

109TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { 109-_____

TAX INCREASE PREVENTION AND RECONCILIATION ACT OF
2005

_____, 2006.—ORDERED TO BE PRINTED

Mr. Thomas, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany H.R. 4297]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 4297), to provide for reconciliation pursuant to section 201(b) of the concurrent resolution on the budget for fiscal year 2006, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment, insert the following:

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

2 (a) **SHORT TITLE.**—This Act may be cited as the
3 “Tax Increase Prevention and Reconciliation Act of
4 2005”.

5 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
6 wise expressly provided, whenever in this Act an amend-
7 ment or repeal is expressed in terms of an amendment
8 to, or repeal of, a section or other provision, the reference
9 shall be considered to be made to a section or other provi-
10 sion of the Internal Revenue Code of 1986.

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

Sec. 1. Short title, etc.

**TITLE I—EXTENSION AND MODIFICATION OF CERTAIN
PROVISIONS**

Sec. 101. Increased expensing for small business.

Sec. 102. Capital gains and dividends rates.

Sec. 103. Controlled foreign corporations.

TITLE II—OTHER PROVISIONS

Sec. 201. Clarification of taxation of certain settlement funds.

Sec. 202. Modification of active business definition under section 355.

Sec. 203. Veterans' mortgage bonds.

Sec. 204. Capital gains treatment for certain self-created musical works.

Sec. 205. Vessel tonnage limit.

Sec. 206. Modification of special arbitrage rule for certain funds.

Sec. 207. Amortization of expenses incurred in creating or acquiring music or
music copyrights.

Sec. 208. Modification of effective date of disregard of certain capital expendi-
tures for purposes of qualified small issue bonds.

Sec. 209. Modification of treatment of loans to qualified continuing care facili-
ties.

TITLE III—ALTERNATIVE MINIMUM TAX RELIEF

Sec. 301. Increase in alternative minimum tax exemption amount for 2006.

Sec. 302. Allowance of nonrefundable personal credits against regular and alternative minimum tax liability.

TITLE IV—CORPORATE ESTIMATED TAX PROVISIONS

Sec. 401. Time for payment of corporate estimated taxes.

TITLE V—REVENUE OFFSET PROVISIONS

Sec. 501. Application of earnings stripping rules to partners which are corporations.

Sec. 502. Reporting of interest on tax-exempt bonds.

Sec. 503. 5-year amortization of geological and geophysical expenditures for certain major integrated oil companies.

Sec. 504. Application of FIRPTA to regulated investment companies.

Sec. 505. Treatment of distributions attributable to FIRPTA gains.

Sec. 506. Prevention of avoidance of tax on investments of foreign persons in United States real property through wash sale transactions.

Sec. 507. Section 355 not to apply to distributions involving disqualified investment companies.

Sec. 508. Loan and redemption requirements on pooled financing requirements.

Sec. 509. Partial payments required with submission of offers-in-compromise.

Sec. 510. Increase in age of minor children whose unearned income is taxed as if parent's income.

Sec. 511. Imposition of withholding on certain payments made by government entities.

Sec. 512. Conversions to Roth IRAs.

Sec. 513. Repeal of FSC/ETI binding contract relief.

Sec. 514. Only wages attributable to domestic production taken into account in determining deduction for domestic production.

Sec. 515. Modification of exclusion for citizens living abroad.

Sec. 516. Tax involvement of accommodation parties in tax shelter transactions.

1 **TITLE I—EXTENSION AND MODI-** 2 **FICATION OF CERTAIN PRO-** 3 **VISIONS**

4 **SEC. 101. INCREASED EXPENSING FOR SMALL BUSINESS.**

5 Subsections (b)(1), (b)(2), (b)(5), (c)(2), and
6 (d)(1)(A)(ii) of section 179 (relating to election to expense
7 certain depreciable business assets) are each amended by
8 striking “2008” and inserting “2010”.

1 **SEC. 102. 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. 103. CONTROLLED FOREIGN CORPORATIONS.**

6 (a) **SUBPART F EXCEPTION FOR ACTIVE FINANC-**
7 **ING.—**

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

11 (A) by striking “January 1, 2007” and in-
12 sserting “January 1, 2009”, and

13 (B) by striking “December 31, 2006” and
14 inserting “December 31, 2008”.

