

113TH CONGRESS  
2D SESSION

# H. R. 1

To amend the Internal Revenue Code of 1986 to provide for comprehensive tax reform.

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## IN THE HOUSE OF REPRESENTATIVES

DECEMBER 10, 2014

Mr. CAMP introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide for comprehensive tax reform.

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

3 **SECTION 1. SHORT TITLE; ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Tax Reform Act of 2014”.

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

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

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

Sec. 1. Short title; etc.

#### TITLE I—TAX REFORM FOR INDIVIDUALS

##### Subtitle A—Individual Income Tax Rate Reform

Sec. 1001. Simplification of individual income tax rates.

Sec. 1002. Deduction for adjusted net capital gain.

Sec. 1003. Conforming amendments related to simplification of individual in-  
 come tax rates.

##### Subtitle B—Simplification of Tax Benefits for Families

Sec. 1101. Standard deduction.

Sec. 1102. Increase and expansion of child tax credit.

Sec. 1103. Modification of earned income tax credit.

Sec. 1104. Repeal of deduction for personal exemptions.

##### Subtitle C—Simplification of Education Incentives

Sec. 1201. American opportunity tax credit.

Sec. 1202. Expansion of Pell Grant exclusion from gross income.

Sec. 1203. Repeal of exclusion of income from United States savings bonds  
 used to pay higher education tuition and fees.

Sec. 1204. Repeal of deduction for interest on education loans.

Sec. 1205. Repeal of deduction for qualified tuition and related expenses.

Sec. 1206. No new contributions to Coverdell education savings accounts.

Sec. 1207. Repeal of exclusion for discharge of student loan indebtedness.

Sec. 1208. Repeal of exclusion for qualified tuition reductions.

Sec. 1209. Repeal of exclusion for education assistance programs.

Sec. 1210. Repeal of exception to 10-percent penalty for higher education ex-  
 penses.

##### Subtitle D—Repeal of Certain Credits for Individuals

Sec. 1301. Repeal of dependent care credit.

Sec. 1302. Repeal of credit for adoption expenses.

Sec. 1303. Repeal of credit for nonbusiness energy property.

Sec. 1304. Repeal of credit for residential energy efficient property.

Sec. 1305. Repeal of credit for qualified electric vehicles.

Sec. 1306. Repeal of alternative motor vehicle credit.

Sec. 1307. Repeal of alternative fuel vehicle refueling property credit.

Sec. 1308. Repeal of credit for new qualified plug-in electric drive motor vehi-  
 cles.

Sec. 1309. Repeal of credit for health insurance costs of eligible individuals.

Sec. 1310. Repeal of first-time homebuyer credit.

##### Subtitle E—Deductions, Exclusions, and Certain Other Provisions

- Sec. 1401. Exclusion of gain from sale of a principal residence.
- Sec. 1402. Mortgage interest.
- Sec. 1403. Charitable contributions.
- Sec. 1404. Denial of deduction for expenses attributable to the trade or business of being an employee.
- Sec. 1405. Repeal of deduction for taxes not paid or accrued in a trade or business.
- Sec. 1406. Repeal of deduction for personal casualty losses.
- Sec. 1407. Limitation on wagering losses.
- Sec. 1408. Repeal of deduction for tax preparation expenses.
- Sec. 1409. Repeal of deduction for medical expenses.
- Sec. 1410. Repeal of disqualification of expenses for over-the-counter drugs under certain accounts and arrangements.
- Sec. 1411. Repeal of deduction for alimony payments and corresponding inclusion in gross income.
- Sec. 1412. Repeal of deduction for moving expenses.
- Sec. 1413. Termination of deduction and exclusions for contributions to medical savings accounts.
- Sec. 1414. Repeal of 2-percent floor on miscellaneous itemized deductions.
- Sec. 1415. Repeal of overall limitation on itemized deductions.
- Sec. 1416. Deduction for amortizable bond premium allowed in determining adjusted gross income.
- Sec. 1417. Repeal of exclusion, etc., for employee achievement awards.
- Sec. 1418. Clarification of special rule for certain governmental plans.
- Sec. 1419. Limitation on exclusion for employer-provided housing.
- Sec. 1420. Fringe benefits.
- Sec. 1421. Repeal of exclusion of net unrealized appreciation in employer securities.
- Sec. 1422. Consistent basis reporting between estate and person acquiring property from decedent.

#### Subtitle F—Employment Tax Modifications

- Sec. 1501. Modifications of deduction for Social Security taxes in computing net earnings from self-employment.
- Sec. 1502. Determination of net earnings from self-employment.
- Sec. 1503. Repeal of exemption from FICA taxes for certain foreign workers.
- Sec. 1504. Repeal of exemption from FICA taxes for certain students.
- Sec. 1505. Override of Treasury guidance providing that certain employer-provided supplemental unemployment benefits are not subject to employment taxes.
- Sec. 1506. Certified professional employer organizations.

#### Subtitle G—Pensions and Retirement

##### PART 1—INDIVIDUAL RETIREMENT PLANS

- Sec. 1601. Elimination of income limits on contributions to Roth IRAs.
- Sec. 1602. No new contributions to traditional IRAs.
- Sec. 1603. Inflation adjustment for Roth IRA contributions.
- Sec. 1604. Repeal of special rule permitting recharacterization of Roth IRA contributions as traditional IRA contributions.
- Sec. 1605. Repeal of exception to 10-percent penalty for first home purchases.

##### PART 2—EMPLOYER-PROVIDED PLANS

- Sec. 1611. Termination for new SEPs.

- Sec. 1612. Termination for new SIMPLE 401(k)s.
- Sec. 1613. Rules related to designated Roth contributions.
- Sec. 1614. Modifications of required distribution rules for pension plans.
- Sec. 1615. Reduction in minimum age for allowable in-service distributions.
- Sec. 1616. Modification of rules governing hardship distributions.
- Sec. 1617. Extended rollover period for the rollover of plan loan offset amounts in certain cases.
- Sec. 1618. Coordination of contribution limitations for 403(b) plans and governmental 457(b) plans.
- Sec. 1619. Application of 10-percent early distribution tax to governmental 457 plans.
- Sec. 1620. Inflation adjustments for qualified plan benefit and contribution limitations.
- Sec. 1621. Inflation adjustments for qualified plan elective deferral limitations.
- Sec. 1622. Inflation adjustments for SIMPLE retirement accounts.
- Sec. 1623. Inflation adjustments for catch-up contributions for certain employer plans.
- Sec. 1624. Inflation adjustments for governmental and tax-exempt organization plans.

#### Subtitle H—Certain Provisions Related to Members of Indian Tribes

- Sec. 1701. Indian general welfare benefits.
- Sec. 1702. Tribal Advisory Committee.
- Sec. 1703. Other relief for Indian tribes.

### TITLE II—ALTERNATIVE MINIMUM TAX REPEAL

- Sec. 2001. Repeal of alternative minimum tax.

### TITLE III—BUSINESS TAX REFORM

#### Subtitle A—Tax Rates

- Sec. 3001. 25-percent corporate tax rate.

#### Subtitle B—Reform of Business-Related Exclusions and Deductions

- Sec. 3101. Revision of treatment of contributions to capital.
- Sec. 3102. Repeal of deduction for local lobbying expenses.
- Sec. 3103. Expenditures for repairs in connection with casualty losses.
- Sec. 3104. Reform of accelerated cost recovery system.
- Sec. 3105. Repeal of amortization of pollution control facilities.
- Sec. 3106. Net operating loss deduction.
- Sec. 3107. Circulation expenditures.
- Sec. 3108. Amortization of research and experimental expenditures.
- Sec. 3109. Repeal of deductions for soil and water conservation expenditures and endangered species recovery expenditures.
- Sec. 3110. Amortization of certain advertising expenses.
- Sec. 3111. Expensing certain depreciable business assets for small business.
- Sec. 3112. Repeal of election to expense certain refineries.
- Sec. 3113. Repeal of deduction for energy efficient commercial buildings.
- Sec. 3114. Repeal of election to expense advanced mine safety equipment.
- Sec. 3115. Repeal of deduction for expenditures by farmers for fertilizer, etc.
- Sec. 3116. Repeal of special treatment of certain qualified film and television productions.

- Sec. 3117. Repeal of special rules for recoveries of damages of antitrust violations, etc.
- Sec. 3118. Treatment of reforestation expenditures.
- Sec. 3119. 20-year amortization of goodwill and certain other intangibles.
- Sec. 3120. Treatment of environmental remediation costs.
- Sec. 3121. Repeal of expensing of qualified disaster expenses.
- Sec. 3122. Phaseout and repeal of deduction for income attributable to domestic production activities.
- Sec. 3123. Unification of deduction for organizational expenditures.
- Sec. 3124. Prevention of arbitrage of deductible interest expense and tax-exempt interest income.
- Sec. 3125. Prevention of transfer of certain losses from tax indifferent parties.
- Sec. 3126. Entertainment, etc. expenses.
- Sec. 3127. Repeal of limitation on corporate acquisition indebtedness.
- Sec. 3128. Denial of deductions and credits for expenditures in illegal businesses.
- Sec. 3129. Limitation on deduction for FDIC premiums.
- Sec. 3130. Repeal of percentage depletion.
- Sec. 3131. Repeal of passive activity exception for working interests in oil and gas property.
- Sec. 3132. Repeal of special rules for gain or loss on timber, coal, or domestic iron ore.
- Sec. 3133. Repeal of like-kind exchanges.
- Sec. 3134. Restriction on trade or business property treated as similar or related in service to involuntarily converted property in disaster areas.
- Sec. 3135. Repeal of rollover of publicly traded securities gain into specialized small business investment companies.
- Sec. 3136. Termination of special rules for gain from certain small business stock.
- Sec. 3137. Certain self-created property not treated as a capital asset.
- Sec. 3138. Repeal of special rule for sale or exchange of patents.
- Sec. 3139. Depreciation recapture on gain from disposition of certain depreciable realty.
- Sec. 3140. Common deduction conforming amendments.

#### Subtitle C—Reform of Business Credits

- Sec. 3201. Repeal of credit for alcohol, etc., used as fuel.
- Sec. 3202. Repeal of credit for biodiesel and renewable diesel used as fuel.
- Sec. 3203. Research credit modified and made permanent.
- Sec. 3204. Low-income housing tax credit.
- Sec. 3205. Repeal of enhanced oil recovery credit.
- Sec. 3206. Phaseout and repeal of credit for electricity produced from certain renewable resources.
- Sec. 3207. Repeal of Indian employment credit.
- Sec. 3208. Repeal of credit for portion of employer Social Security taxes paid with respect to employee cash tips.
- Sec. 3209. Repeal of credit for clinical testing expenses for certain drugs for rare diseases or conditions.
- Sec. 3210. Repeal of credit for small employer pension plan startup costs.
- Sec. 3211. Repeal of employer-provided child care credit.
- Sec. 3212. Repeal of railroad track maintenance credit.
- Sec. 3213. Repeal of credit for production of low sulfur diesel fuel.
- Sec. 3214. Repeal of credit for producing oil and gas from marginal wells.

- Sec. 3215. Repeal of credit for production from advanced nuclear power facilities.
- Sec. 3216. Repeal of credit for producing fuel from a nonconventional source.
- Sec. 3217. Repeal of new energy efficient home credit.
- Sec. 3218. Repeal of energy efficient appliance credit.
- Sec. 3219. Repeal of mine rescue team training credit.
- Sec. 3220. Repeal of agricultural chemicals security credit.
- Sec. 3221. Repeal of credit for carbon dioxide sequestration.
- Sec. 3222. Repeal of credit for employee health insurance expenses of small employers.
- Sec. 3223. Repeal of rehabilitation credit.
- Sec. 3224. Repeal of energy credit.
- Sec. 3225. Repeal of qualifying advanced coal project credit.
- Sec. 3226. Repeal of qualifying gasification project credit.
- Sec. 3227. Repeal of qualifying advanced energy project credit.
- Sec. 3228. Repeal of qualifying therapeutic discovery project credit.
- Sec. 3229. Repeal of work opportunity tax credit.
- Sec. 3230. Repeal of deduction for certain unused business credits.

#### Subtitle D—Accounting Methods

- Sec. 3301. Limitation on use of cash method of accounting.
- Sec. 3302. Rules for determining whether taxpayer has adopted a method of accounting.
- Sec. 3303. Certain special rules for taxable year of inclusion.
- Sec. 3304. Installment sales.
- Sec. 3305. Repeal of special rule for prepaid subscription income.
- Sec. 3306. Repeal of special rule for prepaid dues income of certain membership organizations.
- Sec. 3307. Repeal of special rule for magazines, paperbacks, and records returned after close of the taxable year.
- Sec. 3308. Modification of rules for long-term contracts.
- Sec. 3309. Nuclear decommissioning reserve funds.
- Sec. 3310. Repeal of last-in, first-out method of inventory.
- Sec. 3311. Repeal of lower of cost or market method of inventory.
- Sec. 3312. Modification of rules for capitalization and inclusion in inventory costs of certain expenses.
- Sec. 3313. Modification of income forecast method.
- Sec. 3314. Repeal of averaging of farm income.
- Sec. 3315. Treatment of patent or trademark infringement awards.
- Sec. 3316. Repeal of redundant rules with respect to carrying charges.
- Sec. 3317. Repeal of recurring item exception for spudding of oil or gas wells.

#### Subtitle E—Financial Instruments

##### PART 1—DERIVATIVES AND HEDGES

- Sec. 3401. Treatment of certain derivatives.
- Sec. 3402. Modification of certain rules related to hedges.

##### PART 2—TREATMENT OF DEBT INSTRUMENTS

- Sec. 3411. Current inclusion in income of market discount.
- Sec. 3412. Treatment of certain exchanges of debt instruments.
- Sec. 3413. Coordination with rules for inclusion not later than for financial accounting purposes.
- Sec. 3414. Rules regarding certain government debt.

## PART 3—CERTAIN RULES FOR DETERMINING GAIN AND LOSS

- Sec. 3421. Cost basis of specified securities determined without regard to identification.
- Sec. 3422. Wash sales by related parties.
- Sec. 3423. Nonrecognition for derivative transactions by a corporation with respect to its stock.

## PART 4—TAX FAVORED BONDS

- Sec. 3431. Termination of private activity bonds.
- Sec. 3432. Termination of credit for interest on certain home mortgages.
- Sec. 3433. Repeal of advance refunding bonds.
- Sec. 3434. Repeal of tax credit bond rules.

## Subtitle F—Insurance Reforms

- Sec. 3501. Exception to pro rata interest expense disallowance for corporate-owned life insurance restricted to 20-percent owners.
- Sec. 3502. Net operating losses of life insurance companies.
- Sec. 3503. Repeal of small life insurance company deduction.
- Sec. 3504. Computation of life insurance tax reserves.
- Sec. 3505. Adjustment for change in computing reserves.
- Sec. 3506. Modification of rules for life insurance proration for purposes of determining the dividends received deduction.
- Sec. 3507. Repeal of special rule for distributions to shareholders from pre-1984 policyholders surplus account.
- Sec. 3508. Modification of proration rules for property and casualty insurance companies.
- Sec. 3509. Repeal of special treatment of Blue Cross and Blue Shield organizations, etc.
- Sec. 3510. Modification of discounting rules for property and casualty insurance companies.
- Sec. 3511. Repeal of special estimated tax payments.
- Sec. 3512. Capitalization of certain policy acquisition expenses.
- Sec. 3513. Tax reporting for life settlement transactions.
- Sec. 3514. Clarification of tax basis of life insurance contracts.
- Sec. 3515. Exception to transfer for valuable consideration rules.

## Subtitle G—Pass-Thru and Certain Other Entities

## PART 1—S CORPORATIONS

- Sec. 3601. Reduced recognition period for built-in gains made permanent.
- Sec. 3602. Modifications to S corporation passive investment income rules.
- Sec. 3603. Expansion of qualifying beneficiaries of an electing small business trust.
- Sec. 3604. Charitable contribution deduction for electing small business trusts.
- Sec. 3605. Permanent rule regarding basis adjustment to stock of S corporations making charitable contributions of property.
- Sec. 3606. Extension of time for making S corporation elections.
- Sec. 3607. Relocation of C corporation definition.

## PART 2—PARTNERSHIPS

- Sec. 3611. Repeal of rules relating to guaranteed payments and liquidating distributions.

- Sec. 3612. Mandatory adjustments to basis of partnership property in case of transfer of partnership interests.
- Sec. 3613. Mandatory adjustments to basis of undistributed partnership property.
- Sec. 3614. Corresponding adjustments to basis of properties held by partnership where partnership basis adjusted.
- Sec. 3615. Charitable contributions and foreign taxes taken into account in determining limitation on allowance of partner's share of loss.
- Sec. 3616. Revisions related to unrealized receivables and inventory items.
- Sec. 3617. Repeal of time limitation on taxing precontribution gain.
- Sec. 3618. Partnership interests created by gift.
- Sec. 3619. Repeal of technical termination.
- Sec. 3620. Publicly traded partnership exception restricted to mining and natural resources partnerships.
- Sec. 3621. Ordinary income treatment in the case of partnership interests held in connection with performance of services.
- Sec. 3622. Partnership audits and adjustments.

#### PART 3—REITS AND RICS

- Sec. 3631. Prevention of tax-free spinoffs involving REITs.
- Sec. 3632. Extension of period for prevention of REIT election following revocation or termination.
- Sec. 3633. Certain short-life property not treated as real property for purposes of REIT provisions.
- Sec. 3634. Repeal of special rules for timber held by REITs.
- Sec. 3635. Limitation on fixed percentage rent and interest exceptions for REIT income tests.
- Sec. 3636. Repeal of preferential dividend rule for publicly offered REITs.
- Sec. 3637. Authority for alternative remedies to address certain REIT distribution failures.
- Sec. 3638. Limitations on designation of dividends by REITs.
- Sec. 3639. Non-REIT earnings and profits required to be distributed by REIT in cash.
- Sec. 3640. Debt instruments of publicly offered REITs and mortgages treated as real estate assets.
- Sec. 3641. Asset and income test clarification regarding ancillary personal property.
- Sec. 3642. Hedging provisions.
- Sec. 3643. Modification of REIT earnings and profits calculation to avoid duplicate taxation.
- Sec. 3644. Reduction in percentage limitation on assets of REIT which may be taxable REIT subsidiaries.
- Sec. 3645. Treatment of certain services provided by taxable REIT subsidiaries.
- Sec. 3646. Study relating to taxable REIT subsidiaries.
- Sec. 3647. C corporation election to become, or transfer assets to, a RIC or REIT.
- Sec. 3648. Interests in RICs and REITs not excluded from definition of United States real property interests.
- Sec. 3649. Dividends derived from RICs and REITs ineligible for deduction for United States source portion of dividends from certain foreign corporations.

#### PART 4—PERSONAL HOLDING COMPANIES



Sec. 3661. Exclusion of dividends from controlled foreign corporations from the definition of personal holding company income for purposes of the personal holding company rules.

#### Subtitle H—Taxation of Foreign Persons

Sec. 3701. Prevention of avoidance of tax through reinsurance with non-taxed affiliates.

Sec. 3702. Taxation of passenger cruise gross income of foreign corporations and nonresident alien individuals.

Sec. 3703. Restriction on insurance business exception to passive foreign investment company rules.

Sec. 3704. Modification of limitation on earnings stripping.

Sec. 3705. Limitation on treaty benefits for certain deductible payments.

#### Subtitle I—Provisions Related to Compensation

##### PART 1—EXECUTIVE COMPENSATION

Sec. 3801. Nonqualified deferred compensation.

Sec. 3802. Modification of limitation on excessive employee remuneration.

Sec. 3803. Excise tax on excess tax-exempt organization executive compensation.

Sec. 3804. Denial of deduction as research expenditure for stock transferred pursuant to an incentive stock option.

##### PART 2—WORKER CLASSIFICATION

Sec. 3811. Determination of worker classification.

#### Subtitle J—Zones and Short-Term Regional Benefits

Sec. 3821. Repeal of provisions relating to Empowerment Zones and Enterprise Communities.

Sec. 3822. Repeal of DC Zone provisions.

Sec. 3823. Repeal of provisions relating to renewal communities.

Sec. 3824. Repeal of various short-term regional benefits.

### TITLE IV—PARTICIPATION EXEMPTION SYSTEM FOR THE TAXATION OF FOREIGN INCOME

#### Subtitle A—Establishment of Exemption System

Sec. 4001. Deduction for dividends received by domestic corporations from certain foreign corporations.

Sec. 4002. Limitation on losses with respect to specified 10-percent owned foreign corporations.

Sec. 4003. Treatment of deferred foreign income upon transition to participation exemption system of taxation.

Sec. 4004. Look-thru rule for related controlled foreign corporations made permanent.

#### Subtitle B—Modifications Related to Foreign Tax Credit System

Sec. 4101. Repeal of section 902 indirect foreign tax credits; determination of section 960 credit on current year basis.

Sec. 4102. Foreign tax credit limitation applied by allocating only directly allocable deductions to foreign source income.

- Sec. 4103. Passive category income expanded to include other mobile income.
- Sec. 4104. Source of income from sales of inventory determined solely on basis of production activities.

#### Subtitle C—Rules Related to Passive and Mobile Income

##### PART 1—MODIFICATION OF SUBPART F PROVISIONS

- Sec. 4201. Subpart F income to only include low-taxed foreign income.
- Sec. 4202. Foreign base company sales income.
- Sec. 4203. Inflation adjustment of de minimis exception for foreign base company income.
- Sec. 4204. Active financing exception extended with limitation for low-taxed foreign income.
- Sec. 4205. Repeal of inclusion based on withdrawal of previously excluded subpart F income from qualified investment.

##### PART 2—PREVENTION OF BASE EROSION

- Sec. 4211. Foreign intangible income subject to taxation at reduced rate; intangible income treated as subpart F income.
- Sec. 4212. Denial of deduction for interest expense of United States shareholders which are members of worldwide affiliated groups with excess domestic indebtedness.

#### TITLE V—TAX EXEMPT ENTITIES

##### Subtitle A—Unrelated Business Income Tax

- Sec. 5001. Clarification of unrelated business income tax treatment of entities treated as exempt from taxation under section 501(a).
- Sec. 5002. Name and logo royalties treated as unrelated business taxable income.
- Sec. 5003. Unrelated business taxable income separately computed for each trade or business activity.
- Sec. 5004. Exclusion of research income limited to publicly available research.
- Sec. 5005. Parity of charitable contribution limitation between trusts and corporations.
- Sec. 5006. Increased specific deduction.
- Sec. 5007. Repeal of exclusion of gain or loss from disposition of distressed property.
- Sec. 5008. Qualified sponsorship payments.

##### Subtitle B—Penalties

- Sec. 5101. Increase in information return penalties.
- Sec. 5102. Manager-level accuracy-related penalty on underpayment of unrelated business income tax.

##### Subtitle C—Excise Taxes

- Sec. 5201. Modification of intermediate sanctions.
- Sec. 5202. Modification of taxes on self-dealing.
- Sec. 5203. Excise tax on failure to distribute within 5 years contribution to donor advised fund.
- Sec. 5204. Simplification of excise tax on private foundation investment income.
- Sec. 5205. Repeal of exception for private operating foundation failure to distribute income.

Sec. 5206. Excise tax based on investment income of private colleges and universities.

#### Subtitle D—Requirements for Organizations Exempt From Tax

- Sec. 5301. Repeal of tax-exempt status for professional sports leagues.  
 Sec. 5302. Repeal of exemption from tax for certain insurance companies and co-op health insurance issuers.  
 Sec. 5303. In-State requirement for workmen's compensation insurance organization.  
 Sec. 5304. Repeal of Type II and Type III supporting organizations.

### TITLE VI—TAX ADMINISTRATION AND COMPLIANCE

#### Subtitle A—IRS Investigation-Related Reforms

- Sec. 6001. Organizations required to notify Secretary of intent to operate as 501(c)(4).  
 Sec. 6002. Declaratory judgments for 501(c)(4) organizations.  
 Sec. 6003. Restriction on donation reporting for certain 501(c)(4) organizations.  
 Sec. 6004. Mandatory electronic filing for annual returns of exempt organizations.  
 Sec. 6005. Duty to ensure that IRS employees are familiar with and act in accord with certain taxpayer rights.  
 Sec. 6006. Termination of employment of IRS employees for taking official actions for political purposes.  
 Sec. 6007. Release of information regarding the status of certain investigations.  
 Sec. 6008. Review of IRS examination selection procedures.  
 Sec. 6009. IRS employees prohibited from using personal email accounts for official business.  
 Sec. 6010. Moratorium on IRS conferences.  
 Sec. 6011. Applicable standard for determinations of whether an organization is operated exclusively for the promotion of social welfare.

#### Subtitle B—Taxpayer Protection and Service Reforms

- Sec. 6101. Extension of IRS authority to require truncated Social Security numbers on Form W-2.  
 Sec. 6102. Free electronic filing.  
 Sec. 6103. Pre-populated returns prohibited.  
 Sec. 6104. Form 1040SR for seniors.  
 Sec. 6105. Increased refund and credit threshold for Joint Committee on Taxation review of C corporation return.

#### Subtitle C—Tax Return Due Date Simplification

- Sec. 6201. Due dates for returns of partnerships, S corporations, and C corporations.  
 Sec. 6202. Modification of due dates by regulation.  
 Sec. 6203. Corporations permitted statutory automatic 6-month extension of income tax returns.

#### Subtitle D—Compliance Reforms

- Sec. 6301. Penalty for failure to file.  
 Sec. 6302. Penalty for failure to file correct information returns and provide payee statements.

- Sec. 6303. Clarification of 6-year statute of limitations in case of overstatement of basis.
- Sec. 6304. Reform of rules related to qualified tax collection contracts.
- Sec. 6305. 100 percent continuous levy on payments to Medicare providers and suppliers.
- Sec. 6306. Treatment of refundable credits for purposes of certain penalties.

#### TITLE VII—EXCISE TAXES

- Sec. 7001. Repeal of medical device excise tax.
- Sec. 7002. Modifications relating to oil spill liability trust fund.
- Sec. 7003. Modification relating to inland waterways trust fund financing rate.
- Sec. 7004. Excise tax on systemically important financial institutions.
- Sec. 7005. Clarification of orphan drug exception to annual fee on branded prescription pharmaceutical manufacturers and importers.

#### TITLE VIII—DEADWOOD AND TECHNICAL PROVISIONS

##### Subtitle A—Repeal of Deadwood

- Sec. 8001. Repeal of Puerto Rico economic activity credit.
- Sec. 8002. Repeal of making work pay credit.
- Sec. 8003. General business credit.
- Sec. 8004. Environmental tax.
- Sec. 8005. Annuities; certain proceeds of endowment and life insurance contracts.
- Sec. 8006. Unemployment compensation.
- Sec. 8007. Flexible spending arrangements.
- Sec. 8008. Certain combat zone compensation of members of the armed forces.
- Sec. 8009. Qualified group legal services plans.
- Sec. 8010. Certain reduced uniformed services retirement pay.
- Sec. 8011. Great plains conservation program.
- Sec. 8012. State legislators' travel expenses away from home.
- Sec. 8013. Treble damage payments under the antitrust law.
- Sec. 8014. Phase-in of limitation on investment interest.
- Sec. 8015. Charitable, etc., contributions and gifts.
- Sec. 8016. Amortizable bond premium.
- Sec. 8017. Repeal of deduction for clean-fuel vehicles and certain refueling property.
- Sec. 8018. Repeal of deduction for capital costs incurred in complying with environmental protection agency sulfur regulations.
- Sec. 8019. Activities not engaged in for profit.
- Sec. 8020. Dividends received on certain preferred stock; and dividends paid on certain preferred stock of public utilities.
- Sec. 8021. Acquisitions made to evade or avoid income tax.
- Sec. 8022. Distributions of property.
- Sec. 8023. Effect on earnings and profits.
- Sec. 8024. Basis to corporations.
- Sec. 8025. Tax credit employee stock ownership plans.
- Sec. 8026. Employee stock purchase plans.
- Sec. 8027. Transition rules.
- Sec. 8028. Limitation on deductions for certain farming.
- Sec. 8029. Deductions limited to amount at risk.
- Sec. 8030. Passive activity losses and credits limited.
- Sec. 8031. Adjustments required by changes in method of accounting.
- Sec. 8032. Exemption from tax on corporations, certain trusts, etc.

- Sec. 8033. Requirements for exemption.
- Sec. 8034. Repeal of special treatment for religious broadcasting company.
- Sec. 8035. Repeal of exclusion of gain or loss from disposition of brownfield property.
- Sec. 8036. Accumulated taxable income.
- Sec. 8037. Certain provisions related to depletion.
- Sec. 8038. Amounts received by surviving annuitant under joint and survivor annuity contract.
- Sec. 8039. Income taxes of members of armed forces on death.
- Sec. 8040. Special rules for computing reserves.
- Sec. 8041. Insurance company taxable income.
- Sec. 8042. Capitalization of certain policy acquisition expenses.
- Sec. 8043. Repeal of provision on expatriation to avoid tax.
- Sec. 8044. Repeal of certain transition rules on income from sources without United States.
- Sec. 8045. Repeal of Puerto Rico and possession tax credit.
- Sec. 8046. Basis of property acquired from decedent.
- Sec. 8047. Property on which lessee has made improvements.
- Sec. 8048. Involuntary conversion.
- Sec. 8049. Property acquired during affiliation.
- Sec. 8050. Repeal of special holding period rules for certain commodity futures transactions.
- Sec. 8051. Holding period of property.
- Sec. 8052. Property used in the trade or business and involuntary conversions.
- Sec. 8053. Sale of patents.
- Sec. 8054. Gain from disposition of farmland.
- Sec. 8055. Transition rules related to the treatment of amounts received on retirement or sale or exchange of debt instruments.
- Sec. 8056. Certain rules with respect to debt instruments issued before July 2, 1982.
- Sec. 8057. Certain rules with respect to stripped bonds purchased before July 2, 1982.
- Sec. 8058. Amount and method of adjustment.
- Sec. 8059. Old-age, survivors, and disability insurance.
- Sec. 8060. Hospital insurance.
- Sec. 8061. Ministers, members of religious orders, and christian science practitioners.
- Sec. 8062. Affiliated group defined.
- Sec. 8063. Credit for state death taxes.
- Sec. 8064. Family-owned business interest.
- Sec. 8065. Property within the united states.
- Sec. 8066. Repeal of deadwood provisions relating to employment taxes.
- Sec. 8067. Luxury passenger automobiles.
- Sec. 8068. Transportation by air.
- Sec. 8069. Taxes on failure to distribute income.
- Sec. 8070. Taxes on taxable expenditures.
- Sec. 8071. Definitions and special rules.
- Sec. 8072. Returns.
- Sec. 8073. Information returns.
- Sec. 8074. Abatements.
- Sec. 8075. Failure by corporation to pay estimated income tax.
- Sec. 8076. Repeal of 2008 recovery rebates.
- Sec. 8077. Repeal of advance payment of portion of increased child credit for 2003.
- Sec. 8078. Repeal of provisions related to COBRA premium assistance.

Sec. 8079. Retirement.  
 Sec. 8080. Annuities to surviving spouses and dependent children of judges.  
 Sec. 8081. Merchant marine capital construction funds.  
 Sec. 8082. Valuation tables.  
 Sec. 8083. Definition of employee.  
 Sec. 8084. Effective date.

Subtitle B—Conforming Amendments Related to Multiple Sections

Sec. 8101. Conforming amendments related to multiple sections.

1           **TITLE I—TAX REFORM FOR**  
 2                           **INDIVIDUALS**  
 3       **Subtitle A—Individual Income Tax**  
 4                           **Rate Reform**

5       **SEC. 1001. SIMPLIFICATION OF INDIVIDUAL INCOME TAX**  
 6                           **RATES.**

7           (a) IN GENERAL.—Section 1 is amended to read as  
 8 follows:

9       **“SEC. 1. TAX IMPOSED.**

10           “(a) IN GENERAL.—There is hereby imposed on the  
 11 income of every individual a tax equal to the sum of—

12                   “(1) 10 PERCENT BRACKET.—10 percent of so  
 13 much of the taxable income as does not exceed the  
 14 25-percent bracket threshold amount,

15                   “(2) 25 PERCENT BRACKET.—25 percent of so  
 16 much of the taxable income as exceeds the 25-per-  
 17 cent bracket threshold amount, plus

18                   “(3) 35 PERCENT BRACKET.—10 percent of so  
 19 much of the modified adjusted gross income (as de-  
 20 fined in section 2) as exceeds the 35-percent bracket  
 21 threshold amount.

1       “(b) BRACKET THRESHOLD AMOUNTS.—For pur-  
2 poses of this section—

3           “(1) 25-PERCENT BRACKET THRESHOLD  
4 AMOUNT.—The term ‘25-percent bracket threshold  
5 amount’ means—

6           “(A) in the case of a joint return or sur-  
7 viving spouse, \$71,200,

8           “(B) in the case of any other individual  
9 (other than an estate or trust), one-half of the  
10 dollar amount in effect under subparagraph  
11 (A), and

12           “(C) in the case of an estate or trust, zero.

13           “(2) 35-PERCENT BRACKET THRESHOLD  
14 AMOUNT.—The term ‘35-percent bracket threshold  
15 amount’ means—

16           “(A) in the case of a joint return or sur-  
17 viving spouse, \$450,000,

18           “(B) in the case of any other individual  
19 (other than an estate or trust), \$400,000, and

20           “(C) in the case of an estate or trust,  
21 \$12,000.

22       “(c) INFLATION ADJUSTMENT.—

23           “(1) IN GENERAL.—In the case of any taxable  
24 year beginning after 2014, each dollar amount in  
25 subsections (b)(1)(A), (b)(2)(A), (b)(2)(B),

1 (b)(2)(C), (e)(3)(A), and (e)(3)(B) shall be increased  
2 by an amount equal to—

3 “(A) such dollar amount, multiplied by

4 “(B) the cost-of-living adjustment deter-  
5 mined under this subsection for the calendar  
6 year in which the taxable year begins.

7 If any increase determined under the preceding sen-  
8 tence is not a multiple of \$100, such increase shall  
9 be rounded to the next lowest multiple of \$100.

10 “(2) COST-OF-LIVING ADJUSTMENT.—For pur-  
11 poses of this subsection—

12 “(A) IN GENERAL.—The cost-of-living ad-  
13 justment for any calendar year is the percent-  
14 age (if any) by which—

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

17 “(ii) the normalized CPI for calendar  
18 year 2012.

19 “(B) SPECIAL RULE FOR ADJUSTMENTS  
20 WITH A BASE YEAR AFTER 2012.—For purposes  
21 of any provision which provides for the substi-  
22 tution of a year after 2012 for ‘2012’ in sub-  
23 paragraph (A)(ii), subparagraph (A) shall be  
24 applied by substituting ‘C-CPI-U’ for ‘normal-  
25 ized CPI’ in clause (ii).



1           “(3) NORMALIZED CPI.—For purposes of this  
2 subsection, the normalized CPI for any calendar  
3 year is the product of—

4                   “(A) the CPI for such calendar year, mul-  
5 tiplied by

6                   “(B) the C-CPI-U transition multiple.

7           “(4) C-CPI-U TRANSITION MULTIPLE.—For  
8 purposes of this subsection, the term ‘C-CPI-U tran-  
9 sition multiple’ means the amount obtained by divid-  
10 ing—

11                   “(A) the C-CPI-U for calendar year 2013,

12                   by

13                   “(B) the CPI for calendar year 2013.

14           “(5) C-CPI-U.—For purposes of this sub-  
15 section—

16                   “(A) IN GENERAL.—The term ‘C-CPI-U’  
17 means the Chained Consumer Price Index for  
18 All Urban Consumers (as published by the Bu-  
19 reau of Labor Statistics of the Department of  
20 Labor). The values of the Chained Consumer  
21 Price Index for All Urban Consumers taken  
22 into account for purposes of determining the  
23 cost-of-living adjustment for any calendar year  
24 under this subsection shall be the latest values  
25 so published as of the date on which such Bu-

1           reau publishes the initial value of the Chained  
2           Consumer Price Index for All Urban Con-  
3           sumers for the month of August for the pre-  
4           ceding calendar year.

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

10          “(6) CPI.—For purposes of this subsection—

11           “(A) IN GENERAL.—The term ‘Consumer  
12           Price Index’ means the last Consumer Price  
13           Index for All Urban Consumers published by  
14           the Department of Labor. For purposes of the  
15           preceding sentence, the revision of the Con-  
16           sumer Price Index which is most consistent  
17           with the Consumer Price Index for calendar  
18           year 1986 shall be used.

19           “(B) DETERMINATION FOR CALENDAR  
20           YEAR.—The CPI for any calendar year is the  
21           average of the Consumer Price Index as of the  
22           close of the 12-month period ending on August  
23           31 of such calendar year.

24          “(d) SPECIAL RULES FOR CERTAIN CHILDREN WITH  
25          UNEARNED INCOME.—

1           “(1) IN GENERAL.—In the case of any child to  
2 whom this subsection applies for any taxable year—

3           “(A) the 25-percent bracket threshold  
4 amount shall not be more than the taxable in-  
5 come of such child for the taxable year reduced  
6 by the net unearned income of such child, and

7           “(B) the 35-percent bracket threshold  
8 amount shall not be more than the sum of—

9           “(i) the taxable income of such child  
10 for the taxable year reduced by the net un-  
11 earned income of such child, plus

12           “(ii) the dollar amount in effect under  
13 subsection (b)(2)(C) for the taxable year.

14           “(2) CHILD TO WHOM SUBSECTION APPLIES.—  
15 This subsection shall apply to any child for any tax-  
16 able year if—

17           “(A) such child—

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

20           “(ii) has attained age 18 before the  
21 close of the taxable year and is described  
22 in paragraph (3),

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

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

3           “(3) CERTAIN CHILDREN WHOSE EARNED IN-  
4           COME DOES NOT EXCEED ONE-HALF OF INDI-  
5           VIDUAL’S SUPPORT.—A child is described in this  
6           paragraph if—

7           “(A) such child—

8                   “(i) has not attained age 19 before  
9                   the close of the taxable year, or

10                   “(ii) is a student (within the meaning  
11                   of section 7705(f)(2)) who has not attained  
12                   age 24 before the close of the taxable year,  
13                   and

14           “(B) such child’s earned income (as de-  
15           fined in section 911(d)(2)) for such taxable  
16           year does not exceed one-half of the amount of  
17           the individual’s support (within the meaning of  
18           section 7705(c)(1)(D) after the application of  
19           section 7705(f)(5) (without regard to subpara-  
20           graph (A) thereof)) for such taxable year.

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

23                   “(A) IN GENERAL.—The term ‘net un-  
24                   earned income’ means the excess of—

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

5           “(ii) the sum of—

6           “(I) the amount in effect for the  
7 taxable year under section 63(c)(4)(A)  
8 (relating to limitation on standard de-  
9 duction in the case of certain depend-  
10 ents), plus

11           “(II) the greater of the amount  
12 described in subclause (I) or, if the  
13 child itemizes his deductions for the  
14 taxable year, the amount of the  
15 itemized deductions allowed by this  
16 chapter for the taxable year which are  
17 directly connected with the production  
18 of the portion of adjusted gross in-  
19 come referred to in clause (i).

20           “(B) LIMITATION BASED ON TAXABLE IN-  
21 COME.—The amount of the net unearned in-  
22 come for any taxable year shall not exceed the  
23 individual’s taxable income for such taxable  
24 year.

25           “(e) PHASEOUT OF 10-PERCENT RATE.—

1           “(1) IN GENERAL.—The amount of tax imposed  
2 by this section (determined without regard to this  
3 subsection) shall be increased by 5 percent of the ex-  
4 cess (if any) of—

5                   “(A) modified adjusted gross income, over

6                   “(B) the applicable dollar amount.

7           “(2) LIMITATION.—The increase determined  
8 under paragraph (1) with respect to any taxpayer  
9 for any taxable year shall not exceed 15 percent of  
10 the lesser of—

11                   “(A) the taxpayer’s taxable income for  
12 such taxable year, or

13                   “(B) the 25-percent bracket threshold  
14 amount in effect with respect to the taxpayer  
15 for such taxable year.

16           “(3) APPLICABLE DOLLAR AMOUNT.—For pur-  
17 poses of this subsection, the term ‘applicable dollar  
18 amount’ means—

19                   “(A) in the case of a joint return or a sur-  
20 viving spouse, \$300,000,

21                   “(B) in the case of any other individual,  
22 \$250,000.

23           “(4) ESTATES AND TRUSTS.—Paragraph (1)  
24 shall not apply in the case of an estate or trust.

1       “(f) DETERMINATION OF HIGHEST RATE.—For pur-  
2 poses of any provision of law which refers to the highest  
3 rate of tax specified in this section (or any subsection of  
4 this section), such highest rate shall be treated as being  
5 35 percent.”.

6       (b) MODIFIED ADJUSTED GROSS INCOME.—Section  
7 2 is amended by striking subsection (b), by redesignating  
8 subsections (c), (d), and (e), as subsections (d), (e), and  
9 (f), respectively, and by inserting after subsection (a) the  
10 following new subsections:

11       “(b) MODIFIED ADJUSTED GROSS INCOME.—For  
12 purposes of section 1—

13               “(1) IN GENERAL.—The term ‘modified ad-  
14 justed gross income’ means adjusted gross income—

15                       “(A) increased by—

16                               “(i) any amount excluded from gross  
17 income under sections 911, 931, and 933,

18                               “(ii) the excess (if any) of—

19                                       “(I) amounts of interest received  
20 or accrued by the taxpayer during the  
21 taxable year which are exempt from  
22 tax, over

23                                       “(II) amounts disallowed as a de-  
24 duction by reason of section  
25 163(d)(1)(A) or 171(a)(2),

1           “(iii) any exclusion from gross income  
2 with respect to the cost described in sec-  
3 tion 6051(a)(14) (without regard to sub-  
4 paragraphs (A) and (B) thereof),

5           “(iv) any deduction allowable under  
6 section 162(l) (relating to special rules for  
7 health insurance costs of self-employed in-  
8 dividuals),

9           “(v) any annual addition (as defined  
10 in section 415(c)(2)) to a defined contribu-  
11 tion plan which is not includible in, or  
12 which is deductible from, the gross income  
13 of the individual for the taxable year,

14           “(vi) any deduction allowable under  
15 section 223, and

16           “(vii) the excess (if any) of—

17                   “(I) the social security benefits of  
18 the individual for the taxable year (as  
19 defined in section 86(d)), over

20                   “(II) the amount included in the  
21 gross income of such individual for  
22 such taxable year under section 86,  
23 and

24           “(B) decreased by—



1                   “(i) any deduction allowed under sec-  
2                   tion 170 (and in the case of an estate or  
3                   trust, any deduction allowed under section  
4                   642(c)), and

5                   “(ii) qualified domestic manufacturing  
6                   income.

7                   “(2) DETERMINATION OF ADJUSTED GROSS IN-  
8                   COME IN CASE OF ESTATES AND TRUSTS.—For pur-  
9                   poses of this subsection, the adjusted gross income  
10                  of an estate or trust shall be computed in the same  
11                  manner as in the case of an individual, except  
12                  that—

13                  “(A) the deductions for costs which are  
14                  paid or incurred in connection with the admin-  
15                  istration of the estate or trust and which would  
16                  not have been incurred if the property were not  
17                  held in such trust or estate, and

18                  “(B) the deductions allowable under sec-  
19                  tions 642(b), 651, and 661,  
20                  shall be treated as allowable in arriving at adjusted  
21                  gross income. Under regulations, appropriate adjust-  
22                  ments shall be made in the application of part I of  
23                  subchapter J of this chapter to take into account the  
24                  application of this paragraph.

1       “(c) QUALIFIED DOMESTIC MANUFACTURING IN-  
2 COME.—

3           “(1) IN GENERAL.—For purposes of subsection  
4 (b), the term ‘qualified domestic manufacturing in-  
5 come’ for any taxable year means an amount equal  
6 to the excess (if any) of—

7           “(A) the taxpayer’s domestic manufac-  
8 turing gross receipts for such taxable year, over

9           “(B) the sum of—

10           “(i) the cost of goods sold that are al-  
11 locable to such receipts, and

12           “(ii) other expenses, losses, or deduc-  
13 tions, which are properly allocable to such  
14 receipts.

15           “(2) ALLOCATION METHOD.—The Secretary  
16 shall prescribe rules for the proper allocation of  
17 items described in paragraph (1) for purposes of de-  
18 termining qualified domestic manufacturing income.  
19 Such rules shall provide for the proper allocation of  
20 items whether or not such items are directly allo-  
21 cable to domestic manufacturing gross receipts.

22           “(3) SPECIAL RULES FOR DETERMINING  
23 COSTS.—

24           “(A) IN GENERAL.—For purposes of deter-  
25 mining costs under clause (i) of paragraph

1 (1)(B), any item or service brought into the  
2 United States shall be treated as acquired by  
3 purchase, and its cost shall be treated as not  
4 less than its value immediately after it entered  
5 the United States. A similar rule shall apply in  
6 determining the adjusted basis of leased or  
7 rented property where the lease or rental gives  
8 rise to domestic manufacturing gross receipts.

9 “(B) EXPORTS FOR FURTHER MANUFAC-  
10 TURE.—In the case of any property described  
11 in subparagraph (A) that had been exported by  
12 the taxpayer for further manufacture, the in-  
13 crease in cost or adjusted basis under subpara-  
14 graph (A) shall not exceed the difference be-  
15 tween the value of the property when exported  
16 and the value of the property when brought  
17 back into the United States after the further  
18 manufacture.

19 “(4) DOMESTIC MANUFACTURING GROSS RE-  
20 CEIPTS.—For purposes of this subsection—

21 “(A) IN GENERAL.—The term ‘domestic  
22 manufacturing gross receipts’ means the gross  
23 receipts of the taxpayer which are derived  
24 from—

1           “(i) any lease, rental, license, sale, ex-  
2           change, or other disposition of tangible  
3           personal property which was manufac-  
4           tured, produced, grown, or extracted by  
5           the taxpayer in whole or in significant part  
6           within the United States, or

7           “(ii) in the case of a taxpayer engaged  
8           in the active conduct of a construction  
9           trade or business, construction of real  
10          property performed in the United States  
11          by the taxpayer in the ordinary course of  
12          such trade or business if such real prop-  
13          erty is placed in service after December  
14          31, 2014.

15          “(B) EXCEPTIONS.—Such term shall not  
16          include gross receipts of the taxpayer which are  
17          derived from—

18                 “(i) the sale of food and beverages  
19                 prepared by the taxpayer at a retail estab-  
20                 lishment,

21                 “(ii) the transmission or distribution  
22                 of electricity, natural gas, or potable water,  
23                 and

24                 “(iii) the lease, rental, license, sale,  
25                 exchange, or other disposition of land.

1           “(C) SPECIAL RULE FOR CERTAIN GOV-  
2           ERNMENT CONTRACTS.—Gross receipts derived  
3           from the manufacture or production of any  
4           property described in subparagraph (A)(i) shall  
5           be treated as meeting the requirements of sub-  
6           paragraph (A)(i) if—

7                   “(i) such property is manufactured or  
8                   produced by the taxpayer pursuant to a  
9                   contract with the Federal Government, and

10                   “(ii) the Federal Acquisition Regula-  
11                   tion requires that title or risk of loss with  
12                   respect to such property be transferred to  
13                   the Federal Government before the manu-  
14                   facture or production of such property is  
15                   complete.

16           “(D) TREATMENT OF ACTIVITIES IN PUER-  
17           TO RICO.—In the case of any taxpayer with  
18           gross receipts for any taxable year from sources  
19           within the Commonwealth of Puerto Rico, if all  
20           of such receipts are taxable under section 1 for  
21           such taxable year, then this paragraph shall be  
22           applied by treating each reference in subpara-  
23           graph (A) to the United States as including the  
24           Commonwealth of Puerto Rico.

1           “(E) TANGIBLE PERSONAL PROPERTY.—  
2           The term ‘tangible personal property’ shall not  
3           include computer software or any property de-  
4           scribed in paragraph (3) or (4) of section  
5           168(f).

6           “(F) RELATED PERSONS.—

7                   “(i) IN GENERAL.—The term ‘domes-  
8                   tic manufacturing gross receipts’ shall not  
9                   include any gross receipts of the taxpayer  
10                  derived from property leased, licensed, or  
11                  rented by the taxpayer for use by any re-  
12                  lated person.

13                  “(ii) RELATED PERSON.—For pur-  
14                  poses of clause (i), a person shall be treat-  
15                  ed as related to another person if such per-  
16                  sons are treated as a single employer  
17                  under subsection (a) or (b) of section 52 or  
18                  subsection (m) or (o) of section 414, ex-  
19                  cept that determinations under subsections  
20                  (a) and (b) of section 52 shall be made  
21                  without regard to section 1563(b).

22           “(5) CERTAIN INCOME NOT QUALIFIED.—

23                   “(A) NET EARNINGS FROM SELF EMPLOY-  
24                   MENT.—Domestic manufacturing gross receipts  
25                   shall not include any amount which is properly

1 allocable to the taxpayer's net earnings from  
2 self employment (determined after any reduc-  
3 tion provided under section 1402(m)).

4 “(B) CERTAIN ACCOUNTING METHOD AD-  
5 JUSTMENTS.—Domestic manufacturing gross  
6 receipts shall not include any amount attrib-  
7 utable to—

8 “(i) a qualified change in method of  
9 accounting (as defined in section  
10 3301(d)(2) of the Tax Reform Act of  
11 2014), or

12 “(ii) any other change in method of  
13 accounting which is required by the  
14 amendments made by such Act.

15 “(6) APPLICATION OF SECTION TO PASS-  
16 THROUGH ENTITIES.—

17 “(A) PARTNERSHIPS AND S CORPORA-  
18 TIONS.—Except as provided in subparagraph  
19 (B), in the case of a partnership or S corpora-  
20 tion, each partner or shareholder shall take into  
21 account such person's allocable share of each  
22 item described in subparagraph (A) or (B) of  
23 paragraph (1) (determined without regard to  
24 whether the items described in such subpara-

1 graph (A) exceed the items described in such  
2 subparagraph (B)).

3 “(B) PUBLICLY TRADED PARTNERSHIPS.—

4 In the case of a publicly traded partnership de-  
5 scribed in section 7704(c), each partner shall  
6 not take into account any allocable share of any  
7 item referred to in subparagraph (A).

8 “(C) TRUSTS AND ESTATES.—In the case  
9 of a trust or estate, the items referred to in  
10 subparagraph (A) (as determined therein) shall  
11 be apportioned between the beneficiaries and  
12 the fiduciary (and among the beneficiaries)  
13 under regulations prescribed by the Secretary.

14 “(7) REGULATIONS.—The Secretary shall pre-  
15 scribe such regulations or other guidance as may be  
16 necessary or appropriate to carry out the purposes  
17 of this section, including regulations or other guid-  
18 ance—

19 “(A) which prevent more than 1 taxpayer  
20 from taking into account the same qualified do-  
21 mestic manufacturing income, and

22 “(B) which require or restrict the alloca-  
23 tion of items under paragraph (6) and require  
24 such reporting for purposes of carrying out



1           such paragraph as the Secretary determines ap-  
2           propriate.

3           “(8) PHASE-IN OF EXCLUSION.—In the case of  
4           any taxable year beginning before January 1, 2017,  
5           the term ‘qualified domestic manufacturing income’  
6           shall be an amount equal to the product of the quali-  
7           fied domestic manufacturing income determined  
8           without regard to this paragraph, multiplied by—

9                   “(A) in the case of any taxable year begin-  
10                   ning in 2015, 33 percent, and

11                   “(B) in the case of any taxable year begin-  
12                   ning in 2016, 67 percent.”.

13           (c) APPLICATION OF SECTION 15.—

14                   (1) IN GENERAL.—Subsection (a) of section 15  
15           is amended by striking “this chapter” and inserting  
16           “section 11”.

17                   (2) CONFORMING AMENDMENTS.—

18                           (A) Section 15 is amended by striking sub-  
19                           sections (d) and (f) and by redesignating sub-  
20                           section (e) as subsection (d).

21                           (B) Section 15(d), as redesignated by sub-  
22                           paragraph (A), is amended by striking “section  
23                           1 or 11(b)” and inserting “section 11(b)”.

24                           (C) Subchapter A of chapter 1 is amend-  
25                           ed—

1 (i) by redesignating section 12 as sec-  
2 tion 13,

3 (ii) by redesignating section 15 (as  
4 amended by this subsection) as section 12  
5 and moving such section from part III of  
6 such subchapter to after section 11 in part  
7 II of such subchapter,

8 (iii) by striking part III, and

9 (iv) by amending the table of sections  
10 for part II of such subchapter by redesi-  
11 gnating the item relating to section 12 as  
12 an item relating to section 13 and by in-  
13 sserting after the item relating to section 11  
14 the following new item:

“Sec. 12. Effect of changes.”.

15 (D) Section 6013(e) is amended by strik-  
16 ing “sections 15, 443, and 7851(a)(1)(A)” and  
17 inserting “sections 443 and 7851(a)(1)(A)”.

18 (d) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply to taxable years beginning after  
20 December 31, 2014.

21 **SEC. 1002. DEDUCTION FOR ADJUSTED NET CAPITAL GAIN.**

22 (a) IN GENERAL.—Part VI of subchapter B of chap-  
23 ter 1, as amended by section 3105, is amended by insert-  
24 ing after section 168 the following new section:

1 **“SEC. 169. ADJUSTED NET CAPITAL GAIN.**

2 “(a) IN GENERAL.—If for any taxable year a tax-  
3 payer other than a corporation has an adjusted net capital  
4 gain, 40 percent of the amount of the adjusted net capital  
5 gain shall be allowed as a deduction from gross income.

6 “(b) ADJUSTED NET CAPITAL GAIN.—For purposes  
7 of this section, the term ‘adjusted net capital gain’ means  
8 the sum of—

9 “(1) net capital gain reduced (but not below  
10 zero) by the net collectibles gain, plus

11 “(2) qualified dividend income.

12 “(c) NET CAPITAL GAIN REDUCED BY AMOUNTS  
13 TAKEN INTO ACCOUNT AS INVESTMENT INCOME.—For  
14 purposes of this section, the net capital gain for any tax-  
15 able year shall be reduced (but not below zero) by the  
16 amount which the taxpayer takes into account as invest-  
17 ment income under section 163(d)(4)(B)(iii).

18 “(d) NET COLLECTIBLES GAIN.—For purposes of  
19 this section—

20 “(1) IN GENERAL.—The term ‘net collectibles  
21 gain’ means the excess (if any) of—

22 “(A) collectibles gain, over

23 “(B) collectibles loss.

24 “(2) COLLECTIBLES GAIN AND LOSS.—The  
25 terms ‘collectibles gain’ and ‘collectibles loss’ mean  
26 gain or loss (respectively) from the sale or exchange

1 of a collectible (as defined in section 408(m) without  
2 regard to paragraph (3) thereof) which is a capital  
3 asset held for more than 1 year but only to the ex-  
4 tent such gain is taken into account in computing  
5 gross income and such loss is taken into account in  
6 computing taxable income.

7 “(3) PARTNERSHIPS, ETC.—For purposes of  
8 paragraph (2), any gain from the sale of an interest  
9 in a partnership, S corporation, or trust which is at-  
10 tributable to unrealized appreciation in the value of  
11 collectibles shall be treated as gain from the sale or  
12 exchange of a collectible. Rules similar to the rules  
13 of section 751 shall apply for purposes of the pre-  
14 ceding sentence.

15 “(e) QUALIFIED DIVIDEND INCOME.—For purposes  
16 of this section—

17 “(1) IN GENERAL.—The term ‘qualified divi-  
18 dend income’ means dividends received during the  
19 taxable year from—

20 “(A) domestic corporations, and

21 “(B) qualified foreign corporations.

22 “(2) CERTAIN DIVIDENDS EXCLUDED.—Such  
23 term shall not include—

24 “(A) any dividend from a corporation  
25 which for the taxable year of the corporation in

1 which the distribution is made, or the preceding  
2 taxable year, is a corporation exempt from tax  
3 under section 501 or 521,

4 “(B) any amount allowed as a deduction  
5 under section 591 (relating to deduction for  
6 dividends paid by mutual savings banks, etc.),  
7 and

8 “(C) any dividend described in section  
9 404(k).

10 “(3) COORDINATION WITH SECTION 246(c).—  
11 Such term shall not include any dividend on any  
12 share of stock—

13 “(A) with respect to which the holding pe-  
14 riod requirements of section 246(c) are not met  
15 (determined without regard to paragraph (5) of  
16 section 246(c) and by substituting in section  
17 246(c) ‘60 days’ for ‘45 days’ each place it ap-  
18 pears and by substituting ‘121-day period’ for  
19 ‘91-day period’), or

20 “(B) to the extent that the taxpayer is  
21 under an obligation (whether pursuant to a  
22 short sale or otherwise) to make related pay-  
23 ments with respect to positions in substantially  
24 similar or related property.

25 “(4) QUALIFIED FOREIGN CORPORATIONS.—

1           “(A) IN GENERAL.—Except as otherwise  
2 provided in this subparagraph, the term ‘quali-  
3 fied foreign corporation’ means any foreign cor-  
4 poration if—

5                   “(i) such corporation is incorporated  
6 in a possession of the United States, or

7                   “(ii) such corporation is eligible as a  
8 qualified resident for all of the benefits  
9 provided under a comprehensive income  
10 tax treaty with the United States which  
11 the Secretary determines is satisfactory for  
12 purposes of this paragraph and which in-  
13 cludes an exchange of information pro-  
14 gram.

15           “(B) DIVIDENDS ON STOCK READILY  
16 TRADABLE ON UNITED STATES SECURITIES  
17 MARKET.—A foreign corporation not otherwise  
18 treated as a qualified foreign corporation under  
19 subparagraph (A) shall be so treated with re-  
20 spect to any dividend paid by such corporation  
21 if the stock with respect to which such dividend  
22 is paid is readily tradable on an established se-  
23 curities market in the United States.

24           “(C) EXCLUSION OF DIVIDENDS OF CER-  
25 TAIN FOREIGN CORPORATIONS.—The term

1           ‘qualified foreign corporation’ shall not include  
2           any foreign corporation which for the taxable  
3           year of the corporation in which the dividend  
4           was paid, or the preceding taxable year, is a  
5           passive foreign investment company (as defined  
6           in section 1297).

7           “(5) TREATMENT OF DIVIDENDS FROM REGU-  
8           LATED INVESTMENT COMPANIES AND REAL ESTATE  
9           INVESTMENT TRUSTS.—A dividend received from a  
10          regulated investment company or a real estate in-  
11          vestment trust shall be subject to the limitations  
12          prescribed in sections 854 and 857.”.

13          (b) DEDUCTION ALLOWED WHETHER OR NOT INDI-  
14          VIDUAL ITEMIZES DEDUCTIONS.—Section 62(a) is  
15          amended by inserting after paragraph (7) the following  
16          new paragraph:

17                 “(8) ADJUSTED NET CAPITAL GAIN.—The de-  
18                 duction allowed by section 169.”.

19          (c) EFFECTIVE DATE.—The amendments made by  
20          this section shall apply to taxable years beginning after  
21          December 31, 2014.

1 **SEC. 1003. CONFORMING AMENDMENTS RELATED TO SIM-**  
2 **PLIFICATION OF INDIVIDUAL INCOME TAX**  
3 **RATES.**

4 (a) AMENDMENTS RELATED TO MODIFICATION OF  
5 INFLATION ADJUSTMENT.—

6 (1) Section 25B(b)(3)(B) is amended by strik-  
7 ing “section 1(f)(3) for the calendar year in which  
8 the taxable year begins, determined by substituting  
9 ‘calendar year 2005’ for ‘calendar year 1992’ in sub-  
10 paragraph (B) thereof” and inserting “section  
11 1(c)(2)(A) for the calendar year in which the taxable  
12 year begins, determined by substituting ‘calendar  
13 year 2005’ for ‘calendar year 2012’ in clause (ii)  
14 thereof”.

15 (2) Subclause (II) of section 36B(b)(3)(A)(ii) is  
16 amended by striking “consumer price index” and in-  
17 serting “C-CPI-U (as defined in section 1(c))”.

18 (3) Section 41(e)(5)(C) is amended to read as  
19 follows:

20 “(C) COST-OF-LIVING ADJUSTMENT DE-  
21 FINED.—

22 “(i) IN GENERAL.—The cost-of-living  
23 adjustment for any calendar year is the  
24 cost-of-living adjustment for such calendar  
25 year determined under section 1(c)(2)(A),



1 by substituting ‘calendar year 1987’ for  
2 ‘calendar year 2012’ in clause (ii) thereof.

3 “(ii) SPECIAL RULE WHERE BASE PE-  
4 RIOD ENDS IN A CALENDAR YEAR OTHER  
5 THAN 1983 OR 1984.—If the base period of  
6 any taxpayer does not end in 1983 or  
7 1984, clause (i) shall be applied by sub-  
8 stituting the calendar year in which such  
9 base period ends for 1987.”.

10 (4) Section 125(i)(2) is amended—

11 (A) by striking “section 1(f)(3) for the cal-  
12 endar year in which the taxable year begins by  
13 substituting ‘calendar year 2012’ for ‘calendar  
14 year 1992’ in subparagraph (B) thereof” in  
15 subparagraph (B) and inserting “section  
16 1(c)(2)(A) for the calendar year in which the  
17 taxable year begins”, and

18 (B) by striking “\$50” both places it ap-  
19 pears in the last sentence and inserting  
20 “\$100”.

21 (5) Section 137(f) is amended—

22 (A) by striking “section 1(f)(3) for the cal-  
23 endar year in which the taxable year begins, de-  
24 termined by substituting ‘calendar year 2001’  
25 for ‘calendar year 1992’ in subparagraph (B)

1           thereof” in paragraph (2) and inserting “sec-  
2           tion 1(c)(2)(A) for the calendar year in which  
3           the taxable year begins, determined by sub-  
4           stituting ‘calendar year 2001’ for ‘calendar year  
5           2012’ in clause (ii) thereof”, and

6                   (B) in the last sentence thereof—

7                           (i) by striking “\$10” the first place it  
8                           appears and inserting “\$100”, and

9                           (ii) by striking “nearest multiple of  
10                          \$10” and inserting “next lowest multiple  
11                          of \$100”.

12           (6) Section 162(o)(3) is amended by inserting  
13           “as in effect before enactment of the Tax Reform  
14           Act of 2014” after “section 1(f)(5)”.

15           (7) Section 220(g)(2) is amended by striking  
16           “section 1(f)(3) for the calendar year in which the  
17           taxable year begins by substituting ‘calendar year  
18           1997’ for ‘calendar year 1992’ in subparagraph (B)  
19           thereof” and inserting “section 1(c)(2)(A) for the  
20           calendar year in which the taxable year begins, de-  
21           termined by substituting ‘calendar year 1997’ for  
22           ‘calendar year 2012’ in clause (ii) thereof”.

23           (8) Section 223(g)(1) is amended by striking all  
24           that follows subparagraph (A) and inserting the fol-  
25           lowing:

1           “(B) the cost-of-living adjustment deter-  
2           mined under section 1(c)(2)(A) for the calendar  
3           year in which the taxable year begins, deter-  
4           mined—

5                   “(i) by substituting for ‘calendar year  
6                   2012’ in clause (ii) thereof—

7                           “(I) except as provided in clause  
8                           (ii), ‘calendar year 1997’, and

9                           “(II) in the case of each dollar  
10                          amount in subsection (c)(2)(A), ‘cal-  
11                          endar year 2003’, and

12                          “(ii) by substituting ‘March 31’ for  
13                          ‘August 31’ in paragraphs (5)(B) and  
14                          (6)(B) of section 1(c).

15           The Secretary shall publish the dollar amounts  
16           as adjusted under this subsection for taxable  
17           years beginning in any calendar year no later  
18           than June 1 of the preceding calendar year.”.

19           (9) Section 430(c)(7)(D)(vii)(II) is amended by  
20           striking “section 1(f)(3) for the calendar year, deter-  
21           mined by substituting ‘calendar year 2009’ for ‘cal-  
22           endar year 1992’ in subparagraph (B) thereof” and  
23           inserting “section 1(c)(2)(A) for the calendar year,  
24           determined by substituting ‘calendar year 2009’ for  
25           ‘calendar year 2012’ in clause (ii) thereof”.

1           (10) Section 512(d)(2)(B) is amended by strik-  
2           ing “section 1(f)(3) for the calendar year in which  
3           the taxable year begins, by substituting ‘calendar  
4           year 1994’ for ‘calendar year 1992’ in subparagraph  
5           (B) thereof” and inserting “section 1(c)(2)(A) for the  
6           calendar year in which the taxable year begins, de-  
7           termined by substituting ‘calendar year 1994’ for  
8           ‘calendar year 2012’ in clause (ii) thereof”.

9           (11) Section 513(h)(2)(C)(ii) is amended by  
10          striking “section 1(f)(3) for the calendar year in  
11          which the taxable year begins by substituting ‘cal-  
12          endar year 1987’ for ‘calendar year 1992’ in sub-  
13          paragraph (B) thereof” and inserting “section  
14          1(c)(2)(A) for the calendar year in which the taxable  
15          year begins, determined by substituting ‘calendar  
16          year 1987’ for ‘calendar year 2012’ in clause (ii)  
17          thereof”.

18          (12) Section 877A(a)(3)(B)(i)(II) is amended  
19          by striking “section 1(f)(3) for the calendar year in  
20          which the taxable year begins, by substituting ‘cal-  
21          endar year 2007’ for ‘calendar year 1992’ in sub-  
22          paragraph (B) thereof” and inserting “section  
23          1(c)(2)(A) for the calendar year in which the taxable  
24          year begins, determined by substituting ‘calendar

1 year 2007’ for ‘calendar year 2012’ in clause (ii)  
2 thereof”.

3 (13) Section 911(b)(2)(D)(ii)(II) is amended by  
4 striking “section 1(f)(3) for the calendar year in  
5 which the taxable year begins, determined by sub-  
6 stituting ‘2004’ for ‘1992’ in subparagraph (B)  
7 thereof” and inserting “section 1(c)(2)(A) for the  
8 calendar year in which the taxable year begins, de-  
9 termined by substituting ‘calendar year 2004’ for  
10 ‘calendar year 2012’ in clause (ii) thereof”.

11 (14) Section 1274A(d)(2) is amended to read  
12 as follows:

13 “(2) INFLATION ADJUSTMENT.—

14 “(A) IN GENERAL.—In the case of any  
15 debt instrument arising out of a sale or ex-  
16 change during any calendar year after 2014,  
17 each adjusted dollar amount shall be increased  
18 by an amount equal to—

19 “(i) such adjusted dollar amount,  
20 multiplied by

21 “(ii) the cost-of-living adjustment de-  
22 termined under section 1(c)(2)(A) for such  
23 calendar year, determined by substituting  
24 ‘calendar year 2013’ for ‘calendar year  
25 2012’ in clause (ii) thereof.

1           “(B) ADJUSTED DOLLAR AMOUNTS.—For  
2           purposes of this paragraph, the term ‘adjusted  
3           dollar amount’ means the dollar amounts in  
4           subsections (b) and (c), in each case as in effect  
5           for calendar year 2014.

6           “(C) ROUNDING.—Any increase under sub-  
7           paragraph (A) shall be rounded to the nearest  
8           multiple of \$100.”.

9           (15) Section 2010(c)(3)(B)(ii) is amended by  
10          striking “section 1(f)(3) for such calendar year by  
11          substituting ‘calendar year 2010’ for ‘calendar year  
12          1992’ in subparagraph (B) thereof” and inserting  
13          “section 1(c)(2)(A) for such calendar year, deter-  
14          mined by substituting ‘calendar year 2010’ for ‘cal-  
15          endar year 2012’ in clause (ii) thereof”.

16          (16) Section 2032A(a)(3)(B) is amended by  
17          striking “section 1(f)(3) for such calendar year by  
18          substituting ‘calendar year 1997’ for ‘calendar year  
19          1992’ in subparagraph (B) thereof” and inserting  
20          “section 1(c)(2)(A) for such calendar year, deter-  
21          mined by substituting ‘calendar year 1997’ for ‘cal-  
22          endar year 2012’ in clause (ii) thereof”.

23          (17) Section 2503(b)(2)(B) is amended by  
24          striking “section 1(f)(3) for such calendar year by  
25          substituting ‘calendar year 1997’ for ‘calendar year

1 1992’ in subparagraph (B) thereof” and inserting  
2 “section 1(c)(2)(A) for the calendar year, deter-  
3 mined by substituting ‘calendar year 1997’ for ‘cal-  
4 endar year 2012’ in clause (ii) thereof”.

5 (18) Section 4161(b)(2)(C)(i)(II) is amended by  
6 striking “section 1(f)(3) for such calendar year, de-  
7 termined by substituting ‘2004’ for ‘1992’ in sub-  
8 paragraph (B) thereof” and inserting “section  
9 1(c)(2)(A) for such calendar year, determined by  
10 substituting ‘calendar year 2004’ for ‘calendar year  
11 2012’ in clause (ii) thereof”.

12 (19) Section 4261(e)(4)(A)(ii) is amended by  
13 striking “section 1(f)(3) for such calendar year by  
14 substituting the year before the last nonindexed year  
15 for ‘calendar year 1992’ in subparagraph (B) there-  
16 of” and inserting “section 1(c)(2)(A) for such cal-  
17 endar year, determined by substituting the year be-  
18 fore the last nonindexed year for ‘calendar year  
19 2012’ in clause (ii) thereof”.

20 (20) Section 4980I(b)(3)(C)(v)(II) is amended  
21 (A) by striking “section 1(f)(3)” and in-  
22 serting “section 1(c)(2)(A)”,  
23 (B) by striking “subparagraph (B)” and  
24 inserting “clause (ii)”, and

1 (C) by striking “1992” and inserting  
2 “2012”.

3 (21) Section 5000A(c)(3)(D)(ii) is amended—

4 (A) by striking “section 1(f)(3)” and in-  
5 serting “section 1(c)(2)(A)”,

6 (B) by striking “subparagraph (B)” and  
7 inserting “clause (ii)”, and

8 (C) by striking “1992” and inserting  
9 “2012”.

10 (22) Section 6039F(d) is amended by striking  
11 “section 1(f)(3), except that subparagraph (B)  
12 thereof” and inserting “section 1(c)(2)(A), except  
13 that clause (ii) thereof”.

14 (23) Section 6323(i)(4)(B) is amended by strik-  
15 ing “section 1(f)(3) for the calendar year, deter-  
16 mined by substituting ‘calendar year 1996’ for ‘cal-  
17 endar year 1992’ in subparagraph (B) thereof” and  
18 inserting “section 1(c)(2)(A) for the calendar year,  
19 determined by substituting ‘calendar year 1996’ for  
20 ‘calendar year 2012’ in clause (ii) thereof”.

21 (24) Section 6334(g)(1)(B) is amended by  
22 striking “section 1(f)(3) for such calendar year, by  
23 substituting ‘calendar year 1998’ for ‘calendar year  
24 1992’ in subparagraph (B) thereof” and inserting  
25 “section 1(c)(2)(A) for such calendar year, deter-



1 mined by substituting ‘calendar year 1999’ for ‘cal-  
2 endar year 2012’ in clause (ii) thereof”.

3 (25) Section 6721(f)(1) is amended—

4 (A) by striking “section 1(f)(3)” and in-  
5 serting “section 1(c)(2)(A)”,

6 (B) by striking “subparagraph (B)” and  
7 inserting “clause (ii)”, and

8 (C) by striking “1992” and inserting  
9 “2012”.

10 (26) Section 6722(f)(1) is amended—

11 (A) by striking “section 1(f)(3)” and in-  
12 serting “section 1(c)(2)(A)”,

13 (B) by striking “subparagraph (B)” and  
14 inserting “clause (ii)”, and

15 (C) by striking “1992” and inserting  
16 “2012”.

17 (27) Section 7430(c)(1) is amended by striking  
18 “section 1(f)(3) for such calendar year, by sub-  
19 stituting ‘calendar year 1995’ for ‘calendar year  
20 1992’ in subparagraph (B) thereof” in the flush text  
21 at the end and inserting “section 1(c)(2)(A) for such  
22 calendar year, determined by substituting ‘calendar  
23 year 1995’ for ‘calendar year 2012’ in clause (ii)  
24 thereof”.

1           (28) Section 7872(g)(5) is amended to read as  
2 follows:

3           “(5) INFLATION ADJUSTMENT.—

4           “(A) IN GENERAL.—In the case of any  
5 loan made during any calendar year after 2014  
6 to which paragraph (1) applies, the adjusted  
7 dollar amount shall be increased by an amount  
8 equal to—

9                   “(i) such adjusted dollar amount,  
10 multiplied by

11                   “(ii) the cost-of-living adjustment de-  
12 termined under section 1(c)(2)(A) for such  
13 calendar year, determined by substituting  
14 ‘calendar year 2013’ for ‘calendar year  
15 2012’ in clause (ii) thereof.

16           “(B) ADJUSTED DOLLAR AMOUNT.—For  
17 purposes of this paragraph, the term ‘adjusted  
18 dollar amount’ means the dollar amount in  
19 paragraph (2) as in effect for calendar year  
20 2014.

21           “(C) ROUNDING.—Any increase under sub-  
22 paragraph (A) shall be rounded to the nearest  
23 multiple of \$100.”.

24           (b) AMENDMENTS RELATED TO DEDUCTION FOR  
25 ADJUSTED NET CAPITAL GAIN.—

1           (1) Section 163(d)(4)(B) is amended by strik-  
2           ing “section 1(h)(11)(B)” and inserting “section  
3           169(e)”.

4           (2) Section 172(d)(2)(B) is amended by insert-  
5           ing “the deduction allowable under section 169 and”  
6           before “the exclusion”.

7           (3) Section 301(f)(4) is amended by striking  
8           “section 1(h)(11)” and inserting “section 169(e)”.

9           (4) Section 306(a)(1)(D) is amended by strik-  
10          ing “section 1(h)(11)” and inserting “section  
11          169(e)”.

12          (5) The last sentence of section 453A(c)(3) is  
13          amended by striking “capital gain” and all that fol-  
14          lows and inserting “capital gain, the deduction  
15          under section 169 shall be taken into account.”.

16          (6) Sections 531 and 541 are each amended by  
17          striking “20 percent” and inserting “21 percent”.

18          (7) Section 584(e) is amended by striking “and  
19          to which section 1(h)(11) applies” in the last sen-  
20          tence and inserting “which is qualified dividend in-  
21          come (as defined in section 169(e)) in the hands of  
22          such common trust fund”.

23          (8) Section 641(e)(2)(C) (prior to redesignation  
24          by title II) is amended by adding at the end the fol-  
25          lowing new clause:

1                   “(v) The deduction allowed by section  
2                   169.”.

3                   (9) The first sentence of section 642(c)(4) is  
4                   amended by striking “consists of” and all that fol-  
5                   lows and inserting “consists of long-term capital  
6                   gain or gain described in section 1202(a), proper ad-  
7                   justments shall be made for any deduction allowable  
8                   to the trust or estate under section 169 and for any  
9                   exclusion allowable under section 1202.”.

10                  (10) The last sentence of section 643(a)(3) is  
11                  amended to read as follows: “The deduction under  
12                  section 169 and the exclusion under section 1202  
13                  shall not be taken into account.”.

14                  (11) Section 691(c)(4) is amended by striking  
15                  “1(h)” and inserting “169”.

16                  (12) Section 702(a)(5) is amended by striking  
17                  “section 1(h)(11)” and inserting “section 169”.

18                  (13) Section 854 is amended—

19                         (A) by striking “section 1(h)(11) (relating  
20                         to maximum rate of tax on dividends)” in sub-  
21                         section (a) and inserting “section 169 (relating  
22                         to adjusted net capital gain)”.

23                         (B) by striking “MAXIMUM RATE UNDER  
24                         SECTION 1(h)” in the heading of subsection

1 (b)(1)(B) and inserting “DETERMINATION OF  
2 ADJUSTED NET CAPITAL GAIN”, and

3 (C) by striking “section 1(h)(11)(B)” in  
4 subsection (b)(4) and inserting “section  
5 169(e)”.

6 (14) Section 857(c)(2) is amended—

7 (A) by striking “section 1(h)(11)(B)” in  
8 subparagraph (D) and inserting “section  
9 169(e)”, and

10 (B) by striking “SECTION 1(h)(11)” in the  
11 heading and inserting “SECTION 169(e)”.

12 (15) Section 904(b) is amended—

13 (A) by amending paragraph (2) to read as  
14 follows:

15 “(2) CAPITAL GAINS.—For purposes of this sec-  
16 tion, taxable income from sources outside the United  
17 States shall include gain from the sale or exchange  
18 of capital assets (including gain so treated under  
19 section 1231) only to the extent of the lesser of—

20 “(A) capital gain net income from sources  
21 without the United States, or

22 “(B) capital gain net income.”, and

23 (B) by striking paragraph (3).

24 (16) Section 1260(a) is amended by striking  
25 “long-term capital gain” the first place such term

1 appears and all that follows and inserting “long-  
2 term capital gain, such gain shall be treated as ordi-  
3 nary income to the extent such gain exceeds the net  
4 underlying long-term capital gain.”.

5 (17) Section 1411(c)(1)(B) is amended by in-  
6 serting “(other than section 169)” after “this sub-  
7 title”.

8 (18) Section 4985(a)(1) is amended by striking  
9 “the rate of tax specified in section 1(h)(1)(C)” and  
10 inserting “21 percent”.

11 (19) Section 7518(g)(6)(A) is amended by  
12 striking all that follows clause (i) and inserting the  
13 following:

14 “(ii) by increasing the tax imposed by  
15 chapter 1 by the product of the amount of  
16 such withdrawal, multiplied by—

17 “(I) in the case of a taxpayer  
18 other than a corporation, 60 percent  
19 of the highest rate of tax specified in  
20 section 1, and

21 “(II) in the case of a corporation,  
22 the highest rate of tax specified in  
23 section 11.”.

24 (20) Section 53511(f) of title 46, United States  
25 Code, is amended by—

1 (A) by amending paragraph (1)(B) to read  
2 as follows:

3 “(B) increasing the tax imposed by chapter  
4 1 of such Code by the product of the amount  
5 of such withdrawal, multiplied by—

6 “(i) in the case of a taxpayer other  
7 than a corporation, the highest rate of tax  
8 specified in section 1 (60 percent of such  
9 highest rate in the case of so much of such  
10 withdrawal as is made from the capital  
11 gain account), and

12 “(ii) in the case of a corporation, the  
13 highest rate of tax specified in section  
14 11.”, and

15 (B) by striking paragraph (2) and by re-  
16 designating paragraphs (3) and (4) as para-  
17 graphs (2) and (3), respectively.

18 (21) The table of sections for part VI of sub-  
19 chapter B of chapter 1 is amended by inserting after  
20 the item relating to section 168 the following new  
21 item:

“Sec. 169. Adjusted net capital gain.”.

22 (c) OTHER CONFORMING AMENDMENTS.—

23 (1) Section 25B(b)(2) is amended by striking  
24 “In the case of—” and all that follows through “any  
25 taxpayer not described in paragraph (1) or subpara-

1 graph (A),” and inserting “In the case of any tax-  
2 payer not described in paragraph (1),”.

3 (2) Section 36B(b)(3)(B)(ii)(I)(aa) is amended  
4 to read as follows:

5 “(aa) who is described in  
6 section 1(b)(1)(B) and who does  
7 not have any dependents for the  
8 taxable year,”.

9 (3) Section 486B(b)(1) is amended—

10 (A) by striking “maximum rate in effect”  
11 and inserting “highest rate specified”, and

12 (B) by striking “section 1(e)” and insert-  
13 ing “section 1”.

14 (4) Section 511(b)(1) is amended to read as fol-  
15 lows:

16 “(1) IMPOSITION OF TAX.—There is hereby im-  
17 posed for each taxable year on the unrelated busi-  
18 ness taxable income of every trust described in para-  
19 graph (2) a tax computed as provided in section 1.  
20 In making such computation for purposes of this  
21 section, the terms ‘taxable income’ and ‘modified ad-  
22 justed gross income’ as used in section 1 shall both  
23 be read as ‘unrelated business taxable income’ as de-  
24 fined in section 512.”.



1           (5) Section 641(a) is amended by striking “sec-  
2           tion 1(e) shall apply to the taxable income” and in-  
3           serting “section 1 shall apply to the income”.

4           (6) Section 641(c)(2)(A) is amended to read as  
5           follows:

6                   “(A) The dollar amount in effect under  
7                   section 1(b)(2)(C) shall be treated as being  
8                   zero.”.

9           (7) Section 646(b) is amended to read as fol-  
10          lows:

11          “(b) TAXATION OF INCOME OF TRUST.—Except as  
12          provided in subsection (f)(1)(B)(ii), there is hereby im-  
13          posed on the taxable income of an electing Settlement  
14          Trust a tax at the rate specified in section 1(a)(1). Such  
15          tax shall be in lieu of the income tax otherwise imposed  
16          by this chapter on such income.”.

17          (8) Section 685(c) is amended by striking “Sec-  
18          tion 1(e)” and inserting “Section 1”.

19          (9) Section 1398(c) is amended by striking  
20          paragraphs (1) and (2), by redesignating paragraph  
21          (3) as paragraph (2), and by inserting before para-  
22          graph (2) as so redesignated the following new para-  
23          graph:

24                   “(1) COMPUTATION AND PAYMENT OF TAX.—  
25          Except as otherwise provided in this section or part

1 I of subchapter A, the taxable income and modified  
2 adjusted gross income of the estate shall be com-  
3 puted in the same manner as for an individual. The  
4 tax shall be computed under section 1 and shall be  
5 paid by the trustee.”.

6 (10) Section 3402(p)(1)(B) is amended by  
7 striking “any percentage applicable to any of the 3  
8 lowest income brackets in the table under section  
9 1(c),” and inserting “10 percent, 25 percent, 35  
10 percent,”.

11 (11) Section 3402(q)(1) is amended by striking  
12 “the third lowest rate of tax applicable under section  
13 1(c)” and inserting “the highest rate of tax specified  
14 in section 1”.

15 (12) Section 3402(r)(3) is amended by striking  
16 “the amount of tax which would be imposed by sec-  
17 tion 1(c) (determined without regard to any rate of  
18 tax in excess of the fourth lowest rate of tax applica-  
19 ble under section 1(c)) on an amount of taxable in-  
20 come equal to” and inserting “an amount equal to  
21 the product of the highest rate of tax specified in  
22 section 1 multiplied by”.

23 (13) Section 3406(a)(1) is amended by striking  
24 “the fourth lowest rate of tax applicable under sec-

1       tion 1(c)” and inserting “the highest rate of tax  
2       specified in section 1”.

3               (14) Section 6103(e)(1)(A)(iii) is amended by  
4       striking “section 1(g)” and inserting “section 1(d)”.

5       (d) WITHHOLDING FROM SUPPLEMENTAL WAGE  
6       PAYMENTS.—

7               (1) IN GENERAL.—If an employer elects under  
8       Treasury Regulation section 31.3402(g)–1 to deter-  
9       mine the amount to be deducted and withheld from  
10      any supplemental wage payment by using a flat per-  
11      centage rate, the rate to be used in determining such  
12      amount shall not be less than 35 percent.

13              (2) REPEAL OF SUPERCEDED PROVISION.—The  
14      American Jobs Creation Act of 2004 is amended by  
15      striking section 904.

16      (e) EFFECTIVE DATE.—

17              (1) IN GENERAL.—Except as otherwise pro-  
18      vided in this subsection, the amendments made by  
19      this section shall apply to taxable years beginning  
20      after December 31, 2014.

21              (2) WITHHOLDING FROM SUPPLEMENTAL WAGE  
22      PAYMENTS.—The provisions of, and amendments  
23      made by, subsection (d) shall apply to payments  
24      made after December 31, 2014.

1     **Subtitle B—Simplification of Tax**  
2                     **Benefits for Families**

3     **SEC. 1101. STANDARD DEDUCTION.**

4             (a) INCREASE IN STANDARD DEDUCTION.—Sub-  
5 section (c) of section 63 is amended to read as follows:

6             “(c) STANDARD DEDUCTION.—For purposes of this  
7 subtitle—

8                     “(1) IN GENERAL.—Except as otherwise pro-  
9 vided in this subsection, the term ‘standard deduc-  
10 tion’ means—

11                             “(A) \$22,000, in the case of a joint return,  
12                             and

13                             “(B) one-half of the amount in effect  
14                             under subparagraph (A) for the taxable year, in  
15                             any other case.

16             “(2) PHASEOUT OF STANDARD DEDUCTION.—  
17             The amount of the standard deduction determined  
18             under this subsection (without regard to this para-  
19             graph and after the application of paragraph (4))  
20             shall be reduced (but not below zero) by an amount  
21             equal to 20 percent of the excess (if any) of—

22                             “(A) the taxpayer’s modified adjusted  
23                             gross income (as defined in section 2(b)) for the  
24                             taxable year, over

1           “(B)(i) the joint return standard deduction  
2 phaseout threshold for the taxable year, in the  
3 case of a taxpayer described in paragraph  
4 (1)(A), and

5           “(ii) the non-joint return standard deduc-  
6 tion phaseout threshold for the taxable year, in  
7 any other case.

8           “(3) STANDARD DEDUCTION PHASEOUT  
9 THRESHOLDS.—

10           “(A) JOINT RETURN STANDARD DEDUC-  
11 TION PHASEOUT THRESHOLD.—The term ‘joint  
12 return standard deduction phaseout threshold’  
13 means, with respect to any taxable year—

14           “(i) the dollar amount in effect under  
15 section 1(e)(3)(A) for such taxable year,  
16 plus

17           “(ii) the product of—

18           “(I) the dollar amount in effect  
19 under section 1(b)(1)(A) for such tax-  
20 able year, multiplied by

21           “(II) 3.

22           “(B) NON-JOINT RETURN STANDARD DE-  
23 DUCTION PHASEOUT THRESHOLD.—The term  
24 ‘non-joint return standard deduction phaseout

1 threshold' means, with respect to any taxable  
2 year—

3 “(i) the dollar amount in effect under  
4 section 1(e)(3)(B) for such taxable year,  
5 plus

6 “(ii) the product of—

7 “(I) the dollar amount in effect  
8 under section 1(b)(1)(B) for such tax-  
9 able year, multiplied by

10 “(II) 3.

11 “(4) LIMITATION ON STANDARD DEDUCTION IN  
12 THE CASE OF CERTAIN DEPENDENTS.—In the case  
13 of an individual who is a dependent of another tax-  
14 payer for a taxable year beginning in the calendar  
15 year in which the individual's taxable year begins,  
16 the standard deduction applicable to such individual  
17 for such individual's taxable year shall not exceed  
18 the greater of—

19 “(A) \$500, or

20 “(B) the sum of \$250 and such individ-  
21 ual's earned income (as defined in section  
22 24(d)(2)).

23 “(5) CERTAIN INDIVIDUALS, ETC., NOT ELIGI-  
24 BLE FOR STANDARD DEDUCTION.—In the case of—

1           “(A) a married individual filing a separate  
2           return where such individual’s spouse elects to  
3           itemize deductions,

4           “(B) a nonresident alien individual,

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

9           “(D) an estate or trust, common trust  
10          fund, or partnership,

11          the standard deduction shall be zero.

12          “(6) INFLATION ADJUSTMENTS.—In the case of  
13          any taxable year beginning after 2014, each of the  
14          dollar amounts in paragraphs (1)(A) and (4) shall  
15          be increased by an amount equal to—

16                 “(A) such dollar amount, multiplied by

17                 “(B) the cost-of-living adjustment deter-  
18          mined—

19                         “(i) in the case of the dollar amount  
20                         in paragraph (1)(A), under section  
21                         1(c)(2)(A) for the calendar year in which  
22                         the taxable year begins,

23                         “(ii) in the case of the dollar amount  
24                         in paragraph (4)(A), under section  
25                         1(c)(2)(A) for the calendar year in which

1 the taxable year begins determined by sub-  
2 stituting ‘calendar year 1987’ for ‘calendar  
3 year 2012’ in clause (ii) thereof, and

4 “(iii) in the case of the dollar amount  
5 in paragraph (4)(B), under section  
6 1(c)(2)(A) for the calendar year in which  
7 the taxable year begins determined by sub-  
8 stituting ‘calendar year 1997’ for ‘calendar  
9 year 2012’ in clause (ii) thereof.

10 If any increase determined under the preceding sen-  
11 tence is not a multiple of \$100, such increase shall  
12 be rounded to the next lowest multiple of \$100.”.

13 (b) **ADDITIONAL DEDUCTION FOR UNMARRIED INDI-**  
14 **VIDUALS WITH AT LEAST ONE QUALIFYING CHILD.—**

15 (1) **IN GENERAL.—**Part VII of subchapter B of  
16 chapter 1 is amended by redesignating section 224  
17 as section 225 and by inserting after section 223 the  
18 following new section:

19 **“SEC. 224. DEDUCTION FOR UNMARRIED INDIVIDUALS**  
20 **WITH AT LEAST ONE QUALIFYING CHILD.**

21 “(a) **IN GENERAL.—**In the case of an unmarried indi-  
22 vidual with at least one qualifying child (within the mean-  
23 ing of section 7705), there shall be allowed as a deduction  
24 an amount equal to \$5,500.



1       “(b) PHASEOUT OF DEDUCTION.—The amount of the  
2 deduction determined under subsection (a) (without re-  
3 gard to this subsection) shall be reduced (but not below  
4 zero) by an amount equal to the excess (if any) of—

5           “(1) the taxpayer’s adjusted gross income (de-  
6 termined without regard to this section) for the tax-  
7 able year, over

8           “(2) \$30,000.

9       “(c) UNMARRIED INDIVIDUAL.—For purposes of this  
10 section, the term ‘unmarried individual’ means any indi-  
11 vidual who—

12           “(1) is not married as of the close of the tax-  
13 able year (as determined by applying section 7703),

14           “(2) is not a surviving spouse (as defined in  
15 section 2(a)) for the taxable year, and

16           “(3) is not a dependent of another taxpayer for  
17 a taxable year beginning in the calendar year in  
18 which the individual’s taxable year begins.

19       “(d) INFLATION ADJUSTMENTS.—

20           “(1) DEDUCTION AMOUNT.—In the case of any  
21 taxable year beginning after 2014, the dollar amount  
22 in subsection (a) shall be increased by an amount  
23 equal to—

24           “(A) such dollar amount, multiplied by

1           “(B) the cost-of-living adjustment deter-  
2           mined under section 1(c)(2)(A) for the calendar  
3           year in which the taxable year begins.

4           “(2) PHASEOUT THRESHOLD.—In the case of  
5           any taxable year beginning after 2015, the dollar  
6           amount in subsection (b)(2) shall be increased by an  
7           amount equal to—

8                   “(A) such dollar amount, multiplied by

9                   “(B) the cost-of-living adjustment deter-  
10                  mined under section 1(c)(2)(A) for the calendar  
11                  year in which the taxable year begins deter-  
12                  mined by substituting ‘calendar year 2014’ for  
13                  ‘calendar year 2012’ in clause (ii) thereof.

14           “(3) ROUNDING.—If any increase determined  
15           under paragraph (1) or (2) is not a multiple of  
16           \$100, such increase shall be rounded to the next  
17           lowest multiple of \$100.”.

18           (2) DEDUCTION ALLOWED WHETHER OR NOT  
19           TAXPAYER ITEMIZES DEDUCTIONS.—Section 62(a) is  
20           amended by adding at the end the following new  
21           paragraph:

22                   “(22) DEDUCTION FOR UNMARRIED INDIVID-  
23                  UALS WITH AT LEAST ONE QUALIFYING CHILD.—  
24                  The deduction allowed by section 224.”.

1           (c) APPLICATION OF STANDARD DEDUCTION PHASE-  
2 OUT TO ITEMIZED DEDUCTIONS.—Subsection (f) of sec-  
3 tion 63 is amended to read as follows:

4           “(f) APPLICATION OF PHASEOUT OF STANDARD DE-  
5 DUCTION TO ITEMIZED DEDUCTIONS.—

6                   “(1) IN GENERAL.—In the case of an individual  
7 whose modified adjusted gross income (as defined in  
8 section 2(b)) exceeds the amount in effect under  
9 subsection (c)(2)(B) with respect to the taxpayer for  
10 the taxable year, the amount of the itemized deduc-  
11 tions otherwise allowable for the taxable year shall  
12 be reduced by the lesser of—

13                           “(A) 20 percent of the excess described in  
14 subsection (c)(2) with respect to such taxpayer  
15 for such taxable year, or

16                           “(B) the amount of the taxpayer’s stand-  
17 ard deduction for such taxable year (determined  
18 without regard to subsection (c)(2) and without  
19 regard to any election to itemize deductions).

20                   “(2) COORDINATION WITH OTHER LIMITA-  
21 TIONS.—This subsection shall be applied after the  
22 application of any other limitation on the allowance  
23 of any itemized deduction.

1           “(3) EXCEPTION FOR ESTATES AND TRUSTS.—  
2           This subsection shall not apply to any estate or  
3           trust.”.

4           (d) CONFORMING AMENDMENTS.—

5           (1) Sections 86(b)(2)(A) and 137(b)(3)(A) are  
6           each amended by inserting “224,” before “911,”.

7           (2) Section 199(d)(2)(B) is amended by insert-  
8           ing “section 224 and” before “this section”.

9           (3) Section 469(i)(3)(F)(iii) is amended by in-  
10          serting “and 224” after “219,”.

11          (4) Section 1398(c), as amended by section  
12          1003(c), is amended—

13                 (A) by striking “BASIC” in the heading  
14                 thereof,

15                 (B) by striking “BASIC STANDARD” in the  
16                 heading of paragraph (2) and inserting  
17                 “STANDARD”, and

18                 (C) by striking “basic” in paragraph (2).

19          (5) Section 3402(m)(3) is amended by striking  
20          “(including the additional standard deduction under  
21          section 63(c)(3) for the aged and blind)”.

22          (6) Section 6014(b)(4) is amended by striking  
23          “section 63(c)(5)” and inserting “section 63(c)(4)”.

24          (7) The table of sections for part VII of sub-  
25          chapter B of chapter 1 is amended by redesignating

1 the item relating to section 224 as an item relating  
2 to section 225 and by inserting after the item relat-  
3 ing to section 223 the following new item:

“Sec. 224. Deduction for unmarried individuals with at least one qualifying  
child.”.

4 (e) EFFECTIVE DATE.—The amendment made by  
5 this section shall apply to taxable years beginning after  
6 December 31, 2014.

7 **SEC. 1102. INCREASE AND EXPANSION OF CHILD TAX CRED-**  
8 **IT.**

9 (a) IN GENERAL.—Section 24 is amended to read as  
10 follows:

11 **“SEC. 24. CHILD AND DEPENDENT TAX CREDIT.**

12 “(a) ALLOWANCE OF CREDIT.—There shall be al-  
13 lowed as a credit against the tax imposed by this chapter  
14 for the taxable year with respect to each dependent of the  
15 taxpayer an amount equal to \$500 (\$1,500 in the case  
16 of a qualifying child).

17 “(b) PHASEOUT OF CREDIT.—

18 “(1) IN GENERAL.—The credit allowed under  
19 subsection (a) (determined without regard to this  
20 subsection) shall be reduced (but not below zero) by  
21 5 percent of the excess (if any) of—

22 “(A) the taxpayer’s modified adjusted  
23 gross income (as defined in section 2(b)), over

1           “(B)(i) the joint return child credit phase-  
2           out threshold, in the case of a joint return or  
3           a surviving spouse (as defined in section 2(a)),  
4           or

5           “(ii) the non-joint return child credit  
6           phaseout threshold, in any other case.

7           “(2) JOINT RETURN CHILD CREDIT PHASEOUT  
8           THRESHOLD.—For purposes of this section, the  
9           term ‘joint return child credit phaseout threshold’  
10          means, with respect to any taxable year, the sum  
11          of—

12           “(A) the joint return standard deduction  
13           phaseout threshold (as defined in section  
14           63(c)(3)(A)), plus

15           “(B) an amount equal to—

16           “(i) the dollar amount in effect under  
17           section 63(c)(1)(A) for such taxable year,  
18           divided by

19           “(ii) 0.2.

20           “(3) NON-JOINT RETURN CHILD CREDIT  
21           PHASEOUT THRESHOLD.—For purposes of this sec-  
22           tion, the term ‘non-joint return child credit phaseout  
23           threshold’ means, with respect to any taxable year,  
24           the sum of—

1           “(A) the non-joint return standard deduc-  
2           tion phaseout threshold (as defined in section  
3           63(c)(3)(B)), plus

4           “(B) an amount equal to—

5                   “(i) the dollar amount in effect under  
6                   section 63(c)(1)(B) for such taxable year,  
7                   divided by

8                   “(ii) 0.2.

9           “(c) QUALIFYING CHILD.—For purposes of this sec-  
10          tion—

11                   “(1) IN GENERAL.—Except as provided in para-  
12                   graph (2), the term ‘qualifying child’ has the mean-  
13                   ing given such term by section 7705.

14                   “(2) EXCEPTION FOR CERTAIN NONCITIZENS.—  
15                   The term ‘qualifying child’ shall not include any in-  
16                   dividual who would not be a dependent if subpara-  
17                   graph (A) of section 7705(b)(3) were applied with-  
18                   out regard to all that follows ‘resident of the United  
19                   States’.

20           “(d) PORTION OF CREDIT REFUNDABLE.—

21                   “(1) IN GENERAL.—The aggregate credits al-  
22                   lowed under subpart C shall be increased by the  
23                   lesser of—

24                   “(A) the credit which would be allowed  
25                   under this section without regard to this sub-

1 section and the limitation under section 26(a),  
2 or

3 “(B) the amount by which the aggregate  
4 amount of credits allowed under the subpart  
5 (determined without regard to this subsection)  
6 would increase if the limitation under section  
7 26(a) were increased by 25 percent of the tax-  
8 payer’s earned income for the taxable year.

9 The amount of the credit allowed under this sub-  
10 section shall not be treated as a credit allowed under  
11 this subpart and shall reduce the amount of credit  
12 otherwise allowable under subsection (a) without re-  
13 gard to section 26(a).

14 “(2) EARNED INCOME.—For purposes of this  
15 subsection—

16 “(A) IN GENERAL.—The term ‘earned in-  
17 come’ means—

18 “(i) the taxpayer’s wages, salaries,  
19 tips, and other employee compensation, but  
20 only if such amounts are includible in  
21 gross income for the taxable year, plus

22 “(ii) the taxpayer’s net earnings from  
23 self-employment for the taxable year (with-  
24 in the meaning of section 1402(a)) deter-



1           mined with regard to the deduction allowed  
2           to the taxpayer by section 164(f).

3           “(B) SPECIAL RULES.—For purposes of  
4           subparagraph (A)—

5                   “(i) the earned income of an indi-  
6                   vidual shall be computed without regard to  
7                   any community property laws,

8                   “(ii) no amount received as a pension  
9                   or annuity shall be taken into account,

10                   “(iii) no amount to which section  
11                   871(a) applies (relating to income of non-  
12                   resident alien individuals not connected  
13                   with United States business) shall be taken  
14                   into account,

15                   “(iv) no amount received for services  
16                   provided by an individual while the indi-  
17                   vidual is an inmate at a penal institution  
18                   shall be taken into account,

19                   “(v) no amount described in subpara-  
20                   graph (A) received for service performed in  
21                   work activities as defined in paragraph (4)  
22                   or (7) of section 407(d) of the Social Secu-  
23                   rity Act to which the taxpayer is assigned  
24                   under any State program under part A of  
25                   title IV of such Act shall be taken into ac-

1 count, but only to the extent such amount  
2 is subsidized under such State program,  
3 and

4 “(vi) amounts excluded from gross in-  
5 come by reason of section 112 shall be  
6 taken into account as earned income.

7 “(C) SPECIAL RULE FOR TAXABLE YEARS  
8 BEGINNING BEFORE 2018.—In the case of any  
9 taxable year beginning before January 1, 2018,  
10 the earned income of the taxpayer taken into  
11 account under paragraph (1) shall be reduced  
12 (but not below zero) by \$3,000.

13 “(3) EXCEPTION FOR TAXPAYERS EXCLUDING  
14 FOREIGN EARNED INCOME.—Paragraph (1) shall not  
15 apply to any taxpayer for any taxable year if such  
16 taxpayer elects to exclude any amount from gross in-  
17 come under section 911 for such taxable year.

18 “(e) INFLATION ADJUSTMENT.—In the case of any  
19 taxable year beginning after 2014, each dollar amount in  
20 subsection (a) shall be increased by an amount equal to—

21 “(1) such dollar amount, multiplied by

22 “(2) the cost-of-living adjustment determined  
23 under section 1(c)(2)(A) for the calendar year in  
24 which the taxable year begins.

1 If any increase determined under the preceding sentence  
2 is not a multiple of \$100, such increase shall be rounded  
3 to the next lowest multiple of \$100.

4 “(f) IDENTIFICATION REQUIREMENTS.—

5 “(1) IN GENERAL.—No credit shall be allowed  
6 under this section to a taxpayer with respect to any  
7 dependent unless the taxpayer includes the name  
8 and taxpayer identification number of such depend-  
9 ent on the return of tax for the taxable year.

10 “(2) ADDITIONAL IDENTIFICATION REQUIRE-  
11 MENT WITH RESPECT TO REFUNDABLE CREDIT.—

12 “(A) IN GENERAL.—Subsection (d) shall  
13 not apply to any taxpayer for any taxable year  
14 unless the taxpayer includes the taxpayer’s So-  
15 cial Security number on the return of tax for  
16 such taxable year.

17 “(B) JOINT RETURNS.—In the case of a  
18 joint return, the requirement of subparagraph  
19 (A) shall be treated as met if the Social Secu-  
20 rity number of either spouse is included on such  
21 return.

22 “(g) TAXABLE YEAR MUST BE FULL TAXABLE  
23 YEAR.—Except in the case of a taxable year closed by rea-  
24 son of the death of the taxpayer, no credit shall be allow-

1 able under this section in the case of a taxable year cov-  
2 ering a period of less than 12 months.”.

3 (b) OMISSION OF IDENTIFICATION INFORMATION  
4 TREATED AS MATHEMATICAL OR CLERICAL ERROR.—  
5 Subparagraph (I) of section 6213(g)(2) of such Code is  
6 amended to read as follows:

7 “(I) an omission of a correct TIN under  
8 section 24(f)(1) (relating to the child and de-  
9 pendent tax credit), or a correct Social Security  
10 number under section 24(f)(2) (relating to the  
11 refundable portion of child and dependent tax  
12 credit), to be included on a return,”.

13 (c) APPLICATION OF RULE FOR SHORT TAXABLE  
14 YEARS.—Section 443(c) is amended to read as follows:

15 “(c) ADJUSTMENT IN CHILD AND DEPENDENT TAX  
16 CREDIT.—If a return is made for a short period by reason  
17 of subsection (a)(1) and if the tax is not computed under  
18 subsection (b)(2), then the credit allowed under section  
19 24 shall be reduced to an amount which bears the same  
20 ratio to the full amount of such credit as the number of  
21 months in the short period bears to 12.”.

22 (d) CLERICAL AMENDMENT.—The table of sections  
23 for subpart A of part IV of subchapter A of chapter 1  
24 is amended by striking the item relating to section 24 and  
25 inserting the following new item:

“Sec. 24. Child and dependent tax credit.”.

1 (e) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 1103. MODIFICATION OF EARNED INCOME TAX CRED-**  
5 **IT.**

6 (a) IN GENERAL.—Section 32 is amended to read as  
7 follows:

8 **“SEC. 32. EARNED INCOME.**

9 “(a) IN GENERAL.—In the case of an individual who  
10 is an eligible individual for any taxable year, there shall  
11 be allowed as a credit against the tax imposed by this sub-  
12 title for such taxable year an amount equal to the tax-  
13 payer’s employment-related taxes for such taxable year.

14 “(b) LIMITATIONS.—

15 “(1) DOLLAR LIMITATION.—The credit allowed  
16 under subsection (a) shall not exceed—

17 “(A) in the case of a taxpayer with 2 or  
18 more qualifying children, \$3,000 (\$4,000 in the  
19 case of a joint return), and

20 “(B) in the case of a taxpayer with 1  
21 qualifying child, \$2,400.

22 “(2) PHASE-OUT OF CREDIT.—The credit al-  
23 lowed under subsection (a) (determined after appli-  
24 cation of paragraph (1)) shall be reduced (but not  
25 below zero) by the sum of—

1           “(A) 19 percent of so much of the tax-  
2           payer’s adjusted gross income (reduced by the  
3           amount of any excess described in subpara-  
4           graph (B)) as exceeds \$20,000 (\$27,000 in the  
5           case of a joint return), plus

6           “(B) so much of the taxpayer’s investment  
7           income for the taxable year as exceeds \$3,300.

8           “(c) DEFINITIONS.—For purposes of this section—

9           “(1) ELIGIBLE INDIVIDUAL.—

10           “(A) IN GENERAL.—The term ‘eligible in-  
11           dividual’ means any individual who has a quali-  
12           fying child for the taxable year.

13           “(B) QUALIFYING CHILD INELIGIBLE.—If  
14           an individual is the qualifying child of a tax-  
15           payer for any taxable year of such taxpayer be-  
16           ginning in a calendar year, such individual shall  
17           not be treated as an eligible individual for any  
18           taxable year of such individual beginning in  
19           such calendar year.

20           “(C) EXCEPTION FOR INDIVIDUAL CLAIM-  
21           ING BENEFITS UNDER SECTION 911.—The term  
22           ‘eligible individual’ does not include any indi-  
23           vidual who claims the benefits of section 911  
24           (relating to citizens or residents living abroad)  
25           for the taxable year.

1           “(D) LIMITATION ON ELIGIBILITY OF NON-  
2           RESIDENT ALIENS.—The term ‘eligible indi-  
3           vidual’ shall not include any individual who is  
4           a nonresident alien individual for any portion of  
5           the taxable year unless such individual is treat-  
6           ed for such taxable year as a resident of the  
7           United States for purposes of this chapter by  
8           reason of an election under subsection (g) or  
9           (h) of section 6013.

10           “(2) EMPLOYMENT-RELATED TAXES.—The  
11           term ‘employment-related taxes’ means, with respect  
12           to any taxpayer for any taxable year, the sum of—

13           “(A) any tax imposed under sections 3101  
14           or 3111 on the wages (as defined in section  
15           3121(a)) received by the taxpayer during the  
16           calendar year in which the taxable year begins,

17           “(B) any tax imposed under sections  
18           3201(a), 3211(a), or 3221(a) on the compensa-  
19           tion (as defined in section 3231(e)) received by  
20           the taxpayer during the calendar year in which  
21           the taxable year begins, and

22           “(C) any tax imposed under section 1401  
23           on the self-employment income of the taxpayer  
24           for the taxable year.

25           “(3) QUALIFYING CHILD.—

1           “(A) IN GENERAL.—The term ‘qualifying  
2 child’ means a qualifying child of the taxpayer  
3 (within the meaning of section 7705, deter-  
4 mined without regard to subsections (c)(1)(D)  
5 and (e) thereof).

6           “(B) PLACE OF ABODE.—For purposes of  
7 subparagraph (A), the requirements of section  
8 7705(c)(1)(B) shall be met only if the principal  
9 place of abode is in the United States.

10           “(C) TREATMENT OF MILITARY PER-  
11 SONNEL STATIONED OUTSIDE THE UNITED  
12 STATES.—For purposes of subparagraph (B),  
13 the principal place of abode of a member of the  
14 Armed Forces of the United States shall be  
15 treated as in the United States during any pe-  
16 riod during which such member is stationed  
17 outside the United States while serving on ex-  
18 tended active duty with the Armed Forces of  
19 the United States. For purposes of the pre-  
20 ceeding sentence, the term ‘extended active duty’  
21 means any period of active duty pursuant to a  
22 call or order to such duty for a period in excess  
23 of 90 days or for an indefinite period.



1           “(4) INVESTMENT INCOME.—For purposes of  
2 paragraph (1), the term ‘investment income’  
3 means—

4           “(A) interest or dividends to the extent in-  
5 cludible in gross income for the taxable year,

6           “(B) interest received or accrued during  
7 the taxable year which is exempt from tax im-  
8 posed by this chapter,

9           “(C) the excess (if any) of—

10           “(i) gross income from rents or royal-  
11 ties not derived in the ordinary course of  
12 a trade or business, over

13           “(ii) the sum of—

14           “(I) the deductions (other than  
15 interest) which are clearly and directly  
16 allocable to such gross income, plus

17           “(II) interest deductions properly  
18 allocable to such gross income,

19           “(D) the capital gain net income (as de-  
20 fined in section 1222) of the taxpayer for such  
21 taxable year, and

22           “(E) the excess (if any) of—

23           “(i) the aggregate income from all  
24 passive activities for the taxable year (de-  
25 termined without regard to any amount

1 with respect to which a tax described in  
2 subsection (c)(2) is imposed or an amount  
3 described in a preceding subparagraph),  
4 over

5 “(ii) the aggregate losses from all pas-  
6 sive activities for the taxable year (as so  
7 determined).

8 For purposes of subparagraph (E), the term  
9 ‘passive activity’ has the meaning given such  
10 term by section 469.

11 “(d) IDENTIFICATION REQUIREMENTS.—

12 “(1) IN GENERAL.—No credit shall be allowed  
13 under this section unless the taxpayer includes on  
14 the return of tax for the taxable year—

15 “(A) the taxpayer’s Social Security num-  
16 ber, and

17 “(B) the name, age, and Social Security  
18 number of each qualifying child taken into ac-  
19 count under subsection (b)(1).

20 “(2) JOINT RETURNS.—In the case of a joint  
21 return, the requirement of paragraph (1)(A) shall be  
22 treated as met if the Social Security number of ei-  
23 ther spouse is included on such return.

24 “(3) OTHER METHODS OF PROVIDING CHIL-  
25 DREN’S INFORMATION.—The Secretary may pre-

1 scribe other methods for providing the information  
2 described in paragraph (1)(B).

3 “(e) RESTRICTIONS ON TAXPAYERS WHO IMPROP-  
4 ERLY CLAIMED CREDIT IN PRIOR YEAR.—

5 “(1) TAXPAYERS MAKING PRIOR FRAUDULENT  
6 OR RECKLESS CLAIMS.—

7 “(A) IN GENERAL.—No credit shall be al-  
8 lowed under this section for any taxable year in  
9 the disallowance period.

10 “(B) DISALLOWANCE PERIOD.—For pur-  
11 poses of paragraph (1), the disallowance period  
12 is—

13 “(i) the period of 10 taxable years  
14 after the most recent taxable year for  
15 which there was a final determination that  
16 the taxpayer’s claim of credit under this  
17 section was due to fraud, and

18 “(ii) the period of 2 taxable years  
19 after the most recent taxable year for  
20 which there was a final determination that  
21 the taxpayer’s claim of credit under this  
22 section was due to reckless or intentional  
23 disregard of rules and regulations (but not  
24 due to fraud).

1           “(2) TAXPAYERS MAKING IMPROPER PRIOR  
2 CLAIMS.—In the case of a taxpayer who is denied  
3 credit under this section for any taxable year as a  
4 result of the deficiency procedures under subchapter  
5 B of chapter 63, no credit shall be allowed under  
6 this section for any subsequent taxable year unless  
7 the taxpayer provides such information as the Sec-  
8 retary may require to demonstrate eligibility for  
9 such credit.

10          “(f) OTHER SPECIAL RULES.—For purposes of this  
11 section—

12           “(1) MARRIED INDIVIDUALS.—In the case of an  
13 individual who is married (within the meaning of  
14 section 7703), this section shall apply only if a joint  
15 return is filed for the taxable year under section  
16 6013.

17           “(2) TAXABLE YEAR MUST BE FULL TAXABLE  
18 YEAR.—Except in the case of a taxable year closed  
19 by reason of the death of the taxpayer, no credit  
20 shall be allowable under this section in the case of  
21 a taxable year covering a period of less than 12  
22 months.

23           “(3) COORDINATION WITH CERTAIN MEANS-  
24 TESTED PROGRAMS.—For purposes of—

1           “(A) the United States Housing Act of  
2           1937,

3           “(B) title V of the Housing Act of 1949,

4           “(C) section 101 of the Housing and  
5           Urban Development Act of 1965,

6           “(D) sections 221(d)(3), 235, and 236 of  
7           the National Housing Act, and

8           “(E) the Food and Nutrition Act of 2008,  
9           any refund made to an individual (or the spouse of  
10          an individual) by reason of this section, and any  
11          payment made to such individual (or such spouse)  
12          by an employer under section 3507, shall not be  
13          treated as income (and shall not be taken into ac-  
14          count in determining resources for the month of its  
15          receipt and the following month).

16          “(4) COORDINATION WITH PAYROLL TAX CRED-  
17          ITS.—The credit allowed under subsection (a) with  
18          respect to any taxpayer for any taxable year shall be  
19          reduced by the sum of the credits allowed under sec-  
20          tions 3103 and 3203 with respect to such taxpayer  
21          for such taxable year.

22          “(g) APPLICATION TO CERTAIN INDIVIDUALS WITH-  
23          OUT QUALIFYING CHILDREN.—For purposes of this sec-  
24          tion and sections 3103 and 3203—

1           “(1) IN GENERAL.—In the case of an individual  
2 described in paragraph (2)—

3           “(A) such individual shall be treated as an  
4 eligible individual,

5           “(B) notwithstanding subsection (i), the  
6 dollar limitation applicable to such individual  
7 under subsection (b)(1) shall be \$100 (twice  
8 such amount in the case of a joint return),

9           “(C) subsection (b)(2)(A) shall be applied  
10 by substituting ‘\$8,000 (\$13,000’ for ‘\$20,000  
11 (\$27,000’, and

12           “(D) subsection (i)(1) shall not apply and  
13 the employment-related taxes with respect to  
14 such individual for any taxable year shall not  
15 exceed the sum of—

16           “(i) any tax imposed under section  
17 3101 on the wages (as defined in section  
18 3121(a)) received by the taxpayer during  
19 the calendar year in which the taxable year  
20 begins,

21           “(ii) any tax imposed under sections  
22 3201(a) (and so much of the tax imposed  
23 by section 3211(a) as is attributable to the  
24 rates of tax under subsections (a) and (b)  
25 of section 3101) on the compensation (as

1 defined in section 3231(e)) received by the  
2 taxpayer during the calendar year in which  
3 the taxable year begins, and

4 “(iii) 50 percent of any tax imposed  
5 under section 1401 on the self-employment  
6 income of the taxpayer for the taxable  
7 year.

8 “(2) INDIVIDUAL TO WHOM SUBSECTION AP-  
9 PLIES.—An individual is described in this paragraph  
10 for any taxable year if—

11 “(A) such individual does not have a quali-  
12 fying child for the taxable year,

13 “(B) such individual’s principal place of  
14 abode is in the United States for more than  
15 one-half of such taxable year,

16 “(C) such individual (or, if the individual  
17 is married (within the meaning of section  
18 7703), either the individual or the individual’s  
19 spouse) has attained age 25 but not attained  
20 age 65 before the close of the taxable year, and

21 “(D) such individual is not a dependent of  
22 another taxpayer for any taxable year beginning  
23 in the same calendar year as such taxable year.

24 “(h) INFLATION ADJUSTMENT.—In the case of any  
25 taxable year beginning after 2014, both dollar amounts

1 in subsection (b)(1)(A), the dollar amount in subsection  
2 (b)(1)(B), both dollar amounts in subsection (b)(2)(A),  
3 the dollar amount in subsection (b)(2)(B), the \$100  
4 amount in subsection (g)(1)(B), the \$8,000 and \$13,000  
5 amounts in subsection (g)(1)(C), the \$4,000 amount in  
6 subsection (i)(2), and the \$3,000 amount in subsection  
7 (i)(3), shall each be increased by an amount equal to—

8           “(1) such dollar amount, multiplied by

9           “(2) the cost-of-living adjustment determined  
10       under section 1(c)(2)(A) for the calendar year in  
11       which the taxable year begins.

12 If any increase determined under the preceding sentence  
13 is not a multiple of \$100 (\$10 in the case of the \$100  
14 amount in subsection (g)(1)(B)), such increase shall be  
15 rounded to the next lowest multiple of \$100 (\$10 in the  
16 case of the \$100 amount in subsection (g)(1)(B)).

17       “(i) SPECIAL RULES FOR TAXABLE YEARS BEGIN-  
18       NING BEFORE 2018.—In the case of any taxable year be-  
19       ginning before January 1, 2018—

20           “(1) subsection (a) shall be applied by sub-  
21       stituting ‘200 percent of the taxpayer’s employment-  
22       related taxes’ for ‘the taxpayer’s employment-related  
23       taxes’,



1 “(2) subsection (b)(1)(A) shall be applied by  
2 substituting ‘\$4,000’ for ‘\$3,000 (\$4,000 in the case  
3 of a joint return)’, and

4 “(3) subsection (b)(1)(B) shall be applied by  
5 substituting ‘\$3,000’ for ‘\$2,400’.”.

6 (b) CREDIT ALLOWED AGAINST PAYROLL TAXES.—

7 (1) FICA TAX.—Subchapter A of chapter 21 is  
8 amended by adding at the end the following new sec-  
9 tion:

10 **“SEC. 3103. CREDIT AGAINST TAX.**

11 “(a) IN GENERAL.—In the case of an individual who  
12 is allowed a credit under section 32 (determined without  
13 regard to subsection (f)(4) thereof) for a taxable year,  
14 there shall be allowed as a credit against the tax imposed  
15 by section 3101 with respect to wages received by such  
16 individual during the calendar year ending with or within  
17 such taxable year the lesser of—

18 “(1) the amount of tax so imposed, or

19 “(2) the amount of the credit allowed under  
20 section 32 (as so determined) for such taxable year.

21 “(b) APPLICATION OF CREDIT.—The credit deter-  
22 mined under subsection (a) shall be taken into account  
23 under this title in the same manner as a credit or refund  
24 to which the taxpayer is entitled under section 6413(c)(1).  
25 Such credit shall not be taken into account for purposes

1 of determining any amount deducted and withheld under  
2 section 3102.”.

3           (2) RAILROAD RETIREMENT TAX.—Subchapter  
4       A of chapter 22 is amended by adding at the end  
5       the following new section:

6 **“SEC. 3203. CREDIT AGAINST TAX.**

7       “(a) IN GENERAL.—In the case of an individual who  
8       is allowed a credit under section 32 (determined without  
9       regard to subsection (f)(4) thereof) for a taxable year,  
10      there shall be allowed as a credit against the tax imposed  
11      by section 3201(a) (and so much of the tax imposed by  
12      section 3211(a) as is attributable to the rates of tax under  
13      subsections (a) and (b) of section 3101) with respect to  
14      compensation received by such individual during the cal-  
15      endar year ending with or within such taxable year the  
16      lesser of—

17           “(1) the amount of tax so imposed, or

18           “(2) the excess of—

19               “(A) the amount of the credit allowed  
20               under section 32 (as so determined) for such  
21               taxable year, over

22               “(B) the amount of the credit allowed  
23               under section 3103.

24       “(b) APPLICATION OF CREDIT.—The credit deter-  
25      mined under subsection (a) shall be taken into account

1 under this title in the same manner as a credit or refund  
2 to which the taxpayer is entitled under section 6413(c)(1).  
3 Such credit shall not be taken into account for purposes  
4 of determining any amount deducted and withheld under  
5 section 3202.”.

6 (c) CONFORMING AMENDMENTS.—

7 (1) Section 86(f)(2) is amended by striking  
8 “section 32(c)(2)” and inserting “section 24(d)(2)”.

9 (2) Section 129(e)(2) is amended by striking  
10 “section 32(c)(2)” and inserting “section 24(d)(2)”

11 (3) Section 6051(a)(10) is amended by striking  
12 “for purposes of section 32 (relating to earned in-  
13 come credit)” and inserting “under section  
14 24(d)(2)”.

15 (4) Section 6211(b)(4)(A) is amended by insert-  
16 ing “(determined without regard to subsection (f)(4)  
17 thereof)” after “32”.

18 (5) Section 6213(g)(2)(F) is amended by strik-  
19 ing “taxpayer identification number” and inserting  
20 “Social Security number”.

21 (6) Section 6213(g)(2)(G) is amended by strik-  
22 ing “with respect to” and all that follows and insert-  
23 ing “with respect to the tax imposed under section  
24 1401 (relating to self-employment tax) to the extent  
25 such tax has not been paid,”.

1           (7) Section 6213(g)(2)(K) is amended by strik-  
2           ing “section 32(k)(2)” and inserting “section  
3           32(e)(2)”.

4           (8) Section 7705(f)(6)(B), as redesignated by  
5           this Act, is amended by striking clause (iv), by strik-  
6           ing “, and” at the end of clause (iii) and inserting  
7           a period, and by inserting “and” at the end of  
8           clause (ii).

9           (9) The table of sections for subchapter A of  
10          chapter 21 is amended by adding at the end the fol-  
11          lowing new item:

“Sec. 3103. Credit against tax.”.

12          (10) The table of sections for subchapter A of  
13          chapter 22 is amended by adding at the end the fol-  
14          lowing new item:

“Sec. 3203. Credit against tax.”.

15          (d) EFFECTIVE DATE.—The amendments made by  
16          this section shall apply to taxable years beginning after  
17          December 31, 2014.

18          (e) TREATMENT OF TAXPAYERS WHO IMPROPERLY  
19          CLAIMED CREDIT IN PRIOR YEARS.—A claim of credit  
20          under section 32 of the Internal Revenue Code of 1986  
21          (as in effect before the amendments made by this section)  
22          shall not fail to be taken into account under subsection  
23          (e) of such section (as amended by this section) merely

1 because such claim is for a taxable year beginning before  
2 January 1, 2015.

3 (f) TREASURY REPORT ON MAKING CREDIT  
4 ADVANCEABLE.—Not later than the date which is 180  
5 days after the date of the enactment of this Act, the Sec-  
6 retary of the Treasury (or the Secretary’s designee) shall  
7 submit a report to Congress making recommendations re-  
8 garding the best method for providing for advance pay-  
9 ment of the credits established by the amendments made  
10 by this section. The recommendations in such report shall  
11 seek to—

12 (1) provide for the payment of such credits to  
13 taxpayers as promptly as is feasible, including on a  
14 weekly, biweekly, or monthly basis, and

15 (2) minimize any administrative burdens on em-  
16 ployers and the Internal Revenue Service.

17 **SEC. 1104. REPEAL OF DEDUCTION FOR PERSONAL EXEMP-**  
18 **TIONS.**

19 (a) IN GENERAL.—Part V of subchapter B of chapter  
20 1 is hereby repealed.

21 (b) DEFINITION OF DEPENDENT RETAINED.—

22 (1) IN GENERAL.—Section 152, prior to repeal  
23 by subsection (a), is hereby redesignated as section  
24 7705 and moved to the end of chapter 79.

1           (2) MODIFICATION OF AGE REQUIREMENTS.—  
2           Section 7705(c)(3)(A), as redesignated by paragraph  
3           (1), is amended by striking “as a qualifying child  
4           and—” and all that follows and inserting “is a  
5           qualifying child and has not attained the age of 18  
6           as of the close of the calendar year in which the tax-  
7           able year of the taxpayer begins.”.

8           (c) APPLICATION TO ESTATES AND TRUSTS.—Sub-  
9           section (b) of section 642 is amended—

10           (1) by striking paragraph (2)(C),

11           (2) by striking paragraph (3), and

12           (3) by striking “DEDUCTION FOR PERSONAL  
13           EXEMPTION” in the heading thereof and inserting  
14           “BASIC DEDUCTION”.

15           (d) APPLICATION TO NONRESIDENT ALIENS.—Sec-  
16           tion 873(b) is amended by striking paragraph (3).

17           (e) MODIFICATION OF WAGE WITHHOLDING  
18           RULES.—

19           (1) IN GENERAL.—Section 3402(a)(2) is  
20           amended by striking “the amount of one personal  
21           exemption provided in section 151(b)” and inserting  
22           “\$3,900”.

23           (2) INFLATION ADJUSTMENT.—Section 3402(a)  
24           is amended by adding at the end the following new  
25           paragraph:

1           “(3) INFLATION ADJUSTMENT.—In the case of  
2 any calendar year beginning after 2014, the \$3,900  
3 amount in paragraph (2) shall be increased by an  
4 amount equal to—

5                   “(A) such dollar amount, multiplied by

6                   “(B) the cost-of-living adjustment deter-  
7 mined under section 1(c)(2)(A) for such cal-  
8 endar year.

9 If any increase determined under the preceding sen-  
10 tence is not a multiple of \$100, such increase shall  
11 be rounded to the next lowest multiple of \$100.”.

12           (3) NUMBER OF EXEMPTIONS.—Section  
13 3402(f)(1) is amended—

14                   (A) in subparagraph (A), by striking “an  
15 individual described in section 151(d)(2)” and  
16 inserting “a dependent of any other taxpayer”,  
17 and

18                   (B) in subparagraph (C), by striking “with  
19 respect to whom, on the basis of facts existing  
20 at the beginning of such day, there may reason-  
21 ably be expected to be allowable an exemption  
22 under section 151(c)” and inserting “who, on  
23 the basis of facts existing at the beginning of  
24 such day, is reasonably expected to be a de-  
25 pendent of the employee”.

1 (f) MODIFICATION OF RETURN REQUIREMENT.—

2 (1) IN GENERAL.—Paragraph (1) of section  
3 6012(a) is amended to read as follows:

4 “(1) Every individual who has gross income for  
5 the taxable year, except that a return shall not be  
6 required of—

7 “(A) an individual who is not married (de-  
8 termined by applying section 7703) and who  
9 has gross income for the taxable year which  
10 does not exceed the standard deduction applica-  
11 ble to such individual for such taxable year  
12 under section 63, or

13 “(B) an individual entitled to make a joint  
14 return if—

15 “(i) the gross income of such indi-  
16 vidual, when combined with the gross in-  
17 come of such individual’s spouse, for the  
18 taxable year does not exceed the standard  
19 deduction which would be applicable to the  
20 taxpayer for such taxable year under sec-  
21 tion 63 if such individual and such individ-  
22 ual’s spouse made a joint return,

23 “(ii) such individual and such individ-  
24 ual’s spouse have the same household as  
25 their home at the close of the taxable year,



1                   “(iii) such individual’s spouse does not  
2                   make a separate return, and

3                   “(iv) neither such individual nor such  
4                   individual’s spouse is an individual de-  
5                   scribed in section 63(c)(4) who has income  
6                   (other than earned income) in excess of the  
7                   amount in effect under section  
8                   63(c)(4)(A).”.

9                   (2) BANKRUPTCY ESTATES.—Paragraph (8) of  
10                  section 6012(a) is amended by striking “the sum of  
11                  the exemption amount plus the basic standard de-  
12                  duction under section 63(c)(2)(D)” and inserting  
13                  “the standard deduction in effect under section  
14                  63(c)(1)(B)”.

15                  (g) CONFORMING AMENDMENTS.—

16                  (1) Section 2(a)(1)(B) is amended by striking  
17                  “a dependent” and all that follows through “section  
18                  151” and inserting “a dependent who (within the  
19                  meaning of section 7705, determined without regard  
20                  to subsections (b)(1), (b)(2) and (d)(1)(B) thereof)  
21                  is a son, stepson, daughter, or stepdaughter of the  
22                  taxpayer”.

23                  (2) Section 36B(b)(2)(A) is amended by strik-  
24                  ing “section 152” and inserting “section 7705”.

1           (3) Section 36B(b)(3)(B) is amended by strik-  
2           ing “unless a deduction is allowed under section 151  
3           for the taxable year with respect to a dependent” in  
4           the flush matter at the end and inserting “unless  
5           the taxpayer has a dependent for the taxable year”.

6           (4) Section 36B(c)(1)(D) is amended by strik-  
7           ing “with respect to whom a deduction under section  
8           151 is allowable to another taxpayer” and inserting  
9           “who is a dependent of another taxpayer”.

10          (5) Section 36B(d)(1) is amended by striking  
11          “equal to the number of individuals for whom the  
12          taxpayer is allowed a deduction under section 151  
13          (relating to allowance of deduction for personal ex-  
14          emptions) for the taxable year” and inserting “the  
15          sum of 1 (2 in the case of a joint return) plus the  
16          number of the taxpayer’s dependents for the taxable  
17          year”.

18          (6) Section 36B(e)(1) is amended by striking  
19          “1 or more individuals for whom a taxpayer is al-  
20          lowed a deduction under section 151 (relating to al-  
21          lowance of deduction for personal exemptions) for  
22          the taxable year (including the taxpayer or his  
23          spouse)” and inserting “1 or more of the taxpayer,  
24          the taxpayer’s spouse, or any dependent of the tax-  
25          payer”.

1 (7) Section 42(i)(3)(D)(ii)(I) is amended—

2 (A) by striking “section 152” and insert-  
3 ing “section 7705”, and

4 (B) by striking the period at the end and  
5 inserting a comma.

6 (8) Section 63(b) is amended by striking  
7 “minus—” and all that follows and inserting “minus  
8 the standard deduction.”.

9 (9) Section 63(d) is amended by striking “other  
10 than—” and all that follows and inserting “other  
11 than the deductions allowable in arriving at adjusted  
12 gross income.”.

13 (10) Section 72(t)(2)(D)(i)(III) is amended by  
14 striking “section 152” and inserting “section 7705”.

15 (11) Section 72(t)(7)(A)(iii) is amended by  
16 striking “section 152(f)(1)” and inserting “section  
17 7705(f)(1)”.

18 (12) Section 105(b) is amended—

19 (A) by striking “as defined in section 152”  
20 and inserting “as defined in section 7705”,

21 (B) by striking “section 152(f)(1)” and in-  
22 sserting “section 7705(f)(1)” and

23 (C) by striking “section 152(e)” and in-  
24 sserting “section 7705(e)”.

1           (13) Section 105(c)(1) is amended by striking  
2 “section 152” and inserting “section 7705”.

3           (14) Section 125(e)(1)(D) is amended by strik-  
4 ing “section 152” and inserting “section 7705”.

5           (15) Section 129(c) is amended—

6                 (A) by striking “with respect to whom, for  
7 such taxable year, a deduction is allowable  
8 under section 151(e) (relating to personal ex-  
9 emptions for dependents) to” in paragraph (1)  
10 and inserting “who is a dependent of”, and

11                 (B) by striking “section 152(f)(1)” in  
12 paragraph (2) and inserting “section  
13 7705(f)(1)”.

14           (16) Section 132(h)(2)(B) is amended—

15                 (A) by striking “section 152(f)(1)” and in-  
16 serting “section 7705(f)(1)”, and

17                 (B) by striking “section 152(e)” and in-  
18 serting “section 7705(e)”.

19           (17) Section 139D(e)(5) is amended by striking  
20 “section 152” and inserting “section 7705”.

