

(E) Standard deduction and deduction for personal exemptions not allowed. -- The standard deduction under section 63(c), the deduction for personal exemptions under section 151, and the deduction under section 642(b) shall not be allowed.

(2) Circulation and research and experimental expenditures. --

(A) In general. -- The amount allowable as a deduction under section 173 or 174(a) in computing the regular tax for amounts paid or incurred after December 31, 1986, shall be capitalized and --

(i) in the case of circulation expenditures described in section 173, shall be amortized ratably over the 3-year period beginning with the taxable year in which the expenditures were made, or

(ii) in the case of research and experimental expenditures described in section 174(a), shall be amortized ratably over the 10-year period beginning with the taxable year in which the expenditures were made.

(B) Loss allowed. -- If a loss is sustained with respect to any property described in subparagraph (A), a deduction shall be allowed for the expenditures described in subparagraph (A) for the taxable year in which such loss is sustained in an amount equal to the lesser of --

(i) the amount allowable under section 165(a) for the expenditures if they had remained capitalized, or

(ii) the amount of such expenditures which have not previously been amortized under subparagraph (A).

(C) Special rule for personal holding companies. -- In the case of circulation expenditures described in section 173, the adjustments provided in this paragraph shall apply also to a personal holding company (as defined in section 542).

(D) Exception for certain research and experimental expenditures. -- If the taxpayer materially participates (within the meaning of section 469(h)) in an activity, this paragraph shall not apply to any amount allowable as a deduction under section 174(a) for expenditures paid or incurred in connection with such activity.

(3) Treatment of incentive stock options. -- Section 421 shall not apply to the transfer of stock acquired pursuant to the exercise of an incentive stock option (as defined in section 422). Section 422(c)(2) shall apply in any case where the disposition and the inclusion for purposes of this part are within the same taxable year and such section shall not apply in any other case. The adjusted basis of any stock so acquired shall be determined on the basis of the treatment prescribed by this paragraph.

(c) Adjustments applicable to corporations. -- In determining the amount of the alternative minimum taxable income of a

corporation, the following treatment shall apply:

(1) Adjustment for adjusted current earnings. --Alternative minimum taxable income shall be adjusted as provided in subsection (g).

(2) Merchant marine capital construction funds. -- In the case of a capital construction fund established under section 607 of the Merchant Marine Act, 1936 (46 U.S.C> 1177) --(A) subparagraphs (A), (B), and (C) of section 7518 (c)(1) (and the corresponding provisions of such section 607) shall not apply to --

(i) any amount deposited in such fund after December 31, 1986, or

(ii) any earnings (including gains and losses) after December 31, 1986, on amounts in such fund, and

(B) no reduction in basis shall be made under section 7518(f) (or the corresponding provisions of such section 607) with respect to the withdrawal from the fund of any amount to which subparagraph (A) applies.

For purposes of this paragraph, any withdrawal of deposits or earning from the fund shall be treated as allocable first to deposits made before (and earnings received or accrued before) January 1, 1987.

(3) Special deduction for certain organizations not allowed. -- The deduction determined under section 833(b) shall not be allowed.

(d) alternative tax net operating loss deduction defined. --

(1) In general. -- For purposes of subsection (a)(4), the term "alternative tax net operating loss deduction" means the net operating loss deduction allowable for the taxable year ;under section 172, except that --

(A) the amount of such deduction shall not exceed the excess (if any) of --

(i) 90 percent of alternative minimum taxable income determined without regard to such deduction and the deduction under subsection (h), over

(ii) the deduction under subsection (h), and

(B) in determining the amount of such deduction --

(i) the net operating loss (within the meaning of section 172(c)) for any loss year shall be adjusted as provided in paragraph (2), and

(ii) in the case of taxable years beginning after December 31, 1986, section 172 (b)(2) shall be applied by substituting "90 percent of alternative minimum taxable income determined without regard to the alternative tax net operating loss deduction" for "taxable income" each place it appears.

(2) Adjustments to net operating loss computation. --

(A) Post-1986 loss years. -- In the case of a loss year beginning after December 31, 1986, the net operating loss for

such year under section 172(c) shall --

(i) be determined with the adjustments provided in this section and section 58, and

(ii) be reduced by the items of tax preference determined under section 57 for such year.

An item of tax preference shall be taken into account under clause (ii) only to the extent such item increased the amount of the net operating loss for the taxable year under section 172(c).

(B) Pre-1987 years. -- In the case of loss years beginning before January 1, 1987, the amount of the net operating loss which may be carried over the taxable years beginning after December 31, 1986, for purposes of paragraph (2), shall be equal to the amount which may be carried from the loss year to the first taxable year of the taxpayer beginning after December 31, 1986.

(e) Qualified housing interest. -- For purposes of this part --

(1) In general. -- The term "qualified housing interest" means interest which is qualified residence interest (as defined in section 163(h)(3) and is paid or accrued during the taxable year on indebtedness which is incurred in acquiring, constructing, or substantially improving any property which --

(A) is the principal residence (within the meaning of section 1034) of the taxpayer at the time such interest accrues, or

(B) is a qualified dwelling which is a qualified residence (within the meaning of section 163(h)(4)).

Such term also includes interest on any indebtedness resulting from the refinancing of indebtedness meeting the requirements of the preceding sentence; but only to the extent that the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness immediately before the refinancing.

