

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

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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 serting “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:

<b>For Calendar Year:</b>	<b>Applicable percent- age is:</b>
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-

1 cal works sold or exchanged before January 1, 2011,  
2 by a taxpayer described in subsection (a)(3).”.

3 (b) **LIMITATION ON CHARITABLE CONTRIBUTIONS.**—

4 Subparagraph (A) of section 170(e)(1) is amended by in-  
5 serting “(determined without regard to section  
6 1221(b)(3))” after “long-term capital gain”.

7 (c) **EFFECTIVE DATE.**—The amendments made by  
8 this section shall apply to sales and exchanges in taxable  
9 years beginning after the date of the enactment of this  
10 Act.

11 **SEC. 205. VESSEL TONNAGE LIMIT.**

12 (a) **IN GENERAL.**—Paragraph (4) of section 1355(a)  
13 (relating to qualifying vessel) is amended by inserting  
14 “(6,000, in the case of taxable years beginning after De-  
15 cember 31, 2005, and ending before January 1, 2011)”  
16 after “10,000”.

17 (b) **EFFECTIVE DATE.**—The amendment made by  
18 subsection (a) shall apply to taxable years beginning after  
19 December 31, 2005.

20 **SEC. 206. MODIFICATION OF SPECIAL ARBITRAGE RULE**  
21 **FOR CERTAIN FUNDS.**

22 In the case of bonds issued after the date of the en-  
23 actment of this Act and before August 31, 2009—

24 (1) the requirement of paragraph (1) of section  
25 648 of the Deficit Reduction Act of 1984 (98 Stat.

1 941) shall be treated as met with respect to the se-  
2 curities or obligations referred to in such section if  
3 such securities or obligations are held in a fund the  
4 annual distributions from which cannot exceed 7  
5 percent of the average fair market value of the as-  
6 sets held in such fund except to the extent distribu-  
7 tions are necessary to pay debt service on the bond  
8 issue, and

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

12 **SEC. 207. AMORTIZATION OF EXPENSES INCURRED IN CRE-**  
13 **ATING OR ACQUIRING MUSIC OR MUSIC**  
14 **COPYRIGHTS.**

15 (a) IN GENERAL.—Section 167(g) (relating to depre-  
16 ciation under income forecast method) is amended by add-  
17 ing at the end the following new paragraph:

18 “(8) SPECIAL RULES FOR CERTAIN MUSICAL  
19 WORKS AND COPYRIGHTS.—

20 “(A) IN GENERAL.—If an election is in ef-  
21 fect under this paragraph for any taxable year,  
22 then, notwithstanding paragraph (1), any ex-  
23 pense which—

24 “(i) is paid or incurred by the tax-  
25 payer in creating or acquiring any applica-

1           ble musical property placed in service dur-  
2           ing the taxable year, and

3                   “(ii) is otherwise properly chargeable  
4           to capital account,

5           shall be amortized ratably over the 5-year pe-  
6           riod beginning with the month in which the  
7           property was placed in service. The preceding  
8           sentence shall not apply to any expense which,  
9           without regard to this paragraph, would not be  
10          allowable as a deduction.

11           “(B) EXCLUSIVE METHOD.—Except as  
12          provided in this paragraph, no depreciation or  
13          amortization deduction shall be allowed with re-  
14          spect to any expense to which subparagraph (A)  
15          applies.

16           “(C) APPLICABLE MUSICAL PROPERTY.—  
17          For purposes of this paragraph—

18                   “(i) IN GENERAL.—The term ‘applica-  
19           ble musical property’ means any musical  
20           composition (including any accompanying  
21           words), or any copyright with respect to a  
22           musical composition, which is property to  
23           which this subsection applies without re-  
24           gard to this paragraph.

1           “(ii) EXCEPTIONS.—Such term shall  
2 not include any property—

3           “(I) with respect to which ex-  
4 penses are treated as qualified cre-  
5 ative expenses to which section  
6 263A(h) applies,

7           “(II) to which a simplified proce-  
8 dure established under section  
9 263A(j)(2) applies, or

10           “(III) which is an amortizable  
11 section 197 intangible (as defined in  
12 section 197(c)).

13           “(D) ELECTION.—An election under this  
14 paragraph shall be made at such time and in  
15 such form as the Secretary may prescribe and  
16 shall apply to all applicable musical property  
17 placed in service during the taxable year for  
18 which the election applies.

19           “(E) TERMINATION.—An election may not  
20 be made under this paragraph for any taxable  
21 year beginning after December 31, 2010.”.

22           “(b) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to expenses paid or incurred with  
24 respect to property placed in service in taxable years be-  
25 ginning after December 31, 2005.

1 **SEC. 208. MODIFICATION OF EFFECTIVE DATE OF DIS-**  
2 **REGARD OF CERTAIN CAPITAL EXPENDI-**  
3 **TURES FOR PURPOSES OF QUALIFIED SMALL**  
4 **ISSUE BONDS.**

5 (a) **IN GENERAL.**—Section 144(a)(4)(G) is amended  
6 by striking “September 30, 2009” and inserting “Decem-  
7 ber 31, 2006”.

8 (b) **CONFORMING AMENDMENT.**—Section  
9 144(a)(4)(F) is amended by striking “September 30,  
10 2009” and inserting “December 31, 2006”.

11 **SEC. 209. MODIFICATION OF TREATMENT OF LOANS TO**  
12 **QUALIFIED CONTINUING CARE FACILITIES.**

13 (a) **IN GENERAL.**—Section 7872 is amended by re-  
14 designating subsection (h) as subsection (i) and inserting  
15 after subsection (g) the following new subsection:

16 “(h) **EXCEPTION FOR LOANS TO QUALIFIED CON-**  
17 **TINUING CARE FACILITIES.**—

18 “(1) **IN GENERAL.**—This section shall not apply  
19 for any calendar year to any below-market loan owed  
20 by a facility which on the last day of such year is  
21 a qualified continuing care facility, if such loan was  
22 made pursuant to a continuing care contract and if  
23 the lender (or the lender’s spouse) attains age 62 be-  
24 fore the close of such year.

