H. R. 4377

To amend the Internal Revenue Code of 1986 to tax business income on a cash flow basis, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 13, 2016

Mr. Nunes (for himself, Mr. Tiberi, Mr. Boustany, Mr. Marchant, Mr. Holding, Mr. Pittenger, Mr. Palmer, Mr. Russell, Mr. Simpson, Mr. Franks of Arizona, Mr. Stewart, Mr. Calvert, Mr. Knight, Mrs. Mimi Walters of California, Mr. Valadao, Mr. Issa, Mr. Amodei, Mr. Yoho, Mr. Hardy, Mr. Cole, Mr. Pompeo, Mr. Roe of Tennessee, Mr. Fleischmann, Mr. Emmer of Minnesota, Mr. Long, Mr. Brat, and Mr. Rouzer) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to tax business income on a cash flow basis, and for other purposes.

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

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.—This Act may be cited as the “American Business Competitiveness Act of 2015”.

(b) Amendment of 1986 Code.—Except as otherwise expressly provided, whenever in this Act an amend-
ment or repeal is expressed in terms of an amendment
to, or repeal of, a section or other provision, the reference
shall be considered to be made to a section or other provi-

(c) Table of Contents.—The table of contents is
as follows:

Sec. 1. Short title, etc.
Sec. 2. Congressional findings.
Sec. 3. Maximum tax rate for net business income.
Sec. 4. Definition of net business income tax base.
Sec. 5. Allowance of transition basis deduction.
Sec. 6. Interest income of individuals taxed in same manner as dividend in-
come; reduced by interest expense.
Sec. 7. Repeal of depreciation, international, and other tax provisions.
Sec. 8. Expanded relief for net operating losses.
Sec. 9. Repeal of corporate AMT and individual AMT preferences and adjust-
ments that pertain to capital cost recovery.
Sec. 10. Repeal of business tax credits.
Sec. 11. Disallowance of interest expense deduction, except qualified residence
interest.

7 SEC. 2. CONGRESSIONAL FINDINGS.

(a) FINDINGS RELATING TO THE DEPRECIATION

SYSTEM OF FEDERAL BUSINESS TAXATION.—Congress
finds the depreciation system—

(1) is rife with outdated asset classifications,
inaccurate depreciation schedules, targeted credits
and deductions, and targeted expensing provisions;

(2) rewards some business activities over oth-
ers;

(3) reduces savings and investment in the
United States by increasing the rate of return that
is required for investments to be viable; and
(4) creates complexity for both the Internal Revenue Service and businesses.

(b) FINDINGS RELATING TO THE DEDUCTION OF BUSINESS INTEREST.—Congress finds that the business interest deduction—

(1) encourages businesses to finance their operations with debt;

(2) results in negative effective tax rates for some investments; and

(3) heightens bankruptcy risk during periods of economic distress.

(c) FINDINGS RELATING TO THE EXPENSING OF INVESTMENT.—Congress finds that allowing businesses to expense their investments—

(1) will make more investment opportunities profitable for businesses to undertake;

(2) will promote investment in the United States;

(3) will limit the Government’s ability to reward specific business activities through the tax code; and

(4) will simplify business taxation.

SEC. 3. MAXIMUM TAX RATE FOR NET BUSINESS INCOME.

(a) INDIVIDUAL NET BUSINESS INCOME.—

(1) MAXIMUM RATE OF 25 PERCENT.—Paragraph (1) of section 1(h) is amended—
(A) in subparagraph (A)—

(i) by striking “the net capital gain” in clause (i) and inserting “the sum of the net capital gain and the net business income”; and

(ii) by striking “the adjusted net capital gain” in clause (ii)(II) and inserting “the sum of the adjusted net capital gain and the net business income”; and

(B) in subparagraph (E)(i) by striking “unrecaptured section 1250 gain” and inserting “25-percent rate gain”.

(2) 25-PERCENT RATE GAIN.—Subsection (h) of section 1 is amended by adding at the end the following:

“(12) 25-PERCENT RATE GAIN.—For purposes of this subsection—

“(A) unrecaptured section 1250 gain, plus

“(B) net business income.”.

(b) CORPORATE INCOME TAX RATE REDUCTION;

TAX IMPOSED ONLY ON CORPORATION’S NET BUSINESS INCOME.—

(1) IN GENERAL.—Section 11 is amended to read as follows:
“SEC. 11. TAX IMPOSED.

“(a) CORPORATIONS IN GENERAL.—A tax is hereby imposed for each taxable year on the net business income of every corporation.

“(b) AMOUNT OF TAX.—The amount of the tax imposed by subsection (a) shall be the sum of—

“(1) 15 percent of so much of the net business income as does not exceed $50,000, and

“(2) 25 percent of so much of the net business income as exceeds $50,000.

In the case of a corporation which has net business income in excess of $100,000 for any taxable year, the amount of tax determined under the preceding sentence for such taxable year shall be increased by the lesser of (i) 5 percent of such excess, or (ii) $5,000.”.

