

104TH CONGRESS  
1ST SESSION

# S. 722

To amend the Internal Revenue Code of 1986 to restructure and replace the income tax system of the United States to meet national priorities, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

APRIL 25 (legislative day, APRIL 24), 1995

Mr. DOMENICI (for himself, Mr. NUNN, and Mr. KERREY) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to restructure and replace the income tax system of the United States to meet national priorities, and for other purposes.

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

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE;**

4 **TABLE OF CONTENTS**

5 (a) SHORT TITLE.—This Act may be cited as the  
6 “USA Tax Act of 1995”.

7 (b) AMENDMENT OF 1986 CODE.—Except as other-  
8 wise expressly provided, whenever in this Act a reference  
9 is made to the Code or to a section or provision of the

1 Code, the reference shall be considered to be made to the  
 2 Internal Revenue Code of 1986 or to a section or provision  
 3 thereof.

4 (c) TABLE OF CONTENTS.—

Sec. 1. Short title; amendment of 1986 Code; table of contents.

TITLE I—FINDINGS; NEED TO REPLACE THE INCOME TAX

Sec. 101. Restructuring and replacing the income tax of the United States.

TITLE II—USA TAX FOR INDIVIDUALS

Sec. 201. Unlimited savings allowance tax for individuals.

Sec. 202. Reorganization of the Code.

TITLE III—NEW BUSINESS TAX

Sec. 301. Repeal of present corporate income tax; new tax paid by corporations  
and other businesses.

Sec. 302. Repeal of chapter 6.

TITLE IV—DEFERRED COMPENSATION PLANS

Sec. 401. Provisions saved.

TITLE V—TECHNICAL AND ADMINISTRATIVE CHANGES

Sec. 501. USA Tax Code.

Sec. 502. Revisions to the Code.

Sec. 503. Application of subtitle F.

Sec. 504. Clerical amendment.

5 **TITLE I—FINDINGS; NEED TO**  
 6 **REPLACE THE INCOME TAX**

7 **SEC. 101. RESTRUCTURING AND REPLACING THE INCOME**  
 8 **TAX OF THE UNITED STATES.**

9 (a) FINDINGS.—The Congress finds that—

10 (1) to provide for the prosperity of future gen-  
 11 erations, the United States must achieve higher lev-  
 12 els of saving and investment, which will in turn in-  
 13 crease productivity, economic growth, and living  
 14 standards;

1           (2) the Tax Code is an important element of  
2           our national saving policy;

3           (3) the current Tax Code is irreparably flawed  
4           and should be replaced with a new progressive sys-  
5           tem which promotes saving and investment, and  
6           thus more rapid economic growth, while ensuring  
7           fairness through progressive taxation;

8           (4) all individuals at all income levels should be  
9           given a fair opportunity to save, invest, and raise  
10          their standard of living and that of their children;

11          (5) future economic growth requires a tax sys-  
12          tem that facilitates successful competition in the  
13          global marketplace;

14          (6) the tax system of the United States must  
15          be as simple and efficient as possible; and

16          (7) to ensure that national saving is increased,  
17          reform of the tax system must not increase the Fed-  
18          eral budget deficit.

19          (b) MAIN FEATURES OF USA TAX SYSTEM.—

20               (1) REPLACEMENT OF OLD TAX SYSTEM.—  
21          Chapter 1 of subtitle A (related to income taxes) of  
22          the Code is repealed and replaced for years begin-  
23          ning after 1995.

24               (2) NEW TAX SYSTEM.—The USA Tax consists  
25          of—

1 (A) a simplified tax collected from individ-  
2 uals, that for years after 1995 replaces the in-  
3 come tax imposed on individuals by section 1 of  
4 the Code, and

5 (B) a simplified tax collected from corpora-  
6 tions and other businesses, that for years after  
7 1995 replaces the income tax imposed on cor-  
8 porations by section 11 of the Code.

9 (3) USA TAX ON GROSS PROFITS.—Corpora-  
10 tions and other businesses pay tax on their annual  
11 gross profits from business conducted in the United  
12 States, except that—

13 (A) export revenues are excluded, and

14 (B) imports are taxed.

15 (4) USA TAX ON INCOME.—Individuals pay tax  
16 on their annual income from wages, dividends, inter-  
17 est, and other financial income (including sales of  
18 property), except that—

19 (A) tax is deferred on income the con-  
20 sumption of which is deferred and added to the  
21 national stock of savings,

22 (B) a portion of each family's income is ex-  
23 empt from tax, and

24 (C) deductions are allowed for—

25 (i) education costs,

- 1 (ii) religious, charitable, and other
- 2 philanthropic donations, and
- 3 (iii) home mortgage interest pay-
- 4 ments.

5 (5) CREDIT FOR FICA PAYROLL TAXES PAID.—

6 The amount of tax due is reduced by the payroll tax  
7 that is—

8 (A) in the case of an employee, withheld  
9 from wages, or

10 (B) in the case of a corporation or other  
11 business, paid by the employer.

12 (c) CONCEPTS AND STRUCTURE OF NEW TAX SYS-  
13 TEM.—

14 (1) GUIDING PRINCIPLES OF THE USA TAX SYS-  
15 TEM.—The USA Tax is based on the following prin-  
16 ciples:

17 (A) National wealth and well-being depend  
18 on the work, skill, and savings and investment  
19 of people.

20 (B) Businesses are people and their capital  
21 working together.

22 (C) Capital makes people more productive.

23 (D) Everyone benefits from a growing  
24 stock of national savings which in turn allows

1 for a growing stock of physical and human  
2 capital.

3 (E) Under the USA Tax, the deferral of  
4 taxation on investments in physical and human  
5 capital represents an investment by the Federal  
6 Government in the Nation's capital stock and  
7 the Federal Government shares in the return on  
8 its investment in the form of higher economic  
9 output and revenues in the future.

10 (2) SINGLE TAX IN 2 PARTS.—The USA Tax is  
11 composed of a business tax and an individual tax  
12 which are 2 parts of a single tax system that sub-  
13 jects all income produced and received to taxation  
14 once and only once. The 2 parts are as follows:

15 (A) BUSINESS TAX AT THE SOURCE OF IN-  
16 COME.—Tax is paid by corporations and other  
17 businesses which produce and sell goods and  
18 services that are—

19 (i) the source of nearly all the gross  
20 domestic product of the United States, and

21 (ii) the ultimate source of income re-  
22 ceived by individuals.

23 (B) INDIVIDUAL TAX ON INCOME RE-  
24 CEIVED.—Tax is paid by individuals—

1 (i) when they receive wages and sala-  
 2 ries as compensation for gross domestic  
 3 product created by their work, and

4 (ii) when they receive interest, divi-  
 5 dends, and other financial income as com-  
 6 pensation for gross domestic product cre-  
 7 ated by their savings and investment.

8 (3) SAVING AND INVESTMENT.—The USA Tax  
 9 allows people to save and businesses to invest as fol-  
 10 lows:

11 (A) FAIR OPPORTUNITY FOR PEOPLE TO  
 12 SAVE.—

13 (i) NO PREPAYMENT OF TAX.—When  
 14 a person defers receipt of income by add-  
 15 ing it to the national stock of savings—

16 (I) a deduction is allowed for the  
 17 amount saved, and

18 (II) tax is deferred.

19 (ii) WITHDRAWAL OF SAVINGS AND  
 20 EARNINGS.—When withdrawn from sav-  
 21 ings, both the principal amount saved and  
 22 the earnings on savings are included in  
 23 gross income subject to tax.

24 (iii) ANALOGY TO INDIVIDUAL RE-  
 25 TIREMENT ACCOUNTS.—The deduction for

1 saving is the equivalent of allowing a de-  
2 duction for the contribution a person  
3 makes to an individual retirement account  
4 (IRA), except that—

5 (I) savers have greater control  
6 and flexibility,

7 (II) no specially designated ac-  
8 count is required,

9 (III) savings are not limited to  
10 retirement purposes,

11 (IV) the deduction for saving is  
12 unlimited in amount, and

13 (V) savings can be withdrawn at  
14 any time for any purpose.

15 (B) FAIR OPPORTUNITY FOR BUSINESSES  
16 TO INVEST.—

17 (i) NO PREPAYMENT OF TAX.—When  
18 a business invests in plant and equip-  
19 ment—

20 (I) a deduction is allowed for the  
21 cost, and

22 (II) tax is deferred.

23 (ii) TAX ON EARNINGS AND RECOVERY  
24 OF COST.—When recovered out of business  
25 revenues, both the cost of the investment



1 and the earnings on the investment are in-  
2 cluded in gross profit subject to tax.

3 (iii) EXPENSING.—The deduction for  
4 investment is the equivalent of allowing the  
5 cost of plant and equipment to be expensed  
6 instead of depreciated.

7 (4) FAIR OPPORTUNITY TO COMPETE IN THE  
8 GLOBAL MARKETPLACE.—The USA Tax serves the  
9 strategic interests of the United States in inter-  
10 national markets as follows:

11 (A) BORDER ADJUSTABLE TAX.—

12 (i) AMERICAN-MADE EXPORTS.—  
13 Goods and services produced in the United  
14 States can be sold into world markets free  
15 of tax.

16 (ii) FOREIGN-MADE IMPORTS.—Goods  
17 and services imported into the United  
18 States bear a fair and proportionate share  
19 of the tax burden in the United States.

20 (iii) LEVELING THE INTERNATIONAL  
21 PLAYING FIELD.—Border adjustments for  
22 exports and imports are consistent with  
23 international standards and practice.

1           (5) SIMPLER AND MORE UNDERSTANDABLE  
2 TAX.—Compared to the income tax it replaces, the  
3 USA Tax for individuals—

4           (A) is written in a simpler, more under-  
5 standable form, and

6           (B) contains only a few exemptions, deduc-  
7 tions, and credits.

8           (6) USA TAX IS REVENUE NEUTRAL.—The  
9 USA Tax is designed to neither increase nor de-  
10 crease the total amount of tax paid and collected  
11 under the current Code.

12           (7) MAINTAINING TAX PROGRESSIVITY FOR IN-  
13 DIVIDUALS.—

14           (A) GRADUATED TAX.—Like the tax im-  
15 posed by section 1 of the current Code, the  
16 USA Tax for individuals is a graduated tax.

17           (B) FAMILY LIVING ALLOWANCE.—The  
18 USA Tax recognizes that every family's budget  
19 includes necessities. The USA Tax provides a  
20 family living allowance that exempts from tax-  
21 ation the first dollars earned and spent to  
22 maintain a basic standard of living.

23           (C) INDIVIDUAL TAX BURDEN BY INCOME  
24 LEVEL.—The tax burden across income classes

1 ranging from low income to high income is  
2 about the same as under the current Code.

3 (8) BUSINESS AND INDIVIDUAL PORTIONS OF  
4 TAX BURDEN.—

5 (A) BUSINESS PORTION OF TAX BUR-  
6 DEN.—Corporations and other businesses pay  
7 about the same portion of the total tax as  
8 under the current Code.

9 (B) INDIVIDUAL PORTION OF TAX BUR-  
10 DEN.—Individuals pay about the same portion  
11 of the total tax as under the current Code.

12 (9) EMPHASIZING PERSONAL INDEPENDENCE  
13 AND RESPONSIBILITY.—

14 (A) REINFORCING A CULTURE OF WORK  
15 AND THRIFT.—Instead of being solely a calcula-  
16 tion of how much they must pay to the govern-  
17 ment, the USA Tax converts the income tax  
18 into an annual calculation of—

19 (i) how much people produce and con-  
20 tribute to the economy,

21 (ii) how much they take out of the  
22 economy, and

23 (iii) how much they save and put back  
24 into the economy for their own and the na-  
25 tion's future.

1 (B) GREATER CONTROL AND RESPONSIBIL-  
2 ITY.—Because people are allowed to defer tax  
3 on income through saving, they have—

4 (i) more control over their own income  
5 and taxes,

6 (ii) a greater ability to plan and pro-  
7 vide for their own future, and

8 (iii) a fair opportunity to do so.

9 (10) MORE OPPORTUNITY FOR WAGE EARNERS  
10 AT LOWER INCOME LEVELS.—

11 (A) REFUNDABLE CREDIT FOR EMPLOYEE  
12 PAYROLL TAX.—The amount of the payroll tax  
13 paid or withheld under the Code from an em-  
14 ployee's wages (and paid into the Social Secu-  
15 rity and Hospital Insurance Trust Funds) is—

16 (i) credited against the employee's in-  
17 come tax, and

18 (ii) refunded to the employee to the  
19 extent in excess of the employee's income  
20 tax.

21 (B) REFUNDABLE INCOME TAX CREDIT  
22 FOR THE WORKING POOR.—The USA Tax—

23 (i) increases the credit allowed by sec-  
24 tion 32 of the current Code, and

1 (ii) concentrates the credit on families  
2 with children.

3 (C) NO EFFECT ON TRUST FUND OR BEN-  
4 EFITS.—The income tax credit allowed for pay-  
5 roll taxes deposited in the Social Security Trust  
6 Fund does not—

7 (i) reduce the amount in such fund, or  
8 (ii) reduce the payment of any per-  
9 son's benefits from the fund.

## 10 **TITLE II—USA TAX FOR** 11 **INDIVIDUALS**

### 12 **SEC. 201. UNLIMITED SAVINGS ALLOWANCE TAX FOR INDI-** 13 **VIDUALS.**

14 (a) IN GENERAL.—Chapter 1 of the Code is amended  
15 to read as follows:

### 16 **“CHAPTER 1—UNLIMITED SAVINGS** 17 **ALLOWANCE TAX FOR INDIVIDUALS**

“Subchapter A. Basic rules.

“Subchapter B. Unlimited Savings Allowance and deferred income adjust-  
ment.

“Subchapter C. Basis, business transactions, and nonrecognition trans-  
actions.

“Subchapter D. Rules for exclusions from gross income.

“Subchapter E. Rules relating to deductions.

“Subchapter F. Special business activities.

“Subchapter G. Accounting methods.

“Subchapter H. Nonresident aliens.

“Subchapter I. Trusts and estates.

“Subchapter J. Definitions and rules of application.

### 18 **“Subchapter A—Basic Rules**

“Sec. 1. USA income tax.

“Sec. 2. Persons liable for the USA income tax.

- “Sec. 3. Gross income.
- “Sec. 4. Exclusions from gross income.
- “Sec. 5. Alimony and child support deductions.
- “Sec. 6. Personal and dependency deduction.
- “Sec. 7. Family Living Allowance.
- “Sec. 8. USA deductions.
- “Sec. 9. Homeowner deduction.
- “Sec. 10. Education deduction.
- “Sec. 11. Philanthropic transfer deduction.
- “Sec. 12. Transition basis deduction.
- “Sec. 13. Limitation on deductions.
- “Sec. 15. Tax rates.
- “Sec. 16. Kiddie tax.
- “Sec. 17. Rules for filing status and rate tables.
- “Sec. 20. USA tax credits.
- “Sec. 21. Payroll tax credit.
- “Sec. 22. Earned income tax credit.
- “Sec. 23. Taxes-paid tax credit.
- “Sec. 24. Indexing for inflation.

1 **“SEC. 1. USA INCOME TAX.**

2       “(a) IMPOSITION OF TAX.—An income tax is imposed  
 3 on each individual described in section 2. The income tax  
 4 shall equal the amount determined by applying the tax  
 5 schedules in section 15 to the taxable income of the tax-  
 6 payer for the taxable year and reducing the tax so deter-  
 7 mined by the USA tax credits for the taxable year.

8       “(b) TAXABLE INCOME.—‘Taxable income’ means  
 9 adjusted gross income, reduced by—

10               “(1) the personal and dependency deduction,

11               “(2) the Family Living Allowance,

12               “(3) the USA deductions, including—

13                       “(A) the homeowner deduction,

14                       “(B) the education deduction, and

15                       “(C) the philanthropic transfer deduction,

16               and

1           “(4) the transition basis deduction.

2           “(c) ADJUSTED GROSS INCOME.—‘Adjusted gross in-  
3 come’ means the sum of current-year gross income and  
4 deferred income, reduced by the alimony and child support  
5 deductions and the Unlimited Savings Allowance.

6           “(d) CURRENT-YEAR GROSS INCOME.—‘Current-year  
7 gross income’ means gross income for the taxable year  
8 other than deferred income.

9           “(e) DEFERRED INCOME.—‘Deferred income’ means  
10 income attributable to withdrawals of previously saved  
11 gross income as determined under sections 51 and 52.

12           “(f) NAME.—The tax imposed by this chapter shall  
13 be known as the ‘USA Income Tax’.

14   **“SEC. 2. PERSONS LIABLE FOR THE USA INCOME TAX.**

15           “(a) INDIVIDUALS ONLY.—The USA Income Tax  
16 shall apply only to individuals.

17           “(b) CITIZENS AND RESIDENT ALIENS.—The USA  
18 Income Tax shall apply to all citizens of the United States  
19 and to all resident aliens of the United States. Except as  
20 specifically provided in this chapter, the USA Income Tax  
21 shall not apply to nonresident aliens.

22           “(c) NONRESIDENT ALIENS.—For rules applicable to  
23 the compensation income of nonresident aliens, see sub-  
24 chapter H (sections 131 and 132). For rules on the with-

1 holding of tax on nonresident aliens, see chapter 5 (sec-  
2 tions 1441–1464).

3 “(d) TAXPAYER.—For purposes of this chapter, ‘tax-  
4 payer’ means an individual, or, in the case of a joint re-  
5 turn, the husband and the wife.

6 **“SEC. 3. GROSS INCOME.**

7 “(a) GENERAL DEFINITION.—Except as otherwise  
8 provided in this chapter, ‘gross income for the taxable  
9 year’ means all income from whatever source derived by  
10 a taxpayer during the taxable year, including (but not lim-  
11 ited to) the following items:

12 “(1) Compensation for services, including (but  
13 not limited to)—

14 “(A) salaries,

15 “(B) wages,

16 “(C) commissions,

17 “(D) tips, and

18 “(E) distributions from business entities  
19 (as defined in section 151).

20 “(2) Fringe benefits (except as specifically ex-  
21 cluded by section 4(a)), including (but not limited  
22 to)—

23 “(A) the cost of health, disability, or other  
24 similar insurance paid by an employer if the  
25 taxpayer is indirectly or directly the beneficiary



1 of the policy or has the right to name the bene-  
2 ficiary of the policy,

3 “(B) employer-paid parking (unless the  
4 employee uses the automobile parked in the  
5 space regularly on employer business),

6 “(C) employer-paid educational benefits,

7 “(D) employer-paid housing (other than  
8 housing provided for the convenience of the em-  
9 ployer),

10 “(E) employer-paid meals (other than  
11 meals provided for the convenience of the em-  
12 ployer or reimbursement for the reasonable cost  
13 of meals incurred on overnight travel),

14 “(F) amounts contributed by an employer  
15 on behalf of an employee to a group legal serv-  
16 ices plan, and

17 “(G) dependent care assistance received  
18 from an employer.

19 “(3) Distributions from business entities (as de-  
20 fined in section 151) constituting—

21 “(A) compensation for use of capital, in-  
22 cluding interest,

23 “(B) shares of profits (including divi-  
24 dends), or

1           “(C) return of capital including accumu-  
2           lated but undistributed profits.

3           “(4) Interest not described in paragraph (3)(A).

4           “(5) Rents.

5           “(6) Royalties.

6           “(7) Alimony, child support, and separate  
7           maintenance payments.

8           “(8) Pensions and other retirement plan pay-  
9           ments (except to the extent taken into account in de-  
10          termining deferred income).

11          “(9) Includible social security benefits.

12          “(10) Income from the discharge of indebted-  
13          ness.

14          “(11) Gains on the sale or disposition of assets  
15          (other than savings assets).

16          “(12) Amounts stolen or embezzled.

17          “(b) DEFINITIONS.—For purposes of subsection (a)  
18          and section 4—

19               “(1) EMPLOYER.—‘Employer’ includes—

20                   “(A) in the case of a partner who provides  
21                   services for a partnership, the partnership,

22                   “(B) in the case of a proprietor, the pro-  
23                   priatorship, and

1           “(C) in the case of an independent con-  
 2 tractor, any business or individual that hires  
 3 the independent contractor.

4           “(2) SOCIAL SECURITY BENEFITS.—

5           “(A) IN GENERAL.—‘Social Security bene-  
 6 fits’ means any amount received by the tax-  
 7 payer by reason of entitlement to—

8                   “(i) a monthly benefit under title II of  
 9 the Social Security Act, or

10                   “(ii) a tier 1 railroad retirement bene-  
 11 fit.

12       The amount received by a taxpayer shall be deter-  
 13 mined as if the Social Security Act did not contain  
 14 section 203(i) thereof.

15           “(B) TIER 1 RAILROAD RETIREMENT BEN-  
 16 EFIT.—‘Tier 1 railroad retirement benefit’  
 17 means—

18                   “(i) the amount of the annuity under  
 19 the Railroad Retirement Act of 1974 equal  
 20 to the amount of the benefit to which the  
 21 taxpayer would have been entitled under  
 22 the Social Security Act if all of the service  
 23 after December 31, 1936, of the employee  
 24 (on whose record the annuity is being  
 25 paid) has been included in the term ‘em-

1           ployment’ as defined in the Social Security  
2           Act, and

3           “(ii) a monthly annuity amount under  
4           section 3(f)(3) of the Railroad Retirement  
5           Act of 1974.

6           “(C) WORKERS’ COMPENSATION SUB-  
7           STITUTES.—If by reason of section 224 of the  
8           Social Security Act or section 3(a)(1) of the  
9           Railroad Retirement Act of 1974, any social se-  
10          curity benefit is reduced because of the receipt  
11          of a benefit under a workers’ compensation act,  
12          the term ‘social security benefit’ includes that  
13          portion of such benefit which equals such reduc-  
14          tion.

15          “(D) EFFECT OF EARLY PAYMENT.—If so-  
16          cial security benefits checks are delivered before  
17          the end of the calendar month for which they  
18          are issued and are not deposited until the  
19          month for which they are issued, they will be  
20          treated as received in the month for which they  
21          are issued.

22          “(3) INCLUDIBLE SOCIAL SECURITY BENE-  
23          FITS.—‘Includible social security benefits’ means the  
24          portion of social security benefits that would be in-  
25          cluded in gross income under section 86(a) of the

1 Internal Revenue Code of 1986, except that for pur-  
2 poses of applying such section, the term ‘modified  
3 adjusted gross income’ means adjusted gross income  
4 (as defined in section 1(c)), determined without re-  
5 gard to the inclusion of any social security benefits.

6 “(c) CROSS REFERENCES.—

7 “(1) SPECIFICALLY EXCLUDED ITEMS.—For  
8 items specifically excluded from gross income, see  
9 section 4 and sections 91 through 97.

10 “(2) DEFERRED INCOME.—For rules relating to  
11 deferred income as a result of the Unlimited Savings  
12 Allowance, see subchapter B (sections 50 through  
13 58).

14 **“SEC. 4. EXCLUSIONS FROM GROSS INCOME.**

15 “(a) GENERAL RULE.—Gross income for the taxable  
16 year does not include:

17 “(1) RETURNS OR BENEFITS FROM PRE-  
18 VIOUSLY TAXED INCOME.—

19 “(A) Social security benefits (as defined in  
20 section 3(b)(2)), other than includible social se-  
21 curity benefits (as defined in section 3(b)(3)).

22 “(B) Amounts received under accident or  
23 health benefit plans (but only if the cost of such  
24 plans was paid by the employee or included in  
25 gross income of the employee).

1           “(C) Value of services provided pursuant  
2           to a group legal service plan (but only if the  
3           cost of such services was paid by the employee  
4           or paid by the employer and included in the  
5           gross income of the employee).

6           “(D) Amounts received under an insurance  
7           contract for certain living expenses in the case  
8           of an individual whose principal residence is  
9           damaged or destroyed or who is denied access  
10          because of the threat of such occurrence.

11          “(E) In the case of amounts or property  
12          received for property in which the taxpayer has  
13          a basis, an amount equal to the basis.

14          “(2) COMPENSATION FOR SPECIAL KINDS OF  
15          SERVICE.—

16               “(A) In the case of a minister of the  
17               gospel—

18                   “(i) the rental value of a home fur-  
19                   nished to him, or

20                   “(ii) the rental allowance paid to him  
21                   as part of his compensation, to the extent  
22                   used by him to rent or provide a home.

23               “(B) Certain combat pay of members of  
24               the Armed Forces of the United States (as pro-  
25               vided in section 92).

1           “(C) Certain reduced uniform services re-  
2           tirement pay (as defined in section 122 of the  
3           Internal Revenue Code of 1986).

4           “(D) Qualified military benefits (as defined  
5           in section 93).

6           “(E) Moving allowances for active military  
7           personnel (as defined in section 217(g) of the  
8           Internal Revenue Code of 1986).

9           “(F) Certain foster care payments (as de-  
10          fined in section 94).

11          “(3) GRATUITOUS, CHARITABLE, AND GOVERN-  
12          MENTAL TRANSFERS.—

13               “(A) Gifts.

14               “(B) Inheritances.

15               “(C) Supplemental security income, aid to  
16               families with dependent children, food stamps,  
17               Section 8 Low Income Rental Assistance, bene-  
18               fits under the low income home energy assist-  
19               ance program, and benefits under other similar  
20               Federal and State assistance programs for low-  
21               income individuals and families.

22               “(D) Benefits or assistance received from  
23               a charitable organization as the result of a dis-  
24               aster or by reason of financial need.

1           “(4) TAX-EXEMPT BOND INTEREST.—Interest  
2           on State and local bonds (as provided in section 91);

3           “(5) COMPENSATION FOR INJURY AND SICK-  
4           NESS.—

5                   “(A) Amounts received as compensation  
6                   for personal injury or sickness (as provided in  
7                   section 95).

8                   “(B) Reimbursement and direct payments  
9                   under Medicare and Medicaid.

10           “(6) BENEFITS PRIMARILY FOR THE CONVEN-  
11           IENCE OF THE EMPLOYER AND CERTAIN FRINGE  
12           BENEFITS THAT ARE DIFFICULT TO VALUE.—

13                   “(A) Meals or lodging furnished for the  
14                   convenience of the employer (as provided in sec-  
15                   tion 96).

16                   “(B) Value of a parking space if employee  
17                   uses the car parked in the space regularly on  
18                   company business.

19                   “(C) A fringe benefit that is a no-addi-  
20                   tional-cost service (as defined in section 97(b)),  
21                   subject to rules prohibiting discrimination in  
22                   favor of the highly compensated.

23                   “(D) A qualified employee discount (as de-  
24                   fined in section 97(c)), subject to rules prohibit-



1 ing discrimination in favor of the highly com-  
2 pensated.

3 “(E) Any property or services provided to  
4 an employee to the extent that if the employee  
5 were treated as a business and the business  
6 paid for those services, the employee could de-  
7 duct the cost of such property or services under  
8 the business tax.

9 “(F) A de minimis fringe benefit (as de-  
10 fined in section 97(d)).

11 “(G) Transportation in a commuter high-  
12 way vehicle if such transportation is in connec-  
13 tion with travel between the employee’s resi-  
14 dence and place of employment.

15 “(H) Any amount received directly or indi-  
16 rectly by an individual from an employer for  
17 moving expenses if—

18 “(i) the move is associated with a  
19 change in job locations for the same em-  
20 ployer, and

21 “(ii) the expenses of such move would  
22 have been deductible under the rules under  
23 section 217 of the Internal Revenue Code  
24 of 1986 if paid directly by the employee.

1           “(7) REPAYABLE RECEIPTS.—The proceeds of  
2       borrowing or any other amounts legally received that  
3       the taxpayer is legally obligated to return (except  
4       that the imputed interest rules of section 7872 may  
5       apply if there is inadequate stated interest).

6           “(8) CERTAIN INCOME EARNED ABROAD.—Cer-  
7       tain income and housing costs of citizens and resi-  
8       dents of the United States living outside the United  
9       States in accordance with the rules under section  
10      911 of the Internal Revenue Code of 1986.

11          “(9) DISCHARGE OF INDEBTEDNESS.—The  
12      amount of indebtedness discharged unless the dis-  
13      charge is for services, property, or other valuable  
14      right.

15          “(10) ROLLOVER RULES.—Amounts to which  
16      the like-kind exchange rule of section 56(b) or the  
17      residence rollover rule of section 76 applies.

18          “(11) CERTAIN AMOUNTS IMMEDIATELY  
19      SAVED.—Certain amounts that would be treated as  
20      gross income but which are saved by the payor on  
21      behalf of the employee, including—

22              “(A) employer contributions to retirement  
23              and severance plans qualified under chapter 3  
24              (relating to deferred compensation plans);

1           “(B) bonuses and compensation paid in  
2           the form of stock or stock options in the em-  
3           ployer; and

4           “(C) life insurance premiums paid by an  
5           employer.

6           “(12) TAXABLE RECEIPTS OF A BUSINESS EN-  
7           TITY.—Amounts that are treated as taxable receipts  
8           of a business entity under the business tax.

9           “(13) CERTAIN INSURANCE PROCEEDS.—Pro-  
10          ceeds of casualty, property damage, theft, or loss in-  
11          surance.

12          “(b) SPECIAL RULES.—

13               “(1) LIMITED APPLICATION OF IMMEDIATE  
14               SAVINGS EXCLUSION.—The exclusion contained in  
15               paragraph (11) of subsection (a) shall not apply to  
16               compensation of officers, directors, partners, or pro-  
17               prietors of business entities unless such amounts are  
18               paid pursuant to plans that are qualified under  
19               chapter 3 (relating to deferred compensation plans).  
20               If the immediate savings exclusion does not apply to  
21               an individual because of this paragraph, the amount  
22               not excluded shall be treated as an addition to sav-  
23               ings.

24               “(2) AMOUNTS TAKEN INTO ACCOUNT IN DE-  
25               TERMINING DEFERRED INCOME.—Any amount

1       which is to be taken into account in determining  
2       withdrawals from savings under section 54 shall not  
3       also be taken into account in determining current-  
4       year gross income.

5   **“SEC. 5. ALIMONY AND CHILD SUPPORT DEDUCTIONS.**

6       “(a) GENERAL RULE.—A taxpayer shall be allowed  
7   an alimony and child support deductions for an amount  
8   equal to the alimony, child support, or separate mainte-  
9   nance payments paid during the taxpayer’s taxable year.

10      “(b) DEFINITION OF ALIMONY, CHILD SUPPORT,  
11   AND SEPARATE MAINTENANCE PAYMENTS.—‘Alimony,  
12   child support, and separate maintenance payments’ means  
13   any alimony, child support, or separate maintenance pay-  
14   ment which is includible in gross income under section 3.

15   **“SEC. 6. PERSONAL AND DEPENDENCY DEDUCTION.**

16      “(a) AMOUNT OF EXEMPTION.—The personal and  
17   dependency deduction for an individual shall equal the  
18   number of exemptions multiplied by \$2,550.

19      “(b) NUMBER OF EXEMPTIONS.—

20          “(1) TAXPAYER.—One exemption shall be al-  
21   lowed for the taxpayer unless the taxpayer files a  
22   joint return with a spouse, in which case 1 exemp-  
23   tion shall be allowed for the husband and 1 for the  
24   wife.

1           “(2) ELIGIBLE DEPENDENT.—An exemption  
2 shall be allowed for each eligible dependent.

3           “(c) DEPENDENT.—

4           “(1) DEFINITION.—‘Dependent’ means any of  
5 the following individuals over half of whose support,  
6 for the calendar year in which the calendar year of  
7 the taxpayer begins, was received from the taxpayer  
8 or is treated as received from the taxpayer:

9           “(A) A son or daughter of the taxpayer, or  
10 a descendant of either.

11           “(B) A stepson, stepdaughter, stepfather,  
12 or stepmother of the taxpayer.

13           “(C) A brother, sister, stepbrother, or  
14 stepsister of the taxpayer.

15           “(D) The father or mother of the taxpayer,  
16 or an ancestor of either.

17           “(E) A son or daughter of a brother or sis-  
18 ter of the taxpayer.

19           “(F) A brother or sister of the mother or  
20 father of the taxpayer.

21           “(G) A son-in-law, daughter-in-law, father-  
22 in-law, mother-in-law, brother-in-law, or sister-  
23 in-law of the taxpayer.

24           “(H) An individual (other than an individ-  
25 ual who at any time during the taxable year

1 was the spouse, determined without regard to  
 2 section 7703, of a taxpayer) who, for the tax-  
 3 able year of the taxpayer, has as his principal  
 4 place of abode the home of the taxpayer and is  
 5 a member of the taxpayer's household.

6 “(2) RULES RELATING TO THE GENERAL DEFINITION.—The Secretary shall prescribe rules similar  
 7 to the rules under section 152 of the Internal Revenue Code of 1986 that shall apply to the general  
 8 definition of ‘dependent’, including definitional rules,  
 9 rules relating to multiple support agreements, and  
 10 support tests in cases of children of divorced par-  
 11 ents.  
 12 ents.

13 “(d) ELIGIBLE DEPENDENT.—

14 “(1) IN GENERAL.—The term ‘eligible depend-  
 15 ent’ means a dependent—  
 16 ent’ means a dependent—

17 “(A) whose gross income for the calendar  
 18 year in which the taxable year of the taxpayer  
 19 begins is less than the exemption amount, or

20 “(B) who is a child of the taxpayer and  
 21 who—

22 “(i) has not attained the age of 19 at  
 23 the close of the calendar year in which the  
 24 taxable year of the taxpayer begins, or

1                   “(ii) is a student who has not attained  
2                   the age of 24 at the close of such calendar  
3                   year.

4                   “(2) EXCLUSIONS.—A dependent who files a  
5                   joint return with a spouse for the calendar year in  
6                   which the taxable year of the taxpayer begins is not  
7                   an eligible dependent.

8                   “(3) RULES RELATING TO DEFINITIONS.—The  
9                   Secretary shall prescribe rules similar to those in-  
10                  cluded in or applicable under the Internal Revenue  
11                  Code of 1986 relating to this subsection, including  
12                  rules defining ‘child’ and ‘student’ and rules relating  
13                  to the income of handicapped dependents.

14                  “(e) INFLATION ADJUSTMENT.—The dollar amount  
15                  contained in subsection (a) shall be adjusted for inflation  
16                  beginning with calendar year 1997 in accordance with pro-  
17                  cedures of the section 24.

18                  **“SEC. 7. FAMILY LIVING ALLOWANCE.**

19                  “(a) AMOUNT OF ALLOWANCE.—The Family Living  
20                  Allowance for a taxpayer shall be determined in accord-  
21                  ance with the following schedule:

<b>“Form of Return:</b>	<b>Family Living Allowance:</b>
Taxpayers filing joint return .....	\$7,400.
Surviving spouse .....	\$7,400.
Head of household .....	\$5,400.
Individual who is not married or a head of household.	\$4,400.
Married filing separate return .....	\$3,700.

1       “(b) LIMITATION IN THE CASE OF CERTAIN DE-  
 2 PENDENTS.—In the case of an individual for whom an-  
 3 other taxpayer can claim an exemption under section 6,  
 4 the Family Living Allowance for such individual shall not  
 5 exceed the greater of \$650 or such individual’s earned in-  
 6 come (as defined in section 22(c)(2)).

7       “(c) ADJUSTMENTS FOR INFLATION.—The dollar  
 8 amounts contained in subsections (a) and (b) shall be ad-  
 9 justed for inflation beginning with calendar year 1997 in  
 10 accordance with the procedures of section 24.

11   **“SEC. 8. USA DEDUCTIONS.**

12       “In computing taxable income, an individual shall be  
 13 entitled to the following deductions:

14           “(1) The homeowner deduction described in  
 15 section 9.

16           “(2) The education deduction described in sec-  
 17 tion 10.

18           “(3) The philanthropic transfer deduction de-  
 19 scribed in section 11.

20   **“SEC. 9. HOMEOWNER DEDUCTION.**

21       “(a) IN GENERAL.—The homeowner deduction shall  
 22 equal the amount of interest paid by the taxpayer during  
 23 the taxable year on acquisition indebtedness with respect  
 24 to any qualified residence of the taxpayer.

25       “(b) DEFINITIONS.—



1           “(1) ACQUISITION INDEBTEDNESS.—‘Acquisi-  
 2           tion indebtedness’ means any indebtedness that is  
 3           secured by a qualified residence and that—

4                   “(A) was incurred in acquiring, construct-  
 5                   ing, or substantially improving the qualified res-  
 6                   idence, or

7                   “(B) was incurred to refinance any indebt-  
 8                   edness that is described in subparagraph (A) or  
 9                   this subparagraph (B) but only to the extent  
 10                  that the refinancing does not exceed the  
 11                  amount refinanced.

12          The aggregate amount treated as acquisition indebt-  
 13          edness shall not exceed \$1,000,000 (\$500,000 in the  
 14          case of a married individual filing separately).

15           “(2) QUALIFIED RESIDENCE.—‘Qualified resi-  
 16           dence’ means the principal residence of the taxpayer  
 17           and 1 other residence of the taxpayer that is des-  
 18           ignated by the taxpayer and which—

19                   “(A) is used by the taxpayer as a residence  
 20                   for more than 14 days during such year for  
 21                   which such unit is rented, and

22                   “(B) is not rented for more than 14 days  
 23                   during such year.

24           “(c) COOPERATIVE HOUSING CORPORATION TEN-  
 25          ANT.—Any indebtedness secured by stock held by a tax-

1 payer as a tenant-stockholder in a cooperative housing cor-  
 2 poration shall be treated as secured by the house or apart-  
 3 ment which the taxpayer is entitled to occupy as a tenant-  
 4 stockholder. If such stock cannot be used to secure indebt-  
 5 edness, the indebtedness will be treated as so secured if  
 6 the taxpayer establishes that such indebtedness was in-  
 7 curred to acquire stock.

8 **“SEC. 10. EDUCATION DEDUCTION.**

9       “(a) IN GENERAL.—The education deduction shall  
 10 equal the sum of the qualified educational expenses for  
 11 each eligible student.

12       “(b) QUALIFIED EDUCATION EXPENSES.—

13               “(1) IN GENERAL.—‘Qualified education ex-  
 14 penses’ means with respect to an eligible student the  
 15 lesser of—

16                       “(A) \$2,000, or

17                       “(B) the qualified higher education ex-  
 18 penses of the eligible student paid by the tax-  
 19 payer during the taxable year.

20               “(2) QUALIFIED HIGHER EDUCATION EX-  
 21 PENSES.—

22                       “(A) IN GENERAL.—‘Qualified higher edu-  
 23 cation expenses’ means tuition and fees re-  
 24 quired for the enrollment of an eligible student  
 25 at an eligible education institution. Such term

1 shall not include expenses with respect to any  
2 course or other education involving sports,  
3 games, or hobbies other than as part of a de-  
4 gree program.

5 “(B) ELIGIBLE EDUCATIONAL INSTITU-  
6 TION.—‘Eligible educational institution’  
7 means—

8 “(i) an institution described in section  
9 1201(a) or section 481(a)(1)(C) or (D) of  
10 the Higher Education Act of 1965 (as in  
11 effect on October 21, 1988),

12 “(ii) an area vocational education  
13 school as defined in section 521(3)(C) or  
14 (D) of the Carl D. Perkins Vocational  
15 Educational Act, and

16 “(iii) in the case of a student who has  
17 attained the age of 18 before the beginning  
18 of the taxable year, and not graduated  
19 from high school before the beginning of  
20 the taxable year, an accredited school pro-  
21 viding remedial education.

22 “(3) ELIGIBLE STUDENT.—‘Eligible student’  
23 means—

24 “(A) the taxpayer, but only if no other tax-  
25 payer treats the taxpayer as a dependent for

1           which an exemption is allowed in computing the  
2           dependency deduction under section 6,

3                 “(B) the taxpayer’s spouse if a joint return  
4           is filed, and

5                 “(C) any dependent of the taxpayer for  
6           whom the taxpayer is allowed an exemption in  
7           computing the dependency deduction under sec-  
8           tion 6.

9           “(c) LIMITATION.—The maximum education deduc-  
10          tion in a taxable year is \$8,000 (\$4,000 in the case of  
11          married individuals filing separate returns).

12          “(d) INFLATION ADJUSTMENTS.—The dollar  
13          amounts contained in subsections (b)(1)(A) and (c) shall  
14          be adjusted for inflation beginning with calendar year  
15          1997 in accordance with section 24.

16       **“SEC. 11. PHILANTHROPIC TRANSFER DEDUCTION.**

17          “(a) IN GENERAL.—The philanthropic transfer de-  
18          duction shall equal the amount of charitable contributions  
19          made by the taxpayer in the taxable year, subject to the  
20          limitations in subsection (b). A deduction shall be allow-  
21          able as a deduction only if verified under regulations pre-  
22          scribed by the Secretary.

23          “(b) LIMITATION ON AMOUNT.—

24                 “(1) GENERAL RULE.—A deduction for con-  
25          tributions to regular charities in any taxable year

1 shall be allowed only to the extent that such con-  
2 tributions do not exceed 50 percent of the taxpayer's  
3 adjusted gross income. Other charitable contribu-  
4 tions shall be allowed only to the extent that such  
5 contributions do not exceed the lesser of—

6 “(A) 30 percent of the taxpayer's adjusted  
7 gross income, or

8 “(B) the excess, if any, of 50 percent of  
9 the taxpayer's adjusted gross income over the  
10 amount of charitable contributions to regular  
11 charities.

12 “(2) CARRYOVER.—If the amount of charitable  
13 contributions made in a taxable year exceeds the  
14 amount which can be deducted in such year, the ex-  
15 cess shall be carried over for a period of up to 5  
16 years in accordance with rules to be prescribed by  
17 the Secretary.

18 “(3) REGULAR CHARITY.—For purposes of this  
19 subsection, ‘regular charity’ means an organization  
20 described in section 101, that is not a private foun-  
21 dation (other than a private operating foundation)  
22 (as such terms are defined in section 102).

23 “(c) CHARITABLE CONTRIBUTION.—‘Charitable con-  
24 tribution’ means a contribution or gift to or for the use

1 of a governmental or charitable recipient (as defined in  
2 section 101).

3 “(d) CONTRIBUTIONS OF SAVINGS ASSETS AND  
4 OTHER PROPERTY.—

5 “(1) GENERAL RULE.—In the case of a chari-  
6 table contribution of property, the amount of the  
7 contribution shall equal the lesser of the fair market  
8 value of the property or the taxpayer’s basis in the  
9 property.

