

**AMENDMENT IN THE NATURE OF A SUBSTITUTE
TO H.R. 1
OFFERED BY MR. GARRETT OF NEW JERSEY**

Strike all after the enacting clause and insert the following:

1 SECTION 1. SHORT TITLE.

2 (a) **SHORT TITLE.**—This Act may be cited as the
3 “Economic Recovery and Middle-Class Tax Relief Act of
4 2009”.

5 (b) **TABLE OF CONTENTS.**—

Sec. 1. Short title.

TITLE I—INCENTIVES FOR ECONOMIC GROWTH

Subtitle A—Income Tax Reductions

- Sec. 101. 2003 tax reductions made permanent.
- Sec. 102. 5 percent reduction in individual income tax rates.
- Sec. 103. Repeal of alternative minimum tax on individuals.
- Sec. 104. Reduction in corporate marginal income tax rates.

Subtitle B—Reduction of Income Taxes on Capital Assets

- Sec. 111. Indexing of certain assets for purposes of determining gain or loss.
- Sec. 112. Reduced capital gains rate for corporations.

Subtitle C—Other Provisions Related to Businesses

- Sec. 121. Repeal of certain limitations on the expensing of section 179 property.
- Sec. 122. Research credit made permanent.
- Sec. 123. 7-year carryback of net operating losses.

Subtitle D—Other Provisions Relating to Individuals

- Sec. 131. Child tax credit increased and made permanent.
- Sec. 132. Distributions not required from individual retirement plans at age 70½.
- Sec. 133. No IRA distribution during 2009 included in gross income.

TITLE II—ACROSS-THE-BOARD RESCISSIONS IN NON-DEFENSE DISCRETIONARY SPENDING FOR FISCAL YEAR 2009

Sec. 201. Across-the-board rescissions in non-defense discretionary spending for fiscal year 2009.

TITLE III—INCREASED INCENTIVES FOR EDUCATION

Sec. 301. Increased deduction for qualified higher education expenses.

Sec. 302. Increased deduction for interest on student loans.

TITLE I—INCENTIVES FOR ECONOMIC GROWTH

Subtitle A—Income Tax Reductions

SEC. 101. 2003 TAX REDUCTIONS MADE PERMANENT.

Section 303 of the Jobs and Growth Tax Relief Reconciliation Act of 2003 is hereby repealed.

SEC. 102. 5 PERCENT REDUCTION IN INDIVIDUAL INCOME TAX RATES.

(a) IN GENERAL.—Section 1 of the Internal Revenue Code of 1986 (relating to tax imposed on individuals) is amended by adding at the end the following new subsection:

“(j) RATE REDUCTIONS AFTER 2007.—

“(1) IN GENERAL.—In the case of taxable years beginning in a calendar year after 2007, the reduced percentage specified in the following table shall be substituted for the otherwise applicable tax rate in the tables under subsections (a), (b), (c), (d), and (e).

“Otherwise applicable tax rate	Reduced percent- age
10	9.5

15	14.25
25	23.75
28	26.6
33	31.35
35	33.25

1 “(2) ADJUSTMENT OF TABLES.—The Secretary
2 shall adjust the tables prescribed under subsection
3 (f) to carry out this subsection.”

4 (b) EFFECTIVE DATE.—The amendment made by
5 this subsection shall apply to taxable years beginning after
6 December 31, 2007.

7 (c) REPEAL OF EGTRRA SUNSET OF RATE REDUC-
8 TIONS.—Title IX of the Economic Growth and Tax Relief
9 Reconciliation Act of 2001 shall not apply to the amend-
10 ments made by section 101 of such Act.

11 **SEC. 103. REPEAL OF ALTERNATIVE MINIMUM TAX ON INDI-**
12 **VIDUALS.**

13 (a) IN GENERAL.—Section 55(a) of the Internal Rev-
14 enue Code of 1986 (relating to alternative minimum tax
15 imposed) is amended by adding at the end the following
16 new flush sentence:

17 “For purposes of this title, the tentative minimum tax on
18 any taxpayer other than a corporation for any taxable year
19 beginning after December 31, 2008, shall be zero.”

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to taxable years beginning after
22 December 31, 2008.

1 **SEC. 104. REDUCTION IN CORPORATE MARGINAL INCOME**

2 **TAX RATES.**

3 (a) **GENERAL RULE.**—Paragraph (1) of section 11(b)
4 of the Internal Revenue Code of 1986 is amended—

5 (1) by inserting “and” at the end of subpara-
6 graph (A),

7 (2) by striking “but does not exceed \$75,000,”
8 in subparagraph (B) and inserting a period,

9 (3) by striking subparagraphs (C) and (D), and

10 (4) by striking the last 2 sentences.