21           (18) Section 162(l)(1)(D) is amended by strik-  
22 ing “section 152(f)(1)” and inserting “section  
23 7705(f)(1)”.

24           (19) Section 170(g)(1) is amended by striking  
25 “section 152” and inserting “section 7705”.

1           (20) Section 170(g)(3) is amended by striking  
2           “section 152(d)(2)” and inserting “section  
3           7705(d)(2)”.

4           (21) Section 172(d) is amended by striking  
5           paragraph (3).

6           (22) Section 220(b)(6) is amended by striking  
7           “with respect to whom a deduction under section  
8           151 is allowable to” and inserting “who is a depend-  
9           ent of”.

10           (23) Section 220(d)(2)(A) is amended by strik-  
11           ing “section 152” and inserting “section 7705”.

12           (24) Section 223(b)(6) is amended by striking  
13           “with respect to whom a deduction under section  
14           151 is allowable to” and inserting “who is a depend-  
15           ent of”.

16           (25) Section 223(d)(2)(A) is amended by strik-  
17           ing “section 152” and inserting “section 7705”.

18           (26) Section 401(h) is amended by striking  
19           “section 152(f)(1)” in the last sentence and insert-  
20           ing “section 7705(f)(1)”.

21           (27) Section 402(l)(4)(D) is amended by strik-  
22           ing “section 152” and inserting “section 7705”.

23           (28) Section 409A(a)(2)(B)(ii)(I) is amended  
24           by striking “section 152(a)” and inserting “section  
25           7705(a)”.

1           (29) Section 501(c)(9) is amended by striking  
2           “section 152(f)(1)” and inserting “section  
3           7705(f)(1)”.

4           (30) Section 529(e)(2)(B) is amended by strik-  
5           ing “section 152(d)(2)” and inserting “section  
6           7705(d)(2)”.

7           (31) Section 703(a)(2) is amended by striking  
8           subparagraph (A) and by redesignating subpara-  
9           graphs (B) through (F) as subparagraphs (A)  
10          through (E), respectively.

11          (32) Section 874 is amended by striking sub-  
12          section (b) and by redesignating subsection (c) as  
13          subsection (b).

14          (33) Section 891 is amended by striking “under  
15          section 151 and”.

16          (34) Section 904(b) is amended by striking  
17          paragraph (1).

18          (35) Section 931(b)(1) is amended by striking  
19          “(other than the deduction under section 151, relat-  
20          ing to personal exemptions)”.

21          (36) Section 933 is amended—

22                 (A) by striking “(other than the deduction  
23                 under section 151, relating to personal exemp-  
24                 tions)” in paragraph (1), and

1 (B) by striking “(other than the deduction  
2 for personal exemptions under section 151)” in  
3 paragraph (2).

4 (37) Section 1212(b)(2)(B)(ii) is amended to  
5 read as follows:

6 “(ii) in the case of an estate or trust,  
7 the deduction allowed for such year under  
8 section 642(b).”.

9 (38) Section 1361(c)(1)(C) is amended by strik-  
10 ing “section 152(f)(1)(C)” and inserting “section  
11 7705(f)(1)(C)”.

12 (39) Section 1402(a) is amended by striking  
13 paragraph (7).

14 (40) Section 2032A(c)(7)(D) is amended by  
15 striking “section 152(f)(2)” and inserting “section  
16 7705(f)(2)”.

17 (41) Section 3402(m)(1) is amended by striking  
18 “other than the deductions referred to in section  
19 151 and”.

20 (42) Section 3402(r)(2) is amended by striking  
21 “the sum of—” and all that follows and inserting  
22 “the standard deduction in effect under section  
23 63(c)(1)(B).”.

24 (43) Section 5000A(b)(3)(A) is amended by  
25 striking “section 152” and inserting “section 7705”.

1           (44) Section 5000A(c)(4)(A) is amended by  
2 striking “the number of individuals for whom the  
3 taxpayer is allowed a deduction under section 151  
4 (relating to allowance of deduction for personal ex-  
5 emptions) for the taxable year” and inserting “the  
6 sum of 1 (2 in the case of a joint return) plus the  
7 number of the taxpayer’s dependents for the taxable  
8 year”.

9           (45) Section 6013(b)(3)(A) is amended—

10           (A) by striking “had less than the exemp-  
11 tion amount of gross income” in clause (ii) and  
12 inserting “had no gross income”,

13           (B) by striking “had gross income of the  
14 exemption amount or more” in clause (iii) and  
15 inserting “had any gross income”, and

16           (C) by striking the flush language fol-  
17 lowing clause (iii).

18           (46) Section 6103(l)(21)(A)(iii) is amended to  
19 read as follows:

20           “(iii) the number of the taxpayer’s de-  
21 pendents,”.

22           (47) Section 6213(g)(2) is amended by striking  
23 subparagraph (H).

24           (48) Section 6334(d)(2) is amended to read as  
25 follows:



1 “(2) EXEMPT AMOUNT.—

2 “(A) IN GENERAL.—For purposes of para-  
3 graph (1), the term ‘exempt amount’ means an  
4 amount equal to—

5 “(i) the sum of the standard deduc-  
6 tion and the personal exemption amount,  
7 divided by

8 “(ii) 52.

9 “(B) PERSONAL EXEMPTION AMOUNT.—  
10 For purposes of subparagraph (A), the personal  
11 exemption amount is \$3,900 multiplied by the  
12 number of the taxpayer’s dependents for the  
13 taxable year in which the levy occurs.

14 “(C) INFLATION ADJUSTMENT.—In the  
15 case of any taxable year beginning after 2014,  
16 the \$3,900 amount in subparagraph (B) shall  
17 be increased by an amount equal to—

18 “(i) such dollar amount, multiplied by

19 “(ii) the cost-of-living adjustment de-  
20 termined under section 1(c)(2)(A) for the  
21 calendar year in which the taxable year be-  
22 gins.

23 If any increase determined under the preceding  
24 sentence is not a multiple of \$100, such in-

1           crease shall be rounded to the next lowest mul-  
2           tiple of \$100.

3           “(D) VERIFIED STATEMENT.—Unless the  
4           taxpayer submits to the Secretary a written and  
5           properly verified statement specifying the facts  
6           necessary to determine the proper amount  
7           under subparagraph (A), subparagraph (A)  
8           shall be applied as if the taxpayer were a mar-  
9           ried individual filing a separate return with no  
10          dependents.”.

11          (49) Section 7702B(f)(2)(C)(iii) is amended by  
12          striking “section 152(d)(2)” and inserting “section  
13          7705(d)(2)”.

14          (50) Section 7703(a) is amended by striking  
15          “part V of subchapter B of chapter 1 and”.

16          (51) Section 7703(b)(1) is amended by striking  
17          “section 152(f)(1)” and all that follows and insert-  
18          ing “section 7705(f)(1),”.

19          (52) Section 7705(a), as redesignated by this  
20          section, is amended by striking “this subtitle” and  
21          inserting “subtitle A”.

22          (53)(A) Section 7705(d)(1)(B), as redesignated  
23          by this section, is amended by striking “the exemp-  
24          tion amount (as defined in section 151(d))” and in-  
25          serting “\$3,900”.

1 (B) Section 7705(d), as redesignated by this  
2 section, is amended by adding at the end the fol-  
3 lowing new paragraph:

4 “(6) INFLATION ADJUSTMENT.—In the case of  
5 any calendar year beginning after 2014, the \$3,900  
6 amount in paragraph (1)(B) shall be increased by an  
7 amount equal to—

8 “(A) such dollar amount, multiplied by

9 “(B) the cost-of-living adjustment deter-  
10 mined under section 1(c)(2)(A) for such cal-  
11 endar year.

12 If any increase determined under the preceding sen-  
13 tence is not a multiple of \$100, such increase shall  
14 be rounded to the next lowest multiple of \$100.”.

15 (54) The table of sections for chapter 79 is  
16 amended by adding at the end the following new  
17 item:

“Sec. 7705. Dependent defined.”.

18 (h) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply to taxable years beginning after  
20 December 31, 2014.

## 21 **Subtitle C—Simplification of** 22 **Education Incentives**

### 23 **SEC. 1201. AMERICAN OPPORTUNITY TAX CREDIT.**

24 (a) IN GENERAL.—Section 25A is amended to read  
25 as follows:

1 **“SEC. 25A. AMERICAN OPPORTUNITY TAX CREDIT.**

2       “(a) IN GENERAL.—In the case of an individual,  
3 there shall be allowed as a credit against the tax imposed  
4 by this chapter for the taxable year an amount equal to  
5 the sum of—

6               “(1) 100 percent of so much of the qualified  
7 tuition and related expenses paid by the taxpayer  
8 during the taxable year (for education furnished to  
9 any eligible student for whom an election is in effect  
10 under this section for such taxable year during any  
11 academic period beginning in such taxable year) as  
12 does not exceed \$2,000, plus

13               “(2) 25 percent of so much of such expenses so  
14 paid as exceeds the dollar amount in effect under  
15 paragraph (1) but does not exceed twice such dollar  
16 amount.

17       “(b) PORTION OF CREDIT REFUNDABLE.—So much  
18 of the credit allowable under subsection (a) (determined  
19 without regard to this subsection and section 26(a) and  
20 after application of all other provisions of this section) as  
21 does not exceed \$1,500 shall be treated as a credit allow-  
22 able under subpart C (and not under this part). The pre-  
23 ceding sentence shall not apply to any taxpayer for any  
24 taxable year if such taxpayer is a child to whom section  
25 1(d) applies for such taxable year.

1       “(c) LIMITATION BASED ON MODIFIED ADJUSTED  
2 GROSS INCOME.—

3           “(1) IN GENERAL.—The amount allowable as a  
4 credit under subsection (a) for any taxable year shall  
5 be reduced (but not below zero) by an amount which  
6 bears the same ratio to the amount so allowable (de-  
7 termined without regard to this subsection and sub-  
8 section (b) but after application of all other provi-  
9 sions of this section) as—

10           “(A) the excess of—

11           “(i) the taxpayer’s modified adjusted  
12 gross income for such taxable year, over

13           “(ii) \$43,000 (twice such amount in  
14 the case of a joint return), bears to

15           “(B) \$20,000 (twice such amount in the  
16 case of a joint return).

17       “(2) MODIFIED ADJUSTED GROSS INCOME.—

18 For purposes of this subsection, the term ‘modified  
19 adjusted gross income’ means the adjusted gross in-  
20 come of the taxpayer for the taxable year increased  
21 by any amount excluded from gross income under  
22 section 911, 931, or 933.

23       “(d) OTHER LIMITATIONS.—

24           “(1) CREDIT ALLOWED ONLY FOR 4 TAXABLE  
25 YEARS.—An election to have this section apply may

1 not be made for any taxable year if such an election  
2 (by the taxpayer or any other individual) is in effect  
3 with respect to such student for any 4 prior taxable  
4 years.

5 “(2) CREDIT ALLOWED ONLY FOR FIRST 4  
6 YEARS OF POSTSECONDARY EDUCATION.—No credit  
7 shall be allowed under subsection (a) for a taxable  
8 year with respect to the qualified tuition and related  
9 expenses of an eligible student if the student has  
10 completed (before the beginning of such taxable  
11 year) the first 4 years of postsecondary education at  
12 an eligible educational institution.

13 “(e) DEFINITIONS.—For purposes of this section—

14 “(1) ELIGIBLE STUDENT.—The term ‘eligible  
15 student’ means, with respect to any academic period,  
16 a student who—

17 “(A) meets the requirements of section  
18 484(a)(1) of the Higher Education Act of 1965  
19 (20 U.S.C. 1091(a)(1)), as in effect on August  
20 5, 1997, and

21 “(B) is carrying at least  $\frac{1}{2}$  the normal  
22 full-time work load for the course of study the  
23 student is pursuing.

24 “(2) QUALIFIED TUITION AND RELATED EX-  
25 PENSES.—

1           “(A) IN GENERAL.—The term ‘qualified  
2           tuition and related expenses’ means tuition,  
3           fees, and course materials, required for enroll-  
4           ment or attendance of—

5                     “(i) the taxpayer,

6                     “(ii) the taxpayer’s spouse, or

7                     “(iii) any dependent of the taxpayer,  
8           at an eligible educational institution for courses  
9           of instruction of such individual at such institu-  
10          tion.

11           “(B) EXCEPTION FOR EDUCATION INVOLV-  
12          ING SPORTS, ETC.—Such term does not include  
13          expenses with respect to any course or other  
14          education involving sports, games, or hobbies,  
15          unless such course or other education is part of  
16          the individual’s degree program.

17           “(C) EXCEPTION FOR NONACADEMIC  
18          FEES.—Such term does not include student ac-  
19          tivity fees, athletic fees, insurance expenses, or  
20          other expenses unrelated to an individual’s aca-  
21          demic course of instruction.

22           “(3) ELIGIBLE EDUCATIONAL INSTITUTION.—  
23          The term ‘eligible educational institution’ means an  
24          institution—

1           “(A) which is described in section 481 of  
2           the Higher Education Act of 1965 (20 U.S.C.  
3           1088), as in effect on August 5, 1997, and

4           “(B) which is eligible to participate in a  
5           program under title IV of such Act.

6           “(f) SPECIAL RULES.—

7           “(1) IDENTIFICATION REQUIREMENT.—No  
8           credit shall be allowed under subsection (a) to a tax-  
9           payer with respect to the qualified tuition and re-  
10          lated expenses of an individual unless the taxpayer  
11          includes the name and taxpayer identification num-  
12          ber of such individual, and the employer identifica-  
13          tion number of any institution to which such ex-  
14          penses were paid, on the return of tax for the tax-  
15          able year.

16          “(2) ADJUSTMENT FOR CERTAIN SCHOLAR-  
17          SHIPS, ETC.—

18                 “(A) IN GENERAL.—The amount of quali-  
19                 fied tuition and related expenses otherwise  
20                 taken into account under subsection (a) with re-  
21                 spect to an individual for an academic period  
22                 shall be reduced (before the application of sub-  
23                 section (c)) by the sum of any amounts paid for  
24                 the benefit of such individual which are allo-  
25                 cable to such period as—



1           “(i) a qualified scholarship which is  
2           excludable from gross income under section  
3           117,

4           “(ii) an educational assistance allow-  
5           ance under chapter 30, 31, 32, 34, or 35  
6           of title 38, United States Code, or under  
7           chapter 1606 of title 10, United States  
8           Code, and

9           “(iii) a payment (other than a gift,  
10          bequest, devise, or inheritance within the  
11          meaning of section 102(a)) for such indi-  
12          vidual’s educational expenses, or attrib-  
13          utable to such individual’s enrollment at an  
14          eligible educational institution, which is ex-  
15          cludable from gross income under any law  
16          of the United States.

17          “(B) COORDINATION WITH PELL GRANTS  
18          NOT USED FOR QUALIFIED TUITION AND RE-  
19          LATED EXPENSES.—For purposes of subpara-  
20          graph (A), the amount of any Federal Pell  
21          Grant under section 401 of the Higher Edu-  
22          cation Act of 1965 (20 U.S.C. 1070a) shall be  
23          reduced (but not below zero) by the amount of  
24          expenses (other than qualified tuition and re-  
25          lated expenses) which are taken into account in

1 determining the cost of attendance (as defined  
2 in section 472 of the Higher Education Act of  
3 1965, as in effect on the date of the enactment  
4 of this paragraph) of such individual at an eligi-  
5 ble educational institution for the academic pe-  
6 riod for which the credit under this section is  
7 being determined.

8 “(3) TREATMENT OF EXPENSES PAID BY DE-  
9 PENDENT.—If an individual is a dependent of an-  
10 other taxpayer for a taxable year beginning in the  
11 calendar year in which such individuals taxable year  
12 begins—

13 “(A) no credit shall be allowed under sub-  
14 section (a) to such individual for such individ-  
15 ual’s taxable year, and

16 “(B) qualified tuition and related expenses  
17 paid by such individual during such individual’s  
18 taxable year shall be treated for purposes of  
19 this section as paid by such other taxpayer.

20 “(4) TREATMENT OF CERTAIN PREPAY-  
21 MENTS.—If qualified tuition and related expenses  
22 are paid by the taxpayer during a taxable year for  
23 an academic period which begins during the first 3  
24 months following such taxable year, such academic

1 period shall be treated for purposes of this section  
2 as beginning during such taxable year.

3 “(5) DENIAL OF DOUBLE BENEFIT.—No credit  
4 shall be allowed under this section for any amount  
5 for which a deduction is allowed under any other  
6 provision of this chapter.

7 “(6) NO CREDIT FOR MARRIED INDIVIDUALS  
8 FILING SEPARATE RETURNS.—If the taxpayer is a  
9 married individual (within the meaning of section  
10 7703), this section shall apply only if the taxpayer  
11 and the taxpayer’s spouse file a joint return for the  
12 taxable year.

13 “(7) NONRESIDENT ALIENS.—If the taxpayer is  
14 a nonresident alien individual for any portion of the  
15 taxable year, this section shall apply only if such in-  
16 dividual is treated as a resident alien of the United  
17 States for purposes of this chapter by reason of an  
18 election under subsection (g) or (h) of section 6013.

19 “(g) INFLATION ADJUSTMENT.—

20 “(1) IN GENERAL.—In the case of a taxable  
21 year beginning after 2018, the \$2,000 amount in  
22 subsection (a)(1), the \$1,500 amount in subsection  
23 (b), and the \$43,000 amount in subsection  
24 (c)(1)(A)(ii) shall each be increased by an amount  
25 equal to—

1 “(A) such dollar amount, multiplied by

2 “(B) the cost-of-living adjustment deter-  
3 mined under section 1(c)(2)(A) for the calendar  
4 year in which the taxable year begins, deter-  
5 mined by substituting ‘calendar year 2017’ for  
6 ‘calendar year 2012’ in clause (ii) thereof.

7 “(2) ROUNDING.—If any amount as adjusted  
8 under paragraph (1) is not a multiple of \$100  
9 (\$1,000 in the case of the amount in subsection  
10 (c)(1)(A)(ii)), such amount shall be rounded to the  
11 next lowest multiple of \$100 (\$1,000 in the case of  
12 the amount in subsection (c)(1)(A)(ii)).

13 “(h) REGULATIONS.—The Secretary may prescribe  
14 such regulations or other guidance as may be necessary  
15 or appropriate to carry out this section, including regula-  
16 tions providing for a recapture of the credit allowed under  
17 this section in cases where there is a refund in a subse-  
18 quent taxable year of any amount which was taken into  
19 account in determining the amount of such credit.”.

20 (b) REQUIREMENT TO REPORT TUITION PAID RATH-  
21 ER THAN TUITION BILLED.—Section 6050S(b)(2)(B)(i)  
22 is amended by striking “or the aggregate amount billed”.

23 (c) CONFORMING AMENDMENTS.—

1           (1) Section 72(t)(7)(B) of such Code is amend-  
2           ed by striking “section 25A(g)(2)” and inserting  
3           “section 25A(f)(2)”.

4           (2) Section 529(c)(3)(B)(v)(I) of such Code is  
5           amended by striking “section 25A(g)(2)” and insert-  
6           ing “section 25A(f)(2)”.

7           (3) Section 529(e)(3)(B)(i) of such Code is  
8           amended by striking “section 25A(b)(3)” and insert-  
9           ing “section 25A(d)”.

10          (4) Section 530(d)(2)(C) of such Code is  
11          amended—

12                 (A) by striking “section 25A(g)(2)” in  
13                 clause (i)(I) and inserting “section 25A(f)(2)”,  
14                 and

15                 (B) by striking “HOPE AND LIFETIME  
16                 LEARNING CREDITS” in the heading and insert-  
17                 ing “AMERICAN OPPORTUNITY TAX CREDIT”.

18          (5) Section 530(d)(4)(B)(iii) of such Code is  
19          amended by striking “section 25A(g)(2)” and insert-  
20          ing “section 25A(d)(4)(B)”.

21          (6) Section 6050S(e) of such Code is amended  
22          by striking “subsection (g)(2)” and inserting “sub-  
23          section (f)(2)”.

1           (7) Section 6211(b)(4)(A) of such Code is  
2 amended by striking “subsection (i)(6)” and insert-  
3 ing “subsection (b)”.

4           (8) Section 6213(g)(2)(J) of such Code is  
5 amended by striking “TIN required under section  
6 25A(g)(1)” and inserting “TIN, and employer iden-  
7 tification number, required under section  
8 25A(f)(1)”.

9           (9) Section 1004(c) of division B of the Amer-  
10 ican Recovery and Reinvestment Tax Act of 2009 is  
11 amended—

12                   (A) in paragraph (1)—

13                           (i) by striking “section 25A(i)(6)”  
14 each place it appears and inserting “sec-  
15 tion 25A(b)”, and

16                           (ii) by striking “with respect to tax-  
17 able years beginning after 2008 and before  
18 2018” each place it appears and inserting  
19 “with respect to each taxable year”,

20                   (B) in paragraph (2), by striking “Section  
21 25A(i)(6)” and inserting “Section 25A(b)”, and

22                   (C) in paragraph (3)(C), by striking “sub-  
23 section (i)(6)” and inserting “subsection (b)”.

24           (10) The table of sections for subpart A of part  
25 IV of subchapter A of chapter 1 of the Internal Rev-

1 enue Code of 1986 is amended by striking the item  
2 relating to section 25A and inserting the following  
3 new item:

“Sec. 25A. American opportunity tax credit.”.

4 (d) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to taxable years beginning after  
6 December 31, 2014.

7 **SEC. 1202. EXPANSION OF PELL GRANT EXCLUSION FROM**  
8 **GROSS INCOME.**

9 (a) IN GENERAL.—Paragraph (1) of section 117(b)  
10 of the Internal Revenue Code of 1986 is amended—

11 (1) by striking the period at the end and insert-  
12 ing “, or”,

13 (2) by striking “received by an individual as a  
14 scholarship” and inserting the following: “received  
15 by an individual—

16 “(A) as a scholarship”, and

17 (3) by adding at the end the following new sub-  
18 paragraph:

19 “(B) as a Federal Pell Grant under section  
20 401 of the Higher Education Act of 1965 (20  
21 U.S.C. 1070a).”.

22 (b) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 2014.

1 **SEC. 1203. REPEAL OF EXCLUSION OF INCOME FROM**  
2 **UNITED STATES SAVINGS BONDS USED TO**  
3 **PAY HIGHER EDUCATION TUITION AND FEES.**

4 (a) **IN GENERAL.**—Part III of subchapter B of chap-  
5 ter 1 is amended by striking section 135 (and by striking  
6 the item relating to such section in the table of sections  
7 for such part).

8 (b) **EFFECTIVE DATE.**—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 2014.

11 **SEC. 1204. REPEAL OF DEDUCTION FOR INTEREST ON EDU-**  
12 **CATION LOANS.**

13 (a) **IN GENERAL.**—Part VII of subchapter B of chap-  
14 ter 1 is amended by striking section 221 (and by striking  
15 the item relating to such section in the table of sections  
16 for such part).

17 (b) **CONFORMING AMENDMENT.**—Section 62(a) is  
18 amended by striking paragraph (17).

19 (c) **EFFECTIVE DATE.**—The amendments made by  
20 this section shall apply to taxable years beginning after  
21 December 31, 2014.

22 **SEC. 1205. REPEAL OF DEDUCTION FOR QUALIFIED TUI-**  
23 **TION AND RELATED EXPENSES.**

24 (a) **IN GENERAL.**—Part VII of subchapter B of chap-  
25 ter 1 is amended by striking section 222 (and by striking



1 the item relating to such section in the table of sections  
2 for such part).

3 (b) CONFORMING AMENDMENT.—Section 62(a) is  
4 amended by striking paragraph (18).

5 (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to taxable years beginning after  
7 December 31, 2013.

8 **SEC. 1206. NO NEW CONTRIBUTIONS TO COVERDELL EDU-**  
9 **CATION SAVINGS ACCOUNTS.**

10 (a) IN GENERAL.—Section 530(b)(1)(A) is amended  
11 to read as follows:

12 “(A) Except in the case of rollover con-  
13 tributions, no contribution will be accepted after  
14 December 31, 2014.”.

15 (b) ROLLOVERS TO QUALIFIED TUITION PROGRAMS  
16 PERMITTED.—Section 530(d)(5) is amended by inserting  
17 “, or into (by purchase or contribution) a qualified tuition  
18 program (as defined in section 529),” after “into another  
19 Coverdell education savings account”.

20 (c) EFFECTIVE DATES.—

21 (1) IN GENERAL.—Except as otherwise pro-  
22 vided in this subsection, the amendments made by  
23 this section shall apply to contributions made after  
24 December 31, 2014.

1           (2) ROLLOVERS TO QUALIFIED TUITION PRO-  
2           GRAMS.—The amendments made by subsection (b)  
3           shall apply to distributions after December 31,  
4           2014.

5 **SEC. 1207. REPEAL OF EXCLUSION FOR DISCHARGE OF**  
6           **STUDENT LOAN INDEBTEDNESS.**

7           (a) IN GENERAL.—Section 108 is amended by strik-  
8           ing subsection (f).

9           (b) CONFORMING AMENDMENTS.—

10           (1) Section 3121(a)(20) is amended by striking  
11           “108(f)(4),”.

12           (2) Section 209(a)(17) of the Social Security  
13           Act is amended by striking “108(f)(4),”.

14           (3) Section 3231(e)(5) is amended by striking  
15           “108(f)(4),”.

16           (4) Section 3306(b)(16) is amended by striking  
17           “108(f)(4),”.

18           (5) Section 3401(a)(19) is amended by striking  
19           “108(f)(4),”.

20           (c) EFFECTIVE DATE.—The amendments made by  
21           this section shall apply to amounts discharged after De-  
22           cember 31, 2014.

1 **SEC. 1208. REPEAL OF EXCLUSION FOR QUALIFIED TUI-**  
2 **TION REDUCTIONS.**

3 (a) IN GENERAL.—Section 117 is amended by strik-  
4 ing subsection (d).

5 (b) CONFORMING AMENDMENTS.—

6 (1) Section 117(c)(1) is amended—

7 (A) by striking “subsections (a) and (d)”  
8 and inserting “subsection (a)”, and

9 (B) by striking “or qualified tuition reduc-  
10 tion”.

11 (2) Section 414(n)(3)(C) is amended by strik-  
12 ing “117(d)”.

13 (3) Section 414(t)(2) is amended by striking  
14 “117(d)”.

15 (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to taxable years beginning after  
17 December 31, 2014.

18 **SEC. 1209. REPEAL OF EXCLUSION FOR EDUCATION ASSIST-**  
19 **ANCE PROGRAMS.**

20 (a) IN GENERAL.—Part III of subchapter B of chap-  
21 ter 1 is amended by striking section 127 (and by striking  
22 the item relating to such section in the table of sections  
23 for such part).

24 (b) CONFORMING AMENDMENTS.—

25 (1) Section 125(f)(1) is amended by striking  
26 “127”.

1           (2) Section 132(j)(8) is amended by striking  
2           “which are not excludable from gross income under  
3           section 127”.

4           (3) Section 137(c) is amended to read as fol-  
5           lows:

6           “(c) ADOPTION ASSISTANCE PROGRAM.—

7           “(1) IN GENERAL.—For purposes of this sec-  
8           tion, an adoption assistance program is a separate  
9           written plan of an employer for the exclusive benefit  
10          of such employer’s employees under which the em-  
11          ployer provides such employees with adoption assist-  
12          ance. Except as provided in paragraph (6), such pro-  
13          gram must meet the requirements of paragraphs (2),  
14          (3), and (4).

15          “(2) ELIGIBILITY.—The program shall benefit  
16          employees who qualify under a classification set up  
17          by the employer and found by the Secretary not to  
18          be discriminatory in favor of employees who are  
19          highly compensated employees (within the meaning  
20          of section 414(q)) or their dependents. For purposes  
21          of this paragraph, there shall be excluded from con-  
22          sideration employees not included in the program  
23          who are included in a unit of employees covered by  
24          an agreement which the Secretary of Labor finds to  
25          be a collective bargaining agreement between em-

1        ployee representatives and one or more employers, if  
2        there is evidence that adoption assistance benefits  
3        were the subject of good faith bargaining between  
4        such employee representatives and such employer or  
5        employers.

6            “(3) PRINCIPAL SHAREHOLDERS OR OWNERS.—  
7        Not more than 5 percent of the amounts paid or in-  
8        curred by the employer for adoption assistance dur-  
9        ing the year may be provided for the class of individ-  
10       uals who are shareholders or owners (or their  
11       spouses or dependents), each of whom (on any day  
12       of the year) owns more than 5 percent of the stock  
13       or of the capital or profits interest in the employer.

14           “(4) NOTIFICATION OF EMPLOYEES.—Reason-  
15       able notification of the availability and terms of the  
16       program must be provided to eligible employees.

17           “(5) NO FUNDING REQUIRED.—A program re-  
18       ferred to in paragraph (1) is not required to be  
19       funded.

20           “(6) CERTAIN FEDERAL PROGRAMS.—An adop-  
21       tion reimbursement program operated under section  
22       1052 of title 10, United States Code (relating to  
23       armed forces) or section 514 of title 14, United  
24       States Code (relating to members of the Coast

1 Guard) shall be treated as an adoption assistance  
2 program for purposes of this section.”.

3 (4) Section 414(n)(3)(C) is amended by strik-  
4 ing “127,”.

5 (5) Section 414(t)(2) is amended by striking  
6 “127,”.

7 (6) Section 3121(a)(18) is amended by striking  
8 “127,”.

9 (7) Section 209(a)(15) of the Social Security  
10 Act is amended by striking “127 or”.

11 (8) Section 3231(e) is amended by striking  
12 paragraph (6).

13 (9) Section 3306(b)(13) is amended by striking  
14 “127,”.

15 (10) Section 3401(a)(18) is amended by strik-  
16 ing “127,”.

17 (11) Section 6039D(d)(1) is amended by strik-  
18 ing “127,”.

19 (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to amounts paid or incurred after  
21 December 31, 2014.

22 **SEC. 1210. REPEAL OF EXCEPTION TO 10-PERCENT PEN-**  
23 **ALTY FOR HIGHER EDUCATION EXPENSES.**

24 (a) IN GENERAL.—Section 72(t)(2) is amended by  
25 striking subparagraph (E).

1 (b) CONFORMING AMENDMENT.—Section 72(t) is  
2 amended by striking paragraph (7).

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to distributions after December 31,  
5 2014.

6 **Subtitle D—Repeal of Certain**  
7 **Credits for Individuals**

8 **SEC. 1301. REPEAL OF DEPENDENT CARE CREDIT.**

9 (a) IN GENERAL.—Subpart A of part IV of sub-  
10 chapter A of chapter 1 is amended by striking section 21  
11 (and by striking the item relating to such section in the  
12 table of sections for such subpart).

13 (b) CONFORMING AMENDMENTS.—

14 (1)(A) Section 129(a)(2) is amended by striking  
15 subparagraph (C).

16 (B) Section 129(e) is amended by adding at the  
17 end the following new paragraph:

18 “(10) MARITAL STATUS.—Rules similar to the  
19 rules of subsections (a) and (b) of section 7703 shall  
20 apply for purposes of this section.”.

21 (2) Section 129(e)(1) is amended to read as fol-  
22 lows:

23 “(1) DEPENDENT CARE ASSISTANCE.—

24 “(A) IN GENERAL.—The term ‘dependent  
25 care assistance’ means employment-related ex-

1           penses and the provision of services which con-  
2           stitute employment-related expenses.

3           “(B)       EMPLOYMENT-RELATED       EX-  
4           PENSES.—The term ‘employment-related ex-  
5           penses’ means amounts paid for the following  
6           expenses, but only if such expenses are incurred  
7           to enable the employee to be gainfully employed  
8           for any period for which there are 1 or more  
9           qualifying individuals with respect to the em-  
10          ployee:

11                   “(i) expenses for household services,

12                   and

13                   “(ii) expenses for the care of a quali-  
14                   fying individual.

15          Such term shall not include any amount paid  
16          for services outside the employee’s household at  
17          a camp where the qualifying individual stays  
18          overnight.

19          “(C)       EXCEPTION.—Employment-related  
20          expenses described in subparagraph (A) which  
21          are incurred for services outside the employee’s  
22          household shall be taken into account only if in-  
23          curred for the care of—

24                   “(i) a qualifying individual described  
25                   in subparagraph (D)(i), or



1           “(ii) a qualifying individual (not de-  
2           scribed in subparagraph (D)(i)) who regu-  
3           larly spends at least 8 hours each day in  
4           the employee’s household.

5           “(D) QUALIFYING INDIVIDUAL.—The term  
6           ‘qualifying individual’ means—

7           “(i) a dependent of the taxpayer (as  
8           defined in section 7705(a)(1)) who has not  
9           attained age 13,

10           “(ii) a dependent of the taxpayer (as  
11           defined in section 7705, determined with-  
12           out regard to subsections (b)(1), (b)(2),  
13           and (d)(1)(B)) who is physically or men-  
14           tally incapable of caring for himself or her-  
15           self and who has the same principal place  
16           of abode as the taxpayer for more than  
17           one-half of such taxable year, or

18           “(iii) the spouse of the taxpayer, if  
19           the spouse is physically or mentally incapa-  
20           ble of caring for himself or herself and who  
21           has the same principal place of abode as  
22           the taxpayer for more than one-half of  
23           such taxable year.

24           “(E) DEPENDENT CARE CENTERS.—Em-  
25           ployment-related expenses described in subpara-

1 graph (A) which are incurred for services pro-  
2 vided outside the employee's household by a de-  
3 pendent care center shall be taken into account  
4 only if—

5 “(i) such center complies with all ap-  
6 plicable laws and regulations of a State or  
7 unit of local government, and

8 “(ii) the requirements of subpara-  
9 graph (B) are met.

10 “(F) DEPENDENT CARE CENTER DE-  
11 FINED.—For purposes of this paragraph, the  
12 term ‘dependent care center’ means any facility  
13 which—

14 “(i) provides care for more than six  
15 individuals (other than individuals who re-  
16 side at the facility), and

17 “(ii) receives a fee, payment, or grant  
18 for providing services for any of the indi-  
19 viduals (regardless of whether such facility  
20 is operated for profit).

21 “(G) PLACE OF ABODE.—For purposes of  
22 this paragraph, an individual shall not be treat-  
23 ed as having the same principal place of abode  
24 as the taxpayer if at any time during the tax-  
25 able year of the taxpayer the relationship be-

1           tween the individual and the taxpayer is in vio-  
2           lation of local law.

3           “(H) SPECIAL DEPENDENCY TEST IN CASE  
4           OF DIVORCED PARENTS, ETC.—If—

5                   “(i) section 7705(e) applies to any  
6                   child with respect to any calendar year,  
7                   and

8                   “(ii) such child is under the age of 13  
9                   or is physically or mentally incapable of  
10                  caring for himself, in the case of any tax-  
11                  able year beginning in such calendar year,  
12                  such child shall be treated as a qualifying indi-  
13                  vidual described in clause (i) or (ii) of subpara-  
14                  graph (D) (whichever is appropriate) with re-  
15                  spect to the custodial parent (as defined in sec-  
16                  tion 7705(e)(4)(A)), and shall not be treated as  
17                  a qualifying individual with respect to the non-  
18                  custodial parent.”.

19           (3) Section 6213(g)(2)(L) is amended by strik-  
20           ing “21,”.

21           (c) EFFECTIVE DATE.—The amendments made by  
22           this section shall apply to taxable years beginning after  
23           December 31, 2014.

1 **SEC. 1302. REPEAL OF CREDIT FOR ADOPTION EXPENSES.**

2 (a) IN GENERAL.—Subpart A of part IV of sub-  
3 chapter A of chapter 1 is amended by striking section 23  
4 (and by striking the item relating to such section in the  
5 table of sections for such subpart).

6 (b) CONFORMING AMENDMENTS.—

7 (1) Section 137 is amended by striking sub-  
8 sections (d) and (e).

9 (2) Subsections (d) and (e) of section 23 (prior  
10 to being stricken by subsection (a)) are each moved  
11 to section 137 (after amendment by paragraph (1))  
12 and inserted after subsection (c) as new subsections  
13 (d) and (e), respectively.

14 (3) Section 137(d)(1)(D), as amended by para-  
15 graphs (1) and (2), is amended by inserting “(deter-  
16 mined without regard to reimbursements under this  
17 section)” before the period at the end.

18 (4) Section 137(e), as amended by paragraphs  
19 (1) and (2), is amended by striking “(as defined in  
20 section 217(h)(3))” and inserting “(or any posses-  
21 sion of the United States)”.

22 (5) Section 137 is amended by redesignating  
23 subsection (f) as subsection (h), and by inserting be-  
24 fore subsection (h) (as so redesignated) the following  
25 new subsections:

26 “(f) FILING REQUIREMENTS.—

1           “(1) MARRIED COUPLES MUST FILE JOINT RE-  
2           TURN.—

3           “(A) IN GENERAL.—If the taxpayer is  
4           married at the close of the taxable year, sub-  
5           section (a) shall apply to the taxpayer only if  
6           the taxpayer and the taxpayer’s spouse file a  
7           joint return for the taxable year.

8           “(B) MARITAL STATUS.—Rules similar to  
9           the rules of subsections (a) and (b) of section  
10          7703 shall apply for purposes of this section.

11          “(2) TAXPAYER MUST INCLUDE TIN.—

12          “(A) IN GENERAL.—Subsection (a) shall  
13          apply with respect to any child only if the tax-  
14          payer includes (if known) the name, age, and  
15          TIN of such child on the return of tax for the  
16          taxable year.

17          “(B) OTHER METHODS.—The Secretary  
18          may, in lieu of the information referred to in  
19          subparagraph (A), require other information  
20          meeting the purposes of subparagraph (A), in-  
21          cluding identification of an agent assisting with  
22          the adoption.

23          “(g) BASIS ADJUSTMENTS.—For purposes of this  
24          subtitle, if the amount of any expenditure with respect to  
25          any property is excluded from gross income under this sec-

1 tion, the increase in the basis of such property which  
2 would (but for this subsection) result from such expendi-  
3 ture shall be reduced by the amount of such expenditure  
4 which is so excluded.”.

5 (6) Section 1016(a)(26) is amended by striking  
6 “sections 23(g) and 137(e)” and inserting “section  
7 137(g)”.

8 (c) EFFECTIVE DATE.—

9 (1) IN GENERAL.—The amendments made by  
10 this section shall apply to amounts paid or incurred  
11 after December 31, 2014.

12 (2) SPECIAL NEEDS ADOPTIONS.—For purposes  
13 of paragraph (1), any amount treated as paid by the  
14 taxpayer under section 23(a)(3) of the Internal Rev-  
15 enue Code of 1986 (as in effect before its repeal by  
16 subsection (a)) shall be treated as paid on the date  
17 that the adoption referred to in such section be-  
18 comes final.

19 **SEC. 1303. REPEAL OF CREDIT FOR NONBUSINESS ENERGY**  
20 **PROPERTY.**

21 (a) IN GENERAL.—Subpart A of part IV of sub-  
22 chapter A of chapter 1 is amended by striking section 25C  
23 (and by striking the item relating to such section in the  
24 table of sections of such subpart).

1 (b) CONFORMING AMENDMENT.—Section 1016(a) is  
2 amended by striking paragraph (33).

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to property placed in service after  
5 December 31, 2013.

6 **SEC. 1304. REPEAL OF CREDIT FOR RESIDENTIAL ENERGY**  
7 **EFFICIENT PROPERTY.**

8 (a) IN GENERAL.—Subpart A of part IV of sub-  
9 chapter A of chapter 1 is amended by striking section 25D  
10 (and by striking the item relating to such section in the  
11 table of sections for such subpart).

12 (b) CONFORMING AMENDMENT.—Section 1016(a) is  
13 amended by striking paragraph (34).

14 (c) EFFECTIVE DATE.—The amendment made by  
15 this section shall apply to property placed in service after  
16 December 31, 2014.

17 **SEC. 1305. REPEAL OF CREDIT FOR QUALIFIED ELECTRIC**  
18 **VEHICLES.**

19 (a) IN GENERAL.—Subpart B of part IV of sub-  
20 chapter A of chapter 1 is amended by striking section 30  
21 (and by striking the item relating to such section in the  
22 table of sections of such subpart).

23 (b) CONFORMING AMENDMENTS.—

24 (1) Section 1016(a) is amended by striking  
25 paragraph (25).

1           (2) Section 6501(m) is amended by striking  
2           “section 30(e)(6),”.

3           (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to vehicles acquired after Decem-  
5 ber 31, 2011.

6 **SEC. 1306. REPEAL OF ALTERNATIVE MOTOR VEHICLE**  
7           **CREDIT.**

8           (a) IN GENERAL.—Subpart B of part IV of sub-  
9 chapter A of chapter 1 is amended by striking section 30B  
10 (and by striking the item relating to such section in the  
11 table of sections for such subpart).

12           (b) CONFORMING AMENDMENTS.—

13           (1) Section 38(b) is amended by striking para-  
14 graph (25).

15           (2) Section 1016(a) is amended by striking  
16 paragraph (35).

17           (3) Section 6501(m) is amended by striking  
18 “30B(h)(9),”.

19           (c) EFFECTIVE DATE.—The amendment made by  
20 this section shall apply to property purchased after De-  
21 cember 31, 2014.

22 **SEC. 1307. REPEAL OF ALTERNATIVE FUEL VEHICLE RE-**  
23           **FUELING PROPERTY CREDIT.**

24           (a) IN GENERAL.—Subpart B of part IV of sub-  
25 chapter A of chapter 1 is amended by striking section 30C



1 (and by striking the item relating to such section in the  
2 table of sections for such subpart).

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 38(b) is amended by striking para-  
5 graph (26).

6 (2) Section 1016(a) is amended by striking  
7 paragraph (36).

8 (3) Section 6501(m) is amended by striking  
9 “30C(e)(5),”.

10 (c) EFFECTIVE DATE.—The amendment made by  
11 this section shall apply to property placed in service after  
12 December 31, 2014.

13 **SEC. 1308. REPEAL OF CREDIT FOR NEW QUALIFIED PLUG-**  
14 **IN ELECTRIC DRIVE MOTOR VEHICLES.**

15 (a) IN GENERAL.—Subpart B of part IV of sub-  
16 chapter A of chapter 1 is amended by striking section 30D  
17 (and by striking the item relating to such section in the  
18 table of sections for such subpart).

19 (b) CONFORMING AMENDMENTS.—

20 (1) Section 38(b) is amended by striking para-  
21 graph (35).

22 (2) Section 1016(a) is amended by striking  
23 paragraph (37).

24 (3) Section 6501(m) is amended by striking  
25 “30D(e)(4),”.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to vehicles acquired after Decem-  
3 ber 31, 2014.

4 **SEC. 1309. REPEAL OF CREDIT FOR HEALTH INSURANCE**  
5 **COSTS OF ELIGIBLE INDIVIDUALS.**

6 (a) IN GENERAL.—Subpart C of part IV of sub-  
7 chapter A of chapter 1 is amended by striking section 35  
8 (and by striking the item relating to such section in the  
9 table of sections of such subpart).

10 (b) CONFORMING AMENDMENTS.—

11 (1) Chapter 77 is amended by striking section  
12 7527 (and by striking the item relating to such sec-  
13 tion in the table of sections of such chapter).

14 (2) Section 4980B(f)(5)(C)(iv)(II) is amended  
15 by inserting “as in effect before its repeal” after  
16 “section 35(c)”.

17 (3) Section 6211(b)(4)(A) is amended by strik-  
18 ing “35,”.

19 (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to months beginning after Decem-  
21 ber 31, 2013.

22 **SEC. 1310. REPEAL OF FIRST-TIME HOMEBUYER CREDIT.**

23 (a) IN GENERAL.—Subpart C of part IV of sub-  
24 chapter A of chapter 1 is amended by striking section 36

1 (and by striking the item relating to such section in the  
2 table of sections of such subpart).

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 26(b)(2) is amended by striking  
5 subparagraph (W).

6 (2) Section 1400C(e) is amended by striking  
7 paragraph (4).

8 (3) Section 6211(b)(4)(A) is amended by strik-  
9 ing “36,”.

10 (4) Section 6213(g)(2) is amended by striking  
11 subparagraphs (O) and (P).

12 (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to residences purchased after June  
14 30, 2011.

## 15 **Subtitle E—Deductions, Exclusions,** 16 **and Certain Other Provisions**

### 17 **SEC. 1401. EXCLUSION OF GAIN FROM SALE OF A PRIN-** 18 **CIPAL RESIDENCE.**

19 (a) REQUIREMENT THAT RESIDENCE BE PRINCIPAL  
20 RESIDENCE FOR 5 YEARS DURING 8-YEAR PERIOD.—

21 Subsection (a) of section 121 is amended—

22 (1) by striking “5-year period” and inserting  
23 “8-year period”, and

24 (2) by striking “2 years” and inserting “5  
25 years”.

1 (b) APPLICATION TO ONLY 1 SALE OR EXCHANGE  
2 EVERY 5 YEARS.—Paragraph (3) of section 121(b) is  
3 amended to read as follows:

4 “(3) APPLICATION TO ONLY 1 SALE OR EX-  
5 CHANGE EVERY 5 YEARS.—Subsection (a) shall not  
6 apply to any sale or exchange by the taxpayer if,  
7 during the 5-year period ending on the date of such  
8 sale or exchange, there was any other sale or ex-  
9 change by the taxpayer to which subsection (a) ap-  
10 plied.”.

11 (c) PHASEOUT BASED ON MODIFIED ADJUSTED  
12 GROSS INCOME.—Section 121 is amended by adding at  
13 the end the following new subsection:

14 “(h) PHASEOUT BASED ON MODIFIED ADJUSTED  
15 GROSS INCOME.—

16 “(1) IN GENERAL.—If the modified adjusted  
17 gross income of the taxpayer for the taxable year ex-  
18 ceeds \$250,000 (twice such amount in the case of a  
19 joint return), the amount which would (but for this  
20 subsection) be excluded from gross income under  
21 subsection (a) for such taxable year shall be reduced  
22 (but not below zero) by the amount of such excess.

23 “(2) MODIFIED ADJUSTED GROSS INCOME.—  
24 For purposes of this subsection, the term ‘modified  
25 adjusted gross income’ has the meaning given such

1 term by section 2 determined after the application of  
2 this section but without regard to this subsection.”.

3 (d) CONFORMING AMENDMENTS.—

4 (1) The last paragraph of section 121(b) (relat-  
5 ing to exclusion of gain allocated to nonqualified  
6 use) is redesignated as paragraph (5).

7 (2) The following provisions of section 121 are  
8 each amended by striking “5-year period” each place  
9 it appears therein and inserting “8-year period”:

10 (A) Subsection (b)(5)(C)(ii)(I) (as redesign-  
11 nated by paragraph (1)).

12 (B) Subsection (c)(1)(B)(i)(I).

13 (C) Subsection (d)(7)(B).

14 (D) Subparagraphs (A) and (B) of sub-  
15 section (d)(9).

16 (E) Subsection (d)(10)

17 (F) Subsection (d)(12)(A).

18 (3) Section 121(c)(1)(B)(ii) is amended by  
19 striking “2 years” and inserting “5 years”:

20 (e) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to sales and exchanges after De-  
22 cember 31, 2014.

23 **SEC. 1402. MORTGAGE INTEREST.**

24 (a) MODIFICATION OF LIMITATIONS.—

1           (1) IN GENERAL.—Paragraph (3) of section  
2           163(h) is amended to read as follows:

3           “(3) QUALIFIED RESIDENCE INTEREST.—For  
4           purposes of this subsection—

5           “(A) IN GENERAL.—The term ‘qualified  
6           residence interest’ means any interest which is  
7           paid or accrued during the taxable year on in-  
8           debtedness which—

9                   “(i) is incurred in acquiring, con-  
10                   structing, or substantially improving any  
11                   qualified residence (determined as of the  
12                   time the interest is accrued) of the tax-  
13                   payer, and

14                   “(ii) is secured by such residence.

15           Such term also includes interest on any indebt-  
16           edness secured by such residence resulting from  
17           the refinancing of indebtedness meeting the re-  
18           quirements of the preceding sentence (or this  
19           sentence); but only to the extent the amount of  
20           the indebtedness resulting from such refi-  
21           nancing does not exceed the amount of the refi-  
22           nanced indebtedness.

23           “(B) LIMITATION.—

24                   “(i) IN GENERAL.—The aggregate  
25                   amount of indebtedness taken into account

1 under subparagraph (A) for any period  
 2 shall not exceed \$500,000 (half of such  
 3 amount in the case of a married individual  
 4 filing a separate return).

5 “(ii) PHASE-IN OF DECREASED LIM-  
 6 TATION.—For purposes of applying clause  
 7 (i) with respect to any indebtedness in-  
 8 curred during a calendar year after 2014  
 9 and before 2018, the \$500,000 amount in  
 10 clause (i) shall be increased by the phase-  
 11 in amount determined in accordance with  
 12 the following table:

“In the case of indebtedness incurred during:	The phase-in amount is:
2015 .....	\$375,000
2016 .....	\$250,000
2017 .....	\$125,000

13 “(iii) TREATMENT OF REFINANCINGS  
 14 OF INDEBTEDNESS INCURRED DURING  
 15 PHASE-IN PERIOD.—In the case of any in-  
 16 debtedness which is incurred to refinance  
 17 indebtedness to which clause (ii) applies  
 18 (or to which this clause applies), such refi-  
 19 nanced indebtedness shall be treated for  
 20 purposes of clause (ii) as incurred on the  
 21 date that the original indebtedness was in-  
 22 curred to the extent the amount of the in-

1           debtedness resulting from such refinancing  
2           does not exceed the amount of the refi-  
3           nanced indebtedness.

4           “(C) TREATMENT OF INDEBTEDNESS IN-  
5           CURRED BEFORE JANUARY 1, 2015.—

6                   “(i) IN GENERAL.—In the case of any  
7           pre-January 1, 2015, indebtedness, this  
8           paragraph shall apply as in effect imme-  
9           diately before the enactment of the Tax  
10          Reform Act of 2014.

11                   “(ii) REDUCTION IN DOLLAR LIMITA-  
12          TION.—The limitation of subparagraph (B)  
13          (after application of clause (ii) thereof)  
14          shall be reduced (but not below zero) by  
15          the aggregate amount of outstanding pre-  
16          January 1, 2015, indebtedness of the tax-  
17          payer with respect to which interest is al-  
18          lowable as a deduction by reason of this  
19          subparagraph.

20                   “(iii) PRE-JANUARY 1, 2015, INDEBT-  
21          EDNESS.—For purposes of this subpara-  
22          graph, the term ‘pre-January 1, 2015, in-  
23          debtedness’ means—

24                           “(I) any indebtedness incurred  
25                           before January 1, 2015, and



1                   “(II) any indebtedness incurred  
2                   on or after such date to refinance in-  
3                   debtedness described in subclause (I)  
4                   (or refinanced indebtedness meeting  
5                   the requirements of this subclause) to  
6                   the extent the amount of the indebt-  
7                   edness resulting from such refinancing  
8                   does not exceed the amount of the re-  
9                   financed indebtedness.

10                   “(D) LIMITATION ON PERIOD OF REFI-  
11                   NANCING.—Subparagraphs (B)(iii) and  
12                   (C)(iii)(II) shall not apply to any indebtedness  
13                   after—

14                   “(i) the expiration of the term of the  
15                   original indebtedness, or

16                   “(ii) if the principal of such original  
17                   indebtedness is not amortized over its  
18                   term, the expiration of the term of the 1st  
19                   refinancing of such indebtedness (or if ear-  
20                   lier, the date which is 30 years after the  
21                   date of such 1st refinancing).

22                   “(E) COORDINATION WITH CERTAIN EX-  
23                   CLUSIONS.—The amount otherwise treated as  
24                   qualified residence interest (determined without  
25                   regard to this subparagraph) with respect to

1 any residence of the taxpayer for any taxable  
2 year shall be reduced by the sum of the  
3 amounts excludable from the gross income of  
4 such taxpayer under sections 107 and 119 with  
5 respect to such residence.”.

6 (2) CONFORMING AMENDMENTS.—

7 (A) Section 108(h)(2) is amended to read  
8 as follows:

9 “(2) QUALIFIED PRINCIPAL RESIDENCE IN-  
10 DEBTEDNESS.—For purposes of this section, the  
11 term ‘qualified principal residence indebtedness’  
12 means indebtedness described in section 163(h)(3)  
13 applied without regard to clauses (ii) and (iii) of  
14 subparagraph (B) thereof and by substituting  
15 ‘\$2,000,000’ for ‘\$500,000’ in subparagraph (B)(i)  
16 thereof.”.

17 (B) Section 163(h) is amended—

18 (i) by striking subparagraph (E) in  
19 paragraph (3),

20 (ii) by striking subparagraphs (E) and  
21 (F) in paragraph (4), and

22 (iii) by striking paragraph (5).

23 (C) Section 265(a)(6) is amended—

1 (i) by striking “an amount as—” and  
2 all that follows and inserting “an amount  
3 as a military housing allowance.”, and

4 (ii) by striking “PARSONAGE AND” in  
5 the heading thereof.

6 (b) MODIFICATION OF REPORTING REQUIRE-  
7 MENTS.—

8 (1) INFORMATION RETURN REQUIREMENTS.—

9 Paragraph (2) of section 6050H(b) is amended by  
10 striking “and” at the end of subparagraph (C), by  
11 redesignating subparagraph (D) as subparagraph  
12 (F) and by inserting after subparagraph (C) the fol-  
13 lowing new subparagraphs:

14 “(D) the amount of outstanding principal  
15 on the mortgage as of the beginning of such  
16 calendar year,

17 “(E) the date of the origination of the  
18 mortgage, and”.

19 (2) STATEMENTS TO INDIVIDUALS.—Paragraph  
20 (2) of section 6050H(d) is amended by striking  
21 “subsection (b)(2)(C)” and inserting “subpara-  
22 graphs (C), (D), and (E) of subsection (b)(2)”.

23 (c) EFFECTIVE DATES.—

24 (1) MODIFICATION OF LIMITATIONS.—

1 (A) IN GENERAL.—The amendments made  
2 by subsection (a) shall apply to interest paid or  
3 accrued in taxable years beginning after De-  
4 cember 31, 2014, with respect to indebtedness  
5 incurred before, on, or after such date.

6 (B) TREATMENT OF GRANDFATHERED IN-  
7 DEBTEDNESS.—For application of the amend-  
8 ments made by subsection (a) to grandfathered  
9 indebtedness, see section 163(h)(3)(C) of the  
10 Internal Revenue Code of 1986 as amended by  
11 this section.

12 (2) MODIFICATION OF REPORTING REQUIRE-  
13 MENTS.—The amendments made by subsection (b)  
14 shall apply to returns and statements for calendar  
15 years after December 31, 2014.

16 **SEC. 1403. CHARITABLE CONTRIBUTIONS.**

17 (a) 2 PERCENT FLOOR ON CHARITABLE DEDUCTION  
18 FOR INDIVIDUALS.—Paragraph (3) of section 170(b) is  
19 amended to read as follows:

20 “(3) 2 PERCENT FLOOR ON CHARITABLE DE-  
21 Duction FOR INDIVIDUALS.—The amount of chari-  
22 table contributions taken into account under this  
23 section as made by any individual during a taxable  
24 year (determined without regard to subsection (d))  
25 shall be reduced by 2 percent of the taxpayer’s con-

1       tribution base for such taxable year. Such reduction  
2       shall apply—

3               “(A) first, to charitable contributions to  
4               which paragraph (1)(B) applies to the extent  
5               thereof,

6               “(B) second, to charitable contributions to  
7               which paragraph (1)(C) applies to the extent  
8               thereof, and

9               “(C) third, to charitable contributions to  
10              which paragraph (1)(A) applies to the extent  
11              thereof.”.

12       (b) EXTENSION OF TIME FOR MAKING CHARITABLE  
13       CONTRIBUTIONS.—Subsection (a) of section 170 is  
14       amended by redesignating paragraphs (2) and (3) as para-  
15       graphs (3) and (4), respectively, and by inserting after  
16       paragraph (1) the following new paragraph:

17              “(2) TREATMENT OF CHARITABLE CONTRIBU-  
18              TIONS MADE BY INDIVIDUALS BEFORE DUE DATE OF  
19              RETURN.—If any charitable contribution is made by  
20              an individual after the close of a taxable year but  
21              not later than the due date (determined without re-  
22              gard to extensions) for the return of tax for such  
23              taxable year, then the taxpayer may elect to treat  
24              such charitable contribution as made in such taxable  
25              year. Such election may be made only at the time of

1 the filing of such return of tax and shall be signified  
2 in such manner as the Secretary may provide.”.

3 (c) DEDUCTION FOR CONTRIBUTIONS OF PROPERTY  
4 GENERALLY LIMITED TO ADJUSTED BASIS.—

5 (1) IN GENERAL.—Subsection (e) of section  
6 170 is amended—

7 (A) by striking paragraphs (1) and (6),

8 (B) by redesignating paragraphs (2), (3),  
9 (4), and (5) as paragraphs (3), (4), (5), and  
10 (6), respectively, and

11 (C) by inserting before paragraph (3) (as  
12 so redesignated) the following new paragraphs:

13 “(1) IN GENERAL.—Except in the case of prop-  
14 erty to which paragraph (2) applies, the amount of  
15 any charitable contribution of property otherwise  
16 taken into account under this section shall be re-  
17 duced by the amount of gain which would have been  
18 realized if the property contributed had been sold by  
19 the taxpayer for its fair market value (determined at  
20 the time of such contribution).

21 “(2) SPECIAL RULE FOR CERTAIN PROPERTY.—

22 “(A) IN GENERAL.—In the case of prop-  
23 erty to which this paragraph applies, the  
24 amount of any charitable contribution of prop-  
25 erty otherwise taken into account under this

1 section shall be reduced by the amount of gain  
2 which would not have been long-term capital  
3 gain if the property contributed had been sold  
4 by the taxpayer at its fair market value (deter-  
5 mined at the time of such contribution).

6 “(B) PROPERTY TO WHICH THIS PARA-  
7 GRAPH APPLIES.—This paragraph shall apply  
8 to—

9 “(i) any contribution of tangible per-  
10 sonal property if the use of such property  
11 by the donee is related to the purpose or  
12 function constituting the basis for its ex-  
13 emption under section 501 (or, in the case  
14 of a governmental unit, to any purpose or  
15 function described in subsection (c)),

16 “(ii) any qualified conservation con-  
17 tribution (as defined in subsection (h)(1)),

18 “(iii) any qualified contribution (as  
19 defined in paragraph (4)(A)),

20 “(iv) any qualified research contribu-  
21 tion (as defined in paragraph (5)(B)), and

22 “(v) any qualified appreciated stock  
23 (as defined in subsection (e)(6)).

24 “(C) SPECIAL RULES FOR DETERMINING  
25 LONG-TERM CAPITAL GAIN.—

1           “(i) IN GENERAL.—For purposes of  
2           applying this paragraph (other than in the  
3           case of gain to which section 1245(a),  
4           1250(a), 1252(a), or 1254(a) applies),  
5           property which is property used in the  
6           trade or business (as defined in section  
7           1231(b)) shall be treated as a capital  
8           asset.

9           “(ii) CONTRIBUTIONS OF STOCK IN S  
10          CORPORATIONS.—For purposes of applying  
11          this paragraph in the case of a charitable  
12          contribution of stock in an S corporation,  
13          rules similar to the rules of section 751  
14          shall apply in determining whether gain on  
15          such stock would have been long-term cap-  
16          ital gain if such stock were sold by the tax-  
17          payer.”.

18           (2) REPEAL OF SPECIAL RULES FOR FOOD AND  
19          BOOK INVENTORY.—Paragraph (4) of section  
20          170(e), as redesignated by paragraph (1), is amend-  
21          ed by striking subparagraphs (C) and (D) and by re-  
22          designating subparagraph (E) as subparagraph (C).

23           (3) CONFORMING AMENDMENTS.—

24           (A) Section 170(e)(3), as redesignated by  
25          paragraph (1), is amended by striking “para-



1 graph (1)” and inserting “paragraphs (1) and  
2 (2)”.

3 (B) Paragraphs (4) and (5) of section  
4 170(e), as redesignated by paragraph (1), are  
5 each amended by striking “paragraph (1)(A)”  
6 each place it appears and inserting “paragraph  
7 (2)(A)”.

8 (C) Section 170(e)(6), as redesignated by  
9 paragraph (1), is amended—

10 (i) by striking all that precedes “for  
11 purposes of this paragraph” in subpara-  
12 graph (B) and inserting the following:

13 “(6) QUALIFIED APPRECIATED STOCK.—

14 “(A) IN GENERAL.—Except as provided in  
15 subparagraph (B),”,

16 (ii) by redesignating subparagraph  
17 (C) as subparagraph (B), and

18 (iii) by striking “in a contribution to  
19 which paragraph (1)(B)(ii) applies (deter-  
20 mined without regard to this paragraph)”  
21 in subparagraph (B) as so redesignated.

22 (d) MODIFICATION OF INCOME BASED CONTRIBU-  
23 TION LIMITATIONS.—

24 (1) IN GENERAL.—Section 170(b)(1) is amend-  
25 ed—

1 (A) by striking “30 percent” in subpara-  
2 graph (B)(i) and inserting “25 percent”, and

3 (B) by striking “50 percent” and inserting  
4 “40 percent” in—

5 (i) the flush matter at the end of sub-  
6 paragraph (A),

7 (ii) subparagraph (B)(ii), and

8 (iii) clauses (i), (iv)(I), and (v) of sub-  
9 paragraph (C) (as redesignated by para-  
10 graph (2)).

11 (2) REPEAL OF SPECIAL LIMITATIONS FOR CER-  
12 TAIN CAPITAL GAIN PROPERTY.—

13 (A) IN GENERAL.—Paragraph (1) of sec-  
14 tion 170(b) is amended by striking subpara-  
15 graphs (C) and (D) and by redesignating sub-  
16 paragraphs (E), (F), and (G) as subparagraphs  
17 (C), (D), and (E), respectively.

18 (B) CONFORMING AMENDMENTS.—

19 (i) Section 170(b)(1)(A)(vii) is  
20 amended by striking “subparagraph (F)”  
21 and inserting “subparagraph (D)”

22 (ii) Section 170(b)(1)(B)(ii) is amend-  
23 ed by striking “(determined without regard  
24 to subparagraph (C))”.

1 (iii) Section 170(b)(1)(C)(iii), as re-  
2 designated by paragraph (1), is amended  
3 by striking “subparagraph (A), (B), (C) or  
4 (D)” and inserting “subparagraph (A) or  
5 (B)”.

6 (iv) Section 170(b)(2)(B)(i)(I) is  
7 amended by striking “paragraph  
8 (1)(E)(v)” and inserting “paragraph  
9 (1)(C)(v)”.

10 (v) Section 545(b)(2) is amended by  
11 striking “(D), and (E)” and inserting “and  
12 (C)”.

13 (e) QUALIFIED CONSERVATION CONTRIBUTIONS.—

14 (1) RULES MADE PERMANENT.—

15 (A) IN GENERAL.—Subparagraph (C) of  
16 section 170(b)(1), as redesignated by subsection  
17 (d), is amended by striking clause (vi).

18 (B) CORPORATE FARMERS AND RANCH-  
19 ERS.—Subparagraph (B) of section 170(b)(2) is  
20 amended by striking clause (iii).

21 (2) TREATMENT OF GOLF COURSE EASE-  
22 MENTS.—Subsection (h) of section 170 is amended  
23 by adding at the end the following new paragraph:

24 “(7) SPECIAL RULE WITH RESPECT TO GOLF  
25 COURSES.—An interest in real property shall not be

1 treated as a qualified real property interest for pur-  
2 poses of this subsection if (at the time of the con-  
3 tribution of such interest) such property is, or is  
4 reasonably expected to be, used as a golf course.”.

5 (3) CONFORMING AMENDMENTS.—

6 (A) Section 170(b)(1)(C)(iv)(II), as reded-  
7 icated by subsection (d), is amended by strik-  
8 ing “made after the date of the enactment of  
9 this subparagraph”.

10 (B) Section 170(b)(2)(B)(i)(II) is amended  
11 by striking “, in the case of contributions made  
12 after the date of the enactment of this subpara-  
13 graph,”.

14 (f) REPEAL OF SPECIAL RULE FOR COLLEGE ATH-  
15 LETIC EVENT SEATING RIGHTS.—Section 170 is amended  
16 by striking subsection (l).

17 (g) REPEAL OF SPECIAL RULE TREATING DONEE  
18 INCOME FROM INTELLECTUAL PROPERTY AS AN ADDI-  
19 TIONAL CHARITABLE CONTRIBUTION.—

20 (1) IN GENERAL.—Section 170 is amended by  
21 striking subsection (m).

22 (2) CONFORMING AMENDMENTS.—Section  
23 6050L is amended—

24 (A) by striking subsection (b) and reded-  
25 nating subsection (c) as subsection (b), and

1 (B) by striking “or (b)” in subsection (b)  
2 (as redesignated by subparagraph (A)).

3 (h) EFFECTIVE DATE.—

4 (1) IN GENERAL.—Except as otherwise pro-  
5 vided in this subsection, the amendments made by  
6 this section shall apply to contributions made in tax-  
7 able years beginning after December 31, 2014.

8 (2) QUALIFIED CONSERVATION CONTRIBU-  
9 TIONS.—The amendments made by subsection (e)  
10 shall apply to contributions made in taxable years  
11 beginning after December 31, 2013.

12 **SEC. 1404. DENIAL OF DEDUCTION FOR EXPENSES ATTRIB-**  
13 **UTABLE TO THE TRADE OR BUSINESS OF**  
14 **BEING AN EMPLOYEE.**

15 (a) IN GENERAL.—Part IX of subchapter B of chap-  
16 ter 1 is amended by inserting after the item relating to  
17 section 262 the following new item:

18 **“SEC. 262A. EXPENSES ATTRIBUTABLE TO BEING AN EM-**  
19 **PLOYEE.**

20 “(a) IN GENERAL.—Except as otherwise provided in  
21 this section, no deduction shall be allowed with respect to  
22 any trade or business of the taxpayer which consists of  
23 the performance of services by the taxpayer as an em-  
24 ployee.

1       “(b) EXCEPTION FOR ABOVE-THE-LINE DEDUC-  
2 TIONS.—Subsection (a) shall not apply to any deduction  
3 allowable (determined without regard to subsection (a)) in  
4 determining adjusted gross income.”.

5       (b) REPEAL OF CERTAIN ABOVE-THE-LINE TRADE  
6 AND BUSINESS DEDUCTIONS OF EMPLOYEES.—

7           (1) IN GENERAL.—Paragraph (2) of section  
8       62(a) is amended—

9           (A) by striking subparagraphs (B), (C),  
10       and (D), and

11           (B) by redesignating subparagraph (E) as  
12       subparagraph (B).

13           (2) CONFORMING AMENDMENTS.—

14           (A) Section 62 is amended by striking sub-  
15       sections (b) and (d) and by redesignating sub-  
16       sections (c) and (e) as subsections (b) and (c),  
17       respectively.

18           (B) Section 62(a)(20) is amended by strik-  
19       ing “subsection (e)” and inserting “subsection  
20       (e)”.

21       (c) CONTINUED EXCLUSION OF WORKING CONDI-  
22 TION FRINGE BENEFITS.—Section 132(d) is amended by  
23 inserting “(determined without regard to section 262A)”  
24 after “section 162”.

1 (d) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 1405. REPEAL OF DEDUCTION FOR TAXES NOT PAID**  
5 **OR ACCRUED IN A TRADE OR BUSINESS.**

6 (a) IN GENERAL.—Subsection (b) of section 164 is  
7 amended by striking paragraphs (5) and (6) and inserting  
8 the following new paragraph:

9 “(5) LIMITATION IN CASE OF INDIVIDUALS.—In  
10 the case of a taxpayer other than a corporation—

11 “(A) paragraphs (1) and (2) of subsection  
12 (a) shall only apply to taxes which are paid or  
13 accrued in carrying on a trade or business or  
14 an activity described in section 212, and

15 “(B) paragraph (3) of subsection (a) shall  
16 not apply to State and local taxes.”.

17 (b) CONFORMING AMENDMENTS.—

18 (1) Section 164(a) is amended by striking para-  
19 graph (6).

20 (2)(A) Section 216(a) is amended by striking  
21 “proportionate share of—” and all that follows and  
22 inserting “proportionate share of the interest allow-  
23 able as a deduction to the corporation under section  
24 163 which is paid or incurred by the corporation on  
25 its indebtedness contracted—

1           “(1) in the acquisition, construction, alteration,  
2           rehabilitation, or maintenance of the houses or  
3           apartment building, or

4           “(2) in the acquisition of the land on which the  
5           houses (or apartment building) are situated.”.

6           (B) Section 216(b)(3)(B)(i) is amended—

7                 (i) by striking “a share of such corpora-  
8                 tion’s real estate taxes described in subsection  
9                 (a)(1) or” in subclause (I), and

10                (ii) by striking “of such taxes, or of such  
11                interest,” in subclause (II) and inserting “of  
12                such interest”.

13           (C) Section 216(d) is amended by striking  
14           “subsections (a)(1) and (a)(2)” and inserting “sub-  
15           section (a)”.

16           (3) Section 274(f) is amended by striking  
17           “TAXES,” in the heading thereof.

18           (4) Section 280A(b) is amended by striking  
19           “TAXES,” in the heading thereof.

20           (5) Section 911(c)(3)(A)(ii) is amended—

21                 (A) by striking “and taxes”, and

22                 (B) by striking “or 164”.

23           (c) EFFECTIVE DATE.—The amendments made by  
24           this section shall apply to taxable years beginning after  
25           December 31, 2014.



1 **SEC. 1406. REPEAL OF DEDUCTION FOR PERSONAL CAS-**  
2 **UALTY LOSSES.**

3 (a) IN GENERAL.—Subsection (c) of section 165 is  
4 amended by inserting “and” at the end of paragraph (1),  
5 by striking “; and” at the end of paragraph (2) and insert-  
6 ing a period, and by striking paragraph (3).

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 165 is amended by striking sub-  
9 sections (h) and (k).

10 (2) Subsection (i) of section 165 is amended—

11 (A) in paragraph (1)—

12 (i) by striking “(as defined by clause

13 (ii) of subsection (h)(3)(C))”, and

14 (ii) by striking “(as defined by clause

15 (i) of such subsection)”,

16 (B) by striking “(as defined by subsection

17 (h)(3)(C)(i)” in paragraph (4), and

18 (C) by adding at the end the following new

19 paragraph:

20 “(5) **FEDERALLY DECLARED DISASTER.**—For  
21 purposes of this subsection—

22 “(A) **FEDERALLY DECLARED DISASTER.**—

23 The term ‘federally declared disaster’ means

24 any disaster subsequently determined by the

25 President of the United States to warrant as-

26 sistance by the Federal Government under the

1 Robert T. Stafford Disaster Relief and Emer-  
2 gency Assistance Act.

3 “(B) DISASTER AREA.—The term ‘disaster  
4 area’ means the area so determined to warrant  
5 such assistance.”.

6 (3)(A) Section 165(l)(1) is amended by striking  
7 “a loss described in subsection (c)(3)” and inserting  
8 “an ordinary loss described in subsection (c)(2)”.

9 (B) Section 165(l) is amended—

10 (i) by striking paragraph (5),

11 (ii) by redesignating paragraphs (2), (3),  
12 and (4) as paragraphs (3), (4), and (5), respec-  
13 tively, and

14 (iii) by inserting after paragraph (1) the  
15 following new paragraph:

16 “(2) LIMITATIONS.—

17 “(A) DEPOSIT MAY NOT BE FEDERALLY  
18 INSURED.—No election may be made under  
19 paragraph (1) with respect to any loss on a de-  
20 posit in a qualified financial institution if part  
21 or all of such deposit is insured under Federal  
22 law.

23 “(B) DOLLAR LIMITATION.—With respect  
24 to each financial institution, the aggregate  
25 amount of losses attributable to deposits in

1 such financial institution to which an election  
2 under paragraph (1) may be made by the tax-  
3 payer for any taxable year shall not exceed  
4 \$20,000 (\$10,000 in the case of a separate re-  
5 turn by a married individual). The limitation of  
6 the preceding sentence shall be reduced by the  
7 amount of any insurance proceeds under any  
8 State law which can reasonably be expected to  
9 be received with respect to losses on deposits in  
10 such institution.”.

11 (4) Section 172(b)(1)(F)(ii), prior to redesigna-  
12 tion under title III, is amended—

13 (A) by striking subclause (I) and by redesi-  
14 gnating subclauses (II) and (III) as subclauses  
15 (I) and (II), respectively, and

16 (B) by striking “subsection (h)(3)(C)(i)”  
17 and inserting “section 165(i)(5)”.

18 (5) Section 172(d)(4)(C) is amended by strik-  
19 ing “paragraph (2) or (3) of section 165(c)” and in-  
20 serting “section 165(c)(2)”.

21 (6) Section 274(f) is amended by striking  
22 “CASUALTY LOSSES,” in the heading thereof.

23 (7) Section 280A(b) is amended by striking  
24 “CASUALTY LOSSES,” in the heading thereof.

1 (8) Section 873(b), as amended by the pre-  
 2 ceding provisions of this Act, is amended by striking  
 3 paragraph (1) and by redesignating paragraphs (2)  
 4 and (3) as paragraphs (1) and (2), respectively.

5 (c) EFFECTIVE DATE.—The amendments made by  
 6 this section shall apply to taxable years beginning after  
 7 December 31, 2014.

8 **SEC. 1407. LIMITATION ON WAGERING LOSSES.**

9 (a) IN GENERAL.—Section 165(d) is amended by  
 10 adding at the end the following: “For purposes of the pre-  
 11 ceding sentence, the term ‘losses from wagering trans-  
 12 actions’ includes any deduction otherwise allowable under  
 13 this chapter incurred in carrying on any wagering trans-  
 14 action.”.

15 (b) EFFECTIVE DATE.—The amendments made by  
 16 this section shall apply to taxable years beginning after  
 17 December 31, 2014.

18 **SEC. 1408. REPEAL OF DEDUCTION FOR TAX PREPARATION**  
 19 **EXPENSES.**

20 (a) IN GENERAL.—Section 212 is amended by adding  
 21 “or” at the end of paragraph (1), by striking “; or” at  
 22 the end of paragraph (2) and inserting a period, and by  
 23 striking paragraph (3).

1 (b) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 1409. REPEAL OF DEDUCTION FOR MEDICAL EX-**  
5 **PENSES.**

6 (a) IN GENERAL.—Part VII of subchapter B of chap-  
7 ter 1 is amended by striking section 213 (and by striking  
8 the item relating to such section in the table of sections  
9 for such part).

10 (b) CONFORMING AMENDMENTS.—

11 (1)(A) Section 223 is amended by redesignating  
12 subsections (e), (f), (g), and (h) as subsections (f),  
13 (g), (h), and (i), respectively, and by inserting after  
14 subsection (d) the following new subsection:

15 “(e) MEDICAL CARE.—For purposes of this section—

16 “(1) IN GENERAL.—The term ‘medical care’  
17 means amounts paid—

18 “(A) for the diagnosis, cure, mitigation,  
19 treatment, or prevention of disease, or for the  
20 purpose of affecting any structure or function  
21 of the body,

22 “(B) for transportation primarily for and  
23 essential to medical care referred to in subpara-  
24 graph (A),

1           “(C) for qualified long-term care services  
2           (as defined in section 7702B(c)), or

3           “(D) for insurance (including amounts  
4           paid as premiums under part B of title XVIII  
5           of the Social Security Act, relating to supple-  
6           mentary medical insurance for the aged) cov-  
7           ering medical care referred to in subparagraphs  
8           (A) and (B) or for any qualified long-term care  
9           insurance contract (as defined in section  
10          7702B(b)).

11          In the case of a qualified long-term care insurance  
12          contract (as defined in section 7702B(b)), only eligi-  
13          ble long-term care premiums (as defined in para-  
14          graph (7)) shall be taken into account under sub-  
15          paragraph (D).

16          “(2) AMOUNTS PAID FOR CERTAIN LODGING  
17          AWAY FROM HOME TREATED AS PAID FOR MEDICAL  
18          CARE.—Amounts paid for lodging (not lavish or ex-  
19          travagant under the circumstances) while away from  
20          home primarily for and essential to medical care re-  
21          ferred to in paragraph (1)(A) shall be treated as  
22          amounts paid for medical care if—

23                 “(A) the medical care referred to in para-  
24                 graph (1)(A) is provided by a physician in a li-  
25                 censed hospital (or in a medical care facility

1 which is related to, or the equivalent of, a li-  
2 censed hospital), and

3 “(B) there is no significant element of per-  
4 sonal pleasure, recreation, or vacation in the  
5 travel away from home.

6 The amount taken into account under the preceding  
7 sentence shall not exceed \$50 for each night for each  
8 individual.

9 “(3) PHYSICIAN.—The term ‘physician’ has the  
10 meaning given to such term by section 1861(r) of  
11 the Social Security Act (42 U.S.C. 1395x(r)).

12 “(4) CONTRACTS COVERING OTHER THAN MED-  
13 ICAL CARE.—In the case of an insurance contract  
14 under which amounts are payable for other than  
15 medical care referred to in subparagraphs (A), (B)  
16 and (C) of paragraph (1)—

17 “(A) no amount shall be treated as paid  
18 for insurance to which paragraph (1)(D) applies  
19 unless the charge for such insurance is either  
20 separately stated in the contract, or furnished  
21 to the policyholder by the insurance company in  
22 a separate statement,

23 “(B) the amount taken into account as the  
24 amount paid for such insurance shall not exceed  
25 such charge, and

1           “(C) no amount shall be treated as paid  
2           for such insurance if the amount specified in  
3           the contract (or furnished to the policyholder by  
4           the insurance company in a separate statement)  
5           as the charge for such insurance is unreason-  
6           ably large in relation to the total charges under  
7           the contract.

8           “(5) CERTAIN PRE-PAID CONTRACTS.—Subject  
9           to the limitations of paragraph (4), premiums paid  
10          during the taxable year by a taxpayer before he at-  
11          tains the age of 65 for insurance covering medical  
12          care (within the meaning of subparagraphs (A), (B),  
13          and (C) of paragraph (1)) for the taxpayer, his  
14          spouse, or a dependent after the taxpayer attains the  
15          age of 65 shall be treated as expenses paid during  
16          the taxable year for insurance which constitutes  
17          medical care if premiums for such insurance are  
18          payable (on a level payment basis) under the con-  
19          tract for a period of 10 years or more or until the  
20          year in which the taxpayer attains the age of 65  
21          (but in no case for a period of less than 5 years).

22          “(6) COSMETIC SURGERY.—

23                 “(A) IN GENERAL.—The term ‘medical  
24                 care’ does not include cosmetic surgery or other  
25                 similar procedures, unless the surgery or proce-



1           dure is necessary to ameliorate a deformity  
 2           arising from, or directly related to, a congenital  
 3           abnormality, a personal injury resulting from  
 4           an accident or trauma, or disfiguring disease.

5           “(B) COSMETIC SURGERY DEFINED.—For  
 6           purposes of this paragraph, the term ‘cosmetic  
 7           surgery’ means any procedure which is directed  
 8           at improving the patient’s appearance and does  
 9           not meaningfully promote the proper function  
 10          of the body or prevent or treat illness or dis-  
 11          ease.

12          “(7) ELIGIBLE LONG-TERM CARE PREMIUMS.—

13                 “(A) IN GENERAL.—For purposes of this  
 14                 section, the term ‘eligible long-term care pre-  
 15                 miums’ means the amount paid during a tax-  
 16                 able year for any qualified long-term care insur-  
 17                 ance contract (as defined in section 7702B(b))  
 18                 covering an individual, to the extent such  
 19                 amount does not exceed the limitation deter-  
 20                 mined under the following table:

“In the case of an individual with an attained age before the close of the taxable year of:	The limitation is:
40 or less	\$200
More than 40 but not more than 50	\$375
More than 50 but not more than 60	\$750
More than 60 but not more than 70	\$2,000
More than 70	\$2,500

21           “(B) INDEXING.—

1           “(i) IN GENERAL.—In the case of any  
2 taxable year beginning after 1997, each  
3 dollar amount in subparagraph (A) shall  
4 be increased by the medical care cost ad-  
5 justment of such amount for such calendar  
6 year. Any increase determined under the  
7 preceding sentence shall be rounded to the  
8 nearest multiple of \$10.

9           “(ii) MEDICAL CARE COST ADJUST-  
10 MENT.—For purposes of clause (i), the  
11 medical care cost adjustment for any cal-  
12 endar year is the adjustment prescribed by  
13 the Secretary, in consultation with the Sec-  
14 retary of Health and Human Services, for  
15 purposes of such clause. To the extent that  
16 CPI (as defined section 1(c)), or any com-  
17 ponent thereof, is taken into account in de-  
18 termining such adjustment, such adjust-  
19 ment shall be determined by taking into  
20 account C-CPI-U (as so defined), or the  
21 corresponding component thereof, in lieu of  
22 such CPI (or component thereof), but only  
23 with respect to the portion of such adjust-  
24 ment which relates to periods after Decem-  
25 ber 31, 2014.

1           “(8) CERTAIN PAYMENTS TO RELATIVES  
2 TREATED AS NOT PAID FOR MEDICAL CARE.—An  
3 amount paid for a qualified long-term care service  
4 (as defined in section 7702B(c)) provided to an indi-  
5 vidual shall be treated as not paid for medical care  
6 if such service is provided—

7           “(A) by the spouse of the individual or by  
8 a relative (directly or through a partnership,  
9 corporation, or other entity) unless the service  
10 is provided by a licensed professional with re-  
11 spect to such service, or

12           “(B) by a corporation or partnership which  
13 is related (within the meaning of section 267(b)  
14 or 707(b)) to the individual.

15 For purposes of this paragraph, the term ‘relative’  
16 means an individual bearing a relationship to the in-  
17 dividual which is described in any of subparagraphs  
18 (A) through (G) of section 7705(d)(2). This para-  
19 graph shall not apply for purposes of section 105(b)  
20 with respect to reimbursements through insurance.”.

21           (B) Section 72(t)(2)(D)(i)(III) is amended by  
22 striking “section 213(d)(1)(D)” and inserting “sec-  
23 tion 223(e)(1)(D)”.

1 (C) Section 104(a) is amended by striking “sec-  
2 tion 213(d)(1)” in the last sentence and inserting  
3 “section 223(e)(1)”.

4 (D) Section 105(b) is amended by striking  
5 “section 213(d)” and inserting “section 223(e)”.

6 (E) Section 139D is amended by striking “sec-  
7 tion 213” and inserting “section 223”.

8 (F) Section 162(l)(2) is amended by striking  
9 “section 213(d)(10)” and inserting “section  
10 223(e)(7)”.

11 (G) Section 220(d)(2)(A) is amended by strik-  
12 ing “section 213(d)” and inserting “section 223(e)”.

13 (H) Section 223(d)(2)(A) is amended by strik-  
14 ing “section 213(d)” and inserting “subsection  
15 (e)”.

16 (I) Section 419A(f)(2) is amended by striking  
17 “section 213(d)” and inserting “section 223(e)”.

18 (J) Section 501(c)(26)(A) is amended by strik-  
19 ing “section 213(d)” and inserting “section 223(e)”.

20 (K) Section 2503(e) is amended by striking  
21 “section 213(d)” and inserting “section 223(e)”.

22 (L) Section 4980B(c)(4)(B)(i)(I) is amended by  
23 striking “section 213(d)” and inserting “section  
24 223(e)”.

1 (M) Section 6041(f) is amended by striking  
2 “section 213(d)” and inserting “section 223(e)”.

3 (N) Section 7702B(a)(2) is amended by strik-  
4 ing “section 213(d)” and inserting “section 223(e)”.

5 (O) Section 7702B(a)(4) is amended by strik-  
6 ing “section 213(d)(1)(D)” and inserting “section  
7 223(e)(1)(D)”.

8 (P) Section 7702B(d)(5) is amended by striking  
9 “section 213(d)(10)” and inserting “section  
10 223(e)(7)”.

11 (Q) Section 9832(d)(3) is amended by striking  
12 “section 213(d)” and inserting “section 223(e)”.

13 (2) Section 72(t)(2)(B) is amended to read as  
14 follows:

15 “(B) MEDICAL EXPENSES.—Distributions  
16 made to an individual (other than distributions  
17 described in subparagraph (A), (C), or (D) to  
18 the extent such distributions do not exceed the  
19 excess of—

20 “(i) the expenses paid by the taxpayer  
21 during the taxable year, not compensated  
22 for by insurance or otherwise, for medical  
23 care (as defined in 223(e)) of the taxpayer,  
24 his spouse, or a dependent (as defined in  
25 section 7705, determined without regard to

1 subsections (b)(1), (b)(2), and (d)(1)(B)  
2 thereof), over

3 “(ii) 10 percent of the taxpayer’s ad-  
4 justed gross income.”.

5 (3) Section 105 is amended by striking sub-  
6 section (f).

7 (4) Section 162(l) is amended by striking para-  
8 graph (3).

9 (5) Section 402(l) is amended by striking para-  
10 graph (7) and redesignating paragraph (8) as para-  
11 graph (7).

12 (6) Section 220(f) is amended by striking para-  
13 graph (6).

14 (7) Section 223(f) is amended by striking para-  
15 graph (6).

16 (8) Section 7702B(e) is amended by striking  
17 paragraph (2).

18 (9) Section 7705(f)(7), as redesignated by this  
19 Act, is amended by striking “sections 105(b),  
20 132(h)(2)(B), and 213(d)(5)” and inserting “sec-  
21 tions 105(b) and 132(h)(2)(B)”.

22 (c) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 2014.

1 **SEC. 1410. REPEAL OF DISQUALIFICATION OF EXPENSES**  
2 **FOR OVER-THE-COUNTER DRUGS UNDER**  
3 **CERTAIN ACCOUNTS AND ARRANGEMENTS.**

4 (a) HSAs.—Subparagraph (A) of section 223(d)(2)  
5 is amended by striking the last sentence.

6 (b) ARCHER MSAs.—Subparagraph (A) of section  
7 220(d)(2) is amended by striking the last sentence.

8 (c) HEALTH FLEXIBLE SPENDING ARRANGEMENTS  
9 AND HEALTH REIMBURSEMENT ARRANGEMENTS.—Sec-  
10 tion 106 is amended by striking subsection (f).

11 (d) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to expenses incurred after Decem-  
13 ber 31, 2014.

14 **SEC. 1411. REPEAL OF DEDUCTION FOR ALIMONY PAY-**  
15 **MENTS AND CORRESPONDING INCLUSION IN**  
16 **GROSS INCOME.**

17 (a) IN GENERAL.—Part VII of subchapter B of chap-  
18 ter 1 is amended by striking section 215 (and by striking  
19 the item relating to such section in the table of sections  
20 for such part).

21 (b) CORRESPONDING REPEAL OF PROVISIONS PRO-  
22 VIDING FOR INCLUSION OF ALIMONY IN GROSS IN-  
23 COME.—

24 (1) Subsection (a) of section 61 is amended by  
25 striking paragraph (8) and by redesignating para-

1 graphs (9) through (15) as paragraphs (8) through  
2 (14), respectively.

3 (2) Part II of subchapter B of chapter 1 is  
4 amended by striking section 71 (and by striking the  
5 item relating to such section in the table of sections  
6 for such part).

7 (3) Subpart F of part I of subchapter J of  
8 chapter 1 is amended by striking section 682 (and  
9 by striking the item relating to such section in the  
10 table of sections for such subpart).

11 (c) CONFORMING AMENDMENTS.—

12 (1) RELATED TO REPEAL OF SECTION 215.—

13 (A) Section 62(a) is amended by striking  
14 paragraph (10).

15 (B) Section 3402(m)(1) is amended by  
16 striking “(other than paragraph (10) thereof)”.

17 (2) RELATED TO REPEAL OF SECTION 71.—

18 (A) Section 121(d)(3) is amended—

19 (i) by striking “(as defined in section  
20 71(b)(2))” in subparagraph (B), and

21 (ii) by adding at the end the following  
22 new subparagraph:

23 “(C) DIVORCE OR SEPARATION INSTRU-  
24 MENT.—For purposes of this paragraph, the



1 term ‘divorce or separation instrument’  
2 means—

3 “(i) a decree of divorce or separate  
4 maintenance or a written instrument inci-  
5 dent to such a decree,

6 “(ii) a written separation agreement,  
7 or

8 “(iii) a decree (not described in clause  
9 (i)) requiring a spouse to make payments  
10 for the support or maintenance of the  
11 other spouse.”.

12 (B) Section 220(f)(7) is amended by strik-  
13 ing “subparagraph (A) of section 71(b)(2)” and  
14 inserting “clause (i) of section 121(d)(3)(C)”.

15 (C) Section 223(f)(7) is amended by strik-  
16 ing “subparagraph (A) of section 71(b)(2)” and  
17 inserting “clause (i) of section 121(d)(3)(C)”.

18 (D) Section 382(l)(3)(B)(iii) is amended  
19 by striking “section 71(b)(2)” and inserting  
20 “section 121(d)(3)(C)”.

21 (E) Section 408(d)(6) is amended by strik-  
22 ing “subparagraph (A) of section 71(b)(2)” and  
23 inserting “clause (i) of section 121(d)(3)(C)”.

24 (d) EFFECTIVE DATE.—The amendments made by  
25 this section shall apply to—

1           (1) any divorce or separation instrument (as de-  
2           fined in section 71(b)(2) of the Internal Revenue  
3           Code of 1986 as in effect before the date of the en-  
4           actment of this Act) executed after December 31,  
5           2014, and

6           (2) any divorce or separation instrument (as so  
7           defined) executed on or before such date and modi-  
8           fied after such date if the modification expressly  
9           provides that the amendments made by this section  
10          apply to such modification.

11 **SEC. 1412. REPEAL OF DEDUCTION FOR MOVING EX-**  
12 **PENSES.**

13          (a) IN GENERAL.—Part VII of subchapter B of chap-  
14          ter 1 is amended by striking section 217 (and by striking  
15          the item relating to such section in the table of sections  
16          for such part).

17          (b) CONFORMING AMENDMENTS.—

18               (1) Section 62(a) is amended by striking para-  
19               graph (15).

20               (2)(A) Section 132(a) is amended by striking  
21               paragraph (6).

22               (B) Section 82 is amended by striking “Except  
23               as provided in section 132(a)(6), there” and insert-  
24               ing “There”.

1           (3)(A) Section 132 is amended by striking sub-  
2           section (g).

3           (B) Section 132(l) is amended by striking by  
4           striking “subsections (e) and (g)” and inserting  
5           “subsection (e)”.

6           (4) Section 274(m)(3) is amended by striking  
7           “(other than section 217)”.

8           (5) Section 3121(a) is amended by striking  
9           paragraph (11).

10          (6) Section 209(a) of the Social Security Act is  
11          amended by striking paragraph (9).

12          (7) Section 3306(b) is amended by striking  
13          paragraph (9).

14          (8) Section 3401(a) is amended by striking  
15          paragraph (15).

16          (9) Section 7872(f) is amended by striking  
17          paragraph (11).

18          (c) EFFECTIVE DATE.—The amendments made by  
19          this section shall apply to taxable years beginning after  
20          December 31, 2014.

1 **SEC. 1413. TERMINATION OF DEDUCTION AND EXCLUSIONS**  
2 **FOR CONTRIBUTIONS TO MEDICAL SAVINGS**  
3 **ACCOUNTS.**

4 (a) **TERMINATION OF INCOME TAX DEDUCTION.**—  
5 Section 220 is amended by adding at the end the following  
6 new subsection:

7 “(k) **TERMINATION.**—No deduction shall be allowed  
8 under subsection (a) with respect to any taxable year be-  
9 ginning after December 31, 2014.”.

10 (b) **TERMINATION OF EXCLUSION FOR EMPLOYER-**  
11 **PROVIDED CONTRIBUTIONS.**—Section 106 is amended by  
12 striking subsection (b).

13 (c) **CONFORMING AMENDMENTS.**—

14 (1) Section 62(a) is amended by striking para-  
15 graph (16).

16 (2) Section 106(d) is amended by striking para-  
17 graph (2), by redesignating paragraph (3) as para-  
18 graph (6), and by inserting after paragraph (1) the  
19 following new paragraphs:

20 “(2) **NO CONSTRUCTIVE RECEIPT.**—No amount  
21 shall be included in the gross income of any em-  
22 ployee solely because the employee may choose be-  
23 tween the contributions referred to in paragraph (1)  
24 and employer contributions to another health plan of  
25 the employer.

1           “(3) SPECIAL RULE FOR DEDUCTION OF EM-  
2           PLOYER CONTRIBUTIONS.—Any employer contribu-  
3           tion to a health savings account (as so defined), if  
4           otherwise allowable as a deduction under this chap-  
5           ter, shall be allowed only for the taxable year in  
6           which paid.

7           “(4) EMPLOYER HEALTH SAVINGS ACCOUNT  
8           CONTRIBUTION REQUIRED TO BE SHOWN ON RE-  
9           TURN.—Every individual required to file a return  
10          under section 6012 for the taxable year shall include  
11          on such return the aggregate amount contributed by  
12          employers to the health savings accounts (as so de-  
13          fined) of such individual or such individual’s spouse  
14          for such taxable year.

15          “(5) HEALTH SAVINGS ACCOUNT CONTRIBU-  
16          TIONS NOT PART OF COBRA COVERAGE.—Paragraph  
17          (1) shall not apply for purposes of section 4980B.”.

18          (3) Section 223(b)(4) is amended by striking  
19          subparagraph (A) and by redesignating subpara-  
20          graphs (B) and (C) as subparagraphs (A) and (B),  
21          respectively.

22          (4) Section 3231(e) is amended by striking  
23          paragraph (10) and by redesignating paragraphs  
24          (11) and (12) as paragraphs (10) and (11), respec-  
25          tively.

1           (5) Section 3306(b) is amended by striking  
2 paragraph (17).

3           (6) Section 3401(a) is amended by striking  
4 paragraph (21).

5           (7) Chapter 43 is amended by striking section  
6 4980E (and by striking the item relating to such  
7 section in the table of sections for such chapter).

8           (8) Section 4980G is amended to read as fol-  
9 lows:

10 **“SEC. 4980G. FAILURE OF EMPLOYER TO MAKE COM-**  
11 **PARABLE HEALTH SAVINGS ACCOUNT CON-**  
12 **TRIBUTIONS.**

13           “(a) IN GENERAL.—In the case of an employer who  
14 makes a contribution to the health savings account of any  
15 employee during a calendar year, there is hereby imposed  
16 a tax on the failure of such employer to meet the require-  
17 ments of subsection (d) for such calendar year.

18           “(b) AMOUNT OF TAX.—The amount of the tax im-  
19 posed by subsection (a) on any failure for any calendar  
20 year is the amount equal to 35 percent of the aggregate  
21 amount contributed by the employer to health savings ac-  
22 counts of employees for taxable years of such employees  
23 ending with or within such calendar year.

24           “(c) WAIVER BY SECRETARY.—In the case of a fail-  
25 ure which is due to reasonable cause and not to willful

1 neglect, the Secretary may waive part or all of the tax  
2 imposed by subsection (a) to the extent that the payment  
3 of such tax would be excessive relative to the failure in-  
4 volved.

5 “(d) EMPLOYER REQUIRED TO MAKE COMPARABLE  
6 HEALTH SAVINGS ACCOUNT CONTRIBUTIONS FOR ALL  
7 PARTICIPATING EMPLOYEES.—

8 “(1) IN GENERAL.—An employer meets the re-  
9 quirements of this subsection for any calendar year  
10 if the employer makes available comparable con-  
11 tributions to the health savings accounts of all com-  
12 parable participating employees for each coverage  
13 period during such calendar year.

14 “(2) COMPARABLE CONTRIBUTIONS.—

15 “(A) IN GENERAL.—For purposes of para-  
16 graph (1), the term ‘comparable contributions’  
17 means contributions—

18 “(i) which are the same amount, or

19 “(ii) which are the same percentage of  
20 the annual deductible limit under the high  
21 deductible health plan covering the employ-  
22 ees.

23 “(B) PART-YEAR EMPLOYEES.—In the  
24 case of an employee who is employed by the em-  
25 ployer for only a portion of the calendar year,

1 a contribution to the health savings account of  
 2 such employee shall be treated as comparable if  
 3 it is an amount which bears the same ratio to  
 4 the comparable amount (determined without re-  
 5 gard to this subparagraph) as such portion  
 6 bears to the entire calendar year.

7 “(3) COMPARABLE PARTICIPATING EMPLOY-  
 8 EES.—

9 “(A) IN GENERAL.—For purposes of para-  
 10 graph (1), the term ‘comparable participating  
 11 employees’ means all employees—

12 “(i) who are eligible individuals cov-  
 13 ered under any high deductible health plan  
 14 of the employer, and

15 “(ii) who have the same category of  
 16 coverage.

17 “(B) CATEGORIES OF COVERAGE.—For  
 18 purposes of subparagraph (B), the categories of  
 19 coverage are self-only and family coverage.

20 “(4) PART-TIME EMPLOYEES.—

21 “(A) IN GENERAL.—Paragraph (3) shall  
 22 be applied separately with respect to part-time  
 23 employees and other employees.

24 “(B) PART-TIME EMPLOYEE.—For pur-  
 25 poses of subparagraph (A), the term ‘part-time



1           employee’ means any employee who is custom-  
2           arily employed for fewer than 30 hours per  
3           week.

4           “(5) SPECIAL RULE FOR NON-HIGHLY COM-  
5           PENSATED EMPLOYEES.—For purposes of applying  
6           this section to a contribution to a health savings ac-  
7           count of an employee who is not a highly com-  
8           pensated employee (as defined in section 414(q)),  
9           highly compensated employees shall not be treated  
10          as comparable participating employees.

11          “(e) CONTROLLED GROUPS.—For purposes of this  
12          section, all persons treated as a single employer under sub-  
13          section (b), (c), (m), or (o) of section 414 shall be treated  
14          as 1 employer.

15          “(f) DEFINITIONS.—Terms used in this section which  
16          are also used in section 223 have the respective meanings  
17          given such terms in section 223.

18          “(g) REGULATIONS.—The Secretary shall issue regu-  
19          lations to carry out the purposes of this section.”.

20                 (9) Section 6051(a) is amended by striking  
21                 paragraph (11).

22                 (10) Section 6051(a)(14)(A) is amended by  
23                 striking “paragraphs (11) and (12)” and inserting  
24                 “paragraph (12)”.

1 (d) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 1414. REPEAL OF 2-PERCENT FLOOR ON MISCELLA-**  
5 **NEOUS ITEMIZED DEDUCTIONS.**

6 (a) IN GENERAL.—Part 1 of subchapter B of chapter  
7 1 is amended by striking section 67 (and the item relating  
8 to such section in the table of sections for such part).

9 (b) CONFORMING AMENDMENTS.—

10 (1) Section 642(b)(2)(C)(i)(II) is amended to  
11 read as follows:

12 “(II) by determining the adjusted  
13 gross income of the trust under the  
14 rules of section 2(b)(2) (without the  
15 reference to section 642(b)).”.

16 (2) Section 162(o) is amended by striking para-  
17 graph (2).

18 (3) Section 302(b)(5) is amended by striking  
19 “section 67(c)(2)(B)” and inserting “section  
20 562(c)(2)”.

21 (4) Section 562(c) is amended—

22 (A) by striking “(as defined in section  
23 67(c)(2)(B))”,

24 (B) by striking “(as so defined)”.

1 (C) by striking “Except in the case of”  
2 and inserting the following:

3 “(1) IN GENERAL.—Except in the case of”, and

4 (D) by adding at the end the following new  
5 paragraph:

6 “(2) PUBLICLY OFFERED REGULATED INVEST-  
7 MENT COMPANY.—For purposes of this subsection—

8 “(A) IN GENERAL.—The term ‘publicly of-  
9 fered regulated investment company’ means a  
10 regulated investment company the shares of  
11 which are—

12 “(i) continuously offered pursuant to  
13 a public offering (within the meaning of  
14 section 4 of the Securities Act of 1933, as  
15 amended (15 U.S.C. 77a to 77aa)),

16 “(ii) regularly traded on an estab-  
17 lished securities market, or

18 “(iii) held by or for no fewer than 500  
19 persons at all times during the taxable  
20 year.

21 “(B) SECRETARY MAY REDUCE 500 PER-  
22 SON REQUIREMENT.—The Secretary may by  
23 regulation decrease the minimum shareholder  
24 requirement of clause (i)(III) in the case of reg-  
25 ulated investment companies which experience a

1           loss of shareholders through net redemptions of  
2           their shares.”.

3           (c) **EFFECTIVE DATE.**—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2014.

6 **SEC. 1415. REPEAL OF OVERALL LIMITATION ON ITEMIZED**  
7 **DEDUCTIONS.**

8           (a) **IN GENERAL.**—Part 1 of subchapter B of chapter  
9 1 is amended by striking section 68 (and the item relating  
10 to such section in the table of sections for such part).

11          (b) **EFFECTIVE DATE.**—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 2014.

14 **SEC. 1416. DEDUCTION FOR AMORTIZABLE BOND PREMIUM**  
15 **ALLOWED IN DETERMINING ADJUSTED**  
16 **GROSS INCOME.**

17          (a) **IN GENERAL.**—Subsection (a) of section 62, as  
18 amended by section 1411, is amended by inserting after  
19 paragraph (9) the following new paragraph:

20                 “(10) **AMORTIZABLE BOND PREMIUM.**—The de-  
21 duction allowed under section 171(a)(1).”.

22          (b) **EFFECTIVE DATE.**—The amendments made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 2014.

1 **SEC. 1417. REPEAL OF EXCLUSION, ETC., FOR EMPLOYEE**  
2 **ACHIEVEMENT AWARDS.**

3 (a) IN GENERAL.—Section 74 is amended by striking  
4 subsection (c).

5 (b) REPEAL OF LIMITATION ON DEDUCTION.—Sec-  
6 tion 274 is amended by striking subsection (j).

7 (c) CONFORMING AMENDMENTS.—

8 (1) Section 102(c)(2) is amended by striking  
9 the first sentence.

10 (2) Section 414(n)(3)(C) is amended by strik-  
11 ing “274(j),”.

12 (3) Section 414(t)(2) is amended by striking  
13 “274(j),”.

14 (4) Section 3121(a)(20) is amended by striking  
15 “74(c),”.

16 (5) Section 209(a)(17) of the Social Security  
17 Act is amended by striking “74(c),”.

18 (6) Section 3231(e)(5) is amended by striking  
19 “74(c),”.

20 (7) Section 3306(b)(16) is amended by striking  
21 “74(c),”.

22 (8) Section 3401(a)(19) is amended by striking  
23 “74(c),”.

24 (d) EFFECTIVE DATE.—The amendments made by  
25 this section shall apply to taxable years beginning after  
26 December 31, 2014.

1 **SEC. 1418. CLARIFICATION OF SPECIAL RULE FOR CERTAIN**  
2 **GOVERNMENTAL PLANS.**

3 (a) TREATMENT OF BENEFICIARIES.—Section  
4 105(j)(1) is amended—

5 (1) by striking “the taxpayer” and inserting  
6 “an employee, spouse, dependent (as defined for  
7 purposes of subsection (b)), or child (as so de-  
8 fined)”, and

9 (2) by striking “deceased plan participant’s  
10 beneficiary” and inserting “deceased employee’s ben-  
11 efiary who is not a surviving spouse, dependent (as  
12 so defined), or child (as so defined)”.

13 (b) APPLICATION TO POLITICAL SUBDIVISIONS OF  
14 STATES.—Section 105(j)(2) is amended—

15 (1) by inserting “or established by or on behalf  
16 of a State or political subdivision thereof” after  
17 “public retirement system”, and

18 (2) by inserting “or 501(c)(9)” after “section  
19 115” in subparagraph (B) thereof.

20 (c) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to payments after the date of the  
22 enactment of this Act.

23 **SEC. 1419. LIMITATION ON EXCLUSION FOR EMPLOYER-**  
24 **PROVIDED HOUSING.**

25 (a) IN GENERAL.—Section 119 is amended by adding  
26 at the end the following new subsection:

1 “(e) LIMITATION ON EXCLUSION OF LODGING.—

2 “(1) IN GENERAL.—The aggregate amount ex-  
3 cluded from gross income of the taxpayer under sub-  
4 sections (a) and (d) with respect to lodging for any  
5 taxable year shall not exceed \$50,000 (half such  
6 amount in the case of a married individual filing a  
7 separate return).

8 “(2) LIMITATION TO 1 HOME.—Subsections (a)  
9 and (d) (separately and in combination) shall not  
10 apply with respect to more than 1 residence of the  
11 taxpayer at any given time. In the case of a joint re-  
12 turn, the preceding sentence shall apply separately  
13 to each spouse for any period during which each  
14 spouse resides separate from the other spouse in a  
15 residence which is provided in connection with the  
16 employment of each spouse, respectively.”.

17 (b) EFFECTIVE DATE.—The amendment made by  
18 this section shall apply to taxable years beginning after  
19 December 31, 2014.

20 **SEC. 1420. FRINGE BENEFITS.**

21 (a) REPEAL OF SPECIAL RULE FOR AIR TRANSPOR-  
22 TATION BY PARENT OF EMPLOYEE.—Subsection (h) of  
23 section 132 is amended by striking paragraph (3).

24 (b) TRANSPORTATION AND PARKING.—

25 (1) FREEZE AT CURRENT LEVELS.—

1 (A) IN GENERAL.—Paragraph (2) of sec-  
2 tion 132(f) is amended—

3 (i) in subparagraph (A) by striking  
4 “\$100” and inserting “\$130”, and

5 (ii) in subparagraph (B) by striking  
6 “\$175” and inserting “\$250”.

7 (B) INFLATION ADJUSTMENT.—Subsection  
8 (f) of such section is amended by striking para-  
9 graph (6) and redesignating paragraph (7) as  
10 paragraph (6).

11 (2) REPEAL OF BICYCLE BENEFIT.—

12 (A) IN GENERAL.—Paragraph (1) of sec-  
13 tion 132(f) is amended by striking subpara-  
14 graph (D).

15 (B) CONFORMING AMENDMENTS.—

16 (i) Section 132(f)(2) is amended by  
17 inserting “and” at the end of subpara-  
18 graph (A), by striking “and” at the end of  
19 subparagraph (B) and inserting a period,  
20 and by striking subparagraph (C).

21 (ii) Section 132(f)(4) is amended by  
22 striking “(other than a qualified bicycle  
23 commuting reimbursement)”.

24 (iii) Section 132(f)(5) is amended by  
25 striking subparagraph (F).



1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 1421. REPEAL OF EXCLUSION OF NET UNREALIZED AP-**  
5 **PRECIATION IN EMPLOYER SECURITIES.**

6 (a) IN GENERAL.—Section 402(e) is amended by  
7 striking paragraph (4).

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 401(k)(10) is amended by striking  
10 subparagraph (B) and inserting the following new  
11 subparagraphs:

12 “(B) DISTRIBUTIONS MUST BE LUMP SUM  
13 DISTRIBUTIONS.—A termination shall not be  
14 treated as described in subparagraph (A) with  
15 respect to any employee unless the employee re-  
16 ceives a lump sum distribution by reason of the  
17 termination.

18 “(C) LUMP-SUM DISTRIBUTION DE-  
19 FINED.—For purposes of this paragraph—

20 “(i) IN GENERAL.—The term ‘lump  
21 sum distribution’ means the distribution or  
22 payment within one taxable year of the re-  
23 cipient of the balance to the credit of an  
24 employee which becomes payable to the re-  
25 cipient from a trust which forms a part of

1 a plan described in section 401(a) and  
2 which is exempt from tax under section  
3 501 or from a plan described in section  
4 403(a). Such term includes a distribution  
5 of an annuity contract from—

6 “(I) a trust which forms a part  
7 of a plan described in section 401(a)  
8 and which is exempt from tax under  
9 section 501(a), or

10 “(II) an annuity plan described  
11 in section 403(a).

12 For purposes of this clause, a distribution  
13 to two or more trusts shall be treated as  
14 a distribution to one recipient.

15 “(ii) AGGREGATION OF CERTAIN  
16 TRUSTS AND PLANS.—For purposes of de-  
17 termining the balance to the credit of an  
18 employee under clause (i)—

19 “(I) all trusts which are part of  
20 a plan shall be treated as a single  
21 trust, all pension plans maintained by  
22 the employer shall be treated as a sin-  
23 gle plan, all profit-sharing plans main-  
24 tained by the employer shall be treat-  
25 ed as a single plan, and all stock

1 bonus plans maintained by the em-  
2 ployer shall be treated as a single  
3 plan, and

4 “(II) trusts which are not quali-  
5 fied trusts under section 401(a) and  
6 annuity contracts which do not satisfy  
7 the requirements of section 404(a)(2)  
8 shall not be taken into account.

9 “(iii) COMMUNITY PROPERTY LAWS.—  
10 The provisions of this subparagraph shall  
11 be applied without regard to community  
12 property laws.

13 “(iv) BALANCE TO CREDIT OF EM-  
14 PLOYEE NOT TO INCLUDE AMOUNTS PAY-  
15 ABLE UNDER QUALIFIED DOMESTIC RELA-  
16 TIONS ORDER.—The balance to the credit  
17 of an employee shall not include any  
18 amount payable to an alternate payee  
19 under a qualified domestic relations order  
20 (within the meaning of section 414(p)).

21 “(v) TRANSFERS TO COST-OF-LIVING  
22 ARRANGEMENT NOT TREATED AS DIS-  
23 TRIBUTION.—The balance to the credit of  
24 an employee under a defined contribution  
25 plan shall not include any amount trans-

1           ferred from such defined contribution plan  
2           to a qualified cost-of-living arrangement  
3           (within the meaning of section 415(k)(2))  
4           under a defined benefit plan. (vii)

5           “(vi) LUMP-SUM DISTRIBUTIONS OF  
6           ALTERNATE PAYEES.—If any distribution  
7           or payment of the balance to the credit of  
8           an employee would be treated as a lump-  
9           sum distribution, then, for purposes of this  
10          paragraph, the payment under a qualified  
11          domestic relations order (within the mean-  
12          ing of section 414(p)) of the balance to the  
13          credit of an alternate payee who is the  
14          spouse or former spouse of the employee  
15          shall be treated as a lump-sum distribu-  
16          tion. For purposes of this clause, the bal-  
17          ance to the credit of the alternate payee  
18          shall not include any amount payable to  
19          the employee.

20          “(vii) EXCLUSION OF ACCUMULATE  
21          DEDUCTIBLE EMPLOYEE CONTRIBU-  
22          TIONS.—For purposes of this subpara-  
23          graph, the balance to the credit of the em-  
24          ployee does not include the accumulated  
25          deductible employee contributions under

1           the plan (within the meaning of section  
2           72(o)(5)).”.

3           (2) Section 3405(e) is amended by striking  
4           paragraph (8).

5           (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to distributions after December 31,  
7 2014.

8 **SEC. 1422. CONSISTENT BASIS REPORTING BETWEEN ES-**  
9           **TATE AND PERSON ACQUIRING PROPERTY**  
10           **FROM DECEDENT.**

11           (a) PROPERTY ACQUIRED FROM A DECEDENT.—Sec-  
12 tion 1014 is amended by adding at the end the following  
13 new subsection:

14           “(f) BASIS MUST BE CONSISTENT WITH ESTATE  
15 TAX RETURN.—For purposes of this section—

16           “(1) IN GENERAL.—The basis of any property  
17 to which subsection (a) applies shall not exceed—

18           “(A) in the case of property the final value  
19 of which has been determined for purposes of  
20 the tax imposed by chapter 11 on the estate of  
21 such decedent, such value, and

22           “(B) in the case of property not described  
23 in subparagraph (A) and with respect to which  
24 a statement has been furnished under section

1           6035(a) identifying the value of such property,  
2           such value.

3           “(2) EXCEPTION.—Paragraph (1) shall only  
4           apply to any property whose inclusion in the dece-  
5           dent’s estate increased the liability for the tax im-  
6           posed by chapter 11 (reduced by credits allowable  
7           against such tax) on such estate.

8           “(3) REGULATIONS.—The Secretary may by  
9           regulations provide exceptions to the application of  
10          this subsection.”.

11          (b) INFORMATION REPORTING.—

12           (1) IN GENERAL.—Subpart A of part III of  
13          subchapter A of chapter 61 is amended by inserting  
14          after section 6034A the following new section:

15          **“SEC. 6035. BASIS INFORMATION TO PERSONS ACQUIRING**  
16                  **PROPERTY FROM DECEDENT.**

17          “(a) INFORMATION WITH RESPECT TO PROPERTY  
18          ACQUIRED FROM DECEDENTS.—

19           “(1) IN GENERAL.—The executor of any estate  
20          required to file a return under section 6018(a) shall  
21          furnish to the Secretary and to each person acquir-  
22          ing any interest in property included in the dece-  
23          dent’s gross estate for Federal estate tax purposes  
24          a statement identifying the value of each interest in  
25          such property as reported on such return and such

1 other information with respect to such interest as  
2 the Secretary may prescribe.

3 “(2) STATEMENTS BY BENEFICIARIES.—Each  
4 person required to file a return under section  
5 6018(b) shall furnish to the Secretary and to each  
6 other person who holds a legal or beneficial interest  
7 in the property to which such return relates a state-  
8 ment identifying the information described in para-  
9 graph (1).

10 “(3) TIME FOR FURNISHING STATEMENT.—

11 “(A) IN GENERAL.—Each statement re-  
12 quired to be furnished under paragraph (1) or  
13 (2) shall be furnished at such time as the Sec-  
14 retary may prescribe, but in no case at a time  
15 later than the earlier of—

16 “(i) the date which is 30 days after  
17 the date on which the return under section  
18 6018 was required to be filed (including  
19 extensions, if any), or

20 “(ii) the date which is 30 days after  
21 the date such return is filed.

22 “(B) ADJUSTMENTS.—In any case in  
23 which there is an adjustment to the information  
24 required to be included on a statement filed  
25 under paragraph (1) or (2) after such state-

1           ment has been filed, a supplemental statement  
2           under such paragraph shall be filed not later  
3           than the date which is 30 days after such ad-  
4           justment is made.

5           “(b) REGULATIONS.—The Secretary shall prescribe  
6 such regulations as necessary to carry out this section, in-  
7 cluding regulations relating to—

8           “(1) the application of this section to property  
9           with regard to which no estate tax return is required  
10          to be filed, and

11          “(2) situations in which the surviving joint ten-  
12          ant or other recipient may have better information  
13          than the executor regarding the basis or fair market  
14          value of the property.”.

15          (2) PENALTY FOR FAILURE TO FILE.—

16                (A) RETURN.—Section 6724(d)(1) is  
17                amended by striking “and” at the end of sub-  
18                paragraph (B), by striking the period at the  
19                end of subparagraph (C) and inserting “, and”,  
20                and by adding at the end the following new sub-  
21                paragraph:

22                “(D) any statement required to be filed  
23                with the Secretary under section 6035.”.

24                (B) STATEMENT.—Section 6724(d)(2) is  
25                amended by striking “or” at the end of sub-



1 paragraph (GG), by striking the period at the  
2 end of subparagraph (HH) and inserting “,  
3 or”, and by adding at the end the following new  
4 subparagraph:

5 “(II) section 6035 (other than a statement  
6 described in paragraph (1)(D)).”.

7 (3) CLERICAL AMENDMENT.—The table of sec-  
8 tions for subpart A of part III of subchapter A of  
9 chapter 61 is amended by inserting after the item  
10 relating to section 6034A the following new item:

“Sec. 6035. Basis information to persons acquiring property from decedent.”.

11 (c) PENALTY FOR INCONSISTENT REPORTING.—

12 (1) IN GENERAL.—Subsection (b) of section  
13 6662 is amended by inserting after paragraph (7)  
14 the following new paragraph:

15 “(8) Any inconsistent estate basis.”.

16 (2) INCONSISTENT BASIS REPORTING.—Section  
17 6662 is amended by adding at the end the following  
18 new subsection:

19 “(k) INCONSISTENT ESTATE BASIS REPORTING.—

20 For purposes of this section, the term ‘inconsistent estate  
21 basis’ means the portion of the understatement which is  
22 attributable to in the case of property acquired from a  
23 decedent, a basis determination with respect to such prop-  
24 erty which is not consistent with the value of such prop-  
25 erty as determined under section 1014(f).”.

1 (d) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to transfers for which an estate  
3 tax return is filed after the date of the enactment of this  
4 Act.

5 **Subtitle F—Employment Tax**  
6 **Modifications**

7 **SEC. 1501. MODIFICATIONS OF DEDUCTION FOR SOCIAL SE-**  
8 **CURITY TAXES IN COMPUTING NET EARN-**  
9 **INGS FROM SELF-EMPLOYMENT.**

10 (a) IN GENERAL.—Paragraph (12) of section  
11 1402(a) is amended to read as follows:

12 “(12) in lieu of the deduction allowable under  
13 section 164(f) (relating to deduction for one-half of  
14 self-employment taxes), there shall be allowed as a  
15 deduction an amount equal to the sum of—

16 “(A) 7.1064 percent of so much of the in-  
17 dividual’s net earnings from self-employment  
18 for the taxable year (determined without regard  
19 to this paragraph) as does not exceed an  
20 amount equal to the product of 1.0765 and the  
21 excess (if any) of—

22 “(i) the contribution and benefit base  
23 (as determined under section 230 of the  
24 Social Security Act) in effect for the cal-

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

3                   “(ii) the wages (within the meaning of  
4                   subsection (b)(1)) paid to the individual  
5                   during such taxable year, plus

6                   “(B) 1.4293 percent of the excess (if any)  
7                   of the individual’s net earnings from self-em-  
8                   ployment for the taxable year (determined with-  
9                   out regard to this paragraph) over the amount  
10                  of such net earnings taken into account under  
11                  subparagraph (A);”.

12           (b) COORDINATION WITH BENEFITS.—Paragraph  
13 (11) of section 211(a) of the Social Security Act is amend-  
14 ed to read as follows:

15                   “(11) in lieu of the deduction allowable under  
16                   section 164(f) of the Internal Revenue Code of 1986  
17                   (relating to deduction for one-half of self-employ-  
18                   ment taxes), there shall be allowed as a deduction an  
19                   amount equal to the sum of—

20                           “(A) 7.1064 percent of so much of the in-  
21                           dividual’s net-earnings from self-employment  
22                           for the taxable year (determined without regard  
23                           to this paragraph) as does not exceed an  
24                           amount equal to the product of 1.0765 and the  
25                           excess (if any) of—

1                   “(i) the contribution and benefit base  
2                   (as determined under section 230) in effect  
3                   for the calendar year in which the taxable  
4                   year begins,

5                   “(ii) the wages (within the meaning of  
6                   section 1402(b)(1) of the Internal Revenue  
7                   Code of 1986) paid to the individual dur-  
8                   ing such taxable year, plus

9                   “(B) 1.4293 percent of the excess (if any)  
10                  of such net earnings over the amount of such  
11                  net earnings taken into account under subpara-  
12                  graph (A);”.

13           (c) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to taxable years beginning after  
15 December 31, 2014.

16 **SEC. 1502. DETERMINATION OF NET EARNINGS FROM SELF-**  
17 **EMPLOYMENT.**

18           (a) PRO RATA SHARE OF S CORPORATION ITEMS IN-  
19 CLUDED AS NET EARNINGS FROM SELF-EMPLOYMENT.—

20           (1) IN GENERAL.—Section 1402(a) is amended  
21           by inserting “, plus (notwithstanding subsection  
22           (c)(2)) his pro rata share of nonseparately computed  
23           income or loss (as defined in section 1366(a)(2))  
24           from any trade or business carried on by an S cor-

1       poration in which he is a shareholder” before “; ex-  
2       cept that” in the matter preceding paragraph (1).

3               (2) APPLICATION OF ADJUSTMENTS.—Section  
4       1402(a) is amended by inserting “and such pro rata  
5       share of S corporation nonseparately computed in-  
6       come or loss” after “such distributive share of part-  
7       nership ordinary income or loss” in the matter pre-  
8       ceding paragraph (1).

9               (3) CONFORMING AMENDMENTS.—Section  
10       211(a) of the Social Security Act is amended in the  
11       matter preceding paragraph (1)—

12               (A) by inserting “, plus (notwithstanding  
13       subsection (c)(2)) his pro rata share of non-  
14       separately computed income or loss (as defined  
15       in section 1366(a)(2) of the Internal Revenue  
16       Code of 1986)from any trade or business car-  
17       ried on by an S corporation in which he is a  
18       shareholder” before “; except that”, and

19               (B) by inserting “and such pro rata share  
20       of S corporation nonseparately computed in-  
21       come or loss” after “such distributive share of  
22       partnership ordinary income or loss”.

23               (b) REPEAL OF EXCEPTION FOR LIMITED PART-  
24       NERS.—

1           (1) IN GENERAL.—Section 1402(a) is amended  
2           by striking paragraph (13).

3           (2) CONFORMING AMENDMENT.—Section  
4           211(a) of the Social Security Act is amended by  
5           striking paragraph (12).

6           (c) DEDUCTION FOR RETURN ON INVESTED CAP-  
7 ITAL.—

8           (1) IN GENERAL.—Section 1402 is amended by  
9           adding at the end the following new subsection:

10          “(m) DEDUCTION FOR RETURN ON INVESTED CAP-  
11 ITAL.—

12           “(1) IN GENERAL.—An individual’s net earn-  
13           ings from self-employment shall be reduced (but not  
14           below zero) by the lesser of—

15                   “(A) 30 percent of the sum of—

16                           “(i) such individual’s pass-through net  
17                           earnings from self-employment, and

18                           “(ii) such individual’s wages (as de-  
19                           fined in section 3121) paid with respect to  
20                           any trade or business carried on by an S  
21                           corporation in which he is a shareholder,  
22                           or

23                           “(B) such individual’s pass-through net  
24                           earnings from self-employment.

1           “(2) PASS-THROUGH NET EARNINGS FROM  
2 SELF-EMPLOYMENT.—For purposes of this sub-  
3 section, the term ‘pass-through net earnings from  
4 self-employment’ means net earnings from self-em-  
5 ployment (as computed under subsection (a) without  
6 regard to this subsection) determined without regard  
7 to any trade or business carried on by the individual.

8           “(3) 100 PERCENT DEDUCTION WHERE NO MA-  
9 TERIAL PARTICIPATION.—

10           “(A) IN GENERAL.—If an individual does  
11 not have material participation with respect to  
12 an entity (as determined under subparagraph  
13 (B)), in lieu of the reduction provided under  
14 paragraph (1) such individual’s net earnings  
15 from self-employment shall be reduced (but not  
16 below zero) by the sum of—

17           “(i) the reduction determined under  
18 paragraph (1) applied—

19           “(I) by substituting ‘100 percent’  
20 for ‘30 percent’ in subparagraph (A)  
21 thereof, and

22           “(II) by determining pass-  
23 through net earnings from self-em-  
24 ployment by only taking into account

1 distributive and pro rata shares from  
2 non-participation entities, and

3 “(III) by only taking into ac-  
4 count under subparagraph (A)(ii)  
5 thereof wages paid with respect to  
6 trades or businesses carried on by S  
7 corporations which are non-participa-  
8 tion entities, plus

9 “(ii) the reduction determined under  
10 paragraph (1) applied—

11 “(I) by determining pass-through  
12 net earnings from self-employment by  
13 not taking into account any distribu-  
14 tive or pro rata share from a non-par-  
15 ticipation entity, and

16 “(II) by not taking into account  
17 under subparagraph (A)(ii) thereof  
18 any wages paid with respect to trades  
19 or businesses carried on by an S cor-  
20 poration which is a non-participation  
21 entity.

22 “(B) MATERIAL PARTICIPATION.—For  
23 purposes of this paragraph—

24 “(i) IN GENERAL.—An individual does  
25 not have material participation with re-



1           spect to an entity (hereafter referred to as  
2           the top-tier entity) if such individual dem-  
3           onstrates to the satisfaction of the Sec-  
4           retary that such individual—

5                   “(I) does not materially partici-  
6                   pate (as determined under section  
7                   469(h) without regard to paragraph  
8                   (2) thereof) in any activity carried on  
9                   by such top-tier entity, and

10                   “(II) does not materially partici-  
11                   pate (as so determined) in any activity  
12                   carried on by any entity in which such  
13                   top-tier entity holds (directly or indi-  
14                   rectly) any interest.

15                   “(ii) FAMILY ATTRIBUTION.—For  
16                   purposes of applying clause (i), the partici-  
17                   pation of any individual in any activity  
18                   shall also be treated as performed by such  
19                   individual’s spouse and the lineal descend-  
20                   ants of such individual and such individ-  
21                   ual’s spouse.

22                   “(C) NON-PARTICIPATION ENTITY.—For  
23                   purposes of this paragraph, the term ‘non-par-  
24                   ticipation entity’ means, with respect to any in-  
25                   dividual, any entity with respect to which such

1 individual does not have material participation  
2 (as determined under subparagraph (B)).”.

3 (2) CONFORMING AMENDMENT.—Section 211  
4 of the Social Security Act is amended by adding at  
5 the end the following new subsection:

6 “(1) DEDUCTION FOR RETURN ON INVESTED CAP-  
7 ITAL.—

8 “(1) IN GENERAL.—An individual’s net earn-  
9 ings from self-employment shall be reduced (but not  
10 below zero) by the lesser of—

11 “(A) 30 percent of the sum of—

12 “(i) such individual’s pass-through net  
13 earnings from self-employment, and

14 “(ii) such individual’s wages (as de-  
15 fined in section 209) paid with respect to  
16 any trade or business carried on by an S  
17 corporation in which he is a shareholder,  
18 or

19 “(B) such individual’s pass-through net  
20 earnings from self-employment.

21 “(2) PASS-THROUGH NET EARNINGS FROM  
22 SELF-EMPLOYMENT.—For purposes of this sub-  
23 section, the term ‘pass-through net earnings from  
24 self-employment’ means net earnings from self-em-  
25 ployment (as computed under subsection (a) without

1 regard to this subsection) determined without regard  
2 to any trade or business carried on by the individual.

3 “(3) 100 PERCENT DEDUCTION WHERE NO MA-  
4 TERIAL PARTICIPATION.—

5 “(A) IN GENERAL.—If an individual does  
6 not have material participation with respect to  
7 an entity (as determined under subparagraph  
8 (B)), in lieu of the reduction provided under  
9 paragraph (1) such individual’s net earnings  
10 from self-employment shall be reduced (but not  
11 below zero) by the sum of—

12 “(i) the reduction determined under  
13 paragraph (1) applied—

14 “(I) by substituting ‘100 percent’  
15 for ‘30 percent’ in subparagraph (A)  
16 thereof, and

17 “(II) by determining pass-  
18 through net earnings from self-em-  
19 ployment by only taking into account  
20 distributive and pro rata shares from  
21 non-participation entities, and

22 “(III) by only taking into ac-  
23 count under subparagraph (A)(ii)  
24 thereof wages paid with respect to  
25 trades or businesses carried on by S

1 corporations which are non-participa-  
2 tion entities, plus

3 “(ii) the reduction determined under  
4 paragraph (1) applied—

5 “(I) by determining pass-through  
6 net earnings from self-employment by  
7 not taking into account any distribu-  
8 tive or pro rata share from a non-  
9 participation entity, and

10 “(II) by not taking into account  
11 under subparagraph (A)(ii) thereof  
12 any wages paid with respect to trades  
13 or businesses carried on by an S cor-  
14 poration which is a nonparticipation  
15 entity.

16 “(B) MATERIAL PARTICIPATION.—For  
17 purposes of this paragraph—

18 “(i) IN GENERAL.—An individual does  
19 not have material participation with re-  
20 spect to an entity (hereafter referred to as  
21 the top-tier entity) if such individual dem-  
22 onstrates to the satisfaction of the Sec-  
23 retary of the Treasury under section  
24 1402(m) of the Internal Revenue Code of  
25 1986 that such individual—

1           “(I) does not materially partici-  
2           pate (as determined under section  
3           469(h) of the Internal Revenue Code  
4           of 1986 without regard to paragraph  
5           (2) thereof) in any activity carried on  
6           by such top-tier entity, and

7           “(II) does not materially partici-  
8           pate (as so determined) in any activity  
9           carried on by any entity in which such  
10          top-tier entity holds (directly or indi-  
11          rectly) any interest.

12          “(ii) FAMILY ATTRIBUTION.—For  
13          purposes of applying clause (i), the partici-  
14          pation of any individual in any activity  
15          shall also be treated as performed by such  
16          individual’s spouse and the lineal descend-  
17          ants of such individual and such individ-  
18          ual’s spouse.

19          “(C) NONPARTICIPATION ENTITY.—For  
20          purposes of this paragraph, the term ‘non-  
21          participation entity’ means, with respect to any  
22          individual, any entity with respect to which  
23          such individual does not have material partici-  
24          pation (as determined under subparagraph  
25          (B)).”.

1 (d) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 1503. REPEAL OF EXEMPTION FROM FICA TAXES FOR**  
5 **CERTAIN FOREIGN WORKERS.**

6 (a) IN GENERAL.—Subsection (b) of section 3121 is  
7 amended by striking paragraphs (1) and (19).

8 (b) COORDINATION WITH BENEFITS.—Subsection  
9 (a) of section 210 of the Social Security Act is amended  
10 by striking paragraphs (1) and (19).

11 (c) RAILROAD RETIREMENT TAX.—Paragraph (1) of  
12 section 3231(e) is amended by striking the third sentence.

13 (d) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to remuneration received for serv-  
15 ices performed after December 31, 2014.

16 **SEC. 1504. REPEAL OF EXEMPTION FROM FICA TAXES FOR**  
17 **CERTAIN STUDENTS.**

18 (a) IN GENERAL.—Paragraph (10) of section  
19 3121(b) is amended—

20 (1) by inserting “during any calendar year”  
21 after “service performed” in the matter preceding  
22 subparagraph (A), and

23 (2) by inserting “, and the remuneration paid  
24 by the employer with respect to such service during  
25 such calendar year is less than the dollar amount in

1 effect under section 213(d) of the Social Security  
2 Act (relating to amount required for a quarter of  
3 coverage) with respect to such year” before the  
4 semicolon at the end.

5 (b) COLLEGE CLUBS, FRATERNITIES, AND SORORI-  
6 TIES.—Paragraph (2) of section 3121(b) is amended—

7 (1) by inserting “during any calendar year”  
8 after “domestic service performed”, and

9 (2) by inserting “, if the remuneration paid by  
10 the employer with respect to such service during  
11 such calendar year is less than the dollar amount in  
12 effect under section 213(d) of the Social Security  
13 Act (relating to amount required for a quarter of  
14 coverage) with respect to such year” before the  
15 semicolon at the end.

