academy Bonds.*
- Sec. 115. Certain expenses of elementary and secondary school teachers.*
- Sec. 116. Qualified tuition and related expenses.*
- Sec. 117. State and local general sales taxes.*

*TITLE II—EXTENSIONS OF CERTAIN PROVISIONS FOR 2
ADDITIONAL YEARS AND OTHER MODIFICATIONS*

- Sec. 201. Expensing of environmental remediation costs.*
- Sec. 202. Controlled foreign corporations.*
- Sec. 203. Capital gains and dividends rates.*
- Sec. 204. Saver's credit.*
- Sec. 205. Increased expensing for small business.*

TITLE III—OTHER PROVISIONS

- Sec. 301. Clarification of taxation of certain settlement funds.*
- Sec. 302. Modification of active business definition under section 355.*
- Sec. 303. Veterans' mortgage bonds.*



Sec. 304. Capital gains treatment for certain self-created musical works.

Sec. 305. Vessel tonnage limit.

Sec. 306. Modification of special arbitrage rule for certain funds.

1 **TITLE I—EXTENSIONS OF CER-**
2 **TAIN PROVISIONS THROUGH**
3 **2006**

4 **SEC. 101. ALLOWANCE OF NONREFUNDABLE PERSONAL**
5 **CREDITS AGAINST REGULAR AND MINIMUM**
6 **TAX LIABILITY.**

7 *(a) IN GENERAL.—Paragraph (2) of section 26(a) (re-*
8 *lating to special rule for taxable years 2000 through 2005)*
9 *is amended—*

10 *(1) in the text by striking “or 2005” and insert-*
11 *ing “2005, or 2006”, and*

12 *(2) in the heading by striking “2005” and insert-*
13 *ing “2006”.*

14 *(b) CONFORMING PROVISIONS.—*

15 *(1) Subsection (i) of section 904 (relating to co-*
16 *ordination with nonrefundable personal credits) is*
17 *amended by striking “or 2005” and inserting “2005,*
18 *or 2006”.*

19 *(2) The amendments made by sections 201(b),*
20 *202(f), and 618(b) of the Economic Growth and Tax*
21 *Relief Reconciliation Act of 2001 shall not apply to*
22 *taxable years beginning during 2006.*



1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to taxable years beginning after Decem-*
3 *ber 31, 2005.*

4 **SEC. 102. TAX INCENTIVES FOR BUSINESS ACTIVITIES ON**
5 **INDIAN RESERVATIONS.**

6 (a) *INDIAN EMPLOYMENT TAX CREDIT.*—

7 (1) *IN GENERAL.*—*Subsection (f) of section 45A*
8 *(relating to termination) is amended by striking “De-*
9 *cember 31, 2005” and inserting “December 31, 2006”.*

10 (2) *EFFECTIVE DATE.*—*The amendment made by*
11 *paragraph (1) shall apply to taxable years beginning*
12 *after December 31, 2005.*

13 (b) *ACCELERATED DEPRECIATION FOR BUSINESS*
14 *PROPERTY ON INDIAN RESERVATIONS.*—

15 (1) *IN GENERAL.*—*Paragraph (8) of section*
16 *168(j) (relating to termination) is amended by strik-*
17 *ing “December 31, 2005” and inserting “December*
18 *31, 2006”.*

19 (2) *EFFECTIVE DATE.*—*The amendment made by*
20 *paragraph (1) shall apply with respect to property*
21 *placed in service after December 31, 2005.*

22 **SEC. 103. WORK OPPORTUNITY CREDIT.**

23 (a) *IN GENERAL.*—*Subparagraph (B) of section*
24 *51(c)(4) (relating to termination) is amended by striking*
25 *“December 31, 2005” and inserting “December 31, 2006”.*



1 (b) *INCREASE IN AGE LIMIT FOR FOOD STAMP RE-*
2 *CIPIENTS.*—Clause (i) of section 51(d)(8)(A) (relating to
3 *qualified food stamp recipient*) is amended by striking “25”
4 *and inserting “35”.*

