

110TH CONGRESS
1ST SESSION

S. 1111

To amend the Internal Revenue Code of 1986 to make the Federal income tax system simpler, fairer, and more fiscally responsible, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 16, 2007

Mr. WYDEN introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to make the Federal income tax system simpler, fairer, and more fiscally responsible, and for other purposes.

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; AMENDMENT OF 1986 CODE;**

4 **TABLE OF CONTENTS.**

5 (a) SHORT TITLE.—This Act may be cited as the
6 “Fair Flat Tax Act of 2007”.

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

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

4 (c) TABLE OF CONTENTS.—The table of contents for
 5 this Act is as follows:

- Sec. 1. Short title; amendment of 1986 Code; table of contents.
- Sec. 2. Purpose.

TITLE I—INDIVIDUAL INCOME TAX REFORMS

- Sec. 101. 3 progressive individual income tax rates for all forms of income.
- Sec. 102. Health care standard deduction.
- Sec. 103. Increase in basic standard deduction.
- Sec. 104. Refundable credit for State and local income, sales, and real and personal property taxes.
- Sec. 105. Earned income child credit and earned income credit for childless taxpayers.
- Sec. 106. Repeal of individual alternative minimum tax.
- Sec. 107. Termination of various exclusions, exemptions, deductions, and credits.

TITLE II—CORPORATE AND BUSINESS INCOME TAX REFORMS

- Sec. 201. Corporate flat tax.
- Sec. 202. Treatment of travel on corporate aircraft.
- Sec. 203. Termination of various preferential treatments.
- Sec. 204. Elimination of tax expenditures that subsidize inefficiencies in the health care system.
- Sec. 205. Pass-through business entity transparency.
- Sec. 206. Modification of effective date of leasing provisions of the American Jobs Creation Act of 2004.
- Sec. 207. Revaluation of LIFO inventories of large integrated oil companies.
- Sec. 208. Modifications of foreign tax credit rules applicable to large integrated oil companies which are dual capacity taxpayers.
- Sec. 209. Repeal of lower of cost or market value of inventory rule.
- Sec. 210. Reinstitution of per country foreign tax credit.
- Sec. 211. Application of rules treating inverted corporations as domestic corporations to certain transactions occurring after March 20, 2002.

TITLE III—OTHER PROVISIONS

Subtitle A—Improvements in Tax Compliance

- Sec. 301. Information reporting on payments to corporations.
- Sec. 302. Broker reporting of customer's basis in securities transactions.
- Sec. 303. Additional reporting requirements by regulation.
- Sec. 304. Increase in information return penalties.
- Sec. 305. E-filing requirement for certain large organizations.

- Sec. 306. Implementation of standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.
- Sec. 307. Modification of collection due process procedures for employment tax liabilities.
- Sec. 308. Expansion of IRS access to information in National Directory of New Hires for tax administration purposes.
- Sec. 309. Disclosure of prisoner return information to Federal Bureau of Prisons.
- Sec. 310. Modification of criminal penalties for willful failures involving tax payments and filing requirements.
- Sec. 311. Understatement of taxpayer liability by return preparers.
- Sec. 312. Penalties for failure to file certain returns electronically.
- Sec. 313. Penalty for filing erroneous refund claims.

Subtitle B—Requiring Economic Substance

- Sec. 321. Clarification of economic substance doctrine.
- Sec. 322. Penalty for understatements attributable to transactions lacking economic substance, etc.
- Sec. 323. Denial of deduction for interest on underpayments attributable to noneconomic substance transactions.

Subtitle C—Miscellaneous

- Sec. 331. Denial of deduction for punitive damages.

TITLE IV—TECHNICAL AND CONFORMING AMENDMENTS; SUNSET

- Sec. 401. Technical and conforming amendments.
- Sec. 402. Sunset.

1 **SEC. 2. PURPOSE.**

2 The purpose of this Act is to amend the Internal Rev-
3 enue Code of 1986—

4 (1) to make the Federal individual income tax
5 system simpler, fairer, and more transparent by—

6 (A) recognizing the overall Federal, State,
7 and local tax burden on individual Americans,
8 especially the regressive nature of State and
9 local taxes, and providing a Federal income tax
10 credit for State and local income, sales, and
11 property taxes,

1 (B) providing for an earned income tax
2 credit for childless taxpayers and a new earned
3 income child credit,

4 (C) repealing the individual alternative
5 minimum tax,

6 (D) increasing the basic standard deduc-
7 tion and maintaining itemized deductions for
8 principal residence mortgage interest and chari-
9 table contributions,

10 (E) reducing the number of exclusions, ex-
11 emptions, deductions, and credits, and

12 (F) treating all income equally,

13 (2) to make the Federal corporate income tax
14 rate a flat 35 percent and eliminate special tax pref-
15 erences that favor particular types of businesses or
16 activities, and

17 (3) to partially offset the Federal budget deficit
18 through the increased fiscal responsibility resulting
19 from these reforms.

1 **TITLE I—INDIVIDUAL INCOME**
 2 **TAX REFORMS**

3 **SEC. 101. 3 PROGRESSIVE INDIVIDUAL INCOME TAX RATES**
 4 **FOR ALL FORMS OF INCOME.**

5 (a) MARRIED INDIVIDUALS FILING JOINT RETURNS
 6 AND SURVIVING SPOUSES.—The table contained in sec-
 7 tion 1(a) is amended to read as follows:

“If taxable income is:	The tax is:
Not over \$30,000	15% of taxable income.
Over \$30,000 but not over \$120,000.	\$4,500, plus 25% of the excess over \$30,000
Over \$120,000	\$27,000, plus 35% of the excess over \$120,000”.

8 (b) HEADS OF HOUSEHOLDS.—The table contained
 9 in section 1(b) is amended to read as follows:

“If taxable income is:	The tax is:
Not over \$16,000	15% of taxable income.
Over \$16,000 but not over \$105,000.	\$2,400, plus 25% of the excess over \$16,000
Over \$105,000	\$24,650, plus 35% of the excess over \$105,000”.

10 (c) UNMARRIED INDIVIDUALS (OTHER THAN SUR-
 11 VIVING SPOUSES AND HEADS OF HOUSEHOLDS).—The
 12 table contained in section 1(c) is amended to read as fol-
 13 lows:

“If taxable income is:	The tax is:
Not over \$15,000	15% of taxable income.
Over \$15,000 but not over \$60,000.	\$2,250, plus 25% of the excess over \$15,000
Over \$60,000	\$13,500, plus 35% of the excess over \$60,000”.

14 (d) MARRIED INDIVIDUALS FILING SEPARATE RE-
 15 TURNS.—The table contained in section 1(d) is amended
 16 to read as follows:

“If taxable income is:	The tax is:
Not over \$15,000	15% of taxable income.

“If taxable income is:

Over \$15,000 but not over
\$60,000.
Over \$60,000

The tax is:

\$2,250, plus 25% of the excess over
\$15,000
\$13,500, plus 35% of the excess over
\$60,000”.

1 (e) CONFORMING AMENDMENTS TO INFLATION AD-
2 JUSTMENT.—Section 1(f) is amended—

3 (1) by striking “1993” in paragraph (1) and in-
4 sserting “2008”,

5 (2) by striking “except as provided in para-
6 graph (8)” in paragraph (2)(A),

7 (3) by striking “1992” in paragraph (3)(B) and
8 inserting “2007”,

9 (4) by striking paragraphs (7) and (8), and

10 (5) by striking “PHASEOUT OF MARRIAGE PEN-
11 ALTY IN 15-PERCENT BRACKET;” in the heading
12 thereof.

13 (f) REPEAL OF RATE DIFFERENTIAL FOR CAPITAL
14 GAINS AND DIVIDENDS.—

15 (1) REPEAL OF 2003 RATE REDUCTION.—Sec-
16 tion 303 of the Jobs and Growth Tax Relief Rec-
17 onciliation Act of 2003 is amended by striking “De-
18 cember 3, 2008” and inserting “December 31,
19 2007”.

20 (2) TERMINATION OF PRE-2003 CAPITAL GAIN
21 RATE DIFFERENTIAL.—Section 1(h) is amended
22 (after the application of paragraph (1)) by adding at
23 the end the following new paragraph:

1 “(13) TERMINATION.—This section shall not
2 apply to taxable years beginning after December 31,
3 2007.”.

4 (g) ADDITIONAL CONFORMING AMENDMENTS.—

5 (1) Section 1 is amended by striking subsection
6 (i).

7 (2) The Internal Revenue Code of 1986 is
8 amended by striking “calendar year 1992” each
9 place it appears and inserting “calendar year 2007”.

10 (3) Section 1445(e)(1) (after the application of
11 subsection (g)(1)) is amended by striking “(or, to
12 the extent provided in regulations, 20 percent)”.

13 (h) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 2007.

16 **SEC. 102. HEALTH CARE STANDARD DEDUCTION.**

17 (a) IN GENERAL.—Section 62(a) (defining adjusted
18 gross income) is amended by inserting after paragraph
19 (21) the following new paragraph:

20 “(22) INDIVIDUAL SHARED RESPONSIBILITY
21 PAYMENTS.—

22 “(A) IN GENERAL.—In the case of a tax-
23 payer with gross income for the taxable year ex-
24 ceeding 100 percent of the poverty line (ad-
25 justed for the size of the family involved) for

1 the calendar year in which such taxable year
2 begins and who is enrolled in a HAPI plan
3 under the Healthy Americans Act, the deduc-
4 tion allowable under section 213 by reason of
5 subsection (d)(1)(D) thereof (determined with-
6 out regard to any income limitation under sub-
7 section (a) thereof) in an amount equal to the
8 applicable fraction times, in the case of—

9 “(i) coverage of an individual, \$6,025,

10 “(ii) coverage of a married couple or
11 domestic partnership (as determined by a
12 State) without dependent children,
13 \$12,050,

14 “(iii) coverage of an unmarried indi-
15 vidual with 1 or more dependent children,
16 \$8,610, plus \$2,000 for each dependent
17 child, and

18 “(iv) coverage of a married couple or
19 domestic partnership (as determined by a
20 State) with 1 or more dependent children,
21 \$15,210, plus \$2,000 for each dependent
22 child.

23 “(B) APPLICABLE FRACTION.—For pur-
24 poses of subparagraph (A), the applicable frac-
25 tion is the fraction (not to exceed 1)—

1 “(i) the numerator of which is the
2 gross income of the taxpayer for the tax-
3 able year expressed as a percentage of the
4 poverty line (adjusted for the size of the
5 family involved) minus such poverty line
6 for the calendar year in which such taxable
7 year begins, and

8 “(ii) the denominator of which is 400
9 percent of the poverty line (adjusted for
10 the size of the family involved) minus such
11 poverty line.

12 “(C) PHASEOUT OF DEDUCTION
13 AMOUNT.—

14 “(i) IN GENERAL.—The amount oth-
15 erwise determined under subparagraph (A)
16 for any taxable year shall be reduced by
17 the amount determined under clause (ii).

18 “(ii) AMOUNT OF REDUCTION.—The
19 amount determined under this clause shall
20 be the amount which bears the same ratio
21 to the amount determined under subpara-
22 graph (A) as—

23 “(I) the excess of the taxpayer’s
24 modified adjusted gross income for
25 such taxable year, over \$62,500

1 (\$125,000 in the case of a joint re-
2 turn), bears to

3 “(II) \$62,500 (\$125,000 in the
4 case of a joint return).

5 Any amount determined under this clause
6 which is not a multiple of \$1,000 shall be
7 rounded to the next lowest \$1,000.

8 “(D) INFLATION ADJUSTMENT.—In the
9 case of any taxable year beginning in a calendar
10 year after 2009, each dollar amount contained
11 in subparagraph (A) and subparagraph
12 (C)(ii)(I) shall be increased by an amount equal
13 to such dollar amount, multiplied by the cost-
14 of-living adjustment determined under section
15 1(f)(3) for the calendar year in which the tax-
16 able year begins, determined by substituting
17 ‘calendar year 2008’ for ‘calendar year 1992’ in
18 subparagraph (B) thereof. Any increase deter-
19 mined under the preceding sentence shall be
20 rounded to the nearest multiple of \$50 (\$1,000
21 in the case of the dollar amount contained in
22 subparagraph (C)(ii)(I)).