16 (c) DEDUCTION OF TAX FROM WAGES.—Subsection  
17 (a) of section 3102 is amended by inserting “; and an em-  
18 ployer who in any calendar year pays to an employee re-  
19 munerations to which paragraph (2) or (10) of section  
20 3121(b) is applicable may deduct an amount equivalent  
21 to such tax from any such payment of remuneration, even  
22 though at the time of payment the total amount of such  
23 remuneration paid to the employee by the employer in the  
24 calendar year is less than the dollar amount in effect

1 under section 213(d) of the Social Security Act with re-  
2 spect to such year” before the period at the end.

3 (d) COORDINATION WITH BENEFITS.—

4 (1) Paragraph (10) of section 210(a) of the So-  
5 cial Security Act is amended—

6 (A) by inserting “during any calendar  
7 year” after “Service performed” in the matter  
8 preceding subparagraph (A), and

9 (B) by inserting “, and the remuneration  
10 paid by the employer with respect to such serv-  
11 ice during such calendar year is less than the  
12 dollar amount in effect under section 213(d)  
13 (relating to amount required for a quarter of  
14 coverage) with respect to such year” before the  
15 semicolon at the end.

16 (2) Paragraph (2) of section 210(a) of the So-  
17 cial Security Act is amended—

18 (A) by inserting “during any calendar  
19 year” after “Domestic service performed”, and

20 (B) by inserting “, if the remuneration  
21 paid by the employer with respect to such serv-  
22 ice during such calendar year is less than the  
23 dollar amount in effect under section 213(d)  
24 (relating to amount required for a quarter of



1 coverage) with respect to such year” before the  
2 semicolon at the end.

3 (e) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to remuneration received for serv-  
5 ices performed after December 31, 2014.

6 **SEC. 1505. OVERRIDE OF TREASURY GUIDANCE PROVIDING**  
7 **THAT CERTAIN EMPLOYER-PROVIDED SUP-**  
8 **PLEMENTAL UNEMPLOYMENT BENEFITS ARE**  
9 **NOT SUBJECT TO EMPLOYMENT TAXES.**

10 (a) IN GENERAL.—Effective with respect to amounts  
11 paid after December 31, 2014—

12 (1) Revenue Ruling 56–249,

13 (2) Revenue Ruling 58–128,

14 (3) Revenue Ruling 60–330,

15 (4) so much of the holding of Revenue Ruling  
16 77–347 as relates to Plan (1) and Plan (2),

17 (5) Revenue Ruling 90–72, and

18 (6) any other ruling, regulation, or other guid-  
19 ance provided by the Secretary of the Treasury, or  
20 his designee, to the extent that such ruling, regula-  
21 tion, or guidance provides that any payment made  
22 by an employer by reason of involuntary termination  
23 of employment shall not be treated as wages or com-  
24 pensation for purposes of any provision of the Inter-  
25 nal Revenue Code of 1986,

1 shall be null and void. The preceding sentence shall not  
2 apply to the extent a ruling, regulation, or other guidance  
3 implements a statutory exception to wages or compensa-  
4 tion.

5 (b) REPEAL OF WITHHOLDING REQUIREMENT.—

6 (1) IN GENERAL.—Section 3402(o)(1) is  
7 amended by striking subparagraph (A) and by redesi-  
8 gnating subparagraphs (B) and (C) as subpara-  
9 graphs (A) and (B), respectively.

10 (2) CONFORMING AMENDMENTS.—

11 (A) Section 3402(o)(2) is amended by  
12 striking subparagraph (A) and by redesignating  
13 subparagraphs (B) and (C) as subparagraphs  
14 (A) and (B), respectively.

15 (B) Section 3402(o)(5)(A) is amended by  
16 striking “paragraph (1)(C)” and inserting  
17 “paragraph (1)(B)”.

18 (3) EFFECTIVE DATE.—

19 (A) IN GENERAL.—The amendments made  
20 by this subsection shall apply to amounts paid  
21 after December 31, 2013.

22 (B) NO INFERENCE.—No amendment  
23 made by this subsection shall be construed to  
24 create any inference with respect to any  
25 amounts paid before January 1, 2014.

1 **SEC. 1506. CERTIFIED PROFESSIONAL EMPLOYER ORGANI-**  
2 **ZATIONS.**

3 (a) EMPLOYMENT TAXES.—Chapter 25 is amended  
4 by adding at the end the following new section:

5 **“SEC. 3511. CERTIFIED PROFESSIONAL EMPLOYER ORGANI-**  
6 **ZATIONS.**

7 “(a) GENERAL RULES.—For purposes of the taxes  
8 and other obligations imposed by this subtitle—

9 “(1) a certified professional employer organiza-  
10 tion shall be treated as the employer (and no other  
11 person shall be treated as the employer) of any work  
12 site employee performing services for any customer  
13 of such organization, but only with respect to remun-  
14 eration remitted by such organization to such work  
15 site employee, and

16 “(2) the exemptions, exclusions, definitions, and  
17 other rules which are based on type of employer and  
18 which would (but for paragraph (1)) apply shall  
19 apply with respect to such taxes imposed on such re-  
20 munerations.

21 “(b) SUCCESSOR EMPLOYER STATUS.—For purposes  
22 of sections 3121(a)(1), 3231(e)(2)(C), and 3306(b)(1)—

23 “(1) a certified professional employer organiza-  
24 tion entering into a service contract with a customer  
25 with respect to a work site employee shall be treated  
26 as a successor employer and the customer shall be

1 treated as a predecessor employer during the term  
2 of such service contract, and

3 “(2) a customer whose service contract with a  
4 certified professional employer organization is termi-  
5 nated with respect to a work site employee shall be  
6 treated as a successor employer and the certified  
7 professional employer organization shall be treated  
8 as a predecessor employer.

9 “(c) LIABILITY OF CERTIFIED PROFESSIONAL EM-  
10 PLOYER ORGANIZATION.—Solely for purposes of its liabil-  
11 ity for the taxes and other obligations imposed by this sub-  
12 title—

13 “(1) a certified professional employer organiza-  
14 tion shall be treated as the employer of any work  
15 site employee (other than a person described in sub-  
16 section (e)) who is performing services covered by a  
17 contract meeting the requirements of section  
18 7706(e)(2), but only with respect to remuneration  
19 remitted by such organization to such individual,  
20 and

21 “(2) exemptions, exclusions, definitions, and  
22 other rules which are based on type of employer and  
23 which would (but for paragraph (1)) apply shall  
24 apply with respect to such taxes imposed on such re-  
25 munerations.

1 “(d) SPECIAL RULE FOR RELATED PARTY.—This  
2 section shall not apply in the case of a customer which  
3 bears a relationship to a certified professional employer  
4 organization described in section 267(b) or 707(b). For  
5 purposes of the preceding sentence, such sections shall be  
6 applied by substituting ‘10 percent’ for ‘50 percent’.

7 “(e) SPECIAL RULE FOR CERTAIN INDIVIDUALS.—  
8 For purposes of the taxes imposed under this subtitle, an  
9 individual with net earnings from self-employment derived  
10 from the customer’s trade or business (including a partner  
11 in a partnership that is a customer), is not a work site  
12 employee with respect to remuneration paid by a certified  
13 professional employer organization.

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

17 (b) CERTIFIED PROFESSIONAL EMPLOYER ORGANI-  
18 ZATION DEFINED.—Chapter 79, as amended by the pre-  
19 ceding provisions of this Act, is amended by adding at the  
20 end the following new section:

21 **“SEC. 7706. CERTIFIED PROFESSIONAL EMPLOYER ORGANI-  
22 ZATIONS.**

23 “(a) IN GENERAL.—For purposes of this title, the  
24 term ‘certified professional employer organization’ means  
25 a person who applies to be treated as a certified profes-

1 sional employer organization for purposes of section 3511  
2 and who has been certified by the Secretary as meeting  
3 the requirements of subsection (b).

4 “(b) CERTIFICATION REQUIREMENTS.—A person  
5 meets the requirements of this subsection if such person—

6 “(1) demonstrates that such person (and any  
7 owner, officer, and such other persons as may be  
8 specified in regulations) meets such requirements as  
9 the Secretary shall establish with respect to tax sta-  
10 tus, background, experience, business location, and  
11 annual financial audits,

12 “(2) agrees that it will satisfy the bond and  
13 independent financial review requirements of sub-  
14 sections (c) on an ongoing basis,

15 “(3) agrees that it will satisfy such reporting  
16 obligations as may be imposed by the Secretary,

17 “(4) computes its taxable income using an ac-  
18 crual method of accounting unless the Secretary ap-  
19 proves another method,

20 “(5) agrees to verify on such periodic basis as  
21 the Secretary may prescribe that it continues to  
22 meet the requirements of this subsection, and

23 “(6) agrees to notify the Secretary in writing,  
24 within such time as the of Secretary may prescribe,  
25 of any change that materially affects the continuing

1 accuracy of any agreement or information which was  
2 previously made or provided.

3 “(c) BOND AND INDEPENDENT FINANCIAL RE-  
4 VIEW.—

5 “(1) IN GENERAL.—An organization meets the  
6 requirements of this paragraph if such organiza-  
7 tion—

8 “(A) meets the bond requirements of para-  
9 graph (2), and

10 “(B) meets the independent financial re-  
11 view requirements of paragraph (3).

12 “(2) BOND.—

13 “(A) IN GENERAL.—A certified profes-  
14 sional employer organization meets the require-  
15 ments of this paragraph if the organization has  
16 posted a bond for the payment of taxes under  
17 subtitle C (in a form acceptable to the Sec-  
18 retary) that is in an amount at least equal to  
19 the amount specified in subparagraph (B).

20 “(B) AMOUNT OF BOND.—

21 “(i) IN GENERAL.—For the period  
22 April 1 of any calendar year through  
23 March 31 of the following calendar year,  
24 the amount of the bond required is equal  
25 to the greater of—

1           “(I) 5 percent of the organiza-  
2           tion’s liability under section 3511 for  
3           taxes imposed by subtitle C during the  
4           preceding calendar year (but not to  
5           exceed \$1,000,000), or

6           “(II) \$50,000.

7           “(ii) SPECIAL RULE FOR NEWLY CRE-  
8           ATED PROFESSIONAL EMPLOYER ORGANI-  
9           ZATIONS.—During the first three full cal-  
10          endar years that an organization is in ex-  
11          istence, subclause (I) of clause (i) shall not  
12          apply. For this purpose—

13           “(I) under rules provided by the  
14           Secretary, an organization is treated  
15           as in existence as of the date that  
16           such organization began providing  
17           services to any customer which were  
18           comparable to the services being pro-  
19           vided with respect to work site em-  
20           ployees, regardless of whether such  
21           date occurred before or after the orga-  
22           nization is certified under subsection  
23           (b), and

24           “(II) an organization with liabil-  
25           ity under section 3511 for taxes im-



1                   posed by subtitle C during the pre-  
2                   ceding calendar year in excess of  
3                   \$5,000,000 shall no longer be de-  
4                   scribed in this clause (ii) as of April  
5                   1 of the year following such calendar  
6                   year.

7                   “(3) INDEPENDENT FINANCIAL REVIEW RE-  
8                   QUIREMENTS.—A certified professional employer or-  
9                   ganization meets the requirements of this paragraph  
10                  if such organization—

11                  “(A) has, as of the most recent audit date,  
12                  caused to be prepared and provided to the Sec-  
13                  retary (in such manner as the Secretary may  
14                  prescribe) an opinion of an independent cer-  
15                  tified public accountant as to whether the cer-  
16                  tified professional employer organization’s fi-  
17                  nancial statements are presented fairly in ac-  
18                  cordance with generally accepted accounting  
19                  principles, and

20                  “(B) provides to the Secretary an assertion  
21                  regarding Federal employment tax payments  
22                  and an examination level attestation on such  
23                  assertion from an independent certified public  
24                  accountant not later than the last day of the  
25                  second month beginning after the end of each

1           calendar quarter. Such assertion shall state  
2           that the organization has withheld and made  
3           deposits of all taxes imposed by chapters 21,  
4           22, and 24 of the Internal Revenue Code in ac-  
5           cordance with regulations imposed by the Sec-  
6           retary for such calendar quarter and such ex-  
7           amination level attestation shall state that such  
8           assertion is fairly stated, in all material re-  
9           spects.

10           “(4) CONTROLLED GROUP RULES.—For pur-  
11           poses of the requirements of paragraphs (2) and (3),  
12           all professional employer organizations that are  
13           members of a controlled group within the meaning  
14           of sections 414(b) and (c) shall be treated as a sin-  
15           gle organization.

16           “(5) FAILURE TO FILE ASSERTION AND ATTES-  
17           TATION.—If the certified professional employer orga-  
18           nization fails to file the assertion and attestation re-  
19           quired by paragraph (3) with respect to any cal-  
20           endar quarter, then the requirements of paragraph  
21           (3) with respect to such failure shall be treated as  
22           not satisfied for the period beginning on the due  
23           date for such attestation.

1           “(6) AUDIT DATE.—For purposes of paragraph  
2           (3)(A), the audit date shall be six months after the  
3           completion of the organization’s fiscal year.

4           “(d) SUSPENSION AND REVOCATION AUTHORITY.—  
5           The Secretary may suspend or revoke a certification of  
6           any person under subsection (b) for purposes of section  
7           3511 if the Secretary determines that such person is not  
8           satisfying the agreements or requirements of subsections  
9           (b) or (c), or fails to satisfy applicable accounting, report-  
10          ing, payment, or deposit requirements.

11          “(e) WORK SITE EMPLOYEE.—For purposes of this  
12          title—

13                  “(1) IN GENERAL.—The term ‘work site em-  
14                  ployee’ means, with respect to a certified profes-  
15                  sional employer organization, an individual who—

16                          “(A) performs services for a customer pur-  
17                          suant to a contract which is between such cus-  
18                          tomer and the certified professional employer  
19                          organization and which meets the requirements  
20                          of paragraph (2), and

21                          “(B) performs services at a work site  
22                          meeting the requirements of paragraph (3).

23                  “(2) SERVICE CONTRACT REQUIREMENTS.—A  
24                  contract meets the requirements of this paragraph  
25                  with respect to an individual performing services for

1 a customer if such contract is in writing and pro-  
2 vides that the certified professional employer organi-  
3 zation shall—

4 “(A) assume responsibility for payment of  
5 wages to the individual, without regard to the  
6 receipt or adequacy of payment from the cus-  
7 tomer for such services,

8 “(B) assume responsibility for reporting,  
9 withholding, and paying any applicable taxes  
10 under subtitle C, with respect to the individ-  
11 ual’s wages, without regard to the receipt or  
12 adequacy of payment from the customer for  
13 such services,

14 “(C) assume responsibility for any em-  
15 ployee benefits which the service contract may  
16 require the certified professional employer orga-  
17 nization to provide, without regard to the re-  
18 ceipt or adequacy of payment from the cus-  
19 tomer for such services,

20 “(D) assume responsibility for hiring, fir-  
21 ing and for recruiting workers in addition to  
22 the customer’s responsibility for recruiting, hir-  
23 ing, and firing workers,

24 “(E) maintain employee records relating to  
25 the individual, and

1           “(F) agree to be treated as a certified pro-  
2           fessional employer organization for purposes of  
3           section 3511 with respect to such individual.

4           “(3) WORK SITE COVERAGE REQUIREMENT.—

5           The requirements of this paragraph are met with re-  
6           spect to an individual if at least 85 percent of the  
7           individuals performing services for the customer at  
8           the work site where such individual performs serv-  
9           ices are subject to 1 or more contracts with the cer-  
10          tified professional employer organization which meet  
11          the requirements of paragraph (2) (but not taking  
12          into account those individuals who are excluded em-  
13          ployees within the meaning of section 414(q)(5)).

14          “(f) DETERMINATION OF EMPLOYMENT STATUS.—

15          Except to the extent necessary for purposes of section  
16          3511, nothing in this section shall be construed to affect  
17          the determination of who is an employee or employer for  
18          purposes of this title.

19          “(g) REGULATIONS.—The Secretary shall prescribe  
20          such regulations as may be necessary or appropriate to  
21          carry out the purposes of this section.”.

22          (c) CONFORMING AMENDMENTS.—

23                  (1) Section 3302 is amended by adding at the  
24                  end the following new subsection:

1           “(h) TREATMENT OF CERTIFIED PROFESSIONAL EM-  
2 PLOYER ORGANIZATIONS.—If a certified professional em-  
3 ployer organization (as defined in section 7706), or a cus-  
4 tomer of such organization, makes a contribution to the  
5 State’s unemployment fund with respect to a work site  
6 employee, such organization shall be eligible for the credits  
7 available under this section with respect to such contribu-  
8 tion.”.

9           (2) Section 3303(a) is amended—

10                   (A) by striking the period at the end of  
11                   paragraph (3) and inserting “; and” and by in-  
12                   serting after paragraph (3) the following new  
13                   paragraph:

14                   “(4) if the taxpayer is a certified professional  
15                   employer organization (as defined in section 7706)  
16                   that is treated as the employer under section 3511,  
17                   such certified professional employer organization is  
18                   permitted to collect and remit, in accordance with  
19                   paragraphs (1), (2), and (3), contributions during  
20                   the taxable year to the State unemployment fund  
21                   with respect to a work site employee.”, and

22                   (B) in the last sentence—

23                           (i) by striking “paragraphs (1), (2), and  
24                           (3)” and inserting “paragraphs (1), (2), (3),  
25                           and (4)”, and

1           (ii) by striking “paragraph (1), (2), or  
2           (3)” and inserting “paragraph (1), (2), (3), or  
3           (4)”.

4           (3) Section 6053(e) is amended by adding at  
5           the end the following new paragraph:

6           “(8) CERTIFIED PROFESSIONAL EMPLOYER OR-  
7           GANIZATIONS.—For purposes of any report required  
8           by this subsection, in the case of a certified profes-  
9           sional employer organization that is treated, under  
10          section 3511, as the employer of a work site em-  
11          ployee, the customer with respect to whom a work  
12          site employee performs services shall be the employer  
13          for purposes of reporting under this section and the  
14          certified professional employer organization shall  
15          furnish to the customer any information necessary  
16          to complete such reporting no later than such time  
17          as the Secretary shall prescribe.”.

18          (d) CLERICAL AMENDMENTS.—

19               (1) The table of sections for chapter 25 is  
20               amended by adding at the end the following new  
21               item:

          “Sec. 3511. Certified professional employer organizations.”.

22               (2) The table of sections for chapter 79, as  
23               amended by the preceding provisions of this Act, is

1       amended by adding at the end the following new  
2       item:

“Sec. 7706. Certified professional employer organizations.”.

3       (e) REPORTING REQUIREMENTS AND OBLIGA-  
4 TIONS.—The Secretary of the Treasury shall develop such  
5 reporting and recordkeeping rules, regulations, and proce-  
6 dures as the Secretary determines necessary or appro-  
7 priate to ensure compliance with the amendments made  
8 by this section with respect to entities applying for certifi-  
9 cation as certified professional employer organizations or  
10 entities that have been so certified. Such rules shall be  
11 designed in a manner which streamlines, to the extent pos-  
12 sible, the application of requirements of such amendments,  
13 the exchange of information between a certified profes-  
14 sional employer organization and its customers, and the  
15 reporting and recordkeeping obligations of the certified  
16 professional employer organization.

17       (f) USER FEES.—Subsection (b) of section 7528 is  
18 amended by adding at the end thereof the following new  
19 paragraph:

20               “(4) CERTIFIED PROFESSIONAL EMPLOYER OR-  
21 ORGANIZATIONS.—The fee charged under the program  
22 in connection with the certification by the Secretary  
23 of a professional employer organization under sec-  
24 tion 7706 shall be an annual fee not to exceed  
25 \$1,000 per year.”.



1 (g) EFFECTIVE DATES.—

2 (1) IN GENERAL.—The amendments made by  
3 this section shall apply with respect to wages for  
4 services performed on or after January 1 of the first  
5 calendar year beginning more than 12 months after  
6 the date of the enactment of this Act.

7 (2) CERTIFICATION PROGRAM.—The Secretary  
8 of the Treasury shall establish the certification pro-  
9 gram described in section 7706(b) of the Internal  
10 Revenue Code of 1986, as added by this section, not  
11 later than 6 months before the effective date deter-  
12 mined under paragraph (1).

13 (h) NO INFERENCE.—Nothing contained in this sec-  
14 tion or the amendments made by this section shall be con-  
15 strued to create any inference with respect to the deter-  
16 mination of who is an employee or employer—

17 (1) for Federal tax purposes (other than the  
18 purposes set forth in the amendments made by this  
19 section), or

20 (2) for purposes of any other provision of law.

1                   **Subtitle G—Pensions and**  
2                   **Retirement**

3                   **PART 1—INDIVIDUAL RETIREMENT PLANS**

4                   **SEC. 1601. ELIMINATION OF INCOME LIMITS ON CONTRIBU-**  
5                   **TIONS TO ROTH IRAs.**

6                   (a) IN GENERAL.—Subsection (c) of section 408A is  
7 amended by striking paragraph (3).

8                   (b) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 2014.

11                   **SEC. 1602. NO NEW CONTRIBUTIONS TO TRADITIONAL IRAs.**

12                   (a) IN GENERAL.—

13                   (1) INDIVIDUAL RETIREMENT ACCOUNTS.—

14 Paragraph (1) of section 408(a) is amended by  
15 striking “in excess of the amount” and all that fol-  
16 lows through the end and inserting the following:  
17 “unless it is a contribution under a simplified em-  
18 ployee pension described in subsection (k) not in ex-  
19 cess of the amount of the limitation in effect for  
20 such taxable year under section 415(c)(1)(A), a con-  
21 tribution to a simple retirement account described in  
22 subsection (p) not in excess of the amount described  
23 in section 408(p)(8) for such taxable year, or a con-  
24 tribution to a Roth IRA described in section 408A  
25 not in excess of the amount in effect for the taxable

1 year with respect to such individual under section  
2 408A(c)(1)(A)(i).”.

3 (2) INDIVIDUAL RETIREMENT ANNUITIES.—

4 (A) IN GENERAL.—Subparagraph (B) of  
5 section 408(b)(2) is amended to read as follows:

6 “(B) any amount paid as a premium on  
7 behalf of any individual for a taxable year  
8 would meet the requirements of subsection  
9 (a)(1) if it were paid as a contribution to an in-  
10 dividual retirement account, and”.

11 (B) ENDOWMENT CONTRACT REQUIRE-  
12 MENT.—The last sentence of section 408(b) is  
13 amended by striking “the dollar amount in ef-  
14 fect under section 219(b)(1)(A)” and inserting  
15 “the amounts described in paragraph (2)(B)”.

16 (b) CONFORMING AMENDMENTS.—

17 (1) AMENDMENTS RELATING TO DEDUCT-  
18 IBILITY.—

19 (A) Section 219(a) is amended by striking  
20 “equal to the qualified retirement contributions  
21 of the individual” and inserting “equal to the  
22 amounts contributed on behalf of the individual  
23 to a plan described in section 501(c)(18)”.

24 (B) Section 219(b) is amended—

1 (i) by striking “MAXIMUM AMOUNT  
2 OF DEDUCTION” and all that follows  
3 through “Notwithstanding paragraph (1),  
4 the amount allowable as a deduction” and  
5 inserting “MAXIMUM AMOUNT OF DEDUC-  
6 TION.—The amount allowable as a deduc-  
7 tion”, and

8 (ii) by striking paragraphs (4) and  
9 (5).

10 (C) Section 219 is amended by striking  
11 subsections (c), (d), (e), (g), and (h) and by re-  
12 designating subsection (f) as subsection (c).

13 (D) Section 219(c), as so redesignated, is  
14 amended—

15 (i) by striking “OTHER DEFINITIONS  
16 AND SPECIAL RULES” and inserting “SPE-  
17 CIAL RULES”,

18 (ii) by striking paragraphs (1), (3),  
19 (4), (5), (6), (7), and (8), and

20 (iii) by inserting before paragraph (2)  
21 the following new paragraph:

22 “(1) BENEFICIARY MUST BE UNDER AGE  
23 70½.—No deduction shall be allowed under this sec-  
24 tion with respect to any amount contributed on be-  
25 half of an individual to a plan described in section

1 501(c)(18) if such individual has attained age 70½  
2 before the close of such individual’s taxable year for  
3 which the contribution was made.”.

4 (E) Section 4973(b)(2)(C) is amended by  
5 striking “(determined without regard to section  
6 219(f)(6))”.

7 (2) AMENDMENTS RELATING TO ROTH IRA CON-  
8 TRIBUTION LIMITS.—

9 (A) Section 408A(c), as amended by this  
10 Act, is amended—

11 (i) by striking paragraphs (1) and (2)  
12 and inserting the following new para-  
13 graphs:

14 “(1) MAXIMUM CONTRIBUTION.—

15 “(A) IN GENERAL.—The aggregate  
16 amount of contributions for any taxable year to  
17 all Roth IRAs maintained for the benefit of an  
18 individual shall not exceed the lesser of—

19 “(i) \$5,500, or

20 “(ii) an amount equal to the com-  
21 pensation includible in the individual’s  
22 gross income for such taxable year.

23 “(B) CATCH-UP CONTRIBUTIONS FOR INDI-  
24 VIDUALS 50 OR OLDER.—In the case of an indi-  
25 vidual who has attained the age of 50 before

1           the close of the taxable year, the amount in ef-  
2           fect under subparagraph (A)(i) for such taxable  
3           year shall be increased by \$1,000.

4           “(2) SPECIAL RULE FOR CERTAIN MARRIED IN-  
5           DIVIDUALS.—In the case of an individual to whom  
6           this paragraph applies for the taxable year, the limi-  
7           tation of paragraph (1) shall be equal to the lesser  
8           of—

9                   “(A) the dollar amount in effect under  
10                  paragraph (1)(A)(i) for the taxable year, or

11                  “(B) the sum of—

12                           “(i) the compensation includible in  
13                           such individual’s gross income for the tax-  
14                           able year, plus

15                           “(ii) the compensation includible in  
16                           the gross income of such individual’s  
17                           spouse for the taxable year reduced by—

18                                   “(I) the amount allowed as a de-  
19                                   duction under section 219(a) to such  
20                                   spouse for such taxable year,

21                                   “(II) the amount of any contribu-  
22                                   tion on behalf of such spouse to a  
23                                   Roth IRA for such taxable year.

1           “(3) INDIVIDUALS TO WHOM PARAGRAPH (2)  
2 APPLIES.—Paragraph (2) shall apply to any indi-  
3 vidual if—

4                   “(A) such individual files a joint return for  
5 the taxable year, and

6                   “(B) the amount of compensation (if any)  
7 includible in such individual’s gross income for  
8 the taxable year is less than the compensation  
9 includible in the gross income of such individ-  
10 ual’s spouse for the taxable year.”.

11                   (ii) by striking “paragraph (2)” in  
12 paragraph (6) and inserting “paragraph  
13 (1)”,

14                   (iii) by striking “the rule of section  
15 219(f)(3) shall apply” in paragraph (7)  
16 and inserting the following: “a taxpayer  
17 shall be deemed to have made a contribu-  
18 tion to a Roth IRA on the last day of the  
19 preceding taxable year if the contribution  
20 is made on account of such taxable year  
21 and is made not later than the time pre-  
22 scribed by law for filing the return for  
23 such taxable year (not including extensions  
24 thereof)”, and

1 (iv) by adding at the end the following  
2 new paragraphs:

3 “(8) COMPENSATION.—For purposes of this  
4 section, the term ‘compensation’ includes earned in-  
5 come (as defined in section 401(c)(2)). The term  
6 ‘compensation’ does not include any amount received  
7 as a pension or annuity and does not include any  
8 amount received as deferred compensation. For pur-  
9 poses of this paragraph, section 401(c)(2) shall be  
10 applied as if the term trade or business for purposes  
11 of section 1402 included service described in sub-  
12 section (c)(6) thereof. The term compensation in-  
13 cludes any differential wage payment (as defined in  
14 section 3401(h)(2)).

15 “(9) MARRIED INDIVIDUALS.—The limitation  
16 under this subsection shall be computed separately  
17 for each individual, and this section shall be applied  
18 without regard to any community property laws.

19 “(10) SPECIAL RULE FOR COMPENSATION  
20 EARNED BY MEMBERS OF ARMED FORCES FOR  
21 SERVICES IN COMBAT ZONE.—For purposes of para-  
22 graphs (1)(A)(ii) and (2), the amount of compensa-  
23 tion includible in an individual’s gross income shall  
24 be determined without regard to section 112.”.

25 (B) Section 408A(d)(3)(A) is amended—



1 (i) by inserting “and” at the end of  
2 clause (i),

3 (ii) by striking “, and” at the end of  
4 clause (ii) and inserting a period,

5 (iii) by striking clause (iii), and

6 (iv) by striking the last sentence.

7 (3) AMENDMENTS RELATING TO TRADITIONAL  
8 IRAS.—

9 (A) Section 408(d)(4) is amended—

10 (i) by striking subparagraph (B) and  
11 inserting the following:

12 “(B) in the case of simplified employee  
13 pension, such contribution is not excluded from  
14 gross income under section 402(h),”.

15 (ii) by adding at the end the fol-  
16 lowing: “This paragraph shall not apply to  
17 any contribution to a simple retirement ac-  
18 count.”.

19 (B) Section 408(d)(5)(A) is amended—

20 (i) by striking “in effect under section  
21 219(b)(1)(A)” and inserting “in effect with  
22 respect to the taxpayer for the taxable year  
23 under section 408A(c)(1)(A)(i)”,

24 (ii) by striking “the amount allowable  
25 as a deduction” and all that follows

1 through “such excess contribution.” and  
2 inserting “the amount that may be contrib-  
3 uted under section 408A(c)(1) for the tax-  
4 able year for which the contribution was  
5 made if such distribution is received after  
6 the date described in paragraph (4).”,

7 (iii) by adding at the end of subpara-  
8 graph (A) the following: “This paragraph  
9 shall not apply to any contribution to a  
10 simple retirement account.”, and

11 (iv) by striking the last sentence.

12 (C) Section 408 is amended by striking  
13 subsection (o).

14 (4) AMENDMENTS RELATING TO SIMPLE RE-  
15 TIREMENT ACCOUNTS.—

16 (A) Section 408(p)(2)(D)(ii) is amended by  
17 striking “means a plan, contract” and all that  
18 follows through the period at the end and in-  
19 serting the following: “means—

20 “(I) a plan described in section  
21 401(a) which includes a trust exempt  
22 from tax under section 501(a),

23 “(II) an annuity plan described  
24 in section 403(a),

1 “(III) an eligible deferred com-  
2 pensation plan (as defined in section  
3 457(b)) of an eligible employer de-  
4 scribed in section 457(e)(1)(A)),

5 “(IV) an annuity contract de-  
6 scribed in section 403(b),

7 “(V) a simplified employee pen-  
8 sion (within the meaning of section  
9 408(k)),

10 “(VI) any simple retirement ac-  
11 count (within the meaning of section  
12 408(p)), or

13 “(VII) a trust described in sec-  
14 tion 501(c)(18).”.

15 (B) Section 408(p)(8) is amended to read  
16 as follows:

17 “(8) COORDINATION WITH MAXIMUM LIMITA-  
18 TION UNDER SUBSECTION (a).—In the case of a  
19 simple retirement account, for purposes of sub-  
20 sections (a)(1) and (b)(2), contributions may not ex-  
21 ceed the sum of—

22 “(A) the dollar amount in effect under  
23 paragraph (2)(A)(ii), and

1           “(B) the employer contribution required  
2           under subparagraph (A)(iii) or (B)(i) of para-  
3           graph (2), whichever is applicable.”.

4           (5) AMENDMENTS RELATING TO SEPS.—Section  
5           408 is amended by striking subsection (j).

6           (6) AMENDMENTS RELATING TO EXCISE TAX  
7           ON EXCESS CONTRIBUTIONS.—

8           (A) TRADITIONAL IRAS.—Subsection (b) of  
9           section 4973 is amended—

10           (i) by striking paragraph (1) and in-  
11           serting the following:

12           “(1) the amounts contributed for the taxable  
13           year to the accounts or for the annuities or bonds  
14           (other than any contributions to a Roth IRA) which  
15           are not permitted contributions under subsection  
16           (a)(1) or (b)(2) of section 408, and”.

17           (ii) in paragraph (2)(C), by striking  
18           “the maximum amount allowable” and all  
19           that follows through “without regard to  
20           section 219(f)(6))” and inserting “the per-  
21           mitted contributions under subsection  
22           (a)(1) or (b)(2) of section 408 for the tax-  
23           able year over the amount contributed”,  
24           and

1 (iii) by striking the last sentence and  
2 inserting the following: “Paragraph (2)  
3 shall be determined separately with respect  
4 to any simplified employee pension (within  
5 the meaning of section 408(k)) and any  
6 simple retirement account (within the  
7 meaning of section 408(p)).”.

8 (B) ROTH IRAS.—Section 4973(f) is  
9 amended by striking “sections 408A(c)(2) and  
10 (c)(3)” each place it appears and inserting  
11 “section 408A(c)(1)”.

12 (7) AMENDMENTS RELATING TO SAVER’S CRED-  
13 IT.—Section 25B(d)(1)(A) is amended to read as  
14 follows:

15 “(A) the amounts—

16 “(i) paid in cash for the taxable year  
17 by or on behalf of an individual to all Roth  
18 IRAs maintained for such individual’s ben-  
19 efit, and

20 “(ii) contributed on behalf of the indi-  
21 vidual to a plan described in section  
22 501(c)(18),”.

23 (8) OTHER CONFORMING AMENDMENTS.—

1 (A) Section 86(f)(3) is amended by strik-  
2 ing “219(f)(1)” and inserting “section  
3 408A(c)(8)”.

4 (B) Section 132(m)(3) is amended by  
5 striking “section 219(g)(5)” and inserting “sec-  
6 tion 408(p)(2)(D)(ii)”.

7 (C)(i) Section 223(d) is amended—

8 (I) by redesignating paragraph (4) as  
9 paragraph (7),

10 (II) by inserting after paragraph (3)  
11 the following new paragraphs:

12 “(4) RECONTRIBUTED AMOUNTS.—No deduc-  
13 tion shall be allowed under this section with respect  
14 to a rollover contribution described in subsection  
15 (f)(5).

16 “(5) TIME WHEN CONTRIBUTIONS DEEMED  
17 MADE.—For purposes of this section, a taxpayer  
18 shall be deemed to have made a contribution to a  
19 health savings account on the last day of the pre-  
20 ceding taxable year if the contribution is made on  
21 account of such taxable year and is made not later  
22 than the time prescribed by law for filing the return  
23 for such taxable year (not including extensions  
24 thereof).

1           “(6) EMPLOYER PAYMENTS.—Except as pro-  
2           vided in section 106(d), for purposes of this title,  
3           any amount paid by an employer to a health savings  
4           account shall be treated as payment of compensation  
5           to the employee (other than a self-employed indi-  
6           vidual who is an employee within the meaning of  
7           section 401(c)(1)) includible in his gross income in  
8           the taxable year for which the amount was contrib-  
9           uted, whether or not a deduction for such payment  
10          is allowable under this section to the employee.”.

11           (ii) Section 223(d)(7), as so redesignated,  
12          is amended by striking subparagraphs (A), (B),  
13          and (C), and redesignating subparagraphs (D)  
14          and (E) as subparagraphs (A) and (B), respec-  
15          tively.

16           (D) Section 409A(d)(2)(A) is amended by  
17          striking “subparagraph (A) or (B) of section  
18          219(g)(5) (without regard to subparagraph  
19          (A)(iii))” and inserting “section  
20          408(p)(2)(D)(ii) (without regard to subclause  
21          (III) thereof)”.

22           (E) Section 501(c)(18)(D)(i) is amended  
23          by striking “section 219(b)(3)” and inserting  
24          “section 219(a)”.

1 (F) Section 877A(d)(4)(A) is amended by  
2 striking “section 219(g)(5)” and inserting  
3 “408(p)(2)(D)(ii)”.

4 (G) Section 6652 is amended by striking  
5 subsection (g).

6 (c) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to taxable years beginning after  
8 December 31, 2014.

9 **SEC. 1603. INFLATION ADJUSTMENT FOR ROTH IRA CON-**  
10 **TRIBUTIONS.**

11 (a) IN GENERAL.—Subsection (c) of section 408A,  
12 as amended by this Act, is amended by adding at the end  
13 the following new paragraph:

14 “(11) COST-OF-LIVING ADJUSTMENT.—In the  
15 case of any taxable year beginning after 2023, the  
16 dollar amount in paragraph (1)(A)(i) shall be in-  
17 creased by an amount equal to—

18 “(A) such dollar amount, multiplied by

19 “(B) the cost-of-living adjustment deter-  
20 mined under section 1(c)(2)(A) for the calendar  
21 year in which the taxable year begins, deter-  
22 mined by substituting ‘calendar year 2022’ for  
23 ‘calendar year 2012’ in clause (ii) thereof.



1 If any increase determined under the preceding sen-  
2 tence is not a multiple of \$500, such increase shall  
3 be rounded to the next lowest multiple of \$500.”.

4 (b) EFFECTIVE DATE.—The amendment made by  
5 this section shall apply to taxable years beginning after  
6 December 31, 2014.

7 **SEC. 1604. REPEAL OF SPECIAL RULE PERMITTING RE-**  
8 **CHARACTERIZATION OF ROTH IRA CON-**  
9 **TRIBUTIONS AS TRADITIONAL IRA CON-**  
10 **TRIBUTIONS.**

11 (a) IN GENERAL.—Section 408A(d) is amended by  
12 striking paragraph (6) and by redesignating paragraph  
13 (7) as paragraph (6).

14 (b) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 2014.

17 **SEC. 1605. REPEAL OF EXCEPTION TO 10-PERCENT PEN-**  
18 **ALTY FOR FIRST HOME PURCHASES.**

19 (a) IN GENERAL.—Section 72(t)(2) is amended by  
20 striking subparagraph (F).

21 (b) ROTH IRAS.—Subparagraph (A) of section  
22 408A(d)(2) is amended by inserting “or” at the end of  
23 clause (ii), and by striking “, or” at the end of clause  
24 (iii) and inserting a period, and by striking clause (iv).

25 (c) CONFORMING AMENDMENT.—

1           (1) Section 72(t) is amended by striking para-  
2           graph (8).

3           (2) Section 408A(d), as amended by this Act,  
4           is amended by striking paragraph (5) and by redesi-  
5           gnating paragraph (6) as paragraph (5).

6           (d) EFFECTIVE DATE.—The amendments made by  
7           this section shall apply to distributions after December 31,  
8           2014.

9           **PART 2—EMPLOYER-PROVIDED PLANS**

10          **SEC. 1611. TERMINATION FOR NEW SEPS.**

11          (a) IN GENERAL.—

12               (1) Section 408(k) is amended by redesignating  
13               paragraph (9) as paragraph (10) and by inserting  
14               after paragraph (8) the following new paragraph:

15                     “(9) TERMINATION.—This subsection shall not  
16                     apply to years beginning after December 31, 2014.  
17                     The preceding sentence shall not apply to any sim-  
18                     plified employee pension of an employer if such sim-  
19                     plified employee pension, and the terms thereof,  
20                     meet the requirements of this subsection on and  
21                     after such date.”.

22               (2) Section 402(h) is amended by adding at the  
23               end the following new paragraph:

24                     “(4) TERMINATION.—This subsection shall not  
25                     apply to any simplified employee pension the ar-

1        arrangement for which is established after December  
2        31, 2014.”.

3        (b) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2014.

6 **SEC. 1612. TERMINATION FOR NEW SIMPLE 401(k)s.**

7        (a) AMENDMENTS RELATING TO SIMPLE  
8 401(k)s.—Section 401(k)(11) is amended by adding at  
9 the end the following new subparagraph:

10                “(E) TERMINATION.—This paragraph  
11                shall apply to a cash or deferred arrangement  
12                for any plan year beginning after December 31,  
13                2014, only if such arrangement meets the re-  
14                quirements of this paragraph for the last plan  
15                year beginning before January 1, 2015, and for  
16                each plan year thereafter.”.

17        (b) EFFECTIVE DATE.—The amendment made by  
18 this section shall apply to plan years beginning after De-  
19 cember 31, 2014.

20 **SEC. 1613. RULES RELATED TO DESIGNATED ROTH CON-**  
21 **TRIBUTIONS.**

22        (a) APPLICABLE RETIREMENT PLANS WHICH PER-  
23 MIT ELECTIVE DEFERRALS REQUIRED TO ACCEPT DES-  
24 IGNATED ROTH CONTRIBUTIONS.—

1           (1) IN GENERAL.—Paragraph (30) of section  
2 401(a) is amended—

3           (A) by striking “DEFERRALS.—” and all  
4 that follows through “In the case of a trust”  
5 and inserting the following: “DEFERRALS.—

6           “(A) IN GENERAL.—In the case of a  
7 trust”,

8           (B) by striking “unless the plan provides  
9 that” and inserting the following: “unless the  
10 plan—

11           “(i) provides that”,

12           (C) by striking the period at the end and  
13 inserting “, and”, and

14           (D) by adding at the end the following:

15           “(ii) except as provided in subpara-  
16 graph (B), includes a qualified Roth con-  
17 tribution program (as defined in section  
18 402A(b)).

19           “(B) EXCEPTION FOR CERTAIN SMALL  
20 PLANS.—Subparagraph (A)(ii) shall not apply  
21 to any plan of an eligible employer (as defined  
22 in section 408(p)(2)(C)).”.

23           (2) CONFORMING AMENDMENTS.—

1 (A) Section 402A(b)(1) is amended by  
2 striking all that follows “designated Roth con-  
3 tributions” and inserting a period.

4 (B) The heading of section 402A (and the  
5 item relating to such section in the table of sec-  
6 tions for part I of subchapter D of chapter 1)  
7 is amended by striking “**OPTIONAL TREAT-**  
8 **MENT OF ELECTIVE DEFERRALS AS ROTH**  
9 **CONTRIBUTIONS**” and inserting “**DES-**  
10 **IGNATED ROTH CONTRIBUTIONS**”.

11 (b) RESTRICTION ON PORTION OF ELECTIVE DEFER-  
12 RAL LIMITATION WHICH MAY APPLY TO TRADITIONAL  
13 ELECTIVE DEFERRALS.—

14 (1) IN GENERAL.—Subparagraph (A) of section  
15 402(g)(1) is amended by striking “the applicable  
16 dollar amount” and inserting “50 percent (100 per-  
17 cent in the case of elective deferrals with respect to  
18 any plan of an eligible employer (as defined in sec-  
19 tion 408(p)(2)(C)) of the applicable dollar amount”.

20 (2) GOVERNMENT 457(b) PLANS.—

21 (A) IN GENERAL.—Subsection (b) of sec-  
22 tion 457 is amended by striking “and” at the  
23 end of paragraph (5), by redesignating para-  
24 graph (6) as paragraph (7), and by inserting

1 after paragraph (5) the following new para-  
2 graph:

3 “(6) which, in the case of a plan maintained by  
4 an employer described in subsection (e)(1)(A), meets  
5 requirements similar to the requirements of section  
6 401(a)(30), and”.

7 (B) CONFORMING AMENDMENT.—Section  
8 402(g)(1)(A) is amended by inserting “and sec-  
9 tion 457(a)(1)” after “(h)(1)(B)”.

10 (C) CROSS-REFERENCE.—For treatment of  
11 amounts deferred under an eligible compensa-  
12 tion plan of a governmental employer as elective  
13 deferrals, see section 1618(b)(1) of this Act.

14 (3) ROTH ELECTIVE DEFERRALS PERMITTED  
15 TO EXTENT OF FULL LIMITATION AMOUNT.—

16 (A) IN GENERAL.—Section 402A(c)(2)(A)  
17 is amended to read as follows:

18 “(A) the applicable dollar amount in effect  
19 under section 402(g)(1)(B) with respect to the  
20 employee for the taxable year, over”.

21 (B) CONFORMING AMENDMENTS.—

22 (i) Section 401(a)(30) is amended—

23 (I) by inserting “(including con-  
24 tributions treated as elective deferrals

1 under section 402A(a)(1))” after  
2 “section 402(g)(3)”, and

3 (II) by striking “section  
4 402(g)(1)(A)” and inserting “section  
5 402(g)(1)(B), and that the amount of  
6 elective deferrals not included in gross  
7 income may not exceed the amount of  
8 the limitation in effect under section  
9 402(g)(1)(A),”.

10 (ii) Section 402(g)(1)(C) is amend-  
11 ed—

12 (I) by striking “In addition to  
13 subparagraph (A)” and inserting  
14 “For purposes of subparagraph (A)”.

15 (II) by striking “gross income  
16 shall not include” and all that follows  
17 through “does not exceed” and insert-  
18 ing “the applicable dollar amount in  
19 effect for the taxable year under sub-  
20 paragraph (B) shall be increased by”.

21 (iii)(I) So much of section  
22 402(g)(2)(A) as precedes clause (i) is  
23 amended to read as follows:

24 “(A) IN GENERAL.—If an individual’s ag-  
25 gregate elective deferrals for a taxable year ex-

1           ceed the applicable dollar amount under para-  
2           graph (1) (hereinafter in this paragraph re-  
3           ferred to as ‘excess total deferrals’) or if an in-  
4           dividual’s aggregate elective deferrals (dis-  
5           regarding designated Roth contributions and  
6           simple Roth contributions) exceed the amount  
7           excludable under paragraph (1)(A) (hereinafter  
8           in this paragraph referred to as ‘excess non-  
9           Roth deferrals’)—”.

10                   (II) Section 402(g)(2)(A)(i) is amend-  
11                   ed by striking “such excess deferrals” and  
12                   inserting “such excess total deferrals or ex-  
13                   cess non-Roth deferrals”.

14                   (III) Section 402(g)(2)(C)(ii) is  
15                   amended by striking “the excess deferral”  
16                   and inserting “the excess total deferral or  
17                   excess non-Roth deferral”.

18                   (IV) Section 402A(d)(2)(C) is amend-  
19                   ed by striking “excess deferral” and insert-  
20                   ing “excess total deferral”.

21                   (V) Section 402A(d)(3) is amended by  
22                   striking “excess deferral” each place it ap-  
23                   pears and inserting “excess total deferral”.

24                   (VI) Section 402(g)(1)(A) is amended  
25                   by striking the second sentence.



1 (iv) Section 402A(c)(1)(A) is amended  
2 by striking “without regard to this sec-  
3 tion” and inserting “(determined without  
4 regard to this section and section  
5 402(g))”.

6 (4) REPORTING BY EMPLOYERS.—Section  
7 6051(a)(8) is amended by inserting after “(as de-  
8 fined in section 402A)” the following: “, and the  
9 type of plan under which amounts are deferred or  
10 contributed”.

11 (c) SIMPLE ROTH RETIREMENT ACCOUNTS PER-  
12 MITTED.—

13 (1) IN GENERAL.—Subsection (p) of section  
14 408 is amended by adding at the end the following  
15 new paragraph:

16 “(11) ROTH CONTRIBUTIONS.—For purposes of  
17 this section—

18 “(A) IN GENERAL.—If a qualified salary  
19 reduction arrangement with respect to a simple  
20 retirement account includes a simple Roth con-  
21 tribution program, any simple Roth contribu-  
22 tion made by an employer pursuant to such  
23 program shall be treated as an elective em-  
24 ployer contribution, except that such contribu-

1           tion shall be paid to a Roth IRA and shall not  
2           be excludable from gross income.

3           “(B) SIMPLE ROTH CONTRIBUTION PRO-  
4           GRAM.—The term ‘simple Roth contribution  
5           program’ means a program under which an em-  
6           ployee may elect to make simple Roth contribu-  
7           tions.

8           “(C) SIMPLE ROTH CONTRIBUTION.—The  
9           term ‘simple Roth contribution’ means any elec-  
10          tive employer contribution which—

11                   “(i) is excludable from gross income  
12                   of an employee without regard to this  
13                   paragraph, and

14                   “(ii) the employee designates (at such  
15                   time and in such manner as the Secretary  
16                   may prescribe) as not being so excludable.

17          “(D) LIMITATION.—In the case of an eligi-  
18          ble employer which elects the application of this  
19          subparagraph with respect to the simple retire-  
20          ment accounts established pursuant to a quali-  
21          fied salary reduction arrangement of such em-  
22          ployer, notwithstanding paragraph (2)(E), the  
23          applicable dollar amount for purposes of para-  
24          graph (2)(A)(ii), shall be equal to—

1           “(i) in the case of any such account  
2           which is not designated as a Roth IRA, 50  
3           percent of the applicable dollar amount in  
4           effect under section 402(g)(1)(B) for the  
5           taxable year, and

6           “(ii) in the case of any such account  
7           which is designated as a Roth IRA, the ex-  
8           cess (if any) of—

9                   “(I) the applicable dollar amount  
10                   in effect under section 402(g)(1)(B)  
11                   for the taxable year, over

12                   “(II) the aggregate amount of  
13                   elective employer contributions to any  
14                   account described in clause (i).

15           In the case of a simple retirement account with  
16           respect to which the application of this subpara-  
17           graph is elected, the employer shall not be  
18           treated as an eligible employer for purposes of  
19           section 402(g)(1)(A), and the applicable dollar  
20           amount with respect to any eligible participant  
21           (as defined in section 414(v)) shall, notwith-  
22           standing section 414(v)(2)(B)(ii), be deter-  
23           mined by reference to section 402(g)(1)(C).”.

24           (2) COORDINATION WITH MAXIMUM ROTH LIM-  
25           TATION.—Subsection (c) of section 408A, as amend-

1 ed by this Act, is amended by adding at the end the  
2 following new paragraph:

3 “(12) INCREASE IN MAXIMUM LIMITATION FOR  
4 SIMPLE ROTH.—In the case of any simple retirement  
5 account, subparagraphs (A)(i) and (B) of paragraph  
6 (1) shall be applied by disregarding any contribu-  
7 tions made to a simple retirement account and any  
8 qualified rollover contributions.”.

9 (3) CONFORMING AMENDMENTS.—

10 (A) Section 408A(f)(1) is amended by  
11 striking “or a simple retirement account”.

12 (B) Section 6051(a)(8), as amended by  
13 this Act, is amended by inserting after “(as de-  
14 fined in section 402A)” the following: “and  
15 simple Roth contributions (as defined in section  
16 408(p)(11)(C))”.

17 (d) EFFECTIVE DATE.—

18 (1) IN GENERAL.—Except as provided in para-  
19 graph (2), the amendments made by this section  
20 shall apply to plan years and taxable years begin-  
21 ning after December 31, 2014.

22 (2) SUBSECTION (c).—The amendments made  
23 by subsection (c) shall apply to calendar years begin-  
24 ning after December 31, 2014.

1 **SEC. 1614. MODIFICATIONS OF REQUIRED DISTRIBUTION**  
2 **RULES FOR PENSION PLANS.**

3 (a) IN GENERAL.—Section 401(a)(9)(B) of the Inter-  
4 nal Revenue Code of 1986 is amended to read as follows:

5 “(B) REQUIRED DISTRIBUTIONS WHERE  
6 EMPLOYEE DIES BEFORE ENTIRE INTEREST IS  
7 DISTRIBUTED.—

8 “(i) 5-YEAR GENERAL RULE.—A trust  
9 shall not constitute a qualified trust under  
10 this section unless the plan provides that,  
11 if an employee dies before the distribution  
12 of the employee’s interest (whether or not  
13 such distribution has begun in accordance  
14 with subparagraph (A)), the entire interest  
15 of the employee will be distributed within  
16 5 years after the death of such employee.

17 “(ii) EXCEPTION FOR ELIGIBLE DES-  
18 IGNATED BENEFICIARIES.—If—

19 “(I) any portion of the employ-  
20 ee’s interest is payable to (or for the  
21 benefit of) an eligible designated bene-  
22 ficiary,

23 “(II) such portion will be distrib-  
24 uted (in accordance with regulations)  
25 over the life of such eligible des-  
26 igned beneficiary (or over a period

1 not extending beyond the life expect-  
2 ancy of such beneficiary), and

3 “(III) such distributions begin  
4 not later than 1 year after the date of  
5 the employee’s death or such later  
6 date as the Secretary may by regula-  
7 tions prescribe,

8 then, for purposes of clause (i) and except  
9 as provided in clause (iv) or subparagraph  
10 (E)(iii), the portion referred to in sub-  
11 clause (I) shall be treated as distributed on  
12 the date on which such distributions begin.

13 “(iii) SPECIAL RULE FOR SURVIVING  
14 SPOUSE OF EMPLOYEE.—If the eligible  
15 designated beneficiary referred to in clause  
16 (ii)(I) is the surviving spouse of the em-  
17 ployee—

18 “(I) the date on which the dis-  
19 tributions are required to begin under  
20 clause (ii)(III) shall not be earlier  
21 than the date on which the employee  
22 would have attained age 70½, and

23 “(II) if the surviving spouse dies  
24 before the distributions to such spouse  
25 begin, this subparagraph shall be ap-

1                   plied as if the surviving spouse were  
2                   the employee.

3                   “(iv) RULES UPON DEATH OF ELIGI-  
4                   BLE DESIGNATED BENEFICIARY.—If an el-  
5                   igible designated beneficiary dies before the  
6                   portion of an employee’s interest described  
7                   in clause (ii) is entirely distributed, clause  
8                   (ii) shall not apply to any beneficiary of  
9                   such eligible designated beneficiary and the  
10                  remainder of such portion shall be distrib-  
11                  uted within 5 years after the death of such  
12                  beneficiary.”.

13                  (b) DEFINITION OF ELIGIBLE DESIGNATED BENE-  
14                  FICIARY.—Section 401(a)(9)(E) of such Code is amended  
15                  to read as follows:

16                         “(E) DEFINITIONS AND RULES RELATING  
17                         TO DESIGNATED BENEFICIARY.—For purposes  
18                         of this paragraph—

19                                 “(i) DESIGNATED BENEFICIARY.—The  
20                                 term ‘designated beneficiary’ means any  
21                                 individual designated as a beneficiary by  
22                                 the employee.

23                                 “(ii) ELIGIBLE DESIGNATED BENE-  
24                                 FICIARY.—The term ‘eligible designated  
25                                 beneficiary’ means, with respect to any em-

1            ployee, any designated beneficiary who, as  
2            of the date of death of the employee, is—

3                    “(I) the surviving spouse of the  
4                    employee,

5                    “(II) subject to clause (iii), a  
6                    child of the employee who has not at-  
7                    tained age 22,

8                    “(III) disabled (within the mean-  
9                    ing of section 72(m)(7)),

10                   “(IV) a chronically ill individual  
11                   (within the meaning of section  
12                   7702B(c)(2), except that the require-  
13                   ments of subparagraph (A)(i) thereof  
14                   shall only be treated as met if there is  
15                   a certification that, as of such date,  
16                   the period of inability described in  
17                   such subparagraph with respect to the  
18                   individual is an indefinite one that is  
19                   reasonably expected to be lengthy in  
20                   nature), or

21                   “(V) an individual not described  
22                   in any of the preceding subparagraphs  
23                   who is not more than 10 years young-  
24                   er than the employee.



1           “(iii) SPECIAL RULE FOR CHIL-  
2           DREN.—Subject to subparagraph (F), an  
3           individual described in clause (ii)(II) shall  
4           cease to be an eligible designated bene-  
5           ficiary as of the date the individual attains  
6           age 22 and the requirement of subpara-  
7           graph (B)(i) shall not be treated as met  
8           with respect to any remaining portion of  
9           an employee’s interest payable to the indi-  
10          vidual unless such portion is distributed  
11          within 5 years after such date.”.

12          (c) REQUIRED BEGINNING DATE.—Section  
13          401(a)(9)(C) of such Code is amended by adding at the  
14          end the following new clause:

15                 “(v) EMPLOYEES BECOMING 5-PER-  
16                 CENT OWNERS AFTER AGE 70<sup>1</sup>/<sub>2</sub>.—If an  
17                 employee becomes a 5-percent owner (as  
18                 defined in section 416) with respect to a  
19                 plan year ending in a calendar year after  
20                 the calendar year in which the employee  
21                 attains age 70<sup>1</sup>/<sub>2</sub>, then clause (i)(II) shall  
22                 be applied by substituting the calendar  
23                 year in which the employee became such  
24                 an owner for the calendar year in which  
25                 the employee retires.”.

1 (d) EFFECTIVE DATES.—

2 (1) IN GENERAL.—Except as provided in this  
3 subsection, the amendments made by this section  
4 shall apply to distributions with respect to employees  
5 who die after December 31, 2014.

6 (2) REQUIRED BEGINNING DATE.—The amend-  
7 ment made by subsection (c) shall apply to employ-  
8 ees becoming a 5-percent owner with respect to plan  
9 years ending in calendar years beginning before, on,  
10 or after the date of the enactment of this Act, except  
11 that—

12 (A) if, without regard to such amendment,  
13 an employee's required beginning date occurs  
14 before April 1, 2015, such amendment shall not  
15 result in an earlier required beginning date for  
16 such employee, and

17 (B) if, solely by reason of such amend-  
18 ment, an employee's required beginning date  
19 would occur before April 1, 2015, such employ-  
20 ee's required beginning date shall occur on  
21 April 1, 2015.

22 (3) EXCEPTION FOR CERTAIN BENE-  
23 FICIARIES.—If a designated beneficiary of an em-  
24 ployee who dies before January 1, 2015, dies after  
25 December 31, 2014—

1 (A) the amendments made by this section  
2 shall apply to any beneficiary of such des-  
3 ignated beneficiary, and

4 (B) the designated beneficiary shall be  
5 treated as an eligible designated beneficiary for  
6 purposes of applying section 401(a)(9)(B)(iv) of  
7 such Code (as in effect after the amendments  
8 made by this section).

9 (4) EXCEPTION FOR CERTAIN EXISTING ANNU-  
10 ITY CONTRACTS.—

11 (A) IN GENERAL.—The amendments made  
12 by this section shall not apply to a qualified an-  
13 nuity which is a binding annuity contract in ef-  
14 fect on the date of the enactment of this Act  
15 and at all times thereafter.

16 (B) QUALIFIED ANNUITY CONTRACT.—For  
17 purposes of this paragraph, the term “qualified  
18 annuity” means, with respect to an employee,  
19 an annuity—

20 (i) which is a commercial annuity (as  
21 defined in section 3405(e)(6) of such  
22 Code) or payable by a defined benefit plan,

23 (ii) under which the annuity payments  
24 are substantially equal periodic payments  
25 (not less frequently than annually) over the

1 lives of such employee and a designated  
2 beneficiary (or over a period not extending  
3 beyond the life expectancy of such em-  
4 ployee or the life expectancy of such em-  
5 ployee and a designated beneficiary) in ac-  
6 cordance with the regulations described in  
7 section 401(a)(9)(A)(ii) of such Code (as  
8 in effect before such amendments) and  
9 which meets the other requirements of this  
10 section 401(a)(9) of such Code (as so in  
11 effect) with respect to such payments, and  
12 (iii) with respect to which—

13 (I) annuity payments to the em-  
14 ployee have begun before January 1,  
15 2015, and the employee has made an  
16 irrevocable election before such date  
17 as to the method and amount of the  
18 annuity payments to the employee or  
19 any designated beneficiaries, or

20 (II) if subclause (I) does not  
21 apply, the employee has made an ir-  
22 revocable election before the date of  
23 the enactment of this Act as to the  
24 method and amount of the annuity

1                    payments to the employee or any des-  
2                    ignated beneficiaries.

3 **SEC. 1615. REDUCTION IN MINIMUM AGE FOR ALLOWABLE**  
4 **IN-SERVICE DISTRIBUTIONS.**

5            (a) IN GENERAL.—Section 401(a)(36) is amended by  
6 striking “age 62” and inserting “age 59½”.

7            (b) APPLICATION TO GOVERNMENTAL SECTION  
8 457(b) PLANS.—Clause (i) of section 457(d)(1)(A) is  
9 amended by inserting “(in the case of a plan maintained  
10 by an employer described in subsection (e)(1)(A), age  
11 59½)” before the comma at the end.

12            (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to distributions made after Decem-  
14 ber 31, 2014.

15 **SEC. 1616. MODIFICATION OF RULES GOVERNING HARD-**  
16 **SHIP DISTRIBUTIONS.**

17            (a) IN GENERAL.—Not later than 1 year after the  
18 date of the enactment of this Act, the Secretary of the  
19 Treasury shall modify Treasury Regulation section  
20 1.401(k)–1(d)(3)(iv)(E) to—

21                    (1) delete the 6-month prohibition on contribu-  
22                    tions imposed by paragraph (2) thereof, and

23                    (2) to make any other modifications necessary  
24                    to carry out the purposes of section

1 401(k)(2)(B)(i)(IV) of the Internal Revenue Code of  
2 1986.

3 (b) EFFECTIVE DATE.—The revised regulations  
4 under this section shall apply to plan years beginning after  
5 December 31, 2014.

6 **SEC. 1617. EXTENDED ROLLOVER PERIOD FOR THE ROLL-**  
7 **OVER OF PLAN LOAN OFFSET AMOUNTS IN**  
8 **CERTAIN CASES.**

9 (a) IN GENERAL.—Paragraph (3) of section 402(c)  
10 is amended by adding at the end the following new sub-  
11 paragraph:

12 “(C) ROLLOVER OF CERTAIN PLAN LOAN  
13 OFFSET AMOUNTS.—

14 “(i) IN GENERAL.—In the case of a  
15 qualified plan loan offset amount, para-  
16 graph (1) shall not apply to any transfer  
17 of such amount made after the due date  
18 (including extensions) for filing the return  
19 of tax for the taxable year in which such  
20 amount is treated as distributed from a  
21 qualified employer plan.

22 “(ii) QUALIFIED PLAN LOAN OFFSET  
23 AMOUNT.—For purposes of this subpara-  
24 graph, the term ‘qualified plan loan offset  
25 amount’ means a plan loan offset amount

1 which is treated as distributed from a  
2 qualified employer plan to a participant or  
3 beneficiary solely by reason of—

4 “(I) the termination of the quali-  
5 fied employer plan, or

6 “(II) the failure to meet the re-  
7 payment terms of the loan from such  
8 plan because of the separation from  
9 service of the participant (whether  
10 due to layoff, cessation of business,  
11 termination of employment, or other-  
12 wise).

13 “(iii) PLAN LOAN OFFSET AMOUNT.—  
14 For purposes of clause (ii), the term ‘plan  
15 loan offset amount’ means the amount by  
16 which the participant’s accrued benefit  
17 under the plan is reduced in order to repay  
18 a loan from the plan.

19 “(iv) LIMITATION.—This subpara-  
20 graph shall not apply to any plan loan off-  
21 set amount unless such plan loan offset  
22 amount relates to a loan to which section  
23 72(p)(1) does not apply by reason of sec-  
24 tion 72(p)(2).

1                   “(v) QUALIFIED EMPLOYER PLAN.—  
2                   For purposes of this subsection, the term  
3                   ‘qualified employer plan’ has the meaning  
4                   given such term by section 72(p)(4).”.

5           (b) CONFORMING AMENDMENT.—Subparagraph (A)  
6 of section 402(c)(3) is amended by striking “subpara-  
7 graph (B)” and inserting “subparagraphs (B) and (C)”.

8           (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 2014.

11 **SEC. 1618. COORDINATION OF CONTRIBUTION LIMITA-**  
12 **TIONS FOR 403(b) PLANS AND GOVERN-**  
13 **MENTAL 457(b) PLANS.**

14           (a) 403(b) PLANS.—

15               (1) ELIMINATION OF SPECIAL CATCH-UP  
16 RULE.—Subsection (g) of section 402 is amended by  
17 striking paragraph (7) and by redesignating para-  
18 graph (8) as paragraph (7).

19               (2) ELIMINATION OF POST TERMINATION NON-  
20 ELECTIVE CONTRIBUTIONS.—Subsection (b) of sec-  
21 tion 403 is amended—

22                   (A) in paragraph (3), by striking “for the  
23 most recent period” and all that follows  
24 through “more than five years”, and

25                   (B) by striking paragraph (4).



1           (3) ELIMINATION OF INCREASED CONTRIBU-  
2           TION LIMIT FOR CHURCH PLANS.—Subsection (c) of  
3           section 415 is amended by striking paragraph (7).

4           (4) ELIMINATION OF SEPARATE 415(c) LIM-  
5           ITS.—Paragraph (4) of section 415(k) is amended  
6           by striking “each employer with respect to which the  
7           participant has the control required” and inserting  
8           “the employer and each employer which is part of a  
9           controlled group or under common control”.

10          (b) 457(b) PLANS.—

11           (1) ELIMINATION OF SEPARATE DEFERRAL  
12           LIMIT.—Paragraph (3) of section 402(g) is amended  
13           by striking “and” at the end of subparagraph (C),  
14           by striking the period at the end of subparagraph  
15           (D) and inserting “, and”, and by inserting after  
16           subparagraph (D) the following new subparagraph:

17                   “(E) any amount deferred under an eligi-  
18                   ble deferred compensation plan (as defined in  
19                   section 457(b)) of an eligible employer de-  
20                   scribed in section 457(e)(1)(A).”.

21           (2) TAKEN INTO ACCOUNT UNDER LIMITATION  
22           FOR DEFINED CONTRIBUTION PLANS.—

23           (A) IN GENERAL.—Paragraph (2) of sec-  
24           tion 415(a) is amended by striking “or” at the  
25           end of subparagraph (B), by inserting “or” at

1 the end of subparagraph (C), and by inserting  
2 after subparagraph (C) the following new sub-  
3 paragraph:

4 “(D) an eligible deferred compensation  
5 plan (as defined in section 457(b)) of an eligible  
6 employer described in section 457(e)(1)(A).”.

7 (B) DEFINITION.—Paragraph (1) of sec-  
8 tion 415(k) is amended by striking “or” at the  
9 end of subparagraph (C), by striking the period  
10 at the end of subparagraph (D) and inserting  
11 “, or”, and by adding at the end the following  
12 new subparagraph:

13 “(E) an eligible deferred compensation  
14 plan (as defined in section 457(b)) of an eligible  
15 employer described in section 457(e)(1)(A).”.

16 (3) ELIMINATION OF SPECIAL CATCH-UP  
17 RULE.—Paragraph (3) of section 457(b) is amended  
18 by inserting “, in the case of an eligible employer de-  
19 scribed in subsection (e)(1)(B),” after “which”.

20 (c) CONFORMING AMENDMENTS.—

21 (1) Section 25B(d)(1)(B) is amended—

22 (A) by striking clause (ii), and

23 (B) by striking “the amount of—” and all  
24 that follows through “any elective deferrals”

1 and inserting the following: “the amount of any  
2 elective deferrals”.

3 (2) Section 402A(e)(2) is amended—

4 (A) by striking “, and” and all that follows  
5 and inserting a period, and

6 (B) by striking “means—” and all that  
7 follows through “any elective deferral described  
8 in subparagraph (A) or (C)” and inserting the  
9 following: “means any elective deferral de-  
10 scribed in (A), (C), or (E)”.

11 (3) Section 457(e) is amended by striking para-  
12 graph (18).

13 (4) Section 414(u)(2)(C) is amended by insert-  
14 ing “by an eligible employer described in section  
15 457(e)(1)(B)” after “(as defined in section  
16 457(b))”.

17 (5) Section 414(v)(2)(D) is amended—

18 (A) by striking “clauses (i), (ii), and (iv)  
19 of”, and

20 (B) by striking “, and plans described in  
21 clause (iii)” and all that follows through the  
22 end and inserting a period.

23 (6) Section 414(v)(3)(A)(i) is amended by strik-  
24 ing “(determined without regard to section  
25 457(b)(3))”.

1           (7) Section 414(v)(6)(B) is amended by striking  
2           “subsection (u)(2)(C)” and inserting “section  
3           402(g)(3)”.

4           (8) Section 414(v)(6) is amended by striking  
5           subparagraph (C).

6           (d) EFFECTIVE DATE.—The amendments made by  
7           this section shall apply to plan years and taxable years  
8           beginning after December 31, 2014.

9           **SEC. 1619. APPLICATION OF 10-PERCENT EARLY DISTRIBUTION TAX TO GOVERNMENTAL 457 PLANS.**

10           (a) IN GENERAL.—Paragraph (1) of section 72(t) is  
11           amended by inserting “or an eligible deferred compensa-  
12           tion plan (as defined in section 457(b)) of an eligible em-  
13           ployer described in section 457(e)(1)(A),” after “section  
14           4974(c),”.

15           (b) EFFECTIVE DATE.—The amendment made by  
16           this section shall apply to withdrawals on or after Feb-  
17           ruary 26, 2014.

18           **SEC. 1620. INFLATION ADJUSTMENTS FOR QUALIFIED PLAN BENEFIT AND CONTRIBUTION LIMITATIONS.**

19           (a) DEFINED BENEFIT PLANS.—

20           (1) CURRENT LIMIT.—Subparagraph (A) of  
21           section 415(b)(1) is amended by striking  
22           “\$160,000” and inserting “\$210,000”.  
23  
24

1           (2) INFLATION ADJUSTMENT.—Section 415(d)  
2 is amended—

3           (A) in paragraph (1)(A)—

4                 (i) by striking “\$160,000” and insert-  
5 ing “\$210,000”, and

6                 (ii) by inserting “for calendar years  
7 beginning after 2023” after “subsection  
8 (b)(1)(A)”,

9           (B) paragraph (3)(A), by striking “July 1,  
10 2001” and inserting “July 1, 2022”.

11         (b) DEFINED CONTRIBUTION PLANS.—

12           (1) CURRENT LIMIT.—Subparagraph (A) of  
13 section 415(c)(1) is amended by striking “\$40,000”  
14 and inserting “\$52,000”.

15           (2) INFLATION ADJUSTMENT.—Subsection (d)  
16 of section 415 is amended—

17           (A) in paragraph (1)(C)—

18                 (i) by striking “\$40,000” and insert-  
19 ing “\$52,000”,

20                 (ii) by inserting “for calendar years  
21 beginning after 2023” after “subsection  
22 (c)(1)(A)”,

23           (B) in paragraph (3)(D), by striking “July  
24 1, 2001” and inserting “July 1, 2022”.

25         (c) CONFORMING AMENDMENTS.—

1           (1) Section 415(b)(2) is amended by striking  
2           “\$160,000” each place it appears in subparagraphs  
3           (C) and (D) and inserting “\$210,000”.

4           (2) Section 415(b) is amended by striking  
5           “\$160,000” in the fourth sentence of paragraph (7)  
6           and inserting “\$210,000”.

7           (3) The headings for subparagraphs (C) and  
8           (D) of section 415(b)(2) are each amended by strik-  
9           ing “\$160,000” and inserting “\$210,000”.

10          (4) The heading for subparagraph (A) of sec-  
11          tion 415(d)(3) is amended by striking “\$160,000”  
12          and inserting “\$210,000”.

13          (5) The heading for subparagraph (D) of sec-  
14          tion 415(d)(3) is amended by striking “\$40,000” and  
15          inserting “\$52,000”.

16          (6) The heading for subparagraph (A) of sec-  
17          tion 415(d)(4) is amended by striking “\$160,000”  
18          and inserting “\$210,000”.

19          (7) The heading for subparagraph (B) of sec-  
20          tion 415(d)(4) is amended by striking “\$40,000” and  
21          inserting “\$52,000”.

22          (d) EFFECTIVE DATE.—The amendments made by  
23          this section shall apply to years ending with or within a  
24          calendar year beginning after 2014.

1 **SEC. 1621. INFLATION ADJUSTMENTS FOR QUALIFIED PLAN**  
2 **ELECTIVE DEFERRAL LIMITATIONS.**

3 (a) **CURRENT LIMIT.**—Subparagraph (B) of section  
4 402(g)(1) is amended by striking “shall be” and all that  
5 follows and inserting “is \$17,500.”

6 (b) **INFLATION ADJUSTMENT.**—Paragraph (4) of sec-  
7 tion 402(g) is amended—

8 (1) by striking “December 31, 2006” and in-  
9 serting “December 31, 2023”,

10 (2) by striking “\$15,000” and inserting  
11 “\$17,500”, and

12 (3) by striking “2005” and inserting “2022”.

13 (c) **EFFECTIVE DATE.**—The amendments made by  
14 this section shall apply to plan years and taxable years  
15 beginning after December 31, 2014.

16 **SEC. 1622. INFLATION ADJUSTMENTS FOR SIMPLE RETIRE-**  
17 **MENT ACCOUNTS.**

18 (a) **CURRENT LIMIT.**—Clause (i) of section  
19 408(p)(2)(E) is amended by striking “shall be” and all  
20 that follows and inserting “shall be \$12,000”.

21 (b) **INFLATION ADJUSTMENT.**—Clause (ii) of section  
22 408(p)(2)(E) is amended—

23 (1) by striking “December 31, 2005” and in-  
24 serting “December 31, 2023”,

25 (2) by striking “\$10,000” and inserting  
26 “\$12,000”,

1 (3) by striking “2004” and inserting “2022”.

2 (c) EFFECTIVE DATE.—The amendments made by  
3 this section shall apply to calendar years beginning after  
4 2014.

5 **SEC. 1623. INFLATION ADJUSTMENTS FOR CATCH-UP CON-**  
6 **TRIBUTIONS FOR CERTAIN EMPLOYER**  
7 **PLANS.**

8 (a) CURRENT LIMIT.—

9 (1) PLANS OTHER THAN SIMPLE 401(k) AND  
10 SIMPLE RETIREMENT ACCOUNTS.—Clause (i) of sec-  
11 tion 414(v)(2)(B) is amended by striking “deter-  
12 mined in accordance with the following table” and  
13 all that follows through the period at the end and  
14 inserting “\$5,500.”.

15 (2) SIMPLE 401(k) AND SIMPLE RETIREMENT  
16 ACCOUNTS.—Clause (ii) of section 414(v)(2)(B) is  
17 amended by striking “determined in accordance with  
18 the following table” and all that follows through the  
19 period at the end and inserting “\$2,500.”.

20 (b) INFLATION ADJUSTMENT.—Subparagraph (C) of  
21 section 414(v)(2) is amended—

22 (1) by striking “December 31, 2006” and in-  
23 serting “December 31, 2023”,

24 (2) by striking “\$5,000” and inserting  
25 “\$5,500”, and



1 (3) by striking “2005” and inserting “2022”.

2 (c) EFFECTIVE DATE.—The amendments made by  
3 this section shall apply to taxable years beginning after  
4 December 31, 2014.

5 **SEC. 1624. INFLATION ADJUSTMENTS FOR GOVERNMENTAL**  
6 **AND TAX-EXEMPT ORGANIZATION PLANS.**

7 (a) CURRENT LIMIT.—Subparagraph (A) of section  
8 457(b)(2) is amended by striking “the applicable dollar  
9 amount” and inserting “\$17,500”.

10 (b) INFLATION ADJUSTMENT.—Paragraph (15) of  
11 section 457(e) is amended—

12 (1) by striking “APPLICABLE DOLLAR  
13 AMOUNT.—” and all that follows through “COST-OF-  
14 LIVING ADJUSTMENTS.—In the case of taxable years  
15 beginning after December 31, 2006” and inserting  
16 the following: “COST-OF-LIVING ADJUSTMENTS.—In  
17 the case of taxable years beginning after December  
18 31, 2023”,

19 (2) by striking “the \$15,000 amount under  
20 subparagraph (A)” and inserting “the \$17,500  
21 amount under subsection (b)(2)(A)”, and

22 (3) by striking “2005” and inserting “2022”.

23 (c) CONFORMING AMENDMENT.—Section  
24 457(f)(4)(A) is amended by striking “twice the applicable  
25 dollar limit determined under subsection (e)(15)” and in-

1 serting “twice the amount in effect under subsection  
2 (b)(2)(A)”.

3 (d) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2014.

6 **Subtitle H—Certain Provisions Re-**  
7 **lated to Members of Indian**  
8 **Tribes**

9 **SEC. 1701. INDIAN GENERAL WELFARE BENEFITS.**

10 (a) IN GENERAL.—Part III of subchapter B of chap-  
11 ter 1 is amended by inserting before section 140 the fol-  
12 lowing new section:

13 **“SEC. 139E. INDIAN GENERAL WELFARE BENEFITS.**

14 “(a) IN GENERAL.—Gross income does not include  
15 the value of any Indian general welfare benefit.

16 “(b) INDIAN GENERAL WELFARE BENEFIT.—For  
17 purposes of this section, the term ‘Indian general welfare  
18 benefit’ includes any payment made or services provided  
19 to or on behalf of a member of an Indian tribe (or any  
20 spouse or dependent of such a member) pursuant to an  
21 Indian tribal government program, but only if—

22 “(1) the program is administered under speci-  
23 fied written guidelines and does not discriminate in  
24 favor of members of the governing body of the tribe,  
25 and

1           “(2) the benefits provided under such pro-  
2           gram—

3                   “(A) are available to any tribal member  
4           who meets such guidelines,

5                   “(B) are for the promotion of general wel-  
6           fare,

7                   “(C) are not lavish or extravagant, and

8                   “(D) are not compensation for services.

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

11                   “(1) INDIAN TRIBAL GOVERNMENT.—For pur-  
12          poses of this section, the term ‘Indian tribal govern-  
13          ment’ includes any agencies or instrumentalities of  
14          an Indian tribal government and any Alaska Native  
15          regional or village corporation, as defined in, or es-  
16          tablished pursuant to, the Alaska Native Claims Set-  
17          tlement Act (43 U.S.C. 1601, et seq.).

18                   “(2) DEPENDENT.—The term ‘dependent’ has  
19          the meaning given such term by section 7705, deter-  
20          mined without regard to subsections (b)(1), (b)(2),  
21          and (d)(1)(B).

22                   “(3) LAVISH OR EXTRAVAGANT.—The Sec-  
23          retary shall, in consultation with the Tribal Advisory  
24          Committee (as established under section 1702 of the  
25          Tax Reform Act of 2014), establish guidelines for

1 what constitutes lavish or extravagant benefits with  
2 respect to Indian tribal government programs.

3 “(4) ESTABLISHMENT OF TRIBAL GOVERNMENT  
4 PROGRAM.—A program shall not fail to be treated as  
5 an Indian tribal government program solely by rea-  
6 son of the program being established by tribal cus-  
7 tom or government practice.”.

8 (b) CONFORMING AMENDMENT.—The table of sec-  
9 tions for part III of subchapter B of chapter 1 is amended  
10 by inserting before the item relating to section 140 the  
11 following new item:

“Sec. 139E. Indian general welfare benefits.”.

12 (c) EFFECTIVE DATE.—

13 (1) IN GENERAL.—The amendments made by  
14 this section shall apply to taxable years for which  
15 the period of limitation on refund or credit under  
16 section 6511 of the Internal Revenue Code of 1986  
17 has not expired.

18 (2) ONE-YEAR WAIVER OF STATUTE OF LIMITA-  
19 TIONS.—If the period of limitation on a credit or re-  
20 fund resulting from the amendments made by sub-  
21 section (a) expires before the end of the 1-year pe-  
22 riod beginning on the date of the enactment of this  
23 Act, refund or credit of such overpayment (to the ex-  
24 tent attributable to such amendments) may, never-

1 theless, be made or allowed if claim therefor is filed  
2 before the close of such 1-year period.

3 **SEC. 1702. TRIBAL ADVISORY COMMITTEE.**

4 (a) ESTABLISHMENT.—The Secretary of the Treas-  
5 ury shall establish a Tribal Advisory Committee (herein-  
6 after in this subsection referred to as the “Committee”).

7 (b) DUTIES.—

8 (1) IMPLEMENTATION.—The Committee shall  
9 advise the Secretary on matters relating to the tax-  
10 ation of Indians.

11 (2) EDUCATION AND TRAINING.—The Secretary  
12 shall, in consultation with the Committee, establish  
13 and require—

14 (A) training and education for internal rev-  
15 enue field agents who administer and enforce  
16 internal revenue laws with respect to Indian  
17 tribes on Federal Indian law and the Federal  
18 Government’s unique legal treaty and trust re-  
19 lationship with Indian tribal governments, and

20 (B) training of such internal revenue field  
21 agents, and provision of training and technical  
22 assistance to tribal financial officers, about im-  
23 plementation of this Act and the amendments  
24 made thereby.

25 (c) MEMBERSHIP.—

1           (1) IN GENERAL.—The Committee shall be  
2 composed of 7 members appointed as follows:

3           (A) Three members appointed by the Sec-  
4 retary of the Treasury.

5           (B) One member appointed by the Chair-  
6 man, and one member appointed by the Rank-  
7 ing Member, of the Committee on Ways and  
8 Means of the House of Representatives.

9           (C) One member appointed by the Chair-  
10 man, and one member appointed by the Rank-  
11 ing Member, of the Committee on Finance of  
12 the Senate.

13          (2) TERM.—

14           (A) IN GENERAL.—Except as provided in  
15 subparagraph (B), each member's term shall be  
16 4 years.

17           (B) INITIAL STAGGERING.—The first ap-  
18 pointments made by the Secretary under para-  
19 graph (1)(A) shall be for a term of 2 years.

20 **SEC. 1703. OTHER RELIEF FOR INDIAN TRIBES.**

21          (a) WAIVER OF PENALTIES AND INTEREST.—The  
22 Secretary of the Treasury may waive any interest and pen-  
23 alties imposed under the Internal Revenue Code of 1986  
24 on any Indian tribal government or member of an Indian  
25 tribe (or any spouse or dependent of such a member) to

1 the extent such interest and penalties relate to excluding  
2 a payment or benefit from gross income under the general  
3 welfare exclusion.

4 (b) DEFINITIONS.—For purposes of this section—

5 (1) INDIAN TRIBAL GOVERNMENT.—The term  
6 “Indian tribal government” shall have the meaning  
7 given such term by section 139E of such Code, as  
8 added by this Act.

9 (2) INDIAN TRIBE.—The term “Indian tribe”  
10 shall have the meaning given such term by section  
11 139D(c)(1) of such Code, as amended by this Act.

## 12 **TITLE II—ALTERNATIVE** 13 **MINIMUM TAX REPEAL**

### 14 **SEC. 2001. REPEAL OF ALTERNATIVE MINIMUM TAX.**

15 (a) IN GENERAL.—Subchapter A of chapter 1 is  
16 amended by striking part VI (and by striking the item  
17 relating to such part in the table of parts for subchapter  
18 A).

19 (b) CREDIT FOR PRIOR YEAR MINIMUM TAX LIABIL-  
20 ITY.—

21 (1) LIMITATION.—Subsection (c) of section 53  
22 is amended to read as follows:

23 “(c) LIMITATION.—The credit allowed under sub-  
24 section (a) shall not exceed the regular tax liability of the

1 taxpayer reduced by the sum of the credits allowed under  
2 subparts A, B, and D.”.

3 (2) CREDITS TREATED AS REFUNDABLE.—Sub-  
4 section (e) of section 53 is amended to read as fol-  
5 lows:

6 “(e) PORTION OF CREDIT TREATED AS REFUND-  
7 ABLE.—

8 “(1) IN GENERAL.—In the case of any taxable  
9 year beginning in 2016, 2017, 2018, or 2019, the  
10 limitation under subsection (c) shall be increased by  
11 the AMT refundable credit amount for such year.

12 “(2) AMT REFUNDABLE CREDIT AMOUNT.—  
13 For purposes of paragraph (1), the AMT refundable  
14 credit amount is an amount equal to 50 percent  
15 (100 percent in the case of a taxable year beginning  
16 in 2019) of the excess (if any) of—

17 “(A) the minimum tax credit determined  
18 under subsection (b) for the taxable year, over

19 “(B) the minimum tax credit allowed  
20 under subsection (a) for such year (before the  
21 application of this subsection for such year).

22 “(3) CREDIT REFUNDABLE.—For purposes of  
23 this title (other than this section), the credit allowed  
24 by reason of this subsection shall be treated as a



1 credit allowed under subpart C (and not this sub-  
2 part).

3 “(4) SHORT TAXABLE YEARS.—In the case of  
4 any taxable year of less than 365 days, the AMT re-  
5 fundable credit amount determined under paragraph  
6 (2) with respect to such taxable year shall be the  
7 amount which bears the same ratio to such amount  
8 determined without regard to this paragraph as the  
9 number of days in such taxable year bears to 365.”.

10 (3) TREATMENT OF REFERENCES.—Section  
11 53(d) is amended by adding at the end the following  
12 new paragraph:

13 “(3) AMT TERM REFERENCES.—Any references  
14 in this subsection to section 55, 56, or 57 shall be  
15 treated as a reference to such section as in effect be-  
16 fore its repeal by the Tax Reform Act of 2014.”.

17 (4) REPEAL OF SPECIAL RULES WITH RESPECT  
18 TO TREATMENT OF INCENTIVE STOCK OPTIONS.—  
19 Section 53 is amended by striking subsection (f).

20 (c) CONFORMING AMENDMENTS RELATED TO AMT  
21 REPEAL.—

22 (1) Section 2(e), as redesignated by section  
23 1001, is amended by striking “sections 1 and 55”  
24 and inserting “section 1”.

1           (2) Section 5(a) is amended by striking para-  
2 graph (4).

3           (3) Section 11(d) is amended by striking “the  
4 taxes imposed by subsection (a) and section 55” and  
5 inserting “the tax imposed by subsection (a)”.

6           (4) Section 13, as redesignated by title I, is  
7 amended by striking paragraph (7).

8           (5) Section 26(a) is amended to read as follows:  
9           “(a) LIMITATION BASED ON AMOUNT OF TAX.—The  
10 aggregate amount of credits allowed by this subpart for  
11 the taxable year shall not exceed the taxpayer’s regular  
12 tax liability for the taxable year.”.

13           (6) Section 26(b)(2) is amended by striking  
14 subparagraph (A).

15           (7) Section 26 is amended by striking sub-  
16 section (c).

17           (8) Section 38(c) is amended—

18                   (A) by striking paragraphs (1) through  
19 (5),

20                   (B) by redesignating paragraph (6) as  
21 paragraph (2),

22                   (C) by inserting before paragraph (2) (as  
23 so redesignated) the following new paragraph:

1           “(1) IN GENERAL.—The credit allowed under  
2 subsection (a) for any taxable year shall not exceed  
3 the excess of—

4                   “(A) the sum of—

5                           “(i) so much of the regular tax liabil-  
6 ity as does not exceed \$25,000, plus

7                           “(ii) 75 percent of so much of the reg-  
8 ular tax liability as exceeds \$25,000, over

9                   “(B) the sum of the credits allowable  
10 under subparts A and B of this part.”, and

11                   (D) by striking “subparagraph (B) of  
12 paragraph (1)” each place it appears in para-  
13 graph (2) (as so redesignated) and inserting  
14 “clauses (i) and (ii) of paragraph (1)(A)”.

15           (9) Section 45D(g)(4)(B) is amended by strik-  
16 ing “or for purposes of section 55”.

17           (10) Section 54(c)(1) is amended to read as fol-  
18 lows:

19                   “(1) regular tax liability (as defined in section  
20 26(b)), over”.

21           (11) Section 54A(c)(1)(A) is amended to read  
22 as follows:

23                   “(A) regular tax liability (as defined in  
24 section 26(b)), over”.

1           (12)(A) Section 108(b)(2) is amended by strik-  
2           ing subparagraph (C) and by redesignating subpara-  
3           graphs (D) through (G) as subparagraphs (C)  
4           through (F), respectively.

5           (B) Section 108(b)(3)(B) is amended—

6                 (i) by striking “subparagraphs (B), (C),  
7                 and (G)” and inserting “subparagraphs (B)  
8                 and (F) of paragraph (2)”, and

9                 (ii) by striking “subparagraph (F)” and  
10                 inserting “paragraph (2)(E)”.

11           (C) Section 108(b)(4)(B) is amended by strik-  
12           ing “subparagraph (A) or (D)” in the heading and  
13           text thereof and inserting “subparagraph (A) or  
14           (C)”.

15           (D) Section 108(b)(4)(C) is amended by strik-  
16           ing “subparagraphs (B) and (G)” in the heading  
17           and text thereof and inserting “subparagraphs (B)  
18           and (F)”.

19           (13) Section 168(k)(2) is amended by striking  
20           subparagraph (G).

21           (14) Section 173 is amended by striking sub-  
22           section (b).

23           (15) Section 174(f) is amended to read as fol-  
24           lows:

1       “(f) CROSS REFERENCE.—For adjustments to basis  
2 of property for amounts allowed as deductions as deferred  
3 expenses under subsection (b), see section 1016(a)(14).”.

4           (16) Section 263A(c) is amended by striking  
5 paragraph (6).

6           (17) Section 382(l) is amended by striking  
7 paragraph (7) and by redesignating paragraph (8)  
8 as paragraph (7).

9           (18) Section 443 (relating to returns for a pe-  
10 riod of less than 12 months) adjustment in com-  
11 puting minimum tax and tax preferences) is amend-  
12 ed by striking subsection (d) and by redesignating  
13 subsection (e) as subsection (d).

14           (19) Section 641(c) is amended—

15               (A) in paragraph (2) by striking subpara-  
16 graph (B) and by redesignating subparagraphs  
17 (C) and (D) as subparagraphs (B) and (C), re-  
18 spectively, and

19               (B) in paragraph (3), by striking “para-  
20 graph (2)(C)” and inserting “paragraph  
21 (2)(B)”.

22           (20) Subsections (b) and (c) of section 666 are  
23 each amended by striking “(other than the tax im-  
24 posed by section 55)”.

1           (21) Section 815(c)(2) is amended by striking  
2 the last sentence.

3           (22) Section 847 is amended—

4                 (A) by striking the last sentence of para-  
5 graph (9), and

6                 (B) in paragraph (10), by inserting “and”  
7 at the end of subparagraph (A), by striking  
8 subparagraph (B), and by redesignating sub-  
9 paragraph (C) as subparagraph (B).

10           (23) Section 848 is amended by striking sub-  
11 section (i) and by redesignating subsection (j) as  
12 subsection (i).

13           (24) Section 860E(a) is amended by striking  
14 paragraph (4).

15           (25) Section 871(b)(1) is amended by striking  
16 “or 55”.

17           (26) Section 882(a)(1) is amended by striking  
18 “55,”.

19           (27) Section 897(a) is amended to read as fol-  
20 lows:

21           “(a) TREATMENT AS EFFECTIVELY CONNECTED  
22 WITH UNITED STATES TRADE OR BUSINESS.—For pur-  
23 poses of this title, gain or loss of a nonresident alien indi-  
24 vidual or a foreign corporation from the disposition of a

1 United States real property interest shall be taken into  
2 account—

3 “(1) in the case of a nonresident alien indi-  
4 vidual, under section 871(b)(1), or

5 “(2) in the case of a foreign corporation, under  
6 section 882(a)(1), as if the taxpayer were engaged  
7 in a trade or business within the United States dur-  
8 ing the taxable year and as if such gain or loss were  
9 effectively connected with such trade or business.”.

10 (28) Section 904(k) is amended to read as fol-  
11 lows:

12 “(k) CROSS REFERENCE.—For increase of limitation  
13 under subsection (a) for taxes paid with respect to  
14 amounts received which were included in the gross income  
15 of the taxpayer for a prior taxable year as a United States  
16 shareholder with respect to a controlled foreign corpora-  
17 tion, see section 960(b).”.

18 (29) Section 911(f) is amended to read as fol-  
19 lows:

20 “(f) DETERMINATION OF TAX LIABILITY.—If, for  
21 any taxable year, any amount is excluded from gross in-  
22 come of a taxpayer under subsection (a), then, notwith-  
23 standing section 1, if such taxpayer has taxable income  
24 for such taxable year, the tax imposed by section 1 for  
25 such taxable year shall be equal to the excess (if any) of—

1           “(1) the tax which would be imposed by section  
2           1 for such taxable year if the taxpayer’s taxable in-  
3           come were increased by the amount excluded under  
4           subsection (a) for such taxable year, over

5           “(2) the tax which would be imposed by section  
6           1 for such taxable year if the taxpayer’s taxable in-  
7           come were equal to the amount excluded under sub-  
8           section (a) for such taxable year.”.

9           (30) Section 962(a)(1) is amended—

10           (A) by striking “sections 1 and 55” and  
11           inserting “section 1”, and

12           (B) by striking “sections 11 and 55” and  
13           inserting “section 11”.

14           (31) Section 1016(a) is amended by striking  
15           paragraph (20).

16           (32) Section 1202(a)(4) is amended by insert-  
17           ing “and” at the end of subparagraph (A), by strik-  
18           ing “, and” and inserting a period at the end of sub-  
19           paragraph (B), and by striking subparagraph (C).

20           (33) Section 1374(b)(3)(B) is amended by  
21           striking the last sentence thereof.

22           (34) Section 1397E(e)(1) is amended to read as  
23           follows:

24           “(1) regular tax liability (as defined in section  
25           26(b), over”.



1 (35) Section 1561(a) is amended—

2 (A) by inserting “and” at the end of para-  
3 graph (1), by striking the comma at the end of  
4 paragraph (2) and inserting a period, and by  
5 striking paragraphs (3) and (4), and

6 (B) by striking the last sentence.

7 (36) Section 6015(d)(2)(B) is amended by  
8 striking “or 55”.

9 (37) Section 6425(c)(1)(A) is amended—

10 (A) by adding “plus” at the end of clause  
11 (i), and

12 (B) by striking clause (ii) and by redesignig-  
13 nating clause (iii) as clause (ii).

14 (38) Section 6654(d)(2) is amended—

15 (A) in clause (i) of subparagraph (B), by  
16 striking “, alternative minimum taxable in-  
17 come,”, and

18 (B) in clause (i) of subparagraph (C), by  
19 striking “, alternative minimum taxable in-  
20 come,”.

21 (39) Section 6655(e)(2)(B) is amended—

22 (A) by striking “The taxable income, alter-  
23 native minimum taxable income, and modified  
24 alternative taxable income shall” and inserting  
25 “Taxable income shall”, and

1 (B) by striking clause (iii).

2 (40) Section 6655(g)(1)(A) is amended—

3 (A) by striking clause (ii), and

4 (B) by redesignating clauses (iii) and (iv)  
5 as clauses (ii) and (iii), respectively.

6 (41) Section 6662(e)(3)(C) is amended by strik-  
7 ing “the regular tax (as defined in section 55(c))”  
8 and inserting “the regular tax liability (as defined in  
9 section 26(b))”.

10 (d) EFFECTIVE DATES.—

11 (1) IN GENERAL.—Except as otherwise pro-  
12 vided in this subsection, the amendments made by  
13 this section shall apply to taxable years beginning  
14 after December 31, 2014.

15 (2) PRIOR ELECTIONS WITH RESPECT TO CER-  
16 TAIN TAX PREFERENCES.—So much of the amend-  
17 ment made by subsection (a) as relates to the repeal  
18 of section 59(e) of the Internal Revenue Code of  
19 1986 shall apply to amounts paid or incurred after  
20 December 31, 2014.

21 (3) TREATMENT OF NET OPERATING LOSS  
22 CARRYBACKS.—For purposes of section 56(d) of the  
23 Internal Revenue Code of 1986 (as in effect before  
24 its repeal), the amount of any net operating loss  
25 which may be carried back from a taxable year be-

1       ginning after December 31, 2014, to taxable years  
2       beginning before January 1, 2015, shall be deter-  
3       mined without regard to any adjustments under sec-  
4       tion 56(d)(2)(A) of such Code (as so in effect).

## 5                   **TITLE III—BUSINESS TAX** 6                                   **REFORM**

### 7                                   **Subtitle A—Tax Rates**

#### 8   **SEC. 3001. 25-PERCENT CORPORATE TAX RATE.**

9       (a) IN GENERAL.—Subsection (b) of section 11 is  
10      amended to read as follows:

11       “(b) AMOUNT OF TAX.—

12               “(1) IN GENERAL.—Except as provided in para-  
13               graph (2), the amount of the tax imposed by sub-  
14               section (a) shall be 25 percent of taxable income.

15               “(2) PHASE-IN FOR TAXABLE YEARS BEGIN-  
16               NING BEFORE 2019.—

17                       “(A) IN GENERAL.—In the case of taxable  
18                       years beginning before 2019, the amount of tax  
19                       imposed by subsection (a) shall be the sum of—

20                               “(i) 25 percent of so much of the tax-  
21                               able income as does not exceed \$75,000,  
22                               and

23                               “(ii) the applicable percentage of so  
24                               much of taxable income as exceeds  
25                               \$75,000.

1                   “(B) APPLICABLE PERCENTAGE.—For  
 2                   purposes of this paragraph, the applicable per-  
 3                   centage shall be determined in accordance with  
 4                   the following table:

<b>“In the case of taxable years be- ginning during calendar year</b>	<b>The applicable percentage is:</b>
2015 .....	33%
2016 .....	31%
2017 .....	29%
2018 .....	27%”.

5                   (b) CONFORMING AMENDMENTS.—

6                   (1) Paragraphs (2)(B) and (6)(A)(ii) of section  
 7                   860E(e) are each amended by striking “section  
 8                   11(b)(1)” and inserting “section 11(b)”.

9                   (2)(A) Part I of subchapter P of chapter 1 is  
 10                  amended by striking section 1201 (and by striking  
 11                  the item relating to such section in the table of sec-  
 12                  tions for such part).

13                  (B) Section 13, as amended and redesignated  
 14                  by the preceding provisions of this Act, is amended  
 15                  by striking paragraphs (4) and (6), and by redesign-  
 16                  ating paragraph (5) as paragraph (4).

17                  (C) Section 527(b) is amended—

18                         (i) by striking paragraph (2), and

19                         (ii) by striking all that precedes “is hereby  
 20                         imposed” and inserting:

21                         “(b) TAX IMPOSED.—A tax”.

1 (D) Sections 594(a) is amended by striking  
2 “taxes imposed by section 11 or 1201(a)” and in-  
3 serting “tax imposed by section 11”.

4 (E) Section 691(c)(4) is amended by striking  
5 “1201,”.

6 (F) Section 801(a) is amended—

7 (i) by striking paragraph (2), and

8 (ii) by striking all that precedes “is hereby  
9 imposed” and inserting:

10 “(a) TAX IMPOSED.—A tax”.

11 (G) Section 831(d) is amended by striking  
12 paragraph (1) and by redesignating paragraphs (2)  
13 and (3) as paragraphs (1) and (2), respectively.

14 (H) Sections 832(c)(5) and 834(b)(1)(D) are  
15 each amended by striking “sec. 1201 and fol-  
16 lowing,”.

17 (I) Section 852(b)(3)(A) is amended by striking  
18 “section 1201(a)” and inserting “section 11(b)”.

19 (J) Section 857(b)(3) is amended—

20 (i) by striking subparagraph (A) and re-  
21 designating subparagraphs (B) through (F) as  
22 subparagraphs (A) through (E), respectively,

23 (ii) in subparagraph (C), as so redesign-  
24 nated—

1 (I) by striking “subparagraph (A)(ii)”  
2 in clause (i) thereof and inserting “para-  
3 graph (1)”,

4 (II) by striking “the tax imposed by  
5 subparagraph (A)(ii)” in clauses (ii) and  
6 (iv) thereof and inserting “the tax imposed  
7 by paragraph (1) on undistributed capital  
8 gain”,

9 (iii) in subparagraph (E), as so redesign-  
10 nated, by striking “subparagraph (B) or (D)”  
11 and inserting “subparagraph (A) or (C)”, and

12 (iv) by adding at the end the following new  
13 subparagraph:

14 “(F) **UNDISTRIBUTED CAPITAL GAIN.**—  
15 For purposes of this paragraph, the term ‘un-  
16 distributed capital gain’ means the excess of the  
17 net capital gain over the deduction for divi-  
18 dends paid (as defined in section 561) deter-  
19 mined with reference to capital gain dividends  
20 only.”.

21 (K) Section 882(a)(1) is amended by striking “,  
22 or 1201(a)”.

23 (L) Section 1374(b) is amended by striking  
24 paragraph (4).

1 (M) Section 1381(b) is amended by striking  
2 “taxes imposed by section 11 or 1201” and inserting  
3 “tax imposed by section 11”.

4 (N) Sections 6425(c)(1)(A)(i) and  
5 6655(g)(1)(A)(i) are each amended by striking “or  
6 1201(a),”.

7 (3)(A) Section 1445(e)(1) is amended—

8 (i) by striking “35 percent” and inserting  
9 “the highest rate of tax in effect for the taxable  
10 year under section 11(b)”, and

11 (ii) by striking “of the gain” and inserting  
12 “multiplied by the gain”.

13 (B) Section 1445(e)(2) is amended by striking  
14 “35 percent of the amount” and inserting “the high-  
15 est rate of tax in effect for the taxable year under  
16 section 11(b) multiplied by the amount”.

17 (C) Section 1445(e)(6) is amended—

18 (i) by striking “35 percent” and inserting  
19 “the highest rate of tax in effect for the taxable  
20 year under section 11(b)”, and

21 (ii) by striking “of the amount” and in-  
22 serting “multiplied by the amount”.

23 (D) Section 1446(b)(2)(B) is amended by strik-  
24 ing “section 11(b)(1)” and inserting “section  
25 11(b)”.

1           (4) Section 852(b)(1) is amended by striking  
2           the last sentence.

3           (5)(A) Part I of subchapter B of chapter 5 is  
4           amended by striking section 1551 (and by striking  
5           the item relating to such section in the table of sec-  
6           tions for such part).

7           (B) Section 535(c)(5) is amended to read as  
8           follows:

9           “(5) CROSS REFERENCE.—For limitation on  
10          credit provided in paragraph (2) or (3) in the case  
11          of certain controlled corporations, see section  
12          1561.”.

13          (6)(A) Section 1561, as amended by the pre-  
14          ceding provisions of this Act, is amended to read as  
15          follows:

16       **“SEC. 1561. LIMITATION ON ACCUMULATED EARNINGS**  
17                               **CREDIT IN THE CASE OF CERTAIN CON-**  
18                               **TROLLED CORPORATIONS.**

19          “(a) IN GENERAL.—The component members of a  
20          controlled group of corporations on a December 31 shall,  
21          for their taxable years which include such December 31,  
22          be limited for purposes of this subtitle to one \$250,000  
23          (\$150,000 if any component member is a corporation de-  
24          scribed in section 535(c)(2)(B)) amount for purposes of  
25          computing the accumulated earnings credit under section



1 535(c)(2) and (3). Such amount shall be divided equally  
2 among the component members of such group on such De-  
3 cember 31 unless the Secretary prescribes regulations per-  
4 mitting an unequal allocation of such amount.

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

18 (B) The table of sections for part II of sub-  
19 chapter B of chapter 5 is amended by striking the  
20 item relating to section 1561 and inserting the fol-  
21 lowing new item:

“Sec. 1561. Limitation on accumulated earnings credit in the case of certain  
controlled corporations.”.

22 (7) Section 7874(e)(1)(B) is amended by strik-  
23 ing “section 11(b)(1)” and inserting “section  
24 11(b)”.

1 (c) EFFECTIVE DATE.—

2 (1) IN GENERAL.—Except as otherwise pro-  
3 vided in this subsection, the amendments made by  
4 this section shall apply to taxable years beginning  
5 after December 31, 2014.

6 (2) WITHHOLDING.—The amendments made by  
7 subsection (b)(3) shall apply to distributions made  
8 after December 31, 2014.

9 (3) CERTAIN TRANSFERS.—The amendments  
10 made by subsection (b)(5) shall apply to transfers  
11 made after December 31, 2018.

12 (4) CERTAIN OTHER AMENDMENTS RELATED  
13 TO SINGLE RATE OF TAX.—The amendments made  
14 by paragraphs (4) and (6) of subsection (b) shall  
15 apply to taxable years beginning after December 31,  
16 2018.

17 **Subtitle B—Reform of Business-**  
18 **Related Exclusions and Deductions**

19 **SEC. 3101. REVISION OF TREATMENT OF CONTRIBUTIONS**  
20 **TO CAPITAL.**

21 (a) INCLUSION OF CONTRIBUTIONS TO CAPITAL.—  
22 Part II of subchapter B of chapter 1 is amended by insert-  
23 ing after section 75 the following new section:

24 **“SEC. 76. CONTRIBUTIONS TO CAPITAL.**

25 **“(a) IN GENERAL.—Gross income includes—**

1           “(1) any contribution to the capital of any enti-  
2           ty, and

3           “(2) any premium received by such entity with  
4           respect to any option on any interest in such entity.

5           “(b) TREATMENT OF CONTRIBUTIONS IN EXCHANGE  
6           FOR STOCK, ETC.—

7           “(1) IN GENERAL.—In the case of any con-  
8           tribution of money or other property to a corpora-  
9           tion in exchange for stock of such corporation—

10           “(A) such contribution shall not be treated  
11           for purposes of subsection (a) as a contribution  
12           to the capital of such corporation (and shall not  
13           be includible in the gross income of such cor-  
14           poration), and

15           “(B) no gain or loss shall be recognized to  
16           such corporation upon the issuance of such  
17           stock.

18           “(2) TREATMENT LIMITED TO VALUE OF  
19           STOCK.—For purposes of this subsection, a contribu-  
20           tion of money or other property to a corporation  
21           shall be treated as being in exchange for stock of  
22           such corporation only to the extent that the fair  
23           market value of such money and other property does  
24           not exceed the fair market value of such stock.

1           “(3) APPLICATION TO ENTITIES OTHER THAN  
2 CORPORATION.—In the case of any entity other  
3 than a corporation, rules similar to the rules of  
4 paragraphs (1) and (2) shall apply in the case of  
5 any contribution of money or other property to such  
6 entity in exchange for any interest in such entity.

7           “(c) TREASURY STOCK TREATED AS STOCK.—Any  
8 reference in this section to stock shall be treated as includ-  
9 ing a reference to treasury stock.”.

10          (b) BASIS OF CORPORATION IN CONTRIBUTED PROP-  
11 erty.—

12           (1) CONTRIBUTIONS TO CAPITAL.—Subsection  
13 (c) of section 362 is amended to read as follows:

14          “(c) CONTRIBUTIONS TO CAPITAL.—If property  
15 other than money is transferred to a corporation as a con-  
16 tribution to the capital of such corporation (within the  
17 meaning of section 76) then the basis of such property  
18 shall be the greater of—

19           “(1) the basis determined in the hands of the  
20 transferor, increased by the amount of gain recog-  
21 nized to the transferor on such transfer, or

22           “(2) the amount included in gross income by  
23 such corporation under section 76 with respect to  
24 such contribution.”.

1           (2) CONTRIBUTIONS IN EXCHANGE FOR  
2 STOCK.—Paragraph (2) of section 362(a) is amend-  
3 ed by striking “contribution to capital” and insert-  
4 ing “contribution in exchange for stock of such cor-  
5 poration (determined under rules similar to the rules  
6 of paragraphs (2) and (3) of section 76(b))”.

7           (c) CONFORMING AMENDMENTS.—

8           (1) Section 108(e) is amended by striking para-  
9 graph (6).

10           (2) Part III of subchapter B of chapter 1 is  
11 amended by striking section 118 (and by striking  
12 the item relating to such section in the table of sec-  
13 tions for such part).

14           (3) The table of sections for part II of sub-  
15 chapter B of chapter 1 is amended by inserting after  
16 the item relating to section 75 the following new  
17 item:

“Sec. 76. Contributions to capital.”.

18           (d) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply to contributions made, and trans-  
20 actions entered into, after the date of the enactment of  
21 this Act.

22 **SEC. 3102. REPEAL OF DEDUCTION FOR LOCAL LOBBYING**  
23 **EXPENSES.**

24           (a) IN GENERAL.—Section 162(e) is amended by  
25 striking paragraphs (2) and (7) and by redesignating

1 paragraphs (3), (4), (5), (6), and (8) as paragraphs (2),  
2 (3), (4), (5), and (6), respectively.

3 (b) CONFORMING AMENDMENT.—Section  
4 6033(e)(1)(B)(ii) is amended by striking “section  
5 162(e)(5)(B)(ii)” and inserting “section  
6 162(e)(4)(B)(ii)”.

7 (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to amounts paid or incurred after  
9 December 31, 2014.

10 **SEC. 3103. EXPENDITURES FOR REPAIRS IN CONNECTION**  
11 **WITH CASUALTY LOSSES.**

12 (a) IN GENERAL.—Section 165, as amended by the  
13 preceding provisions of this Act, is amended by inserting  
14 after subsection (g) the following new subsection:

15 “(h) SPECIAL RULE FOR CASUALTY LOSSES.—

16 “(1) EXPENDITURES FOR REPAIRS IN CONNEC-  
17 TION WITH CASUALTY LOSSES.—If a deduction is al-  
18 lowable under this section for any casualty loss with  
19 respect to any property, any expenditure made for  
20 any repair of damage to such property in connection  
21 with such casualty loss shall be treated as a perma-  
22 nent improvement made to increase the value of  
23 such property for purposes of section 263(a)(1).

24 “(2) ELECTION TO EXPENSE REPAIR IN LIEU  
25 OF DEDUCTING CASUALTY LOSS.—If the taxpayer

1 elects the application of this paragraph with respect  
2 to any property with respect to which there is a cas-  
3 uality loss, no deduction shall be allowable under this  
4 section for the casualty loss with respect to such  
5 property and paragraph (1) shall not apply to ex-  
6 penditures made for repair of damage to such prop-  
7 erty in connection with such casualty loss. Any elec-  
8 tion under this paragraph shall be made not later  
9 than the due date for the return of tax (including  
10 extensions) for the taxable year in which the cas-  
11 uality loss occurs and, once made, may be revoked  
12 only with the consent of the Secretary.”.

13 (b) EFFECTIVE DATE.—The amendment made by  
14 this section shall apply to losses sustained after December  
15 31, 2014.

16 **SEC. 3104. REFORM OF ACCELERATED COST RECOVERY**  
17 **SYSTEM.**

18 (a) APPLICABLE DEPRECIATION METHOD.—Sub-  
19 section (b) of section 168 is amended to read as follows:

20 “(b) APPLICABLE DEPRECIATION METHOD.—For  
21 purposes of this section—

22 “(1) IN GENERAL.—The applicable depreciation  
23 method is the straight line method.

24 “(2) SALVAGE VALUE TREATED AS ZERO.—Sal-  
25 vage value shall be treated as zero.”.

1 (b) APPLICABLE RECOVERY PERIOD.—Subsection (c)  
2 of section 168 is amended to read as follows:

3 “(c) APPLICABLE RECOVERY PERIOD.—For purposes  
4 of this section—

5 “(1) IN GENERAL.—Except as provided in para-  
6 graph (2), the applicable recovery period for any  
7 property is the class life of such property.

8 “(2) SPECIAL RULES FOR DETERMINING CLASS  
9 LIFE OF CERTAIN PROPERTY.—

10 “(A) PROPERTY WITH NO CLASS LIFE.—In  
11 the case of personal property with no class life,  
12 the recovery period is 12 years.

13 “(B) CERTAIN HORSES.—In the case of  
14 any race horse, and any horse other than a race  
15 horse which is more than 12 years old at the  
16 time it is placed in service, 3 years.

17 “(C) SEMI-CONDUCTOR MANUFACTURING  
18 EQUIPMENT.—In the case of any semi-con-  
19 ductor manufacturing equipment, the recovery  
20 period is 5 years.

21 “(D) QUALIFIED TECHNOLOGICAL EQUIP-  
22 MENT.—In the case of any qualified techno-  
23 logical equipment, the recovery period is 5  
24 years.



1           “(E) AUTOMOBILE OR LIGHT GENERAL  
2 PURPOSE TRUCK.—In the case of any auto-  
3 mobile or light general purpose truck, the recov-  
4 ery period is 5 years.

5           “(F) QUALIFIED RENT-TO-OWN PROP-  
6 ERTY.—In the case of any qualified rent-to-own  
7 property, the recovery period is 9 years.

8           “(G) CERTAIN TELEPHONE SWITCHING  
9 EQUIPMENT.—In the case of any computer-  
10 based telephone central office switching equip-  
11 ment, the recovery period is 9.5 years.

12           “(H) RAILROAD TRACK.—In the case of  
13 any railroad track, the recovery period is 10  
14 years.

15           “(I) SMART ELECTRIC DISTRIBUTION  
16 PROPERTY.—In the case of qualified smart elec-  
17 tric meters and qualified smart electric grid sys-  
18 tems, the recovery period is 10 years.

19           “(J) AIRPLANES.—In the case of any  
20 fixed-wing aircraft (including any fixed-wing  
21 airframe or engine), the recovery period is 12  
22 years.

23           “(K) NATURAL GAS GATHERING LINE.—In  
24 the case of any natural gas gathering line, the  
25 recovery period is 14 years.

1           “(L) TREE OR VINE BEARING FRUIT OR  
2 NUTS.—In the case of any tree or vine bearing  
3 fruit or nuts, the recovery period is 20 years.

4           “(M) TELEPHONE DISTRIBUTION  
5 PLANT.—In the case of any telephone distribu-  
6 tion plant and comparable equipment used for  
7 2-way exchange of voice and data communica-  
8 tions by cable, the recovery period is 24 years.

9           “(N) REAL PROPERTY.—In the case of  
10 nonresidential real property, residential rental  
11 property, and any section 1245 property (as de-  
12 fined in section 1245(a)(3)) which is real prop-  
13 erty with no class life, the recovery period is 40  
14 years.

15           “(O) WATER TREATMENT AND UTILITY  
16 PROPERTY.—In the case of any municipal  
17 wastewater treatment plant or water utility  
18 property, the recovery period is 50 years.

19           “(P) CLEARING AND GRADING IMPROVE-  
20 MENTS; TUNNEL BORE.—In the case of any  
21 clearing and grading land improvements or tun-  
22 nel bore, the recovery period is 50 years.

23           “(Q) TAX-EXEMPT USE PROPERTY SUB-  
24 JECT TO LEASE.—In the case of any tax-exempt  
25 use property subject to a lease, the recovery pe-

1           riod used for purposes of paragraph (2) shall  
2           (notwithstanding any other subparagraph of  
3           this paragraph) in no event be less than 125  
4           percent of the lease term.”.

5           (c) NEUTRAL COST RECOVERY SYSTEM.—Section  
6 168, as amended by subsection (f), is amended by adding  
7 at the end the following new subsection:

8           “(i) NEUTRAL COST RECOVERY SYSTEM.—

9                   “(1) IN GENERAL.—In the case of any property  
10           (to which this section applies) placed in service by  
11           the taxpayer in a taxable year for which such tax-  
12           payer has elected the application of this subsection,  
13           the deduction determined under subsection (a) with  
14           respect to such property for any taxable year shall  
15           be increased by an amount equal to the product of—

16                           “(A) the modified adjusted basis of such  
17           property determined as of the close of such tax-  
18           able year (determined without regard to this  
19           subsection but after taking all other adjust-  
20           ments for such taxable year into account), mul-  
21           tiplied by

22                           “(B) the inflation adjustment percentage  
23           for the calendar year in which such taxable year  
24           begins.

1           “(2) MODIFIED ADJUSTED BASIS.—For pur-  
2           poses of this subsection, the term ‘modified adjusted  
3           basis’ means, with respect to any property, the ad-  
4           justed basis which would be determined with respect  
5           to such property if this subsection never applied to  
6           such property.

7           “(3) INFLATION ADJUSTMENT PERCENTAGE.—  
8           For purposes of this subsection, the term ‘inflation  
9           adjustment percentage’ means, with respect to any  
10          calendar year, the cost-of-living adjustment which  
11          would be determined under section 1(c)(2)(A) for  
12          such calendar year if clause (ii) thereof were applied  
13          by substituting ‘the C-CPI-U for the calendar year  
14          preceding the calendar year referred to in clause (i)’  
15          for ‘the normalized CPI for calendar year 2012’.

16          “(4) INCREASE FOR FIRST TAXABLE YEAR RE-  
17          DUCED TO TAKE INTO ACCOUNT PLACED IN SERVICE  
18          CONVENTION.—In the case of the taxable year in  
19          which any property is placed in service, the increase  
20          determined under paragraph (1) with respect to  
21          such property shall be equal to—

22                 “(A) in the case of any property to which  
23                 subsection (d)(3) applies,  $\frac{1}{8}$  of the amount of  
24                 such increase determined without regard to this  
25                 paragraph, and

1           “(B) in the case of any other property,  $\frac{1}{2}$   
2           of the amount of such increase determined  
3           without regard to this paragraph.

4           “(5) OVERALL DEPRECIATION ALLOWANCE NOT  
5           TO EXCEED BASIS.—The deduction determined  
6           under subsection (a) (after any increase determined  
7           under this subsection) with respect to any property  
8           for any taxable year shall not exceed the adjusted  
9           basis of such property determined as of the begin-  
10          ning of such taxable year.

11          “(6) CERTAIN PROPERTY EXCLUDED.—Para-  
12          graph (1) shall not apply to any specified property  
13          used outside the United States or to any property  
14          described in subsection (d)(2).

15          “(7) ELECTION.—

16                 “(A) IN GENERAL.—An election under  
17                 paragraph (1) for any taxable year shall be  
18                 made not later than the due date (including ex-  
19                 tensions) for the return of tax for such taxable  
20                 year. Such election, once made, shall be irrev-  
21                 ocable. Such election shall apply with respect to  
22                 all property placed in service during the taxable  
23                 for which made (and shall apply for subsequent  
24                 taxable years but only with respect to such  
25                 property).

1           “(B) TAXPAYER ENGAGED IN MORE THAN  
2           ONE BUSINESS.—A taxpayer engaged in more  
3           than one trade or business may make separate  
4           elections under paragraph (1) with respect to  
5           each such trade or business.”.

6           (d) APPLICATION OF MID-MONTH CONVENTION.—

7           (1) IN GENERAL.—Subparagraphs (A), (B) and  
8           (C) of section 168(d)(2) are amended to read as fol-  
9           lows:

10                   “(A) real property,

11                   “(B) water treatment and utility property,

12                   and

13                   “(C) any clearing and grading land im-  
14                   provements or tunnel bore,”.

15           (2) CONFORMING AMENDMENT.—Clause (i) of  
16           section 168(d)(3)(B) is amended to read as follows:

17                   “(i) any property described in para-  
18                   graph (2),”.

19           (e) DEFINITIONS.—Subsection (e) of section 168 is  
20           amended to read as follows:

21           “(e) DEFINITIONS.—For purposes of this section—

22                   “(1) CLASS LIFE.—

23                   “(A) IN GENERAL.—Except as provided in  
24                   this section, the term ‘class life’ means the class  
25                   life (if any) which would be applicable with re-

1 spect to any property as of January 1, 1986,  
2 under subsection (m) of section 167 (deter-  
3 mined without regard to paragraph (4) and as  
4 if the taxpayer had made an election under  
5 such subsection). The reference in this para-  
6 graph to subsection (m) of section 167 shall be  
7 treated as a reference to such subsection as in  
8 effect on the day before the date of the enact-  
9 ment of the Revenue Reconciliation Act of  
10 1990.

11 “(B) SECRETARIAL AUTHORITY TO MODIFY  
12 REV. PROC. 87-56.—

13 “(i) IN GENERAL.—The Secretary,  
14 through the Office of Tax Analysis and in  
15 consultation with the Bureau of Economic  
16 Analysis of the Department of Commerce,  
17 shall—

18 “(I) determine, and develop a  
19 schedule of, the economic depreciation  
20 of the major categories of depreciable  
21 property (other than property with a  
22 specified class life under subsection  
23 (c)(2)) to approximate constant  
24 straight-line depreciation, and

1                   “(II) develop recommendations  
2                   regarding the proper economic depre-  
3                   ciation for property with a specified  
4                   class life under subsection (c)(2).

5                   “(ii) REPORT.—Not later than De-  
6                   cember 31, 2017, the Secretary shall sub-  
7                   mit to the Committee on Ways and Means  
8                   of the House of Representatives and the  
9                   Committee on Finance of the Senate—

10                   “(I) the schedule developed under  
11                   clause (i)(I), and

12                   “(II) the recommendations devel-  
13                   oped under clause (i)(II).

14                   The schedule developed under clause (i)(I)  
15                   shall take effect with respect to property  
16                   placed in service after the later of Decem-  
17                   ber 31, 2017, or the end of the first cal-  
18                   endar year ending after the calendar year  
19                   during which such schedule is submitted.

20                   “(2) RESIDENTIAL RENTAL PROPERTY.—

21                   “(A) IN GENERAL.—The term ‘residential  
22                   rental property’ means any building or struc-  
23                   ture if 80 percent or more of the gross rental  
24                   income from such building or structure for the



1 taxable year is rental income from dwelling  
2 units.

3 “(B) DWELLING UNIT.—For purposes of  
4 subparagraph (A)—

5 “(i) the term ‘dwelling unit’ means a  
6 house or apartment used to provide living  
7 accommodations in a building or structure,  
8 but does not include a unit in a hotel,  
9 motel, or other establishment more than  
10 one-half of the units in which are used on  
11 a transient basis, and

12 “(ii) if any portion of the building or  
13 structure is occupied by the taxpayer, the  
14 gross rental income from such building or  
15 structure shall include the rental value of  
16 the portion so occupied.

17 “(3) NONRESIDENTIAL REAL PROPERTY.—The  
18 term ‘nonresidential real property’ means section  
19 1250 property which is not—

20 “(A) residential rental property, or

21 “(B) property with a class life of less than  
22 27.5 years.

23 “(4) WATER UTILITY PROPERTY.—The term  
24 ‘water utility property’ means property—

1           “(A) which is an integral part of the gath-  
2           ering, treatment, or commercial distribution of  
3           water, and

4           “(B) any municipal sewer.

5           “(5) QUALIFIED RENT-TO-OWN PROPERTY.—

6           “(A) IN GENERAL.—The term ‘qualified  
7           rent-to-own property’ means any property held  
8           by a rent-to-own dealer for purposes of being  
9           subject to a rent-to-own contract.

10          “(B) RENT-TO-OWN DEALER.—The term  
11          ‘rent-to-own dealer’ means a person that, in the  
12          ordinary course of business, regularly enters  
13          into rent-to-own contracts with customers for  
14          the use of consumer property, if a substantial  
15          portion of those contracts terminate and the  
16          property is returned to such person before the  
17          receipt of all payments required to transfer  
18          ownership of the property from such person to  
19          the customer.

20          “(C) CONSUMER PROPERTY.—The term  
21          ‘consumer property’ means tangible personal  
22          property of a type generally used within the  
23          home for personal use.

24          “(D) RENT-TO-OWN CONTRACT.—The  
25          term ‘rent-to-own contract’ means any lease for

1 the use of consumer property between a rent-to-  
2 own dealer and a customer who is an individual  
3 which—

4 “(i) is titled ‘Rent-to-Own Agreement’  
5 or ‘Lease Agreement with Ownership Op-  
6 tion’, or uses other similar language,

7 “(ii) provides for level (or decreasing  
8 where no payment is less than 40 percent  
9 of the largest payment), regular periodic  
10 payments (for a payment period which is a  
11 week or month),

12 “(iii) provides that legal title to such  
13 property remains with the rent-to-own  
14 dealer until the customer makes all the  
15 payments described in clause (ii) or early  
16 purchase payments required under the con-  
17 tract to acquire legal title to the item of  
18 property,

19 “(iv) provides a beginning date and a  
20 maximum period of time for which the con-  
21 tract may be in effect that does not exceed  
22 156 weeks or 36 months from such begin-  
23 ning date (including renewals or options to  
24 extend),

1           “(v) provides for payments within the  
2           156-week or 36-month period that, in the  
3           aggregate, generally exceed the normal re-  
4           tail price of the consumer property plus in-  
5           terest,

6           “(vi) provides for payments under the  
7           contract that, in the aggregate, do not ex-  
8           ceed \$10,000 per item of consumer prop-  
9           erty,

10          “(vii) provides that the customer does  
11          not have any legal obligation to make all  
12          the payments referred to in clause (ii) set  
13          forth under the contract, and that at the  
14          end of each payment period the customer  
15          may either continue to use the consumer  
16          property by making the payment for the  
17          next payment period or return such prop-  
18          erty to the rent-to-own dealer in good  
19          working order, in which case the customer  
20          does not incur any further obligations  
21          under the contract and is not entitled to a  
22          return of any payments previously made  
23          under the contract, and

24          “(viii) provides that the customer has  
25          no right to sell, sublease, mortgage, pawn,

1           pledge, encumber, or otherwise dispose of  
2           the consumer property until all the pay-  
3           ments stated in the contract have been  
4           made.

5           “(6) QUALIFIED TECHNOLOGICAL EQUIP-  
6           MENT.—

7           “(A) IN GENERAL.—The term ‘qualified  
8           technological equipment’ means—

9                   “(i) any computer or peripheral equip-  
10                   ment,

11                   “(ii) any high technology telephone  
12                   station equipment installed on the cus-  
13                   tomer’s premises, and

14                   “(iii) any high technology medical  
15                   equipment.

16           “(B) COMPUTER OR PERIPHERAL EQUIP-  
17           MENT DEFINED.—For purposes of this para-  
18           graph—

19                   “(i) IN GENERAL.—The term ‘com-  
20                   puter or peripheral equipment’ means—

21                           “(I) any computer, and

22                           “(II) any related peripheral  
23                   equipment.

1                   “(ii) COMPUTER.—The term ‘com-  
2                   puter’ means a programmable electroni-  
3                   cally activated device which—

4                               “(I) is capable of accepting infor-  
5                               mation, applying prescribed processes  
6                               to the information, and supplying the  
7                               results of these processes with or  
8                               without human intervention, and

9                               “(II) consists of a central proc-  
10                              essing unit containing extensive stor-  
11                              age, logic, arithmetic, and control ca-  
12                              pabilities.

13                   “(C) HIGH TECHNOLOGY MEDICAL EQUIP-  
14                   MENT.—For purposes of this paragraph, the  
15                   term ‘high technology medical equipment’  
16                   means any electronic, electromechanical, or  
17                   computer-based high technology equipment used  
18                   in the screening, monitoring, observation, diag-  
19                   nosis, or treatment of patients in a laboratory,  
20                   medical, or hospital environment.

21                   “(7) NATURAL GAS GATHERING LINE.—The  
22                   term ‘natural gas gathering line’ means—

23                               “(A) the pipe, equipment, and appur-  
24                               tenances determined to be a gathering line by

1 the Federal Energy Regulatory Commission,  
2 and

3 “(B) the pipe, equipment, and appur-  
4 tenances used to deliver natural gas from the  
5 wellhead or a commonpoint to the point at  
6 which such gas first reaches—

7 “(i) a gas processing plant,

8 “(ii) an interconnection with a trans-  
9 mission pipeline for which a certificate as  
10 an interstate transmission pipeline has  
11 been issued by the Federal Energy Regu-  
12 latory Commission,

13 “(iii) an interconnection with an  
14 intrastate transmission pipeline, or

15 “(iv) a direct interconnection with a  
16 local distribution company, a gas storage  
17 facility, or an industrial consumer.

18 “(8) QUALIFIED SMART ELECTRIC METERS.—

19 “(A) IN GENERAL.—The term ‘qualified  
20 smart electric meter’ means any smart electric  
21 meter which—

22 “(i) is placed in service by a taxpayer  
23 that is a supplier of electric energy or a  
24 provider of electric energy services, and

1           “(ii) does not have a class life (deter-  
2           mined without regard to subsection (c)) of  
3           less than 10 years.

4           “(B) SMART ELECTRIC METER.—For pur-  
5           poses of subparagraph (A), the term ‘smart  
6           electric meter’ means any time-based meter and  
7           related communication equipment which is ca-  
8           pable of being used by the taxpayer as part of  
9           a system that—

10           “(i) measures and records electricity  
11           usage data on a time-differentiated basis  
12           in at least 24 separate time segments per  
13           day,

14           “(ii) provides for the exchange of in-  
15           formation between supplier or provider and  
16           the customer’s electric meter in support of  
17           time-based rates or other forms of demand  
18           response,

19           “(iii) provides data to such supplier or  
20           provider so that the supplier or provider  
21           can provide energy usage information to  
22           customers electronically, and

23           “(iv) provides net metering.

24           “(9) QUALIFIED SMART ELECTRIC GRID SYS-  
25           TEMS.—



1           “(A) IN GENERAL.—The term ‘qualified  
2 smart electric grid system’ means any smart  
3 grid property which—

4           “(i) is used as part of a system for  
5 electric distribution grid communications,  
6 monitoring, and management placed in  
7 service by a taxpayer who is a supplier of  
8 electric energy or a provider of electric en-  
9 ergy services, and

10           “(ii) does not have a class life (deter-  
11 mined without regard to subsection (c)) of  
12 less than 10 years.

13           “(B) SMART GRID PROPERTY.—For the  
14 purposes of subparagraph (A), the term ‘smart  
15 grid property’ means electronics and related  
16 equipment that is capable of—

17           “(i) sensing, collecting, and moni-  
18 toring data of or from all portions of a  
19 utility’s electric distribution grid,

20           “(ii) providing real-time, two-way  
21 communications to monitor or manage  
22 such grid, and

23           “(iii) providing real time analysis of  
24 and event prediction based upon collected  
25 data that can be used to improve electric

1 distribution system reliability, quality, and  
2 performance.

3 “(10) SPECIFIED PROPERTY USED OUTSIDE  
4 THE UNITED STATES.—

5 “(A) IN GENERAL.—The term ‘specified  
6 property used outside the United States’  
7 means—

8 “(i) any aircraft which is registered  
9 by the Administrator of the Federal Avia-  
10 tion Agency and which is operated to and  
11 from the United States or is operated  
12 under contract with the United States,

13 “(ii) rolling stock which is used within  
14 and without the United States and which  
15 is—

16 “(I) of a rail carrier subject to  
17 part A of subtitle IV of title 49, or

18 “(II) of a United States person  
19 (other than a corporation described in  
20 subclause (I)) but only if the rolling  
21 stock is not leased to one or more for-  
22 eign persons for periods aggregating  
23 more than 12 months in any 24-  
24 month period,

1           “(iii) any vessel documented under the  
2 laws of the United States which is oper-  
3 ated in the foreign or domestic commerce  
4 of the United States,

5           “(iv) any motor vehicle of a United  
6 States person (as defined in section  
7 7701(a)(30)) which is operated to and  
8 from the United States,

9           “(v) any container of a United States  
10 person which is used in the transportation  
11 of property to and from the United States,

12           “(vi) any property (other than a vessel  
13 or an aircraft) of a United States person  
14 which is used for the purpose of exploring  
15 for, developing, removing, or transporting  
16 resources from the outer Continental Shelf  
17 (within the meaning of section 2 of the  
18 Outer Continental Shelf Lands Act, as  
19 amended and supplemented (43 U.S.C.  
20 1331)),

21           “(vii) any property which is owned by  
22 a domestic corporation or by a United  
23 States citizen (other than a citizen entitled  
24 to the benefits of section 931 or 933) and  
25 which is used predominantly in a posses-

1 sion of the United States by such a cor-  
2 poration, or such a citizen, or by a cor-  
3 poration created or organized in, or under  
4 the law of, a possession of the United  
5 States,

6 “(viii) any communications satellite  
7 (as defined in section 103(3) of the Com-  
8 munications Satellite Act of 1962, 47  
9 U.S.C. 702(3)), or any interest therein, of  
10 a United States person,

11 “(ix) any cable, or any interest there-  
12 in, of a domestic corporation engaged in  
13 furnishing telephone service to which sec-  
14 tion 168(e)(10)(C) applies (or of a wholly  
15 owned domestic subsidiary of such a cor-  
16 poration), if such cable is part of a sub-  
17 marine cable system which constitutes part  
18 of a communication link exclusively be-  
19 tween the United States and one or more  
20 foreign countries,

21 “(x) any property (other than a vessel  
22 or an aircraft) of a United States person  
23 which is used in international or territorial  
24 waters within the northern portion of the  
25 Western Hemisphere for the purpose of ex-

1 ploring for, developing, removing, or trans-  
2 porting resources from ocean waters or de-  
3 posits under such waters,

4 “(xi) any property described in section  
5 48(l)(3)(A)(ix) (as in effect on the day be-  
6 fore the date of the enactment of the Rev-  
7 enue Reconciliation Act of 1990) which is  
8 owned by a United States person and  
9 which is used in international or territorial  
10 waters to generate energy for use in the  
11 United States, and

12 “(xii) any satellite (not described in  
13 clause (viii)) or other spacecraft (or any in-  
14 terest therein) held by a United States per-  
15 son if such satellite or other spacecraft was  
16 launched from within the United States.

