

107TH CONGRESS
1ST SESSION

H. R. 2529

To amend the Internal Revenue Code of 1986 to provide a revenue-neutral simplification of the individual income tax.

IN THE HOUSE OF REPRESENTATIVES

JULY 17, 2001

Mr. NEAL of Massachusetts (for himself and Mr. MATSUI) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide a revenue-neutral simplification of the individual income tax.

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.**

4 (a) **SHORT TITLE.**—This Act may be cited as the
5 “Individual Tax Simplification Act of 2001”.

6 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment
9 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
 2 sion of the Internal Revenue Code of 1986.

3 (c) TABLE OF CONTENTS.—

Sec. 1. Short title.

TITLE I—SIMPLIFICATION RELATING TO NONREFUNDABLE
 PERSONAL CREDITS

Sec. 101. Repeal of interaction with alternative minimum tax.

Sec. 102. Uniform phaseout of credits for adoption, children, and education.

TITLE II—SIMPLIFICATION OF CAPITAL GAINS TAX

Sec. 201. Simplification of capital gains tax.

TITLE III—REPEAL OF CERTAIN HIDDEN MARGINAL RATE
 INCREASES; REPEAL OF INDIVIDUAL MINIMUM TAX

Subtitle A—Repeals

Sec. 301. Repeal of overall limitation on itemized deductions.

Sec. 302. Repeal of phaseout of personal exemptions.

Sec. 303. Repeal of alternative minimum tax on individuals.

Subtitle B—Revenue Offsets

Sec. 311. Additional income tax.

4 **TITLE I—SIMPLIFICATION RE-**
 5 **LATING TO NONREFUNDABLE**
 6 **PERSONAL CREDITS**

7 **SEC. 101. REPEAL OF INTERACTION WITH ALTERNATIVE**
 8 **MINIMUM TAX.**

9 (a) GENERAL RULE.—Subsection (a) of section 26
 10 (relating to limitation based on amount of tax) is amended
 11 to read as follows:

12 “(a) LIMITATION BASED ON AMOUNT OF TAX.—The
 13 aggregate amount of credits allowed by this subpart for
 14 the taxable year shall not exceed the tax imposed by this
 15 chapter for the taxable year.”

1 (b) CONFORMING AMENDMENT.—Paragraph (2) of
2 section 26(b) is amended by inserting “subsection (a)
3 and” before “paragraph (1)”.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 2001.

7 **SEC. 102. UNIFORM PHASEOUT OF CREDITS FOR ADOPTI-**
8 **ON, CHILDREN, AND EDUCATION.**

9 (a) IN GENERAL.—Section 26 is amended by redesi-
10 gnating subsections (b) and (c) as subsections (c) and (d),
11 respectively, and by inserting after subsection (a) the fol-
12 lowing new subsection:

13 “(b) UNIFORM PHASEOUT OF ADOPTION EXPENSE
14 CREDIT, CHILD CREDIT, AND HOPE AND LIFETIME
15 LEARNING CREDITS.—

16 “(1) IN GENERAL.—The aggregate amount
17 which would (but for subsection (a) and this sub-
18 section) be allowed as a credit under sections 23, 24,
19 and 25A shall be reduced (but not below zero) by 10
20 percent of the amount by which the taxpayer’s modi-
21 fied adjusted gross income exceeds the threshold
22 amount. For purposes of the preceding sentence, the
23 term ‘modified adjusted gross income’ means ad-
24 justed gross income increased by any amount ex-

1 cluded from gross income under section 911, 931, or
2 933.

3 “(2) THRESHOLD AMOUNT.—For purposes of
4 paragraph (1), the term ‘threshold amount’ means—

5 “(A) \$110,000 in the case of a joint re-
6 turn,

7 “(B) \$75,000 in the case of an individual
8 who is not married, and

9 “(C) \$55,000 in the case of a married in-
10 dividual filing a separate return.

11 For purposes of this paragraph, marital status shall
12 be determined under section 7703.”

13 (b) CONFORMING AMENDMENTS.—

14 (1) Paragraph (2) of section 23(b) is amended
15 to read as follows:

16 “(2) LIMITATION BASED ON ADJUSTED GROSS IN-
17 COME.—

**“For limitation based on adjusted gross income,
see section 26(b).”**

18 (2) Subsection (c) of section 23 is amended—

19 (A) by inserting “(as reduced under sec-
20 tion 26(b))” before “exceeds”, and

21 (B) by adding at the end the following new
22 sentence: “For purposes of this subsection, the
23 reduction under section 26(b) shall first be ap-

1 plied to the credits under sections 24 and 25A
2 and then to the credit under this section.”