23 “(E) DETERMINATION OF MODIFIED AD-
24 JUSTED GROSS INCOME.—

1 “(i) IN GENERAL.—For purposes of
2 this paragraph, the term ‘modified ad-
3 justed gross income’ means adjusted gross
4 income—

5 “(ii) determined without regard to
6 this section and sections 86, 135, 137,
7 199, 221, 222, 911, 931, and 933, and

8 “(iii) increased by—

9 “(I) the amount of interest re-
10 ceived or accrued during the taxable
11 year which is exempt from tax under
12 this title, and

13 “(II) the amount of any social se-
14 curity benefits (as defined in section
15 86(d)) received or accrued during the
16 taxable year.

17 “(F) POVERTY LINE.—For purposes of
18 this paragraph, the term ‘poverty line’ has the
19 meaning given such term in section 673(2) of
20 the Community Health Services Block Grant
21 Act (42 U.S.C. 9902(2)), including any revision
22 required by such section.”.

23 (b) CONFORMING AMENDMENT.—Section
24 213(d)(1)(D) is amended by inserting “amounts paid
25 under section 3421 and” after “including”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2007.

4 **SEC. 103. INCREASE IN BASIC STANDARD DEDUCTION.**

5 (a) IN GENERAL.—Paragraph (2) of section 63(c)
6 (defining standard deduction) is amended to read as fol-
7 lows:

8 “(2) BASIC STANDARD DEDUCTION.—For pur-
9 poses of paragraph (1), the basic standard deduction
10 is—

11 “(A) 200 percent of the dollar amount in
12 effect under subparagraph (C) for the taxable
13 year in the case of—

14 “(i) a joint return, or

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

17 “(B) \$26,250 in the case of a head of
18 household (as defined in section 2(b)), reduced
19 by any deduction allowed under section
20 62(a)(22) for such taxable year, or

21 “(C) \$15,000 in any other case, reduced
22 by any deduction allowed under section
23 62(a)(22) for such taxable year.”.

1 (b) CONFORMING AMENDMENT TO INFLATION AD-
 2 JUSTMENT.—Section 63(c)(4)(B)(i) is amended by strik-
 3 ing “(2)(B), (2)(C), or”.

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to taxable years beginning after
 6 December 31, 2007.

7 **SEC. 104. REFUNDABLE CREDIT FOR STATE AND LOCAL IN-**
 8 **COME, SALES, AND REAL AND PERSONAL**
 9 **PROPERTY TAXES.**

10 (a) GENERAL RULE.—Subpart C of part IV of sub-
 11 chapter A of chapter 1 (relating to refundable credits) is
 12 amended by redesignating section 36 as section 37 and
 13 by inserting after section 35 the following new section:

14 **“SEC. 36. CREDIT FOR STATE AND LOCAL INCOME, SALES,**
 15 **AND REAL AND PERSONAL PROPERTY TAXES.**

16 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
 17 dividual, there shall be allowed as a credit against the tax
 18 imposed by this subtitle for the taxable year an amount
 19 equal to 10 percent of the qualified State and local taxes
 20 paid by the taxpayer for such year.

21 “(b) QUALIFIED STATE AND LOCAL TAXES.—For
 22 purposes of this section, the term ‘qualified State and local
 23 taxes’ means—

24 “(1) State and local income taxes,

25 “(2) State and local general sales taxes,

1 “(3) State and local real property taxes, and

2 “(4) State and local personal property taxes.

3 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-
4 poses of this section—

5 “(1) STATE OR LOCAL TAXES.—A State or local
6 tax includes only a tax imposed by a State, a posses-
7 sion of the United States, or a political subdivision
8 of any of the foregoing, or by the District of Colum-
9 bia.

10 “(2) GENERAL SALES TAXES.—

11 “(A) IN GENERAL.—The term ‘general
12 sales tax’ means a tax imposed at one rate with
13 respect to the sale at retail of a broad range of
14 classes of items.

15 “(B) APPLICATION OF RULES.—Rules
16 similar to the rules under subparagraphs (C),
17 (D), (E), (F), (G), and (H) of section 164(b)(5)
18 shall apply.

19 “(3) PERSONAL PROPERTY TAXES.—The term
20 ‘personal property tax’ means an ad valorem tax
21 which is imposed on an annual basis in respect of
22 personal property.

23 “(4) APPLICATION OF RULES TO PROPERTY
24 TAXES.—Rules similar to the rules of subsections (c)
25 and (d) of section 164 shall apply.

1 “(5) NO CREDIT FOR MARRIED INDIVIDUALS
2 FILING SEPARATE RETURNS.—If the taxpayer is a
3 married individual (within the meaning of section
4 7703), this section shall apply only if the taxpayer
5 and the taxpayer’s spouse file a joint return for the
6 taxable year.

7 “(6) DENIAL OF CREDIT TO DEPENDENTS.—No
8 credit shall be allowed under this section to any indi-
9 vidual with respect to whom a deduction under sec-
10 tion 151 is allowable to another taxpayer for a tax-
11 able year beginning in the calendar year in which
12 such individual’s taxable year begins.

13 “(7) DENIAL OF DOUBLE BENEFIT.—Any
14 amount taken into account in determining the credit
15 allowable under this section may not be taken into
16 account in determining any credit or deduction
17 under any other provision of this chapter.”.

18 (b) TECHNICAL AMENDMENTS.—

19 (1) Paragraph (2) of section 1324(b) of title
20 31, United States Code, is amended by inserting “or
21 from section 36 of such Code” before the period at
22 the end.

23 (2) The table of sections for subpart C of part
24 IV of subchapter A of chapter 1 is amended by

1 striking the item relating to section 36 and inserting
 2 the following:

“Sec. 36. Credit for state and local income, sales, and real and personal prop-
 erty taxes.

“Sec. 37. Overpayments of tax.”.

3 (c) REPORT REGARDING USE OF CREDIT BY RENT-
 4 ERS.—Not later than 180 days after the date of the enact-
 5 ment of this Act, the Secretary of the Treasury shall re-
 6 port to the Committee on Finance of the Senate and the
 7 Committee on Ways and Means of the House of Rep-
 8 resentatives recommendations regarding the treatment of
 9 a portion of rental payments in a manner similar to real
 10 property taxes under section 36 of the Internal Revenue
 11 Code of 1986 (as added by this section).

12 (d) EFFECTIVE DATE.—The amendments made by
 13 this section shall apply to taxable years beginning after
 14 December 31, 2007.

15 **SEC. 105. EARNED INCOME CHILD CREDIT AND EARNED IN-**
 16 **COME CREDIT FOR CHILDLESS TAXPAYERS.**

17 (a) IN GENERAL.—Subsection (a) of section 32 (re-
 18 lating to earned income) is amended to read as follows:

19 “(a) ALLOWANCE OF EARNED INCOME CHILD CRED-
 20 IT AND EARNED INCOME CREDIT.—

21 “(1) IN GENERAL.—There shall be allowed as a
 22 credit against the tax imposed by this subtitle for
 23 the taxable year—

1 “(A) in the case of any eligible individual
2 with 1 or more qualifying children, an amount
3 equal to the earned income child credit amount,
4 and

5 “(B) in the case of any eligible individual
6 with no qualifying children, an amount equal to
7 the earned income credit amount.

8 “(2) EARNED INCOME CHILD CREDIT
9 AMOUNT.—For purposes of this section, the earned
10 income child credit amount is equal to the sum of—

11 “(A) the credit percentage of so much of
12 the taxpayer’s earned income for the taxable
13 year as does not exceed the earned income limit
14 amount, plus

15 “(B) the supplemental child credit amount
16 determined under subsection (n) for such tax-
17 able year.

18 “(3) EARNED INCOME CREDIT AMOUNT.—For
19 purposes of this section, the earned income credit
20 amount is equal to the credit percentage of so much
21 of the taxpayer’s earned income for the taxable year
22 as does not exceed the earned income limit amount.

23 “(4) LIMITATION.—The amount of the credit
24 allowable to a taxpayer under paragraph (2)(A) or

1 (3) for any taxable year shall not exceed the excess
2 (if any) of—

3 “(A) the credit percentage of the earned
4 income amount, over

5 “(B) the phaseout percentage of so much
6 of the adjusted gross income (or, if greater, the
7 earned income) of the taxpayer for the taxable
8 year as exceeds the phaseout amount.”.

9 (b) SUPPLEMENTAL CHILD CREDIT AMOUNT.—Sec-
10 tion 32 is amended by adding at the end the following
11 new subsection:

12 “(n) SUPPLEMENTAL CHILD CREDIT AMOUNT.—

13 “(1) IN GENERAL.—For purposes of subsection
14 (a)(2)(B), the supplemental child credit amount for
15 any taxable year is equal to the lesser of—

16 “(A) the credit which would be allowed
17 under section 24 for such taxable year without
18 regard to the limitation under section 24(b)(3)
19 with respect to any qualifying child as defined
20 under subsection (c)(3), or

21 “(B) the amount by which the aggregate
22 amount of credits allowed by subpart A for
23 such taxable year would increase if the limita-
24 tion imposed by section 24(b)(3) were increased
25 by the excess (if any) of—

1 “(i) 15 percent of so much of the tax-
 2 payer’s earned income which is taken into
 3 account in computing taxable income for
 4 the taxable year as exceeds \$10,000, or

5 “(ii) in the case of a taxpayer with 3
 6 or more qualifying children (as so defined),
 7 the excess (if any) of—

8 “(I) the taxpayer’s social security
 9 taxes for the taxable year, over

10 “(II) the credit allowed under
 11 this section for the taxable year.

12 The amount of the credit allowed under this sub-
 13 section shall not be treated as a credit allowed under
 14 subpart A and shall reduce the amount of credit oth-
 15 erwise allowable under section 24(a) without regard
 16 to section 24(b)(3).

17 “(2) SOCIAL SECURITY TAXES.—For purposes
 18 of paragraph (1)—

19 “(A) IN GENERAL.—The term ‘social secu-
 20 rity taxes’ means, with respect to any taxpayer
 21 for any taxable year—

22 “(i) the amount of the taxes imposed
 23 by section 3101 and 3201(a) on amounts
 24 received by the taxpayer during the cal-

1 endar year in which the taxable year be-
2 gins,

3 “(ii) 50 percent of the taxes imposed
4 by section 1401 on the self-employment in-
5 come of the taxpayer for the taxable year,
6 and

7 “(iii) 50 percent of the taxes imposed
8 by section 3211(a)(1) on amounts received
9 by the taxpayer during the calendar year
10 in which the taxable year begins.

11 “(B) COORDINATION WITH SPECIAL RE-
12 FUND OF SOCIAL SECURITY TAXES.—The term
13 ‘social security taxes’ shall not include any
14 taxes to the extent the taxpayer is entitled to
15 a special refund of such taxes under section
16 6413(c).

17 “(C) SPECIAL RULE.—Any amounts paid
18 pursuant to an agreement under section 3121(l)
19 (relating to agreements entered into by Amer-
20 ican employers with respect to foreign affiliates)
21 which are equivalent to the taxes referred to in
22 subparagraph (A)(i) shall be treated as taxes
23 referred to in such paragraph.

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

1 2007, the \$10,000 amount contained in paragraph
2 (1)(B) shall be increased by an amount equal to—

3 “(A) such dollar amount, multiplied by

4 “(B) the cost-of-living adjustment deter-
5 mined under section 1(f)(3) for the calendar
6 year in which the taxable year begins, deter-
7 mined by substituting ‘calendar year 2000’ for
8 ‘calendar year 1992’ in subparagraph (B)
9 thereof.

10 “Any increase determined under the preceding
11 sentence shall be rounded to the nearest multiple of
12 \$50.”.

13 (c) CONFORMING AMENDMENT.—Section 24(d) is
14 amended by adding at the end the following new para-
15 graph:

16 “(4) TERMINATION.—This subsection shall not
17 apply with respect to any taxable year beginning
18 after December 31, 2007.”.

19 (d) CERTAIN TREATMENT OF EARNED INCOME
20 MADE PERMANENT.—Clause (vi) of section 32(c)(2)(B)
21 is amended to read as follows:

22 “(vi) a taxpayer may elect to treat
23 amounts excluded from gross income by
24 reason of section 112 as earned income.”.

1 (e) REPEAL OF DISQUALIFIED INVESTMENT INCOME
 2 TEST.—Subsection (i) of section 32 is repealed.