(2) Qualified dwelling. -- The term "qualified dwelling" means any --

(A) house,

(B) apartment,

(C) condominium, or

(D) mobile home not used on a transient basis (within the meaning of section 7701(a)(19)(C)(v)),

including all structures or other property appurtenant thereto.

(3) Special rule for indebtedness incurred before July 1, 1982.

-- The term "qualified housing interest" includes interest which is qualified residence interest (as defined in section 163(h)

(3)) and is paid or accrued on indebtedness which --

(A) was incurred by the taxpayer before July 1, 1982, and

(B) is secured by property which, at the time such indebtedness was incurred, was --

(i) the principal residence (within the meaning of section

1034) of the taxpayer, or

- (ii) a qualified dwelling used by the taxpayer (or any member of his family (within the meaning of section 267(c)(4))).

(g) Adjustments based on adjusted current earnings. --

- (1) In general. -- The alternative minimum taxable income of any corporation for any taxable year beginning after 1989 shall be increased by 75 percent of the excess (if any) of --
 - (A) the adjusted current earnings of the corporation, over
 - (B) the alternative minimum taxable income (determined without regard to this subsection and the alternative tax net operating loss deduction).
- (2) Allowance of negative adjustments. --
 - (A) In general. -- The alternative minimum taxable income for any corporation of any taxable year beginning after 1989, shall be reduced by 75 percent of the excess (if any) of --
 - (i) the amount referred to in subparagraph (B) of paragraph (1), over
 - (ii) the amount referred to in subparagraph (A) of paragraph (1).
 - (B) Limitation. -- The reduction under subparagraph (A) for any taxable year shall not exceed the excess (if any) of --
 - (i) the aggregate increases in alternative minimum taxable income under paragraph (1) for prior taxable years, over
 - (ii) the aggregate reductions under subparagraph (A) of this paragraph for prior taxable years.
- (3) Adjusted current earnings. -- For purposes of this subsection, the term "adjusted current earnings" means the alternative minimum taxable income for the taxable year --
 - (A) determined with the adjustments provided in paragraph (4), and
 - (B) determined without regard to this subsection and the alternative tax net operating loss deduction.
- (4) Adjustments. -- In determining adjusted current earnings, the following adjustments shall apply:
 - (A) Depreciation. --
 - (i) Property placed in service after 1989. -- The depreciation deduction with respect to any property placed in service in a taxable year beginning after 1989 shall be determined under the alternative system of section 1689g).
 - (I) The alternative system of section 168(g), or
 - (II) The method used for book purposes.
 - (ii) Property to which new ACRS system applies. -- In the case of any property to which the amendments made by section 201 of the Tax Reform Act of 1986 apply and which is placed in service in a taxable year beginning before 1990, the depreciation deduction shall be determined --
 - (I) by taking into account the adjusted basis of such property (as determined for purposes of computing alternative minimum

taxable income) as of the close of the last taxable year beginning before January 1, 1990, and
(II) by using the straight-line method over the remainder of the recovery period applicable to such property under the alternative system of section 168(g).

(iii) Property to which original ACRS system applies. -- In the case of any property to which section 168 (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986 and without regard to subsection (d)(1)(A)(ii) thereof) applies, and which is placed in service in a taxable year beginning before 1990, the depreciation deduction shall be determined --

(I) by taking into account the adjusted basis of such property (as determined for purposes of computing the regular tax) as of the close of the last taxable year beginning before January 1, 1990, and

(II) by using the straight line method over the remainder of the recovery period which would apply to such property under the alternative system of section 168(g).

(iv) Property placed in service before 1981. -- In the case of any property not described in clause (i), (ii), or (iii), the amount allowable as depreciation or amortization with respect to such property shall be determined in the same manner as for purposes of computing taxable income.

(v) Special rules for certain property. -- In the case of any property described in paragraph (1), (2), (3), or (4) of section 168(f), the amount of depreciation allowable for purposes of the regular tax shall be treated as the amount allowable under the alternative system of section 168(g).

(B) Inclusion of items included for purposes of computing earnings and profits. --

(i) IN general. -- In the case of any amount which is excluded form gross income for purposes of computing alternative minimum taxable income but is taken into account in determining the amount of earnings and profits.

(I) such amount shall be included in income in the same manner as if such amount were includable in gross income for purposes of computing alternative minimum taxable income, and

(II) the amount of such income shall be reduced by any deduction which would have been allowable in computing alternative minimum taxable income if such amount were includable in gross income. The preceding sentence shall not apply in the case of any amount excluded form gross income under section 108 (or the corresponding provisions of prior law).

(ii) In Inclusion of buildup in life insurance contracts. -- In the case of any life insurance contract --

(I) the income on such contract (as determined under section 7702(g)) for any taxable year shall be treated as includable in

gross income for such year, and

(II) there shall be allowed as a deduction that portion of any premium which is attributable to insurance coverage.

(C) Disallowance of items not deductible in computing earnings and profits. --

(i) In general. -- A deduction shall not be allowed for any item if such item would not be deductible for any taxable year for purposes of computing earnings and profits.

(ii) Special rule for certain dividends. --

(I) In general. -- Clause (i) shall not apply to any deduction allowable under section 243 or 245 for any dividend which is a 100-percent dividend or which is received from a 20-percent owned corporation (as defined in section 243(c)(2)), but only to the extent such dividend is attributable to income of the paying corporation which is subject to tax under this chapter (determined after the application of sections 936 and 921).

(II) 100-percent dividend. -- For purposes of the subclause (I), the term "100-percent dividend" means any dividend if the percentage used for purposes of determining the amount allowable as a deduction under section 243 or 245 with respect to such dividend is 100 percent.

