

108TH CONGRESS
1ST SESSION

H. R. 1783

To amend the Internal Revenue Code of 1986 to provide taxpayers a flat tax alternative to the current income tax system.

IN THE HOUSE OF REPRESENTATIVES

APRIL 11, 2003

Mr. BURGESS (for himself, Mr. KINGSTON, Mr. BURTON of Indiana, Mr. BOEHNER, Mr. BARTLETT of Maryland, Mr. HALL, Mr. YOUNG of Alaska, Mr. WELDON of Florida, Mr. SESSIONS, Mr. BONILLA, Mr. SMITH of Texas, and Mr. SCOTT of Georgia) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide taxpayers a flat tax alternative to the current income tax system.

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 “Freedom Flat Tax
5 Act”.

1 **SEC. 2. FREEDOM FLAT TAX.**

2 (a) IN GENERAL.—Subchapter A of chapter 1 is
3 amended by inserting after part VII the following new
4 part:

5 **“PART VIII-FREEDOM FLAT TAX**

“Sec. 60. Irrevocable election to be subject to flat tax.

“Sec. 60A. Tax imposed on individuals.

“Sec. 60B. Tax imposed on business activities.

“Sec. 60C. Tax on noncash compensation provided to employees
not engaged in business activity.

6 **“SEC. 60. IRREVOCABLE ELECTION TO BE SUBJECT TO**
7 **FLAT TAX.**

8 “(a) INDIVIDUAL.—

9 “(1) IN GENERAL.—Except as provided in para-
10 graph (2), in lieu of the tax imposed by sections 1
11 and 55, under regulations prescribed by the Sec-
12 retary, an individual may make an irrevocable elec-
13 tion to be subject to the tax imposed by this part.

14 “(2) INNOCENT SPOUSE EXCEPTION.—An indi-
15 vidual who has made an election under paragraph
16 (1) and who subsequently obtains relief of liability
17 for tax under section 6015(b) may, not later than 1
18 year after the date such relief is granted, revoke the
19 election made under paragraph (1).

20 “(b) PERSON ENGAGED IN BUSINESS ACTIVITY.—In
21 lieu of the tax imposed by sections 11 and 55, under regu-
22 lations prescribed by the Secretary, a person engaged in

1 business activity may make an irrevocable election to be
2 subject to the tax imposed by this part.

3 **“SEC. 60A. TAX IMPOSED ON INDIVIDUALS.**

4 “(a) IN GENERAL.—There is hereby imposed on the
5 taxable income of every individual who makes an election
6 to be subject to this part a tax equal to—

7 “(1) 19 percent of the taxable income of such
8 individual for such taxable year in the case of the
9 first 2 taxable years of the individual beginning with
10 the taxable year for which the election is made, and

11 “(2) 17 percent of the taxable income of such
12 individual for such taxable year in the case of all
13 taxable years subsequent to the taxable years de-
14 scribed in paragraph (1).

15 “(b) TAXABLE INCOME.—For purposes of this part,
16 the term ‘taxable income’ means the excess of—

17 “(1) the sum of—

18 “(A) wages (as defined in section 3121(a)
19 without regard to paragraph (1) thereof) which
20 are paid in cash and which are received during
21 the taxable year for services performed in the
22 United States,

23 “(B) retirement distributions which are in-
24 cludible in gross income for such taxable year,
25 plus

1 “(C) amounts received under any law of
2 the United States or of any State which is in
3 the nature of unemployment compensation, over
4 “(2) the standard deduction.

5 “(c) STANDARD DEDUCTION.—For purposes of this
6 part—

7 “(1) IN GENERAL.—The term ‘standard deduc-
8 tion’ means the sum of—

9 “(A) the basic standard deduction, plus

10 “(B) the additional standard deduction.

