H. R. 2717

To promote freedom, fairness, and economic opportunity for families by repealing the income tax, abolishing the Internal Revenue Service, and enacting a national retail sales tax to be administered primarily by the States.

IN THE HOUSE OF REPRESENTATIVES

AUGUST 2, 2001

Mr. Tauzin (for himself, Mr. Traficant, Mr. Barr of Georgia, Mr. Brady of Texas, Mr. Burton of Indiana, Mr. Callahan, Mr. Culberson, Mr. DeMint, Mr. Hall of Texas, and Mr. Stump) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Rules, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

A BILL

To promote freedom, fairness, and economic opportunity for families by repealing the income tax, abolishing the Internal Revenue Service, and enacting a national retail sales tax to be administered primarily by the States.

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

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) Short Title.—This Act may be cited as the “Individual Tax Freedom Act of 2001”.

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(b) **TABLE OF CONTENTS.—**The table of contents of this Act is as follows:

Sec. 1. Short title; table of contents.
Sec. 2. Congressional findings.
Sec. 3. Repeal of the income tax, estate and gift taxes, and certain excise taxes.
Sec. 4. Sales tax.

"**CHAPTER 1—SALES TAX**

"**SUBCHAPTER A—IMPOSITION OF TAX**

"Sec. 1. Imposition of tax.
"Sec. 2. Exemptions.
"Sec. 3. Rules relating to collection and remittance of tax.

"**SUBCHAPTER B—CREDITS; REFUNDS; INSTALLMENT PAYMENTS OF TAX ON PURCHASES OF RESIDENCES**

"Sec. 11. Credits and refunds.
"Sec. 12. Installment payments of tax on purchase of principal residences.
"Sec. 13. Family consumption refund.

"**SUBCHAPTER C—DEFINITIONS AND SPECIAL RULES; FINANCIAL INTERMEDIATION SERVICES**

"Sec. 21. Definitions.
"Sec. 22. Special rules.
"Sec. 23. Determination of financial intermediation services amount.
"Sec. 24. Bad debts.
"Sec. 25. Timing of tax on financial intermediation services.
"Sec. 27. Basic interest rate.
"Sec. 28. Applicable interest rate.

"**SUBCHAPTER D—AUTHORITY FOR STATES TO COLLECT TAX**

"Sec. 31. Authority for States to collect tax.
"Sec. 32. Federal administrative support for States.
"Sec. 33. Federal administration option for multistate vendors.
"Sec. 34. General administrative matters.

"**SUBCHAPTER E—OTHER ADMINISTRATIVE PROVISIONS**

"Sec. 41. Monthly reports and payments.
"Sec. 42. Records.
"Sec. 43. Registration.
"Sec. 44. Certificate.
"Sec. 45. Penalties.
"Sec. 46. Burden of persuasion and burden of production.
"Sec. 47. Attorneys and accountancy fees.
"Sec. 48. Appeals.
"Sec. 49. Taxpayer subject to subpoena on production.
"Sec. 50. Tax Court jurisdiction.
"Sec. 51. Power to levy.
"Sec. 52. Problem resolution officers.
"Sec. 53. Jurisdiction and interstate allocation.
"Sec. 54. Tax to be stated and charged separately.
"Sec. 55. Installment agreements; compromises.
"Sec. 56. Accounting.
"Sec. 57. Hobby activities.
Sec. 5. Phase-out of the Internal Revenue Service.
Sec. 6. Social Security Administration to collect payroll taxes.
Sec. 7. Self-employment tax.
Sec. 8. Social Security benefits indexed on sales tax inclusive basis.
Sec. 9. Compensating payments to certain persons on fixed income.
Sec. 10. Interest.
Sec. 11. Supermajority required to raise rate.

1 SEC. 2. CONGRESSIONAL FINDINGS.

(a) The Congress finds that the income tax—

(1) retards economic growth and has reduced
the standard of living of the American public;

(2) impedes the international competitiveness of
United States industry;

(3) reduces savings and investment in the
United States;

(4) lowers productivity;

(5) imposes unacceptable administrative costs
on taxpayers, individuals and businesses alike;

(6) is unfair and inequitable; and

(7) unnecessarily intrudes upon the privacy and
civil rights of United States citizens.

(b) The Congress finds further that national sales,
services and use tax on final consumption of goods and
services—

(1) is similar in many respects to those in place
in 45 of the 50 States;

(2) will promote savings;
(3) will promote fairness;
(4) will promote economic growth;
(5) will raise the standard of living;
(6) will increase savings and investment;
(7) will enhance productivity and international competitiveness;
(8) will reduce administrative burdens on the taxpayer; and
(9) will respect the privacy interests and civil rights of taxpayers.

(c) The Congress further finds that—

(1) most of the practical experience administering sales taxes is found at the State Governmental level;
(2) it is desirable to harmonize Federal and State collection and enforcement efforts to the maximum extent possible;
(3) it is sound tax administration policy to administer and collect the Federal sales and service tax at the State level in return for a reasonable administration fee to the States;
(4) businesses that must collect and remit taxes should receive reasonable compensation for the cost of doing so; and
(5) the sixteenth amendment to the Constitution should be repealed.

SEC. 3. REPEAL OF THE INCOME TAX, ESTATE AND GIFT TAXES, AND CERTAIN EXCISE TAXES.

(a) In General.—The following provisions of the Internal Revenue Code of 1986 are hereby repealed:

(1) Chapter 1 (relating to income tax).

(2) Chapter 5 (relating to tax on transfers to avoid income tax).

(3) Chapter 6 (relating to consolidated returns).

(4) Chapter 24 (relating to collection of income tax at source).

(5) Subtitle B (relating to estate and gift taxes).

(6) Chapter 31 (relating to retail excise taxes).

(7) Chapter 32 (relating to manufacturers excise taxes).

(8) Subtitle E (relating to alcohol, tobacco, and certain other excise taxes).

(9) Subtitle F (relating to procedure and administration of the income tax and certain other taxes) except for section 6103 (relating to confidentiality), chapter 66 (relating to limitations), chapter 67 (relating to interest), section 6656 (relating to failure to make deposit of taxes), section 6657 (re-
lating to bad checks), section 6658 (relating to co-
ordination with title 11), chapter 75 (relating to crimes), chapter 76 (relating to Judicial Pro-
cceedings), section 7431 (relating to damages for un-
authorized disclosure), section 7432 (relating to damages for failure to release lien), section 7433 (relating to damages for unauthorized collection data) and chapter 77 (relating to miscellaneous pro-
visions). References to provisions repealed by the preceding sentence shall be treated as references to such provisions as in effect on the day before the date of the enactment of this Act.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in para-
graph (2), the amendments made by subsection (a) shall take effect on July 1, 2003.

(2) INCOME TAX.—The amendment made by subsection (a)(1) shall apply to taxable years begin-

(3) SALES TAX.—The amendment made by sec-
tion 4 shall take effect on July 1, 2003.

(4) SOCIAL SECURITY BENEFITS.—The amend-
ment made by section 9 shall take effect on January 1, 2003.
(5) Supermajority Required.—The amendment made by section 11 shall take effect on January 1, 2003.

SEC. 4. SALES TAX.

Subtitle A of the Internal Revenue Code of 1986 is amended by inserting at the beginning the following new chapter:

"CHAPTER 1—SALES TAX

"Subchapter A. Imposition of tax.
"Subchapter B. Credits; refunds; installment payments of tax on purchases of residences.
"Subchapter C. Definitions and special rules; financial intermediation services.
"Subchapter D. Authority for States to collect tax.
"Subchapter E. Other administrative provisions.

"Subchapter A—Imposition of Tax

"Sec. 1. Imposition of tax.
"Sec. 2. Exemptions.
"Sec. 3. Special rules relating to collection and remittance of tax.

"SECTION 1. IMPOSITION OF TAX.

"(a) In General.—There is hereby imposed a tax of 15 percent on the gross payments for the use, consumption or enjoyment in the United States of any taxable property or service, whether produced or rendered within or without the United States.

"(b) Coordination With Import Duties.—The taxes imposed by this section are in addition to any import duties imposed by law. The Secretary shall provide by regulation that, to the maximum extent practicable, the taxes imposed by this section on imported property and services
are collected and administered in conjunction with any applicable import duties.

“(c) LIABILITY FOR COLLECTION AND REMITTANCE OF THE TAX.—

“(1) General rule.—The tax imposed by subsection (a) shall be collected and remitted by the seller, except as provided in subsection (2).

“(2) Tax to be paid by purchaser in certain circumstances.—

“(A) General rule.—In the case of taxable property or services purchased outside of the United States for use, consumption or enjoyment in the United States, the purchaser shall remit the tax imposed by subsection (a).

“(B) In the case of a purchaser electing to pay tax in installments pursuant to section 12, the purchaser shall remit the tax imposed by subsection (a).

“(C) Employers that pay wages that are taxable services within the meaning of section 21(n) shall be responsible for paying and remitting the tax.

“(D) The Secretary may provide by regulation that the tax imposed by subsection (a) is
to be collected and remitted by the purchaser rather than the seller.

“SEC. 2. EXEMPTIONS.

“(a) IN GENERAL.—Except as provided in section 3(b)(2), no tax shall be imposed under section 1 on any taxable property or service purchased for—

“(1) a business purpose in an active trade or business, or

“(2) export from the United States for use or consumption outside the United States, provided that the purchaser provided the seller with—

“(A) an intermediate sales certificate, or

“(B) an export sales certificate.

“(b) BUSINESS PURPOSES.—For purposes of this section, the term ‘purchased for a business purpose in an active trade or business’ means purchased by a person engaged in an active trade or business and used in that active trade or business—

“(1) for resale,

“(2) to produce taxable property or services (as defined in section 21(e)), or

“(3) in furtherance of other bona fide business purposes.

