CONFERENCE COMMITTEE PRINT

Title XII & House Title XIII – Tax Provisions

Comparing H.R. 2419, As Passed by the House And the Senate Amendment Thereto

HOUSE BILL (H.R. 2419)

SENATE AMENDMENT

HOUSE BILL (H. R. 2419)	SENATE AMENDMENT
House Title XII + XIII	
SEC. 12001. LIMITATION ON TREATY BENEFITS FOR CERTAIN DEDUCTIBLE PAYMENTS. (a) In General- Section 894 of the Internal Revenue Code of 1986 (relating to income affected by treaty) is amended by adding at the end the following new subsection: `(d) Limitation on Treaty Benefits for Certain Deductible Payments-  `(1) **IN GENERAL**- In the case of any deductible related-party payment, the amount of any withholding tax imposed under chapter 3 (and any tax imposed under subpart A or B of this part) with respect to such payment shall not be less than the amount which would be imposed if the payment were made directly to the foreign parent corporation (taking into account any income tax treaty between the United States and the country in which the foreign parent corporation is resident). `(2) **DEDUCTIBLE RELATED-PARTY PAYMENT**- For purposes of this subsection, the term `deductible related-party payment' means any payment made, directly or indirectly, by any person to any other person if the payment is allowable as a deduction under this chapter and both persons are members of the same foreign controlled group of entities. `(3) **FOREIGN CONTROLLED GROUP OF ENTITIES**- For purposes of this subsection-- `(A) **IN GENERAL**- The term `foreign controlled group of entities' means a controlled group of entities the common parent of which is a foreign corporation.  `(B) **CONTROLLED GROUP OF ENTITIES**- The term `controlled group of entities' means a controlled group of corporations as defined in section 1563(a)(1), except that-- `(i) `more than 50 percent' shall be substituted for `at least 80 percent' each place it appears therein, and `(ii) the determination shall be made without regard to subsections (a)(4) and (b)(2) of section 1563. A partnership or any other entity (other than a corporation) shall be treated as a member of a controlled group of entities if such entity is controlled (within the meaning of section 954(d)(3)) by members of such group (including any entity treated as a member of such group by reason of this sentence). `(4) **FOREIGN PARENT CORPORATION**- For purposes of this subsection, the term `foreign parent corporation' means, with respect to any deductible related-party payment, the common parent of the foreign controlled group of entities referred to in paragraph (3)(A).	

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`(5) **REGULATIONS**- The Secretary may prescribe such regulations or other guidance as are necessary or appropriate to carry out the purposes of this subsection, including regulations or other guidance which provide for—  `(A) the treatment of two or more persons as members of a foreign controlled group of entities if such persons would be the common parent of such group if treated as one corporation, and `(B) the treatment of any member of a foreign controlled group of entities as the common parent of such group if such treatment is appropriate taking into account the economic relationships among such entities.'. (b) Effective Date- The amendment made by this section shall apply to payments made after the date of the enactment of this Act.	
SEC. 13003. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES. Subparagraph (B) of section 401(1) of the Tax Increase Prevention and Reconciliation Act of 2005 is amended by striking `114.50 percent' and inserting `115.75 percent'.	
	SENATE Title XII
	SEC. 12001. SHORT TITLE; ETC. (a) Short Title- This title may be cited as the `Heartland, Habitat, Harvest, and Horticulture Act of 2007'. (b) Amendments to 1986 Code- Except as otherwise expressly provided, whenever in this title 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.

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	SEC. 12101. SUPPLEMENTAL AGRICULTURE DISASTER ASSISTANCE. (a) In General- The Trade Act of 1974 (19 U.S.C. 2101 et seq.) is amended by adding at the end the following: **`TITLE IX--SUPPLEMENTAL AGRICULTURE DISASTER ASSISTANCE**  **`SEC. 901. PERMANENT AUTHORITY FOR SUPPLEMENTAL REVENUE ASSISTANCE.** `(a) **Definitions**- In this section:  `(1) **ACTUAL PRODUCTION HISTORY YIELD**- The term `actual production history yield' means the weighted average actual production history for each insurable commodity or noninsurable commodity, as calculated under the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.) or the noninsured crop disaster assistance program, respectively.  `(2) **COUNTER-CYCLICAL PROGRAM PAYMENT YIELD**- The term `counter-cyclical program payment yield' means the weighted average payment yield established under section 1102 of the Farm Security and Rural Investment Act of 2002 (7 U.S.C. 7912).  `(3) **DISASTER COUNTY**- `(A) IN GENERAL- The term `disaster county' means a county included in the geographic area covered by a qualifying natural disaster declaration. `(B) INCLUSION- The term `disaster county' includes— `(i) a county contiguous to a county described in subparagraph (A); and `(ii) any farm in which, during a calendar year, the total loss of production of the farm relating to weather is greater than 50 percent of the normal production of the farm, as determined by the Secretary. `(4) **ELIGIBLE PRODUCER ON A FARM**-  `(A) IN GENERAL- The term `eligible producer on a farm' means an individual or entity described in subparagraph (B) that, as determined by the Secretary, assumes the production and market risks associated with the agricultural production of crops or livestock.

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	`(B) DESCRIPTION- An individual or entity referred to in subparagraph (A) is-- `(i) a citizen of the United States; `(ii) a resident alien; `(iii) a partnership of citizens of the United States; or `(iv) a corporation, limited liability corporation, or other farm organizational structure organized under State law.  `(5) **FARM**- `(A) IN GENERAL- The term `farm' means, in relation to an eligible producer on a farm, the sum of all crop acreage in all counties that-- `(i) is used for grazing by the eligible producer; or `(ii) is planted or intended to be planted for harvest by the eligible producer. `(B) **AQUACULTURE**- In the case of aquaculture, the term `farm' means, in relation to an eligible producer on a farm, all fish being produced in all counties that are intended to be harvested for sale by the eligible producer. `(C) **HONEY**- In the case of honey, the term `farm' means, in relation to an eligible producer on a farm, all bees and beehives in all counties that are intended to be harvested for a honey crop by the eligible producer. `(6) **FARM-RAISED FISH**- The term `farm-raised fish' means any aquatic species (including any species of finfish, mollusk, crustacean, or other aquatic invertebrate, amphibian, reptile, or aquatic plant) that is propagated and reared in a controlled or semicontrolled environment. `(7) **INSURABLE COMMODITY**- The term `insurable commodity' means an agricultural commodity (excluding livestock) for which the producer on a farm is eligible to obtain a policy or plan of insurance under the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.). `(8) **LIVESTOCK**- The term `livestock' includes-- `(A) cattle (including dairy cattle); `(B) bison; `(C) poultry; `(D) sheep; `(E) swine; `(F) horses; and

`(G) other livestock, as determined by the Secretary.

`(9) **MOVING 5-YEAR OLYMPIC AVERAGE COUNTY YIELD**- The term `moving 5-year Olympic average county yield' means the weighted average yield obtained from the 5 most recent years of yield data provided by the National Agriculture Statistics Service obtained from data after dropping the highest and the lowest yields.

`(10) **NONINSURABLE COMMODITY**- The term `noninsurable commodity' means a crop for which the eligible producers on a farm are eligible to obtain assistance under the noninsured crop assistance program.

`(11) **NONINSURED CROP ASSISTANCE PROGRAM**- The term `noninsured crop assistance program' means the program carried out under section 196 of the Federal Agriculture Improvement and Reform Act of 1996 (7 U.S.C. 7333).

`(12) **QUALIFYING NATURAL DISASTER DECLARATION**- The term `qualifying natural disaster declaration' means a natural disaster declared by the Secretary for production losses under section 321(a) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1961(a)).

`(13) **SECRETARY**- The term `Secretary' means the Secretary of Agriculture.

`(14) **STATE**- The term `State' means--
`(A) a State;
`(B) the District of Columbia;
`(C) the Commonwealth of Puerto Rico; and
`(D) any other territory or possession of the United States.

`(15) **TRUST FUND**- The term `Trust Fund' means the Agriculture Disaster Relief Trust Fund established under section 902.

`(16) **UNITED STATES**- The term `United States' when used in a geographical sense, means all of the States.

`(b) **Supplemental Revenue Assistance Payments**-

`(1) IN GENERAL- The Secretary shall use such sums as are necessary from the Trust Fund to make crop disaster assistance payments to eligible producers on

farms in disaster counties that have incurred crop production losses or crop quality losses, or both, during the crop year.

`(2) AMOUNT-

`(A) IN GENERAL- Subject to subparagraph (B), the Secretary shall provide crop disaster assistance payments under this section to an eligible producer on a farm in an amount equal to 52 percent of the difference between--

`(i) the disaster assistance program guarantee, as described in paragraph (3); and

`(ii) the total farm revenue for a farm, as described in paragraph (4).

`(B) LIMITATION- The disaster assistance program guarantee for a crop used to calculate the payments for a farm under subparagraph (A)(i) may not be greater than 90 percent of the sum of the expected revenue, as described in paragraph (5) for each of the crops on a farm, as determined by the Secretary.

`(3) **SUPPLEMENTAL REVENUE ASSISTANCE PROGRAM GUARANTEE**-

`(A) IN GENERAL- Except as otherwise provided in this paragraph, the supplemental assistance program guarantee shall be the sum obtained by adding--

`(i) for each insurable commodity on the farm, the product obtained by multiplying--

`(I) the greatest of--

`(aa) the actual production history yield;

`(bb) 90 percent of the moving 5-year Olympic average county yield; and

`(cc) the counter-cyclical program payment yield for each crop;

`(II) the percentage of the crop insurance yield guarantee;

`(III) the percentage of crop insurance price elected by the eligible producer;

`(IV) the crop insurance price; and

`(V) 115 percent; and

`(ii) for each noninsurable commodity on a farm, the product obtained by multiplying--

`(I) the weighted noninsured crop assistance program yield guarantee;

`(II) except as provided in subparagraph (B), 100 percent of the noninsured crop assistance program established price; and

`(III) 115 percent.

`(B) **SUPPLEMENTAL BUY-UP NONINSURED ASSISTANCE PROGRAM**- Beginning on the date that the Secretary makes available supplemental buy-up coverage under the noninsured assistance program in accordance with subsection (h), the percentage described in subclause (II) of subparagraph (A)(ii) shall be equal to the percentage of the noninsured assistance program price guarantee elected by the producer.

`(C) **ADJUSTMENT INSURANCE GUARANTEE**- Notwithstanding subparagraph (A), in the case of an insurable commodity for which a plan of insurance provides for an adjustment in the guarantee, such as in the case of prevented planting, the adjusted insurance guarantee shall be the basis for determining the disaster assistance program guarantee for the insurable commodity.

`(D) **ADJUSTED ASSISTANCE LEVEL**- Notwithstanding subparagraph (A), in the case of a noninsurable commodity for which the noninsured crop assistance program provides for an adjustment in the level of assistance, such as in the case of prevented harvesting, the adjusted assistance level shall be the basis for determining the disaster assistance program guarantee for the noninsurable commodity.

`(E) **EQUITABLE TREATMENT FOR NON-YIELD BASED POLICIES**- The Secretary shall establish equitable treatment for non-yield based policies and plans of insurance, such as the Adjusted Gross Revenue Lite insurance program.

`(F) **PUBLIC MANAGED LAND**- Notwithstanding subparagraph (A), if rangeland is managed by a Federal agency and the carrying capacity of the managed rangeland is reduced as a result of a disaster in the preceding year that was the basis for a qualifying natural disaster declaration—

`(i) the calculation for the supplemental assistance program guarantee determined under subparagraph (A) as the guarantee applies to the managed rangeland shall be not less than 75 percent of the guarantee for the preceding year; and
`(ii) the requirement for a designation by the Secretary for the current year is waived.

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	`(4) **FARM REVENUE**-  `(A) **IN GENERAL**- For purposes of this subsection, the total farm revenue for a farm, shall equal the sum obtained by adding-- `(i) the estimated actual value for grazing and for each crop produced on a farm by using the product obtained by multiplying—  `(I) the actual crop acreage grazed or harvested by an eligible producer on a farm; `(II) the estimated actual yield of the grazing land or crop production; and  `(III) subject to subparagraphs (B) and (C), the average market price received or value of the production during the first 5 months of the marketing year for the county in which the farm or portion of a farm is located; `(ii) 20 percent of amount of any direct payments made to the producer under section 1103 of the Farm Security and Rural Investment Act of 2002 (7 U.S.C. 7913) or of any fixed direct payments made at the election of the producer in lieu of that section or a subsequent section;  `(iii) the amount of payments for prevented planting on a farm; `(iv) the amount of crop insurance indemnities received by an eligible producer on a farm for each crop on a farm, including indemnities for grazing losses;  `(v) the amount of payments an eligible producer on a farm received under the noninsured crop assistance program for each crop on a farm, including grazing losses; and `(vi) the value of any other natural disaster assistance payments provided by the Federal Government to an eligible producer on a farm for each crop on a farm for the same loss for which the eligible producer is seeking assistance.

`(B) **ADJUSTMENT**- The Secretary shall adjust the average market price received by the eligible producer on a farm--

`(i) to reflect the average quality discounts applied to the local or regional market price of a crop, hay, or forage due to a reduction in the intrinsic characteristics of the production resulting from adverse weather, as determined annually by the State office of the Farm Service Agency; and

`(ii) to account for a crop the value of which is reduced due to excess moisture resulting from a disaster-related condition.

`(C) **MAXIMUM AMOUNT FOR CERTAIN CROPS**- With respect to a crop for which an eligible producer on a farm receives assistance under the noninsured crop assistance program, the average market price received or value of the production during the first 5 months of the marketing year for the county in which the farm or portion of a farm is located shall be an amount not more than 100 percent of the price of the crop established under the noninsured crop assistance program.

`(5) **EXPECTED REVENUE**- The expected revenue for each crop on a farm shall equal the sum obtained by adding—

`(A) the expected value of grazing;
`(B) the product obtained by multiplying--
`(i) the greatest of--
`(I) the actual production history yield of the eligible producer on a farm;
`(II) the moving 5-year Olympic average county yield; and
`(III) the counter-cyclical program payment yield;
`(ii) the acreage planted or intended to be planted for each crop; and
`(iii) 100 percent of the insurance price guarantee; and
`(C) the product obtained by multiplying--
`(i) 100 percent of the noninsured crop assistance program yield; and
`(ii) 100 percent of the noninsured crop assistance program price for each of the crops on a farm.

`(c) **Livestock Indemnity Payments**-

`(1) IN GENERAL- The Secretary shall use such sums as are necessary from the Trust Fund to make livestock indemnity payments to eligible producers on farms

that have incurred livestock death losses in excess of the normal mortality due to adverse weather, as determined by the Secretary, during the calendar year, including losses due to hurricanes, floods, blizzards, disease, wildfires, extreme heat, and extreme cold.

`(2) PAYMENT RATES- Indemnity payments to an eligible producer on a farm under paragraph (1) shall be made at a rate of 75 percent of the market value of the applicable livestock on the day before the date of death of the livestock, as determined by the Secretary.

`(d) **Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish**-

`(1) IN GENERAL- The Secretary shall use up to $35,000,000 per year from the Trust Fund to provide emergency relief to eligible producers of livestock, honey bees, and farm-raised fish to aid in the reduction of losses due to adverse weather or other environmental conditions, such as blizzards and wildfires, as determined by the Secretary, that are not covered under the authority of the Secretary to make qualifying natural disaster declarations.

`(2) USE OF FUNDS- Funds made available under this subsection shall be used to reduce losses caused by feed or water shortages, disease, or other factors as determined by the Secretary.

`(3) AVAILABILITY OF FUNDS- Any funds made available under this subsection and not used in a crop year shall remain available until expended.

`(e) **Tree Assistance Program**-

`(1) **DEFINITIONS**- In this subsection:

`(A) ELIGIBLE ORCHARDIST- The term `eligible orchardist' means a person that produces annual crops from trees for commercial purposes.

`(B) NATURAL DISASTER- The term `natural disaster' means plant disease, insect infestation, drought, fire, freeze, flood, earthquake, lightning, or other occurrence, as determined by the Secretary.

`(C) NURSERY TREE GROWER- The term `nursery tree grower' means a person who produces nursery, ornamental, fruit, nut, or Christmas trees for commercial sale, as determined by the Secretary.

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	`(D) TREE- The term `tree' includes a tree, bush, and vine. `(2) **ELIGIBILITY**-  `(A) LOSS- Subject to subparagraph (B), the Secretary shall provide assistance under paragraph (3) to eligible orchardists and nursery tree growers that planted trees for commercial purposes but lost the trees as a result of a natural disaster, as determined by the Secretary. `(B) LIMITATION- An eligible orchardist or nursery tree grower shall qualify for assistance under subparagraph (A) only if the tree mortality of the eligible orchardist or nursery tree grower, as a result of damaging weather or related condition, exceeds 15 percent (adjusted for normal mortality).  `(3) A**SSISTANCE**- Subject to paragraph (4), the assistance provided by the Secretary to eligible orchardists and nursery tree growers for losses described in paragraph (2) shall consist of— `(A)(i) reimbursement of 75 percent of the cost of replanting trees lost due to a natural disaster, as determined by the Secretary, in excess of 15 percent mortality (adjusted for normal mortality); or `(ii) at the option of the Secretary, sufficient seedlings to reestablish a stand; and `(B) reimbursement of 50 percent of the cost of pruning, removal, and other costs incurred by an eligible orchardist or nursery tree grower to salvage existing trees or, in the case of tree mortality, to prepare the land to replant trees as a result of damage or tree mortality due to a natural disaster, as determined by the Secretary, in excess of 15 percent damage or mortality (adjusted for normal tree damage and mortality). `(4) **LIMITATIONS ON ASSISTANCE**-  `(A) AMOUNT- The total amount of payments that a person shall be entitled to receive under this subsection may not exceed $100,000 per year, or an equivalent value in tree seedlings. `(B) ACRES- The total quantity of acres planted to trees or tree seedlings

for which a person shall be entitled to receive payments under this subsection may not exceed 500 acres.

`(C) REGULATIONS- The Secretary shall promulgate --

`(i) regulations defining the term `person' for the purposes of this subsection, which shall conform, to the maximum extent practicable, to the regulations defining the term `person' promulgated under section 1001 of the Food Security Act of 1985 (7 U.S.C. 1308); and

`(ii) such regulations as the Secretary determines necessary to ensure a fair and reasonable application of the limitation established under this paragraph.

`(f) **Plant Pest and Disease Management and Disaster Prevention**-

`(1) **DEFINITIONS-** In this subsection:

`(A) EARLY PLANT PEST DETECTION AND SURVEILLANCE- The term `early plant pest detection and surveillance' means the full range of activities undertaken to find newly introduced plant pests, whether the plant pests are new to the United States or new to certain areas of the United States, before--

`(i) the plant pests become established; or

`(ii) the plant pest infestations become too large and costly to eradicate or control.

`(B) PLANT PEST- The term `plant pest' has the meaning given such term in section 403 of the Plant Protection Act (7 U.S.C. 7702).

`(C) SPECIALTY CROP- The term `specialty crop' has the meaning given the term in section 3 of the Specialty Crops Competitiveness Act of 2004 (7 U.S.C. 1621 note; Public Law 108-465).

`(D) STATE DEPARTMENT OF AGRICULTURE- The term `State department of agriculture' means an agency of a State that has a legal responsibility to perform early plant pest detection and surveillance activities.

`(2) **EARLY PLANT PEST DETECTION AND SURVEILLANCE IMPROVEMENT PROGRAM-**

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	`(A) COOPERATIVE AGREEMENTS- The Secretary shall enter into a cooperative agreement with each State department of agriculture that agrees to conduct early plant pest detection and surveillance activities.  `(B) CONSULTATION- In carrying out this paragraph, the Secretary shall consult with-- `(i) the National Plant Board; `(ii) the National Association of State Departments of Agriculture; and `(iii) stakeholders.  `(C) FUNDS UNDER AGREEMENTS- Each State department of agriculture with which the Secretary enters into a cooperative agreement under this paragraph shall receive funding for each of fiscal years 2008 through 2012 in an amount to be determined by the Secretary. `(D) USE OF FUNDS- `(i) PLANT PEST DETECTION AND SURVEILLANCE ACTIVITIES- A State department of agriculture that receives funds under this paragraph shall use the funds to carry out early plant pest detection and surveillance activities to prevent the introduction of a plant pest or facilitate the eradication of a plant pest, pursuant to a cooperative agreement. `(ii) SUBAGREEMENTS- Nothing in this paragraph prevents a State department of agriculture from using funds received under subparagraph (C) to enter into subagreements with political subdivisions of the State that have legal responsibilities relating to agricultural plant pest and disease surveillance. `(iii) NON-FEDERAL SHARE- The non-Federal share of the cost of carrying out a cooperative agreement under this section may be provided in-kind, including through provision of such indirect costs of the cooperative agreement as the Secretary considers to be appropriate.  `(E) SPECIAL FUNDING CONSIDERATIONS- The Secretary shall provide funds to a State department of agriculture if the Secretary determines that—

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	`(i) the State department of agriculture is in a State that has a high risk of being affected by 1 or more plant pests; and `(ii) the early plant pest detection and surveillance activities supported with the funds will likely-- `(I) prevent the introduction and establishment of plant pests; and `(II) provide a comprehensive approach to compliment Federal detection efforts. `(F) REPORTING REQUIREMENT- Not later than 180 days after the date of completion of an early plant pest detection and surveillance activity conducted by a State department of agriculture using funds provided under this subsection, the State department of agriculture shall submit to the Secretary a report that describes the purposes and results of the activities. `(3) **THREAT IDENTIFICATION AND MITIGATION PROGRAM**- `(A) ESTABLISHMENT- The Secretary, acting through the Administrator of the Animal and Plant Health Inspection Service (referred to in this section as the `Secretary'), shall establish a threat identification and mitigation program to determine and prioritize foreign threats to the domestic production of crops.  `(B) REQUIREMENTS- In conducting the program established under subparagraph (A), the Secretary shall— `(i) consult with the Director of the Center for Plant Health Science and Technology; `(ii) conduct, in partnership with States, early plant pest detection and surveillance activities; `(iii) develop risk assessments of the potential threat to the agricultural industry of the United States from foreign sources; `(iv) collaborate with the National Plant Board on the matters described in subparagraph (C); `(v) implement action plans developed under subparagraph (C)(ii)(I) immediately after development of the action plans-- `(I) to test the effectiveness of the action plans; and `(II) to assist in preventing the introduction and widespread dissemination of new foreign and domestic plant pest and disease threats in the United States; and `(vi) as appropriate, consult with, and use the expertise of, the

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	Administrator of the Agricultural Research Service in the development of plant pest and disease detection, control, and eradication strategies. `(C) MATTERS DESCRIBED- The matters described in this subparagraph are-- `(i) the prioritization of foreign threats to the agricultural industry; and `(ii) the development, in consultation with State departments of agriculture and other State or regional resource partnerships, of-- `(I) action plans that effectively address the foreign threats, including pathway analysis, offshore mitigation measures, and comprehensive exclusion measures at ports of entry and other key distribution centers; and `(II) strategies to employ if a foreign plant pest or disease is introduced;  `(D) REPORTS- Not later than 1 year after the date of enactment of this paragraph, and annually thereafter, the Secretary shall update and submit to Congress the priority list and action plans described in subparagraph (C), including an accounting of funds expended on the action plans. `(4) **SPECIALTY CROP CERTIFICATION AND RISK MANAGEMENT SYSTEMS**- The Secretary shall provide funds and technical assistance to specialty crop growers, organizations representing specialty crop growers, and State and local agencies working with specialty crop growers and organizations for the development and implementation of— `(A) audit-based certification systems, such as best management practices-- `(i) to address plant pests; and `(ii) to mitigate the risk of plant pests in the movement of plants and plant products; and  `(B) nursery plant pest risk management systems, in collaboration with the nursery industry, research institutions, and other appropriate entities-- `(i) to enable growers to identify and prioritize nursery plant pests and diseases of regulatory significance; `(ii) to prevent the introduction, establishment, and spread of those plant pests and diseases; and

`(iii) to reduce the risk of, mitigate, and eradicate those plant pests and diseases.

`(5) **FUNDING**- The Secretary shall use from the Trust Fund to carry out this subsection--

`(A) $10,000,000 for fiscal year 2008;
`(B) $25,000,000 for fiscal year 2009;
`(C) $40,000,000 for fiscal year 2010;
`(D) $50,000,000 for fiscal year 2011; and
`(E) $64,000,000 for fiscal year 2012.

`(g) **Risk Management Purchase Requirement-**

`(1) IN GENERAL- Except as otherwise provided in this subsection, the eligible producers on a farm shall not be eligible for assistance under this section with respect to losses to an insurable commodity or noninsurable commodity if the eligible producers on the farm—

`(A) in the case of an insurable commodity, did not obtain a policy or plan of insurance for the insurable commodity under the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.) (excluding a crop insurance pilot program under that Act) for the crop incurring the losses; or

`(B) in the case of a noninsurable commodity, did not file the required paperwork, and pay the administrative fee by the applicable State filing deadline, for the noninsurable commodity under the noninsured crop assistance program for the crop incurring the losses.

`(2) MINIMUM- To be considered to have obtained insurance under paragraph (1), an eligible producer on a farm shall have obtained a policy or plan of insurance with not less than 50 percent yield coverage at 55 percent of the insurable price for each crop grazed, planted, or intended to be planted for harvest on a whole farm.

`(3) WAIVER- With respect to eligible producers that are limited resource, minority, or beginning farmers or ranchers, as determined by the Secretary, the Secretary may--

`(A) waive paragraph (1); and
`(B) provide disaster assistance under this section at a level that the Secretary determines to be equitable and appropriate.

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	`(4) EQUITABLE RELIEF- The Secretary may provide equitable relief to eligible producers on a farm that unintentionally fail to meet the requirements of paragraph (1) for 1 or more crops on a farm on a case-by-case basis, as determined by the Secretary.  `(h) **Supplemental Buy-up Noninsured Assistance Program-** `(1) IN GENERAL- The Secretary shall establish a program under which eligible producers on a farm may purchase under the noninsured crop assistance program additional yield and price coverage for a crop, including a forage, hay, or honey crop, of—  `(A) 60 or 65 percent (as elected by the producers on the farm) of the yield established for the crop under the program; and `(B) 100 percent of the price established for the crop under the program.  `(2) FEES- The Secretary shall establish and collect fees from eligible producers on a farm participating in the program established under paragraph (1) to offset all of the costs of the program, as determined by the Secretary. `(i) **Payment Limitations**-  `(1) IN GENERAL- The total amount of disaster assistance that an eligible producer on a farm may receive under this section may not exceed $100,000. `(2) AGI LIMITATION- Section 1001D of the Food Security Act of 1985 (7 U.S.C. 1308-3a or any successor provision) shall apply with respect to assistance provided under this section.  `(j) Period of Effectiveness- This section shall be effective only for losses that are incurred as the result of a disaster, adverse weather, or other environmental condition that occurs on or before September 30, 2012, as determined by the Secretary. `(k) NO DUPLICATIVE PAYMENTS- In implementing any other program which makes disaster assistance payments (except for indemnities made under the Federal Crop Insurance Act and section 196 of the Federal Agriculture Improvement and Reform Act of 1996), the Secretary shall prevent duplicative payments with respect to the same loss for which a person receives a payment under subsections (b), (c), (d), or (e).

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	`SEC. 902. AGRICULTURE DISASTER RELIEF TRUST FUND.**  `(a) **Creation of Trust Fund- There is established in the Treasury of the United States a trust fund to be known as the `Agriculture Disaster Relief Trust Fund', consisting of such amounts as may be appropriated or credited to such Trust Fund as provided in this section.  `(b) **Transfer to Trust Fund-** `(1) IN GENERAL- There are appropriated to the Agriculture Disaster Relief Trust Fund amounts equivalent to 3.34 percent of the amounts received in the general fund of the Treasury of the United States during fiscal years 2008 through 2012 attributable to the duties collected on articles entered, or withdrawn from warehouse, for consumption under the Harmonized Tariff Schedule of the United States. `(2) AMOUNTS BASED ON ESTIMATES- The amounts appropriated under this section shall be transferred at least monthly from the general fund of the Treasury of the United States to the Agriculture Disaster Relief Trust Fund on the basis of estimates made by the Secretary of the Treasury. Proper adjustments shall be made in the amounts subsequently transferred to the extent prior estimates were in excess of or less than the amounts required to be transferred. `(c) **Administration-**  `(1) REPORTS- The Secretary of the Treasury shall be the trustee of the Agriculture Disaster Relief Trust Fund and shall submit an annual report to Congress each year on the financial condition and the results of the operations of such Trust Fund during the preceding fiscal year and on its expected condition and operations during the 5 fiscal years succeeding such fiscal year. Such report shall be printed as a House document of the session of Congress to which the report is made. `(2) INVESTMENT- `(A) IN GENERAL- The Secretary of the Treasury shall invest such portion of the Agriculture Disaster Relief Trust Fund as is not in his judgment required to meet current withdrawals. Such investments may be made only in interest bearing obligations of the United States. For such purpose, such obligations may be acquired--

`(i) on original issue at the issue price, or
`(ii) by purchase of outstanding obligations at the market price.