(2) CONFORMING AMENDMENT.—Paragraphs (1) and (2) of section 1445(e) are each amended by striking “35 percent” and inserting “25 percent”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning on or after January 1, 2015.

SEC. 4. DEFINITION OF NET BUSINESS INCOME TAX BASE.

(a) IN GENERAL.—Subtitle A is amended by inserting after chapter 2A the following new chapter:

“CHAPTER 2B—BUSINESS INCOME

“SUBCHAPTER A. BASIC RULES

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“Sec. 1421. Net business income.

“SEC. 1421. NET BUSINESS INCOME.

“(a) In General.—For purposes of this title, the term ‘net business income’ means, for a taxable year with respect to a business entity, the amount by which the taxable receipts of the business entity for the taxable year exceed the deductible amounts for the business entity for the taxable year.

“(b) Taxable Receipts.—

“(1) In General.—The term ‘taxable receipts’ means all receipts from the sale of property, use of property, and performance of services.

“(2) Games of Chance.—Amounts received for playing games of chance by business entities engaging in the activity of providing such games shall be treated as receipts from the sale of property or services.

“(3) In-Kind Receipts.—The taxable receipts attributable to the receipt of property, use of property or services in whole or partial exchange for
property, use of property or services equal the fair
market value of the services or property received.

“(4) TAXES.—The term ‘taxable receipts’ does
not include any excise tax, sales tax, custom duty,
or other separately stated levy imposed by a Federal,
State, or local government received by a business en-
tity in connection with the sale of property or serv-
ices or the use of property.

“(5) FINANCIAL RECEIPTS.—

“(A) IN GENERAL.—The term ‘taxable re-
ceipts’ does not include financial receipts.

“(B) FINANCIAL RECEIPTS.—The term ‘fi-
nancial receipts’ includes—

“(i) interest,

“(ii) dividends and other distributions
by a business entity,

“(iii) proceeds from the sale of stock,
other ownership interests in business enti-
ties, or other financial instruments,

“(iv) proceeds from life insurance
policies,

“(v) proceeds from annuities,

“(vi) proceeds from currency hedging
or exchanges, and
“(vii) proceeds from other financial transactions.

“(C) FINANCIAL INSTRUMENT.—The term ‘financial instrument’ means any—

“(i) share of stock in a corporation,

“(ii) equity ownership in any widely held or publicly traded partnership, trust, or other business entity,

“(iii) note, bond, debenture, or other evidence of indebtedness,

“(iv) interest rate, currency, or equity notional principal contract,

“(v) evidence or interest in, or a derivative financial instrument in, any financial instrument described in clause (i), (ii), (iii), or (iv), or any currency, including any option, forward contract, short position, and any similar financial instrument in such a financial instrument or currency, and

“(vi) a position which—

“(I) is not a financial instrument described in clause (i), (ii), (iii), or (iv),
“(II) is a hedge with respect to such a financial instrument, and

“(III) is clearly identified in the dealer’s records as being described in this subparagraph before the close of the day on which it was acquired or entered into.

“(c) DEDUCTIBLE AMOUNTS.—

“(1) IN GENERAL.—The term ‘deductible amounts’ includes for a taxable year with respect to a business entity—

“(A) the cost of business purchases in the taxable year (as determined under subsection (d)),

“(B) compensation expenses for an individual (other than amounts paid to an individual in his capacity as a business entity), or

“(C) the cost of employer-provided health insurance for which the employee, members of his family, or persons designated by him or members of his family are the beneficiaries,

“(D) such entity’s loss carryover deduction (determined under section 172),

“(E) in the case of an entity which is a real estate investment trust, the amount of any
dividend payment made to a shareholder of such trust, and

“(F) the transition basis deduction (as determined under section 5 of the American Business Competitiveness Act of 2015).

“(2) COMPENSATION EXPENSES.—For purposes of subsection (a), the term ‘compensation expenses’ means—

“(A) wages, salaries or other cash payable for services,

“(B) any taxes imposed on the recipient that are withheld by the business entity,

“(C) the cost of property purchased to provide employees with compensation (other than property incidental to the provision of fringe benefits that are excluded from income under the individual tax), and

“(D) the cost of fringe benefits other than health insurance deductible under paragraph (1)(C).

“(3) PASS-THRU WAGES MUST BE REASONABLE.—For purposes of paragraph (2)(A), amounts payable as wages, salaries or other cash payable for services by a S corporation, partnership, or other pass-thru entity shall not be treated as wages, sala-
ries or other cash payable for services unless such
amounts are reasonable for the service rendered.

“(d) COST OF BUSINESS PURCHASES.—

“(1) BUSINESS PURCHASES.—

“(A) IN GENERAL.—The term ‘business
purchases’ means the acquisition of—

“(i) property,

“(ii) the use of property, or

“(iii) services,

for use in a business activity.

“(B) EXAMPLES.—Business purchases in-
clude (without limitation) the—

“(i) purchase or rental of real prop-
erty,

“(ii) purchase or rental of capital
equipment,

“(iii) purchase of supplies and inven-
tory,

“(iv) purchase of services from inde-
pendent contractors, and

“(v) imports for use in a business ac-
tivity.