3 (3) Subsection (b) of section 24 is amended to
4 read as follows:

5 “(b) LIMITATION BASED ON ADJUSTED GROSS.—

**“For limitation based on adjusted gross income,
 see section 26(b).”**

6 (4) Subsection (d) of section 25A is amended to
7 read as follows:

8 “(d) LIMITATION BASED ON ADJUSTED GROSS.—

**“For limitation based on adjusted gross income,
 see section 26(b).”**

9 (5) Subsection (h) of section 25A is amended to
10 read as follows:

11 “(h) INFLATION ADJUSTMENTS.—

12 “(1) IN GENERAL.—In the case of a taxable
13 year beginning after 2002, each of the \$1,000
14 amounts under subsection (b)(1) shall be increased
15 by an amount equal to—

16 “(A) such dollar amount, multiplied by

17 “(B) the cost-of-living adjustment deter-
18 mined under section 1(f)(3) for the calendar
19 year in which the taxable year begins, deter-
20 mined by substituting ‘calendar year 2001’ for
21 ‘calendar year 1992’ in subparagraph (B)
22 thereof.

1 “(2) ROUNDING.—If any amount as adjusted
2 under paragraph (1) is not a multiple of \$100, such
3 amount shall be rounded to the next lowest multiple
4 of \$100.”

5 (6) The section heading for section 26 is
6 amended by inserting before the period “; **PHASE-**
7 **OUT OF CERTAIN CREDITS BASED ON INCOME;**
8 **DEFINITIONS**”.

9 (7) The item relating to section 26 in the table
10 of sections for subpart A of part IV of subchapter
11 A of chapter 1 is amended by inserting before the
12 period “; phaseout of certain credits based on in-
13 come; definitions”.

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years beginning after
16 December 31, 2001.

17 **TITLE II—SIMPLIFICATION OF**
18 **CAPITAL GAINS TAX**

19 **SEC. 201. SIMPLIFICATION OF CAPITAL GAINS TAX.**

20 (a) IN GENERAL.—Part I of subchapter P of chapter
21 1 (relating to treatment of capital gains) is amended by
22 adding at the end the following new section:

1 **“SEC. 1203. CAPITAL GAINS DEDUCTION.**

2 “If for any taxable year a taxpayer other than a cor-
3 poration has a net capital gain, 38 percent of such gain
4 shall be a deduction from gross income.”.

5 (b) DEDUCTION ALLOWABLE WHETHER OR NOT
6 TAXPAYER ITEMIZES OTHER DEDUCTIONS.—

7 (1) Subsection (b) of section 63 is amended by
8 striking “and” at the end of paragraph (1), by strik-
9 ing the period at the end of paragraph (2) and in-
10 sserting “, and”, and by adding at the end the fol-
11 lowing new paragraph:

12 “(3) the deduction allowed by section 1203.”.

13 (2) Subsection (d) of section 63 is amended by
14 striking “and” at the end of paragraph (1), by strik-
15 ing the period at the end of paragraph (2) and in-
16 sserting “, and”, and by adding at the end the fol-
17 lowing new paragraph:

18 “(3) the deduction allowed by section 1203.”.

19 (c) TREATMENT OF COLLECTIBLES.—

20 (1) IN GENERAL.—Section 1222 is amended by
21 inserting after paragraph (11) the following new
22 paragraph:

23 “(12) SPECIAL RULE FOR COLLECTIBLES.—

24 “(A) IN GENERAL.—Any gain or loss from
25 the sale or exchange of a collectible shall be
26 treated as a short-term capital gain or loss (as

1 the case may be), without regard to the period
2 such asset was held. The preceding sentence
3 shall apply only to the extent the gain or loss
4 is taken into account in computing taxable in-
5 come.

6 “(B) TREATMENT OF CERTAIN SALES OF
7 INTERESTS IN PARTNERSHIPS, ETC.—For pur-
8 poses of subparagraph (A), any gain from the
9 sale or exchange of an interest in a partnership,
10 S corporation, or trust which is attributable to
11 unrealized appreciation in the value of collect-
12 ibles held by such entity shall be treated as gain
13 from the sale or exchange of a collectible. Rules
14 similar to the rules of section 751(f) shall apply
15 for purposes of the preceding sentence.