11 (b) **PERSONAL SERVICE CORPORATIONS.**—Para-
12 graph (2) of section 11(b) of such Code is amended by
13 striking “35 percent” and inserting “25 percent”.

14 (c) **CONFORMING AMENDMENTS.**—Paragraphs (1)
15 and (2) of section 1445(e) of such Code are each amended
16 by striking “35 percent” and inserting “25 percent”.

17 (d) **EFFECTIVE DATE.**—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 2008, except that the amendments made
20 by subsection (c) shall take effect on the date of the enact-
21 ment of this Act.

1 **Subtitle B—Reduction of Income**
2 **Taxes on Capital Assets**

3 **SEC. 111. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
4 **OF DETERMINING GAIN OR LOSS.**

5 (a) IN GENERAL.—Part II of subchapter O of chap-
6 ter 1 (relating to basis rules of general application) is
7 amended by redesignating section 1023 as section 1024
8 and by inserting after section 1022 the following new sec-
9 tion:

10 **“SEC. 1023. INDEXING OF CERTAIN ASSETS FOR PURPOSES**
11 **OF DETERMINING GAIN OR LOSS.**

12 “(a) GENERAL RULE.—

13 “(1) INDEXED BASIS SUBSTITUTED FOR AD-
14 JUSTED BASIS.—Solely for purposes of determining
15 gain or loss on the sale or other disposition by a tax-
16 payer (other than a corporation) of an indexed asset
17 which has been held for more than 3 years, the in-
18 dexed basis of the asset shall be substituted for its
19 adjusted basis.

20 “(2) EXCEPTION FOR DEPRECIATION, ETC.—

21 The deductions for depreciation, depletion, and am-
22 ortization shall be determined without regard to the
23 application of paragraph (1) to the taxpayer or any
24 other person.

1 “(3) WRITTEN DOCUMENTATION REQUIRE-
2 MENT.—Paragraph (1) shall apply only with respect
3 to indexed assets for which the taxpayer has written
4 documentation of the original purchase price paid or
5 incurred by the taxpayer to acquire such asset.

6 “(b) INDEXED ASSET:—

7 “(1) IN GENERAL.—For purposes of this sec-
8 tion, the term ‘indexed asset’ means—

9 “(A) common stock in a C corporation
10 (other than a foreign corporation), or

11 “(B) tangible property,
12 which is a capital asset or property used in the trade
13 or business (as defined in section 1231(b)).

14 “(2) STOCK IN CERTAIN FOREIGN CORPORA-
15 TIONS INCLUDED.—For purposes of this section—

16 “(A) IN GENERAL.—The term ‘indexed
17 asset’ includes common stock in a foreign cor-
18 poration which is regularly traded on an estab-
19 lished securities market.

20 “(B) EXCEPTION.—Subparagraph (A)
21 shall not apply to—

22 “(i) stock of a foreign investment
23 company,

1 “(ii) stock in a passive foreign invest-
2 ment company (as defined in section
3 1296),

4 “(iii) stock in a foreign corporation
5 held by a United States person who meets
6 the requirements of section 1248(a)(2),
7 and

8 “(iv) stock in a foreign personal hold-
9 ing company.

10 “(C) TREATMENT OF AMERICAN DEPOSI-
11 TORY RECEIPTS.—An American depository re-
12 ceipt for common stock in a foreign corporation
13 shall be treated as common stock in such cor-
14 poration.

15 “(e) INDEXED BASIS.—For purposes of this sec-
16 tion—

17 “(1) GENERAL RULE.—The indexed basis for
18 any asset is—

19 “(A) the adjusted basis of the asset, in-
20 creased by

21 “(B) the applicable inflation adjustment.

22 “(2) APPLICABLE INFLATION ADJUSTMENT.—

23 The applicable inflation adjustment for any asset is
24 an amount equal to—

1 “(A) the adjusted basis of the asset, multi-
2 plied by

3 “(B) the percentage (if any) by which—

4 “(i) the gross domestic product
5 deflator for the last calendar quarter end-
6 ing before the asset is disposed of, exceeds

7 “(ii) the gross domestic product
8 deflator for the last calendar quarter end-
9 ing before the asset was acquired by the
10 taxpayer.