`(B) SALE OF OBLIGATIONS- Any obligation acquired by the Agriculture Disaster Relief Trust Fund may be sold by the Secretary of the Treasury at the market price.

`(C) INTEREST ON CERTAIN PROCEEDS- The interest on, and the proceeds from the sale or redemption of, any obligations held in the Agriculture Disaster Relief Trust Fund shall be credited to and form a part of such Trust Fund.

`(d) Expenditures From Trust Fund- Amounts in the Agriculture Disaster Relief Trust Fund shall be available for the purposes of making expenditures to meet those obligations of the United States incurred under section 901.

`(e) **Authority To Borrow**-
`(1) IN GENERAL- There are authorized to be appropriated, and are appropriated, to the Agriculture Disaster Relief Trust Fund, as repayable advances, such sums as may be necessary to carry out the purposes of such Trust Fund.

`(2) REPAYMENT OF ADVANCES-
`(A) IN GENERAL- Advances made to the Agriculture Disaster Relief Trust Fund shall be repaid, and interest on such advances shall be paid, to the general fund of the Treasury when the Secretary determines that moneys are available for such purposes in such Trust Fund.

`(B) RATE OF INTEREST- Interest on advances made pursuant to this subsection shall be--
`(i) at a rate determined by the Secretary of the Treasury (as of the close of the calendar month preceding the month in which the advance is made) to be equal to the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the anticipated period during which the advance will be outstanding, and
`(ii) compounded annually.'.

(b) Technical Provisions Relating to the Plant Protection Act-
(1) Section 442(c) of the Plant Protection Act (7 U.S.C. 7772(c)) is amended by

striking `of longer than 60 days'.

(2) Congress disapproves the rule submitted by the Secretary of Agriculture relating to cost-sharing for animal and plant health emergency programs (68 Fed. Reg. 40541 (2003)), and such rule shall have no force or effect.

Subtitle B--Conservation Provisions

SEC. 12201. CONSERVATION RESERVE TAX CREDIT.

(a) Allowance of Credit-

(1) IN GENERAL- Subpart B of part IV of subchapter A of chapter 1 is amended by adding at the end the following new section:

`SEC. 30D. CONSERVATION RESERVE CREDIT.

`(a) In General- There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the rental value of any land enrolled in the conservation reserve program.

`(b) Limitations-

`(1) LIMITATION BASED ON AMOUNT OF TAX- The credit allowed under this section for any taxable year shall not exceed the excess of--

`(A) the regular tax liability for the taxable year reduced by the sum of the credits allowable under subpart A and sections 27, 30, 30B, and 30C, over

`(B) the tentative minimum tax for the taxable year.

`(2) LIMITATION BASED ON ALLOCATED PORTION OF NATIONAL LIMITATION- The credit allowed under subsection (a) for any taxpayer for any taxable year shall not exceed the excess of--

`(A) the amount of the national credit limitation allocated to such taxpayer under subsection (c) for the fiscal year in which such taxable year ends and all prior fiscal years, over

`(B) the credit allowed under subsection (a) for all prior taxable years.

`(c) Conservation Reserve Credit Limitation-

`(1) IN GENERAL- There is a conservation reserve credit limitation for each fiscal year of the United States. Such limitation is--

`(A) $750,000,000 for each of fiscal years 2009 through 2012, and
`(B) zero thereafter.

`(2) ALLOCATION-
`(A) IN GENERAL- The Secretary, in consultation with the Secretary of Agriculture, shall allocate the conservation reserve credit limitation to taxpayers—

`(i) who are owners or operators of land enrolled in the conservation reserve program, and

`(ii) who have made an election under section 1234(c)(6) of the Food Security Act of 1985 to receive an allocation under this paragraph in lieu of a rental payment for such year under 1233(2) of such Act.

`(B) ALLOCATION LIMITATION- The Secretary may not allocate more than $50,000 to any 1 taxpayer for any fiscal year.

`(3) CARRYFORWARD OF LIMITATION-

`(A) IN GENERAL- If for any fiscal year the limitation under paragraph (1) (after the application of this paragraph) exceeds the amount allocated to all eligible taxpayers for such fiscal year, the limitation amount for the following fiscal year shall be increased by the amount of such excess.

`(B) SPECIAL RULE FOR 2012- Notwithstanding subparagraph (A), no amount of the conservation reserve credit limitation may be carried to any fiscal year following fiscal year 2012.

`(d) Carryforward- If the amount of the credit allowable under subsection (a) for any taxpayer for any taxable year (determined without regard to subsection (b)(1)) exceeds the limitation under subsection (b)(1), such excess may be carried forward to the succeeding taxable year and added to the credit allowable under subsection (a) for such succeeding taxable year.

`(e) Other Definitions and Special Rules- For purposes of this section--
`(1) CONSERVATION RESERVE PROGRAM- For purposes of this subsection, the term `conservation reserve program' means the conservation reserve program established under subchapter B of chapter 1 of subtitle D of title XII of the Food Security Act of 1985.

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	`(2) DENIAL OF DOUBLE BENEFIT- No deduction or other credit shall be allowed under this chapter for any amount with respect to which a credit is allowed under subsection (a).  `(3) RECAPTURE OF ALLOCATION- If a taxpayer terminates a contract under the conservation reserve program before the end of the fiscal year with respect to which an allocation under subsection (c)(2) is made, the Secretary shall recapture the amount of the credit allowed under this section which bears the same ratio to the amount so allocated as the number of days in the fiscal year during which the contract was not in effect bears to 365. `(4) TREATMENT OF CREDIT UNDER INCOME TAX AND SELF-EMPLOYMENT INCOME TAX- For purposes of this chapter and chapter 2, the amount of any credit received under this section shall not be treated as income.'. (2) CLERICAL AMENDMENT- The table of sections for subpart B of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 30C the following new item: `Sec. 30D. Conservation reserve credit.'. (3) EFFECTIVE DATE- The amendments made by this subsection shall apply to taxable years ending after the date of the enactment of this Act. (b) Conforming Amendments to the Food Security Act of 1985- (1) ELECTION TO RECEIVE TAX CREDITS IN LIEU OF PAYMENTS- Section 1234(c) of the Food Security Act of 1985 (16 U.S.C. 3834(c)), as amended by this Act, is amended by adding at the end the following new paragraph: `(6) ELECTION TO RECEIVE TAX CREDITS IN LIEU OF PAYMENTS- `(A) IN GENERAL- In lieu of an annual rental payment for any year, an owner or operator with land enrolled under the program established under this subchapter may elect to receive for such year an allocation of tax credits under section 30D(c)(2) of the Internal Revenue Code of 1986. `(B) ELECTION- Any election under this paragraph shall be made in such form and at such time as the Secretary shall prescribe and shall apply to all contracts of the owner or operator under this subchapter.  `(C) LIMITATION- Any election under this paragraph shall not apply with

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	respect to payments under the emergency forestry conservation reserve program under section 1231(k).'. (2) PAYMENT LIMITATION- Paragraph (1) of section 1234(e) of such Act (16 U.S.C. 3834(e)(1)) is amended by inserting `and allocations of tax credits under section 30D(c)(2) of the Internal Revenue Code of 1986' after `in-kind commodities'.
	SEC. 12202. EXCLUSION OF CONSERVATION RESERVE PROGRAM PAYMENTS FROM SECA TAX FOR CERTAIN INDIVIDUALS. (a) Internal Revenue Code- Section 1402(a)(1) (defining net earnings from self-employment) is amended by inserting `, and including payments under section 1233(2) of the Food Security Act of 1985 (16 U.S.C. 3833(2)) to individuals receiving benefits under section 202 or 223 of the Social Security Act' after `crop shares'. (b) Social Security Act- Section 211(a)(1) of the Social Security Act is amended by inserting `, and including payments under section 1233(2) of the Food Security Act of 1985 (16 U.S.C. 3833(2)) to individuals receiving benefits under section 202 or 223' after `crop shares'. (c) Effective Date- The amendments made by this section shall apply to payments made before, on, or after the date of the enactment of this Act.

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	SEC. 12203. PERMANENT EXTENSION OF SPECIAL RULE ENCOURAGING CONTRIBUTIONS OF CAPITAL GAIN REAL PROPERTY FOR CONSERVATION PURPOSES. (a) In General- (1) INDIVIDUALS- Subparagraph (E) of section 170(b)(1) (relating to contributions of qualified conservation contributions) is amended by striking clause (vi). (2) CORPORATIONS- Subparagraph (B) of section 170(b)(2) (relating to qualified conservation contributions by certain corporate farmers and ranchers) is amended by striking clause (iii). (b) Effective Date- The amendments made by this section shall apply to contributions made in taxable years beginning after December 31, 2007.
	SEC. 12204. TAX CREDIT FOR RECOVERY AND RESTORATION OF ENDANGERED SPECIES. (a) In General- Subpart B of part IV of subchapter A of chapter 1, as amended by this Act, is amended by adding at the end the following new section: **`SEC. 30E. ENDANGERED SPECIES RECOVERY AND RESTORATION CREDIT.** `(a) In General- In the case of an eligible taxpayer, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of-- `(1) the habitat protection easement credit, plus `(2) the habitat restoration credit. `(b) Limitation- `(1) IN GENERAL- The credit allowed under subsection (a) for any taxpayer for any taxable year shall not exceed the endangered species recovery credit limitation allocated to the eligible taxpayer under subsection (f) for the calendar year in which the taxpayer's taxable year ends. `(2) CARRYFORWARDS-  `(A) IN GENERAL- If the amount of the credit allowable under subsection

(a) for any taxpayer for any taxable year (determined without regard to paragraph (1)) exceeds the endangered species recovery credit limitation allocated under subsection (f) to such taxpayer for the calendar year in which the taxpayer's taxable year ends, such excess may be carried forward to the next taxable year for which an allocation is made to such taxpayer under subsection (f). Any amount carried to another taxable year under this subparagraph shall be treated as added to the credit allowable under subsection (a)(1) or (a)(2), whichever is appropriate, for such taxable year.

`(B) CARRYFORWARD OF ALLOCATION AMOUNT- If the amount of the endangered species recovery credit limitation allocated to a taxpayer for any calendar year under subsection (f) exceeds the amount of the credit allowed to the taxpayer under subsection (a) for the taxable year ending in such calendar year, such excess may be carried forward to the next taxable year of the taxpayer. Any amount carried to another taxable year under this subparagraph shall be treated as allocated to the taxpayer for use in such taxable year under subsection (f).

`(c) Eligible Taxpayer; Qualified Agreements- For purposes of this section--

`(1) IN GENERAL- The term `eligible taxpayer' means—

`(A) a taxpayer who--

`(i) owns real property which contains the habitat of a qualified species, and

`(ii) enters into a qualified perpetual habitat protection agreement, a qualified 30-year habitat protection agreement, or a qualified habitat protection agreement with respect to such real property, and

`(B) any other taxpayer who--

`(i) is a party to a qualified perpetual habitat protection agreement, a qualified 30-year habitat protection agreement, or a qualified habitat protection agreement, and

`(ii) as part of any such agreement, agrees to assume responsibility for costs paid or incurred as a result of implementing such agreement.

`(2) QUALIFIED PERPETUAL HABITAT PROTECTION AGREEMENT- The term `qualified perpetual habitat protection agreement' means an agreement--

`(A) under which a taxpayer described in paragraph (1)(A) grants to the appropriate Secretary, the Secretary of Agriculture, the Secretary of

Defense, or a State an easement in perpetuity for the protection of the habitat of a qualified species, and

`(B) which meets the requirements of paragraph (5).

`(3) QUALIFIED 30-YEAR HABITAT PROTECTION AGREEMENT- The term `qualified 30-year habitat protection agreement' means an agreement not described in paragraph (2)—

`(A) under which a taxpayer described in paragraph (1)(A) grants to the appropriate Secretary, the Secretary of Agriculture, the Secretary of Defense, or a State an easement for a period of 30 years or greater for the protection of the habitat of a qualified species, and

`(B) which meets the requirements of paragraph (5).

`(4) QUALIFIED HABITAT PROTECTION AGREEMENT- The term `qualified habitat protection agreement' means an agreement—

`(A) under which a taxpayer described in paragraph (1)(A) enters into an agreement not described in paragraph (2) or (3) with the appropriate Secretary, the Secretary of Agriculture, the Secretary of Defense, or a State to protect the habitat of a qualified species for a specified period of time, and

`(B) which meets the requirements of paragraph (5).

`(5) REQUIREMENTS- An agreement meets the requirements of this paragraph if the agreement—

`(A) is consistent with any recovery plan which is applicable and which has been approved for a qualified species under section 4 of the Endangered Species Act of 1973,

`(B) includes a habitat management plan agreed to by the appropriate Secretary and the eligible taxpayer, and

`(C) requires that technical assistance with respect to the duties under the habitat management plan be provided to the taxpayer by the appropriate Secretary or an entity approved by the appropriate Secretary.

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	`(d) Habitat Protection Easement Credit-  `(1) IN GENERAL- For purposes of subsection (a)(1), the habitat protection easement credit for any taxable year is an amount equal to-- `(A) in the case of a taxpayer described in subsection (c)(1)(A) who has entered into a qualified perpetual habitat protection agreement during such taxable year, 100 percent of the excess (if any) of-- `(i) the fair market value of the real property with respect to which the qualified perpetual habitat protection agreement is made, determined on the day before such agreement is entered into, over `(ii) the fair market value of such property, determined on the day after such agreement is entered into,  `(B) in the case of a taxpayer described in subsection (c)(1)(A) who has entered into a qualified 30-year habitat protection agreement during such taxable year, 75 percent of such excess, and `(C) in the case of any other taxpayer, zero.  `(2) REDUCTION FOR AMOUNT RECEIVED FOR EASEMENT- The amount determined under paragraph (1) shall be reduced by any amount received by the taxpayer in connection with the easement. `(3) LIMITATION BASED ON AMOUNT OF TAX- The credit allowed under subsection (a)(1) for any taxable year shall not exceed the sum of-- `(A) the taxpayer's regular tax liability for the taxable year reduced by the sum of the credits allowable under subpart A and sections 27, 30, 30B, 30C, and 30D, and `(B) the tax imposed by section 55(a) for the taxable year.  `(4) CARRYFORWARD OF UNUSED CREDIT- If the credit allowable under subsection (a)(1) for any taxable year exceeds the limitation imposed by paragraph (3) for such taxable year, such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a)(1) for such succeeding taxable year. `(5) QUALIFIED APPRAISALS REQUIRED- No amount shall be taken into account under this subsection unless the eligible taxpayer includes with the taxpayer's return for the taxable year a qualified appraisal (within the meaning of section 170(f)(11)(E)) of the real property.

`(e) Habitat Restoration Credit-

`(1) IN GENERAL- For purposes of subsection (a)(2), the habitat restoration credit for any taxable year shall be an amount equal to--

`(A) in the case of a qualified perpetual habitat protection agreement, 100 percent of the costs paid or incurred by an eligible taxpayer during such taxable year pursuant to the habitat management plan under such agreement,

`(B) in the case of a qualified 30-year habitat protection agreement, 75 percent of the costs paid or incurred by an eligible taxpayer during such taxable year pursuant to the habitat management plan under such agreement, and

`(C) in the case of a qualified habitat protection agreement, 50 percent of the costs paid or incurred by an eligible taxpayer during such taxable year pursuant to the habitat management plan under such agreement.

`(2) LIMITATION BASED ON AMOUNT OF TAX- The credit allowed under subsection (a)(2) for any taxable year shall not exceed the excess (if any) of--

`(A) the regular tax liability for the taxable year reduced by the sum of the credits allowable under subpart A, sections 27, 30, 30B, 30C, 30D, and subsection (a)(1), over

`(B) the tentative minimum tax for the taxable year.

`(3) CARRYFORWARD OF UNUSED CREDIT- If the credit allowable under subsection (a)(2) for any taxable year exceeds the limitation imposed by paragraph (2) for such taxable year, such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a)(2) for such succeeding taxable year.

`(4) SPECIAL RULES-

`(A) CERTAIN COSTS NOT INCLUDED- No amount shall be taken into account with respect to any cost which is paid or incurred by a taxpayer to comply with any requirement of a Federal, State, or local government (other than costs required under an agreement described in subsection (c)).

`(B) SUBSIDIZED FINANCING- For purposes of paragraph (1), the

amount of costs paid or incurred by an eligible taxpayer pursuant to any habitat management plan described in subsection (c)(5)(B) shall be reduced by the amount of any financing provided under any Federal or State program a principal purpose of which is to subsidize financing for the conservation of the habitat of a qualified species.

`(f) Endangered Species Recovery Credit Limitation-

`(1) IN GENERAL- There is an endangered species recovery credit limitation for each calendar year. Such limitation is—

`(A) for 2008, 2009, 2010, 2011, and 2012—

`(i) with respect to allocations described in paragraph (2)(A)--

`(I) $5,000,000 with respect to qualified perpetual habitat protection agreements,

`(II) $2,000,000 with respect to qualified 30-year habitat protection agreements, and

`(III) $1,000,000 with respect to qualified habitat protection agreements, and

`(ii) with respect to allocations described in paragraph (2)(B)--

`(I) $290,000,000 with respect to qualified perpetual habitat protection agreements,

`(II) $55,000,000 with respect to qualified 30-year habitat protection agreements, and

`(III) $35,000,000 with respect to qualified habitat protection agreements, and

`(B) except as provided in paragraph (3), zero thereafter.

`(2) ALLOCATION OF LIMITATION-

`(A) ALLOCATIONS IN COORDINATION WITH THE SECRETARY OF AGRICULTURE- The limitations described in paragraph (1)(A)(i) shall be allocated to eligible taxpayers by the Secretary in consultation with the Secretary of Agriculture.

`(B) OTHER ALLOCATIONS-

`(i) IN GENERAL- The limitations described in paragraph (1)(A)(ii) shall be allocated to eligible taxpayers in consultation with the

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	Secretary of the Interior and the Secretary of Commerce. `(ii) ESTABLISHMENT OF ALLOCATION PROGRAM- Not later than 180 days after the date of the enactment of this Act, the Secretary, in consultation with the Secretary of the Interior and the Secretary of Commerce, shall, by regulation, establish a program to process applications from eligible taxpayers and to determine how to best allocate the credit limitations under clause (i) taking into account the considerations described in clause (iii). `(iii) CONSIDERATIONS- In accepting applications to make allocations to eligible taxpayers under this section, priority shall be given to taxpayers with agreements—  `(I) relating to habitats that will significantly increase the likelihood of recovering and delisting a species as an endangered species or a threatened species (as defined under section 2 of the Endangered Species Act of 1973), `(II) that are cost-effective and maximize the benefits to a qualified species per dollar expended,  `(III) relating to habitats of species which have a federally approved recovery plan pursuant to section 4 of the Endangered Species Act of 1973, `(IV) relating to habitats with the potential to contribute significantly to the improvement of the status of a qualified species,  `(V) relating to habitats with the potential to contribute significantly to the eradication or control of invasive species that are imperiling a qualified species, `(VI) with habitat management plans that will manage multiple qualified species,  `(VII) with habitat management plans that will create adjacent or proximate habitat for the recovery of a qualified species,

`(VIII) relating to habitats for qualified species with an urgent need for protection,

`(IX) with habitat management plans that assist in preventing the listing of a species as endangered or threatened under the Endangered Species Act of 1973 or a similar State law,

`(X) with habitat management plans that may resolve conflicts between the protection of qualified species and otherwise lawful human activities, and

`(XI) with habitat management plans that may resolve conflicts between the protection of a qualified species and military training or other military operations.

`(3) CARRYOVER OF UNUSED LIMITATION- If for any calendar year any of the limitations under paragraph (1) (after the application of this paragraph) exceeds the amount allocated to eligible taxpayers for such calendar year, such limitation amount for the following calendar year shall be increased by the amount of such excess.

`(g) Other Definitions and Special Rules-

`(1) APPROPRIATE SECRETARY- The term `appropriate Secretary' has the meaning given to the term `Secretary' under section 3(15) of the Endangered Species Act of 1973.

`(2) HABITAT MANAGEMENT PLAN- The term `habitat management plan' means, with respect to any habitat, a plan which—

`(A) identifies one or more qualified species to which the plan applies,

`(B) is designed to--
`(i) restore or enhance the habitat of the qualified species, or
`(ii) reduce threats to the qualified species through the management of the habitat,

`(C) describes the current condition of the habitat to be restored or enhanced,

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	`(D) describes the threats to the qualified species that are intended to be reduced through the plan,  `(E) describes the management practices to be undertaken by the taxpayer, `(F) provides a schedule of deadlines for undertaking such management practices and the expected responses of the habitat and the species,  `(G) requires monitoring of the management practices and the status of the qualified species and its habitat, and `(H) describes the technical assistance to be provided to the taxpayer and identifies the entity that will provide such assistance.  `(3) QUALIFIED SPECIES- The term `qualified species' means-- `(A) any species listed as an endangered species or threatened species under the Endangered Species Act of 1973, or `(B) any species for which a finding has been made under section 4(b)(3) of the Endangered Species Act of 1973 that listing under such Act may be warranted.  `(4) TAKING- The term `taking' has the meaning given to such term under the Endangered Species Act of 1973.  `(5) REDUCTION IN BASIS- For purposes of this subtitle— `(A) HABITAT PROTECTION EASEMENT CREDIT- The basis of any property for which a credit is allowed under subsection (a)(1) shall be reduced by the amount of basis which is allocated, under regulations prescribed by the Secretary, to the easement granted as part of a qualified perpetual habitat protection agreement or a qualified 30-year habitat protection agreement. `(B) HABITAT RESTORATION CREDIT- If a credit is allowed under subsection (a)(2) for any expenditure with respect to any property, the increase in the basis of such property which would (but for this subparagraph) result from such expenditure shall be reduced by the amount of the credit so allowed.

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	`(6) DENIAL OF DOUBLE BENEFIT- No deduction or other credit shall be allowed under this chapter for any amount with respect to which a credit is allowed under subsection (a).  `(7) CERTIFICATION- No credit shall be allowed under subsection (a) unless the appropriate Secretary certifies that any agreement described in subsection (c) will contribute to the recovery of a qualified species. `(8) REQUEST FOR AUTHORIZATION OF INCIDENTAL TAKINGS- The Secretary shall request the appropriate Secretary to consider whether to authorize under the Endangered Species Act of 1973 takings by an eligible taxpayer of a qualified species to which an agreement described in subsection (c) relates if the takings are incidental to— `(A) the restoration, enhancement, or management of the habitat pursuant to the habitat management plan under the agreement, or  `(B) the use of the property to which the agreement pertains at any time after the expiration of the easement or the specified period described in subsection (c)(4)(A), but only if such use will leave the qualified species at least as well off on the property as it was before the agreement was made. `(9) RECAPTURE- The Secretary shall, by regulations, provide for recapturing the benefit under any credit allowable under subsection (a) if the Secretary determines that-- `(A) the taxpayer has failed to carry out the duties of the taxpayer under the terms of a qualified perpetual habitat protection agreement, a qualified 30-year habitat protection agreement, or a qualified habitat protection agreement, and `(B) there are no other available means to remediate such failure.'. (b) GAO Study- (1) IN GENERAL- The Comptroller General of the United States shall undertake a study on the effectiveness of the credit allowed under section 30E of the Internal Revenue Code of 1986 (as added by this Act). (2) ISSUES TO BE STUDIED- The study under paragraph (1) shall-- (A) evaluate-- (i) the contributions that habitat management plans established under

such credit have made in restoring or enhancing species habitat and reducing threats to species, and
(ii) the implementation of the credit allocation program established in section 30E(f)(2) of such Code (as so added), and

(B) include recommendations for improving the effectiveness of such credit.

(3) REPORTS-

(A) INTERIM REPORT- Not later than 3 years after the date of the enactment of this Act, the Comptroller General of the United States shall submit to Congress an interim report on the study conducted under paragraph (1).

(B) FINAL REPORT- Not later than 5 years after the date of the enactment of this Act, the Comptroller General of the United States shall submit to Congress a final report on the study conducted under paragraph (1).

(c) Conforming Amendments-
(1) Section 1016(a) is amended by striking `and' at the end of paragraph (36), by striking the period at the end of paragraph (37) and inserting `, and', and by inserting after paragraph (37) the following new paragraph:
`(38) to the extent provided in section 30E(g)(5).'.

(2) The table of sections for subpart B of part IV of subchapter A of chapter 1, as amended by this Act, is amended by inserting after the item relating to section 30D the following new item:
`Sec. 30E. Endangered species recovery and restoration credit.'.

(d) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2007.

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	SEC. 12205. DEDUCTION FOR ENDANGERED SPECIES RECOVERY EXPENDITURES. (a) Deduction for Endangered Species Recovery Expenditures- (1) IN GENERAL- Paragraph (1) of section 175(c) (relating to definitions) is amended by inserting after the first sentence the following new sentence: `Such term shall include expenditures paid or incurred for the purpose of achieving site-specific management actions recommended in recovery plans approved pursuant to the Endangered Species Act of 1973.'. (2) CONFORMING AMENDMENTS- (A) Section 175 is amended by inserting `, or for endangered species recovery' after `prevention of erosion of land used in farming' each place it appears in subsections (a) and (c). (B) The heading of section 175 is amended by inserting `; endangered species recovery expenditures' before the period. (C) The item relating to section 175 in the table of sections for part VI of subchapter B of chapter 1 is amended by inserting `; endangered species recovery expenditures' before the period. (b) Limitations- Paragraph (3) of section 175(c) (relating to additional limitations) is amended— (1) in the heading, by inserting `OR ENDANGERED SPECIES RECOVERY PLAN' after `CONSERVATION PLAN', and (2) in subparagraph (A)(i), by inserting `or the recovery plan approved pursuant to the Endangered Species Act of 1973' after `Department of Agriculture'. (c) Effective Date- The amendments made by this section shall apply to expenditures paid or incurred after the date of the enactment of this Act.
	SEC. 12206. EXCLUSION FOR CERTAIN PAYMENTS AND PROGRAMS RELATING TO FISH AND WILDLIFE. (a) In General- Subsection (a) of section 126 (relating to certain cost-sharing payments) is amended by redesignating paragraph (10) as paragraph (13) and by inserting after paragraph (9) the following new paragraphs:

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	`(10) The Partners for Fish and Wildlife Program authorized by the Partners for Fish and Wildlife Act.  `(11) The Landowner Incentive Program, the State Wildlife Grants Program, and the Private Stewardship Grants Program authorized by the Fish and Wildlife Act of 1956. `(12) The Forest Health Protection Program and the program related to integrated pest management authorized by the Cooperative Forestry Assistance Act of 1978.'. (b) Effective Date- The amendments made by this section shall apply to payments received after the date of the enactment of this Act.

SEC. 12207. CREDIT FOR EASEMENTS GRANTED UNDER CERTAIN DEPARTMENT OF AGRICULTURE CONSERVATION PROGRAMS.

(a) In General-

(1) ALLOWANCE OF CREDIT- Subpart B of part IV of subchapter A of chapter 1, as amended by this Act, is amended by adding at the end the following new section:

`SEC. 30F. AGRICULTURE CONSERVATION EASEMENT CREDIT.

`(a) In General- There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of--

`(1) the wetlands reserve conservation credit, plus

`(2) the grassland reserve conservation credit.

`(b) Limitations-

`(1) LIMITATION BASED ON AMOUNT OF TAX- The credit allowed under this section for any taxable year shall not exceed the excess of--

`(A) the regular tax liability for the taxable year reduced by the sum of the credits allowable under subpart A and sections 27, 30, 30B, 30C, 30D, 30E(a)(1), and 30E(a)(2), over

`(B) the tentative minimum tax for the taxable year.