3 (f) EFFECTIVE DATE.—The amendments made by
 4 this section shall apply to taxable years beginning after
 5 December 31, 2007.

6 **SEC. 106. REPEAL OF INDIVIDUAL ALTERNATIVE MINIMUM**
 7 **TAX.**

8 (a) IN GENERAL.—Section 55(a) (relating to alter-
 9 native minimum tax imposed) is amended by adding at
 10 the end the following new flush sentence:

11 “For purposes of this title, the tentative minimum
 12 tax on any taxpayer other than a corporation for any tax-
 13 able year beginning after December 31, 2007, shall be
 14 zero.”.

15 (b) MODIFICATION OF LIMITATION ON USE OF
 16 CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—
 17 Subsection (c) of section 53 (relating to credit for prior
 18 year minimum tax liability) is amended to read as follows:

19 “(c) LIMITATION.—

20 “(1) IN GENERAL.—Except as provided in para-
 21 graph (2), the credit allowable under subsection (a)
 22 for any taxable year shall not exceed the excess (if
 23 any) of—

24 “(A) the regular tax liability of the tax-
 25 payer for such taxable year reduced by the sum

1 of the credits allowable under subparts A, B, D,
2 E, and F of this part, over

3 “(B) the tentative minimum tax for the
4 taxable year.

5 “(2) TAXABLE YEARS BEGINNING AFTER
6 2007.—In the case of any taxable year beginning
7 after 2007, the credit allowable under subsection (a)
8 to a taxpayer other than a corporation for any tax-
9 able year shall not exceed 90 percent of the regular
10 tax liability of the taxpayer for such taxable year re-
11 duced by the sum of the credits allowable under sub-
12 parts A, B, D, E, and F of this part.”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 2007.

16 **SEC. 107. TERMINATION OF VARIOUS EXCLUSIONS, EXEMP-**
17 **TIONS, DEDUCTIONS, AND CREDITS.**

18 (a) IN GENERAL.—Subchapter C of chapter 90 (re-
19 lating to provisions affecting more than one subtitle) is
20 amended by adding at the end the following new section:

21 **“SEC. 7875. TERMINATION OF CERTAIN PROVISIONS.**

22 “The following provisions shall not apply to taxable
23 years beginning after December 31, 2007:

24 “(1) Section 67 (relating to 2-percent floor on
25 miscellaneous itemized deductions).

1 “(2) Section 74(c) (relating to exclusion of cer-
2 tain employee achievement awards).

3 “(3) Section 79 (relating to exclusion of group-
4 term life insurance purchased for employees).

5 “(4) Section 119 (relating to exclusion of meals
6 or lodging furnished for the convenience of the em-
7 ployer).

8 “(5) Section 125 (relating to exclusion of cafe-
9 teria plan benefits).

10 “(6) Section 132 (relating to certain fringe ben-
11 efits), except with respect to subsection (a)(5) there-
12 of (relating to exclusion of qualified transportation
13 fringe).

14 “(7) Section 163(h)(4)(A)(i)(II) (relating to
15 definition of qualified residence).

16 “(8) Section 165(d) (relating to deduction for
17 wagering losses).

18 “(9) Section 217 (relating to deduction for
19 moving expenses).

20 “(10) Section 454 (relating to deferral of tax
21 on obligations issued at discount).

22 “(11) Section 501(c)(9) (relating to tax-exempt
23 status of voluntary employees’ beneficiary associa-
24 tions).

1 “(12) Section 911 (relating to exclusion of
2 earned income of citizens or residents of the United
3 States living abroad).

4 “(13) Section 912 (relating to exemption for
5 certain allowances).”.

6 (b) CONFORMING AMENDMENT.—The table of sec-
7 tions for subchapter C of chapter 90 is amended by adding
8 at the end the following new item:

 “Sec. 7875. Termination of certain provisions.”.

9 **TITLE II—CORPORATE AND**
10 **BUSINESS INCOME TAX RE-**
11 **FORMS**

12 **SEC. 201. CORPORATE FLAT TAX.**

13 (a) IN GENERAL.—Subsection (b) of section 11 (re-
14 lating to tax imposed) is amended to read as follows:

15 “(b) AMOUNT OF TAX.—The amount of tax imposed
16 by subsection (a) shall be equal to 35 percent of the tax-
17 able income.”.

18 (b) CONFORMING AMENDMENTS.—

19 (1) Section 280C(c)(3)(B)(ii)(II) is amended by
20 striking “maximum rate of tax under section
21 11(b)(1)” and inserting “rate of tax under section
22 11(b)”.

23 (2) Sections 860E(e)(2)(B), 860E(e)(6)(A)(ii),
24 860K(d)(2)(A)(ii), 860K(e)(1)(B)(ii),
25 1446(b)(2)(B), and 7874(e)(1)(B) are each amended

1 by striking “highest rate of tax specified in section
2 11(b)(1)” and inserting “rate of tax specified in sec-
3 tion 11(b)”.

4 (3) Section 904(b)(3)(D)(ii) is amended by
5 striking “(determined without regard to the last sen-
6 tence of section 11(b)(1))”.

7 (4) Section 962 is amended by striking sub-
8 section (e) and by redesignating subsection (d) as
9 subsection (e).

10 (5) Section 1201(a) is amended by striking
11 “(determined without regard to the last 2 sentences
12 of section 11(b)(1))”.

13 (6) Section 1561(a) is amended—

14 (A) by striking paragraph (1) and by re-
15 designating paragraphs (2), (3), and (4) as
16 paragraphs (1), (2), and (3), respectively,

17 (B) by striking “The amounts specified in
18 paragraph (1), the” and inserting “The”,

19 (C) by striking “paragraph (2)” and in-
20 serting “paragraph (1)”,

21 (D) by striking “paragraph (3)” both
22 places it appears and inserting “paragraph
23 (2)”,

24 (E) by striking “paragraph (4)” and in-
25 serting “paragraph (3)”, and

1 (F) by striking the fourth sentence.

2 (7) Subsection (b) of section 1561 is amended
3 to read as follows:

4 “(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-
5 poration has a short taxable year which does not include
6 a December 31 and is a component member of a controlled
7 group of corporations with respect to such taxable year,
8 then for purposes of this subtitle, the amount to be used
9 in computing the accumulated earnings credit under sec-
10 tion 535(c)(2) and (3) of such corporation for such taxable
11 year shall be the amount specified in subsection (a)(1) di-
12 vided by the number of corporations which are component
13 members of such group on the last day of such taxable
14 year. For purposes of the preceding sentence, section
15 1563(b) shall be applied as if such last day were sub-
16 stituted for December 31.”.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 2007.

20 **SEC. 202. TREATMENT OF TRAVEL ON CORPORATE AIR-**
21 **CRAFT.**

22 (a) IN GENERAL.—Section 162 (relating to trade or
23 business expenses) is amended by redesignating subsection
24 (q) as subsection (r) and by inserting after subsection (p)
25 the following new subsection:

1 “(q) TREATMENT OF TRAVEL ON CORPORATE AIR-
2 CRAFT.—The rate at which an amount allowable as a de-
3 duction under this chapter for the use of an aircraft owned
4 by the taxpayer is determined shall not exceed the rate
5 at which an amount paid or included in income by an em-
6 ployee of such taxpayer for the personal use of such air-
7 craft is determined.”.

8 (b) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to taxable years beginning after
10 December 31, 2007.

11 **SEC. 203. TERMINATION OF VARIOUS PREFERENTIAL**
12 **TREATMENTS.**

13 (a) IN GENERAL.—Section 7875, as added by section
14 107, is amended—

15 (1) by inserting “(or transactions in the case of
16 sections referred to in paragraphs (21), (22), (23),
17 (24), and (27))” after “taxable years beginning”,
18 and

19 (2) by adding at the end the following new
20 paragraphs:

21 “(14) Section 43 (relating to enhanced oil re-
22 covery credit).

23 “(15) Section 263(c) (relating to intangible
24 drilling and development costs in the case of oil and
25 gas wells and geothermal wells).

1 “(16) Section 382(l)(5) (relating to exception
2 from net operating loss limitations for corporations
3 in bankruptcy proceeding).

4 “(17) Section 451(i) (relating to special rules
5 for sales or dispositions to implement Federal En-
6 ergy Regulatory Commission or State electric re-
7 structuring policy).

8 “(18) Section 453A (relating to special rules for
9 nondealers), but only with respect to the dollar limi-
10 tation under subsection (b)(1) thereof and sub-
11 section (b)(3) thereof (relating to exception for per-
12 sonal use and farm property).

13 “(19) Section 460(e)(1) (relating to special
14 rules for long-term home construction contracts or
15 other short-term construction contracts).

16 “(20) Section 613A (relating to percentage de-
17 pletion in case of oil and gas wells).

18 “(21) Section 616 (relating to development
19 costs).

20 “(22) Sections 861(a)(6), 862(a)(6), 863(b)(2),
21 863(b)(3), and 865(b) (relating to inventory prop-
22 erty sales source rule exception).”.

23 (b) FULL TAX RATE ON NUCLEAR DECOMMISS-
24 SIONING RESERVE FUND.—Subparagraph (B) of section
25 468A(e)(2) is amended to read as follows:

1 “(B) RATE OF TAX.—For purposes of sub-
 2 paragraph (A), the rate set forth in this sub-
 3 paragraph is 35 percent.”.

4 (c) DEFERRAL OF ACTIVE INCOME OF CONTROLLED
 5 FOREIGN CORPORATIONS.—Section 952 (relating to sub-
 6 part F income defined) is amended by adding at the end
 7 the following new subsection:

8 “(e) SPECIAL APPLICATION OF SUBPART.—

9 “(1) IN GENERAL.—For taxable years begin-
 10 ning after December 31, 2007, notwithstanding any
 11 other provision of this subpart, the term ‘subpart F
 12 income’ means, in the case of any controlled foreign
 13 corporation, the income of such corporation derived
 14 from any foreign country.

15 “(2) APPLICABLE RULES.—Rules similar to the
 16 rules under the last sentence of subsection (a) and
 17 subsection (d) shall apply to this subsection.”.

18 (d) DEFERRAL OF ACTIVE FINANCING INCOME.—
 19 Section 953(e)(10) is amended—

20 (1) by striking “January 1, 2009” and insert-
 21 ing “January 1, 2008”, and

22 (2) by striking “December 31, 2008” and in-
 23 serting “December 31, 2007”.

24 (e) DEPRECIATION ON EQUIPMENT IN EXCESS OF
 25 ALTERNATIVE DEPRECIATION SYSTEM.—Section

1 168(g)(1) (relating to alternative depreciation system) is
2 amended by striking “and” at the end of subparagraph
3 (D), by adding “and” at the end of subparagraph (E),
4 and by inserting after subparagraph (E) the following new
5 subparagraph:

6 “(F) notwithstanding subsection (a), any
7 tangible property placed in service after Decem-
8 ber 31, 2007,”.

9 (f) EFFECTIVE DATE.—The amendments made by
10 subsections (b), (c), and (d) shall apply to taxable years
11 beginning after December 31, 2007.

12 **SEC. 204. ELIMINATION OF TAX EXPENDITURES THAT SUB-**
13 **SIDIZE INEFFICIENCIES IN THE HEALTH**
14 **CARE SYSTEM.**

15 Not later than 180 days after the date of the enact-
16 ment of this Act, the Secretary of the Treasury shall re-
17 port to the Committee on Finance of the Senate and the
18 Committee on Ways and Means of the House of Rep-
19 resentatives recommendations regarding the elimination of
20 Federal tax incentives which subsidize inefficiencies in the
21 health care system and if eliminated would result in Fed-
22 eral budget savings of not less than \$10,000,000,000 an-
23 nually.

1 **SEC. 205. PASS-THROUGH BUSINESS ENTITY TRANS-**
2 **PARENCY.**

3 Not later than 90 days after the date of the enact-
4 ment of this Act, the Secretary of the Treasury shall re-
5 port to the Committee on Finance of the Senate and the
6 Committee on Ways and Means of the House of Rep-
7 resentatives regarding the implementation of additional
8 reporting requirements with respect to any pass-through
9 entity with the goal of the reduction of tax avoidance
10 through the use of such entities. In addition, the Secretary
11 shall develop procedures to share such report data with
12 State revenue agencies under the disclosure requirements
13 of section 6103(d) of the Internal Revenue Code of 1986.