“(C) EXCLUSIONS.—Business purchases
do not include—
“(i) payments for use of money or capital, such as interest or dividends (except to the extent that a portion so paid is a fee for financial intermediation services),

“(ii) premiums for life insurance,

“(iii) the acquisition of savings assets or other financial instruments (as defined in subsection (b)(5)(C)),

“(iv) taxes (except as provided in subsection (b)(2) relating to product taxes),

and

“(v) the cost of financial instruments (as defined in subsection (b)(5)(C)).

“(2) COST OF BUSINESS PURCHASES.—

“(A) IN GENERAL.—The term ‘cost of a business purchase’ is the amount paid or to be paid for the business purchase.

“(B) PROPERTY AND SERVICES ACQUIRED FOR PROPERTY.—If a business entity receives property or services from a business entity in whole or partial exchange for property or services, the property or services acquired shall be treated as if they were purchased for an amount equal to the fair market value of the services or property received. For purposes of
this section, property includes stock and other
equity interests in business other than stock or
an equity interest in the business entity acquir-
ing the property or services. See section 1422
for rules on property or services received in ex-
change for an equity interest in the recipient.

“(C) GAMBLING PAYMENTS.—In the case
of a business involving gambling, lotteries, or
other games of chance, business purchases in-
clude amounts paid to winners.

“(e) BUSINESS ENTITY AND BUSINESS ACTIVITY.—

“(1) BUSINESS ENTITY.—For purposes of de-
termining business income, the term ‘business entity’
means any corporation (including any S corpora-
tion), unincorporated association, partnership, lim-
ited liability company, proprietorship, independent
contractor, individual, or any other person, engaging
in business activity in the United States. An indi-
vidual shall be considered a business entity only with
respect to the individual’s business activities.

“(2) BUSINESS ACTIVITY.—The term ‘business
activity’ means the sale of property or services, the
leasing of property, the development of property or
services for subsequent sale or use in producing
property or services for subsequent sale. The term
‘business activity’ does not include casual or occasional sales of property used by an individual (other than in a business activity), such as the sale by an individual of a vehicle used by the individual.

“(3) Exception for certain employees.—

“(A) In general.—The term ‘business activity’ does not include—

“(i) the performance of services by an employee for an employer that is a business entity with respect to the activity in which the employee is engaged, or

“(ii) the performance of regular domestic household services (including babysitting, housecleaning, and lawn cutting) by an employee of an employer that is an individual or family.

“(B) Employee defined.—For purposes of this subsection, the term ‘employee’ includes an individual partner who provides services to a partnership or an individual member who provides services to a limited liability company, or a proprietor with respect to compensation for services from his proprietorship.

“(f) Savings assets.—The term ‘savings assets’ means stocks, bonds, securities, certificates of deposits, in-
vestments in partnerships and limited liability companies, shares of mutual funds, life insurance policies, annuities, and other similar savings or investment assets.

“Subchapter B—Capital Contributions, Mergers, Acquisitions, and Distributions

"Sec. 1422. Contributions to a business entity.
"Sec. 1422A. Distributions of property.
"Sec. 1422B. Asset acquisitions.
"Sec. 1422C. Mergers, stock acquisitions, and spin-offs, split-offs, etc.

"SEC. 1422. CONTRIBUTIONS TO A BUSINESS ENTITY.

“(a) By Business Entity.—

“(1) Cash.—If a business entity contributes cash to a business entity of which it is or becomes a partial or full owner, the amount contributed is not a deductible amount to the contributor or a taxable receipt to the recipient.

“(2) Property or services.—If a business entity contributes property or services to a business entity of which it is or becomes a partial or full owner, the transaction will not result in taxable receipts to the contributor or a deduction for a business purchase for the recipient and will not constitute a sale resulting in taxable receipts to the contributor.

“(b) By Individual.—

“(1) Cash.—If an individual contributes cash to a business entity, the amount contributed is not
a deductible amount to the contributor and the cash
received by the business entity is not a taxable re-
cipt.

“(2) NEW PROPERTY.—If an individual contrib-
utes to a business entity property that the individual
purchased for the business entity but which was not
used by any person after its purchase, the property
shall be considered purchased by such business enti-
ty from the person from which the individual pur-
chased the property and the transaction will not re-
sult in a deductible amount to the contributor.

“(3) PERSONAL USE PROPERTY.—

“(A) IN GENERAL.—If an individual con-
tributes personal use property to a business en-
tity in which the individual has an ownership
interest or for which the individual receives an
ownership interest, the business entity shall not
be permitted to deduct the value of the property
received as a business expense. The business
entity will have a tax basis in the contributed
property equal to the contributor’s basis.

“(B) PERSONAL USE PROPERTY.—The
term ‘personal use property’ means any prop-
erty used by an individual at any time other
than in a business activity.
“(4) Services.—If an individual contributes services to a business entity in which the individual has an ownership interest or receives an ownership interest, the business entity shall not be permitted to deduct the value of the services received (or the value of the equity interest provided to the services provider).

