

PROVIDING FOR CONSIDERATION OF H.R. 4297, TAX
RELIEF EXTENSION RECONCILIATION ACT OF 2005

DECEMBER 7, 2005.—Referred to the House Calendar and ordered to be printed

Mr. PUTNAM, from the Committee on Rules,
submitted the following

R E P O R T

[To accompany H. Res. 588]

The Committee on Rules, having had under consideration House Resolution 588, by a nonrecord vote, report the same to the House with the recommendation that the resolution be adopted.

SUMMARY OF PROVISIONS OF THE RESOLUTION

The resolution provides for the consideration of H.R. 4297, the Tax Relief Extension Reconciliation Act of 2005, under a structured rule. The rule provides one hour of debate in the House equally divided and controlled by the chairman and ranking minority member of the Committee on Ways and Means. The rule waives all points of order against consideration of the bill.

The rule provides that the amendment in the nature of a substitute recommended by the Committee on Ways and Means now printed in the bill shall be considered as adopted. The rule makes in order the amendment in the nature of a substitute printed in this report, if offered by Representative Rangel of New York or his designee, which shall be considered as read, and shall be separately debatable for one hour equally divided and controlled by the proponent and an opponent. The rule waives all points of order against the amendment in the nature of a substitute printed in this report. Finally, the rule provides on motion to recommit with or without instructions.

EXPLANATION OF WAIVERS

The waiver of all points of order against consideration of the bill includes a waiver of Section 303 of the Congressional Budget Act, which prohibits consideration of legislation, as reported, providing new budget authority, change in revenues, change in public debt,

new entitlement authority, or new credit authority for a fiscal year until the budget resolution for that year has been agreed to. This is necessary because some of the programs affecting revenue contained in H.R. 4297 first take effect in fiscal year 2007 and there is currently no budget resolution agreed to governing that fiscal year.

Summary of the Amendment in the Nature of a Substitute Made in Order to H.R. 4297—Tax Relief Extension Reconciliation Act of 2005

(Summary derived from information provided by amendment sponsor.)

Rangel: Amendment in the Nature of a Substitute. The amendment would extend for one year all expiring provisions contained in Title I of H.R. 4297, including the deduction for state and local retail sales taxes, the deduction for college tuition expenses, tax incentives for the District of Columbia and Indian reservations, 15 year depreciation period for leasehold and restaurant improvements, qualified zone academy bonds, the Brownfields cleanup tax incentive, and several other more minor provisions. The amendment makes no substantive changes to the expiring provisions, except for the research credit, work opportunity tax credit, and welfare-to-work tax credit, which are expanded to match the Thomas bill. In addition to the one-year extensions that are retained by the amendment, the amendment also would extend the temporary provision that terminates at the end of this calendar year and that provides a larger earned income tax credit for the families of those serving in Iraq.

In addition the amendment would totally eliminate all individual minimum tax liability for individuals with incomes below \$200,000 for joint returns, \$100,000 in other cases, for taxable year 2006. This provision would reduce the number of AMT taxpayers from 19 million under current law for taxable year 2006 to slightly over 3 million.

The amendment does not extend tax benefits that do not terminate at the end of this calendar year such as the lower rates on capital gains and dividends. The alternative also includes a broad package of additional provisions that were added by the full Committee.

The provisions of the alternative described above would cost approximately \$43 billion. The cost is offset by taking back a portion of the recent tax cuts from individuals with annual incomes over \$1 million for joint returns, \$500,000 for other returns. (60 minutes)

TEXT OF THE AMENDMENT IN THE NATURE OF A SUBSTITUTE MADE IN ORDER

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE, ETC.

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

(b) **AMENDMENT OF 1986 CODE.**—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or

other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) TABLE OF CONTENTS.—The table of contents for 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. State and local general sales taxes.
- Sec. 103. Research credit.
- Sec. 104. Qualified tuition and related expenses.
- Sec. 105. Certain expenses of elementary and secondary school teachers.
- Sec. 106. Qualified Zone Academy Bonds.
- Sec. 107. Tax incentives for business activities on Indian reservations.
- Sec. 108. Deduction for corporate donations of computer technology and equipment.
- Sec. 109. Availability of medical savings accounts.
- Sec. 110. 15-year cost recovery for leasehold improvements.
- Sec. 111. 15-year cost recovery for restaurant improvements.
- Sec. 112. Taxable income limit on percentage depletion for oil and natural gas produced from marginal properties.
- Sec. 113. District of Columbia Enterprise Zone.
- Sec. 114. Possession tax credit with respect to American Samoa.
- Sec. 115. Parity in the application of certain limits to mental health benefits.
- Sec. 116. Election to include combat pay under earned income credit.
- Sec. 117. Work opportunity credit.
- Sec. 118. Welfare-to-work credit.
- Sec. 119. Extension of expensing of environmental remediation costs.
- Sec. 120. Temporary relief from the alternative minimum tax.

