118TH CONGRESS
1st Session
HOUSE OF REPRESENTATIVES
REPORT
118–129

TAX CUTS FOR WORKING FAMILIES ACT

JUNE 30, 2023.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SMITH of Missouri, from the Committee on Ways and Means, submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 3936]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 3936) to amend the Internal Revenue Code of 1986 to rename the standard deduction the guaranteed deduction, and to add a bonus amount to the guaranteed deduction for taxable years 2024 and 2025, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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39–006

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Tax Cuts for Working Families Act".

SEC. 2. STANDARD DEDUCTION RENAMED GUARANTEED DEDUCTION.

(a) IN GENERAL.—Section 63 of the Internal Revenue Code of 1986 is amended—

(1) by striking "standard deduction" each place it appears and inserting "guaranteed deduction", and

(2) in subsection (c)—

(A) in the heading, by striking "STANDARD DEDUCTION" and inserting "GUARANTEED DEDUCTION",

(B) in the heading of paragraph (2), by striking "STANDARD DEDUCTION" and inserting "GUARANTEED DEDUCTION",

(C) in the heading of paragraph (3), by striking "STANDARD DEDUCTION" and inserting "GUARANTEED DEDUCTION",

(D) in the heading of paragraph (5), by striking "STANDARD DEDUCTION" and inserting "GUARANTEED DEDUCTION",

(E) in the heading of paragraph (6), by striking "STANDARD DEDUCTION" and inserting "GUARANTEED DEDUCTION", and

(F) in the heading of paragraph (7)(A), by striking "STANDARD DEDUCTION" and inserting "GUARANTEED DEDUCTION".

(b) CONFORMING AMENDMENTS.—

(1) Section 1(g)(4)(A) of such Code is amended by striking "standard deduction" and inserting "guaranteed deduction".

(2) Section 56(b)(1)(D) of such Code is amended—

(A) in the heading, by striking "STANDARD DEDUCTION" and inserting "GUARANTEED DEDUCTION", and

(B) by striking "standard deduction" and inserting "guaranteed deduction".

(3) Section 861(b) of such Code is amended by striking "standard deduction" and inserting "guaranteed deduction".

(4) Section 862(b) of such Code is amended by striking "standard deduction" and inserting "guaranteed deduction".

(5) Section 1398(c) of such Code is amended—

(A) in the heading, by striking "STANDARD DEDUCTION" and inserting "GUARANTEED DEDUCTION",

(B) in the heading of paragraph (3), by striking "STANDARD DEDUCTION" and inserting "GUARANTEED DEDUCTION", and

(C) by striking "standard deduction" and inserting "guaranteed deduction".

(6) Section 3402 of such Code is amended by striking "standard deduction" each place it appears and inserting "guaranteed deduction".

(7) Section 6012 of such Code is amended by striking "standard deduction" each place it appears and inserting "guaranteed deduction".

(8) Section 6013(b)(3)(A) of such Code is amended by striking "standard deduction" and inserting "guaranteed deduction".

(9) Section 6014(b)(4) of such Code is amended by striking "standard deduction" and inserting "guaranteed deduction".

(10) Section 6334 of such Code is amended by striking "standard deduction" each place it appears and inserting "guaranteed deduction".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2023.

SEC. 3. BONUS GUARANTEED DEDUCTION FOR 2024 AND 2025.

(a) IN GENERAL.—Section 63(c) of the Internal Revenue Code of 1986 (as amended by section 2) is amended by adding at the end the following new paragraph:

"(8) BONUS GUARANTEED DEDUCTION FOR TAXABLE YEARS 2024 AND 2025.—

"(A) IN GENERAL.—In the case of a taxable year beginning after December 31, 2023, and before January 1, 2026, the guaranteed deduction shall be increased by the amount of the bonus guaranteed deduction.

"(B) BONUS GUARANTEED DEDUCTION.—For purposes of this paragraph, the bonus guaranteed deduction is—

"(i) twice the dollar amount in effect under clause (iii) in the case of a joint return or a surviving spouse (as defined in section 2(a)),

"(ii) $3,000 in the case of a head of household, and

"(iii) $2,000 in any other case.

"(C) ADJUSTMENT FOR INFLATION.—In the case of a taxable year beginning after 2024, the dollar amounts in clauses (ii) and (iii) of subparagraph (B) shall each be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting '2023' for '2016' in subparagraph (A)(ii) thereof.

If any increase under this subparagraph is not a multiple of $50, such increase shall be rounded to the next lowest multiple of $50.

"(D) LIMITATION ON BONUS GUARANTEED DEDUCTION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(i) IN GENERAL.—The bonus guaranteed deduction determined under subparagraph (B) shall be reduced (but not below zero) by 5 percent of so much of the taxpayer's modified adjusted gross income as exceeds the threshold amount. For purposes of the preceding sentence, the term 'modified adjusted gross income' means adjusted gross income increased by any amount excluded from gross income under section 911, 931, or 933.

"(ii) THRESHOLD AMOUNT.—For purposes of clause (i), the threshold amount is—

"(I) $400,000 in the case of a joint return or a surviving spouse (as defined in section 2(a)),

"(II) $300,000 in the case of a head of household, and

"(III) $200,000 in any other case.

"(E) BONUS GUARANTEED DEDUCTION NOT ALLOWED TO DEPENDENTS.—In the case of any individual with respect to whom paragraph (5) applies for any taxable year, subparagraph (A) shall not apply.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2023.

I. SUMMARY AND BACKGROUND

A. PURPOSE AND SUMMARY

The bill, H.R. 3936, the "Tax Cuts for Working Families Act," as ordered reported by the Committee on Ways and Means on June 13, 2023, provides tax relief to working families.

B. BACKGROUND AND NEED FOR LEGISLATION

This legislation provides tax cuts to working class families that are struggling to make ends meet in the current economy by helping them keep more of their hard-earned dollars. By renaming the Standard Deduction the Guaranteed Deduction, Americans can expect certainty from the Tax Code. Additionally, this bill provides a new $4,000 Guaranteed Deduction Bonus for families ($2,000 for single filers) for the next two years to provide relief during the current economic hardships.

In the 2017 Tax Cuts and Jobs Act, Congressional Republicans doubled the Guaranteed Deduction—simplifying the tax filing process and providing tax cuts to low-and middle-income families. Prior to the 2017 tax reform, two-thirds of Americans took the Guaranteed Deduction. Today, over 90 percent of filers claim the Guaranteed Deduction.

The Tax Cuts for Working Families Act builds on the success of the 2017 tax law, providing a necessary response to the crippling inflation and other economic challenges faced by American families. Under this provision, taxpayers will not owe federal income tax on their first $68,000 of income. Over 107 million American households will keep more of their hard-earned dollars.

C. Legislative History

Background

H.R. 3936 was introduced on June 12, 2023, and was referred to the Committee on Ways and Means.

Committee hearings

On February 6, 2023, the Committee held a Field Hearing on the State of the American Economy: Appalachia in Petersburg, West Virginia.

On March 7, 2023, the Committee held a Field Hearing on the State of the American Economy: The Heartland in Yukon, Oklahoma.

On April 21, 2023, the Committee held a Field Hearing on the State of the American Economy: The South in Peachtree, Georgia.

Committee action

The Committee on Ways and Means marked up H.R. 3936, the "Tax Cuts for Working Families Act," on June 13, 2023, and ordered the bill, as amended, favorably reported (with a quorum being present).

D. Designated Hearings

Pursuant to clause 3(c)(6) of rule XIII, the following hearings were used to consider H.R. 3936:

Committee on Ways and Means hearing which took place on February 6, 2023, entitled, "the State of the American Economy: Appalachia".

Committee on Ways and Means hearing which took place on March 7, 2023, entitled, "the State of the American Economy: The Heartland".

Committee on Ways and Means hearing which took place on April 21, 2023, entitled: "the State of the American Economy: The South".

II. EXPLANATION OF THE BILL

A. Increase in Standard Deduction (Sec. 1 of the Bill and Sec. 63 of the Code)

PRESENT LAW

An individual who does not elect to itemize deductions reduces adjusted gross income ("AGI") by the amount of the applicable standard deduction in arriving at taxable income. The standard deduction is the sum of the basic standard deduction and, if applicable, the additional standard deduction.[1] The basic standard deduc-

[1] Sec. 63(c)(1).

tion varies depending upon a taxpayer's filing status. For taxable years beginning in 2023, the amount of the basic standard deduction is $13,850 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return,[2] $20,800 for a head of household, and $27,700 for married individuals filing a joint return and a surviving spouse.[3] An additional standard deduction is allowed to an individual who has attained age 65 before the close of the taxable year or is blind at the close of the taxable year.[4]

In the case of a dependent for whom a deduction for a personal exemption[5] is allowable to another taxpayer, the standard deduction may not exceed the greater of (i) $1,250 (in 2023) or (ii) the sum of $400 (in 2023) plus the dependent's earned income.[6] The standard deduction for an estate or trust is zero.[7]

The amount of the standard deduction is indexed annually for inflation.[8]

REASONS FOR CHANGE

The Committee wishes to provide additional tax relief for low- and middle-income taxpayers with positive tax liability to counteract the effects of high inflation on such taxpayers' spending power. The Committee believes that such relief can be provided through a simple additional deduction for taxpayers below certain high-income thresholds. The Committee believes that renaming the "standard deduction" the "guaranteed deduction" will better describe its function.

EXPLANATION OF PROVISION

The provision renames the "standard deduction" the "guaranteed deduction." The terms "basic standard deduction" and "additional standard deduction" are similarly renamed the "basic guaranteed deduction" and "additional guaranteed deduction," respectively.

The provision adds a new bonus guaranteed deduction for taxable years beginning after December 31, 2023, and before January 1, 2026. The bonus guaranteed deduction is allowed in addition to the basic guaranteed deduction and additional guaranteed deduction (i.e., the guaranteed deduction is the sum of the basic guaranteed deduction, the additional guaranteed deduction, and, if applicable, the bonus guaranteed deduction).

For taxable years beginning in 2024, the amount of the bonus guaranteed deduction is $2,000 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, $3,000 for a head of household, and, for married individuals filing a joint return and for a sur-

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[2] In the case of a married individual filing a separate return where either spouse itemizes deductions, the standard deduction is zero. Sec. 63(c)(6).

[3] Rev. Proc. 2022–38, 2022–45 I.R.B. 445, November 7, 2022.

[4] Sec. 63(f). For 2023, the additional amount is $1,500 for a married taxpayer (for each spouse meeting the applicable criteria in the case of a joint return) and surviving spouses. The additional amount for single individuals and heads of households is $1,850. An individual who is both blind and has attained age 65 is entitled to two additional standard deductions, for a total additional amount (for 2023) of $3,000 or $3,700, as applicable.

[5] For taxable years beginning in 2018 through 2025, the personal exemption amount is reduced to zero. Sec. 151(d)(5). This reduction is not taken into account in determining the limitation on the standard deduction for dependents. See sec. 151(d)(5).

[6] Sec. 63(c)(5).

[7] Sec. 63(f).

[8] Sec. 63(c)(4) and (c)(7)(B).

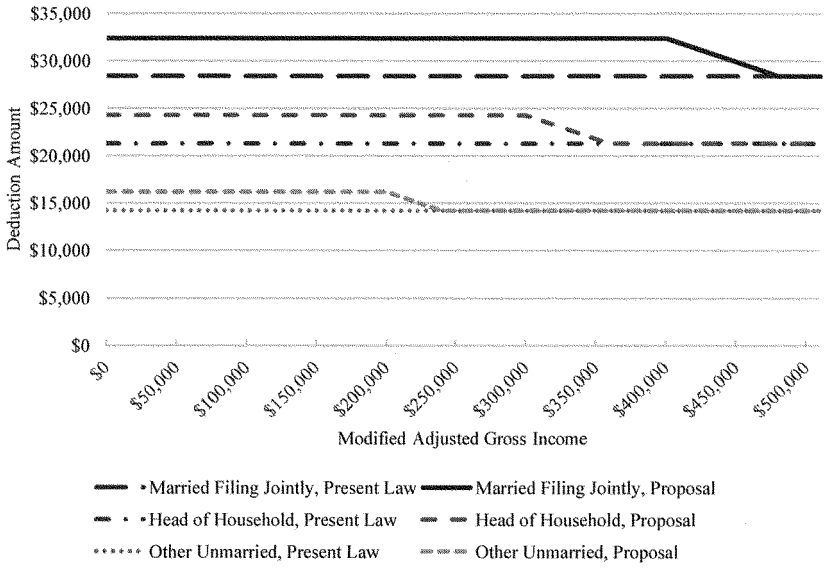
viving spouse, twice the amount for an unmarried individual and a married individual filing a separate return ($4,000). For taxable years beginning in 2025, the $2,000 and $3,000 amounts are indexed for inflation, and the amount for married individuals filing a joint return and for a surviving spouse is twice the inflation-adjusted amount for an unmarried individual. The bonus guaranteed deduction does not apply to taxable years beginning after December 31, 2025.[9] The bonus guaranteed deduction is not allowed in the case of a dependent with respect to whom the section 63(c)(5) limitation on the basic guaranteed deduction applies (i.e., dependent for whom a deduction for a personal exemption is allowable to another taxpayer).

The bonus guaranteed deduction is phased out at a five-percent rate for taxpayers with modified AGI above certain thresholds. This threshold is $200,000 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, $300,000 for a head of household, and $400,000 for married individuals filing a joint return and a surviving spouse. Modified AGI means AGI increased by any amount excluded from gross income under sections 911 (foreign earned income exclusion), 931 (exclusion of income for a bona fide resident of American Samoa), or 933 (exclusion of income for a bona fide resident of Puerto Rico). In 2024, after application of the five-percent phaseout the bonus guaranteed deduction is fully eliminated at $240,000 of modified AGI for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, at $360,000 for a head of household, and at $480,000 for married individuals filing a joint return and a surviving spouse.[10] Figure 1 below, illustrates the amount of the guaranteed deduction under the provision in comparison with the amount of the standard deduction under present law allowed to different categories of taxpayers by modified AGI for 2024.

[9] The temporary increase in the standard deduction provided in present law section 63(c)(7) also expires for these years. For taxable years beginning on or after January 1, 2026, the standard deduction is determined using the amounts provided in present law section 63(c)(2).

[10] Because the bonus guaranteed deduction amounts are indexed for inflation in 2025, the modified AGI levels at which the bonus guaranteed deduction is fully phased out may increase in 2025. The modified AGI levels at which the phaseouts begin are not adjusted for inflation.

Figure 1.–Guaranteed and Standard Deduction by modified AGI, 2024



Source: Joint Committee staff estimates and calculations.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2023.

III. VOTES OF THE COMMITTEE

In compliance with the rules of the House of Representatives, the following statement is made concerning the vote of the Committee on Ways and Means during the markup consideration of H.R. 3936, the "Tax Cuts for Working Families Act," on June 13, 2023.

The vote on the motion to table the appeal of the ruling of the chair was agreed to by a roll call vote of 24 yeas to 18 nays (with a quorum being present). The vote was as follows:

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Smith (MO)	X			Mr. Neal		X	
Mr. Buchanan	X			Mr. Doggett		X	
Mr. Smith (NE)	X			Mr. Thompson		X	
Mr. Kelly	X			Mr. Larson		X	
Mr. Schweikert	X			Mr. Blumenauer		X	
Mr. LaHood	X			Mr. Pascrell		X	
Dr. Wenstrup	X			Mr. Davis		X	
Mr. Arrington	X			Ms. Sánchez		X	
Dr. Ferguson	X			Mr. Higgins		X	
Mr. Estes	X			Ms. Sewell		X	
Mr. Smucker	X			Ms. DelBene		X	
Mr. Hern	X			Ms. Chu		X	
Ms. Miller	X			Ms. Moore		X	
Dr. Murphy	X			Mr. Kildee		X	
Mr. Kustoff	X			Mr. Beyer		X	
Mr. Fitzpatrick	X			Mr. Evans		X	

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Steube				Mr. Schneider		X	
Ms. Tenney	X			Mr. Panetta		X	
Mrs. Fischbach	X						
Mr. Moore	X						
Mrs. Steel	X						
Ms. Van Duyne	X						
Mr. Feenstra	X						
Ms. Malliotakis	X						
Mr. Carey	X						

In compliance with the rules of the House of Representatives, the following statement is made concerning the vote of the Committee on Ways and Means during the markup consideration of H.R. 3936, the "Tax Cuts for Working Families Act," on June 13, 2023.

The vote on the amendment offered by Mr. Pascrell to the amendment in the nature of a substitute to H.R. 3936, which would provide tax relief to high income earners by increasing the cap on the state and local tax deduction to $60,000 in the case of single filers and $120,000 in the case of joint filers was not agreed to by a roll call vote of 14 yeas, 24 nays, and 1 present (with a quorum being present). The vote was as follows:

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Smith (MO)		X		Mr. Neal	X		
Mr. Buchanan		X		Mr. Doggett			
Mr. Smith (NE)		X		Mr. Thompson	X		
Mr. Kelly		X		Mr. Larson	X		
Mr. Schweikert		X		Mr. Blumenauer	X		
Mr. LaHood		X		Mr. Pascrell	X		
Dr. Wenstrup		X		Mr. Davis	X		
Mr. Arrington		X		Ms. Sánchez			
Dr. Ferguson		X		Mr. Higgins	X		
Mr. Estes		X		Ms. Sewell			X
Mr. Smucker		X		Ms. DelBene	X		
Mr. Hern		X		Ms. Chu	X		
Ms. Miller		X		Ms. Moore			
Dr. Murphy		X		Mr. Kildee	X		
Mr. Kustoff		X		Mr. Beyer	X		
Mr. Fitzpatrick		X		Mr. Evans	X		
Mr. Steube				Mr. Schneider	X		
Ms. Tenney		X		Mr. Panetta	X		
Mrs. Fischbach		X					
Mr. Moore		X					
Mrs. Steel		X					
Ms. Van Duyne		X					
Mr. Feenstra		X					
Ms. Malliotakis		X					
Mr. Carey		X					

In compliance with the rules of the House of Representatives, the following statement is made concerning the vote of the Committee on Ways and Means during the markup consideration of H.R. 3936, the "Tax Cuts for Working Families Act," on June 13, 2023.

The vote on the amendment offered by Mr. Schneider to the amendment in the nature of a substitute to H.R. 3936, which would complicate the tax code with a new deduction layered on top of the existing guaranteed deduction and deduction for charitable contributions was not agreed to by a roll call vote of 15 yeas and 24 nays (with a quorum being present). The vote was as follows:

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Smith (MO)		X		Mr. Neal	X		
Mr. Buchanan		X		Mr. Doggett			
Mr. Smith (NE)		X		Mr. Thompson	X		
Mr. Kelly		X		Mr. Larson	X		
Mr. Schweikert		X		Mr. Blumenauer	X		
Mr. LaHood		X		Mr. Pascrell	X		
Dr. Wenstrup		X		Mr. Davis	X		
Mr. Arrington		X		Ms. Sánchez			
Dr. Ferguson		X		Mr. Higgins	X		
Mr. Estes		X		Ms. Sewell			
Mr. Smucker		X		Ms. DelBene	X		
Mr. Hern		X		Ms. Chu	X		
Ms. Miller		X		Ms. Moore	X		
Dr. Murphy		X		Mr. Kildee	X		
Mr. Kustoff		X		Mr. Beyer	X		
Mr. Fitzpatrick		X		Mr. Evans	X		
Mr. Steube				Mr. Schneider	X		
Ms. Tenney		X		Mr. Panetta	X		
Mrs. Fischbach		X					
Mr. Moore		X					
Mrs. Steel		X					
Ms. Van Duyne		X					
Mr. Feenstra		X					
Ms. Malliotakis		X					
Mr. Carey		X					

In compliance with the rules of the House of Representatives, the following statement is made concerning the vote of the Committee on Ways and Means during the markup consideration of H.R. 3936, the "Tax Cuts for Working Families Act," on June 13, 2023.

The vote on the amendment offered by Ms. Chu to the amendment in the nature of a substitute to H.R. 3936, which would create a safe harbor for certain health care plans, allowing employers to be reimbursed for abortion-related services, including abortion and travel expenses was not agreed to by a roll call vote of 16 yeas and 24 nays (with a quorum being present). The vote was as follows:

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Smith (MO)		X		Mr. Neal	X		
Mr. Buchanan		X		Mr. Doggett	X		
Mr. Smith (NE)		X		Mr. Thompson	X		
Mr. Kelly		X		Mr. Larson	X		
Mr. Schweikert		X		Mr. Blumenauer	X		
Mr. LaHood		X		Mr. Pascrell	X		
Dr. Wenstrup		X		Mr. Davis	X		
Mr. Arrington		X		Ms. Sánchez			
Dr. Ferguson		X		Mr. Higgins	X		
Mr. Estes		X		Ms. Sewell			
Mr. Smucker		X		Ms. DelBene	X		
Mr. Hern		X		Ms. Chu	X		
Ms. Miller		X		Ms. Moore	X		
Dr. Murphy		X		Mr. Kildee	X		
Mr. Kustoff		X		Mr. Beyer	X		
Mr. Fitzpatrick		X		Mr. Evans	X		
Mr. Steube				Mr. Schneider	X		
Ms. Tenney		X		Mr. Panetta	X		
Mrs. Fischbach		X					
Mr. Moore		X					
Mrs. Steel		X					
Ms. Van Duyne		X					
Mr. Feenstra		X					
Ms. Malliotakis		X					

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Carey		X					

In compliance with the rules of the House of Representatives, the following statement is made concerning the vote of the Committee on Ways and Means during the markup consideration of H.R. 3936, the "Tax Cuts for Working Families Act," on June 13, 2023.