16 “(C) COLLECTIBLE.—For purposes of this
17 paragraph, the term ‘collectible’ means any cap-
18 ital asset which is a collectible (as defined in
19 section 408(m) without regard to paragraph (3)
20 thereof).”.

21 (2) CHARITABLE DEDUCTION NOT AF-
22 FECTED.—

23 (A) Paragraph (1) of section 170(e) is
24 amended by adding at the end thereof the fol-
25 lowing new sentence: “For purposes of this

1 paragraph, section 1222 shall be applied with-
2 out regard to paragraph (12) thereof (relating
3 to special rule for collectibles).”.

4 (B) Clause (iv) of section 170(b)(1)(C) is
5 amended by inserting before the period at the
6 end thereof the following: “and section 1222
7 shall be applied without regard to paragraph
8 (12) thereof (relating to special rule for collect-
9 ibles)”.

10 (d) TECHNICAL AND CONFORMING CHANGES.—

11 (1) Section 1 is amended by striking subsection
12 (h).

13 (2) Subparagraph (E) of section 163(d)(4) is
14 amended to read as follows:

15 “(E) COORDINATION WITH CAPITAL GAINS
16 DEDUCTION.—The net capital gain taken into
17 account under section 1203 for any taxable
18 year shall be reduced (but not below zero) by
19 the amount which the taxpayer takes into ac-
20 count as investment income under subpara-
21 graph (B)(iii) for such year.”.

22 (3) Paragraph (1) of section 170(e) is amended
23 by striking “the amount of gain” in the material fol-
24 lowing subparagraph (B)(ii) and inserting “62 per-

1 cent (100 percent in the case of a corporation) of
2 the amount of gain”.

3 (4) Subparagraph (B) of section 172(d)(2) is
4 amended to read as follows:

5 “(B) the exclusion under section 1202 and
6 the deduction under section 1203 shall not be
7 allowed.”.

8 (5) The last sentence of section 453A(c)(3) is
9 amended by striking all that follows “long-term cap-
10 ital gain,” and inserting “the maximum rate on net
11 capital gain under section 1201 or the deduction
12 under section 1203 (whichever is appropriate) shall
13 be taken into account.”.

14 (6)(A) Section 641(c)(2)(A) is amended by
15 striking “Except as provided in section 1(h), the”
16 and inserting “The”.

17 (B) Section 641(c)(2)(C) is amended by insert-
18 ing after clause (iii) the following new clause:

19 “(iv) The deduction under section
20 1203.”.

21 (7) Paragraph (4) of section 642(c) is amended
22 to read as follows:

23 “(4) ADJUSTMENTS.—To the extent that the
24 amount otherwise allowable as a deduction under
25 this subsection consists of gain from the sale or ex-

1 change of capital assets held for more than 1 year,
2 proper adjustment shall be made for any exclusion
3 allowable under section 1202 and any deduction al-
4 lowable under section 1203 to the estate or trust. In
5 the case of a trust, the deduction allowed by this
6 subsection shall be subject to section 681 (relating
7 to unrelated business income).”.

8 (8) Section 642 is amended by adding at the
9 end the following new subsection:

10 “(j) CAPITAL GAINS DEDUCTION.—The deduction
11 under section 1203 to an estate or trust shall be computed
12 by excluding the portion (if any) of the gains for the tax-
13 able year which is includible by the income beneficiaries
14 under sections 652 and 662 (relating to inclusions of
15 amounts in gross income of beneficiaries of trusts) as gain
16 derived from the sale or exchange of capital assets.”.

17 (9) The last sentence of section 643(a)(3) is
18 amended to read as follows: “The exclusion under
19 section 1202 and the deduction under section 1203
20 shall not be taken into account.”.

21 (10) Subparagraph (C) of section 643(a)(6) is
22 amended by inserting “(i)” before “there shall” and
23 by inserting before the period “, and (ii) the deduc-
24 tion under section 1203 (relating to capital gains de-
25 duction) shall not be taken into account”.

1 (11) Paragraph (4) of section 691(c) is amend-
2 ed by striking “1(h),” and by inserting “1203,”
3 after “1202,”.

