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Public Law 111–226
111th Congress

An Act

To modernize the air traffic control system, improve the safety, reliability, and availability of transportation by air in the United States, provide for modernization of the air traffic control system, reauthorize the Federal Aviation Administration, and for other purposes.

Aug. 10, 2010
[H.R. 1586]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "_____Act of_____". 26 USC 1 note.

TITLE I

EDUCATION JOBS FUND

EDUCATION JOBS FUNDS

SEC. 101. There are authorized to be appropriated and there are appropriated out of any money in the Treasury not otherwise obligated for necessary expenses for an Education Jobs Fund, $10,000,000,000: *Provided*, That the amount under this heading shall be administered under the terms and conditions of sections 14001 through 14013 and title XV of division A of the American Recovery and Reinvestment Act of 2009 (Public Law 111–5) except as follows:

(1) ALLOCATION OF FUNDS.—

(A) Funds appropriated under this heading shall be available only for allocation by the Secretary of Education (in this heading referred to as the Secretary) in accordance with subsections (a), (b), (d), (e), and (f) of section 14001 of division A of Public Law 111–5 and subparagraph (B) of this paragraph, except that the amount reserved under such subsection (b) shall not exceed $1,000,000 and such subsection (f) shall be applied by substituting one year for two years.

(B) Prior to allocating funds to States under section 14001(d) of division A of Public Law 111–5, the Secretary shall allocate 0.5 percent to the Secretary of the Interior for schools operated or funded by the Bureau of Indian Affairs on the basis of the schools' respective needs for activities consistent with this heading under such terms and conditions as the Secretary of the Interior may determine.

(2) RESERVATION.—A State that receives an allocation of funds appropriated under this heading may reserve not more than 2 percent for the administrative costs of carrying out its responsibilities with respect to those funds.

(3) AWARDS TO LOCAL EDUCATIONAL AGENCIES.—

(A) Except as specified in paragraph (2), an allocation of funds to a State shall be used only for awards to local educational agencies for the support of elementary and secondary education in accordance with paragraph (5) for the 2010–2011 school year (or, in the case of reallocations made under section 14001(f) of division A of Public Law 111–5, for the 2010–2011 or the 2011–2012 school year).

(B) Funds used to support elementary and secondary education shall be distributed through a State's primary elementary and secondary funding formulae or based on local educational agencies' relative shares of funds under part A of title I of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6311 et seq.) for the most recent fiscal year for which data are available.

(C) Subsections (a) and (b) of section 14002 of division A of Public Law 111–5 shall not apply to funds appropriated under this heading.

(4) COMPLIANCE WITH EDUCATION REFORM ASSURANCES.—For purposes of awarding funds appropriated under this heading, any State that has an approved application for Phase II of the State Fiscal Stabilization Fund that was submitted in accordance with the application notice published in the Federal Register on November 17, 2009 (74 Fed. Reg. 59142) shall be deemed to be in compliance with subsection (b) and paragraphs (2) through (5) of subsection (d) of section 14005 of division A of Public Law 111–5.

(5) REQUIREMENT TO USE FUNDS TO RETAIN OR CREATE EDUCATION JOBS.—Notwithstanding section 14003(a) of division A of Public Law 111–5, funds awarded to local educational agencies under paragraph (3)—

(A) may be used only for compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services; and

(B) may not be used for general administrative expenses or for other support services expenditures as those terms were defined by the National Center for Education Statistics in its Common Core of Data as of the date of enactment of this Act.

(6) PROHIBITION ON USE OF FUNDS FOR RAINY-DAY FUNDS OR DEBT RETIREMENT.—A State that receives an allocation may not use such funds, directly or indirectly, to—

(A) establish, restore, or supplement a rainy-day fund;

(B) supplant State funds in a manner that has the effect of establishing, restoring, or supplementing a rainy-day fund;

(C) reduce or retire debt obligations incurred by the State; or

(D) supplant State funds in a manner that has the effect of reducing or retiring debt obligations incurred by the State.

(7) DEADLINE FOR AWARD.—The Secretary shall award funds appropriated under this heading not later than 45 days after the date of the enactment of this Act to States that have submitted applications meeting the requirements applicable to funds under this heading. The Secretary shall not require information in applications beyond what is necessary to determine compliance with applicable provisions of law.

(8) ALTERNATE DISTRIBUTION OF FUNDS.—If, within 30 days after the date of the enactment of this Act, a Governor has not submitted an approvable application, the Secretary shall provide for funds allocated to that State to be distributed to another entity or other entities in the State (notwithstanding section 14001(e) of division A of Public Law 111–5) for support of elementary and secondary education, under such terms and conditions as the Secretary may establish, provided that all terms and conditions that apply to funds appropriated under this heading shall apply to such funds distributed to such entity or entities. No distribution shall be made to a State under this paragraph, however, unless the Secretary has determined (on the basis of such information as may be available) that the requirements of clauses (i), (ii), or (iii) of paragraph 10(A) are likely to be met, notwithstanding the lack of an application from the Governor of that State.

Deadline. Applicability.

(9) LOCAL EDUCATIONAL AGENCY APPLICATION.—Section 442 of the General Education Provisions Act shall not apply to a local educational agency that has previously submitted an application to the State under title XIV of division A of Public Law 111–5. The assurances provided under that application shall continue to apply to funds awarded under this heading.