14 **SEC. 206. MODIFICATION OF EFFECTIVE DATE OF LEASING**
15 **PROVISIONS OF THE AMERICAN JOBS CRE-**
16 **ATION ACT OF 2004.**

17 (a) LEASES TO FOREIGN ENTITIES.—Section 849(b)
18 of the American Jobs Creation Act of 2004 is amended
19 by adding at the end the following new paragraph:

20 “(5) LEASES TO FOREIGN ENTITIES.—In the
21 case of tax-exempt use property leased to a tax-ex-
22 empt entity which is a foreign person or entity, the
23 amendments made by this part shall apply to taxable
24 years beginning after December 31, 2006, with re-
25 spect to leases entered into on or before March 12,
26 2004.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall take effect as if included in the enact-
3 ment of the American Jobs Creation Act of 2004.

4 **SEC. 207. REVALUATION OF LIFO INVENTORIES OF LARGE**
5 **INTEGRATED OIL COMPANIES.**

6 (a) GENERAL RULE.—Notwithstanding any other
7 provision of law, if a taxpayer is an applicable integrated
8 oil company for its last taxable year ending in calendar
9 year 2006, the taxpayer shall—

10 (1) increase, effective as of the close of such
11 taxable year, the value of each historic LIFO layer
12 of inventories of crude oil, natural gas, or any other
13 petroleum product (within the meaning of section
14 4611) by the layer adjustment amount, and

15 (2) decrease its cost of goods sold for such tax-
16 able year by the aggregate amount of the increases
17 under paragraph (1).

18 If the aggregate amount of the increases under paragraph
19 (1) exceed the taxpayer's cost of goods sold for such tax-
20 able year, the taxpayer's gross income for such taxable
21 year shall be increased by the amount of such excess.

22 (b) LAYER ADJUSTMENT AMOUNT.—For purposes of
23 this section—

1 (1) IN GENERAL.—The term “layer adjustment
2 amount” means, with respect to any historic LIFO
3 layer, the product of—

4 (A) \$18.75, and

5 (B) the number of barrels of crude oil (or
6 in the case of natural gas or other petroleum
7 products, the number of barrel-of-oil equiva-
8 lents) represented by the layer.

9 (2) BARREL-OF-OIL EQUIVALENT.—The term
10 “barrel-of-oil equivalent” has the meaning given
11 such term by section 29(d)(5) (as in effect before its
12 redesignation by the Energy Tax Incentives Act of
13 2005).

14 (c) APPLICATION OF REQUIREMENT.—

15 (1) NO CHANGE IN METHOD OF ACCOUNTING.—
16 Any adjustment required by this section shall not be
17 treated as a change in method of accounting.

18 (2) UNDERPAYMENTS OF ESTIMATED TAX.—No
19 addition to the tax shall be made under section 6655
20 of the Internal Revenue Code of 1986 (relating to
21 failure by corporation to pay estimated tax) with re-
22 spect to any underpayment of an installment re-
23 quired to be paid with respect to the taxable year
24 described in subsection (a) to the extent such under-
25 payment was created or increased by this section.

1 (d) APPLICABLE INTEGRATED OIL COMPANY.—For
2 purposes of this section, the term “applicable integrated
3 oil company” means an integrated oil company (as defined
4 in section 291(b)(4) of the Internal Revenue Code of
5 1986) which has an average daily worldwide production
6 of crude oil of at least 500,000 barrels for the taxable
7 year and which had gross receipts in excess of
8 \$1,000,000,000 for its last taxable year ending during cal-
9 endar year 2006. For purposes of this subsection all per-
10 sons treated as a single employer under subsections (a)
11 and (b) of section 52 of the Internal Revenue Code of
12 1986 shall be treated as 1 person and, in the case of a
13 short taxable year, the rule under section 448(c)(3)(B)
14 shall apply.

15 **SEC. 208. MODIFICATIONS OF FOREIGN TAX CREDIT RULES**
16 **APPLICABLE TO LARGE INTEGRATED OIL**
17 **COMPANIES WHICH ARE DUAL CAPACITY**
18 **TAXPAYERS.**

19 (a) IN GENERAL.—Section 901 (relating to credit for
20 taxes of foreign countries and of possessions of the United
21 States) is amended by redesignating subsection (n) as sub-
22 section (o) and by inserting after subsection (l) the fol-
23 lowing new subsection:

1 “(m) SPECIAL RULES RELATING TO LARGE INTE-
2 GRATED OIL COMPANIES WHICH ARE DUAL CAPACITY
3 TAXPAYERS.—

4 “(1) GENERAL RULE.—Notwithstanding any
5 other provision of this chapter, any amount paid or
6 accrued by a dual capacity taxpayer which is a large
7 integrated oil company to a foreign country or pos-
8 session of the United States for any period shall not
9 be considered a tax—

10 “(A) if, for such period, the foreign coun-
11 try or possession does not impose a generally
12 applicable income tax, or

13 “(B) to the extent such amount exceeds
14 the amount (determined in accordance with reg-
15 ulations) which—

16 “(i) is paid by such dual capacity tax-
17 payer pursuant to the generally applicable
18 income tax imposed by the country or pos-
19 session, or

20 “(ii) would be paid if the generally ap-
21 plicable income tax imposed by the country
22 or possession were applicable to such dual
23 capacity taxpayer.

24 Nothing in this paragraph shall be construed to
25 imply the proper treatment of any such amount

1 not in excess of the amount determined under
2 subparagraph (B).

3 “(2) DUAL CAPACITY TAXPAYER.—For pur-
4 poses of this subsection, the term ‘dual capacity tax-
5 payer’ means, with respect to any foreign country or
6 possession of the United States, a person who—

7 “(A) is subject to a levy of such country or
8 possession, and

9 “(B) receives (or will receive) directly or
10 indirectly a specific economic benefit (as deter-
11 mined in accordance with regulations) from
12 such country or possession.

13 “(3) GENERALLY APPLICABLE INCOME TAX.—
14 For purposes of this subsection—

15 “(A) IN GENERAL.—The term ‘generally
16 applicable income tax’ means an income tax (or
17 a series of income taxes) which is generally im-
18 posed under the laws of a foreign country or
19 possession on income derived from the conduct
20 of a trade or business within such country or
21 possession.

22 “(B) EXCEPTIONS.—Such term shall not
23 include a tax unless it has substantial applica-
24 tion, by its terms and in practice, to—

1 “(i) persons who are not dual capacity
2 taxpayers, and

3 “(ii) persons who are citizens or resi-
4 dents of the foreign country or possession.

5 “(4) LARGE INTEGRATED OIL COMPANY.—For
6 purposes of this subsection, the term ‘large inte-
7 grated oil company’ means, with respect to any tax-
8 able year, an integrated oil company (as defined in
9 section 291(b)(4)) which—

10 “(A) had gross receipts in excess of
11 \$1,000,000,000 for such taxable year, and

12 “(B) has an average daily worldwide pro-
13 duction of crude oil of at least 500,000 barrels
14 for such taxable year.”

15 (b) EFFECTIVE DATE.—

16 (1) IN GENERAL.—The amendments made by
17 this section shall apply to taxes paid or accrued in
18 taxable years beginning after the date of the enact-
19 ment of this Act.

20 (2) CONTRARY TREATY OBLIGATIONS
21 UPHELD.—The amendments made by this section
22 shall not apply to the extent contrary to any treaty
23 obligation of the United States.

1 **SEC. 209. REPEAL OF LOWER OF COST OR MARKET VALUE**
2 **OF INVENTORY RULE.**

3 (a) IN GENERAL.—Subsection (a) of section 471 (re-
4 lating to general rules for inventories) is amended to read
5 as follows:

6 “(a) GENERAL RULE.—Whenever in the opinion of
7 the Secretary the use of inventories is necessary in order
8 clearly to determine the income of the taxpayer, inven-
9 tories shall be valued at cost.”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to taxable years beginning after
12 the date of the enactment of this Act.

13 **SEC. 210. REINSTITUTION OF PER COUNTRY FOREIGN TAX**
14 **CREDIT.**

15 (a) IN GENERAL.—Subsection (a) of section 904 (re-
16 lating to limitation on credit) is amended to read as fol-
17 lows:

18 “(a) LIMITATION.—The amount of the credit in re-
19 spect of the tax paid or accrued to any foreign country
20 or possession of the United States shall not exceed the
21 same proportion of the tax against which such credit is
22 taken which the taxpayer’s taxable income from sources
23 within such country or possession (but not in excess of
24 the taxpayer’s entire taxable income) bears to such tax-
25 payer’s entire taxable income for the same taxable year.”.

1 (b) EFFECTIVE DATE.—The amendment made by
 2 this section shall apply to taxable years beginning after
 3 December 31, 2007.

4 **SEC. 211. APPLICATION OF RULES TREATING INVERTED**
 5 **CORPORATIONS AS DOMESTIC CORPORA-**
 6 **TIONS TO CERTAIN TRANSACTIONS OCCUR-**
 7 **RING AFTER MARCH 20, 2002.**

8 (a) IN GENERAL.—Section 7874(b) (relating to in-
 9 verted corporations treated as domestic corporations) is
 10 amended to read as follows:

11 “(b) INVERTED CORPORATIONS TREATED AS DO-
 12 MESTIC CORPORATIONS.—

13 “(1) IN GENERAL.—Notwithstanding section
 14 7701(a)(4), a foreign corporation shall be treated for
 15 purposes of this title as a domestic corporation if
 16 such corporation would be a surrogate foreign cor-
 17 poration if subsection (a)(2) were applied by sub-
 18 stituting ‘80 percent’ for ‘60 percent’.

19 “(2) SPECIAL RULE FOR CERTAIN TRANS-
 20 ACTIONS OCCURRING AFTER MARCH 20, 2002.—

21 “(A) IN GENERAL.—If—

22 “(i) paragraph (1) does not apply to
 23 a foreign corporation, but

24 “(ii) paragraph (1) would apply to
 25 such corporation if, in addition to the sub-

1 stitution under paragraph (1), subsection
2 (a)(2) were applied by substituting ‘March
3 20, 2002’ for ‘March 4, 2003’ each place
4 it appears,

5 then paragraph (1) shall apply to such corpora-
6 tion but only with respect to taxable years of
7 such corporation beginning after December 31,
8 2006.

9 “(B) SPECIAL RULES.—Subject to such
10 rules as the Secretary may prescribe, in the
11 case of a corporation to which paragraph (1)
12 applies by reason of this paragraph—

13 “(i) the corporation shall be treated,
14 as of the close of its last taxable year be-
15 ginning before January 1, 2007, as having
16 transferred all of its assets, liabilities, and
17 earnings and profits to a domestic corpora-
18 tion in a transaction with respect to which
19 no tax is imposed under this title,

20 “(ii) the bases of the assets trans-
21 ferred in the transaction to the domestic
22 corporation shall be the same as the bases
23 of the assets in the hands of the foreign
24 corporation, subject to any adjustments
25 under this title for built-in losses,

1 “(iii) the basis of the stock of any
2 shareholder in the domestic corporation
3 shall be the same as the basis of the stock
4 of the shareholder in the foreign corpora-
5 tion for which it is treated as exchanged,
6 and

7 “(iv) the transfer of any earnings and
8 profits by reason of clause (i) shall be dis-
9 regarded in determining any deemed divi-
10 dend or foreign tax creditable to the do-
11 mestic corporation with respect to such
12 transfer.

13 “(C) REGULATIONS.—The Secretary may
14 prescribe such regulations as may be necessary
15 or appropriate to carry out this paragraph, in-
16 cluding regulations to prevent the avoidance of
17 the purposes of this paragraph.”.

18 (b) EFFECTIVE DATE.—The amendment made by
19 this section shall apply to taxable years beginning after
20 December 31, 2006.

1 **TITLE III—OTHER PROVISIONS**
2 **Subtitle A—Improvements in Tax**
3 **Compliance**

4 **SEC. 301. INFORMATION REPORTING ON PAYMENTS TO**
5 **CORPORATIONS.**

6 (a) IN GENERAL.—Section 6041(a) (relating to pay-
7 ments of \$600 or more) is amended by inserting “(includ-
8 ing any corporation other than a corporation exempt from
9 taxation)” after “another person”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to payments made after December
12 31, 2007.