“SEC. 1422A. DISTRIBUTIONS OF PROPERTY.

“(a) Distributions Other Than to Controlling Business.—If a business entity distributes all or a portion of its assets to its owners (other than a controlling business entity), the business entity will be treated as if it sold the assets to its owners at fair market value. The fair market value will be determined by the distributing business entity and those determinations, unless unreasonable, will be binding on the recipients.

“(b) Distributions to a Controlling Business.—If a business entity distributes all or a portion of its assets to a controlling business entity, the controlling business entity will assume the distributing entity’s tax attributes with respect to the assets and neither entity will have taxable receipts or a deduction as a result of the transaction.

“(c) Distribution of Personal Use Property.—If personal use property is distributed to the indi-
vidual who contributed the personal use property to a business entity, the fair market value of the property for purposes of subsection (a) shall equal the basis of the property plus any enhancement in value of the property attributable to business purchases with respect to the property.

“(d) CONTROLLING BUSINESS ENTITY.—A business entity is a ‘controlling business entity’ with respect to another business entity if it, or any person to which it is related, owns directly or indirectly more than 50 percent of the profits or capital interest in the other business entity. For purposes of the preceding sentence, a person is related to a business entity if such person owns directly or indirectly more than 50 percent of the profits or capital interest in the business entity.

“(e) APPLICATION OF THIS SECTION.—This section applies to both liquidating and nonliquidating distributions.

“SEC. 1422B. ASSET ACQUISITIONS.

“(a) IN GENERAL.—If a business entity transfers some or all of its assets, the consideration received for such assets shall be allocated among the assets transferred in the same manner as was required by section 1060 of the Internal Revenue Code of 1986. If the transferee and transferor agree in writing on the allocation of any consideration, or as to the fair market value of any of the assets,
such agreement shall be binding on both the transferor
and transferee unless the Secretary determines that such
allocation (or fair market value) is not appropriate.

“(b) Tax Consequences.—The tax consequences of
an asset acquisition shall be determined in accordance
with the rules of this chapter and shall be dependent upon
allocations made under subsection (a). In general, consid-
eration allocable to savings assets, such as stock in an-
other business entity, would not be included in taxable re-
ceipts of the transferor and would not be a business pur-
chase of the purchaser, but consideration allocable to the
sale of tangible property and intangible property (other
than savings assets) will constitute taxable receipts of the
seller and a business purchase of the purchaser.

“(c) Election To Treat Asset Acquisition As A
Stock Acquisition.—In the case of the sale of substan-
tially all of the assets of a business entity or substantially
all of the assets of a line of business or a separately stand-
ing business of a business entity, the transferee and trans-
feror can jointly elect to treat the acquisition as if it were
an acquisition of the stock of a business entity holding
the assets so transferred. In such case, the rules of section
1422C shall apply.

“(d) Authority To Require Allocation Agree-
ment And Notice To The Secretary.—If the Sec-
retary determines that certain types of asset acquisitions have significant possibilities of tax avoidance, the Sec-
retary may require—

“(1) parties to such types of acquisitions to enter into agreements allocating consideration,

“(2) parties to acquisitions involving certain kinds of assets to enter into agreements allocating part of the consideration to those assets, or

“(3) parties to certain acquisitions to report in-
formation to the Secretary.

“(e) ASSET ACQUISITION RULES DO NOT APPLY IF CONSIDERATION INCLUDES EQUITY IN PURCHASER.—

“(1) IN GENERAL.—If a business entity issues its own equity or equity in a subsidiary or other con-
trolled entity as part of the consideration for the transfer of assets to it, the transaction shall be treated as a business purchase and not as an asset acquisition, and the taxpayer shall not be entitled to a loss carryover for any unused deduction attrib-
utable to the equity portion of such transfer.

“(2) EQUITY.—For purposes of this subsection, equity means—

“(A) stock, in the case of a corporation,
“(B) partnership or similar interest, in the
case of a partnership or limited liability com-
pany, and
“(C) an ownership interest or interest in
profits in the case of any other business entity.

“SEC. 1422C. MERGERS, STOCK ACQUISITIONS, AND SPIN-
OFFS, SPLIT-OFFS, ETC.

“(a) MERGERS.—A merger of one business entity
into another or two businesses entities into a third busi-
ness entity or any other similar transaction shall have no
direct consequences under the business cash flow tax. The
surviving entity shall assume the tax attributes of the
merged business entities, including any loss carryovers
and credit carryovers.

“(b) STOCK ACQUISITION.—The acquisition of all or
substantially all of the ownership interest in one business
entity either for cash or in exchange for ownership in the
acquiring entity or an entity controlled by the acquired
entity shall have no direct consequences under the busi-
ness cash flow tax.

“(c) SPIN-OFFS, SPLIT-OFFS, ETC.—A spin-off,
split-off or split-up of a business entity shall have no direct
tax consequences under this chapter.


“Sec. 1423. No tax imposed on income derived from trade or business outside
the United States.
“Sec. 1423A. No credit allowed for foreign taxes on income derived from trade or business outside the United States.