10 “(2) FAIR MARKET VALUE DEDUCTIONS IN  
11 CERTAIN CASES.—Notwithstanding paragraph (1),  
12 in the case of a charitable contribution (other than  
13 a contribution to a private foundation that is not a  
14 private operating foundation) of—

15 “(A) real property,

16 “(B) tangible property if the use by the  
17 donee is related to its purpose or function con-  
18 stituting the basis for its exemption from the  
19 business tax or in the case of a governmental  
20 unit, to any governmental unit, and

21 “(C) stocks, bonds, or other savings assets  
22 acquired before 1996 and not subject to amorti-  
23 zation under section 12, the amount of the  
24 charitable contribution shall equal the fair mar-  
25 ket value of the property reduced by the

1 amount of gain that would not have been long-  
2 term capital gain (under principles of the Inter-  
3 nal Revenue Code of 1986) if the property had  
4 been sold by the taxpayer at its fair market  
5 value.

6 “(3) CONTRIBUTIONS OF STOCK FOR WHICH  
7 MARKET QUOTATIONS ARE READILY AVAILABLE.—

8 “(A) IN GENERAL.—In the case of con-  
9 tributions of qualified appreciated stock—

10 “(i) paragraph (2) shall apply without  
11 regard to whether the stock is contributed  
12 to a private foundation, and

13 “(ii) if the acquisition of the stock  
14 was treated as savings or the taxpayer’s  
15 basis in the stock was amortized under sec-  
16 tion 12, the amount of the charitable con-  
17 tribution shall equal the excess, if any, of  
18 the fair market value of the stock over the  
19 cost of the stock to the purchaser (or if re-  
20 ceived by gratuitous transfer, the acquirer  
21 of the stock).

22 “(B) QUALIFIED APPRECIATED STOCK.—  
23 ‘Qualified appreciated stock’ means any stock  
24 of a corporation for which (as of the date of the  
25 contribution) market quotations are readily

1           available on an established securities market,  
2           except that in the case of a donor to a private  
3           foundation, the term does not include stock to  
4           the extent that the amount so contributed,  
5           when increased by prior contributions by the  
6           donor of stock in the same corporation, exceeds  
7           10 percent in value of the outstanding stock of  
8           such corporation.

9           “(e) OTHER RULES.—The Secretary shall prescribe  
10          rules limiting the availability of the philanthropic transfer  
11          deduction in certain cases, including rules for—

12               “(1) contributions of property placed in trust,

13               “(2) contributions of partial interests in prop-  
14          erty,

15               “(3) contributions subject to liabilities that are  
16          assumed,

17               “(4) out-of-pocket expenditures on behalf of a  
18          charity to influence legislation,

19               “(5) substantiation of contributions in excess of  
20          \$250,

21               “(6) contributions designated for lobbying activ-  
22          ity,

23               “(7) amounts paid to maintain certain students  
24          as members of taxpayer’s household,

25               “(8) qualified conservation contributions, and



1           “(9) deductions for travel expenses on behalf of  
2           a charity where there is a significant element of per-  
3           sonal pleasure.

4   **“SEC. 12. TRANSITION BASIS DEDUCTION.**

5           “(a) IN GENERAL.—The transition basis deduction  
6   in any year is equal to the lesser of—

7           “(1) the taxpayer’s taxable income determined  
8           without the transition basis deduction, and

9           “(2) the transition carryover, if any, from the  
10          preceding year plus, in the case of a transition year,  
11          one-third of the transition basis.

12   If the amount determined under paragraph (2) exceeds  
13   the amount determined under paragraph (1), the excess  
14   will constitute the transition carryover to the following  
15   taxable year.

16          “(b) TRANSITION YEARS.—‘Transition years’ means  
17   1996, 1997, and 1998.

18          “(c) TRANSITION BASIS.—A taxpayer’s transition  
19   basis shall be—

20               “(1) zero, if the taxpayer’s aggregate basis in  
21               his qualified savings assets as of January 1, 1996,  
22               exceeds \$50,000 (\$25,000 in the case of married  
23               persons filing separately for 1996), or

24               “(2) the taxpayer’s aggregate basis in qualified  
25               savings assets as of January 1, 1996, if such basis

1 is \$50,000 (\$25,000 in the case of married persons  
2 filing separately for 1996) or less.

3 A married couple filing a joint return shall be considered  
4 a single taxpayer for purposes of this subsection.

5 “(d) QUALIFIED SAVINGS ASSETS.—‘Qualified sav-  
6 ings assets’ means savings assets as defined in section  
7 53(b), except—

8 “(1) a taxpayer may elect to exclude retirement  
9 accounts from qualified saving assets for purposes of  
10 application of this section, and

11 “(2) ‘qualified savings assets’ do not include the  
12 taxpayer’s ownership in any business entity to which  
13 he regularly provides services (other than publicly  
14 traded stock of any such entity).

15 “(e) EFFECT OF CLAIMING DEDUCTIONS.—If this  
16 section applies to a taxpayer, the taxpayer shall have no  
17 basis as of January 1, 1996, in the qualified savings assets  
18 whose bases are amortized pursuant to this section. The  
19 sale or disposition of a qualified savings asset after Janu-  
20 ary 1, 1996, shall have no effect on the taxpayer’s transi-  
21 tion basis deduction.

22 “(f) NEGATIVE BASIS.—In determining a taxpayer’s  
23 basis in qualified savings assets, negative basis determined  
24 under section 73 for interests in partnerships and propri-  
25 etorships shall be taken into account.

1       “(g) ELECTION TO FORGO APPLICATION OF DEDUC-  
 2 TION.—A taxpayer may elect to forgo application of this  
 3 section by not claiming a transition basis deduction for  
 4 1996.

5       **“SEC. 13. LIMITATION ON DEDUCTIONS.**

6       “(a) IN GENERAL.—A taxpayer’s deductions shall  
 7 not reduce the taxpayer’s taxable income below zero. Ex-  
 8 cept as provided in section 11(b) (relating to the limitation  
 9 on the philanthropic transfer deduction) and section 12(a)  
 10 (relating to transition basis), a taxpayer shall not be enti-  
 11 tled to carry over any unused deductions.

12       “(b) DEDUCTIONS.—For purposes of this section,  
 13 ‘deductions’ means—

- 14               “(1) the alimony and child support deductions,
- 15               “(2) the personal and dependency deduction,
- 16               “(3) the Family Living Allowance,
- 17               “(4) the USA deductions, and
- 18               “(5) the transition basis deduction.

19       **“SEC. 15. TAX RATES.**

20       “(a) MARRIED INDIVIDUALS FILING JOINT RETURNS  
 21 AND SURVIVING SPOUSES.—The tax schedule for every  
 22 married individual who files a joint return with a spouse  
 23 and for every surviving spouse (as defined in section  
 24 17(a)) is—

1           “(1) FOR TAXABLE YEARS BEGINNING IN  
2           1996.—

**“If taxable income is:**

Not over \$5,400 .....  
Between \$5,400, but not over  
\$24,000.  
Over \$24,000 .....

**The tax is:**

19% of taxable income.  
\$1,026, plus 27% of the excess over  
\$5,400.  
\$6,048, plus 40% of the excess over  
\$24,000.

3           “(2) FOR TAXABLE YEARS BEGINNING IN  
4           1997.—

**“If taxable income is:**

Not over \$5,400 .....  
Between \$5,400, but not over  
\$24,000.  
Over \$24,000 .....

**The tax is:**

15% of taxable income.  
\$810, plus 26% of the excess over  
\$5,400.  
\$5,646, plus 40% of the excess over  
\$24,000.

5           “(3) FOR TAXABLE YEARS BEGINNING IN  
6           1998.—

**“If taxable income is:**

Not over \$5,400 .....  
Between \$5,400, but not over  
\$24,000.  
Over \$24,000 .....

**The tax is:**

13% of taxable income.  
\$702, plus 25% of the excess over  
\$5,400.  
\$5,352, plus 40% of the excess over  
\$24,000.

7           “(4) FOR TAXABLE YEARS BEGINNING IN  
8           1999.—

**“If taxable income is:**

Not over \$5,400 .....  
Between \$5,400, but not over  
\$24,000.  
Over \$24,000 .....

**The tax is:**

10% of taxable income.  
\$540, plus 20% of the excess over  
\$5,400.  
\$4,260, plus 40% of the excess over  
\$24,000.

9           “(5) FOR TAXABLE YEARS BEGINNING AFTER  
10          1999.—

**“If taxable income is:**

Not over \$5,400 .....  
Between \$5,400, but not over  
\$24,000.  
Over \$24,000 .....

**The tax is:**

8% of taxable income.  
\$432, plus 19% of the excess over  
\$5,400.  
\$3,966, plus 40% of the excess over  
\$24,000.

1 “(b) HEADS OF HOUSEHOLDS.—The tax schedule for  
 2 every head of household (as defined in section 17(b)) is—

3 “(1) FOR TAXABLE YEARS BEGINNING IN  
 4 1996.—

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$4,750 .....	19% of taxable income.
Between \$4,750, but not over \$21,100.	\$902.50, plus 27% of the excess over \$4,750.
Over \$21,100 .....	\$5,317, plus 40% of the excess over \$21,100.

5 “(2) FOR TAXABLE YEARS BEGINNING IN  
 6 1997.—

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$4,750 .....	15% of taxable income.
Between \$4,750, but not over \$21,100.	\$712.50, plus 26% of the excess over \$4,750.
Over \$21,100 .....	\$4,963.50, plus 40% of the excess over \$21,100.

7 “(3) FOR TAXABLE YEARS BEGINNING IN  
 8 1998.—

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$4,750 .....	13% of taxable income.
Between \$4,750, but not over \$21,100.	\$617.50, plus 25% of the excess over \$4,750.
Over \$21,100 .....	\$4,705, plus 40% of the excess over \$21,100.

9 “(4) FOR TAXABLE YEARS BEGINNING IN  
 10 1999.—

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$4,750 .....	10% of taxable income.
Between \$4,750, but not over \$21,100.	\$475, plus 20% of the excess over \$4,750.
Over \$21,100 .....	\$3,745, plus 40% of the excess over \$21,100.

11 “(5) FOR TAXABLE YEARS BEGINNING AFTER  
 12 1999.—

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$4,750 .....	8% of taxable income.

**“If taxable income is:**

Between \$4,750, but not over  
\$21,100.  
Over \$21,100 .....

**The tax is:**

\$380, plus 19% of the excess over  
\$4,750.  
\$3,486.50, plus 40% of the excess  
over \$21,100.

1       “(c) UNMARRIED INDIVIDUALS.—The tax schedule  
2 for an unmarried individual who is not a head of a house-  
3 hold or a surviving spouse is—

4               “(1) FOR TAXABLE YEARS BEGINNING IN  
5 1996.—

**“If taxable income is:**

Not over \$3,200 .....  
Between \$3,200, but not over  
\$14,400.  
Over \$14,400 .....

**The tax is:**

19% of taxable income.  
\$608, plus 27% of the excess over  
\$3,200.  
\$3,632, plus 40% of the excess over  
\$14,400.

6               “(2) FOR TAXABLE YEARS BEGINNING IN  
7 1997.—

**“If taxable income is:**

Not over \$3,200 .....  
Between \$3,200, but not over  
\$14,400.  
Over \$14,400 .....

**The tax is:**

15% of taxable income.  
\$480, plus 26% of the excess over  
\$3,200.  
\$3,392, plus 40% of the excess over  
\$14,400.

8               “(3) FOR TAXABLE YEARS BEGINNING IN  
9 1998.—

**“If taxable income is:**

Not over \$3,200 .....  
Between \$3,200, but not over  
\$14,400.  
Over \$14,400 .....

**The tax is:**

13% of taxable income.  
\$416, plus 25% of the excess over  
\$3,200.  
\$3,216, plus 40% of the excess over  
\$14,400.

10               “(4) FOR TAXABLE YEARS BEGINNING IN  
11 1999.—

**“If taxable income is:**

Not over \$3,200 .....  
Between \$3,200, but not over  
\$14,400.

**The tax is:**

10% of taxable income.  
\$320, plus 20% of the excess over  
\$3,200.

**“If taxable income is:**

Over \$14,400 .....

**The tax is:**

\$2,560, plus 40% of the excess over \$14,400.

1 “(5) FOR TAXABLE YEARS BEGINNING AFTER  
2 1999.—

**“If taxable income is:**

Not over \$3,200 .....

Between \$3,200, but not over \$14,400.

Over \$14,400 .....

**The tax is:**

8% of taxable income.

\$256, plus 19% of the excess over \$3,200.

\$2,384, plus 40% of the excess over \$14,400.

3 “(d) MARRIED INDIVIDUALS FILING SEPARATE RE-  
4 TURNS.—The tax schedule for a married individual filing  
5 a separate return is—

6 “(1) FOR TAXABLE YEARS BEGINNING IN  
7 1996.—

**“If taxable income is:**

Not over \$2,700 .....

Between \$2,700, but not over \$12,000.

Over \$12,000 .....

**The tax is:**

19% of taxable income.

\$513, plus 27% of the excess over \$2,700.

\$3,024, plus 40% of the excess over \$12,000.

8 “(2) FOR TAXABLE YEARS BEGINNING IN  
9 1997.—

**“If taxable income is:**

Between \$2,700, but not over \$12,000.

Over \$12,000 .....

**The tax is:**

\$405, plus 26% of the excess over \$2,700.

\$2,823, plus 40% of the excess over \$12,000.

10 “(3) FOR TAXABLE YEARS BEGINNING IN  
11 1998.—

**“If taxable income is:**

Not over \$2,700 .....

Between \$2,700, but not over \$12,000.

Over \$12,000 .....

**The tax is:**

13% of taxable income.

\$351, plus 25% of the excess over \$2,700.

\$2,676, plus 40% of the excess over \$12,000.

1           “(4) FOR TAXABLE YEARS BEGINNING IN  
2           1999.—

**“If taxable income is:**

Not over \$2,700 .....  
Between \$2,700, but not over  
\$12,000.  
Over \$12,000 .....

**The tax is:**

10% of taxable income.  
\$270, plus 20% of the excess over  
\$2,700.  
\$2,130, plus 40% of the excess over  
\$12,000.

3           “(5) FOR TAXABLE YEARS BEGINNING AFTER  
4           1999.—

**“If taxable income is:**

Not over \$2,700 .....  
Between \$2,700, but not over  
\$12,000.  
Over \$12,000 .....

**The tax is:**

8% of taxable income.  
\$216, plus 19% of the excess over  
\$2,700.  
\$1,983, plus 40% of the excess over  
\$12,000.

5           “(e) ADJUSTMENTS FOR INFLATION.—For taxable  
6 years beginning on or after January 1, 1997, the tax  
7 schedules in subsections (a) through (d) shall be adjusted  
8 so that inflation will not result in tax increases in accord-  
9 ance with the procedures under section 24.

10          “(f) DEFINITIONS.—See section 17 for rules on filing  
11 status.

**12 “SEC. 16. KIDDIE TAX.**

13          “(a) GENERAL RULE.—If a child has a living parent  
14 and net unearned income and the child has not attained  
15 the age of 14 before the close of the taxable year—

16               “(1) the net unearned income of the child shall  
17 be included in the taxable income of the eligible par-  
18 ent for purposes of determining the parent’s tax li-  
19 ability, or



1           “(2) the tax calculated under the tax rate  
2           schedules for the child as a separate taxpayer shall  
3           not be less than the sum of—

4                   “(A) the tax which would have been deter-  
5                   mined under the rate schedule if the taxable in-  
6                   come of the child were reduced by the net un-  
7                   earned income of the child, plus

8                   “(B) such child’s share of the allocable pa-  
9                   rental tax.

10          “(b) CHILD’S SHARE OF ALLOCABLE PARENTAL  
11          TAX.—

12                   “(1) ALLOCABLE PARENTAL TAX.—‘Allocable  
13                   parental tax’ means the excess of—

14                           “(A) the tax that would have been deter-  
15                           mined under the rate schedules on the eligible  
16                           parent’s taxable income if such income included  
17                           the net unearned income of all of the eligible  
18                           parent’s children to which this section applies,  
19                           over

20                           “(B) the tax actually determined under the  
21                           rate schedules without regard to this section.

22                   “(2) CHILD’S SHARE.—A child’s share of the  
23                   allocable parental tax is equal to the amount that  
24                   bears the same ratio to the total allocable parental  
25                   tax as the child’s net unearned income bears to the

1 aggregate net unearned income of all children to  
 2 whom this section applies for whom the eligible par-  
 3 ent is the eligible parent.

4 “(c) ELIGIBLE PARENT.—‘Eligible parent’ means—

5 “(1) both parents of the child if the parents file  
 6 a joint return,

7 “(2) the surviving parent of a child if the child  
 8 has only 1 surviving parent,

9 “(3) the custodial parent if the child’s parents  
 10 are not married, or

11 “(4) the parent with the greater taxable income  
 12 if the parents are married and filing separate re-  
 13 turns.

14 “(d) NET UNEARNED INCOME.—‘Net unearned in-  
 15 come’ means the excess, if any, of—

16 “(1) the adjusted gross income of the child,  
 17 over

18 “(2) the sum of—

19 “(A) the earned income (as defined in sec-  
 20 tion 22(c)(2)) of the child, and

21 “(B) an amount equal to the Family Liv-  
 22 ing Allowance for a dependent child.

23 **“SEC. 17. RULES FOR FILING STATUS AND RATE TABLES.**

24 “(a) DEFINITION OF SURVIVING SPOUSE.—

1           “(1) IN GENERAL.—For purposes of section 15,  
2       ‘surviving spouse’ means an individual—

3           “(A) whose spouse died during either of  
4       his 2 taxable years immediately preceding the  
5       taxable year, and

6           “(B) who maintains as his home a house-  
7       hold which constitutes for the taxable year the  
8       principal place of abode (as a member of such  
9       household) of a dependent,

10           “(i) who (within the meaning of sec-  
11       tion 6) is a son, stepson, daughter, or step-  
12       daughter of the taxpayer, and

13           “(ii) who the taxpayer is entitled to  
14       treat as an exemption for purposes of com-  
15       puting the personal dependency deduction  
16       for the taxable year under section 6.

17       For purposes of this paragraph, an individual shall  
18       be considered as maintaining a household only if  
19       over half of the cost of maintaining the household  
20       during the taxable year is furnished by such individ-  
21       ual.

22           “(2) LIMITATIONS.—Notwithstanding para-  
23       graph (1), for purposes of section 15, an individual  
24       shall not be considered to be a surviving spouse—

1           “(A) if the individual has remarried at any  
2           time before the close of the taxable year, or

3           “(B) unless, for the individual’s taxable  
4           year during which his spouse died, a joint re-  
5           turn could have been made under the provisions  
6           of section 6013 (without regard to subsection  
7           (a)(3) thereof).

8           “(3) SPECIAL RULE WHERE DECEASED SPOUSE  
9           WAS IN MISSING STATUS.—If an individual was in a  
10          missing status (within the meaning of section  
11          6013(f)(3)) as a result of service in a combat zone  
12          and if such individual remains in such status until  
13          the date referred to in subparagraph (A) or (B),  
14          then, for purposes of paragraph (1)(A), the date on  
15          which such individual died shall be treated as the  
16          earlier of the date determined under subparagraph  
17          (A) or the date determined under subparagraph (B):

18               “(A) the date on which the determination  
19               is made under section 556 of title 37 of the  
20               United States Code or under section 5566 of  
21               title 5 of such Code (whichever is applicable)  
22               that such individual died while in such missing  
23               status, or

24               “(B) the date which is 2 years after the  
25               date designated under section 292 (relating to

1 exemption for combat zones) as the date of ter-  
2 mination of combatant activities in that zone.

3 “(b) DEFINITION OF HEAD OF HOUSEHOLD.—

4 “(1) IN GENERAL.—For purposes of this chap-  
5 ter, an individual shall be considered a head of a  
6 household if, and only if, such individual is not mar-  
7 ried at the close of his taxable year, is not a surviv-  
8 ing spouse (as defined in subsection (a)), and ei-  
9 ther—

10 “(A) maintains as his home a household  
11 which constitutes for more than one-half of  
12 such taxable year the principal place of abode,  
13 as a member of such household, of—

14 “(i) a son, stepson, daughter, or step-  
15 daughter of the taxpayer, or a descendant  
16 of a son or daughter of the taxpayer, but  
17 if such son, stepson, daughter, step-  
18 daughter, or descendant is married at the  
19 close of the taxpayer’s taxable year, only if  
20 the taxpayer is entitled to claim such per-  
21 son as an exemption for the taxable year  
22 for purposes of computing the dependency  
23 deduction under section 6 (or would be so  
24 entitled but for the release of a claim to  
25 such exemption by the custodial parent),

1           “(ii) any other person who is a de-  
2           pendent of the taxpayer, if the taxpayer is  
3           entitled to claim such person as an exemp-  
4           tion in determining the personal depend-  
5           ency deduction for the taxable year, or

6           “(B) maintains a household which con-  
7           stitutes for such taxable year the principal place  
8           of abode of the father or mother of the tax-  
9           payer, if the taxpayer is entitled to a personal  
10          dependency deduction for the taxable year for  
11          such father or mother.

12          For purposes of this paragraph, an individual shall  
13          be considered as maintaining a household only if  
14          over half of the cost of maintaining the household  
15          during the taxable year is furnished by such individ-  
16          ual.

17          “(2) DETERMINATION OF STATUS.—For pur-  
18          poses of this subsection—

19               “(A) a legally adopted child of a person  
20               shall be considered a child of such person by  
21               blood;

22               “(B) an individual who is legally separated  
23               from his spouse under a decree of divorce or of  
24               separate maintenance shall not be considered as  
25               married;

1           “(C) a taxpayer shall be considered as not  
2           married at the close of his taxable year if at  
3           any time during the taxable year his spouse is  
4           a nonresident alien; and

5           “(D) a taxpayer shall be considered as  
6           married at the close of his taxable year if his  
7           spouse (other than a spouse described in sub-  
8           paragraph (C)) died during the taxable year.

9           “(3) LIMITATIONS.—Notwithstanding para-  
10          graph (1), for purposes of this chapter, a taxpayer  
11          shall not be considered to be a head of a house-  
12          hold—

13               “(A) if at any time during the taxable year  
14               he is a nonresident alien; or

15               “(B) by reason of an individual who would  
16               not be a dependent for the taxable year but  
17               for—

18                       “(i) subparagraph (H) of section  
19                       6(c)(1) or

20                       “(ii) multiple support rules prescribed  
21                       by the Secretary.

22          “(c) CERTAIN MARRIED INDIVIDUALS LIVING  
23          APART.—For purposes of this part, an individual shall be  
24          treated as not married at the close of the taxable year

1 if such individual is so treated under the provisions of sec-  
 2 tion 7703(b).

3 “(d) NONRESIDENT ALIENS.—In the case of a non-  
 4 resident alien individual, the taxes imposed by section 1  
 5 shall not apply.

6 **“SEC. 20. USA TAX CREDITS.**

7 “(a) IN GENERAL.—The USA tax credits are and  
 8 shall be applied in the following order:

9 “(1) The foreign tax credit as prescribed by the  
 10 Secretary under rules similar to the rules of subpart  
 11 A of part III of subchapter N of chapter 1 of the  
 12 Internal Revenue Code of 1986, but only with re-  
 13 spect to foreign taxes on amounts that are included  
 14 in the gross income of the taxpayer.

15 “(2) The payroll tax credit under section 21.

16 “(3) The earned income tax credit under sec-  
 17 tion 22.

18 “(4) The taxes-paid tax credit under section 23.

19 “(b) REFUNDABLE CREDITS.—If a taxpayer’s USA  
 20 tax credits (other than the foreign tax credit) for a taxable  
 21 year exceed the taxpayer’s tax liability for the taxable year  
 22 (before application of the USA tax credits (other than the  
 23 foreign tax credit)), the taxpayer shall be entitled to a re-  
 24 fund for such excess. The taxpayer may elect in lieu of



1 a refund to apply such excess as a tax paid for the follow-  
 2 ing taxable year.

3 **“SEC. 21. PAYROLL TAX CREDIT.**

4 “(a) IN GENERAL.—A taxpayer shall be allowed a  
 5 payroll tax credit in an amount equal to the sum of—

6 “(1) the employee’s share of the basic FICA  
 7 tax,

8 “(2) the employee’s share of the basic Tier 1  
 9 railroad retirement tax, and

10 “(3) one-half of the basic SECA tax payable  
 11 with respect to the taxpayer’s compensation or earn-  
 12 ings during the taxable year.

13 “(b) DEFINITIONS.—

14 “(1) EMPLOYEE’S SHARE OF THE BASIC FICA  
 15 TAX.—‘Employee’s share of the basic FICA tax’  
 16 means the old-age, survivors and disability insurance  
 17 tax imposed by section 3101(a) and the portion of  
 18 the hospital insurance tax imposed by section  
 19 3101(b) that is attributable to the wage base on  
 20 which the section 3101(a) tax is imposed.

21 “(2) EMPLOYEE’S SHARE OF THE BASIC TIER 1  
 22 RAILROAD RETIREMENT TAX.—‘Employee’s share of  
 23 the basic Tier 1 railroad retirement tax’ means—

24 “(A) the portion of the tax imposed by sec-  
 25 tion 3201 with respect to compensation below

1 the applicable base (as defined in section  
2 3231(e)(2)); and

3 “(B) the portion of the tax imposed by sec-  
4 tion 3211(a)(1) on railroad employee represent-  
5 atives attributable to the tax imposed by section  
6 3101(a) and the portion of the hospital insur-  
7 ance tax imposed by section 3101(b) that is at-  
8 tributable to the wage base on which the section  
9 3101(a) tax is imposed.

10 “(3) BASIC SECA TAX.—‘Basic SECA tax’  
11 means the old-age, survivors and disability insurance  
12 tax imposed by section 1401(a) on self-employment  
13 income and the portion of the hospital insurance tax  
14 imposed by section 1401(b) on self-employment in-  
15 come that is attributable to the amount of self-em-  
16 ployment income (as determined under section  
17 1402(b)) on which the section 1401(a) tax is im-  
18 posed.

19 “(c) NO CREDIT FOR REFUNDABLE TAX.—No credit  
20 shall be allowed with respect to any FICA tax or railroad  
21 retirement tax for which a taxpayer is entitled to a refund  
22 because of overpayment of tax on the applicable wage  
23 base.

24 **“SEC. 22. EARNED INCOME TAX CREDIT.**

25 “(a) ALLOWANCE OF CREDIT.—

1           “(1) IN GENERAL.—In the case of an eligible  
 2           individual, there shall be allowed as a credit against  
 3           the tax imposed by this chapter for the taxable year  
 4           an amount equal to the credit percentage of so much  
 5           of the taxpayer’s earned income for the taxable year  
 6           as does not exceed the earned income amount.

7           “(2) LIMITATION.—The amount of the credit  
 8           allowable to a taxpayer under paragraph (1) for any  
 9           taxable year shall not exceed the excess (if any) of—

10                   “(A) the credit percentage of the earned  
 11                   income amount, over

12                   “(B) the phaseout percentage of so much  
 13                   of the adjusted gross income (or, if greater, the  
 14                   earned income) of the taxpayer for the taxable  
 15                   year as exceeds the phaseout amount.

16           “(b) PERCENTAGES AND AMOUNTS.—For purposes  
 17           of subsection (a)—

18                   “(1) CREDIT PERCENTAGES.—The credit per-  
 19                   centage shall be determined as follows:

**“In the case of an eligible in-   The credit percentage is:  
 individual with:**

1 qualifying child .....	34
2 or more qualifying children .....	40.

20           “(2) PHASEOUT PERCENTAGE.—In the case of  
 21           an eligible individual, the phaseout percentage is  
 22           equal to the difference between the highest marginal  
 23           tax rate and the second highest marginal tax rate

for such individual under the applicable subsection of section 15.

“(3) AMOUNTS.—

“(A) IN GENERAL.—Except as provided in subparagraphs (B) and (C), the earned income amount and the phaseout amount shall be determined as follows:

<b>“In the case of an unmarried eligible individual with:</b>	<b>The earned income amount is:</b>	<b>The phaseout amount is:</b>
1 qualifying child .....	\$8,641	\$9,000
2 or more qualifying children .....	\$8,175	\$9,000
<b>“In the case of a married eligible individual with:</b>	<b>The earned income amount is:</b>	<b>The phaseout amount is:</b>
1 qualifying child .....	\$10,726	\$11,000
2 or more qualifying children .....	\$10,000	\$10,831

“(B) INFLATION ADJUSTMENTS FOR EARNED INCOME AMOUNT.—

“(i) IN GENERAL.—In the case of any taxable year beginning after 1996, each earned income amount contained in subparagraph (A) shall be adjusted for inflation in accordance with section 24, except that the rounding rules of clause (ii) shall apply.

“(ii) ROUNDING.—If any earned income amount after being increased under section 24 is not a multiple of \$10, such

1 amount shall be rounded to the nearest  
2 multiple of \$10.

3 “(C) PHASEOUT AMOUNTS FOR TAXABLE  
4 YEARS BEGINNING AFTER 1996.—In the case of  
5 taxable years beginning after 1996, the phase-  
6 out amount with respect to any eligible individ-  
7 ual shall equal—

8 “(i) the sum of—

9 “(I) the dollar amount of the  
10 floor of the second tax bracket for  
11 such individual under the applicable  
12 subsection of section 15 for such year,

13 “(II) the Family Living Allow-  
14 ance for such individual for such year,  
15 and

16 “(III) the number of exemptions  
17 (not to exceed 4) allowed under sec-  
18 tion 6 for such individual for such  
19 year, reduced by

20 “(ii) the earned income amount multi-  
21 plied by the ratio of the credit percentage  
22 to the phaseout percentage for such indi-  
23 vidual for such year.

24 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-  
25 poses of this section—

1 “(1) ELIGIBLE INDIVIDUAL.—

2 “(A) IN GENERAL.—‘Eligible individual’  
3 means any individual who has a qualifying child  
4 for the taxable year.

5 “(B) QUALIFYING CHILD INELIGIBLE.—If  
6 an individual is the qualifying child of a tax-  
7 payer for any taxable year of such taxpayer be-  
8 ginning in a calendar year, such individual shall  
9 not be treated as an eligible individual for any  
10 taxable year of such individual beginning in  
11 such calendar year.

12 “(C) 2 OR MORE ELIGIBLE INDIVIDUALS.—  
13 If 2 or more individuals would (but for this  
14 subparagraph and after application of subpara-  
15 graph (B)) be treated as eligible individuals  
16 with respect to the same qualifying child for  
17 taxable years beginning in the same calendar  
18 year, only the individual with the highest ad-  
19 justed gross income for such taxable years shall  
20 be treated as an eligible individual with respect  
21 to such qualifying child. year, only the individ-  
22 ual with the highest adjusted gross income for  
23 such taxable years shall be treated as an eligible  
24 individual with respect to such qualifying child.

1           “(D) EXCEPTION FOR INDIVIDUAL CLAIM-  
2           ING PARTIAL EXCLUSION FOR LIVING  
3           ABROAD.—An individual who claims the partial  
4           exclusion from income for persons living abroad  
5           for the taxable year is an eligible individual for  
6           such taxable year.

7           “(E) LIMITATION ON ELIGIBILITY OF NON-  
8           RESIDENT ALIENS.—An individual who is a  
9           nonresident alien individual for any portion of  
10          the taxable year is not an eligible individual un-  
11          less such individual is treated for such taxable  
12          year as a resident of the United States for pur-  
13          poses of this chapter by reason of an election  
14          under subsection (g) or (h) of section 6013.

15          “(2) EARNED INCOME.—

16               “(A) The term ‘earned income’ means—

17                   “(i) wages, salaries, tips, and other  
18                   employee compensation, plus

19                   “(ii) the amount of the taxpayer’s net  
20                   earnings from self-employment for the tax-  
21                   able year (within the meaning of section  
22                   1402(a)), plus any credit received under  
23                   section 280 with respect to such self-em-  
24                   ployment income.

25               “(B) For purposes of subparagraph (A)—

1           “(i) the earned income of an individ-  
2           ual shall be computed without regard to  
3           any community property laws,

4           “(ii) no amount received as a pension  
5           or annuity shall be taken into account,

6           “(iii) no income of nonresident alien  
7           individuals not connected with United  
8           States business shall be taken into ac-  
9           count, and

10           “(iv) no amount received for services  
11           provided by an individual while the individ-  
12           ual is an inmate at a penal institution shall  
13           be taken into account.

14           “(3) QUALIFYING CHILD.—

15           “(A) IN GENERAL.—‘Qualifying child’  
16           means, with respect to any taxpayer for any  
17           taxable year, an individual—

18           “(i) who bears a relationship to the  
19           taxpayer described in subparagraph (B),

20           “(ii) except as provided in subpara-  
21           graph (B)(iii), who has the same principal  
22           place of abode as the taxpayer for more  
23           than one-half of such taxable year,

24           “(iii) who meets the age requirements  
25           of subparagraph (C), and



1 “(iv) with respect to whom the tax-  
2 payer meets the identification requirements  
3 of subparagraph (D).

4 “(B) RELATIONSHIP TEST.—

5 “(i) IN GENERAL.—An individual  
6 bears a relationship to the taxpayer de-  
7 scribed in this subparagraph if such indi-  
8 vidual is—

9 “(I) a son or daughter of the tax-  
10 payer, or a descendant of either,

11 “(II) a stepson or stepdaughter  
12 of the taxpayer, or

13 “(III) an eligible foster child of  
14 the taxpayer.

15 “(ii) MARRIED CHILDREN.—Clause (i)  
16 shall not apply to any individual who is  
17 married as of the close of the taxpayer’s  
18 taxable year unless the taxpayer is entitled  
19 to claim such individual as an exemption in  
20 computing the dependency deduction under  
21 section 6 for such taxable year.

22 “(iii) ELIGIBLE FOSTER CHILD.—For  
23 purposes of clause (i)(III), the term ‘eligi-  
24 ble foster child’ means an individual not  
25 described in clause (i) (I) or (II) who—

1           “(I) the taxpayer cares for as the  
2           taxpayer’s own child, and

3           “(II) has the same principal  
4           place of abode as the taxpayer for the  
5           taxpayer’s entire taxable year.

6           “(iv) ADOPTION.—For purposes of  
7           this subparagraph, a child who is legally  
8           adopted, or who is placed with the tax-  
9           payer by an authorized placement agency  
10          for adoption by the taxpayer, shall be  
11          treated as a child by blood.

12          “(C) AGE REQUIREMENTS.—An individual  
13          meets the requirements of this subparagraph if  
14          such individual—

15               “(i) has not attained the age of 19 as  
16               of the close of the calendar year in which  
17               the taxable year of the taxpayer begins,

18               “(ii) is a student who has not attained  
19               the age of 24 as of the close of such cal-  
20               endar year, or

21               “(iii) is permanently and totally dis-  
22               abled at any time during the taxable year.

23          “(D) IDENTIFICATION REQUIREMENTS.—

24               “(i) IN GENERAL.—The requirements  
25               of this subparagraph are met if the tax-

1 payer includes the name, age, and TIN of  
2 each qualifying child (without regard to  
3 this subparagraph) on the return of tax for  
4 the taxable year.

5 “(ii) OTHER METHODS.—The Sec-  
6 retary may prescribe other methods for  
7 providing the information described in  
8 clause (i).

9 “(E) ABODE MUST BE IN THE UNITED  
10 STATES.—The requirements of subparagraphs  
11 (A)(ii) and (B)(iii)(II) shall be met only if the  
12 principal place of abode is in the United States.

13 “(4) TREATMENT OF MILITARY PERSONNEL  
14 STATIONED OUTSIDE THE UNITED STATES.—For  
15 purposes of this subsection, the principal place of  
16 abode of a member of the Armed Forces of the Unit-  
17 ed States shall be treated as in the United States  
18 during any period during which such member is sta-  
19 tioned outside the United States while serving on ex-  
20 tended active duty with the Armed Forces of the  
21 United States.

22 “(d) MARRIED INDIVIDUALS.—In the case of an indi-  
23 vidual who is married (within the meaning of section  
24 7703), this section shall apply only if a joint return is filed  
25 for the taxable year under section 6013.

1       “(e) TAXABLE YEAR MUST BE FULL TAXABLE  
 2 YEAR.—Except in the case of a taxable year closed by rea-  
 3 son of the death of the taxpayer, no credit shall be allow-  
 4 able under this section in the case of a taxable year cover-  
 5 ing a period of less than 12 months.

6       “(f) AMOUNT OF CREDIT TO BE DETERMINED  
 7 UNDER TABLES.—

8               “(1) IN GENERAL.—The amount of the credit  
 9 allowed by this section shall be determined under ta-  
 10 bles prescribed by the Secretary.

11              “(2) REQUIREMENTS FOR TABLES.—The tables  
 12 prescribed under paragraph (1) shall reflect the pro-  
 13 visions of subsections (a) and (b) and shall have in-  
 14 come brackets of not greater than \$50 each—

15                   “(A) for earned income between \$0 and  
 16 the amount of earned income at which the cred-  
 17 it is phased out under subsection (b), and

18                   “(B) for adjusted gross income between  
 19 the dollar amount at which the phaseout begins  
 20 under subsection (b) and the amount of ad-  
 21 justed gross income at which the credit is  
 22 phased out under subsection (b).

23       “(g) COORDINATION WITH ADVANCE PAYMENTS OF  
 24 EARNED INCOME CREDIT.—

1           “(1) RECAPTURE OF EXCESS ADVANCE PAY-  
 2           MENTS.—If any payment is made to the individual  
 3           by an employer under section 3507 during any cal-  
 4           endar year, then the tax imposed by this chapter for  
 5           the individual’s last taxable year beginning in such  
 6           calendar year shall be increased by the aggregate  
 7           amount of such payments.

8           “(2) RECONCILIATION OF PAYMENTS AD-  
 9           VANCED AND CREDIT ALLOWED.—Any increase in  
 10          tax under paragraph (1) shall not be treated as tax  
 11          imposed by this chapter for purposes of determining  
 12          the amount of any credit (other than the credit al-  
 13          lowed by subsection (a)) allowable under this sub-  
 14          part.

15          “(h) COORDINATION WITH CERTAIN MEANS-TESTED  
 16          PROGRAMS.—For purposes of—

17               “(1) the United States Housing Act of 1937,

18               “(2) title V of the Housing Act of 1949,

19               “(3) section 101 of the Housing and Urban De-  
 20          velopment Act of 1965,

21               “(4) sections 221(d)(3), 235, and 236 of the  
 22          National Housing Act, and

23               “(5) the Food Stamp Act of 1977,

24          any refund made to an individual (or the spouse of an  
 25          individual) by reason of this section, and any payment

1 made to such individual (or such spouse) by an employer  
 2 under section 3507, shall not be treated as income (and  
 3 shall not be taken into account in determining resources  
 4 for the month of its receipt and the following month).

5 **“SEC. 23. TAXES-PAID TAX CREDIT.**

6 “The taxes-paid tax credit shall equal the sum of—

7 “(1) WAGE WITHHOLDING.—The amount with-  
 8 held as tax under chapter 24.

9 “(2) SPECIAL REFUNDS OF SOCIAL SECURITY  
 10 TAX WHEN WAGES EARNED FROM MORE THAN 1 EM-  
 11 PLOYER.—The amount allowable under section  
 12 6413(c) as a special refund of taxes imposed on  
 13 wages.

14 “(3) OVERPAYMENTS OF PRIOR-YEAR TAX.—  
 15 Any overpayment of a prior tax obligation that the  
 16 taxpayer or the Secretary applies to the tax for the  
 17 taxable year.

18 “(4) ESTIMATED TAXES.—Any estimated taxes  
 19 paid by the taxpayer with respect to the taxpayer’s  
 20 tax liability for the taxable year which are treated as  
 21 payment on account of income tax for purposes of  
 22 section 6315 (relating to estimated taxes).

23 **“SEC. 24. INDEXING FOR INFLATION.**

24 “(a) PUBLICATION OF TABLES AND NUMBERS.—Not  
 25 later than December 15 of 1996, and each subsequent cal-

1 endar year, the Secretary shall prescribe tables and dollar  
2 amounts which shall apply in the immediately following  
3 calendar year in lieu of the tables and dollar amounts that  
4 are required to be adjusted for inflation in accordance with  
5 this section.

6 “(b) METHOD OF ADJUSTMENT.—

7 “(1) IN GENERAL.—The dollar amounts which  
8 are required to be adjusted pursuant to this section  
9 for a calendar year shall be the dollar amounts as  
10 stated in this chapter multiplied by the cost of living  
11 adjustment for such calendar year, rounded as pro-  
12 vided in subsection (d).

13 “(2) TAX RATE TABLES.—In the case of a tax  
14 rate table, the dollar amounts to be adjusted in ac-  
15 cordance with paragraph (1) are the minimum and  
16 maximum dollar amounts for each rate bracket for  
17 which a tax is imposed. The amounts setting forth  
18 the bottom tax for each bracket shall be adjusted to  
19 the extent necessary to reflect the adjustments in  
20 the rate brackets.

21 “(c) COST-OF-LIVING ADJUSTMENT.—

22 “(1) IN GENERAL.—The cost-of-living adjust-  
23 ment for any calendar year is the percentage (if any)  
24 by which—

1           “(A) the CPI for the preceding calendar  
2           year, exceeds

3           “(B) the CPI for the calendar year 1995.

4           “(2) CPI FOR ANY CALENDAR YEAR.—For pur-  
5           poses of paragraph (1), the CPI for any calendar  
6           year is the average of the Consumer Price Index as  
7           of the close of the 12-month period ending on Au-  
8           gust 31 of such calendar year.

9           “(3) CONSUMER PRICE INDEX.—For purposes  
10          of paragraph (2), ‘Consumer Price Index’ means the  
11          last Consumer Price Index for all-urban consumers  
12          published by the Department of Labor. For pur-  
13          poses of the preceding sentence, the revision of the  
14          Consumer Price Index which is most consistent with  
15          the Consumer Price Index for calendar year 1995  
16          shall be used.

17          “(d) ROUNDING.—

18               “(1) IN GENERAL.—If any increase determined  
19               under subsection (b) is not a multiple of \$50, such  
20               increase shall be rounded to the next lowest multiple  
21               of \$50.