5 (c) *EFFECTIVE DATE.*—The amendments made by this
6 *section shall apply to individuals who begin work for the*
7 *employer after December 31, 2005.*

8 **SEC. 104. WELFARE-TO-WORK CREDIT.**

9 (a) *IN GENERAL.*—Subsection (f) of section 51A (relat-
10 *ing to termination*) is amended by striking “December 31,
11 *2005” and inserting “December 31, 2006”.*

12 (b) *EFFECTIVE DATE.*—The amendment made by sub-
13 *section (a) shall apply to individuals who begin work for*
14 *the employer after December 31, 2005.*

15 **SEC. 105. DEDUCTION FOR CORPORATE DONATIONS OF**
16 **COMPUTER TECHNOLOGY AND EQUIPMENT.**

17 (a) *IN GENERAL.*—Subparagraph (G) of section
18 *170(e)(6) (relating to termination) is amended by striking*
19 *“December 31, 2005” and inserting “December 31, 2006”.*

20 (b) *EFFECTIVE DATE.*—The amendment made by sub-
21 *section (a) shall apply to contributions made in taxable*
22 *years beginning after December 31, 2005.*

23 **SEC. 106. AVAILABILITY OF MEDICAL SAVINGS ACCOUNTS.**

24 (a) *IN GENERAL.*—Paragraphs (2) and (3)(B) of sec-
25 *tion 220(i) (defining cut-off year) are each amended by*

1 *striking “2005” each place it appears in the text and head-*
2 *ings and inserting “2006”.*

3 (b) *CONFORMING AMENDMENTS.—*

4 (1) *Paragraph (2) of section 220(j) is*
5 *amended—*

6 (A) *in the text by striking “or 2004” each*
7 *place it appears and inserting “2004, or 2005”,*
8 *and*

9 (B) *in the heading by striking “OR 2004”*
10 *and inserting “2004, OR 2005”.*

11 (2) *Subparagraph (A) of section 220(j)(4) is*
12 *amended by striking “and 2004” and inserting*
13 *“2004, and 2005”.*

14 (c) *EFFECTIVE DATE.—The amendments made by this*
15 *section shall take effect on the date of the enactment of this*
16 *Act.*

17 (d) *TIME FOR FILING REPORTS, ETC.—*

18 (1) *The report required by section 220(j)(4) of*
19 *the Internal Revenue Code of 1986 to be made on Au-*
20 *gust 1, 2005, shall be treated as timely if made before*
21 *the close of the 90-day period beginning on the date*
22 *of the enactment of this Act.*

23 (2) *The determination and publication required*
24 *by section 220(j)(5) of such Code with respect to cal-*
25 *endar year 2005 shall be treated as timely if made be-*



1 fore the close of the 120-day period beginning on the
2 date of the enactment of this Act. If the determination
3 under the preceding sentence is that 2005 is a cut-off
4 year under section 220(i) of such Code, the cut-off
5 date under such section 220(i) shall be the last day
6 of such 120-day period.

7 **SEC. 107. 15-YEAR COST RECOVERY FOR LEASEHOLD IM-**
8 **PROVEMENTS.**

9 (a) *IN GENERAL.*—Clause (iv) of section 168(e)(3)(E)
10 (relating to 15-year property) is amended by striking “Jan-
11 uary 1, 2006” and inserting “January 1, 2007”.

12 (b) *EFFECTIVE DATE.*—The amendment made by sub-
13 section (a) shall apply to property placed in service after
14 December 31, 2005.

15 **SEC. 108. 15-YEAR COST RECOVERY FOR RESTAURANT IM-**
16 **PROVEMENTS.**

17 (a) *IN GENERAL.*—Clause (v) of section 168(e)(3)(E)
18 (relating to 15-year property) is amended by striking “Jan-
19 uary 1, 2006” and inserting “January 1, 2007”.