The vote on the amendment offered by Mr. Davis to the amendment in the nature of a substitute to H.R. 3936, which complicate the tax code with a new deduction layered on top of existing tax benefits for families, including the child tax credit and the child and dependent care tax credit was not agreed to by a roll call vote of 16 yeas and 24 nays (with a quorum being present). The vote was as follows:

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Smith (MO)		X		Mr. Neal	X		
Mr. Buchanan		X		Mr. Doggett	X		
Mr. Smith (NE)		X		Mr. Thompson	X		
Mr. Kelly		X		Mr. Larson	X		
Mr. Schweikert		X		Mr. Blumenauer	X		
Mr. LaHood		X		Mr. Pascrell	X		
Dr. Wenstrup		X		Mr. Davis	X		
Mr. Arrington		X		Ms. Sánchez			
Dr. Ferguson		X		Mr. Higgins	X		
Mr. Estes		X		Ms. Sewell			
Mr. Smucker		X		Ms. DelBene	X		
Mr. Hern		X		Ms. Chu	X		
Ms. Miller		X		Ms. Moore	X		
Dr. Murphy		X		Mr. Kildee	X		
Mr. Kustoff		X		Mr. Beyer	X		
Mr. Fitzpatrick		X		Mr. Evans	X		
Mr. Steube				Mr. Schneider	X		
Ms. Tenney		X		Mr. Panetta	X		
Mrs. Fischbach		X					
Mr. Moore		X					
Mrs. Steel		X					
Ms. Van Duyne		X					
Mr. Feenstra		X					
Ms. Malliotakis		X					
Mr. Carey		X					

In compliance with the Rules of the House of Representatives, the following statement is made concerning the vote of the Committee on Ways and Means during the markup consideration of H.R. 3936, the "Tax Cuts for Working Families Act" on June 13, 2023.

H.R. 3936 was ordered favorably reported to the House of Representatives as amended by a roll call vote of 24 yeas to 16 nays (with a quorum being present). The vote was as follows:

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Smith (MO)	X			Mr. Neal		X	
Mr. Buchanan	X			Mr. Doggett		X	
Mr. Smith (NE)	X			Mr. Thompson		X	
Mr. Kelly	X			Mr. Larson		X	
Mr. Schweikert	X			Mr. Blumenauer		X	
Mr. LaHood	X			Mr. Pascrell		X	
Dr. Wenstrup	X			Mr. Davis		X	
Mr. Arrington	X			Ms. Sánchez			
Dr. Ferguson	X			Mr. Higgins		X	
Mr. Estes	X			Ms. Sewell			

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Smucker	X			Ms. DelBene		X	
Mr. Hern	X			Ms. Chu		X	
Ms. Miller	X			Ms. Moore		X	
Dr. Murphy	X			Mr. Kildee		X	
Mr. Kustoff	X			Mr. Beyer		X	
Mr. Fitzpatrick	X			Mr. Evans		X	
Mr. Steube				Mr. Schneider		X	
Ms. Tenney	X			Mr. Panetta		X	
Mrs. Fischbach	X						
Mr. Moore	X						
Mrs. Steel	X						
Ms. Van Duyne	X						
Mr. Feenstra	X						
Ms. Malliotakis	X						
Mr. Carey	X						

IV. BUDGET EFFECTS OF THE BILL

A. Committee Estimate of Budgetary Effects

In compliance with clause 3(d) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the bill, H.R. 3936, as reported.

Fiscal years [1] millions of dollars—												
2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023–2028	2023–2033
	−28,614	−48,314	−19,492								−96,420	−96,420

[1] Estimate contains the following outlay effects:

2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023–2028	2023–2033
		4,359	4,462								8,821	8,821

B. Statement Regarding New Budget Authority and Tax Expenditures Budget Authority

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no new or increased budget authority. The Committee states further that the bill involves no new or increased tax expenditures.

C. Cost Estimate Prepared by the Congressional Budget Office

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974 is attached.

At a Glance

H.R. 3936, Tax Cuts for Working Families Act

As ordered reported by the House Committee on Ways and Means on June 13, 2023

By Fiscal Year, Millions of Dollars	2023	2023-2028	2023-2033
Direct Spending (Outlays)	0	8,821	8,821
Revenues	0	-87,599	-87,599
Increase or Decrease (-) in the Deficit	0	96,420	96,420
Spending Subject to Appropriation (Outlays)	0	*	not estimated

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2034?	No	Statutory pay-as-you-go procedures apply?	Yes
		Mandate Effects	
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2034?	No	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

* = between zero and $500,000

The bill would

- Rename the standard deduction the guaranteed deduction
- Establish a new bonus guaranteed deduction for tax years 2024 and 2025

Estimated budgetary effects would mainly stem from

- Reduced revenues and increased outlays attributable to the bonus guaranteed deduction for tax years 2024 and 2025

Areas of significant uncertainty include

- Anticipating the number of taxpayers who would switch from itemizing deductions to taking the temporarily increased guaranteed deduction for tax years 2024 and 2025

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) are the official estimates for all tax legislation considered by the Congress. CBO, therefore, incorporates such estimates into its cost estimates of the effects of legislation. Most of the estimates for the provisions of this bill were provided by JCT.

Bill summary: H.R. 3936 would amend portions of the Internal Revenue Code of 1986 that concern the standard deduction, which the bill would rename the guaranteed deduction. The bill also would establish a bonus guaranteed deduction for tax years 2024 and 2025. In tax year 2024, the guaranteed deduction would be increased by $2,000 for single filers, $3,000 for head-of-household filers, and $4,000 for joint filers. For tax year 2025, those amounts would be adjusted for inflation. The bonus guaranteed deduction would decrease by 5 percent of each additional dollar of modified adjusted gross income (a measure of income that adds back certain tax exclusions) above a certain threshold. The threshold would be $200,000 for single filers, $300,000 for head-of-household filers, and $400,000 for joint filers.

Estimated Federal cost: The estimated budgetary effect of H.R. 3936 is shown in Table 1. The costs of the legislation primarily fall within budget function 600 (income security).

TABLE 1.—ESTIMATED BUDGETARY EFFECTS OF H.R. 3936

	By Fiscal Year, Millions of Dollars—												
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023–2028	2023–2033
Increases in Direct Spending													
Estimated Budget Authority	0	0	4,359	4,462	0	0	0	0	0	0	0	8,821	8,821
Estimated Outlays	0	0	4,359	4,462	0	0	0	0	0	0	0	8,821	8,821
Decreases (−) in Revenues													
Estimated Revenues	0	−28,614	−43,955	−15,030	0	0	0	0	0	0	0	−87,599	−87,599
Net Increase in the Deficit From Changes in Direct Spending and Revenues													
Effect on the Deficit	0	28,614	48,314	19,492	0	0	0	0	0	0	0	96,420	96,420

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.
Components may not sum to totals because of rounding.
CBO estimates that implementing H.R. 3936 would increase spending subject to appropriation by less than $500,000 in any year over the 2023–2028 period.

Basis of estimate: The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) are the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates such estimates into its cost estimates of the effects of legislation. The estimates for the revenue and direct spending effects of H.R. 3936 were provided by JCT.[1]

For this estimate, JCT assumes that the bill will be enacted before the end of calendar year 2023 and that, except as otherwise specified, its provisions will take effect upon enactment.

Revenues and direct spending: H.R. 3936 would establish a new bonus guaranteed deduction for tax years 2024 and 2025. In tax year 2024, the guaranteed deduction would be increased by $2,000 for single filers, $3,000 for head-of-household filers, and twice the single-filer amount for joint filers ($4,000). For tax year 2025, those amounts would be adjusted for inflation. The bonus guaranteed deduction would decrease by 5 percent of each additional dollar of modified adjusted gross income above a certain threshold. The threshold would be $200,000 for single filers, $300,000 for head-of-household filers, and $400,000 for joint filers.

H.R. 3936 would reduce revenues from income tax receipts and increase outlays from refundable tax credits because the bonus guaranteed deduction would reduce the amount of income subject to taxation. Tax credits reduce a taxpayer's overall income tax liability; if the refundable portion of those credits exceeds other tax liabilities, the taxpayer may receive the excess in a refund. Such refunds are classified as outlays in the federal budget. JCT estimates that H.R. 3936 would reduce total revenues by $87.6 billion and increase total outlays by $8.8 billion over the 2023–2033 period.

[1] For JCT's preliminary estimates of the provisions that include detail beyond the summary presented here, see Joint Committee on Taxation, *Description of H.R. 3936, the "Tax Cuts for Working Families Act"* (JCX–25–23), June 9, 2023, www.jct.gov/publications/2023/jcx-25-23; other details are in Joint Committee on Taxation, *Description of the Chairman's Amendment in the Nature of a Substitute to H.R. 3936, The "Tax Cuts for Working Families Act"* (JCX–30–23), June 12, 2023, www.jct.gov/publications/2023/jcx-30-23.

Spending subject to appropriation: CBO estimates that implementing H.R. 3936 would increase administrative costs for the Internal Revenue Service by less than $500,000 over the 2023–2028 period. That spending would be subject to the availability of appropriated funds.

Uncertainty: JCT's estimates of the budgetary effects of H.R. 3936 are subject to uncertainty because they are made on the basis of underlying projections and other factors that could change significantly. In particular, the estimates here rely on CBO's economic projections for the next decade under current law and on expectations about the way taxpayers might respond to changes in tax law—in this case whether filers of returns for tax years 2024 and 2025 would switch from itemizing their deductions to taking the temporarily increased guaranteed deduction.

Pay-As-You-Go Considerations: The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in Table 2.

TABLE 2.—CBO'S ESTIMATE OF THE STATUTORY PAY-AS-YOU-GO EFFECTS OF H.R. 3936, THE TAX CUTS FOR WORKING FAMILIES ACT, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON WAYS AND MEANS ON JUNE 13, 2013

	By fiscal year, millions of dollars—												
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023–2028	2023–2033
Net Increase in the Deficit													
Pay-As-You-Go Effect	0	28,614	48,314	19,492	0	0	0	0	0	0	0	96,420	96,420
Memorandum:													
Changes in Outlays	0	0	4,359	4,462	0	0	0	0	0	0	0	8,821	8,821
Changes in Revenues	0	−28,614	−43,955	−15,030	0	0	0	0	0	0	0	−87,599	−87,599

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Increase in long-term net direct spending and deficits: None.

Mandates: None.

Estimate prepared by: Federal Revenues: Nathaniel Frentz, James Pearce, Staff of the Joint Committee on Taxation; Federal Costs: Matthew Pickford; Mandates: Andrew Laughlin, Staff of the Joint Committee on Taxation.

Estimate reviewed by: Joshua Shakin, Chief, Revenue Estimating Unit; Susan Willie, Chief, Natural and Physical Resources Cost Estimates Unit; Kathleen FitzGerald, Chief, Public and Private Mandates Unit; H. Samuel Papenfuss, Deputy Director of Budget Analysis; John McClelland, Director of Tax Analysis.

Estimate approved by: Phillip L. Swagel, Director, Congressional Budget Office.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee made findings and recommendations that are reflected in this report.

B. Statement of General Performance Goals and Objectives

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill does not authorize funding, so no statement of general performance goals and objectives is required.

C. Applicability of House Rule XXI, Clause 5(b)

Rule XXI 5(b) of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the bill, and states that the bill does not provide such a Federal income tax rate increase.

D. Tax Complexity Analysis

Section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998 (the "IRS Reform Act") requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Treasury Department) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the Senate Committee on Finance, the House Committee on Ways and Means, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code and has widespread applicability to individuals or small businesses.

Pursuant to clause 3(h)(1) of rule XIII of the Rules of the House of Representatives, for each such provision identified by the staff of the Joint Committee on Taxation, a summary description of the provision is provided below along with an estimate of the number and type of affected taxpayers, and a discussion regarding the relevant complexity and administrative issues.

Following the analysis of the staff of the Joint Committee on Taxation are the comments of the IRS and Treasury regarding the provision included in the complexity analysis.

LIST OF PROVISIONS IN THE COMPLEXITY ANALYSIS

Increase in standard deduction

Summary description of provision

The bill renames the standard deduction as the guaranteed deduction and adds an additional bonus guaranteed deduction for 2024 and 2025. For taxable years beginning in 2024, the amount of the bonus guaranteed deduction is $2,000 for an unmarried indi-

vidual (other than a head of household or a surviving spouse) and a married individual filing a separate return, $3,000 for a head of household, and $4,000 for married individuals filing a joint return and a surviving spouse. For taxable years beginning in 2025, these amounts are indexed for inflation.

The bonus guaranteed deduction is phased out at a five-percent rate for taxpayers with modified AGI above certain thresholds. This threshold is $200,000 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, $300,000 for a head of household, and $400,000 for married individuals filing a joint return and a surviving spouse.

Number of affected taxpayers

It is estimated that the provision will affect 110 million individual income tax filers.

Discussion

It is not anticipated that individuals will need to keep additional records due to this provision. It should not result in an increase in disputes with the IRS, nor will regulatory guidance be necessary to implement this provision.

The IRS will need to modify its forms and publications. The temporary nature of the provision will necessitate that the IRS do this again once the bonus guaranteed deduction expires. The IRS will need to modify its programming and training materials.

Some taxpayers who currently itemize deductions may respond to the provision by claiming the new guaranteed deduction (and bonus guaranteed deduction) in lieu of itemizing.

These taxpayers will no longer have to file Schedule A of Form 1040, a significant number of which will no longer need to engage in the record keeping inherent in itemizing below-the-line deductions. Moreover, by claiming the new guaranteed deduction, such taxpayers may qualify to use simpler versions of the Form 1040 (i.e., Form 1040EZ or Form 1040A) that are not available to individuals who itemize their deductions. These forms simplify the return preparation process by eliminating from the Form 1040 those items that do not apply to particular taxpayers.

This reduction in complexity and record keeping also may result in a decline in the number of individuals using a tax preparation service, or tax preparation software, or a decline in the cost of such service or software. The provision also should reduce the number of disputes between taxpayers and the IRS regarding the substantiation of itemized deductions.

Comments from IRS and Treasury

DEPARTMENT OF THE TREASURY,
INTERNAL REVENUE SERVICE,
Washington, DC, June 16, 2023.

Mr. THOMAS A. BARTHOLD,
Chief of Staff, Joint Committee on Taxation,
Washington, DC.

DEAR MR. BARTHOLD: I am responding to your letter dated June 13, 2023, in which you requested a complexity analysis related to the Committee Report for "H.R. 3936, Tax Cuts for Working Fami-

lies Act, H.R. 3937, Small Business Jobs Act, H.R. 3938, Build It in America Act."

Enclosed are the combined comments of the Internal Revenue Service (IRS) and the Department of the Treasury for inclusion in the complexity analysis in the Committee Report for "H.R. 3936, Tax Cuts for Working Families Act, H.R. 3937, Small Business Jobs Act, H.R. 3938, Build It in America Act."

Our analysis covers the five provisions that you preliminarily identified in your letter: increase in standard deduction, increase in threshold for requiring information reporting with respect to certain payees, restoration of reporting rule for third party network transactions, increase in limitations on expensing of depreciable business assets, and extension of 100 percent bonus depreciation. Please note that for purposes of this complexity analysis, IRS staff assumed timely enactment of this legislation. If legislation is not enacted before the end of the year, there would be complexity for IRS and for taxpayers that is not addressed in this response.

Our comments are based on the description of the provision provided in your letter. This analysis does not include the administrative cost estimates for the changes that would be required. Due to the short turnaround time, our comments are provisional and subject to change upon a more complete and in-depth analysis of the provisions.

I hope this information is helpful. If you have any questions, please feel free to contact me, or your staff may contact Scott Landes, Chief, Legislation and Reports Branch, Office of Legislative Affairs, at 202–317–6985.

Sincerely,

DANIEL I. WERFEL,
Commissioner.

COMPLEXITY ANALYSIS OF H.R. 3936, TAX CUTS FOR WORKING FAMILIES ACT, H.R. 3937, SMALL BUSINESS JOBS ACT, H.R. 3938, BUILD IT IN AMERICA ACT

1. INCREASE IN STANDARD DEDUCTION

The bill renames the standard deduction as the guaranteed deduction and adds an additional bonus guaranteed deduction for 2024 and 2025. For taxable years beginning in 2024, the amount of the bonus guaranteed deduction is $2,000 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, $3,000 for a head of household, and $4,000 for married individuals filing a joint return and a surviving spouse. For taxable years beginning in 2025, these amounts are indexed for inflation.

The bonus guaranteed deduction is phased out at a five-percent rate for taxpayers with modified AGI above certain thresholds. This threshold is $200,000 for an unmarried individual (other than a head of household or a surviving spouse) and a married individual filing a separate return, $300,000 for a head of household, and $400,000 for married individuals filing a joint return and a surviving spouse.

IRS and Treasury comments

- Forms, instructions and publications would need to be updated, including computational worksheets for computing the phase out. Updates would be needed on an annual basis to index for inflation.
- IT programming for return processing would need to be updated, including additional programming to add the "bonus" deduction and check the phase out amount. Programming needed on an annual basis to index for inflation.
- Internal Revenue Manuals and employee training would need to be updated.
- Training materials for new employees would need to be updated.
- Internal communications would be shared with all employees.
- Communications would be needed for external stakeholders, including awareness of the increase in the standard deduction, phase out of the bonus based on modified AGI and effect on itemized deductions (less stakeholders will need to itemize).
- IRS.gov updates would need to be provided.

2. INCREASE IN THRESHOLD FOR REQUIRING INFORMATION REPORTING WITH RESPECT TO CERTAIN PAYEES

The bill increases the information reporting threshold under sections 6041 and 6041A to $5,000 in a calendar year, with the threshold amount (including the threshold for reporting of direct sales) to be indexed annually for inflation in calendar years after 2024. The bill also makes a conforming change to the dollar threshold in section 3406 with respect to information reporting required under sections 6041 and 6041A to align with the new $5,000 reporting threshold.

IRS and Treasury comments

- Potential for reducing payor recordkeeping and filing burden (for some payors, the reduction in burden could be significant).
- Forms, instructions and publications would need to be updated. Updates would be needed on an annual basis to index for inflation.
- IT programming, including penalty regimes, would need to be reviewed and updated to reflect the threshold increase.
- Internal Revenue Manuals and employee training would need to be updated.
- Training materials for new employees would need to be updated.
- Internal communications would be shared with all employees.
- External communications would be necessary to communicate changes. Communication would need to be considerable (due to significance of changes) and as early as possible for stakeholder planning purposes. Communication also would need to address perceptions that the change to the reporting threshold changes the tax consequences of any taxable amounts no longer reported to IRS.
- IRS.gov updates would need to be provided.
- IRS efforts to identify nonfilers could be affected, as IRS would receive less payor information reports.

3. RESTORATION OF REPORTING RULE FOR THIRD PARTY NETWORK TRANSACTIONS

The bill reverts to the previous de minimis reporting exception for third party settlement organizations. A third party settlement organization is not required to report unless the aggregate value of third party network transactions with respect to a participating payee for the year exceeds $20,000 and the aggregate number of such transactions with respect to a participating payee exceeds 200.

IRS and Treasury comments

- Potential for reducing payor recordkeeping and filing burden (for some payors, the reduction in burden could be significant).
- Forms, instructions and publications would need to be updated.
- IT programming would need to be reviewed and updated to reflect the return to previous reporting requirements.
- Internal Revenue Manuals and employee training would need to be updated.
- Training materials for new employees would need to be updated.
- Internal communications would be shared with all employees.
- External communications would be necessary to communicate changes. Communication would need to be considerable (due to significance of changes) and as early as possible for stakeholder planning purposes. Communication also would need to address perceptions that the change to the reporting requirements changes the tax consequences of any taxable amounts no longer reported to IRS.
- IRS.gov updates would need to be provided.
- IRS efforts to identify nonfilers could be affected, as IRS would receive less payor information reports.

4. INCREASE IN LIMITATIONS ON EXPENSING OF DEPRECIABLE BUSINESS ASSETS

The bill provides that the maximum amount a taxpayer may expense, for property placed in service in taxable years beginning after 2023, is $2,500,000 of the cost of qualifying property placed in service for the taxable year. The $2,500,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds $4,000,000. The $2,500,000 and $4,000,000 amounts are indexed for inflation for taxable years beginning after 2024.

IRS and Treasury comments

- The maximum amount a taxpayer may expense for a taxable year and the expansion of the definition of qualified real property qualifying for section 179 would have no significant impact on Form 4562 or any other tax forms. The Instructions for Form 4562, Publication 946, and other instructions and publications would be revised to reflect the extension.
- Internal Revenue Manuals and employee training would be updated.
- Internal communications would be shared with all employees.

• Programming changes would be required by this provision due to inflation adjustment to the limits.
• Guidance would be needed to address fiscal filers.

5. EXTENSION OF 100 PERCENT BONUS DEPRECIATION

The bill extends the 100-percent additional first-year depreciation deduction for three years, generally through 2025 (through 2026 for longer production period property and certain aircraft).

The bill retains the 20-percent additional first-year depreciation deduction for qualified property placed in service, and specified plants planted or grafted, in 2026 (2027 for longer production period property and certain aircraft).

IRS and Treasury comments

• The extension of the time period and modification for property eligible for additional first-year depreciation would have no significant impact on Form 4562 or any other tax forms. The Instructions for Form 4562, Publication 946, and other instructions and publications would be revised to reflect the extension and modification.
• Internal Revenue Manuals and employee training would be updated.
• Internal communications would be shared with all employees.
• No programming changes would be required by this provision.
• Guidance would be needed to address fiscal filers.

E. Information Relating to Unfunded Mandates

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 (Pub. L. No. 104–4).

The Committee has determined that the bill does not contain Federal mandates on the private sector. The Committee has determined that the bill does not impose a Federal intergovernmental mandate on State, local, or tribal governments.

F. Congressional Earmarks, Limited Tax Benefits, and Limited Tariff Benefits

With respect to clause 9 of rule XXI of the Rules of the House of Representatives, the Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not contain any congressional earmarks, limited tax benefits, or limited tariff benefits within the meaning of the rule.

G. Duplication of Federal Programs

In compliance with clause 3(c)(5) of rule XIII of the Rules of the House of Representatives, the Committee states that no provision of the bill establishes or reauthorizes: (1) a program of the Federal Government known to be duplicative of another Federal program; (2) a program included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111–139; or (3) a program related to a program identified in the most recent Catalog of Federal Domestic Assistance, published pursuant to the Federal Program Information Act (Pub. L. No. 95–220, as amended by Pub. L. No. 98–169).