`(2) LIMITATION BASED ON ALLOCATED PORTION OF NATIONAL LIMITATION- The credit allowed under subsection (a) for any taxpayer for any taxable year shall not exceed the excess of—

`(A) the amount of the national credit limitation allocated to such taxpayer under subsection (e) for such taxable year and all prior taxable years, over

`(B) the credit allowed under subsection (a) for all prior taxable years.

`(c) Wetlands Reserve Conservation Credit-

`(1) IN GENERAL- For purposes of subsection (a)(1), in the case of a wetlands reserve eligible taxpayer, the wetlands reserve conservation credit for any taxable year is an amount equal to the applicable percentage of the wetlands reserve easement value.

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	`(2) WETLANDS RESERVE ELIGIBLE TAXPAYER- For purposes of this section, the term `wetlands reserve eligible taxpayer' means any taxpayer who— `(A) has granted an easement to the Secretary of Agriculture under the wetlands reserve program, and  `(B) who has made an election under section 1237A(f)(5) of the Food Security Act of 1985 to receive an allocation under subsection (e)(2) in lieu of a payment under section 1237A(f)(1) of such Act. `(3) APPLICABLE PERCENTAGE- For purposes paragraph (1), the term `applicable percentage' means the percentage equal to— `(A) 100 percent, minus  `(B) the highest percentage of tax which would apply under section 1 or 11 with respect to the taxpayer if the taxable income of the taxpayer were increased by an amount equal to the wetlands reserve easement value. `(4) WETLANDS RESERVE EASEMENT VALUE- For purposes of this section, the term `wetlands reserve easement value' means the lesser of— `(A) the product of-- `(i) the wetlands reserve geographic area rate for the area in which the real property to which the easement pertains is located, and `(ii) the number of acres to which the easement applies, or  `(B) the value of any payment to which the taxpayer would be entitled with respect to such easement under section 1237A(f)(1) of the Food Security Act of 1985 if the taxpayer had not made an election under section 1237A(f)(5) of such Act. `(5) WETLANDS RESERVE GEOGRAPHIC AREA RATE- For purposes of paragraph (4)(A)(i), the wetlands reserve geographic area rate with respect to any geographic area shall be the rate per acre, determined by the Secretary in consultation with the Secretary of Agriculture, appropriate for easements granted under the wetlands reserve program in such area. `(d) Grassland Reserve Conservation Credit- `(1) IN GENERAL- For purposes of subsection (a)(2), in the case of any

grassland reserve eligible taxpayer, the grassland reserve conservation credit for any taxable year is an amount equal to the applicable percentage of the grassland reserve easement value.

`(2) GRASSLAND RESERVE ELIGIBLE TAXPAYER- For purposes of this section, the term `grassland reserve eligible taxpayer' means any taxpayer who—

`(A) has granted an easement under the grassland reserve program to an eligible easement holder, and

`(B) who has made an election under section 1238P(b)(2)(C) of the Food Security Act of 1985 to receive an allocation under subsection (e)(2) in lieu of a payment under section 1238P(b)(2)(A)(i) of such Act.

`(3) APPLICABLE PERCENTAGE- For purposes paragraph (1), the term `applicable percentage' means the percentage equal to—

`(A) 100 percent, minus

`(B) the highest percentage of tax which would apply under section 1 or 11 with respect to the taxpayer if the taxable income of the taxpayer were increased by an amount equal to the grassland reserve easement value.

`(4) GRASSLAND RESERVE EASEMENT VALUE- For purposes of this section, the term `grassland reserve easement value' means—

`(A) in the case of a permanent conservation easement (within the meaning of section 1238N(3) of the Food Security Act of 1985), the lesser of—

`(i) the product of--

`(I) the grassland reserve program geographic area rate for the area in which the real property to which the easement pertains is located, and

`(II) the number of acres to which the easement applies, or

`(ii) the value of any payment to which the taxpayer would be entitled in return for such easement under section 1238P(b)(2)(A)(i)(I) of the Food Security Act of 1985 if the taxpayer had not made an election under section 1238P(b)(2)(C) of such Act,

and

`(B) in the case of a 30-year conservation easement (within the meaning of section 1238O(b)(2) of such Act), the lesser of—

`(i) 30 percent of the lesser of the amount determined under clause (i) or (ii) of subparagraph (A), or

`(ii) the value of any payment to which the taxpayer would be entitled in return for such easement under section 1238P(b)(1)(A)(i)(II) of such Act if the taxpayer had not made an election under section 1238P(b)(2)(C) of such Act.

`(5) GRASSLAND RESERVE GEOGRAPHIC AREA RATE- For purposes of paragraph (4)(A)(i)(I), the grassland reserve geographic area rate with respect to any geographic area shall be the rate, determined by the Secretary in consultation with the Secretary of Agriculture, appropriate for easements granted under the grassland reserve program in such area.

`(e) National Conservation Credit Limitation-

`(1) IN GENERAL- The aggregate credits allowed under subsection (a) for all taxpayers shall not exceed $1,000,000,000.

`(2) ALLOCATION- The Secretary, in consultation with the Secretary of Agriculture, shall allocate the credit limitation under paragraph (1) to taxpayers who--

`(A) have granted an easement--

`(i) to the Secretary of Agriculture under the wetlands reserve program, or

`(ii) to an eligible easement holder under the grassland reserve program, and

`(B) make an election under such program to receive an allocation under this paragraph in lieu of a payment under such program.

`(3) LIMITATION ON ALLOCATION- No amount of the credit limitation may be allocated to any taxpayer for any taxable year which ends after September 30, 2012.

`(f) Carryforward- If the amount of the credit allowable under subsection (a) for any taxpayer for any taxable year (determined without regard to subsection (b)(1)) exceeds the limitation under subsection (b)(1), such excess may be carried forward to the

succeeding taxable year and added to the credit allowable under subsection (a) for such succeeding taxable year.

`(g) Other Definitions and Special Rules- For purposes of this section—

`(1) WETLANDS RESERVE PROGRAM- The term `wetlands reserve program' means the wetlands reserve program established under subchapter C of chapter 1 of subtitle D of title XII of the Food Security Act of 1985.

`(2) GRASSLAND RESERVE PROGRAM- The term `grassland reserve program' means the grassland reserve program established under subchapter C of chapter 2 of subtitle D of title XII of the Food Security Act of 1985.

`(3) ELIGIBLE EASEMENT HOLDER- The term `eligible easement holder' means the Secretary of Agriculture or a State.

`(4) DENIAL OF DOUBLE BENEFIT- No deduction or other credit shall be allowed under this chapter for any amount with respect to which a credit is allowed under subsection (a).

`(5) REDUCTION IN BASIS- For purposes of this subtitle, the basis of any property for which a credit is allowed under subsection (a) shall be reduced by the amount of basis which is allocated, under regulations prescribed by the Secretary, to the easement granted under the wetlands reserve program or the grassland reserve program.

`(6) RECAPTURE- The Secretary shall, by regulations, provide for recapturing the benefit of any credit allowable under subsection (a) if the Secretary, in consultation with the Secretary of Agriculture, determines that—

`(A) the eligible taxpayer has failed to carry out the duties of the taxpayer under the terms of the easement, and

`(B) there are no other available means to remediate such failure.'.

(2) CONFORMING AMENDMENTS-

(A) Section 1016(a), as amended by this Act, is amended by striking `and' at the end of paragraph (37), by striking the period at the end of paragraph (38) and inserting `, and', and by inserting after paragraph (38) the following new paragraph:

`(39) to the extent provided in section 30F(g)(5).'.

(B) The table of sections for subpart B of part IV of subchapter A of chapter 1, as amended by this Act, is amended by inserting after the item relating to section 30E the following new item:

`Sec. 30F. Agriculture conservation easement credit.'.

(3) EFFECTIVE DATE- The amendments made by this subsection shall apply to easements granted after September 30, 2007, in taxable years ending after such date.

(b) Conforming Amendments to the Food Security Act of 1985-

(1) WETLANDS RESERVE PROGRAM- Section 1237A(f) of the Food Security Act of 1985 (16 U.S.C. 3837a(f)), as amended by this Act, is amended by adding at the end the following new paragraph:

`(5) ELECTION TO RECEIVE TAX CREDITS IN LIEU OF PAYMENTS-

`(A) IN GENERAL- In lieu of a payment in cash under paragraph (1), the landowner may elect to receive an allocation of tax credits under section 30E(e)(2) of the Internal Revenue Code of 1986.

`(B) LIMITATION- No election may be made under this paragraph with respect to payments to a landowner under a special wetlands reserve enhancement program described in subsection (h).'.

(2) GRASSLAND RESERVE PROGRAM- Section 1238P(b)(2) of the Food Security Act of 1985 (16 U.S.C. 3838p(b)(2)) is amended by adding at the end the following new subparagraph:

`(C) ELECTION TO RECEIVE TAX CREDITS IN LIEU OF CERTAIN PAYMENTS- In lieu of a payment in return for a permanent conservation easement under subparagraph (A)(i)(I) or a 30-year conservation easement under subparagraph (A)(i)(II), the landowner may elect to receive an allocation of tax credits under section 30E(e)(2) of the Internal Revenue Code of 1986.'.

PART II--TIMBER PROVISIONS

SEC. 12211. FOREST CONSERVATION BONDS.

(a) Tax-Exempt Bond Financing-

(1) IN GENERAL- For purposes of the Internal Revenue Code of 1986, any qualified forest conservation bond shall be treated as an exempt facility bond under section 142 of such Code.

(2) QUALIFIED FOREST CONSERVATION BOND- For purposes of this section, the term `qualified forest conservation bond' means any bond issued as part of an issue if—

(A) 95 percent or more of the net proceeds (as defined in section 150(a)(3) of such Code) of such issue are to be used for qualified project costs, and

(B) such bond is issued before the date which is 36 months after the date of the enactment of this Act.

(3) LIMITATION ON AGGREGATE AMOUNT ISSUED-

(A) IN GENERAL- The maximum aggregate face amount of bonds which may be issued under this subsection shall not exceed $1,500,000,000 for all projects (excluding refunding bonds).

(B) ENFORCEMENT OF LIMITATION- An issue shall not be treated as an issue described in paragraph (2) if the aggregate face amount of bonds issued pursuant to such issue for any qualified projects costs (when added to the aggregate face amount of bonds previously so issued for such costs) exceeds the amount allocated under subparagraph (C).

(C) INITIAL ALLOCATION OF LIMITATION- The limitation described in subparagraph (A) shall be allocated by the Secretary of the Treasury among qualified organizations as follows:

(i) 35 percent for qualified project costs with respect to the cost of acquisition by any qualified organization in the Pacific Northwest region.

(ii) 30 percent for qualified project costs with respect to the cost of acquisition by any qualified organization in the Western region.

(iii) 17.5 percent for qualified project costs with respect to the cost of acquisition by any qualified organization in the Southeast region.

(iv) 17.5 percent for qualified project costs with respect to the cost of acquisition by any qualified organization in the Northeast region.

(D) SECONDARY ALLOCATION PROCEDURE- If for the period ending on the last day of the 24th month after the date of the enactment of this Act, the limitation amount for any region under subparagraph (C) exceeds the amount of bonds allocated by the Secretary of the Treasury during such period, the Secretary of the Treasury may allocate such excess among qualified organizations in any other region in such manner as the Secretary of the Treasury determines appropriate.

(E) REGIONS- For purposes of this paragraph—

(i) PACIFIC NORTHWEST REGION- The term `Pacific Northwest region' means Region 6 as defined by the United States Forest Service of the Department of Agriculture under section 200.2 of title 36, Code of Federal Regulations.

(ii) WESTERN REGION- The term `Western region' means Regions 1, 2, 3, 4, 5, and 10 (as so defined).

(iii) SOUTHEAST REGION- The term `Southeast region' means Region 8 (as so defined).

(iv) NORTHEAST REGION- The term `Northeast region' means Region 9 (as so defined).

(4) QUALIFIED PROJECT COSTS- For purposes of this subsection, the term `qualified project costs' means the costs of acquisition by a qualified organization from an unrelated person of forests and forest land which, at the time of acquisition or immediately thereafter, are subject to a conservation restriction described in subsection (c)(2).

(5) SPECIAL RULES- In applying the Internal Revenue Code of 1986 to any

qualified forest conservation bond, the following modifications shall apply:

(A) Section 146 of such Code (relating to volume cap) shall not apply.

(B) For purposes of section 147(b) of such Code (relating to maturity may not exceed 120 percent of economic life), the land and standing timber acquired with proceeds of qualified forest conservation bonds shall have an economic life of 35 years.

(C) Subsections (c) and (d) of section 147 of such Code (relating to limitations on acquisition of land and existing property) shall not apply.

(6) TREATMENT OF CURRENT REFUNDING BONDS- Paragraphs (2)(B) and (3) shall not apply to any bond (or series of bonds) issued to refund a qualified forest conservation bond issued before the date which is 36 months after the date of the enactment of this Act, if—

(A) the average maturity date of the issue of which the refunding bond is a part is not later than the average maturity date of the bonds to be refunded by such issue,

(B) the amount of the refunding bond does not exceed the outstanding amount of the refunded bond, and

(C) the net proceeds of the refunding bond are used to redeem the refunded bond not later than 90 days after the date of the issuance of the refunding bond.

For purposes of subparagraph (A), average maturity shall be determined in accordance with section 147(b)(2)(A) of such Code.

(7) EFFECTIVE DATE- This subsection shall apply to obligations issued on or after the date which is 180 days after the date of the enactment of this Act.

(b) Items From Qualified Harvesting Activities Not Subject To Tax or Taken Into Account-

(1) IN GENERAL- Income, gains, deductions, losses, or credits from a qualified harvesting activity conducted by a qualified organization shall not be subject to tax or taken into account under subtitle A of the Internal Revenue Code of 1986.

(2) LIMITATION- The amount of income excluded from gross income under

paragraph (1) for any taxable year shall not exceed the amount used by the qualified organization to make debt service payments during such taxable year for qualified forest conservation bonds.

(3) QUALIFIED HARVESTING ACTIVITY- For purposes of paragraph (1)—

(A) IN GENERAL- The term `qualified harvesting activity' means the sale, lease, or harvesting, of standing timber—

(i) on land owned by a qualified organization which was acquired with proceeds of qualified forest conservation bonds, and

(ii) pursuant to a qualified conservation plan adopted by the qualified organization.

(B) EXCEPTIONS-

(i) CESSATION AS QUALIFIED ORGANIZATION- The term `qualified harvesting activity' shall not include any sale, lease, or harvesting for any period during which the organization ceases to qualify as a qualified organization.

(ii) EXCEEDING LIMITS ON HARVESTING- The term `qualified harvesting activity' shall not include any sale, lease, or harvesting of standing timber on land acquired with proceeds of qualified forest conservation bonds to the extent that—

(I) the average annual area of timber harvested from such land exceeds 2.5 percent of the total area of such land, or

(II) the quantity of timber removed from such land exceeds the quantity which can be removed from such land annually in perpetuity on a sustained-yield basis with respect to such land.

The limitations under subclauses (I) and (II) shall not apply to post-fire restoration and rehabilitation or sanitation harvesting of timber stands which are substantially damaged by fire, windthrow, or other catastrophes, or which are in imminent danger from insect or disease attack.

(4) TERMINATION- This subsection shall not apply to any qualified harvesting activity of a qualified organization occurring after the date on which—

(A) there is no outstanding qualified forest conservation bond with respect to such qualified organization, or

(B) any such bond ceases to be a tax-exempt bond.

(5) PARTIAL RECAPTURE OF BENEFITS IF HARVESTING LIMIT EXCEEDED- If, as of the date that this subsection ceases to apply under paragraph (4)(B), the average annual area of timber harvested from the land exceeds the requirement of subclause (I) or (II) of paragraph (3)(B)(ii), the tax imposed by chapter 1 of the Internal Revenue Code of 1986 shall be increased, under rules prescribed by the Secretary of the Treasury, by the sum of the tax benefits attributable to such excess and interest at the underpayment rate under section 6621 of such Code for the period of the underpayment.

(c) Definitions- For purposes of this section—

(1) QUALIFIED CONSERVATION PLAN- The term `qualified conservation plan' means a multiple land use program or plan which—

(A) is designed and administered primarily for the purposes of protecting and enhancing wildlife and fish, timber, scenic attributes, recreation, and soil and water quality of the forest and forest land,

(B) mandates that conservation of forest and forest land is the single-most significant use of the forest and forest land, and

(C) requires that timber harvesting be consistent with—

(i) restoring and maintaining reference conditions for the region's ecotype,
(ii) restoring and maintaining a representative sample of young, mid, and late successional forest age classes,
(iii) maintaining or restoring the resources' ecological health for purposes of preventing damage from fire, insect, or disease,
(iv) maintaining or enhancing wildlife or fish habitat, or
(v) enhancing research opportunities in sustainable renewable resource uses.

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	(2) CONSERVATION RESTRICTION- The conservation restriction described in this paragraph is a restriction which— (A) is granted in perpetuity to an unrelated person which is described in section 170(h)(3) of such Code and which, in the case of a nongovernmental unit, is organized and operated for conservation purposes, (B) meets the requirements of clause (ii) or (iii)(II) of section 170(h)(4)(A) of such Code, (C) obligates the qualified organization to pay the costs incurred by the holder of the conservation restriction in monitoring compliance with such restriction, and (D) requires an increasing level of conservation benefits to be provided whenever circumstances allow it. (3) QUALIFIED ORGANIZATION- The term `qualified organization' means a nonprofit organization— (A) substantially all the activities of which are charitable, scientific, or educational, including acquiring, protecting, restoring, managing, and developing forest lands and other renewable resources for the long-term charitable, educational, scientific, and public benefit, (B) which periodically conducts educational programs designed to inform the public of environmentally sensitive forestry management and conservation techniques, (C) which has at all times a board of directors-- (i) at least 20 percent of the members of which are representatives of the conservation community, (ii) at least 20 percent of the members of which are public officials, and (iii) not more than one-third of the members of which are individuals who are or were at any time within 5 years before the beginning of a term of membership on the board, an employee of, independent contractor with respect to, officer of, director of, or held a material

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	financial interest in, a commercial forest products enterprise with which the qualified organization has a contractual or other financial arrangement, (D) the bylaws of which require at least two-thirds of the members of the board of directors to vote affirmatively to approve the qualified conservation plan and any change thereto, and (E) upon dissolution, is required to dedicate its assets to-- (i) an organization described in section 501(c)(3) of such Code which is organized and operated for conservation purposes, or (ii) a governmental unit described in section 170(c)(1) of such Code. (4) UNRELATED PERSON- The term `unrelated person' means a person who is not a related person. (5) RELATED PERSON- A person shall be treated as related to another person if-- (A) such person bears a relationship to such other person described in section 267(b) (determined without regard to paragraph (9) thereof), or 707(b)(1), of such Code, determined by substituting `25 percent' for `50 percent' each place it appears therein, and (B) in the case such other person is a non-profit organization, if such person controls directly or indirectly more than 25 percent of the governing body of such organization.

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	SEC. 12212. DEDUCTION FOR QUALIFIED TIMBER GAIN. (a) In General- Part I of subchapter P of chapter 1 is amended by adding at the end the following new section: **`SEC. 1203. DEDUCTION FOR QUALIFIED TIMBER GAIN.** `(a) In General- In the case of a taxpayer which elects the application of this section for a taxable year, there shall be allowed a deduction against gross income in an amount equal to 60 percent of the lesser of— `(1) the taxpayer's qualified timber gain for such year, or `(2) the taxpayer's net capital gain for such year. `(b) Qualified Timber Gain- For purposes of this section, the term `qualified timber gain' means, with respect to any taxpayer for any taxable year, the excess (if any) of— `(1) the sum of the taxpayer's gains described in subsections (a) and (b) of section 631 for such year, over `(2) the sum of the taxpayer's losses described in such subsections for such year. `(c) Special Rules for Pass-Thru Entities- `(1) In the case of any qualified timber gain of a pass-thru entity (as defined in section 1(h)(10)) other than a real estate investment trust, the election under this section shall be made separately by each taxpayer subject to tax on such gain. `(2) In the case of any qualified timber gain of a real estate investment trust, the election under this section shall be made by the real estate investment trust. `(d) Election- An election under this section may be made only with respect to the first taxable year beginning after the date of the enactment of this section.'. (b) Coordination With Maximum Capital Gains Rates- (1) TAXPAYERS OTHER THAN CORPORATIONS- Paragraph (2) of section 1(h) is amended to read as follows: `(2) REDUCTION OF NET CAPITAL GAIN- For purposes of this subsection, the net capital gain for any taxable year shall be reduced (but not below zero) by

the sum of--

`(A) the amount which the taxpayer takes into account as investment income under section 163(d)(4)(B)(iii), and

`(B) in the case of a taxable year with respect to which an election is in effect under section 1203, the lesser of—

`(i) the amount described in paragraph (1) of section 1203(a), or

`(ii) the amount described in paragraph (2) of such section.'.

(2) CORPORATIONS- Section 1201 is amended by redesignating subsection (b) as subsection (c) and inserting after subsection (a) the following new subsection:

`(b) Qualified Timber Gain Not Taken Into Account- For purposes of this section, in the case of a corporation with respect to which an election is in effect under section 1203, the net capital gain for any taxable year shall be reduced (but not below zero) by the corporation's qualified timber gain (as defined in section 1203(b)).'.

(c) Deduction Allowed Whether or Not Individual Itemizes Other Deductions- Subsection (a) of section 62 is amended by inserting before the last sentence the following new paragraph:

`(22) QUALIFIED TIMBER GAINS- The deduction allowed by section 1203.'.

(d) Deduction Allowed in Computing Adjusted Current Earnings- Subparagraph (C) of section 56(g)(4) is amended by adding at the end the following new clause:

`(vii) DEDUCTION FOR QUALIFIED TIMBER GAIN- Clause (i) shall not apply to any deduction allowed under section 1203.'.

(e) Deduction Allowed in Computing Taxable Income of Electing Small Business Trusts- Subparagraph (C) of section 641(c)(2) is amended by inserting after clause (iii) the following new clause:

`(iv) The deduction allowed under section 1203.'.

(f) Treatment of Qualified Timber Gain of Real Estate Investment Trusts- Paragraph (3) of section 857(b) is amended by inserting after subparagraph (F) the following new subparagraph:

`(G) TREATMENT OF QUALIFIED TIMBER GAIN- For purposes of this

part, in the case of a real estate investment trust with respect to which an election is in effect under section 1203—

`(i) REDUCTION OF NET CAPITAL GAIN- The net capital gain of the real estate investment trust for any taxable year shall be reduced (but not below zero) by the real estate investment trust's qualified timber gain (as defined in section 1203(b)).

`(ii) ADJUSTMENT TO SHAREHOLDER'S BASIS ATTRIBUTABLE TO DEDUCTION FOR QUALIFIED TIMBER GAINS-

`(I) IN GENERAL- The adjusted basis of shares in the hands of the shareholder shall be increased by the amount of the deduction allowable under section 1203(a) as provided in subclauses (II) and (III).

`(II) ALLOCATION OF BASIS INCREASE FOR DISTRIBUTIONS MADE DURING TAXABLE YEAR- For any taxable year of a real estate investment trust for which an election is in effect under section 1203, in the case of a distribution made with respect to shares during such taxable year of amounts attributable to the deduction allowable under section 1203(a), the adjusted basis of such shares shall be increased by the amount of such distributions.

`(III) ALLOCATION OF EXCESS- If the deduction allowable under section 1203(a) for a taxable year exceeds the amount of distributions described in subclause (II), the excess shall be allocated to every shareholder of the real estate investment trust at the close of the trust's taxable year in the same manner as if a distribution of such excess were made with respect to such shares.

`(IV) DESIGNATIONS- To the extent provided in regulations, a real estate investment trust shall designate the amounts described in subclauses (II) and (III) in a manner similar to the designations provided with respect to capital gains described in subparagraphs (C) and (D).

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	`(V) DEFINITIONS- As used in this subparagraph, the terms `share' and `shareholder' shall include beneficial interests and holders of beneficial interests, respectively.  `(iii) EARNINGS AND PROFITS DEDUCTION FOR QUALIFIED TIMBER GAINS- The deduction allowable under section 1203(a) for a taxable year shall be allowed as a deduction in computing the earnings and profits of the real estate investment trust for such taxable year. The earnings and profits of any such shareholder which is a corporation shall be appropriately adjusted in accordance with regulations prescribed by the Secretary.'. (g) Loss Attributable to Basis Adjustment for Deduction for Qualified Timber Gain of Real Estate Investment Trusts- (1) Section 857(b)(8) is amended by redesignating subparagraphs (B) and (C) as subparagraphs (C) and (D), respectively, and by inserting after subparagraph (A) the following new subparagraph: `(B) LOSS ATTRIBUTABLE TO BASIS ADJUSTMENT FOR DEDUCTION FOR QUALIFIED TIMBER GAIN- If—  `(i) a shareholder of a real estate investment trust receives a basis adjustment provided under subsection (b)(3)(G)(ii), and `(ii) the taxpayer has held such share or interest for 6 months or less, then any loss on the sale or exchange of such share or interest shall, to the extent of the amount described in clause (i), be disallowed.'. (2) Subparagraph (D) of section 857(b)(8), as redesignated by paragraph (1), is amended by striking `subparagraph (A)' and inserting `subparagraphs (A) and (B)'. (h) Conforming Amendments- (1) Subparagraph (B) of section 172(d)(2) is amended to read as follows: `(B) the exclusion under section 1202, and the deduction under section 1203, shall not be allowed.'.  (2) Paragraph (4) of section 642(c) is amended by striking the first sentence and inserting `To the extent that the amount otherwise allowable as a deduction under

this subsection consists of gain described in section 1202(a) or qualified timber gain (as defined in section 1203(b)), proper adjustment shall be made for any exclusion allowable to the estate or trust under section 1202 and for any deduction allowable to the estate or trust under section 1203.'

(3) Paragraph (3) of section 643(a) is amended by striking the last sentence and inserting `The exclusion under section 1202 and the deduction under section 1203 shall not be taken into account.'.

(4) Subparagraph (C) of section 643(a)(6) is amended to read as follows:

`(C) Paragraph (3) shall not apply to a foreign trust. In the case of such a trust--

`(i) there shall be included gains from the sale or exchange of capital assets, reduced by losses from such sales or exchanges to the extent such losses do not exceed gains from such sales or exchanges, and

`(ii) the deduction under section 1203 shall not be taken into account.'.

(5) Paragraph (4) of section 691(c) is amended by inserting `1203,' after `1202,'.

(6) Paragraph (2) of section 871(a) is amended by inserting `or 1203,' after `1202,'.

(7) The table of sections for part I of subchapter P of chapter 1 is amended by adding at the end the following new item:

`Sec. 1203. Deduction for qualified timber gain.'.

(i) Effective Date- The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

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	SEC. 12213. EXCISE TAX NOT APPLICABLE TO SECTION 1203 DEDUCTION OF REAL ESTATE INVESTMENT TRUSTS. (a) In General- (1) ORDINARY INCOME- Subparagraph (B) of section 4981(e)(1) is amended to read as follows: `(B) by not taking into account-- `(i) any gain or loss from the sale or exchange of capital assets (determined without regard to any reduction that would be applied for purposes of section 857(b)(3)(G)(i)), and `(ii) any deduction allowable under section 1203, and'. (2) CAPITAL GAIN NET INCOME- Section 4981(e)(2) is amended by adding at the end the following new subparagraph: `(D) QUALIFIED TIMBER GAIN- The amount determined under subparagraph (A) shall be determined without regard to any reduction that would be applied for purposes of section 857(b)(3)(G)(i) but shall be reduced for any deduction allowable under section 1203 for such calendar year.'. (b) Effective Date- The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.
	SEC. 12214. TIMBER REIT MODERNIZATION. (a) In General- Section 856(c)(5) is amended by adding after subparagraph (G) the following new subparagraph: `(H) TREATMENT OF TIMBER GAINS- `(i) IN GENERAL- Gain from the sale of real property described in paragraph (2)(D) and (3)(C) shall include gain which is-- `(I) recognized by an election under section 631(a) from timber owned by the real estate investment trust, the cutting of which is provided by a taxable REIT subsidiary of the real estate investment trust; `(II) recognized under section 631(b); or

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	`(III) income which would constitute gain under subclause (I) or (II) but for the failure to meet the 1-year holding period requirement. `(ii) SPECIAL RULES- `(I) For purposes of this subtitle, cut timber, the gain of which is recognized by a real estate investment trust pursuant to an election under section 631(a) described in clause (i)(I) or so much of clause (i)(III) as relates to clause (i)(I), shall be deemed to be sold to the taxable REIT subsidiary of the real estate investment trust on the first day of the taxable year. `(II) For purposes of this subtitle, income described in this subparagraph shall not be treated as gain from the sale of property described in section 1221(a)(1). `(iii) TERMINATION- This subparagraph shall not apply to dispositions after the termination date.'. (b) Termination Date- Subsection (c) of section 856 is amended by adding at the end the following new paragraph: `(8) TERMINATION DATE- For purposes of this subsection, the term `termination date' means the last day of the first taxable year beginning after the date of the enactment of this paragraph.'. (c) Effective Date- The amendments made by subsection (a) shall apply to dispositions in taxable years beginning after the date of the enactment of this Act.

