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Rev

**AMENDMENT IN THE NATURE OF A SUBSTITUTE
TO H.R. 4297, AS REPORTED
OFFERED BY M. Rangel**

Strike all after the enacting clause and insert the following:

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

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

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

10 (c) **TABLE OF CONTENTS.**—The table of contents for
11 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.

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

4 **SECTION 101. ALLOWANCE OF NONREFUNDABLE PER-**
5 **SONAL CREDITS AGAINST REGULAR AND**
6 **MINIMUM TAX LIABILITY.**

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

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

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

14 (b) CONFORMING PROVISIONS.—

1 (1) Subsection (i) of section 904 (relating to co-
2 ordination with nonrefundable personal credits) is
3 amended by striking “or 2005” and inserting “2005,
4 or 2006”.

5 (2) The amendments made by sections 201(b),
6 202(f), and 618(b) of the Economic Growth and Tax
7 Relief Reconciliation Act of 2001 shall not apply to
8 taxable years beginning during 2006.

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

12 **SEC. 102. STATE AND LOCAL GENERAL SALES TAXES.**

13 (a) IN GENERAL.—Subparagraph (I) of section
14 164(b)(5) (relating to application of paragraph) is amend-
15 ed by striking “January 1, 2006” and inserting “January
16 1, 2007”.

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

20 **SEC. 103. RESEARCH CREDIT.**

21 (a) EXTENSION.—

22 (1) IN GENERAL.—Subparagraph (B) of section
23 41(h)(1) (relating to termination) is amended by
24 striking “December 31, 2005” and inserting “De-
25 cember 31, 2006”.

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

5 (3) EFFECTIVE DATE.—The amendments made
6 by this subsection shall apply to amounts paid or in-
7 curred after December 31, 2005.

8 (b) INCREASE IN RATES OF ALTERNATIVE INCRE-
9 MENTAL CREDIT.—

10 (1) IN GENERAL.—Subparagraph (A) of section
11 41(c)(4) (relating to election of alternative incre-
12 mental credit) is amended—

13 (A) by striking “2.65 percent” and insert-
14 ing “3 percent”,

15 (B) by striking “3.2 percent” and inserting
16 “4 percent”, and

17 (C) by striking “3.75 percent” and insert-
18 ing “5 percent”.

19 (2) EFFECTIVE DATE.—The amendments made
20 by this subsection shall apply to taxable years end-
21 ing after the date of the enactment of this Act.

22 (c) ALTERNATIVE SIMPLIFIED CREDIT FOR QUALI-
23 FIED RESEARCH EXPENSES.—

24 (1) IN GENERAL.—Subsection (c) of section 41
25 (relating to base amount) is amended by redesignig-

1 nating paragraphs (5) and (6) as paragraphs (6)
2 and (7), respectively, and by inserting after para-
3 graph (4) the following new paragraph:

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

6 “(A) IN GENERAL.—At the election of the
7 taxpayer, the credit determined under sub-
8 section (a)(1) shall be equal to 12 percent of so
9 much of the qualified research expenses for the
10 taxable year as exceeds 50 percent of the aver-
11 age qualified research expenses for the 3 tax-
12 able years preceding the taxable year for which
13 the credit is being determined.

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

17 “(i) TAXPAYERS TO WHICH SUBPARA-
18 GRAPH APPLIES.—The credit under this
19 paragraph shall be determined under this
20 subparagraph if the taxpayer has no quali-
21 fied research expenses in any one of the 3
22 taxable years preceding the taxable year
23 for which the credit is being determined.

24 “(ii) CREDIT RATE.—The credit de-
25 termined under this subparagraph shall be

1 equal to 6 percent of the qualified research
2 expenses for the taxable year.

3 “(C) ELECTION.—An election under this
4 paragraph shall apply to the taxable year for
5 which made and all succeeding taxable years
6 unless revoked with the consent of the Sec-
7 retary. An election under this paragraph may
8 not be made for any taxable year to which an
9 election under paragraph (4) applies.”.

10 (2) COORDINATION WITH ELECTION OF ALTER-
11 NATIVE INCREMENTAL CREDIT.—

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

18 (B) TRANSITION RULE.—In the case of an
19 election under section 41(c)(4) of the Internal
20 Revenue Code of 1986 which applies to the tax-
21 able year which includes the date of the enact-
22 ment of this Act, such election shall be treated
23 as revoked with the consent of the Secretary of
24 the Treasury if the taxpayer makes an election

1 under section 41(c)(5) of such Code (as added
2 by subsection (a)) for such year.

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

6 **SEC. 104. QUALIFIED TUITION AND RELATED EXPENSES.**

7 (a) IN GENERAL.—Subsection (e) of section 222 (re-
8 lating to termination) is amended by striking “December
9 31, 2005” and inserting “December 31, 2006”.