(10) MAINTENANCE OF EFFORT.—

(A) Except as provided in paragraph (8), the Secretary shall not allocate funds to a State under paragraph (1) unless the Governor of the State provides an assurance to the Secretary that—

(i) for State fiscal year 2011, the State will maintain State support for elementary and secondary education (in the aggregate or on the basis of expenditures per pupil) and for public institutions of higher education (not including support for capital projects or for research and development or tuition and fees paid by students) at not less than the level of such support for each of the two categories, respectively, for State fiscal year 2009;

(ii) for State fiscal year 2011, the State will maintain State support for elementary and secondary education and for public institutions of higher education (not including support for capital projects or for research and development or tuition and fees paid by students) at a percentage of the total revenues available to the State that is equal to or greater than the percentage provided for each of the two categories, respectively, for State fiscal year 2010; or

(iii) in the case of a State in which State tax collections for calendar year 2009 were less than State tax collections for calendar year 2006, for State fiscal year 2011 the State will maintain State support for elementary and secondary education (in the aggregate) and for public institutions of higher education (not including support for capital projects or for research and development or tuition and fees paid by students)—

(I) at not less than the level of such support for each of the two categories, respectively, for State fiscal year 2006; or

(II) at a percentage of the total revenues available to the State that is equal to or greater than the percentage provided for each of the two categories, respectively, for State fiscal year 2006.

(B) Section 14005(d)(1) and subsections (a) through (c) of section 14012 of division A of Public Law 111–5 shall not apply to funds appropriated under this heading.

(11) ADDITIONAL REQUIREMENTS FOR THE STATE OF TEXAS.—The following requirements shall apply to the State of Texas:

Applicability.

(A) Notwithstanding paragraph (3)(B), funds used to support elementary and secondary education shall be distributed based on local educational agencies' relative shares of funds under part A of title I of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6311 et seq.) for the most recent fiscal year which data are available. Funds distributed pursuant to this paragraph shall be used to supplement and not supplant State formula funding that is distributed on a similar basis to part A of title I of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6311 et seq.).

(B) The Secretary shall not allocate funds to the State of Texas under paragraph (1) unless the Governor of the State provides an assurance to the Secretary that the State will for fiscal years 2011, 2012, and 2013 maintain State support for elementary and secondary education at a percentage of the total revenues available to the State that is equal to or greater than the percentage provided for such purpose for fiscal year 2011 prior to the enactment of this Act.

(C) Notwithstanding paragraph (8), no distribution shall be made to the State of Texas or local education agencies therein unless the Governor of Texas makes an assurance to the Secretary that the requirements in paragraphs (11)(A) and (11)(B) will be met, notwithstanding the lack of an application from the Governor of Texas.

TITLE II

STATE FISCAL RELIEF AND OTHER PROVISIONS; REVENUE OFFSETS

Subtitle A—State Fiscal Relief and Other Provisions

EXTENSION OF ARRA INCREASE IN FMAP

SEC. 201. Section 5001 of the American Recovery and Reinvestment Act of 2009 (Public Law 111–5) is amended— 42 USC 1396d note.

(1) in subsection (a)(3), by striking "first calendar quarter" and inserting "first 3 calendar quarters";

(2) in subsection (b)—

(A) in paragraph (1), by striking "paragraph (2)" and inserting "paragraphs (2) and (3)"; and

(B) by adding at the end the following:

"(3) PHASE-DOWN OF GENERAL INCREASE.—

"(A) SECOND QUARTER OF FISCAL YEAR 2011.—For each State, for the second quarter of fiscal year 2011, the FMAP percentage increase for the State under paragraph (1) or (2) (as applicable) shall be 3.2 percentage points.

"(B) THIRD QUARTER OF FISCAL YEAR 2011.—For each State, for the third quarter of fiscal year 2011, the FMAP percentage increase for the State under paragraph (1) or (2) (as applicable) shall be 1.2 percentage points.";

(3) in subsection (c)—

(A) in paragraph (2)(B), by striking "July 1, 2010" and inserting "January 1, 2011";

(B) in paragraph (3)(B)(i), by striking "July 1, 2010" and inserting "January 1, 2011" each place it appears; and

(C) in paragraph (4)(C)(ii), by striking "the 3-consecutive-month period beginning with January 2010" and inserting "any 3-consecutive-month period that begins after December 2009 and ends before January 2011";

(4) in subsection (e), by adding at the end the following: "Notwithstanding paragraph (5), effective for payments made on or after January 1, 2010, the increases in the FMAP for a State under this section shall apply to payments under title XIX of such Act that are attributable to expenditures for medical assistance provided to nonpregnant childless adults made eligible under a State plan under such title (including under any waiver under such title or under section 1115 of such Act (42 U.S.C. 1315)) who would have been eligible for child health assistance or other health benefits under eligibility standards in effect as of December 31, 2009, of a waiver of the State child health plan under the title XXI of such Act."; Effective date. Applicability.

(5) in subsection (g)—

(A) in paragraph (1), by striking "September 30, 2011" and inserting "March 31, 2012";

(B) in paragraph (2), by inserting "of such Act" after "1923"; and

(C) by adding at the end the following:

"(3) CERTIFICATION BY CHIEF EXECUTIVE OFFICER.—No additional Federal funds shall be paid to a State as a result of this section with respect to a calendar quarter occurring during the period beginning on January 1, 2011, and ending on June Time period. Deadline.

30, 2011, unless, not later than 45 days after the date of enactment of this paragraph, the chief executive officer of the State certifies that the State will request and use such additional Federal funds."; and

(6) in subsection (h)(3), by striking "December 31, 2010" and inserting "June 30, 2011".

TREATMENT OF CERTAIN DRUGS FOR COMPUTATION OF MEDICAID AMP

SEC. 202. Effective as if included in the enactment of Public Law 111–148, section 1927(k)(1)(B)(i)(IV) of the Social Security Act (42 U.S.C. 1396r–8(k)(1)(B)(i)(IV)), as amended by section 2503(a)(2)(B) of Public Law 111–148 and section 1101(c)(2) of Public Law 111–152, is amended by adding at the end the following: ", unless the drug is an inhalation, infusion, instilled, implanted, or injectable drug that is not generally dispensed through a retail community pharmacy; and".

42 USC 1396r–8 note.

SUNSET OF TEMPORARY INCREASE IN BENEFITS UNDER THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

SEC. 203. Section 101(a) of title I of division A of Public Law 111–5 (123 Stat. 120), as amended by section 4262 of this Act, is amended by striking paragraph (2) and inserting the following:

"(2) TERMINATION.—The authority provided by this subsection shall terminate after March 31, 2014.".