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	SEC. 12215. MINERAL ROYALTY INCOME QUALIFYING INCOME FOR TIMBER REITS. (a) In General- Section 856(c)(2) is amended by striking `and' at the end of subparagraph (G), by inserting `and' at the end of subparagraph (H), and by adding after subparagraph (H) the following new subparagraph: `(I) mineral royalty income earned in the first taxable year beginning after the date of the enactment of this subparagraph from real property owned by a timber real estate investment trust held, or once held, in connection with the trade or business of producing timber by such real estate investment trust;'. (b) Timber Real Estate Investment Trust- Section 856(c)(5), as amended by this Act, is amended by adding after subparagraph (H) the following new subparagraph: `(I) TIMBER REAL ESTATE INVESTMENT TRUST- The term `timber real estate investment trust' means a real estate investment trust in which more than 50 percent in value of its total assets consists of real property held in connection with the trade or business of producing timber.'. (c) Effective Date- The amendments by this section shall apply to taxable years beginning after the date of the enactment of this Act.
	SEC. 12216. MODIFICATION OF TAXABLE REIT SUBSIDIARY ASSET TEST FOR TIMBER REITS. (a) In General- Section 856(c)(4)(B)(ii) is amended by inserting `(in the case of a quarter which closes on or before the termination date, 25 percent in the case of a timber real estate investment trust)' after `not more than 20 percent of the value of its total assets is represented by securities of one or more taxable REIT subsidiaries'. (b) Effective Date- The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.
	SEC. 12217. SAFE HARBOR FOR TIMBER PROPERTY. (a) In General- Section 857(b)(6) (relating to income from prohibited transactions) is amended by adding at the end the following new subparagraph: `(G) SPECIAL RULES FOR SALES TO QUALIFIED

ORGANIZATIONS-

`(i) IN GENERAL- In the case of sale of a real estate asset (as defined in section 856(c)(5)(B)) to a qualified organization (as defined in section 170(h)(3)) exclusively for conservation purposes (within the meaning of section 170(h)(1)(C)), subparagraph (D) shall be applied—

`(I) by substituting `2 years' for `4 years' in clause (i), and

`(II) by substituting `2-year period' for `4-year period' in clauses (ii) and (iii).

`(ii) TERMINATION- This subparagraph shall not apply to sales after the termination date.'.

(b) Prohibited Transactions- Section 857(b)(6)(D)(v) is amended by inserting `or, in the case of a sale on or before the termination date, a taxable REIT subsidiary' after `independent contractor (as defined in section 856(d)(3)) from whom the trust itself does not derive or receive any income'.

(c) Sales That Are Not Prohibited Transactions- Section 857(b)(6), as amended by subsection (a), is amended by adding at the end the following new subparagraph:

`(H) SALES OF PROPERTY THAT ARE NOT A PROHIBITED TRANSACTION- In the case of a sale on or before the termination date, the sale of property which is not a prohibited transaction through application of subparagraph (D) shall be considered property held for investment or for use in a trade or business and not property described in section 1221(a)(1) for all purposes of this subtitle.'.

(d) Termination Date- Section 857(b)(6), as amended by subsections (a) and (c), is amended by adding at the end the following new subparagraph:

`(I) TERMINATION DATE- For purposes of this paragraph, the term `termination date' means the last day of the first taxable year beginning after the date of the enactment of this subparagraph.'.

(e) Effective Date- The amendments made by this section shall apply to dispositions in taxable years beginning after the date of the enactment of this Act.

Subtitle C--Energy Provisions

PART I--ELECTRICITY GENERATION

SEC. 12301. CREDIT FOR RESIDENTIAL AND BUSINESS WIND PROPERTY.

(a) Residential Wind Property-

(1) IN GENERAL- Section 25D(a) (relating to allowance of credit) is amended by striking `and' at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting `, and', and by adding at the end the following new paragraph:

`(4) 30 percent of the qualified small wind energy property expenditures made by the taxpayer during such year.'.

(2) LIMITATION- Section 25D(b)(1) (relating to maximum credit) is amended by striking `and' at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting `, and', and by adding at the end the following new subparagraph:

`(D) $500 with respect to each half kilowatt of capacity (not to exceed $4,000) of wind turbines for which qualified small wind energy property expenditures are made.'.

(3) QUALIFIED SMALL WIND ENERGY PROPERTY EXPENDITURES-

(A) IN GENERAL- Section 25D(d) (relating to definitions) is amended by adding at the end the following new paragraph:

`(4) QUALIFIED SMALL WIND ENERGY PROPERTY EXPENDITURE- The term `qualified small wind energy property expenditure' means an expenditure for qualified small wind energy property (as defined in section 48(c)(3)(A)) installed on or in connection with a dwelling unit located in the United States and used as a residence by the taxpayer.'.

(B) NO DOUBLE BENEFIT- Section 45(d)(1) (relating to wind facility) is amended by adding at the end the following new sentence: `Such term shall not include any facility with respect to which any qualified small wind energy property expenditure (as defined in subsection (d)(4) of section 25D) is taken into account in determining the credit under such section.'.

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	(4) MAXIMUM EXPENDITURES IN CASE OF JOINT OCCUPANCY- Section 25D(e)(4)(A) (relating to maximum expenditures) is amended by striking `and' at the end of clause (ii), by striking the period at the end of clause (iii) and inserting `, and', and by adding at the end the following new clause: `(iv) $1,667 in the case of each half kilowatt of capacity (not to exceed $13,333) of wind turbines for which qualified small wind energy property expenditures are made.'.  (b) Business Wind Property-  (1) IN GENERAL- Section 48(a)(3)(A) (defining energy property) is amended by striking `or' at the end of clause (iii), by adding `or' at the end of clause (iv), and by inserting after clause (iv) the following new clause:  `(v) qualified small wind energy property,'. (2) 30 percent credit- Section 48(a)(2)(A)(i) is amended by striking `and' at the end of subclause (II) and by inserting after subclause (III) the following new subclause: `(IV) qualified small wind energy property, and'. (3) QUALIFIED SMALL WIND ENERGY PROPERTY- Section 48(c) is amended-- (A) by inserting `; Qualified Small Wind Energy Property' after `Qualified Microturbine Property' in the heading, (B) by striking `For purposes of this subsection' and inserting `For purposes of this section', (C) by striking `paragraph (1)' in paragraphs (1)(B) and (2)(B) and inserting `subsection (a)(1)', and (D) by adding at the end the following new paragraph: `(3) QUALIFIED SMALL WIND ENERGY PROPERTY-  `(A) IN GENERAL- The term `qualified small wind energy property' means property which uses a qualifying small wind turbine to generate electricity.

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	`(B) LIMITATION- In the case of qualified small wind energy property placed in service during the taxable year, the credit otherwise determined under subsection (a)(1) for such year with respect to such property shall not exceed $4,000 with respect to any taxpayer.  `(C) QUALIFYING SMALL WIND TURBINE- The term `qualifying small wind turbine' means a wind turbine which-- `(i) has a nameplate capacity of not more than 100 kilowatts, and `(ii) meets the performance standards of the American Wind Energy Association.  `(D) TERMINATION- The term `qualified small wind energy property' shall not include any property for any period after December 31, 2008.'.  (4) CONFORMING AMENDMENT- Section 48(a)(1) is amended by striking `paragraphs (1)(B) and (2)(B)' and inserting `paragraphs (1)(B), (2)(B), and (3)(B)'. (c) Effective Date- The amendments made by this section shall apply to expenditures after December 31, 2007.

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	SEC. 12302. LANDOWNER INCENTIVE TO ENCOURAGE ELECTRIC TRANSMISSION BUILD-OUT. (a) In General- Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by inserting after section 139A the following new section: **`SEC. 139B. ELECTRIC TRANSMISSION EASEMENT PAYMENTS.** `(a) In General- Gross income shall not include any qualified electric transmission easement payment. `(b) Qualified Electric Transmission Easement Payment- For purposes of this section, the term `qualified electric transmission payment' means any payment which is made-- `(1) by an electric utility or electric transmission entity pursuant to an easement or other agreement granted by the payee (or any predecessor of such payee), and `(2) for the right of such entity (or any successors of such entity) to locate on such payee's property transmission lines and equipment used to transmit electricity at 230 or more kilovolts, primarily from qualified facilities described in section 45(d) (without regard to any placed in service date or the last sentence of paragraph (4) thereof) or energy property (as defined in section 48(a)(3)) placed in service after the date of the enactment of this section. `(c) No Increase in Basis- Notwithstanding any other provision of this subtitle, no increase in the basis or adjusted basis of any property shall result from any amount excluded under this subsection with respect to such property.  `(d) Denial of Double Benefit- Notwithstanding any other provision of this subtitle, no deduction or credit shall be allowed (to the person for whose benefit a qualified electric transmission easement payment is made) for, or by reason of, any expenditure to the extent of the amount excluded under this section with respect to such expenditure.'. (b) Clerical Amendment- The table of sections for such part III is amended by inserting after the item relating to section 139A the following new item: `Sec. 139B. Electric transmission easement payments.'. (c) Effective Date- The amendments made by this section shall apply to payments received after the date of the enactment of this Act.

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	SEC. 12303. EXCEPTION TO REDUCTION OF RENEWABLE ELECTRICITY CREDIT. (a) In General- Section 45(b)(3) (relating to credit reduced for grants, tax-exempt bonds, subsidized energy financing, and other credits) is amended by adding after the last sentence the following: `This paragraph shall not apply with respect to any loans, loan guarantees, or grants issued by the Secretary of Agriculture under authority granted by section 9007 of the Farm Security and Rural Investment Act of 2002.' (b) Effective Date- The amendment made by this section shall apply to facilities placed in service after the date of the enactment of this Act.
	PART II--ALCOHOL FUEL **SEC. 12311. EXPANSION OF SPECIAL ALLOWANCE TO CELLULOSIC BIOFUEL PLANT PROPERTY.** (a) In General- Paragraph (3) of section 168(l) (relating to special allowance for cellulosic biomass ethanol plant property) is amended to read as follows: `(3) CELLULOSIC BIOFUEL- For purposes of this subsection, the term `cellulosic biofuel' means any alcohol, ether, ester, or hydrocarbon produced from any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis.'. (b) Conforming Amendments- (1) Subsection (l) of section 168 is amended by striking `cellulosic biomass ethanol' each place it appears and inserting `cellulosic biofuel'. (2) The heading of section 168(l) is amended by striking `Cellulosic Biomass Ethanol' and inserting `Cellulosic Biofuel'. (3) The heading of paragraph (2) of section 168(l) is amended by striking `CELLULOSIC BIOMASS ETHANOL' and inserting `CELLULOSIC BIOFUEL'. (c) Effective Date- The amendments made by this section shall apply to property placed in service after the date of the enactment of this Act, in taxable years ending after such date.

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	SEC. 12312. CREDIT FOR PRODUCTION OF CELLULOSIC BIOFUEL. (a) In General- Subsection (a) of section 40 (relating to alcohol used as fuel) is amended by striking `plus' at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting `, plus', and by adding at the end the following new paragraph: `(4) the cellulosic biofuel producer credit.'.  (b) Cellulosic Biofuel Producer Credit-  (1) IN GENERAL- Subsection (b) of section 40 is amended by adding at the end the following new paragraph:  `(6) CELLULOSIC BIOFUEL PRODUCER CREDIT- `(A) IN GENERAL- The cellulosic biofuel producer credit of any taxpayer is an amount equal to the applicable amount for each gallon of qualified cellulosic biofuel production.  `(B) APPLICABLE AMOUNT- For purposes of subparagraph (A), the applicable amount means the excess of— `(i) $1.25, over  `(ii) the sum of-- `(I) the amount of the credit in effect for alcohol which is ethanol under subsection (b)(1) (without regard to subsection (b)(3)) at the time of the qualified cellulosic biofuel production, plus `(II) the amount of the credit in effect under subsection (b)(4) at the time of such production. `(C) QUALIFIED CELLULOSIC BIOFUEL PRODUCTION- For purposes of this section, the term `qualified cellulosic biofuel production' means any cellulosic biofuel which during the taxable year— `(i) is sold by the taxpayer to another person-- `(I) for use by such other person in the production of a

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	qualified cellulosic biofuel mixture in such other person's trade or business (other than casual off-farm production), `(II) for use by such other person as a fuel in a trade or business, or  `(III) who sells such cellulosic biofuel at retail to another person and places such cellulosic biofuel in the fuel tank of such other person, or `(ii) is used or sold by the taxpayer for any purpose described in clause (i). The qualified cellulosic biofuel production of any taxpayer for any taxable year shall not include any alcohol which is purchased by the taxpayer and with respect to which such producer increases the proof of the alcohol by additional distillation. `(D) QUALIFIED CELLULOSIC BIOFUEL MIXTURE- For purposes of this paragraph, the term `qualified cellulosic biofuel mixture' means a mixture of cellulosic biofuel and any petroleum fuel product which— `(i) is sold by the person producing such mixture to any person for use as a fuel, or  `(ii) is used as a fuel by the person producing such mixture. `(E) CELLULOSIC BIOFUEL-  `(i) IN GENERAL- The term `cellulosic biofuel' has the meaning given such term under section 168(l)(3), but does not include any alcohol with a proof of less than 150.  `(ii) DETERMINATION OF PROOF- The determination of the proof of any alcohol shall be made without regard to any added denaturants. `(F) ALLOCATION OF CELLULOSIC BIOFUEL PRODUCER CREDIT TO PATRONS OF COOPERATIVE- Rules similar to the rules under subsection (g)(6) shall apply for purposes of this paragraph.

`(G) APPLICATION OF PARAGRAPH- This paragraph shall apply with respect to qualified cellulosic biofuel production after December 31, 2007, and before April 1, 2015.'.

(2) TERMINATION DATE NOT TO APPLY- Subsection (e) of section 40 (relating to termination) is amended--

(A) by inserting `or subsection (b)(6)(G)' after `by reason of paragraph (1)' in paragraph (2), and

(B) by adding at the end the following new paragraph:

`(3) EXCEPTION FOR CELLULOSIC BIOFUEL PRODUCER CREDIT- Paragraph (1) shall not apply to the portion of the credit allowed under this section by reason of subsection (a)(4).'.

(c) Biofuel Not Used as a Fuel, etc-

(1) IN GENERAL- Paragraph (3) of section 40(d) is amended by redesignating subparagraph (D) as subparagraph (E) and by inserting after subparagraph (C) the following new subparagraph:

`(D) CELLULOSIC BIOFUEL PRODUCER CREDIT- If--

`(i) any credit is allowed under subsection (a)(4), and

`(ii) any person does not use such fuel for a purpose described in subsection (b)(6)(C),

then there is hereby imposed on such person a tax equal to the applicable amount for each gallon of such cellulosic biomass biofuel.'.

(2) CONFORMING AMENDMENTS-

(A) Subparagraph (C) of section 40(d)(3) is amended by striking `PRODUCER' in the heading and inserting `SMALL ETHANOL PRODUCER'.

(B) Subparagraph (E) of section 40(d)(3), as redesignated by paragraph (1), is amended by striking `or (C)' and inserting `(C), or (D)'.

(d) Biofuel Produced in the United States- Section 40(d) is amended by adding at the end the following new paragraph:

`(6) SPECIAL RULE FOR CELLULOSIC BIOFUEL PRODUCER CREDIT- No cellulosic biofuel producer credit shall be determined under subsection (a) with

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	respect to any cellulosic biofuel unless such cellulosic biofuel is produced in the United States.'. (e) Waiver of Credit Limit for Cellulosic Biofuel Production by Small Ethanol Producers- Section 40(b)(4)(C) is amended by inserting `(determined without regard to any qualified cellulosic biofuel production' after `15,000,000 gallons'. (f) Effective Date- The amendments made by this section shall apply to fuel produced after December 31, 2007.

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	SEC. 12313. EXTENSION OF SMALL ETHANOL PRODUCER CREDIT. Paragraph (1) of section 40(e) (relating to termination) is amended— (1) in subparagraph (A), by inserting `(December 31, 2012, in the case of the credit allowed by reason of subsection (a)(3))' after `December 31, 2010', and (2) in subparagraph (B), by inserting `(January 1, 2013, in the case of the credit allowed by reason of subsection (a)(3))' after `January 1, 2011'.
	SEC. 12314. CREDIT FOR PRODUCERS OF FOSSIL FREE ALCOHOL. (a) In General- Subsection (a) of section 40 (relating to alcohol used as fuel), as amended by this Act, is amended by striking `plus' at the end of paragraph (3), by striking the period at the end of paragraph (4) and inserting `, plus', and by adding at the end the following new paragraph: `(5) the small fossil free alcohol producer credit.'.  (b) Small Fossil Free Alcohol Producer Credit- Subsection (b) of section 40, as amended by this Act, is amended by adding at the end the following new paragraph:  `(7) SMALL FOSSIL FREE ALCOHOL PRODUCER CREDIT- `(A) IN GENERAL- In addition to any other credit allowed under this section, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 10 cents for each gallon of not more than 60,000,000 gallons of qualified fossil free alcohol production.  `(B) QUALIFIED FOSSIL FREE ALCOHOL PRODUCTION- For purposes of this section, the term `qualified fossil free alcohol production' means alcohol which is produced by an eligible small fossil free alcohol producer at a fossil free alcohol production facility and which during the taxable year—  `(i) is sold by the taxpayer to another person-- `(I) for use by such other person in the production of a

qualified alcohol mixture in such other person's trade or business (other than casual off-farm production),

`(II) for use by such other person as a fuel in a trade or business, or

`(III) who sells such alcohol at retail to another person and places such alcohol in the fuel tank of such other person, or

`(ii) is used or sold by the taxpayer for any purpose described in clause (i).

`(C) ADDITIONAL DISTILLATION EXCLUDED- The qualified fossil free alcohol production of any taxpayer for any taxable year shall not include any alcohol which is purchased by the taxpayer and with respect to which such producer increases the proof of the alcohol by additional distillation.'.

(c) Eligible Small Fossil Free Alcohol Producer- Section 40 is amended by adding at the end the following new subsection:

`(i) Definitions and Special Rules for Small Fossil Free Alcohol Producer- For purposes of this section—

`(1) IN GENERAL- The term `eligible small fossil free alcohol producer' means a person, who at all times during the taxable year, has a productive capacity for alcohol from all fossil free alcohol production facilities of the taxpayer which is not in excess of 60,000,000 gallons.

`(2) FOSSIL FREE ALCOHOL PRODUCTION FACILITY- The term `fossil free alcohol production facility' means any facility at which 90 percent of the energy used in the production of alcohol is produced from biomass (as defined in section 45K(c)(3)).

`(3) AGGREGATION RULE- For purposes of the 60,000,000 gallon limitation under paragraph (1) and subsection (b)(7)(A), all members of the same controlled group of corporations (within the meaning of section 267(f)) and all persons under common control (within the meaning of section 52(b) but determined by treating an interest of more than 50 percent as a controlling interest) shall be treated as 1 person.

`(4) PARTNERSHIP, S CORPORATIONS, AND OTHER PASS-THRU ENTITIES- In the case of a partnership, trust, S corporation, or other pass-thru entity, the limitation contained in paragraph (1) shall be applied at the entity level and at the partner or similar level.

`(5) ALLOCATION- For purposes of this subsection, in the case of a facility in which more than 1 person has an interest, productive capacity shall be allocated among such persons in such manner as the Secretary may prescribe.

`(6) REGULATIONS- The Secretary may prescribe such regulations as may be necessary to prevent the credit provided for in subsection (a)(5) from directly or indirectly benefitting any person with a direct or indirect productive capacity of more than 60,000,000 gallons of alcohol from fossil free alcohol production facilities during the taxable year.

`(7) ALLOCATION OF SMALL FOSSIL FREE ALCOHOL PRODUCER CREDIT TO PATRONS OF COOPERATIVE- Rules similar to the rules under subsection (g)(6) shall apply for purposes of this subsection.'.

(d) Alcohol Not Used as a Fuel, etc-

(1) IN GENERAL- Paragraph (3) of section 40(d), as amended by this Act, is amended by redesignating subparagraph (E) as subparagraph (F) and by inserting after subparagraph (D) the following new subparagraph:

`(E) SMALL FOSSIL FREE ALCOHOL PRODUCER CREDIT- If--

`(i) any credit is allowed under subsection (a)(5), and

`(ii) any person does not use such fuel for a purpose described in subsection (b)(7)(B),

then there is hereby imposed on such person a tax equal to 10 cents for each gallon of such alcohol.'.

(2) CONFORMING AMENDMENT- Subparagraph (F) of section 40(d)(3), as redesignated by paragraph (1) and amended by this Act, is amended by striking `or (D)' and inserting `(D), or (E)'.

(e) Alcohol Produced in the United States- Section 40(d)(6), as added by this Act, is amended—

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	(1) by inserting `or small fossil free alcohol producer credit' after `cellulosic alcohol producer credit', and (2) by inserting `and fossil free' after `cellulosic' in the heading. (f) Termination- Paragraph (1) of section 40(e), as amended by this Act, is amended— (1) in subparagraph (A), by inserting `, and December 31, 2011, in the case of the credit allowed by reason of subsection (a)(5)' after `subsection (a)(3)', and (2) in subparagraph (B), by inserting `, and January 1, 2012, in the case of the credit allowed by reason of subsection (a)(5)' after `subsection (a)(3)'. (g) Effective Date- The amendments made by this section shall apply to fuel produced after December 31, 2007.

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	SEC. 12315. MODIFICATION OF ALCOHOL CREDIT. (a) Income Tax Credit- Subsection (h) of section 40 (relating to reduced credit for ethanol blenders) is amended by adding at the end the following new paragraph: `(3) REDUCED AMOUNT AFTER SALE OF 7,500,000,000 GALLONS-  `(A) IN GENERAL- In the case of any calendar year beginning after the date described in subparagraph (B), the last row in the table in paragraph (2) shall be applied by substituting `46 cents' for `51 cents'. `(B) DATE DESCRIBED- The date described in this subparagraph is the first date on which 7,500,000,000 gallons of ethanol (including cellulosic ethanol) have been produced in or imported into the United States after the date of the enactment of this paragraph, as certified by the Secretary, in consultation with the Administrator of the Environmental Protection Agency.'. (b) Excise Tax Credit- (1) IN GENERAL- Paragraph (2) of section 6426(b) (relating to alcohol fuel mixture credit) is amended by adding at the end the following new subparagraph: `(C) REDUCED AMOUNT AFTER SALE OF 7,500,000,000 GALLONS- In the case of any alcohol fuel mixture produced in a calendar year beginning after the date described in section 40(h)(3)(B), subparagraph (A) shall be applied by substituting `46 cents' for `51 cents'.'.  (2) CONFORMING AMENDMENT- Subparagraph (A) of section 6426(b)(2) is amended by striking `subparagraph (B)' and inserting `subparagraphs (B) and (C)'. (c) Effective Date- The amendments made by this section shall take effect on the date of the enactment of this Act.
	SEC. 12316. CALCULATION OF VOLUME OF ALCOHOL FOR FUEL CREDITS. (a) In General- Paragraph (4) of section 40(d) (relating to volume of alcohol) is amended by striking `5 percent' and inserting `2 percent'. (b) Conforming Amendment for Excise Tax Credit- Section 6426(b) (relating to alcohol

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	fuel mixture credit) is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph: `(5) VOLUME OF ALCOHOL- For purposes of determining under subsection (a) the number of gallons of alcohol with respect to which a credit is allowable under subsection (a), the volume of alcohol shall include the volume of any denaturant (including gasoline) which is added under any formulas approved by the Secretary to the extent that such denaturants do not exceed 2 percent of the volume of such alcohol (including denaturants).'. (c) Effective Date- The amendments made by this section shall apply to fuel sold or used after December 31, 2007.

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	SEC. 12317. ETHANOL TARIFF EXTENSION. Headings 9901.00.50 and 9901.00.52 of the Harmonized Tariff Schedule of the United States are each amended in the effective period column by striking `1/1/2009' and inserting `1/1/2011'.
	SEC. 12318. LIMITATIONS ON, AND REDUCTIONS OF, DUTY DRAWBACK ON CERTAIN IMPORTED ETHANOL. (a) In General- Section 313(p) of the Tariff Act of 1930 (19 U.S.C. 1313(p)) is amended by adding at the end the following new paragraph: `(5) SPECIAL RULES FOR ETHYL ALCOHOL- For purposes of this subsection, an exported article that does not contain ethyl alcohol or a mixture of ethyl alcohol shall not be treated as the same kind and quality as a qualified article that does contain ethyl alcohol or a mixture of ethyl alcohol.'. (b) Limitations on, and Reductions of, Drawbacks- Section 313 of the Tariff Act of 1930 (19 U.S.C. 1313) is amended by adding at the end the following new subsection: `(z) Limitations on, and Reductions of, Drawbacks-  `(1) LIMITATIONS- `(A) IN GENERAL- Ethyl alcohol or mixture containing ethyl alcohol described in subparagraph (B) may be treated as being of the same kind and quality under subsection (b) of this section or may be treated as being commercially interchangeable with any other ethyl alcohol or mixture containing ethyl alcohol under subsection (j)(2) of this section, only if the other ethyl alcohol or mixture— `(i) if imported, is subject to the additional duty under subheading 9901.00.50 of the Harmonized Tariff Schedule of the United States; or  `(ii) if domestic, is suitable for use as a fuel or in a mixture to be used as a fuel as described in such subheading 9901.00.50.

`(B) ETHYL ALCOHOL OR MIXTURE CONTAINING ETHYL ALCOHOL DESCRIBED- Ethyl alcohol or mixture containing ethyl alcohol described in this subparagraph means—

`(i) ethyl alcohol classifiable under subheading 2207.10.60 or 2207.20.00 of the Harmonized Tariff Schedule of the United States, or

`(ii) a mixture containing ethyl alcohol classifiable under heading 2710 or 3824 of the Harmonized Tariff Schedule of the United States,

which, if imported would be subject to additional duty under subheading 9901.00.50 of such Schedule.

`(2) REDUCTION OF DRAWBACK- For purposes of subsections (b), (j)(2), and (p) of this section, the amount of the refund as drawback under this section shall be reduced by an amount equal to any Federal tax credit or refund of any Federal tax paid on the merchandise with respect to which the drawback is claimed.'.

(c) Effective Date- The amendments made by this section apply to articles exported on or after the date that is 15 days after the date of the enactment of this Act.

PART III--BIODIESEL AND RENEWABLE DIESEL FUEL

SEC. 12321. EXTENSION AND MODIFICATION OF CREDIT FOR BIODIESEL AND RENEWABLE DIESEL USED AS FUEL.

(a) Extension-

(1) INCOME TAX CREDITS FOR BIODIESEL AND RENEWABLE DIESEL AND SMALL AGRI-BIODIESEL PRODUCER CREDIT- Section 40A(g) (relating to termination) is amended by striking `December 31, 2008' and inserting `December 31, 2010 (December 31, 2012, in the case of the credit allowed by reason of subsection (a)(3))'.

(2) EXCISE TAX CREDIT- Section 6426(c)(6) (relating to termination) is amended by striking `2008' and inserting `2010'.

(3) FUELS NOT USED FOR TAXABLE PURPOSES- Section 6427(e)(5)(B) (relating to termination) is amended by striking `2008' and inserting `2010'.

(b) Modification of Credit for Renewable Diesel- Section 40A(f) (relating to renewable diesel) is amended by adding at the end the following new paragraph:

`(4) SPECIAL RULE FOR CO-PROCESSED RENEWABLE DIESEL- In the case of a taxpayer which produces renewable diesel through the co-processing of biomass and petroleum at any facility, this subsection shall not apply to so much of the renewable diesel produced at such facility and sold or used during the taxable year in a mixture described in subsection (b)(1)(B) as exceeds 60,000,000 gallons.'.