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

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

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

22 “(ii) in the case of a taxpayer not de-
23 scribed in clause (i) whose adjusted gross
24 income for the taxable year does not ex-

1 ceed \$80,000 (\$160,000 in the case of a
2 joint return), \$2,000, and
3 “(iii) in the case of any other tax-
4 payer, zero.”.

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

8 **SEC. 105. CERTAIN EXPENSES OF ELEMENTARY AND SEC-**
9 **ONDARY SCHOOL TEACHERS.**

10 (a) **IN GENERAL.**—Subparagraph (D) of section
11 62(a)(2) (relating to certain expenses of elementary and
12 secondary school teachers) is amended by striking “or
13 2005” and inserting “2005, or 2006”.

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

17 **SEC. 106. QUALIFIED ZONE ACADEMY BONDS.**

18 (a) **IN GENERAL.**—Paragraph (1) of section
19 1397E(e) (relating to national limit) is amended by strik-
20 ing “and 2005” and inserting “2005, and 2006”.

21 (b) **EFFECTIVE DATE.**—The amendment made by
22 subsection (a) shall apply to obligations issued after De-
23 cember 31, 2005.

1 **SEC. 107. TAX INCENTIVES FOR BUSINESS ACTIVITIES ON**
2 **INDIAN RESERVATIONS.**

3 (a) INDIAN EMPLOYMENT TAX CREDIT.—

4 (1) IN GENERAL.—Subsection (f) of section
5 45A (relating to termination) is amended by striking
6 “December 31, 2005” and inserting “December 31,
7 2006”.

8 (2) EFFECTIVE DATE.—The amendment made
9 by paragraph (1) shall apply to taxable years begin-
10 ning after December 31, 2005.

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

13 (1) IN GENERAL.—Paragraph (8) of section
14 168(j) (relating to termination) is amended by strik-
15 ing “December 31, 2005” and inserting “December
16 31, 2006”.

17 (2) EFFECTIVE DATE.—The amendment made
18 by paragraph (1) shall apply with respect to prop-
19 erty placed in service after December 31, 2005.

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

22 (a) IN GENERAL.—Subparagraph (G) of section
23 170(e)(6) (relating to termination) is amended by striking
24 “December 31, 2005” and inserting “December 31,
25 2006”.

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

4 **SEC. 109. AVAILABILITY OF MEDICAL SAVINGS ACCOUNTS.**

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

9 (b) CONFORMING AMENDMENTS.—

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

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

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

17 (2) Subparagraph (A) of section 220(j)(4) is
18 amended by striking “and 2004” and inserting
19 “2004, and 2005”.

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

23 (d) TIME FOR FILING REPORTS, ETC.—

24 (1) The report required by section 220(j)(4) of
25 the Internal Revenue Code of 1986 to be made on

1 August 1, 2005, shall be treated as timely if made
2 before the close of the 90-day period beginning on
3 the date of the enactment of this Act.

4 (2) The determination and publication required
5 by section 220(j)(5) of such Code with respect to
6 calendar year 2005 shall be treated as timely if
7 made before the close of the 120-day period begin-
8 ning on the date of the enactment of this Act. If the
9 determination under the preceding sentence is that
10 2005 is a cut-off year under section 220(i) of such
11 Code, the cut-off date under such section 220(i)
12 shall be the last day of such 120-day period.

13 **SEC. 110. 15-YEAR COST RECOVERY FOR LEASEHOLD IM-**
14 **PROVEMENTS.**

15 (a) IN GENERAL.—Clause (iv) of section
16 168(e)(3)(E) (relating to 15-year property) is amended by
17 striking “January 1, 2006” and inserting “January 1,
18 2007”.

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

1 **SEC. 111. 15-YEAR COST RECOVERY FOR RESTAURANT IM-**
2 **PROVEMENTS.**

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

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

9 **SEC. 112. TAXABLE INCOME LIMIT ON PERCENTAGE DEPLE-**
10 **TION FOR OIL AND NATURAL GAS PRODUCED**
11 **FROM MARGINAL PROPERTIES.**

12 (a) IN GENERAL.—Subparagraph (H) of section
13 613A(c)(6) (relating to oil and natural gas produced from
14 marginal properties) is amended by striking “January 1,
15 2006” and inserting “January 1, 2007”.

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

19 **SEC. 113. DISTRICT OF COLUMBIA ENTERPRISE ZONE.**

20 (a) PERIOD FOR WHICH DESIGNATION APPLICA-
21 BLE.—Subsection (f) of section 1400 (relating to time for
22 which designation applicable) is amended by striking “De-
23 cember 31, 2005” both places it appears and inserting
24 “December 31, 2006”.