For purposes of the preceding sentence, the term "100 percent dividend" means any dividend if the percentage used for purposes of determining the amount allowable as a deduction under section 243 or 245 with respect to such dividend is 100 percent.

(iii) Treatment of taxes on dividends from 936 corporations.--

(I) In general. -- For purposes of determining the alternative minimum foreign tax credit, 75 percent of any withholding or income tax paid to a possession of the United States with respect to dividends received from a corporation eligible for the credit provided by section 936 shall be treated as a tax paid to a foreign country by the corporation receiving the dividend.

(II) Limitation. -- If the aggregate amount of the dividends referred to in subclause (I) for any taxable year exceeds the excess referred to in paragraph (1), the amount treated as tax paid to a foreign country under subclause (I) shall not exceed the amount which would be so treated without regard to this subclause multiplied by a fraction the numerator of which is the excess referred to in paragraph (1) and the denominator of which is the aggregate amount of such dividends.

(III) Treatment of taxes imposed on 936 corporation. -- For purposes of this clause, taxes paid by any corporation eligible for the credit provided by section 936 to a possession of the United States shall be treated as a withholding tax paid with respect to any dividend paid by such corporation to the extent such taxes would be treated as paid by the corporation receiving the dividend under rules similar to the rules of section 902

(and the amount of any such dividend shall be increased by the amount so treated).

(iv) Special rule for certain dividends received by certain cooperatives. -- In the case of a cooperative described in section 927(a)(4), clause (i) shall not apply to any amount allowable as a deduction under section 245(c).

(D) Certain other earnings and profits adjustments. --

(i) Intangible drilling costs. -- The adjustments provided in section 312(n)(2)(A) shall apply in the case of amounts paid or incurred in taxable years beginning after December 31, 1989.

(ii) Certain amortization provisions not to apply. -- Sections 173 and 248 shall not apply to expenditures paid or incurred in taxable years beginning after December 31, 1989.

(iii) LIFO inventory adjustments. -- The adjustments provided in section 312(n)(4) shall apply.

(iv) Installment sales. -- In the case of any installment sale in a taxable year beginning after December 31, 1989, adjusted current earnings shall be computed as if the corporation did not use the installment method. The preceding sentence shall not apply to the applicable percentage (as determined under section 453A) of the gain from any installment sale with respect to which section 453A(a)(1) applies.

(E) Disallowance of loss on exchange of debt pools. -- No loss shall be recognized on the exchange of any pool of debt obligations having substantially the same effective interest rates and maturities.

(F) Depletion. -- The allowance for depletion with respect to any property placed in service in a taxable year beginning after 1989 shall be cost depletion determined under section 611.

(G) Treatment of certain ownership changes. -- If --

(i) there is an ownership change (within the meaning of section 382) in a taxable year beginning after 1989 with respect to any corporation, and

(ii) there is a net unrealized built-in loss (within the meaning of section 382(h)) with respect to such corporation, then the adjusted basis of each asset of such corporation (immediately after the ownership change) shall be its proportionate share (determined on the basis of respective fair market values) of the fair market value of the assets of such corporation (determined under section 382(h)) immediately before the ownership change.

(I) Adjusted basis. -- The adjusted basis of any property with respect to which an adjustment under this paragraph applies shall be determined by applying the treatment prescribed in the paragraph. (1) Adjusted basis. -- The adjusted basis of any property with respect to which an adjustment under this paragraph applies shall be determined by applying the treatment prescribed in this paragraph.

(A) Earnings and profits. -- The term "earnings and profits" means earnings and profits computed for purposes of subchapter C.

(B) treatment of alternative minimum taxable income. -- The treatment of any item for purposes of computing alternative minimum taxable income shall be determined without regard to this subsection.

(6) Exception for certain corporations. -- This subsection shall not apply to any S corporation, regulated investment company, real estate investment trust, or REMIC.

(h) Adjustment based on energy preferences. --

(1) In general. -- In computing the alternative minimum taxable income of any taxpayer other than an integrated oil company for any taxable year beginning after 1990, there shall be allowed as a deduction an amount equal to the lesser of --

(A) the alternative tax energy preference deduction, or

(B) 40 percent of alternative minimum taxable income.

(2) Phase-out of deduction as oil prices increase. -- The amount of the deduction under paragraph (1) (determined without regard to this paragraph) shall be reduced (but not below zero) by the amount which bears the same ratio to such amount as --

(A) the excess of the reference price of crude oil for the calendar year preceding the calendar year in which the taxable year begins over \$28, bears to

(B) \$6.

For purposes of this paragraph, the reference price for any calendar year shall be determined under section 29(d)(2)(C) and the \$28 amount under subparagraph (A) shall be adjusted at the same time and in the same manner as under section 43(b)(3).

(3) Alternative tax energy preference deduction. -- For purposes of paragraph (1), the term "alternative tax energy preference deduction" means an amount equal to the sum of --

(A) in the case of the intangible drilling cost preference, an amount equal to the sum of --

(i) 75 percent of the portion of the intangible drilling cost preference attributable to qualified exploratory costs, plus

(ii) 15 percent of the excess (if any) of --

(I) the intangible drilling cost preference, over

(II) the portion of the intangible drilling cost preference attributable to qualified exploratory costs, plus

(B) 50 percent of the marginal production depletion preference.