11 “(2) BASIC STANDARD DEDUCTION.—For pur-
12 poses of paragraph (1), the basic standard deduction
13 is—

14 “(A) \$25,580 in the case of—

15 “(i) a joint return, or

16 “(ii) a surviving spouse (as defined in
17 section 2(a)),

18 “(B) \$16,330 in the case of a head of
19 household (as defined in section 2(b)), and

20 “(C) \$12,790 in the case of an indi-
21 vidual—

22 “(i) who is not married and who is
23 not a surviving spouse or head of house-
24 hold, or

1 “(ii) who is a married individual filing
2 a separate return.

3 “(3) ADDITIONAL STANDARD DEDUCTION.—For
4 purposes of paragraph (1), the additional standard
5 deduction is \$5,510 for each dependent (as defined
6 in section 152) who is described in section 151(c)(1)
7 for the taxable year and who is not required to file
8 a return for such taxable year.

9 “(d) RETIREMENT DISTRIBUTIONS.—For purposes
10 of this section, the term ‘retirement distribution’ means
11 any distribution from—

12 “(1) a plan described in section 401(a) which
13 includes a trust exempt from tax under section
14 501(a),

15 “(2) an annuity plan described in section
16 403(a),

17 “(3) an annuity contract described in section
18 403(b),

19 “(4) an individual retirement account described
20 in section 408(a),

21 “(5) an individual retirement annuity described
22 in section 408(b),

23 “(6) an eligible deferred compensation plan (as
24 defined in section 457),

1 “(7) a governmental plan (as defined in section
2 414(d)), or

3 “(8) a trust described in section 501(c)(18).

4 Such term includes any plan, contract, account, annuity,
5 or trust which, at any time, has been determined by the
6 Secretary to be such a plan, contract, account, annuity,
7 or trust.

8 “(e) INCOME OF CERTAIN CHILDREN.—For purposes
9 of this part—

10 “(1) an individual’s taxable income shall include
11 the taxable income of each dependent child of such
12 individual who has not attained age 14 as of the
13 close of such taxable year, and

14 “(2) such dependent child shall have no liability
15 for tax imposed by this section with respect to such
16 income and shall not be required to file a return for
17 such taxable year.

18 “(f) INFLATION ADJUSTMENT.—

19 “(1) IN GENERAL.—In the case of any taxable
20 year beginning in a calendar year after 2004, each
21 dollar amount contained in subsection (c) shall be
22 increased by an amount determined by the Secretary
23 to be equal to—

24 “(A) such dollar amount, multiplied by

1 “(B) the cost-of-living adjustment for such
2 calendar year.

3 “(2) COST-OF-LIVING ADJUSTMENT.—For pur-
4 poses of paragraph (1), the cost-of-living adjustment
5 for any calendar year is the percentage (if any) by
6 which—

7 “(A) the CPI for the preceding calendar
8 year, exceeds

9 “(B) the CPI for the calendar year 2003.

10 “(3) CPI FOR ANY CALENDAR YEAR.—For pur-
11 poses of paragraph (2), the CPI for any calendar
12 year is the average of the Consumer Price Index as
13 of the close of the 12-month period ending on Au-
14 gust 31 of such calendar year.

15 “(4) CONSUMER PRICE INDEX.—For purposes
16 of paragraph (3), the term ‘Consumer Price Index’
17 means the last Consumer Price Index for all-urban
18 consumers published by the Department of Labor.
19 For purposes of the preceding sentence, the revision
20 of the Consumer Price Index which is most con-
21 sistent with the Consumer Price Index for calendar
22 year 1986 shall be used.

23 “(5) ROUNDING.—If any increase determined
24 under paragraph (1) is not a multiple of \$10, such

1 increase shall be rounded to the next highest mul-
2 tiple of \$10.

3 “(g) MARITAL STATUS.—For purposes of this sec-
4 tion, marital status shall be determined under section
5 7703.