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

With respect to the requirement of clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows:

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, and existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1986

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Subtitle A—Income Taxes

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CHAPTER 1—NORMAL TAXES AND SURTAXES

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Subchapter A—DETERMINATION OF TAX LIABILITY

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PART I—TAX ON INDIVIDUALS

* * * * * * *

SEC. 1. TAX IMPOSED.

(a) MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES.—There is hereby imposed on the taxable income of—

(1) every married individual (as defined in section 7703) who makes a single return jointly with his spouse under section 6013, and

(2) every surviving spouse (as defined in section 2(a)),

a tax determined in accordance with the following table:

(b) HEADS OF HOUSEHOLDS.—There is hereby imposed on the taxable income of every head of a household (as defined in section 2(b)) a tax determined in accordance with the following table:

(c) UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS).—There is hereby imposed on the taxable income of every individual (other than a surviving spouse as defined in section 2(a) or the head of a household as defined in section 2(b)) who is not a married individual (as defined in section 7703) a tax determined in accordance with the following table:

(d) MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—There is hereby imposed on the taxable income of every married individual

(as defined in section 7703) who does not make a single return jointly with his spouse under section 6013, a tax determined in accordance with the following table:

(e) ESTATES AND TRUSTS.—There is hereby imposed on the taxable income of—

(1) every estate, and

(2) every trust,

taxable under this subsection a tax determined in accordance with the following table:

(f) PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET; ADJUSTMENTS IN TAX TABLES SO THAT INFLATION WILL NOT RESULT IN TAX INCREASES.—

(1) IN GENERAL.—Not later than December 15 of 1993, and each subsequent calendar year, the Secretary shall prescribe tables which shall apply in lieu of the tables contained in subsections (a), (b), (c), (d), and (e) with respect to taxable years beginning in the succeeding calendar year.

(2) METHOD OF PRESCRIBING TABLES.—The table which under paragraph (1) is to apply in lieu of the table contained in subsection (a), (b), (c), (d), or (e), as the case may be, with respect to taxable years beginning in any calendar year shall be prescribed—

(A) except as provided in paragraph (8), by increasing the minimum and maximum dollar amounts for each bracket for which a tax is imposed under such table by the cost-of-living adjustment for such calendar year, determined—

(i) except as provided in clause (ii), by substituting "1992" for "2016" in paragraph (3)(A)(ii), and

(ii) in the case of adjustments to the dollar amounts at which the 36 percent rate bracket begins or at which the 39.6 percent rate bracket begins, by substituting "1993" for "2016" in paragraph (3)(A)(ii),

(B) by not changing the rate applicable to any rate bracket as adjusted under subparagraph (A), and

(C) by adjusting the amounts setting forth the tax to the extent necessary to reflect the adjustments in the rate brackets.

(3) COST-OF-LIVING ADJUSTMENT.—For purposes of this subsection—

(A) IN GENERAL.—The cost-of-living adjustment for any calendar year is the percentage (if any) by which—

(i) the C-CPI-U for the preceding calendar year, exceeds

(ii) the CPI for calendar year 2016, multiplied by the amount determined under subparagraph (B).

(B) AMOUNT DETERMINED.—The amount determined under this clause is the amount obtained by dividing—

(i) the C-CPI-U for calendar year 2016, by

(ii) the CPI for calendar year 2016.

(C) SPECIAL RULE FOR ADJUSTMENTS WITH A BASE YEAR AFTER 2016.—For purposes of any provision of this title which provides for the substitution of a year after 2016 for "2016" in subparagraph (A)(ii), subparagraph (A) shall be applied by substituting "the C-CPI-U for calendar year

2016" for "the CPI for calendar year 2016" and all that follows in clause (ii) thereof.

(4) CPI FOR ANY CALENDAR YEAR.—For purposes of paragraph (3), the CPI for any calendar year is the average of the Consumer Price Index as of the close of the 12-month period ending on August 31 of such calendar year.

(5) CONSUMER PRICE INDEX.—For purposes of paragraph (4), the term "Consumer Price Index" means the last Consumer Price Index for all-urban consumers published by the Department of Labor. For purposes of the preceding sentence, the revision of the Consumer Price Index which is most consistent with the Consumer Price Index for calendar year 1986 shall be used.

(6) C-CPI-U.—For purposes of this subsection—

(A) IN GENERAL.—The term "C-CPI-U" means the Chained Consumer Price Index for All Urban Consumers (as published by the Bureau of Labor Statistics of the Department of Labor). The values of the Chained Consumer Price Index for All Urban Consumers taken into account for purposes of determining the cost-of-living adjustment for any calendar year under this subsection shall be the latest values so published as of the date on which such Bureau publishes the initial value of the Chained Consumer Price Index for All Urban Consumers for the month of August for the preceding calendar year.

(B) DETERMINATION FOR CALENDAR YEAR.—The C-CPI-U for any calendar year is the average of the C-CPI-U as of the close of the 12-month period ending on August 31 of such calendar year.

(7) ROUNDING.—

(A) IN GENERAL.—If any increase determined under paragraph (2)(A), section 63(c)(4), section 68(b)(2) or section 151(d)(4) is not a multiple of $50, such increase shall be rounded to the next lowest multiple of $50.

(B) TABLE FOR MARRIED INDIVIDUALS FILING SEPARATELY.—In the case of a married individual filing a separate return, subparagraph (A) (other than with respect to sections 63(c)(4) and 151(d)(4)(A)) shall be applied by substituting "$25" for "$50" each place it appears.

(8) ELIMINATION OF MARRIAGE PENALTY IN 15-PERCENT BRACKET.—With respect to taxable years beginning after December 31, 2003, in prescribing the tables under paragraph (1)—

(A) the maximum taxable income in the 15-percent rate bracket in the table contained in subsection (a) (and the minimum taxable income in the next higher taxable income bracket in such table) shall be 200 percent of the maximum taxable income in the 15-percent rate bracket in the table contained in subsection (c) (after any other adjustment under this subsection), and

(B) the comparable taxable income amounts in the table contained in subsection (d) shall be 1/2 of the amounts determined under subparagraph (A).

(g) CERTAIN UNEARNED INCOME OF CHILDREN TAXED AS IF PARENT'S INCOME.—

(1) IN GENERAL.—In the case of any child to whom this subsection applies, the tax imposed by this section shall be equal to the greater of—

(A) the tax imposed by this section without regard to this subsection, or

(B) the sum of—

(i) the tax which would be imposed by this section if the taxable income of such child for the taxable year were reduced by the net unearned income of such child, plus

(ii) such child's share of the allocable parental tax.

(2) CHILD TO WHOM SUBSECTION APPLIES.—This subsection shall apply to any child for any taxable year if—

(A) such child—

(i) has not attained age 18 before the close of the taxable year, or

(ii)(I) has attained age 18 before the close of the taxable year and meets the age requirements of section 152(c)(3) (determined without regard to subparagraph (B) thereof), and

(II) whose earned income (as defined in section 911(d)(2)) for such taxable year does not exceed one-half of the amount of the individual's support (within the meaning of section 152(c)(1)(D) after the application of section 152(f)(5) (without regard to subparagraph (A) thereof)) for such taxable year,

(B) either parent of such child is alive at the close of the taxable year, and

(C) such child does not file a joint return for the taxable year.

(3) ALLOCABLE PARENTAL TAX.—For purposes of this subsection—

(A) IN GENERAL.—The term "allocable parental tax" means the excess of—

(i) the tax which would be imposed by this section on the parent's taxable income if such income included the net unearned income of all children of the parent to whom this subsection applies, over

(ii) the tax imposed by this section on the parent without regard to this subsection.

For purposes of clause (i), net unearned income of all children of the parent shall not be taken into account in computing any exclusion, deduction, or credit of the parent.

(B) CHILD'S SHARE.—A child's share of any allocable parental tax of a parent shall be equal to an amount which bears the same ratio to the total allocable parental tax as the child's net unearned income bears to the aggregate net unearned income of all children of such parent to whom this subsection applies.

(C) SPECIAL RULE WHERE PARENT HAS DIFFERENT TAXABLE YEAR.—Except as provided in regulations, if the parent does not have the same taxable year as the child, the allocable parental tax shall be determined on the basis of the taxable year of the parent ending in the child's taxable year.

(4) NET UNEARNED INCOME.—For purposes of this subsection—

(A) IN GENERAL.—The term "net unearned income" means the excess of—

(i) the portion of the adjusted gross income for the taxable year which is not attributable to earned income (as defined in section 911(d)(2)), over

(ii) the sum of—

(I) the amount in effect for the taxable year under section 63(c)(5)(A) (relating to limitation on [standard deduction] *guaranteed deduction* in the case of certain dependents), plus

(II) the greater of the amount described in subclause (I) or, if the child itemizes his deductions for the taxable year, the amount of the itemized deductions allowed by this chapter for the taxable year which are directly connected with the production of the portion of adjusted gross income referred to in clause (i).

(B) LIMITATION BASED ON TAXABLE INCOME.—The amount of the net unearned income for any taxable year shall not exceed the individual's taxable income for such taxable year.

(C) TREATMENT OF DISTRIBUTIONS FROM QUALIFIED DISABILITY TRUSTS.—For purposes of this subsection, in the case of any child who is a beneficiary of a qualified disability trust (as defined in section 642(b)(2)(C)(ii)), any amount included in the income of such child under sections 652 and 662 during a taxable year shall be considered earned income of such child for such taxable year.

(5) SPECIAL RULES FOR DETERMINING PARENT TO WHOM SUBSECTION APPLIES.—For purposes of this subsection, the parent whose taxable income shall be taken into account shall be—

(A) in the case of parents who are not married (within the meaning of section 7703), the custodial parent (within the meaning of section 152(e)) of the child, and

(B) in the case of married individuals filing separately, the individual with the greater taxable income.

(6) PROVIDING OF PARENT'S TIN.—The parent of any child to whom this subsection applies for any taxable year shall provide the TIN of such parent to such child and such child shall include such TIN on the child's return of tax imposed by this section for such taxable year.

(7) ELECTION TO CLAIM CERTAIN UNEARNED INCOME OF CHILD ON PARENT'S RETURN.—

(A) IN GENERAL.—If—

(i) any child to whom this subsection applies has gross income for the taxable year only from interest and dividends (including Alaska Permanent Fund dividends),

(ii) such gross income is more than the amount described in paragraph (4)(A)(ii)(I) and less than 10 times the amount so described,

(iii) no estimated tax payments for such year are made in the name and TIN of such child, and no

amount has been deducted and withheld under section 3406, and

(iv) the parent of such child (as determined under paragraph (5)) elects the application of subparagraph (B),

such child shall be treated (other than for purposes of this paragraph) as having no gross income for such year and shall not be required to file a return under section 6012.

(B) INCOME INCLUDED ON PARENT'S RETURN.—In the case of a parent making the election under this paragraph—

(i) the gross income of each child to whom such election applies (to the extent the gross income of such child exceeds twice the amount described in paragraph (4)(A)(ii)(I)) shall be included in such parent's gross income for the taxable year,

(ii) the tax imposed by this section for such year with respect to such parent shall be the amount equal to the sum of—

(I) the amount determined under this section after the application of clause (i), plus

(II) for each such child, 10 percent of the lesser of the amount described in paragraph (4)(A)(ii)(I) or the excess of the gross income of such child over the amount so described, and

(iii) any interest which is an item of tax preference under section 57(a)(5) of the child shall be treated as an item of tax preference of such parent (and not of such child).

(C) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph.

(h) MAXIMUM CAPITAL GAINS RATE.—

(1) IN GENERAL.—If a taxpayer has a net capital gain for any taxable year, the tax imposed by this section for such taxable year shall not exceed the sum of—

(A) a tax computed at the rates and in the same manner as if this subsection had not been enacted on the greater of—

(i) taxable income reduced by the net capital gain; or

(ii) the lesser of—

(I) the amount of taxable income taxed at a rate below 25 percent; or

(II) taxable income reduced by the adjusted net capital gain;

(B) 0 percent of so much of the adjusted net capital gain (or, if less, taxable income) as does not exceed the excess (if any) of—

(i) the amount of taxable income which would (without regard to this paragraph) be taxed at a rate below 25 percent, over

(ii) the taxable income reduced by the adjusted net capital gain;

(C) 15 percent of the lesser of—

(i) so much of the adjusted net capital gain (or, if less, taxable income) as exceeds the amount on which a tax is determined under subparagraph (B), or

(ii) the excess of—

(I) the amount of taxable income which would (without regard to this paragraph) be taxed at a rate below 39.6 percent, over

(II) the sum of the amounts on which a tax is determined under subparagraphs (A) and (B),

(D) 20 percent of the adjusted net capital gain (or, if less, taxable income) in excess of the sum of the amounts on which tax is determined under subparagraphs (B) and (C),

(E) 25 percent of the excess (if any) of—

(i) the unrecaptured section 1250 gain (or, if less, the net capital gain (determined without regard to paragraph (11))), over

(ii) the excess (if any) of—

(I) the sum of the amount on which tax is determined under subparagraph (A) plus the net capital gain, over

(II) taxable income; and

(F) 28 percent of the amount of taxable income in excess of the sum of the amounts on which tax is determined under the preceding subparagraphs of this paragraph.

(2) NET CAPITAL GAIN TAKEN INTO ACCOUNT AS INVESTMENT INCOME.—For purposes of this subsection, the net capital gain for any taxable year shall be reduced (but not below zero) by the amount which the taxpayer takes into account as investment income under section 163(d)(4)(B)(iii).

(3) ADJUSTED NET CAPITAL GAIN.—For purposes of this subsection, the term "adjusted net capital gain" means the sum of—

(A) net capital gain (determined without regard to paragraph (11)) reduced (but not below zero) by the sum of—

(i) unrecaptured section 1250 gain, and

(ii) 28-percent rate gain, plus

(B) qualified dividend income (as defined in paragraph (11)).

(4) 28-PERCENT RATE GAIN.—For purposes of this subsection, the term "28-percent rate gain" means the excess (if any) of—

(A) the sum of—

(i) collectibles gain; and

(ii) section 1202 gain, over

(B) the sum of—

(i) collectibles loss;

(ii) the net short-term capital loss; and

(iii) the amount of long-term capital loss carried under section 1212(b)(1)(B) to the taxable year.

(5) COLLECTIBLES GAIN AND LOSS.—For purposes of this subsection—

(A) IN GENERAL.—The terms "collectibles gain" and "collectibles loss" mean gain or loss (respectively) from the sale or exchange of a collectible (as defined in section 408(m) without regard to paragraph (3) thereof) which is

a capital asset held for more than 1 year but only to the extent such gain is taken into account in computing gross income and such loss is taken into account in computing taxable income.

(B) PARTNERSHIPS, ETC..—For purposes of subparagraph (A), any gain from the sale of an interest in a partnership, S corporation, or trust which is attributable to unrealized appreciation in the value of collectibles shall be treated as gain from the sale or exchange of a collectible. Rules similar to the rules of section 751 shall apply for purposes of the preceding sentence.

(6) UNRECAPTURED SECTION 1250 GAIN.—For purposes of this subsection—

(A) IN GENERAL.—The term "unrecaptured section 1250 gain" means the excess (if any) of—

(i) the amount of long-term capital gain (not otherwise treated as ordinary income) which would be treated as ordinary income if section 1250(b)(1) included all depreciation and the applicable percentage under section 1250(a) were 100 percent, over

(ii) the excess (if any) of—

(I) the amount described in paragraph (4)(B); over

(II) the amount described in paragraph (4)(A).

(B) LIMITATION WITH RESPECT TO SECTION 1231 PROPERTY.—The amount described in subparagraph (A)(i) from sales, exchanges, and conversions described in section 1231(a)(3)(A) for any taxable year shall not exceed the net section 1231 gain (as defined in section 1231(c)(3)) for such year.

(7) SECTION 1202 GAIN.—For purposes of this subsection, the term "section 1202 gain" means the excess of—

(A) the gain which would be excluded from gross income under section 1202 but for the percentage limitation in section 1202(a), over

(B) the gain excluded from gross income under section 1202.

(8) COORDINATION WITH RECAPTURE OF NET ORDINARY LOSSES UNDER SECTION 1231.—If any amount is treated as ordinary income under section 1231(c), such amount shall be allocated among the separate categories of net section 1231 gain (as defined in section 1231(c)(3)) in such manner as the Secretary may by forms or regulations prescribe.

(9) REGULATIONS.—The Secretary may prescribe such regulations as are appropriate (including regulations requiring reporting) to apply this subsection in the case of sales and exchanges by pass-thru entities and of interests in such entities.

(10) PASS-THRU ENTITY DEFINED.—For purposes of this subsection, the term "pass-thru entity" means—

(A) a regulated investment company;

(B) a real estate investment trust;

(C) an S corporation;

(D) a partnership;

(E) an estate or trust;

(F) a common trust fund; and

(G) a qualified electing fund (as defined in section 1295).

(11) DIVIDENDS TAXED AS NET CAPITAL GAIN.—

(A) IN GENERAL.—For purposes of this subsection, the term "net capital gain" means net capital gain (determined without regard to this paragraph) increased by qualified dividend income.

(B) QUALIFIED DIVIDEND INCOME.—For purposes of this paragraph—

(i) IN GENERAL.—The term "qualified dividend income" means dividends received during the taxable year from—

(I) domestic corporations, and

(II) qualified foreign corporations.

(ii) CERTAIN DIVIDENDS EXCLUDED.—Such term shall not include—

(I) any dividend from a corporation which for the taxable year of the corporation in which the distribution is made, or the preceding taxable year, is a corporation exempt from tax under section 501 or 521,

(II) any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.), and

(III) any dividend described in section 404(k).

(iii) COORDINATION WITH SECTION 246(C).—Such term shall not include any dividend on any share of stock—

(I) with respect to which the holding period requirements of section 246(c) are not met (determined by substituting in section 246(c) "60 days" for "45 days" each place it appears and by substituting "121-day period" for "91-day period"), or

(II) to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

(C) QUALIFIED FOREIGN CORPORATIONS.—

(i) IN GENERAL.—Except as otherwise provided in this paragraph, the term "qualified foreign corporation" means any foreign corporation if—

(I) such corporation is incorporated in a possession of the United States, or

(II) such corporation is eligible for benefits of a comprehensive income tax treaty with the United States which the Secretary determines is satisfactory for purposes of this paragraph and which includes an exchange of information program.

(ii) DIVIDENDS ON STOCK READILY TRADABLE ON UNITED STATES SECURITIES MARKET.—A foreign corporation not otherwise treated as a qualified foreign corporation under clause (i) shall be so treated with respect to any dividend paid by such corporation if the stock with respect to which such dividend is paid is readily tradable on an established securities market in the United States.

(iii) EXCLUSION OF DIVIDENDS OF CERTAIN FOREIGN CORPORATIONS.—Such term shall not include—

(I) any foreign corporation which for the taxable year of the corporation in which the dividend was paid, or the preceding taxable year, is a passive foreign investment company (as defined in section 1297), and

(II) any corporation which first becomes a surrogate foreign corporation (as defined in section 7874(a)(2)(B)) after the date of the enactment of this subclause, other than a foreign corporation which is treated as a domestic corporation under section 7874(b).

(iv) COORDINATION WITH FOREIGN TAX CREDIT LIMITATION.—Rules similar to the rules of section 904(b)(2)(B) shall apply with respect to the dividend rate differential under this paragraph.

(D) SPECIAL RULES.—

(i) AMOUNTS TAKEN INTO ACCOUNT AS INVESTMENT INCOME.—Qualified dividend income shall not include any amount which the taxpayer takes into account as investment income under section 163(d)(4)(B).

(ii) EXTRAORDINARY DIVIDENDS.—If a taxpayer to whom this section applies receives, with respect to any share of stock, qualified dividend income from 1 or more dividends which are extraordinary dividends (within the meaning of section 1059(c)), any loss on the sale or exchange of such share shall, to the extent of such dividends, be treated as long-term capital loss.

(iii) TREATMENT OF DIVIDENDS FROM REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—A dividend received from a regulated investment company or a real estate investment trust shall be subject to the limitations prescribed in sections 854 and 857.

(i) RATE REDUCTIONS AFTER 2000.—

(1) 10-PERCENT RATE BRACKET.—

(A) IN GENERAL.—In the case of taxable years beginning after December 31, 2000—

(i) the rate of tax under subsections (a), (b), (c), and (d) on taxable income not over the initial bracket amount shall be 10 percent, and

(ii) the 15 percent rate of tax shall apply only to taxable income over the initial bracket amount but not over the maximum dollar amount for the 15-percent rate bracket.

(B) INITIAL BRACKET AMOUNT.—For purposes of this paragraph, the initial bracket amount is—

(i) $14,000 in the case of subsection (a),

(ii) $10,000 in the case of subsection (b), and

(iii) 1/2 the amount applicable under clause (i) (after adjustment, if any, under subparagraph (C)) in the case of subsections (c) and (d).

(C) INFLATION ADJUSTMENT.—In prescribing the tables under subsection (f) which apply with respect to taxable years beginning in calendar years after 2003—

(i) the cost-of-living adjustment shall be determined under subsection (f)(3) by substituting "2002" for "2016" in subparagraph (A)(ii) thereof, and

(ii) the adjustments under clause (i) shall not apply to the amount referred to in subparagraph (B)(iii).

If any amount after adjustment under the preceding sentence is not a multiple of $50, such amount shall be rounded to the next lowest multiple of $50.

(2) 25-, 28-, AND 33-PERCENT RATE BRACKETS.—The tables under subsections (a), (b), (c), (d), and (e) shall be applied—

(A) by substituting "25%" for "28%" each place it appears (before the application of subparagraph (B)),

(B) by substituting "28%" for "31%" each place it appears, and

(C) by substituting "33%" for "36%" each place it appears.

(3) MODIFICATIONS TO INCOME TAX BRACKETS FOR HIGH-INCOME TAXPAYERS.—

(A) 35-PERCENT RATE BRACKET.—In the case of taxable years beginning after December 31, 2012—

(i) the rate of tax under subsections (a), (b), (c), and (d) on a taxpayer's taxable income in the highest rate bracket shall be 35 percent to the extent such income does not exceed an amount equal to the excess of—

(I) the applicable threshold, over

(II) the dollar amount at which such bracket begins, and

(ii) the 39.6 percent rate of tax under such subsections shall apply only to the taxpayer's taxable income in such bracket in excess of the amount to which clause (i) applies.