“(c) DE MINIMIS PAYMENTS.—Up to $400 of gross payments per calendar year—
“(1) made by a person not engaged in an active trade or business at any time during such calendar year prior to making such gross payments, and
“(2) made to purchase any taxable property or service which is imported into the United States by such person for use or consumption by such person in the United States,
shall be exempt from the tax imposed by section 1.
“(d) DE MINIMIS SALES.—Up to $2,500 per calendar year of gross payments received—
“(1) by a person not engaged in an active trade or business during such calendar year prior to the receipt of such gross payments, and
“(2) in connection with a casual or isolated sale,
shall be exempt from the tax imposed by section 1.
“(e) AFFILIATED FIRMS.—Firms that make purchases from or sell to affiliated firms which are exempt pursuant to subsection (a) shall not need to comply with the requirements of subsection (g) for such purchases to remain exempt. For purposes of this section, a firm is affiliated with another if 1 firm owns 50 percent of the voting shares or interest in the other.
“(f) DE MINIMIS SALE OF FINANCIAL INTERMEDIATION SERVICES.—The first $10,000 per calendar year
of gross payments received by a person from the sale of financial intermediation services shall be exempt from the tax imposed by section 1. The exemption provided by this subsection is in addition to other exemptions afforded by this chapter.

“(g) Seller Relieved of Liability in Certain Cases.—In the case of any property or service which is sold exempt from tax pursuant to subsection (a), if the seller—

“(1) has on file a copy of an exemption certificate (whether an intermediate sale or export sale certificate) from the purchaser, and

“(2) did not have reasonable cause to believe that an exemption from the tax imposed by section 1 was unavailable to the purchaser with respect to such purchase, then the seller shall be relieved of liability to collect and remit the tax imposed by section 1 on such purchase.

“SEC. 3. RULES RELATING TO COLLECTION AND REMITTANCE OF TAX.

“(a) Obligation of Governmental Units and Not-for-Profit Organizations To Collect, Remit and Pay Taxes.—

“(1) Governmental units.—Nothing in this subtitle shall be construed to exempt any Federal,
State, or local governmental unit or political subdivision from paying any tax imposed by this subtitle on any sale, purchase, use, consumption or enjoyment by such a unit.

“(2) NOT-FOR-PROFIT ORGANIZATIONS.—

“(A) IN GENERAL.—Dues, contributions and payments to qualified not-for-profit organizations shall not be considered gross payments for taxable property or services for purposes of this subtitle.

“(B) EXCEPTION.—Notwithstanding subparagraph (2)(A), payments of any form to a qualified not-for-profit organization shall be considered gross payments for taxable property or services unless said organization establishes that the property or service provided in exchange is—

“(i) substantially related to the purposes of the qualified not-for-profit organization, or

“(ii) is not commercially available.

“(C) For purposes of this section, qualified not-for-profit organization means a not-for-profit organization organized and operated exclusively—
“(i) for religious, charitable, scientific, testing for public safety, literary or educational purposes;

“(ii) as civic leagues or social welfare organizations;

“(iii) as labor, agricultural or horticultural organizations;

“(iv) as chambers of commerce, business leagues or trade associations; or

“(v) as fraternal beneficiary societies, orders or associations;

no part of the net earnings of which inures to the benefit of any private shareholder or individual.

“(D) Upon application in a form prescribed by the State Administrator, the State Administrator shall provide qualification certificates to qualified not-for-profit organizations.

“(E) If a not-for-profit organization provides taxable property or services in connection with contributions or dues to the organizations, then it shall be required to treat the provision of said taxable property or services as a purchase taxable pursuant to this subtitle at the
fair market value of said property or personal services.

“(F) Taxable property and services purchased by not-for-profit organizations for resale or for use in the production of taxable property or services shall be eligible for the exemptions provided in section 2.

“(b) Tax Collected on Certain Exempt Purchases.—

“(1) In general.—In the case of a purchase which would (but for this subsection (b)) be exempt from the tax imposed by section 1 by reason of section 2(a), such subsection shall not apply to such purchase if the seller—

“(A) elects the application of this subsection, and

“(B) immediately provides the purchaser with a receipt reflecting the information required by section 54. Seller may elect to exercise the application of this section with respect to some or all purchases or purchasers.

“(2) The Secretary may by regulation provide that certain industries or specific products are such that the vendor must collect the tax on otherwise exempt purchases if, in the Secretary’s judgment, said
industry or products are such that consumers buy
25 percent or more of the product sold by the indus-
try or the product. A registered vendor may by ap-
plication for good cause shown elect to opt out of
the application of this paragraph.

“(3) CROSS REFERENCE.—

“For credit to purchaser where seller collects tax
on exempt purchase, see section 11(a)(3).
“For tax to be separately stated and charged, see
section 54.

“(c) GOVERNMENT ENTERPRISES.—

“(1) GOVERNMENT ENTERPRISES TO COLLECT
AND REMIT TAXES ON SALES.—Nothing in this sub-
title shall be construed to exempt any Federal,
State, or local governmental unit or political subdivi-
sion (whether or not the State is a conforming
State) operating a government enterprise from col-
lecting and remitting tax imposed by this subtitle on
any sale of taxable property or services. Government
enterprises shall comply with all duties imposed on
private enterprises by this subtitle and shall be liable
for penalties and subject to enforcement action in
the same manner as private enterprises.

“(2) GOVERNMENT ENTERPRISE.—Any entity
owned or operated by a Federal, State, or local gov-
ernmental unit or political subdivision that receives
gross payments from selling taxable property or
services to private persons is a government enter-
prise, provided, however, that a government-owned
entity shall not become a government enterprise for
purposes of this section unless in any quarter it has
revenues from the sale of taxable property or serv-
ices that exceed $2,500.

“(3) GOVERNMENT ENTERPRISES’ INTER-
MEDIATE AND EXPORT SALES.—

“(A) Government enterprises shall not be
subject to tax on purchases that would not be
subject to tax pursuant to section 2 if the gov-
ernment enterprise were a private enterprise.

“(B) Government enterprises may not use
the exemption afforded by section 2 to serve as
a conduit for tax-free purchases by government
units that would otherwise be subject to tax-
ation on purchases pursuant to section 1.

Transfers of taxable property or services pur-
chased exempt from tax by a government enter-
prise to such government unit shall be taxable.

“(4) SEPARATE BOOKS OF ACCOUNT.—Any gov-
ernment enterprise must maintain books of account,
separate from the nonenterprise government ac-
counts, maintained in accordance with generally ac-
cepted accounting principles.
“(5) ACTIVE TRADE OR BUSINESS.—A government enterprise shall be treated as an active trade or business.

“(6) CROSS REFERENCE.—

“For obligation of government units, see section 3(a)(1).

“Subchapter B—Credits; Refunds; Installment Payments of Tax on Purchases of Residences

“Sec. 11. Credits and refunds.
“Sec. 12. Installment payments of tax on purchases of principal residences.
“Sec. 13. Family Consumption Refund.

“SEC. 11. CREDITS AND REFUNDS.

“(a) GENERAL CREDITS.—Each person shall be allowed a credit against the taxes imposed by section 1 for any month in an amount equal to the sum of—

“(1) such person’s used property credit under subsection (c) for such month,

“(2) such person’s business use conversion credit under subsection (d) for such month,

“(3) the amount paid by such person with respect to a purchase during such month by reason of a tax collected on an exempt purchase pursuant to section 3(b) (relating to election to collect tax on certain nontaxable purchases),

“(4) the administration credit under section (e),
“(5) the compliance equipment cost credit under section (f),

“(6) the bad debt credit under subsection (g),

“(7) the insurance proceeds credit under subsection (h),

“(8) the transition inventory credit under subsection (i), and

“(9) any amount paid in excess of amount due.

“(b) Refunds.—

“(1) Filers.—If a person files two consecutive monthly tax reports with a credit balance, then, upon application in a form prescribed by the State Administrator, then the credit balance shown on the second monthly report shall be refunded to the taxpayer within 60 days of said application.

“(2) Nonfilers.—If a person other than a monthly filer has an excess credit for any month, then, upon application in a form prescribed by the State Administrator, then the credit balance due shall be refunded to the taxpayer within 60 days of said application.

“(3) Interest.—No interest shall be required to be paid on any overpayment under this subsection for any month if such overpayment is paid within 60 days after the close of such month.
“(4) Suspension of period to pay refund only if federal court ruling.—The 60-day periods under paragraphs (1) and (2) shall be suspended with respect to a purported credit balance (or portion thereof) only during any period that there is in effect a preliminary ruling from a Federal court that there is reasonable cause to believe that such credit balance is not actually the amount due.

“(5) Filer.—For purposes of this subsection, the term ‘filer’ means, with respect to any month, any person required to register under section 43 for such month.

“(c) Used Property Credit.—

“(1) In general.—For purposes of subsection (a), a seller shall receive credit for previous sales tax paid on the resale of taxable property or services, as provided in this subsection (c).

“(2) Determination of used property credit amount.—The used property credit amount determined under this paragraph with respect to any property is the lesser of—

“(A) the amount of tax due and paid by virtue of the present transaction (without regard to any credits), or
“(B) the most recent prior tax imposed by section 1 with respect to such property transaction (without regard to any credits).

“(3) Transitional Deemed Paid Rule for Property Owned on Effective Date of Act.— In the case of property which was acquired by the seller before July 1, 2003, the amount under paragraph (2)(B) shall be the amount which is the product of—

“(A) that which would be determined under paragraph (2)(B) as if this subtitle had been in effect at the time of such acquisition, and

“(B) the equity ratio (as defined in paragraph (4)).

“(4) The equity ratio is the quotient of—

“(A) the income tax basis in the property at the end of the taxable year 2003, less the mortgage or debt secured by said property at the end of said taxable year, divided by

“(B) the income tax basis in the property at the end of the taxable year 2003, provided, however, that the quantity defined in subparagraph (1) cannot be less than zero and further
providing that the equity ratio so calculated cannot
be less than zero or greater than one.

“(d) BUSINESS USE CONVERSION CREDIT.—

“(1) IN GENERAL.—For purposes of subsection
(a), a person’s business use conversion credit for any
month is the aggregate of the amounts determined
under paragraph (2) with respect to property—

“(A) on which a prior tax was imposed by
section 1 on the purchase by such person, and

“(B) which commences to be exclusively
used during such month in the production by
such person of other taxable property or serv-
ices.

“(2) AMOUNT OF CREDIT.—The amount deter-
mined under this paragraph with respect to any
property is lesser of—

“(A) the product of the rate imposed by
section 1 and the fair market value of the prop-
erty when its use is converted, and

“(B) the prior tax referred to in paragraph
(1)(A).