22               “(2) MULTIPLES OF \$25.—Paragraph (1) shall  
23               be applied by substituting ‘\$25’ for ‘\$50’ in the case  
24               of—



1                   “(A) amounts for married individuals filing  
2                   separately, and

3                   “(B) any other dollar amount that is to be  
4                   adjusted for inflation if that dollar amount is  
5                   less than \$1,000.

6   **“Subchapter B—Unlimited Savings Allowance**  
7                   **and Deferred Income Adjustment**

          “Sec. 50. Unlimited savings allowance.

          “Sec. 51. Deferred income.

          “Sec. 52. Basic computation rules.

          “Sec. 53. Additions to savings; savings assets.

          “Sec. 54. Withdrawals.

          “Sec. 55. Net nonexempt borrowing.

          “Sec. 56. Special rules.

          “Sec. 57. General basis account.

          “Sec. 58. Anti-abuse rules.

8   **“SEC. 50. UNLIMITED SAVINGS ALLOWANCE.**

9           “(a) EXPLANATION.—The Unlimited Savings Allow-  
10   ance reflects the amount of current-year gross income that  
11   is deferred because it has been placed in the national pool  
12   of savings. The Unlimited Savings Allowance is intended  
13   to reflect the amount of net new savings other than new  
14   savings attributable to borrowing or to tax-exempt inter-  
15   est.

16          “(b) AMOUNT.—The Unlimited Savings Allowance  
17   for a taxable year shall equal the deductible net savings  
18   determined in accordance with section 52(a).

19   **“SEC. 51. DEFERRED INCOME.**

20          “(a) EXPLANATION.—Deferred income is the amount  
21   of gross income that was previously deferred through the

1 Unlimited Savings Allowance and that is treated as with-  
 2 drawn from savings in the taxable year thereby terminat-  
 3 ing the deferral.

4 “(b) AMOUNT.—The amount of deferred income for  
 5 a taxable year is equal to the net includible withdrawal  
 6 income determined in accordance with section 52(b).

7 **“SEC. 52. BASIC COMPUTATION RULES.**

8 “(a) SAVINGS DEDUCTION.—

9 “(1) NET SAVINGS.—‘Net savings’ equals the  
 10 excess, if any, of—

11 “(A) additions to savings (as defined in  
 12 section 53) in the taxable year, over

13 “(B) taxable withdrawals from savings (as  
 14 defined in section 54) in the taxable year.

15 “(2) DEDUCTIBLE NET SAVINGS.—‘Deductible  
 16 net savings’ equals the excess, if any of—

17 “(A) net savings in the taxable year, over

18 “(B) the sum of the following ‘nontaxable  
 19 sources of funds’:

20 “(i) Net nonexempt borrowing in the  
 21 taxable year.

22 “(ii) Income received in the taxable  
 23 year which is exempt under section 91 (re-  
 24 lating to interest on tax-exempt bonds).

1                   “(iii) The basis of savings withdrawn  
2                   in the taxable year.

3           “(b) NET INCLUDIBLE WITHDRAWAL INCOME.—

4                   “(1) NET WITHDRAWAL.—‘Net withdrawal’  
5                   equals the excess, if any, of—

6                           “(A) taxable withdrawals from savings (as  
7                           defined in section 54) in the taxable year, over

8                           “(B) additions to savings (as defined in  
9                           section 53) in the taxable year.

10                   “(2) NET INCLUDIBLE WITHDRAWAL IN-  
11                   COME.—‘Net includible withdrawal income’ equals  
12                   the excess, if any, of—

13                           “(A) the net withdrawal in the taxable  
14                           year, over

15                           “(B) the balance in the taxpayer’s general  
16                           basis account.

17   **“SEC. 53. ADDITIONS TO SAVINGS; SAVINGS ASSETS.**

18           “(a) IN GENERAL.—‘Additions to savings’ means—

19                   “(1) the acquisition of savings assets,

20                   “(2) the amount determined to be the net addi-  
21                   tion to each savings, money market, checking, credit  
22                   union, brokerage, or other similar account during  
23                   the taxable year in accordance with section 56(a)(1),

24                   “(3) payments of premiums on life insurance  
25                   policies, and

1 “(4) contributions to retirement accounts.

2 “(b) SAVINGS ASSETS.—Savings assets include  
3 stocks, bonds, securities, certificates of deposits, invest-  
4 ments in partnerships and proprietorships, shares of mu-  
5 tual funds, life insurance policies, annuities, and other  
6 similar savings or investment assets.

7 “(c) CERTAIN ITEMS NOT CONSTITUTING SAVINGS  
8 ASSETS.—Savings assets do not include—

9 “(1) investments in land, whether made di-  
10 rectly, or through investments in business entities  
11 whose primary purpose is the investment in land,

12 “(2) cash on hand,

13 “(3) any collectible, such as—

14 “(A) any work of art,

15 “(B) any rug or antique,

16 “(C) any metal or gem,

17 “(D) stamps and coins,

18 “(E) any alcoholic beverage, and

19 “(F) any other tangible personal property  
20 specified by the Secretary, and

21 “(4) the investment in any business entity, the  
22 purpose of which is to hold collectibles for apprecia-  
23 tion.

24 “(d) PERSONAL USE PROPERTY.—See sections 75  
25 and 111 for special rules relating to personal-use property.

1 **“SEC. 54. WITHDRAWALS.**

2 “(a) WITHDRAWALS.—‘Withdrawals’ means—

3 “(1) the sale, exchange, or other disposition of  
4 a savings asset,

5 “(2) the net amount, if any, withdrawn from  
6 each savings, money market, checking, credit union,  
7 brokerage, or other similar account during the tax-  
8 able year as determined in accordance with section  
9 56(a)(1),

10 “(3) amounts paid to the taxpayer under life in-  
11 surance or annuity policies, and

12 “(4) amounts withdrawn from retirement ac-  
13 counts and amounts paid pursuant to defined con-  
14 tribution plans.

15 “(b) TAXABLE WITHDRAWALS.—‘Taxable withdraw-  
16 als’ means the portion of a withdrawal in excess of the  
17 basis of the savings withdrawn. See section 78 for rules  
18 relating to losses.

19 “(c) BASIS OF SAVINGS WITHDRAWN.—The basis of  
20 savings withdrawn shall take into account any basis that  
21 the taxpayer may have in an asset or account by reason  
22 of its acquisition prior to January 1, 1996, or its acquisi-  
23 tion by gift or inheritance. Under regulations prescribed  
24 by the Secretary, rules similar to the rules under section  
25 72 of the Internal Revenue Code of 1986 shall apply for  
26 purposes of determining the basis of assets withdrawn in

1 the case of payments under annuities, retirement plans,  
2 life insurance contracts, and any other arrangements for  
3 which the taxpayer acquired rights in part by payment of  
4 amounts that were included in income and not deducted  
5 when paid.

6 **“SEC. 55. NET NONEXEMPT BORROWING.**

7 “(a) NET NONEXEMPT BORROWING.—A taxpayer’s  
8 ‘net nonexempt borrowing’ for a taxable year equals the  
9 excess, if any, of—

10 “(1) the taxpayer’s nonexempt debt as of the  
11 end of the taxable year, over

12 “(2) the taxpayer’s nonexempt debt at the be-  
13 ginning of the taxable year.

14 “(b) NONEXEMPT DEBT.—‘Nonexempt debt’ means  
15 the principal amount of and accrued interest on any in-  
16 debtedness to the extent such indebtedness is not exempt  
17 indebtedness.

18 “(c) EXEMPT INDEBTEDNESS.—‘Exempt indebted-  
19 ness’ means the following:

20 “(1) MORTGAGE DEBT ON PRINCIPAL RESI-  
21 DENCE.—Any indebtedness with respect to the tax-  
22 payer’s principal residence the interest on which  
23 would be deductible under section 9, as applied with-  
24 out regard to the \$1,000,000 limitation contained  
25 therein.

1           “(2) DEBT TO ACQUIRE A CONSUMER DURA-  
 2           BLE.—So much of indebtedness directly related and  
 3           traceable to the acquisition of a consumer durable,  
 4           such as furniture, appliances, or a family auto-  
 5           mobile, that does not exceed \$25,000.

6           “(3) CHARGES FOR PURCHASES OF GOODS AND  
 7           SERVICES.—Amounts billed or to be billed to the  
 8           taxpayer for purchases of goods and services if such  
 9           amounts are paid within the billing cycle in which  
 10          such amounts are first billed.

11          “(4) \$10,000 OF OTHER DEBT.—Not more than  
 12          \$10,000 of indebtedness which is not exempt under  
 13          another paragraph of this subsection.

14   **“SEC. 56. SPECIAL RULES.**

15          “(a) SPECIAL RULES FOR BANK AND BROKERAGE  
 16          ACCOUNTS.—

17               “(1) IN GENERAL.—In the case of a brokerage  
 18          account or a bank account, for a taxable year—

19                       “(A) ‘Withdrawal’ mean the excess, if any,  
 20          of—

21                               “(i) Taxpayer withdrawals from the  
 22                               account during the taxable year, over

23                               “(ii) Taxpayer deposits to the account  
 24                               during the taxable year.

1           “(B) ‘Addition to savings’ means the ex-  
2           cess, if any, of—

3                   “(i) Taxpayer deposits to the account  
4                   during the taxable year, over

5                   “(ii) Taxpayer withdrawals from the  
6                   account during the taxable year.

7           “(C) Any earnings on assets in the account  
8           (including interest, dividends, and the proceeds  
9           from the sale of stock or other savings assets)  
10          that are credited to the account shall not be  
11          taken into account in determining gross income  
12          or additions to saving, except to the extent  
13          taken into account in subparagraph (A) or (B)  
14          because such earnings are withdrawn.

15          “(D) For purposes of this paragraph, if  
16          savings assets are transferred to a brokerage  
17          account, such assets shall not be treated as ‘de-  
18          posits’ to the accounts.

19          “(2) BASIS.—

20                 “(A) INITIAL BASIS.—A taxpayer’s initial  
21                 basis in a bank or brokerage account held on  
22                 January 1, 1996, shall be the sum of the basis  
23                 of the assets held in the account except—



1           “(i) assets whose basis is amortized  
2           pursuant to section 12 shall have no basis  
3           in such assets for these purposes, and

4           “(ii) a bank account shall have no  
5           basis if the taxpayer elects to treat the  
6           basis of his bank account as an addition to  
7           his general basis account in accordance  
8           with section 57(d).

9           “(B) ADDITIONS TO BASIS.—The basis in  
10          a bank account or brokerage account shall in-  
11          crease by the amount of—

12           “(i) interest on tax-exempt bonds  
13           credited to the account, and

14           “(ii) the transferor’s basis in any sav-  
15           ings assets transferred to a brokerage ac-  
16           count.

17           “(C) REDUCTIONS IN BASIS.—Basis in a  
18          bank account or brokerage account will be re-  
19          duced by the amount by which the withdrawal  
20          for the year (as determined under paragraph  
21          (1)) exceeds the taxable withdrawal for the year  
22          (as determined under paragraph (3)).

23           “(D) BASIS IN CLOSED ACCOUNT.—If a  
24          taxpayer closes a bank account or a brokerage  
25          account and the taxpayer has basis remaining

1           in the account after application of subpara-  
2           graph (C) for the year of withdrawal, the re-  
3           maining basis shall be added to the taxpayer's  
4           general basis account.

5           “(3) TAXABLE WITHDRAWALS.—The basis in  
6           an account shall be allocated to the last withdrawals  
7           from a bank account or brokerage account. Accord-  
8           ingly, if a taxpayer has a withdrawal (as defined in  
9           paragraph (1)) from a bank account or a brokerage  
10          account in a taxable year, the amount of such with-  
11          drawal that constitutes a taxable withdrawal equals  
12          the excess of—

13                 “(A) the amount of the withdrawal, over

14                 “(B) the amount by which the basis of the  
15                 account exceeds the value of the account as of  
16                 the end of taxable year.

17          “(4) DEFINITIONS.—For purposes of this sub-  
18          section—

19                 “(A) BANK ACCOUNT.—‘Bank account’  
20                 means a checking, savings, or money market  
21                 account with a bank, credit union, or other fi-  
22                 nancial institution.

23                 “(B) BROKERAGE ACCOUNT.—‘Brokerage  
24                 account’ means an account with a brokerage  
25                 firm which holds savings assets on behalf of the

1 taxpayer and reports transactions with respect  
2 to such assets in periodical reports to the tax-  
3 payer.

4 “(C) VALUE OF AN ACCOUNT.—

5 “(i) VALUE OF BANK ACCOUNT.—The  
6 value of a bank account is the cash held in  
7 the account as of the last day of the tax-  
8 able year.

9 “(ii) VALUE OF A BROKERAGE AC-  
10 COUNT.—The value of a brokerage account  
11 is the sum of the amount of cash in any  
12 cash account or account whose value is  
13 regularly denominated in dollar value, plus  
14 the cost of other savings assets held in the  
15 account.

16 “(iii) COST OF SAVINGS ASSET.—The  
17 cost of a savings asset held in a brokerage  
18 account—

19 “(I) on January 1, 1996, is the  
20 taxpayer’s basis in such asset if the  
21 basis is reported to the brokerage firm  
22 in accordance with regulations pre-  
23 scribed by the Secretary,

24 “(II) transferred to the broker-  
25 age account after January 1, 1996, is

1 the taxpayer's basis in the savings  
2 asset at the time of transfer,

3 “(III) acquired through the bro-  
4 kerage account, is the cost of such  
5 asset (less commissions), and

6 “(IV) in all other cases, the fair  
7 market value of the asset as deter-  
8 mined by the brokerage firm.

9 “(D) WITHDRAWALS FROM AN AC-  
10 COUNT.—Withdrawals from an account include  
11 service charges, brokerage commissions, and  
12 other fees charged to the account.

13 “(5) PROVISIONS NOT APPLICABLE TO SOME  
14 ACCOUNTS.—The provisions of this subsection shall  
15 not apply to a bank account or a brokerage ac-  
16 count—

17 “(A) if a taxpayer elects in accordance  
18 with regulations prescribed by the Secretary not  
19 to have the provisions apply, or

20 “(B) the bank, brokerage firm, or other fi-  
21 nancial institution with which the account is  
22 held fails to provide annual reports to the tax-  
23 payer in sufficient detail for the taxpayer to  
24 make the determinations required by this sub-  
25 section.

1       “(b) ROLLOVER OF BASIS IN CERTAIN CASES.—If a  
2 taxpayer sells a savings asset in which it has a basis and  
3 within 2 weeks of the sale acquires 1 or more savings as-  
4 sets, the taxpayer may elect to—

5           “(1) roll over its basis from the asset sold to  
6 the asset purchased,

7           “(2) not treat so much of the proceeds of the  
8 sale of the savings asset as equals the cost of new  
9 savings assets as a withdrawal, and

10          “(3) not treat so much of the cost of the new  
11 savings asset as equals the proceeds of the sale of  
12 the old savings asset as new savings.

13 Such election shall be made on the tax return for the tax-  
14 able year of the sale of the old asset.

15       “(c) RULES FOR GRATUITOUS TRANSFERS.—

16           “(1) NO WITHDRAWAL FOR DONOR.—If a donor  
17 transfers a savings asset other than cash (or a bank  
18 account or other similar account with a balance de-  
19 nominated in cash) to a donee, whether during the  
20 donor’s life or by reason of the donor’s death, the  
21 donor shall not be treated as withdrawing the  
22 amount so transferred.

23           “(2) ANTI-ABUSE RULE.—Under regulations to  
24 be prescribed by the Secretary, paragraph (1) shall  
25 not apply to any inter vivos transfer if the transfer

1 is made primarily to effect a transfer of tax liability  
2 to a taxpayer in a lower tax bracket. The Secretary  
3 may presume that a transfer was made primarily to  
4 effect a transfer of tax liability if the savings asset  
5 (or any savings asset acquired with the proceeds of  
6 such asset) is sold, disposed of, or withdrawn within  
7 the 3-year period following the transfer and the pro-  
8 ceeds are used to pay expenses that the transferor  
9 is likely to have paid but for the transfer.

10 “(3) TRANSFER OF CASH OR BANK ACCOUNT.—

11 If a donor transfers cash (or a bank account or  
12 other similar account with a balance denominated in  
13 cash) to a donee, the donor will be treated as having  
14 withdrawn the amount so transferred. The donee  
15 will be treated as making an addition to savings to  
16 the extent that the donee makes an addition to sav-  
17 ings with cash or maintains the account so trans-  
18 ferred.

19 **“SEC. 57. GENERAL BASIS ACCOUNT.**

20 “(a) EXPLANATION.—The general basis account is  
21 intended to allow the taxpayer to withdraw from savings  
22 an amount of savings equal to the amount which had pre-  
23 viously been included in income because the amount was  
24 saved before the Unlimited Savings Allowance became ap-  
25 plicable or because no savings deduction was allowed be-

1 cause the savings was treated as made with borrowed  
2 funds, tax-exempt income, or from withdrawals of pre-  
3 viously taxed savings.

4 “(b) IN GENERAL.—Each taxpayer shall have a gen-  
5 eral basis account, which shall start with a balance of zero,  
6 which balance shall—

7 “(1) in the case of a taxpayer with net savings  
8 in a taxable year, be increased as of the end of the  
9 taxable year by the lesser of—

10 “(A) the taxpayer’s net savings for the tax-  
11 able year; or

12 “(B) nontaxable sources of funds (as de-  
13 fined in section 52(a)(2)(B)),

14 “(2) in the case of a taxpayer with net with-  
15 drawals for the taxable year, decreased as of the end  
16 of the taxable year, but not below zero, by the  
17 amount of net withdrawals,

18 “(3) in the case of the sale of a savings asset  
19 by a taxpayer for an amount less than its basis, in-  
20 creased by the amount by which the basis exceeds  
21 the proceeds of the sale, and

22 “(4) be increased as provided in subsections (c)  
23 and (d).

1       “(c) SPECIAL RULES TO ENSURE BENEFIT OF SAV-  
2       INGS DEDUCTION UPON SALE OF PRINCIPAL RESI-  
3       DENCE.—

4               “(1) EXPLANATION.—If a taxpayer who is  
5       planning to retire or acquire a smaller principal resi-  
6       dence sells a principal residence in which the tax-  
7       payer has a significant basis and then saves most of  
8       the proceeds of the sale, the taxpayer may not have  
9       sufficient income in the year to fully absorb the sav-  
10      ings deduction attributable to the new savings. This  
11      provision allows the taxpayer to use the portion of  
12      the savings deduction that would otherwise not be  
13      used to reduce future deferred income.

14              “(2) RULE.—A taxpayer who sells his principal  
15      residence in a taxable year may increase his general  
16      basis account by the portion of the saved basis of  
17      the principal residence that the taxpayer determines  
18      that he cannot use in the taxable year. In his tax  
19      return for the year of the sale, the taxpayer shall  
20      elect what portion of the saved basis to treat as sav-  
21      ings in determining his Unlimited Savings Allowance  
22      and what portion to add to his general basis account  
23      as of the end of that year. Once a return is filed  
24      in which an election is made, the election shall be  
25      irrevocable for that taxable year (except if the



1 amount of saved basis is reduced by a subsequent  
2 purchase of a replacement principal residence).

3 “(3) SAVED BASIS.—The ‘saved basis’ from the  
4 sale of a taxpayer’s principal residence shall equal  
5 the least of—

6 “(A) the Unlimited Savings Allowance de-  
7 termined in accordance with section 50 (but  
8 without regard to this subsection) for the tax-  
9 able year of the sale of the taxpayer’s principal  
10 residence,

11 “(B) the net proceeds from the sale of the  
12 residence (including any proceeds applied to pay  
13 off indebtedness but excluding proceeds that  
14 were applied to pay transactional costs, such as  
15 brokerage fees and transfer taxes), or

16 “(C) the excess of the taxpayer’s basis in  
17 the principal residence over the taxpayer’s basis  
18 in any new principal residence to which the res-  
19 idence rollover rule of section 76 applies.

20 “(d) ELECTION TO INCREASE GENERAL BASIS AC-  
21 COUNT BY BANK ACCOUNT BALANCE.—A taxpayer may  
22 elect to increase his general basis account by the balance  
23 in his bank accounts as of January 1, 1996. Such election  
24 shall be made on the taxpayer’s return for the period cov-

1 ering such date. If the election is made, the taxpayer shall  
 2 have no basis in his bank accounts.

3 “(e) OTHER ADJUSTMENTS.—See section  
 4 56(a)(2)(D) (relating to bank accounts and brokerage ac-  
 5 counts that are terminated with basis) and section 78, re-  
 6 lating to losses.

7 **“SEC. 58. ANTI-ABUSE RULES.**

8 “(a) BORROWING TO GENERATE DEDUCTION.—

9 “(1) GENERAL RULE.—A taxpayer shall not be  
 10 permitted to treat as a savings asset (and the Sec-  
 11 retary shall have authority to deny such treatment  
 12 if claimed by the taxpayer) if such savings asset was  
 13 acquired with funds borrowed for the purpose of in-  
 14 creasing the taxpayer’s Unlimited Savings Allowance  
 15 or decreasing the taxpayer’s deferred income.

16 “(2) ORDERING.—Subsection (a) shall be ap-  
 17 plied after the net savings calculation in section 50  
 18 and shall apply only to the extent that that section  
 19 does not itself deny the taxpayer a benefit from the  
 20 borrowing.

21 “(3) EXEMPT BORROWING.—Subsection (a)  
 22 shall apply to any exempt borrowing to the extent  
 23 that the borrowing is directly traceable to the acqui-  
 24 sition of a savings asset or such borrowing is transi-  
 25 tory.

1       “(b) CONVERSION TO CASH.—Any cash in excess of  
 2 \$250 held by a taxpayer on January 1, 1996, shall be  
 3 treated as a savings asset. If such cash is used to acquire  
 4 a savings asset, it will be treated as withdrawn and then  
 5 used to acquire a savings asset, so that no net deduction  
 6 arises.

7       “(c) BORROWING IN LIEU OF WITHDRAWING.—If the  
 8 Secretary determines that because of the Unlimited Sav-  
 9 ings Allowance and deferred income rules, taxpayers are  
 10 borrowing against their savings to consume rather than  
 11 withdrawing their savings, the Secretary shall have au-  
 12 thority to prescribe rules that treat indebtedness that is  
 13 secured by interests in savings assets as amounts with-  
 14 drawn.

15       **“Subchapter C—Basis, Business Transactions**  
 16               **and Nonrecognition Transactions**

“Sec. 71. Effect of basis.

“Sec. 72. Basis.

“Sec. 73. Basis in business entities.

“Sec. 74. Gratuitous transfers.

“Sec. 75. Transactions involving business entities.

“Sec. 76. Rollover on residence sale.

“Sec. 77. Other nonrecognition transactions.

“Sec. 78. Losses.

17       **“SEC. 71. EFFECT OF BASIS.**

18       “(a) IN GENERAL.—The amount of gross income to  
 19 be recognized on the sale or exchange of property equals  
 20 the excess of—

21               “(1) the net proceeds from the sale, over

1           “(2) the taxpayer’s adjusted basis, if any, in the  
2       property.

3       “(b) NONRECOGNITION TRANSACTION.—Subsection  
4 (a) shall not apply to nonrecognition transactions de-  
5 scribed in this chapter.

6       “(c) SAVINGS ASSETS.—Subchapter B generally gov-  
7 erns the treatment of the basis of savings assets.

8       **“SEC. 72. BASIS.**

9       “(a) BASIS, SALE, OR EXCHANGE.—Except to the ex-  
10 tent inconsistent with provisions of this chapter, adjusted  
11 basis and the existence of a sale or exchange shall be de-  
12 termined in accordance with principles applicable under  
13 the Internal Revenue Code of 1986.

14       “(b) DEFINITION OF BASIS.—For purposes of this  
15 chapter, ‘basis’ means the adjusted basis of property. The  
16 adjusted basis of property is generally its cost, as adjusted  
17 for actions or transactions that increase or decrease the  
18 basis of property. Except as provided in section 12 (relat-  
19 ing to the 3-year amortization of basis in savings assets)  
20 and section 73 (relating to business entities and basis in  
21 business entities), the taxpayer’s adjusted basis on Janu-  
22 ary 1, 1996, in an asset acquired before that date, shall  
23 be its adjusted basis as of December 31, 1995, as deter-  
24 mined under the Internal Revenue Code of 1986.

1       “(c) EFFECT OF TREATING ASSET PURCHASE AS  
 2 SAVINGS.—If the purchase of a savings asset is treated  
 3 in whole or part as an addition to savings, the taxpayer  
 4 shall have no basis in the amount so treated.

5       **“SEC. 73. BASIS IN BUSINESS ENTITIES.**

6       “(a) PARTNERSHIP INTEREST.—

7               “(1) INITIAL BASIS IN OLD PARTNERSHIPS.—A  
 8 partner’s basis in a partnership interest as of Janu-  
 9 ary 1, 1996, equals—

10                   “(A) the partner’s basis in the partnership  
 11 as of the end of the taxable year ending on De-  
 12 cember 31, 1995, minus

13                   “(B) the amount of the partner’s share of  
 14 the indebtedness of the partnership taken into  
 15 account in determining such basis.

16               “(2) NEGATIVE BASIS.—If the amount deter-  
 17 mined under paragraph (1) is negative, the taxpayer  
 18 has a negative basis in the partnership and such  
 19 negative basis shall increase the gain on the sale or  
 20 disposition of the partnership interest (except to the  
 21 extent such negative basis is taken into account in  
 22 determining the transition basis deduction).

23               “(3) ADJUSTMENT TO BASIS.—

24                   “(A) IN GENERAL.—A partner shall have  
 25 no basis in a partnership formed on or after

1           January 1, 1996, and shall not adjust his basis  
 2           in any partnership interest after such date by  
 3           reason of any—

4                   “(i) contribution to the partnership,

5                   “(ii) distribution from the partner-  
 6                   ship, or

7                   “(iii) any change in the partner’s  
 8                   share of the partnership’s indebtedness.

9                   “(B) EXCEPTIONS.—A partner shall have  
 10           basis or an addition to basis resulting from—

11                   “(i) contributions of cash or land to a  
 12                   land company (as provided in section 114),  
 13                   or

14                   “(ii) a contribution of personal-use  
 15                   property to a partnership (as provided in  
 16                   section 111).

17                   “(4) PARTNERSHIP.—For purposes of this sub-  
 18           section, ‘partnership’ includes a corporation that was  
 19           treated as an S corporation under such Code.

20                   “(b) PROPRIETORSHIP.—

21                   “(1) OLD PROPRIETORSHIP.—A proprietor’s  
 22           basis in any business activity conducted before Janu-  
 23           ary 1, 1996, which is treated as a business activity  
 24           as of such date equals—

1           “(A) the proprietor’s adjusted basis in the  
2           assets of such business entity as of the end of  
3           the taxable year ending on December 31, 1995,  
4           minus

5           “(B) the balance of any indebtedness the  
6           interest on which the proprietor had treated as  
7           business interest under section 163(h)(2)(A) of  
8           the Internal Revenue Code of 1986.

9           “(2) NEGATIVE BASIS.—If the amount deter-  
10          mined under paragraph (1) is negative, the propri-  
11          etor has a negative basis in the proprietorship and  
12          such negative basis shall increase the gain on the  
13          sale or disposition of the entity (except to the extent  
14          such negative basis is taken into account in deter-  
15          mining the transition basis deduction).

16          “(3) ADJUSTMENT TO BASIS.—

17               “(A) IN GENERAL.—A taxpayer shall have  
18               no basis in a business entity (as defined in sec-  
19               tion 151) formed on or after January 1, 1996,  
20               and shall not adjust his basis in any such entity  
21               by reason of any—

22                       “(i) contribution to the business en-  
23                       tity, or

24                       “(ii) distribution from the business  
25                       entity.

1           “(B) EXCEPTIONS.—A proprietor shall  
2           have basis or an addition to basis resulting  
3           from—

4                   “(i) contributions of cash or land to a  
5                   land company (as provided in section 114),

6                   “(ii) a contribution of personal-use  
7                   property to a business entity (as provided  
8                   in section 111).

9           “(4) PROPRIETORSHIP.—‘Proprietorship’ in-  
10          cludes—

11                   “(A) any family business that is not a  
12                   partnership, and

13                   “(B) any business activity conducted by a  
14                   taxpayer other than as an employee if such ac-  
15                   tivity constitutes a business entity.

16          “(c) ANTI-AVOIDANCE RULE.—If partnership dis-  
17          tributions to an individual partner in its taxable year or  
18          taxable years ending in 1995 exceeds the partner’s dis-  
19          tributive share of income for such period, the amount of  
20          such excess distribution shall be treated as a cash distribu-  
21          tion to the partner on January 1, 1996, and shall not re-  
22          duce the partner’s basis in his partnership interest.

23       **“SEC. 74. GRATUITOUS TRANSFERS.**

24           “(a) IN GENERAL.—If after December 31, 1995, a  
25          taxpayer receives a savings asset or any other property



1 by gift, inheritance, or other gratuitous transfer, the tax-  
2 payer's basis in the property shall be the lesser of—

3           “(1) the fair market value of the property at  
4           the time of transfer, or

5           “(2) the transferee's basis in the property at  
6           the time of transfer.

7           “(b) PROOF REQUIRED.—A taxpayer's basis in a sav-  
8 ings asset received by gift, inheritance, or other gratuitous  
9 transfer shall be presumed to be zero unless the taxpayer  
10 can demonstrate to the satisfaction of the Secretary the  
11 basis claimed by the taxpayer.

12 **“SEC. 75. TRANSACTIONS INVOLVING BUSINESS ENTITIES.**

13           “(a) CASH CAPITAL CONTRIBUTIONS, BUSINESS IN-  
14 TERESTS ACQUIRED.—

15           “(1) A taxpayer shall have no basis by reason  
16 of cash contributed to the capital of a business on  
17 or after January 1, 1996, except as provided in sec-  
18 tion 114 (relating to land companies). A contribu-  
19 tion of property acquired for purposes of contribu-  
20 tion shall be treated as a contribution of cash equal  
21 to the amount of property contributed.

22           “(2) A taxpayer shall have no basis in stock or  
23 other interest in a business entity purchased on or  
24 after January 1, 1996, except as provided in section

1       77 (relating to certain exchanges) or in the case of  
2       an acquisition of a land company.

3       “(b) CONTRIBUTIONS OF PROPERTY.—

4               “(1) IN GENERAL.—If a taxpayer contributes  
5       personal-use property to a business entity the tax-  
6       payer’s basis in his interest in the entity will in-  
7       crease by the lesser of—

8               “(A) the fair market value of the property  
9       contributed, or

10              “(B) the basis of the property contributed.

11              “(2) PERSONAL-USE PROPERTY.—‘Personal-use  
12       property’ shall have the meaning given to it in sec-  
13       tion 111(c).

14              “(3) NO LOSS.—A taxpayer may not increase  
15       his general basis account by the amount of any ‘loss’  
16       attributable to basis obtained through the contribu-  
17       tion of personal-use property.

18       “(c) BASIS IN BUSINESS DIVISIONS.—In the case of  
19       a spinoff, split-off, or split-up of a business entity in which  
20       a taxpayer has basis, the taxpayer’s basis in the original  
21       business entity shall be allocated among the new and sur-  
22       viving entities in accordance with the relative fair market  
23       values of the taxpayer’s interests in those entities. If inter-  
24       ests in the entities are publicly traded, fair market values  
25       shall be based on public trading prices. In other cases,

1 the Secretary shall accept any reasonable allocation made  
2 by the taxpayer if the taxpayer notifies the Secretary of  
3 the allocation in an attachment to its tax return for the  
4 taxable year of the transaction.

5 “(d) DISTRIBUTIONS.—

6 “(1) IN GENERAL.—In the case of any distribu-  
7 tion of property by a business entity to a taxpayer,  
8 the taxpayer shall have a withdrawal equal to the  
9 amount of—

10 “(A) cash received, and

11 “(B) the fair market value of property re-  
12 ceived and not converted to business use.

13 “(2) SAVINGS ASSETS RECEIVED.—The tax-  
14 payer may not treat as an addition to savings any  
15 savings asset received from a business entity in a  
16 distribution or any business property received and  
17 contributed to another business entity.

18 “(3) EFFECT OF BASIS.—

19 “(A) DISTRIBUTIONS OTHER THAN IN  
20 COMPLETE LIQUIDATION.—Except as provided  
21 in paragraph (4), in the case of a dividend or  
22 other distribution (including any distribution  
23 that would be treated as a return of capital  
24 under general business law principles or the In-  
25 ternal Revenue Code of 1986) by a business en-

1           tity, a taxpayer's basis in such entity shall not  
2           be applied to any amounts or property received  
3           in the distribution.

4           “(B) COMPLETE LIQUIDATION.—In the  
5           case of a distribution in complete liquidation of  
6           a business entity, a taxpayer's basis in the en-  
7           tity shall be allocated among the cash, savings  
8           assets, and property received in the liquidation.  
9           Basis allocated to amounts treated as with-  
10          drawn shall be applied in determining the  
11          amount of the taxable withdrawal.

12          “(4) DISTRIBUTION OF PERSONAL-USE PROP-  
13          ERTY.—In the case of the distribution of personal-  
14          use property by a business entity to the taxpayer  
15          who contributed such property to the business entity  
16          on or after January 1, 1996, the taxpayer's basis in  
17          such property shall equal the lesser of the taxpayer's  
18          basis in the property at the time of contribution or  
19          the taxpayer's basis in the business entity. Upon the  
20          distribution, the taxpayer's basis in the business en-  
21          tity shall be reduced by the basis allocated to the  
22          distributed personal-use property.

23   **“SEC. 76. ROLLOVER ON RESIDENCE SALE.**

24          “(a) NONRECOGNITION OF GAIN.—If property (in  
25          this section called ‘old residence’) used by the taxpayer

1 as his principal residence is sold by him and, within a pe-  
2 riod beginning 2 years before the date of such sale and  
3 ending 2 years after such date, property (in this section  
4 called ‘new residence’) is purchased and used by the tax-  
5 payer as his principal residence, gain (if any) from such  
6 sale shall be recognized only to the extent that the tax-  
7 payer’s adjusted sales price (as defined in subsection (b))  
8 of the old residence exceeds the taxpayer’s cost of purchas-  
9 ing the new residence.

10 “(b) ADJUSTED SALES PRICE DEFINED.—

11 “(1) IN GENERAL.—For purposes of this sec-  
12 tion, the ‘adjusted sales price’ means the amount re-  
13 alized, reduced by the aggregate of the expenses for  
14 work performed on the old residence in order to as-  
15 sist in its sale.

16 “(2) LIMITATIONS.—The reduction provided in  
17 paragraph (1) applies only to expenses—

18 “(A) for work performed during the 90-day  
19 period ending on the day on which the contract  
20 to sell the old residence is entered into;

21 “(B) which are paid on or before the 30th  
22 day after the date of the sale of the old resi-  
23 dence; and

24 “(C) which are—

1           “(i) not allowable as deductions in  
2           computing taxable income, and

3           “(ii) not taken into account in com-  
4           puting the amount realized from the sale  
5           of the old residence.

6       “(c) RULES FOR APPLICATION OF SECTION.—For  
7       purposes of this section:

8           “(1) An exchange by the taxpayer of his resi-  
9           dence for other property shall be treated as a sale  
10          of such residence, and the acquisition of a residence  
11          on the exchange of property shall be treated as a  
12          purchase of such residence.

13          “(2) A residence any part of which was con-  
14          structed or reconstructed by the taxpayer shall be  
15          treated as purchased by the taxpayer. In determin-  
16          ing the taxpayer’s cost of purchasing a residence,  
17          there shall be included only so much of his cost as  
18          is attributable to the acquisition, construction, re-  
19          construction, and improvements made which are  
20          properly chargeable to capital account, during the  
21          period specified in subsection (a).

22          “(3) If a residence is purchased by the taxpayer  
23          before the date of his sale of the old residence, the  
24          purchased residence shall not be treated as his new

1 residence if sold or otherwise disposed of by him be-  
2 fore the date of the sale of the old residence.

3 “(4) If the taxpayer, during the period de-  
4 scribed in subsection (a), purchases more than 1 res-  
5 idence which is used by him as his principal resi-  
6 dence at some time within 2 years after the date of  
7 the sale of the old residence, only the last of such  
8 residences so used by him after the date of such sale  
9 shall constitute the new residence. If a principal res-  
10 idence is sold in a sale to which subsection (d)(2)  
11 applies within 2 years after the sale of the old resi-  
12 dence, for purposes of applying the preceding sen-  
13 tence with respect to the old residence, the principal  
14 residence so sold shall be treated as the last resi-  
15 dence used during such 2-year period.

16 “(d) LIMITATION.—

17 “(1) IN GENERAL.—Subsection (a) shall not  
18 apply with respect to the sale of the taxpayer’s resi-  
19 dence if within 2 years before the date of such sale  
20 the taxpayer sold at a gain other property used by  
21 him as his principal residence, and any part of such  
22 gain was not recognized by reason of subsection (a).

23 “(2) SUBSEQUENT SALE CONNECTED WITH  
24 COMMENCING WORK AT NEW PLACE.—Paragraph (1)  
25 shall not apply with respect to the sale of the tax-

1       payer's residence if such sale was in connection with  
2       the commencement of work by the taxpayer as an  
3       employee or as a self-employed individual at a new  
4       principal place of work.

5       “(e) BASIS OF NEW RESIDENCE.—Where the pur-  
6       chase of a new residence results, under subsection (a), in  
7       the nonrecognition of gain on the sale of an old residence,  
8       in determining the adjusted basis of the new residence as  
9       of any time following the sale of the old residence, the  
10      adjustments to basis shall include a reduction by an  
11      amount equal to the amount of the gain not so recognized  
12      on the sale of the old residence. For this purpose, the  
13      amount of the gain not so recognized on the sale of the  
14      old residence includes only so much of such gain as is not  
15      recognized by reason of the cost, up to such time, of pur-  
16      chasing the new residence.

17      “(f) TENANT-STOCKHOLDER IN A COOPERATIVE  
18      HOUSING CORPORATION.—For purposes of this chapter,  
19      references to property used by the taxpayer as his prin-  
20      cipal residence, and references to the residence of a tax-  
21      payer, shall include stock held by a tenant-stockholder in  
22      a cooperative housing corporation if—

23               “(1) in the case of stock sold, the house or  
24      apartment which the taxpayer was entitled to occupy



1 as such stockholder was used by him as his principal  
2 residence, and

3 “(2) in the case of stock purchased, the tax-  
4 payer used as his principal residence the house or  
5 apartment which he was entitled to occupy as such  
6 stockholder.

7 “(g) HUSBAND AND WIFE.—If the taxpayer and his  
8 spouse, in accordance with regulations which shall be pre-  
9 scribed by the Secretary pursuant to this subsection, con-  
10 sent to the application of paragraph (2) of this subsection,  
11 then—

12 “(1) for purposes of this section—

13 “(A) the taxpayer’s adjusted sales price of  
14 the old residence is the adjusted sales price (of  
15 the taxpayer, or of the taxpayer and his spouse)  
16 of the old residence, and

17 “(B) the taxpayer’s cost of purchasing the  
18 new residence is the cost (to the taxpayer, his  
19 spouse, or both) of purchasing the new resi-  
20 dence (whether held by the taxpayer, his  
21 spouse, or the taxpayer and his spouse); and

22 “(2) so much of the gain on the sale of the old  
23 residence as is not recognized solely by reason of  
24 this subsection, and so much of the adjustment  
25 under subsection (e) to the basis of the new resi-

1        dence as results solely from this subsection shall be  
2        allocated between the taxpayer and his spouse as  
3        provided in such regulations.

4    This subsection shall apply only if the old residence and  
5    the new residence are each used by the taxpayer and his  
6    spouse as their principal residence. In case the taxpayer  
7    and his spouse do not consent to the application of para-  
8    graph (2) of this subsection, then the recognition of gain  
9    on the sale of the old residence shall be determined under  
10   this section without regard to the rules provided in this  
11   subsection. For purposes of this subsection, except to the  
12   extent provided in regulations, in the case of an individual  
13   who dies after the date of the sale of the old residence  
14   and is married on the date of death, consent to the appli-  
15   cation of paragraph (2) by such individual's spouse and  
16   use of the new residence as the principal residence of such  
17   spouse shall be treated as consent and use by such individ-  
18   ual.

19        “(h) MEMBERS OF ARMED FORCES.—

20                “(1) IN GENERAL.—The running of any period  
21        of time specified in subsection (a) or (c) (other than  
22        the 2 years referred to in subsection (c)(4)) shall be  
23        suspended during any time that the taxpayer (or his  
24        spouse if the old residence and the new residence are  
25        each used by the taxpayer and his spouse as their

1 principal residence) serves on extended active duty  
2 with the Armed Forces of the United States after  
3 the date of the sale of the old residence, except that  
4 any such period of time as so suspended shall not  
5 extend beyond the date 4 years after the date of the  
6 sale of the old residence.

7 “(2) MEMBERS STATIONED OUTSIDE THE UNIT-  
8 ED STATES OR REQUIRED TO RESIDE IN GOVERN-  
9 MENT QUARTERS.—In the case of any taxpayer who,  
10 during any period of time the running of which is  
11 suspended by paragraph (1)—

12 “(A) is stationed outside of the United  
13 States, or

14 “(B) after returning from a tour of duty  
15 outside of the United States and pursuant to a  
16 determination by the Secretary of Defense that  
17 adequate off-base housing is not available at a  
18 remote base site, is required to reside in on-  
19 base Government quarters, any such period of  
20 time as so suspended shall not expire before the  
21 day which is 1 year after the last day described  
22 in subparagraph (A) or (B), as the case may  
23 be, except that any such period of time as so  
24 suspended shall not extend beyond the date

1           which is 8 years after the date of the sale of the  
2           old residence.

3           “(3) EXTENDED ACTIVE DUTY DEFINED.—For  
4           purposes of this subsection, ‘extended active duty’  
5           means any period of active duty pursuant to a call  
6           or order to such duty for a period in excess of 90  
7           days or for an indefinite period.

