S. 1907

To amend the Internal Revenue Code of 1986 to provide tax relief for disaster areas, and for other purposes.

IN THE SENATE OF THE UNITED STATES

OCTOBER 3, 2017

Mr. NELSON 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 provide tax relief for disaster areas, and for other purposes.

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

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) Short Title.—This Act may be cited as the “National Disaster Tax Relief Act of 2017”.

(b) Table of Contents.—The table of contents for this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—TAX RELIEF RELATING TO DISASTERS

Sec. 101. Expensing of qualified disaster expenses.
Sec. 102. Net operating losses attributable to disasters.
Sec. 103. Increase in new markets tax credit for investments in community development entities serving disaster areas.
Sec. 104. Exclusions of certain cancellations of indebtedness by reason of disasters.
Sec. 105. Advanced refundings of certain tax-exempt bonds.
Sec. 106. Additional low-income housing credit allocations.

TITLE II—PERMANENT DISASTER TAX RELIEF PROVISIONS

Sec. 201. Exclusion for disaster mitigation payments received from State and local governments.

TITLE III—OTHER PERMANENT TAX PROVISIONS

Sec. 301. Repeal of limitation on cover over of distilled spirits taxes to Virgin Islands and Puerto Rico.
Sec. 302. Deduction for income attributable to domestic production activities in Puerto Rico made permanent.
Sec. 303. Refundable child tax credit parity for residents of Puerto Rico, American Samoa, Guam, the Northern Mariana Islands, and the Virgin Islands.

TITLE IV—TREATMENT OF CERTAIN POSSESSIONS

Sec. 401. Treatment of possessions.

1 TITLE I—TAX RELIEF RELATING TO DISASTERS

2 SEC. 101. EXPENSING OF QUALIFIED DISASTER EXPENSES.

3 (a) IN GENERAL.—Part VI of subchapter B of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after section 198 the following:

4 “SEC. 198A. EXPENSING OF QUALIFIED DISASTER EXPENSES.

5 “(a) IN GENERAL.—A taxpayer may elect to treat any qualified disaster expenses which are paid or incurred by the taxpayer as an expense which is not chargeable to capital account. Any expense which is so treated shall be allowed as a deduction for the taxable year in which it is paid or incurred.
“(b) QUALIFIED DISASTER EXPENSE.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified disaster expense’ means any expenditure—

“(A) which is paid or incurred in connection with a trade or business or with business-related property,

“(B) which is—

“(i) for the abatement or control of hazardous substances that were released due to a federally declared disaster occurring during the period beginning on January 1, 2012, and ending on December 31, 2022,

“(ii) for the removal of debris from, or the demolition of structures on, real property which is business-related property and which is damaged or destroyed as a result of a federally declared disaster occurring during such period, or

“(iii) for the repair of business-related property damaged as a result of a federally declared disaster occurring during any such period, and
“(C) which is otherwise chargeable to capital account.

“(2) Special rule for replanting of citrus plants lost by reason of casualty.— Amounts paid or incurred by a taxpayer in any taxable year beginning after December 31, 2016, for the replanting as described in section 263A(d)(2)(A) of citrus plants which were lost or damaged, due to disease or to a federally declared disaster, while such plants were in the hands of a person other than the taxpayer shall be treated as a qualified disaster expense of the taxpayer if—

“(A) such other person has an equity interest of not less than 50 percent in the replanted citrus plants at all times during the taxable year in which such amounts are paid or incurred, and the taxpayer holds any part of the remaining equity interest, or

“(B) the taxpayer acquired the entirety of such other person’s equity interest in the land on which the lost or damaged citrus plants were located at the time of such loss or damage, and the replanting is on such land.

“(c) Other definitions.—For purposes of this section—
“(1) Business-related property.—The term ‘business-related property’ means property which is—

“(A) held by the taxpayer for use in a trade or business or for the production of income, or

“(B) described in section 1221(a)(1) in the hands of the taxpayer.

“(2) Federally declared disaster.—The term ‘federally declared disaster’ has the meaning given such term by section 165(i)(5)(A).