“Sec. 1423B. 5-percent toll charge on undistributed foreign earnings.

“SEC. 1423. NO TAX IMPOSED ON INCOME DERIVED FROM TRADE OR BUSINESS OUTSIDE THE UNITED STATES.

“(a) In General.—Only taxable receipts and deductible amounts which are effectively connected with the conduct of a trade or business within the United States shall be included or deducted in the computation of net business income.

“(b) No tax shall be imposed under this title on income effectively connected with the conduct of a trade or business that is not a trade or business within the United States.

“SEC. 1423A. NO CREDIT ALLOWED FOR FOREIGN TAXES ON INCOME DERIVED FROM TRADE OR BUSINESS OUTSIDE THE UNITED STATES.

“(a) In General.—No credit shall be allowed under this title for any income, war profits, or excess profits taxes paid or accrued with respect to income effectively connected with the conduct of a trade or business that is not a trade or business within the United States.

“(b) Unused Foreign Tax Credits.—Under regulations prescribed by the Secretary, any taxpayer that is a corporation may elect to treat foreign tax credit
carryovers from taxable years beginning prior to January 1, 2015, as general business credit carryovers.

“SEC. 1423B. 5-PERCENT TOLL CHARGE ON UNDISTRI-
UTED FOREIGN EARNINGS.

“There is hereby imposed on any domestic corpora-
tion which owns 10 percent or more of the voting stock of a foreign corporation a tax equal to 5 percent of the corporation’s post-1986 undistributed earnings for the corporation’s last taxable year beginning prior to January 1, 2015. For purposes of this subsection, post-1986 undis-
tributed earnings shall be computed as provided in section 902(c)(1) of the Internal Revenue Code of 1986 (as in effect prior to the enactment of the American Business Competitiveness Act of 2015), except that such undistrib-
uted earnings shall be diminished by the dividends distrib-
uted during such taxable year. Except as provided in regu-
lations prescribed by the Secretary, the tax imposed by this subsection shall be paid at the same time and in the same manner as the tax imposed by section 11 for the corporation’s first taxable year beginning on or after Jan-
uary 1, 2015.

“Subchapter D—Financial Institutions

Sec. 1424. Real-plus-financial treatment of certain transactions involving financial institutions.
"SEC. 1424. REAL-PLUS-FINANCIAL TREATMENT OF CERTAIN TRANSACTIONS INVOLVING FINANCIAL INSTITUTIONS.

“(a) TAXATION OF TRANSACTIONS BETWEEN FINANCIAL INSTITUTIONS AND BUSINESSES.—

“(1) GENERAL RULE.—In the case of a taxpayer that is a financial institution, taxable receipts shall include all amounts received in covered financial transactions and deductible amounts and shall include all amounts paid in covered financial transactions.

“(2) FINANCIAL INSTITUTIONS.—For purposes of this section, ‘financial institution’ shall mean, under regulations prescribed by the Secretary, any business entity that is regulated by any Federal or State agency as a financial institution. Such term includes regulated banks, insurance companies, investment banks, securities brokers, and mutual funds. Such term does not include credit unions.

“(3) COVERED FINANCIAL TRANSACTIONS.—For purposes of this section, ‘covered financial transactions’ shall mean transactions between a financial institution and a party that is not a business entity as defined in section 1421(e)(1). Under regulations prescribed by the Secretary, transactions that do not involve any significant provision of financial
services (other than services for which explicit fees are charged) shall be treated as not being covered financial transactions.

“(b) Transition Rule.—Under regulations prescribed by the Secretary, a tax is imposed on any financial institution equal to 25 percent of the institution’s net claims against parties that are not business entities, as defined in section 1421(e)(1). Such claims shall be valued at the end of the financial institution’s last taxable year beginning before January 1, 2015, with value measured by the institution’s basis in such claims. Except as provided in regulations prescribed by the Secretary, the tax imposed by this subsection shall be paid at the same time and in the same manner as the net business income tax for the financial institution’s first taxable year beginning on or after January 1, 2015.

“Subchapter E—Other Definitions

“Sec. 1425. Other definitions.

“SEC. 1425. OTHER DEFINITIONS.

“(a) In General.—When used in this chapter, where not otherwise distinctly expressed or manifestly incompatible with the intent thereof—

“(1) United States.—The term ‘United States’ includes the States and the District of Columbia.
“(2) **TREATMENT OF POSSESSIONS.**—

“(A) **IN GENERAL.**—For purposes of this chapter, the United States possessions shall not be treated as part of the United States.

“(B) **POSSESSION.**—For purposes of paragraph (1), ‘United States possession’ or ‘possession’ means a possession of the United States and includes the Commonwealth of Puerto Rico, the Commonwealth of the Northern Marianas Islands, Guam, American Samoa, and the United States Virgin Islands.

“(3) **DEFINITIONS GENERALLY.**—Any definition included in this chapter shall apply for all purposes of this chapter unless—

“(A) such definition is limited to the purposes of a particular chapter, section, or subsection, or

“(B) the definition clearly would not be applicable in a particular context.