“(3) Property converted from business use to
personal use shall be subject to tax pursuant to sec-
tion 1 on the book value of the converted property
as of the date of conversion, provided that the books
are kept in accordance with generally accepted ac-
counting principles.

“(e) ADMINISTRATION CREDIT.—Every taxpayer fil-
ing a timely monthly report in compliance with section 41
shall be entitled to a taxpayer administrative credit equal
to the greater of—

“(1) $200, or

“(2) one-half of 1 percent of the tax remitted,
provided, however, that in no event will the credit af-
forded by this section exceed 20 percent of the tax
due to be remitted prior to the application of this
credit.

“(f) COMPLIANCE EQUIPMENT COST CREDIT.—Ven-
dors required to purchase new equipment to comply with
the provisions of section 54 shall be entitled to a credit
in the amount of 50 percent of the cost of such equipment.

“(g) BAD DEBT CREDIT.—

“(1) FINANCIAL INTERMEDIATION SERVICES.—
Any person registered pursuant to section 43 who
has experienced a bad debt (other than unpaid in-
voices within the meaning of paragraph (2)) shall be
entitled to a credit equal to the product of—

“(A) the rate imposed by section 1, and

“(B) the quotient that is—
“(i) the amount of the bad debt (as defined in section 24), divided by
“(ii) the quantity that is 1 minus the rate imposed by section 1.
“(2) UNPAID INVOICES.—Any person electing the accrual method pursuant to section 56 that has with respect to a transaction—
“(A) invoiced the tax imposed by section 1,
“(B) remitted the invoiced tax,
“(C) actually delivered the taxable property or performed the taxable services invoiced, and
“(D) not been paid 90 days after the date the invoice was due to be paid,
shall be entitled to a credit equal to the amount of tax remitted and unpaid by the purchaser.
“(3) SUBSEQUENT PAYMENT.—Any payment made with respect to a transaction subsequent to a subsection (g) credit being taken with respect to that transaction shall be subject to tax in the month the payment was received as if a tax inclusive sale of taxable property and services in the amount of the payment had been made.
“(4) PARTIAL PAYMENTS.—Partial payments shall be treated as pro rata payments of the under-
lying obligation and shall be allocated proportionately among payment for the taxable property and service, tax and otherwise (in the case of partially nontaxable payments).

“(5) RELATED PARTIES.—The credit provided by this section shall not be available with respect to sales made to affiliated firms (within the meaning of section 2(e)).

“(h) INSURANCE PROCEEDS CREDIT.—

“(1) IN GENERAL.—A person receiving a payment from an insurer by virtue of an insurance contract shall be entitled to a credit in an amount determined by paragraph (2), less any amount paid to the insured by the insurer pursuant to paragraph (3), if the entire premium (except that portion allocable to the investment account of the underlying policy) for the insurance contract giving rise to the insurer’s obligation to make a payment to the insured was subject to the tax imposed by section 1 and such tax was paid.

“(2) CREDIT AMOUNT.—The amount of the credit shall be the product of—

“(A) the rate imposed by section 1, and

“(B) the quotient that is—
“(i) the amount of the payment made
by the insurer to the insured, divided by
“(ii) the quantity that is 1 minus the
rate imposed by section 1.
“(3) ADMINISTRATIVE OPTION.—The credit de-
determined in accordance with paragraph (2) shall be
paid by the insurer to the insured and the insurer
shall be entitled to the credit in lieu of the insured
provided, however, the insurer may elect, in a form
prescribed by the Secretary, to not pay the credit
and require the insured to make application for the
credit. In the event of such election, the insurer shall
provide to the Secretary and the insured the name
and tax identification number of the insurer and of
the insured and indicate the proper amount of the
credit.
“(4) COORDINATION WITH RESPECT TO EXEMP-
tion.—If taxable property or services purchased by
an insurer on behalf of an insured are purchased
free of tax by virtue of section 21(e)(3), then the
credit provided by this section shall not be available
with respect to that purchase.
“(5) INSURANCE CONTRACT.—For purposes of
paragraph (1), the term ‘insurance contract’ in-
cludes a life insurance contract, a health insurance
contract, a property and casualty loss insurance con-
tract, a general liability insurance contract, a marine
insurance contract, a fire insurance contract, an ac-
cident insurance contract, a disability insurance con-
tract, a long-term care insurance contract, and an
insurance contract that provides a combination of
these types of insurance.

“(i) Transitional Inventory Credit.—

“(1) Transition Inventory Credit.—A cred-

it shall be allowed equal to the product of the rate
of tax imposed by section 1 and the cost of qualified
inventory.

“(2) Inventory.—

“(A) Qualified Inventory.—Inventory

held by an active trade or business on the close
of business June 30, 2003, that is subsequently
sold subject to the tax imposed by section 1
shall be qualified inventory.

“(B) Cost.—For purposes of this section,
qualified inventory shall have the cost that it
had on the income tax return of the active
trade or business filed for the period ending
June 30, 2003 (including any amounts capital-
ized by virtue of section 263A as in effect on
June 30, 2003).
“(3) Timing of credit.—The credit provided under paragraph (1) shall be allowed on the sales tax return where the taxable sale of the qualified inventory is reported. The person claiming such credit shall attach supporting schedules in the form that the Secretary may prescribe.

“SEC. 12. INSTALLMENT PAYMENTS OF TAX ON PURCHASE OF PRINCIPAL RESIDENCES.

“(a) In general.—If—

“(1) property is purchased and used as the principal residence of any purchaser of such property, and

“(2) such purchaser elects the application of this section, then the tax imposed by section 1 with respect to such purchase shall be paid in equal annual installments over the 30-year period beginning on the date of such sale together with simple interest at the rate imposed by section 6621.

“(b) Termination of installments if property is sold or otherwise ceases to be principal residence.—

“(1) In general.—If, before the close of the 30-year period referred to in subsection (a), any property to which an election under subsection (a) applies—

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“(A) is sold, or

“(B) otherwise ceases to be used as the principal residence of any purchaser making such election,

then the unpaid installments shall be due no later than two years after the time of such sale or cessation. To the extent that such sale or cessation is only of a portion of such residential property, the preceding sentence shall apply only to a like portion (based on value) of such unpaid installments.

“(2) SPECIAL RULE.—In a case to which paragraph (1)(B) applies with respect to any purchaser—

“(A) if such purchaser purchases within two years another property which property is purchased and used as the principal residence of such purchaser, the remaining unpaid installments shall be due at the time of such purchase,

“(B) if subparagraph (A) does not apply to such purchaser, the remaining unpaid installments shall be due at the close of the two-year period beginning on the date of the cessation referred to in paragraph (1); and
“(C) the two-year period referred to in subparagraph (B) shall be suspended during any period that such purchaser uses such property as his principal residence.

“(3) If any purchaser exercises the right to installment payments under this section, then the responsibility to remit the tax due is the purchaser’s rather than the seller’s provided that the seller has on file a copy of the election form prescribed by the Secretary.

“SEC. 13. FAMILY CONSUMPTION REFUND.

“(a) GENERAL RULE.—Each qualified family unit (as defined in subsection (b)) shall be eligible to receive a sales tax rebate in an amount no greater than the product of—

“(1) the rate of tax imposed by section 1, and

“(2) the lesser of—

“(A) the poverty level (as defined in subsection (c)), or

“(B) the wage income of the family unit, in the manner prescribed and subject to the limitations set forth by this section.

“(b) QUALIFIED FAMILY UNIT DEFINED.—For purposes of this section, the term qualified family unit shall mean any family sharing a common residence. Any family
members (as defined in subsection (e)) sharing a common residence shall be considered part of one integrated family unit.

“(c) Poverty Level Defined.—The poverty level shall be the quotient that is—

“(1) the level determined by the Department of Health and Human Services poverty guidelines required by sections 652 and 673(2) of the Omnibus Reconciliation Act of 1981 (all States and the District of Columbia) for family units of a particular size, divided by

“(2) the quantity that is one minus the tax rate imposed by section 1.

“(d) Rebate Mechanism.—

“(1) General Rule.—The rebate provided by section (a) shall be provided to each qualified family unit by including the pay period rebate amount in each paycheck.

“(2) Pay period rebate amount.—The pay period rebate amount shall be the lesser of product of the rate of tax imposed by the section 1 and—

“(A) the wages paid during the pay period,

or

“(B) the quotient that is the poverty level for the family unit (determined in accordance
with subsection (c)) divided by the number of pay periods in a year.

“(3) ADJUSTED WITHHOLDING TABLES TO BE PROVIDED TO EMPLOYERS.—The Social Security Administration shall publish revised withholding tables for use by employers.

“(4) COORDINATION.—The family member receiving the family consumption rebate shall set forth, in a form prescribed by the Social Security Administration, the names and Social Security numbers of all members of the family unit for which a rebate is claimed. Employers shall provide this information in the form prescribed to the Social Security Administration.

“(e) FAMILY MEMBERS DEFINED.—For purposes of determining the size of the family unit, family members shall include each spouse or the head of household, children, grandchildren, parents and grandparents.

“(f) DISQUALIFIED FAMILY MEMBERS.—In order for a family member to be counted for purposes of determining family unit size, said family member must—

“(1) if over the age of two years, have a bona fide Social Security number; and

“(2) be a lawful resident of the United States.
“(g) Students Living Away From Home.—A student during each of five months in a calendar year living away from the common residence of a family unit but who receives over 50 percent of his support from the family unit shall be included as part of that family unit for purposes of this section.

“(h) Change in Family Circumstances.—The residence of family members, marital status and number of persons in a family unit on the first day of the calendar year shall govern determinations required to be made under this section for purposes of said calendar year.

“(i) Two or More Family Members Working.—The family unit may elect to divide the rebate between two family members. Family members shall make this election in a form prescribed by the Social Security Administration and shall when making said election disclose the name and Social Security number of the other family members. Creditable wages for families making this election shall not exceed one half of the poverty level for that family unit.

“(j) Employers To Adjust Remittances.—Employers shall reduce their payroll tax remittances to the Social Security Administration by the amount of Family Consumption Rebate provided in employee paychecks.
“(k) No Double Counting.—In no event shall any person be considered part of more than one family unit.

“(l) Social Security Administration.—The Social Security Administration shall provide to multiple wage-earner family units who received a lower rebate amount than that to which that were entitled under subsection (a) due to the application of the limitations in subsection (d)(2) and subsection (i) any payment due within 30 days of the close of the calendar year.