(4) Intangible drilling cost preference. -- For purposes of this subsection --

(A) In general. -- The term "intangible drilling cost preference" means the amount by which alternative minimum taxable income would be reduced if it were computed without regard to section 57(a)(2) and subsection (g)(4)(D)(i).

(B) Portion attributable to qualified exploratory costs. -- For

purposes of subparagraph (A), the portion of the intangible drilling cost preference attributable to qualified exploratory costs is an amount which bears the same ratio to the intangible drilling cost preference as --(i) the qualified exploratory costs of the taxpayer for the taxable year, bear to 9ii) the total intangible drilling and development costs with respect to which the taxpayer may make an election under section 263(c) for the taxable year.

(5) Marginal production depletion preference. -- For purposes of this subsection, the term "marginal production depletion preference" means the amount by which alternative minimum taxable income would be reduced if it were computed as if section 57(a)(1) and subsection (g)(4)(G) did not apply to any allowance for depletion determined under section 613A(c)(6).

(6) Qualified exploratory costs. -- For purposes of this subsection --

(A) In general. -- The term "qualified exploratory costs" means intangible drilling and development costs of a taxpayer other than an integrated oil company which --

(i) the taxpayer may elect to deduct as expenses under section 263(c), and

(ii) are paid or incurred in connection with the drilling of an exploratory well located in the United States (within the meaning of section 63891)).

(B) Exploratory well. -- The term "exploratory well" means any of the following oil or gas wells:

(i) An oil or gas well which is completed (or if not completed, with respect to which drilling operations cease) before the completion of any other well which --

(I) is located within 1.25 miles from the well, and

(II) is capable of production in commercial quantities.

(ii) An oil or gas well which is not described in clause (i) but which has a total depth which is at least 800 feet below the deepest completion depth of any well within 1.25 miles which is capable of production in commercial quantities.

(iii) An oil or gas well capable of production in commercial quantities which is not described in clause (i) or (ii) but which is completed into a new reservoir, except that this clause shall not apply to a gas well if the gas is produced (or to be produced) from Devonian shale, coal seams, or a tight formation (determined in a manner similar to the manner under section 29(c)(2)).

A well shall not be treated as an exploratory well unless the operator submits to the Secretary (at such time and in such manner as the Secretary may provide) a certification from a petroleum engineer that the well is described in one of the preceding clauses.

(C) Certain costs not included. -- The term "qualified

exploratory costs" shall not include any cost paid or incurred

--

(i) in constructing, acquiring, transporting, erecting, or installing an offshore platform, or

(ii) with respect to the drilling of a well from an offshore platform unless it is the first well which penetrates a reservoir.

(D) Integrated oil company. -- For purposes of this paragraph, the term "integrated oil company" means, with respect to any taxable year, any producer of crude oil to whom subsection (c) of section 613A does not apply by reason of paragraph (2) or (4) of section 613A(d).

(7) Special rules. --

(A) Alternative minimum taxable income. -- For purposes of paragraphs (1)(B), (4)(A), and (5), alternative minimum taxable income shall be determined without regard to the deduction allowable under this subsection and the alternative tax net operating loss deduction under subsection (a)(4).

(B) Geothermal deposits. -- For purposes of this subsection, intangible drilling and development costs shall not include costs with respect to wells drilled for any geothermal deposits (as defined in section 613(e)(3)).

(8) Regulations. -- The Secretary may by regulation provide for appropriate adjustments in computing alternative minimum taxable income or adjusted current earnings for any taxable year following a taxable year for which a deduction was allowed under this subsection to ensure that not double benefit is allowed by reason of such deduction.

57. Items of tax preference

(a) General rule. -- For purposes of this part, the items of tax preference determined under section are--

(1) Depletion. -- With respect to each property (as defined in section 614), the excess of the deduction for depletion allowable under section 611 for the taxable year over the adjusted basis of the property at the end of the taxable year (determined without regard to the depletion deduction for the taxable year).

(2) Intangible drilling costs. --

(A) In general. -- With respect to all oil, gas, and geothermal properties of the taxpayer, the amount (if any) by which the amount of the excess intangible drilling costs arising in the taxable year is greater than 65 percent of the net income of the taxpayer from oil, gas, and geothermal properties for taxable year.

(B) Excess intangible drilling costs. -- For purposes of subparagraph (A), the amount of the excess intangible drilling costs arising in the taxable year is the excess of --

(i) the intangible drilling and development costs paid or incurred in connection with oil, gas, and geothermal wells (other than costs incurred in drilling a nonproductive well) allowable under section 263(c) or 291(b) for the taxable year, over

(ii) the amount which would have been allowable for the taxable year if such costs had been capitalized and straight line recovery of intangibles (as defined in subsection (b)) had been used with respect to such costs.

(C) Net income from oil, gas, and geothermal properties for the taxable year is the excess of --

(i) the aggregate amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties of the taxpayer received or accrued by the taxpayer during the taxable year, over

(ii) the amount of any deductions allocable to such properties reduced by excess described in subparagraph (B) for such taxable year.

(D) Paragraph applied separately with respect to geothermal properties and oil and gas properties. -- This paragraph shall be applied separately with respect to --

(i) all oil and gas properties which are not described in clause (ii), and

(ii) all properties which are geothermal deposits (as defined in section 613(e)(2)).

(4) Reserves for losses on bad debts of financial institutions. -- In the case of a financial institution to which section 593 applies, the amount by which the deduction allowable for the taxable year for a reasonable addition to a reserve for bad debts exceeds the amount that would have been allowable had the institution maintained its bad debt reserve for all taxable years on the basis of actual experience.