TITLE II—REDUCTION IN BENEFIT OF RATE REDUCTION FOR FAMILIES WITH INCOMES OVER \$1,000,000

- Sec. 201. Reduction in benefit of rate reduction for families with incomes over \$1,000,000.

TITLE III—MISCELLANEOUS PROVISIONS

- Sec. 301. Modification of active business definition under section 355.
- Sec. 302. Veterans' mortgage bonds.
- Sec. 303. Capital gains treatment for certain self-created musical works.
- Sec. 304. Vessel tonnage limit.
- Sec. 305. Clarification of taxation of certain settlement funds.

TITLE I—EXTENSIONS OF CERTAIN PROVISIONS THROUGH 2006

SECTION 101. ALLOWANCE OF NONREFUNDABLE PERSONAL CREDITS AGAINST REGULAR AND MINIMUM TAX LIABILITY.

(a) IN GENERAL.—Paragraph (2) of section 26(a) (relating to special rule for taxable years 2000 through 2005) is amended—

(1) in the text by striking “or 2005” and inserting “2005, or 2006”, and

(2) in the heading by striking “2005” and inserting “2006”.

(b) CONFORMING PROVISIONS.—

(1) Subsection (i) of section 904 (relating to coordination with nonrefundable personal credits) is amended by striking “or 2005” and inserting “2005, or 2006”.

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

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

SEC. 102. STATE AND LOCAL GENERAL SALES TAXES.

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

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

SEC. 103. RESEARCH CREDIT.

(a) **EXTENSION.**—

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

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

(3) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to amounts paid or incurred after December 31, 2005.

(b) **INCREASE IN RATES OF ALTERNATIVE INCREMENTAL CREDIT.**—

(1) **IN GENERAL.**—Subparagraph (A) of section 41(c)(4) (relating to election of alternative incremental credit) is amended—

(A) by striking “2.65 percent” and inserting “3 percent”,

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

and

(C) by striking “3.75 percent” and inserting “5 percent”.

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

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

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

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

“(A) **IN GENERAL.**—At the election of the taxpayer, the credit determined under subsection (a)(1) shall be equal to 12 percent of so much of the qualified research expenses for the taxable year as exceeds 50 percent of the average qualified research expenses for the 3 taxable years preceding the taxable year for which the credit is being determined.

“(B) **SPECIAL RULE IN CASE OF NO QUALIFIED RESEARCH EXPENSES IN ANY OF 3 PRECEDING TAXABLE YEARS.**—

“(i) **TAXPAYERS TO WHICH SUBPARAGRAPH APPLIES.**—

The credit under this paragraph shall be determined under this subparagraph if the taxpayer has no qualified research expenses in any one of the 3 taxable years preceding the taxable year for which the credit is being determined.

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

“(C) ELECTION.—An election under this paragraph shall apply to the taxable year for which made and all succeeding taxable years unless revoked with the consent of the Secretary. An election under this paragraph may not be made for any taxable year to which an election under paragraph (4) applies.”.

(2) COORDINATION WITH ELECTION OF ALTERNATIVE INCREMENTAL CREDIT.—

(A) IN GENERAL.—Section 41(c)(4)(B) (relating to election) is amended by adding at the end the following: “An election under this paragraph may not be made for any taxable year to which an election under paragraph (5) applies.”.

(B) TRANSITION RULE.—In the case of an election under section 41(c)(4) of the Internal Revenue Code of 1986 which applies to the taxable year which includes the date of the enactment of this Act, such election shall be treated as revoked with the consent of the Secretary of the Treasury if the taxpayer makes an election under section 41(c)(5) of such Code (as added by subsection (a)) for such year.

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

SEC. 104. QUALIFIED TUITION AND RELATED EXPENSES.

(a) IN GENERAL.—Subsection (e) of section 222 (relating to termination) is amended by striking “December 31, 2005” and inserting “December 31, 2006”.