11 The percentage under subparagraph (B) shall be
12 rounded to the nearest $\frac{1}{10}$ of 1 percentage point.

13 “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—

14 The gross domestic product deflator for any cal-
15 endar quarter is the implicit price deflator for the
16 gross domestic product for such quarter (as shown
17 in the last revision thereof released by the Secretary
18 of Commerce before the close of the following cal-
19 endar quarter).

20 “(d) SUSPENSION OF HOLDING PERIOD WHERE DI-
21 MINISHED RISK OF LOSS; TREATMENT OF SHORT
22 SALES.—

23 “(1) IN GENERAL.—If the taxpayer (or a re-
24 lated person) enters into any transaction which sub-
25 stantially reduces the risk of loss from holding any

1 asset, such asset shall not be treated as an indexed
2 asset for the period of such reduced risk.

3 “(2) SHORT SALES.—

4 “(A) IN GENERAL.—In the case of a short
5 sale of an indexed asset with a short sale period
6 in excess of 3 years, for purposes of this title,
7 the amount realized shall be an amount equal
8 to the amount realized (determined without re-
9 gard to this paragraph) increased by the appli-
10 cable inflation adjustment. In applying sub-
11 section (c)(2) for purposes of the preceding sen-
12 tence, the date on which the property is sold
13 short shall be treated as the date of acquisition
14 and the closing date for the sale shall be treat-
15 ed as the date of disposition.

16 “(B) SHORT SALE PERIOD.—For purposes
17 of subparagraph (A), the short sale period be-
18 gins on the day that the property is sold and
19 ends on the closing date for the sale.

20 “(e) TREATMENT OF REGULATED INVESTMENT
21 COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

22 “(1) ADJUSTMENTS AT ENTITY LEVEL.—

23 “(A) IN GENERAL.—Except as otherwise
24 provided in this paragraph, the adjustment
25 under subsection (a) shall be allowed to any

1 qualified investment entity (including for pur-
2 poses of determining the earnings and profits of
3 such entity).

4 “(B) EXCEPTION FOR CORPORATE SHARE-
5 HOLDERS.—Under regulations—

6 “(i) in the case of a distribution by a
7 qualified investment entity (directly or in-
8 directly) to a corporation—

9 “(I) the determination of whether
10 such distribution is a dividend shall be
11 made without regard to this section,
12 and

13 “(II) the amount treated as gain
14 by reason of the receipt of any capital
15 gain dividend shall be increased by the
16 percentage by which the entity’s net
17 capital gain for the taxable year (de-
18 termined without regard to this sec-
19 tion) exceeds the entity’s net capital
20 gain for such year determined with re-
21 gard to this section, and

22 “(ii) there shall be other appropriate
23 adjustments (including deemed distribu-
24 tions) so as to ensure that the benefits of
25 this section are not allowed (directly or in-

1 directly) to corporate shareholders of quali-
2 fied investment entities.

3 For purposes of the preceding sentence, any
4 amount includible in gross income under section
5 852(b)(3)(D) shall be treated as a capital gain
6 dividend and an S corporation shall not be
7 treated as a corporation.

8 “(C) EXCEPTION FOR QUALIFICATION
9 PURPOSES.—This section shall not apply for
10 purposes of sections 851(b) and 856(c).

11 “(D) EXCEPTION FOR CERTAIN TAXES IM-
12 POSED AT ENTITY LEVEL.—

13 “(i) TAX ON FAILURE TO DISTRIBUTE
14 ENTIRE GAIN.—If any amount is subject to
15 tax under section 852(b)(3)(A) for any
16 taxable year, the amount on which tax is
17 imposed under such section shall be in-
18 creased by the percentage determined
19 under subparagraph (B)(i)(II). A similar
20 rule shall apply in the case of any amount
21 subject to tax under paragraph (2) or (3)
22 of section 857(b) to the extent attributable
23 to the excess of the net capital gain over
24 the deduction for dividends paid deter-
25 mined with reference to capital gain divi-

1 dends only. The first sentence of this
2 clause shall not apply to so much of the
3 amount subject to tax under section
4 852(b)(3)(A) as is designated by the com-
5 pany under section 852(b)(3)(D).

6 “(ii) OTHER TAXES.—This section
7 shall not apply for purposes of determining
8 the amount of any tax imposed by para-
9 graph (4), (5), or (6) of section 857(b).

10 “(2) ADJUSTMENTS TO INTERESTS HELD IN
11 ENTITY.—

12 “(A) REGULATED INVESTMENT COMPA-
13 NIES.—Stock in a regulated investment com-
14 pany (within the meaning of section 851) shall
15 be an indexed asset for any calendar quarter in
16 the same ratio as—

17 “(i) the average of the fair market
18 values of the indexed assets held by such
19 company at the close of each month during
20 such quarter, bears to

21 “(ii) the average of the fair market
22 values of all assets held by such company
23 at the close of each such month.