(5) Tax-exempt interest. --

(A) In general. -- Interest on specified private activity bonds reduced by any deduction (not allowable in computing the regular tax) which would have been allowable if such interest were includable in gross income.

(B) Treatment of exempt-interest dividends. -- Under regulations prescribed by the Secretary, and exempt-interest dividend (as defined in section 852(b)(5)(A)) shall be treated as interest on a specified private activity bond to the extent of its proportionate share of the interest on such bonds received by the company paying such dividend.

(C) Specified private activity bonds. --

(i) In general. -- For purposes of this part, the term "specified private activity bond" means any private activity bond (as defined in section 141) which is issued after August 7, 1986, and the interest on which is not includable in gross

income under section 103.

(ii) Exception for qualified 501(c)(3) bonds. -- For purposes of clause (i), the term "private activity bond" shall not include any qualified 501(c)(3) bond (as defined in section 145).

(iii) Exception for refunding. -- For purposes of clause (i), the term "private activity bond" shall not include any refunding bond (whether a current or advance refunding) if the refunded bond (or in the case of a series of refundings, the original bond) was issued before August 8, 1986.

(iv) Certain bonds issued before September 1, 1986. -- For purposes of this subparagraph, a bond issued before September 1, 1986, shall be treated as issued before August *, 1986, unless such bond would be a private activity bond if --

(I) paragraphs (1) and (2) of section 141(b) were applied by substituting "25 percent" for "10 percent" each place it appears,

(II) paragraphs (3), (4), and (5) of section 141(b) did not apply, and

(III) subparagraph (B) of section 141(c)(1) did not apply.

(6) appreciated property charitable deduction. --

(A) In general. -- The amount by which the deduction allowable under section 170 or 642(c) would be reduced if all capital gain property were taken into account at its adjusted basis.

(B) Capital gain property. -- For purposes of subparagraph(A), the term "capital gain property" has the meaning given to such term by section 170(b)(1)(C)(iv). Such term shall not include any property to which an election under section 170(b)(1)(C)

(iii) applies. In the case of any taxable year beginning in 1991, such term shall not include any tangible personal property. In the case of a contribution made before July 1, 1992, in a taxable year beginning in 1992, such term shall not include any tangible personal property.

(7) Accelerated depreciation or amortization on certain property placed in service before January 1, 1987. -- The amount which would be treated as items of tax preference with respect to the taxpayer under paragraphs (2), (3), (4), and (12) of this subsection (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986). The preceding sentence shall not apply to any property to which section 56(a) (1) or (5) applies.

(b) Straight line recovery of intangibles defined. -- For purposes of paragraph (2) of subsection (a) --

(1) In general. -- The term "straight line recovery of intangibles", when used with respect to intangible drilling and development costs for any well, means (except in the case of an election under paragraph (2)) ratable amortization of such costs over the 120-month period beginning with the month in which

production from such well begins.

(2) Election. -- If the taxpayer elects with respect to the intangible drilling and development costs for any well, the term "straight line recovery of intangibles" means any method which would be permitted for purposes of determining cost depletion with respect to such well and which is selected by the taxpayer for purposes of subsection (a)(2).

58. Denial of certain losses

(a) Denial of farm loss. --

(1) In general. -- For purposes of computing the amount of the alternative minimum taxable income for any taxable year of a taxpayer other than a corporation --

(A) Disallowance of farm loss. -- No loss of the taxpayer for such taxable year from any tax shelter farm activity shall be allowed.

(B) Deduction in succeeding taxable year. -- Any loss from a tax shelter farm activity disallowed under subparagraph (A) shall be treated as a deduction allocable to such activity in the 1st succeeding taxable year.

(2) tax shelter farm activity. -- For purposes of this subsection, the term "tax shelter farm activity" means--

(A) any farming syndicate as defined in section 464(c), and

(B) any other activity consisting of farming which is a passive activity (within the meaning of section 469(c)).

(3) Application to personal service corporations. -- For purposes of paragraph (1), a personal service corporation (within the meaning of section 469(j)(2)) shall be treated as a taxpayer other than a corporation.

(4) Determination of loss. -- In determining the amount of the loss from any tax shelter farm activity, the adjustments of sections 56 and 57 shall apply.

(b) Disallowance of passive activity loss. -- In computing the alternative minimum taxable income of the taxpayer for any taxable year, section 469 shall apply, except that in applying section 469 --(1) the adjustments of sections 56 and 57 shall apply,

(2) the provisions of section 469(m) (relating to phase-in of disallowance) shall not apply, and

(3) in lieu of applying section 469(j)(7), the passive activity loss of a taxpayer shall be computed without regard to qualified housing interest (as defined in section 56(e)).

(c) Special rules. -- For purposes of this section --

(1) Special rule for insolvent taxpayers. --

(A) In general. -- The amount of losses to which subsection (a) or (b) applies shall be reduced by the amount (if any) by which the taxpayer is insolvent as of the close of the taxable year.

(B) Insolvent. -- For purposes of this paragraph, the term

"insolvent" means the excess of liabilities over the fair market value of assets.

(2) Loss allowed for year of disposition of farm shelter activity. -- If the taxpayer disposes of his entire interest in any tax shelter farm activity during any taxable year the amount of the loss attributable to such activity (determined after carryovers under subsection (a)(1)(B)) shall (to the extent otherwise allowable) be allowed for such taxable year in computing alternative minimum taxable income and not treated as a loss from a tax shelter farm activity.