Subtitle B—Revenue Offsets

RULES TO PREVENT SPLITTING FOREIGN TAX CREDITS FROM THE INCOME TO WHICH THEY RELATE

SEC. 211. (a) IN GENERAL.—Subpart A of part III of subchapter N of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new section:

26 USC 909.

"SEC. 909. SUSPENSION OF TAXES AND CREDITS UNTIL RELATED INCOME TAKEN INTO ACCOUNT.

"(a) IN GENERAL.—If there is a foreign tax credit splitting event with respect to a foreign income tax paid or accrued by the taxpayer, such tax shall not be taken into account for purposes of this title before the taxable year in which the related income is taken into account under this chapter by the taxpayer.

"(b) SPECIAL RULES WITH RESPECT TO SECTION 902 CORPORATIONS.—If there is a foreign tax credit splitting event with respect to a foreign income tax paid or accrued by a section 902 corporation, such tax shall not be taken into account—

"(1) for purposes of section 902 or 960, or

"(2) for purposes of determining earnings and profits under section 964(a),

before the taxable year in which the related income is taken into account under this chapter by such section 902 corporation or a domestic corporation which meets the ownership requirements of subsection (a) or (b) of section 902 with respect to such section 902 corporation.

"(c) SPECIAL RULES.—For purposes of this section—

"(1) APPLICATION TO PARTNERSHIPS, ETC.—In the case of a partnership, subsections (a) and (b) shall be applied at the partner level. Except as otherwise provided by the Secretary,

a rule similar to the rule of the preceding sentence shall apply in the case of any S corporation or trust.

"(2) TREATMENT OF FOREIGN TAXES AFTER SUSPENSION.—In the case of any foreign income tax not taken into account by reason of subsection (a) or (b), except as otherwise provided by the Secretary, such tax shall be so taken into account in the taxable year referred to in such subsection (other than for purposes of section 986(a)) as a foreign income tax paid or accrued in such taxable year.

"(d) DEFINITIONS.—For purposes of this section—

"(1) FOREIGN TAX CREDIT SPLITTING EVENT.—There is a foreign tax credit splitting event with respect to a foreign income tax if the related income is (or will be) taken into account under this chapter by a covered person.

"(2) FOREIGN INCOME TAX.—The term 'foreign income tax' means any income, war profits, or excess profits tax paid or accrued to any foreign country or to any possession of the United States.

"(3) RELATED INCOME.—The term 'related income' means, with respect to any portion of any foreign income tax, the income (or, as appropriate, earnings and profits) to which such portion of foreign income tax relates.

"(4) COVERED PERSON.—The term 'covered person' means, with respect to any person who pays or accrues a foreign income tax (hereafter in this paragraph referred to as the 'payor')—

"(A) any entity in which the payor holds, directly or indirectly, at least a 10 percent ownership interest (determined by vote or value),

"(B) any person which holds, directly or indirectly, at least a 10 percent ownership interest (determined by vote or value) in the payor,

"(C) any person which bears a relationship to the payor described in section 267(b) or 707(b), and

"(D) any other person specified by the Secretary for purposes of this paragraph.

"(5) SECTION 902 CORPORATION.—The term 'section 902 corporation' means any foreign corporation with respect to which one or more domestic corporations meets the ownership requirements of subsection (a) or (b) of section 902.

"(e) REGULATIONS.—The Secretary may issue such regulations or other guidance as is necessary or appropriate to carry out the purposes of this section, including regulations or other guidance which provides—

"(1) appropriate exceptions from the provisions of this section, and

"(2) for the proper application of this section with respect to hybrid instruments.".

(b) CLERICAL AMENDMENT.—The table of sections for subpart A of part III of subchapter N of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:

"Sec. 909. Suspension of taxes and credits until related income taken into account.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to— 26 USC 909 note.

(1) foreign income taxes (as defined in section 909(d) of the Internal Revenue Code of 1986, as added by this section) paid or accrued in taxable years beginning after December 31, 2010; and

(2) foreign income taxes (as so defined) paid or accrued by a section 902 corporation (as so defined) in taxable years beginning on or before such date (and not deemed paid under section 902(a) or 960 of such Code on or before such date), but only for purposes of applying sections 902 and 960 with respect to periods after such date.

Section 909(b)(2) of the Internal Revenue Code of 1986, as added by this section, shall not apply to foreign income taxes described in paragraph (2).

DENIAL OF FOREIGN TAX CREDIT WITH RESPECT TO FOREIGN INCOME NOT SUBJECT TO UNITED STATES TAXATION BY REASON OF COVERED ASSET ACQUISITIONS

SEC. 212. (a) IN GENERAL.—Section 901 of the Internal Revenue Code of 1986 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

26 USC 901.

Definitions.

"(m) DENIAL OF FOREIGN TAX CREDIT WITH RESPECT TO FOREIGN INCOME NOT SUBJECT TO UNITED STATES TAXATION BY REASON OF COVERED ASSET ACQUISITIONS.—

"(1) IN GENERAL.—In the case of a covered asset acquisition, the disqualified portion of any foreign income tax determined with respect to the income or gain attributable to the relevant foreign assets—

"(A) shall not be taken into account in determining the credit allowed under subsection (a), and

"(B) in the case of a foreign income tax paid by a section 902 corporation (as defined in section 909(d)(5)), shall not be taken into account for purposes of section 902 or 960.

"(2) COVERED ASSET ACQUISITION.—For purposes of this section, the term 'covered asset acquisition' means—

"(A) a qualified stock purchase (as defined in section 338(d)(3)) to which section 338(a) applies,

"(B) any transaction which—

"(i) is treated as an acquisition of assets for purposes of this chapter, and

"(ii) is treated as the acquisition of stock of a corporation (or is disregarded) for purposes of the foreign income taxes of the relevant jurisdiction,

"(C) any acquisition of an interest in a partnership which has an election in effect under section 754, and

"(D) to the extent provided by the Secretary, any other similar transaction.