“(d) Deduction recaptured as ordinary income on sale, etc.—Solely for purposes of section 1245, in the case of property with respect to which a qualified disaster expense would have been capitalized but for this section—

“(1) the deduction allowed by this section for such expense shall be treated as a deduction for depreciation, and

“(2) such property (if not otherwise section 1245 property) shall be treated as section 1245 property solely for purposes of applying section 1245 to such deduction.

“(e) Coordination with other provisions.—Sections 198, 280B, and 468 shall not apply to amounts
which are treated as expenses not chargeable to capital account under this section.

“(f) Regulations.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.

“(g) Termination.—This section shall not apply to amounts paid or incurred after December 31, 2023.”.

(b) Clerical Amendment.—The table of sections for part VI of subchapter B of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after the item relating to section 198 the following item:

“Sec. 198A. Expensing of qualified disaster expenses.”

(c) Effective Date.—The amendments made by this section shall apply to amounts paid or incurred after the date of the enactment of this Act.

SEC. 102. NET OPERATING LOSSES ATTRIBUTABLE TO DISASTERS.

(a) In General.—Section 172(b)(1) of the Internal Revenue Code of 1986 is amended by adding at the end the following:

“(G) Certain losses attributable to federally declared disasters.—In the case of a taxpayer who has a qualified disaster loss (as defined in subsection (i)), such loss shall be a net operating loss carryback to each
of the 5 taxable years preceding the taxable 
year of such loss.”.

(b) Rules Relating to Qualified Disaster 
Losses.—Section 172 of the Internal Revenue Code of 
1986 is amended by redesignating subsection (i) as sub-
section (j) and by inserting after subsection (h) the fol-
lowing:

“(i) Rules Relating to Qualified Disaster 
Losses.—For purposes of this section—

“(1) In General.—The term ‘qualified dis-
aster loss’ means the lesser of—

“(A) the sum of—

“(i) the losses allowable under section 
165 for the taxable year—

“(I) attributable to a federally 
declared disaster (as defined in sec-
tion 165(i)(5)(A)) occurring after De-
cember 31, 2011, and before January 
1, 2023, and

“(II) occurring in a disaster area 
(as defined in section 165(i)(5)(B)), 
and

“(ii) the deduction for the taxable 
year for qualified disaster expenses which 
is allowable under section 198A(a), or
which would be so allowable if not otherwise treated as an expense, or

“(B) the net operating loss for the taxable year in which the taxpayer had the losses described in subparagraph (A).

“(2) EXCLUSION.—The term ‘qualified disaster loss’ shall not include any loss with respect to any property described in section 1400N(p)(3).

“(3) COORDINATION WITH SUBSECTION (b)(2).—For purposes of applying subsection (b)(2), a qualified disaster loss for any taxable year shall be treated in a manner similar to the manner in which a specified liability loss is treated.

“(4) ELECTION.—Any taxpayer entitled to a 5-year carryback under subsection (b)(1)(G) from any loss year may elect to have the carryback period with respect to such loss year determined without regard to subsection (b)(1)(G). Such election shall be made in such manner as may be prescribed by the Secretary and shall be made by the due date (including extensions of time) for filing the taxpayer’s return for the taxable year of the net operating loss. Such election, once made for any taxable year, shall be irrevocable for such taxable year.”.
(c) Effective Date.—The amendments made by this section shall apply to losses arising in taxable years beginning after December 31, 2011.

SEC. 103. INCREASE IN NEW MARKETS TAX CREDIT FOR INVESTMENTS IN COMMUNITY DEVELOPMENT ENTITIES SERVING DISASTER AREAS.

(a) In General.—Subsection (f) of section 45D of the Internal Revenue Code of 1986 is amended by adding at the end the following new paragraph:

"(4) Increased special allocation for community development entities serving disaster areas.—

"(A) In general.—In the case of each calendar year beginning after the date of the enactment of the National Disaster Tax Relief Act of 2017 and before January 1, 2023, for which there is a limitation under paragraph (1), such limitation shall be increased by $500,000,000, to be allocated among qualified community development entities to make qualified low-income community investments within any covered federally declared disaster area.