59. Other definitions and special rules

(a) Alternative minimum tax foreign tax credit. -- For purposes of this part --

(1) In general. -- The alternative minimum tax foreign tax credit for any taxable year shall be the credit which would be determined under section 27(a) for such taxable year if --

(A) the amount determined under section 55(b)(1)(A) were the tax against which such credit was taken for purposes of section 904 for the taxable year and all prior taxable years beginning after December 31, 1986,

(B) section 904 were applied on the basis of alternative minimum taxable income instead of taxable income, and

(C) the determination of whether any income is high-taxed income for purposes of section 904(d)(2) were made on the basis of the applicable rate specified in section 55(b)(1)(A) in lieu of the highest rate of tax specified in section 1 or 11 (whichever applies).

(2) Limitation to 90 percent of tax. --

(A) In general. -- The alternative minimum tax foreign tax credit for any taxable year shall not exceed the excess (if any) of --

(i) the amount determined under section 55(b)(1)(A) for the taxable year, over

(ii) 10 percent of the amount which would be determined under section 55(b)(1)(A) without regard to the alternative tax net operating loss deduction and the alternative tax energy preference deduction under section 56(h).

(B) Carryback and carryforward. -- If the alternative minimum tax foreign tax credit exceeds the amount determined under subparagraph (A), such excess shall, for purposes of this paragraph, be treated as an amount to which section 904(c) applies. (C) Exception. -- Subparagraph (A) shall not apply to any domestic corporation if --

(i) more than 50 percent of the stock of such domestic corporation (by vote and value) is owned by United States persons who are not members of an affiliated group (as defined in section 1504 of such Code) which includes such corporation,

(ii) all of the activities of such corporation are conducted in 1 foreign country with which the United States has an income tax treaty in effect and such treaty provides for the exchange of information between such foreign country and the United States,

(iii) all of the current earnings and profits of such corporation are distributed at least annually (other than current earnings and profits retained for normal maintenance or capital replacements or improvements of an existing business), and

(iv) all of such distributions by such corporation to United States persons are used by such persons in a trade or business conducted in the United States.

(b) Minimum tax not to apply to income eligible for section 936 credit. -- In the case of any corporation for which a credit is allowable for the taxable year under section 936, alternative minimum taxable income shall not include any amount with respect to which the requirements of subparagraph (A) or (B) of section 936(a)(1) are met.

(c) Treatment of estates and trusts. -- In the case of any estate or trust, the alternative minimum taxable income of such estate or trust and any beneficiary thereof shall be determined by applying part I of subchapter J with the adjustments provided in this part.

(d) Apportionment of differently treated items in case of certain entities. --

(1) In general. -- The differently treated items for the taxable year shall be apportioned (in accordance with regulations prescribed by the Secretary) --

(A) Regulated investment companies and real estate investment trusts. -- In the case of a regulated investment company to which part I of subchapter M applies or a real estate investment company to which part II of subchapter M applies, between such company or trust and shareholders and holders of beneficial interest in such company or trust.

(B) Common trust funds. -- In the case of a common trust fund (as defined in section 584(a)), pro rata among the participants of such fund.

(2) Differently treated items. -- For purposes of this section, the term "differently treated item" means any item of tax preference or any other item which is treated differently for purposes of this part than for purposes of computing the regular tax.

(e) Optional 10-year writeoff of certain tax preferences. --

(1) In general. -- For purposes of this title, and qualified expenditure to which an election under this paragraph applies shall be allowed as a deduction ratably over the 10-year period (3-year period in the case of circulation expenditures described in section 173) beginning with the taxable year in which such

expenditures was made (or, in the case of a qualified expenditure described in paragraph (2)(C), over the 60-month period beginning with the month in which such expenditure was paid or incurred).

(2) Qualified expenditure. -- For purposes of this subsection, the term "qualified expenditure" means any amount which, but for an election under this subsection, would have been allowable as a deduction (determined without regard to section 291) for the taxable year in which paid or incurred under --

(A) section 173 (relating to circulation expenditures),

(B) section 174(a) (relating to intangible drilling and development expenditures),

(C) section 263(c) (relating to intangible drilling and development expenditures),

(D) section 616(a) (relating to development expenditures), or

(E) section 617(a) (relating to mining exploration expenditures).

(3) Other sections not applicable. -- Except as provided in this subsection, not deduction shall be allowed under any other section for any qualified expenditure to which an election under this subsection applies.

(4) Election. --

(A) In general. -- An election may be made under paragraph (1) with respect to any portion of any qualified expenditure.

(B) Revocable only with consent. -- Any election under this subsection may be revoked only with the consent of the Secretary.

(C) Partners and shareholders of S corporations. -- In the case of a partnership, any election under paragraph (1) shall be made separately by each partner with respect to the partner's allocable share of any qualified expenditure. A similar rule shall apply in the case of an S corporation and its shareholders.

(5) Dispositions. --

(A) Application of section 1254. -- In the case of any disposition of property to which section 1254 applies (determined without regard to this section), any deduction under paragraph (1) with respect to amounts which are allocable to such property shall, for purposes of section 1254, be treated as a deduction allowable under section 263(c), 616(a), or 617(a), whichever is appropriate.

(B) Application of section 617(d). -- In the case of any disposition of mining property to which section 617(d) applies (determined without regard to this subsection), any deduction under paragraph (1) with respect to amounts which are allocable to such property shall, for purposes of section 617(d), be treated as a deduction allowable under section 617(a).