20 (b) *EFFECTIVE DATE.*—The amendment made by sub-
21 section (a) shall apply to property placed in service after
22 December 31, 2005.



1 **SEC. 109. TAXABLE INCOME LIMIT ON PERCENTAGE DEPLE-**
2 **TION FOR OIL AND NATURAL GAS PRODUCED**
3 **FROM MARGINAL PROPERTIES.**

4 (a) *IN GENERAL.*—Subparagraph (H) of section
5 613A(c)(6) (relating to oil and natural gas produced from
6 marginal properties) is amended by striking “January 1,
7 2006” and inserting “January 1, 2007”.

8 (b) *EFFECTIVE DATE.*—The amendment made by sub-
9 section (a) shall apply to taxable years beginning after De-
10 cember 31, 2005.

11 **SEC. 110. DISTRICT OF COLUMBIA ENTERPRISE ZONE.**

12 (a) *PERIOD FOR WHICH DESIGNATION APPLICABLE.*—
13 Subsection (f) of section 1400 (relating to time for which
14 designation applicable) is amended by striking “December
15 31, 2005” both places it appears and inserting “December
16 31, 2006”.

17 (b) *TAX-EXEMPT ECONOMIC DEVELOPMENT BONDS.*—
18 Subsection (b) of section 1400A (relating to period of appli-
19 cability) is amended by striking “December 31, 2005” and
20 inserting “December 31, 2006”.

21 (c) *ZERO PERCENT CAPITAL GAINS RATE.*—

22 (1) *IN GENERAL.*—Subsection (b) of section
23 1400B (relating to DC Zone Asset) is amended by
24 striking “January 1, 2006” each place it appears and
25 inserting “January 1, 2007”.

26 (2) *CONFORMING AMENDMENTS.*—

1 (A) Paragraph (2) of section 1400B(e) (re-
2 relating to gain before 1998 and after 2010 not
3 qualified) is amended—

4 (i) by striking “December 31, 2010”
5 and inserting “December 31, 2011”, and

6 (ii) by striking “2010” in the heading
7 and inserting “2011”.

8 (B) Paragraph (2) of section 1400B(g) (re-
9 lating to sales and exchanges of interests in part-
10 nerships and S corporations which are DC Zone
11 businesses) is amended by striking “December
12 31, 2010” and inserting “December 31, 2011”.

13 (C) Subsection (d) of section 1400F (relat-
14 ing to certain rules to apply) is amended by
15 striking “December 31, 2010” and inserting “De-
16 cember 31, 2011”.

17 (d) *FIRST-TIME HOMEBUYER CREDIT FOR DISTRICT*
18 *OF COLUMBIA.*—Subsection (i) of section 1400C (relating
19 to application of section) is amended by striking “January
20 1, 2006” and inserting “January 1, 2007”.

21 (e) *EFFECTIVE DATES.*—

22 (1) *IN GENERAL.*—Except as provided in para-
23 graph (2), the amendments made by this section shall
24 take effect on January 1, 2006.



1 (2) *TAX-EXEMPT ECONOMIC DEVELOPMENT*
2 *BONDS.—The amendment made by subsection (b)*
3 *shall apply to obligations issued after the date of the*
4 *enactment of this Act.*

5 **SEC. 111. POSSESSION TAX CREDIT WITH RESPECT TO**
6 **AMERICAN SAMOA.**

7 (a) *IN GENERAL.—Subparagraph (A) of section*
8 *936(j)(8) (relating to special rules for certain possessions)*
9 *is amended by inserting before the period at the end the*
10 *following: “(before January 1, 2007, in the case of Amer-*
11 *ican Samoa)”.*

12 (b) *EFFECTIVE DATE.—The amendment made by sub-*
13 *section (a) shall apply to taxable years beginning after De-*
14 *cember 31, 2005.*