4 (12) The second sentence of paragraph (2) of
5 section 871(a) is amended by striking “section
6 1202” and inserting “sections 1202 and 1203”.

7 (13)(A) Paragraph (2) of section 904(b) is
8 amended by striking subparagraphs (A) and (C), by
9 redesignating subparagraph (B) as subparagraph
10 (A), and by inserting after subparagraph (A) (as so
11 redesignated) the following new subparagraph:

12 “(B) OTHER TAXPAYERS.—In the case of
13 a taxpayer other than a corporation, taxable in-
14 come from sources outside the United States
15 shall include gain from the sale or exchange of
16 capital assets only to the extent of foreign
17 source capital gain net income.”.

18 (B) Subparagraph (A) of section 904(b)(2), as
19 so redesignated, is amended—

20 (i) by striking all that precedes clause (i)
21 and inserting the following:

22 “(A) CORPORATIONS.—In the case of a
23 corporation—”, and

24 (ii) by striking in clause (i) “in lieu of ap-
25 plying subparagraph (A),”.

1 (C) Paragraph (3) of section 904(b) is amended
2 by striking subparagraphs (D) and (E) and inserting
3 the following new subparagraph:

4 “(D) RATE DIFFERENTIAL PORTION.—The
5 rate differential portion of foreign source net
6 capital gain, net capital gain, or the excess of
7 net capital gain from sources within the United
8 States over net capital gain, as the case may
9 be, is the same proportion of such amount as
10 the excess of the highest rate of tax specified in
11 section 11(b) over the alternative rate of tax
12 under section 1201(a) bears to the highest rate
13 of tax specified in section 11(b).”.

14 (14) Paragraph (1) of section 1402(i) is amend-
15 ed by inserting “, and the deduction provided by sec-
16 tion 1203 shall not apply” before the period at the
17 end thereof.

18 (15) Paragraph (1) of section 1445(e) is
19 amended by striking “20 percent” and inserting
20 “24.5 percent”.

21 (16)(A) The second sentence of section
22 7518(g)(6)(A) is amended—

23 (i) by striking “during a taxable year to
24 which section 1(h) or 1201(a) applies”, and

1 (ii) by striking “20 percent” and inserting
2 “24.5 percent”.

3 (B) The second sentence of section
4 607(h)(6)(A) of the Merchant Marine Act, 1936, is
5 amended—

6 (i) by striking “during a taxable year to
7 which section 1(h) or 1201(a) of such Code ap-
8 plies”, and

9 (ii) by striking “20 percent” and inserting
10 “24.5 percent”.

11 (e) CLERICAL AMENDMENT.—The table of sections
12 for part I of subchapter P of chapter 1 is amended by
13 adding at the end the following new item:

“Sec. 1203. Capital gains deduction.”

14 (f) EFFECTIVE DATES.—

15 (1) IN GENERAL.—Except as otherwise pro-
16 vided in this subsection, the amendments made by
17 this section shall apply to taxable years beginning
18 after December 31, 2001.

19 (2) WITHHOLDING.—The amendments made by
20 subsection (d)(15) shall apply only to amounts paid
21 after December 31, 2001.

22 (3) REPEAL OF ELECTION.—Section 311 of the
23 Taxpayer Relief Act of 1997 is amended by striking
24 subsection (e).

1 (4) COORDINATION WITH PRIOR TRANSITION
2 RULE.—Any amount treated as long-term capital
3 gain by reason of paragraph (3) of section 1122(h)
4 of the Tax Reform Act of 1986 shall not be taken
5 into account for purposes of applying section 1203
6 of the Internal Revenue Code of 1986 (as added by
7 this section).

8 **TITLE III—REPEAL OF CERTAIN**
9 **HIDDEN MARGINAL RATE IN-**
10 **CREASES; REPEAL OF INDI-**
11 **VIDUAL MINIMUM TAX**

12 **Subtitle A—Repeals**

13 **SEC. 301. REPEAL OF OVERALL LIMITATION ON ITEMIZED**
14 **DEDUCTIONS.**

15 (a) IN GENERAL.—Section 68 (relating to overall
16 limitation on itemized deductions) is hereby repealed.

17 (b) CONFORMING AMENDMENTS.—

18 (1) Subparagraph (A) of section 1(f)(6) is
19 amended by striking “section 68(b)(2)”.