"(3) DISQUALIFIED PORTION.—For purposes of this section—

"(A) IN GENERAL.—The term 'disqualified portion' means, with respect to any covered asset acquisition, for any taxable year, the ratio (expressed as a percentage) of—

"(i) the aggregate basis differences (but not below zero) allocable to such taxable year under subparagraph (B) with respect to all relevant foreign assets, divided by

"(ii) the income on which the foreign income tax referred to in paragraph (1) is determined (or, if the taxpayer fails to substantiate such income to the satisfaction of the Secretary, such income shall be determined by dividing the amount of such foreign income tax by the highest marginal tax rate applicable to such income in the relevant jurisdiction).

"(B) ALLOCATION OF BASIS DIFFERENCE.—For purposes of subparagraph (A)(i)—

"(i) IN GENERAL.—The basis difference with respect to any relevant foreign asset shall be allocated to taxable years using the applicable cost recovery method under this chapter.

"(ii) SPECIAL RULE FOR DISPOSITION OF ASSETS.—Except as otherwise provided by the Secretary, in the case of the disposition of any relevant foreign asset—

"(I) the basis difference allocated to the taxable year which includes the date of such disposition shall be the excess of the basis difference with respect to such asset over the aggregate basis difference with respect to such asset which has been allocated under clause (i) to all prior taxable years, and

"(II) no basis difference with respect to such asset shall be allocated under clause (i) to any taxable year thereafter.

"(C) BASIS DIFFERENCE.—

"(i) IN GENERAL.—The term 'basis difference' means, with respect to any relevant foreign asset, the excess of—

"(I) the adjusted basis of such asset immediately after the covered asset acquisition, over

"(II) the adjusted basis of such asset immediately before the covered asset acquisition.

"(ii) BUILT-IN LOSS ASSETS.—In the case of a relevant foreign asset with respect to which the amount described in clause (i)(II) exceeds the amount described in clause (i)(I), such excess shall be taken into account under this subsection as a basis difference of a negative amount.

"(iii) SPECIAL RULE FOR SECTION 338 ELECTIONS.—In the case of a covered asset acquisition described in paragraph (2)(A), the covered asset acquisition shall be treated for purposes of this subparagraph as occurring at the close of the acquisition date (as defined in section 338(h)(2)).

"(4) RELEVANT FOREIGN ASSETS.—For purposes of this section, the term 'relevant foreign asset' means, with respect to any covered asset acquisition, any asset (including any goodwill, going concern value, or other intangible) with respect to such acquisition if income, deduction, gain, or loss attributable to such asset is taken into account in determining the foreign income tax referred to in paragraph (1).

"(5) FOREIGN INCOME TAX.—For purposes of this section, the term 'foreign income tax' means any income, war profits, or excess profits tax paid or accrued to any foreign country or to any possession of the United States.

"(6) TAXES ALLOWED AS A DEDUCTION, ETC.—Sections 275 and 78 shall not apply to any tax which is not allowable as a credit under subsection (a) by reason of this subsection.

"(7) REGULATIONS.—The Secretary may issue such regulations or other guidance as is necessary or appropriate to carry out the purposes of this subsection, including to exempt from the application of this subsection certain covered asset acquisitions, and relevant foreign assets with respect to which the basis difference is de minimis.".

26 USC 901 note.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to covered asset acquisitions (as defined in section 901(m)(2) of the Internal Revenue Code of 1986, as added by this section) after December 31, 2010.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any covered asset acquisition (as so defined) with respect to which the transferor and the transferee are not related if such acquisition is—

(A) made pursuant to a written agreement which was binding on January 1, 2011, and at all times thereafter,

(B) described in a ruling request submitted to the Internal Revenue Service on or before July 29, 2010, or

(C) described on or before January 1, 2011, in a public announcement or in a filing with the Securities and Exchange Commission.

(3) RELATED PERSONS.—For purposes of this subsection, a person shall be treated as related to another person if the relationship between such persons is described in section 267 or 707(b) of the Internal Revenue Code of 1986.

SEPARATE APPLICATION OF FOREIGN TAX CREDIT LIMITATION, ETC., TO ITEMS RESOURCED UNDER TREATIES

SEC. 213. (a) IN GENERAL.—Subsection (d) of section 904 of the Internal Revenue Code of 1986 is amended by redesignating paragraph (6) as paragraph (7) and by inserting after paragraph (5) the following new paragraph:

26 USC 904.

"(6) SEPARATE APPLICATION TO ITEMS RESOURCED UNDER TREATIES.—

"(A) IN GENERAL.—If—

"(i) without regard to any treaty obligation of the United States, any item of income would be treated as derived from sources within the United States,

"(ii) under a treaty obligation of the United States, such item would be treated as arising from sources outside the United States, and

"(iii) the taxpayer chooses the benefits of such treaty obligation,

subsections (a), (b), and (c) of this section and sections 902, 907, and 960 shall be applied separately with respect to each such item.

"(B) COORDINATION WITH OTHER PROVISIONS.—This paragraph shall not apply to any item of income to which subsection (h)(10) or section 865(h) applies.

"(C) REGULATIONS.—The Secretary may issue such regulations or other guidance as is necessary or appropriate

to carry out the purposes of this paragraph, including regulations or other guidance which provides that related items of income may be aggregated for purposes of this paragraph.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act. 26 USC 904 note.

LIMITATION ON THE AMOUNT OF FOREIGN TAXES DEEMED PAID WITH RESPECT TO SECTION 956 INCLUSIONS

SEC. 214. (a) IN GENERAL.—Section 960 of the Internal Revenue Code of 1986 is amended by adding at the end the following new subsection: 26 USC 960.