13 **SEC. 302. BROKER REPORTING OF CUSTOMER’S BASIS IN**
14 **SECURITIES TRANSACTIONS.**

15 (a) IN GENERAL.—Section 6045 (relating to returns
16 of brokers) is amended by adding at the end the following
17 new subsection:

18 “(g) ADDITIONAL INFORMATION REQUIRED IN THE
19 CASE OF SECURITIES TRANSACTIONS.—

20 “(1) IN GENERAL.—If a broker is otherwise re-
21 quired to make a return under subsection (a) with
22 respect to any applicable security, the broker shall
23 include in such return the information described in
24 paragraph (2).

25 “(2) ADDITIONAL INFORMATION REQUIRED.—

1 “(A) IN GENERAL.—The information re-
2 quired under paragraph (1) to be shown on a
3 return with respect to an applicable security of
4 a customer shall include for each reported ap-
5 plicable security the customer’s adjusted basis
6 in such security.

7 “(B) EXEMPTION FROM REQUIREMENT.—
8 The Secretary shall issue such regulations or
9 guidance as necessary concerning the applica-
10 tion of the requirement under subparagraph (A)
11 in cases in which a broker in making a return
12 does not have sufficient information to meet
13 such requirement with respect to the reported
14 applicable security. Such regulations or guid-
15 ance may—

16 “(i) require such other information re-
17 lated to such adjusted basis as the Sec-
18 retary may prescribe, and

19 “(ii) exempt classes of cases in which
20 the broker does not have sufficient infor-
21 mation to meet either the requirement
22 under subparagraph (A) or the require-
23 ment under clause (i).

24 “(3) INFORMATION TRANSFERS.—To the extent
25 provided in regulations, there shall be such ex-

1 changes of information between brokers as such reg-
2 ulations may require for purposes of enabling such
3 brokers to meet the requirements of this subsection.

4 “(4) DEFINITIONS.—For purposes of this sub-
5 section, the term ‘applicable security’ means any—

6 “(A) security described in subparagraph
7 (A) or (C) of section 475(e)(2),

8 “(B) interest in a regulated investment
9 company (as defined in section 851), or

10 “(C) other financial instrument designated
11 in regulations prescribed by the Secretary.”.

12 (b) DETERMINATION OF BASIS OF CERTAIN SECURI-
13 TIES BY FIFO METHOD.—Section 1012 (relating to basis
14 of property—cost) is amended by adding at the end the
15 following new sentence: “Except to the extent provided in
16 regulations, the basis of any applicable security reportable
17 under section 6045 (by reason of subsection (g) thereof)
18 shall be determined on a first-in, first-out method.”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to sales and transfers occurring
21 after December 31, 2007, with respect to securities ac-
22 quired before, on, or after such date.

1 **SEC. 303. ADDITIONAL REPORTING REQUIREMENTS BY**
2 **REGULATION.**

3 The Secretary of the Treasury is authorized to issue
4 regulations under which with respect to payments made
5 after December 31, 2007—

6 (1) any merchant acquiring bank is required to
7 annually report to the Secretary the gross reim-
8 bursement payments made to merchants in a cal-
9 endar year, unless the benefit of such reporting does
10 not justify the cost of compliance, as determined by
11 the Secretary,

12 (2) any contractor receiving payments of \$600
13 or more in a calendar year from a particular busi-
14 ness is required to furnish such business the con-
15 tractor's certified taxpayer identification number or
16 be subject to withholding on such payments at a flat
17 rate percentage selected by the contractor, and

18 (3) any Federal, State, or local government is
19 required to report to the Secretary any non-wage
20 payment to procure property and services, other
21 than payments of interest, payments for real prop-
22 erty, payments to tax-exempt entities or foreign gov-
23 ernments, intergovernmental payments, and pay-
24 ments made pursuant to a classified or confidential
25 contract.

1 **SEC. 304. INCREASE IN INFORMATION RETURN PENALTIES.**

2 (a) FAILURE TO FILE CORRECT INFORMATION RE-
3 TURNS.—

4 (1) IN GENERAL.—Section 6721(a)(1) is
5 amended—

6 (A) by striking “\$50” and inserting
7 “\$250”, and

8 (B) by striking “\$250,000” and inserting
9 “\$3,000,000”.

10 (2) REDUCTION WHERE CORRECTION IN SPECI-
11 FIED PERIOD.—

12 (A) CORRECTION WITHIN 30 DAYS.—Sec-
13 tion 6721(b)(1) is amended—

14 (i) by striking “\$15” and inserting
15 “\$50”,

16 (ii) by striking “\$50” and inserting
17 “\$250”, and

18 (iii) by striking “\$75,000” and insert-
19 ing “\$500,000”.

20 (B) FAILURES CORRECTED ON OR BEFORE
21 AUGUST 1.—Section 6721(b)(2) is amended—

22 (i) by striking “\$30” and inserting
23 “\$100”,

24 (ii) by striking “\$50” and inserting
25 “\$250”, and

1 (iii) by striking “\$150,000” and in-
2 serting “\$1,500,000”.

3 (3) LOWER LIMITATION FOR PERSONS WITH
4 GROSS RECEIPTS OF NOT MORE THAN \$5,000,000.—
5 Section 6721(d)(1) is amended—

6 (A) in subparagraph (A)—

7 (i) by striking “\$100,000” and insert-
8 ing “\$1,000,000”, and

9 (ii) by striking “\$250,000” and in-
10 serting “\$3,000,000”,

11 (B) in subparagraph (B)—

12 (i) by striking “\$25,000” and insert-
13 ing “\$175,000”, and

14 (ii) by striking “\$75,000” and insert-
15 ing “\$500,000”, and

16 (C) in subparagraph (C)—

17 (i) by striking “\$50,000” and insert-
18 ing “\$500,000”, and

19 (ii) by striking “\$150,000” and in-
20 serting “\$1,500,000”.

21 (4) PENALTY IN CASE OF INTENTIONAL DIS-
22 REGARD.—Section 6721(e) is amended—

23 (A) by striking “\$100” in paragraph (2)
24 and inserting “\$500”,

1 (B) by striking “\$250,000” in paragraph
2 (3)(A) and inserting “\$3,000,000”.

3 (b) FAILURE TO FURNISH CORRECT PAYEE STATE-
4 MENTS.—

5 (1) IN GENERAL.—Section 6722(a) is amend-
6 ed—

7 (A) by striking “\$50” and inserting
8 “\$250”, and

9 (B) by striking “\$100,000” and inserting
10 “\$1,000,000”.

11 (2) PENALTY IN CASE OF INTENTIONAL DIS-
12 REGARD.—Section 6722(c) is amended—

13 (A) by striking “\$100” in paragraph (1)
14 and inserting “\$500”, and

15 (B) by striking “\$100,000” in paragraph
16 (2)(A) and inserting “\$1,000,000”.

17 (c) FAILURE TO COMPLY WITH OTHER INFORMA-
18 TION REPORTING REQUIREMENTS.—Section 6723 is
19 amended—

20 (1) by striking “\$50” and inserting “\$250”,
21 and

22 (2) by striking “\$100,000” and inserting
23 “\$1,000,000”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply with respect to information returns
3 required to be filed on or after January 1, 2008.

4 **SEC. 305. E-FILING REQUIREMENT FOR CERTAIN LARGE**
5 **ORGANIZATIONS.**

6 (a) IN GENERAL.—The first sentence of section
7 6011(e)(2) is amended to read as follows: “In prescribing
8 regulations under paragraph (1), the Secretary shall take
9 into account (among other relevant factors) the ability of
10 the taxpayer to comply at reasonable cost with the require-
11 ments of such regulations.”.

12 (b) CONFORMING AMENDMENT.—Section 6724 is
13 amended by striking subsection (c).

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years ending on or after
16 December 31, 2008.

17 **SEC. 306. IMPLEMENTATION OF STANDARDS CLARIFYING**
18 **WHEN EMPLOYEE LEASING COMPANIES CAN**
19 **BE HELD LIABLE FOR THEIR CLIENTS’ FED-**
20 **ERAL EMPLOYMENT TAXES.**

21 With respect to employment tax returns required to
22 be filed with respect to wages paid on or after January
23 1, 2008, the Secretary of the Treasury shall issue regula-
24 tions establishing—

1 (1) standards for holding employee leasing com-
2 panies jointly and severally liable with their clients
3 for Federal employment taxes under chapters 21,
4 22, 23, and 24 of the Internal Revenue Code of
5 1986, and

6 (2) standards for holding such companies solely
7 liable for such taxes.

8 **SEC. 307. MODIFICATION OF COLLECTION DUE PROCESS**

9 **PROCEDURES FOR EMPLOYMENT TAX LI-**
10 **ABILITIES.**

11 (a) IN GENERAL.—Section 6330(f) (relating to jeop-
12 ardy and State refund collection) is amended—

13 (1) by striking “; or” at the end of paragraph
14 (1) and inserting a comma,

15 (2) by adding “or” at the end of paragraph (2),
16 and

17 (3) by inserting after paragraph (2) the fol-
18 lowing new paragraph:

19 “(3) the Secretary has served a disqualified em-
20 ployment tax levy,”.

21 (b) DISQUALIFIED EMPLOYMENT TAX LEVY.—Sec-
22 tion 6330 (relating to notice and opportunity for hearing
23 before levy) is amended by adding at the end the following
24 new subsection:

1 “(h) DISQUALIFIED EMPLOYMENT TAX LEVY.—For
2 purposes of subsection (f), a disqualified employment tax
3 levy is any levy in connection with the collection of employ-
4 ment taxes for any taxable period if the person subject
5 to the levy (or any predecessor thereof) requested a hear-
6 ing under this section with respect to unpaid employment
7 taxes arising in the most recent 2-year period before the
8 beginning of the taxable period with respect to which the
9 levy is served. For purposes of the preceding sentence, the
10 term ‘employment taxes’ means any taxes under chapter
11 21, 22, 23, or 24.”.

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to levies served on or after January
14 1, 2008.

15 **SEC. 308. EXPANSION OF IRS ACCESS TO INFORMATION IN**
16 **NATIONAL DIRECTORY OF NEW HIRES FOR**
17 **TAX ADMINISTRATION PURPOSES.**

18 (a) IN GENERAL.—Paragraph (3) of section 453(j)
19 of the Social Security Act (42 U.S.C. 653(j)) is amended
20 to read as follows:

21 “(3) ADMINISTRATION OF FEDERAL TAX
22 LAWS.—The Secretary of the Treasury shall have
23 access to the information in the National Directory
24 of New Hires for purposes of administering the In-
25 ternal Revenue Code of 1986.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall take effect on the date of the enactment
3 of this Act.

4 **SEC. 309. DISCLOSURE OF PRISONER RETURN INFORMA-**
5 **TION TO FEDERAL BUREAU OF PRISONS.**

6 (a) DISCLOSURE.—

7 (1) IN GENERAL.—Subsection (l) of section
8 6103 (relating to disclosure of returns and return
9 information for purposes other than tax administra-
10 tion) is amended by adding at the end the following
11 new paragraph:

12 “(22) DISCLOSURE OF RETURN INFORMATION
13 OF PRISONERS TO FEDERAL BUREAU OF PRISONS.—

14 “(A) IN GENERAL.—Under such proce-
15 dures as the Secretary may prescribe, the Sec-
16 retary may disclose return information with re-
17 spect to persons incarcerated in Federal prisons
18 whom the Secretary believes filed or facilitated
19 the filing of false or fraudulent returns to the
20 head of the Federal Bureau of Prisons if the
21 Secretary determines that such disclosure is
22 necessary to permit effective tax administration.

23 “(B) DISCLOSURE BY AGENCY TO EMPLOY-
24 EES.—The head of the Federal Bureau of Pris-

1 ons may redisclose information received under
2 subparagraph (A)—

3 “(i) only to those officers and employ-
4 ees of the Bureau who are personally and
5 directly engaged in taking administrative
6 actions to address violations of administra-
7 tive rules and regulations of the prison fa-
8 cility, and

9 “(ii) solely for the purposes described
10 in subparagraph (C).

11 “(C) RESTRICTION ON USE OF DISCLOSED
12 INFORMATION.—Return information disclosed
13 under this paragraph may be used only for the
14 purposes of—

15 “(i) preventing the filing of false or
16 fraudulent returns; and

17 “(ii) taking administrative actions
18 against individuals who have filed or at-
19 tempted to file false or fraudulent re-
20 turns.”.