8           “(i) SPECIAL RULE FOR CONDEMNATION.—In the  
9           case of the seizure, requisition, or condemnation of a resi-  
10          dence, or the sale or exchange of a residence under threat  
11          or imminence thereof, the provisions of this section shall  
12          be applicable if the taxpayer so elects. If such election is  
13          made, such seizure, requisition, or condemnation shall be  
14          treated as the sale of the residence. Such election shall  
15          be made at such time and in such manner as the Secretary  
16          shall prescribe by regulations.

17          “(j) STATUTE OF LIMITATIONS.—If the taxpayer  
18          during a taxable year sells at a gain property used by him  
19          as his principal residence, then—

20                 “(1) the statutory period for the assessment of  
21                 any deficiency attributable to any part of such gain  
22                 shall not expire before the expiration of 3 years from  
23                 the date the Secretary is notified by the taxpayer (in  
24                 such manner as the Secretary may by regulations  
25                 prescribe) of—

1           “(A) the taxpayer’s cost of purchasing the  
2           new residence which the taxpayer claims results  
3           in nonrecognition of any part of such gain,

4           “(B) the taxpayer’s intention not to pur-  
5           chase a new residence within the period speci-  
6           fied in subsection (a), or

7           “(C) a failure to make such purchase with-  
8           in such period; and

9           “(2) such deficiency may be assessed before the  
10          expiration of such 3-year period notwithstanding the  
11          provisions of any other law or rule of law which  
12          would otherwise prevent such assessment.

13          “(k) INDIVIDUAL WHOSE TAX HOME IS OUTSIDE  
14          THE UNITED STATES.—The running of any period of time  
15          specified in subsection (a) or (c) (other than the 2 years  
16          referred to in subsection (c)(4)) shall be suspended during  
17          any time that the taxpayer (or his spouse if the old resi-  
18          dence and the new residence are each used by the taxpayer  
19          and his spouse as their principal residence) has a tax home  
20          outside the United States after the date of the sale of the  
21          old residence; except that any such period of time as so  
22          suspended shall not extend beyond the date 4 years after  
23          the date of the sale of the old residence.

1 **“SEC. 77. OTHER NONRECOGNITION TRANSACTIONS.**

2       “(a) INVOLUNTARY CONVERSIONS.—Under regula-  
3 tions prescribed by the Secretary, the involuntary conver-  
4 sion of property (other than savings assets) held by an  
5 individual shall not result in gross income to the individual  
6 to the extent that—

7               “(1) the individual receives property in ex-  
8 change for the involuntarily converted property, or

9               “(2) the individual receives cash and applies the  
10 cash to acquire substitute property (other than sav-  
11 ings assets) for the converted property.

12 To the extent that income is not recognized under this  
13 subsection, the taxpayer’s basis in the converted property  
14 shall carry over to the new property and any basis in ex-  
15 cess of the cost of new property shall be applied to reduce  
16 the amount of gross income recognized with respect to  
17 cash received in excess of the cost of new property. This  
18 subsection shall apply to proceeds from insurance proceeds  
19 described in section 4(b)(13) (relating to exclusions from  
20 income).

21       “(b) CERTAIN REACQUISITIONS OF REAL PROP-  
22 erty.—Under regulations prescribed by the Secretary,  
23 gross income shall not be recognized in the case of certain  
24 reacquisitions of real property. The regulations shall adopt  
25 principles similar to those under section 1038 of the Inter-  
26 nal Revenue Code of 1986.

1       “(c) TRANSFERS OF PROPERTY BETWEEN SPOUSES  
2 OR INCIDENT TO DIVORCE.—

3               “(1) GENERAL RULE.—Gross income shall not  
4 be recognized on the transfer of property from an  
5 individual to (or in trust for the benefit of)—

6                       “(A) a spouse, or

7                       “(B) a former spouse, but only if the  
8 transfer is incident to divorce.

9               “(2) TRANSFER TREATED AS A GIFT.—Any  
10 transfer described in paragraph (1) shall be treated  
11 as a gift.

12 **“SEC. 78. LOSSES.**

13       “(a) SAVINGS ASSETS.—If the basis of a savings  
14 asset sold or otherwise disposed of by a taxpayer exceeds  
15 the amount realized from such asset—

16               “(1) the taxpayer’s general basis account shall  
17 be increased by such excess as of the time of the  
18 sale or disposition in accordance with section  
19 57(b)(3); and

20               “(2) the taxpayer may not deduct the loss in  
21 computing taxable income (except to the extent it is  
22 taken into account as part of the general basis ac-  
23 count).

1       “(b) OTHER ASSETS.—No amount shall be deducted  
2 in determining gross income in the case of the sale or dis-  
3 position of an asset other than a savings asset.

4       “(c) DISPOSITION OF SAVINGS ASSET.—For pur-  
5 poses of this section, a savings asset that becomes totally  
6 worthless shall be treated as disposed of when it becomes  
7 totally worthless.

8       **“Subchapter D—Rules for Exclusions from**  
9                                   **Gross Income**

“Sec. 91. Interest on tax-exempt bonds.

“Sec. 92. Combat pay.

“Sec. 93. Qualified military benefits.

“Sec. 94. Qualified foster care payments.

“Sec. 95. Compensation for injuries or sickness.

“Sec. 96. Meals or lodging furnished for the convenience of the employer.

“Sec. 97. Certain fringe benefits.

10   **“SEC. 91. INTEREST ON TAX-EXEMPT BONDS.**

11       “(a) EXCLUSION.—Except as provided in subsection  
12 (b), gross income does not include interest on any State  
13 or local bond.

14       “(b) EXCEPTIONS.—Subsection (a) shall not apply  
15 to—

16               “(1) PRIVATE ACTIVITY BOND WHICH IS NOT A  
17       QUALIFIED BOND.—Any private activity bond which  
18       is not a qualified bond (within the meaning of para-  
19       graph (3) of subsection (c)).

20               “(2) ARBITRAGE BOND.—Any arbitrage bond.



1           “(3) BOND NOT IN REGISTERED FORM, ETC.—

2           Any bond unless such bond meets the applicable re-  
3           quirements set forth in regulations.

4           “(c) DEFINITIONS.—For purposes of this section—

5           “(1) STATE OR LOCAL BOND.—‘State or local  
6           bond’ means an obligation of a State or political  
7           subdivision thereof.

8           “(2) STATE.—‘State’ includes the District of  
9           Columbia and any possession of the United States.

10          “(3) QUALIFIED BOND.—‘Qualified bond’  
11          means any private activity bond if—

12               “(A) IN GENERAL.—Such bond is—

13                       “(i) an exempt facility bond,

14                       “(ii) a qualified mortgage bond,

15                       “(iii) a qualified veterans’ mortgage  
16                       bond,

17                       “(iv) a qualified small issue bond,

18                       “(v) a qualified student loan bond, or

19                       “(vi) a qualified 253(c)(3) bond.

20               “(B) VOLUME CAP.—Such bond is issued  
21               as part of an issue which meets the applicable  
22               volume cap requirements set forth in regula-  
23               tions.

1           “(C) OTHER REQUIREMENTS.—Such bond  
2           meets the applicable requirements set forth in  
3           regulations.

4           “(d) REGULATIONS.—

5           “(1) STATUTORY REGULATIONS.—The Sec-  
6           retary shall publish as regulations governing the ap-  
7           plication of this section the text of part IV of sub-  
8           chapter B of chapter 1 of the Internal Revenue Code  
9           of 1986 (sections 141 through 149) with only such  
10          changes as are required to conform cross references.

11          “(2) OTHER REGULATIONS.—The Secretary  
12          shall have the authority to promulgate such other  
13          regulations as he deems necessary or proper to im-  
14          plement this section, except that no such regulations  
15          shall conflict with the regulations mandated by para-  
16          graph (1) except as provided in this subtitle.

17   **“SEC. 92. COMBAT PAY.**

18          “(a) ENLISTED PERSONNEL.—Gross income does not  
19          include compensation received for active service as a mem-  
20          ber below the grade of commissioned officer in the Armed  
21          Forces of the United States for any month during any  
22          part of which such member—

23                  “(1) served in a combat zone, or

24                  “(2) was hospitalized as a result of wounds, dis-  
25          ease, or injury incurred while serving in a combat

1       zone; but this paragraph shall not apply for any  
2       month beginning more than 2 years after the date  
3       of the termination of combatant activities in such  
4       zone.

5       “(b) COMMISSIONED OFFICERS.—Gross income does  
6       not include so much of the compensation as does not ex-  
7       ceed \$500 received for active service as a commissioned  
8       officer in the Armed Forces of the United States for any  
9       month during any part of which such officer—

10               “(1) served in a combat zone, or

11               “(2) was hospitalized as a result of wounds, dis-  
12       ease, or injury incurred while serving in a combat  
13       zone; but this paragraph shall not apply for any  
14       month beginning more than 2 years after the date  
15       of the termination of combatant activities in such  
16       zone.

17       “(c) DEFINITIONS.—For purposes of this section—

18               “(1) ‘Commissioned officer’ does not include a  
19       commissioned warrant officer.

20               “(2) ‘Combat zone’ means any area which the  
21       President of the United States by Executive order  
22       designates, for purposes of this section or cor-  
23       responding provisions of prior income tax laws, an  
24       area in which Armed Forces of the United States

1 are or have (after June 24, 1950) engaged in com-  
2 bat.

3 “(3) Service is performed in a combat zone only  
4 if performed on or after the date designated by the  
5 President by Executive order as the date of the com-  
6 mencing of combatant activities in such zone, and on  
7 or before the date designated by the President by  
8 Executive order as the date of the termination of  
9 combatant activities in such zone; except that June  
10 25, 1950, shall be considered the date of the com-  
11 mencing of combatant activities in the combat zone  
12 designated in Executive Order No. 10195.

13 “(4) The term ‘compensation’ does not include  
14 pensions and retirement pay.

15 **“SEC. 93. QUALIFIED MILITARY BENEFIT.**

16 “(a) IN GENERAL.—Gross income does not include  
17 any qualified military benefit. ‘Qualified military benefit’  
18 means any allowance or in-kind benefit (other than per-  
19 sonal use of a vehicle) which—

20 “(1) is received by any member or former mem-  
21 ber of the uniformed service of the United States or  
22 any dependent of such member by reason of such  
23 member’s status or service as a member of such uni-  
24 formed services, and

1           “(2) was excludable from gross income on Sep-  
 2           tember 9, 1986, under any provision of law, regula-  
 3           tion, or administrative practice which was in effect  
 4           on such date (other than a provision of this title).

5           “(b) NO OTHER BENEFIT TO BE EXCLUDABLE AS  
 6           PROVIDED BY THIS TITLE.—Notwithstanding any other  
 7           provision of law, no benefit shall be treated as a qualified  
 8           military benefit unless such benefit—

9           “(1) is a benefit described in subsection (a), or

10           “(2) is excludable from gross income under this  
 11           title without regard to any provision of law which is  
 12           not contained in this title and which is not contained  
 13           in a revenue Act.

14           “(c) LIMITATIONS ON MODIFICATIONS.—

15           “(1) IN GENERAL.—Except as provided in para-  
 16           graph (2), no modification or adjustment of any  
 17           qualified military benefit after September 9, 1986,  
 18           shall be taken into account.

19           “(2) EXCEPTION FOR CERTAIN ADJUSTMENTS  
 20           TO CASH BENEFITS.—Paragraph (1) shall not apply  
 21           to any adjustment to any qualified military benefit  
 22           payable in cash which—

23           “(A) is pursuant to a provision of law or  
 24           regulation (as in effect on September 9, 1986),  
 25           and

1           “(B) is determined by reference to any  
2           fluctuation in cost, price, currency, or other  
3           similar index.

4   **“SEC. 94. QUALIFIED FOSTER CARE PAYMENTS.**

5           “(a) IN GENERAL.—Gross income does not include  
6   any qualified foster care payment.

7           “(b) QUALIFIED FOSTER CARE PAYMENT DE-  
8   FINED.—

9           “(1) IN GENERAL.—‘Qualified foster care pay-  
10   ment’ means any amount—

11           “(A) which is paid by a state or political  
12           subdivision thereof or by a placement agency  
13           which is described in section 253(c)(3) and ex-  
14           empt from tax under section 253(a), and

15           “(B) which is—

16           “(i) paid to the foster care provider  
17           for caring for a qualified foster individual  
18           in the foster care provider’s home, or

19           “(ii) a difficulty of care payment.

20           “(2) QUALIFIED FOSTER INDIVIDUAL.—‘Quali-  
21   fied foster individual’ means any individual who is  
22   living in a foster family home in which such individ-  
23   ual was placed by—

24           “(A) an agency of a State or a political  
25           subdivision thereof, or

1           “(B) in the case of an individual who has  
 2           not attained age 19, an organization which is li-  
 3           censed by a State (or political subdivision there-  
 4           of) as a placement agency and which is de-  
 5           scribed in section 253(c)(3) and exempt from  
 6           tax under section 253(a).

7           “(3) LIMITATION BASED ON NUMBER OF INDI-  
 8           VIDUALS OVER THE AGE OF 18.—In the case of any  
 9           foster home in which there is a qualified foster care  
 10          individual who has attained age 19, foster care pay-  
 11          ments (other than difficulty of care payments) for  
 12          any period to which such payments relate shall not  
 13          be excludable from gross income under subsection  
 14          (a) to the extent such payments are made for more  
 15          than 5 such qualified foster individuals.

16          “(c) DIFFICULTY OF CARE PAYMENTS.—For pur-  
 17          poses of this section—

18               “(1) DIFFICULTY OF CARE PAYMENTS.—‘Dif-  
 19               ficulty of care payments’ means payments to individ-  
 20               uals which are not described in subsection  
 21               (b)(1)(B)(i), and which—

22                       “(A) are compensation for providing the  
 23                       additional care of a qualified foster individual  
 24                       which is—

1           “(i) required by reason of a physical,  
 2           mental, or emotional handicap of such in-  
 3           dividual with respect to which the State  
 4           has determined that there is a need for ad-  
 5           ditional compensation, and

6           “(ii) provided in the home of the fos-  
 7           ter care provider, and

8           “(B) are designated by the payor as com-  
 9           pensation described in subparagraph (A).

10          “(2) LIMITATION BASED ON NUMBER OF INDI-  
 11          VIDUALS.—In the case of any foster home, difficulty  
 12          of care payments for any period to which such pay-  
 13          ments relate shall not be excludable from gross in-  
 14          come under subsection (a) to the extent such pay-  
 15          ments are made for more than—

16               “(A) 10 qualified foster individuals who  
 17               have not attained age 19, and

18               “(B) 5 qualified foster individuals not de-  
 19               scribed in subparagraph (A).

20       **“SEC. 95. COMPENSATION FOR INJURIES OR SICKNESS.**

21           “(a) IN GENERAL.—Gross income does not include—

22               “(1) amounts received under workers’ com-  
 23               pensation acts as compensation for personal injuries  
 24               or sickness;



1           “(2) the amount of any damages received  
2           (whether by suit or agreement and whether as lump  
3           sums or as periodic payments) on account of per-  
4           sonal injuries or sickness;

5           “(3) amounts received through accident or  
6           health insurance for personal injuries or sickness,  
7           other than amounts received by an employee to the  
8           extent such amounts—

9                   “(A) are attributable to contributions by  
10           the employer which were not includible in the  
11           gross income of the employee, or

12                   “(B) are paid by the employer;

13           “(4) amounts received as pension, annuity, or  
14           similar allowance for personal injuries or sickness re-  
15           sulting from active service in the armed forces of  
16           any country or in the Coast and Geodetic Survey or  
17           the Public Health Service, or as a disability annuity  
18           payable under the provisions of section 808 of the  
19           Foreign Service Act of 1980; and

20           “(5) amounts received by an individual as dis-  
21           ability income attributable to injuries incurred as a  
22           direct result of a violent attack which the Secretary  
23           of State determines to be a terrorist attack and  
24           which occurred while such individual was an em-

1        ployee of the United States engaged in the perform-  
2        ance of his official duties outside the United States.  
3        Paragraph (2) shall not apply to any punitive damages  
4        in connection with a case not involving physical injury or  
5        physical sickness.

6        “(b) TERMINATION OF APPLICATION OF SUBSECTION  
7        (a)(4) IN CERTAIN CASES.—

8                “(1) IN GENERAL.—Subsection (a)(4) shall not  
9        apply in the case of an individual who is not de-  
10       scribed in paragraph (2).

11               “(2) INDIVIDUALS TO WHOM SUBSECTION  
12       (a)(4) CONTINUES TO APPLY.—An individual is de-  
13       scribed in this paragraph if—

14                “(A) on or before September 24, 1975, he  
15       was entitled to receive any amount described in  
16       subsection (a)(4),

17                “(B) on September 24, 1975, he was a  
18       member of any organization (or reserve compo-  
19       nent thereof) referred to in subsection (a)(4) or  
20       under a binding written commitment to become  
21       such a member,

22                “(C) he receives an amount described in  
23       subsection (a)(4) by reason of a combat-related  
24       injury, or

1           “(D) on application therefore, he would be  
2           entitled to receive disability compensation from  
3           the Veterans’ Administration.

4           “(3) SPECIAL RULES FOR COMBAT-RELATED IN-  
5           JURIES.—For purposes of this subsection, the term  
6           ‘combat-related injury’ means personal injury or  
7           sickness—

8           “(A) which is incurred—

9                   “(i) as a direct result of armed con-  
10                  flict,

11                   “(ii) while engaged in extra hazardous  
12                  service, or

13                   “(iii) under conditions simulating war;  
14                  or

15           “(B) which is caused by an instrumentality  
16           of war.

17           In the case of an individual who is not described in  
18           subparagraph (A) or (B) of paragraph (2), except as  
19           provided in paragraph (4), the only amounts taken  
20           into account under subsection (a)(4) shall be the  
21           amounts which he receives by reason of a combat-  
22           related injury.

23           “(4) AMOUNT EXCLUDED TO BE NOT LESS  
24           THAN VETERANS’ DISABILITY COMPENSATION.—In  
25           the case of any individual described in paragraph

1 (2), the amounts excludable under subsection (a)(4)  
 2 for any period with respect to any individual shall  
 3 not be less than the maximum amount which such  
 4 individual, on application therefor, would be entitled  
 5 to receive as disability compensation from the Veter-  
 6 ans' Administration.

7 “(c) CROSS REFERENCES.—

8 “(1) For exclusion from employee's gross in-  
 9 come of amounts received under accident and health  
 10 plans, see section 4.

11 “(2) For exclusion of part of disability retire-  
 12 ment pay from the application of subsection (a)(4)  
 13 of this section, see section 1403 of title 10, United  
 14 States Code (relating to career compensation laws).

15 **“SEC. 96. MEALS OR LODGING FURNISHED FOR THE CON-**  
 16 **VENIENCE OF THE EMPLOYER.**

17 “(a) MEALS AND LODGING FURNISHED TO EM-  
 18 PLOYEE, HIS SPOUSE, AND HIS DEPENDENTS, PURSU-  
 19 ANT TO EMPLOYMENT.—There shall be excluded from  
 20 gross income of an employee the value of any meals or  
 21 lodging furnished to him, his spouse, or any of his depend-  
 22 ents by or on behalf of his employer for the convenience  
 23 of the employer, but only if—

24 “(1) in the case of meals, the meals are fur-  
 25 nished on the business premises of the employer, or

1           “(2) in the case of lodging, the employee is re-  
2           quired to accept such lodging on the business prem-  
3           ises of his employer as a condition of his employ-  
4           ment.

5           “(b) SPECIAL RULES.—For the purposes of sub-  
6           section (a)—

7           “(1) PROVISIONS OF EMPLOYMENT CONTRACT  
8           OR STATE STATUTE NOT TO BE DETERMINATIVE.—  
9           In determining whether meals or lodging are fur-  
10          nished for the convenience of the employer, the pro-  
11          visions of an employment contract or of a State stat-  
12          ute fixing terms of employment shall not be deter-  
13          minative of whether the meals or lodging are in-  
14          tended as compensation.

15          “(2) CERTAIN FACTORS NOT TAKEN INTO AC-  
16          COUNT WITH RESPECT TO MEALS.—In determining  
17          whether meals are furnished for the convenience of  
18          the employer, the fact that a charge is made for  
19          such meals, and the fact that the employee may ac-  
20          cept or decline such meals, shall not be taken into  
21          account.

22          “(3) CERTAIN FIXED CHARGES FOR MEALS.—

23                 “(A) IN GENERAL.—If—

1           “(i) an employee is required to pay on  
2           a periodic basis a fixed charge for his  
3           meals, and

4           “(ii) such meals are furnished by the  
5           employer for the convenience of the em-  
6           ployer,

7           there shall be excluded from the employee’s  
8           gross income an amount equal to such fixed  
9           charge.

10          “(B) APPLICATION OF SUBPARAGRAPH

11          (a).—Subparagraph (A) shall apply—

12               “(i) whether the employee pays the  
13               fixed charge out of his stated compensation  
14               or out of his own funds, and

15               “(ii) only if the employee is required  
16               to make the payment whether he accepts  
17               or declines the meals.

18          “(c) EMPLOYEES LIVING IN CERTAIN CAMPS.—

19               “(1) IN GENERAL.—In the case of an individual  
20               who is furnished lodging in a camp located in a for-  
21               eign country by or on behalf of his employer, such  
22               camp shall be considered to be part of the business  
23               premises of the employer.

24               “(2) CAMP.—For purposes of this section, a  
25               camp constitutes lodging which is—

1           “(A) provided by or on behalf of the em-  
 2           ployer for the convenience of the employer be-  
 3           cause the place at which such individual renders  
 4           services is in a remote area where satisfactory  
 5           housing is not available on the open market,

6           “(B) located, as near as practicable, in the  
 7           vicinity of the place at which such individual  
 8           renders services, and

9           “(C) furnished in a common area (or en-  
 10          clave) which is not available to the public and  
 11          which normally accommodates 10 or more em-  
 12          ployees.

13          “(d) LODGING FURNISHED BY CERTAIN EDU-  
 14          CATIONAL INSTITUTIONS TO EMPLOYEES.—

15          “(1) IN GENERAL.—In the case of an employee  
 16          of an educational institution, gross income shall not  
 17          include the value of qualified campus lodging fur-  
 18          nished to such employee during the taxable year.

19          “(2) EXCEPTION IN CASES OF INADEQUATE  
 20          RENT.—Paragraph (1) shall not apply to the extent  
 21          of the excess of—

22                 “(A) the lesser of—

23                         “(i) 5 percent of the appraised value  
 24                         of the qualified campus lodging, or

1           “(ii) the average of the rentals paid  
2           by individuals (other than employees or  
3           students of the educational institution)  
4           during such calendar year for lodging pro-  
5           vided by the educational institution which  
6           is comparable to the qualified campus lodg-  
7           ing provided to the employee, over

8           “(B) the rent paid by the employee for the  
9           qualified campus lodging during such calendar  
10          year.

11       The appraised value under subparagraph (A)(i) shall  
12       be determined as of the close of the calendar year  
13       in which the taxable year begins, or, in the case of  
14       a rental period not greater than 1 year, at any time  
15       during the calendar year in which such period be-  
16       gins.

17       “(3) QUALIFIED CAMPUS LODGING.—For pur-  
18       poses of this subsection, the term ‘qualified campus  
19       lodging’ means lodging to which subsection (a) does  
20       not apply and which is—

21           “(A) located on, or in the proximity of, a  
22           campus of the educational institution, and

23           “(B) furnished to the employee, his spouse,  
24           and any of his dependents by or on behalf of  
25           such institution for use as a residence.



1           “(4) EDUCATIONAL INSTITUTION.—For pur-  
 2           poses of this paragraph, the term ‘educational insti-  
 3           tution’ means an institution described in section  
 4           301(b)(1)(A)(ii).

5   **“SEC. 97. CERTAIN FRINGE BENEFITS.**

6           “(a) PURPOSE.—This section includes definitions and  
 7           rules applicable to the exclusion from gross income for cer-  
 8           tain fringe benefits.

9           “(b) NO-ADDITIONAL-COST SERVICE DEFINED.—  
 10          ‘No-additional-cost service’ means any service provided by  
 11          an employer to an employee for use by such employee if—

12               “(1) such service is offered for sale to cus-  
 13               tomers in the ordinary course of the line of business  
 14               of the employer in which the employee is performing  
 15               services, and

16               “(2) the employer incurs no substantial addi-  
 17               tional cost (including forgone revenue) in providing  
 18               such service to the employee (determined without re-  
 19               gard to any amount paid by the employee for such  
 20               service).

21          “(c) QUALIFIED EMPLOYEE DISCOUNT DEFINED.—

22               “(1) QUALIFIED EMPLOYEE DISCOUNT.—The  
 23               term ‘qualified employee discount’ means any em-  
 24               ployee discount with respect to qualified property or

1 services to the extent such discount does not ex-  
2 ceed—

3 “(A) in the case of property, the gross  
4 profit percentage of the price at which the prop-  
5 erty is being offered by the employer to cus-  
6 tomers, or

7 “(B) in the case of services, 20 percent of  
8 the price at which the services are being offered  
9 by the employer to customers.

10 “(2) GROSS PROFIT PERCENTAGE.—

11 “(A) IN GENERAL.—‘Gross profit percent-  
12 age’ means the percent which—

13 “(i) the excess of the aggregate sales  
14 price of property sold by the employer to  
15 customers over the aggregate cost of such  
16 property to the employer, is of

17 “(ii) the aggregate sales price of such  
18 property.

19 “(B) DETERMINATION OF GROSS PROFIT  
20 PERCENTAGE.—Gross profit percentage shall be  
21 determined on the basis of—

22 “(i) all property offered to customers  
23 in the ordinary course of the line of busi-  
24 ness of the employer in which the employee  
25 is performing services (or a reasonable

1 classification of property selected by the  
2 employer), and

3 “(ii) the employer’s experience during  
4 a representative period.

5 “(3) EMPLOYEE DISCOUNT DEFINED.—‘Em-  
6 ployee discount’ means the amount by which—

7 “(A) the price at which the property or  
8 services are provided by the employer to an em-  
9 ployee for use by such employee, is less than

10 “(B) the price at which such property or  
11 services are being offered by the employer to  
12 customers.

13 “(4) QUALIFIED PROPERTY OR SERVICES.—  
14 ‘Qualified property or services’ means any property  
15 (other than real property and other than personal  
16 property of a kind held for investment) or services  
17 which are offered for sale to customers in the ordi-  
18 nary course of the line of business of the employer  
19 in which the employee is performing services.

20 “(d) DE MINIMIS FRINGE DEFINED.—

21 “(1) IN GENERAL.—‘De minimis fringe’ means  
22 any property or service the value of which is (after  
23 taking into account the frequency with which similar  
24 fringes are provided by the employer to the employ-

1       er's employees) so small as to make accounting for  
2       it unreasonable or administratively impracticable.

3               “(2) TREATMENT OF CERTAIN EATING FACILI-  
4       TIES.— The operation by an employer of any eating  
5       facility for employees shall be treated as a de  
6       minimis fringe if—

7               “(A) such facility is located on or near the  
8       business premises of the employer, and

9               “(B) revenue derived from such facility  
10       normally equals or exceeds the direct operating  
11       costs of such facility.

12       The preceding sentence shall apply with respect to  
13       any highly compensated employee only if access to  
14       the facility is available on substantially the same  
15       terms to each member of a group of employees  
16       which is defined under a reasonable classification set  
17       up by the employer which does not discriminate in  
18       favor of highly compensated employees.

19               “(3) ON-PREMISES GYMS AND OTHER ATHLETIC  
20       FACILITIES.—

21               “(A) IN GENERAL.—De minimis fringe  
22       benefits include the provision of on-premises  
23       athletic facility by an employer to its employees.

24               “(B) ON-PREMISES ATHLETIC FACILITY.—

25       For purposes of this paragraph, ‘on-premises

1           athletic facility’ means any gym or other ath-  
2           letic facility—

3                   “(i) which is located on the premises  
4                   of the employer,

5                   “(ii) which is operated by the em-  
6                   ployer, and

7                   “(iii) substantially all the use of which  
8                   is by employees of the employer, their  
9                   spouses, and their dependent children.

10       “(e) CERTAIN EDUCATIONAL TRAINING BENE-  
11 FITS.—Amounts paid or expenses incurred by the em-  
12 ployer for education or training provided to the employee  
13 shall be excluded from gross income under section 4 if  
14 (and only if) such amounts or expenses are ordinary and  
15 necessary business expenses and are not for an advanced  
16 degree or to qualify an employee for a new line of work.

17       “(f) REGULATIONS.—The Secretary shall prescribe  
18 regulations under this section, including regulations that  
19 continue certain rules contained in section 132 to the In-  
20 ternal Revenue Code of 1986 related to the fringe benefits  
21 described in this section.

## 22   **“Subchapter E—Rules Relating to Deductions**

“Sec. 101. Charitable, etc. organizations.

“Sec. 102. Private foundations.

1 **“SEC. 101. CHARITABLE, ETC. ORGANIZATIONS.**

2       “(a) PURPOSE.—This section provides definitions for  
3 purposes of determining the philanthropic transfer deduc-  
4 tion and for other purposes of this chapter and chapter  
5 2.

6       “(b) REGULAR CHARITY.—

7           “(1) IN GENERAL.—

8               “(A) REGULAR CHARITY.—‘Regular char-  
9 ity’ means—

10                   “(i) a church or a convention or asso-  
11 ciation of churches,

12                   “(ii) an educational organization  
13 which normally maintains a regular faculty  
14 and curriculum and normally has a regu-  
15 larly enrolled body of pupils or students in  
16 attendance at the place where its edu-  
17 cational activities are regularly carried on,

18                   “(iii) an organization the principal  
19 purpose or functions of which are the pro-  
20 viding of medical or hospital care or medi-  
21 cal education or medical research, if the  
22 organization is a hospital, or if the organi-  
23 zation is a medical research organization  
24 directly engaged in the continuous active  
25 conduct of medical research in conjunction  
26 with a hospital,

1           “(iv) an organization which normally  
2           receives a substantial part of its support  
3           (exclusive of income received in the exer-  
4           cise or performance by such organization  
5           of its charitable, educational, or other pur-  
6           pose or function constituting the basis for  
7           its exemption under section 253(a)) from  
8           the United States or any State or political  
9           subdivision thereof or from direct or indi-  
10          rect contributions from the general public,  
11          and which is organized and operated exclu-  
12          sively to receive, hold, invest, and admin-  
13          ister property and to make expenditures to  
14          or for the benefit of a college or university  
15          which is an organization referred to in  
16          clause (ii) of this subparagraph and which  
17          is an agency or instrumentality of a State  
18          or political subdivision thereof, or which is  
19          owned or operated by a State or political  
20          subdivision thereof or by an agency or in-  
21          strumentality of 1 or more States or politi-  
22          cal subdivisions,

23          “(v) a governmental unit referred to  
24          in subsection (c)(1),

1           “(vi) an organization referred to in  
2           subsection (c)(2) which normally receives a  
3           substantial part of its support (exclusive of  
4           income received in the exercise or perform-  
5           ance by such organization of its charitable,  
6           educational, or other purpose or function  
7           constituting the basis for its exemption  
8           under section 53(a)) from a governmental  
9           unit referred to in subsection (c)(1) or  
10          from direct or indirect contributions from  
11          the general public,

12          “(vii) a private foundation described  
13          in subparagraph (C), or

14          “(viii) an organization described in  
15          section 302(a)(2) or (3).

16          “(B) SPECIAL RULE FOR MEDICAL RE-  
17          SEARCH ORGANIZATIONS.—For purposes of de-  
18          termining whether a contribution is to a regular  
19          charity, a medical research organization shall  
20          not be treated as described in clause (iii) of  
21          paragraph (2) unless during the calendar year  
22          in which the contribution is made such organi-  
23          zation is committed to spend such contributions  
24          for such research before January 1 of the 5th



1           calendar year which begins after the date such  
2           contribution is made,

3           “(C) CERTAIN PRIVATE FOUNDATIONS.—  
4           The private foundations referred to in subpara-  
5           graph (A)(vii) and subsection (e)(1)(B) are—

6                   “(i) a private operating foundation (as  
7                   defined in section 4942(j)(3)),

8                   “(ii) any other private foundation (as  
9                   defined in section 102(a)) which, not later  
10                  than the 15th day of the 3rd month after  
11                  the close of the foundation’s taxable year  
12                  in which contributions are received, makes  
13                  qualifying distributions (as defined in sec-  
14                  tion 4942(g), without regard to paragraph  
15                  (3) thereof), which are treated, after the  
16                  application of section 4942(g)(3), as dis-  
17                  tributions out of corpus (in accordance  
18                  with section 4942(h)) in an amount equal  
19                  to 100 percent of such contributions, and  
20                  with respect to which the taxpayer obtains  
21                  adequate records or other sufficient evi-  
22                  dence from the foundation showing that  
23                  the foundation made such qualifying dis-  
24                  tributions, and

1           “(iii) a private foundation all of the  
2           contributions to which are pooled in a com-  
3           mon fund and which would be described in  
4           section 102(a)(3) but for the right of any  
5           substantial contributor (hereafter in this  
6           clause called ‘donor’) or his spouse to des-  
7           ignate annually the recipients, from among  
8           organizations described in paragraph (1) of  
9           section 102(a), of the income attributable  
10          to the donor’s contribution to the fund and  
11          to direct (by deed or by will) the payment,  
12          to an organization described in such para-  
13          graph (1), of the corpus in the common  
14          fund attributable to the donor’s contribu-  
15          tion; but this clause shall apply only if all  
16          of the income of the common fund is re-  
17          quired to be (and is) distributed to 1 or  
18          more organizations described in such para-  
19          graph (1) not later than the 15th day of  
20          the 3rd month after the close of the tax-  
21          able year in which the income is realized  
22          by the fund and only if all of the corpus  
23          attributable to any donor’s contribution to  
24          the fund is required to be (and is) distrib-  
25          uted to 1 or more of such organizations

1 not later than 1 year after his death or  
2 after the death of his surviving spouse if  
3 she has the right to designate the recipi-  
4 ents of such corpus.

5 “(2) REFERENCES.—Any reference in other law  
6 or in legal documents to an organization described  
7 in a clause of section 170(b)(1)(A) of the Internal  
8 Revenue Code of 1986 shall constitute a reference to  
9 an organization described in the same clause of sec-  
10 tion 301(b)(1)(A).

11 “(c) CHARITY.—For purposes of determining the de-  
12 ductibility of a philanthropic transfer, ‘charitable contribu-  
13 tion’ means a contribution or gift for the use of—

14 “(1) a State, a possession of the United States,  
15 or any political subdivision of any of the foregoing,  
16 or the United States or the District of Columbia,  
17 but only if the contribution or gift is made for exclu-  
18 sively public purposes,

19 “(2) a corporation, trust, or community chest,  
20 fund, or foundation—

21 “(A) created or organized in the United  
22 States or in any possession thereof, or under  
23 the law of the United States, any State, the  
24 District of Columbia, or any possession of the  
25 United States,

1           “(B) organized and operated exclusively  
2           for religious, charitable, scientific, literary, or  
3           educational purposes (but only if no part of its  
4           activities involve the provision of athletic facili-  
5           ties or equipment) or for the prevention of cru-  
6           elty to children or animals,

7           “(C) no part of the net earnings of which  
8           inures to the benefit of any private shareholder  
9           or individual, and

10           “(D) which qualifies for exemption from  
11           the business tax under section 253(c) and is not  
12           disqualified for tax exemption by reason of at-  
13           tempting to influence legislation, and which  
14           does not participate in, or intervene in (includ-  
15           ing the publishing or distributing of state-  
16           ments), any political campaign on behalf of (or  
17           in opposition to) any candidate for public office,

18           “(3) in the case of a contribution or gift by an  
19           individual, a domestic fraternal society, order, or as-  
20           sociation, operating under the lodge system, but only  
21           if such contribution or gift is to be used exclusively  
22           for religious, charitable, scientific, literary, or edu-  
23           cational purposes, or for the prevention of cruelty to  
24           children or animals,

1           “(4) a cemetery company owned and operated  
2 exclusively for the benefit of its members, or any  
3 corporation chartered solely for burial purposes as a  
4 cemetery corporation and not permitted by its char-  
5 ter to engage in any business not necessarily inci-  
6 dent to that purpose, if such company or corporation  
7 is not operated for profit and no part of the net  
8 earnings of such company or corporation inures to  
9 the benefit of any private shareholder or individual.

10       “(d) RULES FOR SUBSECTION (c).—

11           “(1) LIMITATIONS.—A contribution or gift by a  
12 corporation to a trust, chest, fund, or foundation  
13 shall be deductible by reason of subsection (c)(2)(B)  
14 only if it is to be used within the United States or  
15 any of its possessions exclusively for purposes speci-  
16 fied in subparagraph (B).

17           “(2) REFERENCES.—Any reference in other law  
18 or in legal documents to an organization described  
19 in a paragraph of section 170(c) of the Internal Rev-  
20 enue Code of 1986 shall constitute a reference to an  
21 organization described in the corresponding para-  
22 graph of section 101(c) if an organization is de-  
23 scribed in a paragraph of section 101(c).

24       “(e) QUALIFIED CONSERVATION CONTRIBUTION.—

1           “(1) IN GENERAL.—‘Qualified conservation con-  
2       tribution’ means a contribution—

3                   “(A) of a qualified real property interest,

4                   “(B) to a qualified organization,

5                   “(C) exclusively for conservation purposes.

6           “(2) QUALIFIED REAL PROPERTY INTEREST.—

7       ‘Qualified real property interest’ means any of the  
8       following interests in real property:

9                   “(A) the entire interest of the donor other  
10       than a qualified mineral interest,

11                   “(B) a remainder interest, and

12                   “(C) a restriction (granted in perpetuity)  
13       on the use which may be made of the real prop-  
14       erty.

15       “(3) QUALIFIED ORGANIZATION.—For purposes  
16       of paragraph (1), the term ‘qualified organization’  
17       means an organization which—

18                   “(A) is described in clause (v) or (vi) of  
19       subsection (b)(1)(A), or

20                   “(B) is described in section 53(c)(3) and—

21                           “(i) meets the requirements of section  
22       102(a)(2), or

23                           “(ii) meets the requirements of sec-  
24       tion 102(a)(3) and is controlled by an or-

1           ganization described in subparagraph (A)  
2           or in clause (i) of this subparagraph.

3           “(4) CONSERVATION PURPOSE DEFINED.—

4           “(A) IN GENERAL.—For purposes of this  
5           subsection, the term ‘conservation purpose’  
6           means—

7                   “(i) the preservation of land areas for  
8                   outdoor recreation by, or the education of,  
9                   the general public,

10                   “(ii) the protection of a relatively nat-  
11                   ural habitat of fish, wildlife, or plants, or  
12                   similar ecosystem,

13                   “(iii) the preservation of open space  
14                   (including farmland and forest land) where  
15                   such preservation is—

16                           “(I) for the scenic enjoyment of  
17                           the general public, or

18                           “(II) pursuant to a clearly delin-  
19                           eated Federal, State, or local govern-  
20                           mental conservation policy, and will  
21                           yield a significant public benefit, or

22                           “(iv) the preservation of an histori-  
23                           cally important land area or a certified his-  
24                           toric structure.

1 “(B) CERTIFIED HISTORIC STRUCTURE.—

2 For purposes of subparagraph (A)(iv), the term  
3 ‘certified historic structure’ means any building,  
4 structure, or land area which—

5 “(i) is listed in the National Register,  
6 or

7 “(ii) is located in a registered historic  
8 district and is certified by the Secretary of  
9 the Interior to the Secretary as being of  
10 historic significance to the district.

11 A building, structure, or land area satisfies the  
12 preceding sentence if it satisfies such sentence  
13 either at the time of the transfer or on the due  
14 date (including extensions) for filing the trans-  
15 feror’s return under this chapter for the taxable  
16 year in which the transfer is made.

17 “(5) EXCLUSIVELY FOR CONSERVATION PUR-  
18 POSES.—For purposes of this subsection—

19 “(A) CONSERVATION PURPOSE MUST BE  
20 PROTECTED.—A contribution shall not be treat-  
21 ed as exclusively for conservation purposes un-  
22 less the conservation purpose is protected in  
23 perpetuity.

24 “(B) NO SURFACE MINING PERMITTED.—



1           “(i) IN GENERAL.—Except as pro-  
 2           vided in clause “(ii), in the case of a con-  
 3           tribution of any interest where there is a  
 4           retention of a qualified mineral interest,  
 5           subparagraph (A) shall not be treated as  
 6           met if at any time there may be extraction  
 7           or removal of minerals by any surface min-  
 8           ing method.

9           “(ii) SPECIAL RULE.—With respect to  
 10          any contribution of property in which the  
 11          ownership of the surface estate and min-  
 12          eral interests were separated before June  
 13          13, 1976, and remain so separated, sub-  
 14          paragraph (A) shall be treated as met if  
 15          the probability of surface mining occurring  
 16          on such property is so remote as to be neg-  
 17          ligible.

18          “(6) QUALIFIED MINERAL INTEREST.—For  
 19          purposes of this subsection, the term ‘qualified min-  
 20          eral interest’ means—

21                 “(A) subsurface oil, gas, or other minerals,  
 22                 and

23                 “(B) the right to access to such minerals.

24          “(f) DENIAL OF DEDUCTION FOR CERTAIN TRAVEL  
 25          EXPENSES.—No deduction shall be allowed under section

1 11 for traveling expenses (including amounts expended for  
2 meals and lodging) while away from home, whether paid  
3 directly or by reimbursement, unless there is no significant  
4 element of personal pleasure, recreation, or vacation in  
5 such travel.

6 “(g) TREATMENT OF CERTAIN AMOUNTS PAID TO OR  
7 FOR THE BENEFIT OF INSTITUTIONS OF HIGHER EDU-  
8 CATION.—For purposes of section 11, if as the result of  
9 a contribution to or for the benefit of an educational orga-  
10 nization—

11 “(1) which is described in subsection  
12 (b)(1)(A)(ii), and

13 “(2) which is an institution of higher education  
14 (as defined in section 3304(f)),

15 the taxpayer receives (directly or indirectly) as a result  
16 of paying such amount the right to purchase tickets for  
17 seating at an athletic event in an athletic stadium of such  
18 institution, 80 percent of such contribution shall be treat-  
19 ed as a charitable contribution (but only if such amount  
20 would be allowable as a deduction but for the fact that  
21 the taxpayer received the right to purchase tickets). If any  
22 portion of a payment is for the purchase of such tickets,  
23 such portion and the remaining portion (if any) of such  
24 payment shall be treated as separate amounts for purposes  
25 of this subsection.