“Subchapter C—Definitions and Special Rules; Financial Intermediation Services

“Sec. 21. Definitions.
“Sec. 22. Special rules.
“Sec. 23. Determination of financial intermediation services amount.
“Sec. 24. Bad debts.
“Sec. 25. Timing of tax on financial intermediation services.
“Sec. 27. Basic interest rate.
“Sec. 28. Applicable interest rate.

“Sec. 21. Definitions.

“(a) Financial Intermediation Services.—The term ‘financial intermediation services’ means financial intermediation services determined in accordance with section 23.

“(b) Gross Payments.—For purposes of this subtitle, the term ‘gross payments’ shall mean gross payments inclusive of Federal tax imposed by, and State taxes imposed in conformity with, this chapter but exclusive of customs duties. Gross payment shall be the product of the
pre-tax factor and the payments for the taxable property or service exclusive of State and Federal taxes imposed by, and State taxes imposed in conformity with, this subtitle. For purposes of this section, the pre-tax factor shall be one divided by the quantity that is one minus the sum of—

“(1) the Federal tax rate imposed by section 1, and

“(2) the State tax rate imposed in conformity with this subtitle.

“(c) Primary residence shall mean residential real property used predominantly as the place of abode for a person or persons. A person shall have only one primary residence for purposes of this section. A married couple shall have only one primary residence.

“(d) PURCHASED FOR RESALE.—For purposes of section 2(b)(1), a property or service is purchased for resale if such property or service is purchased by a person in an active trade or business for the purpose of reselling the taxable property or service in the ordinary course of that active trade or business.

“(e) PURCHASED TO PRODUCE TAXABLE PROPERTY OR SERVICES.—For purposes of section 2(b)(2)—

“(1) IN GENERAL.—A property or service is purchased to produce a taxable property or service
if such property or service is purchased by a person
in an active trade or business for the purpose of em-
ploying or using such property or service in the pro-
duction or sale of other taxable property or services
in the ordinary course of that active trade or busi-
ness.

“(2) Research experimentation and de-
velopment.—Taxable property or services used in
an active trade or business for the purpose of re-
search, experimentation and development shall be
treated as purchased to produce taxable property or
services.

“(3) Insurance payments.—Taxable property
or services purchased by an insurance company on
behalf of an insured shall be treated as a property
or service purchased to produce a taxable property
or service if the entire premium for the insurance
contract giving rise to the insurer’s obligation was
subject to tax in accordance with subsection (a) (re-
lating to financial intermediation services).

“(4) Education and training.—Education
and training shall be treated as purchased to
produce taxable property or services. For purposes
of this section, education and training shall mean
tuition for general primary, secondary, or university
level education, and tuition for job-related training courses. Tuition shall not include amounts attributable to room or board for the student.

“(f) Qualified fixtures shall include only those fixtures that are a permanent, integral, incorporated and irremovable part of the structure and shall exclude furniture, furnishings, appliances or similar tangible personal property.

“(g) REAL PROPERTY.—For purposes of this chapter, the term real property shall have the meaning ascribed to it at common law. The Secretary shall by regulation establish uniform national rules for purposes of administering this chapter to the extent that jurisdictions within the United States may provide different holdings as to the scope of the term real property.

“(h) RESIDENCE.—Whenever this chapter requires that the State of ‘residence’ need be determined, it shall be determined in descending order of priority as the State of permanent abode, the center of vital interests, or the habitual abode. If the State of residence is still undetermined, if the person is a resident of the United States, the determination will be made by the Federal Office of Revenue Allocation.
“(i) Residential real property is real property, including structures, land, and qualified fixtures and appurtenances thereto that—

“(1) is held in fee simple and
“(2) is predominantly used as a residence or dwelling.

“(j) SECRETARY.—For purposes of this chapter, the term ‘Secretary’ means the United States Secretary of Treasury.

“(k) STATE ADMINISTRATOR.—For purposes of this chapter, the term ‘State Administrator’ shall mean the highest State official responsible for administering the taxes imposed by this subtitle in the conforming State. In States that are not conforming States, the ‘State Administrator’ shall mean the person designated by the Secretary as the Federal official responsible for administering the taxes imposed by this chapter in a non-conforming State. State Administrator shall also mean, when the context so requires, the Federal official responsible for administering the multi-State vendor program.

“(l) Structures, for purposes of subsection (i) shall include homes that are manufactured housing but not self-propelled and not on wheels.

“(m) TANGIBLE PERSONAL PROPERTY.—For purposes of this chapter, the term tangible personal property
shall have the meaning ascribed to it at common law. The Secretary shall by regulation establish uniform national rules for purposes of administering this chapter to the extent that jurisdictions within the United States may provide different holdings as to the scope of the term tangible personal property.

“(n) TAXABLE PROPERTY OR SERVICES.—

“(1) GENERAL RULE.—For purposes of this chapter, the term ‘taxable property or service’ means—

“(A) any property (including leaseholds of any term or rents with respect to such property) other than intangible property, and

“(B) any service (including any financial intermediation services).

“(2) WAGES.—For purposes of the preceding sentence, services shall not include wages paid by an employer engaged in an active trade or business that is registered pursuant to section 43. Services shall include wages paid by an employer (including government employers) not engaged in an active trade or business unless those wages are paid by a qualified not-for-profit organization (as defined in section 3(a)(2)(C).

“(3) INTANGIBLE PROPERTY.—
“(A) IN GENERAL.—For purposes of this subtitle, intangible property shall include copy-
rights, trademarks, patents, goodwill, financial instruments, and other property deemed intan-
gible at common law.

“(B) CERTAIN TYPES OF PROPERTY.—For purposes of this subtitle, intangible property shall not include tangible personal property (or rents or leaseholds of any term thereon), real property (or rents or leaseholds of any term thereon), and computer software.

“(C) ANTI-AVOIDANCE RULE.—Notwith-
standing subparagraph (A), the sale of a copy-
right or trademark shall be treated as the sale of taxable services (within the meaning of sec-
tion 1) if the substance of the transaction sell-
ing said copyright or trademark constituted the sale of the services that produced the copy-
righted material or the trademark.

“(o) UNITED STATES.—For purposes of this chapter, the term ‘United States’, when used in the geographical sense, means the 50 States, the District of Columbia, and any commonwealth, territory or possession of the United States.
“SEC. 22. SPECIAL RULES.

“(a) FOREIGN FINANCIAL INTERMEDIATION SERVICES.—

“(1) Special rules relating to international financial intermediation services.—
Financial intermediation services shall be deemed as used or consumed within the United States if the person (or any related party within the meaning of section 2(e)) purchasing the services is a resident of the United States.

“(2) Any person that provides financial intermediation services to United States residents must, as a condition of lawfully providing such services, designate, in a form prescribed by the Secretary, a United States tax representative. This United States tax representative shall be responsible for ensuring that the taxes imposed by this chapter are collected and remitted and shall be jointly and severally liable for collecting and remitting these taxes. The Secretary may require reasonable bond of the United States tax representative.

“(b) FINANCING LEASES.—

“(1) Defined.—For purposes of this section, a financing lease shall be any lease under which the lessee shall have the right to acquire the property
for 50 percent or less of its fair market value at the end of the lease term.

“(2) Tax.—Financing leases shall be taxed in the method set forth in this section.

“(3) Determination of principle and interest components of financing lease.—The Secretary shall promulgate rules for disaggregating the principle and interest components of a financing lease. The principle amount shall be determined to the extent possible by examination of the contemporaneous sales price or prices of the same or similar property as the leased property.

“(4) Alternative method.—In the event that contemporaneous sales prices of the same or similar property as the lease property are not available, the principle and interest components of a financing lease shall be disaggregating using the applicable interest rate (as defined in section 28), plus 4 percent.

“(5) Principal component.—The principal component of the financing lease shall be subject to tax as if a purchase in the amount of the principal component had been made on the day the lease was entered into.
“(6) INTEREST COMPONENT.—The financial intermediation services amount with respect to the interest component of the financing lease shall be subject to tax.

“(7) COORDINATION.—If the principal component and financial intermediation services amount with respect to the interest component of a lease have been taxed pursuant to this section, then the gross lease or rental payments shall not be subject to additional tax.

“(c) INSTALLMENT SALES, ACCOUNTING, RETURNS.—

“(1) GENERAL RULE.—Tax will be due when payment for the taxable property and services sold, consumed, used or enjoyed is actually received.

“(2) ALTERNATIVE RULE.—A vendor may elect to adopt the accrual method of accounting for purposes of determining when the tax will be due. Said election must apply to all sales made by vendor in a particular calendar year.

“(3) INSTALLMENT SALES.—Tax will be due on taxable property and services sold under the installment method when payment for the taxable property and services sold is actually received.
“(4) Returns.—A credit shall be provided to the vendor for returned taxable property and services when actual payment for the returned taxable property and services is made by the vendor to the person returning the taxable property and services.

“(d) Mixed Use Property or Services.—

“(1) Mixed use property or service defined.—Mixed Use Property or Service is taxable property or services purchased both for a purpose that would give rise to an exemption pursuant to section 2 and for taxable use, consumption or enjoyment.

“(2) Exemption threshold.—Mixed Use Property or Service shall not be exempt pursuant to section 2 unless said property is used more than 95 percent for purposes that would give rise to an exemption pursuant to section 2.

“(3) Mixed use property or services credit.—A business registered pursuant to section 43 is entitled to a business use conversion credit (pursuant to section 11(d)) equal to product of—

“(A) the mixed use property amount,

“(B) the business use ratio, and

“(C) the rate of tax imposed by section 1.
“(4) MIXED USE PROPERTY AMOUNT.—The mixed use property amount for each year shall be—

“(A) one-thirtieth of the purchase price for real property for thirty years or until the property is sold,

“(B) one-seventh of the purchase price for tangible personal property for seven years or until the property is sold,

“(C) one-fifth of the purchase price for vehicles for five years or until the property is sold, and

“(D) a reasonable amount for other types of taxable property or services or in accordance with regulations.