15 **SEC. 112. PARITY IN THE APPLICATION OF CERTAIN LIMITS**
16 **TO MENTAL HEALTH BENEFITS.**

17 (a) *IN GENERAL.—Paragraph (3) of section 9812(f)*
18 *(relating to application of section) is amended by striking*
19 *“December 31, 2005” and inserting “December 31, 2006”.*

20 (b) *EFFECTIVE DATES.—The amendment made by*
21 *subsection (a) shall take effect on the date of the enactment*
22 *of this Act.*

23 **SEC. 113. RESEARCH CREDIT.**

24 (a) *EXTENSION.—*



1 (1) *IN GENERAL.*—Subparagraph (B) of section
2 41(h)(1) (relating to termination) is amended by
3 striking “December 31, 2005” and inserting “Decem-
4 ber 31, 2006”.

5 (2) *CONFORMING AMENDMENT.*—Subparagraph
6 (D) of section 45C(b)(1) (relating to special rule) is
7 amended by striking “December 31, 2005” and insert-
8 ing “December 31, 2006”.

9 (3) *EFFECTIVE DATE.*—The amendments made
10 by this subsection shall apply to amounts paid or in-
11 curred after December 31, 2005.

12 (b) *INCREASE IN RATES OF ALTERNATIVE INCRE-*
13 *MENTAL CREDIT.*—

14 (1) *IN GENERAL.*—Subparagraph (A) of section
15 41(c)(4) (relating to election of alternative incre-
16 mental credit) is amended—

17 (A) by striking “2.65 percent” and insert-
18 ing “3 percent”,

19 (B) by striking “3.2 percent” and inserting
20 “4 percent”, and

21 (C) by striking “3.75 percent” and insert-
22 ing “5 percent”.

23 (2) *EFFECTIVE DATE.*—The amendments made
24 by this subsection shall apply to taxable years ending
25 after the date of the enactment of this Act.

1 (c) *ALTERNATIVE SIMPLIFIED CREDIT FOR QUALIFIED*
2 *RESEARCH EXPENSES.*—

3 (1) *IN GENERAL.*—Subsection (c) of section 41
4 (relating to base amount) is amended by redesign-
5 ating paragraphs (5) and (6) as paragraphs (6) and
6 (7), respectively, and by inserting after paragraph (4)
7 the following new paragraph:

8 “(5) *ELECTION OF ALTERNATIVE SIMPLIFIED*
9 *CREDIT.*—

10 “(A) *IN GENERAL.*—At the election of the
11 taxpayer, the credit determined under subsection
12 (a)(1) shall be equal to 12 percent of so much of
13 the qualified research expenses for the taxable
14 year as exceeds 50 percent of the average quali-
15 fied research expenses for the 3 taxable years pre-
16 ceding the taxable year for which the credit is
17 being determined.

18 “(B) *SPECIAL RULE IN CASE OF NO QUALI-*
19 *FIED RESEARCH EXPENSES IN ANY OF 3 PRE-*
20 *CEDING TAXABLE YEARS.*—

21 “(i) *TAXPAYERS TO WHICH SUBPARA-*
22 *GRAPH APPLIES.*—The credit under this
23 paragraph shall be determined under this
24 subparagraph if the taxpayer has no quali-
25 fied research expenses in any one of the 3

1 *taxable years preceding the taxable year for*
2 *which the credit is being determined.*

3 “(ii) *CREDIT RATE.*—*The credit deter-*
4 *mined under this subparagraph shall be*
5 *equal to 6 percent of the qualified research*
6 *expenses for the taxable year.*

7 “(C) *ELECTION.*—*An election under this*
8 *paragraph shall apply to the taxable year for*
9 *which made and all succeeding taxable years un-*
10 *less revoked with the consent of the Secretary. An*
11 *election under this paragraph may not be made*
12 *for any taxable year to which an election under*
13 *paragraph (4) applies.”*

14 (2) *COORDINATION WITH ELECTION OF ALTER-*
15 *NATIVE INCREMENTAL CREDIT.—*

16 (A) *IN GENERAL.*—*Section 41(c)(4)(B) (re-*
17 *lating to election) is amended by adding at the*
18 *end the following: “An election under this para-*
19 *graph may not be made for any taxable year to*
20 *which an election under paragraph (5) applies.”*