6 **“SEC. 60B. TAX IMPOSED ON BUSINESS ACTIVITIES.**

7 “(a) TAX IMPOSED.—There is hereby imposed on
8 every person engaged in a business activity who makes an
9 election to be taxed under this part a tax equal to—

10 “(1) 19 percent of the business taxable income
11 of such person for such taxable year in the case of
12 the first 2 taxable years of the individual beginning
13 with the taxable year for which the election is made,
14 and

15 “(2) 17 percent of the business taxable income
16 of such person for such taxable year in the case of
17 all taxable years subsequent to the taxable years de-
18 scribed in paragraph (1).

19 “(b) LIABILITY FOR TAX.—The tax imposed by this
20 section shall be paid by the person engaged in the business
21 activity, whether such person is an individual, partnership,
22 corporation, or otherwise.

23 “(c) BUSINESS TAXABLE INCOME.—For purposes of
24 this section—

1 “(1) IN GENERAL.—The term ‘business taxable
2 income’ means gross active income reduced by the
3 deductions specified in subsection (d).

4 “(2) GROSS ACTIVE INCOME.—

5 “(A) IN GENERAL.—For purposes of para-
6 graph (1), the term ‘gross active income’ means
7 gross receipts from—

8 “(i) the sale or exchange of property
9 or services in the United States by any
10 person in connection with a business activ-
11 ity, and

12 “(ii) the export of property or services
13 from the United States in connection with
14 a business activity.

15 “(B) EXCHANGES.—For purposes of this
16 section, the amount treated as gross receipts
17 from the exchange of property or services is the
18 fair market value of the property or services re-
19 ceived, plus any money received.

20 “(C) COORDINATION WITH SPECIAL RULES
21 FOR FINANCIAL SERVICES, ETC.—Except as
22 provided in subsection (e)—

23 “(i) the term ‘property’ does not in-
24 clude money or any financial instrument,
25 and

1 “(ii) the term ‘services’ does not in-
2 clude financial services.

3 “(3) EXEMPTION FROM TAX FOR ACTIVITIES OF
4 GOVERNMENTAL ENTITIES AND TAX-EXEMPT ORGA-
5 NIZATIONS.—For purposes of this section, the term
6 ‘business activity’ does not include any activity of a
7 governmental entity or of any other organization
8 which is exempt from tax under this chapter.

9 “(d) DEDUCTIONS.—

10 “(1) IN GENERAL.—The deductions specified in
11 this subsection are—

12 “(A) the cost of business inputs for the
13 business activity,

14 “(B) wages (as defined in section 3121(a)
15 without regard to paragraph (1) thereof) which
16 are paid in cash for services performed in the
17 United States as an employee, and

18 “(C) retirement contributions to or under
19 any plan or arrangement which makes retire-
20 ment distributions (as defined in section 63(e))
21 for the benefit of such employees to the extent
22 such contributions are allowed as a deduction
23 under section 404.

24 “(2) BUSINESS INPUTS.—

1 “(A) IN GENERAL.—For purposes of para-
2 graph (1), the term ‘cost of business inputs’
3 means—

4 “(i) the amount paid for property sold
5 or used in connection with a business ac-
6 tivity,

7 “(ii) the amount paid for services
8 (other than for the services of employees,
9 including fringe benefits paid by reason of
10 such services) in connection with a busi-
11 ness activity, and

12 “(iii) any excise tax, sales tax, cus-
13 toms duty, or other separately stated levy
14 imposed by a Federal, State, or local gov-
15 ernment on the purchase of property or
16 services which are for use in connection
17 with a business activity.

18 Such term shall not include any tax imposed by
19 chapter 2 or 21.

20 “(B) EXCEPTIONS.—Such term shall not
21 include—

22 “(i) items described in subparagraphs
23 (B) and (C) of paragraph (1), and

24 “(ii) items for personal use not in
25 connection with any business activity.

1 “(C) EXCHANGES.—For purposes of this
2 section, the amount treated as paid in connec-
3 tion with the exchange of property or services
4 is the fair market value of the property or serv-
5 ices exchanged, plus any money paid.

6 “(e) SPECIAL RULES FOR FINANCIAL INTER-
7 MEDIATION SERVICE ACTIVITIES.—In the case of the
8 business activity of providing financial intermediation
9 services, the taxable income from such activity shall be
10 equal to the value of the intermediation services provided
11 in such activity.