“(5) BUSINESS USE RATIO.—The business use ratio is the ratio of business use to total use for a particular year. For vehicles, the business use ratio will be the ratio of business purpose miles to total miles. For real property, the business use ratio is the ratio of floor space used for business purposes to total floor space. For tangible personal property (except for vehicles), the business use ratio is the ratio of total time used for business purposes to total time used. For other property or services, the business ratio shall be calculated using a reasonable
method. Reasonable records must be maintained to support a taxpayer’s business use of the mixed use property or service.

“(e) GAMING.—There is hereby imposed a 15-percent tax on taxable gaming services. Taxable gaming services shall be the gross gaming receipts less total gaming payoffs. This tax shall be paid and remitted by the person offering the gaming services.

“SEC. 23. DETERMINATION OF FINANCIAL INTERMEDIATION SERVICES AMOUNT.

“(a) FINANCIAL INTERMEDIATION SERVICES.—For purposes of this subtitle—

“(1) IN GENERAL.—The term ‘financial intermediation services’ means the sum of—

“(A) explicitly charged financial intermediation services, and

“(B) implicitly charged financial intermediation services.

“(2) EXPLICITLY CHARGED FINANCIAL INTERMEDIATION SERVICES.—The term ‘explicitly charged financial intermediation services’ includes—

“(A) brokerage fees,

“(B) explicitly stated banking, loan origination, processing, documentation, credit check fees or other similar fees,
“(C) safe-deposit box fees,

“(D) insurance premiums, to the extent such premiums are not allocable to the investment account of the underlying insurance policy,

“(E) trustees’ fees, and

“(F) other financial service fees (including, but not limited to, mutual fund management, sales, and exit fees).

“(3) IMPLICITLY CHARGED FINANCIAL INTERMEDIATION SERVICES.—

“(A) IN GENERAL.—The term ‘implicitly charged financial intermediation services’ includes the gross imputed amount in relation to any underlying interest bearing investment, account, or debt.

“(B) GROSS IMPUTED AMOUNT.—For purposes of subparagraph (A), the term ‘gross imputed amount’ means—

“(i) with respect to any underlying interest bearing investment or account, the product of—

“(I) the excess (if any) of the basic interest rate (as defined in sec-
tion 27) over the rate paid on such investment, and

“(II) such account balance, and

“(ii) with respect to any underlying interest bearing debt, the product of—

“(I) the excess (if any) of the rate paid on such debt over the basic interest rate (as defined in section 27), and

“(II) such debt balance.

“(b) For purposes of section 1(c), the seller of financial intermediation services shall be—

“(1) in the case of explicitly charged financial intermediation services (as defined in subsection (a)(2)), the person who receives the gross payments for the charged financial intermediation services,

“(2) in the case of implicit financial intermediation services (as defined in subsection (a)(3)) with respect to any underlying interest bearing investment or account, the person making the interest payments on the interest bearing investment or account, and

“(3) in the case of implicit financial intermediation services (as defined in subsection (a)(2)) with respect to any interest bearing debt, the person re-
ceiving the interest payments on the interest bearing
debt.

“SEC. 24. BAD DEBTS.

“(a) For purposes of section 11, a bad debt shall be
a business loan or debt that becomes wholly or partially
worthless.

“(b) For purposes of subsection (a), a business loan
or debt is a bona fide loan or debt made for a business
purpose that both parties intended be repaid.

“(c) No loan or debt shall be considered wholly or
partially worthless unless it has been in arrears for 90
days or more, provided, however, that if a debt is dis-
charged wholly or partially in bankruptcy before 90 days
has elapsed, then it shall be deemed wholly or partially
worthless on the date of discharge.

“(d) A loan or debt that has been in arrears for 90
days or more may be deemed wholly or partially worthless
by the holder unless a payment schedule has been entered
into between the debtor and the lender.

“(e) CROSS REFERENCE.—

“For tax on subsequent payments, see section
11(g)(3).

“SEC. 25. TIMING OF TAX ON FINANCIAL INTERMEDIATION
SERVICES.

“The tax on financial intermediation services pro-
vided in connection to an underlying investment account
or debt shall be calculated and collected with the same
frequency that statements are rendered by the financial
institution in connection with the investment account or
debt but not less frequently than quarterly.

"SEC. 26. ALTERNATIVE METHOD FOR CALCULATING TAX
DUE."

"(a) ALTERNATIVE METHOD PERMISSIBLE.—A pro-
vider of financial intermediation services need not cal-
culate its liability on a transaction-by-transaction or ac-
count-by-account basis provided that the method used by
the financial intermediation services provider—

"(1) is reasonable, and

"(2) will lead to a tax liability that is substan-
tially similar to that projected under ordinary sales
tax principles. The provider of financial intermedi-
ation services shall set forth his proposed method
and the reasons why it meets the criteria set forth
in the preceding sentence in a petition to the Sec-
retary.

"(b) SECRETARY TO RULE.—An alternative method
proposed in a petition pursuant to subsection (a) shall be
accepted by the Secretary unless the Secretary rules that
the proposed alternative method—

"(1) is unreasonable, or
“(2) will lead to a tax liability that is substantially different from that projected under ordinary sales tax principles.

The Secretary shall set forth the reasons for his ruling in a finding. The Secretary must make his ruling within 120 days of receiving the petition and notify the petitioner of his decision. In the event the Secretary fails to render a ruling within 120 days, then the proposed method shall be permissible. He must provide the petitioner with a copy of the finding within 30 days of a ruling. He must publish the permissible method (including those methods that become permissible by virtue of the Secretary’s failure to rule).

“(c) Effective Dates of Alternative Method.—An alternative method ruled permissible or permissible by virtue of the Secretary’s failure to rule shall be effective indefinitely and may take effect as early as the month after the alternative method becomes permissible. The Secretary may, however, after an investigation, audit, or otherwise, subsequently rule on his own initiative that the method is not permissible. Such subsequent ruling shall be prospective in effect and not take effect until the latter of—

“(1) the first day of the calendar year following the ruling, or
“(2) 120 days after the ruling.

If judicial review is sought pursuant to subsection (d), said subsequent ruling shall not take effect until a final judgment is rendered by the court.

“(d) JUDICIAL REVIEW.—A ruling by the Secretary with respect to a petition for use of an alternative method pursuant to subsection (a) shall be subject to judicial review in any court of competent jurisdiction, provided, however, that the standard of review shall be whether the petitioner establishes by clear and convincing evidence that the decision of the Secretary should be reversed.

“(e) REGULATIONS.—The Secretary may provide by regulation permissible alternative methods for calculating tax due including methods based on annual flows of revenue and expense.

“SEC. 27. BASIC INTEREST RATE.

“For purposes of this subchapter, the basic interest rate with respect to a debt instrument, investment, financing lease, or account shall be the applicable interest rate (as determined in section 28). For debt instruments, investments, or accounts of contractually fixed interest, the applicable interest rate of the month of issuance shall apply. For debt instruments, investments, or accounts of variable interest rates and which have no reference interest rate, the applicable interest rate shall be the Federal
short-term interest rate for each month. For debt instru-
ments, investments or accounts of variable interest rates
and which have a reference interest rate, the applicable
interest rate shall be the applicable interest rate for the
reference interest rate for each month.

“SEC. 28. APPLICABLE INTEREST RATE.

“(a) IN GENERAL.—

“(1) In the case of a debt instrument, invest-
ment, financing lease, or account with a term of not
over 3 years, the applicable interest rate is the Fed-
eral short-term rate.

“(2) In the case of a debt instrument, invest-
ment, financing lease, or account with a term of over
3 years but not over 9 years, the applicable interest
rate is the Federal mid-term rate.

“(3) In the case of a debt instrument, invest-
ment, financing lease, or account with a term of over
9 years, the applicable interest rate is the Federal
long-term rate.

“(b) FEDERAL SHORT-TERM RATE.—The Federal
short-term rate shall be the rate determined by the Sec-
retary based on the average market yield (during any 1
month) on outstanding marketable obligations of the
United States with remaining periods to maturity of 3
years or less.
“(c) Federal Mid-Term Rate.—The Federal mid-
term rate determined by the Secretary based on the aver-
age market yield (during any 1 month) on outstanding
marketable obligations of the United States with remain-
ing periods to maturity of more than 3 years and not over
9 years.

“(d) Federal Long-Term Rate.—The Federal
long-term rate shall be the rate determined by the Sec-
retary based on the average market yield (during any 1
month) on outstanding marketable obligations of the
United States with remaining periods to maturity of over
9 years.

“(e) Determination of Rates.—During each cal-
endar month, the Secretary shall determine the Federal
short-term rate, the Federal mid-term rate, and the Fed-
eral long-term rate which shall apply during the following
calendar month.

“Subchapter D—Authority for States to
Collect Tax

“Sec. 31. Authority for States to collect tax.
“Sec. 32. Federal administrative support for States.
“Sec. 33. Federal administration option for multi-State vendors.
“Sec. 34. General administrative matters.

“SEC. 31. AUTHORITY FOR STATES TO COLLECT TAX.

“(a) In General.—The tax imposed by this chapter
on gross payments for the use, consumption or enjoyment
of taxable property or services within a State which is an
administering State shall be administered, collected, and remitted to the United States Treasury by such State.

“(b) ADMINISTERING STATE.—For purposes of this section, the term ‘administering State’ means any State—

“(1) which maintains a conforming sales tax, and

“(2) which enters into a cooperative agreement with the Secretary containing reasonable provisions, limited in scope and detail, governing the administration by such State of the taxes imposed by this chapter and the remittance to the United States in a timely manner of taxes collected under this chapter.

“(c) CONFORMING SALES TAX.—For purposes of subsection (b), a State maintains a conforming sales tax if such State imposes, administers, and collects a sales tax—

“(1) which conforms to the tax imposed by this chapter in all significant respects (other than the rate of tax), including—

“(A) the same taxable property and services,

“(B) the same exemptions, and

“(C) the same credits and refunds (other than section 11(a)(4) (relating to the taxpayer
administrative credit) and section 13 (relating to the family consumption refund)), and

“(2) which is imposed at a rate of no less than 1 percent.

“(d) COOPERATIVE AGREEMENTS.—The agreement under subsection (b)(2) shall be limited in scope and detail but include provisions for the expeditious transfer of funds, contact officers, dispute resolution, information exchange, confidentiality, taxpayer rights, and other matters of importance.