20 (2) Subparagraph (B) of section 773(a)(3) is
21 amended by striking clause (i) and by redesignating
22 clauses (ii), (iii), and (iv), as clauses (i), (ii), and
23 (iii), respectively.

1 (3) The table of sections for subchapter B of
2 chapter 1 is amended by striking the item relating
3 to section 68.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 2001.

7 **SEC. 302. REPEAL OF PHASEOUT OF PERSONAL EXEMP-**
8 **TIONS.**

9 (a) IN GENERAL.—Subsection (d) of section 151 (re-
10 lating to allowance of deductions for personal exemptions)
11 is amended by striking paragraph (3) and by redesignig-
12 nating paragraph (4) as paragraph (3).

13 (b) CONFORMING AMENDMENTS.—

14 (1) Paragraph (6) of section 1(f) is amended—

15 (A) by striking “section 151(d)(4)” in sub-
16 paragraph (A) and inserting “section
17 151(d)(3)”, and

18 (B) by striking “section 151(d)(4)(A)” in
19 subparagraph (B) and inserting “section
20 151(d)(3)”.

21 (2) Paragraph (3) of section 151(d), as redesignig-
22 nated by subsection (a), is amended to read as fol-
23 lows:

24 “(3) INFLATION ADJUSTMENT.—In the case of
25 any taxable year beginning in a calendar year after

1 1989, the dollar amount contained in paragraph (1)
2 shall be increased by an amount equal to—

3 “(A) such dollar amount, multiplied by

4 “(B) the cost-of-living adjustment deter-
5 mined under section 1(f)(3) for the calendar
6 year in which the taxable year begins, by sub-
7 stituting ‘calendar year 1988’ for ‘calendar year
8 1992’ in subparagraph (B) thereof.”.

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to taxable years beginning after
11 December 31, 2001.

12 **SEC. 303. REPEAL OF ALTERNATIVE MINIMUM TAX ON INDI-**
13 **VIDUALS.**

14 (a) IN GENERAL.—Subsection (a) of section 55 (re-
15 lating to alternative minimum tax imposed) is amended
16 by adding at the end the following new flush sentence:

17 “Except in the case of a corporation, no tax shall be im-
18 posed by this section for any taxable year beginning after
19 December 31, 2001, and the tentative minimum tax of any
20 taxpayer other than a corporation shall be zero for pur-
21 poses of this title.”

22 (b) CONFORMING AMENDMENTS.—

23 (1) Subparagraph (B) of section 1(g)(7) is
24 amended by adding “and” at the end of clause (i),

1 by striking “, and” at the end of clause (ii) and in-
2 serting a period, and by striking clause (iii).

3 (2) Section 2(d) is amended by striking “sec-
4 tions 1 and 55” and inserting “section 1”.

5 (3) Section 5(a) is amended by striking para-
6 graph (4).

7 (4) Subsection (d) of section 26 (as redesign-
8 nated by section 102) is amended by inserting before
9 the period “; except that such amount shall be treat-
10 ed as being zero in the case of a taxpayer other than
11 a corporation.”

12 (5) Paragraph (6) of section 29(b) is amended
13 to read as follows:

14 “(6) APPLICATION WITH OTHER CREDITS.—
15 The credit allowed by subsection (a) for any taxable
16 year shall not exceed the regular tax for the taxable
17 year reduced by the sum of the credits allowable
18 under subpart A and section 27. In the case of a
19 corporation, the limitation under the preceding sen-
20 tence shall be reduced (but not below zero) by the
21 tentative minimum tax for the taxable year.”

22 (6) Paragraph (3) of section 30(b) is amended
23 to read as follows:

24 “(3) APPLICATION WITH OTHER CREDITS.—
25 The credit allowed by subsection (a) for any taxable

1 year shall not exceed the regular tax for the taxable
2 year reduced by the sum of the credits allowable
3 under subpart A and sections 27 and 29. In the case
4 of a corporation, the limitation under the preceding
5 sentence shall be reduced (but not below zero) by the
6 tentative minimum tax for the taxable year.”.