24 “(B) REAL ESTATE INVESTMENT
25 TRUSTS.—Stock in a real estate investment

1 trust (within the meaning of section 856) shall
2 be an indexed asset for any calendar quarter in
3 the same ratio as—

4 “(i) the fair market value of the in-
5 dexed assets held by such trust at the close
6 of such quarter, bears to

7 “(ii) the fair market value of all as-
8 sets held by such trust at the close of such
9 quarter.

10 “(C) RATIO OF 80 PERCENT OR MORE.—If
11 the ratio for any calendar quarter determined
12 under subparagraph (A) or (B) would (but for
13 this subparagraph) be 80 percent or more, such
14 ratio for such quarter shall be 100 percent.

15 “(D) RATIO OF 20 PERCENT OR LESS.—If
16 the ratio for any calendar quarter determined
17 under subparagraph (A) or (B) would (but for
18 this subparagraph) be 20 percent or less, such
19 ratio for such quarter shall be zero.

20 “(E) LOOK-THRU OF PARTNERSHIPS.—For
21 purposes of this paragraph, a qualified invest-
22 ment entity which holds a partnership interest
23 shall be treated (in lieu of holding a partnership
24 interest) as holding its proportionate share of
25 the assets held by the partnership.

1 “(3) TREATMENT OF RETURN OF CAPITAL DIS-
2 TRIBUTIONS.—Except as otherwise provided by the
3 Secretary, a distribution with respect to stock in a
4 qualified investment entity which is not a dividend
5 and which results in a reduction in the adjusted
6 basis of such stock shall be treated as allocable to
7 stock acquired by the taxpayer in the order in which
8 such stock was acquired.

9 “(4) QUALIFIED INVESTMENT ENTITY.—For
10 purposes of this subsection, the term ‘qualified in-
11 vestment entity’ means—

12 “(A) a regulated investment company
13 (within the meaning of section 851), and

14 “(B) a real estate investment trust (within
15 the meaning of section 856).

16 “(f) OTHER PASS-THRU ENTITIES.—

17 “(1) PARTNERSHIPS.—

18 “(A) IN GENERAL.—In the case of a part-
19 nership, the adjustment made under subsection
20 (a) at the partnership level shall be passed
21 through to the partners.

22 “(B) SPECIAL RULE IN THE CASE OF SEC-
23 TION 754 ELECTIONS.—In the case of a transfer
24 of an interest in a partnership with respect to

1 which the election provided in section 754 is in
2 effect—

3 “(i) the adjustment under section
4 743(b)(1) shall, with respect to the trans-
5 feror partner, be treated as a sale of the
6 partnership assets for purposes of applying
7 this section, and

8 “(ii) with respect to the transferee
9 partner, the partnership’s holding period
10 for purposes of this section in such assets
11 shall be treated as beginning on the date
12 of such adjustment.

13 “(2) S CORPORATIONS.—In the case of an S
14 corporation, the adjustment made under subsection
15 (a) at the corporate level shall be passed through to
16 the shareholders. This section shall not apply for
17 purposes of determining the amount of any tax im-
18 posed by section 1374 or 1375.

19 “(3) COMMON TRUST FUNDS.—In the case of a
20 common trust fund, the adjustment made under sub-
21 section (a) at the trust level shall be passed through
22 to the participants.

23 “(4) INDEXING ADJUSTMENT DISREGARDED IN
24 DETERMINING LOSS ON SALE OF INTEREST IN ENTI-
25 TY.—Notwithstanding the preceding provisions of

1 this subsection, for purposes of determining the
2 amount of any loss on a sale or exchange of an in-
3 terest in a partnership, S corporation, or common
4 trust fund, the adjustment made under subsection
5 (a) shall not be taken into account in determining
6 the adjusted basis of such interest.

7 “(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

8 “(1) IN GENERAL.—This section shall not apply
9 to any sale or other disposition of property between
10 related persons except to the extent that the basis
11 of such property in the hands of the transferee is a
12 substituted basis.

13 “(2) RELATED PERSONS DEFINED.—For pur-
14 poses of this section, the term ‘related persons’
15 means—

16 “(A) persons bearing a relationship set
17 forth in section 267(b), and

18 “(B) persons treated as single employer
19 under subsection (b) or (c) of section 414.