(c) Modification Relating to Definition of Agri-Biodiesel- Paragraph (2) of section 40A(d) (relating to agri-biodiesel) is amended by striking `and mustard seeds' and inserting `mustard seeds, and camelina'.

(d) Eligibility of Certain Aviation Fuel- Section 40A(f)(3) (defining renewable diesel) is amended by adding at the end the following new flush sentence:

`The term `renewable diesel' also means fuel derived from biomass (as defined in section 45K(c)(3)) using a thermal depolymerization process which meets the requirements of a Department of Defense specification for military jet fuel or an

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	American Society of Testing and Materials specification for aviation turbine fuel.'. (e) Effective Dates- The amendments made by this section shall apply to fuel sold or used after the date of the enactment of this Act.

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	SEC. 12322. TREATMENT OF QUALIFIED ALCOHOL FUEL MIXTURES AND QUALIFIED BIODIESEL FUEL MIXTURES AS TAXABLE FUELS. (a) In General- (1) QUALIFIED ALCOHOL FUEL MIXTURES- Paragraph (2) of section 4083(a) (relating to gasoline) is amended— (A) by striking `and' at the end of subparagraph (A), (B) by redesignating subparagraph (B) as subparagraph (C), and (C) by inserting after subparagraph (A) the following new subparagraph: `(B) includes any qualified mixture (as defined in section 40(b)(1)(B)), and'. (2) QUALIFIED BIODIESEL FUEL MIXTURES- Subparagraph (A) of section 4083(a)(3) (relating to diesel fuel) is amended by striking `and' at the end of clause (ii), by redesignating clause (iii) as clause (iv), and inserting after clause (ii) the following new clause: `(iii) any qualified biodiesel mixture (as defined in section 40A(b)(1)(B)), and'. (b) Modification of Biodiesel Certification Requirement- Paragraph (4) of section 40A(b) is amended by striking `which identifies' and all that follows and inserting `which-- `(A) identifies the product produced and the percentage of biodiesel and agri-biodiesel in the product, and `(B) documents that the biodiesel was independently tested and meets the requirements of ASTM D6751.'. (c) Information Reporting Requirement for Producers of Qualified Mixtures- Section 4101(d) (relating to information reporting) is amended to read as follows: `(d) Information Reporting- The Secretary-- `(1) may require— `(A) information reporting by any person registered under this section, and

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	`(B) information reporting by such other persons as the Secretary deems necessary to carry out this part, and  `(2) shall require information reporting by any person registered under this section and producing any qualified mixture (as defined in section 40(b)(1)(B)) or any qualified biodiesel mixture (as defined in section 40A(b)(1)(B)). Any person who is required to report under this subsection and who has 25 or more reportable transactions in a month shall file such report in electronic format.'. (d) Effective Date- The amendments made by this section shall apply to fuels removed, entered, or sold after December 31, 2007.

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	PART IV--ALTERNATIVE FUEL **SEC. 12331. EXTENSION AND MODIFICATION OF ALTERNATIVE FUEL CREDIT.** (a) Extension- (1) ALTERNATIVE FUEL CREDIT- Paragraph (4) of section 6426(d) (relating to alternative fuel credit) is amended by striking `September 30, 2009' and inserting `December 31, 2010'. (2) ALTERNATIVE FUEL MIXTURE CREDIT- Paragraph (3) of section 6426(e) (relating to alternative fuel mixture credit) is amended by striking `September 30, 2009' and inserting `December 31, 2010'. (3) PAYMENTS- Subparagraph (C) of section 6427(e)(5) (relating to termination) is amended by striking `September 30, 2009' and inserting `December 31, 2010'. (b) Modifications- (1) ALTERNATIVE FUEL TO INCLUDE COMPRESSED OR LIQUIFIED BIOMASS GAS- Paragraph (2) of section 6426(d) (relating to alternative fuel credit) is amended by striking `and' at the end of subparagraph (E), by redesignating subparagraph (F) as subparagraph (G), and by inserting after subparagraph (E) the following new subparagraph: `(F) compressed or liquefied biomass gas, and'. (2) CREDIT ALLOWED FOR AVIATION USE OF FUEL- Paragraph (1) of section 6426(d) is amended by inserting `sold by the taxpayer for use as a fuel in aviation,' after `motorboat,'. (c) Carbon Capture Requirement for Certain Fuels- (1) IN GENERAL- Subsection (d) of section 6426, as amended by subsection (a), is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph: `(4) CARBON CAPTURE REQUIREMENT-

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	`(A) IN GENERAL- The requirements of this paragraph are met if the fuel is certified, under such procedures as required by the Secretary, as having been derived from coal produced at a gasification facility which separates and sequesters not less than the applicable percentage of such facility's total carbon dioxide emissions. `(B) APPLICABLE PERCENTAGE- For purposes of subparagraph (A), the applicable percentage is—  `(i) 50 percent in the case of fuel produced after the date of the enactment of this paragraph and on or before the earlier of— `(I) the date the Secretary makes a determination under subparagraph (C), or  `(II) December 30, 2010, and `(ii) 75 percent in the case of fuel produced after the date on which the applicable percentage under clause (i) ceases to apply.  `(C) DETERMINATION TO INCREASE APPLICABLE PERCENTAGE BEFORE DECEMBER 31, 2010- If the Secretary, after considering the recommendations of the Carbon Sequestration Capability Panel, finds that the applicable percentage under subparagraph (B) should be 75 percent for fuel produced before December 31, 2010, the Secretary shall make a determination under this subparagraph. Any determination made under this subparagraph shall be made not later than 30 days after the Secretary receives from the Carbon Sequestration Panel the report required under section 331(c)(3)(D) of the Heartland, Habitat, Harvest, and Horticulture Act of 2007.'. (2) CONFORMING AMENDMENT- Subparagraph (E) of section 6426(d)(2) is amended by inserting `which meets the requirements of paragraph (4) and which is' after `any liquid fuel'. (3) CARBON SEQUESTRATION CAPABILITY PANEL- (A) ESTABLISHMENT OF PANEL- There is established a panel to be known as the `Carbon Sequestration Capability Panel' (hereafter in this paragraph referred to as the `Panel').

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	(B) MEMBERSHIP- The Panel shall be composed of— (i) 1 representative from the National Academy of Sciences, (ii) 1 representative from the University of Kentucky Center for Applied Energy Research, and (iii) 1 individual appointed jointly by the representatives under clauses (i) and (ii). (C) STUDY- The Panel shall study the appropriate percentage of carbon dioxide for separation and sequestration under section 6426(d)(4) of the Internal Revenue Code of 1986 consistent with the purposes of such section. The panel shall consider whether it is feasible to separate and sequester 75 percent of the carbon dioxide emissions of a facility, including costs and other factors associated with separating and sequestering such percentage of carbon dioxide emissions. (D) REPORT- Not later than 6 months after the date of the enactment of this Act, the Panel shall report to the Secretary of Treasury, the Committee on Finance of the Senate, and the Committee on Ways and Means of the House of Representatives on the study under subparagraph (C). (d) Effective Date- The amendments made by this section shall apply to fuel sold or used after the date of the enactment of this Act.

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	SEC. 12332. EXTENSION OF ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY CREDIT. Paragraph (2) of section 30C(g) (relating to termination) is amended by striking `December 31, 2009' and inserting `December 31, 2010'.
	Subtitle D--Agricultural Provisions **SEC. 12401. INCREASE IN LOAN LIMITS ON AGRICULTURAL BONDS.** (a) In General- Subparagraph (A) of section 147(c)(2) (relating to exception for first-time farmers) is amended by striking `$250,000' and inserting `$450,000'. (b) Inflation Adjustment- Section 147(c)(2) is amended by adding at the end the following new subparagraph: `(H) ADJUSTMENTS FOR INFLATION- In the case of any calendar year after 2008, the dollar amount in subparagraph (A) shall be increased by an amount equal to—  `(i) such dollar amount, multiplied by `(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year, determined by substituting `calendar year 2007' for `calendar year 1992' in subparagraph (B) thereof. If any amount as increased under the preceding sentence is not a multiple of $100, such amount shall be rounded to the nearest multiple of $100.'. (c) Modification of Substantial Farmland Definition- Section 147(c)(2)(E) (defining substantial farmland) is amended by striking `unless' and all that follows through the period and inserting `unless such parcel is smaller than 30 percent of the median size of a farm in the county in which such parcel is located.'. (d) Conforming Amendment- Section 147(c)(2)(C)(i)(II) is amended by striking `$250,000' and inserting `the amount in effect under subparagraph (A)'. (e) Effective Date- The amendments made by this section shall apply to bonds issued after the date of the enactment of this Act.

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	SEC. 12402. MODIFICATION OF INSTALLMENT SALE RULES FOR CERTAIN FARM PROPERTY. (a) In General- Section 453(i) (relating to recognition of recapture income in year of disposition) is amended by adding at the end the following new paragraph: `(3) EXCEPTION FOR CERTAIN FARM PROPERTY- Paragraph (1) shall not apply to any installment sale of any single purpose agricultural or horticultural structure or any tree or vine bearing fruit or nuts eligible for classification as 10-year property under section 168(e)(3)(D).'. (b) Effective Date- The amendment made by this section shall apply to installment sales occurring after the date of the enactment of this Act.
	SEC. 12403. ALLOWANCE OF SECTION 1031 TREATMENT FOR EXCHANGES INVOLVING CERTAIN MUTUAL DITCH, RESERVOIR, OR IRRIGATION COMPANY STOCK. (a) In General- Section 1031 (relating to exchange of property held for productive use or investment) is amended by adding at the end the following new subsection: `(i) Special Rules for Mutual Ditch, Reservoir, or Irrigation Company Stock- For purposes of subsection (a)(2)(B), the term `stocks' shall not include shares in a mutual ditch, reservoir, or irrigation company if at the time of the exchange— `(1) the mutual ditch, reservoir, or irrigation company is an organization described in section 501(c)(12)(A) (determined without regard to the percentage of its income that is collected from its members for the purpose of meeting losses and expenses), and  `(2) the shares in such company have been recognized by the highest court of the State in which such company was organized or by applicable State statute as constituting or representing real property or an interest in real property.'. (b) Effective Date- The amendment made by this section shall apply to exchanges completed after the date of the enactment of this Act.
	SEC. 12404. CREDIT TO HOLDERS OF RURAL RENAISSANCE BONDS. (a) In General- Subpart H of part IV of subchapter A of chapter 1 (relating to credits against tax) is amended by adding at the end the following new section:

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	**`SEC. 54A. CREDIT TO HOLDERS OF RURAL RENAISSANCE BONDS.** `(a) Allowance of Credit- In the case of a taxpayer who holds a rural renaissance bond on 1 or more credit allowance dates of the bond occurring during any taxable year, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of the credits determined under subsection (b) with respect to such dates. `(b) Amount of Credit- `(1) IN GENERAL- The amount of the credit determined under this subsection with respect to any credit allowance date for a rural renaissance bond is 25 percent of the annual credit determined with respect to such bond. `(2) ANNUAL CREDIT- The annual credit determined with respect to any rural renaissance bond is the product of— `(A) the credit rate determined by the Secretary under paragraph (3) for the day on which such bond was sold, multiplied by `(B) the outstanding face amount of the bond. `(3) DETERMINATION- For purposes of paragraph (2), with respect to any rural renaissance bond, the Secretary shall determine daily or caused to be determined daily a credit rate which shall apply to the first day on which there is a binding, written contract for the sale or exchange of the bond. The credit rate for any day is the credit rate which the Secretary or the Secretary's designee estimates will permit the issuance of rural renaissance bonds with a specified maturity or redemption date without discount and without interest cost to the qualified issuer. `(4) CREDIT ALLOWANCE DATE- For purposes of this section, the term `credit allowance date' means— `(A) March 15, `(B) June 15, `(C) September 15, and `(D) December 15. Such term also includes the last day on which the bond is outstanding.

`(5) SPECIAL RULE FOR ISSUANCE AND REDEMPTION- In the case of a bond which is issued during the 3-month period ending on a credit allowance date, the amount of the credit determined under this subsection with respect to such credit allowance date shall be a ratable portion of the credit otherwise determined based on the portion of the 3-month period during which the bond is outstanding. A similar rule shall apply when the bond is redeemed or matures.

`(c) Limitation Based on Amount of Tax- The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

`(1) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

`(2) the sum of the credits allowable under this part (other than subpart C, section 1400N(l), and this section).

`(d) Rural Renaissance Bond- For purposes of this section--

`(1) IN GENERAL- The term `rural renaissance bond' means any bond issued as part of an issue if—

`(A) the bond is issued by a qualified issuer pursuant to an allocation by the Secretary to such issuer of a portion of the national rural renaissance bond limitation under subsection (f)(2),

`(B) 95 percent or more of the proceeds from the sale of such issue are to be used for capital expenditures incurred by qualified borrowers for 1 or more qualified projects,

`(C) the qualified issuer designates such bond for purposes of this section and the bond is in registered form,

`(D) the issue meets the requirements of subsection (h), and

`(E) such bond is not a federally guaranteed bond (within the meaning of section 149(b)(2)).

`(2) QUALIFIED PROJECT; SPECIAL USE RULES-

`(A) IN GENERAL- The term `qualified project' means 1 or more projects described in subparagraph (B) located in a rural area.

`(B) PROJECTS DESCRIBED- A project described in this subparagraph is a project eligible for assistance under—

`(i) the utilities programs described in section 381E(d)(2) of the Consolidated Farm and Rural Development Act (7 U.S.C. 2009d(d)(2)),

`(ii) the distance learning or telemedicine programs authorized pursuant to chapter 1 of subtitle D of title XXIII of the Food, Agriculture, Conservation, and Trade Act of 1990 (7 U.S.C. 950aaa et seq.),

`(iii) the rural electric programs authorized pursuant to the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.),

`(iv) the rural telephone programs authorized pursuant to the Rural Electrification Act of 1936 (7 U.S.C. 901 et seq.),

`(v) the broadband access programs authorized pursuant to title VI of the Rural Electrification Act of 1936 (7 U.S.C. 950bb et seq.), and `(vi) the rural community facility programs as described in section 381E(d)(1) of the Consolidated Farm and Rural Development Act (7 U.S.C. 2009d(d)(1)).

`(C) REFINANCING RULES- For purposes of paragraph (1)(B), a qualified project may be refinanced with proceeds of a rural renaissance bond only if the indebtedness being refinanced (including any obligation directly or indirectly refinanced by such indebtedness) was originally incurred by a qualified borrower after the date of the enactment of this section.

`(D) REIMBURSEMENT- For purposes of paragraph (1)(B), a rural renaissance bond may be issued to reimburse a qualified borrower for amounts paid after the date of the enactment of this section with respect to a qualified project, but only if—

`(i) prior to the payment of the original expenditure, the qualified borrower declared its intent to reimburse such expenditure with the proceeds of a rural renaissance bond,

`(ii) not later than 60 days after payment of the original expenditure, the qualified issuer adopts an official intent to reimburse the original expenditure with such proceeds, and

`(iii) the reimbursement is made not later than 18 months after the date the original expenditure is paid.

`(E) TREATMENT OF CHANGES IN USE- For purposes of paragraph (1)(B), the proceeds of an issue shall not be treated as used for a qualified project to the extent that a qualified borrower or qualified issuer takes any action within its control which causes such proceeds not to be used for a qualified project. The Secretary shall prescribe regulations specifying remedial actions that may be taken (including conditions to taking such remedial actions) to prevent an action described in the preceding sentence from causing a bond to fail to be a rural renaissance bond.

`(F) TREATMENT OF OTHER SUBSIDIES- For purposes of subparagraph (B), a qualified project does not include any portion of a project financed by grants or subsidized financing provided (directly or indirectly) under a Federal program, including any State or local obligation used to provide financing for such portion the interest on which is exempt from tax under section 103.

`(e) Maturity Limitations-

`(1) DURATION OF TERM- A bond shall not be treated as a rural renaissance bond if the maturity of such bond exceeds the maximum term determined by the Secretary under paragraph (2) with respect to such bond.

`(2) MAXIMUM TERM- During each calendar month, the Secretary shall determine the maximum term permitted under this paragraph for bonds issued during the following calendar month. Such maximum term shall be the term which the Secretary estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of the face amount of such bond. Such present value shall be determined without regard to the requirements of paragraph (3) and using as a discount rate the average annual interest rate of tax-exempt obligations having a term of 10 years or more which are issued during the month. If the term as so determined is not a multiple of a whole year, such term shall be rounded to the next highest whole year.

`(3) RATABLE PRINCIPAL AMORTIZATION REQUIRED- A bond shall not be treated as a rural renaissance bond unless it is part of an issue which provides for an equal amount of principal to be paid by the qualified issuer during each calendar year that the issue is outstanding.

`(f) Limitation on Amount of Bonds Designated-

`(1) NATIONAL LIMITATION- There is a national rural renaissance bond limitation of $400,000,000.

`(2) ALLOCATION BY SECRETARY-

`(A) IN GENERAL- In accordance with subparagraph (B), the Secretary shall allocate the amount described in paragraph (1) among at least 20 qualified projects, or such lesser number of qualified projects with proper applications filed after 12 months after the adoption of the selection process under subparagraph (B).

`(B) SELECTION PROCESS- In consultation with the Secretary of Agriculture, the Secretary shall adopt a process to select projects described in subparagraph (A). Under such process, the Secretary shall not allocate more than 15 percent of the allocation under subparagraph (A) to qualified projects within a single State.

`(g) Credit Included in Gross Income- Gross income includes the amount of the credit allowed to the taxpayer under this section (determined without regard to subsection (c)) and the amount so included shall be treated as interest income.

`(h) Special Rules Relating to Expenditures-

`(1) IN GENERAL- An issue shall be treated as meeting the requirements of this subsection if, as of the date of issuance, the qualified issuer reasonably expects--

`(A) at least 95 percent of the proceeds from the sale of the issue are to be spent for 1 or more qualified projects within the 5-year period beginning on the date of issuance of the rural renaissance bond,

`(B) a binding commitment with a third party to spend at least 10 percent of the proceeds from the sale of the issue will be incurred within the 6-month period beginning on the date of issuance of the rural renaissance bond or, in the case of a rural renaissance bond the proceeds of which are to be loaned

to 2 or more qualified borrowers, such binding commitment will be incurred within the 6-month period beginning on the date of the loan of such proceeds to a qualified borrower, and

`(C) such projects will be completed with due diligence and the proceeds from the sale of the issue will be spent with due diligence.

`(2) EXTENSION OF PERIOD- Upon submission of a request prior to the expiration of the period described in paragraph (1)(A), the Secretary may extend such period if the qualified issuer establishes that the failure to satisfy the 5-year requirement is due to reasonable cause and the related projects will continue to proceed with due diligence.

`(3) FAILURE TO SPEND REQUIRED AMOUNT OF BOND PROCEEDS WITHIN 5 YEARS- To the extent that less than 95 percent of the proceeds of such issue are expended by the close of the 5-year period beginning on the date of issuance (or if an extension has been obtained under paragraph (2), by the close of the extended period), the qualified issuer shall redeem all of the nonqualified bonds within 90 days after the end of such period. For purposes of this paragraph, the amount of the nonqualified bonds required to be redeemed shall be determined in the same manner as under section 142.

`(i) Special Rules Relating to Arbitrage- A bond which is part of an issue shall not be treated as a rural renaissance bond unless, with respect to the issue of which the bond is a part, the qualified issuer satisfies the arbitrage requirements of section 148 with respect to proceeds of the issue.

`(j) Definitions and Special Rules Relating to Issuers and Borrowers- For purposes of this section—

`(1) QUALIFIED ISSUER- The term `qualified issuer' means--
`(A) a rural renaissance bond lender,
`(B) a cooperative electric company, or
`(C) a governmental body.

`(2) QUALIFIED BORROWER- The term `qualified borrower' means--
`(A) a mutual or cooperative electric company described in section 501(c)(12) or 1381(a)(2)(C), or
`(B) a governmental body.

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	`(3) RURAL RENAISSANCE BOND LENDER- The term `rural renaissance bond lender' means a lender which is a cooperative which is owned by, or has outstanding loans to, 100 or more cooperative electric companies and is in existence on February 1, 2002, and shall include any affiliated entity which is controlled by such lender. `(4) COOPERATIVE ELECTRIC COMPANY- The term `cooperative electric company' means a mutual or cooperative electric company described in section 501(c)(12) or section 1381(a)(2)(C), or a not-for-profit electric utility which has received a loan or loan guarantee under the Rural Electrification Act. `(5) GOVERNMENTAL BODY- The term `governmental body' means any State, territory, possession of the United States, the District of Columbia, Indian tribal government, and any political subdivision thereof. `(k) Special Rules Relating to Pool Bonds- No portion of a pooled financing bond may be allocable to loan unless the borrower has entered into a written loan commitment for such portion prior to the issue date of such issue.  `(l) Other Definitions and Special Rules- For purposes of this section— `(1) BOND- The term `bond' includes any obligation. `(2) POOLED FINANCING BOND- The term `pooled financing bond' shall have the meaning given such term by section 149(f)(4)(A). `(3) RURAL AREA- The term `rural area' shall have the meaning given such term by section 1393(a)(2). `(4) PARTNERSHIP; S CORPORATION; AND OTHER PASS-THRU ENTITIES-  `(A) IN GENERAL- Under regulations prescribed by the Secretary, in the case of a partnership, trust, S corporation, or other pass-thru entity, rules similar to the rules of section 41(g) shall apply with respect to the credit allowable under subsection (a). `(B) NO BASIS ADJUSTMENT- In the case of a bond held by a partnership or an S corporation, rules similar to the rules under section 1397E(i) shall apply.

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	`(5) BONDS HELD BY REGULATED INVESTMENT COMPANIES- If any rural renaissance bond is held by a regulated investment company, the credit determined under subsection (a) shall be allowed to shareholders of such company under procedures prescribed by the Secretary.  `(6) REPORTING- Issuers of rural renaissance bonds shall submit reports similar to the reports required under section 149(e). `(7) TERMINATION- This section shall not apply with respect to any bond issued after December 31, 2008.'.  (b) Reporting- Subsection (d) of section 6049 (relating to returns regarding payments of interest) is amended by adding at the end the following new paragraph:  `(9) REPORTING OF CREDIT ON RURAL RENAISSANCE BONDS- `(A) IN GENERAL- For purposes of subsection (a), the term `interest' includes amounts includible in gross income under section 54A(g) and such amounts shall be treated as paid on the credit allowance date (as defined in section 54A(b)(4)). `(B) REPORTING TO CORPORATIONS, ETC- Except as otherwise provided in regulations, in the case of any interest described in subparagraph (A), subsection (b)(4) shall be applied without regard to subparagraphs (A), (H), (I), (J), (K), and (L)(i) of such subsection.  `(C) REGULATORY AUTHORITY- The Secretary may prescribe such regulations as are necessary or appropriate to carry out the purposes of this paragraph, including regulations which require more frequent or more detailed reporting.'. (c) Conforming Amendments- (1) The table of sections for subpart H of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item: `Sec. 54A. Credit to holders of rural renaissance bonds.'. (2) Section 54(c)(2) is amended by inserting `section 54A,' after `subpart C,'. (d) Issuance of Regulations- The Secretary of Treasury shall issue regulations required under section 54A (as added by this section) not later than 120 days after the date of the enactment of this Act.

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	(e) Effective Date- The amendments made by this section shall apply to bonds issued after the date of the enactment of this Act.

SEC. 12405. AGRICULTURAL CHEMICALS SECURITY CREDIT.

(a) In General- Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits) is amended by adding at the end the following new section:

`SEC. 45O. AGRICULTURAL CHEMICALS SECURITY CREDIT.

`(a) In General- For purposes of section 38, in the case of an eligible agricultural business, the agricultural chemicals security credit determined under this section for the taxable year is 30 percent of the qualified security expenditures for the taxable year.

`(b) Facility Limitation- The amount of the credit determined under subsection (a) with respect to any facility for any taxable year shall not exceed—

`(1) $100,000, reduced by

`(2) the aggregate amount of credits determined under subsection (a) with respect to such facility for the 5 prior taxable years.

`(c) Annual Limitation- The amount of the credit determined under subsection (a) with respect to any taxpayer for any taxable year shall not exceed $2,000,000.

`(d) Qualified Chemical Security Expenditure- For purposes of this section, the term `qualified chemical security expenditure' means, with respect to any eligible agricultural business for any taxable year, any amount paid or incurred by such business during such taxable year for—

`(1) employee security training and background checks,
`(2) limitation and prevention of access to controls of specified agricultural chemicals stored at the facility,
`(3) tagging, locking tank valves, and chemical additives to prevent the theft of specified agricultural chemicals or to render such chemicals unfit for illegal use,
`(4) protection of the perimeter of specified agricultural chemicals,
`(5) installation of security lighting, cameras, recording equipment, and intrusion detection sensors,
`(6) implementation of measures to increase computer or computer network security,
`(7) conducting a security vulnerability assessment,
`(8) implementing a site security plan, and
`(9) such other measures for the protection of specified agricultural chemicals as

the Secretary may identify in regulation.

Amounts described in the preceding sentence shall be taken into account only to the extent that such amounts are paid or incurred for the purpose of protecting specified agricultural chemicals.

`(e) Eligible Agricultural Business- For purposes of this section, the term `eligible agricultural business' means any person in the trade or business of—

`(1) selling agricultural products, including specified agricultural chemicals, at retail predominantly to farmers and ranchers, or

`(2) manufacturing, formulating, distributing, or aerially applying specified agricultural chemicals.

`(f) Specified Agricultural Chemical- For purposes of this section, the term `specified agricultural chemical' means—

`(1) any fertilizer commonly used in agricultural operations which is listed under--
`(A) section 302(a)(2) of the Emergency Planning and Community Right-to-Know Act of 1986,
`(B) section 101 of part 172 of title 49, Code of Federal Regulations, or
`(C) part 126, 127, or 154 of title 33, Code of Federal Regulations, and

`(2) any pesticide (as defined in section 2(u) of the Federal Insecticide, Fungicide, and Rodenticide Act), including all active and inert ingredients thereof, which is customarily used on crops grown for food, feed, or fiber.

`(g) Controlled Groups- Rules similar to the rules of paragraphs (1) and (2) of section 41(f) shall apply for purposes of this section.

`(h) Regulations- The Secretary may prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations which—

`(1) provide for the proper treatment of amounts which are paid or incurred for purpose of protecting any specified agricultural chemical and for other purposes, and

`(2) provide for the treatment of related properties as one facility for purposes of subsection (b).

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	`(i) Termination- This section shall not apply to any amount paid or incurred after December 31, 2012.'.  (b) Credit Allowed as Part of General Business Credit- Section 38(b) is amended by striking `plus' at the end of paragraph (30), by striking the period at the end of paragraph (31) and inserting `, plus', and by adding at the end the following new paragraph:  `(32) in the case of an eligible agricultural business (as defined in section 45O(e)), the agricultural chemicals security credit determined under section 45O(a).'. (c) Denial of Double Benefit- Section 280C is amended by adding at the end the following new subsection: `(f) Credit for Security of Agricultural Chemicals- No deduction shall be allowed for that portion of the expenses otherwise allowable as a deduction taken into account in determining the credit under section 45O for the taxable year which is equal to the amount of the credit determined for such taxable year under section 45O(a).'. (d) Clerical Amendment- The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item: `Sec. 45O. Agricultural chemicals security credit.'. (e) Effective Date- The amendments made by this section shall apply to amounts paid or incurred after the date of the enactment of this Act.

SEC. 12406. CREDIT FOR DRUG SAFETY AND EFFECTIVENESS TESTING FOR MINOR ANIMAL SPECIES.

(a) In General- Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by this Act, is amended by adding at the end the following new section:

`SEC. 45P. DRUG SAFETY AND EFFECTIVENESS TESTING FOR MINOR ANIMAL SPECIES.

`(a) Allowance of Credit- For purposes of section 38, in the case of an eligible taxpayer, the drug safety and effectiveness testing for minor animal species credit determined under this section for the taxable year shall be an amount equal to 50 percent of the qualified safety and effectiveness testing expenses paid or incurred by the taxpayer during the taxable year.

`(b) Eligible Taxpayer- For purposes of this section, the term `eligible taxpayer' any taxpayer--

`(1) which--

`(A) applies for the designation of a new animal drug for use on a minor animal species under section 573 of the Federal Food, Drug, and Cosmetic Act, or

`(B) owns animals which are the subject of safety and effectiveness testing, and

`(2) which elects the application of this section for the taxable year.