(B) APPLICABLE THRESHOLD.—For purposes of this paragraph, the term "applicable threshold" means—

(i) $450,000 in the case of subsection (a),

(ii) $425,000 in the case of subsection (b),

(iii) $400,000 in the case of subsection (c), and

(iv) 1/2 the amount applicable under clause (i) (after adjustment, if any, under subparagraph (C)) in the case of subsection (d).

(C) INFLATION ADJUSTMENT.—For purposes of this paragraph, with respect to taxable years beginning in calendar years after 2013, each of the dollar amounts under clauses (i), (ii), and (iii) of subparagraph (B) shall be adjusted in the same manner as under paragraph (1)(C)(i), except that subsection (f)(3)(A)(ii) shall be applied by substituting "2012" for "2016".

(4) ADJUSTMENT OF TABLES.—The Secretary shall adjust the tables prescribed under subsection (f) to carry out this subsection.

(j) MODIFICATIONS FOR TAXABLE YEARS 2018 THROUGH 2025.—

(1) IN GENERAL.—In the case of a taxable year beginning after December 31, 2017, and before January 1, 2026—

(A) subsection (i) shall not apply, and

(B) this section (other than subsection (i)) shall be applied as provided in paragraphs (2) through (6).

(2) RATE TABLES.—

(A) MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES.—The following table shall be applied in lieu of the table contained in subsection (a):

(B) HEADS OF HOUSEHOLDS.—The following table shall be applied in lieu of the table contained in subsection (b):

(C) UNMARRIED INDIVIDUALS OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS.—The following table shall be applied in lieu of the table contained in subsection (c):

(D) MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—The following table shall be applied in lieu of the table contained in subsection (d):

(E) ESTATES AND TRUSTS.—The following table shall be applied in lieu of the table contained in subsection (e):

(F) REFERENCES TO RATE TABLES.—Any reference in this title to a rate of tax under subsection (c) shall be treated as a reference to the corresponding rate bracket under subparagraph (C) of this paragraph, except that the reference in section 3402(q)(1) to the third lowest rate of tax applicable under subsection (c) shall be treated as a reference to the fourth lowest rate of tax under subparagraph (C).

(3) ADJUSTMENTS.—

(A) NO ADJUSTMENT IN 2018.—The tables contained in paragraph (2) shall apply without adjustment for taxable years beginning after December 31, 2017, and before January 1, 2019.

(B) SUBSEQUENT YEARS.—For taxable years beginning after December 31, 2018, the Secretary shall prescribe tables which shall apply in lieu of the tables contained in paragraph (2) in the same manner as under paragraphs (1) and (2) of subsection (f) (applied without regard to clauses (i) and (ii) of subsection (f)(2)(A)), except that in prescribing such tables—

(i) subsection (f)(3) shall be applied by substituting "calendar year 2017" for "calendar year 2016" in subparagraph (A)(ii) thereof,

(ii) subsection (f)(7)(B) shall apply to any unmarried individual other than a surviving spouse or head of household, and

(iii) subsection (f)(8) shall not apply.

[(4) REPEALED. PUB. L. 116–94, DIV. O, TITLE V, § 501(A), DEC. 20, 2019, 133 STAT. 3180].—

(5) APPLICATION OF CURRENT INCOME TAX BRACKETS TO CAPITAL GAINS BRACKETS.—

(A) IN GENERAL.—Section 1(h)(1) shall be applied—

(i) by substituting "below the maximum zero rate amount" for "which would (without regard to this paragraph) be taxed at a rate below 25 percent" in subparagraph (B)(i), and

(ii) by substituting "below the maximum 15-percent rate amount" for "which would (without regard to this

paragraph) be taxed at a rate below 39.6 percent" in subparagraph (C)(ii)(I).

(B) MAXIMUM AMOUNTS DEFINED.—For purposes of applying section 1(h) with the modifications described in subparagraph (A)—

(i) MAXIMUM ZERO RATE AMOUNT.—The maximum zero rate amount shall be—

(I) in the case of a joint return or surviving spouse, $77,200,

(II) in the case of an individual who is a head of household (as defined in section 2(b)), $51,700,

(III) in the case of any other individual (other than an estate or trust), an amount equal to 1/2 of the amount in effect for the taxable year under subclause (I), and

(IV) in the case of an estate or trust, $2,600.

(ii) MAXIMUM 15-PERCENT RATE AMOUNT.—The maximum 15-percent rate amount shall be—

(I) in the case of a joint return or surviving spouse, $479,000 (1/2 such amount in the case of a married individual filing a separate return),

(II) in the case of an individual who is the head of a household (as defined in section 2(b)), $452,400,

(III) in the case of any other individual (other than an estate or trust), $425,800, and

(IV) in the case of an estate or trust, $12,700.

(C) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2018, each of the dollar amounts in clauses (i) and (ii) of subparagraph (B) shall be increased by an amount equal to—

(i) such dollar amount, multiplied by

(ii) the cost-of-living adjustment determined under subsection (f)(3) for the calendar year in which the taxable year begins, determined by substituting "calendar year 2017" for "calendar year 2016" in subparagraph (A)(ii) thereof.

If any increase under this subparagraph is not a multiple of $50, such increase shall be rounded to the next lowest multiple of $50.

(6) SECTION 15 NOT TO APPLY.—Section 15 shall not apply to any change in a rate of tax by reason of this subsection.

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PART VI—ALTERNATIVE MINIMUM TAX

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SEC. 56. ADJUSTMENTS IN COMPUTING ALTERNATIVE MINIMUM TAXABLE INCOME.

(a) ADJUSTMENTS APPLICABLE TO ALL TAXPAYERS.—In determining the amount of the alternative minimum taxable income for any taxable year the following treatment shall apply (in lieu of the treatment applicable for purposes of computing the regular tax):

(1) DEPRECIATION.—

(A) IN GENERAL.—

(i) PROPERTY OTHER THAN CERTAIN PERSONAL PROPERTY.—Except as provided in clause (ii), the depreciation deduction allowable under section 167 with respect to any tangible property placed in service after December 31, 1986, shall be determined under the alternative system of section 168(g). In the case of property placed in service after December 31, 1998, the preceding sentence shall not apply but clause (ii) shall continue to apply.

(ii) 150-PERCENT DECLINING BALANCE METHOD FOR CERTAIN PROPERTY.—The method of depreciation used shall be—

(I) the 150 percent declining balance method,

(II) switching to the straight line method for the 1st taxable year for which using the straight line method with respect to the adjusted basis as of the beginning of the year will yield a higher allowance.

The preceding sentence shall not apply to any section 1250 property (as defined in section 1250(c)) (and the straight line method shall be used for such section 1250 property) or to any other property if the depreciation deduction determined under section 168 with respect to such other property for purposes of the regular tax is determined by using the straight line method.

(B) EXCEPTION FOR CERTAIN PROPERTY.—This paragraph shall not apply to property described in paragraph (1), (2), (3), or (4) of section 168(f), or in section 168(e)(3)(C)(iv).

(C) COORDINATION WITH TRANSITIONAL RULES.—

(i) IN GENERAL.—This paragraph shall not apply to property placed in service after December 31, 1986, to which the amendments made by section 201 of the Tax Reform Act of 1986 do not apply by reason of section 203, 204, or 251(d) of such Act.

(ii) TREATMENT OF CERTAIN PROPERTY PLACED IN SERVICE BEFORE 1987.—This paragraph shall apply to any property to which the amendments made by section 201 of the Tax Reform Act of 1986 apply by reason of an election under section 203(a)(1)(B) of such Act without regard to the requirement of subparagraph (A) that the property be placed in service after December 31, 1986.

(D) NORMALIZATION RULES.—With respect to public utility property described in section 168(i)(10), the Secretary shall prescribe the requirements of a normalization method of accounting for this section.

(2) MINING EXPLORATION AND DEVELOPMENT COSTS.—

(A) IN GENERAL.—With respect to each mine or other natural deposit (other than an oil, gas, or geothermal well) of the taxpayer, the amount allowable as a deduction under section 616(a) or 617(a) (determined without regard to section 291(b)) in computing the regular tax for costs paid or incurred after December 31, 1986, shall be capitalized and amortized ratably over the 10-year period begin-

ning with the taxable year in which the expenditures were made.

(B) LOSS ALLOWED.—If a loss is sustained with respect to any property described in subparagraph (A), a deduction shall be allowed for the expenditures described in subparagraph (A) for the taxable year in which such loss is sustained in an amount equal to the lesser of—

(i) the amount allowable under section 165(a) for the expenditures if they had remained capitalized, or

(ii) the amount of such expenditures which have not previously been amortized under subparagraph (A).

(3) TREATMENT OF CERTAIN LONG-TERM CONTRACTS.—In the case of any long-term contract entered into by the taxpayer on or after March 1, 1986, the taxable income from such contract shall be determined under the percentage of completion method of accounting (as modified by section 460(b)). For purposes of the preceding sentence, in the case of a contract described in section 460(e)(1), the percentage of the contract completed shall be determined under section 460(b)(1) by using the simplified procedures for allocation of costs prescribed under section 460(b)(3). The first sentence of this paragraph shall not apply to any home construction contract (as defined in section 460(e)(6)).

(4) ALTERNATIVE TAX NET OPERATING LOSS DEDUCTION.—The alternative tax net operating loss deduction shall be allowed in lieu of the net operating loss deduction allowed under section 172.

(5) POLLUTION CONTROL FACILITIES.—In the case of any certified pollution control facility placed in service after December 31, 1986, the deduction allowable under section 169 (without regard to section 291) shall be determined under the alternative system of section 168(g). In the case of such a facility placed in service after December 31, 1998, such deduction shall be determined under section 168 using the straight line method.

(6) ADJUSTED BASIS.—The adjusted basis of any property to which paragraph (1) or (5) applies (or with respect to which there are any expenditures to which paragraph (2) or subsection (b)(2) applies) shall be determined on the basis of the treatment prescribed in paragraph (1), (2), or (5), or subsection (b)(2), whichever applies.

(7) SECTION 87 NOT APPLICABLE.—Section 87 (relating to alcohol fuel credit) shall not apply.

(b) ADJUSTMENTS APPLICABLE TO INDIVIDUALS.—In determining the amount of the alternative minimum taxable income of any taxpayer (other than a corporation), the following treatment shall apply (in lieu of the treatment applicable for purposes of computing the regular tax):

(1) LIMITATION ON DEDUCTIONS.—

(A) IN GENERAL.—No deduction shall be allowed—

(i) for any miscellaneous itemized deduction (as defined in section 67(b)), or

(ii) for any taxes described in paragraph (1), (2), or (3) of section 164(a) or clause (ii) of section 164(b)(5)(A).

Clause (ii) shall not apply to any amount allowable in computing adjusted gross income.

(B) INTEREST.—In determining the amount allowable as a deduction for interest, subsections (d) and (h) of section 163 shall apply, except that—

(i) in lieu of the exception under section 163(h)(2)(D), the term "personal interest" shall not include any qualified housing interest (as defined in subsection (e)),

(ii) interest on any specified private activity bond (and any amount treated as interest on a specified private activity bond under section 57(a)(5)(B)), and any deduction referred to in section 57(a)(5)(A), shall be treated as includible in gross income (or as deductible) for purposes of applying section 163(d),

(iii) in lieu of the exception under section 163(d)(3)(B)(i), the term "investment interest" shall not include any qualified housing interest (as defined in subsection (e)), and

(iv) the adjustments of this section and sections 57 and 58 shall apply in determining net investment income under section 163(d).

(C) TREATMENT OF CERTAIN RECOVERIES.—No recovery of any tax to which subparagraph (A)(ii) applied shall be included in gross income for purposes of determining alternative minimum taxable income.

(D) [STANDARD DEDUCTION] *GUARANTEED DEDUCTION* AND DEDUCTION FOR PERSONAL EXEMPTIONS NOT ALLOWED.—The [standard deduction] *guaranteed deduction* under section 63(c), the deduction for personal exemptions under section 151, and the deduction under section 642(b) shall not be allowed.

(E) SECTION 68 NOT APPLICABLE.—Section 68 shall not apply.

(2) CIRCULATION AND RESEARCH AND EXPERIMENTAL EXPENDITURES.—

(A) IN GENERAL.—The amount allowable as a deduction under section 173 or 174(a) in computing the regular tax for amounts paid or incurred after December 31, 1986, shall be capitalized and—

(i) in the case of circulation expenditures described in section 173, shall be amortized ratably over the 3-year period beginning with the taxable year in which the expenditures were made, or

(ii) in the case of research and experimental expenditures described in section 174(a), shall be amortized ratably over the 10-year period beginning with the taxable year in which the expenditures were made.

(B) LOSS ALLOWED.—If a loss is sustained with respect to any property described in subparagraph (A), a deduction shall be allowed for the expenditures described in subparagraph (A) for the taxable year in which such loss is sustained in an amount equal to the lesser of—

(i) the amount allowable under section 165(a) for the expenditures if they had remained capitalized, or

(ii) the amount of such expenditures which have not previously been amortized under subparagraph (A).

(C) EXCEPTION FOR CERTAIN RESEARCH AND EXPERIMENTAL EXPENDITURES.—If the taxpayer materially participates (within the meaning of section 469(h)) in an activity, this paragraph shall not apply to any amount allowable as a deduction under section 174(a) for expenditures paid or incurred in connection with such activity.

(3) TREATMENT OF INCENTIVE STOCK OPTIONS.—Section 421 shall not apply to the transfer of stock acquired pursuant to the exercise of an incentive stock option (as defined in section 422). Section 422(c)(2) shall apply in any case where the disposition and the inclusion for purposes of this part are within the same taxable year and such section shall not apply in any other case. The adjusted basis of any stock so acquired shall be determined on the basis of the treatment prescribed by this paragraph.

(d) ALTERNATIVE TAX NET OPERATING LOSS DEDUCTION DEFINED.—

(1) IN GENERAL.—For purposes of subsection (a)(4), the term "alternative tax net operating loss deduction" means the net operating loss deduction allowable for the taxable year under section 172, except that—

(A) the amount of such deduction shall not exceed the sum of—

(i) the lesser of—

(I) the amount of such deduction attributable to net operating losses (other than the deduction described in clause (ii)(I)), or

(II) 90 percent of alternative minimum taxable income determined without regard to such deduction and the deduction under section 199,[1] plus

(ii) the lesser of—

(I) the amount of such deduction attributable to an applicable net operating loss with respect to which an election is made under section 172(b)(1)(H) (as in effect before its repeal by the Tax Increase Prevention Act of 2014), or

(II) alternative minimum taxable income determined without regard to such deduction and the deduction under section 199 [1] reduced by the amount determined under clause (i), and

(B) in determining the amount of such deduction—

(i) the net operating loss (within the meaning of section 172(c)) for any loss year shall be adjusted as provided in paragraph (2), and

(ii) appropriate adjustments in the application of section 172(b)(2) shall be made to take into account the limitation of subparagraph (A).

(2) ADJUSTMENTS TO NET OPERATING LOSS COMPUTATION.—

(A) POST-1986 LOSS YEARS.—In the case of a loss year beginning after December 31, 1986, the net operating loss for such year under section 172(c) shall—

(i) be determined with the adjustments provided in this section and section 58, and

(ii) be reduced by the items of tax preference determined under section 57 for such year.

An item of tax preference shall be taken into account under clause (ii) only to the extent such item increased the amount of the net operating loss for the taxable year under section 172(c).

(B) PRE-1987 YEARS.—In the case of loss years beginning before January 1, 1987, the amount of the net operating loss which may be carried over to taxable years beginning after December 31, 1986, for purposes of paragraph (2), shall be equal to the amount which may be carried from the loss year to the first taxable year of the taxpayer beginning after December 31, 1986.

(e) QUALIFIED HOUSING INTEREST.—For purposes of this part—

(1) IN GENERAL.—The term "qualified housing interest" means interest which is qualified residence interest (as defined in section 163(h)(3)) and is paid or accrued during the taxable year on indebtedness which is incurred in acquiring, constructing, or substantially improving any property which—

(A) is the principal residence (within the meaning of section 121) of the taxpayer at the time such interest accrues, or

(B) is a qualified dwelling which is a qualified residence (within the meaning of section 163(h)(4)).

Such term also includes interest on any indebtedness resulting from the refinancing of indebtedness meeting the requirements of the preceding sentence; but only to the extent that the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness immediately before the refinancing.

(2) QUALIFIED DWELLING.—The term "qualified dwelling" means any—

(A) house,

(B) apartment,

(C) condominium, or

(D) mobile home not used on a transient basis (within the meaning of section 7701(a)(19)(C)(v)),

including all structures or other property appurtenant thereto.

(3) SPECIAL RULE FOR INDEBTEDNESS INCURRED BEFORE JULY 1, 1982.—The term "qualified housing interest" includes interest which is qualified residence interest (as defined in section 163(h)(3)) and is paid or accrued on indebtedness which—

(A) was incurred by the taxpayer before July 1, 1982, and

(B) is secured by property which, at the time such indebtedness was incurred, was—

(i) the principal residence (within the meaning of section 121) of the taxpayer, or

(ii) a qualified dwelling used by the taxpayer (or any member of his family (within the meaning of section 267(c)(4))).

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Subchapter B—COMPUTATION OF TAXABLE INCOME

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PART I—DEFINITION OF GROSS INCOME, ADJUSTED GROSS INCOME, TAXABLE INCOME, ETC.

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SEC. 63. TAXABLE INCOME DEFINED.

(a) IN GENERAL.—Except as provided in subsection (b), for purposes of this subtitle, the term "taxable income" means gross income minus the deductions allowed by this chapter (other than the [standard deduction] *guaranteed deduction*).

(b) INDIVIDUALS WHO DO NOT ITEMIZE THEIR DEDUCTIONS.—In the case of an individual who does not elect to itemize his deductions for the taxable year, for purposes of this subtitle, the term "taxable income" means adjusted gross income, minus—

(1) the [standard deduction] *guaranteed deduction*,

(2) the deduction for personal exemptions provided in section 151,

(3) any deduction provided in section 199A, and

(4) the deduction provided in section 170(p).

(c) [STANDARD DEDUCTION] *GUARANTEED DEDUCTION*.—For purposes of this subtitle—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the term "[standard deduction] *guaranteed deduction*" means the sum of—

(A) the basic [standard deduction] *guaranteed deduction*, and

(B) the additional [standard deduction] *guaranteed deduction*.

(2) BASIC [STANDARD DEDUCTION] *GUARANTEED DEDUCTION*.—For purposes of paragraph (1), the basic [standard deduction] *guaranteed deduction* is—

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

(i) a joint return, or

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

(B) $4,400 in the case of a head of household (as defined in section 2(b)), or

(C) $3,000 in any other case.

(3) ADDITIONAL [STANDARD DEDUCTION] *GUARANTEED DEDUCTION* FOR AGED AND BLIND.—For purposes of paragraph (1), the additional [standard deduction] *guaranteed deduction* is the sum of each additional amount to which the taxpayer is entitled under subsection (f).

(4) ADJUSTMENTS FOR INFLATION.—In the case of any taxable year beginning in a calendar year after 1988, each dollar amount contained in paragraph (2)(B), (2)(C), or (5) or subsection (f) shall be increased by an amount equal to—

(A) such dollar amount, multiplied by

(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year

begins, by substituting for "calendar year 2016" in subparagraph (A)(ii) thereof—

(i) "calendar year 1987" in the case of the dollar amounts contained in paragraph (2)(B), (2)(C), or (5)(A) or subsection (f), and

(ii) "calendar year 1997" in the case of the dollar amount contained in paragraph (5)(B).

(5) LIMITATION ON BASIC [STANDARD DEDUCTION] *GUARANTEED DEDUCTION* IN THE CASE OF CERTAIN DEPENDENTS.—In the case of an individual with respect to whom a deduction under section 151 is allowable to another taxpayer for a taxable year beginning in the calendar year in which the individual's taxable year begins, the basic [standard deduction] *guaranteed deduction* applicable to such individual for such individual's taxable year shall not exceed the greater of—

(A) $500, or

(B) the sum of $250 and such individual's earned income.

(6) CERTAIN INDIVIDUALS, ETC., NOT ELIGIBLE FOR [STANDARD DEDUCTION] *GUARANTEED DEDUCTION*.—In the case of—

(A) a married individual filing a separate return where either spouse itemizes deductions,

(B) a nonresident alien individual,

(C) an individual making a return under section 443(a)(1) for a period of less than 12 months on account of a change in his annual accounting period, or

(D) an estate or trust, common trust fund, or partnership,

the [standard deduction] *guaranteed deduction* shall be zero.

(7) SPECIAL RULES FOR TAXABLE YEARS 2018 THROUGH 2025.—In the case of a taxable year beginning after December 31, 2017, and before January 1, 2026—

(A) INCREASE IN [STANDARD DEDUCTION] *GUARANTEED DEDUCTION*.—Paragraph (2) shall be applied—

(i) by substituting "$18,000" for "$4,400" in subparagraph (B), and

(ii) by substituting "$12,000" for "$3,000" in subparagraph (C).

(B) ADJUSTMENT FOR INFLATION.—

(i) IN GENERAL.—Paragraph (4) shall not apply to the dollar amounts contained in paragraphs (2)(B) and (2)(C).

(ii) ADJUSTMENT OF INCREASED AMOUNTS.—In the case of a taxable year beginning after 2018, the $18,000 and $12,000 amounts in subparagraph (A) shall each be increased by an amount equal to—

(I) such dollar amount, multiplied by

(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting "2017" for "2016" in subparagraph (A)(ii) thereof.

If any increase under this clause is not a multiple of $50, such increase shall be rounded to the next lowest multiple of $50.

(8) BONUS GUARANTEED DEDUCTION FOR TAXABLE YEARS 2024 AND 2025.—

(A) IN GENERAL.—In the case of a taxable year beginning after December 31, 2023, and before January 1, 2026, the guaranteed deduction shall be increased by the amount of the bonus guaranteed deduction.