7 (7) Subsection (d) of section 53(d) is amended
8 to read as follows:

9 “(d) DEFINITIONS.—For purposes of this section—

10 “(1) NET MINIMUM TAX.—The term ‘net min-
11 imum tax’ means the tax imposed by section 55 in-
12 creased by the amount of the credit not allowed
13 under section 29 (relating to credit for producing
14 fuel from a nonconventional source) solely by reason
15 of the application of the last sentence of section
16 29(b)(6), or not allowed under section 30 solely by
17 reason of the application of the last sentence of sec-
18 tion 30(b)(3).

19 “(2) TENTATIVE MINIMUM TAX.—The term
20 ‘tentative minimum tax’ has the meaning given to
21 such term by section 55(b); except that such tax
22 shall be treated as being zero in the case of a tax-
23 payer other than a corporation.”.

1 (8)(A) Subsection (b) of section 55 (relating to
2 alternative minimum tax imposed) is amended to
3 read as follows:

4 “(b) TENTATIVE MINIMUM TAX.—For purposes of
5 this part—

6 “(1) AMOUNT OF TENTATIVE TAX.—The ten-
7 tative minimum tax for the taxable year is—

8 “(A) 20 percent of so much of the alter-
9 native minimum taxable income for the taxable
10 year as exceeds the exemption amount, reduced
11 by

12 “(B) the alternative minimum tax foreign
13 tax credit for the taxable year.

14 “(2) ALTERNATIVE MINIMUM TAXABLE IN-
15 COME.—The term ‘alternative minimum taxable in-
16 come’ means the taxable income of the taxpayer for
17 the taxable year—

18 “(A) determined with the adjustments pro-
19 vided in section 56, and

20 “(B) increased by the amount of the items
21 of tax preference described in section 57.

22 If a taxpayer is subject to the regular tax, such tax-
23 payer shall be subject to the tax imposed by this sec-
24 tion (and, if the regular tax is determined by ref-
25 erence to an amount other than taxable income, such

1 amount shall be treated as the taxable income of
2 such taxpayer for purposes of the preceding sen-
3 tence).”.

4 (B) Subsection (d) of section 55 is amended to
5 read as follows:

6 “(d) EXEMPTION AMOUNT.—For purposes of this
7 section—

8 “(1) IN GENERAL.—The term ‘exemption
9 amount’ means \$40,000.

10 “(2) PHASE-OUT OF EXEMPTION AMOUNT.—
11 The exemption amount of any taxpayer shall be re-
12 duced (but not below zero) by an amount equal to
13 25 percent of the amount by which the alternative
14 minimum taxable income of the taxpayer exceeds
15 \$150,000.”.

16 (9)(A) Paragraph (6) of section 56(a) is
17 amended to read as follows:

18 “(6) ADJUSTED BASIS.—The adjusted basis of
19 any property to which paragraph (1) or (5) applies
20 (or with respect to which there are any expenditures
21 to which paragraph (2) applies) shall be determined
22 on the basis of the treatment prescribed in para-
23 graph (1), (2), or (5), whichever applies.”.

24 (B) Section 56 is amended by striking sub-
25 section (b).

1 (C) Subsection (c) of section 56 is amended by
2 striking so much of the subsection as precedes para-
3 graph (1), by redesignating paragraphs (1), (2), and
4 (3) as paragraphs (8), (9), and (10), respectively,
5 and moving them to the end of subsection (a).

6 (D) Paragraph (8) of section 56(a), as redesignig-
7 nating by paragraph (12)(C), is amended by striking
8 “subsection (g)” and inserting “subsection (e)”.

9 (E) Section 56 is amended by striking sub-
10 section (e) and by redesignating subsections (d) and
11 (g) as subsections (b) and (e), respectively.

12 (10)(A) Section 58 is hereby repealed.

13 (B) Clause (i) of section 56(b)(2)(A) (as redesi-
14 gnated by paragraph (12)(E), is amended by insert-
15 ing “, in the case of taxable years beginning before
16 January 1, 2002,” before “section 58”.

17 (C) Subsection (h) of section 59 is amended—

18 (i) by striking “, 465, and 1366(d)” and
19 inserting “and 465”, and

20 (ii) by striking “56, 57, and 58” and in-
21 sserting “56 and 57”.

22 (11)(A) Subparagraph (C) of section 59(a)(1)
23 is amended by striking “subparagraph (A)(i) or
24 (B)(i) of section 55(b)(1) (whichever applies)” and
25 inserting “section 55(b)(1)(A)”.