"(c) LIMITATION WITH RESPECT TO SECTION 956 INCLUSIONS.—

"(1) IN GENERAL.—If there is included under section 951(a)(1)(B) in the gross income of a domestic corporation any amount attributable to the earnings and profits of a foreign corporation which is a member of a qualified group (as defined in section 902(b)) with respect to the domestic corporation, the amount of any foreign income taxes deemed to have been paid during the taxable year by such domestic corporation under section 902 by reason of subsection (a) with respect to such inclusion in gross income shall not exceed the amount of the foreign income taxes which would have been deemed to have been paid during the taxable year by such domestic corporation if cash in an amount equal to the amount of such inclusion in gross income were distributed as a series of distributions (determined without regard to any foreign taxes which would be imposed on an actual distribution) through the chain of ownership which begins with such foreign corporation and ends with such domestic corporation.

"(2) AUTHORITY TO PREVENT ABUSE.—The Secretary shall issue such regulations or other guidance as is necessary or appropriate to carry out the purposes of this subsection, including regulations or other guidance which prevent the inappropriate use of the foreign corporation's foreign income taxes not deemed paid by reason of paragraph (1).". Regulations. Guidelines.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to acquisitions of United States property (as defined in section 956(c) of the Internal Revenue Code of 1986) after December 31, 2010. 26 USC 960 note.

SPECIAL RULE WITH RESPECT TO CERTAIN REDEMPTIONS BY FOREIGN SUBSIDIARIES

SEC. 215. (a) IN GENERAL.—Paragraph (5) of section 304(b) of the Internal Revenue Code of 1986 is amended by redesignating subparagraph (B) as subparagraph (C) and by inserting after subparagraph (A) the following new subparagraph: 26 USC 304.

"(B) SPECIAL RULE IN CASE OF FOREIGN ACQUIRING CORPORATION.—In the case of any acquisition to which subsection (a) applies in which the acquiring corporation is a foreign corporation, no earnings and profits shall be taken into account under paragraph (2)(A) (and subparagraph (A) shall not apply) if more than 50 percent of the dividends arising from such acquisition (determined without regard to this subparagraph) would neither—

"(i) be subject to tax under this chapter for the taxable year in which the dividends arise, nor

"(ii) be includible in the earnings and profits of a controlled foreign corporation (as defined in section 957 and without regard to section 953(c)).".

26 USC 304 note.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to acquisitions after the date of the enactment of this Act.

MODIFICATION OF AFFILIATION RULES FOR PURPOSES OF RULES ALLOCATING INTEREST EXPENSE

SEC. 216. (a) IN GENERAL.—Subparagraph (A) of section 864(e)(5) of the Internal Revenue Code of 1986 is amended by adding at the end the following: "Notwithstanding the preceding sentence, a foreign corporation shall be treated as a member of the affiliated group if—

26 USC 864.

"(i) more than 50 percent of the gross income of such foreign corporation for the taxable year is effectively connected with the conduct of a trade or business within the United States, and

"(ii) at least 80 percent of either the vote or value of all outstanding stock of such foreign corporation is owned directly or indirectly by members of the affiliated group (determined with regard to this sentence).".

26 USC 864 note.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

TERMINATION OF SPECIAL RULES FOR INTEREST AND DIVIDENDS RECEIVED FROM PERSONS MEETING THE 80-PERCENT FOREIGN BUSINESS REQUIREMENTS

SEC. 217. (a) IN GENERAL.—Paragraph (1) of section 861(a) of the Internal Revenue Code of 1986 is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

26 USC 861.

(b) GRANDFATHER RULE WITH RESPECT TO WITHHOLDING ON INTEREST AND DIVIDENDS RECEIVED FROM PERSONS MEETING THE 80-PERCENT FOREIGN BUSINESS REQUIREMENTS.—

(1) IN GENERAL.—Subparagraph (B) of section 871(i)(2) of the Internal Revenue Code of 1986 is amended to read as follows:

26 USC 871.

"(B) The active foreign business percentage of—

"(i) any dividend paid by an existing 80/20 company, and

"(ii) any interest paid by an existing 80/20 company.".

(2) DEFINITIONS AND SPECIAL RULES.—Section 871 of such Code is amended by redesignating subsections (l) and (m) as subsections (m) and (n), respectively, and by inserting after subsection (k) the following new subsection:

"(l) RULES RELATING TO EXISTING 80/20 COMPANIES.—For purposes of this subsection and subsection (i)(2)(B)—

"(1) EXISTING 80/20 COMPANY.—

"(A) IN GENERAL.—The term 'existing 80/20 company' means any corporation if—

"(i) such corporation met the 80-percent foreign business requirements of section 861(c)(1) (as in effect before the date of the enactment of this subsection) for such corporation's last taxable year beginning before January 1, 2011,

"(ii) such corporation meets the 80-percent foreign business requirements of subparagraph (B) with respect to each taxable year after the taxable year referred to in clause (i), and

"(iii) there has not been an addition of a substantial line of business with respect to such corporation after the date of the enactment of this subsection.

"(B) FOREIGN BUSINESS REQUIREMENTS.—

"(i) IN GENERAL.—Except as provided in clause (iv), a corporation meets the 80-percent foreign business requirements of this subparagraph if it is shown to the satisfaction of the Secretary that at least 80 percent of the gross income from all sources of such corporation for the testing period is active foreign business income.

"(ii) ACTIVE FOREIGN BUSINESS INCOME.—For purposes of clause (i), the term 'active foreign business income' means gross income which—

"(I) is derived from sources outside the United States (as determined under this subchapter), and

"(II) is attributable to the active conduct of a trade or business in a foreign country or possession of the United States.

"(iii) TESTING PERIOD.—For purposes of this subsection, the term 'testing period' means the 3-year period ending with the close of the taxable year of the corporation preceding the payment (or such part of such period as may be applicable). If the corporation has no gross income for such 3-year period (or part thereof), the testing period shall be the taxable year in which the payment is made.