(B) BONUS GUARANTEED DEDUCTION.—For purposes of this paragraph, the bonus guaranteed deduction is—

(i) twice the dollar amount in effect under clause (iii) in the case of a joint return or a surviving spouse (as defined in section 2(a)),

(ii) $3,000 in the case of a head of household, and

(iii) $2,000 in any other case.

(C) ADJUSTMENT FOR INFLATION.—In the case of a taxable year beginning after 2024, the dollar amounts in clauses (ii) and (iii) of subparagraph (B) shall each be increased by an amount equal to—

(i) such dollar amount, multiplied by

(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting "2023" for "2016" in subparagraph (A)(ii) thereof.

If any increase under this subparagraph is not a multiple of $50, such increase shall be rounded to the next lowest multiple of $50.

(D) LIMITATION ON BONUS GUARANTEED DEDUCTION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

(i) IN GENERAL.—The bonus guaranteed deduction determined under subparagraph (B) shall be reduced (but not below zero) by 5 percent of so much of the taxpayer's modified adjusted gross income as exceeds the threshold amount. For purposes of the preceding sentence, the term "modified adjusted gross income" means adjusted gross income increased by any amount excluded from gross income under section 911, 931, or 933.

(ii) THRESHOLD AMOUNT.—For purposes of clause (i), the threshold amount is—

(I) $400,000 in the case of a joint return or a surviving spouse (as defined in section 2(a)),

(II) $300,000 in the case of a head of household, and

(III) $200,000 in any other case.

(E) BONUS GUARANTEED DEDUCTION NOT ALLOWED TO DEPENDENTS.—In the case of any individual with respect to whom paragraph (5) applies for any taxable year, subparagraph (A) shall not apply.

(d) ITEMIZED DEDUCTIONS.—For purposes of this subtitle, the term "itemized deductions" means the deductions allowable under this chapter other than—

(1) the deductions allowable in arriving at adjusted gross income, and

(2) any deduction referred to in any paragraph of subsection (b).

(e) ELECTION TO ITEMIZE.—

(1) IN GENERAL.—Unless an individual makes an election under this subsection for the taxable year, no itemized deduction shall be allowed for the taxable year. For purposes of this subtitle, the determination of whether a deduction is allowable under this chapter shall be made without regard to the preceding sentence.

(2) TIME AND MANNER OF ELECTION.—Any election under this subsection shall be made on the taxpayer's return, and the Secretary shall prescribe the manner of signifying such election on the return.

(3) CHANGE OF ELECTION.—Under regulations prescribed by the Secretary, a change of election with respect to itemized deductions for any taxable year may be made after the filing of the return for such year. If the spouse of the taxpayer filed a separate return for any taxable year corresponding to the taxable year of the taxpayer, the change shall not be allowed unless, in accordance with such regulations—

(A) the spouse makes a change of election with respect to itemized deductions, for the taxable year covered in such separate return, consistent with the change of treatment sought by the taxpayer, and

(B) the taxpayer and his spouse consent in writing to the assessment (within such period as may be agreed on with the Secretary) of any deficiency, to the extent attributable to such change of election, even though at the time of the filing of such consent the assessment of such deficiency would otherwise be prevented by the operation of any law or rule of law.

This paragraph shall not apply if the tax liability of the taxpayer's spouse for the taxable year corresponding to the taxable year of the taxpayer has been compromised under section 7122.

(f) AGED OR BLIND ADDITIONAL AMOUNTS.—

(1) ADDITIONAL AMOUNTS FOR THE AGED.—The taxpayer shall be entitled to an additional amount of $600—

(A) for himself if he has attained age 65 before the close of his taxable year, and

(B) for the spouse of the taxpayer if the spouse has attained age 65 before the close of the taxable year and an additional exemption is allowable to the taxpayer for such spouse under section 151(b).

(2) ADDITIONAL AMOUNT FOR BLIND.—The taxpayer shall be entitled to an additional amount of $600—

(A) for himself if he is blind at the close of the taxable year, and

(B) for the spouse of the taxpayer if the spouse is blind as of the close of the taxable year and an additional exemption is allowable to the taxpayer for such spouse under section 151(b).

For purposes of subparagraph (B), if the spouse dies during the taxable year the determination of whether such spouse is blind shall be made as of the time of such death.

(3) HIGHER AMOUNT FOR CERTAIN UNMARRIED INDIVIDUALS.—In the case of an individual who is not married and is not a

surviving spouse, paragraphs (1) and (2) shall be applied by substituting "$750" for "$600".

(4) BLINDNESS DEFINED.—For purposes of this subsection, an individual is blind only if his central visual acuity does not exceed 20/200 in the better eye with correcting lenses, or if his visual acuity is greater than 20/200 but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than 20 degrees.

(g) MARITAL STATUS.—For purposes of this section, marital status shall be determined under section 7703.

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Subchapter N—TAX BASED ON INCOME FROM SOURCES WITHIN OR WITHOUT THE UNITED STATES

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PART I—SOURCE RULES AND OTHER GENERAL RULES RELATING TO FOREIGN INCOME

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SEC. 861. INCOME FROM SOURCES WITHIN THE UNITED STATES.

(a) GROSS INCOME FROM SOURCES WITHIN UNITED STATES.—The following items of gross income shall be treated as income from sources within the United States:

(1) INTEREST.—Interest from the United States or the District of Columbia, and interest on bonds, notes, or other interest-bearing obligations of noncorporate residents or domestic corporations not including—

(A) interest—

(i) on deposits with a foreign branch of a domestic corporation or a domestic partnership if such branch is engaged in the commercial banking business, and

(ii) on amounts satisfying the requirements of subparagraph (B) of section 871(i)(3) which are paid by a foreign branch of a domestic corporation or a domestic partnership, and

(B) in the case of a foreign partnership, which is predominantly engaged in the active conduct of a trade or business outside the United States, any interest not paid by a trade or business engaged in by the partnership in the United States and not allocable to income which is effectively connected (or treated as effectively connected) with the conduct of a trade or business in the United States.

(2) DIVIDENDS.—The amount received as dividends—

(A) from a domestic corporation, or

(B) from a foreign corporation unless less than 25 percent of the gross income from all sources of such foreign corporation for the 3-year period ending with the close of its taxable year preceding the declaration of such dividends (or for such part of such period as the corporation

has been in existence) was effectively connected (or treated as effectively connected other than income described in section 884(d)(2)) with the conduct of a trade or business within the United States; but only in an amount which bears the same ratio to such dividends as the gross income of the corporation for such period which was effectively connected (or treated as effectively connected other than income described in section 884(d)(2)) with the conduct of a trade or business within the United States bears to its gross income from all sources; but dividends (other than dividends for which a deduction is allowable under section 245(b)) from a foreign corporation shall, for purposes of subpart A of part III (relating to foreign tax credit), be treated as income from sources without the United States to the extent (and only to the extent) exceeding the amount which is 100/50th of the amount of the deduction allowable under section 245 in respect of such dividends, or

(C) from a foreign corporation to the extent that such amount is required by section 243(e) (relating to certain dividends from foreign corporations) to be treated as dividends from a domestic corporation which is subject to taxation under this chapter, and to such extent subparagraph (B) shall not apply to such amount, or

(D) from a DISC or former DISC (as defined in section 992(a)) except to the extent attributable (as determined under regulations prescribed by the Secretary) to qualified export receipts described in section 993(a)(1) (other than interest and gains described in section 995(b)(1)).

In the case of any dividend from a 20-percent owned corporation (as defined in section 243(c)(2)), subparagraph (B) shall be applied by substituting "100/65th" for "100/50th".

(3) PERSONAL SERVICES.—Compensation for labor or personal services performed in the United States; except that compensation for labor or services performed in the United States shall not be deemed to be income from sources within the United States if—

(A) the labor or services are performed by a nonresident alien individual temporarily present in the United States for a period or periods not exceeding a total of 90 days during the taxable year,

(B) such compensation does not exceed $3,000 in the aggregate, and

(C) the compensation is for labor or services performed as an employee of or under a contract with—

(i) a nonresident alien, foreign partnership, or foreign corporation, not engaged in trade or business within the United States, or

(ii) an individual who is a citizen or resident of the United States, a domestic partnership, or a domestic corporation, if such labor or services are performed for an office or place of business maintained in a foreign country or in a possession of the United States by such individual, partnership, or corporation.

In addition, compensation for labor or services performed in the United States shall not be deemed to be income from sources within the United States if the labor or services are performed by a nonresident alien individual in connection with the individual's temporary presence in the United States as a regular member of the crew of a foreign vessel engaged in transportation between the United States and a foreign country or a possession of the United States.

(4) RENTALS AND ROYALTIES.—Rentals or royalties from property located in the United States or from any interest in such property, including rentals or royalties for the use of or for the privilege of using in the United States patents, copyrights, secret processes and formulas, good will, trade-marks, trade brands, franchises, and other like property.

(5) DISPOSITION OF UNITED STATES REAL PROPERTY INTEREST.—Gains, profits, and income from the disposition of a United States real property interest (as defined in section 897(c)).

(6) SALE OR EXCHANGE OF INVENTORY PROPERTY.—Gains, profits, and income derived from the purchase of inventory property (within the meaning of section 865(i)(1)) without the United States (other than within a possession of the United States) and its sale or exchange within the United States.

(7) Amounts received as underwriting income (as defined in section 832(b)(3)) derived from the issuing (or reinsuring) of any insurance or annuity contract—

(A) in connection with property in, liability arising out of an activity in, or in connection with the lives or health of residents of, the United States, or

(B) in connection with risks not described in subparagraph (A) as a result of any arrangement whereby another corporation receives a substantially equal amount of premiums or other consideration in respect to issuing (or reinsuring) any insurance or annuity contract in connection with property in, liability arising out of activity in, or in connection with the lives or health of residents of, the United States.

(8) SOCIAL SECURITY BENEFITS.—Any social security benefit (as defined in section 86(d)).

(9) GUARANTEES.—Amounts received, directly or indirectly, from—

(A) a noncorporate resident or domestic corporation for the provision of a guarantee of any indebtedness of such resident or corporation, or

(B) any foreign person for the provision of a guarantee of any indebtedness of such person, if such amount is connected with income which is effectively connected (or treated as effectively connected) with the conduct of a trade or business in the United States.

(b) TAXABLE INCOME FROM SOURCES WITHIN UNITED STATES.—From the items of gross income specified in subsection (a) as being income from sources within the United States there shall be deducted the expenses, losses, and other deductions properly apportioned or allocated thereto and a ratable part of any expenses, losses, or other deductions which cannot definitely be allocated to

some item or class of gross income. The remainder, if any, shall be included in full as taxable income from sources within the United States. In the case of an individual who does not itemize deductions, an amount equal to the [standard deduction] *guaranteed deduction* shall be considered a deduction which cannot definitely be allocated to some item or class of gross income.

(c) SPECIAL RULE FOR APPLICATION OF SUBSECTION (A)(2)(B).—For purposes of subsection (a)(2)(B), if the foreign corporation has no gross income from any source for the 3-year period (or part thereof) specified, the requirements of such subsection shall be applied with respect to the taxable year of such corporation in which the payment of the dividend is made.

(d) INCOME FROM CERTAIN RAILROAD ROLLING STOCK TREATED AS INCOME FROM SOURCES WITHIN THE UNITED STATES.—

(1) GENERAL RULE.—For purposes of subsection (a) and section 862(a), if—

(A) a taxpayer leases railroad rolling stock which is section 1245 property (as defined in section 1245(a)(3)) to a domestic common carrier by railroad or a corporation which is controlled, directly or indirectly, by one or more such common carriers, and

(B) the use under such lease is expected to be use within the United States,

all amounts includible in gross income by the taxpayer with respect to such railroad rolling stock (including gain from sale or other disposition of such railroad rolling stock) shall be treated as income from sources within the United States. The requirements of subparagraph (B) of the preceding sentence shall be treated as satisfied if the only expected use outside the United States is use by a person (whether or not a United States person) in Canada or Mexico on a temporary basis which is not expected to exceed a total of 90 days in any taxable year.

(2) PARAGRAPH (1) NOT TO APPLY WHERE LESSOR IS A MEMBER OF CONTROLLED GROUP WHICH INCLUDES A RAILROAD.—Paragraph (1) shall not apply to a lease between two members of the same controlled group of corporations (as defined in section 1563) if any member of such group is a domestic common carrier by railroad or a switching or terminal company all of whose stock is owned by one or more domestic common carriers by railroad.

(3) DENIAL OF FOREIGN TAX CREDIT.—No credit shall be allowed under section 901 for any payments to foreign countries with respect to any amount received by the taxpayer with respect to railroad rolling stock which is subject to paragraph (1).

(e) CROSS REFERENCE.—For treatment of interest paid by the branch of a foreign corporation, see section 884(f).

SEC. 862. INCOME FROM SOURCES WITHOUT THE UNITED STATES.

(a) GROSS INCOME FROM SOURCES WITHOUT UNITED STATES.—The following items of gross income shall be treated as income from sources without the United States:

(1) interest other than that derived from sources within the United States as provided in section 861(a)(1);

(2) dividends other than those derived from sources within the United States as provided in section 861(a)(2);

(3) compensation for labor or personal services performed without the United States;

(4) rentals or royalties from property located without the United States or from any interest in such property, including rentals or royalties for the use of or for the privilege of using without the United States patents, copyrights, secret processes and formulas, good will, trade-marks, trade brands, franchises, and other like properties;

(5) gains, profits, and income from the sale or exchange of real property located without the United States;

(6) gains, profits, and income derived from the purchase of inventory property (within the meaning of section 865(i)(1)) within the United States and its sale or exchange without the United States;

(7) underwriting income other than that derived from sources within the United States as provided in section 861(a)(7);

(8) gains, profits, and income from the disposition of a United States real property interest (as defined in section 897(c)) when the real property is located in the Virgin Islands; and

(9) amounts received, directly or indirectly, from a foreign person for the provision of a guarantee of indebtedness of such person other than amounts which are derived from sources within the United States as provided in section 861(a)(9).

(b) TAXABLE INCOME FROM SOURCES WITHOUT UNITED STATES.—From the items of gross income specified in subsection (a) there shall be deducted the expenses, losses, and other deductions properly apportioned or allocated thereto, and a ratable part of any expenses, losses, or other deductions which cannot definitely be allocated to some item or class of gross income. The remainder, if any, shall be treated in full as taxable income from sources without the United States. In the case of an individual who does not itemize deductions, an amount equal to the [standard deduction] *guaranteed deduction* shall be considered a deduction which cannot definitely be allocated to some item or class of gross income.

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Subchapter V—TITLE 11 CASES

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SEC. 1398. RULES RELATING TO INDIVIDUALS' TITLE 11 CASES.

(a) CASES TO WHICH SECTION APPLIES.—Except as provided in subsection (b), this section shall apply to any case under chapter 7 (relating to liquidations) or chapter 11 (relating to reorganizations) of title 11 of the United States Code in which the debtor is an individual.

(b) EXCEPTIONS WHERE CASE IS DISMISSED, ETC..—

(1) SECTION DOES NOT APPLY WHERE CASE IS DISMISSED.—This section shall not apply if the case under chapter 7 or 11 of title 11 of the United States Code is dismissed.

(2) SECTION DOES NOT APPLY AT PARTNERSHIP LEVEL.—For purposes of subsection (a), a partnership shall not be treated as an individual, but the interest in a partnership of a debtor

who is an individual shall be taken into account under this section in the same manner as any other interest of the debtor.

(c) COMPUTATION AND PAYMENT OF TAX; BASIC [STANDARD DEDUCTION] *GUARANTEED DEDUCTION*.—

(1) COMPUTATION AND PAYMENT OF TAX.—Except as otherwise provided in this section, the taxable income of the estate shall be computed in the same manner as for an individual. The tax shall be computed on such taxable income and shall be paid by the trustee.

(2) TAX RATES.—The tax on the taxable income of the estate shall be determined under subsection (d) of section 1.

(3) BASIC [STANDARD DEDUCTION] *GUARANTEED DEDUCTION*.—In the case of an estate which does not itemize deductions, the basic [standard deduction] *guaranteed deduction* for the estate for the taxable year shall be the same as for a married individual filing a separate return for such year.

(d) TAXABLE YEAR OF DEBTORS.—

(1) GENERAL RULE.—Except as provided in paragraph (2), the taxable year of the debtor shall be determined without regard to the case under title 11 of the United States Code to which this section applies.

(2) ELECTION TO TERMINATE DEBTOR'S YEAR WHEN CASE COMMENCES.—

(A) IN GENERAL.—Notwithstanding section 442, the debtor may (without the approval of the Secretary) elect to treat the debtor's taxable year which includes the commencement date as 2 taxable years—

(i) the first of which ends on the day before the commencement date, and

(ii) the second of which begins on the commencement date.

(B) SPOUSE MAY JOIN IN ELECTION.—In the case of a married individual (within the meaning of section 7703), the spouse may elect to have the debtor's election under subparagraph (A) also apply to the spouse, but only if the debtor and the spouse file a joint return for the taxable year referred to in subparagraph (A)(i).

(C) NO ELECTION WHERE DEBTOR HAS NO ASSETS.—No election may be made under subparagraph (A) by a debtor who has no assets other than property which the debtor may treat as exempt property under section 522 of title 11 of the United States Code.

(D) TIME FOR MAKING ELECTION.—An election under subparagraph (A) or (B) may be made only on or before the due date for filing the return for the taxable year referred to in subparagraph (A)(i). Any such election, once made, shall be irrevocable.

(E) RETURNS.—A return shall be made for each of the taxable years specified in subparagraph (A).

(F) ANNUALIZATION.—For purposes of subsections (b), (c), and (d) of section 443, a return filed for either of the taxable years referred to in subparagraph (A) shall be treated as a return made under paragraph (1) of subsection (a) of section 443.

(3) COMMENCEMENT DATE DEFINED.—For purposes of this subsection, the term "commencement date" means the day on which the case under title 11 of the United States Code to which this section applies commences.

(e) TREATMENT OF INCOME, DEDUCTIONS, AND CREDITS.—

(1) ESTATE'S SHARE OF DEBTOR'S INCOME.—The gross income of the estate for each taxable year shall include the gross income of the debtor to which the estate is entitled under title 11 of the United States Code. The preceding sentence shall not apply to any amount received or accrued by the debtor before the commencement date (as defined in subsection (d)(3)).

(2) DEBTOR'S SHARE OF DEBTOR'S INCOME.—The gross income of the debtor for any taxable year shall not include any item to the extent that such item is included in the gross income of the estate by reason of paragraph (1).

(3) RULE FOR MAKING DETERMINATIONS WITH RESPECT TO DEDUCTIONS, CREDITS, AND EMPLOYMENT TAXES.—Except as otherwise provided in this section, the determination of whether or not any amount paid or incurred by the estate—

(A) is allowable as a deduction or credit under this chapter, or

(B) is wages for purposes of subtitle C,

shall be made as if the amount were paid or incurred by the debtor and as if the debtor were still engaged in the trades and businesses, and in the activities, the debtor was engaged in before the commencement of the case.

(f) TREATMENT OF TRANSFERS BETWEEN DEBTOR AND ESTATE.—

(1) TRANSFER TO ESTATE NOT TREATED AS DISPOSITION.—A transfer (other than by sale or exchange) of an asset from the debtor to the estate shall not be treated as a disposition for purposes of any provision of this title assigning tax consequences to a disposition, and the estate shall be treated as the debtor would be treated with respect to such asset.

(2) TRANSFER FROM ESTATE TO DEBTOR NOT TREATED AS DISPOSITION.—In the case of a termination of the estate, a transfer (other than by sale or exchange) of an asset from the estate to the debtor shall not be treated as a disposition for purposes of any provision of this title assigning tax consequences to a disposition, and the debtor shall be treated as the estate would be treated with respect to such asset.

(g) ESTATE SUCCEEDS TO TAX ATTRIBUTES OF DEBTOR.—The estate shall succeed to and take into account the following items (determined as of the first day of the debtor's taxable year in which the case commences) of the debtor—

(1) NET OPERATING LOSS CARRYOVERS.—The net operating loss carryovers determined under section 172.

(2) CHARITABLE CONTRIBUTIONS CARRYOVERS.—The carryover of excess charitable contributions determined under section 170(d)(1).

(3) RECOVERY OF TAX BENEFIT ITEMS.—Any amount to which section 111 (relating to recovery of tax benefit items) applies.

(4) CREDIT CARRYOVERS, ETC..—The carryovers of any credit, and all other items which, but for the commencement of the case, would be required to be taken into account by the debtor with respect to any credit.

(5) CAPITAL LOSS CARRYOVERS.—The capital loss carryover determined under section 1212.

(6) BASIS, HOLDING PERIOD, AND CHARACTER OF ASSETS.—In the case of any asset acquired (other than by sale or exchange) by the estate from the debtor, the basis, holding period, and character it had in the hands of the debtor.

(7) METHOD OF ACCOUNTING.—The method of accounting used by the debtor.

(8) OTHER ATTRIBUTES.—Other tax attributes of the debtor, to the extent provided in regulations prescribed by the Secretary as necessary or appropriate to carry out the purposes of this section.

(h) ADMINISTRATION, LIQUIDATION, AND REORGANIZATION EXPENSES; CARRYOVERS AND CARRYBACKS OF CERTAIN EXCESS EXPENSES.—

(1) ADMINISTRATION, LIQUIDATION, AND REORGANIZATION EXPENSES.—Any administrative expense allowed under section 503 of title 11 of the United States Code, and any fee or charge assessed against the estate under chapter 123 of title 28 of the United States Code, to the extent not disallowed under any other provision of this title, shall be allowed as a deduction.

(2) CARRYBACK AND CARRYOVER OF EXCESS ADMINISTRATIVE COSTS, ETC., TO ESTATE TAXABLE YEARS.—

(A) DEDUCTION ALLOWED.—There shall be allowed as a deduction for the taxable year an amount equal to the aggregate of (i) the administrative expense carryovers to such year, plus (ii) the administrative expense carrybacks to such year.

(B) ADMINISTRATIVE EXPENSE LOSS, ETC..—If a net operating loss would be created or increased for any estate taxable year if section 172(c) were applied without the modification contained in paragraph (4) of section 172(d), then the amount of the net operating loss so created (or the amount of the increase in the net operating loss) shall be an administrative expense loss for such taxable year which shall be an administrative expense carryback to each of the 3 preceding taxable years and an administrative expense carryover to each of the 7 succeeding taxable years.