“(b) **INTERPRETATIONS CONSISTENT WITH REST OF INTERNAL REVENUE CODE OF 1986.**—Terms not defined in this chapter, but defined elsewhere in this title, shall be interpreted in a manner consistent with this title, except to the extent such interpretation would be inconsistent with the principles and purposes of this chapter.”.
(b) EXEMPT ORGANIZATIONS AND UNRELATED BUSINESS INCOME.—Sections 512 and 514 are both amended by striking “gross income” each place it appears and inserting “net business income”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning on or after January 1, 2015, except to the extent otherwise specifically provided in the text of such amendments.

SEC. 5. ALLOWANCE OF TRANSITION BASIS DEDUCTION.

In the case of any property held by the taxpayer on December 31, 2014, and used in a trade or business of the taxpayer on such date, the following rules shall apply:

(1) BASIS.—The basis of such property shall be zero.

(2) DEDUCTION.—

(A) IN GENERAL.—There shall be allowed to the taxpayer a deduction with respect to such property, other than land.

(B) AMOUNT OF DEDUCTION.—Except as provided in subparagraph (D), such deduction shall be determined for a taxable year by amortizing the basis of such property on the same schedule and method that applied to such property before the enactment of this Act.
(C) Disposal of Property.—Subparagraph (A) shall apply with respect to property held by the taxpayer on December 31, 2014, whether or not the taxpayer disposes of such property after December 31, 2014.

(D) Inventory.—In the case of inventory, the deduction allowed by subparagraph (A) shall be allowed in the taxable year of the taxpayer which includes January 1, 2015.

SEC. 6. Interest Income of Individuals Taxed in Same Manner as Dividend Income; Reduced by Interest Expense.

(a) In General.—Subparagraph (A) of section 1(h)(11) is amended by striking “qualified dividend income” and inserting “the sum of qualified dividend income and qualified interest income and reduced by interest expense”.

(b) Qualified Interest Income.—Paragraph (11) of section 1(h) is amended by adding at the end the following:

“(E) Qualified Interest Income.—For purposes of this paragraph, the term ‘qualified interest income’ means—

“(i) interest on deposits with a bank (as defined in section 581),
“(ii) amounts (whether or not designated as interest) paid, in respect of deposits, investment certificates, or withdrawable or repurchasable shares, by—

“(I) a mutual savings bank, cooperative bank, domestic building and loan association, industrial loan association or bank, or credit union, or

“(II) any other savings or thrift institution which is chartered and supervised under Federal or State law, the deposits or accounts in which are insured under Federal or State law or which are protected and guaranteed under State law,

“(iii) interest on—

“(I) evidences of indebtedness (including bonds, debentures, notes, and certificates) issued by a domestic corporation in registered form, and

“(II) to the extent provided in regulations prescribed by the Secretary, other evidences of indebtedness issued by a domestic corporation of a
type offered by corporations to the public,

“(iv) interest on obligations of the United States, a State, or a political subdivision of a State (not excluded from gross income of the taxpayer under any other provision of law), and

“(v) interest attributable to participation shares in a trust established and maintained by a corporation established pursuant to Federal law.”.

(c) INTEREST EXPENSE.—Paragraph (11) of section 1(h), as amended by subsection (b), is amended by inserting at the end the following:

“(F) INTEREST EXPENSE.—The term ‘interest expense’ means interest paid by the taxpayer other than qualified residence interest.”.

(d) CONFORMING AMENDMENT.—The heading for section 1(h)(11) is amended by inserting “AND INTEREST” after “DIVIDENDS”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.
SEC. 7. REPEAL OF DEPRECIATION, INTERNATIONAL, AND OTHER TAX PROVISIONS.

(a) DEPRECIATION AND COST RECOVERY PROVISIONS.—The following sections of the Internal Revenue Code of 1986 are hereby repealed:

(1) Section 167 (relating to depreciation).

(2) Section 168 (relating to accelerated cost recovery system).

(3) Section 169 (relating to amortization of pollution control facilities).

(4) Section 173 (relating to circulation expenditures).

(5) Section 174 (relating to research and experimental expenditures).

(6) Section 175 (relating to soil and water conservation expenditures; endangered species recovery expenditures).

(7) Section 176 (relating to payments with respect to employees of certain foreign corporations).

(8) Section 178 (relating to amortization of cost of acquiring a lease).

(9) Section 179 (relating to election to expense certain depreciable business assets).

(10) Section 179A (relating to deduction for clean-fuel vehicles and certain refueling property).
(11) Section 179B (relating to deduction for capital costs incurred in complying with Environmental Protection Agency sulfur regulations).

(12) Section 179C (relating to election to expense certain refineries).

(13) Section 179D (relating to energy efficient commercial buildings deduction).

(14) Section 179E (relating to election to expense advanced mine safety equipment).

(15) Section 180 (relating to expenditures by farmers for fertilizer, etc.).

(16) Section 181 (relating to treatment of certain qualified film and television productions).

(17) Section 190 (relating to expenditures to remove architectural and transportation barriers to the handicapped and elderly).