25 (b) TAX-EXEMPT ECONOMIC DEVELOPMENT
26 BONDS.—Subsection (b) of section 1400A (relating to pe-

1 riod of applicability) is amended by striking “December
2 31, 2005” and inserting “December 31, 2006”.

3 (c) ZERO PERCENT CAPITAL GAINS RATE.—

4 (1) IN GENERAL.—Subsection (b) of section
5 1400B (relating to DC Zone Asset) is amended by
6 striking “January 1, 2006” each place it appears
7 and inserting “January 1, 2007”.

8 (2) CONFORMING AMENDMENTS.—

9 (A) Paragraph (2) of section 1400B(e) (re-
10 lating to gain before 1998 and after 2010 not
11 qualified) is amended—

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

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

16 (B) Paragraph (2) of section 1400B(g)
17 (relating to sales and exchanges of interests in
18 partnerships and S corporations which are DC
19 Zone businesses) is amended by striking “De-
20 cember 31, 2010” and inserting “December 31,
21 2011”.

22 (C) Subsection (d) of section 1400F (relat-
23 ing to certain rules to apply) is amended by
24 striking “December 31, 2010” and inserting
25 “December 31, 2011”.

1 (d) FIRST-TIME HOMEBUYER CREDIT FOR DISTRICT
2 OF COLUMBIA.—Subsection (i) of section 1400C (relating
3 to application of section) is amended by striking “January
4 1, 2006” and inserting “January 1, 2007”.

5 (e) EFFECTIVE DATES.—

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

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

13 **SEC. 114. POSSESSION TAX CREDIT WITH RESPECT TO**
14 **AMERICAN SAMOA.**

15 (a) IN GENERAL.—Subparagraph (A) of section
16 936(j)(8) (relating to special rules for certain possessions)
17 is amended by inserting before the period at the end the
18 following: “(before January 1, 2007, in the case of Amer-
19 ican Samoa)”.

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

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

3 (a) IN GENERAL.—Paragraph (3) of section 9812(f)
4 (relating to application of section) is amended by striking
5 “December 31, 2005” and inserting “December 31,
6 2006”.

7 (b) EFFECTIVE DATES.—The amendment made by
8 subsection (a) shall take effect on the date of the enact-
9 ment of this Act.

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

12 (a) IN GENERAL.—Subclause (II) of section
13 32(c)(2)(B)(vi) (defining earned income) is amended by
14 striking “January 1, 2006” and inserting “January 1,
15 2007”.

16 (b) SPECIAL RULE.—The amount of any refund to
17 which an individual is entitled by reason of amendment
18 made by subsection (a) shall not exceed the aggregate li-
19 ability reflected in the individual’s tax account (deter-
20 mined by taking into account the taxable year and all prior
21 taxable years).

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

1 **SEC. 117. WORK OPPORTUNITY CREDIT.**

2 (a) IN GENERAL.—Subparagraph (B) of section
3 51(c)(4) (relating to termination) is amended by striking
4 “December 31, 2005” and inserting “December 31,
5 2006”.

6 (b) INCREASE IN AGE LIMIT FOR FOOD STAMP RE-
7 CIPIENTS.—Clause (i) of section 51(d)(8)(A) (relating to
8 qualified food stamp recipient) is amended by striking
9 “25” and inserting “35”.

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

13 **SEC. 118. WELFARE-TO-WORK CREDIT.**

14 (a) IN GENERAL.—Subsection (f) of section 51A (re-
15 lating to termination) is amended by striking “December
16 31, 2005” and inserting “December 31, 2006”.

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

20 **SEC. 119. EXTENSION OF EXPENSING OF ENVIRONMENTAL**
21 **REMEDATION COSTS.**

22 (a) IN GENERAL.—Subsection (h) of section 198 (re-
23 lating to termination) is amended by striking “December
24 31, 2005” and inserting “December 31, 2006”.

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

4 **SEC. 120. TEMPORARY RELIEF FROM THE ALTERNATIVE**
5 **MINIMUM TAX.**

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

9 “(f) EXEMPTION FOR INDIVIDUALS FOR TAXABLE
10 YEARS BEGINNING IN 2006.—For any taxable year begin-
11 ning in 2006, in the case of an individual—

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

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

24 “(A) the excess of—

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

4 “(ii) the threshold amount, bears to
5 “(B) \$12,500 (\$25,000 in the case of a
6 joint return).

7 “(3) THRESHOLD AMOUNT.—For purposes of
8 this paragraph, the term ‘threshold amount’ means
9 \$100,000 (\$200,000 in the case of a joint return).