(C) DETERMINATION OF AMOUNT CARRIED TO EACH TAXABLE YEAR.—The portion of any administrative expense loss which may be carried to any other taxable year shall be determined under section 172(b)(2), except that for each taxable year the computation under section 172(b)(2) with respect to the net operating loss shall be made before the computation under this paragraph.

(D) ADMINISTRATIVE EXPENSE DEDUCTIONS ALLOWED ONLY TO ESTATE.—The deductions allowable under this chapter solely by reason of paragraph (1), and the deduction provided by subparagraph (A) of this paragraph, shall be allowable only to the estate.

(i) DEBTOR SUCCEEDS TO TAX ATTRIBUTES OF ESTATE.—In the case of a termination of an estate, the debtor shall succeed to and take into account the items referred to in paragraphs (1), (2), (3), (4), (5), and (6) of subsection (g) in a manner similar to that provided in such paragraphs (but taking into account that the transfer is from

the estate to the debtor instead of from the debtor to the estate). In addition, the debtor shall succeed to and take into account the other tax attributes of the estate, to the extent provided in regulations prescribed by the Secretary as necessary or appropriate to carry out the purposes of this section.

(j) OTHER SPECIAL RULES.—

(1) CHANGE OF ACCOUNTING PERIOD WITHOUT APPROVAL.—Notwithstanding section 442, the estate may change its annual accounting period one time without the approval of the Secretary.

(2) TREATMENT OF CERTAIN CARRYBACKS.—

(A) CARRYBACKS FROM ESTATE.—If any carryback year of the estate is a taxable year before the estate's first taxable year, the carryback to such carryback year shall be taken into account for the debtor's taxable year corresponding to the carryback year.

(B) CARRYBACKS FROM DEBTOR'S ACTIVITIES.—The debtor may not carry back to a taxable year before the debtor's taxable year in which the case commences any carryback from a taxable year ending after the case commences.

(C) CARRYBACK AND CARRYBACK YEAR DEFINED.—For purposes of this paragraph—

(i) CARRYBACK.—The term "carryback" means a net operating loss carryback under section 172 or a carryback of any credit provided by part IV of subchapter A.

(ii) CARRYBACK YEAR.—The term "carryback year" means the taxable year to which a carryback is carried.

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Subtitle C—Employment Taxes

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CHAPTER 24—COLLECTION OF INCOME TAX AT SOURCE ON WAGES

* * * * * * *

SEC. 3402. INCOME TAX COLLECTED AT SOURCE.

(a) REQUIREMENT OF WITHHOLDING.—

(1) IN GENERAL.—Except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary. Any tables or procedures prescribed under this paragraph shall—

(A) apply with respect to the amount of wages paid during such periods as the Secretary may prescribe, and

(B) be in such form, and provide for such amounts to be deducted and withheld, as the Secretary determines to be most appropriate to carry out the purposes of this chapter

and to reflect the provisions of chapter 1 applicable to such periods.

(2) AMOUNT OF WAGES.—For purposes of applying tables or procedures prescribed under paragraph (1), the term "the amount of wages" means the amount by which the wages exceed the taxpayer's withholding allowance, prorated to the payroll period.

(b) PERCENTAGE METHOD OF WITHHOLDING.—(1) If wages are paid with respect to a period which is not a payroll period, the withholding allowance allowable with respect to each payment of such wages shall be the allowance allowed for a miscellaneous payroll period containing a number of days (including Sundays and holidays) equal to the number of days in the period with respect to which such wages are paid.

(2) In any case in which wages are paid by an employer without regard to any payroll period or other period, the withholding allowance allowable with respect to each payment of such wages shall be the allowance allowed for a miscellaneous payroll period containing a number of days equal to the number of days (including Sundays and holidays) which have elapsed since the date of the last payment of such wages by such employer during the calendar year, or the date of commencement of employment with such employer during such year, or January 1 of such year, whichever is the later.

(3) In any case in which the period, or the time described in paragraph (2), in respect of any wages is less than one week, the Secretary, under regulations prescribed by him, may authorize an employer to compute the tax to be deducted and withheld as if the aggregate of the wages paid to the employee during the calendar week were paid for a weekly payroll period.

(4) In determining the amount to be deducted and withheld under this subsection, the wages may, at the election of the employer, be computed to the nearest dollar.

(c) WAGE BRACKET WITHHOLDING.—(1) At the election of the employer with respect to any employee, the employer shall deduct and withhold upon the wages paid to such employee a tax (in lieu of the tax required to be deducted and withheld under subsection (a)) determined in accordance with tables prescribed by the Secretary in accordance with paragraph (6).

(2) If wages are paid with respect to a period which is not a payroll period, the amount to be deducted and withheld shall be that applicable in the case of a miscellaneous payroll period containing a number of days (including Sundays and holidays) equal to the number of days in the period with respect to which such wages are paid.

(3) In any case in which wages are paid by an employer without regard to any payroll period or other period, the amount to be deducted and withheld shall be that applicable in the case of a miscellaneous payroll period containing a number of days equal to the number of days (including Sundays and holidays) which have elapsed since the date of the last payment of such wages by such employer during the calendar year, or the date of commencement of employment with such employer during such year, or January 1 of such year, whichever is the later.

(4) In any case in which the period, or the time described in paragraph (3), in respect of any wages is less than one week, the Secretary, under regulations prescribed by him, may authorize an employer to determine the amount to be deducted and withheld under the tables applicable in the case of a weekly payroll period, in which case the aggregate of the wages paid to the employee during the calendar week shall be considered the weekly wages.

(5) If the wages exceed the highest wage bracket, in determining the amount to be deducted and withheld under this subsection, the wages may, at the election of the employer, be computed to the nearest dollar.

(6) In the case of wages paid after December 31, 1969, the amount deducted and withheld under paragraph (1) shall be determined in accordance with tables prescribed by the Secretary. In the tables so prescribed, the amounts set forth as amounts of wages and amounts of income tax to be deducted and withheld shall be computed on the basis of the table for an annual payroll period prescribed pursuant to subsection (a).

(d) TAX PAID BY RECIPIENT.—If the employer, in violation of the provisions of this chapter, fails to deduct and withhold the tax under this chapter, and thereafter the tax against which such tax may be credited is paid, the tax so required to be deducted and withheld shall not be collected from the employer; but this subsection shall in no case relieve the employer from liability for any penalties or additions to the tax otherwise applicable in respect of such failure to deduct and withhold.

(e) INCLUDED AND EXCLUDED WAGES.—If the remuneration paid by an employer to an employee for services performed during one-half or more of any payroll period of not more than 31 consecutive days constitutes wages, all the remuneration paid by such employer to such employee for such period shall be deemed to be wages; but if the remuneration paid by an employer to an employee for services performed during more than one-half of any such payroll period does not constitute wages, then none of the remuneration paid by such employer to such employee for such period shall be deemed to be wages.

(f) WITHHOLDING ALLOWANCE.—

(1) IN GENERAL.—Under rules determined by the Secretary, an employee receiving wages shall on any day be entitled to a withholding allowance determined based on—

(A) whether the employee is an individual for whom a deduction is allowable with respect to another taxpayer under section 151;

(B) if the employee is married, whether the employee's spouse is entitled to an allowance, or would be so entitled if such spouse were an employee receiving wages, under subparagraph (A) or (D), but only if such spouse does not have in effect a withholding allowance certificate claiming such allowance;

(C) the number of individuals with respect to whom, on the basis of facts existing at the beginning of such day, there may reasonably be expected to be allowable a credit under section 24 (determined after application of subsection (j) thereof) for the taxable year under subtitle A in respect of which amounts deducted and withheld under

this chapter in the calendar year in which such day falls are allowed as a credit;

(D) any additional amounts to which the employee elects to take into account under subsection (m), but only if the employee's spouse does not have in effect a withholding allowance certificate making such an election;

(E) the [standard deduction] *guaranteed deduction* allowable to such employee (one-half of such [standard deduction] *guaranteed deduction* in the case of an employee who is married (as determined under section 7703) and whose spouse is an employee receiving wages subject to withholding); and

(F) whether the employee has withholding allowance certificates in effect with respect to more than 1 employer.

(2) ALLOWANCE CERTIFICATES.—

(A) ON COMMENCEMENT OF EMPLOYMENT.—On or before the date of the commencement of employment with an employer, the employee shall furnish the employer with a signed withholding allowance certificate relating to the withholding allowance claimed by the employee, which shall in no event exceed the amount to which the employee is entitled.

(B) CHANGE OF STATUS.—If, on any day during the calendar year, an employee's withholding allowance is in excess of the withholding allowance to which the employee would be entitled had the employee submitted a true and accurate withholding allowance certificate to the employer on that day, the employee shall within 10 days thereafter furnish the employer with a new withholding allowance certificate. If, on any day during the calendar year, an employee's withholding allowance is greater than the withholding allowance claimed, the employee may furnish the employer with a new withholding allowance certificate relating to the withholding allowance to which the employee is so entitled, which shall in no event exceed the amount to which the employee is entitled on such day.

(C) CHANGE OF STATUS WHICH AFFECTS NEXT CALENDAR YEAR.—If on any day during the calendar year the withholding allowance to which the employee will be, or may reasonably be expected to be, entitled at the beginning of the employee's next taxable year under subtitle A is different from the allowance to which the employee is entitled on such day, the employee shall, in such cases and at such times as the Secretary shall by regulations prescribe, furnish the employer with a withholding allowance certificate relating to the withholding allowance which the employee claims with respect to such next taxable year, which shall in no event exceed the withholding allowance to which the employee will be, or may reasonably be expected to be, so entitled.

(3) WHEN CERTIFICATE TAKES EFFECT.—

(A) FIRST CERTIFICATE FURNISHED.—A withholding allowance certificate furnished the employer in cases in which no previous such certificate is in effect shall take effect as of the beginning of the first payroll period ending,

or the first payment of wages made without regard to a payroll period, on or after the date on which such certificate is so furnished.

(B) FURNISHED TO TAKE PLACE OF EXISTING CERTIFICATE.—

(i) IN GENERAL.—Except as provided in clauses (ii) and (iii), a withholding allowance certificate furnished to the employer in cases in which a previous such certificate is in effect shall take effect as of the beginning of the 1st payroll period ending (or the 1st payment of wages made without regard to a payroll period) on or after the 30th day after the day on which such certificate is so furnished.

(ii) EMPLOYER MAY ELECT EARLIER EFFECTIVE DATE.—At the election of the employer, a certificate described in clause (i) may be made effective beginning with any payment of wages made on or after the day on which the certificate is so furnished and before the 30th day referred to in clause (i).

(iii) CHANGE OF STATUS WHICH AFFECTS NEXT YEAR.—Any certificate furnished pursuant to paragraph (2)(C) shall not take effect, and may not be made effective, with respect to any payment of wages made in the calendar year in which the certificate is furnished.

(4) PERIOD DURING WHICH CERTIFICATE REMAINS IN EFFECT.—A withholding allowance certificate which takes effect under this subsection, or which on December 31, 1954, was in effect under the corresponding subsection of prior law, shall continue in effect with respect to the employer until another such certificate takes effect under this subsection.

(5) FORM AND CONTENTS OF CERTIFICATE.—Withholding allowance certificates shall be in such form and contain such information as the Secretary may by regulations prescribe.

(6) EXEMPTION OF CERTAIN NONRESIDENT ALIENS.—Notwithstanding the provisions of paragraph (1), a nonresident alien individual (other than an individual described in section 3401(a)(6)(A) or (B)) shall be entitled to only one withholding exemption.

(7) ALLOWANCE WHERE CERTIFICATE WITH ANOTHER EMPLOYER IS IN EFFECT.—If a withholding allowance certificate is in effect with respect to one employer, an employee shall not be entitled under a certificate in effect with any other employer to any withholding allowance which he has claimed under such first certificate.

(g) OVERLAPPING PAY PERIODS, AND PAYMENT BY AGENT OR FIDUCIARY.—If a payment of wages is made to an employee by an employer—

(1) with respect to a payroll period or other period, any part of which is included in a payroll period or other period with respect to which wages are also paid to such employee by such employer, or

(2) without regard to any payroll period or other period, but on or prior to the expiration of a payroll period or other period

with respect to which wages are also paid to such employee by such employer, or

(3) with respect to a period beginning in one and ending in another calendar year, or

(4) through an agent, fiduciary, or other person who also has the control, receipt, custody, or disposal of, or pays, the wages payable by another employer to such employee,

the manner of withholding and the amount to be deducted and withheld under this chapter shall be determined in accordance with regulations prescribed by the Secretary under which the withholding allowance allowed to the employee in any calendar year shall approximate the withholding allowance allowable with respect to an annual payroll period.

(h) ALTERNATIVE METHODS OF COMPUTING AMOUNT TO BE WITHHELD.—The Secretary may, under regulations prescribed by him, authorize—

(1) WITHHOLDING ON BASIS OF AVERAGE WAGES.—An employer—

(A) to estimate the wages which will be paid to any employee in any quarter of the calendar year,

(B) to determine the amount to be deducted and withheld upon each payment of wages to such employee during such quarter as if the appropriate average of the wages so estimated constituted the actual wages paid, and

(C) to deduct and withhold upon any payment of wages to such employee during such quarter (and, in the case of tips referred to in subsection (k), within 30 days thereafter) such amount as may be necessary to adjust the amount actually deducted and withheld upon the wages of such employee during such quarter to the amount required to be deducted and withheld during such quarter without regard to this subsection.

(2) WITHHOLDING ON BASIS OF ANNUALIZED WAGES.—An employer to determine the amount of tax to be deducted and withheld upon a payment of wages to an employee for a payroll period by—

(A) multiplying the amount of an employee's wages for a payroll period by the number of such payroll periods in the calendar year,

(B) determining the amount of tax which would be required to be deducted and withheld upon the amount determined under subparagraph (A) if such amount constituted the actual wages for the calendar year and the payroll period of the employee were an annual payroll period, and

(C) dividing the amount of tax determined under subparagraph (B) by the number of payroll periods (described in subparagraph (A)) in the calendar year.

(3) WITHHOLDING ON BASIS OF CUMULATIVE WAGES.—An employer, in the case of any employee who requests to have the amount of tax to be withheld from his wages computed on the basis of his cumulative wages, to—

(A) add the amount of the wages to be paid to the employee for the payroll period to the total amount of wages

paid by the employer to the employee during the calendar year,

(B) divide the aggregate amount of wages computed under subparagraph (A) by the number of payroll periods to which such aggregate amount of wages relates,

(C) compute the total amount of tax that would have been required to be deducted and withheld under subsection (a) if the average amount of wages (as computed under subparagraph (B)) had been paid to the employee for the number of payroll periods to which the aggregate amount of wages (computed under subparagraph (A)) relates,

(D) determine the excess, if any, of the amount of tax computed under subparagraph (C) over the total amount of tax deducted and withheld by the employer from wages paid to the employee during the calendar year, and

(E) deduct and withhold upon the payment of wages (referred to in subparagraph (A)) to the employee an amount equal to the excess (if any) computed under subparagraph (D).

(4) OTHER METHODS.—An employer to determine the amount of tax to be deducted and withheld upon the wages paid to an employee by any other method which will require the employer to deduct and withhold upon such wages substantially the same amount as would be required to be deducted and withheld by applying subsection (a) or (c), either with respect to a payroll period or with respect to the entire taxable year.

(i) CHANGES IN WITHHOLDING.—

(1) IN GENERAL.—The Secretary may by regulations provide for increases in the amount of withholding otherwise required under this section in cases where the employee requests such changes.

(2) TREATMENT AS TAX.—Any increased withholding under paragraph (1) shall for all purposes be considered tax required to be deducted and withheld under this chapter.

(j) NONCASH REMUNERATION TO RETAIL COMMISSION SALESMAN.—In the case of remuneration paid in any medium other than cash for services performed by an individual as a retail salesman for a person, where the service performed by such individual for such person is ordinarily performed for remuneration solely by way of cash commission an employer shall not be required to deduct or withhold any tax under this subchapter with respect to such remuneration, provided that such employer files with the Secretary such information with respect to such remuneration as the Secretary may by regulation prescribe.

(k) TIPS.—In the case of tips which constitute wages, subsection (a) shall be applicable only to such tips as are included in a written statement furnished to the employer pursuant to section 6053(a), and only to the extent that the tax can be deducted and withheld by the employer, at or after the time such statement is so furnished and before the close of the calendar year in which such statement is furnished, from such wages of the employee (excluding tips, but including funds turned over by the employee to the employer for the purpose of such deduction and withholding) as are under the control of the employer; and an employer who is fur-

nished by an employee a written statement of tips (received in a calendar month) pursuant to section 6053(a) to which paragraph (16)(B) of section 3401(a) is applicable may deduct and withhold the tax with respect to such tips from any wages of the employee (excluding tips) under his control, even though at the time such statement is furnished the total amount of the tips included in statements furnished to the employer as having been received by the employee in such calendar month in the course of his employment by such employer is less than $20. Such tax shall not at any time be deducted and withheld in an amount which exceeds the aggregate of such wages and funds (including funds turned over under section 3102(c)(2) or section 3202(c)(2)) minus any tax required by section 3102(a) or section 3202(a) to be collected from such wages and funds.

(l) DETERMINATION AND DISCLOSURE OF MARITAL STATUS.—

(1) DETERMINATION OF STATUS BY EMPLOYER.—For purposes of applying the tables in subsections (a) and (c) to a payment of wages, the employer shall treat the employee as a single person unless there is in effect with respect to such payment of wages a withholding allowance certificate furnished to the employer by the employee after the date of the enactment of this subsection indicating that the employee is married.

(2) DISCLOSURE OF STATUS BY EMPLOYEE.—An employee shall be entitled to furnish the employer with a withholding allowance certificate indicating he is married only if, on the day of such furnishing, he is married (determined with the application of the rules in paragraph (3)). An employee whose marital status changes from married to single shall, at such time as the Secretary may by regulations prescribe, furnish the employer with a new withholding allowance certificate.

(3) DETERMINATION OF MARITAL STATUS.—For purposes of paragraph (2), an employee shall on any day be considered—

(A) as not married, if (i) he is legally separated from his spouse under a decree of divorce or separate maintenance, or (ii) either he or his spouse is, or on any preceding day within the calendar year was, a nonresident alien; or

(B) as married, if (i) his spouse (other than a spouse referred to in subparagraph (A)) died within the portion of his taxable year which precedes such day, or (ii) his spouse died during one of the two taxable years immediately preceding the current taxable year and, on the basis of facts existing at the beginning of such day, the employee reasonably expects, at the close of his taxable year, to be a surviving spouse (as defined in section 2(a)).

(m) WITHHOLDING ALLOWANCES.—Under regulations prescribed by the Secretary, an employee shall be entitled to an additional withholding allowance or additional reductions in withholding under this subsection. In determining the additional withholding allowance or the amount of additional reductions in withholding under this subsection, the employee may take into account (to the extent and in the manner provided by such regulations)—

(1) estimated itemized deductions allowable under chapter 1 and the estimated deduction allowed under section 199A (other than the deductions referred to in section 151 and other than

the deductions required to be taken into account in determining adjusted gross income under section 62(a)),

(2) estimated tax credits allowable under chapter 1, and

(3) such additional deductions (including the additional [standard deduction] *guaranteed deduction* under section 63(c)(3) for the aged and blind) and other items as may be specified by the Secretary in regulations.

(n) EMPLOYEES INCURRING NO INCOME TAX LIABILITY.—Notwithstanding any other provision of this section, an employer shall not be required to deduct and withhold any tax under this chapter upon a payment of wages to an employee if there is in effect with respect to such payment a withholding allowance certificate (in such form and containing such other information as the Secretary may prescribe) furnished to the employer by the employee certifying that the employee—

(1) incurred no liability for income tax imposed under subtitle A for his preceding taxable year, and

(2) anticipates that he will incur no liability for income tax imposed under subtitle A for his current taxable year.

The Secretary shall by regulations provide for the coordination of the provisions of this subsection with the provisions of subsection (f).

(o) EXTENSION OF WITHHOLDING TO CERTAIN PAYMENTS OTHER THAN WAGES.—

(1) GENERAL RULE.—For purposes of this chapter (and so much of subtitle F as relates to this chapter)—

(A) any supplemental unemployment compensation benefit paid to an individual,

(B) any payment of an annuity to an individual, if at the time the payment is made a request that such annuity be subject to withholding under this chapter is in effect, and

(C) any payment to an individual of sick pay which does not constitute wages (determined without regard to this subsection), if at the time the payment is made a request that such sick pay be subject to withholding under this chapter is in effect,

shall be treated as if it were a payment of wages by an employer to an employee for a payroll period.

(2) DEFINITIONS.—

(A) SUPPLEMENTAL UNEMPLOYMENT COMPENSATION BENEFITS.—For purposes of paragraph (1), the term "supplemental unemployment compensation benefits" means amounts which are paid to an employee, pursuant to a plan to which the employer is a party, because of an employee's involuntary separation from employment (whether or not such separation is temporary), resulting directly from a reduction in force, the discontinuance of a plant or operation, or other similar conditions, but only to the extent such benefits are includible in the employee's gross income.

(B) ANNUITY.—For purposes of this subsection, the term "annuity" means any amount paid to an individual as a pension or annuity.

(C) SICK PAY.—For purposes of this subsection, the term "sick pay" means any amount which—

(i) is paid to an employee pursuant to a plan to which the employer is a party, and

(ii) constitutes remuneration or a payment in lieu of remuneration for any period during which the employee is temporarily absent from work on account of sickness or personal injuries.

(3) AMOUNT WITHHELD FROM ANNUITY PAYMENTS OR SICK PAY.—If a payee makes a request that an annuity or any sick pay be subject to withholding under this chapter, the amount to be deducted and withheld under this chapter from any payment to which such request applies shall be an amount (not less than a minimum amount determined under regulations prescribed by the Secretary) specified by the payee in such request. The amount deducted and withheld with respect to a payment which is greater or less than a full payment shall bear the same relation to the specified amount as such payment bears to a full payment.