25 “(2) **CONTINUING CARE CONTRACT.**—For pur-  
26 poses of this section, the term ‘continuing care con-

1       tract' means a written contract between an indi-  
2       vidual and a qualified continuing care facility under  
3       which—

4               “(A) the individual or individual’s spouse  
5       may use a qualified continuing care facility for  
6       their life or lives,

7               “(B) the individual or individual’s spouse  
8       will be provided with housing, as appropriate  
9       for the health of such individual or individual’s  
10      spouse—

11              “(i) in an independent living unit  
12      (which has additional available facilities  
13      outside such unit for the provision of meals  
14      and other personal care), and

15              “(ii) in an assisted living facility or a  
16      nursing facility, as is available in the con-  
17      tinuing care facility, and

18              “(C) the individual or individual’s spouse  
19      will be provided assisted living or nursing care  
20      as the health of such individual or individual’s  
21      spouse requires, and as is available in the con-  
22      tinuing care facility.

23      The Secretary shall issue guidance which limits such  
24      term to contracts which provide only facilities, care,  
25      and services described in this paragraph.

1           “(3) QUALIFIED CONTINUING CARE FACIL-  
2       ITY.—

3           “(A) IN GENERAL.—For purposes of this  
4       section, the term ‘qualified continuing care fa-  
5       cility’ means 1 or more facilities—

6           “(i) which are designed to provide  
7       services under continuing care contracts,

8           “(ii) which include an independent liv-  
9       ing unit, plus an assisted living or nursing  
10      facility, or both, and

11          “(iii) substantially all of the inde-  
12      pendent living unit residents of which are  
13      covered by continuing care contracts.

14          “(B) NURSING HOMES EXCLUDED.—The  
15      term ‘qualified continuing care facility’ shall not  
16      include any facility which is of a type which is  
17      traditionally considered a nursing home.

18          “(4) TERMINATION.—This subsection shall not  
19      apply to any calendar year after 2010.”.

20      (b) CONFORMING AMENDMENTS.—

21          (1) Section 7872(g) is amended by adding at  
22      the end the following new paragraph:

23          “(6) SUSPENSION OF APPLICATION.—Para-  
24      graph (1) shall not apply for any calendar year to  
25      which subsection (h) applies.”.

1           (2) Section 142(d)(2)(B) is amended by strik-  
2           ing “Section 7872(g)” and inserting “Subsections  
3           (g) and (h) of section 7872”.

4           (c) EFFECTIVE DATE.—The amendment made by  
5 this section shall apply to calendar years beginning after  
6 December 31, 2005, with respect to loans made before,  
7 on, or after such date.

8                           **TITLE III—ALTERNATIVE**  
9                           **MINIMUM TAX RELIEF**

10           **SEC. 301. INCREASE IN ALTERNATIVE MINIMUM TAX EX-**  
11                           **EMPTION AMOUNT FOR 2006.**

12           (a) IN GENERAL.—Section 55(d)(1) (relating to ex-  
13           emption amount for taxpayers other than corporations) is  
14           amended—

15                   (1) by striking “\$58,000” and all that follows  
16           through “2005” in subparagraph (A) and inserting  
17           “\$62,550 in the case of taxable years beginning in  
18           2006”, and

19                   (2) by striking “\$40,250” and all that follows  
20           through “2005” in subparagraph (B) and inserting  
21           “\$42,500 in the case of taxable years beginning in  
22           2006”.

23           (b) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply to taxable years beginning after  
25 December 31, 2005.

1 **SEC. 302. ALLOWANCE OF NONREFUNDABLE PERSONAL**  
2 **CREDITS AGAINST REGULAR AND ALTER-**  
3 **NATIVE MINIMUM TAX LIABILITY.**

4 (a) **IN GENERAL.**—Paragraph (2) of section 26(a) is  
5 amended—

6 (1) by striking “2005” in the heading thereof  
7 and inserting “2006”, and

8 (2) by striking “or 2005” and inserting “2005,  
9 or 2006”.

10 (b) **EFFECTIVE DATE.**—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2005.

13 **TITLE IV—CORPORATE**  
14 **ESTIMATED TAX PROVISIONS**

15 **SEC. 401. TIME FOR PAYMENT OF CORPORATE ESTIMATED**  
16 **TAXES.**

17 Notwithstanding section 6655 of the Internal Rev-  
18 enue Code of 1986—

19 (1) in the case of a corporation with assets of  
20 not less than \$1,000,000,000 (determined as of the  
21 end of the preceding taxable year)—

22 (A) the amount of any required installment  
23 of corporate estimated tax which is otherwise  
24 due in July, August, or September of 2006  
25 shall be 105 percent of such amount,

1           (B) the amount of any required install-  
2           ment of corporate estimated tax which is other-  
3           wise due in July, August, or September of 2012  
4           shall be 106.25 percent of such amount,

5           (C) the amount of any required installment  
6           of corporate estimated tax which is otherwise  
7           due in July, August, or September of 2013  
8           shall be 100.75 percent of such amount, and

9           (D) the amount of the next required in-  
10          stallment after an installment referred to in  
11          subparagraph (A), (B), or (C) shall be appro-  
12          priately reduced to reflect the amount of the in-  
13          crease by reason of such subparagraph,

14          (2) 20.5 percent of the amount of any required  
15          installment of corporate estimated tax which is oth-  
16          erwise due in September 2010 shall not be due until  
17          October 1, 2010, and

18          (3) 27.5 percent of the amount of any required  
19          installment of corporate estimated tax which is oth-  
20          erwise due in September 2011 shall not be due until  
21          October 1, 2011.