(18) Section 192 (relating to contributions to black lung benefit trust).

(19) Section 193 (relating to tertiary injectants).

(20) Section 194 (relating to treatment of reforestation expenditures).

(21) Section 195 (relating to start-up expenditures).
(22) Section 196 (relating to deduction for certain unused business credits).

(23) Section 197 (relating to amortization of goodwill and certain other intangibles).

(24) Section 198 (relating to expensing of environmental remediation costs).

(25) Section 198A (relating to expensing of qualified disaster expenses).

(26) Section 199 (relating to income attributable to domestic production activities).

(27) Section 263 (relating to capital expenditures).

(28) Section 263A (relating to capitalization and inclusion in inventory costs of certain expenses).

(29) Section 471 (relating to general rule for inventories).

(30) Section 472 (relating to last-in, first-out inventories).

(31) Section 473 (relating to qualified liquidations of LIFO inventories).

(32) Section 474 (relating to simplified dollar-value LIFO method for certain small businesses).

(33) Section 611 (relating to allowance of deduction for depletion).
(34) Section 612 (relating to basis for cost depletion).

(35) Section 613 (relating to percentage depletion).

(36) Section 613A (relating to limitations on percentage depletion in case of oil and gas wells).

(37) Section 614 (relating to definition of property).

(38) Section 616 (relating to development expenditures).

(39) Section 617 (relating to deduction and recapture of certain mining exploration expenditures).

(b) Special Deductions for Corporations.—

The following sections of the Internal Revenue Code of 1986 are hereby repealed:

(1) Section 241 (relating to allowance of special deductions).

(2) Section 243 (relating to dividends received by corporations).

(3) Section 244 (relating to dividends received on certain preferred stock).

(4) Section 245 (relating to dividends received from certain foreign corporations).

(5) Section 246 (relating to rules applying to deductions for dividends received).
(6) Section 246A (relating to dividends received deduction reduced where portfolio stock is debt financed).

(7) Section 247 (relating to dividends paid on certain preferred stock of public utilities).

(8) Section 248 (relating to organizational expenditures).

(9) Section 249 (relating to limitation on deduction of bond premium on repurchase).

(c) RECOGNITION OF REVENUE AND TIMING OF DEDUCTION PROVISIONS.—The following provisions of the Internal Revenue Code of 1986 are hereby repealed:

(1) Part X of subchapter B of chapter 1 of the Internal Revenue Code of 1986 (relating to terminal railroad corporations and their shareholders).

(2) Section 456 (relating to prepaid dues income of certain membership organizations).

(3) Section 458 (relating to magazines, paperbacks, and records returned after the close of the taxable year).

(4) Section 460 (relating to special rules for long-term contracts).

(5) Section 467 (relating to certain payments for the use of property or services).
(6) Section 468 (relating to special rules for
mining and solid waste reclamation and closing
costs).

(d) INTERNATIONAL PROVISIONS.—The following
provisions of the Internal Revenue Code of 1986 are here-
by repealed:

(1) Section 902 (relating to deemed paid credit
where domestic corporation owns 10 percent or more
of voting stock of foreign corporation).

(2) Section 907 (relating to special rules in case
of foreign oil and gas income).

(3) Subpart F of part III of subchapter N of
chapter 1 (relating to controlled foreign corpora-
tions) other than section 965.

(4) Subpart G of part III of subchapter N of
chapter 1 (relating to export trade corporations).

(5) Part IV of part III of subchapter N of
chapter 1 (relating to domestic international sales
corporations).

(e) EFFECTIVE DATE.—

(1) SUBSECTION (a).—The amendments made
by subsection (a) shall apply to property placed in
service after December 31, 2014, in taxable years
ending after that date.
(2) **Subsection (b).—**The amendments made by subsection (b) shall apply with respect to dividends received or accrued after December 31, 2014, in taxable years ending after such date.

(3) **Subsections (c) and (d).—**The amendments made by subsections (c) and (d) shall apply to taxable years beginning on or after January 1, 2015.

## SEC. 8. EXPANDED RELIEF FOR NET OPERATING LOSSES.

### (a) Extended Carryback; Unlimited Carryforward With Interest.

Paragraph (1) of section 172(b) is amended to read as follows:

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(1) **Years to which loss may be carried.**—

(A) **In general.**—A net operating loss for any taxable year—

(i) shall be a net operating loss carryback to each of the 5 taxable years preceding the taxable year of such loss, and

(ii) shall be a net operating loss carryover to the succeeding taxable year and added to the deduction allowable under subsection (a) for such taxable year.
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“(B) LIMITATION.—A net operating loss may not be carried back to any taxable year ending before January 1, 2015, except that a loss arising in a taxable year beginning in calendar year 2015 or calendar year 2016 may be carried back to the two preceding taxable years.”.

(b) INTEREST ON CARRYFORWARD.—Section 172(b) is amended by adding at the end the following new paragraph:

“(4) INTEREST ON CARRYFORWARD.—The amount of any net operating loss carryover shall, prior to being carried to a succeeding taxable year, be increased by an amount equal to such carryover multiplied by the Federal short-term rate (as defined in section 1274(d)) for the month in which or with which the taxable year ends.”.