17 “(B) NORTHERN PORTION OF THE WEST-  
18 ERN HEMISPHERE.—For purposes of subpara-  
19 graph (A)(x), the term ‘northern portion of the  
20 Western Hemisphere’ means the area lying west  
21 of the 30th meridian west of Greenwich, east of  
22 the international dateline, and north of the  
23 Equator, but not including any foreign country  
24 which is a country of South America.”.

25 (f) CONFORMING AMENDMENTS.—

1 (1) AMENDMENTS TO SECTION 168.—

2 (A) Section 168 is amended by striking  
3 subsections (g), (j), (k), (l), (m), and (n), and  
4 by redesignating subsections (h) and (i) as sub-  
5 sections (g) and (h), respectively.

6 (B) Section 168(h), as redesignated by  
7 subparagraph (A), is amended—

8 (i) by striking paragraphs (1), (2),  
9 (11), (12), (13), (14), (15), (16), (17),  
10 (18), and (19) and by redesignating para-  
11 graphs (3) through (10) as paragraphs (1)  
12 through (8), respectively, and

13 (ii) by striking “DEFINITIONS AND”  
14 in the heading thereof.

15 (C) Section 168(h)(8), as redesignated by  
16 subparagraphs (A) and (B), is moved to the  
17 end of section 168(e) (as amended by sub-  
18 section (e)) and redesignated as paragraph  
19 (11).

20 (2) OTHER CONFORMING AMENDMENTS.—

21 (A) Section 50(b)(4) is amended—

22 (i) in subparagraph (A)(ii)—

23 (I) by striking “section  
24 168(h)(2)(C)” and inserting “section  
25 168(g)(2)(C)”,

1 (II) by striking “section  
2 168(h)(2)(A)(iii)” and inserting “sec-  
3 tion 168(g)(2)(A)(iii)”, and

4 (III) by striking “section  
5 168(h)(2)(B)” and inserting “section  
6 168(g)(2)(B)”,

7 (ii) in subparagraph (B), by striking  
8 “section 168(i)(3)” and inserting “section  
9 168(h)(1)”, and

10 (iii) in subparagraphs (D) and (E), by  
11 striking “section 168(h)” each place it ap-  
12 pears and inserting “section 168(g)”.

13 (B)(i) Section 50(b)(1)(B) is amended by  
14 striking “any property described in section  
15 168(g)(4)” and inserting “any specified prop-  
16 erty used outside the United States (as defined  
17 in section 168(e)(10))”.

18 (ii) Section 865(c)(3)(B) is amended by  
19 striking “property of a kind described in section  
20 168(g)(4)” and inserting “specified property  
21 used outside the United States (as defined in  
22 section 168(e)(10))”.

23 (C) Section 179(e)(2) is amended by in-  
24 serting “as in effect before its repeal by the

1 Tax Reform Act of 2014” after “section  
2 168(n)(2)”.

3 (D) Section 179(f), as amended by section  
4 3111, is amended—

5 (i) by striking paragraph (2), and

6 (ii) by inserting after paragraph (1)

7 the following new paragraphs:

8 “(2) QUALIFIED REAL PROPERTY.—For pur-  
9 poses of this subsection, the term ‘qualified real  
10 property’ means qualified leasehold improvement  
11 property, qualified restaurant property, and qualified  
12 retail improvement property.

13 “(3) QUALIFIED LEASEHOLD IMPROVEMENT  
14 PROPERTY.—For purposes of this subsection—

15 “(A) IN GENERAL.—The term ‘qualified  
16 leasehold improvement property’ means any im-  
17 provement to an interior portion of a building  
18 which is nonresidential real property if—

19 “(i) such improvement is made under  
20 or pursuant to a lease (as defined in sec-  
21 tion 168(g)(7))—

22 “(I) by the lessee (or any subles-  
23 see) of such portion, or

24 “(II) by the lessor of such por-  
25 tion,



1           “(ii) such portion is to be occupied ex-  
2           clusively by the lessee (or any sublessee) of  
3           such portion, and

4           “(iii) such improvement is placed in  
5           service more than 3 years after the date  
6           the building was first placed in service.

7           “(B) CERTAIN IMPROVEMENTS NOT IN-  
8           CLUDED.—Such term shall not include any im-  
9           provement for which the expenditure is attrib-  
10          utable to—

11           “(i) the enlargement of the building,

12           “(ii) any elevator or escalator,

13           “(iii) any structural component bene-  
14          fitting a common area, and

15           “(iv) the internal structural frame-  
16          work of the building.

17          “(C) DEFINITIONS AND SPECIAL RULES.—

18          For purposes of this paragraph—

19           “(i) COMMITMENT TO LEASE TREAT-  
20          ED AS LEASE.—A commitment to enter  
21          into a lease shall be treated as a lease, and  
22          the parties to such commitment shall be  
23          treated as lessor and lessee, respectively.

24           “(ii) RELATED PERSONS.—A lease be-  
25          tween related persons shall not be consid-

1           ered a lease. For purposes of the preceding  
2           sentence, the term ‘related persons’  
3           means—

4                   “(I) members of an affiliated  
5                   group (as defined in section 1504),  
6                   and

7                   “(II) persons having a relation-  
8                   ship described in subsection (b) of  
9                   section 267; except that, for purposes  
10                  of this subclause, the phrase ‘80 per-  
11                  cent or more’ shall be substituted for  
12                  the phrase ‘more than 50 percent’  
13                  each place it appears in such sub-  
14                  section.

15                  “(D) IMPROVEMENTS MADE BY LESSOR.—

16                  In the case of an improvement made by the per-  
17                  son who was the lessor of such improvement  
18                  when such improvement was placed in service,  
19                  such improvement shall be qualified leasehold  
20                  improvement property (if at all) only so long as  
21                  such improvement is held by such person.

22                  “(E) EXCEPTION FOR CHANGES IN FORM  
23                  OF BUSINESS.—Property shall not cease to be  
24                  qualified leasehold improvement property by  
25                  reason of—

1 “(i) death,

2 “(ii) a transaction to which section  
3 381(a) applies,

4 “(iii) a mere change in the form of  
5 conducting the trade or business so long as  
6 the property is retained in such trade or  
7 business as qualified leasehold improve-  
8 ment property and the taxpayer retains a  
9 substantial interest in such trade or busi-  
10 ness,

11 “(iv) the acquisition of such property  
12 in an exchange described in section 1031  
13 (as in effect before its repeal by the Tax  
14 Reform Act of 2014), 1033, or 1038 to the  
15 extent that the basis of such property in-  
16 cludes an amount representing the ad-  
17 justed basis of other property owned by the  
18 taxpayer or a related person, or

19 “(v) the acquisition of such property  
20 by the taxpayer in a transaction described  
21 in section 332, 351, 361, 721, or 731 (or  
22 the acquisition of such property by the tax-  
23 payer from the transferee or acquiring cor-  
24 poration in a transaction described in such  
25 section), to the extent that the basis of the

1 property in the hands of the taxpayer is  
2 determined by reference to its basis in the  
3 hands of the transferor or distributor.

4 “(4) QUALIFIED RESTAURANT PROPERTY.—For  
5 purposes of this subsection, the term ‘qualified res-  
6 taurant property’ means any section 1250 property  
7 which is—

8 “(A) a building, or

9 “(B) an improvement to a building,  
10 if more than 50 percent of the building’s square  
11 footage is devoted to preparation of, and seating for  
12 on-premises consumption of, prepared meals.

13 “(5) QUALIFIED RETAIL IMPROVEMENT PROP-  
14 ERTY.—

15 “(A) IN GENERAL.—The term ‘qualified  
16 retail improvement property’ means any im-  
17 provement to an interior portion of a building  
18 which is nonresidential real property if—

19 “(i) such portion is open to the gen-  
20 eral public and is used in the retail trade  
21 or business of selling tangible personal  
22 property to the general public, and

23 “(ii) such improvement is placed in  
24 service more than 3 years after the date  
25 the building was first placed in service.

1           “(B) IMPROVEMENTS MADE BY OWNER.—  
2           In the case of an improvement made by the  
3           owner of such improvement, such improvement  
4           shall be qualified retail improvement property  
5           (if at all) only so long as such improvement is  
6           held by such owner. Rules similar to the rules  
7           under paragraph (3)(E) shall apply for pur-  
8           poses of the preceding sentence.

9           “(C) CERTAIN IMPROVEMENTS NOT IN-  
10          CLUDED.—Such term shall not include any im-  
11          provement for which the expenditure is attrib-  
12          utable to—

13                 “(i) the enlargement of the building,  
14                 “(ii) any elevator or escalator,  
15                 “(iii) any structural component bene-  
16                 fitting a common area, or  
17                 “(iv) the internal structural frame-  
18                 work of the building.”.

19          (E) Section 280F(b) is amended—

20                 (i) by striking paragraph (1) and by  
21                 redesignating paragraphs (2) and (3) as  
22                 paragraphs (1) and (2), respectively, and

23                 (ii) by striking “, and the depreciation  
24                 deduction” and all that follows through

1           “alternative depreciation system)” in para-  
2           graph (1) (as redesignated by clause (i)).

3           (F) Section 280F(d)(4)(A)(iv) is amended  
4           by striking “section 168(i)(2)(B)” and inserting  
5           “section 168(e)(6)(B)”.

6           (G) Section 312(k)(3) is amended by strik-  
7           ing “EXCEPTION FOR TANGIBLE PROPERTY”  
8           and all that follows through “For purposes of  
9           computing the earnings and profits” and insert-  
10          ing “EXCEPTION FOR CERTAIN TANGIBLE  
11          PROPERTY.—For purposes of computing the  
12          earnings and profits”.

13          (H) Section 460(c) is amended by striking  
14          paragraph (6).

15          (I) Section 460(d)(2) is amended by strik-  
16          ing “section 168(h)(2)(D)” and inserting “sec-  
17          tion 168(g)(2)(D)”.

18          (J) Section 460(e)(6) is amended by strik-  
19          ing “section 168(e)(2)(A)(ii)” each place it ap-  
20          pears and inserting “section 168(e)(2)(B)”.

21          (K)(i) Subparagraphs (A) and (C) of sec-  
22          tion 470(c)(2) are each amended by striking  
23          “section 168(h)” and inserting “section  
24          168(g).”

1           (ii) Section 470(e)(2)(B) is amended by  
2 striking “section 168(h)(6)” and inserting “sec-  
3 tion 168(g)(6)”.

4           (L) Section 512(b)(17)(B)(ii)(I) is amend-  
5 ed by striking “section 168(h)(4)(B)” and in-  
6 serting “section 168(g)(4)(B)”.

7           (M) Section 514(c)(9)(B)(vi)(II) is amend-  
8 ed by striking “section 168(h)(6)” and insert-  
9 ing “section 168(g)(6)”.

10          (N) Section 527(i)(3)(D) is amended by  
11 striking “section 168(h)(4)” and inserting “sec-  
12 tion 168(g)(4)”.

13          (O) The second sentence of section  
14 860E(e)(5) is amended by striking “section  
15 168(h)(2)(D)” and inserting “section  
16 168(g)(2)(D)”.

17          (P) Section 1245(a) is amended—

18           (i) in paragraph (3)(D), by striking  
19 “section 168(i)(13)” and inserting “para-  
20 graph (4)”, and

21           (ii) by adding at the end the following  
22 new paragraph:

23           “(4) SINGLE PURPOSE AGRICULTURAL OR HOR-  
24 TICULTURAL STRUCTURE.—For purposes of this  
25 subsection—

1           “(A) IN GENERAL.—The term ‘single pur-  
2           pose agricultural or horticultural structure’  
3           means—

4                   “(i) a single purpose livestock struc-  
5                   ture, and

6                   “(ii) a single purpose horticultural  
7                   structure.

8           “(B) DEFINITIONS.—For purposes of this  
9           paragraph—

10                   “(i) SINGLE PURPOSE LIVESTOCK  
11                   STRUCTURE.—The term ‘single purpose  
12                   livestock structure’ means any enclosure or  
13                   structure specifically designed, constructed,  
14                   and used—

15                           “(I) for housing, raising, and  
16                           feeding a particular type of livestock  
17                           and their produce, and

18                           “(II) for housing the equipment  
19                           (including any replacements) nec-  
20                           essary for the housing, raising, and  
21                           feeding referred to in subclause (I).

22                   “(ii) SINGLE PURPOSE HORTI-  
23                   CULTURAL STRUCTURE.—The term ‘single  
24                   purpose horticultural structure’ means—



1           “(I) a greenhouse specifically de-  
2           signed, constructed, and used for the  
3           commercial production of plants, and

4           “(II) a structure specifically de-  
5           signed, constructed, and used for the  
6           commercial production of mushrooms.

7           “(iii) STRUCTURES WHICH INCLUDE  
8           WORK SPACE.—An enclosure or structure  
9           which provides work space shall be treated  
10          as a single purpose agricultural or horti-  
11          cultural structure only if such work space  
12          is solely for—

13           “(I) the stocking, caring for, or  
14           collecting of livestock or plants (as the  
15           case may be) or their produce,

16           “(II) the maintenance of the en-  
17           closure or structure, and

18           “(III) the maintenance or re-  
19           placement of the equipment or stock  
20           enclosed or housed therein.

21           “(iv) LIVESTOCK.—The term “live-  
22           stock” includes poultry.”.

23           (Q) Section 1245(a)(3)(F) is amended to  
24           read as follows:

1           “(F) any clearing and grading land im-  
2           provements or tunnel bore (within the meaning  
3           of section 168(c)(2)(P)).”.

4           (R) Section 6050V(d)(3) is amended by  
5           striking “section 168(h)(2)(A)(iv)” and insert-  
6           ing “section 168(g)(2)(A)(iv)”.

7           (S) Section 6211(b)(4)(A) is amended by  
8           striking “168(k)(4),”.

9           (T) The second sentence of section  
10          7701(e)(4)(A) is amended by striking “section  
11          168(h)” and inserting “section 168(g)”.

12          (U) Section 7871(f)(3) is amended—

13                 (i) by striking “(as defined in section  
14                 168(j)(6))” in subparagraph (B)(ii), and

15                 (ii) by adding at the end the following  
16                 new subparagraph:

17                 “(D) INDIAN RESERVATION.—For pur-  
18                 poses of this paragraph, the term ‘Indian res-  
19                 ervation’ means a reservation, as defined in—

20                         “(i) section 3(d) of the Indian Financ-  
21                         ing Act of 1974 (25 U.S.C. 1452(d)), or

22                         “(ii) section 4(10) of the Indian Child  
23                         Welfare Act of 1978 (25 U.S.C.  
24                         1903(10)).

1 For purposes of the preceding sentence, such  
2 section 3(d) shall be applied by treating the  
3 term ‘former Indian reservations in Oklahoma’  
4 as including only lands which are within the ju-  
5 risdictional area of an Oklahoma Indian tribe  
6 (as determined by the Secretary of the Interior)  
7 and are recognized by such Secretary as eligible  
8 for trust land status under 25 CFR Part 151  
9 (as in effect on August 5, 1997).”.

10 (g) NORMALIZATION REQUIREMENTS.—

11 (1) IN GENERAL.—A normalization method of  
12 accounting shall not be treated as being used with  
13 respect to any public utility property for purposes of  
14 section 167 or 168 of the Internal Revenue Code of  
15 1986 if the taxpayer, in computing its cost of service  
16 for ratemaking purposes and reflecting operating re-  
17 sults in its regulated books of account, reduces the  
18 excess tax reserve more rapidly or to a greater ex-  
19 tent than such reserve would be reduced under the  
20 average rate assumption method.

21 (2) ALTERNATIVE METHOD FOR CERTAIN TAX-  
22 PAYERS.—If, as of the first day of the taxable year  
23 that includes the date of enactment of this Act—

24 (A) the taxpayer was required by a regu-  
25 latory agency to compute depreciation for public

1 utility property on the basis of an average life  
2 or composite rate method, and

3 (B) the taxpayer's books and underlying  
4 records did not contain the vintage account  
5 data necessary to apply the average rate as-  
6 sumption method,

7 the taxpayer will be treated as using a normalization  
8 method of accounting if, with respect to such juris-  
9 diction, the taxpayer uses the alternative method for  
10 public utility property that is subject to the regu-  
11 latory authority of that jurisdiction.

12 (3) DEFINITIONS.—For purposes of this sub-  
13 section—

14 (A) EXCESS TAX RESERVE.—The term  
15 “excess tax reserve” means the excess of—

16 (i) the reserve for deferred taxes (as  
17 described in section 168(i)(9)(A)(ii) of the  
18 Internal Revenue Code of 1986 as in effect  
19 on the day before the date of the enact-  
20 ment of this Act), over

21 (ii) the amount which would be the  
22 balance in such reserve if the amount of  
23 such reserve were determined by assuming  
24 that the corporate rate reductions provided

1           in this Act were in effect for all prior peri-  
2           ods.

3           (B) AVERAGE RATE ASSUMPTION METH-  
4           OD.—The average rate assumption method is  
5           the method under which the excess in the re-  
6           serve for deferred taxes is reduced over the re-  
7           maining lives of the property as used in its reg-  
8           ulated books of account which gave rise to the  
9           reserve for deferred taxes. Under such method,  
10          if timing differences for the property reverse,  
11          the amount of the adjustment to the reserve for  
12          the deferred taxes is calculated by multi-  
13          plying—

14                 (i) the ratio of the aggregate deferred  
15                 taxes for the property to the aggregate  
16                 timing differences for the property as of  
17                 the beginning of the period in question, by

18                 (ii) the amount of the timing dif-  
19                 ferences which reverse during such period.

20          (C) ALTERNATIVE METHOD.—The “alter-  
21          native method” is the method in which the tax-  
22          payer—

23                 (i) computes the excess tax reserve on  
24                 all public utility property included in the  
25                 plant account on the basis of the weighted

1 average life or composite rate used to com-  
2 pute depreciation for regulatory purposes,  
3 and

4 (ii) reduces the excess tax reserve rat-  
5 ably over the remaining regulatory life of  
6 the property.

7 (4) TAX INCREASED FOR NORMALIZATION VIO-  
8 LATION.—If, for any taxable year ending after the  
9 date of the enactment of this Act, the taxpayer does  
10 not use a normalization method of accounting, the  
11 taxpayer's tax for the taxable year shall be increased  
12 by the amount by which it reduces its excess tax re-  
13 serve more rapidly than permitted under a normal-  
14 ization method of accounting.

15 (h) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to property placed in service after  
17 December 31, 2016.

18 **SEC. 3105. REPEAL OF AMORTIZATION OF POLLUTION CON-**  
19 **TROL FACILITIES.**

20 (a) IN GENERAL.—Part VI of subchapter B of chap-  
21 ter 1 is amended by striking section 169 (and by striking  
22 the item relating to such section in the table of sections  
23 for such part).

24 (b) CONFORMING AMENDMENTS.—

1           (1) Section 642(f) is amended by striking “the  
2           deductions for amortization provided by sections 169  
3           and 197” and inserting “the deduction for amortiza-  
4           tion provided by section 197”.

5           (2) Section 1250(b)(3) is amended by inserting  
6           “(as in effect before its repeal by the Tax Reform  
7           Act of 2014)” after “169”.

8           (c) EFFECTIVE DATE.—The amendments made by  
9           this section shall apply to facilities placed in service after  
10          December 31, 2014.

11          **SEC. 3106. NET OPERATING LOSS DEDUCTION.**

12          (a) LIMITATION ON NET OPERATING LOSSES OF  
13          CORPORATIONS.—

14               (1) IN GENERAL.—Section 172(a) is amended  
15               to read as follows:

16               “(a) DEDUCTION ALLOWED.—

17                       “(1) IN GENERAL.—There shall be allowed as a  
18                       deduction for the taxable year an amount equal to  
19                       the aggregate of—

20                               “(A) the net operating loss carryovers to  
21                               such year, plus

22                               “(B) the net operating loss carrybacks to  
23                               such year.

24               “(2) LIMITATION IN CASE OF CORPORATIONS.—

25               In the case of a corporation—

1           “(A) the deduction allowed under para-  
2 graph (1) for the taxable year shall not exceed  
3 90 percent of the taxable income for such year  
4 computed without regard to the deduction al-  
5 lowable under this section, and

6           “(B) appropriate adjustments in the appli-  
7 cation of subsection (b)(2) shall be made to  
8 take into account the limitation of subpara-  
9 graph (A).

10           “(3) NET OPERATING LOSS DEDUCTION DE-  
11 FINED.—For purposes of this subtitle, the term ‘net  
12 operating loss deduction’ means the deduction al-  
13 lowed by this subsection.”.

14           (2) COORDINATION WITH LIMITATION ON DE-  
15 DUCTION FOR CHARITABLE CONTRIBUTIONS.—

16           (A) IN GENERAL.—Section 170(b)(2)(C) is  
17 amended by redesignating clauses (iv) and (v)  
18 as clauses (v) and (vi), respectively, and by in-  
19 serting after clause (iii) the following new  
20 clause:

21           “(iv) the limitation imposed under  
22 section 172(a)(2)(A),”.

23           (B) LIFE INSURANCE COMPANIES.—Sec-  
24 tion 805(b)(2)(A) is amended by redesignating  
25 clauses (ii) through (v) as clauses (iii) through



1 (vi), respectively, and by inserting after clause  
2 (i) the following new clause:

3 “(ii) the limitation imposed under sec-  
4 tion 172(a)(2)(A),”.

5 (b) REPEAL OF SPECIAL CARRYBACK PROVISIONS.—

6 (1) IN GENERAL.—Section 172(b)(1) is amend-  
7 ed by striking subparagraphs (C), (D), (E), (G),  
8 (H), (I), and (J) and by redesignating subparagraph  
9 (F) as subparagraph (C).

10 (2) CONFORMING AMENDMENTS.—

11 (A) Section 172(b)(1)(C), as redesignated  
12 by paragraph (1), is amended—

13 (i) in clause (ii), by striking the last  
14 sentence, and

15 (ii) in clause (iv), by striking “in a  
16 manner similar to the manner in which a  
17 specified liability loss is treated” and in-  
18 serting “as a separate net operating loss  
19 for such taxable year to be taken into ac-  
20 count after the remaining portion of the  
21 net operating loss for such taxable year”.

22 (B) Section 172 is amended by striking  
23 subsections (f), (g), (h), (i), and (j) and by re-  
24 designating subsection (k) as subsection (f).

25 (c) EFFECTIVE DATES.—

1 (1) LIMITATION ON NOLS OF CORPORATIONS.—

2 The amendments made by subsection (a) shall apply  
3 to—

4 (A) taxable years beginning after Decem-  
5 ber 31, 2014, and

6 (B) to carrybacks of losses arising in tax-  
7 able years beginning after December 31, 2014,  
8 to taxable years beginning on or before such  
9 date.

10 (2) REPEAL OF SPECIAL CARRYBACKS.—

11 (A) IN GENERAL.—Except as otherwise  
12 provided in this paragraph, the amendments  
13 made by subsection (b) shall apply to losses  
14 arising in taxable years beginning after Decem-  
15 ber 31, 2014.

16 (B) EXPIRED PROVISIONS.—So much of  
17 the amendments made by subsection (b) as re-  
18 late to striking subparagraphs (D), (H), (I),  
19 and (J) of section 172(b)(1) of the Internal  
20 Revenue Code of 1986 shall take effect on the  
21 date of the enactment of this Act.

22 **SEC. 3107. CIRCULATION EXPENDITURES.**

23 (a) IN GENERAL.—Section 173 is amended to read  
24 as follows:

1 **“SEC. 173. CIRCULATION EXPENDITURES.**

2 “(a) IN GENERAL.—In the case of a taxpayer’s speci-  
3 fied circulation expenditures—

4 “(1) except as provided in paragraph (2), no  
5 deduction shall be allowed for such expenditures,  
6 and

7 “(2) the taxpayer shall—

8 “(A) charge such expenditures to capital  
9 account, and

10 “(B) be allowed an amortization deduction  
11 of such expenditures ratably over the 36-month  
12 period beginning with the midpoint of the  
13 month in which such expenditures are paid or  
14 incurred.

15 “(b) SPECIFIED CIRCULATION EXPENDITURES.—For  
16 purposes of this section, the term ‘specified circulation ex-  
17 penditures’ means all expenditures (other than expendi-  
18 tures for the purchase of land or depreciable property or  
19 for the acquisition of circulation through the purchase of  
20 any part of the business of another publisher of a news-  
21 paper, magazine, or other periodical) to establish, main-  
22 tain, or increase the circulation of a newspaper, magazine,  
23 or other periodical.

24 “(c) TREATMENT UPON ABANDONMENT.—If any  
25 property with respect to which specified circulation ex-  
26 penditures are paid or incurred is disposed, retired, or

1 abandoned during the period during which such expendi-  
 2 tures are allowed as an amortization deduction under this  
 3 section, no deduction shall be allowed with respect to such  
 4 expenditures on account of such disposition, retirement,  
 5 or abandonment and such amortization deduction shall  
 6 continue with respect to such expenditures.

7 “(d) PHASE-IN FOR TAXABLE YEARS BEGINNING  
 8 BEFORE 2019.—

9 “(1) IN GENERAL.—In the case of specified cir-  
 10 culation expenditures paid or incurred in taxable  
 11 years beginning before 2019—

12 “(A) notwithstanding subsection (a), the  
 13 applicable percentage of such expenditures shall  
 14 be allowed as a deduction for the taxable year  
 15 in which paid or incurred, and

16 “(B) subsection (a) shall apply to the re-  
 17 mainder of such expenditures.

18 “(2) APPLICABLE PERCENTAGE.—For purposes  
 19 of paragraph (1), the applicable percentage shall be  
 20 determined in accordance with the following table:

<b>“In the case of taxable years be- ginning in:</b>	<b>The applicable percentage is:</b>
2016 .....	75%
2017 .....	50%
2018 .....	25%

21 “(3) ELECTION OUT OF PHASE-IN.—The tax-  
 22 payer may elect, at such time and in such form and  
 23 manner as the Secretary shall prescribe, for para-

1 graph (1) not to apply for all taxable years begin-  
2 ning before 2019. Such election, once made, shall be  
3 irrevocable.”.

4 (b) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to amounts paid or incurred in tax-  
6 able years beginning after December 31, 2015.

7 **SEC. 3108. AMORTIZATION OF RESEARCH AND EXPERI-**  
8 **MENTAL EXPENDITURES.**

9 (a) IN GENERAL.—Section 174 is amended to read  
10 as follows:

11 **“SEC. 174. AMORTIZATION OF RESEARCH AND EXPERI-**  
12 **MENTAL EXPENDITURES.**

13 “(a) IN GENERAL.—In the case of a taxpayer’s speci-  
14 fied research or experimental expenditures for any taxable  
15 year—

16 “(1) except as provided in paragraph (2), no  
17 deduction shall be allowed for such expenditures,  
18 and

19 “(2) the taxpayer shall—

20 “(A) charge such expenditures to capital  
21 account, and

22 “(B) be allowed an amortization deduction  
23 of such expenditures ratably over the 5-year pe-  
24 riod (15-year period in the case of any specified  
25 research or experimental expenditures which are

1           attributable to foreign research (within the  
2           meaning of section 41(d)(4)(F))) beginning  
3           with the midpoint of the taxable year in which  
4           such expenditures are paid or incurred.

5           “(b) SPECIFIED RESEARCH OR EXPERIMENTAL EX-  
6   PENDITURES.—For purposes of this section, the term  
7   ‘specified research or experimental expenditures’ means,  
8   with respect to any taxable year, research or experimental  
9   expenditures which are paid or incurred by the taxpayer  
10  during such taxable year in connection with the taxpayer’s  
11  trade or business.

12          “(c) SPECIAL RULES.—

13                 “(1) LAND AND OTHER PROPERTY.—This sec-  
14   tion shall not apply to any expenditure for the acqui-  
15   sition or improvement of land, or for the acquisition  
16   or improvement of property to be used in connection  
17   with the research or experimentation and of a char-  
18   acter which is subject to the allowance under section  
19   167 (relating to allowance for depreciation, etc.) or  
20   section 611 (relating to allowance for depletion); but  
21   for purposes of this section allowances under section  
22   167, and allowances under section 611, shall be con-  
23   sidered as expenditures.

24                 “(2) EXPLORATION EXPENDITURES.—This sec-  
25   tion shall not apply to any expenditure paid or in-

1       curred for the purpose of ascertaining the existence,  
2       location, extent, or quality of any deposit of ore or  
3       other mineral (including oil and gas).

4               “(3) SOFTWARE DEVELOPMENT.—For purposes  
5       of this section, any amount paid or incurred in con-  
6       nection with the development of any software shall  
7       be treated as a research or experimental expendi-  
8       ture.

9               “(d) TREATMENT UPON DISPOSITION, RETIREMENT,  
10      OR ABANDONMENT.—If any property with respect to  
11      which specified research or experimental expenditures are  
12      paid or incurred is disposed, retired, or abandoned during  
13      the period during which such expenditures are allowed as  
14      an amortization deduction under this section, no deduction  
15      shall be allowed with respect to such expenditures on ac-  
16      count of such disposition, retirement, or abandonment and  
17      such amortization deduction shall continue with respect to  
18      such expenditures.

19              “(e) SPECIAL RULES FOR EXPENDITURES FOR DO-  
20      MESTIC RESEARCH DURING TAXABLE YEARS BEGINNING  
21      BEFORE 2021.—

22              “(1) IN GENERAL.—In the case of domestic re-  
23      search or experimental expenditures paid or incurred  
24      during any taxable year beginning before 2021—

1           “(A) notwithstanding subsection (a), the  
2           applicable percentage of such expenditures shall  
3           be allowed as a deduction in the taxable year in  
4           which paid or incurred, and

5           “(B) subsection (a) shall apply to the re-  
6           mainder of such expenditures by substituting  
7           the applicable period for ‘the 5-year period’.

8           “(2) DOMESTIC RESEARCH OR EXPERIMENTAL  
9           EXPENDITURES.—For purposes of this subsection,  
10          the term ‘domestic research or experimental expendi-  
11          tures’ means any expenditures—

12           “(A) to which subsection (a) applies (de-  
13           termined without regard to this subsection),  
14           and

15           “(B) which are not attributable to foreign  
16           research (within the meaning of section  
17           41(d)(4)(F)).

18           “(3) APPLICABLE PERCENTAGE.—For purposes  
19           of this subsection, the applicable percentage shall be  
20           determined in accordance with the following table:

<b>“In the case of taxable years be- ginning in:</b>	<b>The applicable percentage is:</b>
2015 .....	60%
2016 or 2017 .....	40%
2018, 2019, or 2020 .....	20%

21           “(4) APPLICABLE PERIOD.—For purposes of  
22           this subsection, the applicable period shall be deter-  
23           mined in accordance with the following table:



<b>“In the case of taxable years be- ginning in:</b>	<b>The applicable period is the:</b>
2015 .....	2-year period
2016 or 2017 .....	3-year period
2018, 2019, or 2020 .....	4-year period

1           “(5) ELECTION OUT OF PHASE-IN.—The tax-  
2           payer may elect, at such time and in such form and  
3           manner as the Secretary shall prescribe, for para-  
4           graph (1) not to apply to all domestic research or  
5           experimental expenditures of the taxpayer for any  
6           taxable years beginning before 2021. Such election,  
7           once made, shall be irrevocable.”.

8           (b) CLERICAL AMENDMENT.—The table of sections  
9           for part VI of subchapter B of chapter 1 is amended by  
10          striking the item relating to section 174 and inserting the  
11          following new item:

“Sec. 174. Amortization of research and experimental expenditures.”.

12          (c) EFFECTIVE DATE.—The amendments made by  
13          this section shall apply to amounts paid or incurred in tax-  
14          able years beginning after December 31, 2014.

15      **SEC. 3109. REPEAL OF DEDUCTIONS FOR SOIL AND WATER**  
16                                      **CONSERVATION EXPENDITURES AND ENDAN-**  
17                                      **GERED SPECIES RECOVERY EXPENDITURES.**

18          (a) IN GENERAL.—Part VI of subchapter B of chap-  
19          ter 1 is amended by striking section 175 (and by striking  
20          the item relating to such section in the table of sections  
21          for such part).

1 (b) CONFORMING AMENDMENTS.—Paragraphs  
2 (1)(A) and (2) of section 1252(a) are each amended by  
3 striking “relating to soil and water conservation expendi-  
4 tures” and inserting “as in effect before its repeal by the  
5 Tax Reform Act of 2014”.

6 (c) EFFECTIVE DATE.—

7 (1) IN GENERAL.—The amendments made by  
8 this section shall apply to amounts paid or incurred  
9 after December 31, 2014.

10 (2) ASSESSMENTS TREATED AS PAID OR IN-  
11 CURRED.—In the case of any amount paid or in-  
12 curred before December 31, 2014, and treated as  
13 paid or incurred in any succeeding taxable year by  
14 reason of section 175(f) of the Internal Revenue  
15 Code of 1986 (as in effect on the day before the  
16 date of the enactment of this Act), paragraph (1)  
17 shall not apply.

18 **SEC. 3110. AMORTIZATION OF CERTAIN ADVERTISING EX-**  
19 **PENSES.**

20 (a) IN GENERAL.—Part VI of subchapter B of chap-  
21 ter 1 is amended by inserting after section 176 the fol-  
22 lowing new section:

1 **“SEC. 177. AMORTIZATION OF CERTAIN ADVERTISING EX-**  
2 **PENSES.**

3 “(a) IN GENERAL.—In the case of a taxpayer’s amor-  
4 tizable advertising expenses for any taxable year—

5 “(1) except as provided in paragraph (2), no  
6 deduction shall be allowed for such expenses, and

7 “(2) the taxpayer shall—

8 “(A) charge such expenses to capital ac-  
9 count, and

10 “(B) be allowed an amortization deduction  
11 of such expenses ratably over the 10-year period  
12 beginning with the midpoint of the taxable year  
13 in which such expenses are paid or incurred.

14 “(b) EXEMPTION.—

15 “(1) IN GENERAL.—So much of the taxpayer’s  
16 otherwise deductible advertising expenses for any  
17 taxable year as do not exceed \$1,000,000 shall not  
18 be taken into account in determining such taxpayer’s  
19 amortizable advertising expenses for such taxable  
20 year.

21 “(2) PHASEOUT OF EXEMPTION.—In the case  
22 of a taxpayer whose otherwise deductible advertising  
23 expenses for any taxable year exceed \$1,500,000,  
24 the dollar amount in effect under paragraph (1) with  
25 respect to such taxpayer for such taxable year shall

1 be reduced (but not below zero) by twice such ex-  
 2 cess.

3 “(3) AGGREGATION; SHORT TAXABLE YEARS.—

4 For purposes of this subsection, rules similar to the  
 5 rules of paragraphs (2) and (3)(B) of section 448(b)  
 6 shall apply.

7 “(c) AMORTIZABLE ADVERTISING EXPENSES.—

8 “(1) IN GENERAL.—For purposes of this sec-  
 9 tion, the term ‘amortizable advertising expenses’  
 10 means, with respect to any taxpayer for any taxable  
 11 year, the applicable percentage of the taxpayer’s oth-  
 12 erwise deductible advertising expenses for such tax-  
 13 able year.

14 “(2) APPLICABLE PERCENTAGE.—For purposes  
 15 of this subsection, the term ‘applicable percentage’  
 16 means (with respect to the taxpayer’s otherwise de-  
 17 ductible advertising expenses for any taxable year)  
 18 the percentage determined in accordance with the  
 19 following table:

“For taxable years beginning in:	The applicable percentage is:
2015 .....	20 percent
2016 .....	30 percent
2017 .....	40 percent
2018 or thereafter .....	50 percent.

20 “(3) ELECTION OUT OF PHASE-IN.—The tax-  
 21 payer may elect, at such time and in such form and

1 manner as the Secretary shall prescribe, to treat the  
2 applicable percentage as being equal to 50 percent  
3 for all taxable years beginning before 2018. Such  
4 election, once made, shall be irrevocable.

5 “(d) OTHERWISE DEDUCTIBLE ADVERTISING EX-  
6 PENSES.—For purposes of this section—

7 “(1) IN GENERAL.—The term ‘otherwise de-  
8 ductible advertising expenses’ means, with respect to  
9 any taxpayer for any taxable year, the deductions  
10 which would (but for this section) be allowable to the  
11 taxpayer for such taxable year with respect to speci-  
12 fied advertising expenses.

13 “(2) SPECIFIED ADVERTISING EXPENSES.—The  
14 term ‘specified advertising expenses’ means any  
15 amount paid or incurred for the development, pro-  
16 duction, or placement (including any form of trans-  
17 mission, broadcast, publication, display, or distribu-  
18 tion) of any communication to the general public (or  
19 portions thereof) which is intended to promote the  
20 taxpayer or a trade or business of the taxpayer (or  
21 any service, facility, or product provided pursuant to  
22 such trade or business).

23 “(3) EXCEPTIONS.—The term ‘specified adver-  
24 tising expenses’ shall not include—

1           “(A) CERTAIN WAGES.—Wages paid or in-  
2           curred to any employee unless the services ren-  
3           dered by such employee are primarily related  
4           to—

5                   “(i) an activity described in paragraph  
6                   (2) (other than the direct sale of goods or  
7                   services to customers of the taxpayer), or

8                   “(ii) the direct supervision of employ-  
9                   ees rendering services primarily related to  
10                  such an activity.

11           “(B) DEPRECIATION OF TANGIBLE PROP-  
12           ERTY.—In the case of any tangible property,  
13           any amount for which a deduction is allowed for  
14           depreciation under section 167.

15           “(C) AMORTIZABLE SECTION 197 INTANGI-  
16           BLES.—Any amount for which a deduction is  
17           allowed for amortization under section 197.

18           “(D) DISCOUNTS, ETC.—Any discount,  
19           coupon, rebate, slotting allowance, sample,  
20           prize, loyalty reward point, or any item deter-  
21           mined by the Secretary to be similar to any of  
22           the foregoing (other than any amount paid or  
23           incurred to promote any of the foregoing).

24           “(E) CERTAIN COMMUNICATIONS ON TAX-  
25           PAYER’S PROPERTY.—Any amount paid or in-

1           curred with respect to any communication ap-  
2           pearing on tangible property of the taxpayer  
3           which—

4                   “(i) is of a character subject to the al-  
5                   lowance for depreciation, or

6                   “(ii) is properly treated as inventory  
7                   for purposes of section 471.

8                   “(F) CREATION OF LOGOS, TRADE NAMES,  
9                   ETC.—Any amount paid or incurred for the cre-  
10                  ation of any logo, trademark, or trade name.

11                  “(G) PACKAGE DESIGN.—Any amount to  
12                  which section 263A(i) applies.

13                  “(H)     MARKETING     RESEARCH.—Any  
14                  amount paid or incurred for marketing re-  
15                  search.

16                  “(I) BUSINESS MEALS.—Any amount paid  
17                  or incurred for meals.

18                  “(J)     QUALIFIED     SPONSORSHIP     PAY-  
19                  MENTS.—Any amount paid or incurred as a  
20                  qualified sponsorship payment (as defined in  
21                  section 513(i)(2)) with respect to an organiza-  
22                  tion subject to the tax imposed by section 511.

23                  “(e) TREATMENT UPON ABANDONMENT.—If any  
24                  property with respect to which specified advertising ex-  
25                  penses are paid or incurred is disposed, retired, or aban-

1 doned during the period during which such expenses are  
2 allowed as an amortization deduction under this section,  
3 no deduction shall be allowed with respect such expenses  
4 on account of such disposition, retirement, or abandon-  
5 ment and such amortization deduction shall continue with  
6 respect to such expenses.

7 “(f) INFLATION ADJUSTMENT.—

8 “(1) IN GENERAL.—In the case of any taxable  
9 year beginning after 2015, each of the dollar  
10 amounts in subsection (b) shall be increased by an  
11 amount equal to—

12 “(A) such dollar amount, multiplied by

13 “(B) the cost-of-living adjustment deter-  
14 mined under section 1(c)(2)(A) for such cal-  
15 endar year, determined by substituting ‘cal-  
16 endar year 2014’ for ‘calendar year 2012’ in  
17 clause (ii) thereof.

18 “(2) ROUNDING.—The amount of any increase  
19 under paragraph (1) shall be rounded to the nearest  
20 multiple of \$10,000.”.

21 (b) CAPITALIZATION OF PACKAGE DESIGN EX-  
22 PENSES.—Section 263A is amended by redesignating sub-  
23 section (i) as subsection (j) and by inserting after sub-  
24 section (h) the following new subsection:



1       “(i) CAPITALIZATION OF PACKAGE DESIGN EX-  
2 PENSES.—For purposes of this section, in the case of any  
3 amount paid or incurred for package design, such amounts  
4 shall be treated as an indirect cost described in subsection  
5 (a)(2)(B) with respect to packages which utilize such de-  
6 sign.”.

7       (c) CLERICAL AMENDMENT.—The table of sections  
8 for part VI of subchapter B of chapter 1 is amended by  
9 inserting after the item relating to section 176 the fol-  
10 lowing new item:

“Sec. 177. Amortization of certain advertising expenses.”.

11       (d) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to amounts paid or incurred in tax-  
13 able years beginning after December 31, 2014.

14 **SEC. 3111. EXPENSING CERTAIN DEPRECIABLE BUSINESS**  
15 **ASSETS FOR SMALL BUSINESS.**

16       (a) IN GENERAL.—

17           (1) DOLLAR LIMITATION.—Paragraph (1) of  
18 section 179(b) is amended by striking “shall not ex-  
19 ceed—” and all that follows and inserting “shall not  
20 exceed \$250,000.”.

21           (2) REDUCTION IN LIMITATION.—Paragraph  
22 (2) of section 179(b) is amended by striking “ex-  
23 ceeds—” and all that follows and inserting “exceeds  
24 \$800,000.”.

1 (b) COMPUTER SOFTWARE.—Clause (ii) of section  
2 179(d)(1)(A) is amended by striking “to which section  
3 167 applies, and which is placed in service in a taxable  
4 year beginning after 2002 and before 2014” and inserting  
5 “and to which section 167 applies”.

6 (c) ELECTION.—Paragraph (2) of section 179(c) is  
7 amended—

8 (1) by striking “may not be revoked” and all  
9 that follows through “and before 2014”, and

10 (2) by striking “IRREVOCABLE” in the heading  
11 thereof.

12 (d) AIR CONDITIONING AND HEATING UNITS.—  
13 Paragraph (1) of section 179(d) is amended by striking  
14 “and shall not include air conditioning or heating units”.

15 (e) QUALIFIED REAL PROPERTY.—Section 179(f) is  
16 amended—

17 (1) by striking “beginning in 2010, 2011, 2012,  
18 or 2013” in paragraph (1), and

19 (2) by striking paragraphs (3) and (4).

20 (f) INFLATION ADJUSTMENT.—Subsection (b) of sec-  
21 tion 179 is amended by adding at the end the following  
22 new paragraph:

23 “(6) INFLATION ADJUSTMENT.—

24 “(A) IN GENERAL.—In the case of any  
25 taxable year beginning after 2014, the dollar

1 amounts in paragraphs (1) and (2) shall each  
2 be increased by an amount equal to—

3 “(i) such dollar amount, multiplied by

4 “(ii) the cost-of-living adjustment de-  
5 termined under section 1(c)(2)(A) for such  
6 calendar year, determined by substituting  
7 ‘calendar year 2013’ for ‘calendar year  
8 2012’ in clause (ii) thereof.

9 “(B) ROUNDING.—The amount of any in-  
10 crease under subparagraph (A) shall be round-  
11 ed to the nearest multiple of \$10,000.”.

12 (g) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to taxable years beginning after  
14 December 31, 2013.

15 **SEC. 3112. REPEAL OF ELECTION TO EXPENSE CERTAIN RE-**  
16 **FINERIES.**

17 (a) IN GENERAL.—Part VI of subchapter B of chap-  
18 ter 1 is amended by striking section 179C (and by striking  
19 the item relating to such section in the table of sections  
20 for such part).

21 (b) CONFORMING AMENDMENT.—Section 312(k)(3),  
22 as amended by the preceding provisions of this Act, is  
23 amended by striking “, 179C” each place it appears.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to property placed in service after  
3 December 31, 2013.

4 **SEC. 3113. REPEAL OF DEDUCTION FOR ENERGY EFFI-**  
5 **CIENT COMMERCIAL BUILDINGS.**

6 (a) IN GENERAL.—Part VI of subchapter B of chap-  
7 ter 1 is amended by striking section 179D (and by striking  
8 the item relating to such section in the table of sections  
9 for such part).

10 (b) CONFORMING AMENDMENT.—

11 (1) Section 1016(a) is amended by striking  
12 paragraph (31).

13 (2) Section 312(k)(3), as amended by the pre-  
14 ceding provisions of this Act, is amended by striking  
15 “, 179D” each place it appears.

16 (c) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to property placed in service after  
18 December 31, 2013.

19 **SEC. 3114. REPEAL OF ELECTION TO EXPENSE ADVANCED**  
20 **MINE SAFETY EQUIPMENT.**

21 (a) IN GENERAL.—Part VI of subchapter B of chap-  
22 ter 1 is amended by striking section 179E (and by striking  
23 the item relating to such section in the table of sections  
24 for such part).

1 (b) CONFORMING AMENDMENT.—Section 312(k)(3),  
2 as amended by the preceding provisions of this Act, is  
3 amended—

4 (1) by striking “, or 179E, as the case may  
5 be”, and

6 (2) by striking “, or 179E” each place it ap-  
7 pears.

8 (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to property placed in service after  
10 December 31, 2013.

11 **SEC. 3115. REPEAL OF DEDUCTION FOR EXPENDITURES BY**  
12 **FARMERS FOR FERTILIZER, ETC.**

13 (a) IN GENERAL.—Part VI of subchapter B of chap-  
14 ter 1 is amended by striking section 180 (and by striking  
15 the item relating to such section in the table of sections  
16 for such part).

17 (b) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to expenses paid or incurred in  
19 taxable years beginning after December 31, 2014.

20 **SEC. 3116. REPEAL OF SPECIAL TREATMENT OF CERTAIN**  
21 **QUALIFIED FILM AND TELEVISION PRODUC-**  
22 **TIONS.**

23 (a) IN GENERAL.—Part VI of subchapter B of chap-  
24 ter 1 is amended by striking section 181 (and by striking

1 the item relating to such section in the table of sections  
2 for such part).

3 (b) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to productions commencing after  
5 December 31, 2013.

6 **SEC. 3117. REPEAL OF SPECIAL RULES FOR RECOVERIES**  
7 **OF DAMAGES OF ANTITRUST VIOLATIONS,**  
8 **ETC.**

9 (a) IN GENERAL.—Part VI of subchapter B of chap-  
10 ter 1 is amended by striking section 186 (and by striking  
11 the item relating to such section in the table of sections  
12 for such part).

13 (b) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to taxable years beginning after  
15 December 31, 2014.

16 **SEC. 3118. TREATMENT OF REFORESTATION EXPENDI-**  
17 **TURES.**

18 (a) ELIMINATION OF EXPENSING ELECTION.—Sec-  
19 tion 194 is amended by striking subsections (a) and (b),  
20 by redesignating subsection (c) and (d) as subsections (b)  
21 and (c), respectively, and by inserting before subsection  
22 (b) (as so redesignated) the following new subsection:

23 “(a) IN GENERAL.—In the case of a taxpayer’s quali-  
24 fied reforestation expenditures for any taxable year—

1           “(1) except as provided in paragraph (2), no  
2       deduction shall be allowed for such expenditures,  
3       and

4           “(2) the taxpayer shall—

5               “(A) charge such expenditures to capital  
6       account, and

7               “(B) be allowed an amortization deduction  
8       of such expenditures ratably over the 7-year pe-  
9       riod beginning with the midpoint of the taxable  
10      year in which such expenditures are paid or in-  
11      curred.”.

12       (b) QUALIFIED REFORESTATION EXPENDITURES.—  
13      Section 194(b), as redesignated by subsection (a), is  
14      amended by striking paragraph (2), by redesignating  
15      paragraph (1) as paragraph (2), and by inserting before  
16      paragraph (2) (as so redesignated the following new para-  
17      graph:

18           “(1) QUALIFIED REFORESTATION EXPENDI-  
19      TURES.—The term ‘qualified reforestation expendi-  
20      tures’ means, with respect to any taxable year, the  
21      reforestation expenditures paid or incurred by the  
22      taxpayer during such taxable year with respect to  
23      qualified timber property.”.

1 (c) QUALIFIED TIMBER PROPERTY LIMITED TO OR-  
2 NAMENTAL TREES.—Section 194(b)(2), as redesignated  
3 by subsections (a) and (b), is amended to read as follows:

4 “(2) QUALIFIED TIMBER PROPERTY.—The term  
5 ‘qualified timber property’ means a woodlot or other  
6 site located in the United States which—

7 “(A) will contain evergreen trees in signifi-  
8 cant commercial quantities which are reason-  
9 ably expected to be more than 6 years old at  
10 the time severed from the roots, and

11 “(B) is held by the taxpayer for the plant-  
12 ing, cultivating, caring for, and cutting of such  
13 trees for sale for ornamental purposes.”.

14 (d) DETERMINATION OF RECOMPUTED BASIS.—Sec-  
15 tion 1245(b) is amended by striking paragraph (7).

16 (e) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to expenditures paid or incurred  
18 in taxable years beginning after December 31, 2014.

19 **SEC. 3119. 20-YEAR AMORTIZATION OF GOODWILL AND CER-**  
20 **TAIN OTHER INTANGIBLES.**

21 (a) IN GENERAL.—Subsection (a) of section 197 is  
22 amended by striking “15-year period” and inserting “20-  
23 year period”.



1 (b) MORTGAGE SERVICING RIGHTS.—Subsection (e)  
2 of section 197 is amended by striking paragraph (6) and  
3 by redesignating paragraph (7) as paragraph (6).

4 (c) CONFORMING AMENDMENTS.—

5 (1) Clause (i) of section 197(e)(4)(D) is amend-  
6 ed by striking “15 years” and inserting “20 years”.

7 (2) Section 167(f) is amended by striking para-  
8 graph (3).

9 (d) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to property acquired after Decem-  
11 ber 31, 2014.

12 **SEC. 3120. TREATMENT OF ENVIRONMENTAL REMEDIATION**  
13 **COSTS.**

14 (a) IN GENERAL.—Subsection (a) of section 198 is  
15 amended to read as follows:

16 “(a) IN GENERAL.—In the case of a taxpayer’s quali-  
17 fied environmental remediation expenditures for any tax-  
18 able year—

19 “(1) except as provided in paragraph (2), no  
20 deduction shall be allowed for such expenditures,  
21 and

22 “(2) the taxpayer shall—

23 “(A) charge such expenditures to capital  
24 account, and

1           “(B) be allowed an amortization deduction  
2           of such expenditures ratably over the 40-year  
3           period beginning with the midpoint of the tax-  
4           able year in which such expenditures are paid  
5           or incurred.”.

6           (b) **MADE PERMANENT.**—Section 198 is amended by  
7 striking subsection (h).

8           (c) **CONFORMING AMENDMENTS.**—

9           (1) Section 198, as amended by subsection (b),  
10 is amended by striking subsection (f) and by redesignig-  
11 nating subsection (g) as subsection (f).

12           (2) Section 198 (and the item relating to such  
13 section in the table of sections for part VI of sub-  
14 chapter B of chapter 1) is amended by striking “**EX-**  
15 **PENSING**” in the heading thereof and inserting  
16 “**AMORTIZATION**”.

17           (d) **EFFECTIVE DATE.**—The amendments made by  
18 this section shall apply to expenditures paid or incurred  
19 after December 31, 2014.

20 **SEC. 3121. REPEAL OF EXPENSING OF QUALIFIED DIS-**  
21 **ASTER EXPENSES.**

22           (a) **IN GENERAL.**—Part VI of subchapter B of chap-  
23 ter 1 is amended by striking section 198A (and by striking  
24 the item relating to such section in the table of sections  
25 for such part).

1 (b) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to amounts paid or incurred after  
 3 December 31, 2014.

4 **SEC. 3122. PHASEOUT AND REPEAL OF DEDUCTION FOR IN-**  
 5 **COME ATTRIBUTABLE TO DOMESTIC PRO-**  
 6 **DUCTION ACTIVITIES.**

7 (a) PHASEOUT.—

8 (1) IN GENERAL.—Subsection (a) of section  
 9 199 is amended by adding at the end the following  
 10 new paragraph:

11 “(3) PHASEOUT.—In the case of any taxable  
 12 year beginning after 2014, paragraph (1) shall be  
 13 applied by substituting for the percentage contained  
 14 therein the phaseout percentage determined under  
 15 the following table:

<b>“For taxable years beginning in:</b>	<b>The phaseout percentage is:</b>
2015 .....	6%
2016 .....	3%”.

16 (2) COORDINATION WITH OIL RELATED QUALI-  
 17 FIED PRODUCTION ACTIVITIES INCOME.—Section  
 18 199(d) is amended by striking paragraph (9).

19 (3) EFFECTIVE DATE.—The amendments made  
 20 by this subsection shall apply to taxable years begin-  
 21 ning after December 31, 2014.

22 (b) REPEAL.—

1           (1) IN GENERAL.—Part VI of subchapter B of  
2 chapter 1 is amended by striking section 199 (and  
3 by striking the item relating to such section in the  
4 table of sections for such part).

5           (2) CONFORMING AMENDMENTS.—

6           (A) Sections 86(b)(2)(A), 137(b)(3)(A),  
7 246(b)(1), and 469(i)(3)(F)(iii) are each  
8 amended by striking “199.”

9           (B) Section 163(j)(6)(A)(i), as amended by  
10 the preceding provisions of this Act, is amended  
11 by striking subclause (III) and by redesignating  
12 subclauses (IV) and (V) as subclauses (III) and  
13 (IV), respectively.

14           (C) Section 170(b)(2)(C), as amended by  
15 the preceding provisions of this Act, is amended  
16 by striking clause (v), by redesignating clause  
17 (vi) as clause (v), and by inserting “and” at the  
18 end of clause (iv).

19           (D) Section 172(d) is amended by striking  
20 paragraph (7).

21           (E) Section 1402(a) is amended by adding  
22 “and” at the end of paragraph (15) and by  
23 striking paragraph (16).

1           (3) EFFECTIVE DATE.—The amendments made  
2           by this subsection shall apply to taxable years begin-  
3           ning after December 31, 2016.

4 **SEC. 3123. UNIFICATION OF DEDUCTION FOR ORGANIZA-**  
5 **TIONAL EXPENDITURES.**

6           (a) IN GENERAL.—Subsections (a) and (b) of section  
7 195 is amended by inserting “and organizational” after  
8 “start-up” each place it appears.

9           (b) ORGANIZATIONAL EXPENDITURES.—Subsection  
10 (c) of section 195 is amended by adding at the end the  
11 following new paragraph:

12           “(3) ORGANIZATIONAL EXPENDITURES.—The  
13           term ‘organizational expenditures’ means any ex-  
14           penditure which—

15                   “(A) is incident to the creation of a cor-  
16                   poration or a partnership,

17                   “(B) is chargeable to capital account, and

18                   “(C) is of a character which, if expended  
19                   incident to the creation of a corporation or a  
20                   partnership having a limited life, would be am-  
21                   ortizable over such life.”.

22           (c) DOLLAR AMOUNTS.—Clause (ii) of section  
23 195(b)(1)(A) is amended—

24                   (1) by striking “\$5,000” and inserting  
25                   “\$10,000”, and

1           (2) by striking “\$50,000” and inserting  
2           “\$60,000”.

3           (d) MID-YEAR CONVENTION.—Subparagraph (B) of  
4 section 195(b)(1), as amended by subsection (a), is  
5 amended to read as follows:

6                   “(B) the remainder of such start-up and  
7                   organizational expenditures shall be charged to  
8                   capital account and allowed as an amortization  
9                   deduction determined by amortizing such ex-  
10                   penditures ratably over the 15-year period be-  
11                   ginning with the midpoint of the taxable year in  
12                   which the active trade or business begins.”.

13           (e) CONFORMING AMENDMENTS.—

14           (1) Section 195(b)(1) is amended—

15                   (A) by inserting “(or, in the case of a part-  
16                   nership, the partnership elects)” after “If a tax-  
17                   payer elects”, and

18                   (B) by inserting “(or the partnership, as  
19                   the case may be)” after “the taxpayer” in sub-  
20                   paragraph (A).

21           (2) Section 195(b)(2) is amended—

22                   (A) by striking “AMORTIZATION PERIOD.—  
23                   In any case” and inserting the following: “AM-  
24                   ORTIZATION PERIOD.—

25                   “(A) IN GENERAL.—In any case”, and

1 (B) by adding at the end the following new  
2 subparagraph:

3 “(B) SPECIAL PARTNERSHIP RULE.—In  
4 the case of a partnership, subparagraph (A)  
5 shall be applied at the partnership level.”.

6 (3) Section 195(b) is amended by striking para-  
7 graph (3).

8 (4)(A) Part VIII of subchapter B of chapter 1  
9 is amended by striking section 248 (and by striking  
10 the item relating to such section in the table of sec-  
11 tions for such part).

12 (B) Section 170(b)(2)(C)(ii) is amended by  
13 striking “(except section 248)”.

14 (C) Section 312(n)(3) is amended by striking  
15 “Sections 173 and 248” and inserting “Section  
16 173”.

17 (D) Section 535(b)(3) is amended by striking  
18 “(except section 248)”.

19 (E) Section 545(b)(3) is amended by striking  
20 “(except section 248)”.

21 (F) Section 834(c)(7) is amended by striking  
22 “(except section 248)”.

23 (G) Section 852(b)(2)(C) is amended by strik-  
24 ing “(except section 248)”.

1           (H) Section 857(b)(2)(A) is amended by strik-  
2           ing “(except section 248)”.

3           (I) Section 1363(b) is amended by inserting  
4           “and” at the end of paragraph (2), by striking para-  
5           graph (3), and by redesignating paragraph (4) as  
6           paragraph (3).

7           (J) Section 1375(b)(1)(B)(i) is amended by  
8           striking “(other than the deduction allowed by sec-  
9           tion 248, relating to organization expenditures)”.

10          (5) Part I of subchapter K of chapter 1 is  
11          amended by striking section 709 (and by striking  
12          the item relating to such section in the table of sec-  
13          tions for such part).

14          (6) The heading of section 195 (and the item  
15          relating to such section in the table of sections for  
16          part VI of subchapter B of chapter 1) are each  
17          amended by inserting “and organizational” after  
18          “Start-up”.

19          (f) EFFECTIVE DATE.—The amendments made by  
20          this section shall apply to expenses paid or incurred in  
21          taxable years beginning after December 31, 2014.



1 **SEC. 3124. PREVENTION OF ARBITRAGE OF DEDUCTIBLE**  
2 **INTEREST EXPENSE AND TAX-EXEMPT INTER-**  
3 **EST INCOME.**

4 (a) PRO RATA ALLOCATION RULES APPLICABLE TO  
5 FINANCIAL INSTITUTIONS MODIFIED AND MADE APPLI-  
6 CABLE TO ALL C CORPORATIONS.—

7 (1) APPLICATION TO CORPORATIONS.—So much  
8 of section 265(b) as precedes paragraph (3) is  
9 amended to read as follows:

10 “(b) PRO RATA ALLOCATION OF INTEREST EXPENSE  
11 OF CORPORATIONS AND FINANCIAL INSTITUTIONS TO  
12 TAX-EXEMPT INTEREST.—

13 “(1) IN GENERAL.—In the case of a C corpora-  
14 tion or a financial institution, no deduction shall be  
15 allowed for that portion of the taxpayer’s interest ex-  
16 pense which is allocable to tax-exempt interest.

17 “(2) ALLOCATION.—For purposes of paragraph  
18 (1), the portion of the taxpayer’s interest expense  
19 which is allocable to tax-exempt interest is an  
20 amount which bears the same ratio to such interest  
21 expense as—

22 “(A) the taxpayer’s average adjusted bases  
23 (within the meaning of section 1016) of tax-ex-  
24 empt obligations acquired on or after February  
25 26, 2014 (August 7, 1986, in the case of a fi-  
26 nancial institution), bears to

1           “(B) such average adjusted bases for all  
2           assets of the taxpayer.”.

3           (2) REPEAL OF EXCEPTIONS.—Section 265(b)  
4           is amended by striking paragraphs (3) and (7).

5           (b) LIMITATION ON INVESTMENT INTEREST.—

6           (1) IN GENERAL.—Section 163(d)(1) is amend-  
7           ed to read as follows:

8           “(1) IN GENERAL.—In the case of a taxpayer  
9           other than a corporation, the amount allowed as a  
10          deduction under this chapter for investment interest  
11          for any taxable year—

12                 “(A) shall be reduced by the amount of  
13                 tax-exempt interest received by the taxpayer  
14                 during such taxable year, and

15                 “(B) shall not (after any reduction under  
16                 subparagraph (A)) exceed the net investment  
17                 income of the taxpayer for such taxable year.”.

18          (2) REDUCTIONS FOR TAX-EXEMPT INTEREST  
19          NOT CARRIED FORWARD.—Section 163(d)(2) is  
20          amended by striking “paragraph (1)” and inserting  
21          “paragraph (1)(B)”.

22          (3) CLARIFICATION THAT PROPERTY HELD FOR  
23          INVESTMENT INCLUDES PROPERTY PRODUCING TAX-  
24          EXEMPT INTEREST.—Section 163(d)(5)(A) is  
25          amended by striking “and” at the end of clause (i),

1 by striking the period at the end of clause (ii)(II)  
2 and inserting “, and”, and by adding at the end the  
3 following new clause:

4 “(iii) any property held for the pro-  
5 duction of tax-exempt interest (including  
6 any shares of stock of a regulated invest-  
7 ment company which during the taxable  
8 year of the holder thereof distributes ex-  
9 empt-interest dividends).”.

10 (4) COORDINATION WITH SECTION 265.—

11 (A) IN GENERAL.—Section 265(a) is  
12 amended by—

13 (i) striking paragraph (2) and insert-  
14 ing the following new paragraph:

15 “(2) INTEREST.—

16 “(A) CORPORATIONS AND FINANCIAL IN-  
17 STITUTIONS.—For pro rata allocation rules in  
18 the case of corporations and financial institu-  
19 tions, see subsection (b).

20 “(B) OTHER TAXPAYERS.—For limitation  
21 on investment interest in the case of other tax-  
22 payers, see section 163(d).”, and

23 (ii) by striking paragraphs (4) and (5)  
24 and by redesignating paragraph (6) as  
25 paragraph (4).

1 (B) CONFORMING AMENDMENTS.—

2 (i) Section 265(b), as amended by  
3 subsection (a), is amended by inserting  
4 after paragraph (2) the following new  
5 paragraph:

6 “(3) SPECIAL RULES FOR SHORT SALES.—

7 “(A) IN GENERAL.—For purposes of this  
8 subsection, interest includes any amount paid  
9 or incurred—

10 “(i) by any person making a short  
11 sale in connection with personal property  
12 used in such short sale, or

13 “(ii) by any other person for the use  
14 of any collateral with respect to such short  
15 sale.

16 “(B) EXCEPTION WHERE NO RETURN ON  
17 CASH COLLATERAL.—If—

18 “(i) the taxpayer provides cash as col-  
19 lateral for any short sale, and

20 “(ii) the taxpayer receives no material  
21 earnings on such cash during the period of  
22 the sale,

23 subparagraph (A)(i) shall not apply to such  
24 short sale.”.

1 (ii) Section 265(b)(6) is amended to  
2 read as follows:

3 “(6) COORDINATION WITH SECTION 263A.—This  
4 section shall be applied before the application of sec-  
5 tion 263A (relating to capitalization of certain ex-  
6 penses where taxpayer produces property).”.

7 (iii) Section 163(n)(2) is amended to  
8 read as follows:

9 “(2) For disallowance of deduction for interest  
10 relating to tax-exempt income, see sections 163(d)  
11 and 265(b)”.

12 (c) EFFECTIVE DATES.—

13 (1) APPLICATION OF PRO RATA ALLOCATION  
14 RULES.—

15 (A) APPLICATION TO C CORPORATIONS.—

16 The amendments made by subsection (a)(1)  
17 shall apply to taxable years ending on or after  
18 February 26, 2014.

19 (B) REPEAL OF EXCEPTIONS.—The

20 amendments made by subsection (a)(2) shall  
21 apply to obligations issued on or after February  
22 26, 2014.

23 (2) LIMITATION ON INVESTMENT INTEREST.—

24 The amendments made by subsection (b) shall apply  
25 to taxable years beginning after December 31, 2014.

1 **SEC. 3125. PREVENTION OF TRANSFER OF CERTAIN LOSSES**  
2 **FROM TAX INDIFFERENT PARTIES.**

3 (a) IN GENERAL.—Section 267(d) is amended to  
4 read as follows:

5 “(d) AMOUNT OF GAIN WHERE LOSS PREVIOUSLY  
6 DISALLOWED.—

7 “(1) IN GENERAL.—If—

8 “(A) in the case of a sale or exchange of  
9 property to the taxpayer a loss sustained by the  
10 transferor is not allowable to the transferor as  
11 a deduction by reason of subsection (a)(1), and

12 “(B) the taxpayer sells or otherwise dis-  
13 poses of such property (or of other property the  
14 basis of which in the taxpayer’s hands is deter-  
15 mined directly or indirectly by reference to such  
16 property) at a gain,

17 then such gain shall be recognized only to the extent  
18 that it exceeds so much of such loss as is properly  
19 allocable to the property sold or otherwise disposed  
20 of by the taxpayer.

21 “(2) EXCEPTION FOR WASH SALES.—Para-  
22 graph (1) shall not apply if the loss sustained by the  
23 transferor is not allowable to the transferor as a de-  
24 duction by reason of section 1091 (relating to wash  
25 sales).

1           “(3) EXCEPTION FOR TRANSFERS FROM TAX  
2           INDIFFERENT PARTIES.—Paragraph (1) shall not  
3           apply to the extent any loss sustained by the trans-  
4           feror (if allowed) would not be taken into account in  
5           determining a tax imposed under section 1 or 11 or  
6           a tax computed as provided by either of such sec-  
7           tions.”.

8           (b) EFFECTIVE DATE.—The amendment made by  
9           this section shall apply to sales and exchanges after De-  
10          cember 31, 2014.

11       **SEC. 3126. ENTERTAINMENT, ETC. EXPENSES.**

12          (a) DENIAL OF DEDUCTION.—Subsection (a) of sec-  
13          tion 274 is amended to read as follows:

14          “(a) ENTERTAINMENT, AMUSEMENT, OR RECRE-  
15          ATION.—

16               “(1) IN GENERAL.—No deduction otherwise al-  
17               lowable under this chapter shall be allowed for  
18               amounts paid or incurred for any of the following  
19               items:

20                       “(A) ACTIVITY.—With respect to an activ-  
21                       ity which is of a type generally considered to  
22                       constitute entertainment, amusement, or recre-  
23                       ation.

24                       “(B) MEMBERSHIP DUES.—With respect  
25                       to membership in any club organized for busi-

1           ness, pleasure, recreation or other social pur-  
2           poses.

3           “(C) AMENITY.—With respect to a de  
4           minimis fringe (as defined in section 132(e)(1))  
5           that is primarily personal in nature and involv-  
6           ing property or services that are not directly re-  
7           lated to the taxpayer’s trade or business.

8           “(D) FACILITY.—With respect to a facility  
9           or portion thereof used in connection with an  
10          activity referred to in subparagraph (A), mem-  
11          bership dues or similar amounts referred to in  
12          subparagraph (B), or an amenity referred to in  
13          subparagraph (C).

14          “(E) QUALIFIED TRANSPORTATION  
15          FRINGE AND PARKING FACILITY.—Which is a  
16          qualified transportation fringe (as defined in  
17          section 132(f)) or which is a parking facility  
18          used in connection with qualified parking (as  
19          defined in section 132(f)(5)(C)).

20          “(2) SPECIAL RULES.—For purposes of apply-  
21          ing paragraph (1), an activity described in section  
22          212 shall be treated as a trade or business.

23          “(3) REGULATIONS.—Under the regulations  
24          prescribed to carry out this section, the Secretary  
25          shall include regulations—



1           “(A) defining entertainment, amenities,  
2 recreation, amusement, and facilities for pur-  
3 poses of this subsection,

4           “(B) providing for the appropriate alloca-  
5 tion of depreciation and other costs with respect  
6 to facilities used for parking, and

7           “(C) specifying arrangements a primary  
8 purpose of which is the avoidance of this sub-  
9 section.”.

10       (b) EXCEPTION FOR CERTAIN EXPENSES INCLUD-  
11 IBLE IN INCOME OF RECIPIENT.—

12           (1) EXPENSES TREATED AS COMPENSATION.—

13       Paragraph (2) of section 274(e) is amended to read  
14 as follows:

15           “(2) EXPENSES TREATED AS COMPENSATION.—

16       Expenses for goods, services, and facilities, to the  
17 extent that the expenses do not exceed the amount  
18 of the expenses which are treated by the taxpayer,  
19 with respect to the recipient of the entertainment,  
20 amusement, or recreation, as compensation to an  
21 employee on the taxpayer’s return of tax under this  
22 chapter and as wages to such employee for purposes  
23 of chapter 24 (relating to withholding of income tax  
24 at source on wages).”.

1           (2) EXPENSES INCLUDIBLE IN INCOME OF PER-  
2           SONS WHO ARE NOT EMPLOYEES.—Paragraph (9) of  
3           section 274(e) is amended by striking “to the extent  
4           that the expenses” and inserting “to the extent that  
5           the expenses do not exceed the amount of the ex-  
6           penses that”.

7           (c) EXCEPTIONS FOR REIMBURSED EXPENSES.—  
8           Paragraph (3) of section 274(e) is amended to read as  
9           follows:

10           “(3) REIMBURSED EXPENSES.—

11           “(A) IN GENERAL.—Expenses paid or in-  
12           curred by the taxpayer, in connection with the  
13           performance by him of services for another per-  
14           son (whether or not such other person is the  
15           taxpayer’s employer), under a reimbursement or  
16           other expense allowance arrangement with such  
17           other person, but this paragraph shall apply—

18           “(i) where the services are performed  
19           for an employer, only if the employer has  
20           not treated such expenses in the manner  
21           provided in paragraph (2), or

22           “(ii) where the services are performed  
23           for a person other than an employer, only  
24           if the taxpayer accounts (to the extent pro-  
25           vided by subsection (d)) to such person.

1           “(B) EXCEPTION.—Except as provided by  
2           the Secretary, subparagraph (A) shall not  
3           apply—

4                   “(i) in the case of an arrangement in  
5                   which the person other than the employer  
6                   is an entity described in section  
7                   168(g)(2)(A), or

8                           “(ii) to any other arrangement des-  
9                           ignated by the Secretary as having the ef-  
10                           fect of avoiding the limitation under sub-  
11                           paragraph (A).”.

12           (d) 50-PERCENT LIMITATION ON MEALS AND EN-  
13           TERTAINMENT EXPENSES.—Subsection (n) of section 274  
14           is amended to read as follows:

15           “(n) LIMITATION ON CERTAIN EXPENSES.—

16                   “(1) IN GENERAL.—The amount allowable as a  
17                   deduction under this chapter for any expense for  
18                   food or beverages (pursuant to subsection (e)(1)) or  
19                   business meals (pursuant to subsection (k)(1)) shall  
20                   not exceed 50 percent of the amount of such expense  
21                   or item which would (but for this paragraph) be al-  
22                   lowable as a deduction under this chapter.

23                   “(2) EXCEPTIONS.—Paragraph (1) shall not  
24                   apply to any expense if—

1           “(A) such expense is described in para-  
2 graph (2), (3), (6), (7), or (8) of subsection (e),

3           “(B) in the case of an expense for food or  
4 beverages, such expense is excludable from the  
5 gross income of the recipient under section 132  
6 by reason of subsection (e) thereof (relating to  
7 de minimis fringes) or under section 119 (relat-  
8 ing to meals and lodging furnished for conven-  
9 ience of employer), or

10           “(C) in the case of an employer who pays  
11 or reimburses moving expenses of an employee,  
12 such expenses are includible in the income of  
13 the employee under section 82.

14           “(3) SPECIAL RULE FOR INDIVIDUALS SUBJECT  
15 TO FEDERAL HOURS OF SERVICE.—In the case of  
16 any expenses for food or beverages consumed while  
17 away from home (within the meaning of section  
18 162(a)(2)) by an individual during, or incident to,  
19 the period of duty subject to the hours of service  
20 limitations of the Department of Transportation,  
21 paragraph (1) shall be applied by substituting ‘80  
22 percent’ for ‘50 percent.’”.

23           (e) CONFORMING AMENDMENTS.—

24           (1) Section 274(d) is amended—

1 (A) by striking paragraph (2) and redesignating paragraphs (3) and (4) as paragraphs  
2 (2) and (3), respectively, and

3  
4 (B) in the flush material following paragraph (3) (as so redesignated)—

5  
6 (i) by striking “, entertainment, amusement, recreation, or” in item (B),  
7 and  
8

9 (ii) by striking “(D) the business relationship to the taxpayer of persons entertained, using the facility or property, or receiving the gift” and inserting “(D) the business relationship to the taxpayer of the person receiving the benefit”.

10  
11  
12  
13  
14  
15 (2) Section 274(e) is amended by striking paragraph (4) and redesignating paragraphs (5), (6),  
16 (7), (8), and (9) as paragraphs (4), (5), (6), (7),  
17 and (8), respectively.

18  
19 (3) Section 274(k)(2)(A) is amended by striking “(4), (7), (8), or (9)” and inserting “(6), (7), or  
20 (8)”.

21  
22 (4) Section 274 is amended by striking subsection (l).  
23

1           (5) Section 274(m)(1)(B)(ii) is amended by  
2           striking “(4), (7), (8), or (9)” and inserting “(6),  
3           (7), or (8)”.

4           (f) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to amounts paid or incurred after  
6 December 31, 2014.

7 **SEC. 3127. REPEAL OF LIMITATION ON CORPORATE ACQUI-**  
8 **SITION INDEBTEDNESS.**

9           (a) IN GENERAL.—Part IX of subchapter B of chap-  
10 ter 1 is amended by striking section 279 (and by striking  
11 the item relating to such section in the table of sections  
12 for such part).

13          (b) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to interest paid or incurred with  
15 respect to indebtedness incurred after December 31, 2014.

16 **SEC. 3128. DENIAL OF DEDUCTIONS AND CREDITS FOR EX-**  
17 **PENDITURES IN ILLEGAL BUSINESSES.**

18          (a) IN GENERAL.—Section 280E is amended to read  
19 as follows:

20 **“SEC. 280E. EXPENDITURES IN CONNECTION WITH ILLEGAL**  
21 **BUSINESSES.**

22          “No deduction or credit shall be allowed for any  
23 amount paid or incurred during the taxable year in car-  
24 rying on any trade or business if—

1           “(1) such trade or business (or the activities  
2           which comprise such trade or business) consists of  
3           trafficking in controlled substances (within the  
4           meaning of schedule I and II of the Controlled Sub-  
5           stances Act) which is prohibited by Federal law or  
6           the law of any State in which such trade or business  
7           is conducted, or

8           “(2) the carrying out of such trade or business  
9           is a felony under Federal law or the law of any State  
10          in which such trade or business is conducted.”.

11          (b) CLERICAL AMENDMENT.—The table of sections  
12 for part IX of subchapter B of chapter 1 is amended by  
13 striking the item relating to section 280E and inserting  
14 the following new item:

“Sec. 280E. Expenditures in connection with illegal businesses.”.

15          (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to amounts paid or incurred after  
17 the date of the enactment of this Act in taxable years end-  
18 ing after the date of the enactment of this Act.

19 **SEC. 3129. LIMITATION ON DEDUCTION FOR FDIC PRE-**  
20 **MIUMS.**

21          (a) IN GENERAL.—Section 162 is amended by redес-  
22 ignating subsection (q) as subsection (r) and by inserting  
23 after subsection (p) the following new subsection:

24          “(q) DISALLOWANCE OF FDIC PREMIUMS PAID BY  
25 CERTAIN LARGE FINANCIAL INSTITUTIONS.—

1           “(1) IN GENERAL.—No deduction shall be al-  
2           lowed for the applicable percentage of any FDIC  
3           premium paid or incurred by the taxpayer.

4           “(2) EXCEPTION FOR SMALL INSTITUTIONS.—  
5           Paragraph (1) shall not apply to any taxpayer for  
6           any taxable year if the total consolidated assets of  
7           such taxpayer (determined as of the close of such  
8           taxable year) do not exceed \$10,000,000,000.

9           “(3) APPLICABLE PERCENTAGE.—For purposes  
10          of this subsection, the term ‘applicable percentage’  
11          means, with respect to any taxpayer for any taxable  
12          year, the ratio (expressed as a percentage but not  
13          greater than 100 percent) which—

14                 “(A) the excess of—

15                         “(i) the total consolidated assets of  
16                         such taxpayer (determined as of the close  
17                         of such taxable year), over

18                         “(ii) \$10,000,000,000, bears to

19                         “(B) \$40,000,000,000.

20          “(4) FDIC PREMIUMS.—For purposes of this  
21          subsection, the term ‘FDIC premium’ means any as-  
22          sessment imposed under section 7(b) of the Federal  
23          Deposit Insurance Act (12 U.S.C. 1817(b)).

24          “(5) TOTAL CONSOLIDATED ASSETS.—For pur-  
25          poses of this subsection, the term ‘total consolidated



1 assets' has the meaning given such term under sec-  
2 tion 165 of the Dodd-Frank Wall Street Reform and  
3 Consumer Protection Act (12 U.S.C. 5365).

4 “(6) AGGREGATION RULE.—

5 “(A) IN GENERAL.—Members of an ex-  
6 panded affiliated group shall be treated as a  
7 single taxpayer for purposes of applying this  
8 subsection.

9 “(B) EXPANDED AFFILIATED GROUP.—

10 For purposes of this paragraph, the term ‘ex-  
11 panded affiliated group’ means an affiliated  
12 group as defined in section 1504(a), deter-  
13 mined—

14 “(i) by substituting ‘more than 50  
15 percent’ for ‘at least 80 percent’ each place  
16 it appears, and

17 “(ii) without regard to paragraphs (2)  
18 and (3) of section 1504(b).

19 A partnership or any other entity (other than a  
20 corporation) shall be treated as a member of an  
21 expanded affiliated group if such entity is con-  
22 trolled (within the meaning of section  
23 954(d)(3)) by members of such group (includ-  
24 ing any entity treated as a member of such  
25 group by reason of this sentence).”.

1 (b) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 3130. REPEAL OF PERCENTAGE DEPLETION.**

5 (a) IN GENERAL.—Part I of subchapter I of chapter  
6 1 is amended by striking sections 613 and 613A (and by  
7 striking the items relating to such sections in the table  
8 of sections for such part).

9 (b) CONFORMING AMENDMENTS.—

10 (1)(A) Such part is amended by redesignating  
11 section 614 as section 613 (and, in the table of sec-  
12 tions for such part, by redesignating the item relat-  
13 ing to section 614 as an item relating to section  
14 613).

15 (B) Clauses (iv) and (v) of section 465(c)(2)(A)  
16 are each amended by striking “section 614” and in-  
17 serting “section 613”.

18 (C) Section 1016(e) is amended by striking  
19 “section 614” and inserting “section 613”.

20 (D) Section 1254(a)(3) is amended by striking  
21 “section 614” and inserting “section 613”.

22 (2) Section 45(c)(4) is amended to read as fol-  
23 lows:

24 “(4) GEOTHERMAL ENERGY.—

1           “(A) IN GENERAL.—The term ‘geothermal  
2           energy’ means energy derived from a geo-  
3           thermal deposit.

4           “(B) GEOTHERMAL DEPOSIT.—The term  
5           ‘geothermal deposit’ means a geothermal res-  
6           ervoir consisting of natural heat which is stored  
7           in rocks or in an aqueous liquid or vapor  
8           (whether or not under pressure).”.

9           (3) Section 48(a)(3)(A)(iii) is amended by  
10          striking “section 613(e)(2)” and inserting “section  
11          45(c)(4)(B)”

12          (4) Section 381(c) is amended by striking para-  
13          graph (18).

14          (5) Section 465(c)(1)(E) is amended by striking  
15          “section 613(e)(2)” and inserting “section  
16          45(c)(4)(B)”.

17          (6) Section 468(d)(3) is amended by striking  
18          “section 614” and inserting “section 613”.

19          (7) Section 611(a) is amended by striking the  
20          second sentence.

21          (8) Section 613(d), as redesignated by para-  
22          graph (1), is amended by striking “includes only”  
23          and all that follows and inserting “includes only an  
24          interest burdened by the costs of production.”.

1           (9) Section 636(a) is amended by striking “(for  
2 purposes of section 613)”.

3           (10) Section 636(d) is amended by striking  
4 “section 614(a)” and inserting “section 613(a)”.

5           (11) Section 705(a) is amended—

6                 (A) in paragraph (1), by adding “and” at  
7 the end of subparagraph (A), by striking “;  
8 and” at the end of subparagraph (B) and in-  
9 serting a period, and by striking subparagraph  
10 (C),

11                 (B) in paragraph (2), by striking “; and”  
12 at the end of subparagraph (B) and inserting a  
13 period, and

14                 (C) by striking paragraph (3).

15           (12) Section 901(e)(1)(A) is amended by strik-  
16 ing “(or, if smaller” and all that follows through  
17 “under section 613)”.

18           (13) Section 993(c)(2)(C) is amended by insert-  
19 ing “(as each such section was in effect before its  
20 repeal by the Tax Reform Act of 2014)” after “sec-  
21 tion 613 or 613A”.

22           (14) Section 1202(e)(3)(D) is amended by in-  
23 serting “(as each such section was in effect before  
24 its repeal by the Tax Reform Act of 2014)” after  
25 “section 613 or 613A”.

1 (15) Section 1367(a) is amended—

2 (A) in paragraph (1), by adding “and” at  
3 the end of subparagraph (A), by striking “,  
4 and” at the end of subparagraph (B) and in-  
5 serting a period, and by striking subparagraph  
6 (C), and

7 (B) in paragraph (2), by adding “and” at  
8 the end of subparagraph (C), by striking “,  
9 and” at the end of subparagraph (D) and in-  
10 serting a period, and by striking subparagraph  
11 (E).

12 (16) Section 1446(c) is amended by striking  
13 paragraph (2) and by redesignating paragraph (3)  
14 as paragraph (2).

15 (17) Section 4612(a)(7) is amended by insert-  
16 ing “(as in effect before its repeal by the Tax Re-  
17 form Act of 2014)” after “section 613”.

18 (18) Section 4940(c)(3)(B) is amended—

19 (A) by striking clause (ii), and

20 (B) by striking all that precedes “The de-  
21 duction provided” and inserting the following:

22 “(B) MODIFICATIONS.—For purposes of  
23 subparagraph (A), the deduction provided”.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 3131. REPEAL OF PASSIVE ACTIVITY EXCEPTION FOR**  
5 **WORKING INTERESTS IN OIL AND GAS PROP-**  
6 **ERTY.**

7 (a) IN GENERAL.—Subsection (c) of section 469 is  
8 amended by striking paragraph (3).

9 (b) CONFORMING AMENDMENTS.—Section 469 is  
10 amended—

11 (1) by striking paragraph (4) and by redesignig-  
12 nating paragraphs (5), (6), and (7) as paragraphs  
13 (3), (4), and (5), respectively, and

14 (2) in paragraph (2)—

15 (A) by striking “paragraph (7)” and in-  
16 serting “paragraph (5)”, and

17 (B) by inserting “, without regard to  
18 whether or not the taxpayer materially partici-  
19 pates in the activity” before the period at the  
20 end.

21 (c) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to taxable years beginning after  
23 December 31, 2014.

1 **SEC. 3132. REPEAL OF SPECIAL RULES FOR GAIN OR LOSS**  
2 **ON TIMBER, COAL, OR DOMESTIC IRON ORE.**

3 (a) IN GENERAL.—Subchapter I of chapter 1 is  
4 amended by striking part III (and by striking the item  
5 relating to such part in the table of parts for such sub-  
6 chapter).

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 512(b)(5) is amended by striking  
9 the last sentence.

10 (2) Section 871(a)(1)(B) is amended by strik-  
11 ing “gains described in section 631(b) or (c), and”.

12 (3) Section 871(d)(1)(A) is amended—

13 (A) by striking “, (ii) rents” and inserting  
14 “and (ii) rents”, and

15 (B) by striking “, and (iii) gains described  
16 in section 631(b) or (c)”.

17 (4)(A) Section 881(a) is amended by striking  
18 paragraph (2) and by redesignating paragraphs (3)  
19 and (4) as paragraphs (2) and (3), respectively.

20 (B) Section 1442(a) is amended—

21 (i) by striking “881(a)(3) and (4)” and in-  
22 serting “881(a)(2) and (3)”,

23 (ii) by striking “881(a)(3),” and inserting  
24 “881(a)(2),”, and

25 (iii) by striking “881(a)(4)” and inserting  
26 “881(a)(3)”.

1 (5) Section 882(d)(1)(A) is amended—

2 (A) by striking “, (ii) rents” and inserting  
3 “and (ii) rents”, and

4 (B) by striking “, and (iii) gains described  
5 in section 631(b) or (c)”.

6 (6) Section 1231(b) is amended by striking  
7 paragraph (2).

8 (7) Section 1402(a)(3) is amended by inserting  
9 “or” at the end of subparagraph (A) and by striking  
10 subparagraph (B) and redesignating subparagraph  
11 (C) as subparagraph (B).

12 (8) Section 1441 is amended—

13 (A) in subsection (b), by striking “, gains  
14 described in section 631(b) or (c)”, and

15 (B) in subsection (c)(5), by striking “gains  
16 described in section 631(b) or (c), gains subject  
17 to tax under section 871(a)(1)(D),” and insert-  
18 ing “gains subject to tax under section  
19 871(a)(1)(D)”.

20 (9)(A) Part IX of subchapter B of chapter 1 is  
21 amended by striking section 272 (and by striking  
22 the item relating to such section in the table of sec-  
23 tions for such subpart).

24 (B) Section 1016(a) is amended by striking  
25 paragraph (15).



1 (c) EFFECTIVE DATE.—

2 (1) IN GENERAL.—Except as otherwise pro-  
3 vided in this subsection, the amendments made by  
4 this section shall apply to taxable years beginning  
5 after December 31, 2014.

6 (2) BASIS ADJUSTMENTS.—The amendment  
7 made by subsection (b)(9)(B) shall apply to deduc-  
8 tions determined for taxable years beginning after  
9 December 31, 2014.

10 **SEC. 3133. REPEAL OF LIKE-KIND EXCHANGES.**

11 (a) IN GENERAL.—Part III of subchapter O of chap-  
12 ter 1 is amended by striking section 1031 (and by striking  
13 the item relating to such section in the table of sections  
14 for such part).

15 (b) CONFORMING AMENDMENTS.—

16 (1) Section 121(d)(10) is amended by inserting  
17 “(as in effect before its repeal by the Tax Reform  
18 Act of 2014)” after “section 1031”.

19 (2) Section 197(f)(2)(B)(i) is amended by in-  
20 serting “(as in effect before its repeal by the Tax  
21 Reform Act of 2014)” after “1031”.

22 (3) Section 453(f) is amended by striking para-  
23 graph (6).

24 (4) Section 470(e)(4) is amended—

1 (A) by striking “Sections 1031(a) and” in  
2 subparagraph (A) and inserting “Section”,

3 (i) by striking “1031 or” in subparagraph  
4 (B), and

5 (ii) by striking “SECTIONS 1031 AND” in  
6 the heading thereof and inserting “SECTION”.

7 (5)(A) Section 501(c)(12)(C)(v) is amended by  
8 striking “asset exchange or conversion transaction”  
9 and inserting “specified involuntary conversion”.

10 (B) Section 501(c)(12)(G) is amended—

11 (i) by striking “asset exchange or conver-  
12 sion transaction” and inserting “specified invol-  
13 untary conversion”,

14 (ii) by striking “voluntary exchange or”,  
15 and

16 (iii) by striking “1031 or”.

17 (6)(A) Section 704(c) is amended by striking  
18 paragraph (2) and by redesignating paragraph (3)  
19 as paragraph (2).

20 (B) Section 704(c)(2), as so redesignated, is  
21 amended by striking “or (2)”.

22 (7) Section 857(e)(2) is amended by striking  
23 subparagraph (B) and by redesignating subpara-  
24 graphs (C) and (D) as subparagraphs (B) and (C),  
25 respectively.

1           (8)(A) Section 1035 is amended by striking  
2           subsection (d) and inserting the following new sub-  
3           sections:

4           “(d) GAIN FROM EXCHANGES NOT SOLELY IN  
5           KIND.—If an exchange would be within the provisions of  
6           subsection (a), of section 1036(a), or of section 1037(a),  
7           if it were not for the fact that the property received in  
8           exchange consists not only of property permitted by such  
9           provisions to be received without the recognition of gain,  
10          but also of other property or money, then the gain, if any,  
11          to the recipient shall be recognized, but in an amount not  
12          in excess of the sum of such money and the fair market  
13          value of such other property.

14          “(e) LOSS FROM EXCHANGES NOT SOLELY IN  
15          KIND.—If an exchange would be within the provisions of  
16          subsection (a), of section 1036(a), or of section 1037(a),  
17          if it were not for the fact that the property received in  
18          exchange consists not only of property permitted by such  
19          provisions to be received without the recognition of gain  
20          or loss, but also of other property or money, then no loss  
21          from the exchange shall be recognized.

22          “(f) BASIS.—If property was acquired on an ex-  
23          change described in this section, section 1036(a), or sec-  
24          tion 1037(a), then the basis shall be the same as that of  
25          the property exchanged, decreased in the amount of any

1 money received by the taxpayer and increased in the  
2 amount of gain or decreased in the amount of loss to the  
3 taxpayer that was recognized on such exchange. If the  
4 property so acquired consisted in part of the type of prop-  
5 erty permitted by this section, section 1036(a), or section  
6 1037(a), to be received without the recognition of gain or  
7 loss, and in part of other property, the basis provided in  
8 this subsection shall be allocated between the properties  
9 (other than money) received, and for the purpose of the  
10 allocation there shall be assigned to such other property  
11 an amount equivalent to its fair market value at the date  
12 of the exchange. For purposes of this section and section  
13 1036(a), where as part of the consideration to the tax-  
14 payer another party to the exchange assumed (as deter-  
15 mined under section 357(d)) a liability of the taxpayer,  
16 such assumption shall be considered as money received by  
17 the taxpayer on the exchange.”.

18 (B) Section 1036(c) is amended—

19 (i) in paragraph (1), by striking “sub-  
20 sections (b) and (c) of section 1031” and in-  
21 sserting “subsections (d) and (e) of section  
22 1035”, and

23 (ii) in paragraph (2), by striking “sub-  
24 section (d) of section 1031” and inserting “sub-  
25 section (f) of section 1035”.

1 (C) Section 1037(c) is amended—

2 (i) in paragraph (1), by striking “sub-  
3 sections (b) and (c) of section 1031” and in-  
4 serting “subsections (d) and (e) of section  
5 1035”, and

6 (ii) in paragraph (2), by striking “sub-  
7 section (d) of section 1031” and inserting “sub-  
8 section (f) of section 1035”.

9 (D) Section 83(g) is amended by striking “sec-  
10 tion 1031” and inserting “section 1035”.

11 (E) Section 424(b) is amended by striking “sec-  
12 tion 1031” and inserting “section 1035”.

13 (F) Section 424(c)(1)(B) is amended by strik-  
14 ing “section 1031” and inserting “section 1035”.

15 (9) Section 1060(c) is amended by striking the  
16 second sentence thereof.

17 (10) Section 1245(b)(4) is amended—

18 (A) by striking “LIKE KIND EXCHANGES;  
19 INVOLUNTARY” and inserting “INVOLUNTARY”,  
20 and

21 (B) by striking “1031 or”.

22 (11) Section 1250(d)(4) is amended—

23 (A) by striking “LIKE KIND EXCHANGES;  
24 INVOLUNTARY” and inserting “INVOLUNTARY”,

1 (B) by striking “1031 or” in subparagraph  
2 (A), and

3 (C) by striking “1031 or” in subparagraph  
4 (E).

5 (12) Section 2032A(e)(14)(C) is amended—

6 (A) in clause (i)(I), by inserting “(as in ef-  
7 fect before its repeal by the Tax Reform Act of  
8 2014)” after “section 1031”, and

9 (B) in clause (ii)(I), by inserting “(as so in  
10 effect)” after “section 1031”.

11 (13) Section 4940(c)(4) is amended by striking  
12 subparagraph (D).

13 (c) EFFECTIVE DATE.—

14 (1) IN GENERAL.—The amendments made by  
15 this section shall apply to transfers after December  
16 31, 2014.

17 (2) EXCEPTION FOR TRANSFERS PURSUANT TO  
18 BINDING CONTRACTS.—Notwithstanding paragraph  
19 (1), the amendments made by this section shall not  
20 apply to any transfer if—

21 (A) such transfer is pursuant to a written  
22 binding contract entered into before January 1,  
23 2015, and

24 (B) the exchange of which such transfer is  
25 a part is completed before January 1, 2017.

1 **SEC. 3134. RESTRICTION ON TRADE OR BUSINESS PROP-**  
2 **ERTY TREATED AS SIMILAR OR RELATED IN**  
3 **SERVICE TO INVOLUNTARILY CONVERTED**  
4 **PROPERTY IN DISASTER AREAS.**

5 (a) CLASS LIFE OF REPLACEMENT PROPERTY NOT  
6 TO EXCEED CONVERTED PROPERTY.—Section  
7 1033(h)(2) is amended by inserting “if the class life of  
8 such tangible property does not exceed the class life of  
9 the property so converted” before the period at the end.

10 (b) EFFECTIVE DATE.—The amendment made by  
11 this section shall apply to disasters declared after Decem-  
12 ber 31, 2014.

13 **SEC. 3135. REPEAL OF ROLLOVER OF PUBLICLY TRADED**  
14 **SECURITIES GAIN INTO SPECIALIZED SMALL**  
15 **BUSINESS INVESTMENT COMPANIES.**

16 (a) IN GENERAL.—Part III of subchapter O of chap-  
17 ter 1 is amended by striking section 1044 (and by striking  
18 the item relating to such section in the table of sections  
19 of such part).

20 (b) CONFORMING AMENDMENTS.—

21 (1) Section 45D(c)(2)(A) is amended to read as  
22 follows:

23 “(A) any partnership or corporation which  
24 is licensed by the Small Business Administra-  
25 tion under section 301(d) of the Small Business

1 Investment Act of 1958 (as in effect on May  
2 13, 1993), and”.

3 (2) Section 1016(a)(23) is amended—

4 (A) by striking “1044,”, and

5 (B) by striking “1044(d).”.

6 (c) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to sales after December 31, 2014.

8 **SEC. 3136. TERMINATION OF SPECIAL RULES FOR GAIN**  
9 **FROM CERTAIN SMALL BUSINESS STOCK.**

10 (a) TERMINATION OF PARTIAL EXCLUSION.—Section  
11 1202 is amended—

12 (1) by inserting “and before the date of the en-  
13 actment of the Tax Reform Act of 2014” after  
14 “Revenue Reconciliation Act of 1993” in subsection  
15 (c)(1), and

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

18 “(l) TERMINATION.—For termination with respect to  
19 qualified small business stock issued after the date of the  
20 enactment of the Tax Reform Act of 2014, see subsection  
21 (c)(1).”.

22 (b) REPEAL OF ROLLOVER RULES.—

23 (1) IN GENERAL.—Part III of subchapter O of  
24 chapter 1 is amended by striking section 1045 (and



1 by striking the item relating to such section in the  
2 table of sections of such part).

3 (2) CONFORMING AMENDMENTS.—

4 (A) Section 1016(a)(23) is amended—

5 (i) by striking “1045,” and

6 (ii) by striking “1045(b)(3),”.

7 (B) Section 1223 is amended by striking  
8 paragraph (13).

9 (c) EFFECTIVE DATES.—

10 (1) TERMINATION OF PARTIAL EXCLUSION.—

11 The amendments made by subsection (a) shall apply  
12 to sales and exchanges after the date of the enact-  
13 ment of this Act.

14 (2) REPEAL OF ROLLOVER RULES.—

15 (A) IN GENERAL.—Except as provided in  
16 subparagraph (B), the amendments made by  
17 subsection (b) shall apply to sales after the date  
18 of the enactment of this Act.

19 (B) SAVINGS PROVISION.—The amend-  
20 ments made by subsection (b)(2) shall not apply  
21 with respect to property the acquisition of  
22 which was before the date of the enactment of  
23 this Act.

1 **SEC. 3137. CERTAIN SELF-CREATED PROPERTY NOT TREAT-**  
2 **ED AS A CAPITAL ASSET.**

3 (a) PATENTS, ETC.—Section 1221(a)(3) is amended  
4 by inserting “a patent, invention, model or design (wheth-  
5 er or not patented), a secret formula or process,” before  
6 “a copyright”.

7 (b) SELF-CREATED MUSICAL WORKS.—Section  
8 1221(b) is amended by striking paragraph (3).

9 (c) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to dispositions after December 31,  
11 2014.

12 **SEC. 3138. REPEAL OF SPECIAL RULE FOR SALE OR EX-**  
13 **CHANGE OF PATENTS.**

14 (a) IN GENERAL.—Part IV of subchapter P of chap-  
15 ter 1 is amended by striking section 1235 (and by striking  
16 the item relating to such section in the table of sections  
17 of such part).

18 (b) CONFORMING AMENDMENTS.—

19 (1) Section 483(d) is amended by striking para-  
20 graph (4).

21 (2)(A) Section 871(a)(1), as amended by the  
22 preceding provisions of this Act, is amended by  
23 striking subparagraph (B) and by redesignating sub-  
24 paragraphs (C) and (D) as subparagraphs (B) and  
25 (C), respectively.

1 (B) Section 871(g)(3) is amended by striking  
2 “(a)(1)(C)” and inserting “(a)(1)(B)”.

3 (C) Subsections (h)(1) and (i)(1) of section 871  
4 are each amended by striking “(1)(C)” and inserting  
5 “(1)(B)”.

6 (D) Section 1441, as amended by the preceding  
7 provisions of this Act, is amended—

8 (i) in subsections (b) and (c)(8), by strik-  
9 ing “871(a)(1)(C)” and inserting  
10 “871(a)(1)(B)”, and

11 (ii) in subsections (b) and (c)(5), by strik-  
12 ing “871(a)(1)(D)” and inserting  
13 “871(a)(1)(C)”.

14 (E) Section 1442(a), as amended by the pre-  
15 ceding provisions of this Act, is amended—

16 (i) by striking “871(a)(1)(C) and (D)” and  
17 inserting “871(a)(1)(B) and (C)”, and

18 (ii) by striking “871(a)(1)(D)” and insert-  
19 ing “871(a)(1)(C)”.

20 (3) Section 901(l)(5) is amended by striking  
21 “without regard to section 1235 or any similar rule”  
22 and inserting “without regard to any provision  
23 which treats a disposition as a sale or exchange of  
24 a capital asset held for more than 1 year or any  
25 similar provision”.

1           (4) Section 1274(c)(3) is amended by striking  
2       subparagraph (E) and redesignating subparagraph  
3       (F) as subparagraph (E).

4           (5) Subsections (b) and (c)(5) of section 1441,  
5       as amended by the preceding provisions of this Act,  
6       are each amended by striking “gains subject to tax  
7       under section 871(a)(1)(C), and gains on transfers  
8       described in section 1235 made on or before October  
9       4, 1966” and inserting “and gains subject to tax  
10      under section 871(a)(1)(C)”.

11          (c) EFFECTIVE DATE.—The amendments made by  
12      this section shall apply to dispositions after December 31,  
13      2014.

14      **SEC. 3139. DEPRECIATION RECAPTURE ON GAIN FROM DIS-**  
15                                **POSITION OF CERTAIN DEPRECIABLE REAL-**  
16                                **TY.**

17          (a) IN GENERAL.—Subsection (a) of section 1250 is  
18      amended to read as follows:

19          “(a) IN GENERAL.—Except as otherwise provided in  
20      this section, if section 1250 property is disposed of after  
21      December 31, 2014, the amount of gain with respect to  
22      such property which is treated as ordinary income shall  
23      be an amount equal to the lesser of—

24              “(1) the sum of—

1           “(A) the amount of additional depreciation  
2           attributable to periods before January 1, 2015,  
3           in respect of such property, and

4           “(B) the amount of depreciation adjust-  
5           ments attributable to periods after December  
6           31, 2014, in respect of such property, or

7           “(2) the excess of the amount realized (or, in  
8           the case of a disposition other than a sale, exchange,  
9           or involuntary conversion, the fair market value of  
10          such property), over the adjusted basis of such prop-  
11          erty.”.

12          (b) CONFORMING AMENDMENTS.—

13           (1) Section 267(e)(5)(D)(i) is amended to read  
14          as follows:

15                   “(i) any interest in—

16                           “(I) any section 1250 property  
17                           with respect to which a mortgage is  
18                           insured under section 221(d)(3) or  
19                           236 of the National Housing Act, or  
20                           housing financed or assisted by direct  
21                           loan or tax abatement under similar  
22                           provisions of State or local laws and  
23                           with respect to which the owner is  
24                           subject to the restrictions described in  
25                           section 1039(b)(1)(B) (as in effect on

1 the day before the date of the enact-  
2 ment of the Revenue Reconciliation  
3 Act of 1990),

4 “(II) dwelling units which, on the  
5 average, were held for occupancy by  
6 families or individuals eligible to re-  
7 ceive subsidies under section 8 of the  
8 United States Housing Act of 1937,  
9 as amended, or under the provisions  
10 of State or local law authorizing simi-  
11 lar levels of subsidy for lower-income  
12 families,

13 “(III) any section 1250 property  
14 with respect to which a depreciation  
15 deduction for rehabilitation expendi-  
16 tures was allowed under section  
17 167(k), or

18 “(IV) any section 1250 property  
19 with respect to which a loan is made  
20 or insured under title V of the Hous-  
21 ing Act of 1949, and”.

22 (2) Section 1250(b) is amended by striking  
23 paragraph (4) and by redesignating paragraph (5)  
24 as paragraph (4).

1           (3) Section 1250(c) is amended by striking  
2           “For purposes of this section” and inserting “For  
3           purposes of this title”

4           (4)(A) Section 1250(d)(5)(B)(i) is amended by  
5           striking “and the applicable percentage for the prop-  
6           erty had been 100 percent”.

7           (B) Section 1250(d)(5)(B)(ii) is amended to  
8           read as follows:

9                           “(ii) the amount of such gain (if any)  
10                           to which section 751(b) applied.”.

11           (5) Section 1250(d) is amended by striking  
12           paragraph (7).

13           (6) Section 1250 is amended by striking sub-  
14           sections (e) and (f) and by redesignating subsections  
15           (g) and (h) as subsections (e) and (f), respectively.

16           (c) EFFECTIVE DATE.—The amendments made by  
17           this section shall apply to dispositions after December 31,  
18           2014.

19   **SEC. 3140. COMMON DEDUCTION CONFORMING AMEND-**  
20                           **MENTS.**

21           (a) IN GENERAL.—

22           (1) Section 1245(a)(2)(C) is amended by strik-  
23           ing “section 179,” and all that follows through “or  
24           194” and inserting “section 179 or (as in effect be-  
25           fore repeal by the Tax Reform Act of 2014) section

1 179A, 179B, 179C, 179D, 179E, 181, 190, 193, or  
2 194,”

3 (2) Section 1245(a)(3)(C) is amended by strik-  
4 ing “section 169” and all that follows through “or  
5 194” and inserting “section 179, 185, 188 (as in ef-  
6 fect before its repeal by the Revenue Reconciliation  
7 Act of 1990), or (as in effect before repeal by the  
8 Tax Reform Act of 2014) section 169, 179A, 179B,  
9 179C, 179D, 179E, 190, 193, or 194”.

10 (3) Section 263(a)(1) is amended by striking  
11 subparagraphs (C), (D), (F), (H), (I), (J), (K), and  
12 (L) and by redesignating subparagraphs (E) and  
13 (G) as subparagraphs (C) and (D), respectively.

14 (4) Section 280C, as amended by the preceding  
15 provisions of this Act, is amended by redesignating  
16 subsections (c) and (g) as subsections (b) and (c),  
17 respectively.

18 (b) EFFECTIVE DATE.—Each portion of each amend-  
19 ment made by this section shall take effect as if included  
20 in the provision of this subtitle to which such portion re-  
21 lates.



1       **Subtitle C—Reform of Business**  
2                                   **Credits**

3   **SEC. 3201. REPEAL OF CREDIT FOR ALCOHOL, ETC., USED**  
4                                   **AS FUEL.**

5       (a) IN GENERAL.—Subpart D of part IV of sub-  
6 chapter A of chapter 1 is amended by striking section 40  
7 (and by striking the item relating to such section in the  
8 table of sections for such subpart).

9       (b) REPEAL OF CORRESPONDING EXCISE TAX CRED-  
10 ITS.—

11           (1) CREDIT.—Subchapter B of chapter 65 is  
12 amended by striking section 6426 (and by striking  
13 the item relating to such section in the table of sec-  
14 tions for such subchapter).

15           (2) PAYMENT.—Section 6427 is amended by  
16 striking subsection (e).

17       (c) CONFORMING AMENDMENTS.—

18           (1) Section 38(b) is amended by striking para-  
19 graph (3).

20           (2) Section 6416(a)(4)(C) is amended—

21                   (A) by striking “section 6427(i)(4)” and  
22 inserting “section 6427(i)(3)”, and

23                   (B) by striking “section 6427(i)(3)(B)”  
24 and inserting “subparagraph (B) thereof”.

1           (3) Section 6427(i) is amended by striking  
2 paragraph (3) and by redesignating paragraph (4)  
3 as paragraph (3).

4           (4) Section 6427(i)(3), as redesignated by para-  
5 graph (2), is amended—

6                 (A) by striking the sentence at the end of  
7 subparagraph (A),

8                 (B) by redesignating subparagraph (B) as  
9 subparagraph (C), and

10                (C) by inserting after subparagraph (A)  
11 the following new subparagraph:

12                   “(B) PAYMENT OF CLAIM.—Notwith-  
13 standing subsection (l)(1), if the Secretary has  
14 not paid pursuant to a claim filed under sub-  
15 section (b)(4), (l)(4)(C)(ii), or (l)(5) within 45  
16 days of the date of the filing of such claim (20  
17 days in the case of an electronic claim), the  
18 claim shall be paid with interest from such date  
19 determined by using the overpayment rate and  
20 method under section 6621.”.

21           (5) Subpart B of part III of subchapter A of  
22 chapter 32 is amended by striking section 4104 (and  
23 by striking the item relating to such section in the  
24 table of sections for such subpart).

1           (6) Section 6501(m) is amended by striking  
2           “40(f),”.

3           (7) Section 9503(b)(1) is amended by striking  
4           the second sentence.

5           (d) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to fuels sold or used after Decem-  
7 ber 31, 2013.

8   **SEC. 3202. REPEAL OF CREDIT FOR BIODIESEL AND RE-**  
9                           **NEWABLE DIESEL USED AS FUEL.**

10          (a) IN GENERAL.—Subpart D of part IV of sub-  
11 chapter A of chapter 1 is amended by striking section 40A  
12 (and by striking the item relating to such section in the  
13 table of sections for such subpart).

14          (b) CONFORMING AMENDMENTS.—

15               (1) Section 38(b) is amended by striking para-  
16               graph (17).

17               (2) Part II of subchapter B of chapter 1 is  
18               amended by striking section 87 (and by striking the  
19               item relating to such section in the table of sections  
20               for such subpart).

21               (3) Section 4101(a)(1) is amended by striking  
22               “, every person producing” and all that follows  
23               through “section 40(b)(6)(E))”.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to fuels sold or used after Decem-  
3 ber 31, 2013.

4 **SEC. 3203. RESEARCH CREDIT MODIFIED AND MADE PER-**  
5 **MANENT.**

6 (a) PERMANENT SIMPLIFICATION OF INCREMENTAL  
7 RESEARCH CREDIT AND ELIMINATION OF CREDIT FOR  
8 ENERGY RESEARCH CONSORTIUM PAYMENTS.—

9 (1) IN GENERAL.—Subsection (a) of section 41  
10 is amended to read as follows:

11 “(a) IN GENERAL.—For purposes of section 38, the  
12 research credit determined under this section for the tax-  
13 able year shall be an amount equal to the sum of—

14 “(1) 15 percent of so much of the qualified re-  
15 search expenses for the taxable year as exceeds 50  
16 percent of the average qualified research expenses  
17 for the 3 taxable years preceding the taxable year  
18 for which the credit is being determined, plus

19 “(2) 15 percent of so much of the basic re-  
20 search payments for the taxable year as exceeds 50  
21 percent of the average basic research payments for  
22 the 3 taxable years preceding the taxable year for  
23 which the credit is being determined.”.

24 (2) REPEAL OF TERMINATION.—Section 41 is  
25 amended by striking subsection (h).

1           (3) CONFORMING AMENDMENTS.—

2                   (A) Subsection (c) of section 41 is amend-  
3           ed to read as follows:

4           “(c) DETERMINATION OF AVERAGE RESEARCH EX-  
5 PENSES FOR PRIOR YEARS.—

6                   “(1) SPECIAL RULE IN CASE OF NO QUALIFIED  
7 RESEARCH EXPENDITURES IN ANY OF 3 PRECEDING  
8 TAXABLE YEARS.—In any case in which the taxpayer  
9 has no qualified research expenses in any one of the  
10 3 taxable years preceding the taxable year for which  
11 the credit is being determined, the amount deter-  
12 mined under subsection (a)(1) for such taxable year  
13 shall be equal to 10 percent of the qualified research  
14 expenses for the taxable year.

15                   “(2) CONSISTENT TREATMENT OF EX-  
16 PENSES.—

17                   “(A) IN GENERAL.—Notwithstanding  
18 whether the period for filing a claim for credit  
19 or refund has expired for any taxable year  
20 taken into account in determining the average  
21 qualified research expenses, or average basic re-  
22 search payments, taken into account under sub-  
23 section (a), the qualified research expenses and  
24 basic research payments taken into account in  
25 determining such averages shall be determined

1 on a basis consistent with the determination of  
2 qualified research expenses and basic research  
3 payments, respectively, for the credit year.

4 “(B) PREVENTION OF DISTORTIONS.—The  
5 Secretary may prescribe regulations to prevent  
6 distortions in calculating a taxpayer’s qualified  
7 research expenses or basic research payments  
8 caused by a change in accounting methods used  
9 by such taxpayer between the current year and  
10 a year taken into account in determining the  
11 average qualified research expenses or average  
12 basic research payments taken into account  
13 under subsection (a).”.

14 (B) Section 41(e) is amended—

15 (i) by striking all that precedes para-  
16 graph (6) and inserting the following:

17 “(e) BASIC RESEARCH PAYMENTS.—For purposes of  
18 this section—

19 “(1) IN GENERAL.—The term ‘basic research  
20 payment’ means, with respect to any taxable year,  
21 any amount paid in cash during such taxable year  
22 by a corporation to any qualified organization for  
23 basic research but only if—

1           “(A) such payment is pursuant to a writ-  
2           ten agreement between such corporation and  
3           such qualified organization, and

4           “(B) such basic research is to be per-  
5           formed by such qualified organization.

6           “(2) EXCEPTION TO REQUIREMENT THAT RE-  
7           SEARCH BE PERFORMED BY THE ORGANIZATION.—  
8           In the case of a qualified organization described in  
9           subparagraph (C) or (D) of paragraph (3), subpara-  
10          graph (B) of paragraph (1) shall not apply.”,

11                   (ii) by redesignating paragraphs (6)  
12                   and (7) as paragraphs (3) and (4), respec-  
13                   tively, and

14                   (iii) in paragraph (4) as so redesign-  
15                   ated, by striking subparagraphs (B) and  
16                   (C) and by redesignating subparagraphs  
17                   (D) and (E) as subparagraphs (B) and  
18                   (C), respectively.

19           (C)(i) Section 41(f)(1) is amended by  
20           striking “, basic research payments, and  
21           amounts paid or incurred to energy research  
22           consortiums,” in subparagraphs (A)(ii) and  
23           (B)(ii) and inserting “and basic research pay-  
24           ments”.

1           (ii) Section 41(f) is amended by striking  
2 paragraph (6).

3           (4) EFFECTIVE DATE.—

4           (A) IN GENERAL.—Except as provided in  
5 subparagraph (B), the amendments made by  
6 this subsection shall apply to taxable years be-  
7 ginning after December 31, 2013.

8           (B) PARAGRAPH (2).—The amendment  
9 made by paragraph (2) shall apply to amounts  
10 paid or incurred after December 31, 2013.

11       (b) OTHER REFORMS.—

12           (1) ELIMINATION OF CREDIT FOR COMPUTER  
13 SOFTWARE.—Subparagraph (E) of section 41(d)(4)  
14 is amended—

15           (A) by striking “Except to the extent pro-  
16 vided in regulations, any research” and insert-  
17 ing “Any research”, and

18           (B) by striking “which is developed by”  
19 and all that follows through the end and insert-  
20 ing a period.

21           (2) ELIMINATION OF INCREASED CREDIT FOR  
22 AMOUNTS PAID TO CERTAIN ENTITIES.—Paragraph  
23 (3) of section 41(b) is amended by striking subpara-  
24 graphs (C) and (D).



1           (3) ELIMINATION OF CREDIT FOR SUPPLIES.—  
2           Subparagraph (A) of section 41(b)(2) is amended by  
3           inserting “and” at the end of clause (i), by striking  
4           clause (ii), and by redesignating clause (iii) as clause  
5           (ii).

6           (4) ELIMINATION OF ELECTION OF REDUCED  
7           CREDIT.—Section 280C(c) is amended by striking  
8           paragraphs (3) and (4).

9           (5) CONFORMING AMENDMENTS.—

10           (A) The second sentence of section  
11           41(b)(2)(A) is amended by striking “Clause  
12           (iii)” and inserting “Clause (ii)”.

13           (B) Section 41(b)(2) is amended by strik-  
14           ing subparagraph (C) and by redesignating sub-  
15           paragraph (D) as subparagraph (C).

16           (C) Section 41(d)(2)(B) is amended by  
17           striking “, computer software”.

18           (6) EFFECTIVE DATE.—The amendments made  
19           by this subsection shall apply to taxable years begin-  
20           ning after December 31, 2013.

21 **SEC. 3204. LOW-INCOME HOUSING TAX CREDIT.**

22           (a) REFORM OF LIMITATION AND ALLOCATION  
23           RULES.—

24           (1) ALLOCATIONS OF ELIGIBLE BASIS AMOUNTS  
25           RATHER THAN CREDIT AMOUNTS; ELIMINATION OF

1 NATIONAL REALLOCATIONS.—Subsection (h) of sec-  
2 tion 42 is amended to read as follows:

3 “(h) LIMITATION ON QUALIFIED BASIS WITH RE-  
4 SPECT TO PROJECTS LOCATED IN A STATE.—

5 “(1) QUALIFIED BASIS MAY NOT EXCEED LIM-  
6 TATION AMOUNT ALLOCATED TO BUILDING.—

7 “(A) IN GENERAL.—The qualified basis of  
8 any building which is taken into account under  
9 subsection (a) for any taxable year shall not ex-  
10 ceed the limitation amount allocated to such  
11 building under this subsection.

12 “(B) TIME FOR MAKING ALLOCATION.—  
13 Except in the case of an allocation which meets  
14 the requirements of subparagraph (C), (D),  
15 (E), or (F), an allocation shall be taken into ac-  
16 count under subparagraph (A) only if it is  
17 made not later than the close of the calendar  
18 year in which the building is placed in service.

19 “(C) EXCEPTION WHERE BINDING COM-  
20 MITMENT.—An allocation meets the require-  
21 ments of this subparagraph if there is a binding  
22 commitment (not later than the close of the cal-  
23 endar year in which the building is placed in  
24 service) by the housing credit agency to allocate

1 a specified limitation amount to such building  
2 beginning in a specified later taxable year.

3 “(D) EXCEPTION WHERE INCREASE IN  
4 QUALIFIED BASIS.—

5 “(i) IN GENERAL.—An allocation  
6 meets the requirements of this subpara-  
7 graph if such allocation is made not later  
8 than the close of the calendar year in  
9 which ends the taxable year to which it will  
10 1st apply but only to the extent the  
11 amount of such allocation does not exceed  
12 the limitation under clause (ii).

13 “(ii) LIMITATION.—The limitation  
14 under this clause is the excess of—

15 “(I) the qualified basis of such  
16 building as of the close of the 1st tax-  
17 able year to which such allocation will  
18 apply, over

19 “(II) the qualified basis of such  
20 building as of the close of the 1st tax-  
21 able year to which the most recent  
22 prior allocation with respect to such  
23 building applied.

24 “(iii) HOUSING CREDIT BASIS LIMITA-  
25 TION REDUCED BY FULL ALLOCATION.—

1           Notwithstanding clause (i), the full amount  
2           of the allocation shall be taken into ac-  
3           count under paragraph (2).

4           “(E) EXCEPTION WHERE 10 PERCENT OF  
5           COST INCURRED.—

6                   “(i) IN GENERAL.—An allocation  
7                   meets the requirements of this subpara-  
8                   graph if such allocation is made with re-  
9                   spect to a qualified building which is  
10                  placed in service not later than the close of  
11                  the second calendar year following the cal-  
12                  endar year in which the allocation is made.

13                   “(ii) QUALIFIED BUILDING.—For pur-  
14                   poses of clause (i), the term ‘qualified  
15                   building’ means any building which is part  
16                   of a project if the taxpayer’s basis in such  
17                   project (as of the date which is 1 year  
18                   after the date that the allocation was  
19                   made) is more than 10 percent of the tax-  
20                   payer’s reasonably expected basis in such  
21                   project (as of the close of the second cal-  
22                   endar year referred to in clause (i)). Such  
23                   term does not include any existing building  
24                   unless a credit is allowable under sub-  
25                   section (e) for rehabilitation expenditures

1           paid or incurred by the taxpayer with re-  
2           spect to such building for a taxable year  
3           ending during the second calendar year re-  
4           ferred to in clause (i) or the prior taxable  
5           year.

6           “(F) ALLOCATION OF CREDIT ON A  
7           PROJECT BASIS.—

8           “(i) IN GENERAL.—In the case of a  
9           project which includes (or will include)  
10          more than 1 building, an allocation meets  
11          the requirements of this subparagraph if—

12                  “(I) the allocation is made to the  
13                  project for a calendar year during the  
14                  project period,

15                  “(II) the allocation only applies  
16                  to buildings placed in service during  
17                  or after the calendar year for which  
18                  the allocation is made, and

19                  “(III) the portion of such alloca-  
20                  tion which is allocated to any building  
21                  in such project is specified not later  
22                  than the close of the calendar year in  
23                  which the building is placed in service.

1                   “(ii) PROJECT PERIOD.—For pur-  
2                   poses of clause (i), the term ‘project pe-  
3                   riod’ means the period—

4                   “(I) beginning with the 1st cal-  
5                   endar year for which an allocation  
6                   may be made for the 1st building  
7                   placed in service as part of such  
8                   project, and

9                   “(II) ending with the calendar  
10                  year the last building is placed in  
11                  service as part of such project.

12                  “(2) ALLOCATED LIMITATION AMOUNT TO  
13                  APPLY TO ALL TAXABLE YEARS ENDING DURING OR  
14                  AFTER ALLOCATION YEAR.—Any limitation amount  
15                  allocated to any building for any calendar year—

16                  “(A) shall apply to such building for all  
17                  taxable years in the compliance period ending  
18                  during or after such calendar year, and

19                  “(B) shall reduce the aggregate limitation  
20                  amount of the allocating agency only for such  
21                  calendar year.

22                  “(3) LIMITATION AMOUNT FOR AGENCIES.—

23                  “(A) IN GENERAL.—The limitation amount  
24                  which a housing credit agency may allocate for  
25                  any calendar year is the portion of the State

1 limitation allocated under this paragraph for  
2 such calendar year to such agency.

3 “(B) STATE LIMITATION INITIALLY ALLO-  
4 CATED TO STATE HOUSING CREDIT AGEN-  
5 CIES.—Except as provided in subparagraph  
6 (F), the State limitation for each calendar year  
7 shall be allocated to the housing credit agency  
8 of such State. If there is more than 1 housing  
9 credit agency of a State, all such agencies shall  
10 be treated as a single agency.

11 “(C) STATE LIMITATION.—The State limi-  
12 tation applicable to any State for any calendar  
13 year shall be an amount equal to the sum of—

14 “(i) the unused State limitation (if  
15 any) of such State for the preceding cal-  
16 endar year,

17 “(ii) the greater of—

18 “(I) \$31.20 multiplied by the  
19 State population, or

20 “(II) \$36,300,000, plus

21 “(iii) the amount of State limitation  
22 returned in the calendar year.

23 “(D) UNUSED STATE LIMITATION.—For  
24 purposes of subparagraph (C)(i), the unused  
25 State limitation for any calendar year is the ex-

1           cess (if any) of the sum of the amounts de-  
2           scribed in clauses (ii) and (iii) of subparagraph  
3           (C) over the aggregate limitation amount allo-  
4           cated for such year.

5           “(E) STATE LIMITATION RETURNED IN  
6           THE CALENDAR YEAR.—For purposes of sub-  
7           paragraph (C)(iii), the amount of State limita-  
8           tion returned in the calendar year equals the  
9           limitation amount previously allocated within  
10          the State to any project—

11                 “(i) which fails to meet the 10 percent  
12                 test under paragraph (1)(E)(ii) on a date  
13                 after the close of the calendar year in  
14                 which the allocation was made,

15                 “(ii) which does not become a quali-  
16                 fied low-income housing project within the  
17                 period required by this section or the terms  
18                 of the allocation, or

19                 “(iii) with respect to which an alloca-  
20                 tion is cancelled by mutual consent of the  
21                 housing credit agency and the allocation  
22                 recipient.

23           “(F) STATE MAY PROVIDE FOR DIF-  
24           FERENT ALLOCATION.—For purposes of this  
25           paragraph, a State may by law provide (or a



1 Governor of a State may proclaim) a different  
2 formula for allocating the State limitation  
3 among the State housing credit agencies in  
4 such State.

5 “(G) POPULATION.—For purposes of this  
6 paragraph, determinations of the population of  
7 any State shall be made with respect to any cal-  
8 endar year on the basis of the most recent cen-  
9 sus estimate of the resident population of such  
10 State released by the Bureau of Census before  
11 the beginning of such calendar year.

12 “(H) COST-OF-LIVING ADJUSTMENT.—

13 “(i) IN GENERAL.—In the case of a  
14 calendar year after 2015, the dollar  
15 amounts in subparagraph (C)(ii) shall each  
16 be increased by an amount equal to—

17 “(I) such dollar amount, multi-  
18 plied by

19 “(II) the cost-of-living adjust-  
20 ment determined under section  
21 1(c)(2)(A) for such calendar year, de-  
22 termined by substituting ‘calendar  
23 year 2014’ for ‘calendar year 2012’ in  
24 clause (ii) thereof.

25 “(ii) ROUNDING.—

1           “(I) In the case of the dollar  
2           amount in subparagraph (C)(ii)(I),  
3           any increase under clause (i) which is  
4           not a multiple of 20 cents shall be  
5           rounded to the next lowest multiple of  
6           20 cents.

7           “(II) In the case of the dollar  
8           amount in subparagraph (C)(ii)(II),  
9           any increase under clause (i) which is  
10          not a multiple of \$100,000 shall be  
11          rounded to the next lowest multiple of  
12          \$100,000.

13           “(4) PORTION OF STATE LIMITATION SET-  
14          ASIDE FOR CERTAIN PROJECTS INVOLVING QUALI-  
15          FIED NONPROFIT ORGANIZATIONS.—

16           “(A) IN GENERAL.—Not more than 90  
17          percent of the State limitation for any State for  
18          any calendar year shall be allocated to projects  
19          other than qualified low-income housing  
20          projects described in subparagraph (B).

21           “(B) PROJECTS INVOLVING QUALIFIED  
22          NONPROFIT ORGANIZATIONS.—For purposes of  
23          subparagraph (A), a qualified low-income hous-  
24          ing project is described in this subparagraph if  
25          a qualified nonprofit organization is to own an

1 interest in the project (directly or through a  
2 partnership) and materially participate (within  
3 the meaning of section 469(h)) in the develop-  
4 ment and operation of the project throughout  
5 the credit period.

6 “(C) QUALIFIED NONPROFIT ORGANIZA-  
7 TION.—For purposes of this paragraph, the  
8 term ‘qualified nonprofit organization’ means  
9 any organization if—

10 “(i) such organization is described in  
11 paragraph (3) or (4) of section 501(c) and  
12 is exempt from tax under section 501(a),

13 “(ii) such organization is determined  
14 by the State housing credit agency not to  
15 be affiliated with or controlled by a for-  
16 profit organization; and

17 “(iii) 1 of the exempt purposes of  
18 such organization includes the fostering of  
19 low-income housing.

20 “(D) TREATMENT OF CERTAIN SUBSIDI-  
21 ARIES.—

22 “(i) IN GENERAL.—For purposes of  
23 this paragraph, a qualified nonprofit orga-  
24 nization shall be treated as satisfying the  
25 ownership and material participation test

1 of subparagraph (B) if any qualified cor-  
2 poration in which such organization holds  
3 stock satisfies such test.

4 “(ii) QUALIFIED CORPORATION.—For  
5 purposes of clause (i), the term ‘qualified  
6 corporation’ means any corporation if 100  
7 percent of the stock of such corporation is  
8 held by 1 or more qualified nonprofit orga-  
9 nizations at all times during the period  
10 such corporation is in existence.

11 “(E) STATE MAY NOT OVERRIDE SET-  
12 ASIDE.—Nothing in subparagraph (F) of para-  
13 graph (3) shall be construed to permit a State  
14 not to comply with subparagraph (A) of this  
15 paragraph.

16 “(5) BUILDINGS ELIGIBLE FOR CREDIT ONLY  
17 IF MINIMUM LONG-TERM COMMITMENT TO LOW-IN-  
18 COME HOUSING.—

19 “(A) IN GENERAL.—No credit shall be al-  
20 lowed by reason of this section with respect to  
21 any building for the taxable year unless an ex-  
22 tended low-income housing commitment is in ef-  
23 fect as of the end of such taxable year.

24 “(B) EXTENDED LOW-INCOME HOUSING  
25 COMMITMENT.—For purposes of this para-

1 graph, the term ‘extended low-income housing  
2 commitment’ means any agreement between the  
3 taxpayer and the housing credit agency—

4 “(i) which requires that the applicable  
5 fraction (as defined in subsection (c)(1))  
6 for the building for each taxable year in  
7 the extended use period will not be less  
8 than the applicable fraction specified in  
9 such agreement and which prohibits the  
10 actions described in subclauses (I) and (II)  
11 of subparagraph (E)(ii),

12 “(ii) which allows individuals who  
13 meet the income limitation applicable to  
14 the building under subsection (g) (whether  
15 prospective, present, or former occupants  
16 of the building) the right to enforce in any  
17 State court the requirement and prohibi-  
18 tions of clause (i),

19 “(iii) which prohibits the disposition  
20 to any person of any portion of the build-  
21 ing to which such agreement applies unless  
22 all of the building to which such agreement  
23 applies is disposed of to such person,

24 “(iv) which prohibits the refusal to  
25 lease to a holder of a voucher or certificate

1 of eligibility under section 8 of the United  
2 States Housing Act of 1937 because of the  
3 status of the prospective tenant as such a  
4 holder,

5 “(v) which is binding on all successors  
6 of the taxpayer, and

7 “(vi) which, with respect to the prop-  
8 erty, is recorded pursuant to State law as  
9 a restrictive covenant.

10 “(C) ALLOCATION OF LIMITATION AMOUNT  
11 MAY NOT EXCEED AMOUNT NECESSARY TO SUP-  
12 PORT COMMITMENT.—The limitation amount  
13 allocated to any building may not exceed the  
14 amount necessary to support the applicable  
15 fraction specified in the extended low-income  
16 housing commitment for such building.

17 “(D) EXTENDED USE PERIOD.—For pur-  
18 poses of this paragraph, the term ‘extended use  
19 period’ means the period—

20 “(i) beginning on the 1st day in the  
21 credit period on which such building is  
22 part of a qualified low-income housing  
23 project, and

24 “(ii) ending on the later of—

1                   “(I) the date specified by such  
2                   agency in such agreement, or

3                   “(II) the date which is 15 years  
4                   after the close of the credit period.

5                   “(E) EXCEPTIONS IF FORECLOSURE OR IF  
6                   NO BUYER WILLING TO MAINTAIN LOW-INCOME  
7                   STATUS.—

8                   “(i) IN GENERAL.—The extended use  
9                   period for any building shall terminate—

10                   “(I) on the date the building is  
11                   acquired by foreclosure (or instrument  
12                   in lieu of foreclosure) unless the Sec-  
13                   retary determines that such acquisi-  
14                   tion is part of an arrangement with  
15                   the taxpayer a purpose of which is to  
16                   terminate such period, or

17                   “(II) on the last day of the pe-  
18                   riod specified in subparagraph (I) if  
19                   the housing credit agency is unable to  
20                   present during such period a qualified  
21                   contract for the acquisition of the low-  
22                   income portion of the building by any  
23                   person who will continue to operate  
24                   such portion as a qualified low-income  
25                   building.

1 Subclause (II) shall not apply to the extent  
2 more stringent requirements are provided  
3 in the agreement or in State law.