1           **TITLE V—REVENUE OFFSET**  
2                           **PROVISIONS**

3   **SEC. 501. APPLICATION OF EARNINGS STRIPPING RULES**  
4                           **TO PARTNERS WHICH ARE CORPORATIONS.**

5           (a) IN GENERAL.—Section 163(j) (relating to limita-  
6   tion on deduction for interest on certain indebtedness) is  
7   amended by redesignating paragraph (8) as paragraph (9)  
8   and by inserting after paragraph (7) the following new  
9   paragraph:

10           “(8) TREATMENT OF CORPORATE PARTNERS.—  
11   Except to the extent provided by regulations, in ap-  
12   plying this subsection to a corporation which owns  
13   (directly or indirectly) an interest in a partnership—

14                   “(A) such corporation’s distributive share  
15                   of interest income paid or accrued to such part-  
16                   nership shall be treated as interest income paid  
17                   or accrued to such corporation,

18                   “(B) such corporation’s distributive share  
19                   of interest paid or accrued by such partnership  
20                   shall be treated as interest paid or accrued by  
21                   such corporation, and

22                   “(C) such corporation’s share of the liabil-  
23                   ities of such partnership shall be treated as li-  
24                   abilities of such corporation.”.

1 (b) ADDITIONAL REGULATORY AUTHORITY.—Section  
2 163(j)(9) (relating to regulations), as redesignated by sub-  
3 section (a), is amended by striking “and” at the end of  
4 subparagraph (B), by striking the period at the end of  
5 subparagraph (C) and inserting “, and”, and by adding  
6 at the end the following new subparagraph:

7 “(D) regulations providing for the realloca-  
8 tion of shares of partnership indebtedness, or  
9 distributive shares of the partnership’s interest  
10 income or interest expense.”.

11 (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years beginning on or  
13 after the date of the enactment of this Act.

14 **SEC. 502. REPORTING OF INTEREST ON TAX-EXEMPT**  
15 **BONDS.**

16 (a) IN GENERAL.—Section 6049(b)(2) (relating to  
17 exceptions) is amended by striking subparagraph (B) and  
18 by redesignating subparagraphs (C) and (D) as subpara-  
19 graphs (B) and (C), respectively.

20 (b) CONFORMING AMENDMENT.—Section  
21 6049(b)(2)(C), as redesignated by subsection (a), is  
22 amended by striking “subparagraph (C)” and inserting  
23 “subparagraph (B)”.

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

4 **SEC. 503. 5-YEAR AMORTIZATION OF GEOLOGICAL AND**  
5 **GEOPHYSICAL EXPENDITURES FOR CERTAIN**  
6 **MAJOR INTEGRATED OIL COMPANIES.**

7 (a) IN GENERAL.—Section 167(h) (relating to amor-  
8 tization of geological and geophysical expenditures) is  
9 amended by adding at the end the following new para-  
10 graph:

11 “(5) SPECIAL RULE FOR MAJOR INTEGRATED  
12 OIL COMPANIES.—

13 “(A) IN GENERAL.—In the case of a major  
14 integrated oil company, paragraphs (1) and (4)  
15 shall be applied by substituting ‘5-year’ for ‘24  
16 month’.

17 “(B) MAJOR INTEGRATED OIL COM-  
18 PANY.—For purposes of this paragraph, the  
19 term ‘major integrated oil company’ means,  
20 with respect to any taxable year, a producer of  
21 crude oil—

22 “(i) which has an average daily world-  
23 wide production of crude oil of at least  
24 500,000 barrels for the taxable year,

1                   “(ii) which had gross receipts in ex-  
2                   cess of \$1,000,000,000 for its last taxable  
3                   year ending during calendar year 2005,  
4                   and

5                   “(iii) to which subsection (c) of sec-  
6                   tion 613A does not apply by reason of  
7                   paragraph (4) of section 613A(d), deter-  
8                   mined—

9                   “(I) by substituting ‘15 percent’  
10                  for ‘5 percent’ each place it occurs in  
11                  paragraph (3) of section 613A(d), and

12                  “(II) without regard to whether  
13                  subsection (c) of section 613A does  
14                  not apply by reason of paragraph (2)  
15                  of section 613A(d).

16                  For purposes of clauses (i) and (ii), all persons  
17                  treated as a single employer under subsections  
18                  (a) and (b) of section 52 shall be treated as 1  
19                  person and, in case of a short taxable year, the  
20                  rule under section 448(c)(3)(B) shall apply.”.

21                  (b) EFFECTIVE DATE.—The amendment made by  
22                  this section shall apply to amounts paid or incurred after  
23                  the date of the enactment of this Act.

1 **SEC. 504. APPLICATION OF FIRPTA TO REGULATED INVEST-**  
2 **MENT COMPANIES.**

3 (a) **IN GENERAL.**—Subclause (II) of section  
4 897(h)(4)(A)(i) (defining qualified investment entity) is  
5 amended by inserting “which is a United States real prop-  
6 erty holding corporation or which would be a United  
7 States real property holding corporation if the exceptions  
8 provided in subsections (c)(3) and (h)(2) did not apply to  
9 interests in any real estate investment trust or regulated  
10 investment company” after “regulated investment com-  
11 pany”.

12 (b) **EFFECTIVE DATE.**—The amendment made by  
13 this section shall take effect as if included in the provisions  
14 of section 411 of the American Jobs Creation Act of 2004  
15 to which it relates.