(c) CONFORMING AMENDMENTS.—

(1) Section 172(d)(1) is amended by inserting “(other than by reason of subsection (b)(1)(B))” after “deduction”.

(2) Section 172 is amended by striking subsections (f), (i), and (j) and redesignating subsections (g), (h), and (k) as subsections (f), (g), and (h), respectively.
(d) **Effective Date.**—The amendments made by this section shall apply to net operating losses arising in taxable years beginning after December 31, 2014.

**SEC. 9. REPEAL OF CORPORATE AMT AND INDIVIDUAL AMT PREFERENCES AND ADJUSTMENTS THAT PERTAIN TO CAPITAL COST RECOVERY.**

(a) **Corporate AMT.**—Section 55(a)(1)(B) is amended by adding at the end the following flush sentence:

“For purposes of this title, the tentative minimum tax of any corporation for any taxable year ending after December 31, 2014, shall be zero.”

(b) **Individual AMT.**—

(1) Section 56 is amended—

(A) by striking paragraphs (1), (2), (3), (5), and (6) of subsection (a); and

(B) by striking subsection (b)(2).

(2) Section 57 is amended—

(A) by striking paragraphs (1), (2), (6), and (7) of subsection (a); and

(B) by striking subsection (b).

(e) **Effective Date.**—
(1) Corporate AMT.—The amendments made by subsection (a) shall apply to taxable years ending after December 31, 2014.

(2) Individual AMT.—The amendments made by subsection (b) shall apply to amounts paid or incurred after December 31, 2014.

SEC. 10. REPEAL OF BUSINESS TAX CREDITS.

(a) In General.—Subparts D and E of part IV of subchapter A of chapter 1 are hereby repealed.

(b) Special Rule for Carryback and Carryforward of Unused Credits.—Any carryback or carryforward that arose under section 39 of the Internal Revenue Code of 1986 (as in effect before the repeal of such section by subsection (a)) shall be allowed under section 38 of such Code (as in effect before the repeal of such section by subsection (a)), in accordance with the terms of such sections (as so in effect).

(c) Effective Date.—The repeals made by this section shall apply with respect to amounts paid or incurred, and property placed in service, in taxable years beginning after December 31, 2014.
SEC. 11. DISALLOWANCE OF INTEREST EXPENSE DEDUCTION, EXCEPT QUALIFIED RESIDENCE INTEREST.

(a) IN GENERAL.—Section 163 is amended by adding at the end the following:

(1) in subsection (a) by striking “There” and inserting “Except as provided by subsection (n), there”,

(2) by redesignating subsection (n) as subsection (o), and

(3) by inserting after subsection (m) the following new subsection:

“(n) TERMINATION.—

“(1) IN GENERAL.—Except as provided by subsection (h)(2)(D) and paragraph (2), this section shall not apply to interest paid or accrued after December 31, 2014.

“(2) TRANSITION INTEREST DEDUCTION.—

“(A) IN GENERAL.—In the case of a taxpayer who is a corporation, there shall be allowed as a deduction for a taxable year the sum of the monthly transition interest deductions for the taxable year.

“(B) MONTHLY TRANSITION INTEREST DEDUCTION.—For purposes of subparagraph (A)—
“(i) IN GENERAL.—The monthly transition interest deduction for any month is the transition interest amount multiplied by the applicable percentage for such month.

“(ii) APPLICABLE PERCENTAGE DEFINED.—The term ‘applicable percentage’ means, with respect to a month, 100 percent reduced (but not below zero) by .833 for each month of the transition period occurring before the month for which such percentage is determined.

“(iii) TRANSITION INTEREST AMOUNT.—The transition interest amount is the deduction allowed to the taxpayer under this section for the last full taxable year ending before January 1, 2015.

“(iv) TRANSITION PERIOD.—The term ‘transition period’ means the 120-month period beginning with January 2015.”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to interest paid or accrued on or after January 1, 2015.
SEC. 12. CASH METHOD OF ACCOUNTING.

(a) In General.—Subsection (a) of section 446 is amended to read as follows:

“(a) General Rule.—Taxable income shall be computed under the cash receipts and disbursements method of accounting.”.

(b) Conforming Amendments.—

(1) Section 446 is amended by striking subsections (b), (c), and (e).

(2) The following sections of the Internal Revenue Code of 1986 are repealed:

(A) Section 447 (relating to method of accounting for corporations engaged in farming).

(B) Section 448 (relating to limitation on use of cash method of accounting).

(c) Effective Date.—

(1) In General.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) Change in Method of Accounting.—In the case of any taxpayer required by an amendment made by this section to change its method of accounting for its first taxable year beginning after the date of the enactment of this Act—

(A) such change shall be treated as initiated by the taxpayer;
(B) such change shall be treated as made with the consent of the Secretary of the Treasury; and

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account ratably over a period (not greater than 8 taxable years) beginning with such first taxable year.