(6) Amounts to which election apply not treated as tax

preference. -- Any portion of any qualified expenditure to which an election under paragraph (1) applies shall not be treated as an item of tax preference under section 57(a) and section 56 shall not apply to such expenditure.

(f) Coordination with section 291. -- Except as otherwise provided in this part, section 291 (relating to cutback of corporate preferences) shall apply before the application of this part.

(g) Tax benefit rule. -- The Secretary may prescribe regulations under which differently treated items shall be properly adjusted when the tax treatment giving rise to such items will not result in the reduction of the taxpayer's regular tax for the taxable year for which the item is taken into account or for any other taxable year.

(h) Coordination with certain limitations. -- The limitations of sections 704(d), 465, and 1366(d) (and such other provisions as may be specified in regulations) shall be applied for purposes of computing the alternative minimum taxable income of the taxpayer for the taxable year with the adjustments of sections 56, 57, and 58.

(i) Special rule for amounts treated as tax preference. -- For purposes of this subtitle (other than this part), any amount shall not fail to be treated as wholly exempt from tax imposed by this subtitle solely by reason of being included in alternative minimum taxable income.

(j) Treatment of unearned income of minor children. --

91) Limitation on exemption amount. -- In the case of a child to whom section 1(f) applies, the exemption amount for purposes of section 55 shall not exceed the sum of --

(A) such child's earned income (as defined in section 911(d)

(2)) for the taxable year, plus

(B) \$1,000 (or, if greater, the child's share of the unused parental minimum tax exemption).

(2) Limitation based on parental minimum tax. --

(A) In general. -- In the case of a child to whom section 1(g) applies, the amount of the tax imposed by section 55 shall not exceed such child's share of the allocable parental minimum tax.

(B) Allocable parental minimum tax. -- For purposes of this paragraph, the term "allocable parental minimum tax" means the excess of --

(i) the tax which would be imposed by section 55 on the parent if --

(I) the amount of the parent's tentative minimum tax were increased by the aggregate of the tentative minimum taxes of all children of the parent to whom section 1(g) applies, and

(II) the amount of the parent's regular tax were increased by the aggregate of the regular taxes of all children of the parent to whom section 1(g) applies, over

(ii) the tax imposed by section 55 on the parent without regard to this subparagraph.

(C) Child share. -- A child's share of any allocable parental minimum tax shall be determined under rules similar to the rules of section 1(g)(3)(B).

(D) Other rules made applicable. -- For purposes of this paragraph, rules similar to the rules of paragraphs 3(D), (5), and (6) of section 1(G) shall apply.

(3) Unused parental minimum tax exemption. --

(A) In general. -- For purposes of this subsection, the term "unused parental minimum tax exemption" means the excess (if any) of --

(i) the exemption amount applicable to the parent under section 55(d), over

(ii) the parent's alternative minimum taxable income.

(B) Certain rules made applicable. -- A child's share of any unused parental minimum tax exemption shall be determined under rules similar to the rules of section 1(i)(3)(B), and rules similar to the rules of paragraphs (3)(D) and (5) of section 1(i) shall apply for purposes of this paragraph.

59A. Environmental tax

(a) Imposition of tax. -- In the case of a corporation, there is hereby imposed (in addition to any other tax imposed by this subtitle) a tax equal to 0.12 percent of the excess of --

(1) the modified alternative minimum taxable income of such corporation for the taxable year, over

(2) \$2,000,000

(b) Modified alternative minimum taxable income. -- For purposes of this section, the term "modified alternative minimum taxable income" means alternative minimum taxable income (as defined in section 55(b)(2)) but determined without regard to --

(1) the alternative tax net operating loss deduction (as defined in section 56(d)) or the alternative tax energy preference deduction under section 56(b), and

(2) the deduction allowed under section 1649a(5).

(c) Exception of RIC's and REIT's. -- The tax imposed by subsection (a) shall not apply to --

(1) a regulated investment company to which part I of subchapter M applies, and

(2) a real estate investment trust to which part II of subchapter M applies.

(d) Special rules. --

(1) Short taxable years. -- The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary.

(2) Section 15 not to apply. -- Section 15 shall not apply to the tax imposed by this section.

(e) Application of tax. --(1) In general. -- the tax imposed by this section shall apply to taxable years beginning after December 31, 1986, and before January 1, 1996.

(2) Earlier termination. -- The tax imposed by this section shall not apply to taxable years.

(A) beginning during a calendar year during which no tax is imposed under section 4611(a) by reason of paragraph (2) of section 4611(e), and

(B) beginning after the calendar year which includes the termination date under paragraph (3) of section 4611(e).

61. Gross income defined

(a) General definition. -- Except as otherwise provided in this subtitle, gross income means all income from whatever source derived, including (but not limited to) the following items:

- (1) Compensation for services, including fees, commissions, fringe benefits, and similar items;
- (2) Gross income derived from business;
- (3) Gains derived from dealings in property;
- (4) Interest;
- (5) Rents;
- (6) Royalties;
- (7) Dividends;
- (8) Alimony and separate maintenance payments;
- (9) Annuities;
- (10) Income from life insurance and endowment contracts;
- (11) Pensions;
- (12) Income from discharge of indebtedness;
- (13) Distributive share of partnership gross income;
- (14) Income in respect of a decedent; and
- (15) Income from an interest in an estate or trust.