“(e) TIMELY REMITTANCE OF TAX.—

“(1) IN GENERAL.—Administering States shall remit and pay over taxes collected under this chapter on behalf of the United States (less the administration fee allowable under paragraph (2)) no later than 15 days after receipt.

“(2) ADMINISTRATION FEE.—Administering States may retain an administration fee equal to one percent of the amounts otherwise required to be remitted to the United States under this chapter by the State.

“(f) LIMITATION ON ADMINISTRATION OF TAX BY UNITED STATES.—The Secretary may administer the tax imposed by this chapter in an administering State only if—
“(1)(A) such State has failed on a regular and sustained basis to timely remit to the United States taxes collected under this chapter on behalf of the United States, or

“(B) such State has on a regular and sustained basis otherwise materially breached the agreement referred to in subsection (b)(2),

“(2) the State has failed to cure such failures and alleged breaches within a reasonable time,

“(3) the Secretary provides such State with written notice of such failures and alleged breaches, and

“(4) a district court of the United States within such State has rendered a decision permitting such administration.

“(g) The Secretary shall administer the tax imposed by this chapter in any State or other jurisdiction that is not an administering State.

“(h) It shall be permissible for a conforming State to contract with another conforming State to administer its sales tax for an agreed fee. In this case, the agreement contemplated by subsection (d) shall have both States and the Federal Government as parties.

“(i) COORDINATION AMONG CONFORMING STATES.—
“(1) **EXEMPTION CERTIFICATES.**—Conforming States shall honor exemption certificates issued by other conforming States.

“(2) **AUDITS.**—Conforming States shall not conduct audits at facilities in other Conforming States but shall instead cooperate with other Conforming States using the mechanisms established by section 32 of this subchapter or by other agreement or Compact.

**SEC. 32. FEDERAL ADMINISTRATIVE SUPPORT FOR STATES.**

“(a) The Secretary shall administer a program to facilitate information sharing among States.

“(b) The Secretary shall facilitate and may be a party to a Compact Among Conforming States for purposes of facilitating the taxation of interstate purchases and for other purposes that may facilitate implementation of this chapter.

“(c) The Secretary shall have the authority to promulgate regulations and guidelines to assist States in administering the national sales tax, to provide for uniformity in the administration of the tax and to provide guidance to taxpayers and administrators.
“SEC. 33. FEDERAL ADMINISTRATION OPTION FOR MULTISTATE VENDORS.

“(a) In General.—Vendors that maintain retail establishments in five or more conforming States may elect, in a form prescribed by the Secretary, to have their sales tax obligations administered by the Federal Government under the multistate vendor program.

“(b) Federal Government To Collect and Remit State Sales Taxes.—Under the multistate vendor program, the Federal Government will collect Federal and conforming State sales taxes and remit the State sales taxes to the States within 10 days of receiving said revenue.

“(c) Federal Administration.—The Federal Government will serve in the place of the State Administrator with respect to multi-State vendors exercising the election under this section. With respect to electing multi-State vendors, the Federal Government exclusively will—

“(1) audit;

“(2) provide certificates; and

“(3) otherwise administer the Federal and conforming State sales tax in place of the administering State.

“SEC. 34. GENERAL ADMINISTRATIVE MATTERS.

“(a) In General.—The Secretary and each State Administrator may employ accountants, auditors, inves-
tigators, assistants, and clerks for the administration of
this subtitle and may delegate to employees the authority
to conduct interviews, hearings, prescribe rules, promul-
gate regulations, and perform such other duties as are re-
quired by this subtitle.

“(b) Resolution of Any Inconsistent Rules
and Regulations.—In the event that the Secretary and
any State Administrator have issued inconsistent rules or
regulations, the rule or regulation issued by the Secretary
shall govern provided that the Secretary possessed the
statutory authority to issue the rule or regulation.

“(c) Adequate Notice to Be Provided.—Except
in the case of an emergency declared by the Secretary (and
not his designee), no rule or regulation issued by the Sec-
retary with respect to any internal revenue law shall take
effect before 90 days have elapsed after its publication in
the Federal Register. Upon issuance, the Secretary shall
provide copies of all rules or regulations issued under this
title to each sales tax administering authority.

“(d) No Rules, Rulings, or Regulations With
Retroactive Effect.—

“(1) In General.—No rule, ruling, or regula-
tion issued or promulgated by the Secretary relating
to any internal revenue law or by a State Adminis-
trator that constitutes a change in law (including a

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reversal of prior law and new law) shall be retroactive in effect.

“(2) Notwithstanding paragraph (1), a rule, ruling, or regulation that provides guidance or clarifies existing law may lawfully apply to cases prior to its issuance.

“(3) For purposes of this subsection, the term ‘law’ includes State and Federal statutes, regulations, rules, rulings, and court decisions.

“(4) A rule, ruling, or regulation issued in contravention to paragraph (1) shall be void as to taxable events arising prior to the issuance of such rule, ruling, or regulation.

“(5) Review of impact of rules, rulings, and regulations on small business.—

“(A) Submission to small business administration.—After publication of any proposed or temporary regulation by the Secretary relating to internal revenue laws, the Secretary shall submit such regulation to the Chief Counsel for Advocacy of the Small Business Administration for comment on the impact of such regulation on small businesses. Not later than the date 4 weeks after the date of such submission, the Chief Counsel for Advocacy of the
Small Business Administration shall submit comments on such regulation to the Secretary.

“(B) CONSIDERATION OF COMMENTS.—In prescribing any final regulation which supersedes a proposed or temporary regulation which had been submitted under this subsection to the Chief Counsel for Advocacy of the Small Business Administration, the Secretary shall—

“(i) consider the comments of the Chief Counsel for Advocacy of the Small Business Administration on such proposed or temporary regulation, and

“(ii) discuss any response to such comments in the preamble to the regulation.

“(C) SUBMISSION OF CERTAIN FINAL REGULATIONS.—In the case of promulgation by the Secretary of any final regulations (other than a temporary regulation) which do not supersede a proposed regulation, the requirements of subparagraphs (A) and (B) shall apply, except that the submission under subparagraph (A) shall be made at least 4 weeks before the date of such promulgation, and the consideration and discussion required under subparagraph (B) shall be
made in connection with the promulgation of such final regulation.

“Subchapter E—Other Administrative Provisions

“Sec. 41. Monthly reports and payments.
“Sec. 42. Records.
“Sec. 43. Registration.
“Sec. 44. Certificates.
“Sec. 45. Penalties.
“Sec. 46. Burden of persuasion and burden of production.
“Sec. 47. Attorneys and accountancy fees.
“Sec. 48. Appeals.
“Sec. 49. Taxpayer subject to subpoena on production.
“Sec. 50. Tax Court jurisdiction.
“Sec. 51. Power to levy.
“Sec. 52. Problem resolution officers.
“Sec. 53. Jurisdiction and interstate allocation.
“Sec. 54. Tax to be separately stated and charged.
“Sec. 55. Installment agreements; compromises.
“Sec. 56. Accounting.
“Sec. 57. Hobby activities.

“SEC. 41. MONTHLY REPORTS AND PAYMENTS.

“(a) REPORTS.—On or before the 20th of each month, every person who is liable to collect and remit the tax imposed by this chapter, or pay the tax imposed by this chapter by reason of gross payments described in section (1) (hereafter in this section referred to as the ‘taxpayer’), shall submit to the appropriate tax authority (in a form satisfactory to the Secretary) a report relating to the previous month that sets forth—

“(1) the gross payments referred to in section 1,

“(2) the tax collected under this chapter in connection with such payments, and
“(3) the amount and type of any credit claimed.

“(b) PAYMENTS OF TAX.—The tax imposed by this chapter with respect to any use, consumption or enjoyment during any month shall be paid on or before the 20th of the succeeding month. One payment shall pay both Federal and conforming State tax liability.

“(c) INTEREST ON AMOUNTS REMITTED LATE.—

“(1) IN GENERAL.—If any amount required to be paid on or before the 20th of any month is paid after such 20th day, the taxpayer shall pay simple interest from such 20th day at the rate of—

“(A) 1 percent per month (or any fraction thereof) for the first month, and

“(B) 1.5 percent per month (or any fraction thereof) thereafter.

“(2) AMOUNTS PAID AFTER COLLECTION ACTION.—

“(A) IN GENERAL.—The rate of interest under paragraph (1) shall be 2 percent per month (or any fraction thereof) with respect to amounts paid only after the commencement of a collection action with respect to such amounts.

“(B) COLLECTION ACTION.—For purposes of subparagraph (A), the term ‘collection ac-
tion' includes administrative levies or garnishments and the commencement of legal action in any court.

“(d) PENALTY FOR LATE FILING.—

“(1) IN GENERAL.—In the case of a failure by any person to file a report required by subsection (a) on or before due date (determined with regard to any extension) for such report, such person shall pay a penalty equal to the greater of—

“(A) $50, or

“(B) 0.5 percent of the gross payments referred to in section 1 required to be shown on the report.

“(2) INCREASED PENALTY ON RETURNS FILED AFTER WRITTEN INQUIRY.—The amount of the penalty under paragraph (1) shall be doubled with respect to any report filed after a written inquiry with respect to such report is received by the taxpayer from the State Administrator.

“(3) EXCEPTIONS.—

“(A) REASONABLE CAUSE.—No penalty shall be imposed under paragraph (1) with respect to any failure if it is shown that such failure is due to reasonable cause.
“(B) Other waiver authority.—In addition to penalties not imposed by reason of subparagraph (A), the State Administrator, on application, shall waive the penalty imposed by paragraph (1) once per taxpayer per 2-year period. The preceding sentence shall not apply to a penalty determined under paragraph (2).

“(e) Extensions for Filing Reports.—

“(1) Automatic extensions for less than 30 days.—On application, extensions of less than 30 days to file reports under subsection (a) shall be automatically granted.

“(2) Other extensions.—Extensions of 30 to 90 days to file such reports shall be liberally granted by the State Administrator for reasonable cause. Extensions greater than 90 days may be granted by the State Administrator to avoid hardship.

“(3) No extension for payment of taxes.—Notwithstanding paragraphs (1) and (2), no extension shall be granted with respect to the time for paying the taxes under this chapter.

“(f) Penalty for willfully or recklessly accepting a false exemption certificate.—A person who willingly or recklessly accepts a false exemption certificate shall pay a penalty equal to 20 percent of the tax
not collected on gross payments for taxable property and
services by virtue of said acceptance.