1 **“SEC. 102. PRIVATE FOUNDATIONS.**

2 “(a) GENERAL RULE.—For purposes of this title,  
3 ‘private foundation’ means a domestic or foreign organiza-  
4 tion described in section 253(c)(3) other than—

5 “(1) an organization described in section  
6 101(b)(1)(A) (other than in clauses (vii) and (viii));

7 “(2) an organization which—

8 “(A) normally receives more than one-third  
9 of its support in each taxable year from any  
10 combination of—

11 “(i) gifts, grants, contributions, or  
12 membership fees, and

13 “(ii) gross receipts from admissions,  
14 sales of merchandise, performance of serv-  
15 ices, or furnishing of facilities, in an activ-  
16 ity which is not an unrelated business ac-  
17 tivity (within the meaning of section 256),  
18 not including such receipts from any per-  
19 son, or from any bureau or similar agency  
20 of a governmental unit (as described in  
21 section 101(c)(1)), in any taxable year to  
22 the extent such receipts exceed the greater  
23 of \$5,000 or 1 percent of the organiza-  
24 tion’s support in such taxable year, from  
25 persons other than disqualified persons (as  
26 defined in section 4946) with respect to

1 the organization, from governmental units  
2 described in section 101(c)(1), or from or-  
3 ganizations described in section  
4 101(b)(1)(A) (other than in clauses (vii)  
5 and (viii)), and

6 “(B) normally receives not more than one-  
7 third of its support in each taxable year from  
8 the sum of—

9 “(i) gross investment income (as de-  
10 fined in subsection (e)) and

11 “(ii) the excess (if any) of the amount  
12 of its gross profits from unrelated business  
13 activity business taxable income (for pur-  
14 poses of section 255) over the amount of  
15 the tax imposed by section 255;

16 “(3) an organization which—

17 “(A) is organized, and at all times there-  
18 after is operated, exclusively for the benefit of,  
19 to perform the functions of, or to carry out the  
20 purposes of 1 or more specified organizations  
21 described in paragraph (1) or (2),

22 “(B) is operated, supervised, or controlled  
23 by or in connection with 1 or more organiza-  
24 tions described in paragraph (1) or (2), and

1           “(C) is not controlled directly or indirectly  
2           by 1 or more disqualified persons (as defined in  
3           section 4946) other than foundation managers  
4           and other than 1 or more organizations de-  
5           scribed in paragraph (1) or (2); and

6           “(4) an organization which is organized and op-  
7           erated exclusively for testing for public safety.

8           “(b) CONTINUATION OF PRIVATE FOUNDATION STA-  
9           TUS.—For purposes of this title, if an organization was  
10          a private foundation (within the meaning of subsection  
11          (a)) on October 9, 1969, or becomes a private foundation  
12          on any subsequent date, such organization shall be treated  
13          as a private foundation for all periods after October 9,  
14          1969, or after such subsequent date, unless its status as  
15          such is terminated in accordance with regulations to be  
16          prescribed by the Secretary.

17          “(c) STATUS OF ORGANIZATION AFTER TERMI-  
18          NATION OF PRIVATE FOUNDATION STATUS.—For pur-  
19          poses of this section, an organization the status of which  
20          as a private foundation is terminated, shall be treated as  
21          an organization created on the day after the date of such  
22          termination.

23          “(d) DEFINITION OF SUPPORT.—For purposes of  
24          this section and chapter 42, the term ‘support’ includes  
25          (but is not limited to)—

1           “(1) gifts, grants, contributions, or membership  
2 fees,

3           “(2) gross receipts from admissions, sales of  
4 merchandise, performance of services, or furnishing  
5 of facilities in any activity which is not an unrelated  
6 trade or business,

7           “(3) net income from unrelated business activi-  
8 ties, whether or not such activities are carried on  
9 regularly as a trade or business,

10           “(4) gross investment income (as defined in  
11 subsection (e)),

12           “(5) tax revenues levied for the benefit of an  
13 organization and either paid to or expended on be-  
14 half of such organization, and

15           “(6) the value of services or facilities (exclusive  
16 of services or facilities generally furnished to the  
17 public without charge) furnished by a governmental  
18 unit referred to in section 101(c)(1) to an organiza-  
19 tion without charge.

20 Such term does not include any gain from the sale or other  
21 disposition of property which would be considered as gain  
22 from the sale or exchange of a capital asset, or the value  
23 of exemption from any Federal, State, or local tax or any  
24 similar benefit.

1       “(e) DEFINITION OF GROSS INVESTMENT INCOME.—  
 2 For purposes of subsection (d), the term “gross invest-  
 3 ment income” means the gross amount of income from  
 4 interest, dividends, payments with respect to securities  
 5 loans, rents, and royalties, but not including any such in-  
 6 come to the extent included in computing the tax on unre-  
 7 lated business taxable income imposed by section 255.

8       “(f) PRIVATE OPERATING FOUNDATION.—See sec-  
 9 tion 4942(j)(3) for the definition of a ‘private operating  
 10 foundation’.

## 11   **“Subchapter F—Special Business Activities.**

“Sec. 111. Contributions of personal-use property to a business entity.

“Sec. 112. Rules for rental of real estate.

“Sec. 113. Rules for hobby activity.

“Sec. 114. Land companies.

## 12   **“SEC. 111. CONTRIBUTIONS OF PERSONAL-USE PROPERTY** 13                   **TO A BUSINESS ENTITY.**

14       “(a) NO SAVINGS ALLOWANCE.—‘Additions to sav-  
 15 ings’ do not include the cost, value, or basis of any per-  
 16 sonal-use property contributed to a business entity.

17       “(b) EFFECT OF WITHDRAWALS.—If personal-use  
 18 property is withdrawn from use in a business activity, the  
 19 withdrawal shall be considered a taxable withdrawal only  
 20 to the extent of the value of any additions, changes, or  
 21 repairs made by the business entity. The taxpayer’s basis  
 22 in the property withdrawn shall equal its basis in the prop-  
 23 erty when contributed, increased by the amount treated

1 as a taxable withdrawal upon the withdrawal of the prop-  
2 erty.

3 “(c) PERSONAL USE PROPERTY.—‘Personal-use  
4 property’ means any property used (other than in a trade  
5 or business) by the taxpayer, any person related to the  
6 taxpayer, or any person from whom the taxpayer acquired  
7 the property at other than an arm’s-length price.

8 “(d) CROSS REFERENCE.—See sections 75 and 112  
9 for other rules relating to personal use property.

10 **“SEC. 112. RULES FOR RENTAL OF REAL ESTATE.**

11 “(a) IN GENERAL.—Except as provided in subsection  
12 (b), the activity of rental of real estate is a business activ-  
13 ity to which the business tax under chapter 2 applies. A  
14 taxpayer shall not be entitled to any deductions under this  
15 chapter with respect to rental property, other than deduc-  
16 tions attributable to additions to savings. A taxpayer shall  
17 recognize gross income only with respect to distributions  
18 from the rental activity.

19 “(b) INSUBSTANTIAL RENTAL ACTIVITY.—

20 “(1) NOT RENTAL PROPERTY.—If a taxpayer  
21 uses property on more than 14 days during the tax-  
22 able year for nonbusiness purposes and uses and  
23 rents the property for no more than 14 days during  
24 the taxable year, the property shall not be consid-  
25 ered rental property or used in the activity of rental



1 of real estate during the taxable year for purposes  
2 of subsection (a) and the business tax under chapter  
3 2.

4 “(2) RENTS FROM NONRENTAL PROPERTY.—  
5 Any rent from property described in paragraph (1)  
6 shall be included in gross income for purposes of the  
7 USA Income Tax.

8 “(3) RENTAL PROPERTY BECOMES NONRENTAL  
9 PROPERTY.—If property which is considered rental  
10 property for purposes of subsection (a) in 1 taxable  
11 year ceases to be rental property (by reason of para-  
12 graph (1)) in the following taxable year, the prop-  
13 erty (and any associated debt) shall be treated as  
14 distributed for purposes of rules relating to with-  
15 draws.

16 “(c) USE FOR A NONBUSINESS PURPOSE.—For pur-  
17 poses of this section, ‘use for a nonbusiness purpose’  
18 means use other than—

19 “(1) use for which fair rent is paid,

20 “(2) use in connection with the preparation of  
21 the property for rental, or

22 “(3) use that serves a clear business purpose.

23 Use during any part of a day shall constitute use for that  
24 day.

1   **“SEC. 113. RULES FOR HOBBY ACTIVITY.**

2       “(a) NO SAVINGS ALLOWANCE FOR CONTRIBUTIONS  
3 TO HOBBY ACTIVITIES.—A taxpayer may not treat as ad-  
4 ditions to savings amounts contributed to a hobby activity  
5 conducted by the individual.

6       “(b) EXCLUSION FROM INCOME.—Amounts received  
7 from a hobby activity shall not be treated as withdrawals  
8 from savings to the extent of deductions denied by sub-  
9 section (a).

10       “(c) HOBBY ACTIVITY.—‘Hobby activity’ means an  
11 activity conducted in part for personal pleasure or per-  
12 sonal benefit or an activity conducted without the intent  
13 of earning a profit, but which generates revenues. Exam-  
14 ples of hobby activity include—

15           “(1) occasional painting or the creation of other  
16 artwork by an individual who is not in the regular  
17 trade or business of producing and selling art,

18           “(2) part-time book writing by a person whose  
19 regular employment activities do not relate to the  
20 book, and

21           “(3) creation of a large home garden to produce  
22 for home use and sale.

23   **“SEC. 114. LAND COMPANIES.**

24       “(a) LAND COMPANY.—A ‘land company’ is any busi-  
25 ness entity the principal assets of which are (after taking  
26 into account any contributions to and purchases by the

1 business entity during the taxable year) unimproved land  
2 held for a nonbusiness purpose.

3 “(b) NONBUSINESS PURPOSE.—For purposes of this  
4 section, land shall be considered held for a nonbusiness  
5 purpose if—

6 “(1) the land had been purchased by the busi-  
7 ness entity at the time of acquisition or receipt of  
8 the land, the purchase would not have been treated  
9 as a ‘business purchase’ under the principles of sec-  
10 tion 230 (relating to no deduction from the business  
11 tax for land purchased for a nonbusiness use), and

12 “(2) the land has not been converted to a busi-  
13 ness use and placed in service for such use (as deter-  
14 mined in accordance with section 230(d)).

15 “(c) BASIS.—An individual’s basis in his ownership  
16 interest in a land company shall be increased by—

17 “(1) the amount of cash contributed to the  
18 company, and

19 “(2) the lesser of the basis or the fair market  
20 value of the land contributed to the company.

21 **“Subchapter G—Accounting Methods and**  
22 **Periods**

“Sec. 121. Taxable year.

“Sec. 122. Cash method of accounting.

1 **“SEC. 121. TAXABLE YEAR.**

2 “(a) IN GENERAL.—The taxable year for all individ-  
3 uals subject to tax under this chapter shall be the calendar  
4 year except as provided in subsection (b).

5 “(b) SHORT TAXABLE YEARS.—

6 “(1) BIRTH.—An individual’s taxable year in  
7 the year of his birth shall begin on the date of his  
8 birth.

9 “(2) DEATH.—An individual’s taxable year in  
10 the year of his death shall end on the date of his  
11 death.

12 **“SEC. 122. CASH METHOD OF ACCOUNTING.**

13 “(a) IN GENERAL.—All individuals shall determine  
14 their income and deductions using the cash receipts and  
15 disbursement method.

16 “(b) ORIGINAL ISSUE DISCOUNT.—Taxpayers shall  
17 not include original issue discount in income until re-  
18 ceived.

19 “(c) INSTALLMENT SALES.—Taxpayers shall take  
20 into account income from installment sales when received.

21 “(d) CONSTRUCTIVE RECEIPT.—Income shall be  
22 treated as received when constructively received.

23 “(e) EFFECT OF CHANGE OF ACCOUNTING METH-  
24 OD.—Rules similar to those under section 226 shall apply  
25 to ensure that a taxpayer does not deduct the same ex-  
26 pense twice or include the same item in income twice.

1           **“Subchapter H—Nonresident Aliens**

“Sec. 131. Tax on nonresident alien individuals.

“Sec. 132. Tax treatment of certain community income of nonresident  
aliens.

“Sec. 133. Relationship with treaties.

2           **“SEC. 131. TAX ON NONRESIDENT ALIEN INDIVIDUALS.**

3           “(a) NONBUSINESS INCOME.—

4           “(1) INCOME OTHER THAN CERTAIN GAINS.—

5           There is hereby imposed for each taxable year a tax  
6           of 30 percent of the amount received from sources  
7           within the United States by a nonresident alien indi-  
8           vidual as—

9           “(A) interest (other than portfolio interest  
10           (as defined in subsection (b)(2)), deposit inter-  
11           est (as defined in subsection (b)(3)) and origi-  
12           nal issue discount, dividends, rents, salaries,  
13           wages, premiums, annuities, compensations, re-  
14           munerations, emoluments, and other fixed or  
15           determinable annual periodical gains, profits  
16           and income,

17           “(B) gains from the disposal of timber,  
18           coal, or iron ore with a retained economic inter-  
19           est,

20           “(C) in the case of the sale of an original  
21           discount obligation or payment on an original  
22           issue discount obligation, the interest accrued

1 while the individual was a nonresident alien,  
2 and

3 “(D) 85 percent of social security benefits  
4 (as defined in section 3(b)(2)).

5 “(2) CAPITAL GAINS OF CERTAIN ALIENS.—In  
6 the case of a nonresident alien individual present in  
7 the United States for a period or periods aggregat-  
8 ing 183 days or more during the taxable year, there  
9 is hereby imposed a tax of 30 percent of the amount  
10 by which the gains, derived from sources within the  
11 United States, from the sale or exchange at any  
12 time during such year exceeds his losses, allocable to  
13 sources within the United States, from the sale or  
14 exchange at any time during such year of capital  
15 assets.

16 “(3) TAX DOES NOT APPLY TO BUSINESS IN-  
17 COME.—The taxes imposed by this section shall not  
18 apply to the income of any business entity, except to  
19 the extent such income is distributed as compensa-  
20 tion, dividends, or interest.

21 “(b) SPECIAL RULES AND DEFINITIONS.—

22 “(1) CERTAIN ANNUITIES.—The taxes imposed  
23 by subsection (a) shall not apply to any amount re-  
24 ceived as an annuity under a qualified annuity plan  
25 described in section 403(a)(1), or from a qualified

1 trust described in section 401(a) and exempt under  
2 section 253(a) if—

3 “(A) all of the personal services by reason  
4 of which the annuity is payable were either—

5 “(i) personal services performed out-  
6 side the United States by an individual  
7 who, at the time of performance of such  
8 personal services, was a nonresident alien,  
9 or

10 “(ii) personal services by a non-  
11 resident alien temporarily present in the  
12 United States for a period or periods not  
13 exceeding 90 days during a taxable year,  
14 whose compensation for such services did  
15 not exceed \$3,000, and who performed  
16 such services for—

17 “(I) a nonresident alien individ-  
18 ual, foreign partnership, or foreign  
19 corporation, not engaged in a trade or  
20 business within the United States, or

21 “(II) for an office or place of  
22 business maintained in a foreign coun-  
23 try or in a possession of the United  
24 States by an individual who is a citi-  
25 zen or resident of the United States

1 or by a domestic partnership or a do-  
2 mestic corporation, and

3 “(B) at the time the first amount is paid  
4 as annuity under the annuity plan or by the  
5 trust, 90 percent or more of the employees for  
6 whom contributions or benefits are provided  
7 under such plan are citizens or residents of the  
8 United States.

9 “(2) PORTFOLIO INTEREST.—

10 “(A) IN GENERAL.—‘Portfolio interest’  
11 means—

12 “(i) interest on obligations in reg-  
13 istered form if the United States person  
14 who would otherwise be required to with-  
15 hold tax on such interest under section  
16 1441(a) receives a statement that the ben-  
17 eficial owner of the obligation is not a  
18 United States person, and

19 “(ii) interest on obligations in  
20 nonregistered form if appropriate pre-  
21 cautions are taken to ensure that such ob-  
22 ligations will be sold only to persons who  
23 are not United States persons and such in-  
24 terest is paid outside the United States.



1           “(B) EXCEPTIONS.—Under rules to be  
2           prescribed by the Secretary, portfolio interest  
3           does not include—

4                   “(i) interest received by a 10-percent  
5                   equity owner, or

6                   “(ii) contingent interest.

7           “(3) DEPOSIT INTEREST.—‘Deposit interest’  
8           means interest on deposits which are—

9                   “(A) deposits with persons carrying on a  
10                  banking business (including savings and loans),  
11                  and

12                  “(B) amounts held by an insurance  
13                  company under an agreement to pay interest  
14                  thereon.

15           “(4) OTHER EXCEPTIONS.—The taxes imposed  
16           by subsection (a) shall not apply to—

17                   “(A) a percentage of any dividend paid by  
18                   a business entity, 80 percent of whose gross re-  
19                   ceipts are not taken into account under chapter  
20                   1 because such receipts are from outside the  
21                   United States, equal to the percentage of gross  
22                   receipts not so taken into account,

23                   “(B) gambling winnings (except to the ex-  
24                   tent that the Secretary determines by regula-

1           tion that the collection of the tax is administra-  
2           tively feasible),

3           “(C) compensation paid by a foreign em-  
4           ployer to a nonresident alien individual for the  
5           period he is temporarily present in the United  
6           States as a nonimmigrant under subparagraph  
7           (F) or (J) of section 101(a)(15) of the Immi-  
8           gration and Nationality Act, as amended,

9           “(D) interest from a series E or series H  
10          savings bond if the individual acquired the bond  
11          while a resident of the Ryuku Islands or the  
12          Trust Territory of the Pacific Islands, or

13          “(E) amounts earned or payable to any  
14          person who is a bona fide resident of Puerto  
15          Rico, Guam, American Samoa, or the Northern  
16          Mariana Islands (and, therefore, is subject to  
17          the tax imposed by subchapter A).

18          “(c) EXPATRIATION TO AVOID TAX.—

19          “(1) IN GENERAL.—A nonresident alien individ-  
20          ual who at any time within the 10-year period imme-  
21          diately preceding the close of the taxable year lost  
22          United State citizenship shall be taxable in the man-  
23          ner described in paragraph (2) unless none of the  
24          principal purposes of losing citizenship was avoid-  
25          ance of tax under subchapter A or subtitle B.

1           “(2) ALTERNATIVE TAX.—A nonresident alien  
2       individual described in paragraph (1) shall be sub-  
3       ject to tax on the items taxable under subsection (a)  
4       as determined without regard to exceptions listed or  
5       based on definitions contained in subsection (b)  
6       using the rate schedule for single individuals under  
7       section 15. If the taxes determined under subsection  
8       (a) are greater than the tax determined under this  
9       subsection, the greater tax shall apply.

10   **“SEC. 132. TAX TREATMENT OF CERTAIN COMMUNITY IN-**  
11                   **COME OF NONRESIDENT ALIENS.**

12       “(a) GENERAL RULE.—In the case of a married cou-  
13   ple 1 or both of whom are nonresident alien individuals  
14   and who have community income for the taxable year,  
15   such community income shall be treated as follows:

16           “(1) Compensation income shall be treated as  
17       income of the spouse who rendered the services.

18           “(2) Partnership distributions shall be treated  
19       as the related distributive shares of partnership in-  
20       come would be treated under section 1402(a)(5).

21           “(3) Community income which is derived from  
22       the separate property of a spouse shall be treated as  
23       income of that spouse.

1           “(4) All other such community income shall be  
2       treated as provided in the applicable community  
3       property law.

4       “(b) EXCEPTION WHERE ELECTION UNDER SEC-  
5       TION 6013(g) IS IN EFFECT.—Subsection (a) shall not  
6       apply if an election under subsection (g) or (h) of section  
7       6013 (relating to election to treat nonresident alien indi-  
8       viduals as residents of the United States) is in effect.

9       **“SEC. 133. RELATIONSHIP WITH TREATIES.**

10       “(a) STATEMENT OF POLICY.—It is the intention of  
11       the USA Tax Code to promote a worldwide tax system  
12       in which each nation taxes—

13           “(1) under an individual tax, only the income of  
14       individuals who are residents or citizens of that na-  
15       tion, and

16           “(2) under a business tax only the business ac-  
17       tivity in such nation.

18       “(b) EFFECT OF TREATIES.—No tax shall be im-  
19       posed under section 131(a) on income that is exempt from  
20       tax by reason of a treaty between the nation of which the  
21       nonresident alien is a citizen or resident and the United  
22       States. If any such treaty requires that a lower rate of  
23       tax be imposed on some or all of the items of income sub-  
24       ject to tax under section 131(a), such lower rate shall

1 apply to such items in the case of persons to whom such  
2 treaty applies.

3 “(c) EFFECT OF UNILATERAL ACTION BY FOREIGN  
4 NATIONS.—No tax shall be imposed under section 131(a)  
5 on nonresident aliens who are citizens or residents of an-  
6 other nation if—

7 “(1) such nation exempts from its income and  
8 withholding taxes nonresident alien individuals who  
9 are residents or citizens of the United States,

10 “(2) such nation has entered into a tax infor-  
11 mation sharing agreement with the United States,  
12 and

13 “(3) the Secretary certifies that the preceding  
14 2 requirements have been satisfied.

## 15 **“Subchapter I—Trusts and Estates**

“Sec. 141. General rules for trusts.

“Sec. 142. Basis and previously taxed amounts of trusts.

“Sec. 143. Deemed distributions; proxy tax.

“Sec. 144. Trusts.

“Sec. 145. Estates.

“Sec. 146. Income in respect of a decedent.

## 16 **“SEC. 141. GENERAL RULES FOR TRUSTS.**

17 “(a) BUSINESS ACTIVITIES.—If a trust engages in  
18 business activity (as defined in section 206(b)), the trust  
19 shall be considered a business entity with respect to such  
20 activities for purposes of the business tax under chapter  
21 2.

1       “(b) TRUST NOT SUBJECT TO INDIVIDUAL TAX.—

2 Except as provided in section 143, a trust shall not be  
3 subject to the individual tax imposed by section 1.

4       “(c) CONTRIBUTIONS TO TRUST NOT CONSIDERED

5 SAVINGS.—Amounts contributed to a trust shall not be  
6 considered additions to savings for purposes of computing  
7 the Unlimited Savings Allowance. The contribution of a  
8 savings asset to a trust shall not be considered a sale or  
9 withdrawal of the savings assets. The purchase of a sav-  
10 ings asset will be considered an addition to savings even  
11 if the asset is purchased with the intent of contributing  
12 it to a trust.

13       “(d) DISTRIBUTIONS FROM A TRUST.—

14               “(1) CASH DISTRIBUTIONS.—

15                       “(A) IN GENERAL.—Cash distributions  
16 from a trust shall be considered ‘withdrawal’ in-  
17 come to the distributee to the extent that such  
18 distributions exceed the portion of the trust’s  
19 previously taxed amount (‘PTA’) allocated to  
20 the withdrawal.

21                       “(B) TRANSITION RULE.—Cash distribu-  
22 tions made from a trust during the first 65  
23 days of 1996 shall be considered made on De-  
24 cember 31, 1995.

1           “(2) DISTRIBUTIONS OF SAVINGS ASSETS.—The  
 2       distribution of a savings asset from a trust to an in-  
 3       dividual shall not result in any income to the dis-  
 4       tributee. For purposes of determining taxable with-  
 5       drawals upon the subsequent disposition of the sav-  
 6       ings asset by the distributee, the recipient will have  
 7       a basis in the distributed savings asset equal to—

8           “(A) the trust’s basis, if any, in the sav-  
 9       ings asset, if it is an ‘initial asset’; or

10          “(B) the PTA allocated to the savings  
 11       asset, if it is a ‘new asset’.

12          “(3) DISTRIBUTION OF ASSETS OTHER THAN  
 13       SAVINGS ASSETS.—In the case of a distribution of  
 14       an asset other than a savings asset—

15          “(A) INITIAL ASSETS.—If the asset is an  
 16       ‘initial asset’, the distributee shall assume the  
 17       trust’s basis in the asset and the distribution  
 18       shall not result in any income to the distributee.

19          “(B) NEW ASSETS.—If the asset is a ‘new  
 20       asset’, the distributee shall be treated as if it  
 21       received an amount of cash equal to the cost of  
 22       the asset to the trust and as if it then pur-  
 23       chased the asset for the amount of such cash.  
 24       The rules of paragraph (1) relating to the dis-  
 25       tribution of cash.

1 “(4) DISTRIBUTION OF A BUSINESS ENTITY.—

2 The distribution of a business entity or a business  
3 asset (such as rental property) that essentially con-  
4 stitutes a business entity shall be treated as the dis-  
5 tribution of a savings asset and as if the distributee  
6 received the business entity.

7 “(e) DEEMED DISTRIBUTION FROM A TRUST.—See  
8 section 143 for rules relating to certain deemed distribu-  
9 tions from trusts.

10 **“SEC. 142. BASIS AND PREVIOUSLY TAXED AMOUNTS OF**  
11 **TRUSTS.**

12 “(a) BASIS.—

13 “(1) ASSETS HELD ON THE EFFECTIVE  
14 DATE.—A trust will have a basis in each asset held  
15 in trust on January 1, 1996, equal to the trust’s  
16 basis in the asset on such date (as determined under  
17 the principles of the Internal Revenue Code of  
18 1986). The trust will have a basis in cash held on  
19 such date equal to the amount of cash. For purposes  
20 of this section, cash held in bank accounts, money  
21 market accounts, and other similar accounts shall be  
22 treated as cash.

23 “(2) ASSETS CONTRIBUTED.—A trust will have  
24 a basis in each asset contributed to the trust on or



1 after January 1, 1996, in an amount equal to the  
2 contributor's basis in such property.

3 “(3) ASSETS PURCHASED WITH CASH CONTRIB-  
4 UTED TO THE TRUST.—If a trust acquires an asset  
5 with cash contributed to the trust within 30 days  
6 after contribution of the cash (or by January 31,  
7 1996, in the case of cash on hand on January 1,  
8 1996), the asset will have a tax basis equal to the  
9 amount of such contributed cash used to purchase  
10 the asset.

11 “(4) CARRYOVER BASIS.—If an asset of a trust  
12 has a basis determined under paragraph (1), (2), or  
13 (3) and such asset is transferred, exchanged, or con-  
14 verted in a transaction in which, under general rules  
15 of this chapter, the basis of the successor asset or  
16 assets would be determined based on the basis of the  
17 transferred, exchanged or converted asset, the  
18 trust's basis in the successor assets shall be deter-  
19 mined in accordance with the general rules of this  
20 chapter.

21 “(5) INITIAL ASSETS.—For purposes of section  
22 141 and this section, ‘initial asset’ means an asset  
23 (other than cash) which has a basis determined  
24 under this section.

25 “(b) PREVIOUSLY TAXED AMOUNT.—

1           “(1) IN GENERAL.—Each trust shall maintain a  
2       previously taxed amount balance to be known as the  
3       ‘PTA balance’.

4           “(2) INCREASES.—The PTA balance of a trust  
5       shall be increased by—

6           “(A) the basis of any asset sold or dis-  
7       posed of by the trust (other than by a distribu-  
8       tion or in a carryover basis transaction de-  
9       scribed in paragraph (4) of subsection (a)),

10          “(B) any interest received by the trust on  
11       or after January 1, 1996, that constitutes in-  
12       terest on a tax-exempt bond, and

13          “(C) any cash contributed to the trust (or  
14       held by the trust on January 1, 1996) that is  
15       not applied within 30 days to purchase an asset  
16       other than cash.

17          “(3) DECREASES.—The PTA balance of a trust  
18       will decrease by the PTA allocated to distributions  
19       from the trust and all distributions described in sec-  
20       tion 141(d)(1)(B) (relating to distributions in the  
21       first 65 days of 1996).

22          “(c) NON-PTA ACCOUNT.—Each trust shall main-  
23       tain a non-PTA account. The non-PTA account balance  
24       shall equal the excess of—

1           “(1) all amounts, other than contributions and  
2 interest on tax-exempt bonds, received by the trust  
3 on or after January 1, 1996, including—

4                   “(A) interest (other than interest on tax-  
5 exempt bonds),

6                   “(B) dividends,

7                   “(C) partnership and other business entity  
8 distributions,

9                   “(D) principal received on loans (except to  
10 the extent that it constitutes return of basis),

11                   “(E) proceeds of life insurance policies,  
12 and

13                   “(F) proceeds from the sale of stocks and  
14 bonds, over

15           “(2) the sum of—

16                   “(A) the basis of all initial assets that are  
17 sold by the trust,

18                   “(B) all deductible expenses of a multi-tax-  
19 payer trust or an estate (as determined under  
20 section 143),

21                   “(C) all prior distributions of non-PTAs,

22                   “(D) the cost of all new assets sold by the  
23 trust, and

24                   “(E) amounts described in section  
25 143(b)(1)(A).

1 “(d) ALLOCATION OF PTA TO DISTRIBUTIONS.—

2 “(1) IN GENERAL.—Except as provided in para-  
3 graph (2), distributions made from a trust, other  
4 than distributions of initial assets, shall be treated  
5 as first made out of the non-PTA account and then  
6 out of the PTA account.

7 “(2) PTA ATTRIBUTABLE TO TAX-EXEMPT IN-  
8 COME.—PTA attributable to income from tax-ex-  
9 empt bonds shall be allocated to distributions that  
10 are treated under the terms of trust as distributions  
11 of income in the order that such distributions are  
12 made following the receipt of such tax-exempt in-  
13 come.

14 “(3) DISTRIBUTIONS TO MULTIPLE BENE-  
15 FICIARIES.—If distributions are made to more than  
16 1 distributee in a calendar year and the distributions  
17 are to be treated as part distributions out of the  
18 PTA account and part distributions out of the non-  
19 PTA account, the distributions made to beneficiaries  
20 entitled to distributions from income shall be treated  
21 as derived from the non-PTA account to the maxi-  
22 mum extent possible.

23 “(4) DISTRIBUTION OF NEW ASSETS.—For pur-  
24 poses of applying the rules of this subsection, new  
25 assets that are distributed shall be treated as dis-

1       tributed at their cost for purposes of determining  
 2       the extent to which such assets are distributions out  
 3       of PTA.

4   **“SEC. 143. DEEMED DISTRIBUTIONS; PROXY TAX.**

5       “(a) SINGLE-TAXPAYER TRUSTS.—In the case of a  
 6       single-taxpayer trust, the taxpayer shall have a deemed  
 7       distribution equal to the amount of the expenses of the  
 8       trust and shall be deemed to have paid the expenses of  
 9       the trust.

10      “(b) MULTI-TAXPAYER TRUSTS AND ESTATES.—

11           “(1) IN GENERAL.—In the case of multi-tax-  
 12       payer trusts and estates, a proxy tax is hereby im-  
 13       posed on the trust equal to highest marginal tax rate  
 14       applicable under section 15 multiplied by the excess  
 15       of—

16                   “(A) the lesser of the non-PTA amount or  
 17                   the nondeductible expenses of the trust or es-  
 18                   tate for the taxable year, over

19                   “(B) a \$300 exemption (or \$600 in the  
 20                   case of an estate).

21           “(2) LIMIT ON EXEMPTION.—If a donor estab-  
 22       lishes multiple trusts for the same beneficiaries, the  
 23       \$300 exemption shall apply to only 1 of the trusts.

24      “(c) DEFINITIONS.—For purposes of this section—

25           “(1) SINGLE-TAXPAYER TRUST.—

1           “(A) IN GENERAL.—A ‘single taxpayer  
2 trust’ means—

3           “(i) a trust with only 1 beneficiary, or

4           “(ii) a revocable trust or other trust  
5 for which the grantor would be considered  
6 the owner (in which case the grantor will  
7 be treated as the beneficiary solely for pur-  
8 poses of subsection (a)).

9           “(B) CERTAIN TRUSTS WITH MULTIPLE  
10 BENEFICIARIES.—If a trust has multiple bene-  
11 ficiaries and each beneficiary has a right to a  
12 portion of the income of the trust and right to  
13 the same portion of the residual interest of the  
14 trust, the trust may elect to be treated as mul-  
15 tiple single-taxpayer trusts and allocate its ex-  
16 penses proportionally to the beneficiaries.

17           “(2) MULTI-TAXPAYER TRUST.—A ‘multi-tax-  
18 payer trust’ is any trust that is not a single bene-  
19 ficiary trust.

20           “(3) EXPENSES.—

21           “(A) IN GENERAL.—The expenses of a  
22 trust include State and local taxes, trustees  
23 fees, amounts paid to persons who are not  
24 beneficiaries of the trust, administration ex-  
25 penses, and all other fees and expenses payable

1 by the trust, other than commissions and other  
 2 charges directly attributable to the purchase or  
 3 sale of assets which would reduce the proceeds  
 4 from the sale of the asset or be treated as part  
 5 of the cost of an asset.

6 “(B) EXPENSES OF A BUSINESS ENTITY.—  
 7 The expenses of a trust do not include the ex-  
 8 penses incurred by the trust in its business ac-  
 9 tivities that are treated as a business entity.

10 “(4) DEDUCTIBLE EXPENSES.—‘Deductible ex-  
 11 penses’ means expenses of a trust that would be de-  
 12 ductible if incurred by an individual.

13 “(5) CHARITABLE DEDUCTION.—For purposes  
 14 of determining whether a charitable contribution  
 15 would be deductible by a multi-taxpayer trust, the  
 16 rules limiting charitable deductions to specified per-  
 17 centages of income shall not apply.

18 **“SEC. 144. TRUSTS.**

19 “(a) GRANTOR TRUSTS.—The provisions of this sub-  
 20 chapter shall apply to grantor trusts only if the grantor  
 21 is an individual.

22 “(b) CHARITABLE REMAINDER TRUSTS AND CHARI-  
 23 TABLE ANNUITY TRUSTS.—The provisions of this sub-  
 24 chapter shall, in accordance with regulations prescribed by  
 25 the Secretary, apply in the case of a charitable remainder

1 annuity trust and a charitable remainder unitrust, except  
2 that the proxy tax under section 143(b) shall not apply  
3 to such trusts.

4 **“SEC. 145. ESTATES.**

5       “(a) IN GENERAL.—Rules similar to those contained  
6 in sections 141 through 144 shall apply to estates.

7       “(b) EXCEPTIONS.—

8               “(1) ALLOCATION OF PTA AND NON-PTA.—PTA  
9 and non-PTA shall be allocated to take into account  
10 directions in a will. Under regulations prescribed by  
11 the Secretary, directions may be inferred. A direc-  
12 tion to sell a particular asset and provide the pro-  
13 ceeds to a beneficiary shall be viewed as a direction  
14 that the non-PTA attributable to the sale and the  
15 PTA attributable to the decedent’s basis in the  
16 asset, if any, be allocated to the distribution to the  
17 beneficiary.

18               “(2) EXPENSES DEDUCTIBLE UNDER THE  
19 ESTATE TAX.—Expenses of the estate that are de-  
20 ductible under the estate tax but not under the indi-  
21 vidual tax shall be treated as paid out of PTAs, and  
22 to the extent so treated and will not be subject to  
23 the proxy tax.

24               “(3) EXPENSE FOR ESTATE TAX.—



1           “(A) IN GENERAL.—Expenses for the es-  
 2           tate tax and any inheritance tax paid by the es-  
 3           tate shall be treated as expenses of the estate  
 4           subject to the proxy tax under section 143(b).

5           “(B) ELECTION TO REDUCE PTA.—The ex-  
 6           ecutor or administrator of an estate can elect,  
 7           in lieu of treating all estate tax and inheritance  
 8           tax expenses as subject to the proxy tax under  
 9           section 143(b), to reduce the PTA amount (but  
 10          not below zero) by the amount of such taxes. If  
 11          the amount of such taxes exceeds the PTA  
 12          amount, such excess shall be treated as ex-  
 13          penses of estate tax subject to the proxy tax  
 14          under section 143(b).

15 **SEC. 146. INCOME IN RESPECT OF A DECEDENT.**

16          “(a) INCLUSION IN GROSS INCOME.—

17           “(1) GENERAL USE.—The amount of all items  
 18          of gross income in respect of a decedent which are  
 19          not properly includible in respect of a taxable period  
 20          in which falls the date of his death, or a prior pe-  
 21          riod, shall be included in gross income, for the tax-  
 22          able year when received, of:

23           “(A) the estate of the decedent, if the right  
 24          to receive the amount is acquired by the dece-  
 25          dent’s estate,

1           “(B) the person who, by reason of the  
2           death of the decedent, acquires the right to re-  
3           ceive the amount, if the right to receive the  
4           amount is not acquired by the decedent’s estate  
5           from the decedent, and

6           “(C) the person who acquires from the de-  
7           cedent the right to receive the amount by be-  
8           quest, devise or inheritance, if the amount is  
9           received after a distribution by the decedent’s  
10          estate of such right.

11          “(2) DEFINITION.—The Secretary shall pre-  
12          scribe regulations on the treatment of income from  
13          sales of rights to receive income and installment  
14          sales.

15          “(b) ESTATES.—

16               “(1) IN GENERAL.—Income in respect of a de-  
17               cedent shall be taken into account by an estate as  
18               if it were a nonpreviously taxed amount (non-PTA)  
19               for purposes of sections 141 through 145. Such in-  
20               come shall be subject to tax under this chapter only  
21               to the extent—

22                       “(A) that the proxy of section 143 applies,  
23                       and

24                       “(B) amounts are distributed from the es-  
25                       tate as non-PTAs.

1           “(2) ELECTION.—The executor or adminis-  
 2           trator of an estate may elect to add income in re-  
 3           spect of a decedent to the tax base of the proxy tax  
 4           under section 143(b), in which case such income  
 5           shall be treated as an addition to the PTA of an es-  
 6           tate.

7           **“Subchapter J—Definitions and Rules of**  
 8           **Application**

“Sec. 151. Definitions.

“Sec. 152. Rules of application.

9           **“SEC. 151. DEFINITIONS.**

10          “(a) IN GENERAL.—When used in this chapter,  
 11          where not otherwise distinctly expressed or manifestly in-  
 12          compatible with the intent thereof—

13               “(1) BUSINESS ENTITY.—The definition of  
 14               ‘business entity’ in section 206 (relating to the busi-  
 15               ness tax) shall apply.

16               “(2) BUSINESS TAX.—‘Business tax’ means the  
 17               tax imposed by section 201 and, to the extent re-  
 18               quired by the context, the provisions of chapter 2.

19               “(3) INTERNAL REVENUE CODE OF 1986.—‘In-  
 20               ternal Revenue Code of 1986’ means the Internal  
 21               Revenue Code of 1986 as in effect immediately be-  
 22               fore the enactment of the business tax and the USA  
 23               Income Tax.

1           “(4) UNITED STATES.—‘United States’ means  
2       the States and the District of Columbia.

3           “(b) TERMS DEFINED IN CHAPTER 2.—If a term  
4       that is used but not defined in this chapter or in section  
5       7701 is defined in chapter 2, the definition in chapter 2  
6       shall apply except if manifestly incompatible with the in-  
7       tent of the provision in which the term is used.

8       **“SEC. 152. RULES OF APPLICATION.**

9           “(a) DEFINITIONS.—Any definition included in this  
10      chapter shall apply for all purposes of this chapter un-  
11      less—

12           “(1) such definition is limited to the purposes  
13      of a particular chapter, section, or subsection, or

14           “(2) the definition clearly would not be applica-  
15      ble in a particular context.

16           “(b) INTERPRETATIONS CONSISTENT WITH INTER-  
17      NAL REVENUE CODE OF 1986.—Terms not defined in this  
18      chapter or elsewhere in this title, but defined in the Inter-  
19      nal Revenue Code of 1986, shall be interpreted in a man-  
20      ner consistent with the Internal Revenue Code of 1986,  
21      except to the extent such interpretation would be incon-  
22      sistent with the principles and purposes of this chapter.”

23           (b) EFFECTIVE DATE.—The amendments made by  
24      this section shall be effective on January 1, 1996.

1 **SEC. 202. REORGANIZATION OF THE CODE.**

2 (a) REPEAL OF CHAPTER 5.—Chapter 5 of the Code  
3 (relating to tax on transfers to avoid income tax) is re-  
4 pealed.

5 (b) REDESIGNATION OF OTHER CHAPTERS.—

6 (1) CHAPTER 2.—Chapter 2 of the Code (relat-  
7 ing to the tax on self-employment income) is redesign-  
8 dated as chapter 4.

9 (2) CHAPTER 3.—Chapter 3 of the Code (re-  
10 lating to the withholding of tax on nonresident aliens  
11 and foreign corporations) is redesignated as chapter  
12 5.

13 **TITLE III—NEW BUSINESS TAX**

14 **SEC. 301. REPEAL OF PRESENT CORPORATE INCOME TAX;**  
15 **NEW TAX PAID BY CORPORATIONS AND**  
16 **OTHER BUSINESSES.**

17 (a) IN GENERAL.—The Internal Revenue Code of  
18 1986, as amended by title II, is amended by adding after  
19 chapter 1 the following new chapter:

20 **“CHAPTER 2—TAX PAID BY**  
21 **CORPORATIONS AND OTHER BUSINESSES**

“SUBCHAPTER A. Imposition of tax.

“SUBCHAPTER B. Basic rules for business tax.

“SUBCHAPTER C. Capital contributions, mergers, acquisitions, and distribu-  
tions.

“SUBCHAPTER D. Accounting method rules.

“SUBCHAPTER E. Land and rental property.

“SUBCHAPTER F. Insurance and financial products.

“SUBCHAPTER G. Financial intermediation and financial institutions.

“SUBCHAPTER H. Tax-exempt organizations.

“SUBCHAPTER I. Cooperatives.  
 “SUBCHAPTER J. Sourcing rules.  
 “SUBCHAPTER K. Business conducted in a possession.  
 “SUBCHAPTER L. Payroll tax credit.  
 “SUBCHAPTER M. Import tax.  
 “SUBCHAPTER N. Transition rules.  
 “SUBCHAPTER O. Rules for administration, consolidated returns.  
 “SUBCHAPTER P. Definitions and rules of application.