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

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

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

“(ii) in the case of a taxpayer not described in clause (i) whose adjusted gross income for the taxable year does not exceed \$80,000 (\$160,000 in the case of a joint return), \$2,000, and

“(iii) in the case of any other taxpayer, zero.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to payments made in taxable years beginning after December 31, 2005.

SEC. 105. CERTAIN EXPENSES OF ELEMENTARY AND SECONDARY SCHOOL TEACHERS.

(a) IN GENERAL.—Subparagraph (D) of section 62(a)(2) (relating to certain expenses of elementary and secondary school teachers) is amended by striking “or 2005” and inserting “2005, or 2006”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to expenses paid or incurred in taxable years beginning after December 31, 2005.

SEC. 106. QUALIFIED ZONE ACADEMY BONDS.

(a) IN GENERAL.—Paragraph (1) of section 1397E(e) (relating to national limit) is amended by striking “and 2005” and inserting “2005, and 2006”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to obligations issued after December 31, 2005.

SEC. 107. TAX INCENTIVES FOR BUSINESS ACTIVITIES ON INDIAN RESERVATIONS.

(a) INDIAN EMPLOYMENT TAX CREDIT.—

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

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

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

(1) IN GENERAL.—Paragraph (8) of section 168(j) (relating to termination) is amended by striking “December 31, 2005” and inserting “December 31, 2006”.

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

SEC. 108. DEDUCTION FOR CORPORATE DONATIONS OF COMPUTER TECHNOLOGY AND EQUIPMENT.

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

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

SEC. 109. AVAILABILITY OF MEDICAL SAVINGS ACCOUNTS.

(a) IN GENERAL.—Paragraphs (2) and (3)(B) of section 220(i) (defining cut-off year) are each amended by striking “2005” each place it appears in the text and headings and inserting “2006”.

(b) CONFORMING AMENDMENTS.—

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

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

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

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

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

(d) TIME FOR FILING REPORTS, ETC.—

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

(2) The determination and publication required by section 220(j)(5) of such Code with respect to calendar year 2005 shall be treated as timely if made before the close of the 120-day period beginning on the date of the enactment of this Act. If the

determination under the preceding sentence is that 2005 is a cut-off year under section 220(i) of such Code, the cut-off date under such section 220(i) shall be the last day of such 120-day period.

SEC. 110. 15-YEAR COST RECOVERY FOR LEASEHOLD IMPROVEMENTS.

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

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to property placed in service after December 31, 2005.

SEC. 111. 15-YEAR COST RECOVERY FOR RESTAURANT IMPROVEMENTS.

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

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to property placed in service after December 31, 2005.

SEC. 112. TAXABLE INCOME LIMIT ON PERCENTAGE DEPLETION FOR OIL AND NATURAL GAS PRODUCED FROM MARGINAL PROPERTIES.

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

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

SEC. 113. DISTRICT OF COLUMBIA ENTERPRISE ZONE.

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

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

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

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

(2) **CONFORMING AMENDMENTS.**—

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

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

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

(B) Paragraph (2) of section 1400B(g) (relating to sales and exchanges of interests in partnerships and S corporations which are DC Zone businesses) is amended by striking “December 31, 2010” and inserting “December 31, 2011”.

(C) Subsection (d) of section 1400F (relating to certain rules to apply) is amended by striking “December 31, 2010” and inserting “December 31, 2011”.

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

(e) **EFFECTIVE DATES.**—

(1) **IN GENERAL.**—Except as provided in paragraph (2), the amendments made by this section shall take effect on January 1, 2006.

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

SEC. 114. POSSESSION TAX CREDIT WITH RESPECT TO AMERICAN SAMOA.

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

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

SEC. 115. PARITY IN THE APPLICATION OF CERTAIN LIMITS TO MENTAL HEALTH BENEFITS.

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

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

SEC. 116. ELECTION TO INCLUDE COMBAT PAY UNDER EARNED INCOME CREDIT.

(a) **IN GENERAL.**—Subclause (II) of section 32(c)(2)(B)(vi) (defining earned income) is amended by striking “January 1, 2006” and inserting “January 1, 2007”.

(b) **SPECIAL RULE.**—The amount of any refund to which an individual is entitled by reason of amendment made by subsection (a) shall not exceed the aggregate liability reflected in the individual’s tax account (determined by taking into account the taxable year and all prior taxable years).