21 (B) *TRANSITION RULE.*—*In the case of an*
22 *election under section 41(c)(4) of the Internal*
23 *Revenue Code of 1986 which applies to the tax-*
24 *able year which includes the date of the enact-*
25 *ment of this Act, such election shall be treated as*



1 **SEC. 116. QUALIFIED TUITION AND RELATED EXPENSES.**

2 (a) *IN GENERAL.*—Subsection (e) of section 222 (relat-
3 ing to termination) is amended by striking “December 31,
4 2005” and inserting “December 31, 2006”.

5 (b) *LIMITATIONS.*—Paragraph (2) of section 222(b)
6 (relating to applicable dollar limit) is amended by striking
7 subparagraphs (A) and (B), by redesignating subparagraph
8 (C) as subparagraph (B), and by inserting before subpara-
9 graph (B) (as so redesignated) the following:

10 “(A) 2006.—In the case of a taxable year
11 beginning in 2006, the applicable dollar amount
12 shall be equal to—

13 “(i) in the case of a taxpayer whose
14 adjusted gross income for the taxable year
15 does not exceed \$65,000 (\$130,000 in the
16 case of a joint return), \$4,000,

17 “(ii) in the case of a taxpayer not de-
18 scribed in clause (i) whose adjusted gross
19 income for the taxable year does not exceed
20 \$80,000 (\$160,000 in the case of a joint re-
21 turn), \$2,000, and

22 “(iii) in the case of any other tax-
23 payer, zero.”.

24 (c) *EFFECTIVE DATE.*—The amendments made by this
25 section shall apply to payments made in taxable years be-
26 ginning after December 31, 2005.

1 **SEC. 117. STATE AND LOCAL GENERAL SALES TAXES.**

2 (a) *IN GENERAL.*—Subparagraph (I) of section
3 164(b)(5) (relating to application of paragraph) is amend-
4 ed by striking “January 1, 2006” and inserting “January
5 1, 2007”.

6 (b) *EFFECTIVE DATE.*—The amendment made by sub-
7 section (a) shall apply to taxable years beginning after De-
8 cember 31, 2005.

9 **TITLE II—EXTENSIONS OF CER-**
10 **TAIN PROVISIONS FOR 2 AD-**
11 **DITIONAL YEARS AND OTHER**
12 **MODIFICATIONS**

13 **SEC. 201. EXPENSING OF ENVIRONMENTAL REMEDIATION**
14 **COSTS.**

15 (a) *EXTENSION OF TERMINATION DATE.*—Subsection
16 (h) of section 198 (relating to termination) is amended by
17 striking “December 31, 2005” and inserting “December 31,
18 2007”.

19 (b) *PETROLEUM PRODUCTS TREATED AS HAZARDOUS*
20 *SUBSTANCE.*—Paragraph (1) of section 198(d) (relating to
21 hazardous substance) is amended by striking “and” at the
22 end of subparagraph (A), by striking the period at the end
23 of subparagraph (B) and inserting “, and”, and by adding
24 at the end the following new subparagraph:

25 “(C) any petroleum product (as defined in
26 section 4612(a)(3)).”

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to expenditures paid or incurred after*
3 *December 31, 2005.*

4 **SEC. 202. CONTROLLED FOREIGN CORPORATIONS.**

5 (a) *SUBPART F EXCEPTION FOR ACTIVE FINANCING.*—

6 (1) *EXEMPT INSURANCE INCOME.*—*Paragraph*
7 *(10) of section 953(e) (relating to application) is*
8 *amended—*

9 (A) *by striking “January 1, 2007” and in-*
10 *serting “January 1, 2009”, and*