"(iv) TRANSITION RULE.—In the case of a taxable year for which the testing period includes 1 or more taxable years beginning before January 1, 2011—

"(I) a corporation meets the 80-percent foreign business requirements of this subparagraph if and only if the weighted average of—

"(aa) the percentage of the corporation's gross income from all sources that is active foreign business income (as defined in subparagraph (B) of section 861(c)(1) (as in effect before the date of the enactment of this subsection)) for the portion of the testing period that includes taxable years beginning before January 1, 2011, and

"(bb) the percentage of the corporation's gross income from all sources that is active foreign business income (as defined in clause (ii) of this subparagraph) for the portion of the testing period, if any, that includes taxable years beginning on or after January 1, 2011,

is at least 80 percent, and

"(II) the active foreign business percentage for such taxable year shall equal the weighted average percentage determined under subclause (I).

"(2) ACTIVE FOREIGN BUSINESS PERCENTAGE.—Except as provided in paragraph (1)(B)(iv), the term 'active foreign business percentage' means, with respect to any existing 80/20 company, the percentage which—

"(A) the active foreign business income of such company for the testing period, is of

"(B) the gross income of such company for the testing period from all sources.

Applicability.

"(3) AGGREGATION RULES.—For purposes of applying paragraph (1) (other than subparagraphs (A)(i) and (B)(iv) thereof) and paragraph (2)—

"(A) IN GENERAL.—The corporation referred to in paragraph (1)(A) and all of such corporation's subsidiaries shall be treated as one corporation.

"(B) SUBSIDIARIES.—For purposes of subparagraph (A), the term 'subsidiary' means any corporation in which the corporation referred to in subparagraph (A) owns (directly or indirectly) stock meeting the requirements of section 1504(a)(2) (determined by substituting '50 percent' for '80 percent' each place it appears and without regard to section 1504(b)(3)).

"(4) REGULATIONS.—The Secretary may issue such regulations or other guidance as is necessary or appropriate to carry out the purposes of this section, including regulations or other guidance which provide for the proper application of the aggregation rules described in paragraph (3).".

(c) CONFORMING AMENDMENTS.—

26 USC 861.

(1) Section 861 of the Internal Revenue Code of 1986 is amended by striking subsection (c) and by redesignating subsections (d), (e), and (f) as subsections (c), (d), and (e), respectively.

26 USC 904.

(2) Paragraph (9) of section 904(h) of such Code is amended to read as follows:

"(9) TREATMENT OF CERTAIN DOMESTIC CORPORATIONS.—In the case of any dividend treated as not from sources within the United States under section 861(a)(2)(A), the corporation paying such dividend shall be treated for purposes of this subsection as a United States-owned foreign corporation.".

26 USC 2104.

(3) Subsection (c) of section 2104 of such Code is amended in the last sentence by striking "or to a debt obligation of a domestic corporation" and all that follows and inserting a period.

26 USC 861 note.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2010.

(2) GRANDFATHER RULE FOR OUTSTANDING DEBT OBLIGATIONS.—

(A) IN GENERAL.—The amendments made by this section shall not apply to payments of interest on obligations issued before the date of the enactment of this Act.

(B) EXCEPTION FOR RELATED PARTY DEBT.—Subparagraph (A) shall not apply to any interest which is payable

to a related person (determined under rules similar to the rules of section 954(d)(3)).

(C) SIGNIFICANT MODIFICATIONS TREATED AS NEW ISSUES.—For purposes of subparagraph (A), a significant modification of the terms of any obligation (including any extension of the term of such obligation) shall be treated as a new issue.

LIMITATION ON EXTENSION OF STATUTE OF LIMITATIONS FOR FAILURE TO NOTIFY SECRETARY OF CERTAIN FOREIGN TRANSFERS

SEC. 218. (a) IN GENERAL.—Paragraph (8) of section 6501(c) of the Internal Revenue Code of 1986 is amended— 26 USC 6501.

(1) by striking "In the case of any information" and inserting the following:

"(A) IN GENERAL.—In the case of any information"; and

(2) by adding at the end the following:

"(B) APPLICATION TO FAILURES DUE TO REASONABLE CAUSE.—If the failure to furnish the information referred to in subparagraph (A) is due to reasonable cause and not willful neglect, subparagraph (A) shall apply only to the item or items related to such failure.".

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in section 513 of the Hiring Incentives to Restore Employment Act. 26 USC 6501 note.

ELIMINATION OF ADVANCE REFUNDABILITY OF EARNED INCOME CREDIT

SEC. 219. (a) IN GENERAL.—The following provisions of the Internal Revenue Code of 1986 are repealed:

(1) Section 3507. 26 USC 3507.

(2) Subsection (g) of section 32. 26 USC 32.

(3) Paragraph (7) of section 6051(a). 26 USC 6051.

(b) CONFORMING AMENDMENTS.—

(1) Section 6012(a) of the Internal Revenue Code of 1986 is amended by striking paragraph (8) and by redesignating paragraph (9) as paragraph (8). 26 USC 6012.

(2) Section 6302 of such Code is amended by striking subsection (i). 26 USC 6302.

(3) The table of sections for chapter 25 of such Code is amended by striking the item relating to section 3507.

(c) EFFECTIVE DATE.—The repeals and amendments made by this section shall apply to taxable years beginning after December 31, 2010. 26 USC 32 note.

TITLE III

RESCISSIONS

SEC. 301. There is rescinded from accounts under the heading "Department of Agriculture—Rural Development", $122,000,000, to be derived from the unobligated balances of funds that were provided for such accounts in prior appropriation Acts (other than Public Law 111–5) and that were designated by the Congress in such Acts as an emergency requirement pursuant to a concurrent

resolution on the budget or the Balanced Budget and Emergency Deficit Control Act of 1985.

SEC. 302. Of the funds made available for "Department of Commerce—National Telecommunications and Information Administration—Broadband Technology Opportunities Program" in title II of division A of Public Law 111–5, $302,000,000 are rescinded.