15 (2) **EXCEPTION TO TREATMENT AS FOREIGN**
16 **PERSONAL HOLDING COMPANY INCOME.—**Paragraph
17 (9) of section 954(h) (relating to application) is
18 amended by striking “January 1, 2007” and insert-
19 ing “January 1, 2009”.

20 (b) **LOOK-THROUGH TREATMENT OF PAYMENTS BE-**
21 **TWEEN RELATED CONTROLLED FOREIGN CORPORATIONS**
22 **UNDER THE FOREIGN PERSONAL HOLDING COMPANY**
23 **RULES.—**

24 (1) **IN GENERAL.—**Subsection (c) of section
25 954 (relating to foreign personal holding company

1 income) is amended by adding at the end the fol-
2 lowing new paragraph:

3 “(6) LOOK-THRU RULE FOR RELATED CON-
4 TROLLED FOREIGN CORPORATIONS.—

5 “(A) IN GENERAL.—For purposes of this
6 subsection, dividends, interest, rents, and royalti-
7 ties received or accrued from a controlled for-
8 eign corporation which is a related person shall
9 not be treated as foreign personal holding com-
10 pany income to the extent attributable or prop-
11 erly allocable (determined under rules similar to
12 the rules of subparagraphs (C) and (D) of sec-
13 tion 904(d)(3)) to income of the related person
14 which is not subpart F income. For purposes of
15 this subparagraph, interest shall include fac-
16 toring income which is treated as income equiv-
17 alent to interest for purposes of paragraph
18 (1)(E). The Secretary shall prescribe such regu-
19 lations as may be appropriate to prevent the
20 abuse of the purposes of this paragraph.

21 “(B) APPLICATION.—Subparagraph (A)
22 shall apply to taxable years of foreign corpora-
23 tions beginning after December 31, 2005, and
24 before January 1, 2009, and to taxable years of
25 United States shareholders with or within which

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

6 “(A) it is established pursuant to a con-
7 sent decree entered by a judge of a United
8 States District Court,

9 “(B) it is created for the receipt of settle-
10 ment payments as directed by a government en-
11 tity for the sole purpose of resolving or satis-
12 fying one or more claims asserting liability
13 under the Comprehensive Environmental Re-
14 sponse, Compensation, and Liability Act of
15 1980,

16 “(C) the authority and control over the ex-
17 penditure of funds therein (including the ex-
18 penditure of contributions thereto and any net
19 earnings thereon) is with such government enti-
20 ty, and

21 “(D) upon termination, any remaining
22 funds will be disbursed to such government en-
23 tity for use in accordance with applicable law.

24 For purposes of this paragraph, the term ‘govern-
25 ment entity’ means the United States, any State or

1 political subdivision thereof, the District of Colum-
2 bia, any possession of the United States, and any
3 agency or instrumentality of any of the foregoing.

4 “(3) TERMINATION.—Paragraph (2) shall not
5 apply to accounts and funds established after De-
6 cember 31, 2010.”.

7 (b) EFFECTIVE DATE.—The amendment made by
8 subsection (a) shall apply to accounts and funds estab-
9 lished after the date of the enactment of this Act.

10 **SEC. 202. MODIFICATION OF ACTIVE BUSINESS DEFINITION**

11 **UNDER SECTION 355.**

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

15 “(3) SPECIAL RULE RELATING TO ACTIVE BUSI-
16 NESS REQUIREMENT.—

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

24 “(B) AFFILIATED GROUP RULE.—For pur-
25 poses of subparagraph (A), all members of such

1 corporation's separate affiliated group shall be
2 treated as one corporation. For purposes of the
3 preceding sentence, a corporation's separate af-
4 filiated group is the affiliated group which
5 would be determined under section 1504(a) if
6 such corporation were the common parent and
7 section 1504(b) did not apply.

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

11 “(i) made pursuant to an agreement
12 which was binding on the date of the en-
13 actment of this paragraph and at all times
14 thereafter,

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

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

22 The preceding sentence shall not apply if the
23 distributing corporation elects not to have such
24 sentence apply to distributions of such corpora-

1 tion. Any such election, once made, shall be ir-
2 revocable.