## 1           **“Subchapter A—Imposition of Tax**

“Sec. 201. Tax imposed.

### 2   **“SECTION 201. TAX IMPOSED.**

3           “(a) TAXABLE BUSINESS ACTIVITY.—A tax is im-  
 4 posed on the sale of goods and services in the United  
 5 States by a business entity. The amount of the tax equals  
 6 the amount by which—

7                   “(1) the business tax, exceeds

8                   “(2) the payroll tax credit.

9           “(b) BUSINESS TAX.—The ‘business tax’ imposed on  
 10 a business entity that sells or leases property or sells serv-  
 11 ices in the United States equals 11 percent of the gross  
 12 profit of the business entity for the taxable year.

13           “(c) PAYROLL TAX CREDIT.—The ‘payroll tax credit’  
 14 is a credit for the social security, railroad retirement and  
 15 hospital insurance taxes paid by an employer, as deter-  
 16 mined in accordance with subchapter L (sections 281  
 17 through 283).

18           “(d) IMPORT TAX.—For rules relating to the import  
 19 tax imposed by this chapter, see subchapter M (sections  
 20 286 through 288).

## 1 **“Subchapter B—Basic Rules for Business Tax**

“Sec. 202. Gross profits.

“Sec. 203. Taxable receipts.

“Sec. 204. Deductible amounts.

“Sec. 205. Cost of business purchases.

“Sec. 206. Business entity and business activity.

“Sec. 207. Loss carryover deduction.

### 2 **“SEC. 202. GROSS PROFITS.**

3       “‘Gross profits’ means for a taxable year of a busi-  
4   ness entity the amount by which—

5               “(1) the taxable receipts of the business entity  
6       for the taxable year exceed,

7               “(2) the deductible amounts for the business  
8       entity for the taxable year.

### 9 **“SEC. 203. TAXABLE RECEIPTS.**

10       “(a) IN GENERAL.—‘Taxable receipts’ means all re-  
11   ceipts from the sale of property, use of property, and per-  
12   formance of services in the United States.

13       “(b) GAMES OF CHANCE.—Amounts received by busi-  
14   ness entities engaging in the activity of providing games  
15   of chance shall be treated as receipts from the sale of  
16   property or services.

17       “(c) IN-KIND RECEIPTS.—The taxable receipts at-  
18   tributable to the receipt of property, use of property or  
19   services in whole or partial exchange for property, use of  
20   property or services equal the fair market value of the  
21   services or property received, plus any cash received.

1       “(d) TAXES.—Taxable receipts do not include any ex-  
2 cise tax, sales tax, custom duty, or other separately stated  
3 levy imposed by a Federal, State, or local government re-  
4 ceived by a business entity in connection with the sale of  
5 property or services or the use of property.

6       “(e) FINANCIAL RECEIPTS.—

7           “(1) IN GENERAL.—Except as provided in sub-  
8 chapter G (relating to financial intermediation and  
9 financial institutions), taxable receipts do not in-  
10 clude financial receipts.

11           “(2) FINANCIAL RECEIPTS.—‘Financial re-  
12 cepts’ include—

13               “(A) interest,

14               “(B) dividends and other distributions by a  
15 business entity,

16               “(C) proceeds from the sale of stock, other  
17 ownership interests in business entities, or  
18 other financial instruments (as defined in sec-  
19 tion 242(b)(3)),

20               “(D) proceeds from life insurance policies,

21               “(E) proceeds from annuities,

22               “(F) proceeds from currency hedging or  
23 exchanges, and

24               “(G) proceeds from other financial trans-  
25 actions.



1 “(f) CROSS REFERENCES.—

2 “(1) FINANCIAL INTERMEDIATION.—See sub-  
3 chapters F and G for rules relating to financial  
4 intermediation.

5 “(2) EXPORTS, SALES IN THE UNITED  
6 STATES.—See subchapter J for the exclusion from  
7 gross receipts for export sales and for rules on sales  
8 of property and services in the United States.

9 “(3) LAND.—See subchapter E for rules relat-  
10 ing to certain sales of land.

11 “(4) INSURANCE PROCEEDS.—See section 237  
12 for rules on the inclusion of certain insurance pro-  
13 ceeds in taxable receipts.

14 **“SEC. 204. DEDUCTIBLE AMOUNTS.**

15 “(a) IN GENERAL.—‘Deductible amounts’ for a busi-  
16 ness entity in a taxable year include—

17 “(1) the cost of business purchases in the tax-  
18 able year (as determined under section 205),

19 “(2) such entity’s loss carryover deduction (as  
20 determined under section 207), and

21 “(3) the transition basis deduction (as deter-  
22 mined under section 290).

23 “(b) FINANCIAL INTERMEDIATION.—See subchapters  
24 F and G for special rules for business entities engaging  
25 in financial intermediation.

1 **“SEC. 205. COST OF BUSINESS PURCHASES.**

2 “(a) BUSINESS PURCHASES.—

3 “(1) IN GENERAL.—‘Business purchases’ means  
4 the acquisition of—

5 “(A) property,

6 “(B) the use of property, or

7 “(C) services,

8 for use in a business activity in the United States.

9 “(2) EXAMPLES.—Business purchases include  
10 (without limitation) the—

11 “(A) purchase or rental of real property,

12 “(B) purchase or rental of capital equip-  
13 ment,

14 “(C) purchase of supplies and inventory,

15 “(D) purchase of services from independ-  
16 ent contractors,

17 “(E) purchase of financial intermediation  
18 services (as determined in accordance with sec-  
19 tion 236),

20 “(F) purchase of a business loss policy (as  
21 determined in accordance with section 237),  
22 and

23 “(G) imports for use in a business activity  
24 in the United States.

25 “(3) EXCLUSIONS.—Business purchases do not  
26 include—

1           “(A) payments for use of money or capital,  
2           such as interest or dividends (except to the ex-  
3           tent that a portion so paid is a fee for financial  
4           intermediation services),

5           “(B) premiums for life insurance,

6           “(C) the acquisition of savings assets (as  
7           defined in section 53(b)), or financial instru-  
8           ments (as defined in section 242(b)(3)),

9           “(D) property acquired outside the United  
10          States (but such property shall be taken into  
11          account as an import if imported),

12          “(E) services performed outside the United  
13          States (unless treated as imported into the  
14          United States),

15          “(F) compensation expenses for an individ-  
16          ual (other than amounts paid to an individual  
17          in his capacity as a business entity), or

18          “(G) taxes (except as provided in sub-  
19          section (b)(2) relating to product taxes).

20          “(4) COMPENSATION EXPENSES.—‘Compensa-  
21          tion expenses’ means—

22               “(A) wages, salaries, or other cash payable  
23               for services by employees,

24               “(B) any taxes imposed on the recipient  
25               that are withheld by the business entity,

1           “(C) the cost of property purchased to pro-  
2           vide employees with compensation (other than  
3           property incidental to the provision of fringe  
4           benefits that are excluded from income under  
5           the individual tax),

6           “(D) the cost of fringe benefits which are  
7           includible in an employee’s, partner’s, or propri-  
8           etor’s income under the USA Income Tax (or  
9           are excluded solely because such benefits con-  
10          stitute employee savings), including (without  
11          limitation)—

12                   “(i) contributions to retirement and  
13                   severance benefit plans,

14                   “(ii) premiums for the cost of life,  
15                   health, accident, disability and other insur-  
16                   ance policies for which the service provider,  
17                   members of his family, or persons des-  
18                   ignated by him or members of his family  
19                   are the beneficiaries,

20                   “(iii) the cost of providing parking to  
21                   employees (unless the parking space is  
22                   used for a vehicle that is regularly used in  
23                   a business activity),

24                   “(iv) employer-paid educational bene-  
25                   fits,

1           “(v) employer-paid housing (other  
2           than housing provided for the convenience  
3           of the employer), and

4           “(vi) employer-paid meals (other than  
5           meals provided for the convenience of the  
6           employer).

7           “(b) COST OF BUSINESS PURCHASES.—

8           “(1) IN GENERAL.—The ‘cost of a business  
9           purchase’ is the amount paid or to be paid for the  
10          business purchase.

11          “(2) TAXES.—

12           “(A) IN GENERAL.—The ‘cost of business  
13           purchases’ includes any product taxes paid or  
14           to be paid with respect to the property or serv-  
15           ices purchased.

16           “(B) PRODUCT TAX.—‘Product tax’ means  
17           any excise tax, sales or use tax, custom duty, or  
18           other separately stated levy imposed by a Fed-  
19           eral, State, or local government on the produc-  
20           tion, severance or consumption of property or  
21           on the provision of services, whether or not sep-  
22           arately stated, and including any such taxes  
23           that are technically imposed on the seller of  
24           property or services.

1           “(C) TAXES NOT PRODUCT TAXES.—Prod-  
2           uct taxes do not include—

3                   “(i) the import tax,

4                   “(ii) state and local property taxes,

5                   “(iii) franchise or income taxes,

6                   “(iv) payroll taxes and self-employ-  
7                   ment taxes, or

8                   “(v) the business tax.

9           “(3) IMPORTS.—In the case of an import by a  
10          business entity, the cost of the import is the import  
11          price for purposes of the import tax. The import tax  
12          is not part of the cost of the import.

13          “(c) PROPERTY AND SERVICES ACQUIRED FOR  
14          PROPERTY.—If a business entity receives property or serv-  
15          ices from a business entity in whole or partial exchange  
16          for property or services, the property or services acquired  
17          shall be treated as if such property and services were pur-  
18          chased for an amount equal to the fair market value of  
19          the services or property received, plus any cash received.  
20          For purposes of this section, property includes stock and  
21          other equity interests in business other than stock or an  
22          equity interest in the business entity acquiring the prop-  
23          erty or services. See section 210(b) for rules on property  
24          or services received in exchange for an equity interest in  
25          the recipient.

1       “(d) GAMBLING PAYMENTS.—In the case of a busi-  
2 ness involving gambling, lotteries, or other games of  
3 chance, business purchases include amounts paid to win-  
4 ners.

5       “(e) CROSS REFERENCES.—

6           “(1) FINANCIAL INTERMEDIATION AND INSUR-  
7 ANCE.—For rules relating to fees for financial  
8 intermediation services and insurance, see sub-  
9 chapter F.

10          “(2) LAND.—For special rules relating to the  
11 acquisition of land, see subchapter E.

12          “(3) RENTAL REAL ESTATE.—For special rules  
13 relating to the rental of real estate previously occu-  
14 pied by an owner of the real estate, see section 232.

15          “(4) OUTSIDE THE UNITED STATES.—For spe-  
16 cial rules relating to services performed outside the  
17 United States but used inside the United States and  
18 international services, see subchapter J.

19 **“SEC. 206. BUSINESS ENTITY AND BUSINESS ACTIVITY.**

20       “(a) BUSINESS ENTITY.—For purposes of the busi-  
21 ness tax, ‘business entity’ means any corporation, unincor-  
22 porated association, partnership, limited liability company,  
23 proprietorship, independent contractor, individual, or any  
24 other person engaging in business activity in the United

1 States. An individual shall be considered a business entity  
2 only with respect to the individual's business activities.

3 “(b) BUSINESS ACTIVITY.—‘Business activity’ means  
4 the sale of property or services, the leasing of property,  
5 the development of property or services for subsequent  
6 sale or use in producing property or services for subse-  
7 quent sale. ‘Business activity’ does not include casual or  
8 occasional sales of property used by an individual (other  
9 than in a business activity), such as the sale by an individ-  
10 ual of a vehicle used by the individual.

11 “(c) EXCEPTION FOR CERTAIN EMPLOYEES.—

12 “(1) IN GENERAL.—‘Business activity’ does not  
13 include—

14 “(A) the performance of services by an em-  
15 ployee for an employer that is a business entity  
16 with respect to the activity in which the em-  
17 ployee is engaged, or

18 “(B) the performance of regular domestic  
19 household services (including babysitting,  
20 housecleaning, and lawn cutting) by an em-  
21 ployee of an employer that is an individual or  
22 family.

23 “(2) EMPLOYEE DEFINED.—For purposes of  
24 this subsection, ‘employee’ includes an individual  
25 partner who provides services to a partnership or an



1 individual member who provides services to a limited  
2 liability company, or a proprietor with respect to  
3 compensation for services from his proprietorship.

4 **“SEC. 207. LOSS CARRYOVER DEDUCTION.**

5 “(a) DEDUCTION.—The loss carryover deduction for  
6 a taxable year is the lesser of—

7 “(1) the business entity’s gross profits for the  
8 taxable year (determined without the loss carryover  
9 deduction), or

10 “(2) the amount of the loss carryover to the  
11 taxable year.

12 “(b) LOSS CARRYOVER.—

13 “(1) GENERAL RULE.—A loss for any taxable  
14 year may be a loss carryover to each of the 15 tax-  
15 able years following the taxable year of the loss.

16 “(2) LOSS CARRYOVERS TO A TAXABLE YEAR.—  
17 The loss carryover to a taxable year is the sum of  
18 the loss carryovers from all prior taxable years be-  
19 ginning on or after January 1, 1996, that can be  
20 carried over to the taxable year.

21 “(3) REDUCTION OF LOSS CARRYOVERS AS A  
22 RESULT OF THE DEDUCTION.—A business entity’s  
23 loss carryovers shall be reduced each year by the  
24 amount of the loss carryover deduction for the year.

1 Loss carryovers shall be reduced in the order that  
2 such carryovers arose.

3 “(c) LOSS FOR TAXABLE YEAR.—A business entity’s  
4 loss (if any) for the taxable year equals the excess (if any)  
5 of—

6 “(1) the sum of—

7 “(A) the cost of business purchases for the  
8 taxable year, and

9 “(B) the transition basis adjustment for  
10 the taxable year, over

11 “(2) taxable receipts for the taxable year.

12 “(d) SPECIAL RULES.—

13 “(1) CONSOLIDATED RETURNS.—In the case of  
14 a consolidated return, the loss for a taxable year  
15 shall be determined on a consolidated group basis.  
16 In the case of a deconsolidation, the loss carryovers  
17 from the consolidated group shall be allocated in ac-  
18 cordance with rules to be prescribed by the Sec-  
19 retary.

20 “(2) LOSS CARRYOVERS OF ACQUIRED BUSI-  
21 NESS ENTITY.—

22 “(A) IN GENERAL.—If a business entity  
23 acquires another business entity in a trans-  
24 action that is considered the acquisition of a  
25 business entity and the 2 entities file a consoli-

1       dated return or if 2 business entities merge, the  
2       loss carryovers will survive and can be applied  
3       against the taxable receipts attributable to the  
4       business activities carried on (or in the case of  
5       a merger formerly carried on) by either entity.

6       “(B) ASSET ACQUISITION.—If a business  
7       entity acquires all or substantially all of the as-  
8       sets of another entity in a transaction that is  
9       considered an asset acquisition rather than the  
10      acquisition of a business entity, the acquirer  
11      will be treated as if it acquired the loss  
12      carryovers of the selling entity. For purposes of  
13      this rule, the assets of a business entity include  
14      ownership interests in other business entities.

15      “(C) SUBSTANTIALLY ALL.—For purposes  
16      of this paragraph ‘substantially all’ means more  
17      than 80 percent of the fair market value of a  
18      business entity’s net assets. Under rules pre-  
19      scribed by the Secretary, the parties to a trans-  
20      action may elect to treat acquisitions in excess  
21      of 70 percent of the fair market value of a busi-  
22      ness entity’s net assets as acquisitions of ‘sub-  
23      stantially all’ of a business entity’s net assets.

1       **“Subchapter C—Capital Contributions,**  
 2       **Mergers, Acquisitions, and Distributions**

“Sec. 210. Contributions to a business entity.

“Sec. 211. Distributions of property.

“Sec. 212. Asset acquisitions.

“Sec. 213. Mergers and stock acquisitions.

“Sec. 214. Spinoffs, splitoff, etc.

“Sec. 215. Allocation of certain tax attributes.

3       **“SEC. 210. CONTRIBUTIONS TO A BUSINESS ENTITY.**

4       “(a) BY BUSINESS ENTITY.—

5               “(1) CASH.—If a business entity contributes  
 6       cash to a business entity of which it is or becomes  
 7       a partial or full owner, the amount contributed is  
 8       not a deductible amount to the contributor or a tax-  
 9       able receipt to the recipient.

10              “(2) PROPERTY OR SERVICES.—If a business  
 11       entity contributes property or services to a business  
 12       entity of which it is or becomes a partial or full  
 13       owner, the transaction will not result in taxable re-  
 14       ceipts to the contributor or a deduction for a busi-  
 15       ness purchase for the recipient and will not con-  
 16       stitute a sale resulting in taxable receipts to the con-  
 17       tributor.

18       “(b) BY INDIVIDUAL.—

19              “(1) CASH.—If an individual contributes cash  
 20       to a business entity, the cash received is not a tax-  
 21       able receipt.

1           “(2) NEW PROPERTY.—If an individual contrib-  
2       utes to a business entity property that the individual  
3       purchased for the business entity and which was not  
4       used by any person after its purchase, the property  
5       shall be considered purchased by such business en-  
6       tity from the person from which the individual pur-  
7       chased the property and the basis of such property  
8       in the hands of the business entity shall be the such  
9       basis in the hands of the individual.

10          “(3) PERSONAL USE PROPERTY.—

11               “(A) IN GENERAL.—If an individual con-  
12       tributes personal use property to a business en-  
13       tity in which the individual has an ownership  
14       interest or for which the individual receives an  
15       ownership interest, the business entity shall not  
16       be permitted to deduct the value of the property  
17       received as a business expense. The business  
18       entity will have a tax basis in the contributed  
19       property equal to the contributor’s basis.

20               “(B) PERSONAL USE PROPERTY.—‘Per-  
21       sonal use property’ means any property used by  
22       an individual at any time other than in a busi-  
23       ness activity.

24          “(4) SERVICES.—If an individual contributes  
25       services to a business entity in which the individual

1       has an ownership interest or receives an ownership  
 2       interest, the business entity shall not be permitted to  
 3       deduct the value of the services received (or the  
 4       value of the equity interest provided to the services  
 5       provider).

6       **“SEC. 211. DISTRIBUTIONS OF PROPERTY.**

7       “(a) DISTRIBUTIONS OTHER THAN TO CONTROL-  
 8       LING BUSINESS.—If a business entity distributes all or a  
 9       portion of its assets to its owners (other than a controlling  
 10      business entity), the business entity will be treated as if  
 11      it sold the assets to its owners at fair market value. The  
 12      fair market value will be determined by the distributing  
 13      corporation and those determinations, unless unreason-  
 14      able, will be binding on the recipients.

15      “(b) DISTRIBUTIONS TO A CONTROLLING BUSI-  
 16      NESS.—If a business entity distributes all or a portion of  
 17      its assets to a controlling business, the controlling busi-  
 18      ness will assume the distributing entity’s tax attributes  
 19      with respect to the assets and neither entity will have tax-  
 20      able receipts or a deduction as a result of the transaction.

21      “(c) DISTRIBUTION OF PERSONAL USE PROP-  
 22      ERTY.—If personal use property is distributed to the indi-  
 23      vidual who contributed the personal use property to a busi-  
 24      ness entity, the fair market value of the property for pur-  
 25      poses of paragraph (a) shall equal the basis of the prop-

1 erty plus any enhancement in value of the property attrib-  
2 utable to business purchases with respect to the property.

3 “(d) CONTROLLING BUSINESS ENTITY.—A business  
4 entity is a ‘controlling business entity’ with respect to an-  
5 other business entity if it owns directly or indirectly more  
6 than 50 percent of the profits or capital interest in the  
7 other business entity.

8 “(e) APPLICATION OF THIS SECTION.—This section  
9 applies to both liquidating and nonliquidating distribu-  
10 tions. Property shall be treated as distributed if the prop-  
11 erty is used for a nonbusiness purpose (as defined in sec-  
12 tion 232) for more than an insubstantial period of time  
13 during a taxable year. See section 232 for rules relating  
14 to certain rental property.

15 **“SEC. 212. ASSET ACQUISITIONS.**

16 “(a) IN GENERAL.—If a business entity transfers  
17 some or all of its assets, the consideration received for  
18 such assets shall be allocated among the assets transferred  
19 in the same manner as was required by section 1060 of  
20 the Internal Revenue Code of 1986. If the transferee and  
21 transferor agree in writing on the allocation of any consid-  
22 eration, or as to the fair market value of any of the assets,  
23 such agreement shall be binding on both the transferor  
24 and transferee unless the Secretary determines that such  
25 allocation (or fair market value) is not appropriate.

1       “(b) TAX CONSEQUENCES.—The tax consequences of  
2 an asset acquisition shall be determined in accordance  
3 with the rules of this chapter and shall be dependent upon  
4 allocations made under subsection (a). In general, consid-  
5 eration allocable to savings assets, such as stock in an-  
6 other business entity, would not be included in taxable re-  
7 cepts of the transferor and would not be a business pur-  
8 chase of the purchaser, but consideration allocable to the  
9 sale of tangible property and intangible property (other  
10 than savings assets) will constitute taxable receipts of the  
11 seller and a business purchase of the purchaser.

12       “(c) ELECTION TO TREAT ASSET ACQUISITION AS A  
13 STOCK ACQUISITION.—In the case of the sale of substan-  
14 tially all of the assets of a business entity or substantially  
15 all of the assets of a line of business or a separately stand-  
16 ing business of a business entity, the transferee and trans-  
17 feror can jointly elect to treat the acquisition as if it were  
18 an acquisition of the stock of a business entity holding  
19 the assets so transferred. In such case, the rules of section  
20 213 shall apply.

21       “(d) AUTHORITY TO REQUIRE ALLOCATION AGREE-  
22 MENT AND NOTICE TO THE SECRETARY.—If the Sec-  
23 retary determines that certain types of asset acquisitions  
24 have significant possibilities of tax avoidance, the Sec-  
25 retary may require—



1           “(1) parties to such types of acquisitions to  
2       enter into agreements allocating consideration,

3           “(2) parties to acquisitions involving certain  
4       kinds of assets to enter into agreements allocating  
5       part of the consideration to those assets, or

6           “(3) parties to certain acquisitions to report in-  
7       formation to the Secretary.

8       “(e) ASSET ACQUISITION RULES DO NOT APPLY IF  
9       CONSIDERATION INCLUDES EQUITY IN PURCHASER.—

10           “(1) IN GENERAL.—If a business entity issues  
11       its own equity or equity in a subsidiary or other con-  
12       trolled entity as part of the consideration for the  
13       transfer of assets to it, the transaction shall not be  
14       treated as an asset acquisition and the rules of sec-  
15       tion 213 shall apply.

16           “(2) EQUITY.—For purposes of this subsection,  
17       equity means—

18           “(A) stock, in the case of a corporation,

19           “(B) a partnership or similar interest, in  
20       the case of a partnership or limited liability  
21       company, and

22           “(C) an ownership interest or interest in  
23       profits in the case of any other business entity.

1   **“SEC. 213. MERGERS AND STOCK ACQUISITIONS.**

2       “(a) MERGERS.—A merger of 1 business entity into  
3 another or 2 businesses entities into a 3rd business entity  
4 or any other similar transaction shall have no direct con-  
5 sequences under the business tax. The surviving entity  
6 shall assume the tax attributes of the merged corpora-  
7 tions, including any loss carryovers and credit carryovers.

8       “(b) STOCK ACQUISITION.—The acquisition of all or  
9 substantially all of the ownership interest in 1 business  
10 entity either for cash or in exchange for ownership in the  
11 acquiring entity or an entity controlled by the acquired  
12 entity shall have no direct consequences under the busi-  
13 ness tax.

14   **“SEC. 214. SPINOFFS, SPLITOFFS, ETC.**

15       “A spinoff, splitoff, or split-up of a business entity  
16 shall have no direct tax consequences under the business  
17 tax.

18   **“SEC. 215. ALLOCATION OF CERTAIN TAX ATTRIBUTES.**

19       “The Secretary shall prescribe rules for allocation of  
20 loss carryovers and payroll tax credit carryovers in cases  
21 of substantial shifts of assets from 1 business entity to  
22 another business entity. Under such rules, a portion of a  
23 business entity’s carryovers may be deemed transferred  
24 when assets are transferred.

25   **“Subchapter D—Accounting Method Rules**

      “Sec. 220. General accounting rules.

- “Sec. 221. Use of the cash method of accounting.
- “Sec. 222. Taxable year.
- “Sec. 223. Long-term contracts.
- “Sec. 224. Post-sale price adjustments and refunds.
- “Sec. 225. Bad debts.
- “Sec. 226. Transition rules.

1 **“SEC. 220. GENERAL ACCOUNTING RULES.**

2       “(a) IN GENERAL.—Except as provided in section  
 3 221, a business entity shall use an accrual method of ac-  
 4 counting for purposes of determining the timing of rec-  
 5 ognition of taxable receipts and deductions of business  
 6 purchases. All business purchases shall be deducted when  
 7 incurred (in the case of a business entity using an accrual  
 8 method of accounting) or when paid (in case of a business  
 9 entity using the cash receipts and disbursements method  
 10 of accounting) without regard to whether the business pur-  
 11 chases are for or relate to—

12               “(1) inventory,

13               “(2) assets with a useful life of more than 1  
 14       year, or

15               “(3) property that will be used to produce other  
 16       property.

17       “(b) ECONOMIC PERFORMANCE.—For purposes of  
 18 determining whether an amount has been incurred, the all  
 19 events test shall not be treated as met any earlier than  
 20 when economic performance with respect to such item  
 21 occurs.

1       “(c) CHANGE IN ACCOUNTING METHODS.—Except as  
2 otherwise expressly provided in this chapter, a business  
3 entity shall secure the consent of the Secretary before  
4 changing the method of accounting by which it determines  
5 gross profits. This provision shall not apply to changes  
6 required by the adoption of the business tax.

7       **“SEC. 221. USE OF THE CASH RECEIPTS AND DISBURSE-**  
8                   **MENTS METHOD OF ACCOUNTING.**

9       “(a) IN GENERAL.—A business entity that was per-  
10 mitted to use and used the cash receipts and disburse-  
11 ments method of accounting under the Internal Revenue  
12 Code of 1986 shall be permitted to continue to use the  
13 cash receipts and disbursements method of accounting.

14       “(b) NEW BUSINESS ENTITIES.—A new business en-  
15 tity shall be permitted to use the cash receipts and dis-  
16 bursements method of accounting if permitted to under  
17 regulations prescribed by the Secretary.

18       “(c) CHANGE OR EXPANSION OF BUSINESS.—Sub-  
19 section (a) shall cease to apply to a business entity that  
20 changes or expands its business such that under regula-  
21 tions prescribed by the Secretary it is no longer eligible  
22 to use the cash receipts and disbursements method of ac-  
23 counting.

24       “(d) REGULATIONS.—

1           “(1) USE OF CASH RECEIPTS AND DISBURSE-  
 2           MENTS METHOD.—The Secretary shall prescribe reg-  
 3           ulations defining which business entities may use the  
 4           cash receipts and disbursements method of account-  
 5           ing. In general, those regulations shall be consistent  
 6           with the rules under sections 447 and 448 of the In-  
 7           ternal Revenue Code of 1986, except that all cor-  
 8           porations shall be treated as C corporations were  
 9           treated under those sections. The regulations shall  
 10          not require a business entity described in subsection  
 11          (a) to convert to the accrual method prior to Janu-  
 12          ary 1, 1997.

13           “(2) CHANGE IN ACCOUNTING METHOD.—The  
 14          Secretary shall prescribe regulations to prevent dou-  
 15          ble counting of taxable receipts and deductible ex-  
 16          penses in the case of a change in accounting method.

17   **“SEC. 222. TAXABLE YEAR.**

18          “(a) COMPUTATION OF GROSS PROFITS.—Gross  
 19          profits shall be computed on the basis of a business enti-  
 20          ty’s taxable year.

21          “(b) TAXABLE YEAR.—‘Taxable year’ means—

22                “(1) the taxpayer’s annual accounting period, if  
 23                it is a calendar year or a fiscal year;

24                “(2) the calendar year, if subsection (g) applies;

25          or

1           “(3) the period for which the return is made if  
2           the return is made for a period of less than 12  
3           months.

4           “(c) ANNUAL ACCOUNTING PERIOD.—‘Annual ac-  
5           counting period’ means the annual period on the basis of  
6           which the business entity regularly keeps its books.

7           “(d) CALENDAR YEAR.—‘Calendar year’ means a pe-  
8           riod of 12 months ending on December 31.

9           “(e) FISCAL YEAR.—‘Fiscal year’ means a period of  
10          12 months ending on the last day of any month other than  
11          December. In the case of any business entity that has  
12          made the election provided by subsection (f), the term  
13          means the annual period (varying from 52 to 53 weeks)  
14          so elected.

15          “(f) ELECTION OF 52–53 WEEK YEAR.—

16                 “(1) GENERAL RULE.—A business entity which,  
17                 in keeping its books, regularly computes its income  
18                 or profits on a basis of an annual period which var-  
19                 ies from 52 to 53 weeks and ends always on the  
20                 same day of the week and ends always—

21                         “(A) on whatever date such same day of  
22                         the week last occurs in a calendar month, or

23                         “(B) on whatever date such same day of  
24                         the week falls which is nearest to the last day

1 of a calendar month, may elect to compute its  
2 gross profits on the basis of such annual period.

3 “(2) REGULATIONS.—The Secretary shall pre-  
4 scribe such regulations as he deems necessary for  
5 the application of this subsection, including regula-  
6 tions relating to the application of effective dates to  
7 taxpayers using a 52–53 week year.

8 “(g) CALENDAR YEAR REQUIRED.—

9 “(1) NO ACCOUNTING PERIOD.—A business en-  
10 tity’s taxable year shall be the calendar year if the  
11 business entity does not have an annual accounting  
12 period or has an annual accounting period that does  
13 not qualify as a fiscal year.

14 “(2) NEW BUSINESS ENTITY.—The taxable  
15 year of a business entity that begins business activ-  
16 ity after December 31, 1995, shall be the calendar  
17 year (or a 52–53 week fiscal year ending in Decem-  
18 ber) unless the business entity can demonstrate a  
19 business reason for selecting an accounting period  
20 other than the calendar year.

21 “(h) TRANSITION RULE FOR BUSINESS ENTITIES  
22 WITH A FISCAL YEAR.—

23 “(1) IN GENERAL.—A business entity with a  
24 taxable year that is not the calendar year shall have  
25 a short taxable year ending on December 31, 1995,

1 and a subsequent taxable year beginning on January  
2 1, 1996, and ending on the day immediately preced-  
3 ing the beginning of the business entity's next fiscal  
4 year.

5 “(2) BUSINESS ENTITIES WITH 52–53 WEEK  
6 YEAR ENDING IN DECEMBER.—

7 “(A) IN GENERAL.—If a business entity  
8 has a 52–53 week taxable year (under the In-  
9 ternal Revenue Code of 1986) that ends in De-  
10 cember 1995, it may elect to begin its first tax-  
11 able year for the business tax on the first day  
12 immediately following the last day of such tax-  
13 able year.

14 “(B) NO ELECTION.—If a business entity  
15 that has a 52–53 week taxable year that ends  
16 in December 1995, does not make the election  
17 under subparagraph (A) or is prohibited from  
18 making such election by subparagraph (C), the  
19 business entity's taxable year under the Inter-  
20 nal Revenue Code of 1986 that would end in  
21 December 1995 shall end on December 31,  
22 1995.

23 “(C) ANTI-ABUSE RULE.—Subparagraph  
24 (A) shall not apply to any taxpayer that enters  
25 into business transactions in 1995 following the



1           scheduled end of its fiscal year with business  
 2           entities that are not subject to the business tax  
 3           at the time of such transactions if such trans-  
 4           actions deviate from the normal course of busi-  
 5           ness in order to achieve some tax benefit.

6   **“SEC. 223. LONG-TERM CONTRACTS.**

7           “(a) IN GENERAL.—In the case of a long-term con-  
 8   tract—

9           “(1) CONTRACTOR EXPENSES.—The contractor  
 10       shall be entitled to deduct its business purchases  
 11       when paid or incurred.

12          “(2) CONTRACTOR RECEIPTS.—The contractor  
 13       shall recognize taxable receipts—

14               “(A) in the case of a project in which the  
 15       acquirer has no ownership interest in the  
 16       project until delivery—

17                       “(i) upon delivery of the project, in  
 18                       the case of an accrual basis contractor, or

19                       “(ii) upon the later of delivery of the  
 20                       project or the receipt of payment, in the  
 21                       case of a cash-basis contractor,

22               “(B) in the case of a project in which the  
 23       acquirer obtains an ownership interest as the  
 24       project is constructed—

1           “(i) when the contractor has the right  
2           to payments, in the case of an accrual  
3           basis contractor, or

4           “(ii) upon the later of when the con-  
5           tractor receives the cash or has the right  
6           to payments, in the case of a cash basis  
7           contractor.

8           “(3) ACQUIRER EXPENSES.—The acquirer that  
9           is a business entity shall be entitled to deduct its  
10          costs of the business purchase—

11          “(A) in the case of a cash-basis acquirer,  
12          at such time as a cash basis contractor would  
13          be required to treat the amounts paid as tax-  
14          able receipts, or

15          “(B) in the case of an accrual-basis  
16          acquirer, at such time as an accrual basis con-  
17          tractor would be required to treat the amounts  
18          paid or due as taxable receipts.

19          “(b) RIGHT TO PAYMENTS.—

20          “(1) IN GENERAL.—A contractor shall be treat-  
21          ed as having a right to payments with respect to a  
22          project at any time to the extent that the contractor  
23          would not be required to return payments received  
24          (or would be entitled to collect payments not yet re-

1       ceived) if the project were terminated at such time  
2       by the contractor.

3           “(2) CONTRACTUAL PROVISIONS.—If a long-  
4       term contract includes a procedure for paying the  
5       contractor as work is completed (for example, by  
6       reason of a draw down from a trust account), the  
7       contractual provisions shall generally govern when a  
8       contractor has a right to payment.

9           “(3) PERCENTAGE COMPLETION METHOD OF  
10      ACCOUNTING.—If a long-term contract does not in-  
11      clude a mechanism for paying the contractor as  
12      work is completed, the percentage-of-completion  
13      method of accounting shall be used to determine the  
14      timing of taxable receipts of the contractor and busi-  
15      ness purchases of the acquirer.

16      “(c) LONG-TERM CONTRACT.—

17           “(1) IN GENERAL.—‘Long-term contract’  
18      means—

19           “(A) any contract that covers service or  
20      production through parts of 2 different calendar  
21      years if the contract includes a formal deposit  
22      and draw-down mechanism, and

23           “(B) any contract for the manufacture,  
24      building, installation, or construction of prop-  
25      erty if such contract is not completed within the

1 taxable year of the contractor in which such  
2 contract is entered into.

3 “(2) EXCEPTION.—A contract for the manufac-  
4 ture of property shall not be treated as a long-term  
5 contract unless such contract involves the manufac-  
6 ture of—

7 “(A) any unique item of a type which is  
8 not normally included in the finished goods in-  
9 ventory of the taxpayer, or

10 “(B) any item which normally requires  
11 more than 12 calendar months to complete.

12 “(d) CONSISTENCY.—The Secretary may require  
13 business entities to file statements containing such infor-  
14 mation with respect to long-term contracts as the Sec-  
15 retary may prescribe to ensure consistency in reporting.

16 “(e) FOREIGN CONTRACTS.—This section shall not  
17 be construed to permit a deduction for a business purchase  
18 for the cost of property produced outside the United  
19 States pursuant to a long-term contract at any time prior  
20 to the import of such property into the United States.

21 **“SEC. 224. POST-SALE PRICE ADJUSTMENTS AND REFUNDS.**

22 “(a) RECEIPT OF PRICE ADJUSTMENT.—In the case  
23 of a post-sale price adjustment attributable to a business  
24 purchase which was taken into account in computing gross  
25 profits for a prior taxable year, the amount of such adjust-

1 ment shall be treated as a reduction or increase, as the  
 2 case may be, in the cost of business purchases for the tax-  
 3 able year in which the adjustment is made or incurred.

4 “(b) ISSUANCE OF PRICE ADJUSTMENT.—In the case  
 5 of a post-sale price adjustment attributable to a sale the  
 6 receipts from which were taken into account in determin-  
 7 ing taxable receipts for a prior taxable year, the amount  
 8 of such adjustment shall be treated as a reduction or in-  
 9 crease, as the case may be, in taxable receipts for the tax-  
 10 able year in which the adjustment is made or incurred.

11 “(c) POST-SALE PRICE ADJUSTMENT.—‘Post-sale  
 12 price adjustment’ means a refund, rebate, or other price  
 13 allowance attributable to a sale of property or services or  
 14 an upward adjustment in price that was not previously  
 15 taken into account under the business entity’s method of  
 16 accounting.

17 **“SEC. 225. BAD DEBTS.**

18 “(a) SELLER.—If an amount owed to an accrual  
 19 basis business entity for property or services sold—

20 “(1) was taken into account as a taxable receipt  
 21 in a prior taxable year, and

22 “(2) becomes wholly or partially uncollectible  
 23 during the taxable year,

1 then the seller shall treat the amount as a reduction in  
2 taxable receipts for the taxable year in which it becomes  
3 wholly or partially uncollectible.

4 “(b) NOTICE REQUIREMENT.—No reduction shall be  
5 allowed under subsection (a) unless the seller notifies the  
6 purchaser of the amount which the seller has treated as  
7 wholly or partially uncollectible.

8 “(c) SUBSEQUENT COLLECTION.—If an amount  
9 which was treated as uncollectible under subsection (a) is  
10 subsequently collected, it shall be treated as a taxable re-  
11 ceipt when collected.

12 “(d) PURCHASER.—If a purchaser receives notice  
13 under subsection (b) from a seller and the purchaser has  
14 treated the amount labeled uncollectible as a business pur-  
15 chase in a prior taxable year, then the purchaser shall  
16 treat such amount as a reduction in the cost of business  
17 purchases in the taxable year to which the notice relates.  
18 If the purchaser subsequently repays such amount, the re-  
19 payment shall constitute the cost of a business purchase.

20 **“SEC. 226. TRANSITION RULES.**

21 “(a) NO DOUBLE DEDUCTIONS.—A business entity  
22 shall not be entitled to treat as a ‘cost of business pur-  
23 chase’ any amount that the business entity deducted in  
24 computing taxable income under the income tax in effect  
25 prior to the effective date of the business tax.

1       “(b) NO DOUBLE INCLUSION.—A business entity  
2 shall not be required to include in taxable receipts any  
3 receipt that the business entity took into account in com-  
4 puting taxable income under the income tax in effect prior  
5 to the effect date of the business tax.

6       “(c) NO LOSS OF DEDUCTION.—An expense which—

7               “(1) a business entity would have been able to  
8 deduct as a cost of a business purchase in an ac-  
9 counting period before the effective date of the busi-  
10 ness tax if the business tax had been in effect in  
11 such period, and

12              “(2) the business entity would have been able to  
13 deduct as an expense in computing taxable income  
14 in a period after the business tax is effective if the  
15 income tax had continued in effect,

16 shall be treated as a cost of a business purchase incurred  
17 or paid at the time that it would have been paid or in-  
18 curred under the income tax if the income tax had contin-  
19 ued in effect. This subsection shall not apply to any  
20 amount which is to be taken into account under sub-  
21 chapter N (relating to amortization of transition basis,  
22 and inventory costs), any amounts which would have been  
23 deducted under the income tax through loss carryover de-  
24 ductions, or any deductions deferred by the uniform cap-

1 italization rules under section 263A of the Internal Reve-  
 2 nue Code of 1986.

3 “(d) ALL TAXABLE RECEIPTS TAXED.—A receipt  
 4 which—

5 “(1) a business entity would have been required  
 6 to treat as a taxable receipt in an accounting period  
 7 before the effective date of the business tax if the  
 8 business tax had been in effect in such period, and

9 “(2) the business entity would have been re-  
 10 quired to include in gross income in a period after  
 11 the business tax is effective if the income tax had  
 12 continued in effect,

13 shall be treated as a taxable receipt at the time that it  
 14 would have been included in income if the income tax had  
 15 continued in effect.

## 16 **“Subchapter E—Land and Rental Property**

“Sec. 230. No deduction for land purchased for nonbusiness use.

“Sec. 231. Taxable receipts for land held for nonbusiness use.

“Sec. 232. Certain rental property.

### 17 **“SEC. 230. NO DEDUCTION FOR LAND PURCHASED FOR** 18 **NONBUSINESS USE.**

19 “(a) IN GENERAL.—The acquisition of unimproved  
 20 land shall not constitute a business purchase if the unim-  
 21 proved land is not acquired to be used in a business activ-  
 22 ity or if the land is acquired for—

23 “(1) speculation,

24 “(2) development (including subdivision),



1           “(3) temporary leasing or other use not com-  
2       mensurate with the value of the land,

3           “(4) indefinite future use in a business activity,  
4       or

5           “(5) use in compensating employees.

6       “(b) FUTURE USE IN BUSINESS ACTIVITY.—Unim-  
7       proved land will not be considered held for ‘indefinite fu-  
8       ture use in a business activity’ if promptly upon acquisi-  
9       tion, the purchaser or the lessee begins construction of im-  
10      provements on the land (other than improvements, such  
11      as paving or sewage lines, intended for indefinite future  
12      development) that will be used in a business activity. Such  
13      improvement must be commensurate with the value of the  
14      land.

15      “(c) UNIMPROVED LAND.—‘Unimproved land’  
16      means—

17           “(1) land with no buildings on it,

18           “(2) land with improvements if the value of the  
19      improvements is relatively small in comparison to  
20      the value of the land and it is anticipated that the  
21      improvements will be demolished and not used, or

22           “(3) land in excess of the amount reasonably  
23      needed for the buildings located on it.

24      “(d) CONVERSION TO BUSINESS USE.—If the acqui-  
25      sition of land is not treated as a business purchase by rea-

1 son of subsection (a) and the land is subsequently used  
 2 in a manner for which it could have been treated as a  
 3 business purchase, the cost of the land will be treated as  
 4 a business purchase when the improvements on the land  
 5 are placed in service (or in the case of construction for  
 6 sale, substantially completed and advertised for sale).