`(c) Qualified Safety and Effectiveness Testing Expenses- For purposes of this section—

`(1) IN GENERAL- The term `qualified safety and effectiveness testing expenses' means the sum of the following amounts which are paid or incurred by the eligible taxpayer during the taxable year in carrying on any trade or business of such taxpayer:

`(A) In-house safety and effectiveness testing expenses.

`(B) Contract safety and effectiveness testing expenses.

Such term does not include any amount to the extent such amount is funded by

any grant, contract, or otherwise by another person (or any governmental entity).

`(2) IN-HOUSE SAFETY AND EFFECTIVENESS TESTING EXPENSES-

`(A) IN GENERAL- The term `in-house safety and effectiveness testing expenses' means—

`(i) any wages paid or incurred to an employee for qualified services performed by such employee,

`(ii) any amount paid or incurred for supplies used in the conduct of safety and effectiveness testing, and

`(iii) under regulations prescribed by the Secretary, any amount paid or incurred to another person for the right to use computers in the conduct of safety and effectiveness testing.

Clause (iii) shall not apply to any amount to the extent that the taxpayer (or any person with whom the taxpayer must aggregate expenditures under rules specified under subsection (f)(2)) receives or accrues any amount from any other person for the right to use substantially identical personal property.

`(B) QUALIFIED SERVICES- The term `qualified services' means services consisting of—

`(i) engaging in safety and effectiveness testing, or

`(ii) engaging in the direct supervision or direct support of such testing.

If substantially all of the services performed by an individual for the taxpayer during the taxable year consists of services meeting the requirements of clause (i) or (ii), the term `qualified services' means all of the services performed by such individual for the taxpayer during the taxable year.

`(C) WAGES AND SUPPLIES- The terms `wages' and `supplies' have the meanings given such terms by section 41(b).

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	`(3) CONTRACT SAFETY AND EFFECTIVENESS TESTING EXPENSES-  `(A) IN GENERAL- The term `contract safety and effectiveness testing expenses' means any amount paid or incurred by the taxpayer to any person (other than an employee of the taxpayer) for safety and effectiveness testing.  `(B) PREPAID AMOUNTS- If any contract safety and effectiveness testing expenses paid or incurred during any taxable year are attributable to safety and effectiveness testing to be conducted after the close of such taxable year, such amount shall be treated as paid or incurred during the period during which the safety and effectiveness testing is conducted. `(d) Safety and Effectiveness Testing- For purposes of this section—  `(1) IN GENERAL- The term `safety and effectiveness testing' means any testing which—  `(A) is related to the use of a new animal drug for use on a minor animal species for which it was designated under section 573 of the Federal Food, Drug, and Cosmetic Act, `(B) is carried out under an exemption for such new animal drug under section 512(j) of such Act (or regulations issued under such section),  `(C) occurs-- `(i) after the date on which the application for designation of such new animal drug under section 573 of such Act is filed, and  `(ii) before the date on which such application is approved under section 512(c) of such Act, and `(D) which is conducted by or on behalf of an eligible taxpayer.  `(2) MINOR ANIMAL SPECIES- `(A) IN GENERAL- The term `minor animal species' means animals, other than humans, which are not major animal species. `(B) MAJOR ANIMAL SPECIES- The term `major animal species' means

cattle, horses, swine, chickens, turkeys, dogs, cats, and any other species as determined by the Secretary, after consultation with the Secretary of Agriculture.

`(e) Treatment of Qualified Safety and Effectiveness Testing Expenses-

`(1) IN GENERAL- Except as provided in paragraph (2), any qualified safety and effectiveness testing expenses for a taxable year to which an election under this section applies shall not be taken into account for purposes of determining the credit allowable under section 41 for such taxable year.

`(2) TREATED AS BASE PERIOD RESEARCH EXPENSES- Any qualified safe and effectiveness testing expenses for any taxable year which are qualified research expenses (within the meaning of section 41(b)) shall be taken into account in determining base period research expenses for purposes of applying section 41 to subsequent taxable years.

`(f) Special Rules-

`(1) LIMITATION- No credit shall be allowed under this section with respect to any safety and effectiveness testing conducted by a corporation to which an election under section 936 applies.

`(2) AGGREGATION OF EXPENDITURES AND ALLOCATIONS OF CREDIT- Rules similar to the rules of paragraphs (1) and (2) of section 41(f) and section 41(g) shall apply for purposes of this section.'.

(b) Credit Allowed as Part of General Business Credit- Section 38(b), as amended by this Act, is amended by striking `plus' at the end of paragraph (31), by striking the period at the end of paragraph (32) and inserting `, plus', and by adding at the end the following new paragraph:

`(33) the drug safety and effectiveness testing for minor animal species credit determined under section 45P(a).'.

(c) Denial of Double Benefit- Section 280C, as amended by this Act, is amended by adding at the end the following new subsection:

`(g) Drug Safety and Effectiveness Testing for Minor Animal Species Credit-

`(1) IN GENERAL- No deduction shall be allowed for that portion of the qualified safety and effectiveness testing expenses (as defined in section

45P(c)(1)) otherwise allowable as a deduction for the taxable year which is equal to the amount of the credit determined for such taxable year under section 45P(a).

`(2) SIMILAR RULE WHERE TAXPAYER CAPITALIZES RATHER THAN DEDUCTS EXPENSES- If—

`(A) the amount of the credit determined for the taxable year under section 45P(a), exceeds

`(B) the amount allowable as a deduction for such taxable year for qualified safety and effectiveness testing expenses (determined without regard to paragraph (1)),

the amount chargeable to capital account for the taxable year for such expenses shall be reduced by the amount of such excess.

`(3) CONTROLLED GROUPS- Paragraph (3) of subsection (b) shall apply for purposes of this subsection.'.

(d) Clerical Amendment- The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by this Act, is amended by adding at the end the following new item:

`Sec. 45P. Drug safety and effectiveness testing for minor animal species.'.

(e) Effective Date- The amendments made by this section shall apply to amounts paid or incurred after the date of the enactment of this Act.

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	SEC. 12407. CERTAIN FARMING BUSINESS MACHINERY AND EQUIPMENT TREATED AS 5-YEAR PROPERTY. (a) In General- Section 168(e)(3)(B) (defining 5-year property) is amended by striking `and' at the end of clause (v), by striking the period at the end of clause (vi)(III) and inserting `, and', and by inserting after clause (vi) the following new clause: `(vii) any machinery or equipment (other than any grain bin, cotton ginning asset, fence, or other land improvement) which is used in a farming business (as defined in section 263A(e)(4)), the original use of which commences with the taxpayer after the date of the enactment of this clause, and which is placed in service before January 1, 2010.'. (b) Alternative System- The table contained in section 168(g)(3)(B) (relating to special rule for certain property assigned to classes) is amended by inserting after the item relating to subparagraph (B)(iii) the following: c) Effective Date- The amendments made by this section shall apply to property placed in service after the date of the enactment of this Act.
	SEC. 12408. EXPENSING OF BROADBAND INTERNET ACCESS EXPENDITURES. (a) In General- Part VI of subchapter B of chapter 1 (relating to itemized deductions for individuals and corporations) is amended by inserting after section 190 the following new section: **`SEC. 191. BROADBAND EXPENDITURES.** `(a) Treatment of Expenditures- `(1) IN GENERAL- A taxpayer may elect to treat any qualified broadband expenditure which is paid or incurred by the taxpayer as an expense which is not chargeable to a capital account. Any expenditure which is so treated shall be allowed as a deduction.  `(2) ELECTION- An election under paragraph (1) shall be made at such time and in such manner as the Secretary may prescribe by regulation. `(b) Qualified Broadband Expenditures- For purposes of this section—

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	`(1) IN GENERAL- The term `qualified broadband expenditure' means, with respect to any taxable year, any direct or indirect costs incurred after the date of the enactment of this section, and on or before the first December 31 which is 3 years after such date, and properly taken into account with respect to— `(A) the purchase or installation of qualified equipment (including any upgrades thereto), and  `(B) the connection of such qualified equipment to any qualified subscriber. `(2) CERTAIN SATELLITE EXPENDITURES EXCLUDED- Such term shall not include any costs incurred with respect to the launching of any satellite equipment.  `(3) LEASED EQUIPMENT- Such term shall include so much of the purchase price paid by the lessor of qualified equipment subject to a lease described in subsection (c)(2)(B) as is attributable to expenditures incurred by the lessee which would otherwise be described in paragraph (1). `(4) LIMITATION WITH REGARD TO CURRENT GENERATION BROADBAND SERVICES- Only 50 percent of the amounts taken into account under paragraph (1) with respect to qualified equipment through which current generation broadband services are provided shall be treated as qualified broadband expenditures.  `(c) When Expenditures Taken Into Account- For purposes of this section— `(1) IN GENERAL- Qualified broadband expenditures with respect to qualified equipment shall be taken into account with respect to the first taxable year in which—  `(A) current generation broadband services are provided through such equipment to qualified subscribers, or `(B) next generation broadband services are provided through such equipment to qualified subscribers.  `(2) LIMITATION-

`(A) IN GENERAL- Qualified expenditures shall be taken into account under paragraph (1) only with respect to qualified equipment--

`(i) the original use of which commences with the taxpayer, and

`(ii) which is placed in service after the date of the enactment of this Act.

`(B) SALE-LEASEBACKS- For purposes of subparagraph (A), if property--

`(i) is originally placed in service after the date of the enactment of this Act by any person, and

`(ii) sold and leased back by such person within 3 months after the date such property was originally placed in service,

such property shall be treated as originally placed in service not earlier than the date on which such property is used under the leaseback referred to in clause (ii).

`(d) Special Allocation Rules-

`(1) CURRENT GENERATION BROADBAND SERVICES- For purposes of determining the amount of qualified broadband expenditures under subsection (a)(1) with respect to qualified equipment through which current generation broadband services are provided, if the qualified equipment is capable of serving both qualified subscribers and other subscribers, the qualified broadband expenditures shall be multiplied by a fraction—

`(A) the numerator of which is the sum of the number of potential qualified subscribers within the rural areas and the underserved areas which the equipment is capable of serving with current generation broadband services, and

`(B) the denominator of which is the total potential subscriber population of the area which the equipment is capable of serving with current generation broadband services.

`(2) NEXT GENERATION BROADBAND SERVICES- For purposes of

determining the amount of qualified broadband expenditures under subsection (a)(1) with respect to qualified equipment through which next generation broadband services are provided, if the qualified equipment is capable of serving both qualified subscribers and other subscribers, the qualified broadband expenditures shall be multiplied by a fraction—

`(A) the numerator of which is the sum of—

`(i) the number of potential qualified subscribers within the rural areas and underserved areas, plus

`(ii) the number of potential qualified subscribers within the area consisting only of residential subscribers not described in clause (i), which the equipment is capable of serving with next generation broadband services, and

`(B) the denominator of which is the total potential subscriber population of the area which the equipment is capable of serving with next generation broadband services.

`(e) Definitions- For purposes of this section—

`(1) ANTENNA- The term `antenna' means any device used to transmit or receive signals through the electromagnetic spectrum, including satellite equipment.

`(2) CABLE OPERATOR- The term `cable operator' has the meaning given such term by section 602(5) of the Communications Act of 1934 (47 U.S.C. 522(5)).

`(3) COMMERCIAL MOBILE SERVICE CARRIER- The term `commercial mobile service carrier' means any person authorized to provide commercial mobile radio service as defined in section 20.3 of title 47, Code of Federal Regulations.

`(4) CURRENT GENERATION BROADBAND SERVICE- The term `current generation broadband service' means the transmission of signals at a rate of at least 5,000,000 bits per second to the subscriber and at least 1,000,000 bits per second from the subscriber.

`(5) MULTIPLEXING OR DEMULTIPLEXING- The term `multiplexing' means the transmission of 2 or more signals over a single channel, and the term

`demultiplexing' means the separation of 2 or more signals previously combined by compatible multiplexing equipment.

`(6) NEXT GENERATION BROADBAND SERVICE- The term `next generation broadband service' means the transmission of signals at a rate of at least 100,000,000 bits per second to the subscriber and at least 20,000,000 bits per second from the subscriber.

`(7) NONRESIDENTIAL SUBSCRIBER- The term `nonresidential subscriber' means any person who purchases broadband services which are delivered to the permanent place of business of such person.

`(8) OPEN VIDEO SYSTEM OPERATOR- The term `open video system operator' means any person authorized to provide service under section 653 of the Communications Act of 1934 (47 U.S.C. 573).

`(9) OTHER WIRELESS CARRIER- The term `other wireless carrier' means any person (other than a telecommunications carrier, commercial mobile service carrier, cable operator, open video system operator, or satellite carrier) providing current generation broadband services or next generation broadband service to subscribers through the radio transmission of energy.

`(10) PACKET SWITCHING- The term `packet switching' means controlling or routing the path of any digitized transmission signal which is assembled into packets or cells.

`(11) PROVIDER- The term `provider' means, with respect to any qualified equipment—

`(A) a cable operator,
`(B) a commercial mobile service carrier,
`(C) an open video system operator,
`(D) a satellite carrier,
`(E) a telecommunications carrier, or
`(F) any other wireless carrier,

providing current generation broadband services or next generation broadband services to subscribers through such qualified equipment.

`(12) PROVISION OF SERVICES- A provider shall be treated as providing services to 1 or more subscribers if--

`(A) such a subscriber has been passed by the provider's equipment and can

be connected to such equipment for a standard connection fee,

`(B) the provider is physically able to deliver current generation broadband services or next generation broadband services, as applicable, to such a subscriber without making more than an insignificant investment with respect to such subscriber,

`(C) the provider has made reasonable efforts to make such subscribers aware of the availability of such services,

`(D) such services have been purchased by 1 or more such subscribers, and

`(E) such services are made available to such subscribers at average prices comparable to those at which the provider makes available similar services in any areas in which the provider makes available such services.

`(13) QUALIFIED EQUIPMENT-

`(A) IN GENERAL- The term `qualified equipment' means equipment which provides current generation broadband services or next generation broadband services—

`(i) at least a majority of the time during periods of maximum demand to each subscriber who is utilizing such services, and

`(ii) in a manner substantially the same as such services are provided by the provider to subscribers through equipment with respect to which no deduction is allowed under subsection (a)(1).

`(B) ONLY CERTAIN INVESTMENT TAKEN INTO ACCOUNT- Except as provided in subparagraph (C) or (D), equipment shall be taken into account under subparagraph (A) only to the extent it—

`(i) extends from the last point of switching to the outside of the unit, building, dwelling, or office owned or leased by a subscriber in the case of a telecommunications carrier or broadband-over-powerline operator,

`(ii) extends from the customer side of the mobile telephone switching office to a transmission/receive antenna (including such

antenna) owned or leased by a subscriber in the case of a commercial mobile service carrier,

`(iii) extends from the customer side of the headend to the outside of the unit, building, dwelling, or office owned or leased by a subscriber in the case of a cable operator or open video system operator, or

`(iv) extends from a transmission/receive antenna (including such antenna) which transmits and receives signals to or from multiple subscribers, to a transmission/receive antenna (including such antenna) on the outside of the unit, building, dwelling, or office owned or leased by a subscriber in the case of a satellite carrier or other wireless carrier, unless such other wireless carrier is also a telecommunications carrier.

`(C) PACKET SWITCHING EQUIPMENT- Packet switching equipment, regardless of location, shall be taken into account under subparagraph (A) only if it is deployed in connection with equipment described in subparagraph (B) and is uniquely designed to perform the function of packet switching for current generation broadband services or next generation broadband services, but only if such packet switching is the last in a series of such functions performed in the transmission of a signal to a subscriber or the first in a series of such functions performed in the transmission of a signal from a subscriber.

`(D) MULTIPLEXING AND DEMULTIPLEXING EQUIPMENT- Multiplexing and demultiplexing equipment shall be taken into account under subparagraph (A) only to the extent it is deployed in connection with equipment described in subparagraph (B) and is uniquely designed to perform the function of multiplexing and demultiplexing packets or cells of data and making associated application adaptions, but only if such multiplexing or demultiplexing equipment is located between packet switching equipment described in subparagraph (C) and the subscriber's premises.

`(14) QUALIFIED SUBSCRIBER- The term `qualified subscriber' means--

`(A) with respect to the provision of current generation broadband services--

`(i) any nonresidential subscriber maintaining a permanent place of business in a rural area or underserved area, or

`(ii) any residential subscriber residing in a dwelling located in a rural area or underserved area which is not a saturated market, and

`(B) with respect to the provision of next generation broadband services—

`(i) any nonresidential subscriber maintaining a permanent place of business in a rural area or underserved area, or

`(ii) any residential subscriber.

`(15) RESIDENTIAL SUBSCRIBER- The term `residential subscriber' means any individual who purchases broadband services which are delivered to such individual's dwelling.

`(16) RURAL AREA- The term `rural area' means any census tract which--

`(A) is not within 10 miles of any incorporated or census designated place containing more than 25,000 people, and

`(B) is not within a county or county equivalent which has an overall population density of more than 500 people per square mile of land.

`(17) RURAL SUBSCRIBER- The term `rural subscriber' means any residential subscriber residing in a dwelling located in a rural area or nonresidential subscriber maintaining a permanent place of business located in a rural area.

`(18) SATELLITE CARRIER- The term `satellite carrier' means any person using the facilities of a satellite or satellite service licensed by the Federal Communications Commission and operating in the Fixed-Satellite Service under part 25 of title 47 of the Code of Federal Regulations or the Direct Broadcast Satellite Service under part 100 of title 47 of such Code to establish and operate a channel of communications for distribution of signals, and owning or leasing a capacity or service on a satellite in order to provide such point-to-multipoint distribution.

`(19) SATURATED MARKET- The term `saturated market' means any census tract in which, as of the date of the enactment of this section—

`(A) current generation broadband services have been provided by a single provider to 85 percent or more of the total number of potential residential

subscribers residing in dwellings located within such census tract, and

`(B) such services can be utilized--

`(i) at least a majority of the time during periods of maximum demand by each such subscriber who is utilizing such services, and

`(ii) in a manner substantially the same as such services are provided by the provider to subscribers through equipment with respect to which no deduction is allowed under subsection (a)(1).

`(20) SUBSCRIBER- The term `subscriber' means any person who purchases current generation broadband services or next generation broadband services.

`(21) TELECOMMUNICATIONS CARRIER- The term `telecommunications carrier' has the meaning given such term by section 3(44) of the Communications Act of 1934 (47 U.S.C. 153(44)), but—

`(A) includes all members of an affiliated group of which a telecommunications carrier is a member, and

`(B) does not include a commercial mobile service carrier.

`(22) TOTAL POTENTIAL SUBSCRIBER POPULATION- The term `total potential subscriber population' means, with respect to any area and based on the most recent census data, the total number of potential residential subscribers residing in dwellings located in such area and potential nonresidential subscribers maintaining permanent places of business located in such area.

`(23) UNDERSERVED AREA- The term `underserved area' means—

`(A) any census tract which is located in—

`(i) an empowerment zone or enterprise community designated under section 1391, or

`(ii) the District of Columbia Enterprise Zone established under section 1400, or

`(B) any census tract--

`(i) the poverty level of which is at least 30 percent (based on the

most recent census data), and

`(ii) the median family income of which does not exceed—

`(I) in the case of a census tract located in a metropolitan statistical area, 70 percent of the greater of the metropolitan area median family income or the statewide median family income, and

`(II) in the case of a census tract located in a nonmetropolitan statistical area, 70 percent of the nonmetropolitan statewide median family income.

`(24) UNDERSERVED SUBSCRIBER- The term `underserved subscriber' means any residential subscriber residing in a dwelling located in an underserved area or nonresidential subscriber maintaining a permanent place of business located in an underserved area.

`(f) Special Rules-

`(1) PROPERTY USED OUTSIDE THE UNITED STATES, ETC., NOT QUALIFIED- No expenditures shall be taken into account under subsection (a)(1) with respect to the portion of the cost of any property referred to in section 50(b) or with respect to the portion of the cost of any property specified in an election under section 179.

`(2) BASIS REDUCTION-

`(A) IN GENERAL- For purposes of this title, the basis of any property shall be reduced by the portion of the cost of such property taken into account under subsection (a)(1).

`(B) ORDINARY INCOME RECAPTURE- For purposes of section 1245, the amount of the deduction allowable under subsection (a)(1) with respect to any property which is of a character subject to the allowance for depreciation shall be treated as a deduction allowed for depreciation under section 167.

`(3) COORDINATION WITH SECTION 38- No credit shall be allowed under section 38 with respect to any amount for which a deduction is allowed under

subsection (a)(1).'.

(b) Special Rule for Mutual or Cooperative Telephone Companies- Section 512(b) (relating to modifications) is amended by adding at the end the following new paragraph:

`(20) SPECIAL RULE FOR MUTUAL OR COOPERATIVE TELEPHONE COMPANIES- A mutual or cooperative telephone company which for the taxable year satisfies the requirements of section 501(c)(12)(A) may elect to reduce its unrelated business taxable income for such year, if any, by an amount that does not exceed the qualified broadband expenditures which would be taken into account under section 191 for such year by such company if such company was not exempt from taxation. Any amount which is allowed as a deduction under this paragraph shall not be allowed as a deduction under section 191 and the basis of any property to which this paragraph applies shall be reduced under section 1016(a)(40).'.

(c) Conforming Amendments-

(1) Section 263(a)(1) (relating to capital expenditures) is amended by striking `or' at the end of subparagraph (J), by striking the period at the end of subparagraph (K) and inserting `, or', and by adding at the end the following new subparagraph:
`(L) expenditures for which a deduction is allowed under section 191.'.

(2) Section 1016(a), as amended by this Act, is amended by striking `and' at the end of paragraph (38), by striking the period at the end of paragraph (39) and inserting `, and', and by adding at the end the following new paragraph:
`(40) to the extent provided in section 191(f)(2).'.

(3) The table of sections for part VI of subchapter A of chapter 1 is amended by inserting after the item relating to section 190 the following new item:
`Sec. 191. Broadband expenditures.'.

(d) Designation of Census Tracts-

(1) IN GENERAL- The Secretary of the Treasury shall, not later than 90 days after the date of the enactment of this Act, designate and publish those census tracts meeting the criteria described in paragraphs (16), (22), and (23) of section 191(e) of the Internal Revenue Code of 1986 (as added by this section). In making such designations, the Secretary of the Treasury shall consult with such other

departments and agencies as the Secretary determines appropriate.

(2) SATURATED MARKET-

(A) IN GENERAL- For purposes of designating and publishing those census tracts meeting the criteria described in subsection (e)(19) of such section 191—

(i) the Secretary of the Treasury shall prescribe not later than 30 days after the date of the enactment of this Act the form upon which any provider which takes the position that it meets such criteria with respect to any census tract shall submit a list of such census tracts (and any other information required by the Secretary) not later than 60 days after the date of the publication of such form, and

(ii) the Secretary of the Treasury shall publish an aggregate list of such census tracts and the applicable providers not later than 30 days after the last date such submissions are allowed under clause (i).

(B) NO SUBSEQUENT LISTS REQUIRED- The Secretary of the Treasury shall not be required to publish any list of census tracts meeting such criteria subsequent to the list described in subparagraph (A)(ii).

(e) Other Regulatory Matters-

(1) PROHIBITION- No Federal or State agency or instrumentality shall adopt regulations or ratemaking procedures that would have the effect of eliminating or reducing any deduction or portion thereof allowed under section 191 of the Internal Revenue Code of 1986 (as added by this section) or otherwise subverting the purpose of this section.

(2) TREASURY REGULATORY AUTHORITY- It is the intent of Congress in providing the election to deduct qualified broadband expenditures under section 191 of the Internal Revenue Code of 1986 (as added by this section) to provide incentives for the purchase, installation, and connection of equipment and facilities offering expanded broadband access to the Internet for users in certain low income and rural areas of the United States, as well as to residential users nationwide, in a manner that maintains competitive neutrality among the various classes of providers of broadband services. Accordingly, the Secretary of the Treasury shall prescribe such regulations as may be necessary or appropriate to

	carry out the purposes of section 191 of such Code, including— (A) regulations to determine how and when a taxpayer that incurs qualified broadband expenditures satisfies the requirements of section 191 of such Code to provide broadband services, and (B) regulations describing the information, records, and data taxpayers are required to provide the Secretary to substantiate compliance with the requirements of section 191 of such Code.

SEC. 12409. CREDIT FOR ENERGY EFFICIENT MOTORS.

(a) In General- Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by this Act, is amended by inserting at the end the following new section:

`SEC. 45Q. CREDIT FOR ENERGY EFFICIENT MOTORS.

`(a) In General- For purposes of section 38, the energy efficient motors credit determined under this section for any taxable year is an amount equal to the lesser of—

`(1) $15 per horsepower generated by qualified energy efficient motors the original use of which begins with the taxpayer during such taxable year, or

`(2) $1,250,000.

`(b) Qualified Energy Efficient Motor- The term `qualified energy efficient motor' means a general- or definite-purpose electric motor of 500 horsepower or less which meets or exceeds the efficiency levels specified in Tables 12-12 or 12-13 of the National Electrical Manufacturers Association MG-1 (2006).

`(c) Special Rules-

`(1) BASIS REDUCTION- The basis of any property for which a credit is allowable under subsection (a) shall be reduced by the amount of such credit.

`(2) RECAPTURE- The Secretary shall, by regulations, provide for recapturing the benefit of any credit allowable under subsection (a) with respect to any property which ceases to be property eligible for such credit.

`(3) PROPERTY USED OUTSIDE UNITED STATES, ETC., CERTAIN DEPRECIABLE PROPERTY NOT QUALIFIED- No credit shall be allowed under subsection (a) with respect to any property referred to in section 50(b) or with respect to the portion of the cost of any property taken into account under section 179.

`(d) Termination- This section shall not apply to any property placed in service after the date which is 3 years after the date of the enactment of this section.'.

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	(b) Credit Allowed as Part of General Business Credit- Section 38(b), as amended by this Act, is amended by striking `plus' at the end of paragraph (32), by striking the period at the end of paragraph (33) and inserting `, plus', and by adding at the end the following new paragraph: `(34) the credit for energy efficient motors determined under section 45Q(a).'.  (c) Conforming Amendments-  (1) Section 1016(a), as amended by this Act, is amended by striking `and' at the end of paragraph (39), by striking the period at the end of paragraph (40) and inserting `, and', and by adding at the end the following new paragraph: `(41) to the extent provided in section 45Q(c)(1).'. (2) The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by this Act, is amended by adding at the end the following new item: `Sec. 45Q. Credit for energy efficient motors.'. (d) Effective Date- The amendments made by this section shall apply to property placed in service after the date of the enactment of this Act.

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	Subtitle E--Revenue Provisions
	PART I--MISCELLANEOUS REVENUE PROVISIONS
	SEC. 12501. LIMITATION ON FARMING LOSSES OF CERTAIN TAXPAYERS. (a) In General- Section 461 (relating to general rule for taxable year of deduction) is amended by adding at the end the following new subsection: `(j) Limitation on Farming Losses of Certain Taxpayers-  `(1) IN GENERAL- If an applicable taxpayer has a farming loss for the taxable year, such loss shall be allowed for such taxable year only to the extent such loss does not exceed $200,000. `(2) FARMING LOSS- For purposes of this subsection, the term `farming loss' means the excess of the deductions of the taxpayer for the taxable year which are attributable to farming businesses (as defined in section 263A(e)(4)) of such taxpayer over income or gain of such taxpayer for the taxable year which is attributable to such deductions. `(3) DISALLOWED LOSS CARRIED TO NEXT YEAR- Any loss which is disallowed under paragraph (1) shall be treated as a deduction of the taxpayer attributable to farming businesses in the next taxable year.  `(4) APPLICABLE TAXPAYER- For purposes of this subsection, the term `applicable taxpayer' means, with respect to any taxable year, any individual, partnership, estate, or trust which receives—  `(A) benefits under subtitle A or B of title I of the Food and Energy Security Act of 2007 in such taxable year, or `(B) Commodity Credit Corporation loans in such taxable year.'. (b) Effective Date- The amendment made by this section shall apply to taxable years beginning after December 31, 2007.