16 **SEC. 505. TREATMENT OF DISTRIBUTIONS ATTRIBUTABLE**  
17 **TO FIRPTA GAINS.**

18 (a) **QUALIFIED INVESTMENT ENTITY.**—

19 (1) **IN GENERAL.**—Section 897(h)(1) is amend-  
20 ed—

21 (A) by striking “a nonresident alien indi-  
22 vidual or a foreign corporation” in the first sen-  
23 tence and inserting “a nonresident alien indi-  
24 vidual, a foreign corporation, or other qualified  
25 investment entity”,

1 (B) by striking “such nonresident alien in-  
2 dividual or foreign corporation” in the first sen-  
3 tence and inserting “such nonresident alien in-  
4 dividual, foreign corporation, or other qualified  
5 investment entity”, and

6 (C) by striking the second sentence and in-  
7 serting the following new sentence: “Notwith-  
8 standing the preceding sentence, any distribu-  
9 tion by a qualified investment entity to a non-  
10 resident alien individual or a foreign corpora-  
11 tion with respect to any class of stock which is  
12 regularly traded on an established securities  
13 market located in the United States shall not be  
14 treated as gain recognized from the sale or ex-  
15 change of a United States real property interest  
16 if such individual or corporation did not own  
17 more than 5 percent of such class of stock at  
18 any time during the 1-year period ending on the  
19 date of such distribution.”.

20 (2) EXCEPTION TO TERMINATION OF APPLICA-  
21 TION OF SECTION 897 RULES TO REGULATED IN-  
22 VESTMENT COMPANIES.—Clause (ii) of section  
23 897(h)(4)(A) is amended by adding at the end the  
24 following new sentence: “Notwithstanding the pre-  
25 ceding sentence, an entity described in clause (i)(II)

1 shall be treated as a qualified investment entity for  
2 purposes of applying paragraphs (1) and (5) and  
3 section 1445 with respect to any distribution by the  
4 entity to a nonresident alien individual or a foreign  
5 corporation which is attributable directly or indi-  
6 rectly to a distribution to the entity from a real es-  
7 tate investment trust.”.

8 (b) WITHHOLDING ON DISTRIBUTIONS TREATED AS  
9 GAIN FROM UNITED STATES REAL PROPERTY INTER-  
10 ESTS.—Section 1445(e) (relating to special rules for dis-  
11 tributions, etc. by corporations, partnerships, trusts, or es-  
12 tates) is amended by redesignating paragraph (6) as para-  
13 graph (7) and by inserting after paragraph (5) the fol-  
14 lowing new paragraph:

15 “(6) DISTRIBUTIONS BY REGULATED INVEST-  
16 MENT COMPANIES AND REAL ESTATE INVESTMENT  
17 TRUSTS.—If any portion of a distribution from a  
18 qualified investment entity (as defined in section  
19 897(h)(4)) to a nonresident alien individual or a for-  
20 eign corporation is treated under section 897(h)(1)  
21 as gain realized by such individual or corporation  
22 from the sale or exchange of a United States real  
23 property interest, the qualified investment entity  
24 shall deduct and withhold under subsection (a) a tax  
25 equal to 35 percent (or, to the extent provided in

1 regulations, 15 percent (20 percent in the case of  
2 taxable years beginning after December 31, 2010))  
3 of the amount so treated.”.

4 (c) TREATMENT OF CERTAIN DISTRIBUTIONS AS  
5 DIVIDENDS.—

6 (1) IN GENERAL.—Section 852(b)(3) (relating  
7 to capital gains) is amended by adding at the end  
8 the following new subparagraph:

9 “(E) CERTAIN DISTRIBUTIONS.—In the  
10 case of a distribution to which section 897 does  
11 not apply by reason of the second sentence of  
12 section 897(h)(1), the amount of such distribu-  
13 tion which would be included in computing  
14 long-term capital gains for the shareholder  
15 under subparagraph (B) or (D) (without regard  
16 to this subparagraph)—

17 “(i) shall not be included in com-  
18 puting such shareholder’s long-term capital  
19 gains, and

20 “(ii) shall be included in such share-  
21 holder’s gross income as a dividend from  
22 the regulated investment company.”.

23 (2) CONFORMING AMENDMENT.—Section  
24 871(k)(2) (relating to short-term capital gain divi-

1       dends) is amended by adding at the end the fol-  
2       lowing new subparagraph:

3               “(E) CERTAIN DISTRIBUTIONS.—In the  
4       case of a distribution to which section 897 does  
5       not apply by reason of the second sentence of  
6       section 897(h)(1), the amount which would be  
7       treated as a short-term capital gain dividend to  
8       the shareholder (without regard to this sub-  
9       paragraph)—

10               “(i) shall not be treated as a short-  
11       term capital gain dividend, and

12               “(ii) shall be included in such share-  
13       holder’s gross income as a dividend from  
14       the regulated investment company.”.

15       (d) EFFECTIVE DATES.—The amendments made by  
16       this section shall apply to taxable years of qualified invest-  
17       ment entities beginning after December 31, 2005, except  
18       that no amount shall be required to be withheld under sec-  
19       tion 1441, 1442, or 1445 of the Internal Revenue Code  
20       of 1986 with respect to any distribution before the date  
21       of the enactment of this Act if such amount was not other-  
22       wise required to be withheld under any such section as  
23       in effect before such amendments.

1 **SEC. 506. PREVENTION OF AVOIDANCE OF TAX ON INVEST-**  
2 **MENTS OF FOREIGN PERSONS IN UNITED**  
3 **STATES REAL PROPERTY THROUGH WASH**  
4 **SALE TRANSACTIONS.**

5 (a) **IN GENERAL.**—Section 897(h) (relating to special  
6 rules for certain investment entities) is amended by adding  
7 at the end the following new paragraph:

8 “(5) **TREATMENT OF CERTAIN WASH SALE**  
9 **TRANSACTIONS.**—

10 “(A) **IN GENERAL.**—If an interest in a do-  
11 mestically controlled qualified investment entity  
12 is disposed of in an applicable wash sale trans-  
13 action, the taxpayer shall, for purposes of this  
14 section, be treated as having gain from the sale  
15 or exchange of a United States real property in-  
16 terest in an amount equal to the portion of the  
17 distribution described in subparagraph (B) with  
18 respect to such interest which, but for the dis-  
19 position, would have been treated by the tax-  
20 payer as gain from the sale or exchange of a  
21 United States real property interest under  
22 paragraph (1).