21 (2) PROCEDURES AND RECORD KEEPING RE-
22 LATED TO DISCLOSURE.—Subsection (p)(4) of sec-
23 tion 6103 is amended—

1 (A) by striking “(14), or (17)” in the mat-
2 ter before subparagraph (A) and inserting
3 “(14), (17), or (22)”, and

4 (B) by striking “(9), or (16)” in subpara-
5 graph (F)(i) and inserting “(9), (16), or (22)”.

6 (3) EVALUATION BY TREASURY INSPECTOR
7 GENERAL FOR TAX ADMINISTRATION.—Paragraph
8 (3) of section 7803(d) is amended by striking “and”
9 at the end of subparagraph (A), by striking the pe-
10 riod at the end of subparagraph (B) and inserting
11 “; and”, and by adding at the end the following new
12 subparagraph:

13 “(C) not later than 3 years after the date
14 of the enactment of section 6103(l)(22), submit
15 a written report to Congress on the implemen-
16 tation of such section.”.

17 (b) ANNUAL REPORTS.—

18 (1) IN GENERAL.—The Secretary of the Treas-
19 ury shall submit to Congress and make publicly
20 available an annual report on the filing of false and
21 fraudulent returns by individuals incarcerated in
22 Federal and State prisons.

23 (2) CONTENTS OF REPORT.—The report sub-
24 mitted under paragraph (1) shall contain statistics
25 on the number of false or fraudulent returns associ-

1 ated with each Federal and State prison and such
2 other information that the Secretary determines is
3 appropriate.

4 (3) EXCHANGE OF INFORMATION.—For the
5 purpose of gathering information necessary for the
6 reports required under paragraph (1), the Secretary
7 of the Treasury shall enter into agreements with the
8 head of the Federal Bureau of Prisons and the
9 heads of State agencies charged with responsibility
10 for administration of State prisons under which the
11 head of the Bureau or Agency provides to the Sec-
12 retary not less frequently than annually the names
13 and other identifying information of prisoners incar-
14 cerated at each facility administered by the Bureau
15 or Agency.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to disclosures on or after January
18 1, 2008.

19 **SEC. 310. MODIFICATION OF CRIMINAL PENALTIES FOR**
20 **WILLFUL FAILURES INVOLVING TAX PAY-**
21 **MENTS AND FILING REQUIREMENTS.**

22 (a) INCREASE IN PENALTY FOR ATTEMPT TO EVADE
23 OR DEFEAT TAX.—Section 7201 (relating to attempt to
24 evade or defeat tax) is amended—

1 (1) by striking “\$100,000” and inserting
2 “\$500,000”,

3 (2) by striking “\$500,000” and inserting
4 “\$1,000,000”, and

5 (3) by striking “5 years” and inserting “10
6 years”.

7 (b) MODIFICATION OF PENALTIES FOR WILLFUL
8 FAILURE TO FILE RETURN, SUPPLY INFORMATION, OR
9 PAY TAX.—

10 (1) IN GENERAL.—Section 7203 (relating to
11 willful failure to file return, supply information, or
12 pay tax) is amended—

13 (A) in the first sentence—

14 (i) by striking “Any person” and in-
15 serting the following:

16 “(a) IN GENERAL.—Any person”, and

17 (ii) by striking “\$25,000” and insert-
18 ing “\$50,000”,

19 (B) in the third sentence, by striking “sec-
20 tion” and inserting “subsection”, and

21 (C) by adding at the end the following new
22 subsection:

23 “(b) AGGRAVATED FAILURE TO FILE.—

1 “(1) IN GENERAL.—In the case of any failure
2 described in paragraph (2), the first sentence of sub-
3 section (a) shall be applied by substituting—

4 “(A) ‘felony’ for ‘misdemeanor’,

5 “(B) ‘\$250,000 (\$500,000’ for ‘\$50,000
6 (\$100,000’, and

7 “(C) ‘5 years’ for ‘1 year’.

8 “(2) FAILURE DESCRIBED.—A failure described
9 in this paragraph is—

10 “(A) a failure to make a return described
11 in subsection (a) for any 3 taxable years occur-
12 ring during any period of 5 consecutive taxable
13 years if the aggregate tax liability for such pe-
14 riod is not less than \$50,000, or

15 “(B) a failure to make a return if the tax
16 liability giving rise to the requirement to make
17 such return is attributable to an activity which
18 is a felony under any State or Federal law.”.

19 (2) PENALTY MAY BE APPLIED IN ADDITION TO
20 OTHER PENALTIES.—Section 7204 (relating to
21 fraudulent statement or failure to make statement to
22 employees) is amended by striking “the penalty pro-
23 vided in section 6674” and inserting “the penalties
24 provided in sections 6674 and 7203(b)”.

1 (c) FRAUD AND FALSE STATEMENTS.—Section 7206
2 (relating to fraud and false statements) is amended—

3 (1) by striking “\$100,000” and inserting
4 “\$500,000”,

5 (2) by striking “\$500,000” and inserting
6 “\$1,000,000”, and

7 (3) by striking “3 years” and inserting “5
8 years”.

9 (d) INCREASE IN MONETARY LIMITATION FOR UN-
10 DERPAYMENT OR OVERPAYMENT OF TAX DUE TO
11 FRAUD.—Section 7206 (relating to fraud and false state-
12 ments), as amended by subsection (a)(3), is amended—

13 (1) by striking “Any person who—” and insert-
14 ing “(a) IN GENERAL.—Any person who—”, and

15 (2) by adding at the end the following new sub-
16 section:

17 “(b) INCREASE IN MONETARY LIMITATION FOR UN-
18 DERPAYMENT OR OVERPAYMENT OF TAX DUE TO
19 FRAUD.—If any portion of any underpayment (as defined
20 in section 6664(a)) or overpayment (as defined in section
21 6401(a)) of tax required to be shown on a return is attrib-
22 utable to fraudulent action described in subsection (a), the
23 applicable dollar amount under subsection (a) shall in no
24 event be less than an amount equal to such portion. A

1 rule similar to the rule under section 6663(b) shall apply
2 for purposes of determining the portion so attributable.”.

3 (e) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to actions, and failures to act, oc-
5 ccurring after the date of the enactment of this Act.

6 **SEC. 311. UNDERSTATEMENT OF TAXPAYER LIABILITY BY**
7 **RETURN PREPARERS.**

8 (a) APPLICATION OF RETURN PREPARER PENALTIES
9 TO ALL TAX RETURNS.—

10 (1) DEFINITION OF TAX RETURN PREPARER.—

11 Paragraph (36) of section 7701(a) (relating to in-
12 come tax preparer) is amended—

13 (A) by striking “income” each place it ap-
14 pears in the heading and the text, and

15 (B) in subparagraph (A), by striking “sub-
16 title A” each place it appears and inserting
17 “this title”.

18 (2) CONFORMING AMENDMENTS.—

19 (A)(i) Section 6060 is amended by striking
20 “**INCOME TAX RETURN PREPARERS**” in the
21 heading and inserting “**TAX RETURN PRE-**
22 **PARERS**”.

23 (ii) Section 6060(a) is amended—

1 (I) by striking “an income tax return
2 preparer” each place it appears and insert-
3 ing “a tax return preparer”,

4 (II) by striking “each income tax re-
5 turn preparer” and inserting “each tax re-
6 turn preparer”, and

7 (III) by striking “another income tax
8 return preparer” and inserting “another
9 tax return preparer”.

10 (iii) The item relating to section 6060 in
11 the table of sections for subpart F of part III
12 of subchapter A of chapter 61 is amended by
13 striking “income tax return preparers” and in-
14 serting “tax return preparers”.

15 (iv) Subpart F of part III of subchapter A
16 of chapter 61 is amended by striking “**Income**
17 **Tax Return Preparers**” in the heading
18 and inserting “**Tax Return Preparers**”.

19 (v) The item relating to subpart F in the
20 table of subparts for part III of subchapter A
21 of chapter 61 is amended by striking “income
22 tax return preparers” and inserting “tax return
23 preparers”.

24 (B) Section 6103(k)(5) is amended—

1 (i) by striking “income tax return pre-
2 parer” each place it appears and inserting
3 “tax return preparer”, and

4 (ii) by striking “income tax return
5 preparers” each place it appears and in-
6 serting “tax return preparers”.

7 (C)(i) Section 6107 is amended—

8 (I) by striking “**INCOME TAX RE-**
9 **TURN PREPARER**” in the heading and in-
10 serting “**TAX RETURN PREPARER**”,

11 (II) by striking “an income tax return
12 preparer” each place it appears in sub-
13 sections (a) and (b) and inserting “a tax
14 return preparer”,

15 (III) by striking “**INCOME TAX RE-**
16 **TURN PREPARER**” in the heading for sub-
17 section (b) and inserting “**TAX RETURN**
18 **PREPARER**”, and

19 (IV) in subsection (c), by striking “in-
20 come tax return preparers” and inserting
21 “tax return preparers”.

22 (ii) The item relating to section 6107 in
23 the table of sections for subchapter B of chap-
24 ter 61 is amended by striking “Income tax re-

1 turn preparer” and inserting “Tax return pre-
2 parer”.

3 (D) Section 6109(a)(4) is amended—

4 (i) by striking “an income tax return
5 preparer” and inserting “a tax return pre-
6 parer”, and

7 (ii) by striking “INCOME RETURN
8 PREPARER” in the heading and inserting
9 “TAX RETURN PREPARER”.

10 (E) Section 6503(k)(4) is amended by
11 striking “Income tax return preparers” and in-
12 serting “Tax return preparers”.

13 (F)(i) Section 6694 is amended—

14 (I) by striking “**INCOME TAX RE-**
15 **TURN PREPARER**” in the heading and in-
16 serting “**TAX RETURN PREPARER**”,

17 (II) by striking “an income tax return
18 preparer” each place it appears and insert-
19 ing “a tax return preparer”,

20 (III) in subsection (c)(2), by striking
21 “the income tax return preparer” and in-
22 serting “the tax return preparer”,

23 (IV) in subsection (e), by striking
24 “subtitle A” and inserting “this title”, and

1 (V) in subsection (f), by striking “in-
2 come tax return preparer” and inserting
3 “tax return preparer”.

4 (ii) The item relating to section 6694 in
5 the table of sections for part I of subchapter B
6 of chapter 68 is amended by striking “income
7 tax return preparer” and inserting “tax return
8 preparer”.

9 (G)(i) Section 6695 is amended—

10 (I) by striking “**INCOME**” in the
11 heading, and

12 (II) by striking “an income tax return
13 preparer” each place it appears and insert-
14 ing “a tax return preparer”.

15 (ii) Section 6695(f) is amended—

16 (I) by striking “subtitle A” and in-
17 sserting “this title”, and

18 (II) by striking “the income tax re-
19 turn preparer” and inserting “the tax re-
20 turn preparer”.

21 (iii) The item relating to section 6695 in
22 the table of sections for part I of subchapter B
23 of chapter 68 is amended by striking “income”.

1 (H) Section 6696(e) is amended by strik-
2 ing “subtitle A” each place it appears and in-
3 serting “this title”.

4 (I)(i) Section 7407 is amended—

5 (I) by striking “**INCOME TAX RE-**
6 **TURN PREPARERS**” in the heading and
7 inserting “**TAX RETURN PREPARERS**”,

8 (II) by striking “an income tax return
9 preparer” each place it appears and insert-
10 ing “a tax return preparer”,

11 (III) by striking “income tax pre-
12 parer” both places it appears in subsection
13 (a) and inserting “tax return preparer”,
14 and

15 (IV) by striking “income tax return”
16 in subsection (a) and inserting “tax re-
17 turn”.

18 (ii) The item relating to section 7407 in
19 the table of sections for subchapter A of chap-
20 ter 76 is amended by striking “income tax re-
21 turn preparers” and inserting “tax return pre-
22 parers”.

23 (J)(i) Section 7427 is amended—

24 (I) by striking “**INCOME TAX RE-**
25 **TURN PREPARERS**” in the heading and

1 inserting “**TAX RETURN PREPARERS**”,
2 and

3 (II) by striking “an income tax return
4 preparer” and inserting “a tax return pre-
5 parer”.