62. Adjusted gross income defined

(a) General rules. -- For purposes of this subtitle, the term "adjusted gross income" means, in the case of an individual, gross income minus the following deductions:

(1) Trade and business deductions. -- The deductions allowed by this chapter (other than by part VII of this subchapter) which are attributable to a trade or business carried on by the taxpayer, if such trade or business does not consist of the performance of services by the taxpayer as an employee.

(2) Certain trade and business deductions of employees. --

(A) Reimbursed expenses of employees. -- the deductions allowed by part VI (section 161 and following) which consist of expenses paid or incurred by the taxpayer, in connection with the performance by him of services as an employee, under a reimbursement or other expense allowance arrangement with his employer. The fact that the reimbursement may be provided by a

third party shall not be determinative of whether or not the preceding sentence applies.

(B) certain expenses of performing artists. -- The deductions allowed by section 162 which consist of expenses paid or incurred by a qualified performing artist in connection with the performances by him of services in the performing arts as an employee.

(3) Losses from sale or exchange of property. -- The deductions allowed by part VI (sec. 161 and following) as losses from the sale or exchange of property.

(4) Deductions attributable to rents and royalties. -- The deductions allowed by part VI (sec. 161 and following) by section 212 (relating to expenses for production of income), and by section 611 (relating to depletion) which are attributable to property held for the production of rents or royalties.

(5) Certain deductions of life tenants and income beneficiaries of property. -- In the case of a life tenant of property, or an income beneficiary of property held in trust, or an heir, legatee, or devisee of an estate, the deduction for depreciation allowed by section 167 and the deduction allowed by section 611.

(6) Pension, profit-sharing, and annuity plans of self-employed individuals. -- In the case of an individual who is an employee within the meaning of section 401(c)(1), the deduction allowed by section 404.

(7) Retirement savings. -- The deduction allowed by section 219 (relating to deduction of certain retirement savings).

(8) Certain portions of lump-sum distributions from pension plans taxed under section 402(e). -- The deduction allowed by section 402(e)(3).

(9) Penalties forfeited because of premature withdrawal of funds from time savings accounts or deposits. -- The deductions allowed by section 165 for losses incurred in any transaction entered into for profit, though not connected with a trade or business to the extent that such losses include amounts forfeited to a bank, mutual savings bank, savings and loan association, building and loan association, cooperative bank or homestead association as a penalty for premature withdrawal of funds from a time savings account, certificate of deposit, or similar class of deposit.

(10) Alimony. -- The deduction allowed by section 215.

(11) Reforestation expenses. -- The deduction allowed by section 194.

(12) Certain required repayments of supplemental unemployment compensation benefits. -- The deduction allowed by section 165 for the repayment for a trust described in paragraph (9) or (17) of section 501(c) of supplemental unemployment compensation benefits received from such trust if such repayment is required because of the receipt of trade readjustment allowances under

section 231 or 232 of the Trade Act of 1974 (19 U.S.C. 2291 and 2292).

(13) Jury duty pay remitted to employer. -- Any deduction allowable under this chapter by reason of an individual remitting any portion of any jury pay to such individual's employer in exchange for payment by the employer of compensation for the period such individual was performing jury duty. For purposes of the preceding sentence, the term "jury pay" means any payment received by the individual for the discharge of jury duty.

Nothing in this section shall permit the same item to be deducted more than once.

(b) Qualified performing artist. --

(1) In general. -- For purposes of subsection (a)(2)(B), the term "qualified performing artist" means, with respect to any taxable year, any individual if --

(A) such individual performed services in the performing arts as an employee during the taxable year for at least 2 employers,
(B) the aggregate amount allowable as a deduction under section 162 in connection with the performance of such services exceeds 10 percent of such individual's gross income attributable to the performance of such services, and

(C) the adjusted gross income of such individual for the taxable year (determined without regard to subsection 9a)(2)(B)) does not exceed \$16,000.

(2) Nominal employer not taken into account. -- An individual shall not be treated as performing services in the performing arts as an employee for any employer during any taxable year unless the amount received by such individual from such employer for the performance of such services during the taxable year equals or exceeds \$200.

(3) Special rules for married couples. --

(A) In general. -- Except in the case of a husband and wife who lived apart at all times during the taxable year, if the taxpayer is married at the close of the taxable year, subsection (a)(2)(B) shall apply only if the taxpayer and his spouse file a joint return for the taxable year.

(B) Application of paragraph (1). -- In the case of a joint return --

(i) paragraph (1) (other than subparagraph (C) thereof) shall be applied separately with respect to each spouse, but

(ii) paragraph (1)(C) shall be applied with respect to their combined adjusted gross income.

(C) Determination of marital status. -- For purposes of this subsection, marital status shall be determined under section 7703(a).

(D) Joint return. -- For purposes of this subsection, the term "joint return" means the joint return of a husband and wife made

under section 6013.

(c) Certain arrangements not treated as reimbursement arrangements. -- For purposes of subsection 9a)(2)(A), an arrangement shall in no event be treated as a reimbursement or other expense allowance arrangement if --

91) such arrangement does not require the employee to substantiate the expenses covered by the arrangement to the person providing the reimbursement, or

(2) such arrangement provides the employee the right to retain any amount in excess of the substantiated expenses covered under the arrangement.

The substantiation requirements of the preceding sentence shall not apply to any expense to the extent that substantiation is not required under section 274(d) for such expense by reason of the regulations prescribed under the 2nd sentence thereof.