20 “(h) TRANSFERS TO INCREASE INDEXING ADJUST-
21 MENT.—If any person transfers cash, debt, or any other
22 property to another person and the principal purpose of
23 such transfer is to secure or increase an adjustment under
24 subsection (a), the Secretary may disallow part or all of
25 such adjustment or increase.

1 “(i) SPECIAL RULES.—For purposes of this section—

2 “(1) TREATMENT OF IMPROVEMENTS, ETC.—If
3 there is an addition to the adjusted basis of any tan-
4 gible property or of any stock in a corporation dur-
5 ing the taxable year by reason of an improvement to
6 such property or a contribution to capital of such
7 corporation—

8 “(A) such addition shall never be taken
9 into account under subsection (c)(1)(A) if the
10 aggregate amount thereof during the taxable
11 year with respect to such property or stock is
12 less than \$1,000, and

13 “(B) such addition shall be treated as a
14 separate asset acquired at the close of such tax-
15 able year if the aggregate amount thereof dur-
16 ing the taxable year with respect to such prop-
17 erty or stock is \$1,000 or more.

18 A rule similar to the rule of the preceding sentence
19 shall apply to any other portion of an asset to the
20 extent that separate treatment of such portion is ap-
21 propriate to carry out the purposes of this section.

22 “(2) ASSETS WHICH ARE NOT INDEXED ASSETS
23 THROUGHOUT HOLDING PERIOD.—The applicable in-
24 flation adjustment shall be appropriately reduced for

1 periods during which the asset was not an indexed
2 asset.

3 “(3) TREATMENT OF CERTAIN DISTRIBUTIONS.—A distribution with respect to stock in a
4 corporation which is not a dividend shall be treated
5 as a disposition.
6

7 “(4) SECTION CANNOT INCREASE ORDINARY
8 LOSS.—To the extent that (but for this paragraph)
9 this section would create or increase a net ordinary
10 loss to which section 1231(a)(2) applies or an ordi-
11 nary loss to which any other provision of this title
12 applies, such provision shall not apply. The taxpayer
13 shall be treated as having a long-term capital loss in
14 an amount equal to the amount of the ordinary loss
15 to which the preceding sentence applies.

16 “(5) ACQUISITION DATE WHERE THERE HAS
17 BEEN PRIOR APPLICATION OF SUBSECTION (a)(1)
18 WITH RESPECT TO THE TAXPAYER.—If there has
19 been a prior application of subsection (a)(1) to an
20 asset while such asset was held by the taxpayer, the
21 date of acquisition of such asset by the taxpayer
22 shall be treated as not earlier than the date of the
23 most recent such prior application.

1 “(j) REGULATIONS.—The Secretary shall prescribe
2 such regulations as may be necessary or appropriate to
3 carry out the purposes of this section.

4 “(k) TERMINATION.—For purposes of this section,
5 the term ‘indexed asset’ shall not include any asset ac-
6 quired after December 31, 2009.”.

7 (b) CLERICAL AMENDMENT.—The table of sections
8 for part II of subchapter O of chapter 1 is amended by
9 striking the item relating to section 1023 and by inserting
10 after the item relating to section 1022 the following new
11 items:

 “Sec. 1022. Indexing of certain assets for purposes of determining gain or loss.
 “Sec. 1023. Cross references.”.

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to sales and other dispositions of
14 indexed assets after the date of the enactment of this Act,
15 in taxable years ending after such date.

16 **SEC. 112. REDUCED CAPITAL GAINS RATE FOR CORPORA-**
17 **TIONS.**

18 (a) IN GENERAL.—Section 1201 of the Internal Rev-
19 enue Code of 1986 is amended by striking “35 percent”
20 both places it appears and inserting “15 percent”.

21 (b) ALTERNATIVE MINIMUM TAX.—Section 55(b) of
22 such Code is amended by adding at the end the following
23 new paragraph:

1 “(5) MAXIMUM RATE OF TAX ON NET CAPITAL
2 GAIN OF CORPORATIONS.—The amount determined
3 under paragraph (1)(B)(i) shall not exceed the sum
4 of—

5 “(A) the amount determined under such
6 paragraph computed at the rates and in the
7 same manner as if this paragraph had not been
8 enacted on the taxable excess reduced by the
9 net capital gain, plus

10 “(B) the amount determined under section
11 1201.”.

12 (c) TECHNICAL AMENDMENTS.—

13 (1) Section 1445(e)(1) of such Code, as amend-
14 ed by section 104, is amended by striking “25 per-
15 cent (or, to the extent provided in regulations, 15
16 percent)” and inserting “15 percent”.