“(g) The Secretary shall establish a system whereby
violation of the Individual Tax Freedom Act of 2001 can
be brought to the attention of the Secretary for investiga-
tion through the use of a toll-free telephone number and
otherwise.

“SEC. 42. RECORDS.

“Any person liable to collect and remit taxes pursuant
to this chapter or pay the tax imposed by this chapter
by reason of gross payments described in section 1, shall
keep records (including, but not limited to, copies of all
section 54 receipts provided and complete records of ex-
empt purchases including exempt purchaser’s exemption
certificates and tax number and the net of tax amount
of purchase) sufficient to provide a reasonable basis for
determining the amounts reported, collected, and remitted
for a period of 3 years after the filing of the report for
which the records formed the basis. Any purchaser who
purchased taxable property or services but did not pay tax
by reason of asserting an exemption shall keep records
sufficient to provide a reasonable basis for determining
whether the exemption was valid for a period of 3 years
after the purchase of taxable property or services.
“SEC. 43. REGISTRATION.

“(a) In General.—Any person liable to collect and remit taxes pursuant to section 1 who is engaged in an active trade or business shall register with the State or Federal taxing authorities administering the taxes imposed by this chapter.

“(b) Designation of Tax Matters Person.—Every person registered pursuant to subsection (a) shall designate a tax matters person. Each person registered must provide notice of a change in the identity of the tax matters person within 30 days of said change.

“SEC. 44. CERTIFICATE.

“The State Administrator shall issue certificates of registration and qualification certificates to qualified not-for-profit organizations and may issue such other certificates as may prove useful in the administration of the taxes imposed by this chapter.

“SEC. 45. PENALTIES.

“(a) Failure To Register.—Each person who is required to register pursuant to section 43 but fails to do so prior to notification by the State Administrator shall be liable for a penalty of $500.

“(b) Failure To Collect Or Remit Tax.—

“(1) Civil Penalty.—Each person who recklessly or willfully fails to collect or remit taxes imposed by section 1 shall be liable for a penalty equal
to the greater of $500 or 20 percent of the tax not
collected or remitted.

“(2) CRIMINAL PENALTY.—Each person who
willfully fails as part of an active trade or business
to collect or remit taxes imposed by this chapter
may be imprisoned for a period of up to one year.

“(c) FAILURE TO PAY TAX.—

“(1) CIVIL PENALTY.—Each person who will-
fully fails to pay taxes imposed by section 1 shall be
liable for a penalty equal to the greater of $500 or
20 percent of the tax not paid.

“(2) CRIMINAL PENALTY.—Each person who
willfully fails to pay taxes imposed by this chapter
may be imprisoned for a period of up to six months.

“SEC. 46. BURDEN OF PERSUASION AND BURDEN OF PRO-
DUCTION.

“In all disputes concerning taxes imposed by this
chapter, the person engaged in a dispute with the State
Administrator shall have the burden of production of doc-
uments and records but the State Administrator shall
have the burden of persuasion. In all disputes concerning
the legitimacy of an exemption claimed by a purchaser,
if the seller has on file a copy of a bona fide exemption
certificate and did not have reasonable cause to believe
that an exemption from the tax was unavailable to the
purchaser with respect to such purchase, then the burden
of production of documents and records relating to that
exemption shall rest with the purchaser and not with the
seller.

“SEC. 47. ATTORNEYS AND ACCOUNTANCY FEES.

“In all disputes concerning taxes imposed by this
chapter, the person engaged in a dispute with the State
Administrator or the Secretary, as the case may be, shall
be entitled to reasonable attorneys and accountancy fees
incurred in direct relation to the dispute unless the State
Administrator or the Secretary, as the case may be, estab-
lishes that his position was substantially justified.

“SEC. 48. APPEALS.

“The State Administrator and the Secretary shall es-
tablish an administrative appeals process wherein the tax-
payer is provided a full and fair hearing in connection with
any disputes he has with the State Administrator or the
Secretary.

“SEC. 49. TAXPAYER SUBJECT TO SUBPOENA ON PRODUC-

“Taxpayers are subject to subpoena for records and
documents required by the State Administrator or the Sec-
retary, as the case may be, to accurately determine liabil-
ity for tax under this chapter.
SEC. 50. TAX COURT JURISDICTION.

“The United States Tax Court shall have jurisdiction pursuant to section 7442 in connection with all disputes with taxpayers arising under this chapter.

SEC. 51. POWER TO LEVY.

“Pursuant to enforcement of a judgment duly rendered by a court of law, the State Administrator or the Secretary, as the case may be, shall have the right to levy and seize property and garnish wages to collect amounts due under this chapter.

SEC. 52. PROBLEM RESOLUTION OFFICERS.

“The State Administrator shall establish a Problem Resolution Office. Problem Resolution Officers shall have the authority to investigate taxpayer complaints and enjoin collection activity if, in the opinion of the Problem Resolution Officer, said collection activity is reasonably likely to not be in compliance with law. Said administrative injunction may only be reversed by the highest official in the relevant State or Federal taxing authority or by its General Counsel upon a finding that the collection activity is justified by clear and convincing evidence. The authority to reverse this administrative injunction may not be delegated. Problem Resolution Officers shall not be disciplined or adversely affected for the issuance of administrative injunctions unless a pattern or issuing injunctions that are manifestly unreasonable is proven in an adminis-
trative hearing. Nothing in this section shall limit the au-

authority of the State Administrators or the taxpayer to pur-

sure any legal remedy in any court with jurisdiction over 

the dispute at issue.

“SEC. 53. JURISDICTION AND INTERSTATE ALLOCATION.

“(a) ALLOCATION RULES.—For purposes of allo-
crating revenue between or among administering states 

from taxes imposed by this subtitle, the revenue shall be 

allocated to those states that are the destination of the 

taxable property or services. The destination of the pur-

chase of taxable property and services shall be determined 

in accordance with this section.

“(b) FEDERAL OFFICE OF REVENUE ALLOCATION.—

The Secretary shall establish an Office of Revenue Alloca-
tion to arbitrate any claims or disputes among admin-

istering states as to the destination of taxable property 

and services for purposes of allocating revenue between or 

among the states from taxes imposed by this subtitle. The 

determination of the Administrator of the Office of Rev-

enue Allocation shall be subject to judicial review in any 

federal court with competent jurisdiction provided, how-

ever, that the standard of review shall be abuse of discre-

tion.

“(c) TANGIBLE PERSONAL PROPERTY.—The destina-

tion of tangible personal property shall be the state or ter-
ritory in which the property was first delivered to the purchaser. Tangible personal property shipped by means of the mail or common carrier shall be deemed delivered to the location of the purchaser for purposes of this subsection upon shipment by mail or common carrier.

“(d) REAL PROPERTY.—The destination of real property or rents or leaseholds on real property shall be state or territory in which the real property is located.

“(e) OTHER PROPERTY.—The destination of other property shall be residence of the purchaser.

“(f) SERVICES.—

“(1) GENERAL RULE.—The destination of services shall be state or territory in which the use, consumption or enjoyment of the services occurred. Allocation of service invoices relating to more than one jurisdiction shall be on the basis of time.

“(2) TELECOMMUNICATION SERVICES.—The destination of telecommunications services shall be the residence of the purchaser. Telecommunications services shall include telephone, telegraph, cable television, satellite and computer on-line or network services.

“(3) DOMESTIC TRANSPORTATION SERVICES.—For transportation services where all of the final destinations are within the United States, the des-
destination of transportation services shall be the final destination of the trip (in the case of round or multiple trip fares, the services amount shall be equally allocated among the final destinations).

“(4) INTERNATIONAL TRANSPORTATION SERVICES.—For transportation services where the final destination or origin of the trip is without the United States, the service amount shall be deemed 50 percent attributable to the United States destination or origin.

“(g) FINANCIAL INTERMEDIATION SERVICES.—The destination of financial intermediation services shall be the residence of the purchase.

“(h) A State Tax Administrator shall have jurisdiction over any gross payments made which have a destination (as determined in accordance with this section) within the state of said State Tax Administrator. This grant of jurisdiction is not exclusive of other jurisdiction that said State Tax Administrator may have.

“(i) RENTS AND ROYALTIES PAID FOR THE LEASE OF TANGIBLE PROPERTY.—

“(1) GENERAL RULE.—The destination of rents and royalties paid for the lease of tangible property shall be where the property is located.
“(2) VEHICLES.—The destination of rent and lease payments on vehicles shall be—

“(A) in the case of rentals and leases of a term one month or less, the location where the vehicle was originally delivered to the lessee; and

“(B) in the case of rentals and leases of a term greater than one month, the residence of the lessee.

“SEC. 54. TAX TO BE STATED AND CHARGED SEPARATELY.

“(a) IN GENERAL.—For each purchase of taxable property or services for which a tax is imposed pursuant to section 1, the sales tax shall be charged separately from the purchase price by the vendor or seller. For purchase of taxable property or services for which a tax is imposed pursuant to section 1, the vendor shall provide to the purchaser a receipt that sets forth at least the following information:

“(1) The property or services price exclusive of tax.

“(2) The amount of tax paid.

“(3) The property or service price inclusive of tax.
“(4) The tax rate (the amount of tax paid (per subparagraph 2) divided by the property or service price inclusive of tax (per subparagraph 3)).
“(5) The date that the good or service was sold.
“(6) The name of the vendor.
“(7) The vendor registration number.
“(b) VENDING MACHINE EXCEPTION.—The requirements of subsection (a) shall be inapplicable in the case of sales by vending machines. Vending machines for purposes of this subsection shall mean machines—
“(1) that dispense taxable property in exchange for coins, one, five, ten or twenty dollar bills, and
“(2) that sell no single item exceeding ten dollars per unit in price.

“SEC. 55. INSTALLMENT AGREEMENTS; COMPROMISES.

“The State Administrator or the Secretary, as the case may be, is authorized to enter into written agreements with any person under which the person is allowed to satisfy liability for payment of any tax in installment payments if he determines that such agreement will facilitate the collection of such liability. The agreement shall remain in effect for the term of the agreement unless the information that the person provided to the Secretary or the State Administrator was materially inaccurate or in-
complete. The Secretary and the State Administrator may compromise any amounts alleged to be due.