(4) REQUEST FOR WITHHOLDING.—A request that an annuity or any sick pay be subject to withholding under this chapter—

(A) shall be made by the payee in writing to the person making the payments and shall contain the social security number of the payee,

(B) shall specify the amount to be deducted and withheld from each full payment, and

(C) shall take effect—

(i) in the case of sick pay, with respect to payments made more than 7 days after the date on which such request is furnished to the payor, or

(ii) in the case of an annuity, at such time (after the date on which such request is furnished to the payor) as the Secretary shall by regulations prescribe.

Such a request may be changed or terminated by furnishing to the person making the payments a written statement of change or termination which shall take effect in the same manner as provided in subparagraph (C). At the election of the payor, any such request (or statement of change or revocation) may take effect earlier than as provided in subparagraph (C).

(5) SPECIAL RULE FOR SICK PAY PAID PURSUANT TO CERTAIN COLLECTIVE-BARGAINING AGREEMENTS.—In the case of any sick pay paid pursuant to a collective-bargaining agreement between employee representatives and one or more employers which contains a provision specifying that this paragraph is to apply to sick pay paid pursuant to such agreement and contains a provision for determining the amount to be deducted and withheld from each payment of such sick pay—

(A) the requirement of paragraph (1)(C) that a request for withholding be in effect shall not apply, and

(B) except as provided in subsection (n), the amounts to be deducted and withheld under this chapter shall be determined in accordance with such agreement.

The preceding sentence shall not apply with respect to sick pay paid pursuant to any agreement to any individual unless the social security number of such individual is furnished to the payor and the payor is furnished with such information as is necessary to determine whether the payment is pursuant to

the agreement and to determine the amount to be deducted and withheld.

(6) COORDINATION WITH WITHHOLDING ON DESIGNATED DISTRIBUTIONS UNDER SECTION 3405.—This subsection shall not apply to any amount which is a designated distribution (within the meaning of section 3405(e)(1)).

(p) VOLUNTARY WITHHOLDING AGREEMENTS.—

(1) CERTAIN FEDERAL PAYMENTS.—

(A) IN GENERAL.—If, at the time a specified Federal payment is made to any person, a request by such person is in effect that such payment be subject to withholding under this chapter, then for purposes of this chapter and so much of subtitle F as relates to this chapter, such payment shall be treated as if it were a payment of wages by an employer to an employee.

(B) AMOUNT WITHHELD.—The amount to be deducted and withheld under this chapter from any payment to which any request under subparagraph (A) applies shall be an amount equal to the percentage of such payment specified in such request. Such a request shall apply to any payment only if the percentage specified is 7 percent, any percentage applicable to any of the 3 lowest income brackets in the table under section 1(c),[1] or such other percentage as is permitted under regulations prescribed by the Secretary.

(C) SPECIFIED FEDERAL PAYMENTS.—For purposes of this paragraph, the term "specified Federal payment" means—

(i) any payment of a social security benefit (as defined in section 86(d)),

(ii) any payment referred to in the second sentence of section 451(d) [1] which is treated as insurance proceeds,

(iii) any amount which is includible in gross income under section 77(a), and

(iv) any other payment made pursuant to Federal law which is specified by the Secretary for purposes of this paragraph.

(D) REQUESTS FOR WITHHOLDING.—Rules similar to the rules that apply to annuities under subsection (*o*)(4) shall apply to requests under this paragraph and paragraph (2).

(2) VOLUNTARY WITHHOLDING ON UNEMPLOYMENT BENEFITS.—If, at the time a payment of unemployment compensation (as defined in section 85(b)) is made to any person, a request by such person is in effect that such payment be subject to withholding under this chapter, then for purposes of this chapter and so much of subtitle F as relates to this chapter, such payment shall be treated as if it were a payment of wages by an employer to an employee. The amount to be deducted and withheld under this chapter from any payment to which any request under this paragraph applies shall be an amount equal to 10 percent of such payment.

(3) AUTHORITY FOR OTHER VOLUNTARY WITHHOLDING.—The Secretary is authorized by regulations to provide for withholding—

(A) from remuneration for services performed by an employee for the employee's employer which (without regard to this paragraph) does not constitute wages, and

(B) from any other type of payment with respect to which the Secretary finds that withholding would be appropriate under the provisions of this chapter,

if the employer and employee, or the person making and the person receiving such other type of payment, agree to such withholding. Such agreement shall be in such form and manner as the Secretary may by regulations prescribe. For purposes of this chapter (and so much of subtitle F as relates to this chapter), remuneration or other payments with respect to which such agreement is made shall be treated as if they were wages paid by an employer to an employee to the extent that such remuneration is paid or other payments are made during the period for which the agreement is in effect.

(q) EXTENSION OF WITHHOLDING TO CERTAIN GAMBLING WINNINGS.—

(1) GENERAL RULE.—Every person, including the Government of the United States, a State, or a political subdivision thereof, or any instrumentalities of the foregoing, making any payment of winnings which are subject to withholding shall deduct and withhold from such payment a tax in an amount equal to the product of the third lowest rate of tax applicable under section 1(c) [1] and such payment.

(2) EXEMPTION WHERE TAX OTHERWISE WITHHELD.—In the case of any payment of winnings which are subject to withholding made to a nonresident alien individual or a foreign corporation, the tax imposed under paragraph (1) shall not apply to any such payment subject to tax under section 1441(a) (relating to withholding on nonresident aliens) or tax under section 1442(a) (relating to withholding on foreign corporations).

(3) WINNINGS WHICH ARE SUBJECT TO WITHHOLDING.—For purposes of this subsection, the term "winnings which are subject to withholding" means proceeds from a wager determined in accordance with the following:

(A) IN GENERAL.—Except as provided in subparagraphs (B) and (C), proceeds of more than $5,000 from a wagering transaction, if the amount of such proceeds is at least 300 times as large as the amount wagered.

(B) STATE-CONDUCTED LOTTERIES.—Proceeds of more than $5,000 from a wager placed in a lottery conducted by an agency of a State acting under authority of State law, but only if such wager is placed with the State agency conducting such lottery, or with its authorized employees or agents.

(C) SWEEPSTAKES, WAGERING POOLS, CERTAIN PARIMUTUEL POOLS, JAI ALAI, AND LOTTERIES.—Proceeds of more than $5,000 from—

(i) a wager placed in a sweepstakes, wagering pool, or lottery (other than a wager described in subparagraph (B)), or

(ii) a wagering transaction in a parimutuel pool with respect to horse races, dog races, or jai alai if the

amount of such proceeds is at least 300 times as large as the amount wagered.

(4) RULES FOR DETERMINING PROCEEDS FROM A WAGER.—For purposes of this subsection—

(A) proceeds from a wager shall be determined by reducing the amount received by the amount of the wager, and

(B) proceeds which are not money shall be taken into account at their fair market value.

(5) EXEMPTION FOR BINGO, KENO, AND SLOT MACHINES.—The tax imposed under paragraph (1) shall not apply to winnings from a slot machine, keno, and bingo.

(6) STATEMENT BY RECIPIENT.—Every person who is to receive a payment of winnings which are subject to withholding shall furnish the person making such payment a statement, made under the penalties of perjury, containing the name, address, and taxpayer identification number of the person receiving the payment and of each person entitled to any portion of such payment.

(7) COORDINATION WITH OTHER SECTIONS.—For purposes of sections 3403 and 3404 and for purposes of so much of subtitle F (except section 7205) as relates to this chapter, payments to any person of winnings which are subject to withholding shall be treated as if they were wages paid by an employer to an employee.

(r) EXTENSION OF WITHHOLDING TO CERTAIN TAXABLE PAYMENTS OF INDIAN CASINO PROFITS.—

(1) IN GENERAL.—Every person, including an Indian tribe, making a payment to a member of an Indian tribe from the net revenues of any class II or class III gaming activity conducted or licensed by such tribe shall deduct and withhold from such payment a tax in an amount equal to such payment's proportionate share of the annualized tax.

(2) EXCEPTION.—The tax imposed by paragraph (1) shall not apply to any payment to the extent that the payment, when annualized, does not exceed an amount equal to the sum of—

(A) the basic [standard deduction] *guaranteed deduction* (as defined in section 63(c)) for an individual to whom section 63(c)(2)(C) [1] applies, and

(B) the exemption amount (as defined in section 151(d)).

(3) ANNUALIZED TAX.—For purposes of paragraph (1), the term "annualized tax" means, with respect to any payment, the amount of tax which would be imposed by section 1(c) [1] (determined without regard to any rate of tax in excess of the fourth lowest rate of tax applicable under section 1(c) [1]) on an amount of taxable income equal to the excess of—

(A) the annualized amount of such payment, over

(B) the amount determined under paragraph (2).

(4) CLASSES OF GAMING ACTIVITIES, ETC..—For purposes of this subsection, terms used in paragraph (1) which are defined in section 4 of the Indian Gaming Regulatory Act (25 U.S.C. 2701 et seq.), as in effect on the date of the enactment of this subsection, shall have the respective meanings given such terms by such section.

(5) ANNUALIZATION.—Payments shall be placed on an annualized basis under regulations prescribed by the Secretary.

(6) ALTERNATE WITHHOLDING PROCEDURES.—At the election of an Indian tribe, the tax imposed by this subsection on any payment made by such tribe shall be determined in accordance with such tables or computational procedures as may be specified in regulations prescribed by the Secretary (in lieu of in accordance with paragraphs (2) and (3)).

(7) COORDINATION WITH OTHER SECTIONS.—For purposes of this chapter and so much of subtitle F as relates to this chapter, payments to any person which are subject to withholding under this subsection shall be treated as if they were wages paid by an employer to an employee.

(s) EXEMPTION FROM WITHHOLDING FOR ANY VEHICLE FRINGE BENEFIT.—

(1) EMPLOYER ELECTION NOT TO WITHHOLD.—The employer may elect not to deduct and withhold any tax under this chapter with respect to any vehicle fringe benefit provided to any employee if such employee is notified by the employer of such election (at such time and in such manner as the Secretary shall by regulations prescribe). The preceding sentence shall not apply to any vehicle fringe benefit unless the amount of such benefit is included by the employer on a statement timely furnished under section 6051.

(2) EMPLOYER MUST FURNISH W–2.—Any vehicle fringe benefit shall be treated as wages from which amounts are required to be deducted and withheld under this chapter for purposes of section 6051.

(3) VEHICLE FRINGE BENEFIT.—For purposes of this subsection, the term "vehicle fringe benefit" means any fringe benefit—

(A) which constitutes wages (as defined in section 3401), and

(B) which consists of providing a highway motor vehicle for the use of the employee.

(t) RATE OF WITHHOLDING FOR CERTAIN STOCK.—In the case of any qualified stock (as defined in section 83(i)(2)) with respect to which an election is made under section 83(i)—

(1) the rate of tax under subsection (a) shall not be less than the maximum rate of tax in effect under section 1, and

(2) such stock shall be treated for purposes of section 3501(b) in the same manner as a non-cash fringe benefit.

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Subtitle F—Procedure and Administration

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CHAPTER 61—INFORMATION AND RETURNS

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Subchapter A—RETURNS AND RECORDS

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PART II—TAX RETURNS OR STATEMENTS

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Subpart B—INCOME TAX RETURNS

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SEC. 6012. PERSONS REQUIRED TO MAKE RETURNS OF INCOME.

(a) GENERAL RULE.—Returns with respect to income taxes under subtitle A shall be made by the following:

(1)(A) Every individual having for the taxable year gross income which equals or exceeds the exemption amount, except that a return shall not be required of an individual—

(i) who is not married (determined by applying section 7703), is not a surviving spouse (as defined in section 2(a)), is not a head of a household (as defined in section 2(b)), and for the taxable year has gross income of less than the sum of the exemption amount plus the basic [standard deduction] *guaranteed deduction* applicable to such an individual,

(ii) who is a head of a household (as so defined) and for the taxable year has gross income of less than the sum of the exemption amount plus the basic [standard deduction] *guaranteed deduction* applicable to such an individual,

(iii) who is a surviving spouse (as so defined) and for the taxable year has gross income of less than the sum of the exemption amount plus the basic [standard deduction] *guaranteed deduction* applicable to such an individual, or

(iv) who is entitled to make a joint return and whose gross income, when combined with the gross income of his spouse, is, for the taxable year, less than the sum of twice the exemption amount plus the basic [standard deduction] *guaranteed deduction* applicable to a joint return, but only if such individual and his spouse, at the close of the taxable year, had the same household as their home.

Clause (iv) shall not apply if for the taxable year such spouse makes a separate return or any other taxpayer is entitled to an exemption for such spouse under section 151(c).

(B) The amount specified in clause (i), (ii), or (iii) of subparagraph (A) shall be increased by the amount of 1 additional [standard deduction] *guaranteed deduction* (within the meaning of section 63(c)(3)) in the case of an individual entitled to such deduction by reason of section 63(f)(1)(A) (relating to individuals age 65 or more), and the amount specified in clause (iv) of subparagraph (A) shall be increased by the amount of the additional [standard deduction] *guaranteed deduction* for each additional [standard deduction] *guaranteed deduction* to which the individual or his spouse is entitled by reason of section 63(f)(1).

(C) The exception under subparagraph (A) shall not apply to any individual—

(i) who is described in section 63(c)(5) and who has—

(I) income (other than earned income) in excess of the sum of the amount in effect under section 63(c)(5)(A) plus the additional [standard deduction] *guaranteed deduction* (if any) to which the individual is entitled, or

(II) total gross income in excess of the [standard deduction] *guaranteed deduction*, or

(ii) for whom the [standard deduction] *guaranteed deduction* is zero under section 63(c)(6).

(D) For purposes of this subsection—

(i) The terms "[standard deduction] *guaranteed deduction*", "basic [standard deduction] *guaranteed deduction*" and "additional [standard deduction] *guaranteed deduction*" have the respective meanings given such terms by section 63(c).

(ii) The term "exemption amount" has the meaning given such term by section 151(d). In the case of an individual described in section 151(d)(2), the exemption amount shall be zero.

(2) Every corporation subject to taxation under subtitle A;

(3) Every estate the gross income of which for the taxable year is $600 or more;

(4) Every trust having for the taxable year any taxable income, or having gross income of $600 or over, regardless of the amount of taxable income;

(5) Every estate or trust of which any beneficiary is a nonresident alien;

(6) Every political organization (within the meaning of section 527(e)(1)), and every fund treated under section 527(g) as if it constituted a political organization, which has political organization taxable income (within the meaning of section 527(c)(1)) for the taxable year;

(7) Every homeowners association (within the meaning of section 528(c)(1)) which has homeowners association taxable income (within the meaning of section 528(d)) for the taxable year; and

(8) Every estate of an individual under chapter 7 or 11 of title 11 of the United States Code (relating to bankruptcy) the gross income of which for the taxable year is not less than the sum of the exemption amount plus the basic [standard deduction] *guaranteed deduction* under section 63(c)(2)(C);

except that subject to such conditions, limitations, and exceptions and under such regulations as may be prescribed by the Secretary, nonresident alien individuals subject to the tax imposed by section 871 and foreign corporations subject to the tax imposed by section 881 may be exempted from the requirement of making returns under this section.

(b) RETURNS MADE BY FIDUCIARIES AND RECEIVERS.—

(1) RETURNS OF DECEDENTS.—If an individual is deceased, the return of such individual required under subsection (a) shall be made by his executor, administrator, or other person charged with the property of such decedent.

(2) PERSONS UNDER A DISABILITY.—If an individual is unable to make a return required under subsection (a), the return of such individual shall be made by a duly authorized agent, his

committee, guardian, fiduciary or other person charged with the care of the person or property of such individual. The preceding sentence shall not apply in the case of a receiver appointed by authority of law in possession of only a part of the property of an individual.

(3) RECEIVERS, TRUSTEES AND ASSIGNEES FOR CORPORATIONS.—In a case where a receiver, trustee in a case under title 11 of the United States Code, or assignee, by order of a court of competent jurisdiction, by operation of law or otherwise, has possession of or holds title to all or substantially all the property or business of a corporation, whether or not such property or business is being operated, such receiver, trustee, or assignee shall make the return of income for such corporation in the same manner and form as corporations are required to make such returns.

(4) RETURNS OF ESTATES AND TRUSTS.—Returns of an estate, a trust, or an estate of an individual under chapter 7 or 11 of title 11 of the United States Code shall be made by the fiduciary thereof.

(5) JOINT FIDUCIARIES.—Under such regulations as the Secretary may prescribe, a return made by one of two or more joint fiduciaries shall be sufficient compliance with the requirements of this section. A return made pursuant to this paragraph shall contain a statement that the fiduciary has sufficient knowledge of the affairs of the person for whom the return is made to enable him to make the return, and that the return is, to the best of his knowledge and belief, true and correct.

(6) IRA SHARE OF PARTNERSHIP INCOME.—In the case of a trust which is exempt from taxation under section 408(e), for purposes of this section, the trust's distributive share of items of gross income and gain of any partnership to which subchapter C or D of chapter 63 applies shall be treated as equal to the trust's distributive share of the taxable income of such partnership.

(c) CERTAIN INCOME EARNED ABROAD OR FROM SALE OF RESIDENCE.—For purposes of this section, gross income shall be computed without regard to the exclusion provided for in section 121 (relating to gain from sale of principal residence) and without regard to the exclusion provided for in section 911 (relating to citizens or residents of the United States living abroad).

(d) TAX-EXEMPT INTEREST REQUIRED TO BE SHOWN ON RETURN.—Every person required to file a return under this section for the taxable year shall include on such return the amount of interest received or accrued during the taxable year which is exempt from the tax imposed by chapter 1.

(e) CONSOLIDATED RETURNS.—For provisions relating to consolidated returns by affiliated corporations, see chapter 6.

(f) SPECIAL RULE FOR TAXABLE YEARS 2018 THROUGH 2025.—In the case of a taxable year beginning after December 31, 2017, and before January 1, 2026, subsection (a)(1) shall not apply, and every individual who has gross income for the taxable year shall be required to make returns with respect to income taxes under subtitle A, except that a return shall not be required of—

(1) an individual who is not married (determined by applying section 7703) and who has gross income for the taxable year which does not exceed the [standard deduction] *guaranteed deduction* applicable to such individual for such taxable year under section 63, or

(2) an individual entitled to make a joint return if—

(A) the gross income of such individual, when combined with the gross income of such individual's spouse, for the taxable year does not exceed the [standard deduction] *guaranteed deduction* which would be applicable to the taxpayer for such taxable year under section 63 if such individual and such individual's spouse made a joint return,

(B) such individual and such individual's spouse have the same household as their home at the close of the taxable year,

(C) such individual's spouse does not make a separate return, and

(D) neither such individual nor such individual's spouse is an individual described in section 63(c)(5) who has income (other than earned income) in excess of the amount in effect under section 63(c)(5)(A).

SEC. 6013. JOINT RETURNS OF INCOME TAX BY HUSBAND AND WIFE.

(a) JOINT RETURNS.—A husband and wife may make a single return jointly of income taxes under subtitle A, even though one of the spouses has neither gross income nor deductions, except as provided below:

(1) no joint return shall be made if either the husband or wife at any time during the taxable year is a nonresident alien;

(2) no joint return shall be made if the husband and wife have different taxable years; except that if such taxable years begin on the same day and end on different days because of the death of either or both, then the joint return may be made with respect to the taxable year of each. The above exception shall not apply if the surviving spouse remarries before the close of his taxable year, nor if the taxable year of either spouse is a fractional part of a year under section 443(a)(1);

(3) in the case of death of one spouse or both spouses the joint return with respect to the decedent may be made only by his executor or administrator; except that in the case of the death of one spouse the joint return may be made by the surviving spouse with respect to both himself and the decedent if no return for the taxable year has been made by the decedent, no executor or administrator has been appointed, and no executor or administrator is appointed before the last day prescribed by law for filing the return of the surviving spouse. If an executor or administrator of the decedent is appointed after the making of the joint return by the surviving spouse, the executor or administrator may disaffirm such joint return by making, within 1 year after the last day prescribed by law for filing the return of the surviving spouse, a separate return for the taxable year of the decedent with respect to which the joint return was made, in which case the return made by the survivor shall constitute his separate return.

(b) JOINT RETURN AFTER FILING SEPARATE RETURN.—

(1) IN GENERAL.—Except as provided in paragraph (2), if an individual has filed a separate return for a taxable year for which a joint return could have been made by him and his spouse under subsection (a) and the time prescribed by law for filing the return for such taxable year has expired, such individual and his spouse may nevertheless make a joint return for such taxable year. A joint return filed by the husband and wife under this subsection shall constitute the return of the husband and wife for such taxable year, and all payments, credits, refunds, or other repayments made or allowed with respect to the separate return of either spouse for such taxable year shall be taken into account in determining the extent to which the tax based upon the joint return has been paid. If a joint return is made under this subsection, any election (other than the election to file a separate return) made by either spouse in his separate return for such taxable year with respect to the treatment of any income, deduction, or credit of such spouse shall not be changed in the making of the joint return where such election would have been irrevocable if the joint return had not been made. If a joint return is made under this subsection after the death of either spouse, such return with respect to the decedent can be made only by his executor or administrator.

(2) LIMITATIONS FOR MAKING OF ELECTION.—The election provided for in paragraph (1) may not be made—

(A) after the expiration of 3 years from the last date prescribed by law for filing the return for such taxable year (determined without regard to any extension of time granted to either spouse); or

(B) after there has been mailed to either spouse, with respect to such taxable year, a notice of deficiency under section 6212, if the spouse, as to such notice, files a petition with the Tax Court within the time prescribed in section 6213; or

(C) after either spouse has commenced a suit in any court for the recovery of any part of the tax for such taxable year; or

(D) after either spouse has entered into a closing agreement under section 7121 with respect to such taxable year, or after any civil or criminal case arising against either spouse with respect to such taxable year has been compromised under section 7122.