17 (2) Section 1445(e)(2) of such Code, as so
18 amended, is amended by striking “25 percent” and
19 inserting “15 percent”.

20 (3) Section 7518(g)(6)(A) of such Code is
21 amended by striking “(34 percent in the case of a
22 corporation)”.

23 (4) Section 607(h)(6)(A) of the Merchant Ma-
24 rine Act, 1936 is amended by striking “(34 percent
25 in the case of a corporation)”.

1 (d) EFFECTIVE DATE.—

2 (1) IN GENERAL.—Except as provided in para-
3 graph (2), the amendments made by this section
4 shall apply to taxable years beginning after Decem-
5 ber 31, 2008.

6 (2) WITHHOLDING.—The amendment made by
7 subsection (c)(2) shall apply to amounts paid after
8 the date of the enactment of this Act.

9 **Subtitle C—Other Provisions**
10 **Related to Businesses**

11 **SEC. 121. REPEAL OF CERTAIN LIMITATIONS ON THE EX-**
12 **PENSING OF SECTION 179 PROPERTY.**

13 (a) IN GENERAL.—Section 179 of the Internal Rev-
14 enue Code of 1986 is amended by striking subsection (b)
15 and by redesignating subsections (c), (d), and (e) as sub-
16 sections (b), (c), and (d), respectively.

17 (b) EXPENSING OF SECTION 1250 PROPERTY.—Sub-
18 paragraph (B) of section 179(c)(1) of such Code, as redес-
19 igned by subsection (a), is amended by inserting “or sec-
20 tion 1250 property (as defined in section 1250(c))” after
21 “section 1245 property (as defined in section
22 1245(a)(3))”.

23 (c) CONFORMING AMENDMENTS.—

24 (1) Subsection (c) of section 179 of such Code,
25 as redesignated by subsection (a), is amended by

1 striking paragraphs (6) and (8), and by redesignating paragraphs (7), (9), and (10) as paragraphs (6), (7), and (8), respectively.

2 (2) Paragraph (6) of section 179(c) of such Code, as redesignated by paragraph (1) and subsection (a), is amended by striking “paragraphs (2) and (6)” and inserting “paragraph (2)”.

3 (3) Section 179 of such Code, as amended by subsection (a), is amended by striking subsection (d).

4 (4) Sections 42(d)(2)(B)(i), 1397D(d)(1), 1400B(b)(4)(A)(i), and 1400F(b)(4)(A)(i) of such Code are each amended by striking “section 179(d)(2)” and inserting “section 179(e)(2)”.

5 (5) Subclause (I) of section 42(d)(2)(D)(iii) of such Code is amended—

6 (A) by striking “section 179(d)” and inserting “section 179(c)”, and

7 (B) by striking “section 179(d)(7)” and inserting “section 179(e)(6)”.

8 (6)(A) Subpart B of part III of subchapter U of chapter 1 of such Code is hereby repealed.

9 (B) The table of subparts for such part III is amended by striking the item relating to subpart B.

1 (7)(A) Part III of subchapter X of chapter 1 of
2 such Code is amended by striking section 1400J.

3 (B) The table of sections for such part is
4 amended by striking the item relating to section
5 1400J.

6 (C) Paragraph (3) of section 1400E(b) of such
7 Code is amended by striking “sections 1400F and
8 1400J” and inserting “section 1400F”.

9 (8) Clause (iv) of section 1400L(b)(2)(A) of
10 such Code is amended by striking “section 179(d)”
11 and inserting “section 179(c)”.

12 (9) Section 1400L of such Code is amended by
13 striking subsection (f).

14 (d) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to property placed in service in
16 taxable years beginning after December 31, 2008.

17 **SEC. 122. RESEARCH CREDIT MADE PERMANENT.**

18 (a) IN GENERAL.—Section 41 of the Internal Rev-
19 enue Code of 1986 (relating to credit for increasing re-
20 search activities) is amended by striking subsection (h).

21 (b) CONFORMING AMENDMENT.—Paragraph (1) of
22 section 45C(b) of such Code is amended by striking sub-
23 paragraph (D).

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to amounts paid or incurred after
3 December 31, 2009.

4 **SEC. 123. 7-YEAR CARRYBACK OF NET OPERATING LOSSES.**

5 (a) IN GENERAL.—Clause (i) section 172(b)(1)(A) of
6 the Internal Revenue Code of 1986 is amended by striking
7 “2 taxable years” and inserting “7 taxable years”.