"(B) Allocation of increase.—The amount of the increase in limitation under subparagraph (A) shall be allocated by the Sec-
retary under paragraph (2) to qualified commu-

nity development entities and shall give priority
to such entities with a record of having success-
fully provided capital or technical assistance to
businesses or communities within any covered
federally declared disaster area or areas for
which the allocation is requested.

“(C) Application of carryforward.—

Paragraph (3) shall be applied separately with
respect to the amount of any increase under
subparagraph (A).

“(D) Covered federally declared
disaster area.—For purposes of this para-
graph, the term ‘covered federally declared dis-
aster area’ means any disaster area with re-
spect to which a federally declared disaster is
declared which occurs after December 31, 2011,
and before January 1, 2023. For purposes of
the preceding sentence, the terms ‘federally de-
clared disaster’ and ‘disaster area’ have the
meanings given such terms in section
165(i)(5).”.

(b) Effective Date.—The amendments made by
this section shall apply to calendar years beginning after
December 31, 2016.
SEC. 104. EXCLUSIONS OF CERTAIN CANCELLATIONS OF INDEBTEDNESS BY REASON OF DISASTERS.

(a) In General.—Section 108 of the Internal Revenue Code of 1986 is amended by adding at the end the following new subsection:

“(j) Discharge of Indebtedness for Individuals Affected by Disasters.—

“(1) In General.—Except as provided in paragraph (2), gross income shall not include any amount which (but for this subsection) would be includible in gross income by reason of any discharge (in whole or in part) of indebtedness of a natural person described in paragraph (3) by an applicable entity (as defined in section 6050P(c)(1)) during the applicable period.

“(2) Exceptions for Business Indebtedness.—Paragraph (1) shall not apply to any indebtedness incurred in connection with a trade or business.

“(3) Persons Described.—A natural person is described in this paragraph if, with respect to any federally declared disaster occurring after December 31, 2011, and before January 1, 2023, the principal place of abode of such person on the applicable disaster date was located in the disaster area.
“(4) APPLICABLE PERIOD.—For purposes of this subsection, the term ‘applicable period’ means the period beginning on the applicable disaster date and ending on the date which is 24 months after such date.

“(5) OTHER DEFINITIONS.—For purposes of this subsection—

“(A) FEDERALLY DECLARED DISASTER; DISASTER AREA.—The terms ‘federally declared disaster’ and ‘disaster area’ have the meanings given such terms under section 165(i)(5).

“(B) APPLICABLE DISASTER DATE.—The term ‘applicable disaster date’ means, with respect to any federally declared disaster, the date on which such federally declared disaster occurs.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to discharges made on or after December 31, 2015.

SEC. 105. ADVANCED REFUNDINGS OF CERTAIN TAX-EXEMPT BONDS.

(a) IN GENERAL.—Section 149(d) of the Internal Revenue Code of 1986 is amended by redesignating paragraph (7) as paragraph (8) and by inserting after paragraph (6) the following new paragraph:
“(7) Special rule with respect to certain natural disasters.—

“(A) In general.—With respect to a bond described in subparagraph (C), 1 additional advance refunding after the date of the enactment of the National Disaster Tax Relief Act of 2017 and before January 1, 2023, shall be allowed under the rules of this subsection if—

“(i) the Governor of the State designates the advance refunding bond for purposes of this subsection, and

“(ii) the requirements of subparagraph (E) are met.

“(B) Certain private activity bonds.—Subparagraph (A) shall apply with respect to a bond described in subparagraph (C) which is an exempt facility bond described in paragraph (1) or (2) of section 142(a) notwithstanding paragraph (2) of this subsection.

“(C) Bonds described.—A bond is described in this paragraph if, with respect to any federally declared disaster, such bond—

“(i) was outstanding on the applicable disaster date, and
“(ii) is issued by an applicable State or a political subdivision thereof.

“(D) Aggregate Limit.—The maximum aggregate face amount of bonds outstanding on any applicable disaster date which may be designated under this subsection by the Governor of a State shall not exceed $2,000,000,000.