11 (B) *by striking “December 31, 2006” and*
12 *inserting “December 31, 2008”.*

13 (2) *EXCEPTION TO TREATMENT AS FOREIGN PER-*
14 *SONAL HOLDING COMPANY INCOME.*—*Paragraph (9) of*
15 *section 954(h) (relating to application) is amended by*
16 *striking “January 1, 2007” and inserting “January*
17 *1, 2009”.*

18 (b) *LOOK-THROUGH TREATMENT OF PAYMENTS BE-*
19 *TWEEN RELATED CONTROLLED FOREIGN CORPORATIONS*
20 *UNDER THE FOREIGN PERSONAL HOLDING COMPANY*
21 *RULES.*—*Subsection (c) of section 954 (relating to foreign*
22 *personal holding company income) is amended by adding*
23 *at the end the following new paragraph:*

24 “(6) *LOOK-THRU RULE FOR RELATED CON-*
25 *TROLLED FOREIGN CORPORATIONS.*—



1 “(A) *IN GENERAL.*—For purposes of this
2 *subsection, dividends, interest, rents, and royal-*
3 *ties received or accrued from a controlled foreign*
4 *corporation which is a related person shall not*
5 *be treated as foreign personal holding company*
6 *income to the extent attributable or properly al-*
7 *locable (determined under rules similar to the*
8 *rules of subparagraphs (C) and (D) of section*
9 *904(d)(3)) to income of the related person which*
10 *is not subpart F income. For purposes of this*
11 *subparagraph, interest shall include factoring in-*
12 *come which is treated as income equivalent to*
13 *interest for purposes of paragraph (1)(E). The*
14 *Secretary shall prescribe such regulations as*
15 *may be appropriate to prevent the abuse of the*
16 *purposes of this paragraph.*

17 “(B) *APPLICATION.*—Subparagraph (A)
18 *shall apply to taxable years of foreign corpora-*
19 *tions beginning after December 31, 2005, and be-*
20 *fore January 1, 2009, and to taxable years of*
21 *United States shareholders with or within which*
22 *such taxable years of foreign corporations end.”.*



1 **SEC. 203. CAPITAL GAINS AND DIVIDENDS RATES.**

2 *Section 303 of the Jobs and Growth Tax Relief Rec-*
3 *onciliation Act of 2003 is amended by striking “December*
4 *31, 2008” and inserting “December 31, 2010”.*

5 **SEC. 204. SAVER’S CREDIT.**

6 *Subsection (h) of section 25B (relating to elective defer-*
7 *als and IRA contributions by certain individuals) is*
8 *amended by striking “December 31, 2006” and inserting*
9 *“December 31, 2008”.*

10 **SEC. 205. INCREASED EXPENSING FOR SMALL BUSINESS.**

11 *Subsections (b)(1), (b)(2), (b)(5), (c)(2), and*
12 *(d)(1)(A)(ii) of section 179(b) (relating to election to ex-*
13 *pense certain depreciable business assets) are each amended*
14 *by striking “2008” and inserting “2010”.*

15 **TITLE III—OTHER PROVISIONS**

16 **SEC. 301. CLARIFICATION OF TAXATION OF CERTAIN SET-**
17 **TLEMENT FUNDS.**

18 *(a) IN GENERAL.—Subsection (g) of section 468B (re-*
19 *lating to clarification of taxation of certain funds) is*
20 *amended to read as follows:*

21 *“(g) CLARIFICATION OF TAXATION OF CERTAIN*
22 *FUNDS.—*

23 *“(1) IN GENERAL.—Except as provided in para-*
24 *graph (2), nothing in any provision of law shall be*
25 *construed as providing that an escrow account, settle-*
26 *ment fund, or similar fund is not subject to current*

1 *income tax. The Secretary shall prescribe regulations*
2 *providing for the taxation of any such account or*
3 *fund whether as a grantor trust or otherwise.*

4 “(2) *EXEMPTION FROM TAX FOR CERTAIN SET-*
5 *TLEMENT FUNDS.—An escrow account, settlement*
6 *fund, or similar fund shall be treated as beneficially*
7 *owned by the United States and shall be exempt from*
8 *taxation under this subtitle if—*