"SEC. 56. ACCOUNTING."

"(a) CASH METHOD TO BE USED GENERALLY.—Vendors and other persons shall remit taxes and report transactions with respect to the month for which payment was received or the tax imposed by this chapter otherwise becomes due.

"(b) ELECTION TO USE ACCRUAL METHOD.—A person may elect with respect to a calendar year, in a form prescribed by the Secretary, to remit taxes and report transactions with respect to the month where a sale was invoiced and accrued.

"(c) CROSS REFERENCE.—"For rules relating to bad debts for vendors electing the accrual method, see section 11(g).

"SEC. 57. HOBBY ACTIVITIES."

"(a) The exemption afforded by section 2(a)(1) shall not be available for any taxable property or service used by a trade or business if that trade or business is not engaged in for profit.

"(b) If the trade or business has received gross payments for the sale of taxable property or services that exceed the sum of—

"(1) taxable property and services purchased,

"(2) wages paid, and

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“(3) taxes paid,

in 2 or more of the most recent 4 calendar years during
which it operated, then the business activity shall be con-
clusively deemed to be engaged in for profit.”.

SEC. 5. PHASE-OUT OF THE INTERNAL REVENUE SERVICE.

(a) IN GENERAL.—Appropriations for any expenses
of the Internal Revenue Service including processing in-
come tax returns for years prior to the repeal of the in-
come tax, revenue accounting, management, transfer of
payroll tax data to the Social Security Administration and
otherwise for years after fiscal year 2005 are not author-
ized.

(b) EXCISE AND SALES TAX BUREAUS.—Section
7801 is amended by adding the following new subsections:

“(d) EXCISE TAX BUREAU.—There shall be in the
Department of Treasury an Excise Tax Bureau to admin-
ister those excise taxes not repealed by this Act.

“(e) SALES TAX BUREAU.—There shall be in the De-
partment of Treasury a Sales Tax Bureau to administer
the national sales tax in those States where it is required
pursuant to section 31(g), and to discharge other Federal
duties and powers relating to the national sales tax (in-
cluding those required by sections 32, 33, and 53(b)). The
Office of Revenue Allocation shall be within the Sales Tax
Bureau.”.
(c) **Assistant General Counsels.—** Section 7801(b)(2) is amended to read as follows:

“(2) **Assistant General Counsels.—** The Secretary of the Treasury may appoint, without regard to the provisions of the civil service laws, and fix the duties of not more than 5 Assistant General Counsel.”.

(d) **Short Year.—**

(1) For purposes of the Federal income tax, the tax imposed by section 1 and section 11 for taxable years ending June 30, 2003, shall be modified as set forth in this subsection.

(2) For calendar year taxpayers, the dollar figures in section 1 and section 11 shall be reduced by dividing by 2 all dollar figures that would be applicable but for this subsection.

(3) For fiscal year taxpayers, the dollar figures in section 1 and section 11 shall be equal to the product of—

(A) the dollar amount that would be applicable but for this subsection, and

(B) the ratio that has as its numerator the number of months in the taxpayer’s taxable year ending June 30, 2003, and as its denominator 12.
(4) The Secretary shall publish tax rate schedules in accordance with this subsection.

SEC. 6. SOCIAL SECURITY ADMINISTRATION TO COLLECT PAYROLL TAXES.

(a) In General.—Commencing January 1, 2003, the Social Security Administration shall collect and administer the taxes imposed pursuant to chapter 2 of subtitle A (relating to self employment income taxes) and subtitle C (relating to employment taxes) of the Internal Revenue Code of 1986.

(b) Cross References.—

For revised rules relating to the self-employment tax, see section 7 of this Act.
For rules relating to revised withholding tax schedules and family consumption refund, see section 13.

SEC. 7. SELF-EMPLOYMENT TAX.

(a) In General.—Subsection 1402(a) of the Internal Revenue Code of 1986 is amended to read as follows:

“(a) In General.—‘Self employment income’ shall mean gross payments received in a calendar year from the sale of taxable property or services (without regard to exemption) less the sum in a calendar year of—

“(1) purchases of taxable property or services (without regard to exemption) in furtherance of a business purpose,
“(2) any wages paid (whether to the self-employed person or others) in furtherance of a business purpose,

“(3) unused transition amounts, and

“(4) undeducted negative self employment income amounts from prior periods.

“(b) Transition Amounts.—

“(1) General Rule.—The transition amount for the ten calendar years commencing in 2003 shall be the unrecovered basis amount as of the end of December 31, 2002, divided by ten.

“(2) Unrecovered Basis Amount.—The unrecovered basis amount shall be remaining income tax basis relating to—

“(A) prior law section 167 property placed in service prior to January 1, 2003, and

“(B) inventory held as of the end of 2002 (including any amounts capitalized in accordance with prior law section 263A).”.

(b) Conforming Amendments.—Subsections 1402(b) and 1402(c) are hereby repealed. Subsections 1402(d) et seq. are hereby renumbered as subsections 1402(b) et seq.
SEC. 8. SOCIAL SECURITY BENEFITS INDEXED ON SALES TAX INCLUSIVE BASIS.

Subparagraph (D) of paragraph (1) of subsection (i) of section 215 of the Social Security Act (42 U.S.C. 415) (relating to cost-of-living increases in Social Security benefits) is amended to read as follows:

“(D)(i) the term ‘CPI increase percentage’, with respect to a base quarter or cost-of-living quarter in any calendar year, means the percentage (rounded to the nearest one-tenth of 1 percent) by which the Consumer Price Index for that quarter (as prepared by the Department of Labor) exceeds such index for the most recent prior calendar quarter which was a base quarter under subparagraph (A)(ii) or, if later, the most recent cost-of-living computation quarter under subparagraph (B);

“(ii) if the Consumer Price Index (as prepared by the Department of Labor) does not include the national sales tax paid, then the term ‘CPI increase percentage’ with respect to a base quarter or cost-of-living quarter in any calendar year, means the percentage (rounded to the nearest one-tenth of 1 percent) by which the product of—

“(I) the Consumer Price Index for that quarter (as prepared by the Department of Labor); and
“(II) the national sales tax factor,

exceeds such index for the most recent prior cal-
endar quarter which was a base quarter under sub-
paragraph (A)(ii) or, if later, the most recent cost-
of-living computation quarter under subparagraph
(B); and

“(iii) for purposes of clause (ii), the ‘national
sales tax factor’ is equal to one plus the quotient
that is—

“(I) the sales tax rate (as defined in sec-
tion 1 of title 26), divided by

“(II) the quantity that is one minus the
sales tax rate.”.

SEC. 9. COMPENSATING PAYMENTS TO CERTAIN PERSONS
ON FIXED INCOME.

(a) COMPENSATING PAYMENT.—Eligible persons (as
defined in subsection (c)) shall receive a compensating
payment (as defined in subsection (b)) provided that they
comply with subsection (g) (relating to applications).

(b) COMPENSATING PAYMENT DEFINED.—The term
“compensating payment” means the product of the quali-
fied fixed income payment amount (as defined in sub-
section (e)) and the excess inflation rate (as defined in
subsection (f)).
(c) Eligible Person Defined.—An eligible person is any person with respect to any calendar year who is entitled to—

(1) Social Security benefits; and

(2) qualified fixed income payments (as defined in subsection (d)).

(d) Qualified Fixed Income Payment Defined.—A qualified fixed income payment is a payment received by—

(1) a beneficiary under a defined benefit plan (within the meaning of section 414(j) of the Internal Revenue Code as in effect prior to the enactment of this Act) whether sponsored by a private or Government employer; or

(2) by an annuitant pursuant to an annuity contract between the annuitant and a bona fide insurance company.

A payment pursuant to a plan or annuity contract is not a qualified fixed income payment if the payment varies with investment performance, interest rates, or inflation. Payments pursuant to an annuity contract entered into after June 30, 2003, shall not be qualified fixed income payments. Payments pursuant to a defined benefit plan to a beneficiary that had been a participant in said defined benefit plan (within the meaning of section 410 of the In-
ternal Revenue Code as in effect prior to the enactment of this Act) for less than 5 years shall not be qualified fixed income payments.

(e) QUALIFIED FIXED INCOME PAYMENT AMOUNT.—The qualified fixed income payment amount is 1/12 of qualified fixed income payments that an eligible person is entitled to receive during the calendar year subsequent to the year for which the compensating payment is calculated, provided, however, that the qualified fixed income payment amount shall not exceed $5,000.

(f) EXCESS INFLATION RATE DEFINED.—The term “excess inflation rate” shall mean the excess, if any, of the consumer price index (all urban) during the 18-month period ending December 31, 2004, over the increase projected for the consumer price index (all urban) in the Office of Management and Budget baseline reported in the Budget of the United States for Fiscal Year 2003 for said 18-month period. The baseline assumption for the 6 months in 2003 shall be 1/2 of the assumed increase for the entire calendar year 2003.

(g) APPLICATION REQUIRED.—In order to receive compensating payments, each eligible person must apply in a form prescribed by the Secretary of Health and Human Services and provide such documentation as the Secretary may reasonably require.
(h) MEANS OF PAYMENT.—Each person entitled to a compensating payment shall receive the compensating payment with their Social Security benefit payment. The compensating payment shall be separately indicated but may be included in one check. The funds to make compensating payments shall come from the general fund.

(i) The Secretary of Health and Human Services may require insurers that are parties to annuity contracts and defined benefit plan sponsors to issue a statement to annuitants or plan participants including such information as the Secretary may require to determine the qualified fixed income payment amount.

SEC. 10. INTEREST.

Section 6621 of the Internal Revenue Code of 1986 is amended by striking the last sentence in section 6621(a)(1) and by striking “3” in section 6621(a)(2)(B) and substituting in its stead “2”.

SEC. 11. SUPERMAJORITY REQUIRED TO RAISE RATE.

(a) IN GENERAL.—It shall not be in order in the House of Representatives or the Senate to consider any bill, joint resolution, amendment thereto, or conference report thereon that includes any provision that—

(1) increases any federal sales tax rate, and
(2) provides any exemption, deduction, credit or other benefit which results in a reduction in federal revenues.

(b) Waiver or Suspension.—This section may be waived or suspended in the House of Representatives or the Senate only by the affirmative vote of two-thirds of the Members, duly chosen and sworn.