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	SEC. 12502. MODIFICATION TO OPTIONAL METHOD OF COMPUTING NET EARNINGS FROM SELF-EMPLOYMENT. (a) Amendments to the Internal Revenue Code of 1986- (1) IN GENERAL- The matter following paragraph (17) of section 1402(a) is amended— (A) by striking `$2,400' each place it appears and inserting `the upper limit', and (B) by striking `$1,600' each place it appears and inserting `the lower limit'. (2) DEFINITIONS- Section 1402 is amended by adding at the end the following new subsection: `(l) Upper and Lower Limits- For purposes of subsection (a)—  `(1) LOWER LIMIT- The lower limit for any taxable year is the sum of the amounts required under section 213(d) of the Social Security Act for a quarter of coverage in effect with respect to each calendar quarter ending with or within such taxable year. `(2) UPPER LIMIT- The upper limit for any taxable year is the amount equal to 150 percent of the lower limit for such taxable year.'. (b) Amendments to the Social Security Act- (1) IN GENERAL- The matter following paragraph (16) of section 211(a) of the Social Security Act is amended— (A) by striking `$2,400' each place it appears and inserting `the upper limit', and (B) by striking `$1,600' each place it appears and inserting `the lower limit'. (2) DEFINITIONS- Section 211 of such Act is amended by adding at the end the following new subsection:

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	**`Upper and Lower Limits** `(k) For purposes of subsection (a)-- `(1) The lower limit for any taxable year is the sum of the amounts required under section 213(d) for a quarter of coverage in effect with respect to each calendar quarter ending with or within such taxable year. `(2) The upper limit for any taxable year is the amount equal to 150 percent of the lower limit for such taxable year.'. (3) CONFORMING AMENDMENT- Section 212 of such Act is amended— (A) in subsection (b), by striking `For' and inserting `Except as provided in subsection (c), for'; and (B) by adding at the end the following new subsection: `(c) For the purpose of determining average indexed monthly earnings, average monthly wage, and quarters of coverage in the case of any individual who elects the option described in clause (ii) or (iv) in the matter following section 211(a)(16) for any taxable year that does not begin with or during a particular calendar year and end with or during such year, the self-employment income of such individual deemed to be derived during such taxable year shall be allocated to the two calendar years, portions of which are included within such taxable year, in the same proportion to the total of such deemed self-employment income as the sum of the amounts applicable under section 213(d) for the calendar quarters ending with or within each such calendar year bears to the lower limit for such taxable year specified in section 211(k)(1).'. (c) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2007.
	SEC. 12503. INFORMATION REPORTING FOR COMMODITY CREDIT CORPORATION TRANSACTIONS. (a) In General- Subpart A of part III of subchapter A of chapter 61 (relating to information concerning persons subject to special provisions) is amended by inserting after section 6039I the following new section:

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	**`SEC. 6039J. INFORMATION REPORTING WITH RESPECT TO COMMODITY CREDIT CORPORATION TRANSACTIONS.**  `(a) Requirement of Reporting- The Commodity Credit Corporation, through the Secretary of Agriculture, shall make a return, according to the forms and regulations prescribed by the Secretary of the Treasury, setting forth any market gain realized by a taxpayer during the taxable year in relation to the repayment of a loan issued by the Commodity Credit Corporation, without regard to the manner in which such loan was repaid. `(b) Statements To Be Furnished to Persons With Respect to Whom Information Is Required- The Secretary of Agriculture shall furnish to each person whose name is required to be set forth in a return required under subsection (a) a written statement showing the amount of market gain reported in such return.'. (b) Clerical Amendment- The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6039I the following new item: `Sec. 6039J. Information reporting with respect to Commodity Credit Corporation transactions.'. (c) Effective Date- The amendments made by this section shall apply to loans repaid on or after January 1, 2007.
	SEC. 12504. MODIFICATION OF SECTION 1031 TREATMENT FOR CERTAIN REAL ESTATE. (a) In General- Section 1031 (relating to exchange of property held for productive use or investment), as amended by this Act, is amended by adding at the end the following new subsection: `(j) Special Rule for Subsidized Agricultural Real Property-  `(1) IN GENERAL- Subsidized agricultural real property and nonagricultural real property are not property of a like kind. `(2) SUBSIDIZED AGRICULTURAL REAL PROPERTY- For purposes of this subsection, the term `subsidized agricultural real property' means real property—

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	`(A) which is used as a farm for farming purposes (within the meaning of section 2032A(e)(5)); and  `(B) with respect to which a taxpayer receives, in the taxable year in which an exchange of such property is made, any payment or benefit under— `(i) part I of subtitle A,  `(ii) part III (other than sections 1307 and 1308) of subtitle A, or `(iii) subtitle B,  of title I of the Food and Energy Security Act of 2007.  `(3) NONAGRICULTURAL REAL PROPERTY- For purposes of this subsection, the term `nonagricultural real property' means real property which is not used as a farm for farming purposes (within the meaning of section 2032A(e)(5)).  `(4) EXCEPTION- Paragraph (1) shall not apply with respect to any subsidized agricultural real property which, not later than the date of the exchange, is permanently retired from any program under which any payment or benefit described in paragraph (2)(B) is made.'. (b) Effective Date- The amendments made by this section shall apply to exchanges completed after the date of the enactment of this Act.

	SEC. 12505. MODIFICATION OF EFFECTIVE DATE OF LEASING PROVISIONS OF THE AMERICAN JOBS CREATION ACT OF 2004. (a) Leases to Foreign Entities- Section 849(b) of the American Jobs Creation Act of 2004 is amended by adding at the end the following new paragraph: `(5) LEASES TO FOREIGN ENTITIES- In the case of tax-exempt use property leased to a tax-exempt entity which is a foreign person or entity, the amendments made by this part shall apply to taxable years beginning after December 31, 2006, with respect to leases entered into on or before March 12, 2004.'. (b) Effective Date- The amendment made by this section shall take effect as if included in the enactment of the American Jobs Creation Act of 2004.
	SEC. 12506. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES. The percentage under subparagraph (B) of section 401(1) of the Tax Increase Prevention and Reconciliation Act of 2005 in effect on the date of the enactment of this Act is increased by 7.00 percentage points.
	SEC. 12507. DENIAL OF DEDUCTION FOR CERTAIN FINES, PENALTIES, AND OTHER AMOUNTS. (a) In General- Subsection (f) of section 162 (relating to trade or business expenses) is amended to read as follows: `(f) Fines, Penalties, and Other Amounts-  `(1) IN GENERAL- Except as provided in paragraph (2), no deduction otherwise allowable shall be allowed under this chapter for any amount paid or incurred (whether by suit, agreement, or otherwise) to, or at the direction of, a government or entity described in paragraph (4) in relation to— `(A) the violation of any law, or  `(B) an investigation or inquiry into the potential violation of any law which is initiated by such government or entity. `(2) EXCEPTION FOR AMOUNTS CONSTITUTING RESTITUTION OR PAID TO COME INTO COMPLIANCE WITH LAW- Paragraph (1) shall not

apply to any amount which—

`(A) the taxpayer establishes—

`(i) constitutes restitution (or remediation of property) for damage or harm caused by, or which may be caused by, the violation of any law or the potential violation of any law, or

`(ii) is paid to come into compliance with any law which was violated or involved in the investigation or inquiry, and

`(B) is identified as an amount described in clause (i) or (ii) of subparagraph (A), as the case may be, in the court order or settlement agreement, except that the requirement of this subparagraph shall not apply in the case of any settlement agreement which requires the taxpayer to pay or incur an amount not greater than $1,000,000.

A taxpayer shall not meet the requirements of subparagraph (A) solely by reason of an identification under subparagraph (B). This paragraph shall not apply to any amount paid or incurred as reimbursement to the government or entity for the costs of any investigation or litigation unless such amount is paid or incurred for a cost or fee regularly charged for any routine audit or other customary review performed by the government or entity.

`(3) EXCEPTION FOR AMOUNTS PAID OR INCURRED AS THE RESULT OF CERTAIN COURT ORDERS- Paragraph (1) shall not apply to any amount paid or incurred by order of a court in a suit in which no government or entity described in paragraph (4) is a party.

`(4) CERTAIN NONGOVERNMENTAL REGULATORY ENTITIES- An entity is described in this paragraph if it is—

`(A) a nongovernmental entity which exercises self-regulatory powers (including imposing sanctions) in connection with a qualified board or exchange (as defined in section 1256(g)(7)), or

`(B) to the extent provided in regulations, a nongovernmental entity which exercises self-regulatory powers (including imposing sanctions) as part of performing an essential governmental function.

`(5) EXCEPTION FOR TAXES DUE- Paragraph (1) shall not apply to any amount paid or incurred as taxes due.'.

(b) Reporting of Deductible Amounts-

(1) IN GENERAL- Subpart B of part III of subchapter A of chapter 61 is amended by inserting after section 6050V the following new section:

`SEC. 6050W. INFORMATION WITH RESPECT TO CERTAIN FINES, PENALTIES, AND OTHER AMOUNTS.

`(a) Requirement of Reporting-

`(1) IN GENERAL- The appropriate official of any government or entity which is described in section 162(f)(4) which is involved in a suit or agreement described in paragraph (2) shall make a return in such form as determined by the Secretary setting forth—

`(A) the amount required to be paid as a result of the suit or agreement to which paragraph (1) of section 162(f) applies,

`(B) any amount required to be paid as a result of the suit or agreement which constitutes restitution or remediation of property, and

`(C) any amount required to be paid as a result of the suit or agreement for the purpose of coming into compliance with any law which was violated or involved in the investigation or inquiry.

`(2) SUIT OR AGREEMENT DESCRIBED-

`(A) IN GENERAL- A suit or agreement is described in this paragraph if--

`(i) it is—

`(I) a suit with respect to a violation of any law over which the government or entity has authority and with respect to which there has been a court order, or

`(II) an agreement which is entered into with respect to a violation of any law over which the government or entity has authority, or with respect to an investigation or inquiry by the government or entity into the potential violation of any law

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	over which such government or entity has authority, and `(ii) the aggregate amount involved in all court orders and agreements with respect to the violation, investigation, or inquiry is $600 or more.  `(B) ADJUSTMENT OF REPORTING THRESHOLD- The Secretary may adjust the $600 amount in subparagraph (A)(ii) as necessary in order to ensure the efficient administration of the internal revenue laws. `(3) TIME OF FILING- The return required under this subsection shall be filed not later than—  `(A) 30 days after the date on which a court order is issued with respect to the suit or the date the agreement is entered into, as the case may be, or `(B) the date specified by the Secretary.  `(b) Statements To Be Furnished to Individuals Involved in the Settlement- Every person required to make a return under subsection (a) shall furnish to each person who is a party to the suit or agreement a written statement showing— `(1) the name of the government or entity, and  `(2) the information supplied to the Secretary under subsection (a)(1). The written statement required under the preceding sentence shall be furnished to the person at the same time the government or entity provides the Secretary with the information required under subsection (a). `(c) Appropriate Official Defined- For purposes of this section, the term `appropriate official' means the officer or employee having control of the suit, investigation, or inquiry or the person appropriately designated for purposes of this section.'. (2) CONFORMING AMENDMENT- The table of sections for subpart B of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6050V the following new item: `Sec. 6050W. Information with respect to certain fines, penalties, and other amounts'.

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	(c) Effective Date- The amendments made by this section shall apply to amounts paid or incurred on or after the date of the enactment of this Act, except that such amendments shall not apply to amounts paid or incurred under any binding order or agreement entered into before such date. Such exception shall not apply to an order or agreement requiring court approval unless the approval was obtained before such date.

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	SEC. 12508. INCREASE IN INFORMATION RETURN PENALTIES. (a) Failure To File Correct Information Returns- (1) IN GENERAL- Section 6721(a)(1) is amended-- (A) by striking `$50' and inserting `$250', and (B) by striking `$250,000' and inserting `$3,000,000'. (2) REDUCTION WHERE CORRECTION IN SPECIFIED PERIOD- (A) CORRECTION WITHIN 30 DAYS- Section 6721(b)(1) is amended-- (i) by striking `$15' and inserting `$50', (ii) by striking `$50' and inserting `$250', and (iii) by striking `$75,000' and inserting `$500,000'. (B) FAILURES CORRECTED ON OR BEFORE AUGUST 1- Section 6721(b)(2) is amended-- (i) by striking `$30' and inserting `$100', (ii) by striking `$50' and inserting `$250', and (iii) by striking `$150,000' and inserting `$1,500,000'. (3) LOWER LIMITATION FOR PERSONS WITH GROSS RECEIPTS OF NOT MORE THAN $5,000,000- Section 6721(d)(1) is amended-- (A) in subparagraph (A)-- (i) by striking `$100,000' and inserting `$1,000,000', and (ii) by striking `$250,000' and inserting `$3,000,000', (B) in subparagraph (B)-- (i) by striking `$25,000' and inserting `$175,000', and (ii) by striking `$75,000' and inserting `$500,000', and (C) in subparagraph (C)-- (i) by striking `$50,000' and inserting `$500,000', and (ii) by striking `$150,000' and inserting `$1,500,000'. (4) PENALTY IN CASE OF INTENTIONAL DISREGARD- Section 6721(e) is amended-- (A) by striking `$100' in paragraph (2) and inserting `$500', (B) by striking `$250,000' in paragraph (3)(A) and inserting `$3,000,000'. (b) Failure To Furnish Correct Payee Statements- (1) IN GENERAL- Section 6722(a) is amended-- (A) by striking `$50' and inserting `$250', and

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	(B) by striking `$100,000' and inserting `$1,000,000'. (2) PENALTY IN CASE OF INTENTIONAL DISREGARD- Section 6722(c) is amended-- (A) by striking `$100' in paragraph (1) and inserting `$500', and (B) by striking `$100,000' in paragraph (2)(A) and inserting `$1,000,000'. (c) Failure To Comply With Other Information Reporting Requirements- Section 6723 is amended— (1) by striking `$50' and inserting `$250', and (2) by striking `$100,000' and inserting `$1,000,000'. (d) Effective Date- The amendments made by this section shall apply with respect to information returns required to be filed on or after January 1, 2008.

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	SEC. 12509. ASSET TREATMENT OF HORSES. (a) 3-Year Depreciation for All Race Horses- (1) IN GENERAL- Clause (i) of section 168(e)(3)(A) of the Internal Revenue Code of 1986 (relating to 3-year property) is amended to read as follows: `(i) any race horse,'. (2) EFFECTIVE DATE- The amendment made by this section shall apply to property placed in service on or after the date of the enactment of this Act. (b) Reduction of Holding Period to 12 Months for Purposes of Determining Whether Horses Are Section 1231 Assets- (1) IN GENERAL- Subparagraph (A) of section 1231(b)(3) of the Internal Revenue Code of 1986 (relating to definition of livestock) is amended by striking `and horses'. (2) EFFECTIVE DATE- The amendment made by this section shall apply to taxable years beginning after December 31, 2007.
	SEC. 12510. ELIMINATION OF PRIVATE PAYMENT TEST FOR PROFESSIONAL SPORTS FACILITY BONDS. (a) In General- Section 141(a) (defining private activity bond) is amended by adding at the end the following new flush sentence: `In the case of any professional sports facility bond, paragraph (1) shall be applied without regard to subparagraph (B) thereof.'.  (b) Professional Sports Facility Bond Defined- Section 141 is amended by adding at the end the following new subsection:  `(f) Professional Sports Facility Bond- For purposes of subsection (a)— `(1) IN GENERAL- The term `professional sports facility bond' means any bond issued as part of an issue any portion of the proceeds of which are to be used to provide a professional sports facility.

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	`(2) PROFESSIONAL SPORTS FACILITY- The term `professional sports facility' means real property and related improvements used, in whole or in part, for professional sports, professional sports exhibitions, professional games, or professional training.'. (c) Effective Date- The amendments made by this section shall apply to bonds issued after the date of the enactment of this Act, other than bonds with respect to which a resolution was issued by an issuer or conduit borrower before January 24, 2007.

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	SEC. 12511. MODIFICATION OF PENALTY FOR FAILURE TO FILE PARTNERSHIP RETURNS; LIMITATION ON DISCLOSURE. (a) Extension of Time Limitation- Section 6698(a) (relating to failure to file partnership returns) is amended by striking `5 months' and inserting `12 months'. (b) Increase in Penalty Amount- Paragraph (1) of section 6698(b) is amended by striking `$50' and inserting `$100'. (c) Limitation on Disclosure of Taxpayer Returns to Partners, S Corporation Shareholders, Trust Beneficiaries, and Estate Beneficiaries- (1) IN GENERAL- Section 6103(e) (relating to disclosure to persons having material interest) is amended by adding at the end the following new paragraph: `(10) LIMITATION ON CERTAIN DISCLOSURES UNDER THIS SUBSECTION- In the case of an inspection or disclosure under this subsection relating to the return of a partnership, S corporation, trust, or an estate, the information inspected or disclosed shall not include any supporting schedule, attachment, or list which includes the taxpayer identity information of a person other than the entity making the return or the person conducting the inspection or to whom the disclosure is made.'. (2) EFFECTIVE DATE- The amendment made by this subsection shall take effect on the date of the enactment of this Act. (d) Effective Date- The amendments made by subsections (a) and (b) shall apply to returns required to be filed after the date of the enactment of this Act.
	SEC. 12512. PARTICIPANTS IN GOVERNMENT SECTION 457 PLANS ALLOWED TO TREAT ELECTIVE DEFERRALS AS ROTH CONTRIBUTIONS. (a) In General- Section 402A(e)(1) (defining applicable retirement plan) is amended by striking `and' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting `, and', and by adding at the end the following: `(C) an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A).'. (b) Elective Deferrals- Section 402A(e)(2) (defining elective deferral) is amended to read as follows:

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	`(2) ELECTIVE DEFERRAL- The term `elective deferral' means-- `(A) any elective deferral described in subparagraph (A) or (C) of section 402(g)(3), and  `(B) any elective deferral of compensation by an individual under an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A).'. (c) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2007.

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	PART II--ECONOMIC SUBSTANCE DOCTRINE **SEC. 12521. CLARIFICATION OF ECONOMIC SUBSTANCE DOCTRINE.** (a) In General- Section 7701 is amended by redesignating subsection (p) as subsection (q) and by inserting after subsection (o) the following new subsection: `(p) Clarification of Economic Substance Doctrine; Etc-  `(1) GENERAL RULES- `(A) IN GENERAL- In any case in which a court determines that the economic substance doctrine is relevant for purposes of this title to a transaction (or series of transactions), such transaction (or series of transactions) shall have economic substance only if the requirements of this paragraph are met. `(B) DEFINITION OF ECONOMIC SUBSTANCE- For purposes of subparagraph (A)—  `(i) IN GENERAL- A transaction has economic substance only if-- `(I) the transaction changes in a meaningful way (apart from Federal tax effects) the taxpayer's economic position, and `(II) subject to clause (iii), the taxpayer has a substantial purpose (other than a Federal tax purpose) for entering into such transaction. `(ii) SPECIAL RULE WHERE TAXPAYER RELIES ON PROFIT POTENTIAL- A transaction shall not be treated as having economic substance solely by reason of having a potential for profit unless the present value of the reasonably expected pre-Federal tax profit from the transaction is substantial in relation to the present value of the expected net Federal tax benefits that would be allowed if the transaction were respected. In determining pre-Federal tax profit, there shall be taken into account fees and other transaction expenses and to the extent provided by the Secretary, foreign taxes. `(iii) SPECIAL RULES FOR DETERMINING WHETHER NON-FEDERAL TAX PURPOSE- For purposes of clause (i)(II)—

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	`(I) a purpose of achieving a financial accounting benefit shall not be taken into account in determining whether a transaction has a substantial purpose (other than a Federal tax purpose) if the origin of such financial accounting benefit is a reduction of Federal tax, and  `(II) the taxpayer shall not be treated as having a substantial purpose (other than a Federal tax purpose) with respect to a transaction if the only such purpose is the reduction of non-Federal taxes and the transaction will result in a reduction of Federal taxes substantially equal to, or greater than, the reduction in non-Federal taxes because of similarities between the laws imposing the taxes. `(2) DEFINITIONS AND SPECIAL RULES- For purposes of this subsection—  `(A) ECONOMIC SUBSTANCE DOCTRINE- The term `economic substance doctrine' means the common law doctrine under which tax benefits under subtitle A with respect to a transaction are not allowable if the transaction does not have economic substance or lacks a business purpose.  `(B) EXCEPTION FOR PERSONAL TRANSACTIONS OF INDIVIDUALS- In the case of an individual, this subsection shall apply only to transactions entered into in connection with a trade or business or an activity engaged in for the production of income. `(3) OTHER PROVISIONS NOT AFFECTED- Except as specifically provided in this subsection, the provisions of this subsection shall not be construed as altering or supplanting any other rule of law or provision of this title, and the requirements of this subsection shall be construed as being in addition to any such other rule of law or provision of this title. `(4) REGULATIONS- The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection. Such regulations may include exemptions from the application of this subsection.'. (b) Effective Date- The amendments made by this section shall apply to transactions entered into after the date of the enactment of this Act.

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	SEC. 12522. PENALTY FOR UNDERSTATEMENTS ATTRIBUTABLE TO TRANSACTIONS LACKING ECONOMIC SUBSTANCE, ETC. (a) In General- Subchapter A of chapter 68 is amended by inserting after section 6662A the following new section: **`SEC. 6662B. PENALTY FOR UNDERSTATEMENTS ATTRIBUTABLE TO TRANSACTIONS LACKING ECONOMIC SUBSTANCE, ETC.**  `(a) Imposition of Penalty- If a taxpayer has an noneconomic substance transaction understatement for any taxable year, there shall be added to the tax an amount equal to 30 percent of the amount of such understatement. `(b) Reduction of Penalty for Disclosed Transactions- Subsection (a) shall be applied by substituting `20 percent' for `30 percent' with respect to the portion of any noneconomic substance transaction understatement with respect to which the relevant facts affecting the tax treatment of the item are adequately disclosed in the return or a statement attached to the return.  `(c) Noneconomic Substance Transaction Understatement- For purposes of this section-- `(1) IN GENERAL- The term `noneconomic substance transaction understatement' means any amount which would be an understatement under section 6662A(b)(1) if section 6662A were applied by taking into account items attributable to noneconomic substance transactions rather than items to which section 6662A would apply without regard to this paragraph. `(2) NONECONOMIC SUBSTANCE TRANSACTION- The term `noneconomic substance transaction' means any transaction if there is a lack of economic substance (within the meaning of section 7701(p)(1)(B)) for the transaction giving rise to the claimed benefit. `(d) Rules Applicable To Assertion, Compromise, and Collection of Penalty-  `(1) IN GENERAL- Only the Chief Counsel for the Internal Revenue Service may assert a penalty imposed under this section or may compromise all or any portion of such penalty. The Chief Counsel may delegate the authority under this paragraph only to an individual holding the position of chief of a branch within the Office of the Chief Counsel for the Internal Revenue Service.

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	`(2) SPECIFIC REQUIREMENTS-  `(A) ASSERTION OF PENALTY- The Chief Counsel for the Internal Revenue Service (or the Chief Counsel's delegate under paragraph (1)) shall not assert a penalty imposed under this section unless, before the assertion of the penalty, the taxpayer is provided— `(i) a notice of intent to assert the penalty, and  `(ii) an opportunity to provide to the Commissioner (or the Chief Counsel's delegate under paragraph (1)) a written response to the proposed penalty within a reasonable period of time after such notice. `(B) COMPROMISE OF PENALTY- A compromise shall not result in a reduction in the penalty imposed by this section in an amount greater than the amount which bears the same ratio to the amount of the penalty determined without regard to the compromise as—  `(i) the reduction under the compromise in the noneconomic substance transaction understatement to which the penalty relates, bears to `(ii) the amount of the noneconomic substance transaction understatement determined without regard to the compromise.  `(3) RULES RELATING TO RELEVANCY REQUIREMENT- `(A) DETERMINATION OF RELEVANCE BY CHIEF COUNSEL- The Chief Counsel for the Internal Revenue Service (or the Chief Counsel's delegate under paragraph (1)) may assert, compromise, or collect a penalty imposed by this section with respect to a noneconomic substance transaction even if there has not been a court determination that the economic substance doctrine was relevant for purposes of this title to the transaction if the Chief Counsel (or delegate) determines that either was so relevant. `(B) FINAL ORDER OF COURT- If there is a final order of a court that determines that the economic substance doctrine was not relevant for purposes of this title to a transaction (or series of transactions), any penalty

imposed under this section with respect to the transaction (or series of transactions) shall be rescinded.

`(4) APPLICABLE RULES- The rules of paragraphs (2) and (3) of section 6707A(d) shall apply to a compromise under paragraph (1).

`(e) Coordination With Other Penalties- Except as otherwise provided in this part, the penalty imposed by this section shall be in addition to any other penalty imposed by this title.

`(f) Cross References-

`(1) For coordination of penalty with understatements under section 6662 and other special rules, see section 6662A(e).

`(2) For reporting of penalty imposed under this section to the Securities and Exchange Commission, see section 6707A(e).'.

(b) Coordination With Other Understatements and Penalties-

(1) The second sentence of section 6662(d)(2)(A) is amended by inserting `and without regard to items with respect to which a penalty is imposed by section 6662B' before the period at the end.

(2) Subsection (e) of section 6662A is amended—

(A) in paragraph (1), by inserting `and noneconomic substance transaction understatements' after `reportable transaction understatements' both places it appears,

(B) in paragraph (2)(A)--
(i) by inserting `6662B or' before `6663' in the text, and
(ii) by striking `PENALTY' in the heading and inserting `AND ECONOMIC SUBSTANCE PENALTIES',

(C) in paragraph (2)(B)--
(i) by inserting `and section 6662B' after `This section', and
(ii) by striking `PENALTY' in the heading and inserting `AND ECONOMIC SUBSTANCE PENALTIES',

(D) in paragraph (3), by inserting `or noneconomic substance transaction understatement' after `reportable transaction understatement', and

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	(E) by adding at the end the following new paragraph: `(4) NONECONOMIC SUBSTANCE TRANSACTION UNDERSTATEMENT- For purposes of this subsection, the term `noneconomic substance transaction understatement' has the meaning given such term by section 6662B(c).'. (3) Subsection (e) of section 6707A is amended-- (A) by striking `or' at the end of subparagraph (B), and  (B) by striking subparagraph (C) and inserting the following new subparagraphs:  `(C) is required to pay a penalty under section 6662B with respect to any noneconomic substance transaction, or `(D) is required to pay a penalty under section 6662(h) with respect to any transaction and would (but for section 6662A(e)(2)(B)) have been subject to penalty under section 6662A at a rate prescribed under section 6662A(c) or to penalty under section 6662B,'. (c) Clerical Amendment- The table of sections for part II of subchapter A of chapter 68 is amended by inserting after the item relating to section 6662A the following new item: `Sec. 6662B. Penalty for understatements attributable to transactions lacking economic substance, etc.'. (d) Effective Date- The amendments made by this section shall apply to transactions entered into after the date of the enactment of this Act.

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	SEC. 12523. DENIAL OF DEDUCTION FOR INTEREST ON UNDERPAYMENTS ATTRIBUTABLE TO NONECONOMIC SUBSTANCE TRANSACTIONS. (a) In General- Section 163(m) (relating to interest on unpaid taxes attributable to nondisclosed reportable transactions) is amended— (1) by striking `attributable' and all that follows and inserting the following: `attributable to— `(1) the portion of any reportable transaction understatement (as defined in section 6662A(b)) with respect to which the requirement of section 6664(d)(2)(A) is not met, or  `(2) any noneconomic substance transaction understatement (as defined in section 6662B(c)).', and (2) by inserting `and Noneconomic Substance Transactions' in the heading thereof after `Transactions'. (b) Effective Date- The amendments made by this section shall apply to transactions after the date of the enactment of this Act in taxable years ending after such date.
	Subtitle F--Protection of Social Security **SEC. 12601. PROTECTION OF SOCIAL SECURITY.** To ensure that the assets of the trust funds established under section 201 of the Social Security Act (42 U.S.C. 401) are not reduced as a result of the enactment of this Act, the Secretary of the Treasury shall transfer annually from the general revenues of the Federal Government to those trust funds the following amounts: (1) For fiscal year 2009, $86,000,000. (2) For fiscal year 2010, $90,000,000. (3) For fiscal year 2011, $88,000,000. (4) For fiscal year 2012, $88,000,000. (5) For fiscal year 2013, $5,000,000. (6) For fiscal year 2014, $5,000,000. (7) For fiscal year 2015, $4,000,000. (8) For each fiscal year after fiscal year 2015, $2,000,000.