(3) WHEN RETURN DEEMED FILED.—

(A) ASSESSMENT AND COLLECTION.—For purposes of section 6501 (relating to periods of limitations on assessment and collection), and for purposes of section 6651 (relating to delinquent returns), a joint return made under this subsection shall be deemed to have been filed—

(i) Where both spouses filed separate returns prior to making the joint return—on the date the last separate return was filed (but not earlier than the last date prescribed by law for filing the return of either spouse);

(ii) Where only one spouse filed a separate return prior to the making of the joint return, and the other

spouse had less than the exemption amount of gross income for such taxable year—on the date of the filing of such separate return (but not earlier than the last date prescribed by law for the filing of such separate return); or

(iii) Where only one spouse filed a separate return prior to the making of the joint return, and the other spouse had gross income of the exemption amount or more for such taxable year—on the date of the filing of such joint return.

For purposes of this subparagraph, the term "exemption amount" has the meaning given to such term by section 151(d). For purposes of clauses (ii) and (iii), if the spouse whose gross income is being compared to the exemption amount is 65 or over, such clauses shall be applied by substituting "the sum of the exemption amount and the additional [standard deduction] *guaranteed deduction* under section 63(c)(2) by reason of section 63(f)(1)(A)" for "the exemption amount".

(B) CREDIT OR REFUND.—For purposes of section 6511, a joint return made under this subsection shall be deemed to have been filed on the last date prescribed by law for filing the return for such taxable year (determined without regard to any extension of time granted to either spouse).

(4) ADDITIONAL TIME FOR ASSESSMENT.—If a joint return is made under this subsection, the periods of limitations provided in sections 6501 and 6502 on the making of assessments and the beginning of levy or a proceeding in court for collection shall with respect to such return include one year immediately after the date of the filing of such joint return (computed without regard to the provisions of paragraph (3)).

(5) ADDITIONS TO THE TAX AND PENALTIES.—

(A) COORDINATION WITH PART II OF SUBCHAPTER A OF CHAPTER 68.—For purposes of part II of subchapter A of chapter 68, where the sum of the amounts shown as tax on the separate returns of each spouse is less than the amount shown as tax on the joint return made under this subsection—

(i) such sum shall be treated as the amount shown on the joint return,

(ii) any negligence (or disregard of rules or regulations) on either separate return shall be treated as negligence (or such disregard) on the joint return, and

(iii) any fraud on either separate return shall be treated as fraud on the joint return.

(B) CRIMINAL PENALTY.—For purposes of section 7206(1) and (2) and section 7207 (relating to criminal penalties in the case of fraudulent returns) the term "return" includes a separate return filed by a spouse with respect to a taxable year for which a joint return is made under this subsection after the filing of such separate return.

(c) TREATMENT OF JOINT RETURN AFTER DEATH OF EITHER SPOUSE.—For purposes of sections 15, 443, and 7851(a)(1)(A), where the husband and wife have different taxable years because of the death of either spouse, the joint return shall be treated as

if the taxable years of both spouses ended on the date of the closing of the surviving spouse's taxable year.

(d) SPECIAL RULES.—For purposes of this section—

(1) the status as husband and wife of two individuals having taxable years beginning on the same day shall be determined—

(A) if both have the same taxable year—as of the close of such year; or

(B) if one dies before the close of the taxable year of the other—as of the time of such death;

(2) an individual who is legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married; and

(3) if a joint return is made, the tax shall be computed on the aggregate income and the liability with respect to the tax shall be joint and several.

(f) JOINT RETURN WHERE INDIVIDUAL IS IN MISSING STATUS.—For purposes of this section and subtitle A—

(1) ELECTION BY SPOUSE.—If—

(A) an individual is in a missing status (within the meaning of paragraph (3)) as a result of service in a combat zone (as determined for purposes of section 112), and

(B) the spouse of such individual is otherwise entitled to file a joint return for any taxable year which begins on or before the day which is 2 years after the date designated under section 112 as the date of termination of combatant activities in such zone,

then such spouse may elect under subsection (a) to file a joint return for such taxable year. With respect to service in the combat zone designated for purposes of the Vietnam conflict, such election may be made for any taxable year while an individual is in missing status.

(2) EFFECT OF ELECTION.—If the spouse of an individual described in paragraph (1)(A) elects to file a joint return under subsection (a) for a taxable year, then, until such election is revoked—

(A) such election shall be valid even if such individual died before the beginning of such year, and

(B) except for purposes of section 692 (relating to income taxes of members of the Armed Forces, astronauts, and victims of certain terrorist attacks on death), the income tax liability of such individual, his spouse, and his estate shall be determined as if he were alive throughout the taxable year.

(3) MISSING STATUS.—For purposes of this subsection—

(A) UNIFORMED SERVICES.—A member of a uniformed service (within the meaning of section 101(3) of title 37 of the United States Code) is in a missing status for any period for which he is entitled to pay and allowances under section 552 of such title 37.

(B) CIVILIAN EMPLOYEES.—An employee (within the meaning of section 5561(2) of title 5 of the United States Code) is in a missing status for any period for which he is entitled to pay and allowances under section 5562 of such title 5.

(4) MAKING OF ELECTION; REVOCATION.—An election described in this subsection with respect to any taxable year may be made by filing a joint return in accordance with subsection (a) and under such regulations as may be prescribed by the Secretary. Such an election may be revoked by either spouse on or before the due date (including extensions) for such taxable year, and, in the case of an executor or administrator, may be revoked by disaffirming as provided in the last sentence of subsection (a)(3).

(g) ELECTION TO TREAT NONRESIDENT ALIEN INDIVIDUAL AS RESIDENT OF THE UNITED STATES.—

(1) IN GENERAL.—A nonresident alien individual with respect to whom this subsection is in effect for the taxable year shall be treated as a resident of the United States—

(A) for purposes of chapter 1 for all of such taxable year, and

(B) for purposes of chapter 24 (relating to wage withholding) for payments of wages made during such taxable year.

(2) INDIVIDUALS WITH RESPECT TO WHOM THIS SUBSECTION IS IN EFFECT.—This subsection shall be in effect with respect to any individual who, at the close of the taxable year for which an election under this subsection was made, was a nonresident alien individual married to a citizen or resident of the United States, if both of them made such election to have the benefits of this subsection apply to them.

(3) DURATION OF ELECTION.—An election under this subsection shall apply to the taxable year for which made and to all subsequent taxable years until terminated under paragraph (4) or (5); except that any such election shall not apply for any taxable year if neither spouse is a citizen or resident of the United States at any time during such year.

(4) TERMINATION OF ELECTION.—An election under this subsection shall terminate at the earliest of the following times:

(A) REVOCATION BY TAXPAYERS.—If either taxpayer revokes the election, as of the first taxable year for which the last day prescribed by law for filing the return of tax under chapter 1 has not yet occurred.

(B) DEATH.—In the case of the death of either spouse, as of the beginning of the first taxable year of the spouse who survives following the taxable year in which such death occurred; except that if the spouse who survives is a citizen or resident of the United States who is a surviving spouse entitled to the benefits of section 2, the time provided by this subparagraph shall be as of the close of the last taxable year for which such individual is entitled to the benefits of section 2.

(C) LEGAL SEPARATION.—In the case of the legal separation of the couple under a decree of divorce or of separate maintenance, as of the beginning of the taxable year in which such legal separation occurs.

(D) TERMINATION BY SECRETARY.—At the time provided in paragraph (5).

(5) TERMINATION BY SECRETARY.—The Secretary may terminate any election under this subsection for any taxable year if he determines that either spouse has failed—

(A) to keep such books and records,

(B) to grant such access to such books and records, or

(C) to supply such other information,

as may be reasonably necessary to ascertain the amount of liability for taxes under chapter 1 of either spouse for such taxable year.

(6) ONLY ONE ELECTION.—If any election under this subsection for any two individuals is terminated under paragraph (4) or (5) for any taxable year, such two individuals shall be ineligible to make an election under this subsection for any subsequent taxable year.

(h) JOINT RETURN, ETC., FOR YEAR IN WHICH NONRESIDENT ALIEN BECOMES RESIDENT OF UNITED STATES.—

(1) IN GENERAL.—If—

(A) any individual is a nonresident alien individual at the beginning of any taxable year but is a resident of the United States at the close of such taxable year,

(B) at the close of such taxable year, such individual is married to a citizen or resident of the United States, and

(C) both individuals elect the benefits of this subsection at the time and in the manner prescribed by the Secretary by regulation,

then the individual referred to in subparagraph (A) shall be treated as a resident of the United States for purposes of chapter 1 for all of such taxable year, and for purposes of chapter 24 (relating to wage withholding) for payments of wages made during such taxable year.

(2) ONLY ONE ELECTION.—If any election under this subsection applies for any 2 individuals for any taxable year, such 2 individuals shall be ineligible to make an election under this subsection for any subsequent taxable year.

SEC. 6014. INCOME TAX RETURN—TAX NOT COMPUTED BY TAXPAYER.

(a) ELECTION BY TAXPAYER.—An individual who does not itemize his deductions and who is not described in section 6012(a)(1)(C)(i), whose gross income is less than $10,000 and includes no income other than remuneration for services performed by him as an employee, dividends or interest, and whose gross income other than wages, as defined in section 3401(a), does not exceed $100, shall at his election not be required to show on the return the tax imposed by section 1. Such election shall be made by using the form prescribed for purposes of this section. In such case the tax shall be computed by the Secretary who shall mail to the taxpayer a notice stating the amount determined as payable.

(b) REGULATIONS.—The Secretary shall prescribe regulations for carrying out this section, and such regulations may provide for the application of the rules of this section—

(1) to cases where the gross income includes items other than those enumerated by subsection (a),

(2) to cases where the gross income from sources other than wages on which the tax has been withheld at the source is more than $100,

(3) to cases where the gross income is $10,000 or more, or

(4) to cases where the taxpayer itemizes his deductions or where the taxpayer claims a reduced [standard deduction] *guaranteed deduction* by reason of section 63(c)(5).

Such regulations shall provide for the application of this section in the case of husband and wife, including provisions determining when a joint return under this section may be permitted or required, whether the liability shall be joint and several, and whether one spouse may make return under this section and the other without regard to this section.

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CHAPTER 64—COLLECTION

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Subchapter D—SEIZURE OF PROPERTY FOR COLLECTION OF TAXES

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PART II—LEVY

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SEC. 6334. PROPERTY EXEMPT FROM LEVY.

(a) ENUMERATION.—There shall be exempt from levy—

(1) WEARING APPAREL AND SCHOOL BOOKS.—Such items of wearing apparel and such school books as are necessary for the taxpayer or for members of his family;

(2) FUEL, PROVISIONS, FURNITURE, AND PERSONAL EFFECTS.—So much of the fuel, provisions, furniture, and personal effects in the taxpayer's household, and of the arms for personal use, livestock, and poultry of the taxpayer, as does not exceed $6,250 in value;

(3) BOOKS AND TOOLS OF A TRADE, BUSINESS, OR PROFESSION.—So many of the books and tools necessary for the trade, business, or profession of the taxpayer as do not exceed in the aggregate $3,125 in value.

(4) UNEMPLOYMENT BENEFITS.—Any amount payable to an individual with respect to his unemployment (including any portion thereof payable with respect to dependents) under an unemployment compensation law of the United States, of any State, or of the District of Columbia or of the Commonwealth of Puerto Rico.

(5) UNDELIVERED MAIL.—Mail, addressed to any person, which has not been delivered to the addressee.

(6) CERTAIN ANNUITY AND PENSION PAYMENTS.—Annuity or pension payments under the Railroad Retirement Act, benefits under the Railroad Unemployment Insurance Act, special pension payments received by a person whose name has been entered on the Army, Navy, Air Force, and Coast Guard Medal of Honor roll (38 U.S.C. 1562), and annuities based on retired or retainer pay under chapter 73 of title 10 of the United States Code.

(7) WORKMEN'S COMPENSATION.—Any amount payable to an individual as workmen's compensation (including any portion thereof payable with respect to dependents) under a workmen's compensation law of the United States, any State, the District of Columbia, or the Commonwealth of Puerto Rico.

(8) JUDGMENTS FOR SUPPORT OF MINOR CHILDREN.—If the taxpayer is required by judgment of a court of competent jurisdiction, entered prior to the date of levy, to contribute to the support of his minor children, so much of his salary, wages, or other income as is necessary to comply with such judgment.

(9) MINIMUM EXEMPTION FOR WAGES, SALARY, AND OTHER INCOME.—Any amount payable to or received by an individual as wages or salary for personal services, or as income derived from other sources, during any period, to the extent that the total of such amounts payable to or received by him during such period does not exceed the applicable exempt amount determined under subsection (d).

(10) CERTAIN SERVICE-CONNECTED DISABILITY PAYMENTS.—Any amount payable to an individual as a service-connected (within the meaning of section 101(16) of title 38, United States Code) disability benefit under—

(A) subchapter II, III, IV, V, or VI of chapter 11 of such title 38, or

(B) chapter 13, 21, 23, 31, 32, 34, 35, 37, or 39 of such title 38.

(11) CERTAIN PUBLIC ASSISTANCE PAYMENTS.—Any amount payable to an individual as a recipient of public assistance under—

(A) title IV or title XVI (relating to supplemental security income for the aged, blind, and disabled) of the Social Security Act, or

(B) State or local government public assistance or public welfare programs for which eligibility is determined by a needs or income test.

(12) ASSISTANCE UNDER JOB TRAINING PARTNERSHIP ACT.—Any amount payable to a participant under the Job Training Partnership Act (29 U.S.C. 1501 et seq.) from funds appropriated pursuant to such Act.

(13) RESIDENCES EXEMPT IN SMALL DEFICIENCY CASES AND PRINCIPAL RESIDENCES AND CERTAIN BUSINESS ASSETS EXEMPT IN ABSENCE OF CERTAIN APPROVAL OR JEOPARDY.—

(A) RESIDENCES IN SMALL DEFICIENCY CASES.—If the amount of the levy does not exceed $5,000—

(i) any real property used as a residence by the taxpayer; or

(ii) any real property of the taxpayer (other than real property which is rented) used by any other individual as a residence.

(B) PRINCIPAL RESIDENCES AND CERTAIN BUSINESS ASSETS.—Except to the extent provided in subsection (e)—

(i) the principal residence of the taxpayer (within the meaning of section 121); and

(ii) tangible personal property or real property (other than real property which is rented) used in the trade or business of an individual taxpayer.

(b) APPRAISAL.—The officer seizing property of the type described in subsection (a) shall appraise and set aside to the owner the amount of such property declared to be exempt. If the taxpayer objects at the time of the seizure to the valuation fixed by the officer making the seizure, the Secretary shall summon three disinterested individuals who shall make the valuation.

(c) NO OTHER PROPERTY EXEMPT.—Notwithstanding any other law of the United States (including section 207 of the Social Security Act), no property or rights to property shall be exempt from levy other than the property specifically made exempt by subsection (a).

(d) EXEMPT AMOUNT OF WAGES, SALARY, OR OTHER INCOME.—

(1) INDIVIDUALS ON WEEKLY BASIS.—In the case of an individual who is paid or receives all of his wages, salary, and other income on a weekly basis, the amount of the wages, salary, and other income payable to or received by him during any week which is exempt from levy under subsection (a)(9) shall be the exempt amount.

(2) EXEMPT AMOUNT.—For purposes of paragraph (1), the term "exempt amount" means an amount equal to—

(A) the sum of—

(i) the ⟦standard deduction⟧ *guaranteed deduction*, and

(ii) the aggregate amount of the deductions for personal exemptions allowed the taxpayer under section 151 in the taxable year in which such levy occurs, divided by

(B) 52.

Unless the taxpayer submits to the Secretary a written and properly verified statement specifying the facts necessary to determine the proper amount under subparagraph (A), subparagraph (A) shall be applied as if the taxpayer were a married individual filing a separate return with only 1 personal exemption.

(3) INDIVIDUALS ON BASIS OTHER THAN WEEKLY.—In the case of any individual not described in paragraph (1), the amount of the wages, salary, and other income payable to or received by him during any applicable pay period or other fiscal period (as determined under regulations prescribed by the Secretary) which is exempt from levy under subsection (a)(9) shall be an amount (determined under such regulations) which as nearly as possible will result in the same total exemption from levy for such individual over a period of time as he would have under paragraph (1) if (during such period of time) he were paid or received such wages, salary, and other income on a regular weekly basis.

(4) YEARS WHEN PERSONAL EXEMPTION AMOUNT IS ZERO.—

(A) IN GENERAL.—In the case of any taxable year in which the exemption amount under section 151(d) is zero, paragraph (2) shall not apply and for purposes of paragraph (1) the term "exempt amount" means an amount equal to—

(i) the sum of the amount determined under subparagraph (B) and the ⟦standard deduction⟧ *guaranteed deduction*, divided by

(ii) 52.

(B) AMOUNT DETERMINED.—For purposes of subparagraph (A), the amount determined under this subparagraph is $4,150 multiplied by the number of the taxpayer's dependents for the taxable year in which the levy occurs.

(C) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2018, the $4,150 amount in subparagraph (B) shall be increased by an amount equal to—

(i) such dollar amount, multiplied by

(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting "2017" for "2016" in subparagraph (A)(ii) thereof.

If any increase determined under the preceding sentence is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.

(D) VERIFIED STATEMENT.—Unless the taxpayer submits to the Secretary a written and properly verified statement specifying the facts necessary to determine the proper amount under subparagraph (A), subparagraph (A) shall be applied as if the taxpayer were a married individual filing a separate return with no dependents.

(e) LEVY ALLOWED ON PRINCIPAL RESIDENCES AND CERTAIN BUSINESS ASSETS IN CERTAIN CIRCUMSTANCES.—

(1) PRINCIPAL RESIDENCES.—

(A) APPROVAL REQUIRED.—A principal residence shall not be exempt from levy if a judge or magistrate of a district court of the United States approves (in writing) the levy of such residence.

(B) JURISDICTION.—The district courts of the United States shall have exclusive jurisdiction to approve a levy under subparagraph (A).

(2) CERTAIN BUSINESS ASSETS.—Property (other than a principal residence) described in subsection (a)(13)(B) shall not be exempt from levy if—

(A) a district director or assistant district director of the Internal Revenue Service personally approves (in writing) the levy of such property; or

(B) the Secretary finds that the collection of tax is in jeopardy.

An official may not approve a levy under subparagraph (A) unless the official determines that the taxpayer's other assets subject to collection are insufficient to pay the amount due, together with expenses of the proceedings.

(f) LEVY ALLOWED ON CERTAIN SPECIFIED PAYMENTS.—Any payment described in subparagraph (B) or (C) of section 6331(h)(2) shall not be exempt from levy if the Secretary approves the levy thereon under section 6331(h).

(g) INFLATION ADJUSTMENT.—

(1) IN GENERAL.—In the case of any calendar year beginning after 1999, each dollar amount referred to in paragraphs (2) and (3) of subsection (a) shall be increased by an amount equal to—

(A) such dollar amount, multiplied by

(B) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, by substituting "calendar year 1998" for "calendar year 2016" in subparagraph (A)(ii) thereof.

(2) ROUNDING.—If any dollar amount after being increased under paragraph (1) is not a multiple of $10, such dollar amount shall be rounded to the nearest multiple of $10.

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VII. DISSENTING VIEWS

The "Tax Cuts for Working Families Act" claims to provide tax relief to working Americans and their families, a priority long championed by Democrats. However, the bill falls short of accomplishing that goal.

Once again, Republicans are leaving behind the lowest-income taxpayers. According to an analysis by the Institute on Taxation and Economic Policy,[1] the bottom 20 percent of households would receive just 2 percent of the benefits of this provision. The Joint Committee on Taxation distributional analysis reveals that the lion's share of the provision's benefits accrue to taxpayers with incomes in excess of $100,000. By contrast, the Democrats' expanded child tax credit provided families monthly payments of as much as $300 per child, resulting in a historically low child poverty rate of 5.2 percent.[2] The child tax credit, as enacted in the TCJA, leaves the lowest-income taxpayers behind; Republicans' refusal to remedy that in this bill—or to even hold a vote on allowing the poorest to benefit from the child tax credit during the Committee markup—speaks volumes about their priorities.

Additionally, Republicans who are under the impression that the bonus "guaranteed deduction" somehow alleviates their discriminatory SALT cap are misguided. As the Joint Committee on Taxation verified during the Committee markup, the bonus deduction provides an average benefit of $60 to a taxpayer whose SALT deduction is limited by the TCJA's cap. Those who live in states with taxes at sufficient levels to adequately fund schools and social services will continue to bear the burden of the Republicans' obsession with cutting taxes for large corporations and the wealthy and well-connected.

RICHARD E. NEAL,
Ranking Member.

RANKING MEMBER RICHARD E. NEAL, OPENING STATEMENT, COMMITTEE ON WAYS AND MEANS MARKUP OF H.R. 3936, TUESDAY, JUNE 13, 2023

Thank you, Mr. Chairman. The title of this legislation is laudable, and a priority Committee Democrats share unequivocally. It sadly doesn't live up to its bill, and with the proven success of the Child Tax Credit, I cannot accept this as an alternative for working families.

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[1] Institute on Taxation and Economic Policy (June 11, 2023). Trio of GOP Tax Bills Would Expand Corporate Tax Breaks While Doing Little for Americans Who Most Need Help. https://itep.org/gop-tax-bills-expand-corporate-tax-breaks/.

[2] Brookings Institute (March 1, 2023). The antipoverty effects of the expanded Child Tax Credit across states: Where were the historic reductions felt? https://www.brookings.edu/research/the-antipoverty-effects-of-the-expanded-child-tax-credit-across-states-where-were-the-historic-reductions-felt/#:~:text=Research%20showed%20that%20child%20poverty,2022).

A majority of their Tax Scam 2.0 focuses on restoring corporate giveaways to the wealthy and well-connected before restoring the tax credits that cut child poverty in half, and in this provision, we see that even when Republicans try to cut taxes for families, they miss those who need it most. The poorest fifth of Americans would receive just 2 percent of the benefits of this provision, and on average, that means a tax break of just $30 next year.

As the only change to the individual side of the tax code, I must admit it feels like an afterthought. Why ignore one of the most important policies for working families if cutting taxes for working families is the goal?

Democrats' expanded Child Tax Credit changed lives in 2021. With full refundability, those with the highest need were finally able to access this support, which in turn, grew the economy and spread opportunity. I'm disappointed we can't unite on pulling more children from the lifecycle of poverty.

With that, I yield back the balance of my time.

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