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

SEC. 117. WORK OPPORTUNITY CREDIT.

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

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

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

SEC. 118. WELFARE-TO-WORK CREDIT.

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

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

SEC. 119. EXTENSION OF EXPENSING OF ENVIRONMENTAL REMEDIATION COSTS.

(a) **IN GENERAL.**—Subsection (h) of section 198 (relating to termination) is amended by striking “December 31, 2005” and inserting “December 31, 2006”.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to expenditures paid or incurred after December 31, 2005.

SEC. 120. TEMPORARY RELIEF FROM THE ALTERNATIVE MINIMUM TAX.

(a) **IN GENERAL.**—Section 55 (relating to alternative minimum tax imposed) is amended by adding at the end the following new subsection:

“(f) **EXEMPTION FOR INDIVIDUALS FOR TAXABLE YEARS BEGINNING IN 2006.**—For any taxable year beginning in 2006, in the case of an individual—

“(1) **IN GENERAL.**—The tentative minimum tax of the taxpayer shall be zero if the adjusted gross income of the taxpayer (as determined for purposes of the regular tax) is equal to or less than the threshold amount.

“(2) **PHASEIN OF LIABILITY ABOVE EXEMPTION LEVEL.**—In the case of a taxpayer whose adjusted gross income exceeds the threshold amount but does not exceed \$112,500 (\$225,000 in the case of a joint return), the tax imposed by subsection (a) shall be the amount which bears the same ratio to such tax (determined without regard to this subsection) as—

“(A) the excess of—

“(i) the adjusted gross income of the taxpayer (as determined for purposes of the regular tax), over

“(ii) the threshold amount, bears to

“(B) \$12,500 (\$25,000 in the case of a joint return).

“(3) **THRESHOLD AMOUNT.**—For purposes of this paragraph, the term ‘threshold amount’ means \$100,000 (\$200,000 in the case of a joint return).

“(4) **ESTATES AND TRUSTS.**—This subsection shall not apply to any estate or trust.”.

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

TITLE II—REDUCTION IN BENEFIT OF RATE REDUCTION FOR FAMILIES WITH INCOMES OVER \$1,000,000

SEC. 201. REDUCTION IN BENEFIT OF RATE REDUCTION FOR FAMILIES WITH INCOMES OVER \$1,000,000.

(a) **GENERAL RULE.**—Section 1 (relating to imposition of tax on individuals) is amended by adding at the end the following new subsection:

“(j) **REDUCTION IN BENEFIT OF RATE REDUCTION FOR FAMILIES WITH INCOMES OVER \$1,000,000.**—

“(1) IN GENERAL.—If the adjusted gross income of a taxpayer exceeds the threshold amount, the tax imposed by this section (determined without regard to this subsection) shall be increased by an amount equal to 1.45 percent of so much of the adjusted gross income as exceeds the threshold amount.

“(2) THRESHOLD AMOUNTS.—For purposes of this subsection, the term ‘threshold amount’ means—

“(A) \$1,000,000 in the case of a joint return, and

“(B) \$500,000 in the case of any other return.

“(3) TAX NOT TO APPLY TO ESTATES AND TRUSTS.—This subsection shall not apply to an estate or trust.

“(4) SPECIAL RULE.—For purposes of section 55, the amount of the regular tax shall be determined without regard to this subsection.

“(5) TERMINATION.—This subsection shall not apply to taxable years beginning after December 31, 2010.”.

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

(c) SECTION 15 NOT TO APPLY.—The amendment made by subsection (a) shall not be treated as a change in a rate of tax for purposes of section 15 of the Internal Revenue Code of 1986.

TITLE III—MISCELLANEOUS PROVISIONS

SEC. 301. MODIFICATION OF ACTIVE BUSINESS DEFINITION UNDER SECTION 355.

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

“(3) SPECIAL RULE RELATING TO ACTIVE BUSINESS REQUIREMENT.—

“(A) IN GENERAL.—In the case of any distribution made after the date of the enactment of this paragraph and before December 31, 2010, a corporation shall be treated as meeting the requirement of paragraph (2)(A) if and only if such corporation is engaged in the active conduct of a trade or business.