“(E) Additional Requirements.—The requirements of this subparagraph are met with respect to any advance refunding of a bond described in subparagraph (C) if—

“(i) no advance refundings of such bond would be allowed under this title on or after the applicable disaster date,

“(ii) the advance refunding bond is the only other outstanding bond with respect to the refunded bond, and

“(iii) the requirements of section 148 are met with respect to all bonds issued under this paragraph.

“(F) Definitions.—For purposes of this subsection—

“(i) Federally Declared Disaster; Disaster Area.—The terms ‘federally declared disaster’ and ‘disaster area’
have the meanings given such terms under section 165(i)(5).

“(ii) Applicable disaster date.— The term ‘applicable disaster date’ means, with respect to any federally declared disaster, the date on which such federally declared disaster occurs.

“(iii) Applicable state.— The term ‘applicable State’ means, with respect to any federally declared disaster, any State in which a portion of the disaster area is located.”.

(b) Effective Date.—The amendment made by this section shall apply to bonds issued after the date of the enactment of this Act.

SEC. 106. ADDITIONAL LOW-INCOME HOUSING CREDIT ALLOCATIONS.

(a) In General.—Paragraph (3) of section 42(h) of the Internal Revenue Code of 1986 is amended by adding at the end the following new subparagraph:

“(J) Increase in state housing credit for states damaged by natural disasters.—

“(i) In general.—In the case of any calendar year beginning after the date of...
the enactment of the National Disaster
Tax Relief Act of 2017 and before January
1, 2023, the State housing credit ceiling of
each State any portion of which includes
any portion of a qualifying disaster area
shall be increased by so much of the aggre-
gate housing credit dollar amount as does
not exceed the applicable limitation allo-
cated by the State housing credit agency of
such State for such calendar year to build-
ings located in qualifying disaster areas.

“(ii) APPLICABLE LIMITATION.—For
purposes of clause (i), the applicable limi-
tation is the greater of—

“(I) $8 multiplied by the popu-
lation of the qualifying disaster areas
in such State, or

“(II) 50 percent of the State
housing credit ceiling (determined
without regard to this subparagraph)
for 2017.

“(iii) APPLICABLE PERCENTAGE.—
For purposes of this section, the applicable
percentage with respect to any building to
which amounts are allocated under clause
(i) shall be determined under subsection (b)(2).

“(iv) Allocations treated as made first from additional allocation amount for purposes of determining carryover.—For purposes of determining the unused State housing credit ceiling under subparagraph (C) for any calendar year, any increase in the State housing credit ceiling under clause (i) shall be treated as an amount described in clause (ii) of such subparagraph.

“(v) Qualifying disaster area.— For purposes of this subparagraph, the term ‘qualifying federally declared disaster area’ means—

“(I) each county which is determined to warrant individual or individual and public assistance from the Federal Government under a qualifying natural disaster declaration described in clause (vi)(I), and

“(II) each county not described in subclause (I) which is included in the geographical area covered by a

...
qualifying natural disaster declaration described in subclause (II) or (III) of clause (vi).

“(vi) QUALIFYING NATURAL DISASTER DECLARATION.—For purposes of clause (v), the term ‘qualifying natural disaster declaration’ means—

“(I) a federally declared disaster (as defined in section 165(i)(5)) occurring after December 31, 2011, and before January 1, 2023, or

“(II) a natural disaster declared by the Secretary of Agriculture.”.

(b) ELIGIBILITY FOR DIFFICULT DEVELOPMENT AREA.—For purposes of section 42 of the Internal Revenue Code of 1986, any area located in a disaster area (as defined in section 165(i)(5)(B) of the Internal Revenue Code of 1986) shall be designated a difficult development area for purposes of section 42(d)(5)(B)(iii) of such Code for any 24-month period following the date of a federally declared disaster, if the area qualifies to be such a difficult development area at any time within such 24-month period.
(c) **Effective Date.**—The amendment made by this section shall take effect on the date of the enactment of this Act.