7 **“SEC. 231. TAXABLE RECEIPTS FROM SALE OF LAND HELD**  
 8 **FOR NONBUSINESS USE.**

9 “(a) TAX BASIS.—A business entity shall have a tax  
 10 basis in land equal to the cost of the land if such cost  
 11 is not deductible by reason of section 30(a) and the land  
 12 has not been converted to business use for purposes of  
 13 section 230(d).

14 “(b) TAXABLE RECEIPTS OF A LAND SALE.—The  
 15 taxable receipts from the sale of land (or portion thereof)  
 16 in which a business entity has a tax basis by reason of  
 17 subsection (a) shall be the amount by which the proceeds  
 18 exceed the basis of such land (or portion thereof).

19 **“SEC. 232. CERTAIN RENTAL PROPERTY.**

20 “(a) IN GENERAL.—Except as provided in subsection  
 21 (b), the activity of rental of real estate is a business activ-  
 22 ity to which the business tax applies.

23 “(b) NOT RENTAL PROPERTY.—

24 “(1) IN GENERAL.—If the owners of property  
 25 use the property for at least 14 days during the tax-

1       able year for a nonbusiness purpose and rent the  
2       property for no more than 14 days during the tax-  
3       able year, the property shall not be considered rental  
4       property or used in the activity of rental of real es-  
5       tate during the taxable year for purposes of the  
6       business tax.

7               “(2) NONBUSINESS USE.—For purposes of this  
8       section, ‘use for a nonbusiness purpose’ means use  
9       other than—

10               “(A) use for which fair rent is paid,

11               “(B) use in connection with the prepara-  
12       tion of the property for rental, or

13               “(C) use that serves a clear business pur-  
14       pose.

15       Use during any part of a day shall constitute use for  
16       that day.

17       “(c) RENTAL PROPERTY BECOMES NONRENTAL  
18       PROPERTY.—If property which is considered rental prop-  
19       erty for purposes of subsection (a) in 1 taxable year ceases  
20       to be rental property (by reason of subsection (b)) in the  
21       following taxable year, the property (and any associated  
22       debt) shall be treated as distributed by the business entity  
23       to its owners. Section 211(a) shall apply to such distribu-  
24       tion.

1       **“Subchapter F—Insurance and Financial**  
 2                                   **Products**

“Sec. 235. General rules.

“Sec. 236. Fees for financial intermediation services.

“Sec. 237. Deductible insurance premiums.

“Sec. 238. Nondeductible insurance premiums.

“Sec. 239. Certain implicit fees for financial intermediation services.

3       **“SEC. 235. GENERAL RULES.**

4           “(a) TAXABLE RECEIPTS.—Except in the case of a  
 5 financial intermediation business, taxable receipts do not  
 6 include financial receipts (as defined in section 203(e)(2)).

7           “(b) BUSINESS PURCHASES.—Except in the case of  
 8 a financial intermediation business, business purchases do  
 9 not include the cost of financial instruments (as defined  
 10 in section 242(b)(3)) or payments for use of money or cap-  
 11 ital, other than fees for financial intermediation services.

12       **“SEC. 236. FEES FOR FINANCIAL INTERMEDIATION SERV-**  
 13                                   **ICES.**

14           “(a) BUSINESS PURCHASES.—Business purchases in-  
 15 clude explicit fees and implicit fees for financial  
 16 intermediation services (except to the extent that such fees  
 17 are for services treated as performed outside the United  
 18 States and not imported into the United States or for  
 19 services treated as exported.).

20           “(b) FINANCIAL INTERMEDIATION SERVICES.—The  
 21 definition of ‘financial intermediation service’ in section  
 22 241 applies for purposes of this section.

23           “(c) EXPLICIT FEES.—

1           “(1) IN GENERAL.—‘Explicit fees for financial  
2           intermediation services’ means separately stated fees  
3           for services provided by a business entity in the fi-  
4           nancial intermediation business. Explicit fees do not  
5           include fees for use of money or capital.

6           “(2) EXAMPLES.—Explicit fees for financial  
7           intermediation services include (without limita-  
8           tion)—

9                   “(A) separately listed maintenance and  
10                  service charges of providers of financial  
11                  intermediation services,

12                   “(B) loan documentation fees,

13                   “(C) brokerage fees,

14                   “(D) loan origination fees,

15                   “(E) underwriting fees,

16                   “(F) trustees’ fees, and

17                   “(G) fees for credit checks.

18           “(3) EXCLUSIONS.—Explicit fees for financial  
19           intermediation services do not include prepaid inter-  
20           est and other fees for use of money or capital even  
21           if such fees are separately stated or are labeled as  
22           service fees.

23           “(d) IMPLICIT FEES.—

24                   “(1) IMPLICIT FEES ATTRIBUTABLE TO BOR-  
25                  ROWING.—

1           “(A) IN GENERAL.—Implicit fees attrib-  
2           utable to borrowing from banks and other fi-  
3           nancial institutions shall include the portion of  
4           interest payments that the Secretary designates  
5           as constituting service fees.

6           “(B) TIMING.—Implicit fees determined  
7           under this paragraph shall not be deductible in  
8           any taxable year prior to the taxable year in  
9           which the interest is paid. If the amount of the  
10          interest to which implicit fees relate was de-  
11          ducted as original issue discount under the In-  
12          ternal Revenue Code of 1986, the implicit fees  
13          with respect to such interest shall not constitute  
14          a deductible business purchase.

15          “(C) DESIGNATION BY SECRETARY.—

16                 “(i) ESTIMATE OF DIFFERENTIAL.—  
17                 The Secretary shall estimate for each cal-  
18                 endar year the difference between the cost  
19                 of funds for banks and the rates of interest  
20                 (including discount points) charged to the  
21                 most credit-worthy depositors of banks.  
22                 The determinations shall be made sepa-  
23                 rately for—

24                         “(I) loans with terms of not more  
25                         than 3 years,

1                   “(II) loans with terms of over 3  
2                   but not over 9 years, and

3                   “(III) loans with terms of over 9  
4                   years.

5                   “(ii) DESIGNATION OF IMPLICIT  
6                   FEES.—The Secretary shall designate the  
7                   differences determined under clause (i) as  
8                   the portion of interest expense on loans  
9                   from banks and other financial institutions  
10                  that constitutes an implicit fee for term  
11                  loans originated during the following cal-  
12                  endar year for the respective periods listed  
13                  in subclauses (I) through (III) of clause  
14                  (i). The difference determined for loans de-  
15                  scribed in subclause (I) of clause (i) shall  
16                  apply to determine the implicit fee portion  
17                  of interest on demand loans outstanding  
18                  during the following calendar year.

19                  “(iii) HISTORICAL DETERMINATION.—  
20                  The Secretary shall make an historical de-  
21                  termination in accordance with the prin-  
22                  ciples of this subparagraph to designate  
23                  the portion of interest on term loans made  
24                  before January 1, 1996, that will con-  
25                  stitute implicit fees.

1           “(2) IMPLICIT FEES FOR OTHER FINANCIAL  
 2           INTERMEDIATION ACTIVITY.—Implicit fees for finan-  
 3           cial intermediation services include the portion of the  
 4           fees or other charges paid to a provider of financial  
 5           intermediation services (other than lending) as such  
 6           provider designates in accordance with section 39.

7   **“SEC. 237. DEDUCTIBLE INSURANCE PREMIUMS.**

8           “(a) IN GENERAL.—The cost of insurance premiums  
 9           on business loss policies to the extent that such policies  
 10          insure risks in the United States constitute costs of busi-  
 11          ness purchases. Proceeds from such policies constitute tax-  
 12          able receipts.

13          “(b) BUSINESS LOSS POLICY.—A ‘business loss pol-  
 14          icy’ is an insurance policy—

15               “(1) owned by a business entity,

16               “(2) the beneficiary of which is the business en-  
 17          tity or another business entity doing business with  
 18          the owner of the policy,

19               “(3) that has no inside buildup or other savings  
 20          component,

21               “(4) that covers losses on a loss incurred or  
 22          claims made basis during the term of the policy,

23               “(5) that has a term of not more than 2 years,

24               “(6) that is not a direct or indirect form of  
 25          compensation, and



1           “(7) that covers direct losses of the business,  
2       such as—

3           “(A) damage to or theft of property used  
4       in the business activity,

5           “(B) tort claims against the business,

6           “(C) loss of use of business premises or  
7       services,

8           “(D) malpractice, or

9           “(E) alleged or actual breach of fiduciary  
10      obligations.

11   **“SEC. 238. NONDEDUCTIBLE INSURANCE PREMIUMS.**

12       “(a) NONDEDUCTIBILITY.—The cost of insurance  
13   policies that are not business loss policy policies are not  
14   deductible costs of business purchases.

15       “(b) PROCEEDS OF NONDEDUCTIBLE POLICIES.—In-  
16   surance proceeds from policies described in subsection (a)  
17   do not constitute taxable receipts.

18       “(c) APPLICATION OF THIS SECTION TO CERTAIN  
19   INSURANCE.—This section shall apply to life insurance  
20   policies.

21   **“SEC. 239. CERTAIN IMPLICIT FEES FOR FINANCIAL**  
22                   **INTERMEDIATION SERVICES.**

23       “(a) DEDUCTIBILITY OF FEES.—If a financial  
24   intermediation business (as defined in section 241(b))  
25   elects to determine implicit fees for financial

1 intermediation services pursuant to this section and notify  
2 its business customers of their share of the implicit fees  
3 in accordance with this section, a business entity which  
4 receives such notice may treat the amount reported in the  
5 notice as an implicit fee for financial intermediation serv-  
6 ices in the calendar year to which such notice relates.

7 “(b) ALLOCATION AND REPORTING.—

8 “(1) IN GENERAL.—A financial intermediation  
9 business may—

10 “(A) allocate fees received for services for  
11 which no separately stated fees (or implicit fees  
12 for borrowing determined under section  
13 236(d)(1)) are charged among recipients of  
14 such services on a reasonable and consistent  
15 basis, and

16 “(B) report to each recipient not later  
17 than February 15th of each year the amount so  
18 allocated to it with respect to the immediately  
19 preceding calendar year.

20 “(2) MAXIMUM FEES ALLOCATED.—The maxi-  
21 mum amount that may be allocated by a financial  
22 intermediation business for a calendar year is the  
23 excess of—

24 “(A) the gross profits of the financial  
25 intermediation business for the calendar year

1 (as reasonably estimated by the financial  
2 intermediation business), over

3 “(B) the explicit fees for financial  
4 intermediation services received by the financial  
5 intermediation business.

6 “(3) REASONABLE ALLOCATION.—An allocation  
7 will not be considered reasonable unless it takes into  
8 account and allocates fees to—

9 “(A) both services provided to business en-  
10 tities and services provided to individuals (other  
11 than in a business capacity), and

12 “(B) both persons who receive money from  
13 the financial intermediation business and per-  
14 sons who pay money to the financial  
15 intermediation business (even though amounts  
16 allocated to the former do not constitute im-  
17 plicit fees).

18 “(4) REGULATIONS.—The Secretary shall pre-  
19 scribe regulations relating to the allocations under  
20 this subsection, including regulations addressing—

21 “(A) rules for timing of deductions of im-  
22 plicit fees paid by fiscal year recipients,

23 “(B) subsequent year adjustments if a fi-  
24 nancial intermediation business allocates too  
25 much in a calendar year,

1           “(C) rules for advance approval from the  
2           Secretary for allocation procedures, and

3           “(D) safe-harbor alternatives to the alloca-  
4           tion procedures described in this subsection.

5           “(c) NOT APPLICABLE TO LENDING SERVICES.—  
6           This section shall not apply to lending services.

7           **“Subchapter G—Financial Intermediation**  
8           **and Financial Institutions**

          “Sec. 241. Activities constituting a financial intermediation business.

          “Sec. 242. General rule for taxation.

          “Sec. 243. Special rule for banks.

          “Sec. 244. Insurance companies.

          “Sec. 245. Financial pass-thru entities.

          “Sec. 246. Financial intermediation by other businesses.

9           **“SEC. 241. ACTIVITIES CONSTITUTING A FINANCIAL**  
10           **INTERMEDIATION BUSINESS.**

11           “(a) FINANCIAL INTERMEDIATION BUSINESS.—The  
12           providing of financial intermediation services shall be con-  
13           sidered a business activity. The gross profit of a business  
14           entity providing financial intermediation services shall be  
15           determined by taking into account the rules of this sub-  
16           chapter.

17           “(b) SEPARATE BUSINESS ACTIVITY.—The provision  
18           of financial intermediation services for unrelated persons  
19           shall be considered a separate business activity and a busi-  
20           ness shall be considered a separate entity with respect to  
21           such activity. An entity engaging in such business is re-

1 ferred to in this chapter as a ‘financial intermediation  
2 business’.

3 “(c) INTERNAL FINANCIAL INTERMEDIATION BY A  
4 BUSINESS.—Section 246 shall apply to a business that  
5 provides financial intermediation services for itself and re-  
6 lated parties but generally does not provide such services  
7 for unrelated parties.

8 “(d) DEFINITIONS.—

9 “(1) FINANCIAL INTERMEDIATION SERVICES.—

10 ‘Financial intermediation services’ include—

11 “(A) lending services,

12 “(B) insurance services,

13 “(C) market-making and dealer services,

14 and

15 “(D) any other service provided as busi-  
16 ness activity in which a person acts as an  
17 intermediary in—

18 “(i) the transfer of property, services,  
19 or financial assets, liabilities, risks or in-  
20 struments (or income or expense derived  
21 therefrom) between 2 or more persons, or

22 “(ii) the pooling of economic risk  
23 among other persons

24 and derives all or a portion of such person’s  
25 gross receipts from streams of income or ex-

1           pense, discounts, or other financial flows associ-  
2           ated with the matter with respect to which such  
3           person is acting as an intermediary.

4           “(2) LENDING SERVICES.—‘Lending services’  
5           means the regular making of loans and providing  
6           credit to, or taking deposits from customers, but  
7           does not include an installment or delayed payment  
8           arrangement provided by a seller of property or serv-  
9           ices under which additional charges or fees are im-  
10          posed by the seller for the late payment.

11          “(3) MARKET-MAKING OR DEALER SERVICES.—  
12          ‘Market-making or dealer services’ means services  
13          provided by a person who—

14                 “(A) regularly purchases financial instru-  
15                 ments from or sells financial instruments to  
16                 customers in the ordinary course of a trade or  
17                 business, or

18                 “(B) regularly offers to enter into, assume,  
19                 offset, assign, or otherwise terminate positions  
20                 in financial instruments with customers in the  
21                 ordinary course of a trade or business.

22   **“SEC. 242. GENERAL RULE FOR TAXATION.**

23          “(a) IN GENERAL.—In the case of a financial  
24          intermediation business, gross profits shall be computed  
25          by—

1           “(1) substituting financial receipts for taxable  
2 receipts, and

3           “(2) including financial expenses as business  
4 purchases.

5           “(b) DEFINITIONS.—

6           “(1) FINANCIAL RECEIPTS.—‘Financial re-  
7 ceipts’ means all receipts other than amounts re-  
8 ceived as contributions to capital.

9           “(2) FINANCIAL EXPENSES.—‘Financial ex-  
10 penses’ include—

11           “(A) payments for principal and interest  
12 that is properly allocable to the provision of fi-  
13 nancial intermediation services,

14           “(B) the cost of and payments under fi-  
15 nancial instruments (other than financial in-  
16 struments in the person subject to the tax im-  
17 posed under this chapter and any person relat-  
18 ed to such person),

19           “(C) claims and cash surrender values paid  
20 in connection with insurance or reinsurance  
21 services, and

22           “(D) amounts paid for reinsurance.

23           “(3) FINANCIAL INSTRUMENT.—‘Financial in-  
24 strument’ means any—

25           “(A) share of stock in a corporation,

1           “(B) equity ownership in any widely held  
2           or publicly traded partnership, trust, or other  
3           business entity,

4           “(C) note, bond, debenture, or other evi-  
5           dence of indebtedness,

6           “(D) interest rate, currency, or equity no-  
7           tional principal contract,

8           “(E) evidence or interest in, or a derivative  
9           financial instrument in, any financial instru-  
10          ment described in subparagraph (A), (B), (C),  
11          or (D), or any currency, including any option,  
12          forward contract, short position, and any simi-  
13          lar financial instrument in such a financial in-  
14          strument or currency, and

15          “(F) a position which—

16               “(i) is not a financial instrument de-  
17               scribed in subparagraph (A), (B), (C), (D)  
18               or (E),

19               “(ii) is a hedge with respect to such  
20               a financial instrument, and

21               “(iii) is clearly identified in the deal-  
22               er’s records as being described in this sub-  
23               paragraph before the close of the day on  
24               which it was acquired or entered into.



1       “(c) INTERNATIONAL MATTERS.—For purposes of  
 2 this section in the case of a financial intermediation busi-  
 3 ness with activity in and outside the United States—

4           “(1) INCLUSION REGARDLESS OF SOURCE.—

5               “(A) Financial receipts shall be determined  
 6 without regard to whether such receipts are re-  
 7 ceived for property or service provided in or  
 8 outside the United States, except that financial  
 9 receipts do not include amounts that—

10                   “(i) are not taxable receipts (as deter-  
 11 mined without regard to this section), but

12                   “(ii) would have been taxable receipts  
 13 (as determined without regard to this sec-  
 14 tion) if such receipts had been received for  
 15 services or property in the United States.

16               “(B) Financial expenses shall be deter-  
 17 mined without regard to whether such expenses  
 18 are received for property or services acquired in  
 19 or outside the United States.

20           “(2) ALLOCATION.—Under regulations pre-  
 21 scribed by the Secretary, gross profits (as deter-  
 22 mined without regard to this paragraph) shall be re-  
 23 duced by the amount of financial intermediation  
 24 gross profit attributable to financial intermediation  
 25 activity provided outside the United States.

1           “(3) GROSS PROFIT ATTRIBUTABLE TO FINAN-  
 2           CIAL INTERMEDIATION ACTIVITY.—‘Gross profits at-  
 3           tributable to financial intermediation activity’ means  
 4           the excess of—

5                   “(A) gross profits as determined under  
 6                   this section (but without regard to paragraph  
 7                   (2)), over

8                   “(B) gross profits as determined without  
 9                   regard to this subchapter.

10   **“SEC. 243. SPECIAL RULES FOR BANKS.**

11           “(a) IN GENERAL.—In the case of a bank, gross prof-  
 12           its shall be determined in accordance with section 242, ex-  
 13           cept that—

14                   “(1) FINANCIAL RECEIPTS.—Financial receipts  
 15                   shall include only—

16                           “(A) taxable receipts (as determined with-  
 17                           out regard to this subchapter),

18                           “(B) interest on loans made or acquired by  
 19                           the bank,

20                           “(C) gain on the sale of loans,

21                           “(D) discount points received, and

22                           “(E) any explicit fees for financial or fidu-  
 23                           ciary services not included in subparagraphs  
 24                           (A) through (E).

1           “(2) FINANCIAL EXPENSES.—Financial ex-  
2           penses shall include only—

3                   “(A) interest paid to depositors and on  
4                   other funds borrowed by the bank, and

5                   “(B) reasonable additions to reserves for  
6                   bad debts.

7           “(3) FORECLOSURE PROPERTY.—Gross profits  
8           shall properly take into account proceeds from the  
9           operation or sale of foreclosure property.

10          “(b) BANK.—

11                   “(1) IN GENERAL.—‘Bank’ means a bank or  
12                   trust company incorporated and doing business  
13                   under the laws of the United States, the District of  
14                   Columbia, or any State, a substantial part of the  
15                   business of which consists of receiving deposits and  
16                   making loans and discounts, or of exercising fidu-  
17                   ciary powers similar to those exercised by national  
18                   banks under the authority of the Comptroller of the  
19                   Currency, and which is subject by law to supervision  
20                   and examination by State or Federal authority hav-  
21                   ing supervision over banking institutions or credit  
22                   unions. Such term includes domestic building and  
23                   loan associations and credit unions.

24                   “(2) OTHER ACTIVITIES.—If a bank is engaged  
25                   in significant amounts of activities other than those

1 described in paragraph (1), the bank shall be consid-  
2 ered as a separate business entity with respect to  
3 such other activity.

4 **“SEC. 244. INSURANCE COMPANIES.**

5 “(a) IN GENERAL.—In the case of companies provid-  
6 ing insurance services, gross profits shall be determined  
7 in accordance with section 242, except—

8 “(1) subsection (c) of section 242 (relating to  
9 international operations) shall not apply,

10 “(2) the rules of subchapter J (sourcing rules)  
11 shall apply to determine financial receipts and finan-  
12 cial expenses.

13 “(b) RESULT INCONSISTENT WITH STATUTORY IN-  
14 TENT.—If an insurance company determines that the ap-  
15 plication of subsection (a) produces results inconsistent  
16 with the territorial approach of the business tax, it may  
17 apply to the Secretary for permission to apply section  
18 242(c) in lieu of subsection (a).

19 **“SEC. 245. FINANCIAL PASS-THRU ENTITIES.**

20 “(a) IN GENERAL.—In the case of a financial pass-  
21 thru entity, gross profits shall be determined in accord-  
22 ance with section 242, except—

23 “(1) financial receipts shall include contribu-  
24 tions to capital,

25 “(2) financial expenses shall include—

1           “(A) distributions to persons holding inter-  
2           ests in the pass-thru entity, and

3           “(B) investments in related entities (in-  
4           cluding wholly owned entities) engaging in real  
5           estate investment.

6           “(b) PASS-THRU ENTITY.—

7           “(1) IN GENERAL.—‘Pass-thru entity’ means a  
8           business entity that is intended to serve as a con-  
9           duit. The Secretary shall prescribe regulations defin-  
10          ing pass-thru entity. Such term shall include—

11           “(A) entities that would qualify as regu-  
12           lated investment companies under the Internal  
13           Revenue Code of 1986,

14           “(B) entities that would qualify as real es-  
15           tate investment trusts under the Internal Reve-  
16           nue Code of 1986,

17           “(C) entities that would qualify as  
18           REMICs under the Internal Revenue Code of  
19           1986, and

20           “(D) partnerships whose purposes are to  
21           invest the funds of the partners in financial in-  
22           struments, distribute or reinvest the income  
23           from such investments, and distribute or rein-  
24           vest the proceeds from the sale of such instru-  
25           ments.

1           “(2) ENGAGEMENT IN BUSINESS ACTIVITY.—

2           An entity will not qualify as a pass-thru entity if it  
3           engages in more than an insubstantial amount of  
4           business activity (other than investing in and selling  
5           financial instruments). The preceding sentence will  
6           not apply if the business entity treats the business  
7           activity as engaged in by a separate business entity  
8           (separately subject to tax under this chapter).

9   **“SEC. 246. FINANCIAL INTERMEDIATION BY OTHER BUSI-**  
10                           **NESSES.**

11           “(a) IN GENERAL.—If a business entity that is not  
12           regularly in the business of providing financial  
13           intermediation services to unrelated parties engages in sig-  
14           nificant financial intermediation activity, its gross profits  
15           shall be increased by its gross profits from financial  
16           intermediation activity (determined as if such activity were  
17           an activity of a pass-thru entity that paid all costs of such  
18           financial intermediation activity including—

19                   “(1) compensation for persons engaging in such  
20           activity,

21                   “(2) equipment involved in such activity, and

22                   “(3) office space for persons involved in such  
23           activity).

24           “(b) PROXY.—A business entity to which subsection  
25   (a) applies will be treated as satisfying the requirements

1 of that subsection if it increases its gross receipts by the  
 2 portion of employee compensation properly allocable to the  
 3 provision of financial intermediation services.

4 “(c) SIGNIFICANT FINANCIAL INTERMEDIATION.—A  
 5 business will be considered as engaging in substantial fi-  
 6 nancial intermediation if—

7 “(1) more than 5 percent of the compensation  
 8 paid by the business to its employees is for employ-  
 9 ees whose primary activity is the management of the  
 10 business’s investments in financial instruments, or

11 “(2) at all times during the taxable year and  
 12 the immediately preceding full taxable year, more  
 13 than 10 percent of its assets are financial instru-  
 14 ments other than—

15 “(A) equity interests in business entities in  
 16 which it holds more than 50 percent in value of  
 17 the outstanding equity,

18 “(B) equity interests in joint ventures in  
 19 which the company is actively participating,

20 “(C) purchase money loans to its cus-  
 21 tomers, and

22 “(D) business loans and equity invest-  
 23 ments that serve a direct business purpose.

## 24 **“Subchapter H—Tax-Exempt Organizations**

“Sec. 251. Exemption for governmental entities.

“Sec. 252. Taxable activity of governmental entities.

“Sec. 253. Tax-exempt organizations.

“Sec. 254. Special rules for (c)(3) organizations.

“Sec. 255. Tax on unrelated business activity.

“Sec. 256. Unrelated business activity.

1   **“SEC. 251. EXEMPTION FOR GOVERNMENTAL ENTITIES.**

2       “(a) STATES.—Except as provided in section 252, a  
3 State, political subdivision thereof and the District of Co-  
4 lumbia shall be exempt from taxation under this chapter  
5 on any gross profits derived from the exercise of any es-  
6 sential governmental function.

7       “(b) POSSESSIONS.—The government of any posses-  
8 sion of the United States shall be exempt from taxation  
9 under this chapter on any gross profits earned by the pos-  
10 session.

11   **“SEC. 252. TAXABLE ACTIVITY OF GOVERNMENTAL ENTI-**  
12                           **TIES.**

13       “(a) CERTAIN ACTIVITIES TAXABLE.—A govern-  
14 mental entity shall be considered a business and subject  
15 to tax on any business activity of a type frequently pro-  
16 vided by business entities subject to tax under this  
17 chapter.

18       “(b) CERTAIN ACTIVITIES TREATED AS ESSENTIAL  
19 GOVERNMENT FUNCTIONS.—Subsection (a) shall not  
20 apply to the following activities, which shall be treated as  
21 essential government functions:

22               “(1) Provision of mass transportation services.

23               “(2) Provision of public utility services.



1 **“SEC. 253. TAX-EXEMPT ORGANIZATIONS.**

2       “(a) EXEMPTION FROM TAXATION.—An organiza-  
3 tion described in subsection (c) or (d) shall be exempt  
4 from taxation under this chapter.

5       “(b) TAX ON UNRELATED BUSINESS ACTIVITY.—An  
6 organization exempt from taxation under subsection (a)  
7 shall be subject to tax to the extent provided in sections  
8 55 and 56, but shall be considered a tax-exempt organiza-  
9 tion for purposes of any law that refers to tax-exempt or-  
10 ganizations.

11       “(c) LIST OF EXEMPT ORGANIZATIONS.—The follow-  
12 ing organizations are referred to in subsection (a):

13               “(1) INSTRUMENTALITY OF THE UNITED  
14 STATES.—Any corporation organized under Act of  
15 Congress which is an instrumentality of the United  
16 States but only if such corporation—

17                       “(A) is exempt from Federal income  
18 taxes—

19                               “(i) under such Act as amended and  
20 supplemented before July 18, 1984, or

21                               “(ii) under this title without regard to  
22 any provision of law which is not contained  
23 in this title and which is not contained in  
24 a revenue Act, or

25                       “(B) is described in subsection (g).

1           “(2) TITLE HOLDING COMPANIES.—Corpora-  
2       tions organized for the exclusive purpose of holding  
3       title to property, collecting income therefrom, and  
4       turning over the entire amount thereof, less ex-  
5       penses, to an organization which itself is exempt  
6       under this section. Rules similar to the rules of sub-  
7       paragraph (G) of paragraph (5) shall apply for pur-  
8       poses of this paragraph.

9           “(3) CHARITABLE, RELIGIOUS AND EDU-  
10      CATIONAL ORGANIZATIONS.—Corporations, and any  
11      community chest, fund, or foundation, organized and  
12      operated exclusively for religious, charitable, sci-  
13      entific, literary, or educational purposes, or for the  
14      prevention of cruelty to children or animals, no part  
15      of the net earnings of which inures to the benefit of  
16      any private shareholder or individual, no substantial  
17      part of the activities of which is carrying on propa-  
18      ganda, or otherwise attempting, to influence legisla-  
19      tion (except as otherwise provided in subsection (f)),  
20      and which does not participate in, or intervene in  
21      (including the publishing or distributing of state-  
22      ments), any political campaign on behalf of (or in  
23      opposition to) any candidate for public office.

1           “(4) QUALIFIED BENEFIT PLAN OR TRUST.—A  
2           corporation, trust, or other organization described  
3           in—

4                   “(A) section 401(a),

5                   “(B) any of the following paragraphs of  
6           section 501(c) of the Internal Revenue Code of  
7           1986—

8                           “(i) paragraph (9) (relating to vol-  
9                           untary employees’ beneficiary associa-  
10                          tions),

11                           “(ii) paragraph (11) (relating to  
12                          teachers’ retirement funds),

13                           “(iii) paragraph (17) (relating to sup-  
14                          plemental unemployment compensation  
15                          benefits),

16                           “(iv) paragraph (18) (certain grand-  
17                          fathered pension trusts),

18                           “(v) paragraph (21) (relating to Black  
19                          Lung Act trusts),

20                           “(vi) paragraph (22) (relating to cer-  
21                          tain multiemployer trusts), or

22                           “(vii) paragraph (24) (relating to cer-  
23                          tain grandfathered ERISA trusts).

24           “(5) REAL ESTATE HOLDING COMPANIES.—

25                   “(A) Any corporation or trust which—

1                   “(i) has no more than 35 shareholders  
2                   or beneficiaries,

3                   “(ii) has only 1 class of stock or bene-  
4                   ficial interest, and

5                   “(iii) is organized for the exclusive  
6                   purposes of—

7                   “(I) acquiring real property and  
8                   holding title to, and collecting income  
9                   from, such property, and

10                  “(II) remitting the entire amount  
11                  of income from such property (less ex-  
12                  penses) to 1 or more organizations de-  
13                  scribed in paragraph (1), (3) or (4)  
14                  which are shareholders of such cor-  
15                  poration or beneficiaries of such trust.

16                  For purposes of clause (iii), the term ‘real property’  
17                  shall not include any interest as a tenant in common  
18                  (or similar interest) and shall not include any indi-  
19                  rect interest.

20                  “(B) A corporation or trust shall in no  
21                  event be treated as described in subparagraph  
22                  (A) unless such corporation or trust permits its  
23                  shareholders or beneficiaries—

24                  “(i) to dismiss the corporation’s or  
25                  trust’s investment adviser, following rea-

1 sonable notice, upon a vote of the share-  
2 holders or beneficiaries holding a majority  
3 of interest in the corporation or trust, and

4 “(ii) to terminate their interest in the  
5 corporation or trust by either, or both, of  
6 the following alternatives, as determined by  
7 the corporation or trust:

8 “(I) by selling or exchanging  
9 their stock in the corporation or inter-  
10 est in the trust (subject to any Fed-  
11 eral or State securities law) to any or-  
12 ganization described in paragraph (1),  
13 (3) or (4) so long as the sale or ex-  
14 change does not increase the number  
15 of shareholders or beneficiaries in  
16 such corporation or trust above 35, or

17 “(II) by having their stock or in-  
18 terest redeemed by the corporation or  
19 trust after the shareholder or bene-  
20 ficiary has provided 90 days notice to  
21 such corporation or trust.

22 “(C) For purposes of subparagraph (A),  
23 the term ‘real property’ includes any personal  
24 property which is leased under, or in connection  
25 with, a lease of real property, but only if the

1           rent attributable to such personal property for  
2           the taxable year does not exceed 15 percent of  
3           the total rent for the taxable year attributable  
4           to both the real and personal property leased  
5           under, or in connection with, such lease.

6           “(D) An organization shall not be treated  
7           as failing to be described in this paragraph  
8           merely by reason of the receipt of any otherwise  
9           disqualifying income which is incidentally de-  
10          rived from the holding of real property. If the  
11          amount of otherwise disqualifying income ex-  
12          ceeds 10 percent of the organization’s gross in-  
13          come for the taxable year, it shall not be treat-  
14          ed as ‘incidentally derived’ unless the organiza-  
15          tion establishes to the satisfaction of the Sec-  
16          retary that the receipt of such disqualifying in-  
17          come in excess of such limitation was inadvert-  
18          ent and reasonable steps are being taken to cor-  
19          rect the circumstances giving rise to such in-  
20          come.

21          “(6) RELIGIOUS AND APOSTOLIC ORGANIZA-  
22          TIONS.—Religious or apostolic associations or cor-  
23          porations, if such associations or corporations have  
24          a common treasury or community treasury, even if  
25          such associations or corporations engage in business

1 for the common benefit of the members, but only if  
2 such activity is treated as unrelated business activ-  
3 ity.

4 “(7) CEMETERY COMPANIES.—Cemetery com-  
5 panies owned and operated exclusively for the bene-  
6 fit of their members or which are not operated for  
7 profit; and any corporation chartered solely for the  
8 purpose of the disposal of bodies by burial or crema-  
9 tion which is not permitted by its charter to engage  
10 in any business not necessarily incident to that pur-  
11 pose, no part of the net earnings of which inures to  
12 the benefit of any private shareholder or individual.

13 “(d) COOPERATIVE HOSPITAL SERVICE ORGANIZA-  
14 TIONS.—For purposes of this chapter, an organization  
15 shall be treated as an organization organized and operated  
16 exclusively for charitable purposes, if—

17 “(1) such organization is organized and oper-  
18 ated solely—

19 “(A) to perform, on a centralized basis, 1  
20 or more of the following services which, if per-  
21 formed on its own behalf by a hospital which is  
22 an organization described in subsection (c)(3)  
23 and exempt from taxation under subsection (a),  
24 would constitute activities in exercising or per-  
25 forming the purpose or function constituting

1 the basis for its exemption: data processing,  
2 purchasing (including the purchasing of insur-  
3 ance on a group basis), warehousing, billing  
4 and collection, food, clinical, industrial engi-  
5 neering, laboratory, printing, communications,  
6 record center, and personnel (including selec-  
7 tion, testing, training, and education of person-  
8 nel) services; and

9 “(B) to perform such services solely for 2  
10 or more hospitals each of which is—

11 “(i) an organization described in sub-  
12 section (c)(3) which is exempt from tax-  
13 ation under subsection (a),

14 “(ii) a constituent part of an organi-  
15 zation described in subsection (c)(3) which  
16 is exempt from taxation under subsection  
17 (a) and which, if organized and operated  
18 as a separate entity, would constitute an  
19 organization described in subsection (c)(3),  
20 or

21 “(iii) owned and operated by the Unit-  
22 ed States, a State, the District of Colum-  
23 bia, or a possession of the United States,  
24 or a political subdivision or an agency or  
25 instrumentality of any of the foregoing;



1           “(2) such organization is organized and oper-  
2           ated on a cooperative basis and allocates or pays,  
3           within 8½ months after the close of its taxable year,  
4           all net earnings to patrons on the basis of services  
5           performed for them; and

6           “(3) if such organization has capital stock, all  
7           of such stock outstanding is owned by its patrons.  
8           For purposes of this title, any organization which, by rea-  
9           son of the preceding sentence, is an organization described  
10          in subsection (c)(3) and exempt from taxation under sub-  
11          section (a), shall be treated as a hospital and as an organi-  
12          zation referred to in section 101(b)(1)(A)(iii).

13          “(e) COOPERATIVE SERVICE ORGANIZATIONS OF OP-  
14          ERATING EDUCATIONAL ORGANIZATIONS.—For purposes  
15          of this chapter, if an organization is—

16               “(1) organized and operated solely to hold,  
17               commingle, and collectively invest and reinvest (in-  
18               cluding arranging for and supervising the perform-  
19               ance by independent contractors of investment serv-  
20               ices related thereto) in stocks and securities, the  
21               moneys contributed thereto by each of the members  
22               of such organization, and to collect income there-  
23               from and turn over the entire amount thereof, less  
24               expenses, to such members,

1           “(2) organized and controlled by 1 or more  
2 such members, and

3           “(3) comprised solely of members that are orga-  
4 nizations described in clause (ii) or (iv) of section  
5 101(b)(1)(A)—

6           “(A) which are exempt from taxation  
7 under subsection (a), or

8           “(B) the gross profits of which are ex-  
9 cluded from taxation under section 251(a), then  
10 such organization shall be treated as an organi-  
11 zation organized and operated exclusively for  
12 charitable purposes.

13       “(f) EXPENDITURES BY PUBLIC CHARITIES TO IN-  
14 FLUENCE LEGISLATION.—

15       “(1) GENERAL RULE.—In the case of an orga-  
16 nization to which this subsection applies, exemption  
17 from taxation under subsection (a) shall be denied  
18 because a substantial part of the activities of such  
19 organization consists of carrying on propaganda, or  
20 otherwise attempting, to influence legislation, but  
21 only if such organization normally—

22           “(A) makes lobbying expenditures in ex-  
23 cess of the lobbying ceiling amount for such or-  
24 ganization for each taxable year, or

1           “(B) makes grass roots expenditures in ex-  
2           cess of the grass roots ceiling amount for such  
3           organization for each taxable year.

4           “(2) DEFINITIONS.—For purposes of this sub-  
5           section—

6           “(A) LOBBYING EXPENDITURES.—‘Lobby-  
7           ing expenditures’ means expenditures for the  
8           purpose of influencing legislation (as defined in  
9           section 4911(d)).

10          “(B) LOBBYING CEILING AMOUNT.—The  
11          lobbying ceiling amount for any organization  
12          for any taxable year is 150 percent of the lob-  
13          bying nontaxable amount for such organization  
14          for such taxable year, determined under section  
15          4911.

16          “(C) GRASS ROOTS EXPENDITURES.—  
17          ‘Grass roots expenditures’ means expenditures  
18          for the purpose of influencing legislation (as de-  
19          fined in section 4911(d) without regard to para-  
20          graph (1)(B) thereof).

21          “(D) GRASS ROOTS CEILING AMOUNT.—  
22          The grass roots ceiling amount for any organi-  
23          zation for any taxable year is 150 percent of  
24          the grass roots nontaxable amount for such or-

1           ganization for such taxable year, determined  
2           under section 4911.

3           “(3) ORGANIZATIONS TO WHICH THIS SUB-  
4           SECTION APPLIES.—This subsection shall apply to  
5           any organization which has elected (in such manner  
6           and at such time as the Secretary may prescribe) to  
7           have the provisions of this subsection apply to such  
8           organization and which, for the taxable year which  
9           includes the date the election is made, is described  
10          in subsection (c)(3) and is not described in para-  
11          graph (4) and is not a private foundation.

12          “(4) DISQUALIFIED ORGANIZATIONS.—This  
13          subsection does not apply to—

14                  “(A) a church,

15                  “(B) an integrated auxiliary of a church or  
16                  of a convention or association of churches, or

17                  “(C) a member of an affiliated group of or-  
18                  ganizations (within the meaning of section  
19                  4911(f)(2)) if 1 or more members of such group  
20                  is described in subparagraph (A) or (B).

21          “(5) YEARS FOR WHICH ELECTION IS EFFEC-  
22          TIVE.—An election by an organization under this  
23          subsection shall be effective for all taxable years of  
24          such organization which—

1           “(A) end after the date the election is  
2           made, and

3           “(B) begin before the date the election is  
4           revoked by such organization (under regulations  
5           prescribed by the Secretary).

6           “(6) NO EFFECT ON CERTAIN ORGANIZA-  
7           TIONS.—With respect to any organization for a tax-  
8           able year for which—

9           “(A) such organization is described in  
10          paragraph (5), or

11          “(B) an election under this subsection is  
12          not in effect for such organization, nothing in  
13          this subsection or in section 4911 shall be con-  
14          strued to affect the interpretation of the phrase,  
15          ‘no substantial part of the activities of which is  
16          carrying on propaganda, or otherwise attempt-  
17          ing, to influence legislation,’ under subsection  
18          (c)(3).

19          “(g) GOVERNMENT CORPORATIONS EXEMPT UNDER  
20          SUBSECTION (c)(1).—For purposes of subsection (c)(1),  
21          the following organizations are described in this sub-  
22          section:

23          “(1) The Central Liquidity Facility established  
24          under title III of the Federal Credit Union Act (12  
25          U.S.C. 1795 et seq.).

1           “(2) The Resolution Trust Corporation estab-  
 2           lished under section 21A of the Federal Home Loan  
 3           Bank Act.

4           “(3) The Resolution Funding Corporation es-  
 5           tablished under section 21B of the Federal Home  
 6           Loan Bank Act.

7           “(h) CERTAIN EDUCATIONAL ORGANIZATIONS.—An  
 8           organization shall not be eligible for exemption as an edu-  
 9           cational organization under subsection (c)(3) if a substan-  
 10          tial amount of its activities and funds are devoted to—

11           “(1) conducting seminars and other similar pro-  
 12          grams,

13           “(2) conducting research to educate Congress  
 14          or the general public about public policy issues,

15           “(3) producing books and pamphlets, or

16           “(4) a combination of the foregoing.

17   **“SEC. 254. SPECIAL RULES FOR (C)(3) ORGANIZATIONS.**

18           “(a) NEW ORGANIZATIONS MUST NOTIFY SEC-  
 19          RETARY.—Except as provided in subsection (c), an organi-  
 20          zation shall not be treated as an organization described  
 21          in section 253(c)(3)—

22           “(1) unless such organization has given notice  
 23          to the Secretary, in such manner as the Secretary  
 24          may prescribe, that it is applying for recognition of  
 25          such status, or

1           “(2) for any period before giving of such notice,  
2           if such notice is given after the time prescribed by  
3           the Secretary by regulations for giving notice under  
4           this subsection.

5           “(b) PRESUMPTION THAT ORGANIZATIONS ARE PRI-  
6   VATE FOUNDATIONS.—Except as provided in subsection  
7   (c), any organization described in section 253(c)(3) and  
8   which does not notify the Secretary, at such time and in  
9   such manner as the Secretary may by regulations pre-  
10   scribe, that it is not a private foundation (as defined in  
11   section 102) shall be presumed to be a private foundation.

12          “(c) EXCEPTIONS.—Subsections (a) and (b) shall not  
13   apply to—

14               “(1) organizations organized before October 10,  
15               1969;

16               “(2) organizations which obtained recognition  
17               of tax-exempt status under section 501(c)(3) of the  
18               Internal Revenue Code of 1986 (in the case of sub-  
19               section (a) only);

20               “(3) organizations which were determined not  
21               to be private foundations under the Internal Reve-  
22               nue Code of 1986;

23               “(4) churches, their integrated auxiliaries, and  
24               conventions and associations of churches;

1           “(5) any organization that is not a private  
2           foundation and the gross receipts of which in each  
3           taxable year are not more than \$25,000; or

4           “(6) such other classes of organizations which  
5           the Secretary may exempt.