3 “(D) SPECIAL RULE FOR CERTAIN PRE-
4 ENACTMENT DISTRIBUTIONS.—For purposes of
5 determining the continued qualification under
6 paragraph (2)(A) of distributions made on or
7 before the date of the enactment of this para-
8 graph as a result of an acquisition, disposition,
9 or other restructuring after such date and on or
10 before December 31, 2010, such distribution
11 shall be treated as made on the date of such ac-
12 quisition, disposition, or restructuring for pur-
13 poses of applying subparagraphs (A) through
14 (C) of this paragraph.”.

15 **SEC. 203. VETERANS’ MORTGAGE BONDS.**

16 (a) EXPANSION OF DEFINITION OF VETERANS ELI-
17 GIBLE FOR STATE HOME LOAN PROGRAMS FUNDED BY
18 QUALIFIED VETERANS’ MORTGAGE BONDS.—

19 (1) IN GENERAL.—Paragraph (4) of section
20 143(l) (defining qualified veteran) is amended to
21 read as follows:

22 “(4) QUALIFIED VETERAN.—For purposes of
23 this subsection, the term ‘qualified veteran’ means—

24 “(A) in the case of the States of Alaska,
25 Oregon, and Wisconsin, any veteran—

1 “(i) who served on active duty, and

2 “(ii) who applied for the financing be-
3 fore the date 25 years after the last date
4 on which such veteran left active service,
5 and

6 “(B) in the case of any other State, any
7 veteran—

8 “(i) who served on active duty at
9 some time before January 1, 1977, and

10 “(ii) who applied for the financing be-
11 fore the later of—

12 “(I) the date 30 years after the
13 last date on which such veteran left
14 active service, or

15 “(II) January 31, 1985.”

16 (2) EFFECTIVE DATE.—The amendments made
17 by this subsection shall apply to bonds issued on or
18 after the date of the enactment of this Act.

19 (b) REVISION OF STATE VETERANS LIMIT.—

20 (1) IN GENERAL.—Subparagraph (B) of section
21 143(l)(3) (relating to volume limitation) is amend-
22 ed—

23 (A) by redesignating clauses (i) and (ii) as
24 subclauses (I) and (II), respectively, and mov-
25 ing such clauses 2 ems to the right,

1 (B) by amending the matter preceding
2 subclause (I), as designated by subparagraph
3 (A), to read as follows:

4 “(B) STATE VETERANS LIMIT.—

5 “(i) IN GENERAL.—In the case of any
6 State to which clause (ii) does not apply,
7 the State veterans limit for any calendar
8 year is the amount equal to—”, and

9 (C) by adding at the end the following new
10 clauses:

11 “(ii) ALASKA, OREGON, AND WIS-
12 CONSIN.—In the case of the following
13 States, the State veterans limit for any cal-
14 endar year is the amount equal to—

15 “(I) \$25,000,000 for the State of
16 Alaska,

17 “(II) \$25,000,000 for the State
18 of Oregon, and

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

21 “(iii) PHASEIN.—In the case of cal-
22 endar years beginning before 2010, clause
23 (ii) shall be applied by substituting for
24 each of the dollar amounts therein an
25 amount equal to the applicable percentage

1 of such dollar amount. For purposes of the
 2 preceding sentence, the applicable percent-
 3 age shall be determined in accordance with
 4 the following table:

For Calendar Year:	Applicable percent- age is:
2006	20 percent
2007	40 percent
2008	60 percent
2009	80 percent.

5 “(iv) **TERMINATION.**—The State vet-
 6 erans limit for the States specified in
 7 clause (ii) for any calendar year after 2010
 8 is zero.”.

9 (2) **EFFECTIVE DATE.**—The amendments made
 10 by this subsection shall apply to allocations of State
 11 volume limit after April 5, 2006.

12 **SEC. 204. CAPITAL GAINS TREATMENT FOR CERTAIN SELF-**
 13 **CREATED MUSICAL WORKS.**

14 (a) **IN GENERAL.**—Subsection (b) of section 1221
 15 (relating to capital asset defined) is amended by redesi-
 16 gnating paragraph (3) as paragraph (4) and by inserting
 17 after paragraph (2) the following new paragraph:

18 “(3) **SALE OR EXCHANGE OF SELF-CREATED**
 19 **MUSICAL WORKS.**—At the election of the taxpayer,
 20 paragraphs (1) and (3) of subsection (a) shall not
 21 apply to musical compositions or copyrights in musi-