9 “(A) *it is established pursuant to a consent*
10 *decree entered by a judge of a United States Dis-*
11 *trict Court,*

12 “(B) *it is created for the receipt of settle-*
13 *ment payments as directed by a government en-*
14 *tity for the sole purpose of resolving or satisfying*
15 *one or more claims asserting liability under the*
16 *Comprehensive Environmental Response, Com-*
17 *ensation, and Liability Act of 1980,*

18 “(C) *the authority and control over the ex-*
19 *penditure of funds therein (including the expend-*
20 *iture of contributions thereto and any net earn-*
21 *ings thereon) is with such government entity,*
22 *and*

23 “(D) *upon termination, any remaining*
24 *funds will be disbursed to such government enti-*
25 *ty for use in accordance with applicable law.*

1 *For purposes of this paragraph, the term ‘government*
2 *entity’ means the United States, any State or polit-*
3 *ical subdivision thereof, the District of Columbia, any*
4 *possession of the United States, and any agency or*
5 *instrumentality of any of the foregoing.*

6 “(3) *TERMINATION.*—*Paragraph (2) shall not*
7 *apply to accounts and funds established after Decem-*
8 *ber 31, 2010.”.*

9 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
10 *section (a) shall apply to accounts and funds established*
11 *after the date of the enactment of this Act.*

12 **SEC. 302. MODIFICATION OF ACTIVE BUSINESS DEFINITION**
13 **UNDER SECTION 355.**

14 *Subsection (b) of section 355 (defining active conduct*
15 *of a trade or business) is amended by adding at the end*
16 *the following new paragraph:*

17 “(3) *SPECIAL RULE RELATING TO ACTIVE BUSI-*
18 *NESS REQUIREMENT.*—

19 “(A) *IN GENERAL.*—*In the case of any dis-*
20 *tribution made after the date of the enactment of*
21 *this paragraph and before December 31, 2010, a*
22 *corporation shall be treated as meeting the re-*
23 *quirement of paragraph (2)(A) if and only if*
24 *such corporation is engaged in the active conduct*
25 *of a trade or business.*



1 “(B) *AFFILIATED GROUP RULE.*—For pur-
2 poses of subparagraph (A), all members of such
3 corporation’s separate affiliated group shall be
4 treated as one corporation. For purposes of the
5 preceding sentence, a corporation’s separate af-
6 filiated group is the affiliated group which would
7 be determined under section 1504(a) if such cor-
8 poration were the common parent and section
9 1504(b) did not apply.

10 “(C) *TRANSITION RULE.*—Subparagraph
11 (A) shall not apply to any distribution pursuant
12 to a transaction which is—

13 “(i) made pursuant to an agreement
14 which was binding on the date of the enact-
15 ment of this paragraph and at all times
16 thereafter,

17 “(ii) described in a ruling request sub-
18 mitted to the Internal Revenue Service on
19 or before such date, or

20 “(iii) described on or before such date
21 in a public announcement or in a filing
22 with the Securities and Exchange Commis-
23 sion.

24 The preceding sentence shall not apply if the dis-
25 tributing corporation elects not to have such sen-

1 *tence apply to distributions of such corporation.*
2 *Any such election, once made, shall be irrev-*
3 *ocable.*

4 “(D) *SPECIAL RULE FOR CERTAIN PRE-EN-*
5 *ACTMENT DISTRIBUTIONS.—For purposes of de-*
6 *termining the continued qualification under*
7 *paragraph (2)(A) of distributions made before*
8 *the date of the enactment of this paragraph as*
9 *a result of an acquisition, disposition, or other*
10 *restructuring after such date and before Decem-*
11 *ber 31, 2010, such distribution shall be treated as*
12 *made after the date of the enactment of this*
13 *paragraph for purposes of applying subpara-*
14 *graphs (A) through (C) of this paragraph.”.*