SEC. 12602. INTEREST RATES FOR WATER AND WASTE DISPOSAL FACILITIES LOANS.

Section 307(a)(3) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1927(a)(3)) is amended by adding at the end the following:

`(E) INTEREST RATES FOR WATER AND WASTE DISPOSAL FACILITIES LOANS- Notwithstanding subparagraph (A), for loans (other than guaranteed loans) for water and waste disposal facilities—

`(i) in the case of a loan that would be subject to the 5 percent interest rate limitation under subparagraph (A), the Secretary shall set the interest rate equal to 60 percent of the current market yield for outstanding municipal obligations with remaining periods to maturity comparable to the average maturity of such loans, adjusted to the nearest one-eight of 1 per centum; and

`(ii) in the case of a loan that would be subject to the 7 percent limitation in subparagraph (A), the Secretary shall set the interest rate equal to 80 percent of the current market yield for outstanding municipal obligations with remaining periods to maturity comparable to the average maturity of such loans, adjusted to the nearest one-eight of 1 per centum.'.

Subtitle G--Kansas Disaster Tax Relief Assistance

SEC. 12701. TEMPORARY TAX RELIEF FOR KIOWA COUNTY, KANSAS AND SURROUNDING AREA.

The following provisions of or relating to the Internal Revenue Code of 1986 shall apply, in addition to the areas described in such provisions, to an area with respect to which a major disaster has been declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (FEMA-1699-DR, as in effect on the date of the enactment of this Act) by reason of severe storms and tornados beginning on May 4, 2007, and determined by the President to warrant individual or individual and public assistance from the Federal Government under such Act with respect to damages attributed to such storms and tornados:

(1) SUSPENSION OF CERTAIN LIMITATIONS ON PERSONAL CASUALTY

LOSSES- Section 1400S(b)(1) of the Internal Revenue Code of 1986, by substituting `May 4, 2007' for `August 25, 2005'.

(2) EXTENSION OF REPLACEMENT PERIOD FOR NONRECOGNITION OF GAIN- Section 405 of the Katrina Emergency Tax Relief Act of 2005, by substituting `on or after May 4, 2007, by reason of the May 4, 2007, storms and tornados' for `on or after August 25, 2005, by reason of Hurricane Katrina'.

(3) EMPLOYEE RETENTION CREDIT FOR EMPLOYERS AFFECTED BY MAY 4 STORMS AND TORNADOS- Section 1400R(a) of the Internal Revenue Code of 1986--

(A) by substituting `May 4, 2007' for `August 28, 2005' each place it appears,

(B) by substituting `January 1, 2008' for `January 1, 2006' both places it appears, and

(C) only with respect to eligible employers who employed an average of not more than 200 employees on business days during the taxable year before May 4, 2007.

(4) SPECIAL ALLOWANCE FOR CERTAIN PROPERTY ACQUIRED ON OR AFTER MAY 5, 2007- Section 1400N(d) of such Code—

(A) by substituting `qualified Recovery Assistance property' for `qualified Gulf Opportunity Zone property' each place it appears,

(B) by substituting `May 5, 2007' for `August 28, 2005' each place it appears,

(C) by substituting `December 31, 2008' for `December 31, 2007' in paragraph (2)(A)(v),

(D) by substituting `December 31, 2009' for `December 31, 2008' in paragraph (2)(A)(v),

(E) by substituting `May 4, 2007' for `August 27, 2005' in paragraph (3)(A),

(F) by substituting `January 1, 2009' for `January 1, 2008' in paragraph (3)(B), and

(G) determined without regard to paragraph (6) thereof.

(5) INCREASE IN EXPENSING UNDER SECTION 179- Section 1400N(e) of such Code, by substituting `qualified section 179 Recovery Assistance property' for `qualified section 179 Gulf Opportunity Zone property' each place it appears.

(6) EXPENSING FOR CERTAIN DEMOLITION AND CLEAN-UP COSTS- Section 1400N(f) of such Code—

(A) by substituting `qualified Recovery Assistance clean-up cost' for `qualified Gulf Opportunity Zone clean-up cost' each place it appears, and

(B) by substituting `beginning on May 4, 2007, and ending on December 31, 2009' for `beginning on August 28, 2005, and ending on December 31, 2007' in paragraph (2) thereof.

(7) TREATMENT OF PUBLIC UTILITY PROPERTY DISASTER LOSSES- Section 1400N(o) of such Code.

(8) TREATMENT OF NET OPERATING LOSSES ATTRIBUTABLE TO STORM LOSSES- Section 1400N(k) of such Code—

(A) by substituting `qualified Recovery Assistance loss' for `qualified Gulf Opportunity Zone loss' each place it appears,

(B) by substituting `after May 3, 2007, and before on January 1, 2010' for `after August 27, 2005, and before January 1, 2008' each place it appears,

(C) by substituting `May 4, 2007' for `August 28, 2005' in paragraph (2)(B)(ii)(I) thereof,

(D) by substituting `qualified Recovery Assistance property' for `qualified Gulf Opportunity Zone property' in paragraph (2)(B)(iv) thereof, and

(E) by substituting `qualified Recovery Assistance casualty loss' for `qualified Gulf Opportunity Zone casualty loss' each place it appears.

(9) TREATMENT OF REPRESENTATIONS REGARDING INCOME ELIGIBILITY FOR PURPOSES OF QUALIFIED RENTAL PROJECT REQUIREMENTS- Section 1400N(n) of such Code.

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	(10) SPECIAL RULES FOR USE OF RETIREMENT FUNDS- Section 1400Q of such Code— (A) by substituting `qualified Recovery Assistance distribution' for `qualified hurricane distribution' each place it appears, (B) by substituting `on or after May 4, 2007, and before January 1, 2009' for `on or after August 25, 2005, and before January 1, 2007' in subsection (a)(4)(A)(i), (C) by substituting `qualified storm distribution' for `qualified Katrina distribution' each place it appears, (D) by substituting `after November 4, 2006, and before May 5, 2007' for `after February 28, 2005, and before August 29, 2005' in subsection (b)(2)(B)(ii), (E) by substituting `beginning on May 4, 2007, and ending on November 5, 2007' for `beginning on August 25, 2005, and ending on February 28, 2006' in subsection (b)(3)(A), (F) by substituting `qualified storm individual' for `qualified Hurricane Katrina individual' each place it appears, (G) by substituting `December 31, 2007' for `December 31, 2006' in subsection (c)(2)(A), (H) by substituting `beginning on June 4, 2007, and ending on December 31, 2007' for `beginning on September 24, 2005, and ending on December 31, 2006' in subsection (c)(4)(A)(i), (I) by substituting `May 4, 2007' for `August 25, 2005' in subsection (c)(4)(A)(ii), and (J) by substituting `January 1, 2008' for `January 1, 2007' in subsection (d)(2)(A)(ii).

Subtitle H--Other Provisions

SEC. 12801. INCOME AVERAGING FOR AMOUNTS RECEIVED IN CONNECTION WITH THE EXXON VALDEZ LITIGATION.

(a) Income Averaging of Amounts Received From the Exxon Valdez Litigation- For purposes of section 1301 of the Internal Revenue Code of 1986--

(1) any qualified taxpayer who receives any qualified settlement income in any taxable year shall be treated as engaged in a fishing business (determined without regard to the commercial nature of the business), and

(2) such qualified settlement income shall be treated as income attributable to such a fishing business for such taxable year.

(b) Contributions of Amounts Received to Retirement Accounts-

(1) IN GENERAL- Any qualified taxpayer who receives qualified settlement income during the taxable year may, at any time before the end of the taxable year in which such income was received, make one or more contributions to an eligible retirement plan of which such qualified taxpayer is a beneficiary in an aggregate amount not to exceed the lesser of—

(A) $100,000 (reduced by the amount of qualified settlement income contributed to an eligible retirement plan in prior taxable years pursuant to this subsection), or

(B) the amount of qualified settlement income received by the individual during the taxable year.

(2) TIME WHEN CONTRIBUTIONS DEEMED MADE- For purposes of paragraph (1), a qualified taxpayer shall be deemed to have made a contribution to an eligible retirement plan on the last day of the taxable year in which such income is received if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).

(3) TREATMENT OF CONTRIBUTIONS TO ELIGIBLE RETIREMENT PLANS- For purposes of the Internal Revenue Code of 1986, if a contribution is made pursuant to paragraph (1) with respect to qualified settlement income, then--

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	(A) except as provided in paragraph (4)— (i) to the extent of such contribution, the qualified settlement income shall not be included in gross income, and (ii) for purposes of section 72 of such Code, such contribution shall not be considered to be investment in the contract, (B) the qualified taxpayer shall, to the extent of the amount of the contribution, be treated— (i) as having received the qualified settlement income-- (I) in the case of a contribution to an individual retirement plan (as defined under section 7701(a)(37) of such Code), in a distribution described in section 408(d)(3) of such Code, and (II) in the case of any other eligible retirement plan, in an eligible rollover distribution (as defined under section 402(f)(2) of such Code), and (ii) as having transferred the amount to the eligible retirement plan in a direct trustee to trustee transfer within 60 days of the distribution, (C) section 408(d)(3)(B) of the Internal Revenue Code of 1986 shall not apply with respect to amounts treated as a rollover under this paragraph, and (D) section 408A(c)(3)(B) of the Internal Revenue Code of 1986 shall not apply with respect to amounts contributed to a Roth IRA (as defined under section 408A(b) of such Code) or a designated Roth contribution to an applicable retirement plan (within the meaning of section 402A of such Code) under this paragraph. (4) SPECIAL RULE FOR ROTH IRAS AND ROTH 401(k)S- For purposes of the Internal Revenue Code of 1986, if a contribution is made pursuant to paragraph (1) with respect to qualified settlement income to a Roth IRA (as defined under section 408A(b) of such Code) or as a designated Roth contribution to an applicable retirement plan (within the meaning of section 402A of such Code), then— (A) the qualified settlement income shall be includible in gross income, and

(B) for purposes of section 72 of such Code, such contribution shall be considered to be investment in the contract.

(5) ELIGIBLE RETIREMENT PLAN- For purpose of this subsection, the term `eligible retirement plan' has the meaning given such term under section 402(c)(8)(B) of the Internal Revenue Code of 1986.

(c) Treatment of Qualified Settlement Income Under Employment Taxes-

(1) SECA- For purposes of chapter 2 of the Internal Revenue Code of 1986 and section 211 of the Social Security Act, no portion of qualified settlement income received by a qualified taxpayer shall be treated as self-employment income.

(2) FICA- For purposes of chapter 21 of the Internal Revenue Code of 1986 and section 209 of the Social Security Act, no portion of qualified settlement income received by a qualified taxpayer shall be treated as wages.

(d) Qualified Taxpayer- For purposes of this section, the term `qualified taxpayer' means—

(1) any individual who is a plaintiff in the civil action In re Exxon Valdez, No. 89-095-CV (HRH) (Consolidated) (D. Alaska); or

(2) any individual who is a beneficiary of the estate of such a plaintiff who--

(A) acquired the right to receive qualified settlement income from that plaintiff; and

(B) was the spouse or an immediate relative of that plaintiff.

(e) Qualified Settlement Income- For purposes of this section, the term `qualified settlement income' means any interest and punitive damage awards which are—

(1) otherwise includible in gross income (determined without regard to subsection (b)), and

(2) received (whether as lump sums or periodic payments) in connection with the civil action In re Exxon Valdez, No. 89-095-CV (HRH) (Consolidated) (D. Alaska) (whether pre- or post-judgment and whether related to a settlement or judgment).

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	SEC. 12802. 2-YEAR EXTENSION AND EXPANSION OF CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF FOOD INVENTORY. (a) In General- Section 170(e)(3)(C) (relating to special rule for certain contributions of inventory and other property) is amended— (1) by striking `December 31, 2007' in clause (iv) and inserting `December 31, 2009', and (2) by redesignating clauses (iii) and (iv) as clauses (iv) and (v), respectively, and by inserting after clause (ii) the following new clause: `(iii) DETERMINATION OF BASIS- If a taxpayer—  `(I) does not account for inventories under section 471, and `(II) is not required to capitalize indirect costs under section 263A, the taxpayer may elect, solely for purposes of subparagraph (B), to treat the basis of any apparently wholesome food as being equal to 25 percent of the fair market value of such food.'. (b) Effective Date- The amendments made by this section shall apply to contributions made after December 31, 2007.
	SEC. 12803. MILEAGE REIMBURSEMENTS TO CHARITABLE VOLUNTEERS EXCLUDED FROM GROSS INCOME. (a) In General- Part III of subchapter B of chapter 1 is amended by inserting after section 139A the following new section: **`SEC. 139B. MILEAGE REIMBURSEMENTS TO CHARITABLE VOLUNTEERS.**  `(a) In General- Gross income of an individual does not include amounts received, from an organization described in section 170(c), as reimbursement of operating expenses with respect to use of a passenger automobile for the benefit of such organization. The preceding sentence shall apply only to the extent that such reimbursement would be deductible under this chapter if section 274(d) were applied— `(1) by using the standard business mileage rate in effect under section 162(a) at

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	the time of such use, and `(2) as if the individual were an employee of an organization not described in section 170(c).  `(b) Application to Volunteer Services Only- Subsection (a) shall not apply with respect to any expenses relating to the performance of services for compensation. `(c) No Double Benefit- No deduction or credit shall be allowed under any other provision of this title with respect to the expenses excludable from gross income under subsection (a).'. (b) Clerical Amendment- The table of sections for part III of subchapter B of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after the item relating to section 139A and inserting the following new item: `Sec. 139B. Reimbursement for use of passenger automobile for charity.'. (c) Effective Date- The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

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	SEC. 12804. BASIS ADJUSTMENT TO STOCK OF S CORPORATIONS MAKING CHARITABLE CONTRIBUTIONS OF PROPERTY. (a) Technical Amendment Related to Section 1203 of the Pension Protection Act of 2006- Subsection (d) of section 1366 is amended by adding at the end the following new paragraph: `(4) APPLICATION OF LIMITATION ON CHARITABLE CONTRIBUTIONS- In the case of any charitable contribution of property to which the second sentence of section 1367(a)(2) applies, paragraph (1) shall not apply to the extent of the excess (if any) of—  `(A) the shareholder's pro rata share of such contribution, over `(B) the shareholder's pro rata share of the adjusted basis of such property.'. (b) Effective Date- The amendment made by this section shall take effect as if included in the provision of the Pension Protection Act of 2006 to which it relates.
	SEC. 12805. PRIVATE PAYMENT TEST FOR PROFESSIONAL SPORTS FACILITY BONDS. Section 141, as amended by this Act, is amended— (1) by striking the last sentence of subsection (a), and (2) by striking subsection (f).
	SEC. 12807. COMPETITIVE CERTIFICATION AWARDS MODIFICATION AUTHORITY. (a) In General- Section 48A (relating to qualifying advanced coal project credit) is amended by adding at the end the following new subsection: `(h) Competitive Certification Awards Modification Authority- In implementing this section or section 48B, the Secretary is directed to modify the terms of any competitive certification award and any associated closing agreement where such modification—  `(1) is consistent with the objectives of such section,

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	`(2) is requested by the recipient of the competitive certification award, and  `(3) involves moving the project site to improve the potential to capture and sequester carbon dioxide emissions, reduce costs of transporting feedstock, and serve a broader customer base, unless the Secretary determines that the dollar amount of tax credits available to the taxpayer under such section would increase as a result of the modification or such modification would result in such project not being originally certified. In considering any such modification, the Secretary shall consult with other relevant Federal agencies, including the Department of Energy.'. (b) Effective Date- The amendment made by this section shall take effect on the date of the enactment of this Act and is applicable to all competitive certification awards entered into under section 48A or 48B of the Internal Revenue Code of 1986, whether such awards were issued before, on, or after such date of enactment.

SEC. 12808. QUALIFIED FORESTRY CONSERVATION BONDS.

(a) In General- Part IV of subchapter A of chapter 1 (relating to credits against tax) is amended by adding at the end the following new subpart:

`Subpart I--Qualified Tax Credit Bonds

`Sec. 54A. Credit to holders of qualified tax credit bonds.
`Sec. 54B. Qualified forestry conservation bonds.

`SEC. 54A. CREDIT TO HOLDERS OF QUALIFIED TAX CREDIT BONDS.

`(a) Allowance of Credit- If a taxpayer holds a qualified tax credit bond on one or more credit allowance dates of the bond during any taxable year, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of the credits determined under subsection (b) with respect to such dates.

`(b) Amount of Credit-

`(1) IN GENERAL- The amount of the credit determined under this subsection with respect to any credit allowance date for a qualified tax credit bond is 25 percent of the annual credit determined with respect to such bond.

`(2) ANNUAL CREDIT- The annual credit determined with respect to any qualified tax credit bond is the product of—

`(A) the applicable credit rate, multiplied by

`(B) the outstanding face amount of the bond.

`(3) APPLICABLE CREDIT RATE- For purposes of paragraph (2), the applicable credit rate is 70 percent of the rate which the Secretary estimates will permit the issuance of qualified tax credit bonds with a specified maturity or redemption date without discount and without interest cost to the qualified issuer. The applicable credit rate with respect to any qualified tax credit bond shall be determined as of the first day on which there is a binding, written contract for the sale or exchange of the bond.

`(4) SPECIAL RULE FOR ISSUANCE AND REDEMPTION- In the case of a bond which is issued during the 3-month period ending on a credit allowance date, the amount of the credit determined under this subsection with respect to

such credit allowance date shall be a ratable portion of the credit otherwise determined based on the portion of the 3-month period during which the bond is outstanding. A similar rule shall apply when the bond is redeemed or matures.

`(c) Limitation Based on Amount of Tax-

`(1) IN GENERAL- The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

`(A) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

`(B) the sum of the credits allowable under this part (other than subpart C and this subpart).

`(2) CARRYOVER OF UNUSED CREDIT- If the credit allowable under subsection (a) exceeds the limitation imposed by paragraph (1) for such taxable year, such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year (determined before the application of paragraph (1) for such succeeding taxable year).

`(d) Qualified Tax Credit Bond- For purposes of this section—

`(1) QUALIFIED TAX CREDIT BOND- The term `qualified tax credit bond' means a qualified forestry conservation bond which is part of an issue that meets the requirements of paragraphs (2), (3), (4), (5), and (6).

`(2) SPECIAL RULES RELATING TO EXPENDITURES-

`(A) IN GENERAL- An issue shall be treated as meeting the requirements of this paragraph if, as of the date of issuance, the issuer reasonably expects—

`(i) 100 percent or more of the available project proceeds to be spent for 1 or more qualified purposes within the 3-year period beginning on such date of issuance, and

`(ii) a binding commitment with a third party to spend at least 10 percent of such available project proceeds will be incurred within the 6-month period beginning on such date of issuance.

`(B) FAILURE TO SPEND REQUIRED AMOUNT OF BOND PROCEEDS WITHIN 3 YEARS-

`(i) IN GENERAL- To the extent that less than 100 percent of the available project proceeds of the issue are expended by the close of the expenditure period for 1 or more qualified purposes, the issuer shall redeem all of the nonqualified bonds within 90 days after the end of such period. For purposes of this paragraph, the amount of the nonqualified bonds required to be redeemed shall be determined in the same manner as under section 142.

`(ii) EXPENDITURE PERIOD- For purposes of this subpart, the term `expenditure period' means, with respect to any issue, the 3-year period beginning on the date of issuance. Such term shall include any extension of such period under clause (iii).

`(iii) EXTENSION OF PERIOD- Upon submission of a request prior to the expiration of the expenditure period (determined without regard to any extension under this clause), the Secretary may extend such period if the issuer establishes that the failure to expend the proceeds within the original expenditure period is due to reasonable cause and the expenditures for qualified purposes will continue to proceed with due diligence.

`(C) QUALIFIED PURPOSE- For purposes of this paragraph, the term `qualified purpose' means a purpose specified in section 54B(e).

`(D) REIMBURSEMENT- For purposes of this subtitle, available project proceeds of an issue shall be treated as spent for a qualified purpose if such proceeds are used to reimburse the issuer for amounts paid for a qualified purpose after the date that the Secretary makes an allocation of bond limitation with respect to such issue, but only if—

`(i) prior to the payment of the original expenditure, the issuer declared its intent to reimburse such expenditure with the proceeds of a qualified tax credit bond,

`(ii) not later than 60 days after payment of the original expenditure, the issuer adopts an official intent to reimburse the original expenditure with such proceeds, and

`(iii) the reimbursement is made not later than 18 months after the date the original expenditure is paid.

`(3) REPORTING- An issue shall be treated as meeting the requirements of this paragraph if the issuer of qualified tax credit bonds submits reports similar to the reports required under section 149(e).

`(4) SPECIAL RULES RELATING TO ARBITRAGE-

`(A) IN GENERAL- An issue shall be treated as meeting the requirements of this paragraph if the issuer satisfies the requirements of section 148 with respect to the proceeds of the issue.

`(B) SPECIAL RULE FOR INVESTMENTS DURING EXPENDITURE PERIOD- Available project proceeds invested during the expenditure period shall not be subject to the requirements of subparagraph (A).

`(C) SPECIAL RULE FOR RESERVE FUNDS- An issue shall not be treated as failing to meet the requirements of subparagraph (A) by reason of any fund which is expected to be used to repay such issue if—

`(i) such fund is funded in a manner reasonably expected to result in an amount not greater than an amount necessary to repay the issue, and

`(ii) the yield on such fund is not greater than the discount rate determined under paragraph (5)(B) with respect to the issue.

`(5) MATURITY LIMITATION-

`(A) IN GENERAL- An issue shall be treated as meeting the requirements of this paragraph if the maturity of any bond which is part of such issue does not exceed the maximum term determined by the Secretary under subparagraph (B).

`(B) MAXIMUM TERM- During each calendar month, the Secretary shall determine the maximum term permitted under this paragraph for bonds issued during the following calendar month. Such maximum term shall be the term which the Secretary estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of

the face amount of such bond. Such present value shall be determined using as a discount rate the average annual interest rate of tax-exempt obligations having a term of 10 years or more which are issued during the month. If the term as so determined is not a multiple of a whole year, such term shall be rounded to the next highest whole year.

`(6) PROHIBITION ON FINANCIAL CONFLICTS OF INTEREST- An issue shall be treated as meeting the requirements of this paragraph if the issuer certifies that--

`(A) applicable State and local law requirements governing conflicts of interest are satisfied with respect to such issue, and

`(B) if the Secretary prescribes additional conflicts of interest rules governing the appropriate Members of Congress, Federal, State, and local officials, and their spouses, such additional rules are satisfied with respect to such issue.

`(e) Other Definitions- For purposes of this subchapter—

`(1) CREDIT ALLOWANCE DATE- The term `credit allowance date' means--

`(A) March 15,

`(B) June 15,

`(C) September 15, and

`(D) December 15.

Such term includes the last day on which the bond is outstanding.

`(2) BOND- The term `bond' includes any obligation.

`(3) STATE- The term `State' includes the District of Columbia and any possession of the United States.

`(4) AVAILABLE PROJECT PROCEEDS- The term `available project proceeds' means--

`(A) the excess of--

`(i) the proceeds from the sale of an issue, over

`(ii) the issuance costs financed by the issue (to the extent that such costs do not exceed 2 percent of such proceeds), and

`(B) the proceeds from any investment of the excess described in

subparagraph (A).

`(f) Credit Treated as Interest- For purposes of this subtitle, the credit determined under subsection (a) shall be treated as interest which is includible in gross income.

`(g) S Corporations and Partnerships- In the case of a tax credit bond held by an S corporation or partnership, the allocation of the credit allowed by this section to the shareholders of such corporation or partners of such partnership shall be treated as a distribution.

`(h) Bonds Held by Regulated Investment Companies and Real Estate Investment Trusts- If any qualified tax credit bond is held by a regulated investment company or a real estate investment trust, the credit determined under subsection (a) shall be allowed to shareholders of such company or beneficiaries of such trust (and any gross income included under subsection (f) with respect to such credit shall be treated as distributed to such shareholders or beneficiaries) under procedures prescribed by the Secretary.

`(i) Credits May Be Stripped- Under regulations prescribed by the Secretary—

`(1) IN GENERAL- There may be a separation (including at issuance) of the ownership of a qualified tax credit bond and the entitlement to the credit under this section with respect to such bond. In case of any such separation, the credit under this section shall be allowed to the person who on the credit allowance date holds the instrument evidencing the entitlement to the credit and not to the holder of the bond.

`(2) CERTAIN RULES TO APPLY- In the case of a separation described in paragraph (1), the rules of section 1286 shall apply to the qualified tax credit bond as if it were a stripped bond and to the credit under this section as if it were a stripped coupon.

`SEC. 54B. QUALIFIED FORESTRY CONSERVATION BONDS.

`(a) Qualified Forestry Conservation Bond- For purposes of this subchapter, the term `qualified forestry conservation bond' means any bond issued as part of an issue if—

`(1) 100 percent of the available proceeds of such issue are to be used for one or more qualified forestry conservation purposes,

`(2) the bond is issued by a qualified issuer, and

`(3) the issuer designates such bond for purposes of this section.

`(b) Limitation on Amount of Bonds Designated- The maximum aggregate face amount of bonds which may be designated under subsection (a) by any issuer shall not exceed the limitation amount allocated to such issuer under subsection (d).

`(c) National Limitation on Amount of Bonds Designated- There is a national qualified forestry conservation bond limitation of $500,000,000.

`(d) Allocations-

`(1) IN GENERAL- The Secretary shall make allocations of the amount of the national qualified forestry conservation bond limitation described in subsection (c) among qualified forestry conservation purposes in such manner as the Secretary determines appropriate so as to ensure that all of such limitation is allocated before the date which is 24 months after the date of the enactment of this section.

`(2) SOLICITATION OF APPLICATIONS- The Secretary shall solicit applications for allocations of the national qualified forestry conservation bond limitation described in subsection (c) not later than 90 days after the date of the enactment of this section.

`(e) Qualified Forestry Conservation Purpose- For purposes of this section, the term `qualified forestry conservation purpose' means the acquisition by a State or 501(c)(3) organization (as defined in section 150(a)(4)) from an unrelated person of forest and forest land that meets the following qualifications:

`(1) Some portion of the land acquired must be adjacent to United States Forest Service Land.

`(2) At least half of the land acquired must be transferred to the United States Forest Service at no net cost to the United States and not more than half of the land acquired may either remain with or be donated to a State.

`(3) All of the land must be subject to a native fish habitat conservation plan approved by the United States Fish and Wildlife Service.

`(4) The amount of acreage acquired must be at least 40,000 acres.

`(f) Qualified Issuer- For purposes of this section, the term `qualified issuer' means a State or 501(c)(3) organization (as defined in section 150(a)(4)).'.

(b) Reporting- Subsection (d) of section 6049 (relating to returns regarding payments of interest) is amended by adding at the end the following new paragraph:

`(9) REPORTING OF CREDIT ON QUALIFIED TAX CREDIT BONDS-

`(A) IN GENERAL- For purposes of subsection (a), the term `interest' includes amounts includible in gross income under section 54A and such amounts shall be treated as paid on the credit allowance date (as defined in section 54A(e)(1)).

`(B) REPORTING TO CORPORATIONS, ETC- Except as otherwise provided in regulations, in the case of any interest described in subparagraph (A) of this paragraph, subsection (b)(4) of this section shall be applied without regard to subparagraphs (A), (H), (I), (J), (K), and (L)(i) .

`(C) REGULATORY AUTHORITY- The Secretary may prescribe such regulations as are necessary or appropriate to carry out the purposes of this paragraph, including regulations which require more frequent or more detailed reporting.'.

(c) Conforming Amendments-

(1) Sections 54(c)(2) and 1400N(l)(3)(B) are each amended by striking `subpart C' and inserting `subparts C and I'.

(2) Section 1397E(c)(2) is amended by striking `subpart H' and inserting `subparts H and I'.

(3) Section 6401(b)(1) is amended by striking `and H' and inserting `H, and I'.

(4) The heading of subpart H of part IV of subchapter A of chapter 1 is amended by striking `**Certain Bonds**' and inserting `**Clean Renewable Energy Bonds**'.

(5) The table of subparts for part IV of subchapter A of chapter 1 is amended by striking the item relating to subpart H and inserting the following new items:

	`subpart h. nonrefundable credit to holders of clean renewable energy bonds.**  **`subpart i. qualified tax credit bonds.'. (d) Effective Dates- The amendments made by this section shall apply to obligations issued after the date of the enactment of this Act.