8 (b) CONFORMING AMENDMENTS.—

9 (1) Paragraph (1) of section 172(b) of such
10 Code is amended by striking subparagraphs (F),
11 (G), (H), (I), and (J).

12 (2) Section 172 of such Code is amended by
13 striking subsections (i), (j), and (k) and by redesignig-
14 nating subsection (l) as subsection (i).

15 (c) EFFECTIVE DATE.—

16 (1) IN GENERAL.—Except as provided in para-
17 graph (2), the amendments made by this section
18 shall apply to net operating losses for taxable years
19 ending after December 31, 2007.

20 (2) ELECTION.—In the case of a net operating
21 loss for a taxable year ending during 2008, any elec-
22 tion made under section 172(b)(3) of the Internal
23 Revenue Code of 1986 may (notwithstanding such
24 section) be revoked before January 1, 2010.

1 **Subtitle D—Other Provisions**
2 **Relating to Individuals**

3 **SEC. 131. CHILD TAX CREDIT INCREASED AND MADE PER-**
4 **MANENT.**

5 (a) **INCREASED CREDIT.**—Subsection (a) of section
6 24 of the Internal Revenue Code of 1986 is amended by
7 striking “\$1,000” and inserting “\$5,000”.

8 (b) **INCREASED CREDIT NOT REFUNDABLE.**—Sub-
9 paragraph (A) of section 24(d)(1) of such Code is amend-
10 ed to read as follows:

11 “(A) the credit which would be allowed
12 under this section—

13 “(i) without regard to this subsection
14 and the limitation under section 26(a)(2)
15 or subsection (b)(3), as the case may be,
16 and

17 “(ii) if subsection (a) were applied by
18 substituting ‘\$1,000’ for ‘\$5,000’, or”.

19 (c) **EFFECTIVE DATE.**—The amendments made by
20 this section shall apply to taxable years beginning after
21 December 31, 2008.

22 **SEC. 132. DISTRIBUTIONS NOT REQUIRED FROM INDI-**
23 **VIDUAL RETIREMENT PLANS AT AGE 70½.**

24 Paragraph (9) of section 401(a) of the Internal Rev-
25 enue Code of 1986 (relating to required distributions) is

1 amended by adding at the end the following new subpara-
2 graph:

3 “(I) EXCEPTION FOR INDIVIDUAL RETIRE-
4 MENT PLANS.—The requirements of this para-
5 graph shall not apply to any individual retire-
6 ment plan for any calendar year after 2009.”.

7 **SEC. 133. NO IRA DISTRIBUTION DURING 2009 INCLUDED IN**
8 **GROSS INCOME.**

9 Subsection (d) of section 408 of the Internal Revenue
10 Code of 1986 (relating to individual retirement accounts)
11 is amended by adding at the end the following new para-
12 graph:

13 “(10) DISTRIBUTIONS DURING 2009.—

14 “(A) IN GENERAL.—Gross income of an
15 individual for the taxable year does not include
16 any distribution during 2009 from an individual
17 retirement plan (other than a plan described in
18 subsection (k) or (p)) to the extent such dis-
19 tribution is otherwise includible in gross in-
20 come.

21 “(B) APPLICATION OF SECTION 72.—Not-
22 withstanding section 72, in determining the ex-
23 tent to which an amount is treated as otherwise
24 includible in gross income for purposes of sub-
25 paragraph (A), the aggregate amount distrib-

1 uted from an individual retirement plan shall be
2 treated as includible in gross income to the ex-
3 tent that such amount does not exceed the ag-
4 gregate amount which would have been so in-
5 cludible if all amounts from all individual retire-
6 ment plans were distributed. Proper adjust-
7 ments shall be made in applying section 72 to
8 other distributions in such taxable year and
9 subsequent taxable years.”.

10 **TITLE II—ACROSS-THE-BOARD**
11 **RESCISSIONS IN NON-DE-**
12 **FENSE DISCRETIONARY**
13 **SPENDING FOR FISCAL YEAR**
14 **2009**

15 **SEC. 201. ACROSS-THE-BOARD RESCISSIONS IN NON-DE-**
16 **FENSE DISCRETIONARY SPENDING FOR FIS-**
17 **CAL YEAR 2009.**

18 (a) **ACROSS-THE-BOARD RESCISSIONS.**—There is
19 hereby rescinded an amount equal to 1 percent of—

20 (1) the budget authority provided (or obligation
21 limitation imposed) for fiscal year 2009 for any non-
22 defense discretionary account in any fiscal year 2009
23 appropriation Act;

24 (2) the budget authority provided in any ad-
25 vance appropriation for fiscal year 2009 for any

1 non-defense discretionary account in any prior fiscal
2 year appropriation Act; and

3 (3) the contract authority provided in fiscal
4 year 2009 for any program that is subject to a limi-
5 tation contained in any fiscal year 2009 appropria-
6 tion Act for any non-defense discretionary account.

