

103<sup>D</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 5280

To amend the Internal Revenue Code of 1986 to allow a deduction for State and local general sales taxes and to compensate for the resulting revenue loss by providing that only 89 percent of the amount of all State and local taxes shall be allowed as a deduction.

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## IN THE HOUSE OF REPRESENTATIVES

OCTOBER 7, 1994

Mr. SMITH of Michigan (for himself and Mr. KNOLLENBERG) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to allow a deduction for State and local general sales taxes and to compensate for the resulting revenue loss by providing that only 89 percent of the amount of all State and local taxes shall be allowed as a deduction.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. RESTORATION OF DEDUCTION FOR STATE AND**  
2 **LOCAL GENERAL SALES TAXES; LIMITATION**  
3 **ON DEDUCTION FOR ALL STATE AND LOCAL**  
4 **TAXES.**

5 (a) ALLOWANCE OF DEDUCTION FOR STATE AND  
6 LOCAL GENERAL SALES TAXES.—

7 (1) IN GENERAL.—Subsection (a) of section  
8 164 of the Internal Revenue Code of 1986 (relating  
9 to deduction for taxes) is amended by redesignating  
10 paragraphs (4) and (5) as paragraphs (5) and (6),  
11 respectively, and by inserting after paragraph (3)  
12 the following new paragraph:

13 “(4) 89 percent of the amount of State and  
14 local general sales taxes.”

15 (2) DEFINITIONS.—Subsection (b) of section  
16 164 of such Code is amended by adding at the end  
17 thereof the following new paragraphs:

18 “(5) DEFINITIONS RELATING TO GENERAL  
19 SALES TAXES.—For purposes of subsection (a)(4):

20 “(A) IN GENERAL.—The term ‘general  
21 sales tax’ means a tax imposed at one rate in  
22 respect of the sale at retail of a broad range of  
23 classes of items.

24 “(B) SPECIAL RULES FOR FOOD, ETC.—In  
25 the case of items of food, clothing, medical sup-  
26 plies, and motor vehicles—

1 “(i) the fact that the tax does not  
2 apply in respect of some or all of such  
3 items shall not be taken into account in  
4 determining whether the tax applies in re-  
5 spect of a broad range of classes of items,  
6 and

7 “(ii) the fact that the rate of tax ap-  
8 plicable in respect of some or all of such  
9 items is lower than the general rate of tax  
10 shall not be taken into account in deter-  
11 mining whether the tax is imposed at one  
12 rate.

13 “(C) ITEMS TAXED AT DIFFERENT  
14 RATES.—Except in the case of a lower rate of  
15 tax applicable in respect of an item described in  
16 subparagraph (B), no deduction shall be al-  
17 lowed under this section for any general sales  
18 tax imposed in respect of an item at a rate  
19 other than the general rate of tax.

20 “(D) COMPENSATING USE TAXES.—A com-  
21 pensating use tax in respect of an item shall be  
22 treated as a general sales tax. For purposes of  
23 the preceding sentence, the term ‘compensating  
24 use tax’ means, in respect of any item, a tax  
25 which—

1 “(i) is imposed on the use, storage, or  
2 consumption of such item, and

3 “(ii) is complementary to a general  
4 sales tax, but only if a deduction is allow-  
5 able under subsection (a)(4) in respect of  
6 items sold at retail in the taxing jurisdic-  
7 tion which are similar to such item.

8 “(E) SPECIAL RULE FOR MOTOR VEHI-  
9 CLES.—In the case of motor vehicles, if the rate  
10 of tax exceeds the general rate, such excess  
11 shall be disregarded and the general rate shall  
12 be treated as the rate of tax.

13 “(6) SEPARATELY STATED GENERAL SALES  
14 TAXES.—If the amount of any general sales tax is  
15 separately stated, then, to the extent that the  
16 amount so stated is paid by the consumer (otherwise  
17 than in connection with the consumer’s trade or  
18 business) to his seller, such amount shall be treated  
19 as a tax imposed on, and paid by, such consumer.”

20 (b) LIMITATION ON DEDUCTIONS.—Paragraphs (1),  
21 (2), and (3) of section 164(a) of such Code are each  
22 amended by inserting “89 percent of the amount of” be-  
23 fore “State and local”.

1       (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 the date of the enactment of this Act.