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

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

15 **TITLE II—REDUCTION IN BEN-**
16 **EFIT OF RATE REDUCTION**
17 **FOR FAMILIES WITH IN-**
18 **COMES OVER \$1,000,000**

19 **SEC. 201. REDUCTION IN BENEFIT OF RATE REDUCTION**
20 **FOR FAMILIES WITH INCOMES OVER**
21 **\$1,000,000.**

22 (a) GENERAL RULE.—Section 1 (relating to imposi-
23 tion of tax on individuals) is amended by adding at the
24 end the following new subsection:

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

3 “(1) IN GENERAL.—If the adjusted gross in-
4 come of a taxpayer exceeds the threshold amount,
5 the tax imposed by this section (determined without
6 regard to this subsection) shall be increased by an
7 amount equal to 1.45 percent of so much of the ad-
8 justed gross income as exceeds the threshold
9 amount.

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

13 “(A) \$1,000,000 in the case of a joint re-
14 turn, and

15 “(B) \$500,000 in the case of any other re-
16 turn.

17 “(3) TAX NOT TO APPLY TO ESTATES AND
18 TRUSTS.—This subsection shall not apply to an es-
19 tate or trust.

20 “(4) SPECIAL RULE.—For purposes of section
21 55, the amount of the regular tax shall be deter-
22 mined without regard to this subsection.

23 “(5) TERMINATION.—This subsection shall not
24 apply to taxable years beginning after December 31,
25 2010.”.

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

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

8 **TITLE III—MISCELLANEOUS**
9 **PROVISIONS**

10 **SEC. 301. 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 before December 31,
20 2010, a corporation shall be treated as meeting
21 the requirement of paragraph (2)(A) if and only
22 if such corporation is engaged in the active con-
23 duct 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 before
7 the date of the enactment of this paragraph as
8 a result of an acquisition, disposition, or other
9 restructuring after such date and before De-
10 cember 31, 2010, such distribution shall be
11 treated as made after the date of the enactment
12 of this paragraph for purposes of applying sub-
13 paragraphs (A) through (C) of this para-
14 graph.”.

15 **SEC. 302. VETERANS' MORTGAGE BONDS.**

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

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

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

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

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

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

7 (b) REVISION OF STATE VETERANS LIMIT.—

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

11 “(B) STATE VETERANS LIMIT.—

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

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

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

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

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

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

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

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

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

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

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

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

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

1 paragraphs (1) and (3) of subsection (a) shall not
2 apply with respect to any sale or exchange before
3 January 1, 2011, of musical compositions or copy-
4 rights in musical works by a taxpayer described in
5 subsection (a)(3).”.

6 (b) **LIMITATION ON CHARITABLE CONTRIBUTIONS.**—
7 Subparagraph (A) of section 170(e)(1) is amended by in-
8 serting “(determined without regard to section
9 1221(b)(3))” after “long-term capital gain”.

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

14 **SEC. 304. VESSEL TONNAGE LIMIT.**

15 (a) **IN GENERAL.**—Paragraph (4) of section 1355(a)
16 (relating to qualifying vessel) is amended by inserting
17 “(6,000, in the case of taxable years beginning after De-
18 cember 31, 2005, and ending before January 1, 2011)”
19 after “10,000”.

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

1 **SEC. 305. CLARIFICATION OF TAXATION OF CERTAIN SET-**
2 **TLEMENT FUNDS.**

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

6 “(g) CLARIFICATION OF TAXATION OF CERTAIN
7 FUNDS.—

8 “(1) IN GENERAL.—Except as provided in para-
9 graph (2), nothing in any provision of law shall be
10 construed as providing that an escrow account, set-
11 tlement fund, or similar fund is not subject to cur-
12 rent income tax. The Secretary shall prescribe regu-
13 lations providing for the taxation of any such ac-
14 count or fund whether as a grantor trust or other-
15 wise.

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

21 “(A) it is established pursuant to a con-
22 sent decree entered by a judge of a United
23 States District Court,

24 “(B) it is created for the receipt of settle-
25 ment payments as directed by a government en-
26 tity for the sole purpose of resolving or satis-

1 fying one or more claims asserting liability
2 under the Comprehensive Environmental Re-
3 sponse, Compensation, and Liability Act of
4 1980,

5 “(C) the authority and control over the ex-
6 penditure of funds therein (including the ex-
7 penditure of contributions thereto and any net
8 earnings thereon) is with such government enti-
9 ty, and

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

13 For purposes of this paragraph, the term ‘govern-
14 ment entity’ means the United States, any State or
15 political subdivision thereof, the District of Colum-
16 bia, any possession of the United States, and any
17 agency or instrumentality of any of the foregoing.

18 “(3) TERMINATION.—This subsection shall not
19 apply to accounts and funds established after De-
20 cember 31, 2010.”.

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