

One Hundred Ninth Congress
of the
United States of America

AT THE SECOND SESSION

*Begun and held at the City of Washington on Tuesday,
the third day of January, two thousand and six*

An Act

To amend title 4 of the United States Code to clarify the treatment of self-employment for purposes of the limitation on State taxation of retirement income.

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

**SECTION 1. CLARIFICATION OF TREATMENT OF SELF-EMPLOYMENT
FOR PURPOSES OF THE LIMITATION ON STATE TAXATION
OF RETIREMENT INCOME.**

(a) IN GENERAL.—Section 114(b)(1)(I) of title 4, United States Code, is amended—

(1) by inserting “(or any plan, program, or arrangement that is in writing, that provides for retirement payments in recognition of prior service to be made to a retired partner, and that is in effect immediately before retirement begins)” after “section 3121(v)(2)(C) of such Code”,

(2) by inserting “which may include income described in subparagraphs (A) through (H)” after “(not less frequently than annually”,

(3) by adding at the end the following:

“The fact that payments may be adjusted from time to time pursuant to such plan, program, or arrangement to limit total disbursements under a predetermined formula, or to provide cost of living or similar adjustments, will not cause the periodic payments provided under such plan, program, or arrangement to fail the ‘substantially equal periodic payments’ test.”, and

(4) by adding at the end the following:

“(4) For purposes of this section, the term ‘retired partner’ is an individual who is described as a partner in section 7701(a)(2) of the Internal Revenue Code of 1986 and who is retired under such individual’s partnership agreement.”.

(b) APPLICATION.—The amendments made by this section apply to amounts received after December 31, 1995.

Speaker of the House of Representatives.

*Vice President of the United States and
President of the Senate.*