4 “(ii) EVICTION, ETC., OF EXISTING  
5 LOW-INCOME TENANTS NOT PERMITTED.—

6 The termination of an extended use period  
7 under clause (i) shall not be construed to  
8 permit before the close of the 3-year period  
9 following such termination—

10 “(I) the eviction or the termi-  
11 nation of tenancy (other than for good  
12 cause) of an existing tenant of any  
13 low-income unit, or

14 “(II) any increase in the gross  
15 rent with respect to such unit not oth-  
16 erwise permitted under this section.

17 “(F) QUALIFIED CONTRACT.—For pur-  
18 poses of subparagraph (E), the term ‘qualified  
19 contract’ means a bona fide contract to acquire  
20 (within a reasonable period after the contract is  
21 entered into) the nonlow-income portion of the  
22 building for fair market value and the low-in-  
23 come portion of the building for an amount not  
24 less than the applicable fraction (specified in



1 the extended low-income housing commitment)  
2 of—

3 “(i) the sum of—

4 “(I) the outstanding indebtedness  
5 secured by, or with respect to, the  
6 building,

7 “(II) the adjusted investor equity  
8 in the building, plus

9 “(III) other capital contributions  
10 not reflected in the amounts described  
11 in subclause (I) or (II), reduced by

12 “(ii) cash distributions from (or avail-  
13 able for distribution from) the project.

14 The Secretary shall prescribe such regulations  
15 as may be necessary or appropriate to carry out  
16 this paragraph, including regulations to prevent  
17 the manipulation of the amount determined  
18 under the preceding sentence.

19 “(G) ADJUSTED INVESTOR EQUITY.—

20 “(i) IN GENERAL.—For purposes of  
21 subparagraph (F), the term ‘adjusted in-  
22 vestor equity’ means, with respect to any  
23 calendar year, the aggregate amount of  
24 cash taxpayers invested with respect to the  
25 project increased by the amount equal to—

1                   “(I) such amount, multiplied by  
2                   “(II) the cost-of-living adjust-  
3                   ment for such calendar year, deter-  
4                   mined under section 1(c)(2)(A) by  
5                   substituting the base calendar year  
6                   for ‘calendar year 2012’ in clause (ii)  
7                   thereof.

8                   An amount shall be taken into account as  
9                   an investment in the project only to the ex-  
10                  tent there was an obligation to invest such  
11                  amount as of the beginning of the credit  
12                  period and to the extent such amount is  
13                  reflected in the adjusted basis of the  
14                  project.

15                  “(ii) COST-OF-LIVING INCREASES IN  
16                  EXCESS OF 5 PERCENT NOT TAKEN INTO  
17                  ACCOUNT.—Under regulations prescribed  
18                  by the Secretary, if the C-CPI-U for any  
19                  calendar year (within the meaning of sec-  
20                  tion 1(c)) exceeds the C-CPI-U for the pre-  
21                  ceding calendar year by more than 5 per-  
22                  cent, the C-CPI-U for the base calendar  
23                  year shall be increased such that such ex-  
24                  cess shall never be taken into account  
25                  under clause (i).

1                   “(iii) BASE CALENDAR YEAR.—For  
2                   purposes of this subparagraph, the term  
3                   ‘base calendar year’ means the calendar  
4                   year with or within which the 1st taxable  
5                   year of the credit period ends.

6                   “(H) LOW-INCOME PORTION.—For pur-  
7                   poses of this paragraph, the low-income portion  
8                   of a building is the portion of such building  
9                   equal to the applicable fraction specified in the  
10                  extended low-income housing commitment for  
11                  the building.

12                  “(I) PERIOD FOR FINDING BUYER.—The  
13                  period referred to in this subparagraph is the 1-  
14                  year period beginning on the date (after the  
15                  14th year of the credit period) the taxpayer  
16                  submits a written request to the housing credit  
17                  agency to find a person to acquire the tax-  
18                  payer’s interest in the low-income portion of the  
19                  building.

20                  “(J) EFFECT OF NONCOMPLIANCE.—If,  
21                  during a taxable year, there is a determination  
22                  that an extended low-income housing agreement  
23                  was not in effect as of the beginning of such  
24                  year, such determination shall not apply to any  
25                  period before such year and subparagraph (A)

1 shall be applied without regard to such deter-  
2 mination if the failure is corrected within 1  
3 year from the date of the determination.

4 “(K) PROJECTS WHICH CONSIST OF MORE  
5 THAN 1 BUILDING.—The application of this  
6 paragraph to projects which consist of more  
7 than 1 building shall be made under regulations  
8 prescribed by the Secretary.

9 “(6) SPECIAL RULES.—

10 “(A) BUILDING MUST BE LOCATED WITH-  
11 IN JURISDICTION OF CREDIT AGENCY.—A hous-  
12 ing credit agency may allocate its limitation  
13 amount only to buildings located in the jurisdic-  
14 tion of the governmental unit of which such  
15 agency is a part.

16 “(B) AGENCY ALLOCATIONS IN EXCESS OF  
17 LIMIT.—If the limitation amounts allocated by  
18 a housing credit agency for any calendar year  
19 exceed the portion of the State limitation allo-  
20 cated to such agency for such calendar year, the  
21 limitation amounts so allocated shall be reduced  
22 (to the extent of such excess) for buildings in  
23 the reverse of the order in which the allocations  
24 of such amounts were made.

1           “(C) CREDIT REDUCED IF CREDIT IS LESS  
2           THAN CREDIT WHICH WOULD BE ALLOWABLE  
3           WITHOUT REGARD TO PLACED IN SERVICE CON-  
4           VENTION, ETC.—

5           “(i) IN GENERAL.—The amount of  
6           the credit determined under this section  
7           with respect to any building shall not ex-  
8           ceed the clause (ii) percentage of the  
9           amount of the credit which would (but for  
10          this subparagraph) be determined under  
11          this section with respect to such building.

12          “(ii) DETERMINATION OF PERCENT-  
13          AGE.—For purposes of clause (i), the  
14          clause (ii) percentage with respect to any  
15          building is the percentage which—

16                 “(I) the credit amount which  
17                 would be determined under this sec-  
18                 tion with respect to the building if the  
19                 limitation amount allocated to such  
20                 building were equal to the qualified  
21                 basis of such building, bears to

22                 “(II) the credit amount deter-  
23                 mined in accordance with clause (iii).

24          “(iii) DETERMINATION OF CREDIT  
25          AMOUNT.—The credit amount determined

1           in accordance with this clause is the  
2           amount of the credit which would (but for  
3           this subparagraph) be determined under  
4           this section with respect to the building if  
5           this section were applied without regard to  
6           subsection (f)(2)(A).

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

9           “(A) HOUSING CREDIT AGENCY.—The  
10          term ‘housing credit agency’ means any agency  
11          authorized to carry out this subsection.

12          “(B) POSSESSIONS TREATED AS STATES.—  
13          The term ‘State’ includes a possession of the  
14          United States.”.

15          (2) CONFORMING AMENDMENTS.—

16          (A) Section 42(f) is amended by striking  
17          paragraph (3).

18          (B) Section 42(i)(3)(B)(iii)(II) is amended  
19          by striking “subsection (h)(5)” and inserting  
20          “subsection (h)(4)”.

21          (C) Section 42(i)(7)(A) is amended by  
22          striking “subsection (h)(5)(C)” and inserting  
23          “subsection (h)(4)(C)”.

24          (D) Section 42(i)(8) is amended by strik-  
25          ing the last sentence.

1           (E) Section 42(i) is amended by striking  
2 paragraph (9).

3           (F) Section 42(k)(2)(A) is amended by  
4 striking “subsection (h)(5)” and inserting “sub-  
5 section (h)(4)”.

6           (G) Section 42(l)(3) is amended by strik-  
7 ing “housing credit amount” both places it ap-  
8 pears and inserting “limitation amount”.

9           (H) Section 42(m)(1)(A) is amended by  
10 striking “housing credit dollar amount” both  
11 places it appears and inserting “limitation  
12 amount”.

13           (I) Section 42(m)(1)(B)(ii) is amended by  
14 striking “housing credit dollar amounts” and  
15 inserting “limitation amounts”.

16           (J) Section 42(m)(1) is amended by strik-  
17 ing subparagraph (D).

18           (K) Subparagraphs (A), (B)(iii), (C)(i)(I),  
19 and (C)(i)(II) of section 42(m)(2) are each  
20 amended by striking “housing credit dollar  
21 amount” and inserting “limitation amount”.

22           (L) Section 42(m)(2) is amended by strik-  
23 ing subparagraph (D).

24           (b) 15-YEAR CREDIT PERIOD.—

1           (1) IN GENERAL.—Section 42(f)(1) is amended  
2           by striking “10 taxable years” and inserting “15  
3           taxable years”.

4           (2) REPEAL OF RECAPTURE.—Section 42 is  
5           amended by striking subsection (j).

6           (3) CONFORMING AMENDMENTS.—

7           (A) Section 42(d)(7) is amended—

8                   (i) by striking “COMPLIANCE PERIOD”  
9                   in the heading thereof and inserting  
10                   “CREDIT PERIOD”, and

11                   (ii) by striking “compliance period” in  
12                   subparagraph (B)(ii) and inserting “credit  
13                   period”.

14           (B) Section 42(f)(4) is amended by strik-  
15           ing the last sentence thereof.

16           (C) Section 42(i) is amended by striking  
17           paragraph (1).

18           (D) Section 42(i)(6) is amended by strik-  
19           ing “and any increase in tax under subsection  
20           (j)”.

21           (E) Section 42(k)(4)(C) is amended to  
22           read as follows:

23                   “(C) SPECIAL RULES.—

24                           “(i) TAX BENEFIT RULE.—The tax  
25                           for the taxable year shall be increased



1 under subparagraph (A) only with respect  
2 to credits allowed by reason of this section  
3 which were used to reduce tax liability. In  
4 the case of credits not so used to reduce  
5 tax liability, the carryforwards and  
6 carrybacks under section 39 shall be ap-  
7 propriately adjusted.

8 “(ii) NO CREDITS AGAINST TAX.—Any  
9 increase in tax under this paragraph shall  
10 not be treated as a tax imposed by this  
11 chapter for purposes of determining the  
12 amount of any credit under this chapter.”.

13 (c) DETERMINATION OF APPLICABLE PERCENT-  
14 AGE.—

15 (1) ELIMINATION OF 30 PERCENT CREDIT;  
16 MODIFICATION OF DISCOUNT RATE.—Subsection (b)  
17 of section 42 is amended to read as follows:

18 “(b) APPLICABLE PERCENTAGE.—

19 “(1) IN GENERAL.—For purposes of this sec-  
20 tion, the term ‘applicable percentage’ means with re-  
21 spect to any building, the appropriate percentage  
22 prescribed by the Secretary for the earlier of—

23 “(A) the month in which such building is  
24 placed in service, or

1           “(B) at the election of the taxpayer, the  
2           month in which the taxpayer and the housing  
3           credit agency enter into an agreement with re-  
4           spect to such building (which is binding on such  
5           agency, the taxpayer, and all successors in in-  
6           terest) as to the limitation amount to be allo-  
7           cated to such building.

8           A month may be elected under subparagraph (B)  
9           only if the election is made not later than the 5th  
10          day after the close of such month. Such an election,  
11          once made, shall be irrevocable.

12           “(2) METHOD OF PRESCRIBING PERCENT-  
13          AGES.—The percentages prescribed by the Secretary  
14          for any month shall be percentages which will yield  
15          over a 15-year period amounts of credit under sub-  
16          section (a) which have a present value equal to 70  
17          percent of the qualified basis of the building.

18           “(3) METHOD OF DISCOUNTING.—

19           “(A) IN GENERAL.—The present value  
20          under paragraph (2) shall be determined—

21                   “(i) as of the last day of the 1st year  
22                   of the 15-year period referred to in para-  
23                   graph (2),

24                   “(ii) by using a discount rate equal to  
25                   the applicable discount percentage of the

1 average of the annual Federal mid-term  
2 rate and the annual Federal long-term rate  
3 applicable under section 1274(d)(1) to the  
4 month applicable under subparagraph (A)  
5 or (B) of paragraph (1) and compounded  
6 annually, and

7 “(iii) by assuming that the credit al-  
8 lowable under this section for any year is  
9 received on the last day of such year.

10 “(B) APPLICABLE DISCOUNT PERCENT-  
11 AGE.—For purposes of this paragraph, the term  
12 ‘applicable discount percentage’ means, with re-  
13 spect to any month referred to in subparagraph  
14 (A)(ii) the number of percentage points by  
15 which 100 percent exceeds the highest rate of  
16 tax in effect under section 11 for a taxable year  
17 which begins in such month.

18 “(4) CROSS REFERENCE.—For treatment of  
19 certain rehabilitation expenditures as separate new  
20 buildings, see subsection (e).”.

21 (2) EXISTING AND FEDERALLY SUBSIDIZED  
22 BUILDINGS INELIGIBLE FOR CREDIT.—Section 42(d)  
23 is amended—

24 (A) by striking paragraphs (1), (2), and  
25 (6), and redesignating paragraphs (3), (4), (5),

1 and (7) as paragraphs (2), (3), (4), and (5), re-  
2 spectively, and

3 (B) by inserting before paragraph (2) (as  
4 so redesignated) the following new paragraph:

5 “(1) IN GENERAL.—The eligible basis of any  
6 building is—

7 “(A) in the case a new building which is  
8 not Federally subsidized for the taxable year,  
9 its adjusted basis as of the close of the 1st tax-  
10 able year of the credit period, and

11 “(B) zero in any other case.”.

12 (3) CONFORMING AMENDMENTS.—

13 (A) Section 42(e) is amended—

14 (i) in paragraph (2)(B), by striking  
15 “paragraph (3) or (4)” and inserting  
16 “paragraph (2) or (3)”.

17 (ii) in paragraph (3), by striking sub-  
18 paragraph (B) and redesignating subpara-  
19 graphs (C) and (D) as subparagraphs (B)  
20 and (C), respectively,

21 (iii) in paragraph (4), by striking the  
22 last sentence thereof, and

23 (iv) by striking paragraph (5) and re-  
24 designating paragraph (6) as paragraph  
25 (5).

1           (B) Section 42(f) is amended by striking  
2 paragraph (5).

3           (C) Section 42(i)(2)(A) is amended by  
4 striking “for purposes of subsection (b)(1),”.

5           (D) Section 42(i)(3) is amended—

6               (i) by striking “(as defined in sub-  
7 section (d)(2)(D)(iii))” in subparagraph  
8 (C)(ii) and inserting “(within the meaning  
9 of subparagraph (F))”, and

10               (ii) by adding at the end the following  
11 new subparagraph:

12               “(F) RELATED PERSON.—For purposes of  
13 subparagraph (C), a person (hereinafter in this  
14 subparagraph referred to as the ‘related per-  
15 son’) is related to any person if the related per-  
16 son bears a relationship to such person speci-  
17 fied in section 267(b) or 707(b)(1), or the re-  
18 lated person and such person are engaged in  
19 trades or businesses under common control  
20 (within the meaning of subsections (a) and (b)  
21 of section 52).”.

22           (E) Section 42(i) is amended by striking  
23 paragraph (5).

1           (F) Section 42(k)(2)(B) is amended by  
2           striking “, except that” and all that follows and  
3           inserting a period.

4           (d) REPEAL OF SPECIAL RULES FOR BUILDINGS IN  
5 HIGH COST AND DIFFICULT DEVELOPMENT AREAS.—

6           (1) IN GENERAL.—Paragraph (4) of section  
7           42(d), as redesignated by subsection (c)(2), is  
8           amended to read as follows:

9           “(4) FEDERAL GRANTS NOT TAKEN INTO AC-  
10          COUNT IN DETERMINING ELIGIBLE BASIS.—The eli-  
11          gible basis of a building shall not include any costs  
12          financed with the proceeds of a federally funded  
13          grant.”.

14          (2) CONFORMING AMENDMENTS.—

15          (A) Paragraph (3) of section 42(d), as re-  
16          designated by subsection (c)(2), is amended—

17                  (i) by striking “(as defined in para-  
18                  graph (5)(C))” in subparagraph (C)(i),  
19                  and

20                  (ii) by adding at the end the following  
21                  new subparagraph:

22                  “(E) QUALIFIED CENSUS TRACT.—For  
23                  purposes of this paragraph—

24                          “(i) IN GENERAL.—The term ‘quali-  
25                          fied census tract’ means any census tract

1 which is designated by the Secretary of  
2 Housing and Urban Development and, for  
3 the most recent year for which census data  
4 are available on household income in such  
5 tract, either in which 50 percent or more  
6 of the households have an income which is  
7 less than 60 percent of the area median  
8 gross income for such year or which has a  
9 poverty rate of at least 25 percent. If the  
10 Secretary of Housing and Urban Develop-  
11 ment determines that sufficient data for  
12 any period are not available to apply this  
13 subparagraph on the basis of census tracts,  
14 such Secretary shall apply this subpara-  
15 graph for such period on the basis of enu-  
16 meration districts.

17 “(ii) LIMIT ON MSA’S DESIGNATED.—

18 The portion of a metropolitan statistical  
19 area which may be designated for purposes  
20 of this subparagraph shall not exceed an  
21 area having 20 percent of the population of  
22 such metropolitan statistical area.

23 “(iii) DETERMINATION OF AREAS.—

24 For purposes of this subparagraph, each  
25 metropolitan statistical area shall be treat-

1 ed as a separate area and all nonmetropoli-  
2 tan areas in a State shall be treated as 1  
3 area.”.

4 (B) Clause (i) of section 42(d)(5)(A), as  
5 redesignated by subsection (c)(2), is amended  
6 to read as follows:

7 “(i) such building shall be treated as  
8 a new building, but”.

9 (e) REPEAL OF CERTAIN EXCEPTIONS TO RULES  
10 AGAINST PREFERENTIAL TREATMENT.—Section 42(g)(9)  
11 is amended—

12 (1) by adding “or” at the end of subparagraph  
13 (A), and

14 (2) by striking subparagraphs (B) and (C) and  
15 inserting the following new subparagraph:

16 “(B) who are veterans (as defined in sec-  
17 tion 101 of title 38, United States Code).”.

18 (f) MODIFICATION OF SELECTION CRITERIA.—Sec-  
19 tion 42(m)(1)(C) is amended—

20 (1) by adding “and” at the end of clause (vii),

21 (2) by striking the comma at the end of clause  
22 (viii) and inserting a period, and

23 (3) by striking clauses (ix) and (x).

24 (g) EFFECTIVE DATE.—



1           (1) IN GENERAL.—The amendments made by  
2 this section shall apply with respect to State limita-  
3 tion amounts determined for calendar years after  
4 2014 (and to determinations with respect to alloca-  
5 tions of such limitation amounts).

6           (2) TRANSITION RULE.—For purposes of deter-  
7 mining the State limitation amount for calendar  
8 year 2015 under section 42(h)(3)(C) of the Internal  
9 Revenue Code of 1986, as amended by this section,  
10 the amount described in clause (i) of such section  
11 shall be treated as being equal to the quotient of—

12                   (A) the amount which would be described  
13 in section 42(h)(3)(C)(i) of such Code (deter-  
14 mined without regard to the amendments made  
15 by this section), divided by

16                   (B) the applicable percentage determined  
17 under section 42(b)(1)(B)(i) for December  
18 2014 (determined without regard to the amend-  
19 ments made by this section).

20 **SEC. 3205. REPEAL OF ENHANCED OIL RECOVERY CREDIT.**

21           (a) IN GENERAL.—Subpart D of part IV of sub-  
22 chapter A of chapter 1 is amended by striking section 43  
23 (and by striking the item relating to such section in the  
24 table of sections for such subpart).

25           (b) CONFORMING AMENDMENTS.—

1           (1) Section 38(b) is amended by striking para-  
2 graph (6).

3           (2) Section 6501(m) is amended by striking  
4 “43,”.

5           (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall take effect on the date of the enactment  
7 of this Act.

8 **SEC. 3206. PHASEOUT AND REPEAL OF CREDIT FOR ELEC-**  
9 **TRICITY PRODUCED FROM CERTAIN RENEW-**  
10 **ABLE RESOURCES.**

11           (a) REDUCTION OF CREDIT AND PHASEOUT  
12 AMOUNTS.—

13           (1) IN GENERAL.—Section 45(b) is amended by  
14 striking paragraph (2).

15           (2) CONFORMING AMENDMENTS.—Section  
16 45(e)(2) is amended—

17                   (A) by striking “the inflation adjustment  
18 factor and” in subparagraph (A), and

19                   (B) by striking subparagraph (B) and re-  
20 designating subparagraph (C) as subparagraph  
21 (B).

22           (3) EFFECTIVE DATE.—The amendments made  
23 by this subsection shall apply to electricity, and re-  
24 fined coal, produced and sold after December 31,  
25 2014.

1 (b) SPECIAL RULE FOR DETERMINING BEGINNING  
2 OF CONSTRUCTION.—

3 (1) IN GENERAL.—Section 45(e) is amended by  
4 adding at the end the following new paragraph:

5 “(12) SPECIAL RULE FOR DETERMINING BE-  
6 GINNING OF CONSTRUCTION.—For purposes of sub-  
7 section (d) and section 48(a)(5), the construction of  
8 any facility, modification, improvement, addition, or  
9 other property shall not be treated as beginning be-  
10 fore any date unless there is a continuous program  
11 of construction which begins before such date and  
12 ends on the date that such property is placed in  
13 service.”.

14 (2) EFFECTIVE DATE.—The amendment made  
15 by this subsection shall apply to taxable years begin-  
16 ning before, on, or after the date of the enactment  
17 of this Act.

18 (c) REPEAL OF CREDIT.—

19 (1) IN GENERAL.—Subpart D of part IV of  
20 subchapter A of chapter 1 is amended by striking  
21 section 45 (and by striking the item relating to such  
22 section in the table of sections for such subpart).

23 (2) CONFORMING AMENDMENT.—Section 38(b)  
24 is amended by striking paragraph (8).

1           (3) EFFECTIVE DATE.—The amendments made  
2           by this subsection shall apply to electricity, and re-  
3           fined coal, produced and sold after December 31,  
4           2024.

5 **SEC. 3207. REPEAL OF INDIAN EMPLOYMENT CREDIT.**

6           (a) IN GENERAL.—Subpart D of part IV of sub-  
7           chapter A of chapter 1 is amended by striking section 45A  
8           (and by striking the item relating to such section in the  
9           table of sections for such subpart).

10          (b) CONFORMING AMENDMENT.—

11           (1) Section 38(b) is amended by striking para-  
12           graph (10).

13           (2) Section 139D(c)(1) is amended to read as  
14           follows:

15           “(1) INDIAN TRIBE.—The term ‘Indian tribe’  
16           means any Indian tribe, band, nation, pueblo, or  
17           other organized group or community, including any  
18           Alaska Native village or regional or village corpora-  
19           tion, as defined in, or established pursuant to, the  
20           Alaska Native Claims Settlement Act (43 U.S.C.  
21           1601 et seq.) which is recognized as eligible for the  
22           special programs and services provided by the  
23           United States to Indians because of their status as  
24           Indians.”.

1           (3) Section 280C(a) is amended by striking  
2           “45A,”.

3           (4) Section 5000A(e)(3) is amended by striking  
4           “section 45A(c)(6)” and inserting “section  
5           139D(c)(1)”.

6           (c) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to taxable years beginning after  
8 December 31, 2013.

9   **SEC. 3208. REPEAL OF CREDIT FOR PORTION OF EM-**  
10                           **PLOYER SOCIAL SECURITY TAXES PAID WITH**  
11                           **RESPECT TO EMPLOYEE CASH TIPS.**

12           (a) IN GENERAL.—Subpart D of part IV of sub-  
13 chapter A of chapter 1 is amended by striking section 45B  
14 (and by striking the item relating to such section in the  
15 table of sections for such subpart).

16           (b) CONFORMING AMENDMENTS.—

17           (1) Section 38(b) is amended by striking para-  
18           graph (11).

19           (2) Section 6501(m) is amended by striking  
20           “45B,”.

21           (c) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply with respect to tips received for  
23 services performed after December 31, 2014.

1 **SEC. 3209. REPEAL OF CREDIT FOR CLINICAL TESTING EX-**  
2 **PENSES FOR CERTAIN DRUGS FOR RARE DIS-**  
3 **EASES OR CONDITIONS.**

4 (a) IN GENERAL.—Subpart D of part IV of sub-  
5 chapter A of chapter 1 is amended by striking section 45C  
6 (and by striking the item relating to such section in the  
7 table of sections for such subpart).

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 38(b) is amended by striking para-  
10 graph (12).

11 (2) Section 280C is amended by striking sub-  
12 section (b).

13 (3) Section 6501(m) is amended by striking  
14 “45C(d)(4),”.

15 (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to amounts paid or incurred in tax-  
17 able years beginning after December 31, 2014.

18 **SEC. 3210. REPEAL OF CREDIT FOR SMALL EMPLOYER PEN-**  
19 **SION PLAN STARTUP COSTS.**

20 (a) IN GENERAL.—Subpart D of part IV of sub-  
21 chapter A of chapter 1 is amended by striking section 45E  
22 (and by striking the item relating to such section in the  
23 table of sections for such subpart).

24 (b) CONFORMING AMENDMENTS.—Section 38(b) is  
25 amended by striking paragraph (14).

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to costs paid or incurred after De-  
3 cember 31, 2014, with respect to qualified employer plans  
4 first effective after such date.

5 **SEC. 3211. REPEAL OF EMPLOYER-PROVIDED CHILD CARE**  
6 **CREDIT.**

7 (a) IN GENERAL.—Subpart D of part IV of sub-  
8 chapter A of chapter 1 is amended by striking section 45F  
9 (and by striking the item relating to such section in the  
10 table of sections for such subpart).

11 (b) CONFORMING AMENDMENTS.—

12 (1) Section 38(b) is amended by striking para-  
13 graph (15).

14 (2) Section 1016(a) is amended by striking  
15 paragraph (28).

16 (c) EFFECTIVE DATE.—

17 (1) IN GENERAL.—Except as otherwise pro-  
18 vided in this subsection, the amendments made by  
19 this section shall apply to taxable years beginning  
20 after December 31, 2014.

21 (2) BASIS ADJUSTMENTS.—The amendment  
22 made by subsection (b)(2) shall apply to credits de-  
23 termined for taxable years beginning after December  
24 31, 2014.

1 **SEC. 3212. REPEAL OF RAILROAD TRACK MAINTENANCE**

2 **CREDIT.**

3 (a) **IN GENERAL.**—Subpart D of part IV of sub-  
4 chapter A of chapter 1 is amended by striking section 45G  
5 (and by striking the item relating to such section in the  
6 table of sections for such subpart).

7 (b) **CONFORMING AMENDMENTS.**—

8 (1) Section 38(b) is amended by striking para-  
9 graph (16).

10 (2) Section 1016(a) is amended by striking  
11 paragraph (29).

12 (c) **EFFECTIVE DATE.**—

13 (1) **IN GENERAL.**—Except as otherwise pro-  
14 vided in this subsection, the amendments made by  
15 this section shall apply to taxable years beginning  
16 after December 31, 2013.

17 (2) **BASIS ADJUSTMENTS.**—The amendment  
18 made by subsection (b)(2) shall apply to credits de-  
19 termined for taxable years beginning after December  
20 31, 2013.

21 **SEC. 3213. REPEAL OF CREDIT FOR PRODUCTION OF LOW**

22 **SULFUR DIESEL FUEL.**

23 (a) **IN GENERAL.**—Subpart D of part IV of sub-  
24 chapter A of chapter 1 is amended by striking section 45H  
25 (and by striking the item relating to such section in the  
26 table of sections for such subpart).



1 (b) CONFORMING AMENDMENTS.—

2 (1) Section 38(b) is amended by striking para-  
3 graph (18).

4 (2) Section 280C is amended by striking sub-  
5 section (d).

6 (3) Section 6501(m) is amended by striking  
7 “45H(g),”.

8 (4) Section 6720A is amended—

9 (A) by striking “(as defined in section  
10 45H(c)(3))” in subsection (a), and

11 (B) by adding at the end the following new  
12 subsection:

13 “(c) APPLICABLE EPA REGULATIONS.—The term  
14 ‘applicable EPA regulations’ means the Highway Diesel  
15 Fuel Sulfur Control Requirements of the Environmental  
16 Protection Agency.”.

17 (c) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to expenses paid or incurred in  
19 taxable years beginning after December 31, 2014.

20 **SEC. 3214. REPEAL OF CREDIT FOR PRODUCING OIL AND**  
21 **GAS FROM MARGINAL WELLS.**

22 (a) IN GENERAL.—Subpart D of part IV of sub-  
23 chapter A of chapter 1 is amended by striking section 45I  
24 (and by striking the item relating to such section in the  
25 table of sections for such subpart).

1 (b) CONFORMING AMENDMENT.—Section 38(b) is  
2 amended by striking paragraph (19).

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2014.

6 **SEC. 3215. REPEAL OF CREDIT FOR PRODUCTION FROM AD-**  
7 **VANCED NUCLEAR POWER FACILITIES.**

8 (a) IN GENERAL.—Subpart D of part IV of sub-  
9 chapter A of chapter 1 is amended by striking section 45J  
10 (and by striking the item relating to such section in the  
11 table of sections for such subpart).

12 (b) CONFORMING AMENDMENT.—Section 38(b) is  
13 amended by striking paragraph (21).

14 (c) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to electricity produced and sold  
16 after December 31, 2014.

17 **SEC. 3216. REPEAL OF CREDIT FOR PRODUCING FUEL**  
18 **FROM A NONCONVENTIONAL SOURCE.**

19 (a) IN GENERAL.—Subpart D of part IV of sub-  
20 chapter A of chapter 1 is amended by striking section 45K  
21 (and by striking the item relating to such section in the  
22 table of sections for such subpart).

23 (b) CONFORMING AMENDMENTS.—

24 (1) Section 38(b) is amended by striking para-  
25 graph (22).

1 (2) Section 45(e)(9) is amended—

2 (A) in subparagraph (A)—

3 (i) by inserting “, as in effect before  
4 its repeal” after “within the meaning of  
5 section 45K”, and

6 (ii) by inserting “(as in effect before  
7 its repeal)” after “under section 45K”,  
8 and

9 (B) in subparagraph (B), by inserting “(as  
10 in effect before its repeal)” after “section  
11 45K”.

12 (3) Section 4041(a)(2) is amended—

13 (A) by striking “(as defined in section  
14 45K(e)(3))” in subparagraph (B)(ii), and

15 (B) by adding at the end the following new  
16 subparagraph:

17 “(C) BIOMASS.—The term “biomass”  
18 means any organic material other than—

19 “(i) oil and natural gas (or any prod-  
20 uct thereof), and

21 “(ii) coal (including lignite) or any  
22 product thereof.”.

23 (c) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply to fuel produced and sold after  
25 December 31, 2013.

1 **SEC. 3217. REPEAL OF NEW ENERGY EFFICIENT HOME**  
2 **CREDIT.**

3 (a) IN GENERAL.—Subpart D of part IV of sub-  
4 chapter A of chapter 1 is amended by striking section 45L  
5 (and by striking the item relating to such section in the  
6 table of sections for such subpart).

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 38(b) is amended by striking para-  
9 graph (23).

10 (2) Section 1016(a) is amended by striking  
11 paragraph (32).

12 (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to homes acquired after December  
14 31, 2013.

15 **SEC. 3218. REPEAL OF ENERGY EFFICIENT APPLIANCE**  
16 **CREDIT.**

17 (a) IN GENERAL.—Subpart D of part IV of sub-  
18 chapter A of chapter 1 is amended by striking section 45M  
19 (and by striking the item relating to such section in the  
20 table of sections for such subpart).

21 (b) CONFORMING AMENDMENT.—Section 38(b) is  
22 amended by striking paragraph (24).

23 (c) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply to appliances produced after De-  
25 cember 31, 2013.

1 **SEC. 3219. REPEAL OF MINE RESCUE TEAM TRAINING**

2 **CREDIT.**

3 (a) IN GENERAL.—Subpart D of part IV of sub-  
4 chapter A of chapter 1 is amended by striking section 45N  
5 (and by striking the item relating to such section in the  
6 table of sections for such subpart).

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 38(b) is amended by striking para-  
9 graph (31).

10 (2) Section 280C is amended by striking sub-  
11 section (e).

12 (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to taxable years beginning after  
14 December 31, 2013.

15 **SEC. 3220. REPEAL OF AGRICULTURAL CHEMICALS SECU-**

16 **RITY CREDIT.**

17 (a) IN GENERAL.—Subpart D of part IV of sub-  
18 chapter A of chapter 1 is amended by striking section 45O  
19 (and by striking the item relating to such section in the  
20 table of sections for such subpart).

21 (b) CONFORMING AMENDMENTS.—

22 (1) Section 38(b) is amended by striking para-  
23 graph (32).

24 (2) Section 280C is amended by striking sub-  
25 section (f).

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to amounts paid or incurred after  
3 December 31, 2012.

4 **SEC. 3221. REPEAL OF CREDIT FOR CARBON DIOXIDE SE-**  
5 **QUESTRATION.**

6 (a) IN GENERAL.—Subpart D of part IV of sub-  
7 chapter A of chapter 1 is amended by striking section 45Q  
8 (and by striking the item relating to such section in the  
9 table of sections for such subpart).

10 (b) CONFORMING AMENDMENT.—Section 38(b) is  
11 amended by striking paragraph (34).

12 (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to credits determined for taxable  
14 years beginning after December 31, 2014.

15 **SEC. 3222. REPEAL OF CREDIT FOR EMPLOYEE HEALTH IN-**  
16 **SURANCE EXPENSES OF SMALL EMPLOYERS.**

17 (a) IN GENERAL.—Subpart D of part IV of sub-  
18 chapter A of chapter 1 is amended by striking section 45R  
19 (and by striking the item relating to such section in the  
20 table of sections for such subpart).

21 (b) CONFORMING AMENDMENTS.—

22 (1) Section 38(b) is amended by striking para-  
23 graph (36).

24 (2) Section 280C is amended by striking sub-  
25 section (h).

1           (3) Section 6055(b)(2) is amended by inserting  
2           “and” at the end of subparagraph (A), by striking  
3           “, and” at the end of subparagraph (B) and insert-  
4           ing a period, and by striking subparagraph (C).

5           (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to amounts paid or incurred for  
7 taxable years beginning after December 31, 2014.

8 **SEC. 3223. REPEAL OF REHABILITATION CREDIT.**

9           (a) IN GENERAL.—Subpart E of part IV of sub-  
10 chapter A of chapter 1 is amended by striking section 47  
11 (and by striking the item relating to such section in the  
12 table of sections for such subpart).

13           (b) CONFORMING AMENDMENTS.—

14           (1) Section 170(f)(14)(A) is amended by insert-  
15           ing “(as in effect before its repeal by the Tax Re-  
16           form Act of 2014)” after “section 47”.

17           (2) Section 170(h)(4) is amended—

18           (A) by striking “(as defined in section  
19           47(c)(3)(B))” in subparagraph (C)(ii), and

20           (B) by adding at the end the following new  
21           subparagraph:

22           “(D) REGISTERED HISTORIC DISTRICT.—

23           The term ‘registered historic district’ means—

24           “(i) any district listed in the National  
25           Register, and

1 “(ii) any district—

2 “(I) which is designated under a  
3 statute of the appropriate State or  
4 local government, if such statute is  
5 certified by the Secretary of the Inte-  
6 rior to the Secretary as containing cri-  
7 teria which will substantially achieve  
8 the purpose of preserving and reha-  
9 bilitating buildings of historic signifi-  
10 cance to the district, and

11 “(II) which is certified by the  
12 Secretary of the Interior to the Sec-  
13 retary as meeting substantially all of  
14 the requirements for the listing of dis-  
15 tricts in the National Register.”.

16 (3) Section 469(i)(3) is amended by striking  
17 subparagraph (B).

18 (4) Section 469(i)(6)(B) is amended—

19 (A) by striking “in the case of—” and all  
20 that follows and inserting “in the case of any  
21 credit determined under section 42 for any tax-  
22 able year.”, and

23 (B) by striking “, REHABILITATION CRED-  
24 IT,” in the heading thereof.



1           (5) Section 469(k)(1) is amended by striking “,  
2           or any rehabilitation credit determined under section  
3           47,”.

4           (c) EFFECTIVE DATE.—

5           (1) IN GENERAL.—Except as provided in para-  
6           graph (2), the amendments made by this section  
7           shall apply to amounts paid after December 31,  
8           2014.

9           (2) TRANSITION RULE.—In the case of quali-  
10          fied rehabilitation expenditures (within the meaning  
11          of section 47 of the Internal Revenue Code of 1986  
12          as in effect before its repeal) with respect to any  
13          building—

14                 (A) acquired by the taxpayer before Janu-  
15                 ary 1, 2015, and

16                 (B) with respect to which the 24-month  
17                 period selected by the taxpayer under section  
18                 47(e)(1)(C) of such Code begins not later than  
19                 January 1, 2015,

20          the amendments made by this section shall apply to  
21          amounts paid after December 31, 2016.

22   **SEC. 3224. REPEAL OF ENERGY CREDIT.**

23          (a) TERMINATION.—Section 48 is amended by adding  
24          at the end the following new subsection:

1       “(e) APPLICATION OF SECTION.—This section shall  
2 not apply to any energy property placed in service after  
3 December 31, 2016.”.

4       (b) CONFORMING AMENDMENTS.—

5           (1) Paragraph (2)(A)(i)(II), and clauses (ii)  
6 and (vii) of paragraph (3)(A), of section 48(a) are  
7 each amended by striking “but only with respect to  
8 periods ending before January 1, 2017”.

9           (2) Paragraph (1) of section 48(c) is amended  
10 by striking subparagraph (D).

11          (3) Paragraph (2) of section 48(c) is amended  
12 by striking subparagraph (D).

13          (4) Subparagraph (A) of section 48(c)(3) is  
14 amended by inserting “and” at the end of clause  
15 (ii), by striking “, and” at the end of clause (iii) and  
16 inserting a period, and by striking clause (iv).

17          (5) Paragraph (4) of section 48(c) is amended  
18 by striking subparagraph (C).

19       (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to property placed in service after  
21 December 31, 2016.

22 **SEC. 3225. REPEAL OF QUALIFYING ADVANCED COAL**  
23 **PROJECT CREDIT.**

24       (a) IN GENERAL.—Subpart E of part IV of sub-  
25 chapter A of chapter 1 is amended by striking section 48A

1 (and by striking the item relating to such section in the  
2 table of sections for such subpart).

3 (b) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to allocations and reallocations  
5 after December 31, 2014.

6 **SEC. 3226. REPEAL OF QUALIFYING GASIFICATION**  
7 **PROJECT CREDIT.**

8 (a) IN GENERAL.—Subpart E of part IV of sub-  
9 chapter A of chapter 1 is amended by striking section 48B  
10 (and by striking the item relating to such section in the  
11 table of sections for such subpart).

12 (b) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to allocations and reallocations  
14 after December 31, 2014.

15 **SEC. 3227. REPEAL OF QUALIFYING ADVANCED ENERGY**  
16 **PROJECT CREDIT.**

17 (a) IN GENERAL.—Subpart E of part IV of sub-  
18 chapter A of chapter 1 is amended by striking section 48C  
19 (and by striking the item relating to such section in the  
20 table of sections for such subpart).

21 (b) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to allocations and reallocations  
23 after December 31, 2014.

1 **SEC. 3228. REPEAL OF QUALIFYING THERAPEUTIC DIS-**  
2 **COVERY PROJECT CREDIT.**

3 (a) IN GENERAL.—Subpart E of part IV of sub-  
4 chapter A of chapter 1 is amended by striking section 48D  
5 (and by striking the item relating to such section in the  
6 table of sections for such subpart).

7 (b) CONFORMING AMENDMENTS.—Section 280C is  
8 amended by striking the second subsection (g) (as added  
9 by the Patient Protection and Affordable Care Act).

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to allocations and reallocations  
12 after December 31, 2014.

13 **SEC. 3229. REPEAL OF WORK OPPORTUNITY TAX CREDIT.**

14 (a) IN GENERAL.—Subpart F of part IV of sub-  
15 chapter A of chapter 1 is amended by striking section 51  
16 (and by striking the item relating to such section in the  
17 table of sections for such subpart).

18 (b) CLERICAL AMENDMENT.—The heading of such  
19 subpart F (and the item relating to such subpart in the  
20 table of subparts for part IV of subchapter A of chapter  
21 1) are each amended by striking “Rules for Computing  
22 Work Opportunity Credit” and inserting “Special Rules”.

23 (c) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply to amounts paid or incurred to  
25 individuals who begin work for the employer after Decem-  
26 ber 31, 2013.

1 **SEC. 3230. REPEAL OF DEDUCTION FOR CERTAIN UNUSED**  
2 **BUSINESS CREDITS.**

3 (a) IN GENERAL.—Part VI of subchapter B of chap-  
4 ter 1 is amended by striking section 196 (and by striking  
5 the item relating to such section in the table of sections  
6 for such part).

7 (b) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 2014.

10 **Subtitle D—Accounting Methods**

11 **SEC. 3301. LIMITATION ON USE OF CASH METHOD OF AC-**  
12 **COUNTING.**

13 (a) IN GENERAL.—Section 448 is amended to read  
14 as follows:

15 **“SEC. 448. LIMITATION ON USE OF CASH METHOD OF AC-**  
16 **COUNTING.**

17 “(a) IN GENERAL.—The cash receipts and disburse-  
18 ments method of accounting may only be used by—

19 “(1) a natural person,

20 “(2) a farming business, and

21 “(3) any other entity which meets the gross re-  
22 ceipts test of subsection (b) for the taxable year.

23 Such method may not be used by a tax shelter (as defined  
24 in subsection (d)).

25 “(b) GROSS RECEIPTS TEST.—For purposes of this  
26 section—

1           “(1) IN GENERAL.—An entity meets the gross  
2 receipts test of this subsection for any taxable year  
3 if the average annual gross receipts of such entity  
4 for the 3-taxable-year period ending with the taxable  
5 year which precedes such taxable year does not ex-  
6 ceed \$10,000,000.

7           “(2) AGGREGATION RULES.—All persons treat-  
8 ed as a single employer under subsection (a) or (b)  
9 of section 52 or subsection (m) or (o) of section 414  
10 shall be treated as one entity for purposes of para-  
11 graph (1).

12           “(3) SPECIAL RULES.—For purposes of this  
13 subsection—

14           “(A) NOT IN EXISTENCE FOR ENTIRE 3-  
15 YEAR PERIOD.—If the entity was not in exist-  
16 ence for the entire 3-year period referred to in  
17 paragraph (1), such paragraph shall be applied  
18 on the basis of the period during which such  
19 entity (or trade or business) was in existence.

20           “(B) SHORT TAXABLE YEARS.—Gross re-  
21 cepts for any taxable year of less than 12  
22 months shall be annualized by multiplying the  
23 gross receipts for the short period by 12 and di-  
24 viding the result by the number of months in  
25 the short period.

1           “(C) GROSS RECEIPTS.—Gross receipts for  
2 any taxable year shall be reduced by returns  
3 and allowances made during such year.

4           “(D) TREATMENT OF PREDECESSORS.—  
5 Any reference in this subsection to an entity  
6 shall include a reference to any predecessor of  
7 such entity.

8           “(c) FARMING BUSINESS.—For purposes of this sec-  
9 tion—

10           “(1) IN GENERAL.—The term ‘farming busi-  
11 ness’ means the trade or business of farming.

12           “(2) CERTAIN TRADES AND BUSINESSES IN-  
13 CLUDED.—

14           “(A) IN GENERAL.—The term ‘farming  
15 business’ shall include the trade or business  
16 of—

17                   “(i) operating a nursery or sod farm,  
18                   or

19                   “(ii) the raising or harvesting of trees  
20 bearing fruit, nuts, or other crops, or orna-  
21 mental trees.

22           “(B) CERTAIN EVERGREEN TREES NOT  
23 TREATED AS ORNAMENTAL.—For purposes of  
24 subparagraph (A)(ii), an evergreen tree which is  
25 more than 6 years old at the time severed from

1           the roots shall not be treated as an ornamental  
2           tree.

3           “(d) TAX SHELTER DEFINED.—For purposes of this  
4 section, the term ‘tax shelter’ has the meaning given such  
5 term by section 461(i)(2) (determined after application of  
6 paragraph (3) thereof). An S corporation shall not be  
7 treated as a tax shelter for purposes of this section merely  
8 by reason of being required to file a notice of exemption  
9 from registration with a State agency described in section  
10 461(i)(2)(A), but only if there is a requirement applicable  
11 to all corporations offering securities for sale in the State  
12 that to be exempt from such registration the corporation  
13 must file such a notice.

14           “(e) SPECIAL RULES.—For purposes of this sec-  
15 tion—

16           “(1) COORDINATION WITH SECTION 481.—In  
17 the case of any person required by this section to  
18 change its method of accounting for any taxable  
19 year—

20                   “(A) such change shall be treated as initi-  
21                   ated by such person, and

22                   “(B) such change shall be treated as made  
23                   with the consent of the Secretary.

24           “(2) USE OF RELATED PARTIES, ETC.—The  
25           Secretary shall prescribe such regulations as may be



1 necessary to prevent the use of related parties, pass-  
2 thru entities, or intermediaries to avoid the applica-  
3 tion of this section.”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Section 446(c)(1) is amended by inserting  
6 “to the extent provided in section 448,” before “the  
7 cash receipts”.

8 (2) Section 451 is amended by adding at the  
9 end the following new subsection:

10 “(j) SPECIAL RULE FOR LOSSES OF CERTAIN SERV-  
11 ICE PROVIDERS ON ACCRUAL METHOD OF ACCOUNT-  
12 ING.—

13 “(1) IN GENERAL.—In the case of any person  
14 using an accrual method of accounting with respect  
15 to amounts to be received for the performance of  
16 services by such person, such person shall not be re-  
17 quired to accrue any portion of such amounts which  
18 (on the basis of such person’s experience) will not be  
19 collected if such services are in the fields of health,  
20 law, engineering, architecture, accounting, actuarial  
21 science, performing arts, consulting, or any other  
22 field identified by the Secretary for purposes of this  
23 subsection.

24 “(2) EXCEPTION.—Paragraph (1) shall not  
25 apply to any amount if interest is required to be

1       paid on such amount or there is any penalty for fail-  
2       ure to timely pay such amount.

3           “(3) REGULATIONS.—The Secretary shall pre-  
4       scribe regulations to permit taxpayers to determine  
5       amounts referred to in paragraph (1) using com-  
6       putations or formulas which, based on experience,  
7       accurately reflect the amount of income that will not  
8       be collected by such person. A taxpayer may adopt,  
9       or request consent of the Secretary to change to, a  
10      computation or formula that clearly reflects the tax-  
11      payer’s experience. A request under the preceding  
12      sentence shall be approved if such computation or  
13      formula clearly reflects the taxpayer’s experience.”.

14      (c) EFFECTIVE DATE.—The amendments made by  
15      this section shall apply to taxable years beginning after  
16      December 31, 2014.

17      (d) CHANGE IN METHOD OF ACCOUNTING.—

18           (1) IN GENERAL.—In the case of any qualified  
19      change in method of accounting for the taxpayer’s  
20      first taxable year beginning after December 31,  
21      2014—

22           (A) such change shall be treated as initi-  
23      ated by the taxpayer,

1 (B) such change shall be treated as made  
2 with the consent of the Secretary of the Treas-  
3 ury, and

4 (C) if the net amount of the adjustments  
5 required to be taken into account by the tax-  
6 payer under section 481 of the Internal Rev-  
7 enue Code of 1986 by reason of such change is  
8 positive—

9 (i) such amount shall be taken into  
10 account during the 4-taxable year period  
11 beginning with the earlier of the taxpayer's  
12 elected taxable year or the taxpayer's first  
13 taxable year beginning after December 31,  
14 2018, as follows:

15 (I) 10 percent of such amount in  
16 the first taxable year in such period,

17 (II) 15 percent of such amount  
18 in the second taxable year in such pe-  
19 riod,

20 (III) 25 percent of such amount  
21 in the third taxable year in such pe-  
22 riod, and

23 (IV) 50 percent of such amount  
24 in the fourth taxable year in such pe-  
25 riod, and

1 (ii) for purposes of applying the regu-  
2 lations and other guidance issued under  
3 such section (including any provisions  
4 which require accelerated inclusion), the  
5 period beginning with the taxpayer's first  
6 taxable year beginning after December 31  
7 2014, and ending with the taxable year be-  
8 fore the first taxable year referred to in  
9 clause (i) shall not fail to be taken into ac-  
10 count as part of the period of the adjust-  
11 ment merely because such amount is not  
12 otherwise taken into account under clause  
13 (i) during such period.

14 (2) QUALIFIED CHANGE IN METHOD OF AC-  
15 COUNTING.—For purposes of this subsection, the  
16 term “qualified change in method of accounting”  
17 means any change in method of accounting which—

18 (A) is required by the amendments made  
19 by this section, or

20 (B) was prohibited under the Internal Rev-  
21 enue Code of 1986 prior to such amendments  
22 and is permitted under such Code after such  
23 amendments.

24 (3) ELECTED TAXABLE YEAR.—For purposes of  
25 this subsection, the term “elected taxable year”

1 means such taxable year as the taxpayer may elect  
2 (at such time and in such form and manner as the  
3 Secretary may provide) which begins after December  
4 31, 2014, and is before the taxpayer's second tax-  
5 able year beginning after December 31, 2018.

6 **SEC. 3302. RULES FOR DETERMINING WHETHER TAXPAYER**  
7 **HAS ADOPTED A METHOD OF ACCOUNTING.**

8 (a) IN GENERAL.—Section 446 is amended by adding  
9 at the end the following new subsection:

10 “(g) RULES FOR TREATING ACCOUNTING METHOD  
11 AS ADOPTED BY TAXPAYER.—If the taxpayer uses a  
12 method of accounting with respect to any item on any re-  
13 turn of tax—

14 “(1) in the case of any method of accounting  
15 which the taxpayer is permitted to use with respect  
16 to such item, such method shall be treated as having  
17 been adopted by the taxpayer with respect to such  
18 item, and

19 “(2) in the case of any method of accounting  
20 which the taxpayer is not permitted to use with re-  
21 spect to such item, such method shall be treated as  
22 having been adopted by the taxpayer with respect to  
23 such item if the taxpayer used the same method with  
24 respect to such item on the return of tax for the pre-  
25 ceding taxable year.”.

1 (b) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 3303. CERTAIN SPECIAL RULES FOR TAXABLE YEAR**  
5 **OF INCLUSION.**

6 (a) INCLUSION NOT LATER THAN FOR FINANCIAL  
7 ACCOUNTING PURPOSES.—Section 451 is amended by re-  
8 designating subsections (b) through (j) as subsection (c)  
9 through (k), respectively, and by inserting after subsection  
10 (a) the following new subsection:

11 “(b) INCLUSION NOT LATER THAN FOR FINANCIAL  
12 ACCOUNTING PURPOSES.—

13 “(1) IN GENERAL.—In the case of a taxpayer  
14 the taxable income of which is computed under the  
15 accrual method of accounting, the amount of any  
16 portion of any item of income shall be included in  
17 gross income not later than the taxable year with re-  
18 spect to which such amount is taken into account as  
19 income in—

20 “(A) an audited financial statement of the  
21 taxpayer described in section 1221(b)(3)(B), or

22 “(B) such other financial statement as the  
23 Secretary may specify for purposes of this sub-  
24 section.

1           “(2) COORDINATION WITH SPECIAL RULES FOR  
2           LONG-TERM CONTRACTS.—Paragraph (1) shall not  
3           apply with respect to any item of income to which  
4           section 460 applies.”.

5           (b) TREATMENT OF ADVANCE PAYMENTS.—Section  
6           451, as amended by subsection (a), is amended by redesi-  
7           gnating subsections (c) through (k) as subsections (d)  
8           through (l), respectively, and by inserting after subsection  
9           (b) the following new subsection:

10          “(c) TREATMENT OF ADVANCE PAYMENTS.—

11           “(1) IN GENERAL.—A taxpayer which computes  
12           taxable income under the accrual method of account-  
13           ing, and receives any advance payment during the  
14           taxable year, shall—

15                   “(A) except as provided in subparagraph  
16                   (B), include such advance payment in gross in-  
17                   come for such taxable year, or

18                   “(B) if the taxpayer elects the application  
19                   of this subparagraph with respect to the cat-  
20                   egory of advance payments to which such ad-  
21                   vance payment belongs, the taxpayer shall—

22                           “(i) to the extent that any portion of  
23                           such advance payment is required under  
24                           subsection (b) to be included in gross in-  
25                           come in the taxable year in which such

1 payment is received, so include such por-  
2 tion, and

3 “(ii) include the remaining portion of  
4 such advance payment in gross income in  
5 the taxable year following the taxable year  
6 in which such payment is received.

7 “(2) ELECTION.—

8 “(A) IN GENERAL.—Except as otherwise  
9 provided in this paragraph, the election under  
10 paragraph (1)(B) shall be made at such time,  
11 in such form and manner, and with respect to  
12 such categories of advance payments, as the  
13 Secretary may provide.

14 “(B) PERIOD TO WHICH ELECTION AP-  
15 PLIES.—An election under paragraph (1)(B)  
16 shall be effective for the taxable year with re-  
17 spect to which it is first made and for all subse-  
18 quent taxable years, unless the taxpayer secures  
19 the consent of the Secretary to revoke such  
20 election. For purposes of this title, the com-  
21 putation of taxable income under an election  
22 made under paragraph (1)(B) shall be treated  
23 as a method of accounting.

24 “(3) ADVANCE PAYMENT.—For purposes of this  
25 subsection—



1           “(A) IN GENERAL.—The term ‘advance  
2 payment’ means any payment—

3           “(i) the full inclusion of which in the  
4 gross income of the taxpayer for the tax-  
5 able year of receipt is a permissible method  
6 of accounting under this section (deter-  
7 mined without regard to this subsection),  
8 and

9           “(ii) which is for goods, services, or  
10 such other items as may be identified by  
11 the Secretary for purposes of this clause.

12           “(B) EXCLUSIONS.—Except as otherwise  
13 provided by the Secretary, such term shall not  
14 include—

15           “(i) rent,

16           “(ii) insurance premiums,

17           “(iii) payments with respect to finan-  
18 cial instruments,

19           “(iv) payments with respect to war-  
20 ranty or guarantee contracts under which  
21 a third party is the primary obligor,

22           “(v) payments subject to section  
23 871(a), 881, 1441, or 1442,

24           “(vi) payments in property to which  
25 section 83 applies, and

1                   “(vii) any other payment identified by  
2                   the Secretary for purposes of this subpara-  
3                   graph.”.

4           (c) CROP INSURANCE PROCEEDS AND DISASTER  
5 PAYMENTS.—Section 451, as amended by subsections (a)  
6 and (b), is amended by striking subsection (f).

7           (d) LIVESTOCK SOLD ON ACCOUNT OF DROUGHT,  
8 FLOOD, AND OTHER WEATHER-RELATED CONDITIONS.—  
9 Section 451, as amended by subsections (a) and (b), is  
10 amended by striking subsection (g).

11          (e) SALES OR DISPOSITIONS TO IMPLEMENT FED-  
12 ERAL ENERGY REGULATORY COMMISSION OR STATE  
13 ELECTRIC RESTRUCTURING POLICY.—Section 451, as  
14 amended by subsections (a) and (b), is amended by strik-  
15 ing subsection (k).

16          (f) CONFORMING AMENDMENTS.—Section 451, as  
17 amended by subsections (a), (b), (c), (d), and (e), is  
18 amended by redesignating subsections (h), (i), (j), and (l)  
19 as subsections (f), (g), (h), and (i), respectively.

20          (g) EFFECTIVE DATES.—

21               (1) IN GENERAL.—Except as otherwise pro-  
22 vided in this subsection, the amendments made by  
23 this section shall apply to taxable years beginning  
24 after December 31, 2014.

1           (2) CROP INSURANCE PROCEEDS AND DISASTER  
2 PAYMENTS.—

3           (A) IN GENERAL.—Except as provided in  
4 subparagraph (B), the amendments made by  
5 subsection (c) shall apply to destruction and  
6 damage of crops occurring after December 31,  
7 2014.

8           (B) INABILITY TO PLANT.—In the case of  
9 inability to plant crops because of a natural dis-  
10 aster, the amendments made by subsection (c)  
11 shall apply to natural disasters occurring after  
12 December 31, 2014.

13          (3) LIVESTOCK.—The amendments made by  
14 subsection (d) shall apply to sales and exchanges  
15 after December 31, 2014.

16          (4) SALES OR DISPOSITIONS TO IMPLEMENT  
17 ELECTRIC RESTRUCTURING POLICY.—The amend-  
18 ments made by subsection (e) shall apply to sales  
19 and dispositions after December 31, 2013.

20          (5) CHANGE IN METHOD OF ACCOUNTING.—In  
21 the case of any taxpayer required by the amend-  
22 ments made by subsections (a) and (b) to change its  
23 method of accounting for its first taxable year begin-  
24 ning after December 31, 2014—

1 (A) such change shall be treated as initi-  
2 ated by the taxpayer, and

3 (B) such change shall be treated as made  
4 with the consent of the Secretary of the Treas-  
5 ury.

6 **SEC. 3304. INSTALLMENT SALES.**

7 (a) REPEAL OF EXCEPTIONS TO TREATMENT AS  
8 DEALER DISPOSITIONS.—Section 453(l) is amended to  
9 read as follows:

10 “(l) DEALER DISPOSITIONS.—For purposes of sub-  
11 section (b)(2)(A), the term ‘dealer disposition’ means any  
12 of the following dispositions:

13 “(1) PERSONAL PROPERTY.—Any disposition of  
14 personal property by a person who regularly sells or  
15 otherwise disposes of personal property of the same  
16 type on the installment plan.

17 “(2) REAL PROPERTY.—Any disposition of real  
18 property which is held by the taxpayer for sale to  
19 customers in the ordinary course of the taxpayer’s  
20 trade or business.”.

21 (b) MODIFICATION OF RULES FOR NONDEALERS.—

22 (1) REPEAL OF SPECIAL RULE FOR INTEREST  
23 PAYMENTS.—Section 453A(b)(2) is amended to read  
24 as follows:

1           “(2) INTEREST PAYMENT EXCEPTION FOR OB-  
2           LIGATIONS NOT OUTSTANDING AT CLOSE OF TAX-  
3           ABLE YEAR.—Subsection (a)(1) shall apply to an ob-  
4           ligation described in paragraph (1) arising during  
5           any taxable year only if such obligation is out-  
6           standing as of the close of such taxable year.”.

7           (2) REPEAL OF EXCEPTION FOR FARM PROP-  
8           ERTY.—Section 453A(b)(3) is amended—

9                   (A) by striking “from the disposition—”  
10                   and all that follows and inserting “from the dis-  
11                   position by an individual of personal use prop-  
12                   erty (within the meaning of section  
13                   1275(b)(3)).”, and

14                   (B) by striking “AND FARM” in the head-  
15                   ing.

16           (3) REPEAL OF SPECIAL RULE FOR  
17           TIMESHARES AND RESIDENTIAL LOTS.—Section  
18           453A(b) is amended by striking paragraph (4) and  
19           by redesignating paragraph (5) as paragraph (4).

20           (4) CONFORMING AMENDMENT.—Section  
21           453A(c) is amended—

22                   (A) by striking “the applicable percentage  
23                   of” in paragraph (2)(A), and

1 (B) by striking paragraph (4) and by re-  
2 designating paragraphs (5) and (6) as para-  
3 graphs (4) and (5), respectively.

4 (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to sales and other dispositions  
6 after December 31, 2014.

7 **SEC. 3305. REPEAL OF SPECIAL RULE FOR PREPAID SUB-**  
8 **SCRIPTION INCOME.**

9 (a) IN GENERAL.—Subpart B of part II of sub-  
10 chapter E of chapter 1 is amended by striking section 455  
11 (and by striking the item relating to such section in the  
12 table of sections for such subpart).

13 (b) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to payments received after Decem-  
15 ber 31, 2014.

16 **SEC. 3306. REPEAL OF SPECIAL RULE FOR PREPAID DUES**  
17 **INCOME OF CERTAIN MEMBERSHIP ORGANI-**  
18 **ZATIONS.**

19 (a) IN GENERAL.—Subpart B of part II of sub-  
20 chapter E of chapter 1 is amended by striking section 456  
21 (and by striking the item relating to such section in the  
22 table of sections for such subpart).

23 (b) CONFORMING AMENDMENT.—Section 277(b)(2)  
24 is amended by inserting “(as in effect before its repeal)”  
25 after “section 456(c)”.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to payments received after Decem-  
3 ber 31, 2014.

4 **SEC. 3307. REPEAL OF SPECIAL RULE FOR MAGAZINES, PA-**  
5 **PERBACKS, AND RECORDS RETURNED AFTER**  
6 **CLOSE OF THE TAXABLE YEAR.**

7 (a) IN GENERAL.—Subpart B of part II of sub-  
8 chapter E of chapter 1 is amended by striking section 458  
9 (and by striking the item relating to such section in the  
10 table of sections for such subpart).

11 (b) EFFECTIVE DATE.—

12 (1) IN GENERAL.—The amendments made by  
13 this section shall apply to taxable years beginning  
14 after December 31, 2014.

15 (2) CHANGE IN METHOD OF ACCOUNTING.—In  
16 the case of any taxpayer required by the amend-  
17 ments made by this section to change its method of  
18 accounting for its first taxable year beginning after  
19 December 31, 2014—

20 (A) such change shall be treated as initi-  
21 ated by the taxpayer, and

22 (B) such change shall be treated as made  
23 with the consent of the Secretary of the Treas-  
24 ury.

1 **SEC. 3308. MODIFICATION OF RULES FOR LONG-TERM CON-**  
2 **TRACTS.**

3 (a) **REPEAL OF EXCEPTION FOR HOME CONSTRU-**  
4 **CTION CONTRACTS.**—Paragraph (1) of section 460(e) is  
5 amended to read as follows:

6 “(1) **EXCEPTION FOR CERTAIN CONSTRUCTION**  
7 **CONTRACTS.**—Subsections (a), (b), and (c)(1) and  
8 (2) shall not apply to any construction contract en-  
9 tered into by a taxpayer—

10 “(A) who estimates (at the time such con-  
11 tract is entered into) that such contract will be  
12 completed within the 2-year period beginning on  
13 the contract commencement date of such con-  
14 tract, and

15 “(B) whose average annual gross receipts  
16 for the 3 taxable years preceding the taxable  
17 year in which such contract is entered into do  
18 not exceed \$10,000,000.

19 For purposes of this paragraph, rules similar to the  
20 rules of paragraphs (2) and (3) of section 448(b)  
21 shall apply.”.

22 (b) **REPEAL OF SPECIAL RULE FOR OTHER RESI-**  
23 **DENTIAL CONSTRUCTION CONTRACTS.**—Section 460(e) is  
24 amended by striking paragraphs (5) and (6).

25 (c) **REPEAL OF SPECIAL RULES FOR QUALIFIED**  
26 **SHIP CONTRACTS.**—



1           (1) IN GENERAL.—Section 10203(b) of the  
2 Revenue Act of 1987 is amended by striking para-  
3 graph (2).

4           (2) QUALIFIED NAVAL SHIP CONTRACTS.—The  
5 American Jobs Creation Act of 2004 is amended by  
6 striking section 708.

7           (d) CONFORMING AMENDMENTS.—Section 460(e) is  
8 amended by striking paragraphs (2) and (3) and by redes-  
9 ignating paragraph (4) as paragraph (2).

10          (e) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to contracts entered into after De-  
12 cember 31, 2014.

13 **SEC. 3309. NUCLEAR DECOMMISSIONING RESERVE FUNDS.**

14          (a) GROSS INCOME ON NUCLEAR DECOMMISSIONING  
15 RESERVE FUNDS TAXED AT CORPORATE RATE.—Section  
16 468A(e)(2) is amended by striking “at the rate of 20 per-  
17 cent” and inserting “at a rate equal to the maximum rate  
18 in effect for such taxable year under section 11”.

19          (b) INCOME INCLUSION UPON DISQUALIFIED DIS-  
20 TRIBUTION.—Section 468A(c)(1) is amended by striking  
21 “and” at the end of subparagraph (A), by striking the  
22 period at the end of subparagraph (B) and inserting “,  
23 and”, and by adding at the end the following new subpara-  
24 graph:

1           “(C) if any distribution is made from the  
2           Fund during such taxable year which is not  
3           used as provided in subsection (e)(4), the bal-  
4           ance of the Fund determined immediately be-  
5           fore such distribution.”.

6           (c) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to taxable years beginning after  
8 December 31, 2014.

9   **SEC. 3310. REPEAL OF LAST-IN, FIRST-OUT METHOD OF IN-**  
10                                   **VENTORY.**

11           (a) IN GENERAL.—Section 471 is amended by redес-  
12 ignating subsection (c) as subsection (d) and by inserting  
13 after subsection (b) the following new subsection:

14           “(c) LAST-IN, FIRST-OUT METHOD NOT PERMIS-  
15 SIBLE.—The last-in, first-out method of determining in-  
16 ventories shall in no event be treated as clearly reflecting  
17 income.”.

18           (b) CONFORMING AMENDMENTS.—

19           (1) Subpart D of part II of subchapter E of  
20 chapter 1 is amended by striking sections 472, 473,  
21 and 474 (and by striking the items relating to such  
22 sections in the table of sections for such subpart).

23           (2)(A) Section 312(n), as amended by the pre-  
24 ceding provisions of this Act, is amended by striking  
25 paragraph (3) and by redesignating paragraphs (4)

1 through (7) as paragraphs (3) through (6), respec-  
2 tively.

3 (B) Section 312(n)(6), as amended by the pre-  
4 ceding provisions of this Act, is amended—

5 (i) by striking “paragraphs (4) and (6)” in  
6 subparagraph (A) and inserting “paragraph  
7 (4)”, and

8 (ii) by striking “paragraph (5)” in sub-  
9 paragraph (B) and inserting “paragraph (3)”.

10 (C) Section 301(e)(3), as amended by the pre-  
11 ceding provisions of this Act, is amended—

12 (i) by striking “paragraph (6)” and insert-  
13 ing “paragraph (5)”, and

14 (ii) by striking “SECTION 312(n)(6)” in  
15 the heading and inserting “SECTION  
16 312(n)(5)”.

17 (D) Section 952(c)(3), as amended by the pre-  
18 ceding provisions of this Act, is amended by striking  
19 “paragraphs (3), (4), and (5)” and inserting “para-  
20 graphs (2), (3), and (4)”.

21 (E) Section 1293(e)(3), as amended by the pre-  
22 ceding provisions of this Act, is amended by striking  
23 “paragraphs (3), (4), and (5)” and inserting “para-  
24 graphs (2), (3), and (4)”.

1 (F) Section 1503(e)(2)(C), as amended by the  
2 preceding provisions of this Act, is amended—

3 (i) by striking “paragraph (6)” and insert-  
4 ing “paragraph (5)”, and

5 (ii) by striking “SECTION 312(n)(6)” in  
6 the heading and inserting “SECTION  
7 312(n)(5)”.

8 (3) Section 1363 is amended by striking sub-  
9 section (d).

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2014.

13 (d) CHANGE IN METHOD OF ACCOUNTING.—

14 (1) IN GENERAL.—In the case of any taxpayer  
15 required by the amendments made by this section to  
16 change its method of accounting for its first taxable  
17 year beginning after December 31, 2014—

18 (A) such change shall be treated as initi-  
19 ated by the taxpayer,

20 (B) such change shall be treated as made  
21 with the consent of the Secretary of the Treas-  
22 ury, and

23 (C) if the net amount of the adjustments  
24 required to be taken into account by the tax-  
25 payer under section 481 of the Internal Rev-

1           enue Code of 1986 by reason of such change is  
2           positive—

3                   (i) such amount shall be taken into  
4                   account during the 4-taxable year period  
5                   beginning with the earlier of the taxpayer's  
6                   elected taxable year or the taxpayer's first  
7                   taxable year beginning after December 31,  
8                   2018, as follows:

9                           (I) 10 percent of such amount in  
10                           the first taxable year in such period,

11                           (II) 15 percent of such amount  
12                           in the second taxable year in such pe-  
13                           riod,

14                           (III) 25 percent of such amount  
15                           in the third taxable year in such pe-  
16                           riod, and

17                           (IV) 50 percent of such amount  
18                           in the fourth taxable year in such pe-  
19                           riod, and

20                   (ii) for purposes of applying the regu-  
21                   lations and other guidance issued under  
22                   such section (including any provisions  
23                   which require accelerated inclusion), the  
24                   period beginning with the taxpayer's first  
25                   taxable year beginning after December 31

1           2014, and ending with the taxable year be-  
2           fore the first taxable year referred to in  
3           clause (i) shall not fail to be taken into ac-  
4           count as part of the period of the adjust-  
5           ment merely because such amount is not  
6           otherwise taken into account under clause  
7           (i) during such period.

8           (2) ELECTED TAXABLE YEAR.—For purposes of  
9           this subsection, the term “elected taxable year”  
10          means such taxable year as the taxpayer may elect  
11          (at such time and in such form and manner as the  
12          Secretary may provide) which begins after December  
13          31, 2014, and is before the taxpayer’s second tax-  
14          able year beginning after December 31, 2018.

15          (3) REDUCTION IN AMOUNT OF ADJUSTMENT  
16          FOR CLOSELY-HELD ENTITIES.—

17                (A) IN GENERAL.—In the case of any  
18                closely-held entity, paragraph (1)(C) shall be  
19                applied by treating any reference to “such  
20                amount” as a reference to 20 percent (28 per-  
21                cent in the case of a C corporation) of such  
22                amount.

23                (B) CLOSELY-HELD ENTITY.—For pur-  
24                poses of this paragraph—

1 (i) IN GENERAL.—The term “closely-  
2 held entity” means any domestic corpora-  
3 tion or domestic partnership which—

4 (I) is not an ineligible entity,

5 (II) does not have more than 100  
6 shareholders or partners (as the case  
7 may be), and

8 (III) does not have as a share-  
9 holder or partner a person (other than  
10 an estate, a trust described in section  
11 1361(e)(2) of the Internal Revenue  
12 Code of 1986, or an organization de-  
13 scribed section 1361(e)(6) of such  
14 Code) who is not an individual.

15 (ii) CERTAIN SUBSIDIARIES.—An enti-  
16 ty shall not fail to be treated as a closely-  
17 held entity by reason of clause (i)(III) if all  
18 of the interests in such entity are held by  
19 a single closely-held entity (determined  
20 without regard to this clause) and individ-  
21 uals taken into account under clause (i)(II)  
22 with respect to such entity. In the case of  
23 tiered entities (other than the top tier enti-  
24 ty), the preceding sentence shall be ap-  
25 plied—

1 (I) by substituting “(determined  
2 after application of this clause)” for  
3 “(determined without regard to this  
4 clause)”, and

5 (II) by substituting “with respect  
6 to the top tier entity” for “with re-  
7 spect to such entity”.

8 (iii) INELIGIBLE ENTITY.—The term  
9 “ineligible entity” means any entity de-  
10 scribed in section 1361(b)(2) of the Inter-  
11 nal Revenue Code of 1986 applied by sub-  
12 stituting “corporation or partnership” for  
13 “corporation” each place it appears.

14 (iv) DATE OF DETERMINATION.—The  
15 status of any entity as a closely-held entity  
16 shall be determined as of February 26,  
17 2014.

18 (v) SOLE PROPRIETORS.—An indi-  
19 vidual operating a trade or business shall  
20 be treated as a closely-held entity.

21 (C) CERTAIN TRANSFERS DISREGARDED.—

22 (i) IN GENERAL.—In the case of any  
23 specified inventory transfer, the adjust-  
24 ments referred to in paragraph (1)(C)  
25 shall be determined—



1 (I) with respect to the transferor,  
2 as though the property transferred  
3 continued to be held at all times by  
4 such transferor, and

5 (II) with respect to the trans-  
6 feree, as though such property was  
7 never transferred to such transferee.

8 (ii) SPECIFIED INVENTORY TRANS-  
9 FER.—The term “specified inventory  
10 transfer” means any transfer of property  
11 described in section 1221(a)(1) if—

12 (I) such transfer is to a closely-  
13 held entity from any person who is  
14 not a closely-held entity,

15 (II) such transfer is on or after  
16 February 26, 2014, and before the be-  
17 ginning of the transferor’s first tax-  
18 able year beginning after December  
19 31, 2014, and

20 (III) the basis of such property  
21 in the hands of the transferee imme-  
22 diately after such transfer is either  
23 determined by reference to the basis  
24 of such property in the hands of the  
25 transferor or is less than the fair mar-

1                   ket value of such property at the time  
2                   of such transfer.

3 **SEC. 3311. REPEAL OF LOWER OF COST OR MARKET METH-**  
4 **OD OF INVENTORY.**

5           (a) IN GENERAL.—Section 471, as amended by the  
6 preceding provisions of this Act, is amended by redesignig-  
7 nating subsection (d) as subsection (e) and by inserting  
8 after subsection (c) the following new subsection:

9           “(d) LOWER OF COST OR MARKET METHOD NOT  
10 PERMISSIBLE.—The lower of cost or market method of  
11 determining inventories shall in no event be treated as  
12 clearly reflecting income. For purposes of the preceding  
13 sentence, the lower of cost or market shall include the  
14 lower of cost or bona fide net selling price.”.

15           (b) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to taxable years beginning after  
17 December 31, 2014.

18           (c) CHANGE IN METHOD OF ACCOUNTING.—

19               (1) IN GENERAL.—In the case of any taxpayer  
20 required by the amendments made by this section to  
21 change its method of accounting for its first taxable  
22 year beginning after December 31, 2014—

23                   (A) such change shall be treated as initi-  
24                   ated by the taxpayer,

1 (B) such change shall be treated as made  
2 with the consent of the Secretary of the Treas-  
3 ury, and

4 (C) if the net amount of the adjustments  
5 required to be taken into account by the tax-  
6 payer under section 481 of the Internal Rev-  
7 enue Code of 1986 by reason of such change is  
8 positive—

9 (i) such amount shall be taken into  
10 account during the 4-taxable year period  
11 beginning with the earlier of the taxpayer's  
12 elected taxable year or the taxpayer's first  
13 taxable year beginning after December 31,  
14 2018, as follows:

15 (I) 10 percent of such amount in  
16 the first taxable year in such period,

17 (II) 15 percent of such amount  
18 in the second taxable year in such pe-  
19 riod,

20 (III) 25 percent of such amount  
21 in the third taxable year in such pe-  
22 riod, and

23 (IV) 50 percent of such amount  
24 in the fourth taxable year in such pe-  
25 riod, and

1 (ii) for purposes of applying the regu-  
2 lations and other guidance issued under  
3 such section (including any provisions  
4 which require accelerated inclusion), the  
5 period beginning with the taxpayer's first  
6 taxable year beginning after December 31  
7 2014, and ending with the taxable year be-  
8 fore the first taxable year referred to in  
9 clause (i) shall not fail to be taken into ac-  
10 count as part of the period of the adjust-  
11 ment merely because such amount is not  
12 otherwise taken into account under clause  
13 (i) during such period.

14 (2) ELECTED TAXABLE YEAR.—For purposes of  
15 this subsection, the term “elected taxable year”  
16 means such taxable year as the taxpayer may elect  
17 (at such time and in such form and manner as the  
18 Secretary may provide) which begins after December  
19 31, 2014, and is before the taxpayer's second tax-  
20 able year beginning after December 31, 2018.

21 **SEC. 3312. MODIFICATION OF RULES FOR CAPITALIZATION**  
22 **AND INCLUSION IN INVENTORY COSTS OF**  
23 **CERTAIN EXPENSES.**

24 (a) \$10,000,000 GROSS RECEIPTS EXCEPTION TO  
25 APPLY TO PROPERTY PRODUCED BY THE TAXPAYER.—

1 Section 263A(b) is amended by striking all that follows  
2 paragraph (1) and inserting the following new paragraphs:

3           “(2) PROPERTY ACQUIRED FOR RESALE.—Real  
4           or personal property described in section 1221(a)(1)  
5           which is acquired by the taxpayer for resale.

6           “(3) EXCEPTION FOR TAXPAYER WITH GROSS  
7           RECEIPTS OF \$10,000,000 OR LESS.—This section  
8           shall not apply to any property produced or acquired  
9           by the taxpayer during any taxable year if the aver-  
10          age annual gross receipts of the taxpayer (or any  
11          predecessor) for the 3-taxable year period ending  
12          with the taxable year preceding such taxable year do  
13          not exceed \$10,000,000. For purposes of this para-  
14          graph, rules similar to the rules of paragraphs (2)  
15          and (3) of section 448(b) shall apply.

16          “(4) FILMS, SOUND RECORDINGS, BOOKS,  
17          ETC.—For purposes of this subsection, the term  
18          ‘tangible personal property’ shall include a film,  
19          sound recording, video tape, book, or similar prop-  
20          erty.”.

21          (b) REPEAL OF EXCEPTIONS FOR TIMBER AND CER-  
22          TAIN ORNAMENTAL TREES.—Section 263A(c) is amended  
23          by striking paragraph (5).

1 (c) REPEAL OF EXCEPTION FOR QUALIFIED CRE-  
2 ATIVE EXPENSES.—Section 263A is amended by striking  
3 subsection (h).

4 (d) EFFECTIVE DATE.—

5 (1) IN GENERAL.—The amendments made by  
6 this section shall apply to taxable years beginning  
7 after December 31, 2014.

8 (2) CHANGE IN METHOD OF ACCOUNTING.—In  
9 the case of any taxpayer required by the amend-  
10 ments made by this section to change its method of  
11 accounting for its first taxable year beginning after  
12 December 31, 2014—

13 (A) such change shall be treated as initi-  
14 ated by the taxpayer, and

15 (B) such change shall be treated as made  
16 with the consent of the Secretary of the Treas-  
17 ury.

18 **SEC. 3313. MODIFICATION OF INCOME FORECAST METHOD.**

19 (a) EXTENSION OF FORECAST PERIOD.—

20 (1) IN GENERAL.—Paragraph (1) of section  
21 167(g) is amended by striking “10th” each place it  
22 appears and inserting “20th”.

23 (2) MODIFICATION OF RECOMPUTATION  
24 YEARS.—Paragraph (4) of section 167(g) is amend-

1 ed by striking “the 3d and the 10th” and inserting  
2 “the 5th, 10th, 15th, and 20th”.

3 (b) MODIFICATION OF RULES FOR TREATMENT OF  
4 PARTICIPATIONS AND RESIDUALS.—Paragraph (7) of sec-  
5 tion 167(g) is amended to read as follows:

6 “(7) TREATMENT OF PARTICIPATIONS AND RE-  
7 SIDUALS.—

8 “(A) IN GENERAL.—In the case of any  
9 participation or residual with respect to any  
10 property to which this subsection applies (in-  
11 cluding any property to which section 168 ap-  
12 plies by reason of paragraph (8)), the tax-  
13 payer—

14 “(i) shall exclude such participation or  
15 residual from the adjusted basis of such  
16 property, and

17 “(ii) shall be allowed a deduction for  
18 such participation or residual in the tax-  
19 able year in which such participation or re-  
20 sidual is paid.

21 “(B) PARTICIPATIONS AND RESIDUALS.—  
22 For purposes of this paragraph, the term ‘par-  
23 ticipation or residual’ means, with respect to  
24 any property, any cost the amount of which by

1 contract varies with the amount of income  
2 earned in connection with such property.”.

3 (c) ELECTION TO UTILIZE 20-YEAR STRAIGHT LINE  
4 RECOVERY.—Subsection (g) of section 167 is amended by  
5 redesignating (8) as paragraph (9) and by inserting after  
6 paragraph (7) the following new paragraph:

7 “(8) ELECTION TO UTILIZE 20-YEAR STRAIGHT  
8 LINE RECOVERY.—If the taxpayer elects the applica-  
9 tion of this paragraph for any taxable year, the de-  
10 preciation deduction allowable with respect to any  
11 property placed in service by the taxpayer during  
12 such taxable year which would otherwise be deter-  
13 mined under paragraph (1) shall be determined  
14 under section 168—

15 “(A) by treating the straight line method  
16 as the applicable depreciation method, and

17 “(B) by treating 20 years as the applicable  
18 recovery period.”.

19 (d) REPEAL OF SPECIAL RULES FOR CERTAIN MUSI-  
20 CAL WORKS AND COPYRIGHTS.—Subsection (g) of section  
21 167, as amended by subsection (c), is amended by striking  
22 paragraph (9).

23 (e) SAFE HARBOR AMORTIZATION OF CERTAIN IN-  
24 TANGIBLE ASSETS.—Effective for property placed in serv-  
25 ice after December 31, 2014, the Secretary of the Treas-



1 ury, or the Secretary’s designee, shall revise Treasury  
2 Regulation section 1.167(a)–3(b) (and such regulation  
3 shall be applied) such that the safe harbor amortization  
4 for certain intangible assets to which such regulation ap-  
5 plies shall allow the taxpayer to treat such asset as having  
6 a useful life equal to 20 years (and not 15 years).

7 (f) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to property placed in service after  
9 December 31, 2014.

10 **SEC. 3314. REPEAL OF AVERAGING OF FARM INCOME.**

11 (a) IN GENERAL.—Subchapter Q of chapter 1 is  
12 amended by striking part I (and by striking the item relat-  
13 ing to such part in the table of parts for such subchapter).

14 (b) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 2014.

17 **SEC. 3315. TREATMENT OF PATENT OR TRADEMARK IN-**  
18 **FRINGEMENT AWARDS.**

19 (a) IN GENERAL.—Part II of subchapter B of chap-  
20 ter 1 is amended by adding at the end the following new  
21 section:

22 **“SEC. 91. PATENT OR TRADEMARK INFRINGEMENT**  
23 **AWARDS.**

24 “(a) IN GENERAL.—Except as provided in subsection  
25 (b), any payment received for infringement of any patent

1 or trademark (whether by reason of judgment or settle-  
2 ment) shall be included in gross income as ordinary in-  
3 come.

4 “(b) IMPAIRMENT OF CAPITAL.—If the taxpayer  
5 demonstrates to the satisfaction of the Secretary that a  
6 payment described in subsection (a) constitutes damages  
7 received by reason of the reduction in value of property  
8 of the taxpayer caused by the infringement referred to in  
9 subsection (a)—

10 “(1) the taxpayer’s basis in such property shall  
11 be reduced (but not below zero) by the amount of  
12 such payment, and

13 “(2) subsection (a) shall apply to so much of  
14 such payment as exceeds the amount of the reduc-  
15 tion under paragraph (1).”.

16 (b) CONFORMING AMENDMENTS.—

17 (1) Section 1016(a) is amended by adding at  
18 the end the following new paragraph:

19 “(38) to the extent provided in section  
20 91(b)(1),”.

21 (2) The table of sections for part II of sub-  
22 chapter B of chapter 1 is amended by adding at the  
23 end the following new item:

“Sec. 91. Patent or trademark infringement awards.”.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to payments received pursuant to  
3 judgments and settlements after December 31, 2014.

4 **SEC. 3316. REPEAL OF REDUNDANT RULES WITH RESPECT**  
5 **TO CARRYING CHARGES.**

6 (a) IN GENERAL.—Part IX of subchapter B of chap-  
7 ter 1 is amended by striking section 266 (and by striking  
8 the item relating to such section in the table of sections  
9 for such subpart).

10 (b) CONFORMING AMENDMENTS.—

11 (1) Section 163(n) is amended by striking para-  
12 graph (3) and by redesignating paragraphs (4) and  
13 (5) as paragraphs (3) and (4), respectively.

14 (2) Section 1016(a)(1)(A)(i), as amended by  
15 section 3514, is amended by striking “described in  
16 section 266”.

17 (c) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to amounts paid or incurred after  
19 December 31, 2014.

20 **SEC. 3317. REPEAL OF RECURRING ITEM EXCEPTION FOR**  
21 **SPODDING OF OIL OR GAS WELLS.**

22 (a) IN GENERAL.—Section 461(i) is amended by  
23 striking paragraph (2) and by redesignating paragraphs  
24 (3), (4), and (5) as paragraphs (2), (3), and (4), respec-  
25 tively.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

## 4 **Subtitle E—Financial Instruments**

### 5 **PART 1—DERIVATIVES AND HEDGES**

#### 6 **SEC. 3401. TREATMENT OF CERTAIN DERIVATIVES.**

7 (a) IN GENERAL.—Subchapter E of chapter 1 is  
8 amended by adding at the end the following new part:

#### 9 **“PART IV—DERIVATIVES**

“Sec. 485. Treatment of certain derivatives.

“Sec. 486. Derivative defined.

#### 10 **“SEC. 485. TREATMENT OF CERTAIN DERIVATIVES.**

11 “(a) IN GENERAL.—For purposes of this subtitle—

12 “(1) any derivative held by a taxpayer at the  
13 close of the taxable year shall be treated as sold for  
14 its fair market value on the last business day of  
15 such taxable year (and any gain or loss shall be  
16 taken into account for the taxable year), and

17 “(2) proper adjustment shall be made in the  
18 amount of any gain or loss subsequently realized for  
19 gain or loss taken into account by reason of para-  
20 graph (1).

21 “(b) TREATMENT AS ORDINARY INCOME OR LOSS;  
22 ALLOWANCE AS NET OPERATING LOSS.—All items of in-  
23 come, gain, loss, and deduction with respect to any deriva-  
24 tive—

1           “(1) shall be treated as ordinary income or loss,  
2           and

3           “(2) shall be treated for purposes of section  
4           172(d)(4) as attributable to a trade or business of  
5           the taxpayer.

6           “(c) MARK TO MARKET OF CERTAIN OFFSETTING  
7           POSITIONS.—

8           “(1) IN GENERAL.—In the case of any straddle  
9           which includes any derivative, subsections (a) and  
10          (b) shall apply to all positions comprising such  
11          straddle in the same manner as such subsections  
12          apply to such derivative.

13          “(2) APPLICATION TO BUILT-IN GAIN POSI-  
14          TIONS.—

15          “(A) IN GENERAL.—In the case of any  
16          built-in gain position to which subsection (a)  
17          applies by reason of paragraph (1)—

18                  “(i) in addition to any other time at  
19                  which such position is treated as sold  
20                  under subsection (a)(1), such position shall  
21                  be treated as sold for its fair market value  
22                  at the time that the straddle is established  
23                  with respect to such position,

24                  “(ii) proper adjustment shall be made  
25                  in the amount of any gain or loss subse-

1 frequently realized for gain taken into ac-  
2 count by reason of clause (i), and

3 “(iii) subsection (b) shall not apply to  
4 any gain taken into account by reason of  
5 clause (i).

6 “(B) BUILT-IN GAIN POSITION.—For pur-  
7 poses of this subsection, the term ‘built-in gain  
8 position’ means any position (other than a de-  
9 rivative to which subsection (a) applies) with re-  
10 spect to which a gain would be realized if such  
11 position were sold for its fair market value at  
12 the time that the straddle is established with  
13 respect to such position.

14 “(C) EXCEPTION FOR STRAIGHT DEBT.—  
15 Subparagraph (A) shall not apply to any posi-  
16 tion with respect to debt if—

17 “(i) the interest payments (or other  
18 similar amounts) with respect to such posi-  
19 tion meet the requirements of section  
20 860G(a)(1)(B)(i), and

21 “(ii) such position is not convertible  
22 (directly or indirectly) into stock of the  
23 issuer or any related person.

24 “(D) EXCEPTION FOR STRADDLES CON-  
25 SISTING OF QUALIFIED COVERED CALL OPTIONS

1           AND THE OPTIONED STOCK.—Subparagraph  
2           (A) shall not apply to any position which is part  
3           of a straddle if—

4                   “(i) all the offsetting positions which  
5                   are part of such straddle consist of 1 or  
6                   more qualified covered call options (as de-  
7                   fined in paragraph (6)) and the stock to be  
8                   purchased from the taxpayer under such  
9                   options, and

10                   “(ii) such straddle is not part of a  
11                   larger straddle.

12           “(3) APPLICATION TO BUILT-IN LOSS POSI-  
13           TIONS.—

14                   “(A) IN GENERAL.—In the case of any  
15                   built-in loss position to which subsection (a) ap-  
16                   plies by reason of paragraph (1), any gain or  
17                   loss realized under subsection (a)(1) shall be  
18                   properly adjusted so as not to take into account  
19                   the loss referred to in subparagraph (B) with  
20                   respect to such position.

21                   “(B) BUILT-IN LOSS POSITION.—For pur-  
22                   poses of subparagraph (A), the term ‘built-in  
23                   loss position’ means any position (other than a  
24                   derivative to which subsection (a) applies) with  
25                   respect to which a loss would be realized if such

1 position were sold for its fair market value at  
2 the time that the straddle is established with  
3 respect to such position.

4 “(4) HOLDING PERIOD OF NON-DERIVATIVES.—  
5 For purposes of section 1222, in the case of any po-  
6 sition to which subsection (a) applies by reason of  
7 paragraph (1), the holding period of such position  
8 shall not include—

9 “(A) the period during which subsection  
10 (a) applies to such position, and

11 “(B) in the case of a built-in gain position,  
12 the period before such position is treated as  
13 sold under paragraph (2)(A).

14 “(5) STRADDLE.—For purposes of this sec-  
15 tion—

16 “(A) the term ‘straddle’ has the meaning  
17 given such term by section 1092(c) applied by  
18 treating all offsetting positions as being with re-  
19 spect to personal property, and

20 “(B) the term ‘position’ includes any deriv-  
21 ative.

22 “(6) QUALIFIED COVERED CALL OPTIONS.—

23 “(A) IN GENERAL.—For purposes of para-  
24 graph (2)(D), the term ‘qualified covered call  
25 option’ means any option granted by the tax-



1 payer to purchase stock held by the taxpayer  
2 (or stock acquired by the taxpayer in connection  
3 with the granting of the option) but only if—

4 “(i) such option is traded on a na-  
5 tional securities exchange which is reg-  
6 istered with the Securities and Exchange  
7 Commission or other market which the  
8 Secretary determines has rules adequate to  
9 carry out the purposes of this paragraph,

10 “(ii) such option is granted—

11 “(I) more than 30 days before  
12 the day on which the option expires,  
13 and

14 “(II) not more than 90 days be-  
15 fore the day on which the option ex-  
16 pires,

17 “(iii) such option is not granted by an  
18 options dealer (as defined in subparagraph  
19 (B)) in connection with such dealer’s activ-  
20 ity of dealing in options, and

21 “(iv) gain or loss with respect to such  
22 option would not be ordinary income or  
23 loss if determined without regard to this  
24 section.

1           “(B) OPTIONS DEALER.—For purposes of  
2           subparagraph (A), the term ‘options dealer’  
3           means—

4                   “(i) any person registered with an ap-  
5                   propriate national securities exchange as a  
6                   market maker or specialist in listed op-  
7                   tions, and

8                   “(ii) to the extent provided by the  
9                   Secretary consistent with the purposes of  
10                  this paragraph, any person whom the Sec-  
11                  retary determines performs functions simi-  
12                  lar to the persons described in clause (i).

13           “(C) REGULATIONS.—The Secretary shall  
14           prescribe such regulations as may be necessary  
15           or appropriate to carry out the purposes of this  
16           paragraph and paragraph (2)(D). Such regula-  
17           tions may include modifications to the provi-  
18           sions of this paragraph and paragraph (2)(D)  
19           which are appropriate to take account of  
20           changes in the practices of option exchanges or  
21           to prevent the use of options for tax avoidance  
22           purposes.

23           “(d) TERMINATIONS, ETC.—

24                   “(1) IN GENERAL.—The rules of subsections  
25           (a) and (b) shall also apply to the termination (or

1 transfer) during the taxable year of the taxpayer's  
2 obligation (or rights) with respect to a derivative by  
3 offsetting, by taking or making delivery, by exercise  
4 or being exercised, by assignment or being assigned,  
5 by lapse, by expiration, by settlement, or otherwise.

6 “(2) MARK TO MARKET OF ALL POSITIONS IN  
7 STRADDLE IF ANY POSITION TERMINATED OR  
8 TRANSFERRED.—If paragraph (1) applies with re-  
9 spect to any position which is part of a straddle, the  
10 rules of subsections (a) and (b) shall apply to every  
11 position which is part of such straddle.

12 “(e) DETERMINATION OF FAIR MARKET VALUE.—  
13 For purposes of this section—

14 “(1) TERMINATIONS, ETC.—For purposes of  
15 subsection (d), fair market value shall be determined  
16 at the time of the termination (or transfer).

17 “(2) BLOCKAGE FACTOR NOT TAKEN INTO AC-  
18 COUNT.—To the extent provided in regulations pre-  
19 scribed by the Secretary, fair market value shall be  
20 determined without regard to any premium or dis-  
21 count based on the proportion of the total available  
22 trading units which are held.

23 “(f) COORDINATION WITH CERTAIN RULES.—The  
24 rules of sections 263(g) and 263A shall not apply to any  
25 derivative or other position to which subsection (a) applies,

1 and section 1091 shall not apply (and section 1092 shall  
2 apply) to any loss recognized under subsection (a).

3 **“SEC. 486. DERIVATIVE DEFINED.**

4 “(a) IN GENERAL.—For purposes of this part, except  
5 as otherwise provided in this section, the term ‘derivative’  
6 means any contract (including any option, forward con-  
7 tract, futures contract, short position, swap, or similar  
8 contract) the value of which, or any payment or other  
9 transfer with respect to which, is (directly or indirectly)  
10 determined by reference to one or more of the following:

11 “(1) Any share of stock in a corporation.

12 “(2) Any partnership or beneficial ownership  
13 interest in a partnership or trust.

14 “(3) Any evidence of indebtedness.

15 “(4) Except as provided in subsection (d), any  
16 real property.

17 “(5) Any commodity which is actively traded  
18 (within the meaning of section 1092(d)(1)).

19 “(6) Any currency.

20 “(7) Any rate, price, amount, index, formula, or  
21 algorithm.

22 “(8) Any other item as the Secretary may pre-  
23 scribe.

24 Such term shall not include any item described in para-  
25 graphs (1) through (8).

1 “(b) EXCEPTIONS.—

2 “(1) CERTAIN REAL PROPERTY.—

3 “(A) IN GENERAL.—For purposes of sub-  
4 section (a)(4), the term ‘real property’ shall not  
5 include—

6 “(i) a tract of real property (as de-  
7 fined in section 1237(c)), or

8 “(ii) any real property which would be  
9 property described in section 1221(a)(1)  
10 with respect to the taxpayer if held directly  
11 by the taxpayer.

12 “(B) REGULATIONS.—The Secretary shall  
13 prescribe regulations or other guidance under  
14 which multiple tracts of real property may be  
15 treated as a single tract of real property for  
16 purposes of subparagraph (A)(i) if the contract  
17 referred to in subsection (a) is of a type which  
18 is designed to facilitate the acquisition or dis-  
19 position of such real property.

20 “(2) HEDGING TRANSACTIONS.—

21 “(A) IN GENERAL.—For purposes of this  
22 part, the term ‘derivative’ shall not include any  
23 contract which is part of a hedging transaction  
24 (as defined in section 1221(b)).

1           “(B) SECTION 988 HEDGING TRANS-  
2           ACTIONS.—For exception for section 988 hedg-  
3           ing transactions, see section 988(d)(1).

4           “(3) SECURITIES LENDING, SALE-REPURCHASE,  
5           AND SIMILAR FINANCING TRANSACTIONS.—To the  
6           extent provided by the Secretary, for purposes of  
7           this part, the term ‘derivative’ shall not include the  
8           right to the return of the same or substantially iden-  
9           tical securities transferred in a securities lending  
10          transaction, sale-repurchase transaction, or similar  
11          financing transaction.

12          “(4) OPTIONS RECEIVED IN CONNECTION WITH  
13          THE PERFORMANCE OF SERVICES.—For purposes of  
14          this part, the term ‘derivative’ shall not include any  
15          option described in section 83(e)(3) received in con-  
16          nection with the performance of services.

17          “(5) INSURANCE CONTRACTS, ANNUITIES, AND  
18          ENDOWMENTS.—For purposes of this part, the term  
19          ‘derivative’ shall not include any insurance, annuity,  
20          or endowment contract issued by an insurance com-  
21          pany to which subchapter L applies (or issued by  
22          any foreign corporation to which such subchapter  
23          would apply if such foreign corporation were a do-  
24          mestic corporation).

1           “(6) DERIVATIVES WITH RESPECT TO STOCK  
2           OF MEMBERS OF SAME WORLDWIDE AFFILIATED  
3           GROUP.—For purposes of this part, the term ‘deriv-  
4           ative’ shall not include, and subsections (c) and  
5           (d)(2) of section 485 shall not apply to, any deriva-  
6           tive (determined without regard to this subsection)  
7           with respect to stock issued by any member of the  
8           same worldwide affiliated group (as defined in sec-  
9           tion 864(f)) in which the taxpayer is a member.

10           “(7) COMMODITIES USED IN NORMAL COURSE  
11           OF TRADE OR BUSINESS.—For purposes of this part,  
12           the term ‘derivative’ shall not include any contract  
13           with respect to any commodity if—

14                   “(A) such contract requires physical deliv-  
15                   ery with the option of cash settlement only in  
16                   unusual and exceptional circumstances, and

17                   “(B) such commodity is used (and is used  
18                   in quantities with respect to which such deriva-  
19                   tive relates) in the normal course of the tax-  
20                   payer’s trade or business (or, in the case of an  
21                   individual, for personal consumption).

22           “(c) CONTRACTS WITH EMBEDDED DERIVATIVE  
23           COMPONENTS.—

24                   “(1) IN GENERAL.—If a contract has derivative  
25                   and nonderivative components, then each derivative

1 component shall be treated as a derivative for pur-  
2 poses of this part. If the derivative component can-  
3 not be separately valued, then the entire contract  
4 shall be treated as a derivative for purposes of this  
5 part.

6 “(2) EXCEPTION FOR CERTAIN EMBEDDED DE-  
7 RIVATIVE COMPONENTS OF DEBT INSTRUMENTS.—A  
8 debt instrument shall not be treated as having a de-  
9 rivative component merely because—

10 “(A) such debt instrument is denominated  
11 in a nonfunctional currency (as defined in sec-  
12 tion 988(c)(1)(C)(ii)),

13 “(B) payments with respect to such debt  
14 instrument are determined by reference to the  
15 value of a nonfunctional currency (as so de-  
16 fined), or

17 “(C) such debt instrument is a convertible  
18 debt instrument, contingent payment debt in-  
19 strument, a variable rate debt instrument, an  
20 integrated debt instrument, an investment unit,  
21 a debt instrument with alternative payment  
22 schedules, or other debt instrument with respect  
23 to which the regulations under section 1275(d)  
24 apply.



1       “(d) TREATMENT OF AMERICAN DEPOSITORY RE-  
2 RECEIPTS AND SIMILAR INSTRUMENTS.—Except as other-  
3 wise provided by the Secretary, for purposes of this part,  
4 American depository receipts (and similar instruments)  
5 with respect to shares of stock in foreign corporations  
6 shall be treated as shares of stock in such foreign corpora-  
7 tions.”.

8       (b) COORDINATION WITH RULES FOR DEALERS AND  
9 TRADERS.—

10           (1) DERIVATIVES NOT TREATED AS SECURI-  
11 TIES.—Section 475(e)(2) is amended—

12                   (A) by adding “and” at the end of sub-  
13 paragraph (C),

14                   (B) by striking subparagraphs (D) and (E)  
15 and by redesignating subparagraph (F) as sub-  
16 paragraph (D),

17                   (C) by striking “subparagraph (A), (B),  
18 (C), (D), or (E)” in subparagraph (D)(i), as so  
19 redesignated, and inserting “subparagraph (A),  
20 (B), or (C)”, and

21                   (D) by amending the last sentence to read  
22 as follows: “Such term shall not include any po-  
23 sition to which section 485(a) applies.”

24           (2) DERIVATIVES NOT TREATED AS COMMOD-  
25 ITIES.—Section 475(e)(2) is amended—

1 (A) by adding “and” at the end of sub-  
2 paragraph (A),

3 (B) by striking subparagraphs (B) and (C)  
4 and by redesignating subparagraph (D) as sub-  
5 paragraph (B), and

6 (C) by striking “subparagraph (A), (B) or  
7 (C)” in subparagraph (B)(i), as so redesign-  
8 dated, and inserting “subparagraph (A)”.

9 (3) CONFORMING AMENDMENTS.—

10 (A) Section 475(b) is amended by striking  
11 paragraph (4).

12 (B) Section 475(d)(2)(B) is amended—

13 (i) by striking “subsection  
14 (c)(2)(F)(iii)” and inserting “subsection  
15 (c)(2)(D)(iii)”, and

16 (ii) by striking “subsection (c)(2)(F)”  
17 and inserting “subsection (c)(2)(D)”.

18 (C) Section 475(f)(1)(D) is amended by  
19 striking “subsections (b)(4) and (d)” and in-  
20 sserting “subsection (d)”.

21 (c) COORDINATION WITH STRADDLE RULES.—

22 (1) IN GENERAL.—Section 1092(e) is amended  
23 to read as follows:

1       “(e) EXCEPTION FOR HEDGING TRANSACTIONS AND  
2 STRADDLES WITH DERIVATIVES.—This section shall not  
3 apply in the case of—

4           “(1) any hedging transaction (as defined in sec-  
5 tion 1221(b)), and

6           “(2) any straddle (as defined in section 485)  
7 which includes any derivative (as defined in section  
8 486).”.

9           (2) CONFORMING AMENDMENTS.—

10           (A) Section 263(g)(3) is amended to read  
11 as follows:

12           “(3) EXCEPTION FOR HEDGING TRANSACTIONS  
13 AND STRADDLES WITH DERIVATIVES.—This sub-  
14 section shall not apply in the case of—

15           “(A) any hedging transaction (as defined  
16 in section 1221(b)), and

17           “(B) any straddle (as defined in section  
18 485) which includes any derivative (as defined  
19 in section 486).”.

20           (B) Section 1092(b) is amended—

21           (i) by striking paragraph (2), and

22           (ii) by striking all that precedes “The  
23 Secretary shall” and inserting the fol-  
24 lowing:

25           “(b) REGULATIONS.—The Secretary shall”.

1           (C) Section 1092(c) is amended by striking  
2           paragraph (4).

3           (D) Section 1092 is amended by striking  
4           subsection (f) and by redesignating subsection  
5           (g) as subsection (f).

6           (d) TREATMENT OF CONVERTIBLE DEBT INSTRU-  
7           MENTS.—The Secretary of the Treasury, or the Sec-  
8           retary’s designee, shall modify the regulations issued  
9           under section 1275(d) of the Internal Revenue Code of  
10          1986 to provide that convertible debt instruments are  
11          treated in a manner similar to contingent payment debt  
12          instruments.

13          (e) REPEAL OF CERTAIN OTHER SUPERCEDED  
14          RULES FOR DETERMINING CAPITAL GAINS AND  
15          LOSSES.—

16           (1) IN GENERAL.—Part IV of subchapter P of  
17          chapter 1 is amended by striking sections 1233,  
18          1234, 1234A, 1234B, 1236, 1256, 1258, 1259, and  
19          1260 (and by striking the items relating to such sec-  
20          tions in the table of sections for such part).

21           (2) CONFORMING AMENDMENTS RELATED TO  
22          REPEAL OF SECTION 1233.—Section 1092(b) is  
23          amended by inserting “(as in effect before their re-  
24          peal)” after “section 1233”.

1           (3) CONFORMING AMENDMENTS RELATED TO  
2 REPEAL OF SECTION 1234.—Section 6045(h)(2) is  
3 amended—

4           (A) by striking “(as defined in section  
5 1234(b)(2)(A))”, and

6           (B) by adding at the end the following:  
7 “For purposes of the preceding sentence, the  
8 term ‘closing transaction’ means any termi-  
9 nation of the taxpayer’s obligation under an op-  
10 tion in property other than through the exercise  
11 or lapse of the option.”.

12           (4) CONFORMING AMENDMENTS RELATED TO  
13 REPEAL OF SECTION 1236.—

14           (A) Section 475(d)(3)(A) is amended by  
15 striking “or section 1236(b)”.

16           (B) Section 512(b)(5) is amended by strik-  
17 ing “section 1236(c)” and inserting “section  
18 1058(c)”.

19           (C) Section 1058 is amended—

20           (i) by striking “(as defined in section  
21 1236(c))” in subsection (a), and

22           (ii) by redesignating subsection (c) as  
23 subsection (d) and by inserting after sub-  
24 section (b) the following new subsection:

1       “(c) SECURITIES.—For purposes of this section, the  
2 term ‘security’ means any share of stock in any corpora-  
3 tion, certificate of stock or interest in any corporation,  
4 note, bond, debenture, or evidence of indebtedness, or any  
5 evidence of an interest in or right to subscribe to or pur-  
6 chase any of the foregoing.”.

7           (5) CONFORMING AMENDMENTS RELATED TO  
8 REPEAL OF SECTION 1256.—

9           (A) Section 461(i)(2)(B), as amended by  
10 the preceding provisions of this Act, is amended  
11 to read as follows:

12           “(B) any partnership or other entity (other  
13 than a corporation which is not an S corpora-  
14 tion) if more than 35 percent of the losses of  
15 such entity during the taxable year are allocable  
16 to limited partners or limited entrepreneurs  
17 (within the meaning of section 461(j)(4)), and”.

18           (B) Section 475(d)(1) is amended by strik-  
19 ing “sections 263(g), 263A, and 1256(a)” and  
20 inserting “sections 263(g) and 263A”.

21           (C) Section 988(e)(1) is amended by strik-  
22 ing subparagraphs (D) and (E).

23           (D) Section 1092(a)(3)(C)(ii)(II) is  
24 amended by striking “section 1256(e)” and in-  
25 serting “section 1221(b)”.

1           (E) Section 1092(d) is amended by strik-  
2           ing paragraphs (5) and (6) and by redesign-  
3           nating paragraphs (7) and (8) as paragraphs  
4           (5) and (6), respectively.

5           (F) Section 1212 is amended by striking  
6           subsection (c).

7           (G) Section 1223 is amended by striking  
8           paragraphs (7) and (14).

9           (H) Section 1281(b)(1)(E) is amended to  
10          read as follows:

11           “(E) is a hedging transaction (as defined  
12          in section 1221(b)), or”.

13          (I) Section 1402 is amended by striking  
14          subsection (i).

15          (J) Section 4982(e)(6)(B) is amended by  
16          striking “sections 1256 and 1296” and insert-  
17          ing “sections 485 and 1296”.

18          (6) CONFORMING AMENDMENTS RELATED TO  
19          REPEAL OF SECTION 1259.—Section 475(f)(1) is  
20          amended by striking subparagraph (C) and by redesi-  
21          gnating subparagraph (D) as subparagraph (C).

22          (f) OTHER CONFORMING AMENDMENTS.—

23           (1) Section 355(g)(2)(B)(i)(V) is amended to  
24          read as follows:

1                   “(V) any derivative (as defined in  
2                   section 486),”.

3                   (2) Section 856(n)(4) is amended by inserting  
4                   “or derivatives (as defined in section 486)” after  
5                   “securities (as defined in section 475(e)(2))”.

6                   (3) Section 857(e)(2)(B)(i), as amended by the  
7                   preceding provisions of this Act, is amended by  
8                   striking “section 860E or 1272” and inserting “sec-  
9                   tion 485, 860E, or 1272”.

10                  (4) Section 988(d)(1) is amended—

11                   (A) by striking “or 1256” and inserting  
12                   “or 485”, and

13                   (B) by striking “1092, and 1256” and in-  
14                   serting “485, and 1092”.

15                  (5) Section 1091(e) is amended to read as fol-  
16                  lows:

17                  “(e) COORDINATION WITH MARK TO MARKET OF  
18                  DERIVATIVES.—Notwithstanding any other provision of  
19                  this section, a derivative (as defined in section 486) shall  
20                  not be treated as a security for purposes of this section.”.

21                  (6)(A) Section 1221(a)(6) is amended to read  
22                  as follows:

23                   “(6) any derivative (as defined in section  
24                   486),”.



1           (B) Section 1221(b) is amended by striking  
2 paragraph (1).

3           (7) Section 4975(f)(11)(D) is amended by  
4 striking clauses (i) and (ii) and inserting the fol-  
5 lowing:

6                   “(i) SECURITY.—The term ‘security’  
7 means any security described in section  
8 475(e)(2) (without regard to subparagraph  
9 (D)(iii) thereof) and any derivative with re-  
10 spect to such a security (within the mean-  
11 ing of section 486).

12                   “(ii) COMMODITY.—The term ‘com-  
13 modity’ means any commodity described in  
14 section 475(e)(2) (without regard to sub-  
15 paragraph (B)(iii) thereof) and any deriva-  
16 tive with respect to such a commodity  
17 (within the meaning of section 486).”.

18           (8) The table of parts for subchapter E of  
19 chapter 1 is amended by adding at the end the fol-  
20 lowing new item:

                  “PART IV. DERIVATIVES”.

21           (g) EFFECTIVE DATES.—The amendments made by  
22 this section shall apply to—

23                   (1) taxable years ending after December 31,  
24 2014, in the case of property acquired and positions  
25 established after December 31, 2014, and

1           (2) taxable years ending after December 31,  
2           2019, in the case of any other property or position.  
3 For purposes of this subsection, any property acquired on  
4 or before December 31, 2014, which becomes part of a  
5 straddle (as defined in section 485, as added by this sec-  
6 tion) after such date shall be treated as a position estab-  
7 lished after such date.

8 **SEC. 3402. MODIFICATION OF CERTAIN RULES RELATED TO**  
9                                   **HEDGES.**

10           (a) TREATMENT OF HEDGES IDENTIFIED FOR FI-  
11 NANCIAL ACCOUNTING PURPOSES.—

12           (1) IN GENERAL.—Section 1221(b), as amend-  
13 ed by the preceding provisions of this Act, is amend-  
14 ed to read as follows:

15           “(b) HEDGING TRANSACTION.—For purposes of this  
16 section—

17           “(1) IN GENERAL.—The term ‘hedging trans-  
18 action’ means any transaction described in para-  
19 graph (2) and identified under paragraph (3).

20           “(2) TRANSACTION DESCRIBED.—A transaction  
21 is described in this paragraph if such transaction is  
22 entered into by the taxpayer in the normal course of  
23 the taxpayer’s trade or business primarily—

24           “(A) to manage risk of price changes or  
25           currency fluctuations with respect to ordinary

1 property which is held or to be held by the tax-  
2 payer,

3 “(B) to manage risk of interest rate or  
4 price changes or currency fluctuations with re-  
5 spect to borrowings made or to be made, or or-  
6 dinary obligations incurred or to be incurred, by  
7 the taxpayer, or

8 “(C) to manage such other risks as the  
9 Secretary may prescribe in regulations.

10 “(3) IDENTIFICATION.—A transaction is identi-  
11 fied under this paragraph if—

12 “(A) such transaction is clearly identified  
13 as a hedging transaction for purposes of this  
14 paragraph before the close of the day on which  
15 it was acquired, originated, or entered into (or  
16 such other time as the Secretary may by regula-  
17 tions prescribe), or

18 “(B) such transaction is treated as a hedg-  
19 ing transaction (within the meaning of generally  
20 accepted accounting principles) for purposes of  
21 an audited financial statement of the taxpayer  
22 which—

23 “(i) is certified as being prepared in  
24 accordance with generally accepted ac-  
25 counting principles, and

1                   “(ii) is used for the purposes of a  
2                   statement or report—

3                                 “(I) to shareholders, partners, or  
4                                 other proprietors, or to beneficiaries,  
5                                 or

6                                 “(II) for credit purposes.

7                   “(4) TREATMENT OF NONIDENTIFICATION OR  
8                   IMPROPER IDENTIFICATION OF HEDGING TRANS-  
9                   ACTIONS.—The Secretary shall prescribe regulations  
10                   to properly characterize any income, gain, expense,  
11                   or loss arising from a transaction—

12                                 “(A) which would be a hedging transaction  
13                                 if identified under paragraph (3), or

14                                 “(B) which is identified under paragraph  
15                                 (3) but is not a transaction described in para-  
16                                 graph (2).

17                   In the case of a transaction identified under para-  
18                   graph (3) solely by reason of paragraph (3)(B), sub-  
19                   paragraph (B) of this paragraph shall not apply  
20                   with respect to such transaction unless the taxpayer  
21                   treats such transaction as a hedging transaction for  
22                   purposes of any provision of this title.

23                                 “(5) BONDS HELD BY AN INSURANCE COM-  
24                                 PANY.—For purposes of paragraph (2)(A), in the  
25                                 case of an insurance company to which subchapter

1 L applies, any bond, debenture, note, certificate, or  
2 other evidence of indebtedness held by the taxpayer  
3 shall be treated as ordinary property.

4 “(6) REGULATIONS.—The Secretary shall pre-  
5 scribe such regulations as are appropriate to carry-  
6 out the purposes of this subsection and subsection  
7 (a)(7) in the case of transactions involving related  
8 parties.”.

9 (2) CONFORMING AMENDMENTS.—

10 (A) Section 856(c)(5)(G)(i) is amended by  
11 striking “(as defined in clause (ii) or (iii) of  
12 section 1221(b)(2)(A)) which is clearly identi-  
13 fied pursuant to section 1221(a)(7)” and insert-  
14 ing “(as defined in section 1221(b) (determined  
15 without regard to paragraph (2)(A) thereof)”.

16 (B) Section 954(c)(5)(A) is amended to  
17 read as follows:

18 “(A) COMMODITY HEDGING TRANS-  
19 ACTIONS.—

20 “(i) IN GENERAL.—For purposes of  
21 paragraph (1)(C)(i), the term ‘commodity  
22 hedging transaction’ means any trans-  
23 action with respect to a commodity if such  
24 transaction would be a hedging transaction  
25 under section 1221(b) if—

1           “(I) the only transactions de-  
2           scribed in paragraph (2) thereof were  
3           transactions described in clause (ii),  
4           and

5           “(II) paragraphs (3) and (4)  
6           thereof were applied by substituting  
7           ‘controlled foreign corporation’ for  
8           ‘taxpayer’ each place it appears.

9           “(ii) TRANSACTION DESCRIBED.—A  
10          transaction is described in this clause if  
11          such transaction is entered into by the con-  
12          trolled foreign corporation in the normal  
13          course of the controlled foreign corpora-  
14          tion’s trade or business primarily—

15                 “(I) to manage risk of price  
16                 changes or currency fluctuations with  
17                 respect to ordinary property or prop-  
18                 erty described in section 1231(b)  
19                 which is held or to be held by the con-  
20                 trolled foreign corporation, or

21                 “(II) to manage such other risks  
22                 as the Secretary may prescribe in reg-  
23                 ulations.”.

1           (C) Section 1221(a)(7) is amended by  
2           striking “which is clearly” and all that follows  
3           through “regulations prescribe”).

4           (b) SPECIAL RULE FOR COMMODITY HEDGING  
5           TRANSACTIONS INVOLVING RELATED CONTROLLED FOR-  
6           EIGN CORPORATIONS.—Section 954(c)(5)(A), as amended  
7           by subsection (a), is amended by adding at the end the  
8           following new clause:

9                           “(iii) APPLICATION TO RELATED CON-  
10                           TROLLED FOREIGN CORPORATIONS.—

11                                   “(I) IN GENERAL.—In the case  
12                                   of qualified property, clause (ii)(I)  
13                                   shall be applied by substituting ‘the  
14                                   controlled foreign corporation or an-  
15                                   other controlled foreign corporation  
16                                   which is a related person (within the  
17                                   meaning of subsection (d)(3))’ for ‘the  
18                                   controlled foreign corporation’.

19                                   “(II) QUALIFIED PROPERTY.—  
20                                   For purposes of this clause, the term  
21                                   ‘qualified property’ means ordinary  
22                                   property or property described in sec-  
23                                   tion 1231(b) (if disposed of at a gain)  
24                                   the income from the disposition of  
25                                   which would be neither subpart F in-

1                   come nor income treated as effectively  
2                   connected with the conduct of a trade  
3                   or business in the United States.”.

4           (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to transactions entered into after  
6 December 31, 2014.

7           **PART 2—TREATMENT OF DEBT INSTRUMENTS**

8           **SEC. 3411. CURRENT INCLUSION IN INCOME OF MARKET**  
9                                   **DISCOUNT.**

10          (a) IN GENERAL.—Subpart B of part V of sub-  
11 chapter P of chapter 1 is amended by redesignating sec-  
12 tion 1278 as section 1279 and by inserting after section  
13 1277 the following new section:

14           **“SEC. 1278. CURRENT INCLUSION IN INCOME OF MARKET**  
15                                   **DISCOUNT ON BONDS ACQUIRED AFTER 2014.**

16           “(a) IN GENERAL.—There shall be included in the  
17 gross income of the holder of any market discount bond  
18 acquired after December 31, 2014, an amount equal to  
19 the sum of the daily portions of the market discount for  
20 each day during the taxable year on which such holder  
21 held such bond.

22           “(b) DETERMINATION OF DAILY PORTIONS.—

23                   “(1) IN GENERAL.—For purposes of subsection  
24           (a), the daily portion of the market discount on any  
25           market discount bond shall be an amount equal to



1 the daily portion of original issue discount which  
2 would be includible in gross income under section  
3 1272(a) (determined without regard to paragraph  
4 (2) thereof) if such bond had been—

5 “(A) originally issued on the date on which  
6 such bond was acquired by the taxpayer,

7 “(B) for an issue price equal to the basis  
8 of such bond immediately after such acquisi-  
9 tion.

10 “(2) COORDINATION WHERE BOND HAS ORIGI-  
11 NAL ISSUE DISCOUNT.—In the case of any bond hav-  
12 ing original issue discount, the daily portion deter-  
13 mined under paragraph (1) shall be reduced by the  
14 daily portion of original issue discount includible in  
15 gross income under section 1272(a) (determined  
16 without regard to paragraph (2) thereof) with re-  
17 spect to such bond.

18 “(3) SPECIAL RULE WHERE PARTIAL PRIN-  
19 CIPAL PAYMENTS.—In the case of a bond the prin-  
20 cipal of which may be paid in 2 or more payments,  
21 the daily portions of market discount shall be deter-  
22 mined under regulations prescribed by the Secretary.

23 “(c) LIMITATION.—

24 “(1) IN GENERAL.—The amount of market dis-  
25 count allocable to any accrual period for purposes of

1 determining the sum of the daily portions under sub-  
2 section (a) shall not exceed the excess (if any) of—

3 “(A) the product of—

4 “(i) the maximum accrual rate deter-  
5 mined under paragraph (2), properly ad-  
6 justed for the length of the accrual period,  
7 multiplied by

8 “(ii) the adjusted basis of such bond  
9 at the beginning of such accrual period,  
10 over

11 “(B) the sum of the qualified stated inter-  
12 est and original issue discount allocable to such  
13 accrual period.

14 “(2) MAXIMUM ACCRUAL RATE.—The max-  
15 imum accrual rate determined under this paragraph  
16 with respect to any bond is the greater of—

17 “(A) such bonds’s yield to maturity (deter-  
18 mined as of the date of the issuance of such  
19 bond) plus 5 percentage points, or

20 “(B) the applicable Federal rate for such  
21 bond (determined under section 1274(d) as of  
22 the date of the acquisition of such bond and on  
23 the basis of the remaining term of such bond as  
24 of such date) plus 10 percentage points.

1           “(3) APPLICATION TO POOLS.—In the case of  
2 debt instruments to which section 1272(a)(6) ap-  
3 plies, rules similar to the rules of such section shall  
4 apply for purposes of determining the daily portions  
5 of market discount.

6           “(4) ACCRUAL PERIOD.—For purposes of this  
7 subsection, the term ‘accrual period’ has the mean-  
8 ing given such term in section 1272(a)(5).

9           “(d) SPECIAL RULES.—

10           “(1) ACCRUALS TREATED AS INTEREST.—Ex-  
11 cept for purposes of sections 103, 871(a), 881,  
12 1441, 1442, and 6049 (and such other provisions as  
13 may be specified in regulations), any amount in-  
14 cluded in gross income under this section shall be  
15 treated as interest for purposes of this title.

16           “(2) BASIS ADJUSTMENT.—The basis of any  
17 market discount bond in the hands of the taxpayer  
18 shall be increased by the amount included in gross  
19 income pursuant to this section.

20           “(3) TREATMENT OF LOSS ON DISPOSITION.—  
21 So much of any loss recognized by the taxpayer on  
22 the disposition of a market discount bond as does  
23 not exceed the aggregate amounts included in the  
24 taxpayer’s gross income under subsection (a) with

1       respect to such bond shall be treated for purposes of  
2       this title as an ordinary loss.”.

3       (b) TREATMENT OF MARKET DISCOUNT ON SHORT-  
4 TERM NONGOVERNMENTAL BONDS.—

5           (1) ACCRUAL BASIS TAXPAYERS, ETC.—Section  
6       1283 is amended by striking subsection (c) and re-  
7       designating subsection (d) as subsection (c).

8           (2) OTHER TAXPAYERS.—

9           (A) Section 1271(a)(3) is amended—

10                   (i) by striking all that precedes sub-  
11                   paragraph (C) and inserting the following:

12                   “(3) CERTAIN SHORT-TERM OBLIGATIONS.—

13                           “(A) IN GENERAL.—On the sale or ex-  
14                           change of any short-term obligation (as defined  
15                           in section 1283(a)(1)), any gain realized which  
16                           does not exceed an amount equal to the ratable  
17                           share of the acquisition discount shall be treat-  
18                           ed as ordinary income.”, and

19                           (ii) by redesignating subparagraphs  
20                           (C), (D), and (E) as subparagraphs (B),  
21                           (C), and (D), respectively.

22           (B) Section 1271(a) is amended by strik-  
23       ing paragraph (4).

24           (C) Section 1283(c)(3), as redesignated by  
25       paragraph (1), is amended by striking “para-

1           graphs (3) and (4) of section 1271(a)” and in-  
2           serting “section 1271(a)(3)”.

3           (c) COORDINATION WITH RULES RELATED TO  
4 TREATING MARKET DISCOUNT AS ORDINARY INCOME  
5 UPON DISPOSITION.—

6           (1) IN GENERAL.—Section 1276 is amended by  
7           adding at the end the following new subsection:

8           “(e) COORDINATION WITH RULES FOR CURRENT IN-  
9 CLUSION OF MARKET DISCOUNT.—This section shall not  
10 apply to any market discount bond to which section 1278  
11 applies.”.

12           (2) COORDINATION WITH DEFERRAL OF INTER-  
13 EST DEDUCTION.—Section 1277 is amended by add-  
14 ing at the end the following new subsection:

15           “(d) COORDINATION WITH RULES FOR CURRENT IN-  
16 CLUSION OF MARKET DISCOUNT.—This section shall not  
17 apply to any market discount bond to which section 1278  
18 applies.”.

19           (3) COORDINATION WITH ELECTION TO IN-  
20 CLUDE MARKET DISCOUNT CURRENTLY.—Section  
21 1279(b), as redesignated by subsection (a), is  
22 amended by adding at the end the following new  
23 paragraph:

24           “(5) COORDINATION WITH RULES FOR CUR-  
25 RENT INCLUSION OF MARKET DISCOUNT.—This sub-

1 section shall not apply to any market discount bond  
2 to which section 1278 applies.”.

3 (d) TREATMENT OF CERTAIN BONDS HELD BY  
4 PARTNERSHIPS.—

5 (1) TRANSFERS OF PARTNERSHIP INTER-  
6 ESTS.—Section 1279(a), as redesignated by sub-  
7 section (a), is amended by adding at the end the fol-  
8 lowing new paragraph:

9 “(6) TRANSFERS OF PARTNERSHIP INTER-  
10 ESTS.—In the case of a transfer described in section  
11 743 of an interest in a partnership holding a bond,  
12 the partnership shall be treated as acquiring the  
13 transferee partner’s proportionate share of such  
14 bond at the time of such transfer.”.

15 (2) DISTRIBUTION OF BONDS BY PARTNER-  
16 SHIPS.—Section 1279(a)(2), as redesignated by sub-  
17 section (a), is amended by adding at the end the fol-  
18 lowing new subparagraph:

19 “(D) DISTRIBUTION BY PARTNERSHIP.—If  
20 the basis of the taxpayer in a bond is deter-  
21 mined under section 734(a)(2) or (b), for pur-  
22 poses of subparagraph (A)(ii), the basis of such  
23 bond shall not be less than its fair market value  
24 immediately after its acquisition by the tax-  
25 payer.”.

1 (e) MODERNIZATION OF CERTAIN DEFINITIONS.—

2 (1) REPEAL OF SUPERCEDED EXCEPTION FOR  
3 MARKET DISCOUNT BONDS ACQUIRED AT ISSUE.—

4 Section 1279(a)(1), as redesignated by subsection  
5 (a), is amended by striking subparagraph (D)

6 (2) REVISED ISSUE PRICE.—Section  
7 1279(a)(4), as redesignated by subsection (a), is  
8 amended—

9 (A) by redesignating subparagraphs (A)  
10 and (B) as clauses (i) and (ii) and by indenting  
11 such clauses appropriately,

12 (B) by striking “means the sum of—” and  
13 inserting “means the excess of—

14 “(A) the sum of—”,

15 (C) by striking the period at the end and  
16 inserting “, over”, and

17 (D) by adding at the end the following new  
18 subparagraph:

19 “(B) the sum of—

20 “(i) any payments other than quali-  
21 fied stated interest made under the bond  
22 during periods before the acquisition of the  
23 bond by the taxpayer, and

24 “(ii) any premium which has accrued  
25 during such periods (determined as if

1 owned at all times by the original hold-  
2 er).”.

3 (3) REDEMPTION PRICE .—

4 (A) IN GENERAL.—Section 1273(a)(2) is  
5 amended to read as follows:

6 “(2) REDEMPTION PRICE.—

7 “(A) IN GENERAL.—The term ‘redemption  
8 price’ means the sum of all payments provided  
9 by the debt instrument other than qualified  
10 stated interest.

11 “(B) QUALIFIED STATED INTEREST.—The  
12 term ‘qualified stated interest’ means stated in-  
13 terest that is unconditionally payable in money  
14 and other property (other than a debt instru-  
15 ment of the issuer) at least annually at a fixed  
16 rate (or to the extent provided by regulations,  
17 at a variable rate).

18 “(C) BASIS ADJUSTMENT.—The basis of  
19 any debt instrument shall be reduced by the  
20 amount of any payment received other than  
21 qualified stated interest.”.

22 (B) CONFORMING AMENDMENTS.—

23 (i) Each of the following provisions is  
24 amended by striking “stated redemption



1 price at maturity” and inserting “redemp-  
2 tion price”:

3 (I) Section 1271(a)(3)(B) (as re-  
4 designated by subsection (b)).

5 (II) Section 1273(a)(1)(A).

6 (III) Section 1273(a)(3).

7 (IV) Section 1273(b)(4).

8 (V) Section 1274(c)(1)(A).

9 (VI) Section 1279(a)(5) (as re-  
10 designated by subsection (a)).

11 (VII) Section 1283(a)(2)(A).

12 (VIII) Section 1286(a)(1).

13 (IX) The heading and text of sec-  
14 tion 1286(e)(4).

15 (ii) Section 108(e)(10)(B) is amended  
16 by striking “stated” both places it appears.

17 (iii) Section 1272(a)(6)(A)(i) is  
18 amended by striking “stated”.

19 (iv) Subparagraphs (A)(i) and (C) of  
20 section 1279(a)(2) (as redesignated by  
21 subsection (a)) are each amended by strik-  
22 ing “the stated redemption price of the  
23 bond at maturity” and inserting “the re-  
24 demption price of the bond”.

1                   (v) Section 1279(a)(2)(B) (as redesign-  
2                   nated by subsection (a)) is amended by  
3                   striking “the stated redemption price of  
4                   such bond at maturity” and inserting “the  
5                   redemption price of such bond”.

6                   (4) ADJUSTED ISSUE PRICE.—Section 1275(a)  
7                   is amended by adding at the end the following new  
8                   paragraph:

9                   “(5) ADJUSTED ISSUE PRICE.—

10                   “(A) IN GENERAL.—For purposes of this  
11                   part, the adjusted issue price of any debt in-  
12                   strument is its issue price—

13                   “(i) increased by the aggregate of the  
14                   original issue discount includible in the  
15                   gross income of all holders for prior peri-  
16                   ods (determined without regard to para-  
17                   graph (7) of section 1272(a)), or, in the  
18                   case of a tax-exempt obligation, the aggre-  
19                   gate amount which accrued in the manner  
20                   provided by this subsection (determined  
21                   without regard to such paragraph (7)) for  
22                   all prior periods, and

23                   “(ii) reduced by the sum of—

1           “(I) any payments other than  
2           qualified stated interest previously  
3           made on the debt instrument, and

4           “(II) in the case of a debt instru-  
5           ment which was issued with amortiz-  
6           able bond premium (as defined in sec-  
7           tion 171(b)), the aggregate amount by  
8           which the basis of such instrument  
9           would have been reduced under sec-  
10          tion 1016(a)(5) for prior periods if  
11          the instrument had been held by the  
12          original holder at all times.

13           “(B) DE MINIMIS RULE.—The adjusted  
14          issue price of the issuer shall be properly ad-  
15          justed to take into account that section  
16          1273(a)(3) does not apply to the deduction  
17          under section 163 for original issue discount.”.

18           “(5) CERTAIN OTHER TERMS.—Paragraphs (3),  
19          (4), and (5) of section 1272(a) are amended to read  
20          as follows:

21           “(3) DETERMINATION OF DAILY PORTIONS.—  
22          For purposes of paragraph (1), the daily portion of  
23          the original issue discount on any debt instrument  
24          shall be determined by allocating to each day in any  
25          accrual period its ratable share of the original issue

1 discount allocable to such accrual period. For pur-  
2 poses of the preceding sentence, the original issue  
3 discount allocable to any accrual period is the excess  
4 (if any) of—

5 “(A) the product of—

6 “(i) the adjusted issue price of the  
7 debt instrument at the beginning of such  
8 accrual period, multiplied by

9 “(ii) the yield to maturity of the debt  
10 instrument properly adjusted for the  
11 length of the accrual period, over

12 “(B) the amount of any qualified stated in-  
13 terest allocable to such accrual period.

14 “(4) YIELD TO MATURITY.—For purposes of  
15 this subsection, the term ‘yield to maturity’ means  
16 the discount rate that, when used in computing the  
17 present value of all principal and interest payments  
18 to be made under the debt instrument produces an  
19 amount equal to the issue price of the debt instru-  
20 ment.

21 “(5) ACCRUAL PERIOD.—For purposes of this  
22 subsection, the term ‘accrual period’ shall be deter-  
23 mined under regulations prescribed by the Secretary,  
24 provided that an accrual period shall in no event be  
25 longer than one year.”.