6 (ii) The item relating to section 7427 in
7 the table of sections for subchapter B of chap-
8 ter 76 is amended to read as follows:

“Sec. 7427. Tax return preparers.”.

9 (b) MODIFICATION OF PENALTY FOR UNDERSTATE-
10 MENT OF TAXPAYER’S LIABILITY BY TAX RETURN PRE-
11 PARER.—Subsections (a) and (b) of section 6694 are
12 amended to read as follows:

13 “(a) UNDERSTATEMENT DUE TO UNREASONABLE
14 POSITIONS.—

15 “(1) IN GENERAL.—Any tax return preparer
16 who prepares any return or claim for refund with re-
17 spect to which any part of an understatement of li-
18 ability is due to a position described in paragraph
19 (2) shall pay a penalty with respect to each such re-
20 turn or claim in an amount equal to the greater of—

21 “(A) \$1,000, or

22 “(B) 50 percent of the income derived (or
23 to be derived) by the tax return preparer with
24 respect to the return or claim.

1 “(2) UNREASONABLE POSITION.—A position is
2 described in this paragraph if—

3 “(A) the tax return preparer knew (or rea-
4 sonably should have known) of the position,

5 “(B) there was not a reasonable belief that
6 the position would more likely than not be sus-
7 tained on its merits, and

8 “(C)(i) the position was not disclosed as
9 provided in section 6662(d)(2)(B)(ii), or

10 “(ii) there was no reasonable basis for the
11 position.

12 “(3) REASONABLE CAUSE EXCEPTION.—No
13 penalty shall be imposed under this subsection if it
14 is shown that there is reasonable cause for the un-
15 derstatement and the tax return preparer acted in
16 good faith.

17 “(b) UNDERSTATEMENT DUE TO WILLFUL OR
18 RECKLESS CONDUCT.—

19 “(1) IN GENERAL.—Any tax return preparer
20 who prepares any return or claim for refund with re-
21 spect to which any part of an understatement of li-
22 ability is due to a conduct described in paragraph
23 (2) shall pay a penalty with respect to each such re-
24 turn or claim in an amount equal to the greater of—

25 “(A) \$5,000, or

1 **“SEC. 6652A. FAILURE TO FILE CERTAIN RETURNS ELEC-**
2 **TRONICALLY.**

3 “(a) IN GENERAL.—If a person fails to file a return
4 described in section 6651 or 6652(c)(1) in electronic form
5 as required under section 6011(e)—

6 “(1) such failure shall be treated as a failure to
7 file such return (even if filed in a form other than
8 electronic form), and

9 “(2) the penalty imposed under section 6651 or
10 6652(e), whichever is appropriate, shall be equal to
11 the greater of—

12 “(A) the amount of the penalty under such
13 section, determined without regard to this sec-
14 tion, or

15 “(B) the amount determined under sub-
16 section (b).

17 “(b) AMOUNT OF PENALTY.—

18 “(1) IN GENERAL.—Except as provided in para-
19 graphs (2) and (3), the penalty determined under
20 this subsection is equal to \$40 for each day during
21 which a failure described under subsection (a) con-
22 tinues. The maximum penalty under this paragraph
23 on failures with respect to any 1 return shall not ex-
24 ceed the lesser of \$20,000 or 10 percent of the gross
25 receipts of the taxpayer for the year.

1 “(2) INCREASED PENALTIES FOR TAXPAYERS
2 WITH GROSS RECEIPTS BETWEEN \$1,000,000 AND
3 \$100,000,000.—

4 “(A) TAXPAYERS WITH GROSS RECEIPTS
5 BETWEEN \$1,000,000 AND \$25,000,000.—In the
6 case of a taxpayer having gross receipts exceed-
7 ing \$1,000,000 but not exceeding \$25,000,000
8 for any year—

9 “(i) the first sentence of paragraph
10 (1) shall be applied by substituting ‘\$200’
11 for ‘\$40’, and

12 “(ii) in lieu of applying the second
13 sentence of paragraph (1), the maximum
14 penalty under paragraph (1) shall not ex-
15 ceed \$100,000.

16 “(B) TAXPAYERS WITH GROSS RECEIPTS
17 OVER \$25,000,000.—Except as provided in para-
18 graph (3), in the case of a taxpayer having
19 gross receipts exceeding \$25,000,000 for any
20 year—

21 “(i) the first sentence of paragraph
22 (1) shall be applied by substituting ‘\$500’
23 for ‘\$40’, and

24 “(ii) in lieu of applying the second
25 sentence of paragraph (1), the maximum

1 penalty under paragraph (1) shall not ex-
2 ceed \$250,000.

3 “(3) INCREASED PENALTIES FOR CERTAIN TAX-
4 PAYERS WITH GROSS RECEIPTS EXCEEDING
5 \$100,000,000.—In the case of a return described in
6 section 6651—

7 “(A) TAXPAYERS WITH GROSS RECEIPTS
8 BETWEEN \$100,000,000 AND \$250,000,000.—In the
9 case of a taxpayer having gross receipts exceed-
10 ing \$100,000,000 but not exceeding
11 \$250,000,000 for any year—

12 “(i) the amount of the penalty deter-
13 mined under this subsection shall equal the
14 sum of—

15 “(I) \$50,000, plus

16 “(II) \$1,000 for each day during
17 which such failure continues (twice
18 such amount for each day such failure
19 continues after the first such 60
20 days), and

21 “(ii) the maximum amount under
22 clause (i)(II) on failures with respect to
23 any 1 return shall not exceed \$200,000.

24 “(B) TAXPAYERS WITH GROSS RECEIPTS
25 OVER \$250,000,000.—In the case of a taxpayer

1 having gross receipts exceeding \$250,000,000
2 for any year—

3 “(i) the amount of the penalty deter-
4 mined under this subsection shall equal the
5 sum of—

6 “(I) \$250,000, plus

7 “(II) \$2,500 for each day during
8 which such failure continues (twice
9 such amount for each day such failure
10 continues after the first such 60
11 days), and

12 “(ii) the maximum amount under
13 clause (i)(II) on failures with respect to
14 any 1 return shall not exceed \$250,000.

15 “(C) EXCEPTION FOR CERTAIN RE-
16 TURNS.—Subparagraphs (A) and (B) shall not
17 apply to any return of tax imposed under sec-
18 tion 511.”.

19 (b) CLERICAL AMENDMENT.—The table of sections
20 for part I of subchapter A of chapter 68 is amended by
21 inserting after the item relating to section 6652 the fol-
22 lowing new item:

 “Sec. 6652A. Failure to file certain returns electronically.”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to returns required to be filed on
25 or after January 1, 2008.

1 **SEC. 313. PENALTY FOR FILING ERRONEOUS REFUND**
 2 **CLAIMS.**

3 (a) IN GENERAL.—Part I of subchapter B of chapter
 4 68 (relating to assessable penalties) is amended by insert-
 5 ing after section 6675 the following new section:

6 **“SEC. 6676. ERRONEOUS CLAIM FOR REFUND OR CREDIT.**

7 “(a) CIVIL PENALTY.—If a claim for refund or credit
 8 with respect to income tax (other than a claim for a refund
 9 or credit relating to the earned income credit under section
 10 32) is made for an excessive amount, unless it is shown
 11 that the claim for such excessive amount has a reasonable
 12 basis, the person making such claim shall be liable for a
 13 penalty in an amount equal to 20 percent of the excessive
 14 amount.

15 “(b) EXCESSIVE AMOUNT.—For purposes of this sec-
 16 tion, the term ‘excessive amount’ means in the case of any
 17 person the amount by which the amount of the claim for
 18 refund or credit for any taxable year exceeds the amount
 19 of such claim allowable under this title for such taxable
 20 year.

21 “(c) COORDINATION WITH OTHER PENALTIES.—
 22 This section shall not apply to any portion of the excessive
 23 amount of a claim for refund or credit on which a penalty
 24 is imposed under part II of subchapter A of chapter 68.”.

25 (b) CONFORMING AMENDMENT.—The table of sec-
 26 tions for part I of subchapter B of chapter 68 is amended

1 by inserting after the item relating to section 6675 the
 2 following new item:

“Sec. 6676. Erroneous claim for refund or credit.”.

3 (c) **EFFECTIVE DATE.**—The amendments made by
 4 this section shall apply to any claim—

5 (1) filed or submitted after the date of the en-
 6 actment of this Act, or

7 (2) filed or submitted prior to such date but not
 8 withdrawn before the date which is 30 days after
 9 such date of enactment.

10 **Subtitle B—Requiring Economic** 11 **Substance**

12 **SEC. 321. CLARIFICATION OF ECONOMIC SUBSTANCE DOC-** 13 **TRINE.**

14 (a) **IN GENERAL.**—Section 7701 is amended by re-
 15 designating subsection (p) as subsection (q) and by insert-
 16 ing after subsection (o) the following new subsection:

17 “(p) **CLARIFICATION OF ECONOMIC SUBSTANCE**
 18 **DOCTRINE; ETC.**—

19 “(1) **GENERAL RULES.**—

20 “(A) **IN GENERAL.**—In any case in which
 21 a court determines that the economic substance
 22 doctrine is relevant for purposes of this title to
 23 a transaction (or series of transactions), such
 24 transaction (or series of transactions) shall have

1 economic substance only if the requirements of
2 this paragraph are met.

3 “(B) DEFINITION OF ECONOMIC SUB-
4 STANCE.—For purposes of subparagraph (A)—

5 “(i) IN GENERAL.—A transaction has
6 economic substance only if—

7 “(I) the transaction changes in a
8 meaningful way (apart from Federal
9 tax effects) the taxpayer’s economic
10 position, and

11 “(II) the taxpayer has a substan-
12 tial nontax purpose for entering into
13 such transaction and the transaction
14 is a reasonable means of accom-
15 plishing such purpose.

16 In applying subclause (II), a purpose of
17 achieving a financial accounting benefit
18 shall not be taken into account in deter-
19 mining whether a transaction has a sub-
20 stantial nontax purpose if the origin of
21 such financial accounting benefit is a re-
22 duction of income tax.

23 “(ii) SPECIAL RULE WHERE TAX-
24 PAYER RELIES ON PROFIT POTENTIAL.—A
25 transaction shall not be treated as having

1 economic substance by reason of having a
2 potential for profit unless—

3 “(I) the present value of the rea-
4 sonably expected pre-tax profit from
5 the transaction is substantial in rela-
6 tion to the present value of the ex-
7 pected net tax benefits that would be
8 allowed if the transaction were re-
9 spected, and

10 “(II) the reasonably expected
11 pre-tax profit from the transaction ex-
12 ceeds a risk-free rate of return.

13 “(C) TREATMENT OF FEES AND FOREIGN
14 TAXES.—Fees and other transaction expenses
15 and foreign taxes shall be taken into account as
16 expenses in determining pre-tax profit under
17 subparagraph (B)(ii).

18 “(2) SPECIAL RULES FOR TRANSACTIONS WITH
19 TAX-INDIFFERENT PARTIES.—

20 “(A) SPECIAL RULES FOR FINANCING
21 TRANSACTIONS.—The form of a transaction
22 which is in substance the borrowing of money
23 or the acquisition of financial capital directly or
24 indirectly from a tax-indifferent party shall not
25 be respected if the present value of the deduc-

1 tions to be claimed with respect to the trans-
2 action is substantially in excess of the present
3 value of the anticipated economic returns of the
4 person lending the money or providing the fi-
5 nancial capital. A public offering shall be treat-
6 ed as a borrowing, or an acquisition of financial
7 capital, from a tax-indifferent party if it is rea-
8 sonably expected that at least 50 percent of the
9 offering will be placed with tax-indifferent par-
10 ties.

11 “(B) ARTIFICIAL INCOME SHIFTING AND
12 BASIS ADJUSTMENTS.—The form of a trans-
13 action with a tax-indifferent party shall not be
14 respected if—

15 “(i) it results in an allocation of in-
16 come or gain to the tax-indifferent party in
17 excess of such party’s economic income or
18 gain, or

19 “(ii) it results in a basis adjustment
20 or shifting of basis on account of over-
21 stating the income or gain of the tax-indif-
22 ferent party.