1 (B) Paragraph (3) of section 59(a) is amended
2 to read as follows:

3 “(3) PRE-CREDIT TENTATIVE MINIMUM TAX.—
4 For purposes of this subsection, the term ‘pre-credit
5 tentative minimum tax’ means the amount deter-
6 mined under section 55(b)(1)(A).”.

7 (C) Section 59 is amended by striking sub-
8 section (c).

9 (D) Section 59 is amended by striking sub-
10 section (j).

11 (12) Paragraph (7) of section 382(l) is amend-
12 ed by striking “section 56(d)” and inserting “section
13 56(b)”.

14 (13) Paragraph (2) of section 641(c) is amend-
15 ed by striking subparagraph (B) and by redesign-
16 ating subparagraphs (C) and (D) as subparagraphs
17 (B) and (C), respectively.

18 (14) Subsections (b) and (c) of section 666 are
19 each amended by striking “(other than the tax im-
20 posed by section 55)”.

21 (15) Subsections (c)(5) and (d)(3)(B) of section
22 772 are each amended by striking “56, 57, and 58”
23 and inserting “56 and 57”.

1 (16) Sections 847 and 848(i) are each amended
2 by striking “section 56(g)” and inserting “section
3 56(c)”.

4 (17) Sections 871(b)(1) and 877(b) are each
5 amended by striking “or 55”.

6 (18) Subsection (a) of section 897 is amended
7 to read as follows:

8 “(a) GENERAL RULE.—For purposes of this title,
9 gain or loss of a nonresident alien individual or a foreign
10 corporation from the disposition of a United States real
11 property interest shall be taken into account—

12 “(1) in the case of a nonresident alien indi-
13 vidual, under section 871(b)(1), or

14 “(2) in the case of a foreign corporation, under
15 section 882(a)(1),

16 as if the taxpayer were engaged in a trade or business
17 within the United States during the taxable year and as
18 if such gain or loss were effectively connected with such
19 trade or business.”.

20 (19) Paragraph (1) of section 962(a) is amend-
21 ed by striking “sections 1 and 55” and inserting
22 “section 1”.

23 (20) Paragraph (1) of section 1397E(c) is
24 amended to read as follows:

1 “(1) the regular tax liability (as defined in sec-
2 tion 26(b), over”

3 (21) The last sentence of section 1563(a) is
4 amended by striking “section 55(d)(3)” and insert-
5 ing “section 55(d)(2)”.

6 (22) Subparagraph (B) of section 6015(d)(2) is
7 amended by striking “or 55”.

8 (c) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to taxable years beginning after
10 December 31, 2001.

11 (d) TRANSITIONAL RULE RELATING TO MINIMUM
12 TAX CREDIT.—

13 (1) IN GENERAL.—The pre-effective date min-
14 imum tax credit of a taxpayer other than a corpora-
15 tion shall not be allowed under section 53 of the In-
16 ternal Revenue Code of 1986 but shall be allowed
17 under this subsection.

18 (2) PRE-EFFECTIVE DATE MINIMUM TAX
19 CREDIT.—For purposes of this subsection, the term
20 “pre-effective date minimum tax credit” means the
21 amount determined under section 53(b) of such
22 Code for the first taxable year beginning after De-
23 cember 31, 2001.

24 (3) AMOUNT OF CREDIT.—

1 (A) IN GENERAL.—The pre-effective date
2 minimum tax credit of a taxpayer other than a
3 corporation shall be allowed ratably over the pe-
4 riod of 10 taxable years beginning with the first
5 taxable year beginning after December 31,
6 2001.

7 (B) LIMITATION.—The credit allowable by
8 this subsection for any taxable year shall not
9 exceed the regular tax liability of the taxpayer
10 for such taxable year reduced by the sum of the
11 credits allowable under subparts A, B, D, E,
12 and F of part IV of subchapter A of chapter 1
13 of the Internal Revenue Code of 1986.

14 (C) CARRYFORWARD.—If the credit allow-
15 able by this subsection exceeds the limitation
16 imposed by subparagraph (B), such excess shall
17 be carried to the succeeding taxable year and
18 added to the credit allowable under this sub-
19 section for such succeeding taxable year.