1 (f) BROKER REPORTING OF INCLUDIBLE DISCOUNT  
2 ON BONDS.—

3 (1) IN GENERAL.—Section 6045 is amended by  
4 adding at the end the following new subsection:

5 “(i) DISCOUNT ON BONDS.—

6 “(1) IN GENERAL.—If any customer of a broker  
7 holds a covered bond in an account with such broker  
8 at any time during a calendar year—

9 “(A) such broker shall file a return under  
10 subsection (a) for such calendar year, and

11 “(B) such return shall include with respect  
12 to each such covered bond—

13 “(i) the amount (if any) includible in  
14 the gross income of such customer as origi-  
15 nal issue discount with respect to such  
16 bond under section 1272 for periods dur-  
17 ing such calendar year, and.

18 “(ii) the amount (if any) includible in  
19 the gross income of such customer as mar-  
20 ket discount with respect to such bond  
21 under section 1278(a) for periods during  
22 such calendar year.

23 “(2) COVERED BOND.—For purposes of this  
24 subsection, the term ‘covered bond’ means any obli-

1 gation to which section 1272 or 1278(a) applies if  
2 such obligation—

3 “(A) was acquired after December 31,  
4 2014, through a transaction in the account in  
5 which such obligation is held, or

6 “(B) was transferred to such account from  
7 an account in which such obligation was a cov-  
8 ered bond, but only if the broker received a  
9 statement under section 6045A with respect to  
10 the transfer.

11 “(3) STATEMENTS TO CUSTOMERS.—The re-  
12 quirements of subsections (b) shall apply with re-  
13 spect to any return filed under subsection (a) by  
14 reason of this subsection.”.

15 (2) INFORMATION REQUIRED IN CONNECTION  
16 WITH TRANSFERS OF COVERED BONDS TO BRO-  
17 KERS.—Subsection (a) of section 6045A is amend-  
18 ed—

19 (A) by inserting “or a covered bond (as de-  
20 fined in section 6045(i)(2))” after “covered se-  
21 curity (as defined in section 6045(g)(3))”, and

22 (B) by striking “section 6045(g)” and in-  
23 serting “subsections (g) and (i) of section  
24 6045”.

1           (3) COORDINATION WITH REPORTING BY  
2 ISSUER OF ORIGINAL ISSUE DISCOUNT.—Paragraph  
3 (6) of section 6049(d) is amended by adding at the  
4 end the following new subparagraph:

5           “(C) PREVENTION OF DOUBLE REPORT-  
6           ING.—Except as otherwise provided by the Sec-  
7           retary, original issue discount with respect to  
8           any obligation shall not be required to be re-  
9           ported under this section if such original issue  
10          discount is required to be reported with respect  
11          to such obligation under section 6045(i).”.

12 (g) CONFORMING AMENDMENTS.—

13          (1) Section 857(e)(2)(B)(i), as amended by the  
14          preceding provisions of this Act, is amended by  
15          striking “or 1272” and inserting “1272, or 1278”.

16          (2) Section 1042(d) is amended by striking  
17          “section 1278(a)(2)(A)(ii)” in the matter following  
18          paragraph (2) and inserting “section  
19          1279(a)(2)(A)(ii)”.

20          (3) Section 1016(a), as amended by the pre-  
21          ceding provisions of this Act, is amended by adding  
22          at the end the following new paragraph:

23          “(39) in the case of any debt instrument, to ex-  
24          tend provided in sections 1272(d)(1), 1273(a)(2)(C),  
25          and 1278(d)(2).”.

1           (4) Section 1276 is amended by inserting “**ON**  
2           **BONDS NOT SUBJECT TO CURRENT INCLU-**  
3           **SION**” after “**ACCRUED MARKET DISCOUNT**” in  
4           the heading thereof.

5           (5) Section 1277 is amended by inserting “**ON**  
6           **BONDS NOT SUBJECT TO CURRENT INCLU-**  
7           **SION**” after “**ACCRUED MARKET DISCOUNT**” in  
8           the heading thereof.

9           (6) Section 1281 is amended by striking sub-  
10          section (c).

11          (7) Section 1282 is amended by striking sub-  
12          section (d).

13          (8) The table of sections for subpart B of part  
14          V of subchapter P of chapter 1 is amended to read  
15          as follows:

“Sec. 1276. Disposition gain representing accrued market discount on bonds  
not subject to current inclusion treated as ordinary income.

“Sec. 1277. Deferral of interest deduction allocable to accrued market discount  
on bonds not subject to current inclusion.

“Sec. 1278. Current inclusion in income of market discount on bonds acquired  
after 2014.

“Sec. 1279. Definitions and special rules.”.

16          (h) **EFFECTIVE DATE.**—

17           (1) **IN GENERAL.**—Except as provided in para-  
18          graph (2), the amendments made by this section  
19          shall apply to obligations acquired after December  
20          31, 2014.



1           (2) MODERNIZATION OF TERMS.—The amend-  
2           ments made by subsection (e) shall take effect on  
3           January 1, 2015.

4 **SEC. 3412. TREATMENT OF CERTAIN EXCHANGES OF DEBT**  
5 **INSTRUMENTS.**

6           (a) DETERMINATION OF ISSUE PRICE.—

7           (1) IN GENERAL.—Subpart A of part V of sub-  
8           chapter P is amended by inserting after section  
9           1274A the following new section:

10 **“SEC. 1274B. DETERMINATION OF ISSUE PRICE IN THE**  
11 **CASE OF AN EXCHANGE OF DEBT INSTRU-**  
12 **MENTS.**

13           “(a) IN GENERAL.—In the case of an exchange (in-  
14           cluding by significant modification) by an issuer of a new  
15           debt instrument for an existing debt instrument issued by  
16           the same issuer, the issue price of the new debt instrument  
17           shall be the least of—

18           “(1) the adjusted issue price of the existing  
19           debt instrument,

20           “(2) the stated principal amount of the new  
21           debt instrument, or

22           “(3) the imputed principal amount of the new  
23           debt instrument.

1       “(b) APPLICABLE RATE.—The discount rate used to  
2 determine the imputed principal amount of the new debt  
3 instrument under subsection (a)(3) shall be the lesser of—

4               “(1) the applicable Federal rate determined  
5 under section 1274(d) with respect to the new debt  
6 instrument, or

7               “(2) the greater of—

8                       “(A) the rate of qualified stated interest  
9 with respect to the existing debt instrument, or

10                      “(B) the applicable Federal rate deter-  
11 mined under section 1274(d) with respect to  
12 the existing debt instrument.

13       “(c) TREATMENT OF INVESTMENT UNITS.—Rules  
14 similar to the rules of section 1273(c)(2) shall apply for  
15 purposes of this section.”.

16       (2) CONFORMING AMENDMENTS.—

17               (A) Section 108(e)(10)(B) is amended by  
18 striking “and 1274” and inserting “, 1274, and  
19 1274B”.

20               (B) Section 1274(c)(3), as amended by the  
21 preceding provisions of this Act, is amended by  
22 adding at the end the following new subpara-  
23 graph:

1                   “(F) CERTAIN MODIFIED DEBT.—Any debt  
2                   instrument the issue price of which is deter-  
3                   mined under section 1274B.”.

4                   (C) The table of sections for subpart A of  
5                   part V of subchapter P is amended by inserting  
6                   after the item relating to section 1274A the fol-  
7                   lowing new item:

“Sec. 1274B. Determination of issue price in the case of an exchange of debt  
instruments.”.

8                   (b) NONRECOGNITION OF GAIN OR LOSS BY HOLD-  
9                   ER.—

10                  (1) IN GENERAL.—Section 1037 is amended to  
11                  read as follows:

12                  **“SEC. 1037. CERTAIN EXCHANGES OF DEBT INSTRUMENTS.**

13                  “(a) NONRECOGNITION OF GAIN OR LOSS.—No gain  
14                  or loss shall be recognized to the holder of a debt instru-  
15                  ment if such existing debt instrument is exchanged solely  
16                  for a new debt instrument (whether by exchange or signifi-  
17                  cant modification) issued by the same issuer.

18                  “(b) PROPERTY ATTRIBUTABLE TO ACCRUED INTER-  
19                  EST.—Subsection (a) shall not apply to the extent that  
20                  any property received is attributable to interest which ac-  
21                  crued on the existing debt instrument on or after the be-  
22                  ginning of the holder’s holding period of such instrument.

23                  “(c) LIMITATION ON GAIN RECOGNITION IN CASE OF  
24                  EXCHANGE NOT SOLELY FOR A NEW DEBT INSTRU-

1 MENT.—In the case of an exchange of a debt instrument  
2 to which section 1035(d) applies, the amount of gain rec-  
3 ognized shall not exceed the amount of gain which would  
4 have been recognized if section 1274B did not apply.

5 “(d) CROSS REFERENCES.—

6 “(1) For rules relating to securities exchanged  
7 or distributed in a reorganization, etc., see sections  
8 354, 355, and 356.

9 “(2) For rules relating to recognition of gain or  
10 loss where exchange was not made solely for another  
11 debt instrument of the issuer, see subsections (d)  
12 and (e) of section 1035.

13 “(3) For rules relating to basis of obligations  
14 acquired in an exchange described in subsection (a),  
15 see subsection (f) of section 1035.”

16 (2) CLERICAL AMENDMENT.—The table of sec-  
17 tions for part III of subchapter O of chapter 1 is  
18 amended by striking the item relating to section  
19 1037 and inserting the following new item:

“Sec. 1037. Certain exchanges of debt instruments.”

20 (c) APPLICATION TO EXCESS PRINCIPAL RULES FOR  
21 CORPORATE REORGANIZATIONS.—

22 (1) EXCHANGES OF SECURITIES IN REORGA-  
23 NIZATIONS.—

24 (A) IN GENERAL.—Section 354(a)(2)(A)(i)  
25 is amended to read as follows:

1           “(i) the issue price of any such securi-  
2           ties received exceeds the adjusted issue  
3           price of any such securities surrendered,  
4           or”.

5           (B) DEFINITIONS.—Section 354(a)(2) is  
6           amended by inserting after subparagraph (C)  
7           the following new subparagraph:

8           “(D) DEFINITIONS.—For purposes of this  
9           paragraph—

10           “(i) ISSUE PRICE.—The issue price of  
11           any security shall be determined under sec-  
12           tions 1273, 1274, and 1274B.

13           “(ii) ADJUSTED ISSUE PRICE.—The  
14           adjusted issue price of any security shall  
15           be determined under section 1275(a)(5).”.

16           (2) SECTION 355 TRANSACTIONS.—Section  
17           355(a)(3)(A)(i) is amended to read as follows:

18           “(i) the issue price (as defined in sec-  
19           tion 354(a)(2)(D)) of the securities in the  
20           controlled corporation which are received  
21           exceeds the adjusted issue price (as so de-  
22           fined) of the securities which are surren-  
23           dered in connection with such distribution,  
24           or”.

25           (3) SECTION 356 TRANSACTIONS.—

1 (A) IN GENERAL.—Section  
2 356(d)(2)(B)(ii) is amended to read as follows:

3 “(ii) the issue price (as defined in sec-  
4 tion 354(a)(2)(D)) of such securities re-  
5 ceived exceeds the adjusted issue price (as  
6 so defined) of such securities surren-  
7 dered.”.

8 (B) CONFORMING AMENDMENTS.—

9 (i) Section 356(d)(2)(B) is amended  
10 in the matter following clause (ii)—

11 (I) by striking “the fair market  
12 value of such excess” and inserting  
13 “the amount of such excess”, and

14 (II) by striking “the entire prin-  
15 cipal amount” and inserting “the en-  
16 tire issue price (as so defined)”.

17 (ii) Section 356(d)(2)(C) is amended  
18 to read as follows:

19 “(C) GREATER PRINCIPAL AMOUNT IN  
20 SECTION 355 TRANSACTION.—If, in an exchange  
21 or distribution described in section 355, the  
22 issue price (as defined in section 354(a)(2)(D))  
23 of the securities in the controlled corporation  
24 which are received exceeds the adjusted issue  
25 price (as so defined) of the securities in the dis-

1           tributing corporation which are surrendered,  
2           then, with respect to such securities received,  
3           the term ‘other property’ means only the  
4           amount of such excess.”.

5           (d) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to transactions after December 31,  
7 2014.

8 **SEC. 3413. COORDINATION WITH RULES FOR INCLUSION**  
9                           **NOT LATER THAN FOR FINANCIAL ACCOUNT-**  
10                           **ING PURPOSES.**

11           (a) IN GENERAL.—Section 451(b), as amended by  
12 the preceding provisions of this Act, is amended by insert-  
13 ing immediately after the heading thereof (and before  
14 paragraph (1) thereof) the following: “Notwithstanding  
15 any other provision of law (including part V of subchapter  
16 P)—”.

17           (b) EFFECTIVE DATE; CHANGE IN METHOD OF AC-  
18 COUNTING.—The amendment made by subsection (a) shall  
19 be treated for purposes of section 3303(g) as though such  
20 amendment were made by section 3303(a).

21 **SEC. 3414. RULES REGARDING CERTAIN GOVERNMENT**  
22                           **DEBT.**

23           (a) REPEAL OF CERTAIN SUPERCEDED RULES.—  
24 Subpart B of part II of subchapter E of chapter 1 is  
25 amended by striking section 454 (and by striking the item

1 relating to such section in the table of sections for such  
2 subpart).

3 (b) PRESERVATION OF RULES RELATED TO UNITED  
4 STATES SAVINGS BONDS.—Subpart A of part V of sub-  
5 chapter P of chapter 1 is amended by inserting after sec-  
6 tion 1272 the following new section:

7 **“SEC. 1272A. UNITED STATES SAVINGS BONDS.**

8 “(a) ELECTION TO INCLUDE INCREASE IN REDEMP-  
9 TION PRICE IN INCOME.—A taxpayer holding a United  
10 States savings bond may elect (on the taxpayer’s return  
11 for the taxable year) to treat any increase in the redemp-  
12 tion price as income received in the taxable year. If any  
13 such election is made with respect to any such obligation,  
14 it shall apply also to all such obligations owned by the  
15 taxpayer at the beginning of the first taxable year to which  
16 it applies and to all such obligations thereafter acquired  
17 by the taxpayer and shall be binding for all subsequent  
18 taxable years, unless revoked with the consent of the Sec-  
19 retary. In the case of any such obligations owned by the  
20 taxpayer at the beginning of the first taxable year to which  
21 the taxpayer’s election applies, the increase in the redemp-  
22 tion price of such obligations occurring between the date  
23 of acquisition and the first day of such taxable year shall  
24 also be treated as income received in such taxable year.



1       “(b) TREATMENT UPON REDEMPTION OR FINAL MA-  
2       TURITY.—The increase in redemption value of a United  
3       States savings bond (to the extent not previously included  
4       in gross income) in excess of the adjusted basis of such  
5       bond shall be included in gross income in the earlier of  
6       the taxable year in which the bond is redeemed or in the  
7       taxable year of final maturity.

8       “(c) CROSS REFERENCES.—

9               “(1) For exception from current inclusion of  
10              original issue discount, see section 1272(a)(2)(B).

11             “(2) For exception from market discount rules,  
12              see section 1279(a)(1)(B)(iii).”.

13       “(c) CONFORMING AMENDMENTS.—

14             (1) Section 852(b)(2), as amended by the pre-  
15              ceding provisions of this Act, is amended by striking  
16              subparagraph (E) and redesignating subparagraphs  
17              (F) and (G) as subparagraphs (E) and (F), respec-  
18              tively.

19             (2) Section 1283(c)(3), as amended by the pre-  
20              ceding provisions of this Act, is amended by striking  
21              all that precedes “shall not apply” and inserting the  
22              following:

23             “(3) COORDINATION WITH SECTION 1271.—Sec-  
24              tion 1271(a)(3)”.

1           (3) Section 7871(a)(6) is amended by adding  
2           “and” at the end of subparagraph (A) and by strik-  
3           ing subparagraph (C).

4           (4) The table of sections for subpart A of part  
5           V of subchapter P of chapter 1 is amended by in-  
6           serting after the item relating to section 1272 the  
7           following new item:

“Sec. 1272A. United States savings bonds.”.

8           (d) EFFECTIVE DATE.—The amendments made by  
9           this section shall take effect on the date of the enactment  
10          of this Act.

11          **PART 3—CERTAIN RULES FOR DETERMINING**  
12                                    **GAIN AND LOSS**

13          **SEC. 3421. COST BASIS OF SPECIFIED SECURITIES DETER-**  
14                                    **MINED WITHOUT REGARD TO IDENTIFICA-**  
15                                    **TION.**

16          (a) IN GENERAL.—Section 1012 is amended by add-  
17          ing at the end the following new subsection:

18           “(e) COST BASIS OF SPECIFIED SECURITIES DETER-  
19          MINED WITHOUT REGARD TO IDENTIFICATION.—Except  
20          to the extent otherwise provided in this section or in regu-  
21          lations thereunder permitting the use of an average basis  
22          method for determining cost, in the case of the sale, ex-  
23          change, or other disposition of a specified security (within  
24          the meaning of section 6045(g)(3)(B)), the basis (and

1 holding period) of such security shall be determined on  
2 a first-in first-out basis.”.

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 1012(c)(1) is amended by striking  
5 “the conventions prescribed by regulations under  
6 this section” and inserting “the method applicable  
7 for determining the cost of such security”.

8 (2) Section 1012(c)(2)(A) is amended by strik-  
9 ing “section 1012” and inserting “this section (as in  
10 effect prior to the enactment of the Tax Reform Act  
11 of 2014)”.

12 (3) Section 6045(g)(2)(B)(i)(I) is amended by  
13 striking “unless the customer notifies the broker by  
14 means of making an adequate identification of the  
15 stock sold or transferred”.

16 (c) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to sales, exchanges, and other dis-  
18 positions after December 31, 2014.

19 **SEC. 3422. WASH SALES BY RELATED PARTIES.**

20 (a) APPLICATION OF WASH SALE RULES TO RE-  
21 LATED PARTIES.—Subsection (a) of section 1091 is  
22 amended by striking “the taxpayer has acquired” and in-  
23 serting “the taxpayer (or a related party) has acquired”.

24 (b) MODIFICATION OF BASIS ADJUSTMENT RULE TO  
25 PREVENT TRANSFER OF LOSSES TO RELATED PAR-

1 TIES.—Subsection (d) of section 1091 is amended to read  
2 as follows:

3 “(d) ADJUSTMENT TO BASIS IN CASE OF WASH  
4 SALE.—If the taxpayer (or the taxpayer’s spouse) ac-  
5 quires substantially identical stock or securities during the  
6 period which—

7 “(1) begins 30 days before the disposition with  
8 respect to which a deduction was disallowed under  
9 subsection (a), and

10 “(2) ends with the close of the taxpayer’s first  
11 taxable year which begins after such disposition,  
12 the basis of such stock or securities shall be increased by  
13 the amount of the deduction so disallowed (reduced by any  
14 amount of such deduction taken into account under this  
15 subsection to increase the basis of stock or securities pre-  
16 viously acquired).”.

17 (e) RELATED PARTY.—Section 1091 is amended by  
18 adding at the end the following new subsection:

19 “(g) RELATED PARTY.—For purposes of this sec-  
20 tion—

21 “(1) IN GENERAL.—The term ‘related party’  
22 means—

23 “(A) the taxpayer’s spouse,

1           “(B) any dependent of the taxpayer and  
2 any other taxpayer with respect to whom the  
3 taxpayer is a dependent,

4           “(C) any individual, corporation, partner-  
5 ship, trust, or estate which controls, or is con-  
6 trolled by, (within the meaning of section  
7 954(d)(3)) the taxpayer or any individual de-  
8 scribed in subparagraph (A) or (B) with respect  
9 to the taxpayer (or any combination thereof),

10          “(D) any individual retirement plan, Ar-  
11 cher MSA (as defined in section 220(d)), or  
12 health savings account (as defined in section  
13 223(d)), of the taxpayer or of any individual de-  
14 scribed in subparagraph (A) or (B) with respect  
15 to the taxpayer,

16          “(E) any account under a qualified tuition  
17 program described in section 529 or a Coverdell  
18 education savings account (as defined in section  
19 530(b)) if the taxpayer, or any individual de-  
20 scribed in subparagraph (A) or (B) with respect  
21 to the taxpayer, is the designated beneficiary of  
22 such account or has the right to make any deci-  
23 sion with respect to the investment of any  
24 amount in such account, and

25          “(F) any account under—

1                   “(i) a plan described in section  
2                   401(a),

3                   “(ii) an annuity plan described in sec-  
4                   tion 403(a),

5                   “(iii) an annuity contract described in  
6                   section 403(b), or

7                   “(iv) an eligible deferred compensa-  
8                   tion plan described in section 457(b) and  
9                   maintained by an employer described in  
10                  section 457(e)(1)(A),

11                  if the taxpayer or any individual described in  
12                  subparagraph (A) or (B) with respect to the  
13                  taxpayer has the right to make any decision  
14                  with respect to the investment of any amount in  
15                  such account.

16                  “(2) RULES FOR DETERMINING STATUS.—

17                  “(A) RELATIONSHIPS DETERMINED AT  
18                  TIME OF ACQUISITION.—Determinations under  
19                  paragraph (1) shall be made as of the time of  
20                  the purchase or exchange referred to in sub-  
21                  section (a) except that determinations under  
22                  subparagraphs (A) and (B) of paragraph (1)  
23                  shall be made for the taxable year which in-  
24                  cludes such purchase or exchange.

1           “(B) DETERMINATION OF MARITAL STA-  
2           TUS.—

3                   “(i) IN GENERAL.—Except as pro-  
4                   vided in clause (ii), marital status shall be  
5                   determined under section 7703.

6                   “(ii) SPECIAL RULE FOR MARRIED IN-  
7                   DIVIDUALS FILING SEPARATELY AND LIV-  
8                   ING APART.—A husband and wife who—

9                           “(I) file separate returns for any  
10                           taxable year, and

11                           “(II) live apart at all times dur-  
12                           ing such taxable year,

13                           shall not be treated as married individuals.

14           “(3) REGULATIONS.—The Secretary shall issue  
15           such regulations or other guidance as may be nec-  
16           essary to prevent the avoidance of the purposes of  
17           this subsection, including regulations which treat  
18           persons as related parties if such persons are formed  
19           or availed of to avoid the purposes of this sub-  
20           section.”.

21           (d) EFFECTIVE DATE.—The amendments made by  
22           this section shall apply to sales and other dispositions  
23           after December 31, 2014.

1 **SEC. 3423. NONRECOGNITION FOR DERIVATIVE TRANS-**  
2 **ACTIONS BY A CORPORATION WITH RESPECT**  
3 **TO ITS STOCK.**

4 (a) IN GENERAL.—Section 1032 is amended to read  
5 as follows:

6 **“SEC. 1032. DERIVATIVE TRANSACTIONS BY A CORPORA-**  
7 **TION WITH RESPECT TO ITS STOCK.**

8 “(a) IN GENERAL.—Except as otherwise provided in  
9 this section or section 76, section 1032 derivative items  
10 of a corporation shall not be taken into account in deter-  
11 mining such corporation’s liability for tax under this sub-  
12 title.

13 “(b) INCOME RECOGNITION ON CERTAIN FORWARD  
14 CONTRACTS.—

15 “(1) IN GENERAL.—If—

16 “(A) a corporation acquires its stock, and

17 “(B) such acquisition is part of a plan (or  
18 series of related transactions) pursuant to  
19 which the corporation enters into a forward  
20 contract with respect to its stock,

21 such corporation shall include amounts in income as  
22 if the excess of the amount to be received under the  
23 forward contract over the fair market value of the  
24 stock as of the date the corporation entered into the  
25 forward contract were original issue discount on a  
26 debt instrument acquired on such date. The pre-



1 ceding sentence shall apply only to the extent that  
2 the amount of stock involved in the forward contract  
3 does not exceed the amount acquired as described in  
4 subparagraph (A).

5 “(2) PLAN PRESUMED TO EXIST.—If a corpora-  
6 tion enters into a forward contract with respect to  
7 its stock within the 60-day period beginning on the  
8 date which is 30 days before the date that the cor-  
9 poration acquires its stock, such acquisition shall be  
10 treated as pursuant to a plan described in paragraph  
11 (1)(B) unless it is established that entering into  
12 such contract and such acquisition are not pursuant  
13 to a plan or series of related transactions.

14 “(c) SECTION 1032 DERIVATIVE ITEMS.—For pur-  
15 poses of this section, the term ‘section 1032 derivative  
16 item’ means any item of income, gain, loss, or deduction  
17 if—

18 “(1) such item arises out of the rights or obli-  
19 gations under any derivative (as defined in section  
20 486) to the extent such derivative relates to the cor-  
21 poration’s stock (or is attributable to any transfer or  
22 extinguishment of any such right or obligation), or

23 “(2) such item arises under any other contract  
24 or position but only to the extent that such item re-

1       flects (or is determined by reference to) changes in  
2       the value of such stock or distributions thereon.

3 Such term shall not include any deduction with respect  
4 to which section 83(h) applies and shall not include any  
5 deduction for any item which is in the nature of compensa-  
6 tion for services rendered. For purposes of this subpara-  
7 graph, de minimis relationships, as determined by the Sec-  
8 retary, shall be disregarded.

9       “(d) TREASURY STOCK TREATED AS STOCK.—Any  
10 reference in this section to stock shall be treated as includ-  
11 ing a reference to treasury stock.

12       “(e) REGULATIONS.—The Secretary shall prescribe  
13 such regulations or other guidance as may be appropriate  
14 to carry out the purposes of this section, including regula-  
15 tions or other guidance which—

16               “(1) treat the portion of an instrument which  
17 is described in subsection (e)(1) separately from the  
18 portion of such instrument which is not so described,  
19 and

20               “(2) treat section 1032 derivative items as con-  
21 tributions to the capital of the corporation to the ex-  
22 tent that the application of this section would be in-  
23 consistent with the purposes of section 76(b).”.

1 (b) CLERICAL AMENDMENT.—The item relating to  
2 section 1032 in the table of sections for part III of sub-  
3 chapter O of chapter 1 is amended to read as follows:

“Sec. 1032. Derivative transactions by a corporation with respect to its stock.”.

4 (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to transactions entered into after  
6 the date of the enactment of this Act.

#### 7 **PART 4—TAX FAVORED BONDS**

##### 8 **SEC. 3431. TERMINATION OF PRIVATE ACTIVITY BONDS.**

9 (a) IN GENERAL.—Paragraph (1) of section 103(b)  
10 is amended—

11 (1) by striking “which is not a qualified bond  
12 (within the meaning of section 141)”, and

13 (2) by striking “WHICH IS NOT A QUALIFIED  
14 BOND” in the heading thereof.

15 (b) CONFORMING AMENDMENTS.—

16 (1) Section 141 is amended by striking sub-  
17 section (e).

18 (2) Subpart A of part IV of subchapter B of  
19 chapter 1 is amended by striking sections 142, 143,  
20 144, 145, 146, and 147 (and by striking each of the  
21 items relating to such sections in the table of sec-  
22 tions for such subpart).

23 (3) Section 25 is amended by adding at the end  
24 the following new subsection:

1       “(j) COORDINATION WITH REPEAL OF PRIVATE AC-  
2 TIVITY BONDS.—Any reference to section 143, 144, or  
3 146 shall be treated as a reference to such section as in  
4 effect before its repeal by the Tax Reform Act of 2014.”.

5           (4) Section 26(b)(2) is amended by striking  
6 subparagraph (D).

7           (5) Section 141(b) is amended by striking para-  
8 graphs (5) and (9) and by redesignating paragraphs  
9 (6), (7), and (8) as paragraphs (5), (6), and (7), re-  
10 spectively.

11           (6) Section 141(d) is amended by striking para-  
12 graph (5) and by redesignating paragraphs (6) and  
13 (7) as paragraphs (5) and (6).

14           (7) Section 148(b)(2)(E) is amended by strik-  
15 ing “in the case of a bond other than a private activ-  
16 ity bond,”.

17           (8) Section 148(b)(3) is amended to read as fol-  
18 lows:

19           “(3) TAX-EXEMPT BONDS NOT TREATED AS IN-  
20 VESTMENT PROPERTY.—The term ‘investment prop-  
21 erty’ does not include any tax-exempt bond.”.

22           (9) Section 148(f)(3) is amended by striking  
23 “or is a private activity bond” in the fourth sen-  
24 tence.

25           (10) Section 148(f)(4) is amended—

1 (A) by striking “(determined in accordance  
2 with section 147(b)(2)(A))” in the flush matter  
3 following subparagraph (A)(ii),

4 (B) by striking the last sentence of sub-  
5 paragraph (D)(v), and

6 (C) by adding at the end the following new  
7 subparagraph:

8 “(E) AVERAGE MATURITY.—For purposes  
9 of this paragraph, the average maturity of any  
10 issue shall be determined by taking into account  
11 the respective issue prices of the bonds issued  
12 as part of such issue.”.

13 (11) Section 148(f)(4)(A) is amended in the  
14 flush matter after clause (ii) by striking “In the case  
15 of an issue no bond of which is a private activity  
16 bond, clause” and inserting “Clause”.

17 (12) Section 148(f)(4)(B)(ii) is amended—

18 (A) by striking subclause (II), and

19 (B) by striking “CERTAIN BONDS.—” and  
20 all that follows through “issue described in sub-  
21 clause (II)” and inserting “CERTAIN BONDS.—  
22 In the case of an issue no bond of which is a  
23 tax or revenue anticipation bond”.

24 (13)(A) Section 148(f)(4)(C)(iv) is amended to  
25 read as follows:

1           “(iv) CONSTRUCTION ISSUE.—For  
2           purposes of this subparagraph, the term  
3           ‘construction issue’ means any issue if at  
4           least 75 percent of the available construc-  
5           tion proceeds of such issue are to be used  
6           for construction expenditures with respect  
7           to property which is to be owned by a gov-  
8           ernmental unit.”.

9           (B) Section 148(f)(4)(C) is amended by re-  
10          designating clauses (v) through (xvii) as clauses  
11          (viii) through (xx), respectively, and by insert-  
12          ing after clause (iv) the following new clauses:

13               “(v) CONSTRUCTION.—For purposes  
14               of this subparagraph, the term ‘construc-  
15               tion’ includes reconstruction and rehabili-  
16               tation.

17               “(vi) SAFE HARBOR FOR LEASES AND  
18               MANAGEMENT CONTRACTS.—For purposes  
19               of this subparagraph, property leased by a  
20               governmental unit shall be treated as  
21               owned by such governmental unit if—

22                       “(I) the lessee makes an irrev-  
23                       ocable election (binding on the lessee  
24                       and all successors in interest under  
25                       the lease) not to claim depreciation or

1 an investment credit with respect to  
2 such property,

3 “(II) the lease term (as defined  
4 in section 168(h)(1)) is not more than  
5 80 percent of the reasonably expected  
6 economic life of the property, and

7 “(III) the lessee has no option to  
8 purchase the property other than at  
9 fair market value (as of the time such  
10 option is exercised).

11 “(vii) DETERMINATION OF ECONOMIC  
12 LIFE.—For purposes of clause (vi), the  
13 reasonably expected economic life of any  
14 facility shall be determined as of the later  
15 of—

16 “(I) the date on which the bonds  
17 are issued, or

18 “(II) the date on which the facil-  
19 ity is placed in service (or expected to  
20 be placed in service).”.

21 (C) Section 148(f)(4)(D) is amended by  
22 striking “subparagraph (C)(iv)” each place it  
23 appears and inserting “subparagraph (C)(v)”.

24 (14) Section 148(f)(4)(D)(i) is amended—

25 (A) by striking subclause (II),

1 (B) by striking “(other than private activ-  
2 ity bonds)” in subclause (IV), and

3 (C) by redesignating subclauses (III) and  
4 (IV) (as amended by subparagraph (B)) as sub-  
5 clauses (II) and (III).

6 (15) Section 148(f)(4)(D)(ii) is amended by  
7 striking “subclause (IV)” both places it appears and  
8 inserting “subclause (III)”.

9 (16) Section 148(f)(4)(D)(iii) is amended by  
10 striking “subclause (IV)” and inserting “subclause  
11 (III)”.

12 (17) Section 148(f)(4)(D)(iv)(II) is amended by  
13 striking “clause (i)(IV)” and inserting “clause  
14 (i)(III)”.

15 (18) Section 148(f)(4)(D)(vi) is amended by  
16 striking the last sentence.

17 (19) Section 148(f)(7) is amended by striking  
18 subparagraph (A) and by redesignating subpara-  
19 graphs (B) and (C) as subparagraphs (A) and (B).

20 (20) Section 149(b)(3) is amended—

21 (A) by striking subparagraph (C) and by  
22 redesignating subparagraphs (D) and (E) as  
23 subparagraphs (C) and (D), and



1 (B) by striking “subparagraph (E)” in  
2 subparagraph (A)(iv) and inserting “subpara-  
3 graph (D)”.

4 (21) Section 149(e)(2) is amended—

5 (A) by striking subparagraphs (C), (D),  
6 and (F) and by redesignating subparagraphs  
7 (E) and (G) as subparagraphs (C) and (D), re-  
8 spectively, and

9 (B) by striking the second sentence.

10 (22) Section 149(f)(6) is amended—

11 (A) by striking subparagraph (B), and

12 (B) by striking “For purposes of this sub-  
13 section” and all that follows through “The  
14 term” and inserting the following: “For pur-  
15 poses of this subsection, the term”.

16 (23) Section 150 is amended by striking sub-  
17 sections (b) and (c) and by redesignating subsections  
18 (d) and (e) as subsections (b) and (c), respectively.

19 (24) Section 150(e)(3) is amended to read as  
20 follows:

21 “(3) PUBLIC APPROVAL REQUIREMENT.—A  
22 bond shall not be treated as part of an issue which  
23 meets the requirements of paragraph (1) unless such  
24 bond satisfies the requirements of section 147(f)(2)

1 (as in effect before its repeal by the Tax Reform Act  
2 of 2014).”.

3 (25) Section 269A(b)(3) is amended by striking  
4 “144(a)(3)” and inserting “414(n)(6)(A)”.

5 (26) Section 414(m)(5) is amended by striking  
6 “section 144(a)(3)” and inserting “subsection  
7 (n)(6)(A)”.

8 (27) Section 414(n)(6)(A) is amended to read  
9 as follows:

10 “(A) RELATED PERSONS.—A person is a  
11 related person to another person if—

12 “(i) the relationship between such per-  
13 sons would result in a disallowance of  
14 losses under section 267 or 707(b), or

15 “(ii) such persons are members of the  
16 same controlled group of corporations (as  
17 defined in section 1563(a), except that  
18 ‘more than 50 percent’ shall be substituted  
19 for ‘at least 80 percent’ each place it ap-  
20 pears therein).”.

21 (28) Section 6045(e)(4)(B) is amended by in-  
22 serting “(as in effect before its repeal by the Tax  
23 Reform Act of 2014)” after “section 143(m)(3)”.

1           (29) Section 6654(f)(1) is amended by inserting  
2           “(as in effect before its repeal by the Tax Reform  
3           Act of 2014)” after “section 143(m)”.

4           (30) Section 7871(c) is amended—

5                 (A) by striking paragraphs (2) and (3),  
6                 and

7                 (B) by striking “TAX-EXEMPT BONDS.—”  
8                 and all that follows through “Subsection (a) of  
9                 section 103” and inserting the following: “TAX-  
10                 EXEMPT BONDS.—Subsection (a) of section  
11                 103”.

12           (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to bonds issued after December  
14 31, 2014.

15 **SEC. 3432. TERMINATION OF CREDIT FOR INTEREST ON**  
16 **CERTAIN HOME MORTGAGES.**

17           (a) IN GENERAL.—Section 25, as amended by the  
18 preceding provisions of this Act, is amended by adding at  
19 the end the following new subsection:

20                 “(k) TERMINATION.—No credit shall be allowed  
21 under this section with respect to any mortgage credit cer-  
22 tificate issued after December 31, 2014.”.

23           (b) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply to taxable years ending after De-  
25 cember 31, 2014.

1 **SEC. 3433. REPEAL OF ADVANCE REFUNDING BONDS.**

2 (a) IN GENERAL.—Paragraph (1) of section 149(d)  
3 is amended by striking “as part of an issue described in  
4 paragraph (2), (3), or (4).” and inserting “to advance re-  
5 fund a bond.”.

6 (b) CONFORMING AMENDMENTS.—

7 (1) Section 149(d) is amended by striking para-  
8 graphs (2), (3), (4), and (6) and by redesignating  
9 paragraphs (5) and (7) as paragraphs (2) and (3).

10 (2) Section 148(f)(4)(C), as amended by the  
11 preceding provisions of this Act, is amended by  
12 striking clause (xvii) and by redesignating clauses  
13 (xviii), (xix), and (xx) as clauses (xvii), (xviii), and  
14 (xix), respectively.

15 (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to advance refunding bonds issued  
17 after December 31, 2014.

18 **SEC. 3434. REPEAL OF TAX CREDIT BOND RULES.**

19 (a) IN GENERAL.—Part IV of subchapter A of chap-  
20 ter 1 is amended by striking subparts H, I, and J (and  
21 by striking the items relating to such subparts in the table  
22 of subparts for such part).

23 (b) PAYMENTS TO ISSUERS.—Subchapter B of chap-  
24 ter 65 is amended by striking section 6431 (and by strik-  
25 ing the item relating to such section in the table of sec-  
26 tions for such subchapter).

1 (c) CONFORMING AMENDMENTS.—

2 (1) Section 6211(b)(4)(A) is amended by strik-  
3 ing “and 6431”.

4 (2) Section 6401(b)(1) is amended by striking  
5 “G, H, I, and J” and inserting “and G”.

6 (d) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to bonds issued after the date of  
8 the enactment of this Act.

## 9 **Subtitle F—Insurance Reforms**

### 10 **SEC. 3501. EXCEPTION TO PRO RATA INTEREST EXPENSE** 11 **DISALLOWANCE FOR CORPORATE-OWNED** 12 **LIFE INSURANCE RESTRICTED TO 20-PER-** 13 **CENT OWNERS.**

14 (a) IN GENERAL.—Subparagraph (A) of section  
15 264(f)(4) is amended—

16 (1) by striking “policy or contract)—” and all  
17 that follows through “A policy or contract” and in-  
18 serting “policy or contract) a 20-percent owner of  
19 such entity. A policy or contract”, and

20 (2) by striking “, OFFICERS, DIRECTORS, AND  
21 EMPLOYEES” in the heading.

22 (b) CONFORMING AMENDMENT.—Section 264(f)(4)  
23 is amended by striking subparagraph (E).

24 (c) EFFECTIVE DATE.—The amendment made by  
25 this section shall apply to contracts issued after December

1 31, 2014. For purposes of the preceding sentence, any ma-  
2 terial increase in the death benefit or other material  
3 change in the contract shall be treated as a new contract.

4 **SEC. 3502. NET OPERATING LOSSES OF LIFE INSURANCE**  
5 **COMPANIES.**

6 (a) IN GENERAL.—Paragraph (5) of section 805(a)  
7 is amended to read as follows:

8 “(5) NET OPERATING LOSS DEDUCTION.—The  
9 deduction allowed under section 172, determined—

10 “(A) by treating the net operating loss for  
11 any taxable year as equal to the excess (if any)  
12 of—

13 “(i) the life insurance deductions for  
14 such taxable year, over

15 “(ii) the life insurance gross income  
16 for such taxable year, and

17 “(B) by applying subsection (d)(5) thereof  
18 with the modifications described in paragraph  
19 (4) of this subsection.”.

20 (b) CONFORMING AMENDMENTS.—

21 (1) Part I of subchapter L of chapter 1 is  
22 amended by striking section 810 (and by striking  
23 the item relating to such section in the table of sec-  
24 tions for such part).

1           (2) Part III of subchapter L of chapter 1 is  
2 amended by striking section 844 (and by striking  
3 the item relating to such section in the table of sec-  
4 tions for such part).

5           (3) Section 381 is amended by striking sub-  
6 section (d).

7           (4) Section 805(a)(4)(B)(i), as redesignated by  
8 the preceding provisions of this Act, is amended to  
9 read as follows:

10                   “(ii) the net operating loss deduction  
11                   provided by paragraph (5),”.

12           (5) Section 805(b)(2)(A)(iii), as redesignated  
13 by the preceding provisions of this Act, is amended  
14 to read as follows:

15                   “(iv) any net operating loss carryback  
16                   to the taxable year under section 172 (as  
17                   applied pursuant to subsection (a)(5)),  
18                   and”.

19           (6) Section 805(b) is amended by striking para-  
20 graph (4) and redesignating paragraph (5) as para-  
21 graph (4).

22           (7) Section 953(b)(1)(A), as redesignated by  
23 the preceding provisions of this Act, is amended by  
24 striking “operations” and inserting “net operating”.

1           (8) Section 1351(i)(3) is amended by striking  
2           “or the operations loss deduction under section  
3           810,”.

4           (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to losses arising in taxable years  
6 beginning after December 31, 2014.

7 **SEC. 3503. REPEAL OF SMALL LIFE INSURANCE COMPANY**  
8 **DEDUCTION.**

9           (a) IN GENERAL.—Part I of subchapter L of chapter  
10 1 is amended by striking section 806 (and by striking the  
11 item relating to such section in the table of sections for  
12 such part).

13           (b) CONFORMING AMENDMENTS.—

14                 (1) Section 453B(e) is amended—

15                         (A) by striking “(as defined in section  
16                         806(b)(3))” in paragraph (2)(B), and

17                         (B) by adding at the end the following new  
18                         paragraph:

19                                 “(3) NONINSURANCE BUSINESS.—

20   “(A) IN GENERAL.—For purposes of this  
21   subsection, the term ‘noninsurance business’  
22   means any activity which is not an insurance  
23   business.

24   “(B) CERTAIN ACTIVITIES TREATED AS IN-  
25   SURANCE BUSINESSES.—For purposes of sub-



1 paragraph (A), any activity which is not an in-  
2 surance business shall be treated as an insur-  
3 ance business if—

4 “(i) it is of a type traditionally carried  
5 on by life insurance companies for invest-  
6 ment purposes, but only if the carrying on  
7 of such activity (other than in the case of  
8 real estate) does not constitute the active  
9 conduct of a trade or business, or

10 “(ii) it involves the performance of ad-  
11 ministrative services in connection with  
12 plans providing life insurance, pension, or  
13 accident and health benefits.”.

14 (2) Section 465(c)(7)(D)(v)(II) is amended by  
15 striking “section 806(b)(3)” and inserting “section  
16 453B(e)(3)”.

17 (3) Section 801(a)(2) is amended by striking  
18 subparagraph (C).

19 (4) Section 804 is amended by striking  
20 “means—” and all that follows and inserting  
21 “means the general deductions provided in section  
22 805.”.

23 (5) Section 805(a)(4)(B) is amended by strik-  
24 ing clause (i) and by redesignating clauses (ii), (iii),  
25 and (iv) as clauses (i), (ii), and (iii), respectively.

1 (6) Section 805(b)(2)(A) is amended by strik-  
2 ing clause (iii) and by redesignating clauses (iv) and  
3 (v) as clauses (iii) and (iv), respectively.

4 (7) Section 815(c)(2)(A) is amended by insert-  
5 ing “and” at the end of clause (i), by striking clause  
6 (ii), and by redesignating clause (iii) as clause (ii).

7 (8) Section 842(e) is amended by striking para-  
8 graph (1) and by redesignating paragraphs (2) and  
9 (3) as paragraphs (1) and (2), respectively.

10 (9) Section 953(b)(1) is amended by striking  
11 subparagraph (A) and by redesignating subpara-  
12 graphs (B) and (C) as subparagraphs (A) and (B),  
13 respectively.

14 (c) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 2014.

17 **SEC. 3504. COMPUTATION OF LIFE INSURANCE TAX RE-**  
18 **SERVES.**

19 (a) IN GENERAL.—Subparagraph (B) of section  
20 807(d)(2) is amended to read as follows:

21 “(B) an interest rate equal to the sum  
22 of—

23 “(i) the applicable Federal interest  
24 rate, plus

25 “(ii) 3.5 percentage points, and”.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Paragraph (4) of section 807(d) is amended  
3 to read as follows:

4 “(4) APPLICABLE FEDERAL INTEREST RATE.—

5 “(A) IN GENERAL.—Except as provided in  
6 subparagraph (B), the term ‘applicable Federal  
7 interest rate’ means the annual rate determined  
8 by the Secretary under subparagraph (C) for  
9 the calendar year in which the contract was  
10 issued.

11 “(B) ELECTION TO RECOMPUTE FEDERAL  
12 INTEREST RATE EVERY 5 YEARS.—For pur-  
13 poses of this subsection—

14 “(i) IN GENERAL.—In computing the  
15 amount of the reserve with respect to any  
16 contract to which an election under this  
17 subparagraph applies for periods during  
18 any recomputation period, the applicable  
19 Federal interest rate shall be the annual  
20 rate determined by the Secretary under  
21 subparagraph (C) for the 1st year of such  
22 period. No change in the applicable Fed-  
23 eral interest rate shall be made under the  
24 preceding sentence unless such change

1 would equal or exceed  $\frac{1}{2}$  of 1 percentage  
2 point.

3 “(ii) RECOMPUTATION PERIOD.—For  
4 purposes of clause (i), the term ‘recompu-  
5 tation period’ means, with respect to any  
6 contract, the 5 calendar year period begin-  
7 ning with the 5th calendar year beginning  
8 after the calendar year in which the con-  
9 tract was issued (and each subsequent 5  
10 calendar year period).

11 “(iii) ELECTION.—An election under  
12 this subparagraph shall apply to all con-  
13 tracts issued during the calendar year for  
14 which the election was made or during any  
15 subsequent calendar year unless such elec-  
16 tion is revoked with the consent of the Sec-  
17 retary.

18 “(iv) SPREAD NOT AVAILABLE.—Sub-  
19 section (f) shall not apply to any adjust-  
20 ment required under this paragraph.

21 “(C) RATE OF INTEREST.—

22 “(i) IN GENERAL.—For purposes of  
23 this paragraph, the rate of interest deter-  
24 mined under this subparagraph shall be

1 the annual rate determined by the Sec-  
2 retary under clause (ii).

3 “(ii) DETERMINATION OF ANNUAL  
4 RATE.—

5 “(I) IN GENERAL.—The annual  
6 rate determined by the Secretary  
7 under this clause for any calendar  
8 year shall be a rate equal to the aver-  
9 age of the applicable Federal mid-  
10 term rates (as defined in section  
11 1274(d) but based on annual  
12 compounding) effective as of the be-  
13 ginning of each of the calendar  
14 months in the test period.

15 “(II) TEST PERIOD.—For pur-  
16 poses of subclause (I), the test period  
17 is the most recent 60-calendar-month  
18 period ending before the beginning of  
19 the calendar year for which the deter-  
20 mination is made.”.

21 (2) The first sentence following paragraph (6)  
22 in section 807(c) is amended by striking “the appli-  
23 cable Federal interest rate under subsection  
24 (d)(2)(B)(i), the prevailing State assumed interest  
25 rate under subsection (d)(2)(B)(ii),” and inserting

1 “the interest rate determined under subsection  
2 (d)(2)(B)”.

3 (3) Section 808 is amended by adding at the  
4 end the following new subsection:

5 “(g) PREVAILING STATE ASSUMED INTEREST  
6 RATE.—For purposes of this subchapter—

7 “(1) IN GENERAL.—The term ‘prevailing State  
8 assumed interest rate’ means, with respect to any  
9 contract, the highest assumed interest rate per-  
10 mitted to be used in computing life insurance re-  
11 serves for insurance contracts or annuity contracts  
12 (as the case may be) under the insurance laws of at  
13 least 26 States. For purposes of the preceding sen-  
14 tence, the effect of nonforfeiture laws of a State on  
15 interest rates for reserves shall not be taken into ac-  
16 count.

17 “(2) WHEN RATE DETERMINED.—The pre-  
18 vailing State assumed interest rate with respect to  
19 any contract shall be determined as of the beginning  
20 of the calendar year in which the contract was  
21 issued.”.

22 (4) Paragraph (1) of section 811(d) is amended  
23 by striking “the greater of the prevailing State as-  
24 sumed interest rate or applicable Federal interest

1 rate in effect under section 807” and inserting “the  
2 interest rate in effect under section 807(d)(2)(B)”.

3 (5) Subparagraph (A) of section 846(f)(6) is  
4 amended by striking “except that” and all that fol-  
5 lows and inserting “except that the limitation of  
6 subsection (a)(3) shall apply in lieu of the limitation  
7 of the last sentence of section 807(d)(1), and”.

8 (6) Subparagraph (B) of section 954(i)(5) is  
9 amended by striking “shall be substituted for the  
10 prevailing State assumed interest rate” and insert-  
11 ing “shall, if higher, be substituted for the interest  
12 rate in effect under section 807(d)(2)(B)”.

13 (c) EFFECTIVE DATE.—

14 (1) IN GENERAL.—The amendments made by  
15 this section shall apply to taxable years beginning  
16 after December 31, 2014.

17 (2) TRANSITION RULE.—For the first taxable  
18 year beginning after December 31, 2014, the reserve  
19 with respect to any contract (as determined under  
20 section 807(d)(2) of the Internal Revenue Code of  
21 1986) at the end of the preceding taxable year shall  
22 be determined as if the amendments made by this  
23 section had applied to such reserve in such preceding  
24 taxable year and by using the interest rate applica-  
25 ble to such reserves under section 807(d)(2) of the

1 Internal Revenue Code of 1986 for calendar year  
2 2015. For subsequent taxable years, such amend-  
3 ments shall be applied with respect to such reserve  
4 by using the interest rate applicable under such sec-  
5 tion for calendar year 2015.

6 (3) TRANSITION RELIEF.—

7 (A) IN GENERAL.—If—

8 (i) the reserve determined under sec-  
9 tion 807(d)(2) of the Internal Revenue  
10 Code of 1986 with respect to any contract  
11 as of the close of the year preceding the  
12 first taxable year beginning after Decem-  
13 ber 31, 2014, differs from

14 (ii) the reserve which would have been  
15 determined with respect to such contract  
16 as of the close of such taxable year under  
17 such section determined without regard to  
18 paragraph (2),

19 then the difference between the amount of the  
20 reserve described in clause (i) and the amount  
21 of the reserve described in clause (ii) shall be  
22 taken into account under the method provided  
23 in subparagraph (B).

24 (B) METHOD.—The method provided in  
25 this subparagraph is as follows:



1 (i) if the amount determined under  
2 subparagraph (A)(i) exceeds the amount  
3 determined under subparagraph (A)(ii),  $\frac{1}{8}$   
4 of such excess shall be taken into account,  
5 for each of the 8 succeeding taxable years,  
6 as a deduction under section 805(a)(2) of  
7 such Code, or

8 (ii) if the amount determined under  
9 subparagraph (A)(ii) exceeds the amount  
10 determined under subparagraph (A)(i),  $\frac{1}{8}$   
11 of such excess shall be included in gross in-  
12 come, for each of the 8 succeeding taxable  
13 years, under section 803(a)(2) of such  
14 Code.

15 **SEC. 3505. ADJUSTMENT FOR CHANGE IN COMPUTING RE-**  
16 **SERVES.**

17 (a) IN GENERAL.—Paragraph (1) of section 807(f)  
18 is amended to read as follows:

19 “(1) TREATMENT AS CHANGE IN METHOD OF  
20 ACCOUNTING.—If the basis for determining any item  
21 referred to in subsection (c) as of the close of any  
22 taxable year differs from the basis for such deter-  
23 mination as of the close of the preceding taxable  
24 year, then so much of the difference between—

1           “(A) the amount of the item at the close  
2           of the taxable year, computed on the new basis,  
3           and

4           “(B) the amount of the item at the close  
5           of the taxable year, computed on the old basis,  
6           as is attributable to contracts issued before the tax-  
7           able year shall be taken into account under section  
8           481 as adjustments attributable to a change in  
9           method of accounting initiated by the taxpayer and  
10          made with the consent of the Secretary.”.

11          (b) EFFECTIVE DATE.—The amendments made by  
12          this section shall apply to taxable years beginning after  
13          December 31, 2014.

14          **SEC. 3506. MODIFICATION OF RULES FOR LIFE INSURANCE**  
15                                   **PRORATION FOR PURPOSES OF DETER-**  
16                                   **MINING THE DIVIDENDS RECEIVED DEDUC-**  
17                                   **TION.**

18          (a) IN GENERAL.—Section 812 is amended to read  
19          as follows:

20          **“SEC. 812. DETERMINATION OF COMPANY’S AND POLICY-**  
21                                   **HOLDER’S SHARE ON ACCOUNT BY ACCOUNT**  
22                                   **BASIS.**

23          “(a) DETERMINATION ON ACCOUNT BY ACCOUNT  
24          BASIS.—Sections 805(a)(4) and 807 shall be applied on  
25          an account by account basis.

1       “(b) COMPANY’S SHARE.—For purposes of section  
2 805(a)(4), the term ‘company’s share’ means, with respect  
3 to any account for any taxable year, the ratio (expressed  
4 as a percentage) of—

5               “(1) the excess of—

6                       “(A) the mean assets of such account for  
7 such taxable year, over

8                       “(B) the mean reserves with respect to  
9 such account for such taxable year, divided by

10               “(2) the mean assets of such account for such  
11 taxable year.

12       “(c) POLICYHOLDER’S SHARE.—For purposes of sec-  
13 tion 807, the term ‘policyholder’s share’ means, with re-  
14 spect to any account for any taxable year, the excess of  
15 100 percent over the percentage determined under para-  
16 graph (2).

17       “(d) MEAN ASSETS AND MEAN RESERVES DE-  
18 FINED.—For purposes of this subsection—

19               “(1) MEAN ASSETS.—The term ‘mean assets’  
20 means, with respect to any account for any taxable  
21 year, 50 percent of the sum of—

22                       “(A) the fair market value of the assets of  
23 such account determined as of the beginning of  
24 such taxable year, and

1           “(B) the fair market value of the assets of  
2           such account determined as of the close of such  
3           taxable year.

4           “(2) MEAN RESERVES.—The term ‘mean re-  
5           serves’ means, with respect to any account for any  
6           taxable year, 50 percent of the sum of—

7           “(A) the reserves with respect to such ac-  
8           count as determined under section 807 as of  
9           the beginning of such taxable year, and

10           “(B) the reserves with respect to such ac-  
11           count as determined under section 807 as of  
12           the close of such taxable year.

13           “(3) CERTAIN DIVIDENDS NOT TAKEN INTO AC-  
14           COUNT.—Dividends described in section 246(c) shall  
15           not be taken into account for purposes of deter-  
16           mining mean assets or mean reserves.

17           “(4) FEES AND EXPENSES NOT TAKEN INTO  
18           ACCOUNT.—Fees and expenses shall not be taken  
19           into account for purposes of determining mean as-  
20           sets or mean reserves.”.

21           (b) CONFORMING AMENDMENT.—Section 817A(e)(2)  
22           is amended by striking “, 807(d)(2)(B), and 812” and in-  
23           serting “and 807(d)(2)(B)”

24           (c) CLERICAL AMENDMENT.—The table of sections  
25           for subpart D of part I of subchapter L of chapter 1 is

1 amended by striking the item relating to section 812 and  
2 inserting the following:

“Sec. 812. Determination of company’s and policyholder’s share on account by  
account basis.”.

3 (d) **EFFECTIVE DATE.**—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2014.

6 **SEC. 3507. REPEAL OF SPECIAL RULE FOR DISTRIBUTIONS**  
7 **TO SHAREHOLDERS FROM PRE-1984 POLICY-**  
8 **HOLDERS SURPLUS ACCOUNT.**

9 (a) **IN GENERAL.**—Subpart D of part I of subchapter  
10 L is amended by striking section 815 (and by striking the  
11 item relating to such section in the table of sections for  
12 such subpart).

13 (b) **CONFORMING AMENDMENT.**—Section 801 is  
14 amended by striking subsection (e).

15 (c) **EFFECTIVE DATE.**—The amendments made by  
16 this section shall apply to taxable years beginning after  
17 December 31, 2014.

18 (d) **PHASED INCLUSION OF REMAINING BALANCE OF**  
19 **POLICYHOLDERS SURPLUS ACCOUNTS.**—In the case of  
20 any stock life insurance company which has a balance (de-  
21 termined as of the close of such company’s last taxable  
22 year beginning before January 1, 2015) in an existing pol-  
23 icyholders surplus account (as defined in section 815 of  
24 the Internal Revenue Code of 1986, as in effect before

1 its repeal), the tax imposed by section 801 of such Code  
2 for the first 8 taxable years beginning after December 31,  
3 2014, shall be the amount which would be imposed by  
4 such section for such year on the sum of—

5 (1) life insurance company taxable income for  
6 such year (within the meaning of such section 801  
7 but not less than zero), plus

8 (2)  $\frac{1}{8}$  of such balance.

9 **SEC. 3508. MODIFICATION OF PRORATION RULES FOR**  
10 **PROPERTY AND CASUALTY INSURANCE COM-**  
11 **PANIES.**

12 (a) **IN GENERAL.**—Section 832(b)(5)(B) is amended  
13 by striking “15 percent” and inserting “the percentage  
14 determined under subparagraph (F))”.

15 (b) **DETERMINATION OF PERCENTAGE.**—Section  
16 832(b)(5) is amended by adding at the end the following  
17 new subparagraph:

18 “(F) **DETERMINATION OF PERCENTAGE.**—

19 “(i) **IN GENERAL.**—For purposes of  
20 subparagraph (B), the percentage deter-  
21 mined under this subparagraph is the ratio  
22 (expressed as a percentage) of—

23 “(I) the average adjusted bases  
24 (within the meaning of section 1016)

1 of tax-exempt assets of the company,  
2 to

3 “(II) such average adjusted bases  
4 of all assets of the company.

5 “(ii) TAX-EXEMPT ASSETS.—For pur-  
6 poses of clause (i)(I), the term ‘tax-exempt  
7 assets’ means assets of the type which give  
8 rise to income described in subparagraph  
9 (B).”.

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2014.

13 **SEC. 3509. REPEAL OF SPECIAL TREATMENT OF BLUE**  
14 **CROSS AND BLUE SHIELD ORGANIZATIONS,**  
15 **ETC.**

16 (a) TRANSITIONAL REPEAL OF SPECIAL RULES.—

17 (1) IN GENERAL.—Section 833 is amended by  
18 striking subsection (b), by redesignating subsection  
19 (c) as subsection (b), and by amending subsection  
20 (a) to read as follows:

21 “(a) IN GENERAL.—An organization to which this  
22 section applies shall be taxable under this part in the same  
23 manner as if it were a stock insurance company.”.

24 (2) TAX STATUS NOT DEPENDENT ON MEDICAL  
25 LOSS RATIO.—Subsection (b) of section 833, as re-

1 designated by subsection (a), is amended by striking  
2 paragraph (5).

3 (3) EFFECTIVE DATE.—The amendments made  
4 by this subsection shall apply to taxable years begin-  
5 ning after December 31, 2014.

6 (b) REPEAL OF STATUTORY TREATMENT AS A STOCK  
7 INSURANCE COMPANY.—

8 (1) IN GENERAL.—Part II of subchapter L of  
9 chapter is amended by striking section 833 (and by  
10 striking the item relating to such section in the table  
11 of sections for such part).

12 (2) EFFECTIVE DATE.—The amendments made  
13 by this subsection shall apply to taxable years begin-  
14 ning after December 31, 2016.

15 **SEC. 3510. MODIFICATION OF DISCOUNTING RULES FOR**  
16 **PROPERTY AND CASUALTY INSURANCE COM-**  
17 **PANIES.**

18 (a) MODIFICATION OF RATE OF INTEREST USED TO  
19 DISCOUNT UNPAID LOSSES.—Paragraph (2) of section  
20 846(e) is amended to read as follows:

21 “(2) DETERMINATION OF ANNUAL RATE.—The  
22 annual rate determined by the Secretary under this  
23 paragraph for any calendar year shall be a rate de-  
24 termined on the basis of the corporate bond yield  
25 curve (as defined in section 430(h)(2)(D)(i)).”.



1 (b) MODIFICATION OF COMPUTATIONAL RULES FOR  
2 LOSS PAYMENT PATTERNS.—Section 846(d)(3) is amend-  
3 ed by striking subparagraphs (B) through (G) and insert-  
4 ing the following new subparagraphs:

5 “(B) TREATMENT OF CERTAIN LOSSES.—  
6 Losses which would have been treated as paid  
7 in the last year of the period applicable under  
8 subparagraph (A)(i) or (A)(ii) shall be treated  
9 as paid in the following manner:

10 “(i) 3-YEAR LOSS PAYMENT PAT-  
11 TERN.—

12 “(I) IN GENERAL.—The period  
13 taken into account under subpara-  
14 graph (A)(i) shall be extended to the  
15 extent required under subclause (II).

16 “(II) COMPUTATION OF EXTEN-  
17 SION.—The amount of losses which  
18 would have been treated as paid in the  
19 3d year after the accident year shall  
20 be treated as paid in such 3d year  
21 and each subsequent year in an  
22 amount equal to the amount of the  
23 losses treated as paid in the 2d year  
24 after the accident year (or, if lesser,

1 the portion of the unpaid losses not  
2 theretofore taken into account).

3 “(ii) 10-YEAR LOSS PAYMENT PAT-  
4 TERN.—

5 “(I) IN GENERAL.—The period  
6 taken into account under subpara-  
7 graph (A)(ii) shall be extended to the  
8 extent required under subclause (II).

9 “(II) COMPUTATION OF EXTEN-  
10 SION.—The amount of losses which  
11 would have been treated as paid in the  
12 10th year after the accident year shall  
13 be treated as paid in such 10th year  
14 and each subsequent year in an  
15 amount equal to the amount of the  
16 losses treated as paid in the 9th year  
17 after the accident year (or, if lesser,  
18 the portion of the unpaid losses not  
19 theretofore taken into account).

20 “(C) SPECIAL RULE FOR INTERNATIONAL  
21 AND REINSURANCE LINES OF BUSINESS.—Ex-  
22 cept as otherwise provided by regulations, any  
23 determination made under subsection (a) with  
24 respect to unpaid losses relating to the inter-  
25 national or reinsurance lines of business shall

1 be made using, in lieu of the loss payment pat-  
2 tern applicable to the respective lines of busi-  
3 ness, a pattern determined by the Secretary  
4 under paragraphs (1) and (2) based on the  
5 combined losses for all lines of business de-  
6 scribed in subparagraph (A)(ii).

7 “(D) SPECIAL RULE FOR 2D OR 9TH YEAR  
8 IF NEGATIVE OR ZERO.—

9 “(i) 3-YEAR LOSS PAYMENT PAT-  
10 TERN.—If the amount of the losses treated  
11 as paid in the 2d year after the accident  
12 year is zero or a negative amount, sub-  
13 paragraph (B)(i)(II) shall be applied by  
14 substituting the average of the losses treat-  
15 ed as paid in the 1st and 2d years after  
16 the accident year for the losses treated as  
17 paid in the 2d year after the accident year.

18 “(ii) 10-YEAR LOSS PAYMENT PAT-  
19 TERN.—If the amount of the losses treated  
20 as paid in the 9th year after the accident  
21 year is zero or a negative amount, sub-  
22 paragraph (B)(ii)(II) shall be applied by  
23 substituting the average of the losses treat-  
24 ed as paid in the 7th, 8th, and 9th years  
25 after the accident year for the losses treat-

1                   ed as paid in the 9th year after the acci-  
2                   dent year.”.

3           (c) REPEAL OF HISTORICAL PAYMENT PATTERN  
4 ELECTION.—Section 846 is amended by striking sub-  
5 section (e) and by redesignating subsections (f) and (g)  
6 as subsections (e) and (f), respectively.

7           (d) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 2014.

10          (e) TRANSITIONAL RULE.—For the first taxable year  
11 beginning after December 31, 2014—

12           (1) the unpaid losses and the expenses unpaid  
13           (as defined in paragraphs (5)(B) and (6) of section  
14           832(b) of the Internal Revenue Code of 1986) at the  
15           end of the preceding taxable year, and

16           (2) the unpaid losses as defined in sections  
17           807(c)(2) and 805(a)(1) of such Code at the end of  
18           the preceding taxable year,

19 shall be determined as if the amendments made by this  
20 section had applied to such unpaid losses and expenses  
21 unpaid in the preceding taxable year and by using the in-  
22 terest rate and loss payment patterns applicable to acci-  
23 dent years ending with calendar year 2015, and any ad-  
24 justment shall be taken into account ratably in such first  
25 taxable year and the 7 succeeding taxable years. For sub-

1 sequent taxable years, such amendments shall be applied  
2 with respect to such unpaid losses and expenses unpaid  
3 by using the interest rate and loss payment patterns appli-  
4 cable to accident years ending with calendar year 2015.

5 **SEC. 3511. REPEAL OF SPECIAL ESTIMATED TAX PAY-**  
6 **MENTS.**

7 (a) **IN GENERAL.**—Part III of subchapter L of chap-  
8 ter 1 is amended by striking section 847 (and by striking  
9 the item relating to such section in the table of sections  
10 for such part).

11 (b) **EFFECTIVE DATE.**—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 2014.

14 **SEC. 3512. CAPITALIZATION OF CERTAIN POLICY ACQUISI-**  
15 **TION EXPENSES.**

16 (a) **IN GENERAL.**—Paragraph (1) of section 848(c)  
17 is amended by striking subparagraphs (A), (B), and (C)  
18 and inserting the following new subparagraphs:

19 “(A) 5 percent of the net premiums for  
20 such taxable year on specified insurance con-  
21 tracts which are group contracts, and

22 “(B) 12 percent of the net premiums for  
23 such taxable year on specified insurance con-  
24 tracts not described in subparagraph (A).”.

1 (b) GROUP CONTRACTS.—So much of paragraph (2)  
2 of section 848(e) as precedes subparagraph (A) thereof is  
3 amended to read as follows:

4 “(2) GROUP CONTRACT.—The term ‘group con-  
5 tract’ means any specified insurance contract—”.

6 (c) CONFORMING AMENDMENTS.—Section 848(e) is  
7 amended by striking paragraphs (3) and (6) and by redес-  
8 ignating paragraphs (4) and (5) as paragraphs (3) and  
9 (4), respectively.

10 (d) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2014.

13 **SEC. 3513. TAX REPORTING FOR LIFE SETTLEMENT TRANS-**  
14 **ACTIONS.**

15 (a) IN GENERAL.—Subpart B of part III of sub-  
16 chapter A of chapter 61 is amended by adding at the end  
17 the following new section:

18 **“SEC. 6050X. RETURNS RELATING TO CERTAIN LIFE INSUR-**  
19 **ANCE CONTRACT TRANSACTIONS.**

20 “(a) REQUIREMENT OF REPORTING OF CERTAIN  
21 PAYMENTS.—

22 “(1) IN GENERAL.—Every person who acquires  
23 a life insurance contract or any interest in a life in-  
24 surance contract in a reportable policy sale during  
25 any taxable year shall make a return for such tax-

1       able year (at such time and in such manner as the  
2       Secretary shall prescribe) setting forth—

3               “(A) the name, address, and TIN of such  
4       person,

5               “(B) the name, address, and TIN of each  
6       recipient of payment in the reportable policy  
7       sale,

8               “(C) the date of such sale,

9               “(D) the name of the issuer of the life in-  
10       surance contract sold and the policy number of  
11       such contract, and

12              “(E) the amount of each payment.

13              “(2) STATEMENT TO BE FURNISHED TO PER-  
14       SONS WITH RESPECT TO WHOM INFORMATION IS RE-  
15       QUIRED.—Every person required to make a return  
16       under this subsection shall furnish to each person  
17       whose name is required to be set forth in such re-  
18       turn a written statement showing—

19              “(A) the name, address, and phone num-  
20       ber of the information contact of the person re-  
21       quired to make such return, and

22              “(B) the information required to be shown  
23       on such return with respect to such person, ex-  
24       cept that in the case of an issuer of a life insur-  
25       ance contract, such statement is not required to

1 include the information specified in paragraph  
2 (1)(E).

3 “(b) REQUIREMENT OF REPORTING OF SELLER’S  
4 BASIS IN LIFE INSURANCE CONTRACTS.—

5 “(1) IN GENERAL.—Upon receipt of the state-  
6 ment required under subsection (a)(2) or upon no-  
7 tice of a transfer of a life insurance contract to a  
8 foreign person, each issuer of a life insurance con-  
9 tract shall make a return (at such time and in such  
10 manner as the Secretary shall prescribe) setting  
11 forth—

12 “(A) the name, address, and TIN of the  
13 seller who transfers any interest in such con-  
14 tract in such sale,

15 “(B) the investment in the contract (as de-  
16 fined in section 72(e)(6)) with respect to such  
17 seller, and

18 “(C) the policy number of such contract.

19 “(2) STATEMENT TO BE FURNISHED TO PER-  
20 SONS WITH RESPECT TO WHOM INFORMATION IS RE-  
21 QUIRED.—Every person required to make a return  
22 under this subsection shall furnish to each person  
23 whose name is required to be set forth in such re-  
24 turn a written statement showing—



1           “(A) the name, address, and phone num-  
2           ber of the information contact of the person re-  
3           quired to make such return, and

4           “(B) the information required to be shown  
5           on such return with respect to each seller whose  
6           name is required to be set forth in such return.

7           “(c) REQUIREMENT OF REPORTING WITH RESPECT  
8 TO REPORTABLE DEATH BENEFITS.—

9           “(1) IN GENERAL.—Every person who makes a  
10          payment of reportable death benefits during any tax-  
11          able year shall make a return for such taxable year  
12          (at such time and in such manner as the Secretary  
13          shall prescribe) setting forth—

14          “(A) the name, address, and TIN of the  
15          person making such payment,

16          “(B) the name, address, and TIN of each  
17          recipient of such payment,

18          “(C) the date of each such payment, and

19          “(D) the amount of each such payment.

20          “(2) STATEMENT TO BE FURNISHED TO PER-  
21          SONS WITH RESPECT TO WHOM INFORMATION IS RE-  
22          QUIRED.—Every person required to make a return  
23          under this subsection shall furnish to each person  
24          whose name is required to be set forth in such re-  
25          turn a written statement showing—

1           “(A) the name, address, and phone num-  
2           ber of the information contact of the person re-  
3           quired to make such return, and

4           “(B) the information required to be shown  
5           on such return with respect to each recipient of  
6           payment whose name is required to be set forth  
7           in such return.

8           “(d) DEFINITIONS.—For purposes of this section:

9           “(1) PAYMENT.—The term ‘payment’ means  
10          the amount of cash and the fair market value of any  
11          consideration transferred in a reportable policy sale.

12          “(2) REPORTABLE POLICY SALE.—The term  
13          ‘reportable policy sale’ has the meaning given such  
14          term in section 101(a)(3)(B).

15          “(3) ISSUER.—The term ‘issuer’ means any life  
16          insurance company that bears the risk with respect  
17          to a life insurance contract on the date any return  
18          or statement is required to be made under this sec-  
19          tion.

20          “(4) REPORTABLE DEATH BENEFITS.—The  
21          term ‘reportable death benefits’ means amounts paid  
22          by reason of the death of the insured under a life  
23          insurance contract that has been transferred in a re-  
24          portable policy sale.”.

1 (b) CLERICAL AMENDMENT.—The table of sections  
2 for subpart B of part III of subchapter A of chapter 61  
3 is amended by inserting after the item relating to section  
4 6050W the following new item:

“Sec. 6050X. Returns relating to certain life insurance contract transactions.”.

5 (c) CONFORMING AMENDMENTS.—

6 (1) Subsection (d) of section 6724 is amend-  
7 ed—

8 (A) by striking “or” at the end of clause  
9 (xxiv) of paragraph (1)(B), by striking “and”  
10 at the end of clause (xxv) of such paragraph  
11 and inserting “or”, and by inserting after such  
12 clause (xxv) the following new clause:

13 “(xxvi) section 6050X (relating to re-  
14 turns relating to certain life insurance con-  
15 tract transactions), and”, and

16 (B) by striking “or” at the end of subpara-  
17 graph (GG) of paragraph (2), by striking the  
18 period at the end of subparagraph (HH) of  
19 such paragraph and inserting “, or”, and by in-  
20 serting after such subparagraph (HH) the fol-  
21 lowing new subparagraph:

22 “(II) subsection (a)(2), (b)(2), or (c)(2) of  
23 section 6050X (relating to returns relating to  
24 certain life insurance contract transactions).”.

25 (2) Section 6047 is amended—

1 (A) by redesignating subsection (g) as sub-  
2 section (h),

3 (B) by inserting after subsection (f) the  
4 following new subsection:

5 “(g) INFORMATION RELATING TO LIFE INSURANCE  
6 CONTRACT TRANSACTIONS.—This section shall not apply  
7 to any information which is required to be reported under  
8 section 6050X.”, and

9 (C) by adding at the end of subsection (h),  
10 as so redesignated, the following new para-  
11 graph:

12 “(4) For provisions requiring reporting of infor-  
13 mation relating to certain life insurance contract  
14 transactions, see section 6050X.”.

15 (d) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to—

17 (1) reportable policy sales (as defined in section  
18 6050X(d)(2) of the Internal Revenue Code of 1986  
19 (as added by subsection (a)) after December 31,  
20 2014, and

21 (2) reportable death benefits (as defined in sec-  
22 tion 6050X(d)(4) of such Code (as added by sub-  
23 section (a)) paid after December 31, 2014.

1 **SEC. 3514. CLARIFICATION OF TAX BASIS OF LIFE INSUR-**  
2 **ANCE CONTRACTS.**

3 (a) CLARIFICATION WITH RESPECT TO ADJUST-  
4 MENTS.—Paragraph (1) of section 1016(a) is amended by  
5 striking subparagraph (A) and all that follows and insert-  
6 ing the following:

7 “(A) for—

8 “(i) taxes or other carrying charges  
9 described in section 266; or

10 “(ii) expenditures described in section  
11 173 (relating to circulation expenditures),  
12 for which deductions have been taken by the  
13 taxpayer in determining taxable income for the  
14 taxable year or prior taxable years; or

15 “(B) for mortality, expense, or other rea-  
16 sonable charges incurred under an annuity or  
17 life insurance contract;”.

18 (b) EFFECTIVE DATE.—The amendment made by  
19 this section shall apply to transactions entered into after  
20 August 25, 2009.

21 **SEC. 3515. EXCEPTION TO TRANSFER FOR VALUABLE CON-**  
22 **SIDERATION RULES.**

23 (a) IN GENERAL.—Subsection (a) of section 101 is  
24 amended by inserting after paragraph (2) the following  
25 new paragraph:

1           “(3) EXCEPTION TO VALUABLE CONSIDERATION  
2           RULES FOR COMMERCIAL TRANSFERS.—

3           “(A) IN GENERAL.—The second sentence  
4           of paragraph (2) shall not apply in the case of  
5           a transfer of a life insurance contract, or any  
6           interest therein, which is a reportable policy  
7           sale.

8           “(B) REPORTABLE POLICY SALE.—For  
9           purposes of this paragraph, the term ‘reportable  
10          policy sale’ means the acquisition of an interest  
11          in a life insurance contract, directly or indi-  
12          rectly, if the acquirer has no substantial family,  
13          business, or financial relationship with the in-  
14          sured apart from the acquirer’s interest in such  
15          life insurance contract. For purposes of the pre-  
16          ceding sentence, the term ‘indirectly’ applies to  
17          the acquisition of an interest in a partnership,  
18          trust, or other entity that holds an interest in  
19          the life insurance contract.”.

20          (b) CONFORMING AMENDMENT.—Paragraph (1) of  
21          section 101(a) is amended by striking “paragraph (2)”  
22          and inserting “paragraphs (2) and (3)”.

23          (c) EFFECTIVE DATE.—The amendments made by  
24          this section shall apply to transfers after December 31,  
25          2014.

1 **Subtitle G—Pass-Thru and Certain**  
2 **Other Entities**

3 **PART 1—S CORPORATIONS**

4 **SEC. 3601. REDUCED RECOGNITION PERIOD FOR BUILT-IN**  
5 **GAINS MADE PERMANENT.**

6 (a) IN GENERAL.—Paragraph (7) of section 1374(d)  
7 (relating to definitions and special rules) is amended to  
8 read as follows:

9 “(7) RECOGNITION PERIOD.—

10 “(A) IN GENERAL.—The term ‘recognition  
11 period’ means the 5-year period beginning with  
12 the 1st day of the 1st taxable year for which  
13 the corporation was an S corporation. For pur-  
14 poses of applying this section to any amount in-  
15 cludible in income by reason of distributions to  
16 shareholders pursuant to section 593(e), the  
17 preceding sentence shall be applied without re-  
18 gard to the phrase ‘5-year’.

19 “(B) INSTALLMENT SALES.—If an S cor-  
20 poration sells an asset and reports the income  
21 from the sale using the installment method  
22 under section 453, the treatment of all pay-  
23 ments received shall be governed by the provi-  
24 sions of this paragraph applicable to the taxable  
25 year in which such sale was made.”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2013.

4 **SEC. 3602. MODIFICATIONS TO S CORPORATION PASSIVE**  
5 **INVESTMENT INCOME RULES.**

6 (a) INCREASED PERCENTAGE LIMIT.—Paragraph (2)  
7 of section 1375(a) is amended by striking “25 percent”  
8 and inserting “60 percent”.

9 (b) REPEAL OF EXCESSIVE PASSIVE INCOME AS A  
10 TERMINATION EVENT.—Section 1362(d) is amended by  
11 striking paragraph (3).

12 (c) CONFORMING AMENDMENTS.—

13 (1) Subsection (b) of section 1375 is amended  
14 by striking paragraphs (3) and (4) and inserting the  
15 following new paragraph:

16 “(3) PASSIVE INVESTMENT INCOME DE-  
17 FINED.—

18 “(A) IN GENERAL.—Except as otherwise  
19 provided in this paragraph, the term ‘passive  
20 investment income’ means gross receipts de-  
21 rived from royalties, rents, dividends, interest,  
22 and annuities.

23 “(B) EXCEPTION FOR INTEREST ON  
24 NOTES FROM SALES OF INVENTORY.—The term  
25 ‘passive investment income’ shall not include in-



1 interest on any obligation acquired in the ordi-  
2 nary course of the corporation's trade or busi-  
3 ness from its sale of property described in sec-  
4 tion 1221(a)(1).

5 “(C) TREATMENT OF CERTAIN LENDING  
6 OR FINANCE COMPANIES.—If the S corporation  
7 meets the requirements of section 542(c)(6) for  
8 the taxable year, the term ‘passive investment  
9 income’ shall not include gross receipts for the  
10 taxable year which are derived directly from the  
11 active and regular conduct of a lending or fi-  
12 nance business (as defined in section  
13 542(d)(1)).

14 “(D) TREATMENT OF CERTAIN DIVI-  
15 DENDS.—If an S corporation holds stock in a  
16 C corporation meeting the requirements of sec-  
17 tion 1504(a)(2), the term ‘passive investment  
18 income’ shall not include dividends from such C  
19 corporation to the extent such dividends are at-  
20 tributable to the earnings and profits of such C  
21 corporation derived from the active conduct of  
22 a trade or business.

23 “(E) EXCEPTION FOR BANKS, ETC.—In  
24 the case of a bank (as defined in section 581)  
25 or a depository institution holding company (as

1 defined in section 3(w)(1) of the Federal De-  
2 posit Insurance Act (12 U.S.C. 1813(w)(1)),  
3 the term ‘passive investment income’ shall not  
4 include—

5 “(i) interest income earned by such  
6 bank or company, or

7 “(ii) dividends on assets required to  
8 be held by such bank or company, includ-  
9 ing stock in the Federal Reserve Bank, the  
10 Federal Home Loan Bank, or the Federal  
11 Agricultural Mortgage Bank or participa-  
12 tion certificates issued by a Federal Inter-  
13 mediate Credit Bank.

14 “(F) GROSS RECEIPTS FROM THE SALES  
15 OF CERTAIN ASSETS.—For purposes of this  
16 paragraph—

17 “(i) CAPITAL ASSETS OTHER THAN  
18 STOCK AND SECURITIES.—In the case of  
19 dispositions of capital assets (other than  
20 stock and securities), gross receipts from  
21 such dispositions shall be taken into ac-  
22 count only to the extent of capital gain net  
23 income therefrom.

24 “(ii) STOCK AND SECURITIES.—In the  
25 case of sales or exchanges of stock or secu-

1           rities, gross receipts shall be taken into ac-  
2           count only to the extent of the gain there-  
3           from.

4           “(G) COORDINATION WITH SECTION  
5           1374.—The amount of passive investment in-  
6           come shall be determined by not taking into ac-  
7           count any recognized built-in gain or loss of the  
8           S corporation for any taxable year in the rec-  
9           ognition period. Terms used in the preceding  
10          sentence shall have the same respective mean-  
11          ings as when used in section 1374.”.

12          (2)(A) Subparagraph (J) of section 26(b)(2) is  
13          amended by striking “25 percent” and inserting “60  
14          percent”.

15          (B) Clause (i) of section 1375(b)(1)(A) is  
16          amended by striking “25 percent” and inserting “60  
17          percent”.

18          (C) The heading for section 1375 is amended  
19          by striking “**25 PERCENT**” and inserting “**60 PER-**  
20          **CENT**”.

21          (D) The item relating to section 1375 in the  
22          table of sections for part III of subchapter S of  
23          chapter 1 is amended by striking “25 percent” and  
24          inserting “60 percent”.



1           paid or incurred in connection with the admin-  
2           istration of the trust and which would not have  
3           been incurred if the property were not held in  
4           such trust shall be treated as allowable in arriv-  
5           ing at adjusted gross income.”.

6           (b) **EFFECTIVE DATE.**—The amendment made by  
7 this section shall apply to taxable years beginning after  
8 December 31, 2014.

9   **SEC. 3605. PERMANENT RULE REGARDING BASIS ADJUST-**  
10                           **MENT TO STOCK OF S CORPORATIONS MAK-**  
11                           **ING CHARITABLE CONTRIBUTIONS OF PROP-**  
12                           **ERTY.**

13           (a) **IN GENERAL.**—Section 1367(a)(2) (relating to  
14 decreases in basis) is amended by striking the last sen-  
15 tence.

16           (b) **EFFECTIVE DATE.**—The amendment made by  
17 this section shall apply to contributions made in taxable  
18 years beginning after December 31, 2013.

19   **SEC. 3606. EXTENSION OF TIME FOR MAKING S CORPORA-**  
20                           **TION ELECTIONS.**

21           (a) **IN GENERAL.**—Subsection (b) of section 1362 is  
22 amended to read as follows:

23           “(b) **WHEN MADE.**—

24                           “(1) **IN GENERAL.**—An election under sub-  
25           section (a) may be made by a small business cor-

1       poration for any taxable year not later than the due  
2       date for filing the return of the S corporation for  
3       such taxable year (including extensions).

4               “(2) CERTAIN ELECTIONS TREATED AS MADE  
5       FOR NEXT TAXABLE YEAR.—If—

6               “(A) an election under subsection (a) is  
7       made for any taxable year within the period de-  
8       scribed in paragraph (1), but

9               “(B) either—

10              “(i) on 1 or more days in such taxable  
11       year and before the day on which the elec-  
12       tion was made the corporation did not  
13       meet the requirements of subsection (b) of  
14       section 1361, or

15              “(ii) 1 or more of the persons who  
16       held stock in the corporation during such  
17       taxable year and before the election was  
18       made did not consent to the election,

19       then such election shall be treated as made for  
20       the following taxable year.

21               “(3) AUTHORITY TO TREAT LATE ELECTIONS,  
22       ETC., AS TIMELY.—If—

23               “(A) an election under subsection (a) is  
24       made for any taxable year after the date pre-  
25       scribed by this subsection for making such elec-

1           tion for such taxable year or no such election is  
2           made for any taxable year, and

3                   “(B) the Secretary determines that there  
4           was reasonable cause for the failure to timely  
5           make such election,

6           the Secretary may treat such an election as timely  
7           made for such taxable year.

8                   “(4) ELECTION ON TIMELY FILED RETURNS.—  
9           Except as otherwise provided by the Secretary, an  
10          election under subsection (a) for any taxable year  
11          may be made on a timely filed return of the S cor-  
12          poration for such taxable year.

13                   “(5) SECRETARIAL AUTHORITY.—The Secretary  
14          may prescribe such regulations, rules, or other guid-  
15          ance as may be necessary or appropriate for pur-  
16          poses of applying this subsection.”.

17          (b) COORDINATION WITH CERTAIN OTHER PROVI-  
18          SIONS.—

19                   (1) QUALIFIED SUBCHAPTER S SUBSIDI-  
20          ARIES.—Section 1361(b)(3)(B) is amended by add-  
21          ing at the end the following flush sentence:

22                   “Rules similar to the rules of section 1362(b)  
23          shall apply with respect to any election under  
24          clause (ii).”.

1           (2) QUALIFIED SUBCHAPTER S TRUSTS.—Sec-  
2           tion 1361(d)(2) is amended by striking subpara-  
3           graph (D).

4           (c) REVOCATIONS.—Paragraph (1) of section  
5 1362(d) is amended—

6           (1) by striking “subparagraph (D)” in subpara-  
7           graph (C) and inserting “subparagraphs (D) and  
8           (E)”, and

9           (2) by adding at the end the following new sub-  
10          paragraph:

11                   “(E) AUTHORITY TO TREAT LATE REVOCATIONS AS  
12                   TIMELY.—If—

13                           “(i) a revocation under subparagraph  
14                           (A) is made for any taxable year after the  
15                           date prescribed by this paragraph for mak-  
16                           ing such revocation for such taxable year  
17                           or no such revocation is made for any tax-  
18                           able year, and

19                                   “(ii) the Secretary determines that  
20                                   there was reasonable cause for the failure  
21                                   to timely make such revocation,  
22                           the Secretary may treat such a revocation as  
23                           timely made for such taxable year.”.

24          (d) EFFECTIVE DATE.—



1           (1) IN GENERAL.—Except as otherwise pro-  
2           vided in this subsection, the amendments made by  
3           this section shall apply to elections for taxable years  
4           beginning after December 31, 2014.

5           (2) REVOCATIONS.—The amendments made by  
6           subsection (c) shall apply to revocations after De-  
7           cember 31, 2014.

8   **SEC. 3607. RELOCATION OF C CORPORATION DEFINITION.**

9           (a) IN GENERAL.—Subsection (a) of section 1361 is  
10          amended—

11           (1) by striking paragraph (2), and

12           (2) by striking “S CORPORATION DEFINED.—”

13          and all that follows through “For purposes of this  
14          title, the term ‘S corporation’ means” and inserting  
15          the following: “IN GENERAL.—For purposes of this  
16          title, the term ‘S corporation’ means”.

17          (b) CONFORMING AMENDMENT.—Section 7701(a)(3)  
18          is amended—

19           (1) by striking “CORPORATION.—The term  
20          ‘corporation’ means” and inserting the following:

21          “CORPORATIONS.—

22           “(1) IN GENERAL.—The term ‘corporation’  
23          means”, and

24           (2) by adding at the end the following new  
25          paragraph:

1           “(2) C CORPORATIONS.—The term ‘C corpora-  
2           tion’ means, with respect to any taxable year, a cor-  
3           poration which is not an S corporation for such  
4           year.”.

5           (c) EFFECTIVE DATE.—The amendments made by  
6           this section shall take effect on the date of the enactment  
7           of this Act.

## 8                                   **PART 2—PARTNERSHIPS**

### 9           **SEC. 3611. REPEAL OF RULES RELATING TO GUARANTEED** 10                                   **PAYMENTS AND LIQUIDATING DISTRIBU-** 11                                   **TIONS.**

12           (a) PAYMENT TO PARTNER FOR SERVICES OR USE  
13           OF CAPITAL.—

14                   (1) IN GENERAL.—Section 707 is amended by  
15                   striking subsection (c).

16                   (2) CONFORMING AMENDMENTS.—

17                           (A) Section 267(e) is amended by striking  
18                           paragraph (4).

19                           (B) Section 706(a) is amended by striking  
20                           “and 707(c)”.

21                           (C) Section 1402(a) is amended, in the  
22                           matter following paragraph (17)—

23                                   (i) by striking “(after such gross in-  
24                                   come has been reduced by the sum of all

1 payments to which section 707(c) applies)”  
2 in clauses (iii) and (iv), and

3 (ii) by striking “(after such gross in-  
4 come has been so reduced)” in clause (iv).

5 (D) Section 2701(c)(1)(B) is amended by  
6 inserting “or” at the end of clause (i), by strik-  
7 ing “, or” at the end of clause (ii) and inserting  
8 a period, and by striking clause (iii).

9 (E) Section 7519(d) is amended by strik-  
10 ing paragraph (5).

11 (3) EFFECTIVE DATES.—

12 (A) IN GENERAL.—Except as otherwise  
13 provided in this paragraph, the amendments  
14 made by this subsection shall apply to partner-  
15 ship taxable years beginning after December  
16 31, 2014.

17 (B) TRANSFERS.—The amendment made  
18 by paragraph (2)(E) shall apply to transfers  
19 after December 31, 2014.

20 (b) PAYMENTS MADE IN LIQUIDATION OF RETIRING  
21 OR DECEASED PARTNER.—

22 (1) IN GENERAL.—Subpart B of part II of sub-  
23 chapter K of chapter 1 is amended by striking sec-  
24 tion 736 (and by striking the item relating to such  
25 section in the table of sections for such subpart).

1           (2) RETIRED PARTNERS AND SUCCESSORS IN  
2 INTEREST OF DECEASED PARTNERS TREATED AS  
3 PARTNERS UNTIL LIQUIDATION.—Section 761(d) is  
4 amended by adding at the end the following: “For  
5 purposes of this subchapter, any retired partner or  
6 a deceased partner’s successor in interest shall be  
7 treated as a partner until the complete liquidation of  
8 such interest.”

9           (3) CONFORMING AMENDMENT.—

10           (A) Section 357(c)(3)(A) is amended by  
11 striking “payment of which either—” and all  
12 that follows through “then, for purposes of”  
13 and inserting “payment of which would give  
14 rise to a deduction, then, for purposes of”.

15           (B) Section 731(d) is amended—

16           (i) by striking “section 736 (relating  
17 to payments to a retiring partner or a de-  
18 ceased partner’s successor in interest),”,  
19 and

20           (ii) by striking “items), and” and in-  
21 serting “items) and”.

22           (C) Section 751(b)(2) is amended—

23           (i) by striking subparagraph (B), and

24           (ii) by striking “shall not apply to—  
25 ” and all that follows through “a distribu-

1           tion of property” and inserting the fol-  
2           lowing: “shall not apply to a distribution of  
3           property”.

4           (D)(i) Section 753 is amended by striking  
5           “The amount includible” and all that follows  
6           and inserting “For treatment of income in re-  
7           spect of a decedent, see section 691.”

8           (ii) Section 691 is amended by striking  
9           subsection (e).

10          (4) EFFECTIVE DATE.—The amendments made  
11          by this subsection shall apply to partners retiring or  
12          dying after December 31, 2014.

13      **SEC. 3612. MANDATORY ADJUSTMENTS TO BASIS OF PART-**  
14                              **nership Property in Case of Transfer**  
15                              **of Partnership Interests.**

16          (a) IN GENERAL.—Section 743 is amended—

17                  (1) by striking subsections (a), (c), (d), (e), and  
18                  (f) and by redesignating subsection (b) as subsection  
19                  (a),

20                  (2) in subsection (a) (as so redesignated) by  
21                  striking “with respect to which the election provided  
22                  in section 754 is in effect or which has a substantial  
23                  built-in loss immediately after such transfer”, and

24                  (3) by adding at the end the following new sub-  
25                  section:

1 “(b) ALLOCATION OF BASIS.—

2 “(1) GENERAL RULE.—Any increase or de-  
3 crease in the adjusted basis of partnership property  
4 under subsection (a) shall, except as provided in  
5 paragraph (2), be allocated—

6 “(A) in a manner which has the effect of  
7 reducing the difference between the fair market  
8 value and the adjusted basis of partnership  
9 properties, or

10 “(B) in any other manner permitted by  
11 regulations prescribed by the Secretary.

12 “(2) SPECIAL RULE.—In applying the allocation  
13 rules provided in paragraph (1), increases or de-  
14 creases in the adjusted basis of partnership property  
15 arising from a transfer of an interest attributable to  
16 property consisting of—

17 “(A) capital assets and property described  
18 in section 1231(b), or

19 “(B) any other property of the partner-  
20 ship,

21 shall be allocated to partnership property of a like  
22 character except that the basis of any such partner-  
23 ship property shall not be reduced below zero.”.

24 (b) CONFORMING AMENDMENTS.—

25 (1) Section 704(c)(1) is amended—

1 (A) by adding “and” at the end of sub-  
2 paragraph (A),

3 (B) by striking “, and” at the end of sub-  
4 paragraph (B) and inserting a period, and

5 (C) by striking all that follows subpara-  
6 graph (B).

7 (2) Section 732 is amended by striking sub-  
8 section (d) and by redesignating subsections (e) and  
9 (f) as subsections (d) and (e), respectively.

10 (3) Section 761(e)(2) is amended by striking  
11 “optional”.

12 (4) Section 6031 is amended by striking sub-  
13 section (f).

14 (5) The heading for section 743 is amended to  
15 read as follows: “**ADJUSTMENT TO BASIS OF**  
16 **PARTNERSHIP PROPERTY.**”

17 (6) The heading for subsection (a) (as redesign-  
18 dated by the preceding provisions of this Act) of sec-  
19 tion 743 is amended by striking “ADJUSTMENT TO  
20 BASIS OF PARTNERSHIP PROPERTY” and inserting  
21 “IN GENERAL”.

22 (c) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to transfers after December 31,  
24 2014.

1 **SEC. 3613. MANDATORY ADJUSTMENTS TO BASIS OF UNDIS-**  
2 **TRIBUTED PARTNERSHIP PROPERTY.**

3 (a) IN GENERAL.—Section 734 is amended to read  
4 as follows:

5 **“SEC. 734. ADJUSTMENT TO BASIS OF UNDISTRIBUTED**  
6 **PARTNERSHIP PROPERTY.**

7 “(a) IN GENERAL.—In the case of any distribution  
8 to a partner, the partnership shall adjust the basis of part-  
9 nership property such that each remaining partner’s net  
10 liquidation amount immediately after such distribution is  
11 equal to such partner’s net liquidation amount imme-  
12 diately before such distribution.

13 “(b) DISTRIBUTIONS OTHER THAN IN LIQUIDATION  
14 OF A PARTNER’S INTEREST.—In the case of any distribu-  
15 tion to a partner other than in liquidation of such part-  
16 ner’s interest, proper adjustment shall be made under sub-  
17 section (a) with respect to such partner to take into ac-  
18 count—

19 “(1) the amount of any gain recognized by such  
20 partner with respect to such distribution under sec-  
21 tion 731(a), and

22 “(2) the amount of any gain or loss which  
23 would be recognized by such partner if such partner  
24 sold the property distributed at fair market value  
25 immediately after such distribution.



1       “(c) NET LIQUIDATION AMOUNT.—For purposes of  
2 this section, the term ‘net liquidation amount’ means, with  
3 respect to any partner, the net amount of gain or loss (if  
4 any) which would be taken into account by the partner  
5 under section 702 if the partnership sold all of its assets  
6 at fair market value (and no other amounts were taken  
7 into account under such section).

8       “(d) ALLOCATION OF BASIS.—

9           “(1) DECREASES IN BASIS.—Any decrease in  
10 the adjusted basis of partnership property which is  
11 required under this section—

12                   “(A) shall be made in accordance with  
13 paragraph (3) of section 732(c), and

14                   “(B) shall be made first with respect to  
15 property other than unrealized receivables (as  
16 defined in section 751(c)) and inventory (as de-  
17 fined in section 751(d)) to the extent thereof.

18       If any such decrease is prevented by the absence of  
19 sufficient adjusted basis of partnership property,  
20 each partner shall recognize gain in the amount of  
21 such partner’s distributive share of such prevented  
22 decrease. Such gain shall be treated as gain from  
23 the sale of the partner’s partnership interest.

1           “(2) INCREASES IN BASIS.—Any increase in the  
2           adjusted basis of partnership property which is re-  
3           quired under this section—

4                   “(A) shall be made in accordance with  
5                   paragraph (2) of section 732(c), and

6                   “(B) shall be made only with respect to  
7                   property other than unrealized receivables (as  
8                   defined in section 751(c)) and inventory (as de-  
9                   fined in section 751(d)).

10          If any such increase is prevented by the absence of  
11          property described in subparagraph (B), each part-  
12          ners shall recognize a loss in the amount of such  
13          partner’s distributive share of such prevented in-  
14          crease. Such loss shall be treated as a loss from the  
15          sale of the partner’s partnership interest.

16          “(e) NO ALLOCATION OF BASIS DECREASE TO  
17          STOCK OF CORPORATE PARTNER.—In making an alloca-  
18          tion under subsection (d) of any decrease in the adjusted  
19          basis of partnership property required under subsection  
20          (a)—

21                   “(1) no allocation may be made to stock in a  
22                   corporation (or any person related (within the mean-  
23                   ing of section 267(b) or 707(b)(1)) to such corpora-  
24                   tion) which is a partner in the partnership, and

1           “(2) any amount not allocable to stock by rea-  
2           son of paragraph (1) shall be allocated under sub-  
3           section (d) to other partnership property.

4           Gain shall be recognized by the partnership to the extent  
5           that the amount required to be allocated to other partner-  
6           ship property under subsection (e)(2) exceeds the aggre-  
7           gate adjusted basis of such other property immediately be-  
8           fore the allocation required by subsection (a).”.

9           (b) CONFORMING AMENDMENTS.—

10           (1)(A) Subpart D of part II of subchapter K of  
11           chapter 1 is amended by striking sections 754 and  
12           755 (and by striking items relating to such sections  
13           in the table of sections of such subpart).

14           (B) Clause (ii) of section 706(d)(2)(D) is  
15           amended by striking “section 755” and inserting  
16           “section 743(b)”.

17           (2) Subsection (d) of section 1060 is amend-  
18           ed—

19                   (A) by striking “section 755” in paragraph  
20                   (1) and inserting “sections 734 and 743”, and

21                   (B) by striking “section 755” in paragraph  
22                   (2) and inserting “section 734 or 743”.

23           (c) EFFECTIVE DATE.—The amendments made by  
24           this section shall apply to distributions after December 31,  
25           2014.

1 **SEC. 3614. CORRESPONDING ADJUSTMENTS TO BASIS OF**  
2 **PROPERTIES HELD BY PARTNERSHIP WHERE**  
3 **PARTNERSHIP BASIS ADJUSTED.**

4 (a) IN GENERAL.—Subpart B of part II of sub-  
5 chapter K of chapter 1, as amended by the preceding pro-  
6 visions of this Act, is amended by inserting after section  
7 735 the following new section:

8 **“SEC. 736. CORRESPONDING ADJUSTMENT TO BASIS OF**  
9 **PROPERTIES HELD BY LOWER-TIER PART-**  
10 **nership IN CASE OF UPPER-TIER PARTNER-**  
11 **SHIP BASIS ADJUSTMENTS.**

12 “(a) DISTRIBUTIONS BY UPPER-TIER PARTNER-  
13 SHIP.—In the case of any distribution of property to a  
14 partner by an upper-tier partnership, if such distribution  
15 results in an adjustment in the upper-tier partnership’s  
16 adjusted basis in an interest in a lower-tier partnership  
17 under section 734, then such lower-tier partnership shall  
18 make a corresponding adjustment to the adjusted basis  
19 of its partnership property.

20 “(b) DISTRIBUTIONS OF INTERESTS IN LOWER-TIER  
21 PARTNERSHIP.—In the case of any distribution of an in-  
22 terest in a lower-tier partnership by an upper-tier partner-  
23 ship—

24 “(1) if the adjusted basis of such interest in the  
25 hands of the upper-tier partnership (determined im-  
26 mediately before such distribution) exceeds the ad-

1       justed basis of such interest in the hands of the dis-  
2       tributee partner (determined immediately after such  
3       distribution), then such lower-tier partnership shall  
4       decrease the adjusted basis of its partnership prop-  
5       erty by the amount of such excess, or

6               “(2) if the adjusted basis of such interest in the  
7       hands of the distributee partner (determined imme-  
8       diately after such distribution) exceeds the adjusted  
9       basis of such interest in the hands of the upper-tier  
10      partnership (determined immediately before such  
11      distribution), then such lower-tier partnership shall  
12      increase the adjusted basis of its partnership prop-  
13      erty by the amount of such excess.

14      “(c) DISPOSITIONS OF INTERESTS IN UPPER-TIER  
15      PARTNERSHIP.—In the case of a disposition of an interest  
16      in an upper-tier partnership which holds an interest in a  
17      lower-tier partnership, if there is an adjustment to the ad-  
18      justed basis of the lower-tier partnership under section  
19      743, then such lower-tier partnership shall make a cor-  
20      responding adjustment to the adjusted basis of its part-  
21      nership property.

22      “(d) MULTI-TIERED PARTNERSHIPS.—In the case of  
23      any adjustment under subsection (a), (b), or (c) in the  
24      adjusted basis of an interest in another partnership, such

1 other partnership shall make a corresponding adjustment  
2 in the adjusted basis of its partnership property.

3 “(e) ALLOCATION OF BASIS; RECOGNITION OF  
4 GAIN.—In the case of any adjustment in the adjusted  
5 basis of partnership property—

6 “(1) under subsection (a), (b), (c), or (d), such  
7 adjustment shall be made only with respect to the  
8 upper-tier partnership’s proportionate share (as de-  
9 termined under section 743(a)) of the adjusted basis  
10 of the lower-tier partnership’s property,

11 “(2) under subsection (a) or (b) (or so much of  
12 subsection (d) as relates to either such subsection),  
13 rules similar to the rules of section 734(d) shall  
14 apply, and

15 “(3) under subsection (c) (or so much of sub-  
16 section (d) as relates to such subsection), rules simi-  
17 lar to the rules of section 743(b) shall apply.

18 “(f) REPORTING.—In the case of any adjustment in  
19 the adjusted basis of partnership property by a lower-tier  
20 partnership under this section by reason of a distribution  
21 by, or a disposition of an interest in, an upper-tier part-  
22 nership, such upper-tier partnership shall furnish (in such  
23 manner as the Secretary shall prescribe) to such lower-  
24 tier partnership such information as is necessary to enable  
25 such lower-tier partnership to make such adjustment.

1 “(g) UPPER- AND LOWER-TIER PARTNERSHIPS.—

2 For purposes of this section—

3 “(1) UPPER-TIER PARTNERSHIP.—The term  
4 ‘upper-tier partnership’ means a partnership owning  
5 an interest in another partnership.

6 “(2) LOWER-TIER PARTNERSHIP.—The term  
7 ‘lower-tier partnership’ means the partnership re-  
8 ferred to in paragraph (1) an interest in which is  
9 owned by the upper-tier partnership.”.

10 (b) EFFECTIVE DATES.—The amendments made by  
11 this section shall apply to distributions and transfers after  
12 December 31, 2014.

13 **SEC. 3615. CHARITABLE CONTRIBUTIONS AND FOREIGN**  
14 **TAXES TAKEN INTO ACCOUNT IN DETER-**  
15 **MINING LIMITATION ON ALLOWANCE OF**  
16 **PARTNER’S SHARE OF LOSS.**

17 (a) IN GENERAL.—Subsection (d) of section 704 is  
18 amended—

19 (1) by striking “A partner’s distributive share”  
20 and inserting the following:

21 “(1) IN GENERAL.—A partner’s distributive  
22 share”,

23 (2) by striking “Any excess of such loss” and  
24 inserting the following:

1           “(2) CARRYOVER.—Any excess of such loss”,  
2           and

3           (3) by adding at the end the following new  
4           paragraph:

5           “(3) SPECIAL RULES.—In determining the  
6           amount of any loss under paragraph (1), there shall  
7           be taken into account as a deduction the partner’s  
8           distributive share of—

9                   “(A) the adjusted basis of charitable con-  
10                   tributions described in paragraph (4) of section  
11                   702(a), and

12                   “(B) the amount of taxes described in  
13                   paragraph (6) of such section.”.

14           (b) EFFECTIVE DATE.—The amendments made by  
15           this section shall apply to partnership taxable years begin-  
16           ning after December 31, 2014.

17           **SEC. 3616. REVISIONS RELATED TO UNREALIZED RECEIV-**  
18                   **ABLES AND INVENTORY ITEMS.**

19           (a) REPEAL OF REQUIREMENT THAT INVENTORY BE  
20           SUBSTANTIALLY APPRECIATED IN CERTAIN PARTNER-  
21           SHIP DISTRIBUTIONS TREATED AS SALE OR EX-  
22           CHANGE.—

23                   (1) IN GENERAL.—Clause (ii) of section  
24                   751(b)(1)(A) is amended by striking “which have  
25                   appreciated substantially in value”.



1           (2) CONFORMING AMENDMENT.—Section  
2       751(b) is amended by striking paragraph (3).

3           (3) EFFECTIVE DATE.—The amendments made  
4       by this subsection shall apply to distributions after  
5       December 31, 2014.

6       (b) REVISION OF REGULATIONS RELATING TO  
7       TREATMENT OF UNREALIZED RECEIVABLES AND INVEN-  
8       TORY ITEMS.—The Secretary of the Treasury shall revise  
9       regulations issued under section 751(b) of the Internal  
10      Revenue Code of 1986 to take into account the partner’s  
11      share of income and gain rather than the partner’s share  
12      of partnership assets.

13      (c) SIMPLIFICATION OF DEFINITION OF UNREALIZED  
14      RECEIVABLES.—

15           (1) IN GENERAL.—Section 751(c) is amended  
16      by striking all that follows paragraph (2) and insert-  
17      ing the following:

18      “For purposes of this section and sections 731, 732, 734,  
19      and 741, such term also includes any property other than  
20      inventory items, but only to the extent of the amount  
21      which would be treated as ordinary income if (at the time  
22      of the transaction described in the applicable section) such  
23      property had been sold by the partnership for its fair mar-  
24      ket value.”.

1           (2) EFFECTIVE DATE.—The amendment made  
2           by this subsection shall apply to partnership taxable  
3           years beginning after December 31, 2014.

4 **SEC. 3617. REPEAL OF TIME LIMITATION ON TAXING**  
5 **PRECONTRIBUTION GAIN.**

6           (a) IN GENERAL.—Subparagraph (B) of section  
7 704(c)(1) is amended by striking “within 7 years of being  
8 contributed”.

9           (b) CONFORMING AMENDMENT.—Paragraph (1) of  
10 section 737(b) is amended by striking “within 7 years of  
11 the distribution”.

12          (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to property contributed to a part-  
14 nership after December 31, 2014.

15 **SEC. 3618. PARTNERSHIP INTERESTS CREATED BY GIFT.**

16          (a) IN GENERAL.—Section 761(b) is amended by  
17 adding at the end the following: “In the case of a capital  
18 interest in a partnership in which capital is a material in-  
19 come-producing factor, whether a person is a partner with  
20 respect to such interest shall be determined without regard  
21 to whether such interest was derived by gift from any  
22 other person.”.

23          (b) CONFORMING AMENDMENTS.—Section 704(e) is  
24 amended—

1           (1) by striking paragraph (1) and by redesignig-  
2           nating paragraphs (2) and (3) as paragraphs (1)  
3           and (2), respectively,

4           (2) by striking “this section” in paragraph (2)  
5           (as so redesignated) and inserting “this subsection”,  
6           and

7           (3) by striking “FAMILY PARTNERSHIPS” in  
8           the heading and inserting “PARTNERSHIP INTER-  
9           ESTS CREATED BY GIFT”.

10          (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to partnership taxable years begin-  
12 ning after December 31, 2014.

13 **SEC. 3619. REPEAL OF TECHNICAL TERMINATION.**

14          (a) IN GENERAL.—Paragraph (1) of section 708(b)  
15 is amended—

16           (1) by striking “, or” and all that follows and  
17           inserting a period, and

18           (2) by striking “only if—” and all that follows  
19           through “no part of any business” and inserting the  
20           following: “only if no part of any business”.

21          (b) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to partnership taxable years begin-  
23 ning after December 31, 2014.

1 **SEC. 3620. PUBLICLY TRADED PARTNERSHIP EXCEPTION**  
2 **RESTRICTED TO MINING AND NATURAL RE-**  
3 **SOURCES PARTNERSHIPS.**

4 (a) **IN GENERAL.**—Subsection (d) of section 7704 is  
5 amended to read as follows:

6 “(d) **QUALIFYING INCOME.**—For purposes of this  
7 section, the term ‘qualifying income’ means—

8 “(1) income and gains derived from the explo-  
9 ration, development, mining or production, proc-  
10 essing, refining, transportation (including pipelines  
11 transporting gas, oil, or products thereof), or the  
12 marketing of any mineral or natural resource (in-  
13 cluding geothermal energy and excluding fertilizer  
14 and timber) or industrial source carbon dioxide, and

15 “(2) any gain from the sale or disposition of a  
16 capital asset (or property described in section  
17 1231(b)) held for the production of income described  
18 in paragraph (1).

19 For purposes of this subsection, the term ‘mineral or nat-  
20 ural resource’ means any product of a character with re-  
21 spect to which a deduction for depletion is allowable under  
22 section 611 (other than minerals from sea water or the  
23 air (or similar inexhaustible sources), soil, sod, dirt, turf,  
24 water, or mosses).”.

25 (b) **CONFORMING AMENDMENTS.**—Section  
26 988(c)(1)(E) is amended—

1           (1) by striking “income or gains described in  
2           subparagraph (A), (B), or (G) of section  
3           7704(d)(1)” in clause (iii)(III) and inserting “quali-  
4           fying income or gains”,

5           (2) by striking subclause (III) of clause (vi) and  
6           by redesignating subclause (IV) as subclause (III),

7           (3) by redesignating clause (vi) (as amended by  
8           this subparagraph) as clause (viii), and

9           (4) by inserting after clause (v) the following  
10          new clauses:

11                   “(vi)    QUALIFYING    INCOME    OR  
12                   GAINS.—The term ‘qualifying income or  
13                   gains’ means—

14                           “(I) interest,

15                           “(II) dividends, and

16                           “(III) in the case of a partner-  
17                           ship described in the second sentence  
18                           of section 7704(c)(3), income and  
19                           gains from commodities (not described  
20                           in section 1221(a)(1)) or futures, for-  
21                           wards, and options with respect to  
22                           commodities.

23                           “(vii)    INADVERTENT    TERMI-  
24                           NATIONS.—If—

1           “(I) A partnership fails to meet  
2           the gross income requirements of this  
3           subparagraph,

4           “(II) the Secretary determines  
5           that such failure was inadvertent,

6           “(III) no later than a reasonable  
7           time after the discovery of such fail-  
8           ure, steps are taken so that such part-  
9           nership once more meets such gross  
10          income requirements, and

11          “(IV) such partnership agrees to  
12          make such adjustments (including ad-  
13          justments with respect to the part-  
14          ners) or to pay such amounts as may  
15          be required by the Secretary with re-  
16          spect to such period,

17          then, notwithstanding such failure, such  
18          entity shall be treated as continuing to  
19          meet such gross income requirements for  
20          such period.”.

21          (c) EFFECTIVE DATE.—The amendments made by  
22          this section shall apply to taxable years beginning after  
23          December 31, 2016.

1 **SEC. 3621. ORDINARY INCOME TREATMENT IN THE CASE OF**  
2 **PARTNERSHIP INTERESTS HELD IN CONNec-**  
3 **TION WITH PERFORMANCE OF SERVICES.**

4 (a) IN GENERAL.—Part IV of subchapter O of chap-  
5 ter 1 is amended—

6 (1) by redesignating section 1061 as section  
7 1062, and

8 (2) by inserting after section 1060 the following  
9 new section:

10 **“SEC. 1061. PARTNERSHIP INTERESTS HELD IN CONNec-**  
11 **TION WITH PERFORMANCE OF SERVICES.**

12 “(a) IN GENERAL.—If one or more applicable part-  
13 nership interests are held by a taxpayer at any time during  
14 the taxable year, so much of—

15 “(1) the taxpayer’s net capital gain with respect  
16 to such interests for such taxable year, as does not  
17 exceed

18 “(2) the taxpayer’s recharacterization account  
19 balance for such taxable year,  
20 shall be treated as ordinary income.

21 “(b) NET CAPITAL GAIN.—

22 “(1) IN GENERAL.—For purposes of subsection  
23 (a)(1), net capital gain shall be determined under  
24 section 1222, except that such section shall be ap-  
25 plied—

1           “(A) without regard to the recharacteriza-  
2           tion of any item as ordinary income under this  
3           section,

4           “(B) by only taking into account items of  
5           gain and loss—

6                   “(i) taken into account by the tax-  
7                   payer under section 702 with respect to  
8                   any applicable partnership interest,

9                   “(ii) recognized by the taxpayer on  
10                  the disposition of any such interest, or

11                  “(iii) recognized by the taxpayer  
12                  under paragraph (4) on a distribution of  
13                  property with respect to such interest, and

14           “(C) in the case of a taxable year for  
15           which section 1231 gains (as defined in section  
16           1231(a)(3)(A)) exceed section 1231 losses (as  
17           defined in section 1231(a)(3)(B)), by treating  
18           property which is taken into account in deter-  
19           mining such gains and losses as capital assets  
20           held for more than 1 year.

21           “(2) ALLOCATION TO ITEMS OF GAIN.—The  
22           amount treated as ordinary income under subsection  
23           (a) shall be allocated ratably among the items of  
24           long-term capital gain taken into account in deter-  
25           mining net capital gain under paragraph (1).



1           “(3) RECOGNITION OF GAIN ON DISPOSITION  
2           OF APPLICABLE PARTNERSHIP INTERESTS.—Any  
3           gain on the disposition of any applicable partnership  
4           interest shall be recognized notwithstanding any  
5           other provision of this title.

6           “(4) RECOGNITION OF GAIN ON DISTRIBUTIONS  
7           OF PARTNERSHIP PROPERTY.—

8                   “(A) IN GENERAL.—In the case of any dis-  
9                   tribution of property by a partnership with re-  
10                   spect to any applicable partnership interest, the  
11                   partner receiving such property shall recognize  
12                   gain equal to the excess (if any) of—

13                           “(i) the fair market value of such  
14                           property at the time of such distribution,  
15                           over

16                           “(ii) the adjusted basis of such prop-  
17                           erty in the hands of such partner (deter-  
18                           mined without regard to subparagraph  
19                           (B)).

20                   “(B) ADJUSTMENT OF BASIS.—In the case  
21                   of a distribution to which subparagraph (A) ap-  
22                   plies, the basis of the distributed property in  
23                   the hands of the distributee partner shall be the  
24                   amount determined under subparagraph (A)(i).

25           “(c) RECHARACTERIZATION ACCOUNT BALANCE.—

1           “(1) IN GENERAL.—For purposes of this sec-  
2           tion, the term ‘recharacterization account balance’  
3           means, with respect to any taxpayer for any taxable  
4           year, the excess (if any) of—

5                   “(A) the sum of—

6                           “(i) the taxpayer’s aggregate annual  
7                           recharacterization amounts with respect to  
8                           applicable partnership interests for such  
9                           taxable year, plus

10                           “(ii) the taxpayer’s recharacterization  
11                           account balance for the taxable year pre-  
12                           ceding such taxable year, over

13                   “(B) the sum of—

14                           “(i) the taxpayer’s net ordinary in-  
15                           come with respect to applicable partnership  
16                           interests for such taxable year (determined  
17                           without regard to this section), plus

18                           “(ii) the amount treated as ordinary  
19                           income of the taxpayer under this section  
20                           for the taxable year preceding such taxable  
21                           year.

22           “(2)           ANNUAL           RECHARACTERIZATION  
23           AMOUNT.—For purposes of this subsection—

24                   “(A) IN GENERAL.—The term ‘annual re-  
25                   characterization amount’ means, with respect to

1 any applicable partnership interest for any  
2 partnership taxable year, an amount equal to  
3 the product of—

4 “(i) the specified rate determined  
5 under subparagraph (B) for the calendar  
6 year in which such taxable year begins,  
7 multiplied by

8 “(ii) the excess (if any) of—

9 “(I) an amount equal to the ap-  
10 plicable percentage of the partner-  
11 ship’s aggregate invested capital for  
12 such taxable year, over

13 “(II) the specified capital con-  
14 tribution of the partner with respect  
15 to the applicable partnership interest  
16 for such taxable year.

17 If a taxpayer holds an applicable partnership  
18 interest for less than the entire taxable year,  
19 the amount determined under the preceding  
20 sentence shall be ratably reduced.

21 “(B) SPECIFIED RATE.—For purposes of  
22 subparagraph (A), the term ‘specified rate’  
23 means, with respect to any calendar year, a per-  
24 centage equal to—

1           “(i) the Federal long-term rate deter-  
2           mined under section 1274(d)(1) for the  
3           last month of the calendar year, plus

4           “(ii) 10 percentage points.

5           “(C) APPLICABLE PERCENTAGE.—

6           “(i) IN GENERAL.—The term ‘applica-  
7           ble percentage’ means, with respect to any  
8           applicable partnership interest, the highest  
9           percentage of profits of the partnership  
10          that could be allocated with respect to such  
11          interest for the taxable year (consistent  
12          with the partnership agreement and as-  
13          suming such facts and circumstances with  
14          respect to such taxable year as would re-  
15          sult in such highest percentage).

16          “(ii) SECRETARIAL AUTHORITY.—The  
17          Secretary shall prescribe rules for the de-  
18          termination of the applicable percentage in  
19          cases in which the percentage of profits of  
20          a partnership that are to be allocated with  
21          respect to an applicable partnership inter-  
22          est varies on the basis of the aggregate  
23          amount of such profits. Such rules may  
24          provide a percentage which may be used in  
25          lieu of the highest percentage determined

1 under clause (i) in cases where such other  
2 percentage is consistent with the purposes  
3 of this section.

4 “(D) AGGREGATE INVESTED CAPITAL.—

5 “(i) IN GENERAL.—The term ‘aggre-  
6 gate invested capital’ means, with respect  
7 to any taxable year, the average daily  
8 amount of invested capital of the partner-  
9 ship for such taxable year.

10 “(ii) INVESTED CAPITAL.—The term  
11 ‘invested capital’ means, with respect to  
12 any partnership as of any day, the total  
13 cumulative value, determined at the time  
14 of contribution, of all money or other prop-  
15 erty contributed to the partnership on or  
16 before such day.

17 “(iii) REDUCTION FOR LIQUIDATION  
18 OF PARTNERSHIP INTERESTS.—The in-  
19 vested capital of a partnership shall be re-  
20 duced by the aggregate amount distributed  
21 in liquidation of interests in the partner-  
22 ship.

23 “(iv) TREATMENT OF CERTAIN IN-  
24 DEBTEDNESS AS INVESTED CAPITAL.—The

1 following amounts shall be treated as in-  
2 vested capital:

3 “(I) PARTNER LOANS.—The ag-  
4 gregate value (determined as of the  
5 time of the loan) of money or other  
6 property which a partner loans to the  
7 partnership.

8 “(II) INDEBTEDNESS ELIGIBLE  
9 TO SHARE IN EQUITY OF THE PART-  
10 NERSHIP.—The face amount of any  
11 convertible debt of the partnership or  
12 any debt obligation providing equity  
13 participation in the partnership.

14 “(E) SPECIFIED CAPITAL CONTRIBU-  
15 TION.—

16 “(i) IN GENERAL.—The term ‘speci-  
17 fied capital contribution’ means, with re-  
18 spect to any applicable partnership interest  
19 for any taxable year, the average daily  
20 amount of contributed capital with respect  
21 to such interest for such year.

22 “(ii) CONTRIBUTED CAPITAL.—The  
23 term ‘contributed capital’ means, with re-  
24 spect to applicable partnership interest as  
25 of any day, the excess (if any) of—

1           “(I) the total cumulative value,  
2           determined at the time of contribu-  
3           tion, of all money or other property  
4           contributed by the partner to the  
5           partnership with respect to such inter-  
6           est as of such day, over

7           “(II) the total cumulative value,  
8           determined at the time of distribution,  
9           of all money or other property distrib-  
10          uted by the partnership to the partner  
11          with respect to such interest as of  
12          such day.

13          “(iii) TREATMENT OF RELATED  
14          PARTY BORROWINGS.—Any amount bor-  
15          rowed directly or indirectly from the part-  
16          nership or any other partner of the part-  
17          nership or any person related to such other  
18          partner or such partnership shall not be  
19          taken into account under this subpara-  
20          graph. For purposes of the preceding sen-  
21          tence, a person shall be treated as related  
22          to another person if the relationship be-  
23          tween such persons would be described in  
24          section 267(b) or 707(b) if such sections  
25          and section 267(f) were applied by sub-

1           stituting ‘10 percent’ for ‘50 percent’ each  
2           place it appears.

3           “(F) MULTIPLE INTERESTS.—If at any  
4           time during a taxable year a taxpayer holds di-  
5           rectly or indirectly more than 1 applicable part-  
6           nership interest in a single partnership, such in-  
7           terests shall be treated as 1 applicable partner-  
8           ship interest for purposes of applying this para-  
9           graph.

10          “(3) NET ORDINARY INCOME.—For purposes of  
11          this subsection, the net ordinary income with respect  
12          to applicable partnership interests for any taxable  
13          year is the excess (if any) of—

14                 “(A) the taxpayer’s distributive share of  
15                 items of income and gain under section 702  
16                 with respect to applicable partnership interests  
17                 for such taxable year (determined without re-  
18                 gard to any items of gain taken into account in  
19                 determining net capital gain under subsection  
20                 (b)(1)), over

21                 “(B) the taxpayer’s distributive share of  
22                 items of deduction and loss under section 702  
23                 with respect to such interests for such taxable  
24                 year (determined without regard to any items of



1           loss taken into account in determining net cap-  
2           ital gain under subsection (b)(1)).

3           “(d) APPLICABLE PARTNERSHIP INTEREST.—For  
4 purposes of this section—

5           “(1) IN GENERAL.—The term ‘applicable part-  
6           nership interest’ means any interest in a partnership  
7           which, directly or indirectly, is transferred to (or is  
8           held by) the taxpayer in connection with the per-  
9           formance of services by the taxpayer, or any other  
10          person, in any applicable trade or business.

11          “(2) APPLICABLE TRADE OR BUSINESS.—

12           “(A) IN GENERAL.—The term ‘applicable  
13           trade or business’ means any trade or business  
14           conducted on a regular, continuous, and sub-  
15           stantial basis which, regardless of whether the  
16           activities are conducted in one or more entities,  
17           consists, in whole or in part, of—

18                   “(i) raising or returning capital,

19                   “(ii) investing in (or disposing of)  
20                   trades or businesses (or identifying trades  
21                   or businesses for such investing or disposi-  
22                   tion), and

23                   “(iii) developing such trades or busi-  
24                   nesses.

1           “(B) TREATMENT OF RESEARCH AND EX-  
2           PERIMENTATION ACTIVITIES.—Any activity in-  
3           volving research or experimentation (within the  
4           meaning of section 469(c)(4)) shall be treated  
5           as a trade or business for purposes of clauses  
6           (ii) and (iii) of subparagraph (A).

7           “(e) TRANSFER OF APPLICABLE PARTNERSHIP IN-  
8           TEREST TO RELATED PERSON.—

9           “(1) IN GENERAL.—If a taxpayer transfers any  
10          applicable partnership interest, directly or indirectly,  
11          to a person related to the taxpayer, the taxpayer  
12          shall include in gross income (as ordinary income) so  
13          much of the taxpayer’s recharacterization account  
14          balance for such taxable year as is allocable to such  
15          interest (determined in such manner as the Sec-  
16          retary may provide and reduced by any amount  
17          treated as ordinary income under subsection (a) with  
18          respect to the transfer of such interest).

19          “(2) RELATED PERSON.—For purposes of this  
20          paragraph, a person is related to the taxpayer if—

21                 “(A) the person is a member of the tax-  
22                 payer’s family within the meaning of section  
23                 318(a)(1), or

24                 “(B) the person performed a service within  
25                 the current calendar year or the preceding three

1           calendar years in any applicable trade or busi-  
2           ness in which or for which the taxpayer per-  
3           formed a service.

4           “(f) REPORTING BY ENTITY OF TAXPAYER’S AN-  
5           NUAL RECHARACTERIZATION AMOUNT.—A partnership  
6           shall report to the Secretary, and include with the infor-  
7           mation required to be furnished under section 6031(b) to  
8           each partner, the amount of the partner’s annual re-  
9           characterization amount for the taxable year, if any. A  
10          similar rule applies to any entity that receives a report  
11          of an annual recharacterization amount for the taxable  
12          year.

13          “(g) REGULATIONS.—The Secretary shall issue such  
14          regulations or other guidance as necessary to carry out  
15          this section, including regulations—

16                 “(1) to prevent the abuse of the purposes of  
17                 this section, including through—

18                         “(A) the allocation of income to tax indif-  
19                         ferent parties, or

20                         “(B) a reduction in the invested capital of  
21                         the partnership (including attempts to under-  
22                         value contributed or loaned property),

23                 “(2) which provide that partnership interests  
24                 shall not fail to be treated as transferred or held in  
25                 connection with the performance of services merely

1 because the taxpayer also made contributions to the  
2 partnership,

3 “(3) which provide for the application of this  
4 section in cases where the taxpayer has more than  
5 1 applicable interest in a partnership, and

6 “(4) which provide for the application of this  
7 section in cases of tiered structures of entities.”.

8 (b) COORDINATION WITH SECTION 83.—Subsection  
9 (e) of section 83 is amended by striking “or” at the end  
10 of paragraph (4), by striking the period at the end of para-  
11 graph (5) and inserting “, or”, and by adding at the end  
12 the following new paragraph:

13 “(6) a transfer of a partnership interest to  
14 which section 1061 applies.”.

15 (c) CLERICAL AMENDMENT.—The table of sections  
16 for part IV of subchapter O of chapter 1 is amended by  
17 striking the item relating to 1061 and inserting the fol-  
18 lowing new items:

“Sec. 1061. Partnership interests held in connection with performance of serv-  
ices.

“Sec. 1062. Cross references.”.

19 (d) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to taxable years beginning after  
21 December 31, 2014.

22 **SEC. 3622. PARTNERSHIP AUDITS AND ADJUSTMENTS.**

23 (a) REPEAL OF TEFRA PARTNERSHIP AUDIT  
24 RULES.—Chapter 63 is amended by striking subchapter

1 C (and by striking the item relating to such subchapter  
2 in the table of subchapters for such chapter).

3 (b) REPEAL OF ELECTING LARGE PARTNERSHIP  
4 RULES.—

5 (1) IN GENERAL.—Subchapter K of chapter 1  
6 is amended by striking part IV (and by striking the  
7 item relating to such part in the table of parts for  
8 such subchapter).

9 (2) ASSESSMENT RULES RELATING TO ELECT-  
10 ING LARGE PARTNERSHIPS.—Chapter 63 is amended  
11 by striking subchapter D (and by striking the item  
12 relating to such subchapter in the table of sub-  
13 chapters for such chapter).

14 (3) EFFECTIVE DATE.—The amendments made  
15 by this section shall apply to returns filed after De-  
16 cember 31, 2014.

17 (c) PARTNERSHIP AUDIT REFORM.—

18 (1) IN GENERAL.—Chapter 63, as amended by  
19 the preceding provisions of this Act, is amended by  
20 inserting after subchapter B the following new sub-  
21 chapter:

22 **“Subchapter C—Treatment of Partnerships**

“PART I—IN GENERAL

“PART II—PARTNERSHIP ADJUSTMENTS

“PART III—PROCEDURE

“PART IV—DEFINITIONS AND SPECIAL RULES

1

**“PART I—IN GENERAL**

“Sec. 6221. Determination at partnership level.

“Sec. 6222. Partner’s return must be consistent with partnership return.

“Sec. 6223. Designation of partnership representative.

2 **“SEC. 6221. DETERMINATION AT PARTNERSHIP LEVEL.**

3       “(a) IN GENERAL.—Items of income, gain, loss, de-  
4       duction, or credit of a partnership for a partnership tax-  
5       able year (and any partner’s distributive share thereof)  
6       shall be audited, any tax attributable thereto shall be as-  
7       sessed and collected, and the applicability of any penalty,  
8       addition to tax, or additional amount which relates to an  
9       adjustment to any such item or share shall be determined,  
10      at the partnership level pursuant to this subchapter.

11       “(b) ELECTION OUT FOR CERTAIN PARTNERSHIPS  
12      WITH 100 OR FEWER PARTNERS.—This subchapter shall  
13      not apply with respect to any partnership for any taxable  
14      year if—

15             “(1) the partnership elects the application of  
16             this subsection for such taxable year,

17             “(2) the partnership has 100 or fewer partners  
18             on the last day of such taxable year,

19             “(3) each of the partners of such partnership is  
20             an individual, a C corporation (other than a real es-  
21             tate investment trust or a regulated investment com-  
22             pany), any foreign entity that would be treated as a  
23             C corporation were it domestic, or an estate of a de-  
24             ceased partner,

1 “(4) the election—

2 “(A) is made with a timely filed return for  
3 such taxable year, and

4 “(B) includes (in the manner prescribed by  
5 the Secretary) a disclosure of the name and  
6 taxpayer identification number of each partner  
7 of such partnership, and

8 “(5) the partnership notifies each such partner  
9 of such election in the manner prescribed by the  
10 Secretary.

11 For purposes of paragraph (4)(B), the Secretary may pro-  
12 vide for alternative identification of any foreign partners.

13 **“SEC. 6222. PARTNER’S RETURN MUST BE CONSISTENT**  
14 **WITH PARTNERSHIP RETURN.**

15 “(a) IN GENERAL.—A partner of any partnership  
16 shall, on the partner’s return, treat each item of income,  
17 gain, loss, deduction, or credit attributable to such part-  
18 nership in a manner which is consistent with the treat-  
19 ment of such income, gain, loss, deduction, or credit on  
20 the partnership return.

21 “(b) UNDERPAYMENT DUE TO INCONSISTENT  
22 TREATMENT ASSESSED AS MATH ERROR.—Any under-  
23 payment of tax by a partner by reason of failing to comply  
24 with the requirements of subsection (a) shall be assessed  
25 and collected in the same manner as if such underpayment

1 were on account of a mathematical or clerical error ap-  
2 pearing on the partner's return. Paragraph (2) of section  
3 6213(b) shall not apply to any assessment of an under-  
4 payment referred to in the preceding sentence.

5 “(c) ADDITION TO TAX FOR FAILURE TO COMPLY  
6 WITH SECTION.—For addition to tax in the case of part-  
7 ner's disregard of the requirements of this section, see  
8 part II of subchapter A of chapter 68.

9 **“SEC. 6223. PARTNERS BOUND BY ACTIONS OF PARTNER-**  
10 **SHIP.**

11 “(a) DESIGNATION OF PARTNER.—Each partnership  
12 shall designate (in the manner prescribed by the Sec-  
13 retary) a partner (or other person) as the partnership rep-  
14 resentative who shall have the sole authority to act on be-  
15 half of the partnership under this subchapter. In any case  
16 in which such a designation is not in effect, the Secretary  
17 may select any partner as the partnership representative.