23 “(B) **APPLICABLE WASH SALES TRANS-**  
24 **ACTION.**—For purposes of this paragraph—

25 “(i) **IN GENERAL.**—The term ‘applica-  
26 ble wash sales transaction’ means any

1 transaction (or series of transactions)  
2 under which a nonresident alien individual,  
3 foreign corporation, or qualified investment  
4 entity—

5 “(I) disposes of an interest in a  
6 domestically controlled qualified in-  
7 vestment entity during the 30-day pe-  
8 riod preceding the ex-dividend date of  
9 a distribution which is to be made  
10 with respect to the interest and any  
11 portion of which, but for the dispo-  
12 sition, would have been treated by the  
13 taxpayer as gain from the sale or ex-  
14 change of a United States real prop-  
15 erty interest under paragraph (1), and

16 “(II) acquires, or enters into a  
17 contract or option to acquire, a sub-  
18 stantially identical interest in such en-  
19 tity during the 61-day period begin-  
20 ning with the 1st day of the 30-day  
21 period described in subclause (I).

22 For purposes of subclause (II), a non-  
23 resident alien individual, foreign corpora-  
24 tion, or qualified investment entity shall be  
25 treated as having acquired any interest ac-

1           quired by a person related (within the  
2           meaning of section 267(b) or 707(b)(1)) to  
3           the individual, corporation, or entity, and  
4           any interest which such person has entered  
5           into any contract or option to acquire.

6           “(ii) APPLICATION TO SUBSTITUTE  
7           DIVIDEND AND SIMILAR PAYMENTS.—Sub-  
8           paragraph (A) shall apply to—

9                   “(I) any substitute dividend pay-  
10                   ment (within the meaning of section  
11                   861), or

12                   “(II) any other similar payment  
13                   specified in regulations which the Sec-  
14                   retary determines necessary to pre-  
15                   vent avoidance of the purposes of this  
16                   paragraph.

17           The portion of any such payment treated  
18           by the taxpayer as gain from the sale or  
19           exchange of a United States real property  
20           interest under subparagraph (A) by reason  
21           of this clause shall be equal to the portion  
22           of the distribution such payment is in lieu  
23           of which would have been so treated but  
24           for the transaction giving rise to such pay-  
25           ment.

1                   “(iii) EXCEPTION WHERE DISTRIBUTION ACTUALLY RECEIVED.—A transaction  
2 shall not be treated as an applicable wash  
3 sales transaction if the nonresident alien  
4 individual, foreign corporation, or qualified  
5 investment entity receives the distribution  
6 described in clause (i)(I) with respect to ei-  
7 ther the interest which was disposed of, or  
8 acquired, in the transaction.  
9

10                   “(iv) EXCEPTION FOR CERTAIN PUBLICLY TRADED STOCK.—A transaction  
11 shall not be treated as an applicable wash  
12 sales transaction if it involves the disposi-  
13 tion of any class of stock in a qualified in-  
14 vestment entity which is regularly traded  
15 on an established securities market within  
16 the United States but only if the non-  
17 resident alien individual, foreign corpora-  
18 tion, or qualified investment entity did not  
19 own more than 5 percent of such class of  
20 stock at any time during the 1-year period  
21 ending on the date of the distribution de-  
22 scribed in clause (i)(I).”  
23

1 (b) NO WITHHOLDING REQUIRED.—Section 1445(b)  
2 (relating to exemptions) is amended by adding at the end  
3 the following new paragraph:

4 “(8) APPLICABLE WASH SALES TRANS-  
5 ACTIONS.—No person shall be required to deduct  
6 and withhold any amount under subsection (a) with  
7 respect to a disposition which is treated as a disposi-  
8 tion of a United States real property interest solely  
9 by reason of section 897(h)(5).”.

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2005, except that such amendments shall  
13 not apply to any distribution, or substitute dividend pay-  
14 ment, occurring before the date that is 30 days after the  
15 date of the enactment of this Act.

16 **SEC. 507. SECTION 355 NOT TO APPLY TO DISTRIBUTIONS**  
17 **INVOLVING DISQUALIFIED INVESTMENT**  
18 **COMPANIES.**

19 (a) IN GENERAL.—

20 Section 355 (relating to distributions of stock  
21 and securities of a controlled corporation) is amend-  
22 ed by adding at the end the following new sub-  
23 section:

24 “(g) SECTION NOT TO APPLY TO DISTRIBUTIONS IN-  
25 VOLVING DISQUALIFIED INVESTMENT CORPORATIONS.—

1           “(1) IN GENERAL.—This section (and so much  
2 of section 356 as relates to this section) shall not  
3 apply to any distribution which is part of a trans-  
4 action if—

5                   “(A) either the distributing corporation or  
6 controlled corporation is, immediately after the  
7 transaction, a disqualified investment corpora-  
8 tion, and

9                   “(B) any person holds, immediately after  
10 the transaction, a 50-percent or greater interest  
11 in any disqualified investment corporation, but  
12 only if such person did not hold such an inter-  
13 est in such corporation immediately before the  
14 transaction.

15           “(2) DISQUALIFIED INVESTMENT CORPORA-  
16 TION.—For purposes of this subsection—

17                   “(A) IN GENERAL.—The term ‘disqualified  
18 investment corporation’ means any distributing  
19 or controlled corporation if the fair market  
20 value of the investment assets of the corpora-  
21 tion is—

22                           “(i) in the case of distributions after  
23 the end of the 1-year period beginning on  
24 the date of the enactment of this sub-

1 section,  $\frac{2}{3}$  or more of the fair market  
2 value of all assets of the corporation, and

3 “(ii) in the case of distributions dur-  
4 ing such 1-year period,  $\frac{3}{4}$  or more of the  
5 fair market value of all assets of the cor-  
6 poration.