SEC. 303. Of the funds appropriated in Department of Defense Appropriations Acts, the following funds are rescinded from the following accounts in the specified amounts:

"Aircraft Procurement, Army, 2008/2010", $21,000,000;

"Procurement of Weapons and Tracked Combat Vehicles, Army, 2008/2010", $21,000,000;

"Procurement of Ammunition, Army, 2008/2010", $17,000,000;

"Other Procurement, Army, 2008/2010", $75,000,000;

"Weapons Procurement, Navy, 2008/2010", $26,000,000;

"Other Procurement, Navy, 2008/2010", $42,000,000;

"Procurement, Marine Corps, 2008/2010", $13,000,000;

"Aircraft Procurement, Air Force, 2008/2010", $102,000,000;

"Missile Procurement, Air Force, 2008/2010", $28,000,000;

"Procurement of Ammunition, Air Force, 2008/2010", $7,000,000;

"Other Procurement, Air Force, 2008/2010", $130,000,000;

"Procurement, Defense-Wide, 2008/2010", $33,000,000;

"Research, Development, Test and Evaluation, Army, 2009/2010", $76,000,000;

"Research, Development, Test and Evaluation, Air Force, 2009/2010", $164,000,000;

"Research, Development, Test and Evaluation, Defense-Wide, 2009/2010", $137,000,000;

"Operation, Test and Evaluation, Defense, 2009/2010", $1,000,000;

"Operation and Maintenance, Army, 2010", $154,000,000;

"Operation and Maintenance, Navy, 2010", $155,000,000;

"Operation and Maintenance, Marine Corps, 2010", $25,000,000;

"Operation and Maintenance, Air Force, 2010", $155,000,000;

"Operation and Maintenance, Defense-Wide, 2010", $126,000,000;

"Operation and Maintenance, Army Reserve, 2010", $12,000,000;

"Operation and Maintenance, Navy Reserve, 2010", $6,000,000;

"Operation and Maintenance, Marine Corps Reserve, 2010", $1,000,000;

"Operation and Maintenance, Air Force Reserve, 2010", $14,000,000;

"Operation and Maintenance, Army National Guard, 2010", $28,000,000; and

"Operation and Maintenance, Air National Guard, 2010", $27,000,000.

SEC. 304. (a) Of the funds appropriated in the American Recovery and Reinvestment Act of 2009 (Public Law 111–5), the

following funds are rescinded from the following accounts in the specified amounts:

"Operation and Maintenance, Army, 2009/2010", $113,500,000;

"Operation and Maintenance, Navy, 2009/2010", $34,000,000;

"Operation and Maintenance, Marine Corps, 2009/2010", $7,000,000;

"Operation and Maintenance, Air Force, 2009/2010", $61,000,000;

"Operation and Maintenance, Army Reserve, 2009/2010", $3,500,000;

"Operation and Maintenance, Navy Reserve, 2009/2010", $8,000,000;

"Operation and Maintenance, Marine Corps Reserve, 2009/2010", $1,000,000;

"Operation and Maintenance, Air Force Reserve, 2009/2010", $2,000,000;

"Operation and Maintenance, Army National Guard, 2009/2010", $1,000,000;

"Operation and Maintenance, Air National Guard, 2009/2010", $2,500,000; and

"Defense Health Program, 2009/2010", $27,000,000.

(b) Of the funds appropriated in the Supplemental Appropriations Act, 2008 (Public Law 110–252), the following funds are rescinded from the following account in the specified amount:

"Procurement, Marine Corps, 2009/2011", $122,000,000.

SEC. 305. (a) Of the funds appropriated for "Procurement of Weapons and Tracked Combat Vehicles, Army" in title III of division A of public Law 111–118, $116,000,000 are rescinded.

(b) Of the funds appropriated for "Other Procurement, Army" in title III of division C of Public Law 110–329, $87,000,000 are rescinded.

SEC. 306. There are rescinded the following amounts from the specified accounts:

(1) $20,000,000, to be derived from unobligated balances of funds made available in prior appropriations Acts under the heading "Department of Energy—Nuclear Energy".

SEC. 307. Of the unobligated balances of funds provided under the heading "Nuclear Regulatory Commission" in prior appropriations Acts, $18,000,000 is permanently rescinded.

SEC. 308. Of the funds made available for "Department of Energy—Title 17—Innovative Technology Loan Guarantee Program" in title III of division A of Public Law 111–5, $1,500,000,000 are rescinded.

SEC. 309. There are permanently rescinded from "General Services Administration—Real Property Activities—Federal Building Fund", $75,000,000 from Rental of Space and $25,000,000 from Building Operations, to be derived from unobligated balances that were provided in previous appropriations Acts.

SEC. 310. Of the funds made available for "Bureau of Indian Affairs—Indian Guaranteed Loan Program Account" in title VII of division A of Public Law 111–5, $6,820,000 are rescinded.

SEC. 311. Of the funds made available for "Environmental Protection Agency—Hazardous Substance Superfund" in title VII of division A of Public Law 111–5, $2,600,000 are rescinded.

SEC. 312. Of the funds made available for "Environmental Protection Agency—Leaking Underground Storage Tank Trust Fund Program" in title VII of division A of Public Law 111–5, $9,200,000 are rescinded.

SEC. 313. Of the funds made available for transfer in title VII of division A of Public Law 111–5, "Environmental Protection Agency—Environmental Programs and Management", $10,000,000 are rescinded.

SEC. 314. Of the funds made available for "National Park Service—Construction" in chapter 7 of division B of Public Law 108–324, $4,800,000 are rescinded.

SEC. 315. Of the funds made available for "National Park Service—Construction" in chapter 5 of title II of Public Law 109–234, $6,400,000 are rescinded.

SEC. 316. Of the funds made available for "Fish and Wildlife Service—Construction" in chapter 6 of title I of division B of Public Law 110–329, $3,000,000 are rescinded.

SEC. 317. The unobligated balance of funds appropriated in the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, 1995 (Public Law 103–333; 108 Stat. 2574) under the heading "Public Health and Social Services Emergency Fund" is rescinded.

SEC. 318. Of the funds appropriated for the Commissioner of Social Security under section 2201(e)(2)(B) in title II of division B of Public Law 111–5, $47,000,000 are rescinded.