20 (4) ACCELERATION OF CREDIT WHERE PRE-
21 VIOUSLY TAXED INCOME.—

22 (A) IN GENERAL.—The credit allowed
23 under this subsection for any taxable year shall
24 not be less than so much of the limitation de-
25 scribed in paragraph (3)(B) for the taxable year

1 as is attributable to previously taxed incentive
2 stock option gain. Proper adjustments shall be
3 made in the amount allowed under this sub-
4 section for subsequent taxable years to take
5 into account any increased credit allowed by
6 reason of this paragraph.

7 (B) INCENTIVE STOCK OPTION GAIN.—For
8 purposes of subparagraph (A), the term “pre-
9 viously taxed incentive stock option gain”
10 means the amount of gain recognized during
11 the taxable year on account of the disposition of
12 stock acquired by exercising an incentive stock
13 option (as defined in section 422 of such Code)
14 to the extent such gain does not exceed the
15 amount of gain previously taken into account
16 by reason of section 56(b)(3) of such Code (as
17 in effect on the day before the date of the en-
18 actment of this Act) with respect to such op-
19 tion.

20 (5) DEFINITIONS.—Terms used in this sub-
21 section which are also used in section 53 of such
22 Code shall have the respective meanings given to
23 such terms by such section 53.

1 **Subtitle B—Revenue Offsets**

2 **SEC. 311. ADDITIONAL INCOME TAX.**

3 (a) IN GENERAL.—Section 1 is amended by adding
4 at the end the following new subsection:

5 “(h) ADDITIONAL INCOME TAX.—

6 “(1) IN GENERAL.—If the adjusted gross in-
7 come of an individual exceeds the initial threshold
8 amount, the tax imposed by this section (determined
9 without regard to this subsection) shall be increased
10 by an amount equal to the sum of—

11 “(A) the applicable rate of so much of the
12 adjusted gross income as exceeds the initial
13 threshold amount but does not exceed the sec-
14 ond threshold amount, and

15 “(B) twice the applicable rate of so much
16 of the adjusted gross income as exceeds the sec-
17 ond threshold amount.

18 “(2) APPLICABLE RATE.—For purposes of this
19 section, the applicable rate is the rate estimated by
20 the Secretary which will result in the Individual Tax
21 Simplification Act of 2001 being revenue neutral
22 over the first 10 years after its enactment.

23 “(3) THRESHOLD AMOUNTS.—For purposes of
24 this subsection—

1 “(A) INITIAL THRESHOLD AMOUNT.—The
2 initial threshold amount is—

3 “(i) \$120,000 in the case of a joint
4 return,

5 “(ii) \$90,000 in the case of an indi-
6 vidual who is not married, and

7 “(iii) $\frac{1}{2}$ the dollar amount applicable
8 under clause (i) in the case of a married
9 individual filing a separate return.

10 “(B) SECOND THRESHOLD AMOUNT.—The
11 second threshold amount is—

12 “(i) \$150,000 in the case of a joint
13 return,

14 “(ii) \$112,000 in the case of an indi-
15 vidual who is not married, and

16 “(iii) $\frac{1}{2}$ the dollar amount applicable
17 under clause (i) in the case of a married
18 individual filing a separate return.

19 “(C) MARITAL STATUS.—For purposes of
20 this paragraph, marital status shall be deter-
21 mined under section 7703.

22 “(4) INFLATION ADJUSTMENT.—In the case of
23 any taxable year beginning in a calendar year after
24 2002, each dollar amount contained in paragraph
25 (2) shall be increased by an amount equal to—

1 “(A) such dollar amount, multiplied by

2 “(B) the cost-of-living adjustment deter-
3 mined under subsection (f)(3) for the calendar
4 year in which the taxable year begins, by sub-
5 stituting ‘calendar year 2001’ for ‘calendar year
6 1992’ in subparagraph (B) thereof.

7 If any increase under the preceding sentence is not
8 a multiple of \$50, such increase shall be rounded to
9 the nearest multiple of \$50.

10 “(5) TAX NOT TO APPLY TO ESTATES AND
11 TRUSTS.—This subsection shall not apply to an es-
12 tate or trust.”.

13 (b) EFFECTIVE DATE.—The amendment made by
14 this section shall apply to taxable years beginning after
15 December 31, 2001.

16 (c) SECTION 15 NOT TO APPLY.—The amendment
17 made by this section shall not be treated as a change in
18 a rate of tax for purposes of section 15 of such Code.

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