7 “(B) INVESTMENT ASSETS.—

8 “(i) IN GENERAL.—Except as other-  
9 wise provided in this subparagraph, the  
10 term ‘investment assets’ means—

11 “(I) cash,

12 “(II) any stock or securities in a  
13 corporation,

14 “(III) any interest in a partner-  
15 ship,

16 “(IV) any debt instrument or  
17 other evidence of indebtedness,

18 “(V) any option, forward or fu-  
19 tures contract, notional principal con-  
20 tract, or derivative,

21 “(VI) foreign currency, or

22 “(VII) any similar asset.

23 “(ii) EXCEPTION FOR ASSETS USED  
24 IN ACTIVE CONDUCT OF CERTAIN FINAN-  
25 CIAL TRADES OR BUSINESSES.—Such term

1 shall not include any asset which is held  
2 for use in the active and regular conduct  
3 of—

4 “(I) a lending or finance business  
5 (within the meaning of section  
6 954(h)(4)),

7 “(II) a banking business through  
8 a bank (as defined in section 581), a  
9 domestic building and loan association  
10 (within the meaning of section  
11 7701(a)(19)), or any similar institu-  
12 tion specified by the Secretary, or

13 “(III) an insurance business if  
14 the conduct of the business is li-  
15 censed, authorized, or regulated by an  
16 applicable insurance regulatory body.

17 This clause shall only apply with respect to  
18 any business if substantially all of the in-  
19 come of the business is derived from per-  
20 sons who are not related (within the mean-  
21 ing of section 267(b) or 707(b)(1)) to the  
22 person conducting the business.

23 “(iii) EXCEPTION FOR SECURITIES  
24 MARKED TO MARKET.—Such term shall  
25 not include any security (as defined in sec-

1           tion 475(c)(2)) which is held by a dealer in  
2           securities and to which section 475(a) ap-  
3           plies.

4           “(iv) STOCK OR SECURITIES IN A 20-  
5           PERCENT CONTROLLED ENTITY.—

6           “(I) IN GENERAL.—Such term  
7           shall not include any stock and securi-  
8           ties in, or any asset described in sub-  
9           clause (IV) or (V) of clause (i) issued  
10          by, a corporation which is a 20-per-  
11          cent controlled entity with respect to  
12          the distributing or controlled corpora-  
13          tion.

14          “(II) LOOK-THRU RULE.—The  
15          distributing or controlled corporation  
16          shall, for purposes of applying this  
17          subsection, be treated as owning its  
18          ratable share of the assets of any 20-  
19          percent controlled entity.

20          “(III) 20-PERCENT CONTROLLED  
21          ENTITY.—For purposes of this clause,  
22          the term ‘20-percent controlled entity’  
23          means, with respect to any distrib-  
24          uting or controlled corporation, any  
25          corporation with respect to which the

1 distributing or controlled corporation  
2 owns directly or indirectly stock meet-  
3 ing the requirements of section  
4 1504(a)(2), except that such section  
5 shall be applied by substituting ‘20  
6 percent’ for ‘80 percent’ and without  
7 regard to stock described in section  
8 1504(a)(4).

9 “(v) INTERESTS IN CERTAIN PART-  
10 NERSHIPS.—

11 “(I) IN GENERAL.—Such term  
12 shall not include any interest in a  
13 partnership, or any debt instrument  
14 or other evidence of indebtedness,  
15 issued by the partnership, if 1 or  
16 more of the trades or businesses of  
17 the partnership are (or, without re-  
18 gard to the 5-year requirement under  
19 subsection (b)(2)(B), would be) taken  
20 into account by the distributing or  
21 controlled corporation, as the case  
22 may be, in determining whether the  
23 requirements of subsection (b) are  
24 met with respect to the distribution.

1                   “(II) LOOK-THRU RULE.—The  
2                   distributing or controlled corporation  
3                   shall, for purposes of applying this  
4                   subsection, be treated as owning its  
5                   ratable share of the assets of any  
6                   partnership described in subclause (I).

7                   “(3) 50-PERCENT OR GREATER INTEREST.—  
8                   For purposes of this subsection—

9                   “(A) IN GENERAL.—The term ‘50-percent  
10                  or greater interest’ has the meaning given such  
11                  term by subsection (d)(4).

12                  “(B) ATTRIBUTION RULES.—The rules of  
13                  section 318 shall apply for purposes of deter-  
14                  mining ownership of stock for purposes of this  
15                  paragraph.

16                  “(4) TRANSACTION.—For purposes of this sub-  
17                  section, the term ‘transaction’ includes a series of  
18                  transactions.

19                  “(5) REGULATIONS.—The Secretary shall pre-  
20                  scribe such regulations as may be necessary to carry  
21                  out, or prevent the avoidance of, the purposes of this  
22                  subsection, including regulations—

23                  “(A) to carry out, or prevent the avoidance  
24                  of, the purposes of this subsection in cases in-  
25                  volving—



1 (A) made pursuant to an agreement which  
2 was binding on such date of enactment and at  
3 all times thereafter,

4 (B) described in a ruling request submitted  
5 to the Internal Revenue Service on or before  
6 such date, or

7 (C) described on or before such date in a  
8 public announcement or in a filing with the Se-  
9 curities and Exchange Commission.