12 “(f) EXCEPTION FOR SERVICES PERFORMED AS EM-
13 PLOYEE.—For purposes of this section, the term ‘business
14 activity’ does not include the performance of services by
15 an employee for the employee’s employer.

16 “(g) CARRYOVER OF CREDIT-EQUIVALENT OF EX-
17 CESS DEDUCTIONS.—

18 “(1) IN GENERAL.—If the aggregate deductions
19 for any taxable year exceed the gross active income
20 for such taxable year, the credit-equivalent of such
21 excess shall be allowed as a credit against the tax
22 imposed by this section for the following taxable
23 year.

24 “(2) CREDIT-EQUIVALENT OF EXCESS DEDUC-
25 TIONS.—For purposes of paragraph (1), the credit-

1 equivalent of the excess described in paragraph (1)
2 for any taxable year is an amount equal to—

3 “(A) the sum of—

4 “(i) such excess, plus

5 “(ii) the product of such excess and
6 the 3-month Treasury rate for the last
7 month of such taxable year, multiplied by

8 “(B) the rate of the tax imposed by sub-
9 section (a) for such taxable year.

10 “(3) CARRYOVER OF UNUSED CREDIT.—If the
11 credit allowable for any taxable year by reason of
12 this subsection exceeds the tax imposed by this sec-
13 tion for such year, then (in lieu of treating such ex-
14 cess as an overpayment) the sum of—

15 “(A) such excess, plus

16 “(B) the product of such excess and the 3-
17 month Treasury rate for the last month of such
18 taxable year,

19 shall be allowed as a credit against the tax imposed
20 by this section for the following taxable year.

21 “(4) 3-MONTH TREASURY RATE.—For purposes
22 of this subsection, the 3-month Treasury rate is the
23 rate determined by the Secretary based on the aver-
24 age market yield (during any 1-month period se-
25 lected by the Secretary and ending in the calendar

1 month in which the determination is made) on out-
2 standing marketable obligations of the United States
3 with remaining periods to maturity of 3 months or
4 less.

5 **“SEC. 60C. TAX ON NONCASH COMPENSATION PROVIDED**
6 **TO EMPLOYEES NOT ENGAGED IN BUSINESS**
7 **ACTIVITY.**

8 “(a) IMPOSITION OF TAX.—There is hereby imposed
9 a tax equal to 19 percent (17 percent in the case of cal-
10 endar years beginning after December 31, 2004) of the
11 value of excludable compensation provided during the cal-
12 endar year by an employer for the benefit of employees
13 to whom this section applies.

14 “(b) LIABILITY FOR TAX.—The tax imposed by this
15 section shall be paid by the employer.

16 “(c) EXCLUDABLE COMPENSATION.—For purposes
17 of subsection (a), the term ‘excludable compensation’
18 means any remuneration for services performed as an em-
19 ployee other than—

20 “(1) wages (as defined in section 3121(a) with-
21 out regard to paragraph (1) thereof) which are paid
22 in cash,

23 “(2) remuneration for services performed out-
24 side the United States, and

1 “(3) retirement contributions to or under any
2 plan or arrangement which makes retirement dis-
3 tributions (as defined in section 63(c)).

4 “(d) EMPLOYEES TO WHOM SECTION APPLIES.—
5 This section shall apply to an employee who is employed
6 in any activity by—

7 “(1) any organization which is exempt from
8 taxation under this chapter, or

9 “(2) any agency or instrumentality of the
10 United States, any State or political subdivision of
11 a State, or the District of Columbia.”

12 (b) CLERICAL AMENDMENT.—The table of parts for
13 subchapter A of chapter 1 of such Code is amended by
14 adding at the end the following new item:

 “PART VIII. FREEDOM FLAT TAX.”.

15 (c) EFFECTIVE DATE.—The amendments made by
16 this title shall apply to taxable years beginning after De-
17 cember 31, 2003.

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