**TITLE II—PERMANENT DISASTER TAX RELIEF PROVISIONS**

**SEC. 201. EXCLUSION FOR DISASTER MITIGATION PAYMENTS RECEIVED FROM STATE AND LOCAL GOVERNMENTS.**

(a) **IN GENERAL.**—Paragraph (2) of section 139(g) of the Internal Revenue Code of 1986 is amended by inserting ‘‘, or any other amount which is paid by a State or local government or an agency or instrumentality thereof,’’ after ‘‘(as in effect on such date)’’.

(b) **Effective Date.**—The amendment made by this section shall apply to payments received after the date of the enactment of this Act.

**SEC. 202. CATASTROPHE SAVINGS ACCOUNTS.**

(a) **IN GENERAL.**—Subchapter F of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new part:

‘‘PART IX—CATASTROPHE SAVINGS ACCOUNTS

‘‘SEC. 530A. CATASTROPHE SAVINGS ACCOUNTS.

‘‘(a) **General Rule.**—A Catastrophe Savings Account shall be exempt from taxation under this subtitle.
Notwithstanding the preceding sentence, such account shall be subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable organizations).

“(b) CATASTROPHE SAVINGS ACCOUNT.—For purposes of this section, the term ‘Catastrophe Savings Account’ means a trust created or organized in the United States for the exclusive benefit of an individual or the individual’s beneficiaries and which is designated (in such manner as the Secretary shall prescribe) at the time of the establishment of the trust as a Catastrophe Savings Account, but only if the written governing instrument creating the trust meets the following requirements:

“(1) Except in the case of a qualified rollover contribution—

“(A) no contribution will be accepted unless it is in cash, and

“(B) contributions will not be accepted in excess of the account balance limit specified in subsection (c).

“(2) The trustee is a bank (as defined in section 408(n)) or another person who demonstrates to the satisfaction of the Secretary that the manner in which that person will administer the trust will be consistent with the requirements of this section.
“(3) The interest of an individual in the balance of the individual’s account is nonforfeitable.

“(4) The assets of the trust shall not be commingled with other property except in a common trust fund or common investment fund.

“(c) ACCOUNT BALANCE LIMIT.—

“(1) IN GENERAL.—The aggregate account balance for all Catastrophe Savings Accounts maintained for the benefit of an individual (including qualified rollover contributions) shall not exceed—

“(A) in the case of an individual whose qualified deductible is not more than $1,000, $75,000, and

“(B) in the case of an individual whose qualified deductible is more than $1,000, $150,000.

“(2) QUALIFIED DEDUCTIBLE.—For purposes of this subsection, with respect to an individual, the term ‘qualified deductible’ means the annual deductible for the individual’s homeowners’ insurance policy.

“(d) QUALIFIED ROLLOVER CONTRIBUTION.—For purposes of this section, the term ‘qualified rollover contribution’ means a contribution to a Catastrophe Savings Account—
“(1) from another such account of the same beneficiary, but only if such amount is contributed not later than the 60th day after the distribution from such other account, and

“(2) from a Catastrophe Savings Account of a spouse of the beneficiary of the account to which the contribution is made, but only if such amount is contributed not later than the 60th day after the distribution from such other account.

“(e) TAX TREATMENT OF DISTRIBUTIONS.—

“(1) IN GENERAL.—Any distribution from a Catastrophe Savings Account shall be includible in the gross income of the distributee in the manner provided in section 72.

“(2) DISTRIBUTIONS FOR QUALIFIED CATAS-TROPHE EXPENSES.—

“(A) IN GENERAL.—No amount shall be includible in gross income under paragraph (1) if the aggregate distributions during the taxable year do not exceed the qualified catastrophe expenses of the distributee during such taxable year.

“(B) DISTRIBUTIONS IN EXCESS OF EXPENSES.—If such aggregate distributions exceed such expenses during the taxable year, the
amount otherwise includible in gross income under paragraph (1) shall be reduced by the amount which bears the same ratio to the amount which would be includible in gross income under paragraph (1) (without regard to this subparagraph) as the qualified catastrophe expenses bear to such aggregate distributions.