18 “(b) BINDING EFFECT.—A partnership and all part-  
19 ners of such partnership shall be bound—

20 “(1) by actions taken under this subchapter by  
21 the partnership, and

22 “(2) by any decision in a proceeding brought  
23 under this subchapter.

24 **“PART II—PARTNERSHIP ADJUSTMENTS**

“Sec. 6225. Partnership adjustment by Secretary.

“Sec. 6226. Administrative adjustment request by partnership.



1 **“SEC. 6225. PARTNERSHIP ADJUSTMENT BY SECRETARY.**

2       “(a) IN GENERAL.—In the case of any adjustment  
3 by the Secretary in the amount of any item of income,  
4 gain, loss, deduction, or credit of a partnership, or any  
5 partner’s distributive share thereof—

6               “(1) the partnership shall pay any imputed un-  
7 derpayment with respect to such adjustment in the  
8 adjustment year as provided in section 6232, and

9               “(2) any imputed overpayment shall be taken  
10 into account by the partnership in the adjustment  
11 year as a reduction in non-separately stated income  
12 or an increase in non-separately stated loss (which-  
13 ever is appropriate) under section 702(a)(8).

14       “(b) DETERMINATION OF IMPUTED UNDERPAY-  
15 MENTS AND OVERPAYMENTS.—For purposes of this sub-  
16 chapter—

17               “(1) IN GENERAL.—Except as provided in sub-  
18 section (c), any imputed underpayment or imputed  
19 overpayment with respect to any partnership adjust-  
20 ment for any reviewed year shall be determined—

21                       “(A) by netting all adjustments of items of  
22 income, gain, loss, or deduction and multiplying  
23 such net amount by the highest rate of tax in  
24 effect for the reviewed year under section 1 or  
25 11,

1           “(B) by treating any net increase or de-  
2           crease in loss under subparagraph (A) as a de-  
3           crease or increase, respectively, in income, and

4           “(C) by taking into account any adjust-  
5           ments to items of credit as an increase or de-  
6           crease, as the case may be, in the amount de-  
7           termined under subparagraph (A).

8           “(2) ADJUSTMENTS TO DISTRIBUTIVE SHARES  
9           OF PARTNERS NOT NETTED.—In the case of any ad-  
10          justment which reallocates the distributive share of  
11          any item from one partner to another, such adjust-  
12          ment shall be taken into account under paragraph  
13          (1) by disregarding—

14                 “(A) any decrease in any item of income or  
15                 gain, and

16                 “(B) any increase in any item of deduc-  
17                 tion, loss, or credit.

18          “(c) MODIFICATION OF IMPUTED UNDERPAY-  
19          MENTS.—

20                 “(1) METHOD IN GENERAL.—The Secretary  
21                 shall establish procedures under which the imputed  
22                 underpayment amount may be modified consistent  
23                 with the requirements of this subsection.

24                 “(2) AMENDED RETURNS OF PARTNERS.—Such  
25                 procedures shall provide that if—

1           “(A) one or more partners file returns for  
2           the taxable year of the partners which includes  
3           the end of the reviewed year of the partnership,

4           “(B) such returns take into account all ad-  
5           justments under subsection (a) properly allo-  
6           cable to such partners (and for any other tax-  
7           able year with respect to which any tax at-  
8           tribute is affected by reason of such adjust-  
9           ments), and

10           “(C) payment of any tax due is included  
11           with such return,

12           then the imputed underpayment amount shall be de-  
13           termined without regard to the portion of the adjust-  
14           ments so taken into account.

15           “(3) REALLOCATION OF DISTRIBUTIVE  
16           SHARE.—In the case of any adjustment which reallo-  
17           cates the distributive share of any item from one  
18           partner to another, paragraph (2) shall apply only if  
19           returns are filed by all partners affected by such ad-  
20           justment.

21           “(4) YEAR AND DAY FOR SUBMISSION TO SEC-  
22           RETARY.—Anything required to be submitted pursu-  
23           ant to paragraph (1) shall be submitted to the Sec-  
24           retary not later than the close the 180-day period  
25           beginning on the date on which the notice of a pro-

1 posed partnership adjustment is mailed under sec-  
2 tion 6231 unless such period is extended with the  
3 consent of the Secretary.

4 “(5) DECISION OF SECRETARY.—Any modifica-  
5 tion of the imputed underpayment amount under  
6 this subsection shall be made only upon approval of  
7 such modification by the Secretary.

8 “(d) DEFINITIONS AND SPECIAL RULE.—For pur-  
9 poses of this subchapter—

10 “(1) REVIEWED YEAR.—The term ‘reviewed  
11 year’ means the partnership taxable year to which  
12 the item being adjusted relates.

13 “(2) ADJUSTMENT YEAR.—The term ‘adjust-  
14 ment year’ means the partnership taxable year in  
15 which—

16 “(A) in the case of an adjustment pursu-  
17 ant to the decision of a court in a proceeding  
18 brought under section 6234, such decision be-  
19 comes final,

20 “(B) in the case of an administrative ad-  
21 justment request under section 6226, such ad-  
22 ministrative adjustment request is made, or

23 “(C) in any other case, notice of the final  
24 partnership adjustment is mailed under section  
25 6231.

1 **“SEC. 6226. ADMINISTRATIVE ADJUSTMENT REQUEST BY**  
2 **PARTNERSHIP.**

3 “(a) IN GENERAL.—A partnership may file a request  
4 for an administrative adjustment in the amount of any  
5 item of income, gain, loss, deduction, or credit of the part-  
6 nership for any partnership taxable year, but only to the  
7 extent such adjustment results in an imputed under-  
8 payment.

9 “(b) ADJUSTMENT.—Any adjustment under sub-  
10 section (a) shall be determined and taken into account by  
11 the partnership under rules similar to the rules of section  
12 6225 (other than subsection (c) thereof) for the partner-  
13 ship taxable year in which the administrative adjustment  
14 request is made.

15 “(c) PERIOD OF LIMITATIONS.—A partnership may  
16 not file such a request—

17 “(1) more than 3 years after the later of—

18 “(A) the date on which the partnership re-  
19 turn for such year is filed, or

20 “(B) the last day for filing the partnership  
21 return for such year (determined without re-  
22 gard to extensions), and

23 “(2) after any notice of an administrative pro-  
24 ceeding with respect to the taxable year is mailed  
25 under section 6231.

1

**“PART III—PROCEDURE**

“Sec. 6231. Notice of proceedings and adjustment.

“Sec. 6232. Assessment, collection, and payment.

“Sec. 6233. Penalties and interest.

“Sec. 6234. Judicial review of partnership adjustment.

“Sec. 6235. Period of limitations on making adjustments.

2 **“SEC. 6231. NOTICE OF PROCEEDINGS AND ADJUSTMENT.**3       “(a) IN GENERAL.—The Secretary shall mail to the  
4 partnership and the partnership representative—5               “(1) notice of any administrative proceeding  
6 initiated at the partnership level with respect to an  
7 adjustment of any item of income, gain, loss, deduc-  
8 tion, or credit of a partnership for a partnership tax-  
9 able year, or any partner’s distributive share thereof,10              “(2) notice of any proposed partnership adjust-  
11 ment resulting from such proceeding, and12              “(3) notice of any final partnership adjustment  
13 resulting from such proceeding.14 Any notice of a final partnership adjustment shall not be  
15 mailed earlier than 180 days after the date on which the  
16 notice of the proposed partnership adjustment is mailed.  
17 Such notices shall be sufficient if mailed to the last known  
18 address of the partnership representative or the partner-  
19 ship (even if the partnership has terminated its existence).  
20 The first sentence shall apply to any proceeding with re-  
21 spect to an administrative adjustment request filed by a  
22 partnership under section 6226.

1       “(b) FURTHER NOTICES RESTRICTED.—If the Sec-  
2 retary mails a notice of a final partnership adjustment to  
3 any partnership for any partnership taxable year and the  
4 partnership files a petition under section 6234 with re-  
5 spect to such notice, in the absence of a showing of fraud,  
6 malfeasance, or misrepresentation of a material fact, the  
7 Secretary shall not mail another such notice to such part-  
8 nership with respect to such taxable year.

9       “(c) AUTHORITY TO RESCIND NOTICE WITH PART-  
10 NERSHIP CONSENT.—The Secretary may, with the con-  
11 sent of the partnership, rescind any notice of a partner-  
12 ship adjustment mailed to such partnership. Any notice  
13 so rescinded shall not be treated as a notice of a partner-  
14 ship adjustment for purposes of this subchapter, and the  
15 taxpayer shall have no right to bring a proceeding under  
16 section 6234 with respect to such notice.

17 **“SEC. 6232. ASSESSMENT, COLLECTION, AND PAYMENT.**

18       “(a) IN GENERAL.—Any imputed underpayment—  
19               “(1) shall be assessed and collected in the same  
20 manner as if it were a tax imposed for the adjust-  
21 ment year by subtitle A, and  
22               “(2) shall be paid on or before the return due  
23 date for the adjustment year.

24       “(b) LIMITATION ON ASSESSMENT.—Except as oth-  
25 erwise provided in this chapter, no assessment of a defi-

1 ciency may be made (and no levy or proceeding in any  
2 court for the collection of any amount resulting from such  
3 adjustment may be made, begun or prosecuted) before—

4           “(1) the close of the 90th day after the day on  
5           which a notice of a final partnership adjustment was  
6           mailed, and

7           “(2) if a petition is filed under section 6234  
8           with respect to such notice, the decision of the court  
9           has become final.

10          “(c) PREMATURE ACTION MAY BE ENJOINED.—Not-  
11 withstanding section 7421(a), any action which violates  
12 subsection (b) may be enjoined in the proper court, includ-  
13 ing the Tax Court. The Tax Court shall have no jurisdic-  
14 tion to enjoin any action under this subsection unless a  
15 timely petition has been filed under section 6234 and then  
16 only in respect of the adjustments that are the subject  
17 of such petition.

18          “(d) EXCEPTIONS TO RESTRICTIONS ON ADJUST-  
19 MENTS.—

20           “(1) ADJUSTMENTS ARISING OUT OF MATH OR  
21           CLERICAL ERRORS.—

22           “(A) IN GENERAL.—If the partnership is  
23           notified that, on account of a mathematical or  
24           clerical error appearing on the partnership re-  
25           turn, an adjustment to a partnership item is re-



1           required, rules similar to the rules of paragraphs  
2           (1) and (2) of section 6213(b) shall apply to  
3           such adjustment.

4           “(B) SPECIAL RULE.—If a partnership is  
5           a partner in another partnership, any adjust-  
6           ment on account of such partnership’s failure to  
7           comply with the requirements of section  
8           6222(a) with respect to its interest in such  
9           other partnership shall be treated as an adjust-  
10          ment referred to in subparagraph (A), except  
11          that paragraph (2) of section 6213(b) shall not  
12          apply to such adjustment.

13          “(2) PARTNERSHIP MAY WAIVE RESTRIC-  
14          TIONS.—The partnership may at any time (whether  
15          or not any notice of partnership adjustment has  
16          been issued), by a signed notice in writing filed with  
17          the Secretary, waive the restrictions provided in sub-  
18          section (b) on the making of any partnership adjust-  
19          ment.

20          “(e) LIMIT WHERE NO PROCEEDING BEGUN.—If no  
21          proceeding under section 6234 is begun with respect to  
22          any notice of a final partnership adjustment during the  
23          90-day period described in subsection (b) thereof, the  
24          amount for which the partnership is liable under section

1 6225 shall not exceed the amount determined in accord-  
2 ance with such notice.

3 **“SEC. 6233. PENALTIES AND INTEREST.**

4 “(a) PENALTIES AND INTEREST DETERMINED FROM  
5 REVIEWED YEAR.—

6 “(1) IN GENERAL.—In the case of an imputed  
7 underpayment with respect to a partnership adjust-  
8 ment for a reviewed year, the partnership—

9 “(A) shall pay to the Secretary interest  
10 computed under paragraph (2), and

11 “(B) shall be liable for any penalty, addi-  
12 tion to tax, or additional amount as provided in  
13 paragraph (3).

14 “(2) DETERMINATION OF AMOUNT OF INTER-  
15 EST.—The interest computed under this paragraph  
16 with respect to any partnership adjustment is the in-  
17 terest which would be determined under chapter  
18 67—

19 “(A) on the imputed underpayment deter-  
20 mined with respect to such adjustment,

21 “(B) for the period beginning on the day  
22 after the return due date for the reviewed year  
23 and ending on the return due date for the ad-  
24 justment year (or, if earlier, the date payment  
25 of the imputed underpayment is made).

1 Proper adjustments in the amount determined under  
2 the preceding sentence shall be made for adjust-  
3 ments required for partnership taxable years after  
4 the reviewed year and before the adjustment year by  
5 reason of such partnership adjustment.

6 “(3) PENALTIES.—A partnership shall be liable  
7 for any penalty, addition to tax, or additional  
8 amount for which it would have been liable if such  
9 partnership had been an individual subject to tax  
10 under chapter 1 for the reviewed year and the im-  
11 puted underpayment were an actual underpayment  
12 (or understatement) for such year.

13 “(b) INTEREST AND PENALTIES WITH RESPECT TO  
14 ADJUSTMENT YEAR RETURN.—

15 “(1) IN GENERAL.—In the case of any failure  
16 to pay an imputed underpayment on the date pre-  
17 scribed therefor, the partnership shall be liable—

18 “(A) for interest as determined under  
19 paragraph (2), and

20 “(B) for any penalty, addition to tax, or  
21 additional amount as determined under para-  
22 graph (3).

23 “(2) INTEREST.—Interest determined under  
24 this paragraph is the interest that would be deter-  
25 mined by treating the imputed underpayment as an

1 underpayment of tax imposed in the adjustment  
2 year.

3 “(3) PENALTIES.—Penalties, additions to tax,  
4 or additional amounts determined under this para-  
5 graph are the penalties, additions to tax, or addi-  
6 tional amounts that would be determined—

7 “(A) by applying section 6651(a)(2) to  
8 such failure to pay.

9 “(B) by treating the imputed under-  
10 payment as an underpayment of tax for pur-  
11 poses of part II of subchapter A of chapter 68.

12 **“SEC. 6234. JUDICIAL REVIEW OF PARTNERSHIP ADJUST-**  
13 **MENT.**

14 “(a) IN GENERAL.—Within 90 days after the date  
15 on which a notice of a final partnership adjustment is  
16 mailed under section 6231 with respect to any partnership  
17 taxable year, the partnership may file a petition for a re-  
18 adjustment for such taxable year with—

19 “(1) the Tax Court,

20 “(2) the district court of the United States for  
21 the district in which the partnership’s principal place  
22 of business is located, or

23 “(3) the Claims Court.

24 “(b) JURISDICTIONAL REQUIREMENT FOR BRINGING  
25 ACTION IN DISTRICT COURT OR CLAIMS COURT.—

1           “(1) IN GENERAL.—A readjustment petition  
2           under this section may be filed in a district court of  
3           the United States or the Claims Court only if the  
4           partnership filing the petition deposits with the Sec-  
5           retary, on or before the date the petition is filed, the  
6           amount of the imputed underpayment (as of the  
7           date of the filing of the petition) if the partnership  
8           adjustment was made as provided by the notice of  
9           final partnership adjustment. The court may by  
10          order provide that the jurisdictional requirements of  
11          this paragraph are satisfied where there has been a  
12          good faith attempt to satisfy such requirement and  
13          any shortfall of the amount required to be deposited  
14          is timely corrected.

15          “(2) INTEREST PAYABLE.—Any amount depos-  
16          ited under paragraph (1), while deposited, shall not  
17          be treated as a payment of tax for purposes of this  
18          title (other than chapter 67).

19          “(c) SCOPE OF JUDICIAL REVIEW.—A court with  
20          which a petition is filed in accordance with this section  
21          shall have jurisdiction to determine all items of income,  
22          gain, loss, deduction, or credit of the partnership for the  
23          partnership taxable year to which the notice of final part-  
24          nership adjustment relates, the proper allocation of such  
25          items among the partners, and the applicability of any

1 penalty, addition to tax, or additional amount for which  
2 the partnership may be liable under this subchapter.

3 “(d) DETERMINATION OF COURT REVIEWABLE.—  
4 Any determination by a court under this section shall have  
5 the force and effect of a decision of the Tax Court or a  
6 final judgment or decree of the district court or the Claims  
7 Court, as the case may be, and shall be reviewable as such.  
8 The date of any such determination shall be treated as  
9 being the date of the court’s order entering the decision.

10 “(e) EFFECT OF DECISION DISMISSING ACTION.—If  
11 an action brought under this section is dismissed other  
12 than by reason of a rescission under section 6231(c), the  
13 decision of the court dismissing the action shall be consid-  
14 ered as its decision that the notice of final partnership  
15 adjustment is correct, and an appropriate order shall be  
16 entered in the records of the court.

17 **“SEC. 6235. PERIOD OF LIMITATIONS ON MAKING ADJUST-**  
18 **MENTS.**

19 “(a) IN GENERAL.—Except as otherwise provided in  
20 this section, no adjustment under this subpart for any  
21 partnership taxable year may be made after the date  
22 which is 3 years after the latest of—

23 “(1) the date on which the partnership return  
24 for such taxable year was filed,

1           “(2) the return due date for the taxable year,  
2           or

3           “(3) the date on which the partnership filed an  
4           administrative adjustment request with respect to  
5           such year under section 6226.

6           “(b) EXTENSION BY AGREEMENT.—The period de-  
7           scribed in subsection (a) (including an extension period  
8           under this subsection) may be extended by an agreement  
9           entered into by the Secretary and the partnership before  
10          the expiration of such period.

11          “(c) SPECIAL RULE IN CASE OF FRAUD, ETC.—

12           “(1) FALSE RETURN.—In the case of a false or  
13           fraudulent partnership return with intent to evade  
14           tax, the adjustment may be made at any time.

15           “(2) SUBSTANTIAL OMISSION OF INCOME.—If  
16           any partnership omits from gross income an amount  
17           properly includible therein and such amount is de-  
18           scribed in section 6501(e)(1)(A), subsection (a) shall  
19           be applied by substituting ‘6 years’ for ‘3 years’.

20           “(3) NO RETURN.—In the case of a failure by  
21           a partnership to file a return for any taxable year,  
22           the adjustment may be made at any time.

23           “(4) RETURN FILED BY SECRETARY.—For pur-  
24           poses of this section, a return executed by the Sec-  
25           retary under subsection (b) of section 6020 on be-

1 half of the partnership shall not be treated as a re-  
 2 turn of the partnership.

3 “(d) **SUSPENSION WHEN SECRETARY MAILS NOTICE**  
 4 **OF ADJUSTMENT.**—If notice of a final partnership adjust-  
 5 ment with respect to any taxable year is mailed under sec-  
 6 tion 6231, the running of the period specified in sub-  
 7 section (a) (as modified by the other provisions of this sec-  
 8 tion) shall be suspended—

9 “(1) for the period during which an action may  
 10 be brought under section 6234 (and, if a petition is  
 11 filed under such section with respect to such notice,  
 12 until the decision of the court becomes final), and

13 “(2) for 1 year thereafter.

14 **“PART IV—DEFINITIONS AND SPECIAL RULES**

“Sec. 6241. Definitions and special rules.

15 **“SEC. 6241. DEFINITIONS AND SPECIAL RULES.**

16 “(a) **DEFINITIONS AND SPECIAL RULES.**—For pur-  
 17 poses of this subchapter—

18 “(1) **PARTNERSHIP.**—The term ‘partnership’  
 19 means any partnership required to file a return  
 20 under section 6031(a).

21 “(2) **PARTNER.**—The term ‘partner’ means—

22 “(A) a partner in the partnership, and

23 “(B) any other person whose income tax li-  
 24 ability under subtitle A is determined in whole



1           or in part by taking into account directly or in-  
2           directly income, gain, deduction, or loss of the  
3           partnership.

4           “(b) PARTNERSHIP ADJUSTMENT.—The term ‘part-  
5           nership adjustment’ means any adjustment in the amount  
6           of any item of income, gain, loss, deduction, or credit of  
7           a partnership, or any partner’s distributive share thereof.

8           “(c) RETURN DUE DATE.—The term ‘return due  
9           date’ means, with respect to the taxable year, the date  
10          prescribed for filing the partnership return for such tax-  
11          able year (determined without regard to extensions).

12          “(d) JOINT AND SEVERAL LIABILITY.—

13                 “(1) IN GENERAL.—The partnership and any  
14                 partner of the partnership shall be jointly and sever-  
15                 ally liable for any imputed underpayment and any  
16                 penalty, addition to tax, or additional amount attrib-  
17                 utable thereto.

18                 “(2) PERIOD FOR ASSESSMENT OF PART-  
19                 NERS.—The period for assessment of an imputed  
20                 underpayment with respect to a partner of a part-  
21                 nership shall not expire earlier than 3 years after  
22                 the date on which an assessment of such imputed  
23                 underpayment was made with respect to the partner-  
24                 ship.

1           “(3) DETERMINING PARTNERS.—A person shall  
2           be treated as partner of the partnership if such per-  
3           son is a partner of such partnership at any time  
4           during the reviewed or adjustment year.

5           “(e) PAYMENTS NONDEDUCTIBLE.—No deduction  
6           shall be allowed under subtitle A for any payment required  
7           to be made by a partnership under this subchapter.

8           “(f) SPECIAL RULE FOR DEDUCTIONS, LOSSES, AND  
9           CREDITS OF FOREIGN PARTNERSHIPS.—Except to the ex-  
10          tent otherwise provided in regulations, in the case of any  
11          partnership the partnership representative of which re-  
12          sides outside the United States or the books of which are  
13          maintained outside the United States, no deduction, loss,  
14          or credit shall be allowable to any partner unless section  
15          6031 is complied with for the partnership’s taxable year  
16          in which such deduction, loss, or credit arose at such time  
17          as the Secretary prescribes by regulations.

18          “(g) PARTNERSHIPS HAVING PRINCIPAL PLACE OF  
19          BUSINESS OUTSIDE UNITED STATES.—For purposes of  
20          sections 6234, a principal place of business located outside  
21          the United States shall be treated as located in the Dis-  
22          trict of Columbia.

23          “(h) PARTNERSHIPS IN CASES UNDER TITLE 11 OF  
24          UNITED STATES CODE.—

1           “(1) SUSPENSION OF PERIOD OF LIMITATIONS  
2           ON MAKING ADJUSTMENT, ASSESSMENT, OR COLLEC-  
3           TION.—The running of any period of limitations pro-  
4           vided in this subchapter on making a partnership  
5           adjustment (or provided by section 6501 or 6502 on  
6           the assessment or collection of any imputed under-  
7           payment determined under this subchapter) shall, in  
8           a case under title 11 of the United States Code, be  
9           suspended during the period during which the Sec-  
10          retary is prohibited by reason of such case from  
11          making the adjustment (or assessment or collection)  
12          and—

13                   “(A) for adjustment or assessment, 60  
14                   days thereafter, and

15                   “(B) for collection, 6 months thereafter.

16          A rule similar to the rule of section 6213(f)(2) shall  
17          apply for purposes of section 6232(b).

18           “(2) SUSPENSION OF PERIOD OF LIMITATION  
19           FOR FILING FOR JUDICIAL REVIEW.—The running  
20           of the period specified in section 6234 shall, in a  
21           case under title 11 of the United States Code, be  
22           suspended during the period during which the part-  
23           nership is prohibited by reason of such case from fil-  
24           ing a petition under section 6234 and for 60 days  
25           thereafter.”.

1           (2) CLERICAL AMENDMENT.—The table of sub-  
2 chapters for chapter 63 is amended by inserting  
3 after the item relating to subchapter B the following  
4 new items:

          “SUBCHAPTER C. TREATMENT OF PARTNERSHIPS.”.

5           (d) CONFORMING AMENDMENTS.—

6           (1) Section 6422 is amended by striking para-  
7 graph (12).

8           (2) Section 6501(n) is amended by striking  
9 paragraphs (2) and (3) and by striking “CROSS  
10 REFERENCES” and all that follows through “For pe-  
11 riod of limitations” and inserting “CROSS REF-  
12ERENCE.—For period of limitations”.

13           (3) Section 6503(a)(1) is amended by striking  
14 “(or section 6229” and all that follows through “of  
15 section 6230(a))”.

16           (4) Section 6504 is amended by striking para-  
17 graph (11).

18           (5) Section 6511 is amended by striking sub-  
19 section (g).

20           (6) Section 6512(b)(3) is amended by striking  
21 the second sentence.

22           (7) Section 6515 is amended by striking para-  
23 graph (6).

24           (8) Section 6601(c) is amended by striking the  
25 last sentence.

1           (9) Section 7421(a) is amended by striking  
2           “6225(b), 6246(b)” and inserting “6232(c)”.

3           (10) Section 7422 is amended by striking sub-  
4           section (h).

5           (11) Section 7459(c) is amended by striking  
6           “section 6226” and all that follows through “or  
7           6252” and inserting “section 6234”.

8           (12) Section 7482(b)(1) is amended—

9                   (A) in subparagraph (E), by striking “sec-  
10                   tion 6226, 6228, 6247, or 6252” and inserting  
11                   “section 6234”,

12                   (B) by striking subparagraph (F), by strik-  
13                   ing “or” at the end of subparagraph (E) and  
14                   inserting a period, and by inserting “or” at the  
15                   end of subparagraph (D), and

16                   (C) in the last sentence, by striking “sec-  
17                   tion 6226, 6228(a), or 6234(c)” and inserting  
18                   “section 6234”.

19           (13) Section 7485(b) is amended by striking  
20           “section 6226, 6228(a), 6247, or 6252” and insert-  
21           ing “section 6234”.

22           (e) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to returns filed for partnership tax-  
24 able years ending after December 31, 2014, except that  
25 a partnership may elect (at such time and in such form

1 and manner as the Secretary of the Treasury may pre-  
2 scribe) for such amendments to apply to any return of the  
3 partnership filed for partnership taxable years ending  
4 after the date of the enactment of this Act and before Jan-  
5 uary 1, 2015.

6 **PART 3—REITS AND RICS**

7 **SEC. 3631. PREVENTION OF TAX-FREE SPINOFFS INVOLV-**  
8 **ING REITS.**

9 (a) IN GENERAL.—Section 355 is amended by adding  
10 at the end the following new subsection:

11 “(h) SECTION NOT TO APPLY TO DISTRIBUTIONS IN-  
12 VOLVING REAL ESTATE INVESTMENT TRUSTS.—This sec-  
13 tion (and so much of section 356 as relates to this section)  
14 shall not apply to any distribution if either the distributing  
15 corporation or controlled corporation is a real estate in-  
16 vestment trust.”.

17 (b) PREVENTION OF REIT ELECTION FOLLOWING  
18 TAX-FREE SPIN OFF.—Section 856(c) is amended by re-  
19 designating paragraph (8) as paragraph (9) and by insert-  
20 ing after paragraph (7) the following new paragraph:

21 “(8) ELECTION AFTER TAX-FREE REORGANIZA-  
22 TION.—If a corporation was a distributing corpora-  
23 tion or a controlled corporation with respect to any  
24 distribution to which section 355 applied, such cor-  
25 poration (and any successor corporation) shall not

1 be eligible to make any election under subsection  
2 (c)(1) for any taxable year prior to the 10th taxable  
3 year which begins after the taxable year in which  
4 such distribution was made.”.

5 (c) EFFECTIVE DATE.—

6 (1) IN GENERAL.—Except as otherwise pro-  
7 vided in this subsection, the amendments made by  
8 this section shall apply to distributions on or after  
9 February 26, 2014.

10 (2) TRANSITION RULE.—The amendments  
11 made by this section shall not apply to any distribu-  
12 tion made pursuant to an agreement which was  
13 binding on February 26, 2014, and at all times  
14 thereafter.

15 **SEC. 3632. EXTENSION OF PERIOD FOR PREVENTION OF**  
16 **REIT ELECTION FOLLOWING REVOCATION**  
17 **OR TERMINATION.**

18 (a) IN GENERAL.—Section 856(g)(3) is amended by  
19 striking “fifth” and inserting “10th”.

20 (b) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to terminations and revocations  
22 after December 31, 2014.

1 **SEC. 3633. CERTAIN SHORT-LIFE PROPERTY NOT TREATED**  
2 **AS REAL PROPERTY FOR PURPOSES OF REIT**  
3 **PROVISIONS.**

4 (a) IN GENERAL.—Section 856(c)(5) is amended by  
5 adding at the end the following new subparagraph:

6 “(L) REAL PROPERTY.—The term ‘real  
7 property’ shall not include any tangible prop-  
8 erty with a class life of less than 27.5 years.  
9 For purposes of the preceding sentence, class  
10 life of tangible property for any taxable year  
11 shall be the greater of—

12 “(i) the class life of such property in  
13 the hands of the real estate investment  
14 trust, or

15 “(ii) the class life which would be ap-  
16 plicable to such property if such property  
17 was placed in service in the taxable year.”.

18 (b) EFFECTIVE DATE.—The amendment made by  
19 this section shall apply to taxable years beginning after  
20 December 31, 2016.

21 **SEC. 3634. REPEAL OF SPECIAL RULES FOR TIMBER HELD**  
22 **BY REITS.**

23 (a) IN GENERAL.—Section 856(c)(5)(L), as added by  
24 this Act, is amended by inserting “timber or” after “shall  
25 not include”.

26 (b) CONFORMING AMENDMENTS.—



1           (1) Section 856(c)(2) is amended by inserting  
2           “and” at the end of subparagraph (G), by striking  
3           “and” at the end of subparagraph (H), and by strik-  
4           ing subparagraph (I).

5           (2) Section 856(c)(5), as amended by the pre-  
6           ceding provisions of this Act, is amended by striking  
7           subparagraphs (H) and (I) and by redesignating  
8           subparagraphs (J), (K), and (L) as subparagraphs  
9           (H), (I) and (J), respectively.

10          (3) Section 856(c), as amended by the pre-  
11          ceding provisions of this Act, is amended by striking  
12          paragraph (9).

13          (4) Section 857(b)(6) is amended by striking  
14          subparagraphs (D), (G), and (H), and by redesign-  
15          ating subparagraphs (E) and (F) as subparagraphs  
16          (D) and (E), respectively.

17          (5) Section 857(b)(6)(D), as redesignated by  
18          paragraph (4), is amended by striking “subpara-  
19          graphs (C) and (D)” and inserting “subparagraph  
20          (C)”.

21          (6) Section 857(b)(6)(E), as redesignated by  
22          paragraph (4), is amended—

23                  (A) by striking “subparagraph (C) or (D)”  
24                  and inserting “subparagraph (C)”, and

1 (B) by striking “subparagraphs (C), (D),  
2 and (E)” and inserting “subparagraphs (C) and  
3 (D)”.

4 (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to taxable years beginning after  
6 December 31, 2016.

7 **SEC. 3635. LIMITATION ON FIXED PERCENTAGE RENT AND**  
8 **INTEREST EXCEPTIONS FOR REIT INCOME**  
9 **TESTS.**

10 (a) IN GENERAL.—Section 856 is amended by adding  
11 at the end the following new subsection:

12 “(o) LIMITATION ON FIXED PERCENTAGE RENT AND  
13 INTEREST EXCEPTIONS.—

14 “(1) IN GENERAL.—If the fixed percentage rent  
15 and interest income received or accrued by a real es-  
16 tate investment trust from a single C corporation  
17 (other than a taxable REIT subsidiary of such real  
18 estate investment trust) for any taxable year exceeds  
19 either—

20 “(A) 25 percent of the fixed percentage  
21 rent income received or accrued by such real es-  
22 tate investment trust for such taxable year, or

23 “(B) 25 percent of the fixed percentage in-  
24 terest income received or accrued by such real  
25 estate investment trust for such taxable year,

1 then, notwithstanding subsection (d)(2), none of the  
2 fixed percentage rent income received or accrued  
3 from such corporation which is attributable to leases  
4 entered into after December 31, 2014, shall be  
5 treated as rents from real property and, notwith-  
6 standing subsection (f), none of the fixed percentage  
7 interest income received or accrued from such cor-  
8 poration which is attributable to debt instruments  
9 acquired after December 31, 2014, shall be treated  
10 as interest.

11 “(2) FIXED PERCENTAGE RENT AND INTEREST  
12 INCOME.—For purposes of this subsection—

13 “(A) FIXED PERCENTAGE RENT AND IN-  
14 TEREST INCOME.—The term ‘fixed percentage  
15 rent and interest income’ means the sum of the  
16 fixed percentage rent income plus the fixed per-  
17 centage interest income.

18 “(B) FIXED PERCENTAGE RENT IN-  
19 COME.—The term ‘fixed percentage rent in-  
20 come’ means amounts described in subsection  
21 (d)(2)(A) which are based on a fixed percentage  
22 or percentages of receipts or sales.

23 “(C) FIXED PERCENTAGE INTEREST IN-  
24 COME.—The term ‘fixed percentage interest in-  
25 come’ means amounts described in subsection

1 (f)(1) which are based on a fixed percentage or  
2 percentages of receipts or sales.

3 “(3) AGGREGATION RULE.—Members of the  
4 same affiliated group (as defined in section 1504,  
5 applied by substituting ‘50 percent’ for ‘80 percent’  
6 each place it appears therein) shall be treated as 1  
7 corporation for purposes of paragraph (1).

8 “(4) TREATMENT OF MODIFICATIONS.—For  
9 purposes of paragraph (1), any material modifica-  
10 tion (including any extension of the term) of a lease  
11 or debt instrument shall be treated as a new lease  
12 or debt instrument, as the case may be, entered into  
13 on the date of such modification.”.

14 (b) EFFECTIVE DATE.—The amendment made by  
15 this section shall apply to taxable years ending after De-  
16 cember 31, 2014.

17 **SEC. 3636. REPEAL OF PREFERENTIAL DIVIDEND RULE FOR**  
18 **PUBLICLY OFFERED REITS.**

19 (a) IN GENERAL.—Paragraph (1) of section 562(c),  
20 as amended by the preceding provisions of this Act, is  
21 amended by inserting “or a publicly offered REIT” after  
22 “a publicly offered regulated investment company”.

23 (b) PUBLICLY OFFERED REIT.—Subsection (c) of  
24 section 562, as so amended, is amended by adding at the  
25 end the following new paragraph:

1           “(3) PUBLICLY OFFERED REIT.—For purposes  
 2 of this subsection, the term ‘publicly offered REIT’  
 3 means a real estate investment trust which is re-  
 4 quired to file annual and periodic reports with the  
 5 Securities and Exchange Commission under the Se-  
 6 curities Exchange Act of 1934.”.

7           (c) EFFECTIVE DATE.—The amendment made by  
 8 this section shall apply to distributions in taxable years  
 9 beginning after December 31, 2014.

10 **SEC. 3637. AUTHORITY FOR ALTERNATIVE REMEDIES TO**  
 11                           **ADDRESS CERTAIN REIT DISTRIBUTION FAIL-**  
 12                           **URES.**

13           (a) IN GENERAL.—Subsection (e) of section 562 is  
 14 amended—

15           (1) by striking “In the case of a real estate in-  
 16 vestment trust” and inserting the following:

17           “(1) DETERMINATION OF EARNINGS AND PROF-  
 18 ITS FOR PURPOSES OF DIVIDENDS PAID DEDUC-  
 19 TION.—In the case of a real estate investment  
 20 trust”, and

21           (2) by adding at the end the following new  
 22 paragraph:

23           “(2) AUTHORITY TO PROVIDE ALTERNATIVE  
 24 REMEDIES FOR CERTAIN FAILURES.—In the case of  
 25 a failure of a distribution by a real estate investment

1 trust to comply with the requirements of subsection  
2 (c), the Secretary may provide an appropriate rem-  
3 edy to cure such failure in lieu of not considering  
4 the distribution to be a dividend for purposes of  
5 computing the dividends paid deduction if—

6 “(A) the Secretary determines that such  
7 failure is inadvertent or is due to reasonable  
8 cause and not due to willful neglect, or

9 “(B) such failure is of a type of failure  
10 which the Secretary has identified for purposes  
11 of this paragraph as being described in sub-  
12 paragraph (A).”.

13 (b) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to distributions in taxable years  
15 beginning after December 31, 2014.

16 **SEC. 3638. LIMITATIONS ON DESIGNATION OF DIVIDENDS**  
17 **BY REITS.**

18 (a) IN GENERAL.—Section 857 is amended by redес-  
19 ignating subsection (g) as subsection (h) and by inserting  
20 after subsection (f) the following new subsection:

21 “(g) LIMITATIONS ON DESIGNATION OF DIVI-  
22 DENDS.—

23 “(1) OVERALL LIMITATION.—The aggregate  
24 amount of dividends designated by a real estate in-  
25 vestment trust under subsections (b)(3)(C) and

1 (c)(2)(A) with respect to any taxable year may not  
2 exceed the dividends paid by such trust with respect  
3 to such year. For purposes of the preceding sen-  
4 tence, dividends paid after the close of the taxable  
5 year described in section 858 shall be treated as  
6 paid with respect to such year.

7 “(2) **PROPORTIONALITY.**—The Secretary may  
8 prescribe regulations or other guidance requiring the  
9 proportionality of the designation of particular types  
10 of dividends among shares or beneficial interests of  
11 a real estate investment trust.”.

12 (b) **EFFECTIVE DATE.**—The amendments made by  
13 this section shall apply to distributions in taxable years  
14 beginning after December 31, 2014.

15 **SEC. 3639. NON-REIT EARNINGS AND PROFITS REQUIRED**  
16 **TO BE DISTRIBUTED BY REIT IN CASH.**

17 (a) **IN GENERAL.**—Section 857, as amended by the  
18 preceding provisions of this Act, is amended by redesi-  
19 gnating subsection (h) as subsection (i) and by inserting  
20 after subsection (g) the following new subsection:

21 “(h) **DETERMINATION OF EARNINGS AND PROFITS**  
22 **ACCUMULATED IN NON-REIT YEARS.**—

23 “(1) **IN GENERAL.**—For purposes of subsection  
24 (a)(2)(B), distributions during the transition period  
25 shall be taken into account in determining accumu-

1       lated earning and profits only if such distributions  
2       are made in cash.

3           “(2) TRANSITION PERIOD.—For purposes of  
4       this subsection, the term ‘transition period’ means  
5       the period of taxable years beginning with the last  
6       taxable year (other than a short taxable year) which  
7       was a non-REIT year (as defined in subsection (a))  
8       and ending with the first taxable year to which the  
9       provisions of this part apply.”.

10       (b)       CONFORMING        AMENDMENT.—Section  
11       857(a)(2)(B) is amended by inserting “(determined as  
12       provided in subsection (h))” before the period at the end.

13       (c) EFFECTIVE DATE.—The amendments made by  
14       this section shall apply to distributions made on or after  
15       February 26, 2014.

16       **SEC. 3640. DEBT INSTRUMENTS OF PUBLICLY OFFERED**  
17                               **REITS AND MORTGAGES TREATED AS REAL**  
18                               **ESTATE ASSETS.**

19       (a) DEBT INSTRUMENTS OF PUBLICLY OFFERED  
20       REITS TREATED AS REAL ESTATE ASSETS.—

21           (1) IN GENERAL.—Subparagraph (B) of section  
22       856(c)(5) is amended—

23                   (A) by striking “and shares” and inserting  
24                   “, shares”, and



1 (B) by inserting “, and debt instruments  
2 issued by publicly offered REITs” before the  
3 period at the end of the first sentence.

4 (2) INCOME FROM NONQUALIFIED DEBT IN-  
5 STRUMENTS OF PUBLICLY OFFERED REITS NOT  
6 QUALIFIED FOR PURPOSES OF SATISFYING THE 75  
7 PERCENT GROSS INCOME TEST.—Subparagraph (H)  
8 of section 856(c)(3) is amended by inserting “(other  
9 than a nonqualified publicly offered REIT debt in-  
10 strument)” after “real estate asset”.

11 (3) 25 PERCENT ASSET LIMITATION ON HOLD-  
12 ING OF NONQUALIFIED DEBT INSTRUMENTS OF PUB-  
13 LICLY OFFERED REITS.—Subparagraph (B) of sec-  
14 tion 856(c)(4) is amended by redesignating clause  
15 (iii) as clause (iv) and by inserting after clause (ii)  
16 the following new clause:

17 “(iii) not more than 25 percent of the  
18 value of its total assets is represented by  
19 nonqualified publicly offered REIT debt in-  
20 struments, and”.

21 (4) DEFINITIONS RELATED TO DEBT INSTRU-  
22 MENTS OF PUBLICLY OFFERED REITS.—Paragraph  
23 (5) of section 856(c), as amended by the preceding  
24 provisions of this Act, is amended by adding at the  
25 end the following new subparagraph:

1                   “(K) DEFINITIONS RELATED TO DEBT IN-  
2                   STRUMENTS OF PUBLICLY OFFERED REITS.—

3                   “(i) PUBLICLY OFFERED REIT.—The  
4                   term ‘publicly offered REIT’ has the  
5                   meaning given such term by section  
6                   562(c)(3).

7                   “(ii) NONQUALIFIED PUBLICLY OF-  
8                   FERED REIT DEBT INSTRUMENT.—The  
9                   term ‘nonqualified publicly offered REIT  
10                  debt instrument’ means any real estate  
11                  asset which would cease to be a real estate  
12                  asset if subparagraph (B) were applied  
13                  without regard to the reference to ‘debt in-  
14                  struments issued by publicly offered  
15                  REITs’.”.

16                  (b) INTERESTS IN MORTGAGES ON INTERESTS IN  
17                  REAL PROPERTY TREATED AS REAL ESTATE ASSETS.—  
18                  Subparagraph (B) of section 856(c)(5) is amended by in-  
19                  serting “or on interests in real property” after “interests  
20                  in mortgages on real property”.

21                  (c) EFFECTIVE DATE.—The amendments made by  
22                  this section shall apply to taxable years beginning after  
23                  December 31, 2014.

1 **SEC. 3641. ASSET AND INCOME TEST CLARIFICATION RE-**  
2 **GARDING ANCILLARY PERSONAL PROPERTY.**

3 (a) IN GENERAL.—Subsection (c) of section 856 is  
4 amended by adding at the end the following new para-  
5 graph:

6 “(9) SPECIAL RULES FOR CERTAIN PERSONAL  
7 PROPERTY WHICH IS ANCILLARY TO REAL PROP-  
8 ERTY.—

9 “(A) CERTAIN PERSONAL PROPERTY  
10 LEASED IN CONNECTION WITH REAL PROP-  
11 ERTY.—Personal property shall be treated as a  
12 real estate asset for purposes of paragraph  
13 (4)(A) to the extent that rents attributable to  
14 such personal property are treated as rents  
15 from real property under subsection (d)(1)(C).

16 “(B) CERTAIN PERSONAL PROPERTY  
17 MORTGAGED IN CONNECTION WITH REAL PROP-  
18 ERTY.—In the case of an obligation secured by  
19 a mortgage on both real property and personal  
20 property, if the fair market value of such per-  
21 sonal property does not exceed 15 percent of  
22 the total fair market value of all such property,  
23 such personal property shall be treated as real  
24 property for purposes of applying paragraphs  
25 (3)(B) and (4)(A). For purposes of the pre-  
26 ceding sentence, the fair market value of all

1 such property shall be determined in the same  
2 manner as the fair market value of real prop-  
3 erty is determined for purposes of apportioning  
4 interest income between real property and per-  
5 sonal property under paragraph (3)(B).”.

6 (b) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to taxable years beginning after  
8 December 31, 2014.

9 **SEC. 3642. HEDGING PROVISIONS.**

10 (a) MODIFICATION TO PERMIT THE TERMINATION  
11 OF A HEDGING TRANSACTION USING AN ADDITIONAL  
12 HEDGING INSTRUMENT.—Subparagraph (G) of section  
13 856(c)(5) is amended by striking “and” at the end of  
14 clause (i), by striking the period at the end of clause (ii)  
15 and inserting “, and”, and by adding at the end the fol-  
16 lowing new clause:

17 “(iii) if—

18 “(I) a real estate investment  
19 trust enters into one or more positions  
20 described in clause (i) with respect to  
21 indebtedness described in clause (i) or  
22 one or more positions described in  
23 clause (ii) with respect to property  
24 which generates income or gain de-  
25 scribed in paragraph (2) or (3),

1           “(II) any portion of such indebt-  
2           edness is extinguished or any portion  
3           of such property is disposed of, and

4           “(III) in connection with such ex-  
5           tinguishment or disposition, such  
6           trust enters into one or more trans-  
7           actions which would be hedging trans-  
8           actions described in subparagraph (B)  
9           or (C) of section 1221(b)(2) with re-  
10          spect to any position referred to in  
11          subclause (I) if such position were or-  
12          dinary property,

13          any income of such trust from any position  
14          referred to in subclause (I) and from any  
15          transaction referred to in subclause (III)  
16          (including gain from the termination of  
17          any such position or transaction) shall not  
18          constitute gross income under paragraphs  
19          (2) and (3) to the extent that such trans-  
20          action hedges such position.”.

21          (b) IDENTIFICATION REQUIREMENTS.—

22                 (1) IN GENERAL.—Subparagraph (G) of section  
23                 856(c)(5), as amended by subsection (a), is amended  
24                 by striking “and” at the end of clause (ii), by strik-  
25                 ing the period at the end of clause (iii) and inserting

1 “, and”, and by adding at the end the following new  
2 clause:

3 “(iv) clauses (i), (ii), and (iii) shall  
4 not apply with respect to any transaction  
5 unless such transaction satisfies the identi-  
6 fication requirement described in section  
7 1221(b)(3)(A) (determined after taking  
8 into account any curative provisions pro-  
9 vided under the regulations referred to  
10 therein).”.

11 (2) CONFORMING AMENDMENTS.—Subpara-  
12 graph (G) of section 856(e)(5) is amended—

13 (A) by striking “which is clearly identified  
14 pursuant to section 1221(a)(7)” in clause (i),  
15 and

16 (B) by striking “, but only if such trans-  
17 action is clearly identified as such before the  
18 close of the day on which it was acquired, origi-  
19 nated, or entered into (or such other time as  
20 the Secretary may prescribe)” in clause (ii).

21 (c) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to taxable years beginning after  
23 December 31, 2014.

1 **SEC. 3643. MODIFICATION OF REIT EARNINGS AND PROF-**  
2 **ITS CALCULATION TO AVOID DUPLICATE TAX-**  
3 **ATION.**

4 (a) EARNINGS AND PROFITS NOT INCREASED BY  
5 AMOUNTS ALLOWED IN COMPUTING TAXABLE INCOME IN  
6 PRIOR YEARS.—

7 (1) IN GENERAL.—Paragraph (1) of section  
8 857(d) is amended to read as follows:

9 “(1) IN GENERAL.—The earnings and profits of  
10 a real estate investment trust for any taxable year  
11 (but not its accumulated earnings) shall not be re-  
12 duced by any amount which—

13 “(A) is not allowable in computing its tax-  
14 able income for such taxable year, and

15 “(B) was not allowable in computing its  
16 taxable income for any prior taxable year.”.

17 (2) EXCEPTION FOR PURPOSES OF DETER-  
18 MINING DIVIDENDS PAID DEDUCTION.—Paragraph  
19 (1) of section 562(e), as amended by the preceding  
20 provisions of this Act, is amended—

21 (A) by striking “deduction, the earnings”  
22 and inserting the following: “deduction—

23 “(A) the earnings”,

24 (B) by striking the period at the end and  
25 inserting “, and”, and

1 (C) by adding at the end the following new  
2 subparagraph:

3 “(B) section 857(d)(1) shall be applied  
4 without regard to subparagraph (B) thereof.”.

5 (3) CONFORMING AMENDMENTS.—Subsection  
6 (d) of section 857 is amended by adding at the end  
7 the following new paragraphs:

8 “(4) REAL ESTATE INVESTMENT TRUST.—For  
9 purposes of this subsection, the term ‘real estate in-  
10 vestment trust’ includes a domestic corporation,  
11 trust, or association which is a real estate invest-  
12 ment trust determined without regard to the require-  
13 ments of subsection (a).

14 “(5) SPECIAL RULES FOR DETERMINING EARN-  
15 INGS AND PROFITS FOR PURPOSES OF THE DEDUC-  
16 TION FOR DIVIDENDS PAID.—For special rules for  
17 determining the earnings and profits of a real estate  
18 investment trust for purposes of the deduction for  
19 dividends paid, see section 562(e)(1).”.

20 (b) TREATMENT OF GAIN ON SALES OF REAL PROP-  
21 ERTY.—Subparagraph (A) of section 562(e)(1), as amend-  
22 ed by the preceding provisions of this Act, is amended to  
23 read as follows:

24 “(A) the earnings and profits of such trust  
25 for any taxable year (but not its accumulated



1 earnings) shall be increased by the amount of  
2 gain (if any) on the sale or exchange of real  
3 property which is taken into account in deter-  
4 mining the taxable income of such trust for  
5 such taxable year (and not otherwise taken into  
6 account in determining such earnings and prof-  
7 its), and”.

8 (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 2014.

11 **SEC. 3644. REDUCTION IN PERCENTAGE LIMITATION ON AS-**  
12 **SETS OF REIT WHICH MAY BE TAXABLE REIT**  
13 **SUBSIDIARIES.**

14 (a) IN GENERAL.—Section 856(c)(4)(B)(ii) is  
15 amended by striking “25 percent” and inserting “20 per-  
16 cent”.

17 (b) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to taxable years beginning after  
19 December 31, 2016.

20 **SEC. 3645. TREATMENT OF CERTAIN SERVICES PROVIDED**  
21 **BY TAXABLE REIT SUBSIDIARIES.**

22 (a) TAXABLE REIT SUBSIDIARIES TREATED IN  
23 SAME MANNER AS INDEPENDENT CONTRACTORS FOR  
24 CERTAIN PURPOSES.—

1           (1) MARKETING AND DEVELOPMENT EXPENSES  
2 UNDER RENTAL PROPERTY SAFE HARBOR.—Clause  
3 (v) of section 857(b)(6)(C) is amended by inserting  
4 “or by a taxable REIT subsidiary” before the period  
5 at the end.

6           (2) FORECLOSURE PROPERTY GRACE PERIOD.—  
7 Subparagraph (C) of section 856(e)(4) is amended  
8 by inserting “or through a taxable REIT subsidiary”  
9 after “receive any income”.

10       (b) TAX ON REDETERMINED TRS SERVICE IN-  
11 COME.—

12           (1) IN GENERAL.—Subparagraph (A) of section  
13 857(b)(7) is amended by striking “and excess inter-  
14 est” and inserting “excess interest, and redeter-  
15 mined TRS service income”.

16           (2) REDETERMINED TRS SERVICE INCOME.—  
17 Paragraph (7) of section 857(b) is amended by re-  
18 designating subparagraphs (E) and (F) as subpara-  
19 graphs (F) and (G), respectively, and inserting after  
20 subparagraph (D) the following new subparagraph:

21           “(E) REDETERMINED TRS SERVICE IN-  
22 COME.—

23           “(i) IN GENERAL.—The term ‘redeter-  
24 mined TRS service income’ means gross  
25 income of a taxable REIT subsidiary of a

1 real estate investment trust attributable to  
2 services provided to, or on behalf of, such  
3 trust (less deductions properly allocable  
4 thereto) to the extent the amount of such  
5 income (less such deductions) would (but  
6 for subparagraph (F)) be increased on dis-  
7 tribution, apportionment, or allocation  
8 under section 482.

9 “(ii) COORDINATION WITH REDETER-  
10 MINED RENTS.—Clause (i) shall not apply  
11 with respect to gross income attributable  
12 to services furnished or rendered to a ten-  
13 ant of the real estate investment trust (or  
14 to deductions properly allocable thereto).”.

15 (3) CONFORMING AMENDMENTS.—Subpara-  
16 graphs (B)(i) and (C) of section 857(b)(7) are each  
17 amended by striking “subparagraph (E)” and insert-  
18 ing “subparagraph (F)”.

19 (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to taxable years beginning after  
21 December 31, 2014.

22 **SEC. 3646. STUDY RELATING TO TAXABLE REIT SUBSIDI-**  
23 **ARIES.**

24 The Secretary of the Treasury (or the Secretary’s  
25 designee) shall, biannually—

1 (1) conduct a study to determine—

2 (A) how many taxable REIT subsidiaries  
3 are in existence and the aggregate amount of  
4 taxes paid by such subsidiaries, and

5 (B) the amount by which transactions be-  
6 tween a REIT and a taxable REIT subsidiary  
7 reduce taxable income of the taxable REIT sub-  
8 sidiary (whether or not such transactions are  
9 conducted at arms length), and

10 (2) submit a report to the Committee on Ways  
11 and Means of the House of Representatives and the  
12 Committee on Finance of the Senate describing the  
13 results of such study.

14 **SEC. 3647. C CORPORATION ELECTION TO BECOME, OR**  
15 **TRANSFER ASSETS TO, A RIC OR REIT.**

16 (a) IN GENERAL.—Part IV of subchapter O of chap-  
17 ter 1, as amended by the preceding provisions of this Act,  
18 is amended by redesignating section 1062 as section 1063  
19 and by inserting after section 1061 the following new sec-  
20 tion:

1 **“SEC. 1062. RECOGNITION OF GAIN OR LOSS UPON C COR-**  
2 **PORATION ELECTION TO BECOME, OR TRANS-**  
3 **FER ASSETS TO, A REGULATED INVESTMENT**  
4 **COMPANY OR A REAL ESTATE INVESTMENT**  
5 **TRUST.**

6 “(a) IN GENERAL.—If a C corporation elects to be-  
7 come a regulated investment company or a real estate in-  
8 vestment trust for a taxable year, such corporation shall  
9 recognize gain or loss as if all its assets were sold by such  
10 corporation at their fair market value immediately before  
11 the close of the last taxable year before such corporation  
12 becomes a regulated investment company or real estate in-  
13 vestment trust (as the case may be).

14 “(b) APPLICATION TO TRANSFERS OF ASSETS.—In  
15 the case of a C corporation which transfers to a regulated  
16 investment company or a real estate investment trust one  
17 or more assets the basis of which is determined (in whole  
18 or in part) by reference to the basis of such asset or assets  
19 in the hands of the C corporation, such corporation shall  
20 recognize gain or loss as if such assets were sold by such  
21 corporation at their fair market value as of the end of  
22 the day before the day of the transfer.

23 “(c) NONAPPLICATION TO NET LOSS.—Subsections  
24 (a) and (b) shall not apply if their application would result  
25 in the recognition of a net loss. For purposes of the pre-  
26 ceding sentence, the term ‘net loss’ means the excess of

1 aggregate losses over aggregate gains (including items of  
2 income) without regard to character.

3 “(d) BASIS ADJUSTMENT.—If any asset is treated as  
4 sold under subsection (a) or (b), the basis of such asset  
5 immediately after such deemed sale shall be equal to the  
6 fair market value of such asset as determined under such  
7 subsection.

8 “(e) C CORPORATION.—For purposes of this section,  
9 the term ‘C corporation’ does not include a regulated in-  
10 vestment company or a real estate investment trust.”.

11 (b) CLERICAL AMENDMENT.—The table of sections  
12 for part IV of subchapter O of chapter 1 is amended by  
13 redesignating the item relating to section 1062 as an item  
14 relating to section 1063 and by inserting after the item  
15 relating to section 1061 the following new item:

“Sec. 1062. Recognition of gain or loss upon C corporation election to become,  
or transfer assets to, a regulated investment company or a real  
estate investment trust.”.

16 (c) EFFECTIVE DATE.—The amendment made by  
17 this section shall apply to elections and transfers on or  
18 after February 26, 2014.

19 **SEC. 3648. INTERESTS IN RICS AND REITS NOT EXCLUDED**  
20 **FROM DEFINITION OF UNITED STATES REAL**  
21 **PROPERTY INTERESTS.**

22 (a) IN GENERAL.—Section 897(c)(1)(B) is amended  
23 by striking “and” at the end of clause (i), by striking the

1 period at the end of clause (ii)(II) and inserting “, and”,  
2 and by adding at the end the following new clause:

3 “(iii) neither such corporation nor any  
4 predecessor of such corporation was a reg-  
5 ulated investment company or a real estate  
6 investment company at any time during  
7 the period described in subparagraph  
8 (A)(ii).”.

9 (b) EFFECTIVE DATE.—The amendment made by  
10 this section shall apply to dispositions after December 31,  
11 2014.

12 **SEC. 3649. DIVIDENDS DERIVED FROM RICS AND REITS IN-**  
13 **ELIGIBLE FOR DEDUCTION FOR UNITED**  
14 **STATES SOURCE PORTION OF DIVIDENDS**  
15 **FROM CERTAIN FOREIGN CORPORATIONS.**

16 (a) IN GENERAL.—Section 245(a) is amended by  
17 adding at the end the following new paragraph:

18 “(12) DIVIDENDS DERIVED FROM RICS AND  
19 REITS INELIGIBLE FOR DEDUCTION.—Regulated in-  
20 vestment companies and real estate investment  
21 trusts shall not be treated as domestic corporations  
22 for purposes of paragraph (5)(B).”.

23 (b) EFFECTIVE DATE.—The amendment made by  
24 this section shall apply to dividends received from regu-

1 lated investment companies and real estate investment  
2 trusts on or after February 26, 2014.

3 **PART 4—PERSONAL HOLDING COMPANIES**

4 **SEC. 3661. EXCLUSION OF DIVIDENDS FROM CONTROLLED**  
5 **FOREIGN CORPORATIONS FROM THE DEFINI-**  
6 **TION OF PERSONAL HOLDING COMPANY IN-**  
7 **COME FOR PURPOSES OF THE PERSONAL**  
8 **HOLDING COMPANY RULES.**

9 (a) IN GENERAL.—Paragraph (1) of section 543(a)  
10 is amended—

11 (1) by redesignating subparagraphs (C) and  
12 (D) as subparagraphs (D) and (E), respectively, and

13 (2) by inserting after subparagraph (B) the fol-  
14 lowing:

15 “(C) dividends received by a United States  
16 shareholder (as defined in section 951(b)) from  
17 a controlled foreign corporation (as defined in  
18 section 957(a)),”.

19 (b) EFFECTIVE DATE.—The amendments made by  
20 this Act shall apply to taxable years beginning after De-  
21 cember 31, 2014.



1       **Subtitle H—Taxation of Foreign**  
2                                   **Persons**

3       **SEC. 3701. PREVENTION OF AVOIDANCE OF TAX THROUGH**  
4                                   **REINSURANCE WITH NON-TAXED AFFILIATES.**

5           (a) IN GENERAL.—Part III of subchapter L of chap-  
6       ter 1 is amended by adding at the end the following new  
7       section:

8       **“SEC. 849. SPECIAL RULES FOR REINSURANCE OF NON-**  
9                                   **LIFE CONTRACTS WITH NON-TAXED AFFILI-**  
10                                  **ATES.**

11           “(a) IN GENERAL.—The taxable income under sec-  
12       tion 831(a) or the life insurance company taxable income  
13       under section 801(b) (as the case may be) of an insurance  
14       company shall be determined by not taking into account—

15                   “(1) any non-taxed reinsurance premium,

16                   “(2) any additional amount paid by such insur-  
17       ance company with respect to the reinsurance for  
18       which such non-taxed reinsurance premium is paid,  
19       to the extent such additional amount is properly al-  
20       locable to such non-taxed reinsurance premium, and

21                   “(3) any return premium, ceding commission,  
22       reinsurance recovered, or other amount received by  
23       such insurance company with respect to the reinsur-  
24       ance for which such non-taxed reinsurance premium  
25       is paid, to the extent such return premium, ceding

1 commission, reinsurance recovered, or other amount  
2 is properly allocable to such non-taxed reinsurance  
3 premium.

4 “(b) NON-TAXED REINSURANCE PREMIUMS.—For  
5 purposes of this section—

6 “(1) IN GENERAL.—The term ‘non-taxed rein-  
7 surance premium’ means any reinsurance premium  
8 paid directly or indirectly to an affiliated corporation  
9 with respect to reinsurance of risks (other than ex-  
10 cepted risks), to the extent that the income attrib-  
11 utable to the premium is not subject to tax under  
12 this subtitle (either as the income of the affiliated  
13 corporation or as amounts included in gross income  
14 by a United States shareholder under section 951).

15 “(2) EXCEPTED RISKS.—The term ‘excepted  
16 risks’ means any risk with respect to which reserves  
17 described in section 816(b)(1) are established.

18 “(c) AFFILIATED CORPORATIONS.—For purposes of  
19 this section, a corporation shall be treated as affiliated  
20 with an insurance company if both corporations would be  
21 members of the same controlled group of corporations (as  
22 defined in section 1563(a)) if section 1563 were applied—

23 “(1) by substituting ‘at least 50 percent’ for ‘at  
24 least 80 percent’ each place it appears in subsection  
25 (a)(1), and

1           “(2) without regard to subsections (a)(4),  
2           (b)(2)(C), (b)(2)(D), and (e)(3)(C).

3           “(d) ELECTION TO TREAT REINSURANCE INCOME AS  
4 EFFECTIVELY CONNECTED.—

5           “(1) IN GENERAL.—A specified affiliated cor-  
6 poration may elect for any taxable year to treat  
7 specified reinsurance income as—

8                   “(A) income effectively connected with the  
9                   conduct of a trade or business in the United  
10                   States, and

11                   “(B) for purposes of any treaty between  
12                   the United States and any foreign country, in-  
13                   come attributable to a permanent establishment  
14                   in the United States.

15           “(2) EFFECT OF ELECTION.—In the case of  
16 any specified reinsurance income with respect to  
17 which the election under this subsection applies—

18                   “(A) DEDUCTION ALLOWED FOR REINSUR-  
19                   ANCE PREMIUMS.—For exemption from sub-  
20                   section (a), see definition of non-taxed reinsur-  
21                   ance premiums in subsection (b).

22                   “(B) EXCEPTION FROM EXCISE TAX.—The  
23                   tax imposed by section 4371 shall not apply  
24                   with respect to any income treated as effectively

1 connected with the conduct of a trade or busi-  
2 ness in the United States under paragraph (1).

3 “(C) TAXATION UNDER THIS SUB-  
4 CHAPTER.—Such income shall be subject to tax  
5 under this subchapter to the same extent and  
6 in the same manner as if such income were the  
7 income of a domestic insurance company.

8 “(D) COORDINATION WITH FOREIGN TAX  
9 CREDIT PROVISIONS.—For purposes of subpart  
10 A of part III of subchapter N and sections 78  
11 and 960—

12 “(i) such specified reinsurance income  
13 shall be treated as derived from sources  
14 without the United States, and

15 “(ii) subsections (a), (b), and (c) of  
16 section 904, and section 960, shall be ap-  
17 plied separately with respect to each item  
18 of such income.

19 The Secretary may issue regulations or other  
20 guidance which provide that related items of  
21 specified reinsurance income may be aggregated  
22 for purposes of applying clause (ii).

23 “(3) SPECIFIED AFFILIATED CORPORATION.—  
24 For purposes of this subsection, the term ‘specified  
25 affiliated corporation’ means any affiliated corpora-

1       tion which is a foreign corporation and which meets  
2       such requirements as the Secretary shall prescribe to  
3       ensure that tax on the specified reinsurance income  
4       of such corporation is properly determined and paid.

5           “(4) SPECIFIED REINSURANCE INCOME.—For  
6       purposes of this paragraph, the term ‘specified rein-  
7       surance income’ means all income of a specified af-  
8       filiated corporation which is attributable to reinsur-  
9       ance with respect to which subsection (a) would (but  
10      for the election under this subsection) apply.

11          “(5) RULES RELATED TO ELECTION.—Any  
12      election under paragraph (1) shall—

13           “(A) be made at such time and in such  
14      form and manner as the Secretary may provide,  
15      and

16           “(B) apply for the taxable year for which  
17      made and all subsequent taxable years unless  
18      revoked with the consent of the Secretary.

19          “(e) EXCEPTION FOR AMOUNTS SUBJECT TO FOR-  
20      EIGN TAX.—An amount shall not be treated as described  
21      in paragraph (1), (2), or (3) of subsection (a) if the tax-  
22      payer demonstrates to the satisfaction of the Secretary  
23      that such amount was subject to an effective rate of in-  
24      come tax imposed by a foreign country which is not less

1 than 100 percent of the maximum rate of tax specified  
2 in section 11.

3 “(f) REGULATIONS.—The Secretary shall prescribe  
4 such regulations or other guidance as may be appropriate  
5 to carry out, or to prevent the avoidance of the purposes  
6 of, this section, including regulations or other guidance  
7 which provide for the application of this section to alter-  
8 native reinsurance transactions, fronting transactions,  
9 conduit and reciprocal transactions, and any economically  
10 equivalent transactions.”.

11 (b) CLERICAL AMENDMENT.—The table of sections  
12 for part III of subchapter L of chapter 1 is amended by  
13 adding at the end the following new item:

“Sec. 849. Special rules for reinsurance of non-life contracts with non-taxed af-  
filiates.”.

14 (c) EFFECTIVE DATE.—The amendment made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 2014.

17 **SEC. 3702. TAXATION OF PASSENGER CRUISE GROSS IN-**  
18 **COME OF FOREIGN CORPORATIONS AND**  
19 **NONRESIDENT ALIEN INDIVIDUALS.**

20 (a) IN GENERAL.—Section 882 is amended by redес-  
21 ignating subsection (f) as subsection (g) and by inserting  
22 after subsection (e) the following new subsection:

23 “(f) TREATMENT OF PASSENGER CRUISE GROSS IN-  
24 COME.—

1           “(1) IN GENERAL.—For purposes of this title,  
2           the effectively connected passenger cruise gross in-  
3           come of a foreign corporation shall be treated as  
4           gross income which is effectively connected with the  
5           conduct of a trade or business in the United States.

6           “(2) EFFECTIVELY CONNECTED PASSENGER  
7           CRUISE GROSS INCOME.—For purposes of this sub-  
8           section, the term ‘effectively connected passenger  
9           cruise gross income’ means, with respect to the oper-  
10          ation of any ship in a covered voyage, the United  
11          States territorial waters percentage of the gross in-  
12          come (determined without regard to section  
13          883(a)(1)) derived from such operation, including  
14          any amount received with respect to the provision of  
15          any on- or off-board activities, services, or sales,  
16          with respect to passengers incidental to such oper-  
17          ation (or with respect to any agreement with any  
18          person with respect to the provision of any such ac-  
19          tivities, services, or sales).

20          “(3) UNITED STATES TERRITORIAL WATERS  
21          PERCENTAGE.—For purposes of this subsection—

22                 “(A) IN GENERAL.—The term ‘United  
23                 States territorial waters percentage’ means,  
24                 with respect to the operation of any ship in any

1 covered voyage, the ratio (expressed as a per-  
2 centage) of—

3 “(i) the number of days during such  
4 voyage such ship was operated in the terri-  
5 torial waters of the United States, divided  
6 by

7 “(ii) the total number of days of such  
8 voyage.

9 “(B) CALENDAR DAY RULE.—If a ship—

10 “(i) is operated in a covered voyage,  
11 or

12 “(ii) is operated in the territorial  
13 waters of the United States during a cov-  
14 ered voyage,

15 for any portion of a calendar day, such ship  
16 shall be treated as having operated in a covered  
17 voyage, or as having operated in such territorial  
18 waters, respectively, for the entirety of such  
19 day.

20 “(C) TERRITORIAL WATERS.—The terri-  
21 torial waters of the United States shall be  
22 treated as consisting of those waters which  
23 are—



1                   “(i) within the international boundary  
2                   line between the United States and any  
3                   contiguous foreign country, or

4                   “(ii) within 12 nautical miles from low  
5                   tide on the coastline of the United States.

6                   “(4) COVERED VOYAGE.—For purposes of this  
7                   subsection—

8                   “(A) IN GENERAL.—The term ‘covered  
9                   voyage’ has the meaning given such term by  
10                  section 4472(1).

11                  “(B) ANTI-ABUSE RULE.—Except as oth-  
12                  erwise provided by the Secretary, if passengers  
13                  embark a ship in the United States and more  
14                  than 10 percent of such passengers disembark  
15                  in the United States, the operation of such ship  
16                  at all times between such events shall be treat-  
17                  ed as a covered voyage. Nothing in the pre-  
18                  ceding sentence shall preclude any operation of  
19                  a ship (including any operation of a ship before  
20                  or after such events) which would otherwise be  
21                  treated as part of a covered voyage from being  
22                  so treated.

23                  “(5) TREATMENT OF OTHERWISE EFFECTIVELY  
24                  CONNECTED INCOME.—Gross income which would,  
25                  without regard to this subsection, be gross income

1 which is effectively connected with the conduct of a  
2 trade or business in the United States—

3 “(A) shall be so treated, and

4 “(B) shall not be taken into account as  
5 gross income under paragraph (2).”.

6 (b) APPLICATION TO NONRESIDENT ALIEN INDIVID-  
7 UALS.—Section 871 is amended by redesignating sub-  
8 section (n) as subsection (o) and by inserting after sub-  
9 section (m) the following new subsection:

10 “(n) TREATMENT OF PASSENGER CRUISE GROSS IN-  
11 COME.—

12 “(1) IN GENERAL.—For purposes of this title,  
13 the effectively connected passenger cruise gross in-  
14 come of a nonresident alien individual shall be treat-  
15 ed as gross income which is effectively connected  
16 with the conduct of a trade or business in the  
17 United States.

18 “(2) DEFINITIONS AND SPECIAL RULES.—For  
19 purposes of this subsection—

20 “(A) DEFINITIONS.—Terms used in this  
21 subsection which are also used in section 882(f)  
22 shall have the same meaning as when used in  
23 such section, except that section 882(f)(2) shall  
24 be applied by substituting ‘section 872(b)(1)’  
25 for ‘section 883(a)(1)’.

1           “(B) TREATMENT OF OTHERWISE EFFEC-  
2           TIVELY CONNECTED INCOME.—Rules similar to  
3           the rules of section 882(f)(5) shall apply for  
4           purposes of this subsection.”.

5           (c) COORDINATION WITH RECIPROCAL EXEMPTIONS  
6 FOR SHIPPING INCOME.—

7           (1) IN GENERAL.—Section 883(a)(1) is amend-  
8           ed by striking “Gross income” and inserting “Ex-  
9           cept as provided in section 882(f), gross income”.

10          (2) NONRESIDENT ALIEN INDIVIDUALS.—Sec-  
11          tion 872(b)(1) is amended by striking “Gross in-  
12          come” and inserting “Except as provided in section  
13          871(n), gross income”.

14          (d) COORDINATION WITH TAX ON GROSS TRANSPOR-  
15 TATION INCOME.—Section 887(b)(4) is amended by add-  
16 ing at the end the following new flush text:

17          “The preceding sentence shall not apply to any  
18          United States source gross transportation income  
19          which is effectively connected passenger cruise gross  
20          income (within the meaning of section 871(n) or  
21          882(f)).”.

22          (e) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 2014.

1 **SEC. 3703. RESTRICTION ON INSURANCE BUSINESS EXCEP-**  
2 **TION TO PASSIVE FOREIGN INVESTMENT**  
3 **COMPANY RULES.**

4 (a) **IN GENERAL.**—Section 1297(b)(2)(B) is amend-  
5 ed to read as follows:

6 “(B) derived in the active conduct of an in-  
7 surance business by a corporation if—

8 “(i) such corporation would be subject  
9 to tax under subchapter L if such corpora-  
10 tion were a domestic corporation,

11 “(ii) more than 50 percent of such  
12 corporation’s gross receipts for the taxable  
13 year consist of premiums, and

14 “(iii) the applicable insurance liabil-  
15 ities of such corporation constitute more  
16 than 35 percent of its total assets as re-  
17 ported on the corporation’s applicable fi-  
18 nancial statement for the year with which  
19 or in which the taxable year ends,”.

20 (b) **APPLICABLE INSURANCE LIABILITIES; APPLICA-**  
21 **BLE FINANCIAL STATEMENT.**—

22 (1) **IN GENERAL.**—Section 1297(b) is amended  
23 by adding at the end the following new paragraph:

24 “(3) **DEFINITIONS.**—For purposes of this sub-  
25 section—

1           “(A) APPLICABLE INSURANCE LIABIL-  
2 ITIES.—The term ‘applicable insurance liabil-  
3 ities’ means, with respect to any life or property  
4 and casualty insurance business—

5           “(i) loss and loss adjustment ex-  
6 penses,

7           “(ii) unearned premiums, and

8           “(iii) reserves (other than deficiency  
9 or contingency reserves) for life and health  
10 insurance risks and life and health insur-  
11 ance claims with respect to contracts pro-  
12 viding coverage for mortality or morbidity  
13 risks (not to exceed the amount of such re-  
14 serve that is required to be reported to the  
15 home country insurance regulatory body).

16           “(B) APPLICABLE FINANCIAL STATE-  
17 MENT.—The term ‘applicable financial state-  
18 ment’ means a statement for financial reporting  
19 purposes which—

20           “(i) is made on the basis of generally  
21 accepted accounting principles,

22           “(ii) is made on the basis of inter-  
23 national financial reporting standards, but  
24 only if there is no statement that meets  
25 the requirement of clause (i), or

1           “(iii) except as otherwise provided by  
2           the Secretary in regulations, is the annual  
3           statement which is required to be filed  
4           with the home country insurance regu-  
5           latory body, but only if there is no state-  
6           ment which meets the requirements of  
7           clause (i) or (ii).”.

8           (2)    CONFORMING    AMENDMENT.—Section  
9           1297(b) is amended—

10           (A) by striking the last sentence in para-  
11           graph (2) thereof, and

12           (B) by adding at the end of paragraph (3)  
13           thereof (as added by paragraph (1)), the fol-  
14           lowing new subparagraph:

15           “(C)   RELATED PERSON.—The term ‘re-  
16           lated person’ has the meaning given such term  
17           by section 954(d)(3) determined by substituting  
18           ‘foreign corporation’ for ‘controlled foreign cor-  
19           poration’ each place it appears therein.”.

20           (c)   EFFECTIVE DATE.—The amendment made by  
21           this section shall apply to taxable years beginning after  
22           December 31, 2014.

1 **SEC. 3704. MODIFICATION OF LIMITATION ON EARNINGS**  
2 **STRIPPING.**

3 (a) **IN GENERAL.**—Section 163(j)(2)(B)(i)(II) is  
4 amended by striking “50 percent” and inserting “40 per-  
5 cent”.

6 (b) **NO NEW EXCESS LIMITATION**  
7 **CARRYFORWARDS.**—Section 163(j)(2)(B)(ii) is amended  
8 by striking “for any taxable year” and inserting “for any  
9 taxable year beginning before January 1, 2015”.

10 (c) **EFFECTIVE DATE.**—The amendment made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 2014.

13 **SEC. 3705. LIMITATION ON TREATY BENEFITS FOR CERTAIN**  
14 **DEDUCTIBLE PAYMENTS.**

15 (a) **IN GENERAL.**—Section 894 of the Internal Rev-  
16 enue Code of 1986 (relating to income affected by treaty)  
17 is amended by adding at the end the following new sub-  
18 section:

19 “(d) **LIMITATION ON TREATY BENEFITS FOR CER-**  
20 **TAIN DEDUCTIBLE PAYMENTS.**—

21 “(1) **IN GENERAL.**—In the case of any deduct-  
22 ible related-party payment, any withholding tax im-  
23 posed under chapter 3 (and any tax imposed under  
24 subpart A or B of this part) with respect to such  
25 payment may not be reduced under any treaty of the  
26 United States unless any such withholding tax would

1 be reduced under a treaty of the United States if  
2 such payment were made directly to the foreign par-  
3 ent corporation.

4 “(2) DEDUCTIBLE RELATED-PARTY PAY-  
5 MENT.—For purposes of this subsection, the term  
6 ‘deductible related-party payment’ means any pay-  
7 ment made, directly or indirectly, by any person to  
8 any other person if the payment is allowable as a de-  
9 duction under this chapter and both persons are  
10 members of the same foreign controlled group of en-  
11 tities.

12 “(3) FOREIGN CONTROLLED GROUP OF ENTI-  
13 TIES.—For purposes of this subsection—

14 “(A) IN GENERAL.—The term ‘foreign  
15 controlled group of entities’ means a controlled  
16 group of entities the common parent of which  
17 is a foreign corporation.

18 “(B) CONTROLLED GROUP OF ENTITIES.—  
19 The term ‘controlled group of entities’ means a  
20 controlled group of corporations as defined in  
21 section 1563(a)(1), except that—

22 “(i) ‘more than 50 percent’ shall be  
23 substituted for ‘at least 80 percent’ each  
24 place it appears therein, and



1           “(ii) the determination shall be made  
2           without regard to subsections (a)(4) and  
3           (b)(2) of section 1563.

4           A partnership or any other entity (other than a  
5           corporation) shall be treated as a member of a  
6           controlled group of entities if such entity is con-  
7           trolled (within the meaning of section  
8           954(d)(3)) by members of such group (includ-  
9           ing any entity treated as a member of such  
10          group by reason of this sentence).

11          “(4) FOREIGN PARENT CORPORATION.—For  
12          purposes of this subsection, the term ‘foreign parent  
13          corporation’ means, with respect to any deductible  
14          related-party payment, the common parent of the  
15          foreign controlled group of entities referred to in  
16          paragraph (3)(A).

17          “(5) REGULATIONS.—The Secretary may pre-  
18          scribe such regulations or other guidance as are nec-  
19          essary or appropriate to carry out the purposes of  
20          this subsection, including regulations or other guid-  
21          ance which provide for—

22                  “(A) the treatment of two or more persons  
23                  as members of a foreign controlled group of en-  
24                  tities if such persons would be the common par-

1           ent of such group if treated as one corporation,  
2           and

3                   “(B) the treatment of any member of a  
4           foreign controlled group of entities as the com-  
5           mon parent of such group if such treatment is  
6           appropriate taking into account the economic  
7           relationships among such entities.”.

8           (b) **EFFECTIVE DATE.**—The amendment made by  
9 this section shall apply to payments made after the date  
10 of the enactment of this Act.

## 11       **Subtitle I—Provisions Related to** 12                                   **Compensation**

### 13                   **PART 1—EXECUTIVE COMPENSATION**

#### 14       **SEC. 3801. NONQUALIFIED DEFERRED COMPENSATION.**

15           (a) **IN GENERAL.**—Subpart A of part I of subchapter  
16 D of chapter 1 is amended by adding at the end the fol-  
17 lowing new section:

#### 18       **“SEC. 409B. NONQUALIFIED DEFERRED COMPENSATION.**

19                   “(a) **IN GENERAL.**—Any compensation which is de-  
20 ferred under a nonqualified deferred compensation plan  
21 shall be includible in gross income when there is no sub-  
22 stantial risk of forfeiture of the rights to such compensa-  
23 tion.

24                   “(b) **DEFINITIONS.**—For purposes of this section—

1           “(1) SUBSTANTIAL RISK OF FORFEITURE.—The  
2 rights of a person to compensation shall be treated  
3 as subject to a substantial risk of forfeiture only if  
4 such person’s rights to such compensation are condi-  
5 tioned upon the future performance of substantial  
6 services by any individual.

7           “(2) NONQUALIFIED DEFERRED COMPENSA-  
8 TION PLAN.—For purposes of this section:

9           “(A) NONQUALIFIED DEFERRED COM-  
10 PENSATION PLAN.—The term ‘nonqualified de-  
11 ferred compensation plan’ means any plan that  
12 provides for the deferral of compensation, other  
13 than—

14                   “(i) a qualified employer plan,

15                   “(ii) any bona fide vacation leave, sick  
16 leave, compensatory time, disability pay, or  
17 death benefit plan, and

18                   “(iii) any other plan or arrangement  
19 designated by the Secretary consistent with  
20 the purposes of this section.

21           “(B) EQUITY-BASED COMPENSATION.—  
22 The term ‘nonqualified deferred compensation  
23 plan’ shall include any plan that provides a  
24 right to compensation based on the appreciation

1           in value of a specified number of equity units  
2           of the service recipient or stock options.

3           “(3) QUALIFIED EMPLOYER PLAN.—The term  
4           ‘qualified employer plan’ means any plan, contract,  
5           pension, account, or trust described in  
6           408(p)(2)(D)(ii).

7           “(4) PLAN INCLUDES ARRANGEMENTS, ETC.—  
8           The term ‘plan’ includes any agreement or arrange-  
9           ment, including an agreement or arrangement that  
10          includes one person.

11          “(5) EXCEPTION.—Compensation shall not be  
12          treated as deferred for purposes of this section if the  
13          service provider receives payment of such compensa-  
14          tion not later than 6 months after the end of the  
15          taxable year of the service recipient during which the  
16          right to the payment of such compensation is no  
17          longer subject to a substantial risk of forfeiture.

18          “(6) TREATMENT OF EARNINGS.—References to  
19          deferred compensation shall be treated as including  
20          references to income (whether actual or notional) at-  
21          tributable to such compensation or such income.

22          “(7) AGGREGATION RULES.—Except as pro-  
23          vided by the Secretary, rules similar to the rules of  
24          subsections (b) and (c) of section 414 shall apply.

1       “(c) NO INFERENCE ON EARLIER INCOME INCLU-  
2 SION OR REQUIREMENT OF LATER INCLUSION.—Nothing  
3 in this section shall be construed to prevent the inclusion  
4 of amounts in gross income under any other provision of  
5 this chapter or any other rule of law earlier than the time  
6 provided in this section. Any amount included in gross in-  
7 come under this section shall not be required to be in-  
8 cluded in gross income under any other provision of this  
9 chapter or any other rule of law later than the time pro-  
10 vided in this section.

11       “(d) REGULATIONS.—The Secretary shall prescribe  
12 such regulations as may be necessary or appropriate to  
13 carry out the purposes of this section, including regula-  
14 tions disregarding a substantial risk of forfeiture in cases  
15 where necessary to carry out the purposes of this sec-  
16 tion.”.

17       (b) TERMINATION OF CERTAIN OTHER NON-  
18 QUALIFIED DEFERRED COMPENSATION RULES.—

19               (1) NONQUALIFIED DEFERRED COMPENSA-  
20 TION.—

21                       (A) IN GENERAL.—Subpart A of part I of  
22 subchapter D of chapter 1 is amended by strik-  
23 ing section 409A (and by striking the item re-  
24 lating to such section in the table of sections  
25 for such subpart).

1 (B) CONFORMING AMENDMENTS.—

2 (i) Section 26(b)(2) is amended by  
3 striking subparagraph (V).

4 (ii) Section 3401(a) is amended by  
5 striking the flush sentence at the end.

6 (iii) Section 6041 is amended by  
7 striking subsection (g).

8 (iv) Section 6051(a), as amended by  
9 the preceding provisions of this Act, is  
10 amended by striking paragraph (12), by  
11 inserting “and” at the end of paragraph  
12 (11), and by redesignating paragraph (13)  
13 as paragraph (12).

14 (2) 457(b) PLANS OF TAX EXEMPT ORGANIZA-  
15 TIONS.—Section 457 is amended by adding at the  
16 end the following new subsection:

17 “(h) TERMINATION OF CERTAIN PLANS.—

18 “(1) TAX-EXEMPT ORGANIZATION PLANS.—  
19 This section shall not apply to amounts deferred  
20 which are attributable to services performed after  
21 December 31, 2014, under a plan maintained by an  
22 employer described in subsection (e)(1)(B).

23 “(2) INELIGIBLE DEFERRED COMPENSATION  
24 PLANS.—Subsection (f) shall not apply to amounts

1 deferred which are attributable to services performed  
2 after December 31, 2014.”.

3 (3) NONQUALIFIED DEFERRED COMPENSATION  
4 FROM CERTAIN TAX INDIFFERENT PARTIES.—

5 (A) IN GENERAL.—Subpart B of part II of  
6 subchapter E of chapter 1 is amended by strik-  
7 ing section 457A (and by striking the item re-  
8 lating to such section in the table of sections  
9 for such subpart).

10 (B) CONFORMING AMENDMENT.—Section  
11 26(b)(2) is amended by striking subparagraph  
12 (X).

13 (c) CLERICAL AMENDMENT.—The table of sections  
14 for part I of subchapter D of chapter 1 is amended by  
15 adding at the end the following new item:

“Sec. 409B. Nonqualified deferred compensation.”.

16 (d) EFFECTIVE DATE.—

17 (1) IN GENERAL.—Except as otherwise pro-  
18 vided in this subsection, the amendments made by  
19 this section shall apply to amounts which are attrib-  
20 utable to services performed after December 31,  
21 2014.

22 (2) APPLICATION TO EXISTING DEFERRALS.—  
23 In the case of any amount deferred to which the  
24 amendments made by this section do no apply solely  
25 by reason of the fact that the amount is attributable

1 to services performed before January 1, 2015, to the  
2 extent such amount is not includible in gross income  
3 in a taxable year beginning before 2023, such  
4 amounts shall be includible in gross income in the  
5 later of—

6 (A) the last taxable year beginning before  
7 2023, or

8 (B) the taxable year in which there is no  
9 substantial risk of forfeiture of the rights to  
10 such compensation (determined in the same  
11 manner as determined for purposes of section  
12 409B of the Internal Revenue Code of 1986, as  
13 added by this section).

14 (3) ACCELERATED PAYMENTS.—No later than  
15 120 days after the date of the enactment of this Act,  
16 the Secretary shall issue guidance providing a lim-  
17 ited period of time during which a nonqualified de-  
18 ferred compensation arrangement attributable to  
19 services performed on or before December 31, 2014,  
20 may, without violating the requirements of section  
21 409A of the Internal Revenue Code of 1986, be  
22 amended to conform the date of distribution to the  
23 date the amounts are required to be included in in-  
24 come.



1 (4) CERTAIN BACK-TO-BACK ARRANGEMENTS.—

2 If the taxpayer is also a service recipient and main-  
3 tains one or more nonqualified deferred compensa-  
4 tion arrangements for its service providers under  
5 which any amount is attributable to services per-  
6 formed on or before December 31, 2014, the guid-  
7 ance issued under paragraph (3) shall permit such  
8 arrangements to be amended to conform the dates of  
9 distribution under such arrangement to the date  
10 amounts are required to be included in the income  
11 of such taxpayer under this subsection.

12 (5) ACCELERATED PAYMENT NOT TREATED AS  
13 MATERIAL MODIFICATION.—Any amendment to a  
14 nonqualified deferred compensation arrangement  
15 made pursuant to paragraph (3) or (4) shall not be  
16 treated as a material modification of the arrange-  
17 ment for purposes of section 409A of the Internal  
18 Revenue Code of 1986.

19 **SEC. 3802. MODIFICATION OF LIMITATION ON EXCESSIVE**  
20 **EMPLOYEE REMUNERATION.**

21 (a) REPEAL OF PERFORMANCE-BASED COMPENSA-  
22 TION AND COMMISSION EXCEPTIONS FOR LIMITATION ON  
23 EXCESSIVE EMPLOYEE REMUNERATION.—

24 (1) IN GENERAL.—Paragraph (4) of section  
25 162(m) is amended by striking subparagraphs (B)

1 and (C) and by redesignating subparagraphs (D),  
2 (E), (F), and (G) as subparagraphs (B), (C), (D),  
3 and (E), respectively.

4 (2) CONFORMING AMENDMENTS.—

5 (A) Paragraphs (5)(E) and (6)(D) of sec-  
6 tion 162(m) are each amended by striking  
7 “subparagraphs (B), (C), and (D)” and insert-  
8 ing “subparagraph (B)”.

9 (B) Paragraphs (5)(G) and (6)(G) of sec-  
10 tion 162(m) are each amended by striking “(F)  
11 and (G)” and inserting “(D) and (E)”.

12 (b) MODIFICATION OF DEFINITION OF COVERED EM-  
13 PLOYEES.—Paragraph (3) of section 162(m) is amend-  
14 ed—

15 (1) in subparagraph (A), by striking “as of the  
16 close of the taxable year, such employee is the chief  
17 executive officer of the taxpayer or is” and inserting  
18 “such employee is the chief executive officer or the  
19 chief financial officer of the taxpayer at any time  
20 during the taxable year, or was”,

21 (2) in subparagraph (B)—

22 (A) by striking “4” and inserting “3”, and

23 (B) by striking “(other than the chief execu-  
24 tive officer)” and inserting “(other than any  
25 individual described in subparagraph (A))”, and

1           (3) by striking “or” at the end of subparagraph  
2           (A), by striking the period at the end of subpara-  
3           graph (B) and inserting “, or”, and by adding at the  
4           end the following:

5                   “(C) was a covered employee of the tax-  
6           payer (or any predecessor) for any preceding  
7           taxable year beginning after December 31,  
8           2013.”.

9           (c) SPECIAL RULE FOR REMUNERATION PAID TO  
10          BENEFICIARIES, ETC.—Paragraph (4) of section 162(m),  
11          as amended by subsection (a), is amended by adding at  
12          the end the following new subparagraph:

13                   “(F) SPECIAL RULE FOR REMUNERATION  
14          PAID TO BENEFICIARIES, ETC.—Remuneration  
15          shall not fail to be applicable employee remun-  
16          eration merely because it is includible in the  
17          income of, or paid to, a person other than the  
18          covered employee, including after the death of  
19          the covered employee.”.

20          (d) EFFECTIVE DATE.—The amendments made by  
21          this section shall apply to taxable years beginning after  
22          December 31, 2014.

1 **SEC. 3803. EXCISE TAX ON EXCESS TAX-EXEMPT ORGANIZA-**  
2 **TION EXECUTIVE COMPENSATION.**

3 (a) IN GENERAL.—Subchapter D of chapter 42 is  
4 amended by adding at the end the following new section:

5 **“SEC. 4960. TAX ON EXCESS TAX-EXEMPT ORGANIZATION**  
6 **EXECUTIVE COMPENSATION.**

7 “(a) TAX IMPOSED.—There is hereby imposed a tax  
8 equal to 25 percent of the sum of—

9 “(1) so much of the remuneration paid (other  
10 than any excess parachute payment) by an applica-  
11 ble tax-exempt organization for the taxable year with  
12 respect to employment of any covered employee in  
13 excess of \$1,000,000, plus

14 “(2) any excess parachute payment paid by  
15 such an organization to any covered employee.

16 “(b) LIABILITY FOR TAX.—The employer shall be lia-  
17 ble for the tax imposed under subsection (a).

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

20 “(1) APPLICABLE TAX-EXEMPT ORGANIZA-  
21 TION.—The term ‘applicable tax-exempt organiza-  
22 tion’ means any organization that for the taxable  
23 year—

24 “(A) is exempt from taxation under section  
25 501(a),

1           “(B) is a farmers’ cooperative organization  
2 described in section 521(b)(1), or

3           “(C) has income excluded from taxation  
4 under section 115(1).

5           “(2) COVERED EMPLOYEE.—For purposes of  
6 this section, the term ‘covered employee’ means any  
7 employee (including any former employee) of an ap-  
8 plicable tax-exempt organization if the employee—

9           “(A) is one of the 5 highest compensated  
10 employees of the organization for the taxable  
11 year, or

12           “(B) was a covered employee of the organi-  
13 zation (or any predecessor) for any preceding  
14 taxable year beginning after December 31,  
15 2013.

16           “(3) REMUNERATION.—For purposes of this  
17 section, the term ‘remuneration’ means wages (as  
18 defined in section 3401(a)), except that such term  
19 shall not include any designated Roth contribution  
20 (as defined in section 402A(c)).

21           “(4) REMUNERATION FROM RELATED ORGANI-  
22 ZATIONS.—

23           “(A) IN GENERAL.—Remuneration of a  
24 covered employee by an applicable tax-exempt  
25 organization shall include any remuneration

1           paid with respect to employment of such em-  
2           ployee by any related person or governmental  
3           entity.

4           “(B) RELATED ORGANIZATIONS.—A per-  
5           son or governmental entity shall be treated as  
6           related to an applicable tax-exempt organization  
7           if such person or governmental entity—

8                   “(i) controls, or is controlled by, the  
9                   organization,

10                   “(ii) is controlled by one or more per-  
11                   sons that control the organization,

12                   “(iii) is a supported organization (as  
13                   defined in section 509(f)(2)) during the  
14                   taxable year with respect to the organiza-  
15                   tion,

16                   “(iv) is a supporting organization de-  
17                   scribed in section 509(a)(3) during the  
18                   taxable year with respect to the organiza-  
19                   tion, or

20                   “(v) in the case of an organization  
21                   that is a voluntary employees’ beneficiary  
22                   association described in section 501(a)(9),  
23                   establishes, maintains, or makes contribu-  
24                   tions to such voluntary employees’ bene-  
25                   ficiary association.

1           “(C) LIABILITY FOR TAX.—In any case in  
2           which remuneration from more than one em-  
3           ployer is taken into account under this para-  
4           graph in determining the tax imposed by sub-  
5           section (a), each such employer shall be liable  
6           for such tax in an amount which bears the  
7           same ratio to the total tax determined under  
8           subsection (a) with respect to such remunera-  
9           tion as—

10                   “(i) the amount of remuneration paid  
11                   by such employer with respect to such em-  
12                   ployee, bears to

13                   “(ii) the amount of remuneration paid  
14                   by all such employers to such employee.

15           “(5) EXCESS PARACHUTE PAYMENT.—For pur-  
16           poses determining the tax imposed by subsection  
17           (a)(2)—

18                   “(A) IN GENERAL.—The term ‘excess  
19                   parachute payment’ means an amount equal to  
20                   the excess of any parachute payment over the  
21                   portion of the base amount allocated to such  
22                   payment.

23                   “(B) PARACHUTE PAYMENT.—The term  
24                   ‘parachute payment’ means any payment in the

1 nature of compensation to (or for the benefit  
2 of) a covered employee if—

3 “(i) such payment is contingent on  
4 such employee’s separation from employ-  
5 ment with the employer, and

6 “(ii) the aggregate present value of  
7 the payments in the nature of compensa-  
8 tion to (or for the benefit of) such indi-  
9 vidual which are contingent on such sepa-  
10 ration equals or exceeds an amount equal  
11 to 3 times the base amount.

12 Such term does not include any payment de-  
13 scribed in section 280G(b)(6) (relating to ex-  
14 emption for payments under qualified plans) or  
15 any payment made under or to an annuity con-  
16 tract described in section 403(b) or a plan de-  
17 scribed in section 457(b).

18 “(C) BASE AMOUNT.—Rules similar to the  
19 rules of 280G(b)(3) shall apply for purposes of  
20 determining the base amount.

21 “(D) PROPERTY TRANSFERS; PRESENT  
22 VALUE.—Rules similar to the rules of para-  
23 graphs (3) and (4) of section 280G(d) shall  
24 apply.



1           “(6) COORDINATION WITH DEDUCTION LIMITA-  
2           TION.—Remuneration the deduction for which is not  
3           allowed by reason of section 162(m) shall not be  
4           taken into account for purposes of this section.”.

5           (b) CLERICAL AMENDMENT.—The table of sections  
6           for subchapter D of chapter 42 is amended by adding at  
7           the end the following new item:

          “Sec. 4960. Tax on excess exempt organization executive compensation.”.

8           (c) EFFECTIVE DATE.—The amendments made by  
9           this section shall apply to taxable years beginning after  
10          December 31, 2014.

11   **SEC. 3804. DENIAL OF DEDUCTION AS RESEARCH EXPENDI-**  
12                           **TURE FOR STOCK TRANSFERRED PURSUANT**  
13                           **TO AN INCENTIVE STOCK OPTION.**

14          (a) IN GENERAL.—Paragraph (2) of section 421(a)  
15          is amended by striking “under section 162 (relating to  
16          trade or business expenses)”.

17          (b) EFFECTIVE DATE.—The amendment made by  
18          this section shall apply to stock transferred on or after  
19          February 26, 2014.

20                   **PART 2—WORKER CLASSIFICATION**

21   **SEC. 3811. DETERMINATION OF WORKER CLASSIFICATION.**

22          (a) IN GENERAL.—Chapter 79, as amended by the  
23          preceding provisions of this Act, is amended by adding at  
24          the end the following new section:

1 **“SEC. 7707. DETERMINATION OF WORKER CLASSIFICATION.**

2 “(a) IN GENERAL.—For purposes of this title (and  
3 notwithstanding any provision of this title not contained  
4 in this section to the contrary), if the requirements of sub-  
5 sections (b), (c), and (d) are met with respect to any serv-  
6 ice performed by a service provider, then with respect to  
7 such service—

8 “(1) the service provider shall not be treated as  
9 an employee,

10 “(2) the service recipient shall not be treated as  
11 an employer,

12 “(3) any payor shall not be treated as an em-  
13 ployer, and

14 “(4) the compensation paid or received for such  
15 service shall not be treated as paid or received with  
16 respect to employment.

17 “(b) GENERAL SERVICE PROVIDER REQUIRE-  
18 MENTS.—

19 “(1) IN GENERAL.—The requirements of this  
20 subsection are met with respect to any service if the  
21 service provider either—

22 “(A) meets the requirements of paragraph  
23 (2) with respect to such service, or

24 “(B) in the case a service provider engaged  
25 in the trade or business of selling (or soliciting  
26 the sale of) goods or services, meets the re-

1           requirements of paragraph (3) with respect to  
2           such service.

3           “(2) GENERAL REQUIREMENTS.—The require-  
4           ments of this paragraph are met with respect to any  
5           service if the service provider, in connection with  
6           performing the service—

7                   “(A) incurs significant unreimbursed ex-  
8                   penses,

9                   “(B) agrees to perform the service for a  
10                  particular amount of time, to achieve a specific  
11                  result, or to complete a specific task,

12                  “(C) is primarily compensated on a basis  
13                  not tied to the number of hours worked, and

14                  “(D) at least one of the following:

15                          “(i) has a significant investment in  
16                          assets or training,

17                          “(ii) is not required to perform serv-  
18                          ices exclusively for the service recipient, or

19                          “(iii) has not performed services for  
20                          the service recipient as an employee during  
21                          the 1-year period ending with the date of  
22                          the commencement of services under the  
23                          contract described in subsection (d).

24           “(3) ALTERNATIVE REQUIREMENTS WITH RE-  
25           SPECT TO SALES PERSONS.—In the case of a service

1 provider engaged in the trade or business of selling  
2 (or soliciting the sale of) goods or services, the re-  
3 quirements of this paragraph are met with respect  
4 to any service provided in the ordinary course of  
5 such trade or business if—

6 “(A) the service provider is compensated  
7 primarily on a commission basis, and

8 “(B) substantially all the compensation for  
9 such service is directly related to sales of goods  
10 or services rather than to the number of hours  
11 worked.

12 “(c) PLACE OF BUSINESS OR OWN EQUIPMENT RE-  
13 QUIREMENT.—The requirement of this subsection is met  
14 with respect to any service if the service provider—

15 “(1) has a principal place of business,

16 “(2) does not primarily provide the service in  
17 the service recipient’s place of business,

18 “(3) pays a fair market rent for use of the serv-  
19 ice recipient’s place of business, or

20 “(4) provides the service primarily using equip-  
21 ment supplied by the service provider.

22 “(d) WRITTEN CONTRACT REQUIREMENT.—The re-  
23 quirements of this subsection are met with respect to any  
24 service if such service is performed pursuant to a written

1 contract between the service provider and the service re-  
2 cipient (or payor) which meets the following requirements:

3 “(1) The contract includes each of the fol-  
4 lowing:

5 “(A) The service provider’s name, taxpayer  
6 identification number, and address.

7 “(B) A statement that the service provider  
8 will not be treated as an employee with respect  
9 to the services provided pursuant to the con-  
10 tract for purposes of this title.

11 “(C) A statement that the service recipient  
12 (or the payor) will withhold upon and report to  
13 the Internal Revenue Service the compensation  
14 payable pursuant to the contract consistent  
15 with the requirements of this title.

16 “(D) A statement that the service provider  
17 is responsible for payment of Federal, State,  
18 and local taxes, including self-employment  
19 taxes, on compensation payable pursuant to the  
20 contract.

21 “(E) A statement that the contract is in-  
22 tended to be considered a contract described in  
23 this subsection.

24 “(2) The term of the contract does not exceed  
25 1 year. The preceding sentence shall not prevent one

1 or more subsequent written renewals of the contract  
2 from satisfying the requirements of this subsection  
3 if the term of each such renewal does not exceed 1  
4 year and if the information required under para-  
5 graph (1)(A) is updated in connection with each  
6 such renewal.

7 “(3) The contract (or renewal) is signed by  
8 both the service recipient (or payor) and the service  
9 provider not later than the date on which the aggre-  
10 gate payments made by the service recipient to the  
11 service provider exceeds \$600 for the year covered  
12 by the contract (or renewal).

13 “(e) REPORTING REQUIREMENTS.—If any service re-  
14 cipient or payor fails to meet the applicable reporting re-  
15 quirements of section 6041(a) or 6041A(a) for any taxable  
16 year with respect to any service provider, this section shall  
17 not apply for purposes of making any determination with  
18 respect to the liability of such service recipient or payor  
19 for any tax with respect to such service provider for such  
20 period. For purposes of the preceding sentence, such re-  
21 porting requirements shall be treated as met if the failure  
22 to satisfy such requirements is due to reasonable cause  
23 and not willful neglect.

24 “(f) EXCEPTION FOR SERVICES PROVIDED BY  
25 OWNER.—This section shall not apply with respect to any

1 service provided by a service provider to a service recipient  
2 if the service provider owns any interest in the service re-  
3 cipient or any payor with respect to the service provided.  
4 The preceding sentence shall not apply in the case of a  
5 service recipient the stock of which is regularly traded on  
6 an established securities market.

7 “(g) EXCEPTION FOR SERVICES NOT RECEIVED IN  
8 COURSE OF A TRADE OR BUSINESS.—This section shall  
9 not apply with respect to any service unless such service  
10 is performed in the ordinary course of a trade or business  
11 of the service recipient.

12 “(h) LIMITATION ON RECLASSIFICATION BY SEC-  
13 RETARY.—For purposes of this title—

14 “(1) EFFECT OF RECLASSIFICATION ON RECIPI-  
15 ENTS AND PAYORS.—A determination by the Sec-  
16 retary that a service recipient or a payor should  
17 have treated a service provider as an employee shall  
18 be effective with respect to the service recipient or  
19 payor no earlier than the notice date if—

20 “(A) the service recipient or the payor en-  
21 tered into a written contract with the service  
22 provider which meets the requirements of sub-  
23 section (d),

24 “(B) the service recipient or the payor sat-  
25 isfied the applicable reporting requirements of

1 section 6041(a) or 6041A(a) for all relevant  
2 taxable years with respect to the service pro-  
3 vider,

4 “(C) the service recipient or the payor col-  
5 lected and paid over all applicable taxes im-  
6 posed under subtitle C for all relevant taxable  
7 years with respect to the service provider,

8 “(D) the service recipient or the payor  
9 demonstrates a reasonable basis for having de-  
10 termined that the service provider should not be  
11 treated as an employee under this section and  
12 that such determination was made in good  
13 faith.

14 “(2) EFFECT OF RECLASSIFICATION ON SERV-  
15 ICE PROVIDERS.—A determination by the Secretary  
16 that a service provider should have been treated as  
17 an employee shall be effective with respect to the  
18 service provider no earlier than the notice date if—

19 “(A) the service provider entered into a  
20 written contract with the service recipient or  
21 payor which meets the requirements of sub-  
22 section (d),

23 “(B) the service provider satisfied the ap-  
24 plicable reporting requirements of sections  
25 6012(a) and 6017 for all relevant taxable years



1 with respect to the service recipient or payor,  
2 and

3 “(C) the service provider demonstrates a  
4 reasonable basis for determining that the serv-  
5 ice provider is not an employee under this sec-  
6 tion and that such determination was made in  
7 good faith.

8 “(3) NOTICE DATE.—For purposes of this sub-  
9 section, the term ‘notice date’ means the 30th day  
10 after the earliest of—

11 “(A) the date on which the first letter of  
12 proposed deficiency which allows the service  
13 provider, the service recipient, or the payor an  
14 opportunity for administrative review in the In-  
15 ternal Revenue Service Office of Appeals is  
16 sent,

17 “(B) the date on which a deficiency notice  
18 under section 6212 is sent, or

19 “(C) the date on which a notice of deter-  
20 mination under section 7436(b)(2) is sent.

21 “(4) REASONABLE CAUSE EXCEPTION.—The re-  
22 quirements of paragraphs (1)(B) and (2)(B) shall be  
23 treated as met if the failure to satisfy such require-  
24 ments is due to reasonable cause and not willful ne-  
25 glect.

1           “(5) NO RESTRICTION ON ADMINISTRATIVE OR  
2 JUDICIAL REVIEW.—Nothing in this subsection shall  
3 be construed as limiting any provision of law which  
4 provides an opportunity for administrative or judi-  
5 cial review of a determination by the Secretary.

6           “(i) DEFINITIONS.—For purposes of this section—

7           “(1) SERVICE PROVIDER.—

8           “(A) IN GENERAL.—The term ‘service pro-  
9 vider’ means any qualified person who performs  
10 service for another person.

11           “(B) QUALIFIED PERSON.—The term  
12 ‘qualified person’ means—

13           “(i) any natural person, and

14           “(ii) any entity if any of the services  
15 referred to in subparagraph (A) are per-  
16 formed by one or more natural persons  
17 who directly own interests in such entity.

18           “(2) SERVICE RECIPIENT.—The term ‘service  
19 recipient’ means the person for whom the service  
20 provider performs such service.

21           “(3) PAYOR.—The term ‘payor’ means any per-  
22 son who pays the service provider for performing  
23 such service.

24           “(j) REGULATIONS.—Notwithstanding section 530(d)  
25 of the Revenue Act of 1978, the Secretary shall issue such

1 regulations as the Secretary determines are necessary to  
2 carry out the purposes of this section.”.

3 (b) WITHHOLDING BY PAYOR IN CASE OF CERTAIN  
4 PERSONS CLASSIFIED AS NOT EMPLOYEES.—Section  
5 3402 is amended by redesignating subsection (s) as sub-  
6 section (t) and inserting after subsection (r) the following  
7 new subsection:

8 “(s) EXTENSION OF WITHHOLDING TO PAYMENTS  
9 TO CERTAIN PERSONS CLASSIFIED AS NOT EMPLOY-  
10 EES.—

11 “(1) IN GENERAL.—For purposes of this chap-  
12 ter and so much of subtitle F as relates to this chap-  
13 ter, compensation paid pursuant to a contract de-  
14 scribed in section 7707(d) shall be treated as if it  
15 were a payment of wages by an employer to an em-  
16 ployee.

17 “(2) AMOUNT WITHHELD.—Except as otherwise  
18 provided under subsection (i), the amount to be de-  
19 ducted and withheld pursuant to paragraph (1) with  
20 respect to compensation paid pursuant to any such  
21 contract during any calendar year shall be an  
22 amount equal to 5 percent of so much of the amount  
23 of such compensation as does not exceed \$10,000.”.

24 (c) REPORTING.—Section 6041A is amended by add-  
25 ing at the end the following new subsection:

1       “(g) SPECIAL RULES FOR CERTAIN PERSONS CLAS-  
2 SIFIED AS NOT EMPLOYEES.—In the case of any service  
3 recipient required to make a return under subsection (a)  
4 with respect to compensation to which section 7707(a) ap-  
5 plies—

6               “(1) such return shall include—

7                       “(A) the aggregate amount of such com-  
8 pensation paid to each person whose name is  
9 required to be included on such return,

10                      “(B) the aggregate amount deducted and  
11 withheld under section 3402(s) with respect to  
12 such compensation, and

13                      “(C) an indication of whether a copy of the  
14 contract described in section 7707(d) is on file  
15 with the service recipient or payor, and

16               “(2) the statement required to be furnished  
17 under subsection (e) shall include the information  
18 described in paragraph (1) with respect to the serv-  
19 ice provider to whom such statement is furnished.

20 Terms used in this subsection which are also used in sec-  
21 tion 7707 shall have the same meaning as when used in  
22 such section.”.

23       (d) CLERICAL AMENDMENT.—The table of sections  
24 for chapter 79, as amended by the preceding provisions

1 of this Act, is amended by adding at the end the following  
2 new item:

“Sec. 7707. Determination of worker classification.”.

3 (e) **EFFECTIVE DATE.**—The amendments made by  
4 this section shall apply to services performed after Decem-  
5 ber 31, 2014 (and to payments made for such services  
6 after such date).

7 **Subtitle J—Zones and Short-Term**  
8 **Regional Benefits**

9 **SEC. 3821. REPEAL OF PROVISIONS RELATING TO EM-**  
10 **POWERMENT ZONES AND ENTERPRISE COM-**  
11 **MUNITIES.**

12 (a) **IN GENERAL.**—Chapter 1 is amended by striking  
13 subchapter U (and by striking the item relating to such  
14 subchapter in the table of subchapters for such chapter).

15 (b) **CONFORMING AMENDMENTS.**—

16 (1)(A) Section 38(b) is amended by striking  
17 paragraph (9).

18 (B) Section 280C(a) is amended by striking  
19 “1396(a),”.

20 (2) Section 179(e) is amended by striking para-  
21 graph (3) and by redesignating paragraph (4) as  
22 paragraph (3).

23 (3) Section 1202(a)(2)(A) is amended by insert-  
24 ing “(as in effect before its repeal by the Tax Re-  
25 form Act of 2014)” after “section 1397C(b)”.

1 (c) EFFECTIVE DATE.—

2 (1) IN GENERAL.—Except as otherwise pro-  
3 vided in this subsection, the amendment made by  
4 this section shall take effect on the date of the en-  
5 actment of this Act.

6 (2) ROLLOVERS.—So much of subsection (a) as  
7 relates to the repeal of section 1397B of the Internal  
8 Revenue Code of 1986 shall apply to sales after the  
9 date of the enactment of this Act.

10 (3) SAVINGS PROVISION.—The amendments  
11 made by this section shall not apply to obligations  
12 described in section 1394 of the Internal Revenue  
13 Code of 1986 (as in effect before its repeal) which  
14 were issued before January 1, 2014.

15 **SEC. 3822. REPEAL OF DC ZONE PROVISIONS.**

16 (a) IN GENERAL.—Chapter 1 is amended by striking  
17 subchapter W (and by striking the item relating to such  
18 subchapter in the table of subchapters for such chapter).

19 (b) CONFORMING AMENDMENTS.—

20 (1)(A) Section 1202(a)(2)(B) is amended by in-  
21 serting “(as in effect before its repeal by the Tax  
22 Reform Act of 2014)” after “1400B(b)”.

23 (2) Section 25(e)(1)(C) is amended by striking  
24 “sections 23, 25D, and 1400C” and inserting “sec-  
25 tion 23”.

1           (3) Section 1016(a) is amended by striking  
2 paragraph (27).

3           (c) EFFECTIVE DATE.—

4           (1) IN GENERAL.—Except as otherwise pro-  
5 vided in paragraph (2), the amendments made by  
6 this section shall take effect on the date of the en-  
7 actment of this Act.

8           (2) SAVINGS PROVISION.—The amendments  
9 made by this section shall not apply to—

10           (A) in the case of the repeal of section  
11 1400A of the Internal Revenue Code of 1986,  
12 obligations described in section 1394 of such  
13 Code (as in effect before its repeal) which were  
14 issued before January 1, 2012,

15           (B) in the case of the repeal of section  
16 1400B of such Code, DC Zone assets (as de-  
17 fined in such section, as in effect before its re-  
18 peal) which were acquired by the taxpayer be-  
19 fore January 1, 2012, and

20           (C) in the case of the repeal of section  
21 1400C of such Code, principal residences ac-  
22 quired before January 1, 2012.

1 **SEC. 3823. REPEAL OF PROVISIONS RELATING TO RE-**  
2 **NEWAL COMMUNITIES.**

3 (a) IN GENERAL.—Chapter 1 is amended by striking  
4 subchapter X (and by striking the item relating to such  
5 subchapter in the table of subchapters for such chapter).

6 (b) CONFORMING AMENDMENTS.—

7 (1)(A) Section 469(i)(3), as amended by the  
8 preceding provisions of this Act, is amended by  
9 striking subparagraph (C) and by redesignating sub-  
10 paragraphs (D), (E), and (F) as subparagraphs (B),  
11 (C), and (D).

12 (B) Section 469(i)(3)(C), as so redesignated, is  
13 amended to read as follows:

14 “(C) ORDERING RULE.—If subparagraph  
15 (B) applies for a taxable year, paragraph (1)  
16 shall be applied—

17 “(i) first to the portion of the passive  
18 activity loss to which such subparagraph  
19 does not apply, and

20 “(ii) then to the portion of such loss  
21 to which such subparagraph does apply.”.

22 (C) Section 469(i)(6)(B), as amended by the  
23 preceding provisions of this Act, is amended—

24 (i) by striking “COMMERCIAL REVITALIZA-  
25 TION DEDUCTION” in the heading,



- 1           (ii) by striking “in the case of—” and all  
2           that follows through “any credit” in clause (i),  
3           (iii) by striking “year, or” in clause (i) and  
4           inserting “year.”, and  
5           (iv) by striking clause (iii).

6           (c) EFFECTIVE DATE.—

7           (1) IN GENERAL.—Except as provided in para-  
8           graph (2), the amendments made by this section  
9           shall take effect on the date of the enactment of this  
10          Act.

11          (2) SAVINGS PROVISION.—The amendments  
12          made by this section shall not apply to—

13               (A) in the case of the repeal of section  
14               1400F of the Internal Revenue Code of 1986,  
15               qualified community assets (as defined in such  
16               section, as in effect before its repeal) which  
17               were acquired by the taxpayer before January  
18               1, 2010,

19               (B) in the case of the repeal section  
20               1400H of such Code, wages paid or incurred  
21               before January 1, 2010,

22               (C) in the case of the repeal of section  
23               1400I of such Code, qualified revitalization  
24               buildings (as defined in such section, as in ef-

1           fect before its repeal) which were placed in  
2           service before January 1, 2010, and

3                   (D) in the case of the repeal of section  
4           1400J of such Code, property acquired before  
5           January 1, 2010.

6 **SEC. 3824. REPEAL OF VARIOUS SHORT-TERM REGIONAL**  
7                   **BENEFITS.**

8           (a) **IN GENERAL.**—Chapter 1 is amended by striking  
9           subchapter Y (and by striking the item relating to such  
10          subchapter in the table of subchapters for such chapter).

11          (b) **CONFORMING AMENDMENTS.**—Section 38(b) is  
12          amended by striking paragraphs (27), (28), (29) and (30).

13          (c) **EFFECTIVE DATES.**—

14               (1) **IN GENERAL.**—Except as provided in para-  
15          graph (2), the amendments made by this section  
16          shall take effect on the date of the enactment of this  
17          Act.

18               (2) **SAVINGS PROVISION.**—The amendments  
19          made by this section shall not apply to—

20                   (A) in the case of the repeal of section  
21          1400L(a) of the Internal Revenue Code of  
22          1986, qualified wages (as defined in such sec-  
23          tion, as in effect before its repeal) which were  
24          paid or incurred before January 1, 2004,

1 (B) in the case of the repeal of subsections  
2 (b) and (f) of section 1400L of such Code,  
3 qualified New York Liberty Zone property (as  
4 defined in section 1400L(b) of such Code, as in  
5 effect before its repeal) placed in service before  
6 January 1, 2010,

7 (C) in the case of the repeal of section  
8 1400L(c) of such Code, qualified New York  
9 Liberty Zone leasehold improvement property  
10 (as defined in such section, as in effect before  
11 its repeal) placed in service before January 1,  
12 2007,

13 (D) in the case of the repeal of section  
14 1400L(d) of such Code, qualified New York  
15 Liberty bonds (as defined in such section, as in  
16 effect before its repeal) issued before January  
17 1, 2014,

18 (E) in the case of the repeal of section  
19 1400L(e) of such Code, advanced refundings  
20 before January 1, 2006,

21 (F) in the case of the repeal of section  
22 1400L(g) of such Code, property which is  
23 compulsorily or involuntarily converted as a re-  
24 sult of the terrorist attacks on September 11,  
25 2001,

1 (G) in the case of the repeal of section  
2 1400N(a) of such Code, obligations issued be-  
3 fore January 1, 2012,

4 (H) in the case of the repeal of section  
5 1400N(b) of such Code, advanced refundings  
6 before January 1, 2011,

7 (I) in the case of the repeal of section  
8 1400N(d) of such Code, property placed in  
9 service before January 1, 2012,

10 (J) in the case of the repeal of section  
11 1400N(e) of such Code, property placed in serv-  
12 ice before January 1, 2009,

13 (K) in the case of the repeal of subsections  
14 (f) and (g) of section 1400N of such Code,  
15 amounts paid or incurred before January 1,  
16 2008,

17 (L) in the case of the repeal of section  
18 1400N(h) of such Code, amounts paid or in-  
19 curred before January 1, 2012,

20 (M) in the case of the repeal of section  
21 1400N(l) of such Code, bonds issued before  
22 January 1, 2007,

23 (N) in the case of the repeal of section  
24 1400Q(a) of such Code, distributions before  
25 January 1, 2007,

1           (O) in the case of the repeal of section  
2           1400Q(b) of such Code, contributions before  
3           March 1, 2006,

4           (P) in the case of the repeal of section  
5           1400Q(c) of such Code, loans made before Jan-  
6           uary 1, 2007,

7           (Q) in the case of the repeal of section  
8           1400R of such Code, wages paid or incurred be-  
9           fore January 1, 2006,

10          (R) in the case of the repeal of section  
11          1400S(a) of such Code, contributions paid be-  
12          fore January 1, 2006,

13          (S) in the case of the repeal of section  
14          1400T of such Code, financing provided before  
15          January 1, 2011, and

16          (T) in the case of the repeal of part III of  
17          subchapter Y of chapter 1 of such Code, obliga-  
18          tions issued before January 1, 2011.

1 **TITLE IV—PARTICIPATION EX-**  
 2 **EMPTION SYSTEM FOR THE**  
 3 **TAXATION OF FOREIGN IN-**  
 4 **COME**

5 **Subtitle A—Establishment of**  
 6 **Exemption System**

7 **SEC. 4001. DEDUCTION FOR DIVIDENDS RECEIVED BY DO-**  
 8 **MESTIC CORPORATIONS FROM CERTAIN FOR-**  
 9 **EIGN CORPORATIONS.**

10 (a) IN GENERAL.—Part VIII of subchapter B of  
 11 chapter 1 is amended by inserting after section 245 the  
 12 following new section:

13 **“SEC. 245A. DIVIDENDS RECEIVED BY DOMESTIC CORPORA-**  
 14 **TIONS FROM CERTAIN FOREIGN CORPORA-**  
 15 **TIONS.**

16 “(a) IN GENERAL.—In the case of any dividend re-  
 17 ceived from a specified 10-percent owned foreign corpora-  
 18 tion by a domestic corporation which is a United States  
 19 shareholder with respect to such foreign corporation, there  
 20 shall be allowed as a deduction an amount equal to 95  
 21 percent of the foreign-source portion of such dividend.

22 “(b) SPECIFIED 10-PERCENT OWNED FOREIGN COR-  
 23 PORATION.—For purposes of this section, the term ‘speci-  
 24 fied 10-percent owned foreign corporation’ means any for-  
 25 eign corporation if any domestic corporation owns directly,

1 or indirectly through a chain of ownership described under  
2 section 958(a), 10 percent or more of the voting stock of  
3 such foreign corporation.

4 “(c) FOREIGN-SOURCE PORTION.—For purposes of  
5 this section—

6 “(1) IN GENERAL.—The foreign-source portion  
7 of any dividend is an amount which bears the same  
8 ratio to such dividends as—

9 “(A) the post-1986 undistributed foreign  
10 earnings, bears to

11 “(B) the total post-1986 undistributed  
12 earnings.

13 “(2) POST-1986 UNDISTRIBUTED EARNINGS.—  
14 The term ‘post-1986 undistributed earnings’ means  
15 the amount of the earnings and profits of the speci-  
16 fied 10-percent owned foreign corporation (computed  
17 in accordance with sections 964(a) and 986) accu-  
18 mulated in taxable years beginning after December  
19 31, 1986—

20 “(A) as of the close of the taxable year of  
21 the specified 10-percent owned foreign corpora-  
22 tion in which the dividend is distributed, and

23 “(B) without diminution by reason of divi-  
24 dends distributed during such taxable year.

1           “(3) POST-1986 UNDISTRIBUTED FOREIGN  
2 EARNINGS.—The term ‘post-1986 undistributed for-  
3 eign earnings’ means the portion of the post-1986  
4 undistributed earnings which is attributable to nei-  
5 ther—

6           “(A) income described in subparagraph (A)  
7 of section 245(a)(5), nor

8           “(B) dividends described in subparagraph  
9 (B) of such section (determined without regard  
10 to section 245(a)(12)).

11           “(4) TREATMENT OF DISTRIBUTIONS FROM  
12 EARNINGS BEFORE 1987.—

13           “(A) IN GENERAL.—In the case of any div-  
14 idend paid out of earnings and profits of the  
15 specified 10-percent owned foreign corporation  
16 (computed in accordance with sections 964(a)  
17 and 986) accumulated in taxable years begin-  
18 ning before January 1, 1987—

19           “(i) paragraphs (1), (2), and (3) shall  
20 be applied without regard to the phrase  
21 ‘post-1986’ each place it appears, and

22           “(ii) paragraph (2) shall be applied  
23 without regard to the phrase ‘in taxable  
24 years beginning after December 31, 1986’.



1           “(B) DIVIDENDS PAID FIRST OUT OF  
2           POST-1986 EARNINGS.—Dividends shall be treat-  
3           ed as paid out of post-1986 undistributed earn-  
4           ings to the extent thereof.

5           “(d) DISALLOWANCE OF FOREIGN TAX CREDIT,  
6 ETC.—

7           “(1) IN GENERAL.—No credit shall be allowed  
8           under section 901 for any taxes paid or accrued (or  
9           treated as paid or accrued) with respect to any divi-  
10          dend for which a deduction is allowed under this sec-  
11          tion.

12          “(2) DENIAL OF DEDUCTION.—No deduction  
13          shall be allowed under this chapter for any tax for  
14          which credit is not allowable under section 901 by  
15          reason of paragraph (1) (determined by treating the  
16          taxpayer as having elected the benefits of subpart A  
17          of part III of subchapter N).

18          “(e) REGULATIONS.—The Secretary may prescribe  
19          such regulations or other guidance as may be necessary  
20          or appropriate to carry out the provisions of this section.”.

21          (b) APPLICATION OF HOLDING PERIOD REQUIRE-  
22          MENT.—Subsection (c) of section 246 is amended—

23                  (1) by striking “or 245” in paragraph (1) and  
24                  inserting “245, or 245A”, and

1           (2) by adding at the end the following new  
2 paragraph:

3           “(5) SPECIAL RULES FOR FOREIGN SOURCE  
4 PORTION OF DIVIDENDS RECEIVED FROM SPECIFIED  
5 10-PERCENT OWNED FOREIGN CORPORATIONS.—

6           “(A) 6-MONTH HOLDING PERIOD REQUIRE-  
7 MENT.—For purposes of section 245A—

8           “(i) paragraph (1)(A) shall be ap-  
9 plied—

10                   “(I) by substituting ‘180 days’  
11 for ‘45 days’ each place it appears, and

12                   “(II) by substituting ‘361-day pe-  
13 riod’ for ‘91-day period’, and

14           “(ii) paragraph (2) shall not apply.

15           “(B) STATUS MUST BE MAINTAINED DUR-  
16 ING HOLDING PERIOD.—For purposes of section  
17 245A, the holding period requirement of this  
18 subsection shall be treated as met only if—

19           “(i) the specified 10-percent owned  
20 corporation referred to in section 245A(a)  
21 is a specified 10-percent owned corporation  
22 at all times during such period, and

23           “(ii) the taxpayer is a United States  
24 shareholder with respect to such specified

1                   10-percent owned corporation at all times  
2                   during such period.”.

3           (c) APPLICATION OF RULES GENERALLY APPLICA-  
4 BLE TO DEDUCTIONS FOR DIVIDENDS RECEIVED.—

5                   (1) TREATMENT OF DIVIDENDS FROM CERTAIN  
6 CORPORATIONS.—Paragraph (1) of section 246(a) is  
7 amended by striking “and 245” and inserting “245,  
8 and 245A”.

9                   (2) ASSETS GENERATING TAX-EXEMPT PORTION  
10 OF DIVIDEND NOT TAKEN INTO ACCOUNT IN ALLO-  
11 CATING AND APPORTIONING DEDUCTIBLE EX-  
12 PENSES.—Paragraph (3) of section 864(e) is amend-  
13 ed by striking “or 245(a)” and inserting “, 245(a),  
14 or 245A”.

15                   (3) COORDINATION WITH SECTION 1059.—Sub-  
16 paragraph (B) of section 1059(b)(2) is amended by  
17 striking “or 245” and inserting “245, or 245A”.

18           (d) COORDINATION WITH FOREIGN TAX CREDIT  
19 LIMITATION.—Subsection (b) of section 904, as amended  
20 by the preceding provisions of this Act, is amended by re-  
21 designating paragraph (2) as paragraph (1) and by adding  
22 at the end the following new paragraph:

23                   “(2) TREATMENT OF DIVIDENDS FOR WHICH  
24 DEDUCTION IS ALLOWED UNDER SECTION 245A.—  
25 For purposes of subsection (a), in the case of a do-

1       mestic corporation which is a United States share-  
2       holder with respect to a specified 10-percent owned  
3       foreign corporation, such domestic corporation's tax-  
4       able income from sources without the United States  
5       shall be determined without regard to—

6               “(A) the foreign-source portion of any divi-  
7               dend received from such foreign corporation,  
8               and

9               “(B) any deductions properly allocable to  
10              such portion.

11       Any term which is used in section 245A and in this  
12       paragraph shall have the same meaning for purposes  
13       of this paragraph as when used in such section.”.

14       (e) CONFORMING AMENDMENTS.—

15           (1) Paragraph (4) of section 245(a) is amended  
16       by striking “section 902(c)(1)” and inserting “sec-  
17       tion 245A(c)(2)”.

18           (2) Subsection (b) of section 951 is amended by  
19       striking “subpart” and inserting “title”.

20           (3) Subsection (a) of section 957 is amended by  
21       striking “subpart” in the matter preceding para-  
22       graph (1) and inserting “title”.

23           (4) The table of sections for part VIII of sub-  
24       chapter B of chapter 1 is amended by inserting after

1 the item relating to section 245 the following new  
2 item:

“Sec. 245A. Dividends received by domestic corporations from certain foreign corporations.”.

3 (f) **EFFECTIVE DATE.**—The amendments made by  
4 this section shall apply to taxable years of foreign corpora-  
5 tions beginning after December 31, 2014, and to taxable  
6 years of United States shareholders in which or with which  
7 such taxable years of foreign corporations end.

8 **SEC. 4002. LIMITATION ON LOSSES WITH RESPECT TO**  
9 **SPECIFIED 10-PERCENT OWNED FOREIGN**  
10 **CORPORATIONS.**

11 (a) **BASIS IN SPECIFIED 10-PERCENT OWNED FOR-**  
12 **EIGN CORPORATION REDUCED BY NONTAXED PORTION**  
13 **OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.**—

14 (1) **IN GENERAL.**—Section 961 is amended by  
15 adding at the end the following new subsection:

16 “(d) **BASIS IN SPECIFIED 10-PERCENT OWNED FOR-**  
17 **EIGN CORPORATION REDUCED BY NONTAXED PORTION**  
18 **OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.**—

19 If a domestic corporation received a dividend from a speci-  
20 fied 10-percent owned foreign corporation (as defined in  
21 section 245A) in any taxable year, solely for purposes of  
22 determining loss on any disposition in such taxable year  
23 or any subsequent taxable year, the basis of such domestic  
24 corporation in the stock of such foreign corporation shall

1 be reduced by the amount of any deduction allowable to  
2 such domestic corporation under section 245A with re-  
3 spect to such stock.”.

4 (2) EFFECTIVE DATE.—The amendments made  
5 by this subsection shall apply to dividends received  
6 in taxable years beginning after December 31, 2014.

7 (b) TREATMENT OF FOREIGN BRANCH LOSSES  
8 TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOR-  
9 EIGN CORPORATIONS.—

10 (1) IN GENERAL.—Part II of subchapter B of  
11 chapter 1, as amended by the preceding provisions  
12 of this Act, is amended by adding at the end the fol-  
13 lowing new section:

14 **“SEC. 92. CERTAIN FOREIGN BRANCH LOSSES TRANS-**  
15 **FERRED TO SPECIFIED 10-PERCENT OWNED**  
16 **FOREIGN CORPORATIONS.**

17 “(a) IN GENERAL.—If a domestic corporation trans-  
18 fers substantially all of the assets of a foreign branch  
19 (within the meaning of section 367(a)(3)(C)) to a specified  
20 10-percent owned foreign corporation (as defined in sec-  
21 tion 245A) with respect to which it is a United States  
22 shareholder after such transfer, such domestic corporation  
23 shall include in gross income for the taxable year which  
24 includes such transfer an amount equal to the transferred  
25 loss amount with respect to such transfer.

1       “(b) LIMITATION AND CARRYFORWARD BASED ON  
2 FOREIGN-SOURCE DIVIDENDS RECEIVED.—

3           “(1) IN GENERAL.—The amount included in  
4 the gross income of the taxpayer under subsection  
5 (a) for any taxable year shall not exceed the amount  
6 allowed as a deduction under section 245A for such  
7 taxable year (taking into account dividends received  
8 from all specified 10-percent owned foreign corpora-  
9 tions with respect to which the taxpayer is a United  
10 States shareholder).

11           “(2) AMOUNTS NOT INCLUDED CARRIED FOR-  
12 FORWARD.—Any amount not included in gross income  
13 for any taxable year by reason of paragraph (1)  
14 shall, subject to the application of paragraph (1) to  
15 the succeeding taxable year, be included in gross in-  
16 come for the succeeding taxable year.

17           “(c) TRANSFERRED LOSS AMOUNT.—For purposes  
18 of this section, the term ‘transferred loss amount’ means,  
19 with respect to any transfer of substantially all of the as-  
20 sets of a foreign branch, the excess (if any) of—

21           “(1) the sum of losses—

22                   “(A) which were incurred by the foreign  
23 branch after December 31, 2014, and before  
24 the transfer, and

1           “(B) with respect to which a deduction was  
2           allowed to the taxpayer, over

3           “(2) the sum of—

4           “(A) any taxable income of such branch  
5           for a taxable year after the taxable year in  
6           which the loss was incurred and through the  
7           close of the taxable year of the transfer, and

8           “(B) any amount which is recognized  
9           under section 904(f)(3) on account of the trans-  
10          fer.

11         “(d) REDUCTION FOR RECOGNIZED GAINS.—

12           “(1) IN GENERAL.—In the case of a transfer  
13           not described in section 367(a)(3)(C), the trans-  
14           ferred loss amount shall be reduced (but not below  
15           zero) by the amount of gain recognized by the tax-  
16           payer on account of the transfer (other than  
17           amounts taken into account under subsection  
18           (c)(2)(B)).

