

107TH CONGRESS  
1ST SESSION

# H. R. 322

To amend the Internal Revenue Code of 1986 to allow a deduction for State sales taxes in lieu of State and local income taxes.

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IN THE HOUSE OF REPRESENTATIVES

JANUARY 31, 2001

Mr. BAIRD (for himself and Mr. CLEMENT) introduced the following bill;  
which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to allow a deduction for State sales taxes in lieu of State and local income taxes.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Tax Deduction Fair-  
5 ness Act of 2001”.

6 **SEC. 2. DEDUCTION OF STATE GENERAL SALES TAXES IN**  
7 **LIEU OF STATE AND LOCAL INCOME TAXES.**

8 (a) IN GENERAL.—Subsection (b) of section 164 of  
9 the Internal Revenue Code of 1986 (relating to definitions

1 and special rules) is amended by adding at the end thereof  
2 the following new paragraph:

3 “(5) STATE GENERAL SALES TAXES.—For pur-  
4 poses of subsection (a)—

5 “(A) ELECTION TO DEDUCT STATE SALES  
6 TAXES IN LIEU OF STATE AND LOCAL INCOME  
7 TAXES.—

8 “(i) IN GENERAL.—At the election of  
9 the taxpayer for the taxable year, sub-  
10 section (a) shall be applied—

11 “(I) without regard to the ref-  
12 erence to State and local income  
13 taxes,

14 “(II) as if State general sales  
15 taxes were referred to in a paragraph  
16 thereof, and

17 “(III) without regard to the last  
18 sentence.

19 “(B) DEFINITION OF GENERAL SALES  
20 TAX.—The term ‘general sales tax’ means a tax  
21 imposed at one rate in respect of the sale at re-  
22 tail of a broad range of classes of items.

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

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

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

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

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

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

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

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

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

21          “(H) AMOUNT OF DEDUCTION TO BE DE-  
22          TERMINED UNDER TABLES.—

23          “(i) IN GENERAL.—The amount of  
24          the deduction allowed by this paragraph

1 shall be determined under tables prescribed  
2 by the Secretary.

3 “(ii) REQUIREMENTS FOR TABLES.—

4 The tables prescribed under clause (i) shall  
5 reflect the provisions of this paragraph and  
6 shall be based on the average consumption  
7 by taxpayers on a State-by-State basis, as  
8 determined by the Secretary, taking into  
9 account filing status, number of depend-  
10 ents, adjusted gross income, and rates of  
11 State general sales taxation.”.

12 (b) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to taxable years beginning after  
14 December 31, 2000.

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