15 **SEC. 303. VETERANS’ MORTGAGE BONDS.**

16 *(a) ALL VETERANS ELIGIBLE FOR STATE HOME LOAN*
17 *PROGRAMS FUNDED BY QUALIFIED VETERANS’ MORTGAGE*
18 *BONDS.—*

19 *(1) IN GENERAL.—Paragraph (4) of section*
20 *143(l) (defining qualified veteran) is amended—*

21 *(A) by striking “at some time before Janu-*
22 *ary 1, 1977” in subparagraph (A), and*

23 *(B) by striking subparagraph (B) and in-*
24 *serting the following:*

1 “(B) who applied for the financing before
2 the date 25 years after the last date on which
3 such veteran left active service.”.

4 (2) *EFFECTIVE DATE.*—The amendments made
5 by this subsection shall apply to financing provided
6 after the date of the enactment of this Act.

7 (b) *REVISION OF STATE VETERANS LIMIT.*—

8 (1) *IN GENERAL.*—Subparagraph (B) of section
9 143(l)(3) (relating to volume limitation) is amended
10 to read as follows:

11 “(B) *STATE VETERANS LIMIT.*—

12 “(i) *IN GENERAL.*—A State veterans
13 limit for any calendar year is the amount
14 equal to—

15 “(I) \$53,750,000 for the State of
16 Texas,

17 “(II) \$66,250,000 for the State of
18 California,

19 “(III) \$25,000,000 for the State of
20 Oregon,

21 “(IV) \$25,000,000 for the State of
22 Wisconsin, and

23 “(V) \$25,000,000 for the State of
24 Alaska.



1 “(ii) *PHASEIN*.—*In the case of cal-*
 2 *endar years beginning before 2010, clause*
 3 *(i) shall be applied by substituting for each*
 4 *of the dollar amounts therein by the appli-*
 5 *cable percentage. For purposes of the pre-*
 6 *ceding sentence, the applicable percentage*
 7 *shall be determined in accordance with the*
 8 *following table:*

<i>“Calendar Year:</i>	<i>Applicable per- centage is:</i>
2006	20 percent
2007	40 percent
2008	60 percent
2009	80 percent.

9 “(iii) *TERMINATION*.—*The State vet-*
 10 *erans limit for any calendar year after*
 11 *2010 is zero.”.*

12 (2) *EFFECTIVE DATE*.—*The amendment made by*
 13 *this subsection shall apply to bonds issued after De-*
 14 *cember 31, 2005.*

15 **SEC. 304. CAPITAL GAINS TREATMENT FOR CERTAIN SELF-**
 16 **CREATED MUSICAL WORKS.**

17 (a) *IN GENERAL*.—*Subsection (b) of section 1221 (re-*
 18 *lating to capital asset defined) is amended by redesignating*
 19 *paragraph (3) as paragraph (4) and by inserting after*
 20 *paragraph (2) the following new paragraph:*

21 “(3) *SALE OR EXCHANGE OF SELF-CREATED MU-*
 22 *SICAL WORKS*.—*At the election of the taxpayer, para-*



1 (1) *the requirement of paragraph (1) of section*
2 *648 of the Deficit Reduction Act of 1984 (98 Stat.*
3 *941) shall be treated as met with respect to the securi-*
4 *ties or obligations referred to in such section if such*
5 *securities or obligations are held in a fund the annual*
6 *distributions from which cannot exceed 7 percent of*
7 *the average fair market value of the assets held in*
8 *such fund except to the extent distributions are nec-*
9 *essary to pay debt service on the bond issue, and*

10 (2) *paragraph (3) of such section shall be ap-*
11 *plied by substituting “distributions from” for “the in-*
12 *vestment earnings of” both places it appears.*



Union Calendar No.

109TH CONGRESS
1ST SESSION

H. R. 4297

[Report No. 109-]

A BILL

To provide for reconciliation pursuant to section 201(b) of the concurrent resolution on the budget for fiscal year 2006.