“(3) ADDITIONAL TAX FOR DISTRIBUTIONS NOT USED FOR QUALIFIED CATASTROPHE EXPENSES.—The tax imposed by this chapter for any taxable year on any taxpayer who receives a payment or distribution from a Catastrophe Savings Account which is includible in gross income shall be increased by 10 percent of the amount which is so includible.

“(4) QUALIFIED CATASTROPHE EXPENSES.—For purposes of this subsection, the term ‘qualified catastrophe expenses’ means expenses paid or incurred by reason of a major disaster that has been declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

“(5) EXCEPTION FOR RETIREMENT DISTRIBUTIONS.—No amount shall be includible in gross income under paragraph (1) (or subject to an additional tax under paragraph (3)) if the payment or
distribution is made on or after the date on which
the distributee attains age 62.

“(f) Tax Treatment of Accounts.—Rules similar
to the rules of paragraphs (2) and (4) of section 408(e)
shall apply to any Catastrophe Savings Account.”.

(b) Tax on Excess Contributions.—

(1) In General.—Subsection (a) of section
4973 of the Internal Revenue Code of 1986 is
amended by striking “or” at the end of paragraph
(5), by inserting “or” at the end of paragraph (6),
and by inserting after paragraph (6) the following
new paragraph:

“(7) a Catastrophe Savings Account (as defined
in section 530A(b)),”.

(2) Excess Contribution.—Section 4973 of
such Code is amended by adding at the end the fol-
lowing new subsection:

“(i) Excess Contributions to Catastrophe Sav-
ings Accounts.—For purposes of this section, in the
case of a Catastrophe Savings Account (as defined in sec-
tion 530A(b)), the term ‘excess contributions’ means the
amount by which the aggregate account balance for all Ca-
tastrophe Savings Accounts maintained for the benefit of
an individual exceeds the account balance limit under sec-
tion 530A(e)(1).”.
(c) Conforming Amendment.—The table of parts for subchapter F of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:

“PART IX—CATASTROPHE SAVINGS ACCOUNTS”.

(d) Contributions From Insurance Companies.—Subsection (c) of section 832 of the Internal Revenue Code of 1986 is amended by striking “and” at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting “; and”, and by adding at the end the following new paragraph:

“(14) contributions to a Catastrophe Savings Account (as defined in section 530A(b)) during the taxable year to the extent such contributions are not excess contributions (as defined in section 4973(i)).”.

(e) Custodial Accounts Treated as Trust.—For purposes of this section, a custodial account shall be treated as a trust if—

(1) the assets of such account are held by a bank (as defined in section 408(n) of the Internal Revenue Code of 1986) or another person who demonstrates, to the satisfaction of the Secretary of the Treasury, that the manner in which such person will administer the account will be consistent with the requirements of this section, and
(2) the custodial account would, except for the fact that it is not a trust, constitute a Catastrophe Savings Account (as defined in section 530A(b) of the Internal Revenue Code of 1986).

In the case of a custodial account treated as a trust by reason of the preceding sentence, the custodian of such account shall be treated as the trustee thereof for purposes of the Internal Revenue Code of 1986.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2017.

TITLE III—OTHER PERMANENT TAX PROVISIONS

SEC. 301. REPEAL OF LIMITATION ON COVER OVER OF DISTILLED SPIRITS TAXES TO VIRGIN ISLANDS AND PUERTO RICO.

(a) IN GENERAL.—Section 7652 of the Internal Revenue Code of 1986 is amended by striking subsection (f) and by redesignating subsections (g) and (h) as subsections (f) and (g), respectively.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to distilled spirits brought into the United States after December 31, 2016.
SEC. 302. DEDUCTION FOR INCOME ATTRIBUTABLE TO DOMESTIC PRODUCTION ACTIVITIES IN PUERTO RICO MADE PERMANENT.

(a) In General.—Section 199(d)(8) of the Internal Revenue Code of 1986 is amended by striking subparagraph (C).

(b) Effective Date.—The amendment made by this section shall apply to taxable years beginning after December 31, 2016.

SEC. 303. REFUNDABLE CHILD TAX CREDIT PARITY FOR RESIDENTS OF PUERTO RICO, AMERICAN SAMOA, GUAM, THE NORTHERN MARIANA ISLANDS, AND THE VIRGIN ISLANDS.