10 **SEC. 508. LOAN AND REDEMPTION REQUIREMENTS ON**  
11 **POOLED FINANCING REQUIREMENTS.**

12 (a) **STRENGTHENED REASONABLE EXPECTATION**  
13 **REQUIREMENT.**—Subparagraph (A) of section 149(f)(2)  
14 (relating to reasonable expectation requirement) is amend-  
15 ed to read as follows:

16 “(A) **IN GENERAL.**—The requirements of  
17 this paragraph are met with respect to an issue  
18 if the issuer reasonably expects that—

19 “(i) as of the close of the 1-year pe-  
20 riod beginning on the date of issuance of  
21 the issue, at least 30 percent of the net  
22 proceeds of the issue (as of the close of  
23 such period) will have been used directly or  
24 indirectly to make or finance loans to ulti-  
25 mate borrowers, and

1                   “(ii) as of the close of the 3-year pe-  
2                   riod beginning on such date of issuance, at  
3                   least 95 percent of the net proceeds of the  
4                   issue (as of the close of such period) will  
5                   have been so used.”.

6           (b) WRITTEN LOAN COMMITMENT AND REDEMPTION  
7   REQUIREMENTS.—Section 149(f) (relating to treatment  
8   of certain pooled financing bonds) is amended by redesi-  
9   gnating paragraphs (4) and (5) as paragraphs (6) and (7),  
10   respectively, and by inserting after paragraph (3) the fol-  
11   lowing new paragraphs:

12           “(4) WRITTEN LOAN COMMITMENT REQUIRE-  
13   MENT.—

14           “(A) IN GENERAL.—The requirement of  
15           this paragraph is met with respect to an issue  
16           if the issuer receives prior to issuance written  
17           loan commitments identifying the ultimate po-  
18           tential borrowers of at least 30 percent of the  
19           net proceeds of such issue.

20           “(B) EXCEPTION.—Subparagraph (A)  
21           shall not apply with respect to any issuer  
22           which—

23           “(i) is a State (or an integral part of  
24           a State) issuing pooled financing bonds to

1 make or finance loans to subordinate gov-  
2 ernmental units of such State, or

3 “(ii) is a State-created entity pro-  
4 viding financing for water-infrastructure  
5 projects through the federally-sponsored  
6 State revolving fund program.

7 “(5) REDEMPTION REQUIREMENT.—The re-  
8 quirement of this paragraph is met if to the extent  
9 that less than the percentage of the proceeds of an  
10 issue required to be used under clause (i) or (ii) of  
11 paragraph (2)(A) is used by the close of the period  
12 identified in such clause, the issuer uses an amount  
13 of proceeds equal to the excess of—

14 “(A) the amount required to be used under  
15 such clause, over

16 “(B) the amount actually used by the close  
17 of such period,

18 to redeem outstanding bonds within 90 days after  
19 the end of such period.”

20 (c) ELIMINATION OF DISREGARD OF POOLED BONDS  
21 IN DETERMINING ELIGIBILITY FOR SMALL ISSUER EX-  
22 CEPTION TO ARBITRAGE REBATE.—Section  
23 148(f)(4)(D)(ii) (relating to aggregation of issuers) is  
24 amended by striking subclause (II) and by redesignating

1 subclauses (III) and (IV) as subclauses (II) and (III), re-  
2 spectively.

3 (d) CONFORMING AMENDMENTS.—

4 (1) Section 149(f)(1) is amended by striking  
5 “paragraphs (2) and (3)” and inserting “paragraphs  
6 (2), (3), (4), and (5)”.

7 (2) Section 149(f)(7)(B), as redesignated by  
8 subsection (b), is amended by striking “paragraph  
9 (4)(A)” and inserting “paragraph (6)(A)”.

10 (3) Section 54(l)(2) is amended by striking  
11 “section 149(f)(4)(A)” and inserting “section  
12 149(f)(6)(A)”.

13 (e) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to bonds issued after the date of  
15 the enactment of this Act.

16 **SEC. 509. PARTIAL PAYMENTS REQUIRED WITH SUBMIS-**  
17 **SION OF OFFERS-IN-COMPROMISE.**

18 (a) IN GENERAL.—Section 7122 (relating to com-  
19 promises) is amended by redesignating subsections (c) and  
20 (d) as subsections (d) and (e), respectively, and by insert-  
21 ing after subsection (b) the following new subsection:

22 “(c) RULES FOR SUBMISSION OF OFFERS-IN-COM-  
23 PROMISE.—

24 “(1) PARTIAL PAYMENT REQUIRED WITH SUB-  
25 MISSION.—

1 “(A) LUMP-SUM OFFERS.—

2 “(i) IN GENERAL.—The submission of  
3 any lump-sum offer-in-compromise shall be  
4 accompanied by the payment of 20 percent  
5 of the amount of such offer.

6 “(ii) LUMP-SUM OFFER-IN-COM-  
7 PROMISE.—For purposes of this section,  
8 the term ‘lump-sum offer-in-compromise’  
9 means any offer of payments made in 5 or  
10 fewer installments.

11 “(B) PERIODIC PAYMENT OFFERS.—

12 “(i) IN GENERAL.—The submission of  
13 any periodic payment offer-in-compromise  
14 shall be accompanied by the payment of  
15 the amount of the first proposed install-  
16 ment.

17 “(ii) FAILURE TO MAKE INSTALL-  
18 MENT DURING PENDENCY OF OFFER.—  
19 Any failure to make an installment (other  
20 than the first installment) due under such  
21 offer-in-compromise during the period such  
22 offer is being evaluated by the Secretary  
23 may be treated by the Secretary as a with-  
24 drawal of such offer-in-compromise.

25 “(2) RULES OF APPLICATION.—

1           “(A) USE OF PAYMENT.—The application  
2           of any payment made under this subsection to  
3           the assessed tax or other amounts imposed  
4           under this title with respect to such tax may be  
5           specified by the taxpayer.