SEC. 319. Of the funds appropriated in part VI of subtitle I of title II of division B of Public Law 111–5, $110,000,000 are rescinded, to be derived only from the amount provided under section 1899K(b) of such title.

SEC. 320. Of the funds appropriated for "Department of Education—Education for the Disadvantaged" in division D of Public Law 111–117, $50,000,000 are rescinded, to be derived only from the amount provided for a comprehensive literacy development and education program under section 1502 of the Elementary and Secondary Education Act of 1965.

SEC. 321. Of the funds appropriated for "Department of Education—Student Aid Administration" in division D of Public Law 111–117, $82,000,000 are rescinded.

SEC. 322. Of the funds appropriated for "Department of Education—Innovation and Improvement" in division D of Public Law 111–117, $10,700,000 are rescinded, to be derived only from the amount provided to carry out subpart 8 of part D of title V of the Elementary and Secondary Education Act of 1965.

SEC. 323. Of the unobligated balances available under "Department of Defense, Military Construction, Army" from prior appropriations Acts, $340,000,000 is rescinded: *Provided*, That no funds may be rescinded from amounts that were designated by the Congress as an emergency requirement or as appropriations for overseas deployments and other activities pursuant to a concurrent resolution on the budget or the Balanced Budget and Emergency Deficit Control Act of 1985.

Overseas deployments.

SEC. 324. Of the unobligated balances available under "Department of Defense, Military Construction, Navy and Marine Corps" from prior appropriations Acts, $110,000,000 is rescinded: *Provided*, That no funds may be rescinded from amounts that were designated by the Congress as an emergency requirement or as appropriations

Overseas deployments.

for overseas deployments and other activities pursuant to a concurrent resolution on the budget or the Balanced Budget and Emergency Deficit Control Act of 1985.

SEC. 325. Of the unobligated balances available under "Department of Defense, Military Construction, Air Force" from prior appropriations Acts, $50,000,000 is rescinded: *Provided*, That no funds may be rescinded from amounts that were designated by the Congress as an emergency requirement or as appropriations for overseas deployments and other activities pursuant to a concurrent resolution on the budget or the Balanced Budget and Emergency Deficit Control Act of 1985. Overseas deployments.

SEC. 326. Of the funds made available for the General Operating Expenses account of the Department of Veterans Affairs in section 2201(e)(4)(A)(ii) of division B of Public Law 111–5 (123 Stat. 454; 26 U.S.C. 6428 note), $6,100,000 are rescinded.

SEC. 327. Of the amount appropriated or otherwise made available by title X of division A of Public Law 111–5, the American Recovery and Reinvestment Act of 2009, under the heading " Departmental Administration, Information Technology Systems" $5,000,000 is hereby rescinded.

SEC. 328. (a) MILLENNIUM CHALLENGE CORPORATION.—Of the unobligated balances available under the heading "Millennium Challenge Corporation" in title III of division H of Public Law 111–8 and under such heading in prior Acts making appropriations for the Department of State, foreign operations, and related programs, $50,000,000 are rescinded.

(b) CIVILIAN STABILIZATION INITIATIVE.—

(1) DEPARTMENT OF STATE.—Of the unobligated balances available under the heading "Department of State—Administration of Foreign Affairs—Civilian Stabilization Initiative" in prior Acts making appropriations for the Department of State, foreign operations, and related programs, $40,000,000 are rescinded.

(2) UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT.—Of the unobligated balances available under the heading "United States Agency for International Development—Funds Appropriated to the President—Civilian Stabilization Initiative" in prior Acts making appropriations for the Department of State, foreign operations, and related programs, $30,000,000 are rescinded.

SEC. 329. There are rescinded the following amounts from the specified accounts:

(1) "Department of Transportation—Federal Aviation Administration—Facilities and Equipment", $2,182,544, to be derived from unobligated balances made available under this heading in Public Law 108–324.

(2) "Department of Transportation—Federal Aviation Administration—Facilities and Equipment", $5,705,750, to be derived from unobligated balances made available under this heading in Public Law 109–148.

SEC. 330. Of the unobligated balances of funds apportioned to each State under chapter 1 of title 23, United States Code, $2,200,000,000 are permanently rescinded: *Provided,* That such rescission shall be distributed among the States in the same proportion as the funds subject to such rescission were apportioned to the States for fiscal year 2009: *Provided further,* That such rescission shall not apply to the funds distributed in accordance with State and local governments.

State and local governments. Determination.

sections 130(f) and 104(b)(5) of title 23, United States Code; sections 133(d)(1) and 163 of such title, as in effect on the day before the date of enactment of Public Law 109–59; and the first sentence of section 133(d)(3)(A) of such title: *Provided further,* That notwithstanding section 1132 of Public Law 110–140, in administering the rescission required under this heading, the Secretary of Transportation shall allow each State to determine the amount of the required rescission to be drawn from the programs to which the rescission applies.

TITLE IV

BUDGETARY PROVISIONS

BUDGETARY PROVISIONS

SEC. 401. The budgetary effects of this Act, for the purpose of complying with the Statutory Pay-As-You-Go Act of 2010, shall be determined by reference to the latest statement titled "Budgetary Effects of PAYGO Legislation" for this Act, jointly submitted for printing in the Congressional Record by the Chairmen of the House and Senate Budget Committees, provided that such statement has been submitted prior to the vote on passage in the House acting first on this conference report or amendment between the Houses.

Approved August 10, 2010.

LEGISLATIVE HISTORY—H.R. 1586:

CONGRESSIONAL RECORD:
Vol. 155 (2009): Mar. 19, considered and passed House.
Vol. 156 (2010): Mar. 10, 11, 16–19, 22, considered and passed Senate, amended.
Mar. 25, House concurred in Senate amendments with an amendment.
July 29, Aug. 2, 4, 5, Senate considered and concurred in House amendment with an amendment.
Aug. 10, House concurred in Senate amendment.