(a) Treatment of Non-Mirror Code Possessions.—Section 24(d) of the Internal Revenue Code of 1986 is amended by inserting after paragraph (2) the following new paragraph:

“(3) Special rule for Puerto Rico and American Samoa.—In the case of an individual who is a bona fide resident of Puerto Rico or American Samoa during the entire taxable year—

“(A) paragraph (1)(B)(i) shall not apply, and

“(B) paragraph (1)(B)(ii) shall be applied without regard to the number of qualifying children of the taxpayer.”.
(b) TREATMENT OF MIRROR CODE POSSESSIONS.—

(1) IN GENERAL.—The Secretary of the Treas-
ury shall pay to each mirror code possession of the
United States amounts equal to the loss to that pos-
session by reason of the application of section 24(d)
of the Internal Revenue Code of 1986 (determined
as if paragraph (3) thereof, as added by this section,
applied to bona fide residents of that possession)
with respect to taxable years beginning after Decem-
ber 31, 2017. Such amounts shall be determined by
the Secretary of the Treasury based on information
provided by the government of the respective posses-
sion.

(2) POSSESSION OF THE UNITED STATES.—For
purposes of this subsection, the term “mirror code
possession of the United States” means Guam, the
Northern Mariana Islands, and the Virgin Islands.

(3) TREATMENT OF PAYMENTS.—For purposes
of section 1324(b)(2) of title 31, United States
Code, the payments under this subsection shall be
treated in the same manner as a refund due from
the credit allowed under section 24 of the Internal
Revenue Code of 1986 by reason of subsection (d)
of such section.
(c) Effective Date.—The amendment made by this section shall apply to taxable years beginning after December 31, 2017.

TITLE IV—TREATMENT OF CERTAIN POSSESSIONS

SEC. 401. TREATMENT OF POSSESSIONS.

(a) Payments to Possessions.—

(1) Mirror code possessions.—The Secretary of the Treasury shall pay to each possession of the United States with a mirror code tax system amounts equal to the loss to that possession by reason of the application of sections 101, 104, and 201. Such amounts shall be determined by the Secretary of the Treasury based on information provided by the government of the respective possession.

(2) Other possessions.—The Secretary of the Treasury shall pay to each possession of the United States which does not have a mirror code tax system amounts estimated by the Secretary of the Treasury as being equal to the aggregate benefits that would have been provided to residents of such possession by reason of the application of sections 101, 104, and 201 if a mirror code tax system had been in effect in such possession. The preceding sentence shall not apply with respect to any possession...
of the United States unless such possession has a plan, which has been approved by the Secretary of the Treasury, under which such possession will promptly distribute such payments to the residents of such possession.

(b) COORDINATION WITH CREDIT ALLOWED AGAINST UNITED STATES INCOME TAXES.—No increase in any credit, deduction, or exclusion determined under section 198A, 108(j), or 139(g) of the Internal Revenue Code of 1986 against United States income taxes for any taxable year shall be taken into account with respect to any person—

(1) to whom the corresponding credit, deduction, or exclusion is allowed against taxes imposed by the possession by reason of section 101, 104, or 201, whichever is applicable, for such taxable year, or

(2) who is eligible for a payment under a plan described in subsection (a)(2) with respect to such credit, deduction, or exclusion for the taxable year.

(c) DEFINITIONS AND SPECIAL RULES.—

(1) POSSESSION OF THE UNITED STATES.—For purposes of this subsection, the term “possession of the United States” includes the Commonwealth of
Puerto Rico and the Commonwealth of the Northern Marianas.

(2) **Mirror Code Tax System.**—For purposes of this subsection, the term “mirror code tax system” means, with respect to any possession of the United States, the income tax system of such possession if the income tax liability of the residents of such possession under such system is determined by reference to the income tax laws of the United States as if such possession were the United States.

(3) **Treatment of Payments.**—For purposes of section 1324(b)(2) of title 31, United States Code, rules similar to the rules of section 1001(b)(3)(C) of the American Recovery and Reinvestment Tax Act of 2009 shall apply.