23 “(3) DEFINITIONS AND SPECIAL RULES.—For
24 purposes of this subsection—

1 “(A) ECONOMIC SUBSTANCE DOCTRINE.—
2 The term ‘economic substance doctrine’ means
3 the common law doctrine under which tax bene-
4 fits under subtitle A with respect to a trans-
5 action are not allowable if the transaction does
6 not have economic substance or lacks a business
7 purpose.

8 “(B) TAX-INDIFFERENT PARTY.—The
9 term ‘tax-indifferent party’ means any person
10 or entity not subject to tax imposed by subtitle
11 A. A person shall be treated as a tax-indifferent
12 party with respect to a transaction if the items
13 taken into account with respect to the trans-
14 action have no substantial impact on such per-
15 son’s liability under subtitle A.

16 “(C) EXCEPTION FOR PERSONAL TRANS-
17 ACTIONS OF INDIVIDUALS.—In the case of an
18 individual, this subsection shall apply only to
19 transactions entered into in connection with a
20 trade or business or an activity engaged in for
21 the production of income.

22 “(D) TREATMENT OF LESSORS.—In apply-
23 ing paragraph (1)(B)(ii) to the lessor of tan-
24 gible property subject to a lease—

1 “(i) the expected net tax benefits with
2 respect to the leased property shall not in-
3 clude the benefits of—

4 “(I) depreciation,

5 “(II) any tax credit, or

6 “(III) any other deduction as
7 provided in guidance by the Secretary,

8 and

9 “(ii) subclause (II) of paragraph
10 (1)(B)(ii) shall be disregarded in deter-
11 mining whether any of such benefits are al-
12 lowable.

13 “(4) OTHER COMMON LAW DOCTRINES NOT AF-
14 FECTED.—Except as specifically provided in this
15 subsection, the provisions of this subsection shall not
16 be construed as altering or supplanting any other
17 rule of law, and the requirements of this subsection
18 shall be construed as being in addition to any such
19 other rule of law.

20 “(5) REGULATIONS.—The Secretary shall pre-
21 scribe such regulations as may be necessary or ap-
22 propriate to carry out the purposes of this sub-
23 section. Such regulations may include exemptions
24 from the application of this subsection.”.

1 (b) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to transactions entered into after
3 the date of the enactment of this Act.

4 **SEC. 322. PENALTY FOR UNDERSTATEMENTS ATTRIB-**
5 **UTABLE TO TRANSACTIONS LACKING ECO-**
6 **NOMIC SUBSTANCE, ETC.**

7 (a) IN GENERAL.—Subchapter A of chapter 68 is
8 amended by inserting after section 6662A the following
9 new section:

10 **“SEC. 6662B. PENALTY FOR UNDERSTATEMENTS ATTRIB-**
11 **UTABLE TO TRANSACTIONS LACKING ECO-**
12 **NOMIC SUBSTANCE, ETC.**

13 “(a) IMPOSITION OF PENALTY.—If a taxpayer has a
14 noneconomic substance transaction understatement for
15 any taxable year, there shall be added to the tax an
16 amount equal to 40 percent of the amount of such under-
17 statement.

18 “(b) REDUCTION OF PENALTY FOR DISCLOSED
19 TRANSACTIONS.—Subsection (a) shall be applied by sub-
20 stituting ‘20 percent’ for ‘40 percent’ with respect to the
21 portion of any noneconomic substance transaction under-
22 statement with respect to which the relevant facts affect-
23 ing the tax treatment of the item are adequately disclosed
24 in the return or a statement attached to the return.

1 “(c) NONECONOMIC SUBSTANCE TRANSACTION UN-
2 DERSTATEMENT.—For purposes of this section—

3 “(1) IN GENERAL.—The term ‘noneconomic
4 substance transaction understatement’ means any
5 amount which would be an understatement under
6 section 6662A(b)(1) if section 6662A were applied
7 by taking into account items attributable to non-
8 economic substance transactions rather than items
9 to which section 6662A would apply without regard
10 to this paragraph.

11 “(2) NONECONOMIC SUBSTANCE TRANS-
12 ACTION.—The term ‘noneconomic substance trans-
13 action’ means any transaction if—

14 “(A) there is a lack of economic substance
15 (within the meaning of section 7701(p)(1)) for
16 the transaction giving rise to the claimed ben-
17 efit or the transaction was not respected under
18 section 7701(p)(2), or

19 “(B) the transaction fails to meet the re-
20 quirements of any similar rule of law.

21 “(d) RULES APPLICABLE TO COMPROMISE OF PEN-
22 ALTY.—

23 “(1) IN GENERAL.—If the first letter of pro-
24 posed deficiency which allows the taxpayer an oppor-
25 tunity for administrative review in the Internal Rev-

1 enue Service Office of Appeals has been sent with
 2 respect to a penalty to which this section applies,
 3 only the Commissioner of Internal Revenue may
 4 compromise all or any portion of such penalty.

5 “(2) APPLICABLE RULES.—The rules of para-
 6 graphs (2) and (3) of section 6707A(d) shall apply
 7 for purposes of paragraph (1).

8 “(e) COORDINATION WITH OTHER PENALTIES.—Ex-
 9 cept as otherwise provided in this part, the penalty im-
 10 posed by this section shall be in addition to any other pen-
 11 alty imposed by this title.

12 “(f) CROSS REFERENCES.—

 “(1) For coordination of penalty with understatements
 under section 6662 and other special rules, see section
 6662A(e).

 “(2) For reporting of penalty imposed under this section
 to the Securities and Exchange Commission, see section
 6707A(e).”.

13 (b) COORDINATION WITH OTHER UNDERSTATE-
 14 MENTS AND PENALTIES.—

15 (1) The second sentence of section
 16 6662(d)(2)(A) is amended by inserting “and without
 17 regard to items with respect to which a penalty is
 18 imposed by section 6662B” before the period at the
 19 end.

20 (2) Subsection (e) of section 6662A is amend-
 21 ed—

1 (A) in paragraph (1), by inserting “and
2 noneconomic substance transaction understate-
3 ments” after “reportable transaction under-
4 statements” both places it appears,

5 (B) in paragraph (2)(A), by inserting “and
6 a noneconomic substance transaction under-
7 statement” after “reportable transaction under-
8 statement”,

9 (C) in paragraph (2)(B), by inserting
10 “6662B or” before “6663”,

11 (D) in paragraph (2)(C)(i), by inserting
12 “or section 6662B” before the period at the
13 end,

14 (E) in paragraph (2)(C)(ii), by inserting
15 “and section 6662B” after “This section”,

16 (F) in paragraph (3), by inserting “or non-
17 economic substance transaction understate-
18 ment” after “reportable transaction understate-
19 ment”, and

20 (G) by adding at the end the following new
21 paragraph:

22 “(4) NONECONOMIC SUBSTANCE TRANSACTION
23 UNDERSTATEMENT.—For purposes of this sub-
24 section, the term ‘noneconomic substance trans-

1 action understatement’ has the meaning given such
2 term by section 6662B(e).”.

3 (3) Subsection (e) of section 6707A is amend-
4 ed—

5 (A) by striking “or” at the end of subpara-
6 graph (B), and

7 (B) by striking subparagraph (C) and in-
8 serting the following new subparagraphs:

9 “(C) is required to pay a penalty under
10 section 6662B with respect to any noneconomic
11 substance transaction, or

12 “(D) is required to pay a penalty under
13 section 6662(h) with respect to any transaction
14 and would (but for section 6662A(e)(2)(C))
15 have been subject to penalty under section
16 6662A at a rate prescribed under section
17 6662A(c) or under section 6662B,”.

18 (c) CLERICAL AMENDMENT.—The table of sections
19 for part II of subchapter A of chapter 68 is amended by
20 inserting after the item relating to section 6662A the fol-
21 lowing new item:

 “Sec. 6662B. Penalty for understatements attributable to transactions lacking
 economic substance, etc.”.

22 (d) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to transactions entered into after
24 the date of the enactment of this Act.

1 **SEC. 323. DENIAL OF DEDUCTION FOR INTEREST ON UN-**
2 **DERPAYMENTS ATTRIBUTABLE TO NON-**
3 **ECONOMIC SUBSTANCE TRANSACTIONS.**

4 (a) IN GENERAL.—Section 163(m) (relating to inter-
5 est on unpaid taxes attributable to nondisclosed reportable
6 transactions) is amended—

7 (1) by striking “attributable” and all that fol-
8 lows and inserting the following: “attributable to—

9 “(1) the portion of any reportable transaction
10 understatement (as defined in section 6662A(b))
11 with respect to which the requirement of section
12 6664(d)(2)(A) is not met, or

13 “(2) any noneconomic substance transaction
14 understatement (as defined in section 6662B(c)).”,
15 and

16 (2) by inserting “AND NONECONOMIC SUB-
17 STANCE TRANSACTIONS” after “TRANSACTIONS”.

18 (b) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to transactions after the date of
20 the enactment of this Act in taxable years ending after
21 such date.

22 **Subtitle C—Miscellaneous**

23 **SEC. 331. DENIAL OF DEDUCTION FOR PUNITIVE DAMAGES.**

24 (a) DISALLOWANCE OF DEDUCTION.—

1 (1) IN GENERAL.—Section 162(g) (relating to
2 treble damage payments under the antitrust laws) is
3 amended—

4 (A) by redesignating paragraphs (1) and

5 (2) as subparagraphs (A) and (B), respectively,

6 (B) by striking “If” and inserting:

7 “(1) TREBLE DAMAGES.—If”, and

8 (C) by adding at the end the following new
9 paragraph:

10 “(2) PUNITIVE DAMAGES.—No deduction shall
11 be allowed under this chapter for any amount paid
12 or incurred for punitive damages in connection with
13 any judgment in, or settlement of, any action. This
14 paragraph shall not apply to punitive damages de-
15 scribed in section 104(e).”.

16 (2) CONFORMING AMENDMENT.—The heading
17 for section 162(g) is amended by inserting “OR PU-
18 NITIVE DAMAGES” after “LAWS”.

19 (b) INCLUSION IN INCOME OF PUNITIVE DAMAGES
20 PAID BY INSURER OR OTHERWISE.—

21 (1) IN GENERAL.—Part II of subchapter B of
22 chapter 1 (relating to items specifically included in
23 gross income) is amended by adding at the end the
24 following new section:

1 **“SEC. 91. PUNITIVE DAMAGES COMPENSATED BY INSUR-**
2 **ANCE OR OTHERWISE.**

3 “Gross income shall include any amount paid to or
4 on behalf of a taxpayer as insurance or otherwise by rea-
5 son of the taxpayer’s liability (or agreement) to pay puni-
6 tive damages.”.

7 (2) REPORTING REQUIREMENTS.—Section 6041
8 (relating to information at source) is amended by
9 adding at the end the following new subsection:

10 “(h) SECTION TO APPLY TO PUNITIVE DAMAGES
11 COMPENSATION.—This section shall apply to payments by
12 a person to or on behalf of another person as insurance
13 or otherwise by reason of the other person’s liability (or
14 agreement) to pay punitive damages.”.

15 (3) CONFORMING AMENDMENT.—The table of
16 sections for part II of subchapter B of chapter 1 is
17 amended by adding at the end the following new
18 item:

“Sec. 91. Punitive damages compensated by insurance or otherwise.”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to damages paid or incurred on
21 or after the date of the enactment of this Act.

1 **TITLE IV—TECHNICAL AND CON-**
2 **FORMING AMENDMENTS;**
3 **SUNSET**

4 **SEC. 401. TECHNICAL AND CONFORMING AMENDMENTS.**

5 The Secretary of the Treasury or the Secretary's del-
6 egate shall not later than 90 days after the date of the
7 enactment of this Act, submit to the Committee on Ways
8 and Means of the House of Representatives and the Com-
9 mittee on Finance of the Senate a draft of any technical
10 and conforming changes in the Internal Revenue Code of
11 1986 which are necessary to reflect throughout such Code
12 the purposes of the provisions of, and amendments made
13 by, this Act.

14 **SEC. 402. SUNSET.**

15 (a) IN GENERAL.—All provisions of, and amend-
16 ments made by, this Act shall not apply to taxable years
17 beginning after December 31, 2012.

18 (b) APPLICATION OF CODE.—The Internal Revenue
19 Code of 1986 shall be applied and administered to taxable
20 years described in subsection (a) as if the provisions of,
21 and amendments made by, this Act had never been en-
22 acted.

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