7 (b) NON-DEFENSE DISCRETIONARY ACCOUNT.—For
8 purposes of subsection (a), the term “non-defense discre-
9 tionary account” means any discretionary account, other
10 than—

11 (1) any account included in a Department of
12 Defense Appropriations Act;

13 (2) any account included in a Military Quality
14 of Life and Veterans Affairs Appropriations Act; or

15 (3) any account for Department of Energy de-
16 fense activities included in an Energy and Water
17 Development Appropriations Act.

18 (c) PROPORTIONATE APPLICATION.—Any rescission
19 made by subsection (a) shall be applied proportionately—

20 (1) to each discretionary account and each item
21 of budget authority described in such subsection;
22 and

23 (2) within each such account and item, to each
24 program, project, and activity (with programs,
25 projects, and activities as delineated in the appro-

1 appropriation Act or accompanying reports for the rel-
2 evant fiscal year covering such account or item, or
3 for accounts and items not included in appropriation
4 Acts, as delineated in the most recently submitted
5 President's budget).

6 (d) SUBSEQUENT APPROPRIATION LAWS.—In the
7 case of any fiscal year 2009 appropriation Act enacted
8 after the enactment of this section, any rescission required
9 by subsection (a) shall take effect immediately after the
10 enactment of such Act.

11 (e) OMB REPORT.—Within 30 days after the enact-
12 ment of this section (or, if later, 30 days after the enact-
13 ment of any fiscal year 2009 appropriation Act), the Di-
14 rector of the Office of Management and Budget shall sub-
15 mit to the Committees on Appropriations of the House
16 of Representatives and the Senate a report specifying the
17 account and amount of each rescission made pursuant to
18 subsection (a).

19 **TITLE III—INCREASED**
20 **INCENTIVES FOR EDUCATION**

21 **SEC. 301. INCREASED DEDUCTION FOR QUALIFIED HIGHER**
22 **EDUCATION EXPENSES.**

23 (a) IN GENERAL.—Paragraph (2) of section 222(b)
24 of the Internal Revenue Code of 1986 (relating to dollar

1 limitations on qualified tuition and related expenses) is
2 amended to read as follows:

3 “(2) DOLLAR LIMITATIONS.—

4 “(A) IN GENERAL.—In the case of any
5 taxable year beginning after 2008, the applica-
6 ble dollar amount shall be equal to—

7 “(i) in the case of a taxpayer whose
8 adjusted gross income for the taxable year
9 does not exceed \$75,000 (\$150,000 in the
10 case of a joint return), \$6,000,

11 “(ii) in the case of a taxpayer not de-
12 scribed in clause (i) whose adjusted gross
13 income for the taxable year does not ex-
14 ceed \$90,000 (\$180,000 in the case of a
15 joint return), \$2,000, and

16 “(iii) in the case of any other tax-
17 payer, zero.

18 “(B) ADJUSTED GROSS INCOME.—For
19 purposes of this paragraph, adjusted gross in-
20 come shall be determined—

21 “(i) without regard to this section and
22 sections 199, 911, 931, and 933, and

23 “(ii) after application of sections 86,
24 135, 137, 219, 221, and 469.”

1 (b) **EFFECTIVE DATE.**—The amendment made by
2 this section shall apply to taxable years beginning after
3 December 31, 2008.

4 **SEC. 302. INCREASED DEDUCTION FOR INTEREST ON STU-**
5 **DENT LOANS.**

6 (a) **INCREASED DEDUCTION.**—Paragraph (1) of sec-
7 tion 223(b) of the Internal Revenue Code of 1986 (relat-
8 ing to interest on education loans) is amended to read as
9 follows:

10 “(1) **MAXIMUM DEDUCTION.**—Except as pro-
11 vided in paragraph (2), the deduction allowed by
12 subsection (a) for the taxable year shall not exceed
13 \$3,750.”

14 (b) **EXPANDED INCOME ELIGIBILITY.**—Subclause
15 (II) of section 223(b)(2)(B)(i) of such Code is amended
16 by striking “\$50,000 (\$100,000” and inserting “\$75,000
17 (\$150,000”.

18 (c) **EFFECTIVE DATE.**—The amendments made by
19 this section shall apply to taxable years beginning after
20 December 31, 2008.