“(B) AFFILIATED GROUP RULE.—For purposes of subparagraph (A), all members of such corporation’s separate affiliated group shall be treated as one corporation. For purposes of the preceding sentence, a corporation’s separate affiliated group is the affiliated group which would be determined under section 1504(a) if such corporation were the common parent and section 1504(b) did not apply.

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

“(i) made pursuant to an agreement which was binding on the date of the enactment of this paragraph and at all times thereafter,

“(ii) described in a ruling request submitted to the Internal Revenue Service on or before such date, or

“(iii) described on or before such date in a public announcement or in a filing with the Securities and Exchange Commission.

The preceding sentence shall not apply if the distributing corporation elects not to have such sentence apply to distributions of such corporation. Any such election, once made, shall be irrevocable.

“(D) SPECIAL RULE FOR CERTAIN PRE-ENACTMENT DISTRIBUTIONS.—For purposes of determining the continued qualification under paragraph (2)(A) of distributions made before the date of the enactment of this paragraph as a result of an acquisition, disposition, or other restructuring after such date and before December 31, 2010, such distribution shall be treated as made after the date of the enactment of this paragraph for purposes of applying subparagraphs (A) through (C) of this paragraph.”.

SEC. 302. VETERANS' MORTGAGE BONDS.

(a) ALL VETERANS ELIGIBLE FOR STATE HOME LOAN PROGRAMS FUNDED BY QUALIFIED VETERANS' MORTGAGE BONDS.—

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

(A) by striking “at some time before January 1, 1977” in subparagraph (A), and

(B) by striking subparagraph (B) and inserting the following:

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

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

(b) REVISION OF STATE VETERANS LIMIT.—

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

“(B) STATE VETERANS LIMIT.—

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

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

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

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

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

and

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

“(ii) PHASEIN.—In the case of calendar years beginning before 2010, clause (i) shall be applied by substituting for each of the dollar amounts therein by the applicable percentage. For purposes of the preceding sentence, the applicable percentage shall be determined in accordance with the following table:

Calendar Year:	Applicable percentage is:
2006	20 percent

Calendar Year:	Applicable percentage is:
2007	40 percent
2008	60 percent
2009	80 percent.

“(iii) **TERMINATION.**—The State veterans limit for any calendar year after 2010 is zero.”.

(2) **EFFECTIVE DATE.**—The amendment made by this subsection shall apply to bonds issued after December 31, 2005.

SEC. 303. CAPITAL GAINS TREATMENT FOR CERTAIN SELF-CREATED MUSICAL WORKS.

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

“(3) **SALE OR EXCHANGE OF SELF-CREATED MUSICAL WORKS.**—At the election of the taxpayer, paragraphs (1) and (3) of subsection (a) shall not apply with respect to any sale or exchange before January 1, 2011, of musical compositions or copyrights in musical works by a taxpayer described in subsection (a)(3).”.

(b) **LIMITATION ON CHARITABLE CONTRIBUTIONS.**—Subparagraph (A) of section 170(e)(1) is amended by inserting “(determined without regard to section 1221(b)(3))” after “long-term capital gain”.

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

SEC. 304. VESSEL TONNAGE LIMIT.

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

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

SEC. 305. CLARIFICATION OF TAXATION OF CERTAIN SETTLEMENT FUNDS.

(a) **IN GENERAL.**—Subsection (g) of section 468B (relating to clarification of taxation of certain funds) is amended to read as follows:

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

“(1) **IN GENERAL.**—Except as provided in paragraph (2), nothing in any provision of law shall be construed as providing that an escrow account, settlement fund, or similar fund is not subject to current income tax. The Secretary shall prescribe regulations providing for the taxation of any such account or fund whether as a grantor trust or otherwise.

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

“(A) it is established pursuant to a consent decree entered by a judge of a United States District Court,

“(B) it is created for the receipt of settlement payments as directed by a government entity for the sole purpose of

resolving or satisfying one or more claims asserting liability under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980,

“(C) the authority and control over the expenditure of funds therein (including the expenditure of contributions thereto and any net earnings thereon) is with such government entity, and

“(D) upon termination, any remaining funds will be disbursed to such government entity for use in accordance with applicable law.

For purposes of this paragraph, the term ‘government entity’ means the United States, any State or political subdivision thereof, the District of Columbia, any possession of the United States, and any agency or instrumentality of any of the foregoing.

“(3) TERMINATION.—This subsection shall not apply to accounts and funds established after December 31, 2010.”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to accounts and funds established after the date of the enactment of this Act.