6   **“SEC. 255. TAX ON UNRELATED BUSINESS ACTIVITY.**

7           “(a) IN GENERAL.—Each organization described in  
8           subsection (b) shall be subject to the business tax under  
9           section 201 on its gross profits from its unrelated business  
10          activity.

11          “(b) ORGANIZATIONS SUBJECT TO TAX.—This sec-  
12          tion shall apply to—

13               “(1) organizations exempt from the business  
14               tax under section 253(a), other than instrumental-  
15               ities of the United States described in section  
16               253(c)(1), and

17               “(2) colleges and universities which are instru-  
18               mentalities of any government and corporations  
19               owned by 1 or more such colleges or universities.

20   **“SEC. 256. UNRELATED BUSINESS ACTIVITY.**

21           “(a) IN GENERAL.—‘Unrelated business activity’  
22           means any trade or business the conduct of which is not  
23           substantially related (aside from the need of such organi-  
24           zation for income or funds or the use it makes of the prof-  
25           its derived) to the exercise or performance by such organi-



1 zation of its charitable, educational, or other purpose or  
2 function constituting the basis for its exemption under  
3 section 253, except that such term does not include any  
4 trade or business—

5 “(1) in which substantially all the work in car-  
6 rying on such trade or business is performed for the  
7 organization without compensation;

8 “(2) which is carried on, in the case of an orga-  
9 nization described in section 253(c)(3) or in the case  
10 of a college or university described in section 255(b),  
11 by the organization primarily for the convenience of  
12 its members, students, patients, officers, or employ-  
13 ees, which is the selling by the organization of items  
14 of work-related clothes and equipment and items  
15 normally sold through vending machines, through  
16 food dispensing facilities, or by snack bars, for the  
17 convenience of its members at their usual places of  
18 employment; or

19 “(3) which is the selling of merchandise, sub-  
20 stantially all of which has been received by the orga-  
21 nization as gifts or contributions.

22 “(b) ADVERTISING, ETC., ACTIVITIES.—For pur-  
23 poses of this section, ‘trade or business’ includes any activ-  
24 ity which is carried on for the production of income from  
25 the sale of goods or the performance of services. For pur-

1 poses of the preceding sentence, an activity does not lose  
2 identity as a trade or business merely because it is carried  
3 on within a larger aggregate of similar activities or within  
4 a larger complex of other endeavors which may, or may  
5 not, be related to the exempt purposes of the organization.  
6 Where an activity carried on for profit constitutes an un-  
7 related trade or business, no part of such trade or business  
8 shall be excluded from such classification merely because  
9 it does not result in profit.

10 “(c) TRADE OR BUSINESS.—

11 “(1) CERTAIN BUSINESS ACTIVITIES.—An ac-  
12 tivity shall not be considered a ‘trade or business’  
13 solely because the activity is a business activity  
14 (such as certain passive rental activity) that would  
15 be subject to the business tax if conducted by a busi-  
16 ness entity other than a tax-exempt organization.

17 “(2) REGULATIONS.—The Secretary shall pre-  
18 scribe regulations defining a ‘trade or business.’  
19 Such regulations shall be consistent with the provi-  
20 sions under sections 511 through 513 of the Internal  
21 Revenue Code of 1986, except to the extent such  
22 provisions are inconsistent with other principles of  
23 the business tax. The regulations shall include exclu-  
24 sions from the definition of ‘trade or business’ simi-

1       lar to those contained in section 513 of the Internal  
2       Revenue Code for—

3               “(A) certain bingo games,

4               “(B) certain hospital services, and

5               “(C) certain public entertainment activity  
6       at fairs and expositions by an organization  
7       which regularly conducts, as 1 of its substantial  
8       exempt purposes, an agricultural or educational  
9       fair or exhibition.

10              “(3) TRADE SHOWS.—The conduct of trade  
11      shows and conventions shall not be excluded from  
12      the definition of trade or business.

### 13                   **“Subchapter I—Cooperatives**

          “Sec. 260. Patronage dividends of cooperatives.

#### 14   **“SEC. 260. PATRONAGE DIVIDENDS OF COOPERATIVES.**

15       “(a) PATRONAGE DIVIDENDS PAID BY SUPPLY CO-  
16   OPERATIVES.—A qualified patronage dividend paid by a  
17   supply cooperative to a patron shall be treated as if it is  
18   a refund of a portion of the amounts paid by the patron  
19   for goods, services, or use of capital. In general, if the  
20   supply cooperative included the amount received from the  
21   patron in taxable receipts, the dividend shall reduce tax-  
22   able receipts in the year incurred. If the recipient of the  
23   dividend is a business entity which deducted the cost of  
24   business purchases to which the dividend related, the re-

1 cipient will reduce its cost of business purchases by the  
 2 amount of the dividend in the year the dividend is paid  
 3 or incurred.

4       “(b) PATRONAGE DIVIDENDS PAID BY MARKETING  
 5 COOPERATIVES.—A qualified patronage dividend paid to  
 6 a patron by a marketing cooperative shall be treated as  
 7 an upward price adjustment in the amount received by the  
 8 patron for its goods marketed by the cooperative. In gen-  
 9 eral, the cooperative will increase its cost of business pur-  
 10 chases by the amount of the qualified patronage dividend  
 11 and the recipient will increase its taxable receipts by the  
 12 amount of the qualified patronage dividend.

13       “(c) DIVIDEND TREATMENT.—Only the portion of a  
 14 patronage dividend that is not a qualified patronage divi-  
 15 dend shall be treated as a dividend under this chapter and  
 16 chapter 1.

17       “(d) DEFINITIONS.—

18               “(1) QUALIFIED PATRONAGE DIVIDEND.—A  
 19 ‘qualified patronage dividend’ is that part of a pa-  
 20 tronage dividend that is attributable to the patron’s  
 21 allocable share of patronage earnings of a marketing  
 22 cooperative or a supply cooperative.

23               “(2) SUPPLY COOPERATIVE.—A ‘supply cooper-  
 24 ative’ is a cooperative that sells goods or service to

1 patrons and provided patronage dividends with re-  
2 spect to the quantity of purchases of the patrons.

3 “(3) MARKETING COOPERATIVE.—A ‘marketing  
4 cooperative’ is a cooperative that sells goods pro-  
5 duced by its members and provides patronage divi-  
6 dends to the members based on the quantities of  
7 goods sold or provided for sale.

8 “(e) SPECIAL RULES.—

9 “(1) NOTICES OF ALLOCATION AND PER-UNIT  
10 RETAIN CERTIFICATES.—Except as provided in  
11 paragraph (2), a notice of allocation, per-unit retain  
12 certificate, or other similar document shall not be  
13 treated as a patronage dividend until it is redeemed  
14 in cash or property.

15 “(2) OPPORTUNITY TO RECEIVE CASH.—If a  
16 patron is given an opportunity to receive a patron-  
17 age dividend in cash, but instead chooses to accept  
18 a per-unit retain certificate or a qualified notice of  
19 allocation, the patron will be treated as receiving  
20 cash and simultaneously contributing to the capital  
21 of the cooperative.

22 “(3) APPLICATION LIMITED TO QUALIFIED CO-  
23 OPERATIVES.—Under rules to be prescribed by the  
24 Secretary, this section shall apply only to coopera-

tives to which 1 of the following provisions of the Internal Revenue Code of 1986 would have applied:

“(A) Section 501(c)(12) (relating to cooperative telephone companies and similar organizations).

“(B) Section 501(c)(14) (relating to certain cooperative banks).

“(C) Section 521 (relating to farm cooperatives).

“(D) Section 1381 (relating to cooperatives generally).

“(4) REGULATIONS.—The Secretary shall prescribe regulations for the application of this section. The regulations shall generally be consistent with subchapter T of chapter 1 of the Internal Revenue Code of 1986 except to the extent that such rules are inconsistent with provisions of this chapter.

## **“Subchapter J—Sourcing Rules**

“Sec. 265. Exports of property or services.

“Sec. 266. Imports of property or services.

“Sec. 267. Import or export of services.

“Sec. 268. International transportation services.

“Sec. 269. International communications.

“Sec. 270. Insurance.

### **“SEC. 265. EXPORTS OF PROPERTY OR SERVICES.**

“(a) GENERAL RULE.—Taxable receipts do not include amounts received for property or services exported

1 from the United States by the exporter thereof for use  
2 or consumption outside the United States.

3 “(b) EXPORT THROUGH NONBUSINESS ENTITY.—  
4 For purposes of subsection (a), if property or services are  
5 sold to a governmental entity or a tax-exempt organization  
6 for export and are exported other than in an activity of  
7 such entity which is subject to the business tax, then the  
8 seller of such property or services is deemed to be the ex-  
9 porter thereof.

10 “(c) EXPORT OF SERVICES.—See section 267 for  
11 rules for determining whether services are exported or im-  
12 ported.

13 **“SEC. 266. IMPORTS OF PROPERTY OR SERVICES.**

14 “(a) IN GENERAL.—The import of property or serv-  
15 ices for consumption in the United States shall constitute  
16 a business purchase if such property or service is to be  
17 used in a business activity in the United States. Property  
18 being held for sale or retail by a business entity that is  
19 in the business of selling goods shall be considered held  
20 for ‘use in a business activity’.

21 “(b) AMOUNT OF BUSINESS PURCHASE.—

22 “(1) IN GENERAL.—The cost of business pur-  
23 chases with respect to the import of property or  
24 services for use or consumption in the United States  
25 is the customs value, price or other amount used for

1 purposes of determining the import tax under sec-  
2 tion 286 or section 287.

3 “(2) IMPORT TAX.—The cost of business pur-  
4 chases does not include any import tax paid. No de-  
5 duction shall be allowed with respect to property or  
6 service imported by a business entity unless the im-  
7 port tax is paid with respect to such import.

8 **“SEC. 267. IMPORT OR EXPORT OF SERVICES.**

9 “(a) IN GENERAL.—Except as otherwise provided in  
10 this subchapter or in rules prescribed under subchapter  
11 G (relating to financial intermediation business), services  
12 shall not be treated as imported or exported from the loca-  
13 tion in which such services are performed.

14 “(b) IMPORT OF SERVICES.—A business entity shall  
15 be treated as importing a service if—

16 “(1) the benefit of the service will be realized  
17 in the United States, and

18 “(2) the benefit will be realized solely in con-  
19 nection with the United States business activities of  
20 the business entity.

21 “(c) EXPORT OF SERVICES.—A business will be  
22 treated as exporting a service if—

23 “(1) the benefit of the service will be realized  
24 outside of the United States, and



1           “(2) the benefit will be realized solely in con-  
2           nection with the activities of the purchaser occurring  
3           outside the United States.

4           “(d) SERVICES ACQUIRED FROM SERVICE PROVIDER  
5           THAT PROVIDES SERVICES IN AND OUTSIDE THE UNIT-  
6           ED STATES.—

7           “(1) IN GENERAL.—If a business entity ac-  
8           quires services from a service provider that provides  
9           services both in and outside the United States and  
10          the service provider shows on the invoice where the  
11          services are provided—

12               “(A) the business entity shall treat the  
13               services as provided where stated on the invoice,  
14               and

15               “(B) the service provider shall treat as tax-  
16               able receipts any services listed as provided in  
17               the United States.

18          “(2) NO INVOICE.—If a business entity acquires  
19          services from a service provider that provides serv-  
20          ices both in and outside the United States and the  
21          service provider does not show on an invoice where  
22          such services are provided—

23               “(A) the business entity shall treat the  
24               services as if provided in the location to which  
25               payment is sent, and

1           “(B) the service provider shall treat as tax-  
2           able receipts any payments received in the Unit-  
3           ed States.

4           “(e) SPECIAL RULES PREVAIL.—See sections 268  
5           and 269 for special rule relating to transportation and  
6           communication services.

7           **“SEC. 268. INTERNATIONAL TRANSPORTATION SERVICES.**

8           “(a) TRANSPORTATION OF PROPERTY.—

9           “(1) TAXABLE RECEIPTS.—

10           “(A) EXPORTS.—Taxable receipts do not  
11           include receipts from the transportation of  
12           property exported from the United States.

13           “(B) IMPORTS.—Taxable receipts include  
14           receipts from transportation of property im-  
15           ported into the United States only if such costs  
16           are not taken into account in determining the  
17           import tax.

18           “(C) PRESUMPTIONS.—The Secretary shall  
19           prescribe regulations describing situations in  
20           which a transporter of property must presume  
21           that no import tax has been paid on the cost of  
22           its services.

23           “(2) BUSINESS PURCHASES.—

24           “(A) EXPORTS.—Business purchases do  
25           not include amounts paid or incurred for the

1 cost of transportation of property exported from  
2 the United States.

3 “(B) IMPORTS.—Amounts paid or incurred  
4 for transportation of goods imported into the  
5 United States, shall constitute a cost of busi-  
6 ness purchase only to the extent that such  
7 amounts are taken into account in determining  
8 the customs value for purposes of section  
9 286(a) (relating to the import tax).

10 “(b) TRANSPORTATION OF PASSENGERS.—

11 “(1) TAXABLE RECEIPTS.—Taxable receipts—

12 “(A) include receipts from the transpor-  
13 tation of passengers from the United States to  
14 a destination outside the United States, but

15 “(B) do not include receipts from the  
16 transportation of passengers from outside the  
17 United States to a destination in the United  
18 States.

19 “(2) BUSINESS PURCHASES.—Business pur-  
20 chases—

21 “(A) include amounts paid or incurred in  
22 a business activity for the transportation of  
23 passengers from the United States to a destina-  
24 tion outside the United States, but

1           “(B) do not include amounts paid or in-  
2           curred for transportation of passengers from  
3           outside the United States to a destination in  
4           the United States.

5           “(3) SIMPLIFYING RULES.—The Secretary may  
6           provide rules that simplify this subsection, including  
7           rules under which—

8           “(A) half of receipts attributable to trans-  
9           portation to or from the United States are  
10          treated as taxable receipts,

11          “(B) half of the cost for business trips to  
12          and from the United States are treated as busi-  
13          ness purchases, and

14          “(C) all transportation expenses of a busi-  
15          ness entity that has no regular business outside  
16          the United States are treated as business pur-  
17          chases.

18   **“SEC. 269. INTERNATIONAL COMMUNICATIONS.**

19          “(a) IN GENERAL.—For purposes of section 266,  
20          communications services shall be treated as provided at  
21          the point of origin of the communications and shall not  
22          be treated as imported or exported.

23          “(b) COMMUNICATIONS SERVICES.—Communications  
24          services include—

25               “(1) telephone communications services,

1           “(2) courier services (except in the case of  
2           transportation of property that is imported or ex-  
3           ported),

4           “(3) satellite transmission services,

5           “(4) telegraph services,

6           “(5) facsimile transmission services, and

7           “(6) other similar services.

8   **“SEC. 270. INSURANCE.**

9           “(a) IN GENERAL.—Insurance services will be treat-  
10          ed as provided at the location of the insurance company  
11          providing the services. Except as the Secretary may pre-  
12          scribe by regulations, insurance companies will be treated  
13          as providing services at the location to which insurance  
14          payments are made.

15          “(b) INSURED RISKS IN THE UNITED STATES.—If  
16          insurance services are provided outside the United States  
17          and the insured risk is located in the United States—

18                 “(1) the insurance service shall be treated as  
19                 imported,

20                 “(2) the insurance premiums shall be subject to  
21                 the import tax, and

22                 “(3) payments of insurance benefits shall not be  
23                 treated as imported.

24          “(c) INSURED RISK OUTSIDE THE UNITED  
25          STATES.—If insurance services are provided inside the

1 United States and the insured risk is located outside the  
 2 United States—

3 “(1) insurance services shall be treated as ex-  
 4 ported, and

5 “(2) payments of insurance benefits shall be  
 6 treated as payments for services outside the United  
 7 States, and shall not be deducted as business pur-  
 8 chases.

9 “(d) INSURANCE SERVICES.—Insurance services  
 10 means the provision of insurance and services related to  
 11 insurance other than insurance that is treated as a savings  
 12 asset under section 53(b).

13 **“SEC. 271. BANKING SERVICES.**

14 The Secretary shall prescribe regulations on the loca-  
 15 tion of banking services and the extent to which such serv-  
 16 ices are to be treated as imported or exported.

17 **“Subchapter K—Business Conducted in a**  
 18 **Possession**

“Sec. 276. Treatment of possessions.

19 **“SEC. 276. TREATMENT OF POSSESSIONS.**

20 “(a) IN GENERAL.—For purposes of the business tax  
 21 imposed by this chapter, the U.S. possessions shall not  
 22 be treated as part of the United States.

23 “(b) EFFECT ON PAYROLL TAX CREDIT.—Except as  
 24 provided in subsection (c), a business entity may not claim

1 a payroll tax credit with respect to any payroll taxes paid  
 2 with respect to income of residents of the U.S. possessions.

3 “(c) POSSESSION.—For purposes of this subchapter,  
 4 ‘U.S. possession’ or ‘possession’ means a possession of the  
 5 United States and includes the Commonwealth of Puerto  
 6 Rico and the Virgin Islands.

7 **“Subchapter L—Payroll Tax Credit**

“Sec. 281. Amount of credit.

“Sec. 282. Current-year payroll tax credit.

“Sec. 283. Credit carryover.

8 **“SEC. 281. AMOUNT OF CREDIT.**

9 “(a) AMOUNT OF CREDIT.—The payroll tax credit for  
 10 a business entity for a taxable year is the lesser of—

11 “(1) the sum of—

12 “(A) the current-year payroll tax credit,  
 13 and

14 “(B) the credit carryovers to the taxable  
 15 year, or

16 “(2) the business entity’s business tax for the  
 17 taxable year (determined without regard to the pay-  
 18 roll tax credit).

19 “(b) CONSOLIDATED RETURNS.—In the case of busi-  
 20 ness entities filing consolidated returns, the amount of the  
 21 credit shall be determined using the combined payroll tax  
 22 credits and credit carryovers of the business entities and  
 23 the combined business tax of the business entities.

1 **“SEC. 282. CURRENT-YEAR PAYROLL TAX CREDIT.**

2 “(a) IN GENERAL.—The ‘current-year payroll tax  
3 credit’ is an amount equal to the sum of—

4 “(1) the employer’s share of the FICA tax im-  
5 posed on wages of its employees during the taxable  
6 year,

7 “(2) the employer’s share of the tier 1 railroad  
8 retirement tax for its employees during the taxable  
9 year, and

10 “(3) one-half of the allocable portion of the  
11 SECA tax (as described in subsection (b)(3)).

12 “(b) DEFINITIONS.—

13 “(1) EMPLOYER’S SHARE OF THE FICA TAX.—  
14 ‘Employer’s share of the FICA tax’ means the old-  
15 age, survivors, disability and hospital insurance  
16 taxes imposed by section 3111.

17 “(2) EMPLOYER’S SHARE OF THE TIER 1 RAIL-  
18 ROAD RETIREMENT TAX.—‘Employer’s share of the  
19 tier 1 railroad retirement tax’ means—

20 “(A) the tier 1 railroad retirement tax im-  
21 posed by section 3221(a), and

22 “(B) the portion of the tax imposed by sec-  
23 tion 3211(a)(1) on employee representatives at-  
24 tributable to the tax imposed by section 3111.

25 “(3) ONE-HALF OF THE ALLOCABLE PORTION  
26 OF THE SECA TAX.—



1           “(A) SECA TAX.—‘SECA tax’ means the  
2 self-employment tax imposed by section 1401.

3           “(B) PARTNERSHIPS.—Until such time as  
4 the SECA tax and the Federal Insurance Con-  
5 tributions Acts are amended to treat partners  
6 of partnerships as employees, if a partner des-  
7 ignates a partnership as a principal source of  
8 employment income for the taxable year, one-  
9 half of the partnership’s allocable portion of the  
10 SECA tax of such partner equals the FICA tax  
11 that the employer would have been required to  
12 pay under section 3111 with respect to such  
13 partner if the partner’s self-employment income  
14 as reported by the partnership were wages sub-  
15 ject to the FICA tax. A partner and partner-  
16 ship can agree to treat no portion of a partner’s  
17 SECA tax as allocable to the partnership.

18           “(C) PROPRIETORSHIP.—In the case of an  
19 individual who is a proprietor or sole owner and  
20 provider of service to a business entity, the indi-  
21 vidual shall allocate the portion of one-half of  
22 his SECA tax not allocated pursuant to sub-  
23 paragraph (B) to his business entities in ac-  
24 cordance with rules prescribed by the Secretary.

1       “(c) SPECIAL RULE.—Under rules prescribed by the  
 2 Secretary, an individual subject to the self-employment tax  
 3 shall pay half of the self-employment tax on an amount  
 4 of self employment income not less than the amount of  
 5 the individual’s self-employment income taken into ac-  
 6 count by partnerships under subparagraph (B) of sub-  
 7 section (b)(3).

8       **“SEC. 283. CREDIT CARRYOVER.**

9       “(a) CARRYOVER.—A current-year payroll credit that  
 10 is not applied in the taxable year in which earned shall  
 11 constitute a credit carryover until applied but for no more  
 12 than 15 taxable years.

13       “(b) ORDER OF USE.—For purposes of determining  
 14 which credits are applied under section 281, if the total  
 15 credit allowable in a taxable year is less than the sum of  
 16 the current-year payroll credit and the carryover credits,  
 17 the current-year payroll credit shall be considered applied  
 18 first and then credit carryovers shall be considered applied  
 19 in the order earned.

20                   **“Subchapter M—Import Tax**

“Sec. 286. Imposition of tax on property.

“Sec. 287. Imposition of tax on import of services.

“Sec. 288. General rules for the import tax.

21       **“SEC. 286. IMPOSITION OF TAX ON PROPERTY.**

22       “(a) GENERAL RULE.—There is hereby imposed a  
 23 tax equal to 11 percent of the customs value of all prop-

1 erty entered into the United States for consumption, use  
2 or warehousing.

3 “(b) LIABILITY FOR TAX.—The tax imposed on the  
4 import of property by subsection (a) shall be paid by the  
5 person entering the property into the United States for  
6 consumption, use or warehousing. Such tax shall be due  
7 and payable at the time of import.

8 “(c) IMPORTS OF PREVIOUSLY EXPORTED PROP-  
9 erty.—In the case of any article that is classified under  
10 a heading or subheading of subchapter I or II of chapter  
11 98 of the Tariff Schedules of the United States, the tax  
12 under this section shall be imposed only on that portion  
13 of the customs value of such article that is dutiable under  
14 such heading or subheading.

15 “(d) IMPORTS FOR PERSONAL CONSUMPTION.—The  
16 import tax imposed by this section shall not apply to any  
17 article entered into the United States duty free under sub-  
18 chapters I through VII of chapter 98 of the Tariff Sched-  
19 ules of the United States.

20 **“SEC. 287. IMPOSITION OF TAX ON IMPORT OF SERVICES.**

21 “(a) GENERAL RULE.—There is hereby imposed a  
22 tax equal to 11 percent of the cost of all services treated  
23 as imported into the United States during the taxable year  
24 of the service recipient.

1       “(b) LIABILITY FOR THE TAX.—The tax on the im-  
 2 port of services imposed by subsection (a) shall be paid  
 3 by the person who receives the imported services. The tax  
 4 shall be payable as if it were an addition to the business  
 5 tax imposed by section 201.

6       “(c) IMPORTED SERVICES.—For purposes of this sec-  
 7 tion, services shall be treated as imported if such services  
 8 are treated as imported under section 267 (general rules  
 9 on import of services) or section 270 (related to insur-  
 10 ance).

11       “(d) SPECIAL RULE FOR INSURANCE.—The seller of  
 12 insurance that is treated as imported under section 270  
 13 shall be liable for the collection of the tax imposed by sub-  
 14 section (a) on the insurance and for paying such tax to  
 15 the Secretary. The first sentence of subsection (b) (relat-  
 16 ing to the person liable for the tax) shall apply to insur-  
 17 ance only to the extent that the seller of the insurance  
 18 services does not collect such tax.

19       **“SEC. 288. GENERAL RULES FOR THE IMPORT TAX.**

20       “(a) IMPORT TAX.—‘Import tax’ means the tax im-  
 21 posed by section 286 on the import of property and the  
 22 tax imposed by section 287 on the import of services.

23       “(b) NO CREDITS.—No credits shall be allowed  
 24 against the import tax, other than credit for prior overpay-  
 25 ment or credits for deposits of the import tax.

## 1                   **“Subchapter N—Transition Rules**

“Sec. 290. Amortization of transition basis.

“Sec. 291. Sales of transition basis property.

“Sec. 292. Carryovers.

“Sec. 293. Section 481 adjustments.

### 2           **“SEC. 290. AMORTIZATION OF TRANSITION BASIS.**

3           “(a) TRANSITION BASIS DEDUCTION.—The ‘transi-  
4   tion basis deduction’ for a taxable year is the sum of the  
5   amortization allowance determined under this section for  
6   the taxable year.

7           “(b) AMORTIZATION RULES.—The amortization al-  
8   lowance for each category of amortizable basis shall be de-  
9   termined by amortizing the amortizable basis of such cat-  
10   egory ratably over the amortization period for the category  
11   beginning January 1, 1996.

12          “(c) AMORTIZATION PERIOD.—The amortization pe-  
13   riods shall be determined in accordance with the following  
14   table:

<b>“In the case of:</b>	<b>The amortization period is:</b>
Category I basis .....	10 years.
Category II basis .....	30 years.
Category III basis .....	40 years.
Unrecovered inventory costs .....	3 years.

15          “(d) CATEGORIES.—

16               “(1) CATEGORY I BASIS.—‘Category I basis’ is  
17   the sum of the unrecovered bases as of January 1,  
18   1996, of all depreciable property placed in service  
19   prior to January 1, 1996, and the unamortized por-

1       tion of amortizable costs incurred before January 1,  
2       1996, if—

3               “(A) cost recovery or amortization began  
4               before January 1, 1996, and

5               “(B) the remaining recovery period or am-  
6               ortization period as of January 1, 1996, is less  
7               than 15 years.

8               “(2) CATEGORY II BASIS.—‘Category II basis’  
9       is the sum of the unrecovered bases as of January  
10      1, 1996, of all depreciable property placed in service  
11      prior to January 1, 1996, and the unamortized por-  
12      tion of amortizable costs incurred before January 1,  
13      1996, if—

14              “(A) cost recovery or amortization began  
15              before January 1, 1996, and

16              “(B) the remaining recovery period or am-  
17              ortization period as of January 1, 1996, is than  
18              15 years or more.

19              “(3) CATEGORY III BASIS.—‘Category III basis’  
20      is the sum of the adjusted basis of each asset satis-  
21      fying the following requirements:

22              “(A) The asset was placed in service prior  
23              to January 1, 1996,

24              “(B) The asset was used in a business ac-  
25              tivity in 1996,

1           “(C) The cost of the asset was capitalized  
2           and not depreciable or otherwise recoverable  
3           under the Internal Revenue Code of 1986, and

4           “(D) The cost of the asset would have con-  
5           stituted deductible expenses under the business  
6           tax if such cost had been incurred after 1995.

7           “(4) UNRECOVERED INVENTORY COSTS.—‘Un-  
8           recovered inventory costs’ means the cost of goods  
9           sold (as determined under the Internal Revenue  
10          Code of 1986) if a business entity sold all of its in-  
11          ventory (including inventory being produced) on the  
12          effective date of the business tax.

13          “(e) RULES OF APPLICATION.—

14           “(1) REMAINING RECOVERY PERIOD.—

15           “(A) TIME OF MEASURE.—The remaining  
16           recovery period shall be determined as of De-  
17           cember 31, 1995, and shall include each taxable  
18           year ending after such date in which a deduc-  
19           tion would have been allowed under the Internal  
20           Revenue Code of 1986.

21           “(B) ACCOUNTING METHOD.—The remain-  
22           ing recovery period shall be determined using  
23           the cost recovery method and rules applicable  
24           for determining taxable income under the Inter-  
25           nal Revenue Code of 1986.

1           “(2) DEPLETABLE ASSETS.—Under rules pre-  
2       scribed by the Secretary, this section shall apply to  
3       the remaining cost basis of depletable property and  
4       to other property for which a cost recovery method  
5       other than 1 based on time is used.

6       **“SEC. 291. SALES OF TRANSITION BASIS PROPERTY.**

7           “(a) IN GENERAL.—Except as provided in subsection  
8       (b), for purposes of determining the tax consequences of  
9       a sale, retirement, casualty or conversion to personal use  
10      of an asset whose basis or cost is taken into account under  
11      section 290, the amount to be amortized shall be treated  
12      as fully deducted upon the adoption of the business tax.

13          “(b) SUBSTANTIAL SALES.—

14               “(1) IN GENERAL.—In the case of a substantial  
15      sale of assets to which the amortization rules of sec-  
16      tion 290 apply, the purchaser and seller may jointly  
17      elect to have the purchaser assume the amortization  
18      deductions attributable to such assets, in which  
19      case—

20                   “(A) the seller’s taxable receipts from such  
21      sale shall be reduced by the amount of  
22      unamortized basis or cost assumed by the pur-  
23      chaser,

24                   “(B) the purchaser may treat as a cost of  
25      a business purchase only the portion of the pur-



1           chase price in excess of the amount of  
2           unamortized basis or cost assumed, and

3           “(C) the unamortized basis or cost as-  
4           sumed shall continue to be amortized in the  
5           manner amortized by the seller.

6           “(2) SUBSTANTIAL SALE.—A sale of assets by  
7           a business entity to another business entity is a sub-  
8           stantial sale if—

9           “(A) more than 20 percent (in fair market  
10          value or in original cost) of the assets of the  
11          seller are sold,

12          “(B) the total consideration for the sale  
13          exceeds \$1 million or 20 percent of the taxable  
14          receipts of the seller for the taxable year pre-  
15          ceding the year of the sale, or

16          “(C) the sale satisfies other criteria estab-  
17          lished by the Secretary to prevent distortions in  
18          gross profits resulting from asset sales.

19   **“SEC. 292. CARRYOVERS.**

20          “(a) NO LOSS CARRYOVERS.—No deduction shall be  
21          allowed under the business tax for net operating loss  
22          carryovers, capital loss carryovers, or any other loss  
23          carryovers from the income tax under the Internal Reve-  
24          nue Code of 1986.

1       “(b) NO CREDIT CARRYOVERS.—No credits shall be  
2 allowed under the business tax for business credit  
3 carryovers, minimum tax credit carryovers, or any other  
4 credit carryovers from the income tax under the Internal  
5 Revenue Code of 1986.

6       **“SEC. 293. SECTION 481 ADJUSTMENTS.**

7       “(a) POSITIVE NET SECTION 481 ADJUSTMENT  
8 AMOUNT.—If, as of January 1, 1996, a business entity  
9 has a positive net section 481 adjustment amount, the  
10 amount shall be applied to reduce the transition basis in  
11 accounts (for purposes of section 290) in the following  
12 order:

13               “(1) First, to reduce the category I basis (but  
14       not below zero).

15               “(2) Second, to reduce the category II basis  
16       (but not below zero).

17               “(3) Third, to reduce the unrecovered inventory  
18       costs.

19       “(b) NEGATIVE NET SECTION 481 ADJUSTMENT  
20 AMOUNT.—If, as of January 1, 1996, a business entity  
21 has a negative net section 481 adjustment amount, the  
22 amount shall be applied to increase category I basis for  
23 purposes of section 290.

1       “(c) SECTION 481 ADJUSTMENT.—A business enti-  
 2 ty’s net section 481 adjustment is determined by sub-  
 3 tracting—

4           “(1) the sum of all additional deductions to  
 5 which a business entity would be entitled by reason  
 6 of section 481 of the Internal Revenue Code of 1986  
 7 for periods beginning on or after the effective date  
 8 of the business tax with respect to changes in ac-  
 9 counting methods made before such effective date,  
 10 from

11           “(2) the sum of all additional income which a  
 12 business entity would recognize by reason of section  
 13 481 of the Internal Revenue Code of 1986 for peri-  
 14 ods beginning on or after the effective date of the  
 15 business tax with respect to changes in accounting  
 16 methods made before such effective date,  
 17 in each case assuming that the income tax under the In-  
 18 ternal Revenue Code of 1986 remained in effect.

19       **“Subchapter O—Rules for Administration,**  
 20                           **Consolidated Returns**

“Sec. 301. Returns, due dates, etc.

“Sec. 302. Consolidated returns.

21       **“SEC. 301. RETURNS, DUE DATES, ETC.**

22           “(a) IN GENERAL.—Until subtitle F is amended to  
 23 reflect the adoption of this chapter, the rules of subtitle

1 F relating to C corporations shall apply to business enti-  
2 ties with respect to—

3 “(1) returns and records;

4 “(2) time and place for paying tax;

5 “(3) assessment of taxes;

6 “(4) collections and liens;

7 “(5) abatements, credits, and refunds;

8 “(6) interest on underpayments and overpay-  
9 ments;

10 “(7) additions to tax and penalties;

11 “(8) closing agreements and compromises;

12 “(9) crimes;

13 “(10) judicial proceedings;

14 “(11) discovery of liability and enforcement;

15 and

16 “(12) estimated taxes.

17 “(b) INDIVIDUALS ENGAGING IN BUSINESS ACTIVI-  
18 TIES.—Under rules prescribed by the Secretary, individ-  
19 uals engaging in business activities on their own or with  
20 their spouses shall be permitted to file their business tax  
21 returns with their individual tax returns and shall be sub-  
22 ject to estimated tax rules for individual income tax re-  
23 turns.

1 **“SEC. 302. CONSOLIDATED RETURNS.**

2 “(a) IN GENERAL.—Business entities may file con-  
3 solidated returns of business tax if such entities would  
4 have been permitted to file consolidated returns under sec-  
5 tion 1501 of the Internal Revenue Code of 1986 and such  
6 section were applied by treating each business entity as  
7 a corporation and its owners or partners as shareholders.

8 “(b) FINANCIAL INSTITUTIONS.—Financial  
9 intermediation businesses may be included in consolidated  
10 returns, but each financial intermediation business must  
11 compute its gross profits separately.

12 “(c) INTERCOMPANY TRANSACTIONS.—In computing  
13 the gross profits of a consolidated group, intercompany  
14 transactions can be taken into account, or at the election  
15 of the filer, be disregarded (except in the case of trans-  
16 actions with financial intermediation businesses).

17 **“Subchapter P—Definitions and Rules of**  
18 **Application**

“Sec. 310. Definitions.

“Sec. 311. Rules of application.

19 **“SEC. 310. DEFINITIONS.**

20 “(a) IN GENERAL.—When used in this chapter,  
21 where not otherwise distinctly expressed or manifestly in-  
22 compatible with the intent thereof—

23 “(1) USA INCOME TAX.—‘USA Income Tax’  
24 means the tax imposed by chapter 1.

1           “(2) INTERNAL REVENUE CODE OF 1986.—‘In-  
 2           ternal Revenue Code of 1986’ means the Internal  
 3           Revenue Code of 1986 as in effect immediately be-  
 4           fore the enactment of the business tax and the USA  
 5           Income Tax.

6           “(3) UNITED STATES.—‘United States’ means  
 7           the States and the District of Columbia.

8           “(b) TERMS DEFINED IN CHAPTER 2.—If a term  
 9           that is used but not defined in this chapter or in section  
 10          7701 is defined in chapter 1, the definition in chapter 1  
 11          shall apply except if manifestly incompatible with the in-  
 12          tent of the provision in which the term is used.

13       **“SEC. 311. RULES OF APPLICATION.**

14          “(a) DEFINITIONS.—Any definition included in this  
 15          chapter shall apply for all purposes of this chapter un-  
 16          less—

17               “(1) such definition is limited to the purposes  
 18               of a particular chapter, section, or subsection, or

19               “(2) the definition clearly would not be applica-  
 20               ble in a particular context.

21          “(b) INTERPRETATIONS CONSISTENT WITH THE IN-  
 22          TERNAL REVENUE CODE OF 1986.—Terms not defined  
 23          in this chapter or elsewhere in this title, but defined in  
 24          the Internal Revenue Code of 1986, shall be interpreted  
 25          in a manner consistent with the Internal Revenue Code

1 of 1986, except to the extent such interpretation would  
 2 be inconsistent with the principles and purposes of this  
 3 chapter.”

4 (b) The amendments made by this section shall be  
 5 effective on January 1, 1996, except to the extent other-  
 6 wise specifically provided in the text of such amendments.

7 **SEC. 302. REPEAL OF CHAPTER 6.**

8 Chapter 6 of the Code (relating to consolidated re-  
 9 turns) is repealed as of January 1, 1996.

10 **TITLE IV—DEFERRED**  
 11 **COMPENSATION PLANS**

12 **SEC. 401. PROVISIONS SAVED.**

13 (a) IN GENERAL.—The sections contained in sub-  
 14 chapter D of chapter 1 of the Code (relating to deferred  
 15 compensation, etc.) are redesignated as chapter 3.

16 (b) LIMITATIONS ON CHAPTER 3.—Chapter 3 of the  
 17 Code (as redesignated by subsection (a)) is amended by  
 18 inserting before section 401 the following new section:

19 **“SEC. 400. EFFECT OF CHAPTER 3.**

20 “(a) IN GENERAL.—The provisions of chapter 3 (sec-  
 21 tions 401 through 420) are included in this subtitle pri-  
 22 marily for purposes of cross-reference and for purposes of  
 23 determining whether plans are exempt from the business  
 24 tax.

1       “(b) EFFECT ON INCOME TAX DEDUCTIONS.—Not-  
2     withstanding any provisions to the contrary in this chap-  
3     ter, no provision of this chapter shall operate to create  
4     a deduction from taxable income for purposes of the indi-  
5     vidual tax imposed by chapter 1, nor shall any provision  
6     of this chapter operate to cause any amount which would  
7     be considered an addition to savings under chapter 1 to  
8     not be considered an addition to savings.

9       “(c) EFFECT ON BUSINESS TAX DEDUCTIONS.—  
10    Notwithstanding any provision to the contrary in this  
11    chapter, no provision of this chapter shall cause any  
12    amount to be treated as a cost of business purchase or  
13    to otherwise be deducted from gross receipts for purposes  
14    of computing the business tax under chapter 2.

15       “(d) NO CREDITS.—Notwithstanding any provision  
16    to the contrary in this chapter, no provision of this chapter  
17    shall result in a tax credit against any tax imposed by  
18    chapter 1 or chapter 2.

19       “(e) EFFECT OF FAILURE TO COMPLY WITH PROVI-  
20    SIONS.—A failure to comply with applicable provisions in  
21    this chapter could cause a plan to lose its exemption from  
22    the business tax and, thereby subject certain business ac-  
23    tivities of the plan to the business tax.”

24       (c) CLERICAL AMENDMENTS.—The table of sections  
25    for subpart A of part 1 of chapter 3 of the Code is amend-



1 ed by inserting before the item relating to section 401 the  
 2 following new item:

“Sec. 400. Effect of chapter 3.”

3 (d) EFFECTIVE DATE.—The amendments made by  
 4 this section shall be effective on January 1, 1996.

## 5 **TITLE V—TECHNICAL AND** 6 **ADMINISTRATIVE CHANGES**

### 7 **SEC. 501. USA TAX CODE.**

8 (a) REDESIGNATION OF THE CODE.—The Internal  
 9 Revenue Code enacted August 16, 1954, and as heretofore  
 10 hereby, and hereafter amended may be cited as the “USA  
 11 Tax Code”.

12 (b) REFERENCES IN LAWS, ETC.—Except where in-  
 13 appropriate, any reference in any law, Executive order, or  
 14 other document—

15 (1) to the Internal Revenue Code of 1954 or  
 16 the Internal Revenue Code of 1986 shall include a  
 17 reference to the USA Tax Code, and

18 (2) to the USA Tax Code shall include a ref-  
 19 erence, with respect to periods before January 1,  
 20 1996, to the Internal Revenue Code of 1954 or the  
 21 Internal Revenue Code of 1986.

### 22 **SEC. 502. REVISIONS TO THE CODE.**

23 Not later than January 1, 1997, the Secretary shall  
 24 submit to Congress proposed changes in the USA Tax  
 25 Code that—

1           (1) eliminate cross-references to the Internal  
2       Revenue Code of 1986 (except with respect to tran-  
3       sition issues) and insert provisions similar to the  
4       cross-referenced sections of the Internal Revenue  
5       Code of 1986,

6           (2) revise subtitles B through J of the Internal  
7       Revenue Code of 1986 to fully reflect the new sub-  
8       title A of the Internal Revenue Code,

9           (3) include statutory definitions or rules in  
10      cases where the Secretary concludes that the defini-  
11      tions or rules cannot or should not be addressed by  
12      regulation,

13          (4) revise chapter 4 of the USA Tax Code (re-  
14      lating to the self-employment tax) to conform to  
15      changes made by this Act, and

16          (5) revise chapter 5 of the USA Tax Code to  
17      reflect changes made in this Act.

18   **SEC. 503. APPLICATION OF SUBTITLE F.**

19      Until such time as subtitle F of the Code is amended  
20   to reflect the amendments made by this Act, the provisions  
21   of subtitle F shall be treated as generally applying to the  
22   USA Income Tax and the business tax imposed by such  
23   amendments—

24          (1) without regard to specific cross references,

1           (2) without regard to provisions relating to  
2       partnerships, and

3           (3) as if the business tax were the corporate in-  
4       come tax and all business entities were corporations  
5       (except for purposes of collection, in which case the  
6       owners of noncorporate entities shall be obligated for  
7       taxes owed by the entities to the same extent as  
8       such owners would if the entity owed the tax prior  
9       to the amendment of such Code.

10 **SEC. 504. CLERICAL AMENDMENT.**

11       The table of chapters for subtitle A of the Code is  
12       amended to read as follows:

“CHAPTER 1. Unlimited Savings Allowance tax for individuals.

“CHAPTER 2. Tax paid by corporations and other businesses.

“CHAPTER 3. Deferred compensation, etc.

“CHAPTER 4. Tax on self-employment income.

“CHAPTER 5. Withholding tax on nonresident aliens and foreign corpora-  
tions.”



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