6           “(B) APPLICATION OF USER FEE.—In the  
7           case of any assessed tax or other amounts im-  
8           posed under this title with respect to such tax  
9           which is the subject of an offer-in-compromise  
10          to which this subsection applies, such tax or  
11          other amounts shall be reduced by any user fee  
12          imposed under this title with respect to such  
13          offer-in-compromise.

14          “(C) WAIVER AUTHORITY.—The Secretary  
15          may issue regulations waiving any payment re-  
16          quired under paragraph (1) in a manner con-  
17          sistent with the practices established in accord-  
18          ance with the requirements under subsection  
19          (d)(3).”.

20          (b) ADDITIONAL RULES RELATING TO TREATMENT  
21          OF OFFERS.—

22                 (1) UNPROCESSABLE OFFER IF PAYMENT RE-  
23                 QUIREMENTS ARE NOT MET.—Paragraph (3) of sec-  
24                 tion 7122(d) (relating to standards for evaluation of  
25                 offers), as redesignated by subsection (a), is amend-

1 ed by striking “; and” at the end of subparagraph  
2 (A) and inserting a comma, by striking the period  
3 at the end of subparagraph (B) and inserting “,  
4 and”, and by adding at the end the following new  
5 subparagraph:

6 “(C) any offer-in-compromise which does  
7 not meet the requirements of subparagraph  
8 (A)(i) or (B)(i), as the case may be, of sub-  
9 section (c)(1) may be returned to the taxpayer  
10 as unprocessable.”.

11 (2) DEEMED ACCEPTANCE OF OFFER NOT RE-  
12 JECTED WITHIN CERTAIN PERIOD.—Section 7122,  
13 as amended by subsection (a), is amended by adding  
14 at the end the following new subsection:

15 “(f) DEEMED ACCEPTANCE OF OFFER NOT RE-  
16 JECTED WITHIN CERTAIN PERIOD.—Any offer-in-com-  
17 promise submitted under this section shall be deemed to  
18 be accepted by the Secretary if such offer is not rejected  
19 by the Secretary before the date which is 24 months after  
20 the date of the submission of such offer. For purposes of  
21 the preceding sentence, any period during which any tax  
22 liability which is the subject of such offer-in-compromise  
23 is in dispute in any judicial proceeding shall not be taken  
24 into account in determining the expiration of the 24-  
25 month period.”.

1 (c) CONFORMING AMENDMENT.—Section 6159(f) is  
2 amended by striking “section 7122(d)” and inserting  
3 “section 7122(e)”.

4 (d) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to offers-in-compromise submitted  
6 on and after the date which is 60 days after the date of  
7 the enactment of this Act.

8 **SEC. 510. INCREASE IN AGE OF MINOR CHILDREN WHOSE**  
9 **UNEARNED INCOME IS TAXED AS IF PAR-**  
10 **ENT'S INCOME.**

11 (a) IN GENERAL.—Section 1(g)(2)(A) (relating to  
12 child to whom subsection applies) is amended by striking  
13 “age 14” and inserting “age 18”.

14 (b) TREATMENT OF DISTRIBUTIONS FROM QUALI-  
15 FIED DISABILITY TRUSTS.—Section 1(g)(4) (relating to  
16 net unearned income) is amended by adding at the end  
17 the following new subparagraph:

18 “(C) TREATMENT OF DISTRIBUTIONS  
19 FROM QUALIFIED DISABILITY TRUSTS.—For  
20 purposes of this subsection, in the case of any  
21 child who is a beneficiary of a qualified dis-  
22 ability trust (as defined in section  
23 642(b)(2)(C)(ii)), any amount included in the  
24 income of such child under sections 652 and  
25 662 during a taxable year shall be considered

1           earned income of such child for such taxable  
2           year.”.

3           (c) CONFORMING AMENDMENT.—Section 1(g)(2) is  
4 amended by striking “and” at the end of subparagraph  
5 (A), by striking the period at the end of subparagraph  
6 (B) and inserting “, and”, and by inserting after subpara-  
7 graph (B) the following new subparagraph:

8                   “(C) such child does not file a joint return  
9                   for the taxable year.”.

10          (d) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2005.

13 **SEC. 511. IMPOSITION OF WITHHOLDING ON CERTAIN PAY-**  
14 **MENTS MADE BY GOVERNMENT ENTITIES.**

15          (a) IN GENERAL.—Section 3402 is amended by add-  
16 ing at the end the following new subsection:

17           “(t) EXTENSION OF WITHHOLDING TO CERTAIN  
18 PAYMENTS MADE BY GOVERNMENT ENTITIES.—

19                   “(1) GENERAL RULE.—The Government of the  
20 United States, every State, every political subdivi-  
21 sion thereof, and every instrumentality of the fore-  
22 going (including multi-State agencies) making any  
23 payment to any person providing any property or  
24 services (including any payment made in connection  
25 with a government voucher or certificate program

1       which functions as a payment for property or serv-  
2       ices) shall deduct and withhold from such payment  
3       a tax in an amount equal to 3 percent of such pay-  
4       ment.

5           “(2) PROPERTY AND SERVICES SUBJECT TO  
6       WITHHOLDING.—Paragraph (1) shall not apply to  
7       any payment—

8           “(A) except as provided in subparagraph  
9       (B), which is subject to withholding under any  
10      other provision of this chapter or chapter 3,

11          “(B) which is subject to withholding under  
12      section 3406 and from which amounts are being  
13      withheld under such section,

14          “(C) of interest,

15          “(D) for real property,

16          “(E) to any governmental entity subject to  
17      the requirements of paragraph (1), any tax-ex-  
18      empt entity, or any foreign government,

19          “(F) made pursuant to a classified or con-  
20      fidential contract described in section  
21      6050M(e)(3),

22          “(G) made by a political subdivision of a  
23      State (or any instrumentality thereof) which  
24      makes less than \$100,000,000 of such pay-  
25      ments annually,