19           “(2) COORDINATION WITH RECOGNITION  
20           UNDER SECTION 367.—In the case of a transfer de-  
21           scribed in section 367(a)(3)(C), the transferred loss  
22           amount shall not exceed the excess (if any) of—

23           “(A) the excess of the amount described in  
24           section 367(a)(3)(C)(i) over the amount de-



1           scribed in section 367(a)(3)(C)(ii) with respect  
2           to such transfer, over

3                   “(B) the amount of gain recognized under  
4           section 367(a)(3)(C) with respect to such trans-  
5           fer.

6           “(e) SOURCE OF INCOME.—Amounts included in  
7 gross income under this section shall be treated as derived  
8 from sources within the United States.

9           “(f) BASIS ADJUSTMENTS.—Consistent with such  
10 regulations or other guidance as the Secretary may pre-  
11 scribe, proper adjustments shall be made in the adjusted  
12 basis of the taxpayer’s stock in the specified 10-percent  
13 owned foreign corporation to which the transfer is made,  
14 and in the transferee’s adjusted basis in the property  
15 transferred, to reflect amounts included in gross income  
16 under this section.”.

17           (2) AMOUNTS RECOGNIZED UNDER SECTION 367  
18           ON TRANSFER OF FOREIGN BRANCH WITH PRE-  
19           VIOUSLY DEDUCTED LOSSES TREATED AS UNITED  
20           STATES SOURCE.—Subparagraph (C) of section  
21           367(a)(3) is amended by striking “outside” in the  
22           last sentence and inserting “within”.

23           (3) CLERICAL AMENDMENT.—The table of sub-  
24           parts for such part, as amended by the preceding

1 provisions of this Act, is amended by adding at the  
 2 end the following new item:

“Sec. 92. Certain foreign branch losses transferred to specified 10-percent  
 owned foreign corporations.”.

3 (4) EFFECTIVE DATE.—The amendments made  
 4 by this subsection shall apply to transfers after De-  
 5 cember 31, 2014.

6 **SEC. 4003. TREATMENT OF DEFERRED FOREIGN INCOME**  
 7 **UPON TRANSITION TO PARTICIPATION EX-**  
 8 **EMPTION SYSTEM OF TAXATION.**

9 (a) IN GENERAL.—Section 965 is amended to read  
 10 as follows:

11 **“SEC. 965. TREATMENT OF DEFERRED FOREIGN INCOME**  
 12 **UPON TRANSITION TO PARTICIPATION EX-**  
 13 **EMPTION SYSTEM OF TAXATION.**

14 “(a) TREATMENT OF DEFERRED FOREIGN INCOME  
 15 AS SUBPART F INCOME.—In the case of the last taxable  
 16 year of a deferred foreign income corporation which begins  
 17 before January 1, 2015, the subpart F income of such  
 18 foreign corporation (as otherwise determined for such tax-  
 19 able year under section 952) shall be increased by the ac-  
 20 cumulated post-1986 deferred foreign income of such cor-  
 21 poration determined as of the close of such taxable year.

22 “(b) REDUCTION IN AMOUNTS INCLUDED IN GROSS  
 23 INCOME OF UNITED STATES SHAREHOLDERS OF SPECI-

1 FIED FOREIGN CORPORATIONS WITH DEFICITS IN EARN-  
2 INGS AND PROFITS.—

3           “(1) IN GENERAL.—In the case of a taxpayer  
4 which is a United States shareholder with respect to  
5 at least one deferred foreign income corporation and  
6 at least one E&P deficit foreign corporation, the  
7 amount which would (but for this subsection) be  
8 taken into account under section 951(a)(1) by rea-  
9 son of subsection (a) as such United States share-  
10 holder’s pro rata share of the subpart F income of  
11 each deferred foreign income corporation shall be re-  
12 duced (but not below zero) by the amount of such  
13 United States shareholder’s aggregate foreign E&P  
14 deficit which is allocated under paragraph (2) to  
15 such deferred foreign income corporation.

16           “(2) ALLOCATION OF AGGREGATE FOREIGN E&P  
17 DEFICIT.—The aggregate foreign E&P deficit of any  
18 United States shareholder shall be allocated among  
19 the deferred foreign income corporations of such  
20 United States shareholder in an amount which bears  
21 the same proportion to such aggregate as—

22           “(A) such United States shareholder’s pro  
23 rata share of the accumulated post-1986 de-  
24 ferred foreign income of each such deferred for-  
25 eign income corporation, bears to

1           “(B) the aggregate of such United States  
2           shareholder’s pro rata share of the accumulated  
3           post-1986 deferred foreign income of all de-  
4           ferred foreign income corporations of such  
5           United States shareholder.

6           “(3) DEFINITIONS RELATED TO E&P DEFICI-  
7           CITS.—For purposes of this subsection—

8           “(A) AGGREGATE FOREIGN E&P DEF-  
9           ICIT.—The term ‘aggregate foreign E&P deficit’  
10          means, with respect to any United States share-  
11          holder, the aggregate of such shareholder’s pro  
12          rata shares of the specified E&P deficits of the  
13          E&P deficit foreign corporations of such share-  
14          holder.

15          “(B) E&P DEFICIT FOREIGN CORPORA-  
16          TION.—The term ‘E&P deficit foreign corpora-  
17          tion’ means, with respect to any taxpayer, any  
18          specified foreign corporation with respect to  
19          which such taxpayer is a United States share-  
20          holder, if—

21                  “(i) such specified foreign corporation  
22                  has a deficit in post-1986 earnings and  
23                  profits, and

24                  “(ii) as of February 26, 2014—

1                   “(I) such corporation was a spec-  
2                   ified foreign corporation, and

3                   “(II) such taxpayer was a United  
4                   States shareholder of such corpora-  
5                   tion.

6                   “(C) SPECIFIED E&P DEFICIT.—The term  
7                   ‘specified E&P deficit’ means, with respect to  
8                   any E&P deficit foreign corporation, the  
9                   amount of the deficit referred to in subpara-  
10                  graph (B).

11                  “(c) APPLICATION OF PARTICIPATION EXEMPTION  
12 TO INCLUDED INCOME.—

13                  “(1) IN GENERAL.—In the case of a United  
14                  States shareholder of a deferred foreign income cor-  
15                  poration, there shall be allowed as a deduction for  
16                  the taxable year in which an amount is included in  
17                  the gross income of such United States shareholder  
18                  under section 951(a)(1) by reason of this section an  
19                  amount equal to the sum of—

20                         “(A) 90 percent of the excess (if any) of—

21                                 “(i) the amount so included as gross  
22                                 income, over

23   “(ii) the amount of such United  
24   States shareholder’s aggregate foreign cash  
25   position, plus

1           “(B) 75 percent of so much of the amount  
2 described in subparagraph (A)(ii) as does not  
3 exceed the amount described in subparagraph  
4 (A)(i).

5           “(2) AGGREGATE FOREIGN CASH POSITION.—  
6 For purposes of this subsection—

7           “(A) IN GENERAL.—The term ‘aggregate  
8 foreign cash position’ means, with respect to  
9 any United States shareholder, the greater of—

10           “(i) the aggregate of such United  
11 States shareholder’s pro rata share of the  
12 cash position of each specified foreign cor-  
13 poration of such United States shareholder  
14 determined as of the close of the last tax-  
15 able year of such specified foreign corpora-  
16 tion which begins before January 1, 2015,  
17 or

18           “(ii) one half of the sum of—  
19           “(I) the aggregate described in  
20 clause (i) determined as of the close of  
21 the last taxable year of each such  
22 specified foreign corporation which  
23 ends before February 26, 2014, plus

24           “(II) the aggregate described in  
25 clause (i) determined as of the close of

1 the taxable year of each such specified  
2 foreign corporation which precedes the  
3 taxable year referred to in subclause  
4 (I).

5 “(B) CASH POSITION.—For purposes of  
6 this paragraph, the cash position of any speci-  
7 fied foreign corporation is the sum of—

8 “(i) cash and foreign currency held by  
9 such foreign corporation,

10 “(ii) the net accounts receivable of  
11 such foreign corporation, plus

12 “(iii) the fair market value of the fol-  
13 lowing assets held by such corporation:

14 “(I) Actively traded personal  
15 property for which there is an estab-  
16 lished financial market.

17 “(II) Commercial paper, certifi-  
18 cates of deposit, the securities of the  
19 Federal government and of any State  
20 or foreign government

21 “(III) Any obligation with a term  
22 of less than one year.

23 “(IV) Any asset which the Sec-  
24 retary identifies as being economically

1 equivalent to any asset described in  
2 this subparagraph.

3 “(C) NET ACCOUNTS RECEIVABLE.—For  
4 purposes of this paragraph, the term ‘net ac-  
5 counts receivable’ means, with respect to any  
6 specified foreign corporation, the excess (if any)  
7 of—

8 “(i) such corporation’s accounts re-  
9 ceivable, over

10 “(ii) such corporation’s accounts pay-  
11 able (determined consistent with the rules  
12 of section 461).

13 “(D) PREVENTION OF DOUBLE COUNT-  
14 ING.—Cash positions of a specified foreign cor-  
15 poration described in clause (ii) or (iii)(III) of  
16 subparagraph (B) shall not be taken into ac-  
17 count by a United States shareholder under  
18 subparagraph (A) to the extent that such  
19 United States shareholder demonstrates to the  
20 satisfaction of the Secretary that such amount  
21 is so taken into account by such United States  
22 shareholder with respect to another specified  
23 foreign corporation.

24 “(E) CASH POSITIONS OF FOREIGN PASS-  
25 THRU ENTITIES TAKEN INTO ACCOUNT.—Any



1 foreign entity which would be a specified for-  
2 eign corporation of a United States shareholder  
3 if such entity were a corporation shall be treat-  
4 ed as a specified foreign corporation of such  
5 United States shareholder for purposes of de-  
6 termining such United States shareholder's ag-  
7 gregate foreign cash position.

8 “(F) ANTI-ABUSE.—If the Secretary deter-  
9 mines that the principal purpose of any trans-  
10 action was to reduce the aggregate foreign cash  
11 position taken into account under this sub-  
12 section, such transaction shall be disregarded  
13 for purposes of this subsection.

14 “(d) DEFERRED FOREIGN INCOME CORPORATION;  
15 ACCUMULATED POST-1986 DEFERRED FOREIGN IN-  
16 COME.—For purposes of this section—

17 “(1) DEFERRED FOREIGN INCOME CORPORA-  
18 TION.—The term ‘deferred foreign income corpora-  
19 tion’ means, with respect to any United States  
20 shareholder, any specified foreign corporation of  
21 such United States shareholder which has accumu-  
22 lated post-1986 deferred foreign income (as of the  
23 close of the taxable year referred to in subsection  
24 (a)) greater than zero.

1           “(2) ACCUMULATED POST-1986 DEFERRED FOR-  
2 EIGN INCOME.—The term ‘accumulated post-1986  
3 deferred foreign income’ means the post-1986 earn-  
4 ings and profits except to the extent such earnings—

5           “(A) are attributable to income of the  
6 specified foreign corporation which is effectively  
7 connected with the conduct of a trade or busi-  
8 ness within the United States and subject to  
9 tax under this chapter,

10           “(B) if distributed, would—

11           “(i) in the case of a controlled foreign  
12 corporation, be excluded from the gross in-  
13 come of a United States shareholder under  
14 section 959, or

15           “(ii) in the case of any passive foreign  
16 investment company (as defined in section  
17 1297) other than a controlled foreign cor-  
18 poration, be treated as a distribution which  
19 is not a dividend, or

20           “(C) in the case of any passive foreign in-  
21 vestment company (as so defined), is properly  
22 attributable to an unreversed inclusion of a  
23 United States person under section 1296.

24           To the extent provided in regulations or other guid-  
25 ance prescribed by the Secretary, in the case of any

1 controlled foreign corporation which has share-  
2 holders which are not United States shareholders,  
3 accumulated post-1986 deferred foreign income shall  
4 be appropriately reduced by amounts which would be  
5 described in subparagraph (B)(i) if such share-  
6 holders were United States shareholders. Such regu-  
7 lations or other guidance may provide a similar rule  
8 for purposes of subparagraph (B)(ii) and (C).

9 “(3) POST-1986 EARNINGS AND PROFITS.—The  
10 term ‘post-1986 earnings and profits’ means the  
11 earnings and profits of the foreign corporation (com-  
12 puted in accordance with sections 964(a) and 986)  
13 accumulated in taxable years beginning after Decem-  
14 ber 31, 1986, and determined—

15 “(A) as of the close of the taxable year re-  
16 ferred to in subsection (a), and

17 “(B) without diminution by reason of divi-  
18 dends distributed during such taxable year.

19 “(e) SPECIFIED FOREIGN CORPORATION.—

20 “(1) IN GENERAL.—For purposes of this sec-  
21 tion, the term ‘specified foreign corporation’  
22 means—

23 “(A) any controlled foreign corporation,  
24 and

1           “(B) any section 902 corporation (as de-  
2           fined in section 909(d)(5) as in effect before the  
3           date of the enactment of the Tax Reform Act  
4           of 2014).

5           “(2) APPLICATION TO SECTION 902 CORPORA-  
6           TIONS.—For purposes of section 951, a section 902  
7           corporation (as so defined) shall be treated as a con-  
8           trolled foreign corporation solely for purposes of tak-  
9           ing into account the subpart F income of such cor-  
10          poration under subsection (a) (and for purposes of  
11          applying subsection (f)).

12          “(f) DETERMINATIONS OF PRO RATA SHARE.—For  
13          purposes of this section, the determination of any United  
14          States shareholder’s pro rata share of any amount with  
15          respect to any specified foreign corporation shall be deter-  
16          mined under rules similar to the rules of section 951(a)(2)  
17          by treating such amount in the same manner as subpart  
18          F income (and by treating such specified foreign corpora-  
19          tion as a controlled foreign corporation).

20          “(g) DISALLOWANCE OF FOREIGN TAX CREDIT,  
21          ETC.—

22          “(1) IN GENERAL.—No credit shall be allowed  
23          under section 901 for the applicable percentage of  
24          any taxes paid or accrued (or treated as paid or ac-

1        erued) with respect to any amount for which a de-  
2        duction is allowed under this section.

3           “(2) APPLICABLE PERCENTAGE.—For purposes  
4        of this subsection, the term ‘applicable percentage’  
5        means the amount (expressed as a percentage) equal  
6        to the sum of—

7           “(A) 0.9 multiplied by the ratio of—

8           “(i) the excess to which subsection  
9        (c)(1)(A) applies, divided by

10          “(ii) the sum of such excess plus the  
11        amount to which subsection (c)(1)(B) ap-  
12        plies, plus

13          “(B) 0.75 multiplied by the ratio of—

14          “(i) the amount to which subsection  
15        (c)(1)(B) applies, divided by

16          “(ii) the sum described in subpara-  
17        graph (A)(ii).

18           “(3) DENIAL OF DEDUCTION.—No deduction  
19        shall be allowed under this chapter for any tax for  
20        which credit is not allowable under section 901 by  
21        reason of paragraph (1) (determined by treating the  
22        taxpayer as having elected the benefits of subpart A  
23        of part III of subchapter N).

24           “(4) COORDINATION WITH SECTION 78.—Sec-  
25        tion 78 shall not apply to any tax for which credit

1 is not allowable under section 901 by reason of para-  
2 graph (1).

3 “(h) ELECTION TO PAY LIABILITY IN INSTALL-  
4 MENTS.—

5 “(1) IN GENERAL.—In the case of a United  
6 States shareholder of a deferred foreign income cor-  
7 poration, such United States shareholder may elect  
8 to pay the net tax liability under this section in 8  
9 installments of the following amounts:

10 “(A) 8 percent of the net tax liability in  
11 the case of each of the first 5 of such install-  
12 ments,

13 “(B) 15 percent of the net tax liability in  
14 the case of the 6th such installment,

15 “(C) 20 percent of the net tax liability in  
16 the case of the 7th such installment, and

17 “(D) 25 percent of the net tax liability in  
18 the case of the 8th such installment.

19 “(2) DATE FOR PAYMENT OF INSTALLMENTS.—

20 If an election is made under paragraph (1), the first  
21 installment shall be paid on the due date (deter-  
22 mined without regard to any extension of time for  
23 filing the return) for the return of tax for the tax-  
24 able year described in subsection (b) and each suc-  
25 ceeding installment shall be paid on the due date (as

1 so determined) for the return of tax for the taxable  
2 year following the taxable year with respect to which  
3 the preceding installment was made.

4 “(3) ACCELERATION OF PAYMENT.—If there is  
5 an addition to tax for failure to pay timely assessed  
6 with respect to any installment required under this  
7 subsection, a liquidation or sale of substantially all  
8 the assets of the taxpayer (including in a title 11 or  
9 similar case), a cessation of business by the tax-  
10 payer, or any similar circumstance, then the unpaid  
11 portion of all remaining installments shall be due on  
12 the date of such event (or in the case of a title 11  
13 or similar case, the day before the petition is filed).  
14 The preceding sentence shall not apply to the sale  
15 of substantially all the assets of a taxpayer to a  
16 buyer if such buyer enters into an agreement with  
17 the Secretary under which such buyer is liable for  
18 the remaining installments due under this subsection  
19 in the same manner as if such buyer were the tax-  
20 payer.

21 “(4) PRORATION OF DEFICIENCY TO INSTALL-  
22 MENTS.—If an election is made under paragraph (1)  
23 to pay the net tax liability under this section in in-  
24 stallments and a deficiency has been assessed with  
25 respect to such net tax liability, the deficiency shall

1 be prorated to the installments payable under para-  
2 graph (1). The part of the deficiency so prorated to  
3 any installment the date for payment of which has  
4 not arrived shall be collected at the same time as,  
5 and as a part of, such installment. The part of the  
6 deficiency so prorated to any installment the date  
7 for payment of which has arrived shall be paid upon  
8 notice and demand from the Secretary. This sub-  
9 section shall not apply if the deficiency is due to  
10 negligence, to intentional disregard of rules and reg-  
11 ulations, or to fraud with intent to evade tax.

12 “(5) ELECTION.—Any election under paragraph  
13 (1) shall be made not later than the due date for the  
14 return of tax for the taxable year described in sub-  
15 section (a) and shall be made in such manner as the  
16 Secretary may provide.

17 “(6) NET TAX LIABILITY UNDER THIS SEC-  
18 TION.—For purposes of this subsection—

19 “(A) IN GENERAL.—The net tax liability  
20 under this section with respect to any United  
21 States shareholder is the excess (if any) of—

22 “(i) such taxpayer’s net income tax  
23 for the taxable year described in subsection  
24 (a), over



1                   “(ii) such taxpayer’s net income tax  
2                   for such taxable year determined without  
3                   regard to this section.

4                   “(B) NET INCOME TAX.—The term ‘net  
5                   income tax’ means the regular tax liability re-  
6                   duced by the credits allowed under subparts A,  
7                   B, and D of part IV of subchapter A.

8                   “(i) SPECIAL RULES FOR S CORPORATION SHARE-  
9                   HOLDERS.—

10                   “(1) IN GENERAL.—In the case of any S cor-  
11                   poration which is a United States shareholder of a  
12                   deferred foreign income corporation, each share-  
13                   holder of such S corporation may elect to defer pay-  
14                   ment of such shareholder’s net tax liability under  
15                   this section with respect to such S corporation until  
16                   the shareholder’s taxable year which includes the  
17                   triggering event with respect to such liability.

18                   “(2) TRIGGERING EVENT.—

19                   “(A) IN GENERAL.—In the case of any  
20                   shareholder’s net tax liability under this section  
21                   with respect to any S corporation, the trig-  
22                   gering event with respect to such liability is  
23                   whichever of the following occurs first:

24                   “(i) Such corporation ceases to be an  
25                   S corporation (determined as of the first

1 day of the first taxable year that such cor-  
2 poration is not an S corporation).

3 “(ii) A liquidation or sale of substan-  
4 tially all the assets of such S corporation  
5 (including in a title 11 or similar case), a  
6 cessation of business by such S corpora-  
7 tion, such S corporation ceases to exist, or  
8 any similar circumstance.

9 “(iii) A transfer of any share of stock  
10 in such S corporation by the taxpayer (in-  
11 cluding by reason of death, or otherwise).

12 “(B) PARTIAL TRANSFERS OF STOCK.—In  
13 the case of a transfer of less than all of the tax-  
14 payer’s shares of stock in the S corporation,  
15 such transfer shall only be a triggering event  
16 with respect to so much of the taxpayer’s net  
17 tax liability under this section with respect to  
18 such S corporation as is properly allocable to  
19 such stock.

20 “(C) TRANSFER OF LIABILITY.—A trans-  
21 fer described in clause (iii) shall not be treated  
22 as a triggering event if the transferee enters  
23 into an agreement with the Secretary under  
24 which such transferee is liable for net tax liabil-

1           ity with respect to such stock in the same man-  
2           ner as if such transferee were the taxpayer.

3           “(3) NET TAX LIABILITY.—A shareholder’s net  
4           tax liability under this section with respect to any S  
5           corporation is the net tax liability under this section  
6           which would be determined under subsection (h)(6)  
7           if the only subpart F income taken into account by  
8           such shareholder by reason of this section were allo-  
9           cations from such S corporation.

10           “(4) ELECTION TO PAY DEFERRED LIABILITY  
11           IN INSTALLMENTS.—In the case of a taxpayer which  
12           elects to defer payment under paragraph (1), sub-  
13           section (h) shall be applied—

14                   “(A) separately with respect to the liability  
15                   to which such election applies,

16                   “(B) an election under subsection (h) with  
17                   respect to such liability shall be treated as time-  
18                   ly made if made not later than the due date for  
19                   the return of tax for the taxable year in which  
20                   the triggering event with respect to such liabil-  
21                   ity occurs,

22                   “(C) the first installment under subsection  
23                   (h) with respect to such liability shall be paid  
24                   not later than such due date (but determined

1 without regard to any extension of time for fil-  
2 ing the return), and

3 “(D) if the triggering event with respect to  
4 any net tax liability is described in paragraph  
5 (2)(A)(ii), an election under subsection (h) with  
6 respect to such liability may be made only with  
7 the consent of the Secretary.

8 “(5) JOINT AND SEVERAL LIABILITY OF S COR-  
9 PORATION.—If any shareholder of an S corporation  
10 elects to defer payment under paragraph (1), such  
11 S corporation shall be jointly and severally liable for  
12 such payment and any penalty, addition to tax, or  
13 additional amount attributable thereto.

14 “(6) EXTENSION OF LIMITATION ON COLLEC-  
15 TION.—Notwithstanding any other provision of law,  
16 any limitation on the time period for the collection  
17 of a liability deferred under this subsection shall not  
18 be treated as beginning before the date of the trig-  
19 gering event with respect to such liability.

20 “(7) ELECTION.—Any election under paragraph  
21 (1) shall be made not later than the due date for the  
22 return of tax for the taxable year described in sub-  
23 section (a) and shall be made in such manner as the  
24 Secretary may provide.

1       “(j) INCLUSION OF DEFERRED FOREIGN INCOME  
2 UNDER THIS SECTION NOT TO TRIGGER RECAPTURE OF  
3 OVERALL FOREIGN LOSS.—For purposes of section  
4 904(f)(1), in the case of a United States shareholder of  
5 a deferred foreign income corporation, such United States  
6 shareholder’s taxable income from sources without the  
7 United States shall be determined without regard to this  
8 section.

9       “(k) REGULATIONS.—The Secretary may prescribe  
10 such regulations or other guidance as may be necessary  
11 or appropriate to carry out the provisions of this section.”.

12       (b) DEDICATION OF REVENUES TO HIGHWAY TRUST  
13 FUND.—

14             (1) IN GENERAL.—Section 9503(f) is amended  
15 by redesignating paragraph (5) as paragraph (6)  
16 and by inserting after paragraph (4) the following  
17 new paragraph:

18             “(5) APPROPRIATION TO TRUST FUND OF NET  
19 TAX LIABILITIES RECEIVED UNDER SECTION 965.—

20             “(A) IN GENERAL.—Out of money in the  
21 Treasury not otherwise appropriated, there are  
22 hereby appropriated to the Highway Trust  
23 Fund amounts equivalent to the aggregate net  
24 tax liabilities under section 965 (as defined in  
25 such section) received in the Treasury.

1           “(B) MONTHLY TRANSFERS BASED ON ES-  
 2           TIMATES.—For rule providing for the monthly  
 3           transfer of amounts appropriated under sub-  
 4           paragraph (A) based on estimates of the Sec-  
 5           retary, see section 9601.”.

6           (2) TRANSFERS TO MASS TRANSIT ACCOUNT.—  
 7           Section 9503(e)(2) is amended by striking “the  
 8           mass transit portion” and inserting “, 20 percent of  
 9           the amounts appropriated to the Highway Trust  
 10          Fund under subsection (f)(5), and the mass transit  
 11          portion”.

12          (c) CLERICAL AMENDMENT.—The table of section for  
 13          subpart F of part III of subchapter N of chapter 1 is  
 14          amended by striking the item relating to section 965 and  
 15          inserting the following:

“Sec. 965. Treatment of deferred foreign income upon transition to participa-  
 tion exemption system of taxation.”.

16   **SEC. 4004. LOOK-THRU RULE FOR RELATED CONTROLLED**  
 17                           **FOREIGN CORPORATIONS MADE PERMA-**  
 18                           **NENT.**

19          (a) IN GENERAL.—Paragraph (6) of section 954(c)  
 20          is amended by striking subparagraph (C).

21          (b) EFFECTIVE DATE.—The amendments made by  
 22          this section shall apply to taxable years of foreign corpora-  
 23          tions beginning after December 31, 2013, and to taxable

1 years of United States shareholders in which or with which  
 2 such taxable years of foreign corporations end.

3 **Subtitle B—Modifications Related**  
 4 **to Foreign Tax Credit System**

5 **SEC. 4101. REPEAL OF SECTION 902 INDIRECT FOREIGN**  
 6 **TAX CREDITS; DETERMINATION OF SECTION**  
 7 **960 CREDIT ON CURRENT YEAR BASIS.**

8 (a) REPEAL OF SECTION 902 INDIRECT FOREIGN  
 9 TAX CREDITS.—Subpart A of part III of subchapter N  
 10 of chapter 1 is amended by striking section 902.

11 (b) DETERMINATION OF SECTION 960 CREDIT ON  
 12 CURRENT YEAR BASIS.—Section 960 is amended—

13 (1) by striking subsection (c), by redesignating  
 14 subsection (b) as subsection (c), by striking all that  
 15 precedes subsection (c) (as so redesignated) and in-  
 16 serting the following:

17 **“SEC. 960. DEEMED PAID CREDIT FOR SUBPART F INCLU-**  
 18 **SIONS.**

19 “(a) IN GENERAL.—For purposes of this subpart, if  
 20 there is included in the gross income of a domestic cor-  
 21 poration any item of income under section 951(a)(1) with  
 22 respect to any controlled foreign corporation with respect  
 23 to which such domestic corporation is a United States  
 24 shareholder, such domestic corporation shall be deemed to  
 25 have paid so much of such foreign corporation’s foreign

1 income taxes as are properly attributable to the item of  
2 income so included.

3 “(b) SPECIAL RULES FOR DISTRIBUTIONS FROM  
4 PREVIOUSLY TAXED EARNINGS AND PROFITS.—For pur-  
5 poses of this subpart—

6 “(1) IN GENERAL.—If any portion of a dis-  
7 tribution from a controlled foreign corporation to a  
8 domestic corporation which is a United States share-  
9 holder with respect to such controlled foreign cor-  
10 poration is excluded from gross income under section  
11 959(a), such domestic corporation shall be deemed  
12 to have paid so much of such foreign corporation’s  
13 foreign income taxes as—

14 “(A) are properly attributable to such por-  
15 tion, and

16 “(B) have not been deemed to have to been  
17 paid by such domestic corporation under this  
18 section for any prior taxable year.

19 “(2) TIERED CONTROLLED FOREIGN CORPORA-  
20 TIONS.—If section 959(b) applies to any portion of  
21 a distribution from a controlled foreign corporation  
22 to another controlled foreign corporation, such con-  
23 trolled foreign corporation shall be deemed to have  
24 paid so much of such other controlled foreign cor-  
25 poration’s foreign income taxes as—



1           “(A) are properly attributable to such por-  
2           tion, and

3           “(B) have not been deemed to have been  
4           paid by a domestic corporation under this sec-  
5           tion for any prior taxable year.”,

6           (2) and by adding after subsection (c) (as so re-  
7           designated) the following new subsections:

8           “(d) FOREIGN INCOME TAXES.—The term ‘foreign  
9           income taxes’ means any income, war profits, or excess  
10          profits taxes paid or accrued to any foreign country or  
11          possession of the United States.

12          “(e) REGULATIONS.—The Secretary shall provide  
13          such regulations as may be necessary or appropriate to  
14          carry out the provisions of this section.”.

15          (c) CONFORMING AMENDMENTS.—

16           (1) Section 78 is amended to read as follows:

17          **“SEC. 78. GROSS UP FOR DEEMED PAID FOREIGN TAX**  
18                  **CREDIT.**

19          “If a domestic corporation chooses to have the bene-  
20          fits of subpart A of part III of subchapter N (relating  
21          to foreign tax credit) for any taxable year, an amount  
22          equal to the taxes deemed to be paid by such corporation  
23          under section 960 (relating to deemed paid credit for sub-  
24          part F inclusions) for such taxable year shall be treated  
25          for purposes of this title (other than section 960) as an

1 item of income required to be included in the gross income  
2 of such domestic corporation under section 951(a).”.

3 (2) Section 245(a)(10) is amended by striking  
4 “902,”.

5 (3) Sections 535(b)(1) and 545(b)(1) are each  
6 amended by striking “section 902(a) or 960(a)(1)”  
7 and inserting “section 960”.

8 (4) Paragraph (1) of section 814(f) is amend-  
9 ed—

10 (A) by striking subparagraph (B), and

11 (B) by striking all that precedes “No in-  
12 come” and inserting the following:

13 “(1) TREATMENT OF FOREIGN TAXES.—”.

14 (5) Subparagraph (B) of section 864(h)(1) is  
15 amended by striking “902,”.

16 (6) Subsection (a) of section 901 is amended by  
17 striking “sections 902 and 960” and inserting “sec-  
18 tion 960”.

19 (7) Paragraph (2) of section 901(e) is amended  
20 by striking “but is not limited to—” and all that fol-  
21 lows through “that portion” and inserting “but is  
22 not limited to that portion”.

23 (8) Subsection (f) of section 901 is amended by  
24 striking “sections 902 and 960” and inserting “sec-  
25 tion 960”.

1           (9) Subparagraph (A) of section 901(j)(1) is  
2 amended by striking “902 or”.

3           (10) Subparagraph (B) of section 901(j)(1) is  
4 amended by striking “sections 902 and 960” and in-  
5 serting “section 960”.

6           (11) Paragraph (2) of section 901(k) is amend-  
7 ed by striking “902,”.

8           (12) Paragraph (6) of section 901(k) is amend-  
9 ed by striking “902 or”.

10           (13) Subparagraph (A) of section 904(h)(10) is  
11 amended by striking “sections 902, 907, and 960”  
12 and inserting “sections 907 and 960”.

13           (14) Section 904 is amended by striking sub-  
14 section (k).

15           (15) Paragraph (1) of section 905(c) is amend-  
16 ed by striking the last sentence.

17           (16) Subclause (I) of section 905(c)(2)(B)(i) is  
18 amended by striking “section 902 or”.

19           (17) Subsection (a) of section 906 is amended  
20 by striking “(or deemed, under section 902, paid or  
21 accrued during the taxable year)”.

22           (18) Subsection (b) of section 906 is amended  
23 by striking paragraphs (4) and (5).

24           (19) Subparagraph (B) of section 907(b)(2) is  
25 amended by striking “902 or”.

1           (20) Paragraph (3) of section 907(c) is amend-  
2 ed—

3           (A) by striking subparagraph (A) and re-  
4 designating subparagraphs (B) and (C) as sub-  
5 paragraphs (A) and (B), respectively, and

6           (B) by striking “section 960(a)” in sub-  
7 paragraph (A) (as so redesignated) and insert-  
8 ing “section 960”.

9           (21) Paragraph (5) of section 907(c) is amend-  
10 ed by striking “902 or”.

11           (22) Clause (i) of section 907(f)(2)(B) is  
12 amended by striking “902 or”.

13           (23) Subsection (a) of section 908 is amended  
14 by striking “902 or”.

15           (24) Subsection (b) of section 909 is amend-  
16 ed—

17           (A) by striking “section 902 corporation”  
18 in the matter preceding paragraph (1) and in-  
19 serting “specified 10-percent owned foreign cor-  
20 poration”,

21           (B) by striking “902 or” in paragraph (1),

22           (C) by striking “by such section 902 cor-  
23 poration” and all that follows in the matter fol-  
24 lowing paragraph (2) and inserting “by such  
25 specified 10-percent owned foreign corporation

1 or a domestic corporation which is a United  
2 States shareholder with respect to such speci-  
3 fied 10-percent owned foreign corporation.”,  
4 and

5 (D) by striking “SECTION 902 CORPORA-  
6 TIONS” in the heading thereof and inserting  
7 “SPECIFIED 10-PERCENT OWNED FOREIGN  
8 CORPORATIONS”.

9 (25) Subsection (d) of section 909 is amended  
10 by striking paragraph (5).

11 (26) Paragraph (1) of section 958(a) is amend-  
12 ed by striking “960(a)(1)” and inserting “960”.

13 (27) Subsection (d) of section 959 is amended  
14 by striking “Except as provided in section 960(a)(3),  
15 any” and inserting “Any”.

16 (28) Subsection (e) of section 959 is amended  
17 by striking “and section 960(b)”.

18 (29) Subparagraph (A) of section 1291(g)(2) is  
19 amended by striking “any distribution—” and all  
20 that follows through “but only if” and inserting  
21 “any distribution, any withholding tax imposed with  
22 respect to such distribution, but only if”.

23 (30) Section 1293 is amended by striking sub-  
24 section (f).



1           “(3) DEDUCTIONS ALLOCABLE TO FOREIGN  
2 SOURCE INCOME ONLY IF DIRECTLY ALLOCABLE.—  
3 For purposes of subsection (a), the taxpayer’s tax-  
4 able income from sources without the United States  
5 shall be determined by allocating deductions to such  
6 income only if such deductions are directly allocable  
7 to such income.”.

8           (b) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years of foreign corpora-  
10 tions beginning after December 31, 2014, and to taxable  
11 years of United States shareholders in which or with which  
12 such taxable years of foreign corporations end.

13 **SEC. 4103. PASSIVE CATEGORY INCOME EXPANDED TO IN-**  
14 **CLUDE OTHER MOBILE INCOME.**

15           (a) TREATMENT OF FOREIGN BASE COMPANY IN-  
16 TANGIBLE INCOME AND FOREIGN BASE COMPANY SALES  
17 INCOME AS MOBILE CATEGORY INCOME.—Clause (i) of  
18 section 904(d)(2)(A) is amended by striking “and speci-  
19 fied passive category income” and inserting “specified pas-  
20 sive category income, foreign base company sales income  
21 (as defined in section 954(d)), and foreign base company  
22 intangible income (as defined in section 954(f))”.

23           (b) REPEAL OF SPECIAL RULES TREATING FINAN-  
24 CIAL SERVICES INCOME AS GENERAL CATEGORY IN-  
25 COME.—Paragraph (2) of section 904(d) is amended by

1 striking subparagraphs (C) and (D) and by redesignating  
2 subparagraphs (E) through (K) as subparagraphs (C)  
3 through (I), respectively.

4 (c) CONFORMING AMENDMENTS.—

5 (1) RELATING TO REFERENCES TO PASSIVE IN-  
6 COME.—

7 (A) Section 904(d)(1)(A) is amended by  
8 striking “passive category income” and insert-  
9 ing “mobile category income”.

10 (B) Section 904(d)(2)(A)(i), as amended  
11 by subsection (a), is amended—

12 (i) by striking “PASSIVE CATEGORY  
13 INCOME” in the heading thereof and insert-  
14 ing “MOBILE CATEGORY INCOME”,

15 (ii) by striking “passive category in-  
16 come” and inserting “mobile category in-  
17 come”,

18 (iii) by striking “passive income” and  
19 inserting “mobile income”, and

20 (iv) by striking “specified passive cat-  
21 egory income” and inserting “specified mo-  
22 bile category income”.

23 (C) Section 904(d)(2)(A)(ii) is amended by  
24 striking “passive category income” and insert-  
25 ing “mobile category income”.



1 (D) Section 904(d)(2)(B) is amended—

2 (i) by striking “PASSIVE INCOME” in  
3 the heading thereof and inserting “MOBILE  
4 INCOME”,

5 (ii) by striking “passive income” in  
6 clauses (i), (ii), and (iii) and inserting  
7 “mobile income”,

8 (iii) by striking “SPECIFIED PASSIVE  
9 CATEGORY INCOME” in the heading of  
10 clause (iv) and inserting “SPECIFIED MO-  
11 BILE CATEGORY INCOME”, and

12 (iv) by striking “specified passive cat-  
13 egory income” in clause (iv) and inserting  
14 “specified mobile category income”.

15 (E) Section 904(d)(2)(D), as redesignated  
16 by subsection (b), is amended by striking “pas-  
17 sive income” and inserting “mobile income”.

18 (F) Section 904(d)(3)(A) is amended by  
19 striking “passive category income” and insert-  
20 ing “mobile category income”.

21 (G) Section 904(d)(3)(B) is amended by  
22 striking “passive category income” both places  
23 it appears and inserting “mobile category in-  
24 come”.

1 (H) Section 904(d)(3)(C) is amended by  
2 striking “passive category income” both places  
3 it appears and inserting “mobile category in-  
4 come”.

5 (I) Section 904(d)(3)(D) is amended by  
6 striking “passive category income” both places  
7 it appears and inserting “mobile category in-  
8 come”.

9 (J) Section 904(d)(3)(E) is amended—

10 (i) by striking “passive category in-  
11 come” both places it appears and inserting  
12 “mobile category income”, and

13 (ii) by striking “passive income” and  
14 inserting “mobile income”.

15 (K) Section 904(d)(3)(F) is amended by  
16 striking “passive category income” both places  
17 it appears and inserting “mobile category in-  
18 come”.

19 (2) OTHER CONFORMING AMENDMENTS.—

20 (A) Subparagraph (B) of section 864(f)(5)  
21 is amended by inserting “(as in effect before its  
22 repeal)” after “section 904(d)(2)(D)(ii)”.

23 (B) Subparagraph (B) of section 954(e)(2)  
24 is amended by striking “section 904(d)(2)(G)”  
25 and inserting “section 904(d)(2)(E)”.

1 (d) EFFECTIVE DATE.—

2 (1) IN GENERAL.—The amendments made by  
3 this section shall apply to taxable years of foreign  
4 corporations beginning after December 31, 2014,  
5 and to taxable years of United States shareholders  
6 in which or with which such taxable years of foreign  
7 corporations end.

8 (2) TREATMENT OF CARRYFORWARDS AND  
9 CARRYBACKS.—For purposes of section 904 of the  
10 Internal Revenue Code of 1986—

11 (A) the amendments made by this section  
12 shall apply to any taxes carried from any tax-  
13 able year beginning before January 1, 2015, to  
14 any taxable year beginning on or after such  
15 date, and

16 (B) the Secretary of the Treasury, or his  
17 designee, may by regulations provide for the al-  
18 location of any carryback of taxes with respect  
19 to income from a taxable year beginning on or  
20 after January 1, 2015, to a taxable year begin-  
21 ning before such date for purposes of allocating  
22 such income among the separate categories in  
23 effect under section 904(d) for the taxable year  
24 to which carried.

1 **SEC. 4104. SOURCE OF INCOME FROM SALES OF INVEN-**  
2 **TORY DETERMINED SOLELY ON BASIS OF**  
3 **PRODUCTION ACTIVITIES.**

4 (a) **IN GENERAL.**—Subsection (b) of section 863 is  
5 amended by adding at the end the following: “Gains, prof-  
6 its, and income from the sale or exchange of inventory  
7 property described in paragraph (2) shall be allocated and  
8 apportioned between sources within and without the  
9 United States solely on the basis of the production activi-  
10 ties with respect to the property.”.

11 (b) **EFFECTIVE DATE.**—The amendment made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 2014.

14 **Subtitle C—Rules Related to**  
15 **Passive and Mobile Income**

16 **PART 1—MODIFICATION OF SUBPART F**

17 **PROVISIONS**

18 **SEC. 4201. SUBPART F INCOME TO ONLY INCLUDE LOW-**  
19 **TAXED FOREIGN INCOME.**

20 (a) **IN GENERAL.**—Subsection (a) of section 954 is  
21 amended—

22 (1) by redesignating paragraphs (1), (2), (3),  
23 and (5) as subparagraphs (A) through (D), respec-  
24 tively,

25 (2) by striking “For purposes of” and inserting  
26 the following:

1           “(1) IN GENERAL.—For purposes of”, and  
2           (3) by adding at the end the following new  
3 paragraph:

4           “(2) APPLICATION ONLY TO FOREIGN BASE  
5 COMPANY INCOME SUBJECT TO A LOW FOREIGN EF-  
6 FECTIVE RATE OF TAX.—

7           “(A) IN GENERAL.—Foreign base company  
8 income shall only include items of income re-  
9 ceived by a controlled foreign corporation which  
10 are subject to an effective rate of income tax  
11 imposed by a foreign country which is less than  
12 100 percent of the maximum rate of tax speci-  
13 fied in section 11.

14           “(B) APPLICATION TO FOREIGN BASE  
15 COMPANY INCOME SUBJECT TO REDUCED DO-  
16 MESTIC RATE OF TAX.—

17           “(i) FOREIGN BASE COMPANY SALES  
18 INCOME.—In the case of foreign base com-  
19 pany sales income, subparagraph (A) shall  
20 be applied by substituting ‘50 percent’ for  
21 ‘100 percent’.

22           “(ii) FOREIGN BASE COMPANY INTAN-  
23 GIBLE INCOME.—In the case of foreign  
24 base company intangible income, subpara-  
25 graph (A) shall be applied—

1                   “(I) by substituting ‘the applica-  
2                   ble percentage of the foreign percent-  
3                   age (determined under section 250(c)  
4                   with respect to the controlled foreign  
5                   corporation)’ for ‘100 percent’, and

6                   “(II) by treating the foreign base  
7                   company intangible income as a single  
8                   item of income.

9                   “(iii) APPLICABLE PERCENTAGE.—  
10                  For purposes of clause (ii)(I), the term  
11                  ‘applicable percentage’ means, with respect  
12                  to any taxable year of a controlled foreign  
13                  corporation, the percentage determined in  
14                  accordance with the following table:

“In the case of any taxable year beginning in:	The applicable percentage is:
2015 .....	45 percent
2016 .....	48 percent
2017 .....	52 percent
2018 .....	56 percent
2019 or thereafter .....	60 percent.”.

15                  (b) INSURANCE INCOME.—Subsection (a) of section  
16 953 is amended by redesignating paragraph (2) as para-  
17 graph (3) and by inserting after paragraph (1) the fol-  
18 lowing new paragraph:

19                  “(2) APPLICATION ONLY TO INSURANCE IN-  
20                  COME SUBJECT TO A LOW FOREIGN EFFECTIVE  
21                  RATE OF TAX.—Insurance income shall only include

1 items of income received by a controlled foreign cor-  
2 poration which are subject to an effective rate of in-  
3 come tax imposed by a foreign country which is less  
4 than the maximum rate of tax specified in section  
5 11.”.

6 (c) CONFORMING AMENDMENTS.—

7 (1) Section 954(b)(3)(B) is amended by strik-  
8 ing “paragraphs (4) and (5)” and inserting “sub-  
9 section (a)(2), section 953(a)(2), and paragraph  
10 (5)”

11 (2) Section 954(b) is amended by striking para-  
12 graph (4).

13 (3) Section 954(c)(1) is amended by striking  
14 “subsection (a)(1)” and inserting “this section”.

15 (4) Section 954(d)(1) is amended by striking  
16 “subsection (a)(2)” and inserting “this section”.

17 (5) Section 954(e)(1) is amended by striking  
18 “subsection (a)(3)” and inserting “this section”.

19 (d) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to taxable years of foreign corpora-  
21 tions beginning after December 31, 2014, and to taxable  
22 years of United States shareholders in which or with which  
23 such taxable years of foreign corporations end.

1 **SEC. 4202. FOREIGN BASE COMPANY SALES INCOME.**

2 (a) 50-PERCENT EXCLUSION FOR LOW-TAXED FOR-  
3 EIGN BASE COMPANY SALES INCOME.—

4 (1) IN GENERAL.—Subparagraph (B) of section  
5 954(a)(1), as amended by the preceding provisions  
6 of this Act, is amended by inserting “50 percent of”  
7 before “the foreign base company sales income”.

8 (2) PRESERVATION OF DEEMED PAID FOREIGN  
9 TAX CREDIT ON LOW-TAXED FOREIGN BASE COM-  
10 PANY INCOME.—Section 960, as amended by this  
11 Act, is amended by redesignating subsection (c) as  
12 subsection (d) and by inserting after subsection (b)  
13 the following new subsection:

14 “(c) DEEMED PAID CREDIT DETERMINED WITHOUT  
15 REGARD TO CERTAIN EXCLUSIONS FROM SUBPART F IN-  
16 COME.—Solely for purposes of subsection (a), section  
17 954(a)(1)(B) shall be applied by substituting ‘100 per-  
18 cent’ for ‘50 percent’ in determining amounts included  
19 under section 951(a)(1).”.

20 (b) EXCEPTION FROM FOREIGN BASE COMPANY  
21 SALES INCOME FOR FOREIGN CORPORATIONS ELIGIBLE  
22 FOR BENEFITS UNDER COMPREHENSIVE INCOME TAX  
23 TREATIES.—Section 954(d) is amended by adding at the  
24 end the following new paragraph:

25 “(5) EXCEPTION FOR FOREIGN CORPORATIONS  
26 ELIGIBLE FOR BENEFITS UNDER COMPREHENSIVE



1 INCOME TAX TREATIES.—No portion of the gross in-  
2 come of a controlled foreign corporation shall be  
3 treated as foreign base company sales income if such  
4 controlled foreign corporation is eligible as a quali-  
5 fied resident for all of the benefits provided under a  
6 comprehensive income tax treaty with the United  
7 States.”.

8 (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years of foreign corpora-  
10 tions beginning after December 31, 2014, and to taxable  
11 years of United States shareholders in which or with which  
12 such taxable years of foreign corporations end.

13 **SEC. 4203. INFLATION ADJUSTMENT OF DE MINIMIS EXCEP-**  
14 **TION FOR FOREIGN BASE COMPANY INCOME.**

15 (a) IN GENERAL.—Paragraph (3) of section 954(b)  
16 is amended by adding at the end the following new sub-  
17 paragraph:

18 “(D) INFLATION ADJUSTMENT.—In the  
19 case of any taxable year beginning after 2015,  
20 the dollar amount in subparagraph (A)(ii) shall  
21 be increased by an amount equal to—

22 “(i) such dollar amount, multiplied by

23 “(ii) the cost-of-living adjustment de-  
24 termined under section 1(c)(2)(A) for the  
25 calendar year in which the taxable year be-

1 gins, determined by substituting ‘calendar  
2 year 2014’ for ‘calendar year 2012’ in  
3 clause (ii) thereof.

4 Any increase determined under the preceding  
5 sentence shall be rounded to the nearest mul-  
6 tiple of \$50,000.”.

7 (b) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years of foreign corpora-  
9 tions beginning after December 31, 2014, and to taxable  
10 years of United States shareholders in which or with which  
11 such taxable years of foreign corporations end.

12 **SEC. 4204. ACTIVE FINANCING EXCEPTION EXTENDED WITH**  
13 **LIMITATION FOR LOW-TAXED FOREIGN IN-**  
14 **COME.**

15 (a) EXTENSION OF ACTIVE FINANCING EXCEP-  
16 TION.—

17 (1) IN GENERAL.—Paragraph (9) of section  
18 954(h) is amended by striking “January 1, 2014”  
19 and inserting “January 1, 2019”.

20 (2) EXEMPT INSURANCE INCOME.—Paragraph  
21 (10) of section 953(e) is amended—

22 (A) by striking “January 1, 2014” and in-  
23 serting “January 1, 2019”, and

24 (B) by striking “December 31, 2013” and  
25 inserting “December 31, 2018”.

1 (b) LIMITATION FOR LOW-TAXED FOREIGN IN-  
2 COME.—

3 (1) IN GENERAL.—Paragraph (1) of section  
4 954(h) is amended to read as follows:

5 “(1) IN GENERAL.—For purposes of subsection  
6 (c)(1), in the case of an eligible controlled foreign  
7 corporation, foreign personal holding company in-  
8 come shall not include—

9 “(A) qualified banking or financing income  
10 which is subject to an effective rate of income  
11 tax imposed by a foreign country which is at  
12 least 50 percent of the maximum rate of tax  
13 specified in section 11, and

14 “(B) 50 percent of any other qualified  
15 banking or financing income of such eligible  
16 controlled foreign corporation.”.

17 (2) INSURANCE BUSINESS INCOME.—Paragraph  
18 (1) of section 954(i) is amended to read as follows:

19 “(1) IN GENERAL.—For purposes of subsection  
20 (c)(1), in the case of a qualifying insurance com-  
21 pany, foreign personal holding company income shall  
22 not include—

23 “(A) any qualified insurance income which  
24 is subject to an effective rate of income tax im-  
25 posed by a foreign country which is at least 50

1           percent of the maximum rate of tax specified in  
2           section 11, and

3           “(B) 50 percent of any other qualified in-  
4           surance income of such qualifying insurance  
5           company.”.

6           (3) PRESERVATION OF DEEMED PAID FOREIGN  
7           TAX CREDIT ON HIGH-TAXED FOREIGN INCOME.—  
8           Subsection (c) of section 960, as amended by the  
9           preceding provisions of this Act, is amended by  
10          striking “Solely for purposes of subsection (a)” and  
11          all that following and inserting the following: “Solely  
12          for purposes of subsection (a)—

13                 “(1) section 954(a)(1)(B) shall be applied by  
14                 substituting ‘100 percent’ for ‘50 percent’, and

15                 “(2) the exclusions under subsections (h)(1)(B)  
16                 and (i)(1)(B) of section 954 shall not apply,  
17          in determining amounts included under section  
18          951(a)(1).”.

19          (c) EFFECTIVE DATE.—The amendments made by  
20          this section shall apply to taxable years of foreign corpora-  
21          tions beginning after December 31, 2013, and to taxable  
22          years of United States shareholders in which or with which  
23          such taxable years of foreign corporations end.

1 **SEC. 4205. REPEAL OF INCLUSION BASED ON WITHDRAWAL**  
2 **OF PREVIOUSLY EXCLUDED SUBPART F IN-**  
3 **COME FROM QUALIFIED INVESTMENT.**

4 (a) IN GENERAL.—Subpart F of part III of sub-  
5 chapter N of chapter 1 is amended by striking section 955.

6 (b) CONFORMING AMENDMENTS.—

7 (1)(A) Subparagraph (A) of section 951(a)(1),  
8 as amended by this Act, is amended to read as fol-  
9 lows:

10 “(A) his pro rata share (determined under  
11 paragraph (2)) of the corporation’s subpart F  
12 income for such year, and”.

13 (B) Paragraph (3) of section 851(b) is amended  
14 by striking “section 951(a)(1)(A)(i)” in the flush  
15 language at the end and inserting “section  
16 951(a)(1)(A)”.

17 (C) Clause (i) of section 952(c)(1)(B) is amend-  
18 ed by striking “section 951(a)(1)(A)(i)” and insert-  
19 ing “section 951(a)(1)(A)”.

20 (D) Subparagraph (C) of section 953(c)(1) is  
21 amended by striking “section 951(a)(1)(A)(i)” and  
22 inserting “section 951(a)(1)(A)”.

23 (2) Subsection (a) of section 951 is amended by  
24 striking paragraph (3).

1           (3) Subclause (II) of section 953(d)(4)(B)(iv) is  
2 amended by striking “or amounts referred to in  
3 clause (ii) or (iii) of section 951(a)(1)(A)”.

4           (4) Subsection (b) of section 964 is amended by  
5 striking “, 955,”.

6           (5) Section 970 is amended by striking sub-  
7 section (b).

8           (6) The table of sections for subpart F of part  
9 III of subchapter N of chapter 1 is amended by  
10 striking the item relating to section 955.

11       (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years of foreign corpora-  
13 tions beginning after December 31, 2014, and to taxable  
14 years of United States shareholders in which or with which  
15 such taxable years of foreign corporations end.

16           **PART 2—PREVENTION OF BASE EROSION**

17       **SEC. 4211. FOREIGN INTANGIBLE INCOME SUBJECT TO**

18                       **TAXATION AT REDUCED RATE; INTANGIBLE**

19                       **INCOME TREATED AS SUBPART F INCOME.**

20       (a) FOREIGN BASE COMPANY INTANGIBLE INCOME  
21 TREATED AS SUBPART F INCOME.—

22           (1) TREATMENT AS SUBPART F INCOME.—

23       Paragraph (1) of section 954(a), as amended by the  
24 preceding provisions of this Act, is amended by re-  
25 designating subparagraph (D) as subparagraph (E)

1 and by inserting after subparagraph (C) the fol-  
2 lowing new subparagraph:

3 “(D) the foreign base company intangible  
4 income for the taxable year (determined under  
5 subsection (f) and reduced as provided in sub-  
6 section (b)(5)), and”.

7 (2) FOREIGN BASE COMPANY INTANGIBLE IN-  
8 COME DEFINED.—Section 954 of such Code is  
9 amended by inserting after subsection (e) the fol-  
10 lowing new subsection:

11 “(f) FOREIGN BASE COMPANY INTANGIBLE IN-  
12 COME.—For purposes of this section—

13 “(1) IN GENERAL.—The term ‘foreign base  
14 company intangible income’ means, with respect to  
15 any corporation for any taxable year, the excess of—

16 “(A) so much of the adjusted gross income  
17 of the corporation as exceeds 10 percent of the  
18 corporation’s qualified business asset invest-  
19 ment, over

20 “(B) the applicable percentage of such cor-  
21 poration’s foreign personal holding company in-  
22 come, foreign base company sales income, for-  
23 eign base company services income, and foreign  
24 base company oil related income.

1           “(2) APPLICABLE PERCENTAGE.—For purposes  
2 of paragraph (1), the term ‘applicable percentage’  
3 means, with respect to any corporation for any tax-  
4 able year, the ratio (expressed as a percentage) of—

5           “(A) the excess described in paragraph  
6 (1)(A), divided by

7           “(B) the adjusted gross income of the cor-  
8 poration.

9           “(3) QUALIFIED BUSINESS ASSET INVEST-  
10 MENT.—

11           “(A) IN GENERAL.—The term ‘qualified  
12 business asset investment’ means, with respect  
13 to any corporation for any taxable year, the ag-  
14 gregate of the corporation’s adjusted bases (de-  
15 termined as of the close of such taxable year  
16 and after any adjustments with respect to such  
17 taxable year) in specified tangible property—

18           “(i) used in a trade or business of the  
19 corporation, and

20           “(ii) of a type with respect to which  
21 a deduction is allowable under section 168.

22           “(B) DETERMINATION OF ADJUSTED  
23 BASIS.—For purposes of subparagraph (A), the  
24 adjusted basis in any property shall be deter-  
25 mined without regard to any provision of this



1 title (or any other provision of law) which is en-  
2 acted after the date of the enactment of this  
3 section.

4 “(C) REGULATIONS.—The Secretary shall  
5 issue such regulations or other guidance as the  
6 Secretary determines appropriate to prevent the  
7 avoidance of the purposes of this paragraph, in-  
8 cluding regulations or other guidance which  
9 provide for the treatment of property if—

10 “(i) such property is transferred, or  
11 held, temporarily, or

12 “(ii) the avoidance of the purposes of  
13 this paragraph is a factor in the transfer  
14 or holding of such property.

15 “(4) ADJUSTED GROSS INCOME; SPECIFIED  
16 TANGIBLE PROPERTY.—For purposes of this sub-  
17 section—

18 “(A) ADJUSTED GROSS INCOME.—

19 “(i) IN GENERAL.—The term ‘ad-  
20 justed gross income’ means, with respect  
21 to any corporation, the gross income of  
22 such corporation reduced by such corpora-  
23 tion’s commodities gross income.

24 “(ii) COMMODITIES GROSS INCOME.—  
25 The term ‘commodities gross income’

1 means, with respect to any corporation, the  
2 gross income of such corporation which is  
3 derived from commodities which are pro-  
4 duced or extracted by such corporation.

5 “(B) SPECIFIED TANGIBLE PROPERTY.—  
6 The term ‘specified tangible property’ means  
7 any tangible property unless such property is  
8 used in the production of commodities gross in-  
9 come. In the case of property which is used in  
10 the production of commodities gross income and  
11 other gross income, such property shall be  
12 treated as specified tangible property in the  
13 same proportion that the adjusted gross income  
14 produced with respect to such property bears to  
15 the total gross income produced with respect to  
16 such property.

17 “(C) COMMODITY.—The term ‘commodity’  
18 means any commodity described in section  
19 475(e)(2).”.

20 (3) APPLICATION ONLY TO FOREIGN BASE COM-  
21 PANY INTANGIBLE INCOME SUBJECT TO A LOW FOR-  
22 EIGN EFFECTIVE RATE OF TAX.—Paragraph (2) of  
23 section 954(a), as amended by preceding provisions  
24 of this Act, is amended by inserting “or foreign base

1 company intangible income” after “foreign base  
2 company sales income”.

3 (4) CONFORMING AMENDMENT.—Paragraph (5)  
4 of section 954(b) is amended by inserting “the for-  
5 eign base company intangible income,” before “and  
6 the foreign base company oil related income”.

7 (b) DEDUCTION FOR FOREIGN INTANGIBLE IN-  
8 COME.—

9 (1) IN GENERAL.—Part VIII of subchapter B  
10 of chapter 1 is amended by adding at the end the  
11 following new section:

12 **“SEC. 250. FOREIGN INTANGIBLE INCOME.**

13 “(a) IN GENERAL.—In the case of a domestic cor-  
14 poration for any taxable year, there shall be allowed as  
15 a deduction an amount equal to the applicable percentage  
16 of the lesser of—

17 “(1) the sum of—

18 “(A) the foreign percentage multiplied by  
19 the net imputed intangible income of such do-  
20 mestic corporation for such taxable year, plus

21 “(B) in the case of a domestic corporation  
22 which is a United States shareholder with re-  
23 spect to any controlled foreign corporation, the  
24 foreign percentage (determined with respect to  
25 such controlled foreign corporation) multiplied

1 by any foreign base company intangible income  
2 (as defined in section 954(f)) of such controlled  
3 foreign corporation which is included in the  
4 gross income of such domestic corporation  
5 under section 951 for such taxable year, or

6 “(2) taxable income of such domestic corpora-  
7 tion (determined without regard to this section) for  
8 the taxable year.

9 “(b) NET IMPUTED INTANGIBLE INCOME.—For pur-  
10 poses of this subsection, the term ‘net imputed intangible  
11 income’ means the excess of—

12 “(1) the excess described in section  
13 954(f)(1)(A), over

14 “(2) the deductions properly allocable to the  
15 amount described in paragraph (1).

16 “(c) FOREIGN PERCENTAGE.—For purposes of this  
17 section—

18 “(1) IN GENERAL.—The term ‘foreign percent-  
19 age’ means, with respect to any corporation for any  
20 taxable year, the ratio (expressed as a percentage)  
21 of—

22 “(A) the foreign-derived adjusted gross in-  
23 come of such corporation for such taxable year,  
24 over

1           “(B) the adjusted gross income of such  
2           corporation for such taxable year.

3           “(2) FOREIGN-DERIVED ADJUSTED GROSS IN-  
4           COME.—

5           “(A) IN GENERAL.—The term ‘foreign-de-  
6           rived adjusted gross income’ means, with re-  
7           spect to any corporation for any taxable year,  
8           any adjusted gross income of such corporation  
9           which is derived in connection with—

10           “(i) property which is sold for use,  
11           consumption, or disposition outside the  
12           United States, or

13           “(ii) services provided with respect to  
14           persons or property located outside the  
15           United States.

16           “(B) SPECIAL RULES.—

17           “(i) ULTIMATE DISPOSITION.—Prop-  
18           erty shall not be treated as sold for use,  
19           consumption, or disposition outside the  
20           United States if the taxpayer knew, or had  
21           reason to know, that such property would  
22           be ultimately sold for use, consumption, or  
23           disposition in the United States.

24           “(ii) SALES TO RELATED PARTIES.—  
25           If property is sold to a related party, such

1 sale shall not be treated as for use, con-  
2 sumption or disposition outside the United  
3 States unless—

4 “(I) such property is ultimately  
5 sold for use, consumption or disposi-  
6 tion outside the United States, or

7 “(II) such property is resold to  
8 an unrelated party outside the United  
9 States and no related party knew or  
10 had reason to know that such prop-  
11 erty would be ultimately sold for use,  
12 consumption, or disposition in the  
13 United States.

14 “(iii) APPLICATION TO SERVICES.—  
15 Rules similar to the rules of clauses (i) and  
16 (ii) shall apply with respect to services de-  
17 scribed in subparagraph (A)(ii).

18 “(C) RELATED PARTY.—For purposes of  
19 this paragraph, the term ‘related party’ means  
20 any member of an affiliated group as defined in  
21 section 1504(a), determined—

22 “(i) by substituting ‘more than 50  
23 percent’ for ‘at least 80 percent’ each place  
24 it appears, and

1 “(ii) without regard to paragraphs (2)  
 2 and (3) of section 1504(b).

3 Any person (other than a corporation) shall be  
 4 treated as a member of such group if such per-  
 5 son is controlled by members of such group (in-  
 6 cluding any entity treated as a member of such  
 7 group by reason of this sentence) or controls  
 8 any such member. For purposes of the pre-  
 9 ceding sentence, control shall be determined  
 10 under the rules of section 954(d)(3).

11 “(3) ADJUSTED GROSS INCOME.—The term ‘ad-  
 12 justed gross income’ has the meaning given such  
 13 term by section 954(f)(4).

14 “(d) APPLICABLE PERCENTAGE.—For purposes of  
 15 this section, the term ‘applicable percentage’ means, with  
 16 respect to any taxable year of the domestic corporation  
 17 referred to in subsection (a), the percentage determined  
 18 in accordance with the following table:

“In the case of any taxable year beginning in:	The applicable percentage is:
2015 .....	55 percent
2016 .....	52 percent
2017 .....	48 percent
2018 .....	44 percent
2019 or thereafter .....	40 percent.

19 “(e) REGULATIONS.—The Secretary may prescribe  
 20 such regulations or other guidance as may be necessary  
 21 or appropriate to carry out the provisions of this section.”.

1 (2) CONFORMING AMENDMENTS.—

2 (A) Clause (i) of section 163(j)(6)(A), as  
3 amended by the preceding provisions of this  
4 Act, is amended by striking “and” at the end  
5 of subclause (II) and by adding at the end the  
6 following new subclause:

7 “(IV) any deduction allowable  
8 under section 250, and”.

9 (B) Subparagraph (C) of section 170(b)(2)  
10 is amended by striking “and” at the end of  
11 clause (iv), by redesignating clause (v) as clause  
12 (vi), and by inserting after clause (iv) the fol-  
13 lowing new clause:

14 “(v) section 250, and”.

15 (C) Subsection (d) of section 172, as  
16 amended by the preceding provisions of this  
17 Act, is amended by adding at the end the fol-  
18 lowing new paragraph:

19 “(7) DEDUCTION FOR FOREIGN INTANGIBLE  
20 INCOME.—The deduction under section 250 shall not  
21 be allowed.”.

22 (D) Paragraph (1) of section 246(b) is  
23 amended by striking “and 247” and inserting  
24 “247, and 250”.



1           (E) Clause (iii) of section 469(i)(3)(D), as  
2           amended by the preceding provisions of this  
3           Act, is amended by striking “and 222” and in-  
4           serting “222, and 250”.

5           (c) EFFECTIVE DATE.—

6           (1) TREATMENT AS SUBPART F INCOME.—The  
7           amendments made by subsection (a) shall apply to  
8           taxable years of foreign corporations beginning after  
9           December 31, 2014, and to taxable years of United  
10          States shareholders in which or with which such tax-  
11          able years of foreign corporations end.

12          (2) DEDUCTION FOR FOREIGN INTANGIBLE IN-  
13          COME.—The amendments made by subsection (b)  
14          shall apply to taxable years beginning after Decem-  
15          ber 31, 2014.

16 **SEC. 4212. DENIAL OF DEDUCTION FOR INTEREST EXPENSE**  
17                                   **OF UNITED STATES SHAREHOLDERS WHICH**  
18                                   **ARE MEMBERS OF WORLDWIDE AFFILIATED**  
19                                   **GROUPS WITH EXCESS DOMESTIC INDEBTED-**  
20                                   **NESS.**

21          (a) IN GENERAL.—Section 163 is amended by redес-  
22          ignating subsection (n) as subsection (o) and by inserting  
23          after subsection (m) the following new subsection:

24           “(n) DISALLOWANCE OF DEDUCTION FOR INTEREST  
25          EXPENSE OF UNITED STATES SHAREHOLDERS WHICH

1 ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS  
2 WITH EXCESS DOMESTIC INDEBTEDNESS.—

3           “(1) IN GENERAL.—In the case of any domestic  
4 corporation which is a United States shareholder (as  
5 defined in section 951(b)) with respect to any for-  
6 eign corporation both of which are members of the  
7 same worldwide affiliated group, the deduction al-  
8 lowed under this chapter for interest paid or accrued  
9 by such domestic corporation during the taxable year  
10 shall be reduced by the lesser of—

11                   “(A) the product of—

12                           “(i) the net interest expense of such  
13 domestic corporation, multiplied by

14                           “(ii) the debt-to-equity differential  
15 percentage of such worldwide affiliated  
16 group, or

17                   “(B) the excess (if any) of—

18                           “(i) such net interest expense, over

19                           “(ii) 40 percent of the adjusted tax-  
20 able income (as defined in subsection  
21 (j)(6)(A)) of such domestic corporation.

22           “(2) CARRYFORWARD.—Any amount disallowed  
23 under paragraph (1) for any taxable year shall be  
24 treated as interest paid or accrued in the succeeding

1 taxable year (and shall not be treated as disqualified  
2 interest for purposes of applying subsection (j)).

3 “(3) DEBT-TO-EQUITY DIFFERENTIAL PER-  
4 CENTAGE.—

5 “(A) IN GENERAL.—For purposes of this  
6 subsection, the term ‘debt-to-equity differential  
7 percentage’ means, with respect to any world-  
8 wide affiliated group, the percentage which the  
9 excess domestic indebtedness of such group  
10 bears to the total indebtedness of the domestic  
11 corporations which are members of such group.

12 “(B) EXCESS DOMESTIC INDEBTED-  
13 NESS.—For purposes of subparagraph (A), the  
14 term ‘excess domestic indebtedness’ means, with  
15 respect to any worldwide affiliated group, the  
16 excess (if any) of—

17 “(i) the total indebtedness of the do-  
18 mestic corporations which are members of  
19 such group, over

20 “(ii) 110 percent of the amount which  
21 the total indebtedness of such domestic  
22 corporations would be if the ratio of such  
23 indebtedness to the total equity of such do-  
24 mestic corporations equaled the ratio  
25 which—

1                   “(I) the total indebtedness of  
2                   such group, bears to

3                   “(II) the total equity of such  
4                   group.

5                   “(C) TOTAL EQUITY.—For purposes of  
6                   subparagraph (B), the term ‘total equity’  
7                   means, with respect to one or more corpora-  
8                   tions, the excess (if any) of—

9                   “(i) the money and all other assets of  
10                  such corporations, over

11                  “(ii) the total indebtedness of such  
12                  corporations.

13                  “(D) SPECIAL RULES FOR DETERMINING  
14                  DEBT AND EQUITY.—For purposes of this para-  
15                  graph—

16                  “(i) APPLICATION OF CERTAIN GEN-  
17                  ERAL RULES.—Rules similar to the rules  
18                  of clauses (i), (ii), and (iii) of subsection  
19                  (j)(2)(C) shall apply.

20                  “(ii) INTRAGROUP DEBT AND EQUITY  
21                  INTERESTS DISREGARDED.—The total in-  
22                  debtedness, and the assets, of any group of  
23                  corporations shall be determined by treat-  
24                  ing all members of such group as one cor-  
25                  poration.

1                   “(iii) DETERMINATION OF ASSETS OF  
2                   DOMESTIC GROUP.—The assets of the do-  
3                   mestic corporations which are members of  
4                   any worldwide affiliated group shall be de-  
5                   termined by disregarding any interest held  
6                   by any such domestic corporation in any  
7                   foreign corporation which is a member of  
8                   such group.

9                   “(4) OTHER DEFINITIONS.—For purposes of  
10                  this subsection—

11                  “(A) WORLDWIDE AFFILIATED GROUP.—  
12                  The term ‘worldwide affiliated group’ has the  
13                  meaning which would be given such term by  
14                  section 864(f)(1)(C) if section 1504(a) were ap-  
15                  plied by substituting ‘more than 50 percent’ for  
16                  ‘at least 80 percent’ each place it appears.

17                  “(B) NET INTEREST EXPENSE.—The term  
18                  ‘net interest expense’ has the meaning given  
19                  such term by subsection (j)(6)(B).

20                  “(5) TREATMENT OF AFFILIATED GROUP.—For  
21                  purposes of this subsection, all members of the same  
22                  affiliated group (within the meaning of section  
23                  1504(a) applied by substituting ‘more than 50 per-  
24                  cent’ for ‘at least 80 percent’ each place it appears)  
25                  shall be treated as 1 taxpayer.

1           “(6) REGULATIONS.—The Secretary shall pre-  
2       scribe such regulations or other guidance as may be  
3       appropriate to carry out the purposes of this sub-  
4       section, including regulations or other guidance—

5           “(A) to prevent the avoidance of the pur-  
6       poses of this subsection,

7           “(B) providing such adjustments in the  
8       case of corporations which are members of an  
9       affiliated group as may be appropriate to carry  
10      out the purposes of this subsection,

11          “(C) providing for the coordination of this  
12      subsection with section 884, and

13          “(D) providing for the reallocation of  
14      shares of partnership indebtedness, or distribu-  
15      tive shares of the partnership’s interest income  
16      or interest expense.”.

17      (b) COORDINATION WITH LIMITATION ON RELATED  
18      PARTY INDEBTEDNESS.—Paragraph (1) of section 163(j)  
19      is amended by adding at the end the following new sub-  
20      paragraph:

21          “(C) COORDINATION WITH LIMITATION ON  
22      EXCESS DOMESTIC INDEBTEDNESS.—The  
23      amount disallowed under subparagraph (A)  
24      with respect to any corporation for any taxable  
25      year shall be reduced by any amount disallowed

1 under subsection (n)(1) with respect to such  
2 corporation for such taxable year.”.

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2014.

## 6 **TITLE V—TAX EXEMPT ENTITIES**

### 7 **Subtitle A—Unrelated Business**

#### 8 **Income Tax**

9 **SEC. 5001. CLARIFICATION OF UNRELATED BUSINESS IN-**  
10 **COME TAX TREATMENT OF ENTITIES TREAT-**  
11 **ED AS EXEMPT FROM TAXATION UNDER SEC-**  
12 **TION 501(a).**

13 (a) IN GENERAL.—Subparagraph (A) of section  
14 511(a)(2) is amended by adding at the end the following:  
15 “For purposes of the preceding sentence, an organization  
16 shall not fail to be treated as exempt from taxation under  
17 this subtitle by reason of section 501(a) solely because  
18 such organization is also so exempt, or excludes amounts  
19 from gross income, by reason of any other provision of  
20 this title.”.

21 (b) CLERICAL AMENDMENT.—The heading for sub-  
22 paragraph (A) of section 511(a)(2) is amended to read  
23 as follows: “ORGANIZATIONS EXEMPT FROM TAXATION BY  
24 REASON OF SECTION 501(a).”

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 5002. NAME AND LOGO ROYALTIES TREATED AS UNRE-**  
5 **LATED BUSINESS TAXABLE INCOME.**

6 (a) IN GENERAL.—Section 513 is amended by adding  
7 at the end the following new subsection:

8 “(k) NAME AND LOGO ROYALTIES.—Any sale or li-  
9 censing by an organization of any name or logo of the  
10 organization (including any trademark or copyright relat-  
11 ing to such name or logo) shall be treated as an unrelated  
12 trade or business regularly carried on by such organiza-  
13 tion.”.

14 (b) CALCULATION OF UNRELATED BUSINESS TAX-  
15 ABLE INCOME.—Subsection (b) of section 512 is amended  
16 by adding at the end the following new paragraph:

17 “(20) SPECIAL RULE FOR NAME AND LOGO  
18 ROYALTIES.—Notwithstanding paragraph (1), (2),  
19 (3), or (5), any income derived from any sale or li-  
20 censing described in section 513(k) shall be included  
21 as an item of gross income derived from an unre-  
22 lated trade or business.”.

23 (c) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply to taxable years beginning after  
25 December 31, 2014.



1 **SEC. 5003. UNRELATED BUSINESS TAXABLE INCOME SEPA-**  
2 **RATELY COMPUTED FOR EACH TRADE OR**  
3 **BUSINESS ACTIVITY.**

4 (a) IN GENERAL.—Subsection (a) of section 512 is  
5 amended by adding at the end the following new para-  
6 graph:

7 “(6) SPECIAL RULE FOR ORGANIZATION WITH  
8 MORE THAN 1 UNRELATED TRADE OR BUSINESS.—  
9 In the case of any organization with more than 1  
10 unrelated trade or business—

11 “(A) unrelated business taxable income  
12 shall be computed separately with respect to  
13 each such trade or business and without regard  
14 to subsection (b)(12),

15 “(B) the unrelated business taxable income  
16 of such organization shall be the sum of the un-  
17 related business taxable income so computed  
18 with respect to each such trade or business, less  
19 a specific deduction under subsection (b)(12),  
20 and

21 “(C) for purposes of subparagraph (B),  
22 unrelated business taxable income with respect  
23 to any such trade or business shall not be less  
24 than zero, and

25 “(D) the net operating loss deduction shall  
26 only be allowed with respect to the trade or

1 business from which the net operating loss  
2 arose.”.

3 (b) EFFECTIVE DATE.—

4 (1) IN GENERAL.—Except to the extent pro-  
5 vided in paragraph (2), the amendment made by this  
6 section shall apply to taxable years beginning after  
7 December 31, 2014.

8 (2) NET OPERATING LOSSES.—

9 (A) CERTAIN CARRYOVERS.—In the case of  
10 any net operating loss arising in a taxable year  
11 beginning before January 1, 2015, that is car-  
12 ried over to a taxable year beginning on or after  
13 such date, section 512(a)(6)(D) of the Internal  
14 Revenue Code of 1986, as added by this Act,  
15 shall not apply.

16 (B) CERTAIN CARRYBACKS.—In the case  
17 of any net operating loss arising in a taxable  
18 year beginning after December 31, 2014, and  
19 carried back to any taxable year beginning on  
20 or before such date, in computing unrelated  
21 business taxable income of an organization  
22 under section 512(a) of such Code for the tax-  
23 able year, the net operating loss deduction shall  
24 be allowed only with respect to the trade or

1 business from which the net operating loss  
2 arose.

3 **SEC. 5004. EXCLUSION OF RESEARCH INCOME LIMITED TO**  
4 **PUBLICLY AVAILABLE RESEARCH.**

5 (a) IN GENERAL.—Paragraph (9) of section 512(b)  
6 is amended by striking “from research” and inserting  
7 “from such research”.

8 (b) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 2014.

11 **SEC. 5005. PARITY OF CHARITABLE CONTRIBUTION LIMITA-**  
12 **TION BETWEEN TRUSTS AND CORPORATIONS.**

13 (a) IN GENERAL.—Paragraph (11) of section 512(b)  
14 is amended by striking the second sentence and inserting  
15 the following: “The deduction allowed by this paragraph  
16 shall not exceed 10 percent of the unrelated business tax-  
17 able income computed without the benefit of this para-  
18 graph.”

19 (b) EFFECTIVE DATE.—The amendment made by  
20 this section shall apply to taxable years beginning after  
21 December 31, 2014.

22 **SEC. 5006. INCREASED SPECIFIC DEDUCTION.**

23 (a) IN GENERAL.—Paragraph (12) of section 512(b)  
24 is amended by striking “\$1,000” each place it appears and  
25 inserting “\$10,000”.

1 (b) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **SEC. 5007. REPEAL OF EXCLUSION OF GAIN OR LOSS FROM**  
5 **DISPOSITION OF DISTRESSED PROPERTY.**

6 (a) IN GENERAL.—Subsection (b) of section 512 is  
7 amended by striking paragraph (16).

8 (b) EFFECTIVE DATE.—The amendment made by  
9 this section shall apply to property acquired after Decem-  
10 ber 31, 2014.

11 **SEC. 5008. QUALIFIED SPONSORSHIP PAYMENTS.**

12 (a) REPEAL OF USE OR ACKNOWLEDGMENT OF  
13 PRODUCT LINES FOR QUALIFIED SPONSORSHIP PAY-  
14 MENTS.—Subparagraphs (A) and (B)(ii)(I) of section  
15 513(i)(2) are each amended by striking “(or product  
16 lines)”.

17 (b) USE OR ACKNOWLEDGMENT LIMITED IN CASE  
18 OF CERTAIN EVENTS.—Subparagraph (B) of section  
19 513(i)(2) is amended by adding at the end the following  
20 new clause:

21 “(iii) USE OR ACKNOWLEDGMENT  
22 LIMITED IN CASE OF CERTAIN EVENTS.—  
23 In the case of an event with respect to  
24 which an organization receives an aggre-  
25 gate amount of qualified sponsorship pay-

1           ments greater than \$25,000, a payment  
2           shall not be treated as a qualified sponsor-  
3           ship payment for purposes of paragraph  
4           (1) unless the use or acknowledgment of  
5           the sponsor’s name or logo appears with,  
6           and in substantially the same manner as,  
7           the names of a significant portion of other  
8           donors to the organization. For purposes  
9           of the preceding sentence, whether a num-  
10          ber of donors is a significant portion shall  
11          be determined based on the total number  
12          of donors and the total contributed with  
13          respect to the event, but in no event shall  
14          fewer than 2 other donors be treated as a  
15          significant portion of other donors.”.

16          (c) CLERICAL AMENDMENT.—The heading for clause  
17          (ii) of section 513(i)(2)(B) is amended to read as follows:  
18          “PERIODICALS AND QUALIFIED CONVENTION AND TRADE  
19          SHOW ACTIVITIES.”.

20          (d) EFFECTIVE DATE.—The amendments made by  
21          this section shall apply to taxable years beginning after  
22          December 31, 2014.



1           (2) by striking “substituting ‘\$100’ for ‘\$20,’”  
2           in subparagraph (C)(ii) and inserting “substituting  
3           ‘\$200’ for ‘\$40,’”.

4           (d) FAILURE TO FILE DISCLOSURE UNDER SECTION  
5 6033(a)(2).—

6           (1) ORGANIZATION.—Subparagraph (A) of sec-  
7           tion 6652(c)(3) is amended by striking “\$100” and  
8           inserting “\$200”.

9           (2) MANAGERS.—Subparagraph (B) of section  
10          6652(c)(3) is amended by striking “\$100” and in-  
11          serting “\$200”.

12          (e) EFFECTIVE DATE.—The amendments made by  
13          this section shall apply with respect to information returns  
14          required to be filed on or after January 1, 2015.

15      **SEC. 5102. MANAGER-LEVEL ACCURACY-RELATED PENALTY**  
16                              **ON UNDERPAYMENT OF UNRELATED BUSI-**  
17                              **NESS INCOME TAX.**

18          (a) IN GENERAL.—Section 6662 is amended by add-  
19          ing at the end the following new subsection:

20              “(k) MANAGER-LEVEL PENALTY FOR SUBSTANTIAL  
21      UNDERPAYMENT OF UNRELATED BUSINESS INCOME  
22      TAX.—

23              “(1) IN GENERAL.—In the case of any substan-  
24      tial underpayment of income tax which is attrib-  
25      utable to the tax imposed by section 511 on the un-

1 related business taxable income of an organization  
2 for the taxable year, there is hereby imposed a tax  
3 with respect to such organization an amount equal  
4 to 5 percent of such underpayment to which the un-  
5 derpayment relates. Such tax shall be paid by any  
6 manager of the organization.

7 “(2) MANAGER.—For purposes of this sub-  
8 section, the term ‘manager’ means any officer, direc-  
9 tor, trustee, employee, or other individual who is  
10 under a duty to perform an act in respect of which  
11 the underpayment relates.

12 “(3) JOINT AND SEVERAL LIABILITY.—If more  
13 than one person is liable under paragraph (1) with  
14 respect to an underpayment, all such persons shall  
15 be jointly and severally liable under such paragraph  
16 with respect to such underpayment

17 “(4) LIMIT.—With respect to any substantial  
18 underpayment of income tax for a taxable year, the  
19 maximum amount of the tax added by paragraph (1)  
20 shall not exceed \$20,000.”.

21 (b) REPORTABLE TRANSACTIONS.—Section 6662A is  
22 amended by adding at the end the following new sub-  
23 section:

24 “(f) MANAGER-LEVEL PENALTY IN CASE OF UNRE-  
25 LATED BUSINESS INCOME TAX.—



1           “(1) IN GENERAL.—In the case of any portion  
2 of a reportable transaction understatement of the  
3 tax imposed by section 511 to which this section ap-  
4 plies, there is hereby imposed a tax in an amount  
5 equal to 10 percent of such portion of the under-  
6 payment to which the reportable transaction under-  
7 statement occurs. Such tax shall be paid by any  
8 manager of the organization.

9           “(2) MANAGER.—For purposes of this sub-  
10 section, the term ‘manager’ means any officer, direc-  
11 tor, trustee, employee, or other individual who is  
12 under a duty to perform an act in respect of which  
13 such understatement occurs.

14           “(3) JOINT AND SEVERAL LIABILITY.—If more  
15 than one person is liable under paragraph (1) with  
16 respect to an understatement, all such persons shall  
17 be jointly and severally liable under such paragraph  
18 with respect to such understatement.

19           “(4) LIMIT.—With respect to any understate-  
20 ment of tax to which this section applies, the max-  
21 imum amount of the tax added by paragraph (1)  
22 shall not exceed \$40,000”.

23 (c) COORDINATION.—Section 6662 is amended—

24           (1) by striking the flush matter at the end of  
25 subsection (b), and

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

3           “(1) COORDINATION WITH OTHER PENALTIES.—  
4 This section shall not apply to any portion of an under-  
5 payment on which a penalty is imposed under section  
6 6663. Except as provided in paragraph (1) or (2)(B) of  
7 section 6662A(e), this section shall not apply to the por-  
8 tion of any underpayment which is attributable to a re-  
9 portable transaction understatement on which a penalty  
10 is imposed under section 6662A.”.

11          (d) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 2014.

## 14                   **Subtitle C—Excise Taxes**

### 15   **SEC. 5201. MODIFICATION OF INTERMEDIATE SANCTIONS.**

16          (a) ORGANIZATION LEVEL TAX.—Subsection (a) of  
17 section 4958 is amended by adding at the end the fol-  
18 lowing new paragraph:

19           “(3) ON THE ORGANIZATION.—In any case in  
20           which a tax is imposed by paragraph (1), there is  
21           hereby imposed on the organization a tax equal to  
22           10 percent of the excess benefit.”.

23          (b) MINIMUM STANDARDS OF ORGANIZATION DUE  
24 DILIGENCE.—Subsection (d) of section 4958 is amended  
25 by adding at the end the following new paragraph:

1           “(3) MINIMUM STANDARDS OF ORGANIZATION  
2 DUE DILIGENCE.—

3           “(A) IN GENERAL.—Subsection (a)(3)  
4 shall not apply to a transaction, if—

5           “(i) the organization establishes that  
6 the minimum standards of due diligence  
7 described in subparagraph (B) were met  
8 with respect to the transaction, or

9           “(ii) the organization establishes to  
10 the satisfaction of the Secretary that such  
11 other reasonable procedures were used to  
12 ensure that no excess benefit was provided.

13           “(B) MINIMUM STANDARDS.—An organiza-  
14 tion shall be treated as satisfying the minimum  
15 standards of due diligence described in this sub-  
16 paragraph with respect to any transaction, if—

17           “(i) the transaction was approved in  
18 advance by an authorized body of the orga-  
19 nization composed entirely of individuals  
20 who did not have a conflict of interest with  
21 respect to the transaction,

22           “(ii) the authorized body obtained and  
23 relied upon appropriate data as to com-  
24 parability prior to approval of the trans-  
25 action, and

1                   “(iii) the authorizing body adequately  
2                   and concurrently documented the basis for  
3                   approving the transaction.

4                   “(C) NO PRESUMPTION AS TO REASON-  
5                   ABLENESS.—Meeting the requirements of  
6                   clause (i) or (ii) of subparagraph (A) with re-  
7                   spect to a transaction shall not give rise to a  
8                   presumption of reasonableness for purposes of  
9                   the taxes imposed by paragraphs (1) or (2) of  
10                  subsection (a) and shall not, by itself, support  
11                  a conclusion that a manager did not act know-  
12                  ingly for purposes of subsection (a)(2).”.

13                  (c) REPEAL OF EXCEPTION FOR MANAGER RELI-  
14                  ANCE ON PROFESSIONAL ADVICE.—Section 4958 is  
15                  amended by adding at the end the following new sub-  
16                  section:

17                  “(g) NO SAFE HARBOR FOR RELIANCE ON PROFES-  
18                  SIONAL ADVICE.—An organization manager’s reliance on  
19                  a written opinion of a professional with respect to elements  
20                  of a transaction within the professional’s expertise shall  
21                  not, by itself, preclude the manager from being treated  
22                  as participating in the transaction knowingly.”.

23                  (d) ATHLETIC COACHES AND INVESTMENT MAN-  
24                  AGERS TREATED AS DISQUALIFIED PERSONS.—

25                  (1) ATHLETIC COACHES.—

1 (A) IN GENERAL.—Paragraph (1) of sec-  
2 tion 4958(f) is amended by striking “and” at  
3 the end of subparagraph (E), by striking the  
4 period at the end of subparagraph (F) and in-  
5 serting “, and”, and by adding at the end the  
6 following new subparagraph:

7 “(G) any person who performs services as  
8 an athletic coach for the organization.”.

9 (B) FAMILY MEMBERS.—Subparagraph  
10 (B) of section 4958(f)(1) is amended by insert-  
11 ing “or (G)” after “subparagraph (A)”.

12 (2) INVESTMENT ADVISORS.—

13 (A) IN GENERAL.—Subparagraph (F) of  
14 section 4958(f)(1) is amended—

15 (i) by striking “which involves a spon-  
16 soring organization (as defined in section  
17 4966(d)(1)),”, and

18 (ii) by striking “such sponsoring orga-  
19 nization (as so defined)” and inserting  
20 “the organization”.

21 (B) INVESTMENT ADVISOR DEFINITION.—  
22 Subparagraph (B) of section 4958(f)(8) is  
23 amended to read as follows:

1           “(B) INVESTMENT ADVISOR DEFINED.—  
2           For purposes of subparagraph (A), the term  
3           ‘investment advisor’ means—

4                   “(i) with respect to any organization,  
5                   any person who is compensated by such or-  
6                   ganization and is primarily responsible for  
7                   managing the investment of, or providing  
8                   investment advice with respect to, assets of  
9                   such organization, and

10                   “(ii) with respect to any sponsoring  
11                   organization (as defined in section  
12                   4966(d)(1)), any person (other than an  
13                   employee of such organization) com-  
14                   pensated by such organization for man-  
15                   aging the investment of, or providing in-  
16                   vestment advice with respect to, assets  
17                   maintained in donor advised funds (as de-  
18                   fined in section 4966(d)(2)) owned by such  
19                   organization.”.

20           (e) APPLICATION TO UNIONS AND TRADE ASSOCIA-  
21           TIONS.—Paragraph (1) of section 4958(e) is amended by  
22           inserting “(5), (6),” after “(4),”.

23           (f) EFFECTIVE DATE.—The amendments made by  
24           this section shall apply to taxable years beginning after  
25           December 31, 2014.

1 **SEC. 5202. MODIFICATION OF TAXES ON SELF-DEALING.**

2 (a) ORGANIZATION LEVEL TAX.—Subsection (a) of  
3 section 4941 is amended by adding at the end the fol-  
4 lowing new paragraph:

5 “(3) ON THE FOUNDATION.—In any case in  
6 which a tax is imposed by paragraph (1), there is  
7 hereby imposed on the foundation a tax equal to 2.5  
8 percent (10 percent in the case payment of com-  
9 pensation) of the amount involved with respect to  
10 the act of self-dealing for each year (or part thereof)  
11 in the taxable period.”.

12 (b) REPEAL OF EXCEPTION FOR MANAGER RELI-  
13 ANCE ON ADVICE FROM COUNSEL.—Section 4941 is  
14 amended by adding at the end the following new sub-  
15 section:

16 “(f) NO SAFE HARBOR FOR RELIANCE ON ADVICE  
17 OF COUNSEL.—A foundation manager’s reliance on a  
18 written legal opinion by legal counsel that an act is not  
19 an act of self-dealing shall not, by itself, preclude the man-  
20 ager from being treated as participating in the act know-  
21 ingly.”.

22 (c) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 2014.

1 **SEC. 5203. EXCISE TAX ON FAILURE TO DISTRIBUTE WITH-**  
2 **IN 5 YEARS CONTRIBUTION TO DONOR AD-**  
3 **vised FUND.**

4 (a) IN GENERAL.—Subchapter G of chapter 42 is  
5 amended by adding at the end the following new section:

6 **“SEC. 4968. FAILURE TO DISTRIBUTE CONTRIBUTIONS**  
7 **WITHIN 5 YEARS.**

8 “(a) IN GENERAL.—In the case of a contribution  
9 which is held in a donor advised fund, there is hereby im-  
10 posed a tax equal to 20 percent of so much of the portion  
11 of such contribution as has not been distributed by the  
12 sponsoring organization in an eligible distribution before  
13 the beginning of the 6th (or succeeding) taxable year be-  
14 ginning after the taxable year during which such contribu-  
15 tion was made. The tax imposed by this subsection shall  
16 be paid by such sponsoring organization.

17 “(b) TREATMENT OF DISTRIBUTIONS.—For purposes  
18 of this section—

19 “(1) ELIGIBLE DISTRIBUTION.—The term ‘eli-  
20 gible distribution’ means any distribution to an orga-  
21 nization described in section 170(b)(1)(A) (other  
22 than an organization described in section 509(a)(3)  
23 or any fund or account described in section  
24 4966(d)(2).

25 “(2) ACCOUNTING.—Distributions shall be  
26 treated as made from contributions (and any earn-





1 (b) REPEAL OF SPECIAL RULES FOR CERTAIN PRI-  
2 VATE FOUNDATIONS.—Section 4940 is amended by strik-  
3 ing subsections (d) and (e).

4 (c) CONFORMING AMENDMENT.—Section  
5 4945(d)(4)(A) is amended by striking clause (iii) and by  
6 inserting “or” at the end of clause (i).

7 (d) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 2014.

10 **SEC. 5205. REPEAL OF EXCEPTION FOR PRIVATE OPER-**  
11 **ATING FOUNDATION FAILURE TO DIS-**  
12 **TRIBUTE INCOME.**

13 (a) IN GENERAL.—Subsection (a) of section 4942 is  
14 amended—

15 (1) by striking “a private foundation—” and all  
16 that follows through “(2) to the extent” and insert-  
17 ing “a private foundation to the extent”, and

18 (2) by redesignating subparagraphs (A), (B),  
19 (C), and (D) as paragraphs (1), (2), (3), and (4),  
20 respectively, and by moving such paragraphs, as so  
21 redesignated, two ems to the left.

22 (b) CONFORMING AMENDMENTS.—

23 (1) Section 4942(j) is amended by striking  
24 paragraphs (3), (4), and (5).

1           (2) Section 170(b)(1)(F)(i) is amended by  
2 striking “(as defined in section 4942(j)(3))”,

3           (3) Section 170(b)(1) is amended by adding at  
4 the end the following new subparagraphs:

5                   “(H) PRIVATE OPERATING FOUNDA-  
6 TION.—For purposes of this paragraph, the  
7 term ‘private operating foundation’ means any  
8 organization—

9                           “(i) which makes qualifying distribu-  
10 tions (within the meaning of paragraph (1)  
11 or (2) of section 4942(g)) directly for the  
12 active conduct of the activities constituting  
13 the purpose or function for which it is or-  
14 ganized and operated equal to substantially  
15 all of the lesser of—

16                                   “(I) its adjusted net income (as  
17 defined in subsection section 4942(f)),  
18 or

19                                   “(II) its minimum investment re-  
20 turn, and

21                                   “(ii)(I) substantially more than half of  
22 the assets of which are devoted directly to  
23 such activities or to functionally related  
24 businesses, or to both, or are stock of a  
25 corporation which is controlled by the

1 foundation and substantially all of the as-  
2 sets of which are so devoted,

3 “(II) which normally makes qualifying  
4 distributions (within the meaning of para-  
5 graph (1) or (2) of section 4942(g)) di-  
6 rectly for the active conduct of the activi-  
7 ties constituting the purpose or function  
8 for which it is organized and operated in  
9 an amount not less than two-thirds of its  
10 minimum investment return (as defined in  
11 section 4942(e)), or

12 “(III) substantially all of the support  
13 (other than gross investment income as de-  
14 fined in section 509(e)) of which is nor-  
15 mally received from the general public and  
16 from 5 or more exempt organizations  
17 which are not described in section  
18 4946(a)(1)(H) with respect to each other  
19 or the recipient foundation; not more than  
20 25 percent of the support (other than  
21 gross investment income) of which is nor-  
22 mally received from any one such exempt  
23 organization; and not more than half of  
24 the support of which is normally received  
25 from gross investment income.

1           Notwithstanding the provisions of clause (i), if  
2           the qualifying distributions (within the meaning  
3           of paragraph (1) or (2) of section 4942(g)) of  
4           an organization for the taxable year exceed the  
5           minimum investment return for the taxable  
6           year, subclause (II) of clause (i) shall not apply  
7           unless substantially all of such qualifying dis-  
8           tributions are made directly for the active con-  
9           duct of the activities constituting the purpose or  
10          function for which it is organized and operated.

11           “(I) FUNCTIONALLY RELATED BUSI-  
12          NESS.—For purposes of subparagraph (H), the  
13          term ‘functionally related business’ means—

14                   “(i) a trade or business which is not  
15                   an unrelated trade or business (as defined  
16                   in section 513), or

17                   “(ii) an activity which is carried on  
18                   within a larger aggregate of similar activi-  
19                   ties or within a larger complex of other en-  
20                   deavors which is related (aside from the  
21                   need of the organization for income or  
22                   funds or the use it makes of the profits de-  
23                   rived) to the exempt purposes of the orga-  
24                   nization.”.

1           (4) Section 170(e)(3)(A) is amended by striking  
2           “as defined in section 4942(j)(3)” and inserting “as  
3           defined in subsection (b)(1)(H)”.

4           (5) Section 150(b)(3)(F), as redesignated by  
5           this Act, is amended—

6                   (A) by striking “4942 (relating to the ex-  
7                   cise tax on a failure to distribute income) and”,

8                   (B) by striking “section 4942(j)(4)” and  
9                   inserting “section 170(b)(1)(I)”.

10           (6) Section 2055(e)(4)(D) is amended by strik-  
11           ing “section 4942(j)(3)” and inserting “section  
12           170(b)(1)(H)”.

13           (7) Section 2503(g)(2)(B) is amended by strik-  
14           ing “section 4942(j)(3)” and inserting “section  
15           170(b)(1)(H)”.

16           (8) Section 4942(g)(1)(A) is amended by strik-  
17           ing “which is not an operating foundation (as de-  
18           fined in subsection (j)(3))”.

19           (9) Section 4942(g)(3)(A) is amended by strik-  
20           ing “which is not an operating foundation”.

21           (10) Section 4942(g)(4)(A) is amended by  
22           striking “which is not an operating foundation”.

23           (11) Section 4943(d)(3)(A) is amended by  
24           striking “section 4942(j)(4)” and inserting “section  
25           170(b)(1)(I)”.

1 (12) Section 6110(l)(2)(A) is amended by strik-  
2 ing “section 4942(j)(3)” and inserting “section  
3 170(b)(1)(H)”.

4 (13) Section 7428(a)(1)(C) is amended by  
5 striking “section 4942(j)(3)” and inserting “section  
6 170(b)(1)(H)”.

7 (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 2014.

10 **SEC. 5206. EXCISE TAX BASED ON INVESTMENT INCOME OF**  
11 **PRIVATE COLLEGES AND UNIVERSITIES.**

12 (a) IN GENERAL.—Chapter 42 is amended by adding  
13 at the end the following new subchapter:

14 **“Subchapter H—Excise Tax Based on Invest-**  
15 **ment Income of Private Colleges and Uni-**  
16 **versities**

“Sec. 4969. Excise tax based on investment income of private colleges and uni-  
versities.

17 **“SEC. 4969. EXCISE TAX BASED ON INVESTMENT INCOME**  
18 **OF PRIVATE COLLEGES AND UNIVERSITIES.**

19 “(a) TAX IMPOSED.—There is hereby imposed on  
20 each applicable educational institution for the taxable year  
21 a tax equal to 1 percent of the net investment income of  
22 such institution for the taxable year.

23 “(b) APPLICABLE EDUCATIONAL INSTITUTION.—For  
24 purposes of this subchapter—

1           “(1) IN GENERAL.—The term ‘applicable edu-  
2           cational institution’ means an eligible educational in-  
3           stitution (as defined in section 25A(e)(3))—

4                   “(A) which is not described in the first  
5           sentence of section 511(a)(2)(B) (relating to  
6           State colleges and universities), and

7                   “(B) the aggregate fair market value of  
8           the assets of which at the end of the preceding  
9           taxable year (other than those assets which are  
10          used (or held for use) directly in carrying out  
11          the institution’s exempt purpose) is at least  
12          \$100,000 per student of the institution.

13          “(2) STUDENTS.—For purposes of paragraph  
14          (1)(B), the number of students of an institution  
15          shall be based on the daily average number of full-  
16          time students attending such institution (with part-  
17          time students taken into account on a full-time stu-  
18          dent equivalent basis).

19          “(c) NET INVESTMENT INCOME.—For purposes of  
20          this section, net investment income shall be determined  
21          under rules similar to the rules of section 4940(c).”.

22          (b) CLERICAL AMENDMENT.—The table of sub-  
23          chapters for chapter 42 is amended by adding at the end  
24          the following new item:

          “SUBCHAPTER H—EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE  
          COLLEGES AND UNIVERSITIES”.



1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2014.

4 **Subtitle D—Requirements for**  
5 **Organizations Exempt From Tax**

6 **SEC. 5301. REPEAL OF TAX-EXEMPT STATUS FOR PROFES-**  
7 **SIONAL SPORTS LEAGUES.**

8 (a) IN GENERAL.—Paragraph (6) of section 501(c)  
9 is amended—

10 (1) by striking “, boards of trade, or profes-  
11 sional” and all that follows through “players)” and  
12 inserting “, or boards of trade”, and

13 (2) by adding at the end the following: “This  
14 paragraph shall not apply to any professional sports  
15 league (whether or not administering a pension fund  
16 for players).”.

17 (b) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to taxable years beginning after  
19 December 31, 2014.

20 **SEC. 5302. REPEAL OF EXEMPTION FROM TAX FOR CER-**  
21 **TAIN INSURANCE COMPANIES AND CO-OP**  
22 **HEALTH INSURANCE ISSUERS.**

23 (a) IN GENERAL.—Section 501(c) is amended by  
24 striking paragraphs (15) and (29).

25 (b) CONFORMING AMENDMENTS.—

1           (1) Section 831(d), as amended by the pre-  
2           ceding provisions of this Act, is amended to read as  
3           follows:

4           “(d) CROSS REFERENCE.—For taxation of foreign  
5           corporations carrying on an insurance business within the  
6           United States, see section 842.”.

7           (2) Section 4958(e)(1) is amended by striking  
8           “(4), or (29)” and inserting “or (4)”.

9           (3) Section 6033 is amended by striking sub-  
10          section (m) and redesignating subsection (n) as sub-  
11          section (m).

12          (c) EFFECTIVE DATE.—The amendments made by  
13          this section shall apply to taxable years beginning after  
14          December 31, 2014.

15          (d) TRANSITION RULES.—In the case of any organi-  
16          zation described in paragraph (15) or (29) of section  
17          501(c) of the Internal Revenue Code of 1986 (as in effect  
18          immediately before the enactment of this Act)—

19               (1) no adjustment shall be made under section  
20               481 (or any other provision) of the Internal Revenue  
21               Code of 1986 on account of a change in its method  
22               of accounting for its 1st taxable year beginning after  
23               December 31, 2014, and

24               (2) for purposes of determining gain or loss, the  
25               adjusted basis of any asset held on the 1st day of

1 such taxable year shall be treated as equal to its fair  
2 market value as of such day.

3 **SEC. 5303. IN-STATE REQUIREMENT FOR WORKMEN'S COM-**  
4 **PENSATION INSURANCE ORGANIZATION.**

5 (a) IN GENERAL.—Clause (ii) of section  
6 501(c)(27)(B) is amended by inserting before the comma  
7 at the end the following: “, and must not offer any other  
8 insurance”.

9 (b) EFFECTIVE DATE.—The amendment made by  
10 this section shall apply to insurance policies issued, and  
11 renewals, after December 31, 2014.

12 **SEC. 5304. REPEAL OF TYPE II AND TYPE III SUPPORTING**  
13 **ORGANIZATIONS.**

14 (a) IN GENERAL.—Subparagraph (B) of section  
15 509(a)(3) is amended—

16 (1) by inserting “and” at the end of clause (i),

17 (2) by striking clauses (ii) and (iii), and

18 (3) by striking “is—” and all that follows  
19 through “operated, supervised, or controlled” and  
20 inserting “is operated, supervised, or controlled”.

21 (b) CONFORMING AMENDMENTS.—

22 (1) Section 170(f)(18)(A) is amended by strik-  
23 ing “is not—” and all that follows through “, and”  
24 and inserting the following: “is not described in  
25 paragraph (3), (4), or (5) of subsection (c), and”.

1           (2)(A)(i) Section 509(f) is amended by striking  
2 paragraph (1) and by redesignating paragraphs (2)  
3 and (3) as paragraphs (1) and (2), respectively.

4           (ii) Section 4942(g)(4)(A)(ii)(I) is amended by  
5 striking “section 509(f)(3)” and inserting “section  
6 509(f)(2)”.

7           (iii) Section 4958(c)(3)(C)(ii)(II) is amended by  
8 striking “section 509(f)(3)” and inserting “section  
9 509(f)(2)”.

10          (iv) Section 4966(d)(4)(A)(ii)(I) is amended by  
11 striking “section 509(f)(3)” and inserting “section  
12 509(f)(2)”.

13          (B) Section 509(f)(1)(A), as so redesignated, is  
14 amended by striking “shall not be considered to  
15 be—” and all that follows through “if such organi-  
16 zation” and inserting the following: “shall not be  
17 considered to be operated, supervised, or controlled  
18 by any organization described in paragraph (1) or  
19 (2) of subsection (a), if such organization”.

20          (3) Section 2055(e)(5)(A) is amended by strik-  
21 ing “is not—” and all that follows through “, and”  
22 and inserting the following: “is not described in  
23 paragraph (3) or (4) of subsection (a), and”.

24          (4) Section 2522(c)(5)(A) is amended by strik-  
25 ing “is not—” and all that follows through “, and”

1 and inserting the following: “is not described in  
2 paragraph (3) or (4) of subsection (a), and”.

3 (5)(A) Section 4942(g)(4)(A), as amended by  
4 the preceding provision of this Act, is amended—

5 (i) by redesignating subclauses (I) and  
6 (II) of clause (ii) as clauses (i) and (ii), re-  
7 spectively, and moving such redesignated  
8 clauses 2 ems to the left,

9 (ii) by striking “paid by a private  
10 foundation to—” and all that follows  
11 through “any organization which” and in-  
12 serting the following: “paid by a private  
13 foundation to any organization which”,  
14 and

15 (iii) by striking “subparagraph (B) or  
16 (C)” and inserting “subparagraph (B)”.

17 (B) Section 4942(g)(4)(B) is amended—

18 (i) by striking clause (ii),

19 (ii) by striking “section 509(a), or” and in-  
20 serting “section 509(a).”,

21 (iii) by striking “and is—” and all that fol-  
22 lows through “operated, supervised, or con-  
23 trolled by” and inserting the following: “and is  
24 operated, supervised, or controlled by”, and

1 (iv) by striking “TYPE I AND TYPE II” in  
2 the heading thereof.

3 (C) Section 4942(g)(4) is amended by striking  
4 subparagraph (C).

5 (D) Section 4945(d)(4)(A)(ii) is amended by  
6 striking “clause (i) or (ii) of section 4942(g)(4)(A)”  
7 and inserting “section 4942(g)(4)(A)”.

8 (6) Section 4943 is amended by striking sub-  
9 section (f).

10 (7)(A) Section 4966(d)(4)(A), as amended by  
11 this Act, is amended—

12 (i) by redesignating subclauses (I) and  
13 (II) of clause (ii) as clauses (i) and (ii), re-  
14 spectively, and moving such redesignated  
15 clauses 2 ems to the left,

16 (ii) by striking “with respect to any  
17 distribution—” and all that follows  
18 through “any organization which” and in-  
19 serting the following: “with respect to any  
20 distribution, any organization which”, and

21 (iii) by striking “subparagraph (B) or  
22 (C)” and inserting “subparagraph (B)”.

23 (B) Section 4966(d)(4)(B) is amended—

24 (i) by striking clause (ii),

1 (ii) by striking “section 509(a), or” and in-  
2 serting “section 509(a).”,

3 (iii) by striking “and is—” and all that fol-  
4 lows through “operated, supervised, or con-  
5 trolled by” and inserting the following: “and is  
6 operated, supervised, or controlled by”, and

7 (iv) by striking “TYPE I AND TYPE II” in  
8 the heading thereof.

9 (C) Section 4966(d)(4) is amended by striking  
10 subparagraph (C).

11 (8) Section 6033(l) is amended by inserting  
12 “and” at the end of paragraph (1), by striking para-  
13 graph (2), and by redesignating paragraph (3) as  
14 paragraph (2).

15 (c) EFFECTIVE DATE.—

16 (1) IN GENERAL.—Except as provided in para-  
17 graph (2), the amendments made by this section  
18 shall take effect on the date of the enactment of this  
19 Act.

20 (2) DELAY FOR CURRENT SUPPORTING ORGANI-  
21 ZATIONS.—In the case of an organization which, as  
22 of the date of the enactment of this Act, meets the  
23 requirements of subparagraphs (A) and (C) of sec-  
24 tion 509(a)(3) of the Internal Revenue Code of 1986  
25 and is—

1 (A) supervised or controlled in connection  
2 with one or more organizations described in  
3 paragraph (1) or (2) of section 509(a) of such  
4 Code, or

5 (B) is operated in connection with one or  
6 more such organizations,

7 the amendments made by this section shall apply to  
8 taxable years beginning after December 31, 2015.

9 **TITLE VI—TAX ADMINISTRATION**  
10 **AND COMPLIANCE**

11 **Subtitle A—IRS Investigation-**  
12 **Related Reforms**

13 **SEC. 6001. ORGANIZATIONS REQUIRED TO NOTIFY SEC-**  
14 **RETARY OF INTENT TO OPERATE AS 501(c)(4).**

15 (a) IN GENERAL.—Part I of subchapter F of chapter  
16 1 is amended by adding at the end the following new sec-  
17 tion:

18 **“SEC. 506. ORGANIZATIONS REQUIRED TO NOTIFY SEC-**  
19 **RETARY OF INTENT TO OPERATE AS 501(c)(4).**

20 “(a) IN GENERAL.—An organization described in  
21 section 501(c)(4) shall, not later than 60 days after the  
22 organization is established, notify the Secretary (in such  
23 manner as the Secretary shall by regulation prescribe)  
24 that it is operating as such.



1       “(b) CONTENTS OF NOTICE.—The notice required  
2 under subsection (a) shall include the following informa-  
3 tion:

4           “(1) The name, address, and taxpayer identi-  
5 fication number of the organization.

6           “(2) The date on which, and the State under  
7 the laws of which, the organization was organized.

8           “(3) A statement of the purpose of the organi-  
9 zation.

10       “(c) ACKNOWLEDGMENT OF RECEIPT.—Not later  
11 than 60 days after receipt of such a notice, the Secretary  
12 shall send to the organization an acknowledgment of such  
13 receipt.

14       “(d) EXTENSION FOR REASONABLE CAUSE.—The  
15 Secretary may, for reasonable cause, extend the 60-day  
16 period described in subsection (a).

17       “(e) USER FEE.—The Secretary shall impose a rea-  
18 sonable user fee for submission of the notice under sub-  
19 section (a).

20       “(f) REQUEST FOR DETERMINATION.—Upon request  
21 by an organization to be treated as an organization de-  
22 scribed in section 501(c)(4), the Secretary may issue a de-  
23 termination with respect to such treatment. Such request  
24 shall be treated for purposes of section 6104 as an applica-  
25 tion for exemption from taxation under section 501(a).”.

1 (b) SUPPORTING INFORMATION WITH FIRST RE-  
2 TURN.—Paragraph (1) of section 6033(f) is amended—

3 (1) by striking the period at the end and insert-  
4 ing “, and”,

5 (2) by striking “include on the return required  
6 under subsection (a) the information” and inserting  
7 the following: “include on the return required under  
8 subsection (a)—

9 “(1) the information”, and

10 (3) by adding at the end the following new  
11 paragraph:

12 “(2) in the case of the first such return filed by  
13 such an organization after submitting a notice to the  
14 Secretary under section 506(a), such information as  
15 the Secretary shall by regulation require in support  
16 of the organization’s treatment as an organization  
17 described in section 501(c)(4).”.

18 (c) FAILURE TO FILE INITIAL NOTIFICATION.—Sub-  
19 section (c) of section 6652 is amended by redesignating  
20 paragraphs (4) and (5) as paragraphs (5) and (6), respec-  
21 tively, and by inserting after paragraph (3) the following  
22 new paragraph:

23 “(4) NOTICES UNDER SECTION 506.—

24 “(A) PENALTY ON ORGANIZATION.—In the  
25 case of a failure to submit a notice required

1 under section 506(a) (relating to organizations  
2 required to notify Secretary of intent to operate  
3 as 501(c)(4)) on the date and in the manner  
4 prescribed therefor, there shall be paid by the  
5 organization failing to so submit \$20 for each  
6 day during which such failure continues, but  
7 the total amount imposed under this subpara-  
8 graph on any organization for failure to submit  
9 any one notice shall not exceed \$5,000.

10 “(B) MANAGERS.—The Secretary may  
11 make written demand on an organization sub-  
12 ject to penalty under subparagraph (A) speci-  
13 fying in such demand a reasonable future date  
14 by which the notice shall be submitted for pur-  
15 poses of this subparagraph. If such notice is not  
16 submitted on or before such date, there shall be  
17 paid by the person failing to so submit \$20 for  
18 each day after the expiration of the time speci-  
19 fied in the written demand during which such  
20 failure continues, but the total amount imposed  
21 under this subparagraph on all persons for fail-  
22 ure to submit any one notice shall not exceed  
23 \$5,000.”.

1 (d) CLERICAL AMENDMENT.—The table of sections  
2 for part I of subchapter F of chapter 1 is amended by  
3 adding at the end the following new item:

“Sec. 506. Organizations required to notify Secretary of intent to operate as  
501(c)(4).”.

4 (e) EFFECTIVE DATE.—

5 (1) IN GENERAL.—The amendments made by  
6 this section shall apply to organizations which are  
7 described in section 501(c)(4) of the Internal Rev-  
8 enue Code of 1986 and organized after December  
9 31, 2014.

10 (2) CERTAIN EXISTING ORGANIZATIONS.—In  
11 the case of any other organization described in sec-  
12 tion 501(c)(4) of such Code, the amendments made  
13 by this section shall apply to such organization only  
14 if, on or before the date of the enactment of this  
15 Act—

16 (A) such organization has not applied for  
17 a written determination of recognition as an or-  
18 ganization described in section 501(c)(4) of  
19 such Code, and

20 (B) such organization has not filed at least  
21 one annual return or notice required under sub-  
22 section (a)(1) or (i) (as the case may be) of sec-  
23 tion 6033 of such Code.

1 In the case of any organization to which the amend-  
2 ments made by this section apply by reason of the  
3 preceding sentence, such organization shall submit  
4 the notice required by section 506(a) of such Code,  
5 as added by this Act, not later than 180 days after  
6 the date of the enactment of this Act.

7 **SEC. 6002. DECLARATORY JUDGMENTS FOR 501(c)(4) ORGA-**  
8 **NIZATIONS.**

9 (a) **IN GENERAL.**—Paragraph (1) of section 7428(a)  
10 is amended by striking “or” at the end of subparagraph  
11 (C) and by inserting after subparagraph (D) the following  
12 new subparagraph:

13 “(E) with respect to the initial classifica-  
14 tion or continuing classification of an organiza-  
15 tion described in section 501(c)(4) which is ex-  
16 empt from tax under section 501(a), or”.

17 (b) **EFFECTIVE DATE.**—The amendments made by  
18 this section shall apply to pleadings filed after the date  
19 of the enactment of this Act.

20 **SEC. 6003. RESTRICTION ON DONATION REPORTING FOR**  
21 **CERTAIN 501(c)(4) ORGANIZATIONS.**

22 (a) **IN GENERAL.**—Subsection (f) of section 6033, as  
23 amended by this Act, is amended—

1           (1) by redesignating paragraphs (1) and (2) as  
2           subparagraphs (A) and (B), respectively, and by  
3           moving such subparagraphs 2 ems to the right,

4           (2) by striking “IN SECTION 501(c)(4).—Every  
5           organization” and inserting the following: “IN SEC-  
6           TION 501(c)(4).—

7           “(1) IN GENERAL.—Every organization”, and

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

10           “(2) RESTRICTION ON DONATION REPORT-  
11           ING.—In the case of any such organization, informa-  
12           tion relating to contributions and gifts may only be  
13           required to be included on a return required under  
14           subsection (a) if the contribution or gift is made by  
15           an officer or director of the organization (or an indi-  
16           vidual having powers or responsibilities similar to  
17           those of officers or directors) or any covered em-  
18           ployee (as defined in section 4960(c)(2)) of the orga-  
19           nization.”.

20           (b) EFFECTIVE DATE.—The amendments made by  
21           this section shall apply to returns for taxable years begin-  
22           ning after December 31, 2013.

1 **SEC. 6004. MANDATORY ELECTRONIC FILING FOR ANNUAL**  
2 **RETURNS OF EXEMPT ORGANIZATIONS.**

3 (a) IN GENERAL.—Section 6033, as amended by the  
4 preceding provisions of this Act, is amended by redesignig-  
5 nating subsection (m) as subsection (n) and by inserting  
6 after subsection (l) the following new subsection:

7 “(m) MANDATORY ELECTRONIC FILING.—Any orga-  
8 nization required to file a return under this section shall  
9 file such return in electronic form.”.

10 (b) INSPECTION OF ELECTRONICALLY FILED AN-  
11 NUAL RETURNS.—Subsection (b) of section 6104 is  
12 amended by adding at the end the following: “Any annual  
13 return required to be filed electronically under section  
14 6033(m) shall be made available by the Secretary to the  
15 public in machine readable format as soon as prac-  
16 ticable.”.

17 (c) EFFECTIVE DATE.—

18 (1) IN GENERAL.—Except as provided in para-  
19 graph (2), the amendments made by this section  
20 shall apply to taxable years beginning after the date  
21 of the enactment of this Act.

22 (2) TRANSITIONAL RELIEF.—

23 (A) SMALL ORGANIZATIONS.—

24 (i) IN GENERAL.—In the case of any  
25 small organizations, or any other organiza-  
26 tions for which the Secretary determines

1           the application of the amendments made  
2           by subsection (a) would cause undue bur-  
3           den without a delay, the Secretary may  
4           delay the application of such amendments,  
5           but not later than taxable years beginning  
6           2 years after the date of the enactment of  
7           this Act.

8           (ii) SMALL ORGANIZATION.—For pur-  
9           poses of clause (i), the term “small organi-  
10          zation” means any organization—

11                   (I) the gross receipts of which for  
12                   the taxable year are less than  
13                   \$200,000, and

14                   (II) the aggregate gross assets of  
15                   which at the end of the taxable year  
16                   are less than \$500,000.

17           (B) ORGANIZATIONS FILING FORM 990-  
18           T.—In the case of any organization described in  
19           section 511(a)(2) of the Internal Revenue Code  
20           of 1986 which is subject to the tax imposed by  
21           section 511(a)(1) of such Code on its unrelated  
22           business taxable income, or any organization re-  
23           quired to file a return under section 6033 of  
24           such Code and include information under sub-  
25           section (e) thereof, the Secretary may delay the



1 application of the amendments made by this  
2 section, but not later than taxable years begin-  
3 ning 2 years after the date of the enactment of  
4 this Act.

5 **SEC. 6005. DUTY TO ENSURE THAT IRS EMPLOYEES ARE FA-**  
6 **MILIAR WITH AND ACT IN ACCORD WITH CER-**  
7 **TAIN TAXPAYER RIGHTS.**

8 Section 7803(a) is amended by redesignating para-  
9 graph (3) as paragraph (4) and by inserting after para-  
10 graph (2) the following new paragraph:

11 “(3) EXECUTION OF DUTIES IN ACCORD WITH  
12 TAXPAYER RIGHTS.—In discharging his duties, the  
13 Commissioner shall ensure that employees of the In-  
14 ternal Revenue Service are familiar with and act in  
15 accord with taxpayer rights as afforded by other  
16 provisions of this title, including—

17 “(A) the right to be informed,

18 “(B) the right to be assisted,

19 “(C) the right to be heard,

20 “(D) the right to pay no more than the  
21 correct amount of tax,

22 “(E) the right of appeal,

23 “(F) the right to certainty,

24 “(G) the right to privacy,

25 “(H) the right to confidentiality,

1 “(I) the right to representation, and

2 “(J) the right to a fair and just tax sys-  
3 tem.”.

4 **SEC. 6006. TERMINATION OF EMPLOYMENT OF IRS EM-**  
5 **PLOYEES FOR TAKING OFFICIAL ACTIONS**  
6 **FOR POLITICAL PURPOSES.**

7 Paragraph (10) of section 1203(b) of the Internal  
8 Revenue Service Restructuring and Reform Act of 1998  
9 is amended to read as follows:

10 “(10) performing, delaying, or failing to per-  
11 form (or threatening to perform, delay, or fail to  
12 perform) any official action (including any audit)  
13 with respect to a taxpayer for purpose of extracting  
14 personal gain or benefit or for a political purpose.”.

15 **SEC. 6007. RELEASE OF INFORMATION REGARDING THE**  
16 **STATUS OF CERTAIN INVESTIGATIONS.**

17 (a) IN GENERAL.—Subsection (e) of section 6103 is  
18 amended by adding at the end the following new para-  
19 graph:

20 “(11) DISCLOSURE OF INFORMATION REGARD-  
21 ING STATUS OF INVESTIGATION OF VIOLATION OF  
22 THIS SECTION.—In the case of a person who pro-  
23 vides to the Secretary information indicating a viola-  
24 tion of section 7213, 7213A, or 7214 with respect  
25 to any return or return information of such person,

1 the Secretary may disclose to such person (or such  
2 person's designee)—

3 “(A) whether an investigation based on the  
4 person's provision of such information has been  
5 initiated and whether it is open or closed,

6 “(B) whether any such investigation sub-  
7 stantiated such a violation by any individual,  
8 and

9 “(C) whether any action has been taken  
10 with respect to such individual (including  
11 whether a referral has been made for prosecu-  
12 tion of such individual).”.

13 (b) EFFECTIVE DATE.—The amendment made by  
14 this section shall take effect on the date of the enactment  
15 of this Act.

16 **SEC. 6008. REVIEW OF IRS EXAMINATION SELECTION PRO-**  
17 **CEDURES.**

18 (a) IN GENERAL.—The Comptroller General of the  
19 United States shall conduct a study of each Internal Rev-  
20 enue Service operating division to assess the process used  
21 for determining how enforcement cases are selected and  
22 processed. Such study shall include a review of the fol-  
23 lowing:

24 (1) The standards each such operating division  
25 has established for enforcement case selection (in-

1 including any automated or discretionary selection  
2 processes) and case work, and whether such stand-  
3 ards meet the objectives of impartiality, objectivity,  
4 compliance, and minimizing taxpayer burden.

5 (2) The extent to which any cases are initiated  
6 by referrals or complaints from inside or outside of  
7 the operating division (including from outside of the  
8 Internal Revenue Service).

9 (3) The Internal Revenue Service controls (in-  
10 cluding management reviews and regular updates)  
11 for assuring that its standards for enforcement cases  
12 (and handling of referrals and complaints) in each  
13 operating division are sufficient for achieving the ob-  
14 jectives described in paragraph (1).

15 (4) The Internal Revenue Service controls (in-  
16 cluding training, monitoring, and quality assess-  
17 ments) for assuring that its standards are adhered  
18 to by all division personnel and the effectiveness of  
19 such controls.

20 (5) Whether the existing standards and controls  
21 provide reasonable assurance that each division's en-  
22 forcement processes meet the Internal Revenue Serv-  
23 ice objectives of impartiality, objectivity, compliance,  
24 and minimizing taxpayer burden.

1           (b) INITIAL REPORT.—Not later than 1 year after  
2 the date of the enactment of this section, the Comptroller  
3 General shall submit to the Committee on Ways and  
4 Means of the House of Representatives, the Committee on  
5 Finance of the Senate, and the Secretary of the Treasury  
6 a report on the results of such study. Such report shall  
7 include such recommendations as the Comptroller General  
8 may deem advisable.

9           (c) FOLLOW-UP ON RECOMMENDATIONS.—Not later  
10 than 180 days after a report is submitted with respect  
11 to an operating division under subsection (b), the Comp-  
12 troller General shall conduct a follow-up study, and submit  
13 to the Committee on Ways and Means of the House of  
14 Representatives, the Committee on Finance of the Senate,  
15 and the Secretary of the Treasury a report, on whether  
16 any recommendations to improve case selection and case  
17 work processes have been implemented and are working  
18 as intended.

19           (d) CONTINUING CASE MANAGEMENT STUDIES AND  
20 REPORTS.—

21           (1) IN GENERAL.—After a report is submitted  
22 under subsection (b), the Comptroller General shall  
23 conduct follow-up studies and reports in the same  
24 manner as provided in subsections (a) and (b) with  
25 respect to each operating division of the Internal

1 Revenue Service and shall include in such study and  
2 report a review of whether any previous rec-  
3 ommendations to improve case selection and case  
4 work processes have been implemented and are  
5 working as intended.

6 (2) FREQUENCY.—Each such report with re-  
7 spect to an operating division shall be submitted not  
8 later than 4 years after the date the most recent re-  
9 port was submitted with respect to such operating  
10 division under subsection (b) or this subsection. The  
11 Comptroller General shall submit no fewer than 1  
12 such report each year.

13 **SEC. 6009. IRS EMPLOYEES PROHIBITED FROM USING PER-**  
14 **SONAL EMAIL ACCOUNTS FOR OFFICIAL**  
15 **BUSINESS.**

16 No officer or employee of the Internal Revenue Serv-  
17 ice may use a personal email account to conduct any offi-  
18 cial business of the Government.

19 **SEC. 6010. MORATORIUM ON IRS CONFERENCES.**

20 The Internal Revenue Service shall not hold any con-  
21 ference until the Treasury Inspector General for Tax Ad-  
22 ministration submits a report to Congress—

23 (1) certifying that the Internal Revenue Service  
24 has implemented all of the recommendations set out  
25 in such Inspector General’s report titled “Review of

1 the August 2010 Small Business/Self-Employed Di-  
2 vision’s Conference in Anaheim, California”, and

3 (2) describing such implementation.

4 **SEC. 6011. APPLICABLE STANDARD FOR DETERMINATIONS**  
5 **OF WHETHER AN ORGANIZATION IS OPER-**  
6 **ATED EXCLUSIVELY FOR THE PROMOTION OF**  
7 **SOCIAL WELFARE.**

8 (a) IN GENERAL.—The standard and definitions as  
9 in effect on January 1, 2010, which are used to determine  
10 whether an organization is operated exclusively for the  
11 promotion of social welfare for purposes of section  
12 501(c)(4) of the Internal Revenue Code of 1986 shall  
13 apply for purposes of determining the status of organiza-  
14 tions under section 501(c)(4) of the Internal Revenue  
15 Code of 1986 after the date of the enactment of this Act.

16 (b) PROHIBITION ON MODIFICATION OF STAND-  
17 ARD.—The Secretary of the Treasury may not (nor may  
18 any delegate of such Secretary) issue, revise, or finalize  
19 any regulation (including the proposed regulations pub-  
20 lished at 78 Fed. Reg. 71535 (November 29, 2013)), rev-  
21 enue ruling, or other guidance not limited to a particular  
22 taxpayer relating to the standard and definitions specified  
23 in subsection (a).

24 (c) APPLICATION TO ORGANIZATIONS.—Except as  
25 provided in subsection (d), this section shall apply with

1 respect to any organization claiming tax exempt status  
2 under section 501(c)(4) of the Internal Revenue Code of  
3 1986 which was created on, before, or after the date of  
4 the enactment of this Act.

5 (d) SUNSET.—This section shall not apply after the  
6 one-year period beginning on the date of the enactment  
7 of this Act.

## 8 **Subtitle B—Taxpayer Protection** 9 **and Service Reforms**

### 10 **SEC. 6101. EXTENSION OF IRS AUTHORITY TO REQUIRE** 11 **TRUNCATED SOCIAL SECURITY NUMBERS ON** 12 **FORM W-2.**

13 (a) IN GENERAL.—Paragraph (2) of section 6051(a)  
14 is amended by striking “his social security number” and  
15 inserting “an identifying number for the employee”.

16 (b) EFFECTIVE DATE.—The amendment made by  
17 this section shall take effect on the date of the enactment  
18 of this Act.

### 19 **SEC. 6102. FREE ELECTRONIC FILING.**

20 (a) IN GENERAL.—The Secretary of the Treasury  
21 shall, in cooperation with the private sector technology in-  
22 dustry, maintain a program that provides free individual  
23 income tax preparation and electronic filing services to  
24 low-income taxpayers and elderly taxpayers.



1 (b) REQUIREMENTS OF PROGRAM.—The Secretary  
2 shall by regulation or other guidance prescribe with re-  
3 spect to the program—

4 (1) the qualifications, selection process, and  
5 contract term for businesses participating in the pro-  
6 gram,

7 (2) a process for periodic review of businesses  
8 participating in the program,

9 (3) procedures for terminating business partici-  
10 pation in the program for failure to comply with any  
11 program requirements, and

12 (4) such other procedures as the Secretary de-  
13 termines are necessary or appropriate to carry out  
14 the purposes of the program.

15 (c) FREE FILE PROGRAM.—The Internal Revenue  
16 Service Free File program, as set forth in the notice pub-  
17 lished in the Federal Register on November 4, 2002 (67  
18 Fed. Reg. 67247), shall be treated as meeting the require-  
19 ments of subsection (a).

20 **SEC. 6103. PRE-POPULATED RETURNS PROHIBITED.**

21 Except to the extent provided in section 6014, 6020,  
22 or 6201(d) of the Internal Revenue Code of 1986, the Sec-  
23 retary of the Treasury shall not provide to any person a  
24 proposed final return or statement for use by such person

1 to satisfy a filing or reporting requirement under such  
2 Code.

3 **SEC. 6104. FORM 1040SR FOR SENIORS.**

4 (a) IN GENERAL.—The Secretary of the Treasury (or  
5 the Secretary’s delegate) shall make available a form, to  
6 be known as “Form 1040SR”, for use by individuals to  
7 file the return of tax imposed by chapter 1 of the Internal  
8 Revenue Code of 1986. Such form shall be as similar as  
9 practicable to Form 1040EZ, except that—

10 (1) the form shall be available to individuals  
11 who have attained age 65 as of the close of the tax-  
12 able year,

13 (2) the form may be used even if income for the  
14 taxable year includes—

15 (A) social security benefits (as defined in  
16 section 86(d) of the Internal Revenue Code of  
17 1986),

18 (B) distributions from qualified retirement  
19 plans (as defined in section 4974(c) of such  
20 Code), annuities or other such deferred pay-  
21 ment arrangements,

22 (C) interest and dividends, or

23 (D) capital gains and losses taken into ac-  
24 count in determining the deduction for adjusted

1 net capital gain under section 169 of such  
2 Code, and

3 (3) the form shall be available without regard  
4 to the amount of any item of taxable income or the  
5 total amount of taxable income for the taxable year.

6 (b) EFFECTIVE DATE.—The form required by sub-  
7 section (a) shall be made available for taxable years begin-  
8 ning after December 31, 2014.

9 **SEC. 6105. INCREASED REFUND AND CREDIT THRESHOLD**  
10 **FOR JOINT COMMITTEE ON TAXATION RE-**  
11 **VIEW OF C CORPORATION RETURN.**

12 (a) IN GENERAL.—Subsections (a) and (b) of section  
13 6405 are each amended by inserting “(\$5,000,000 in the  
14 case of a C corporation)” after “\$2,000,000”.

15 (b) EFFECTIVE DATE.—The amendment made by  
16 this section shall take effect on the date of the enactment  
17 of this Act, except that such amendment shall not apply  
18 with respect to any refund or credit with respect to a re-  
19 port that has been made before such date under section  
20 6405 of the Internal Revenue Code of 1986.

21 **Subtitle C—Tax Return Due Date**  
22 **Simplification**

23 **SEC. 6201. DUE DATES FOR RETURNS OF PARTNERSHIPS, S**  
24 **CORPORATIONS, AND C CORPORATIONS.**

25 (a) PARTNERSHIPS AND S CORPORATIONS.—

1           (1) IN GENERAL.—So much of subsection (b) of  
2           6072 as precedes the second sentence thereof is  
3           amended to read as follows:

4           “(b) RETURNS OF PARTNERSHIPS AND S CORPORA-  
5           TIONS.—Returns of partnerships under section 6031 and  
6           returns of S corporations under sections 6012 and 6037  
7           made on the basis of the calendar year shall be filed on  
8           or before the 15th day of March following the close of the  
9           calendar year, and such returns made on the basis of a  
10          fiscal year shall be filed on or before the 15th day of the  
11          third month following the close of the fiscal year.”.

12           (2) CONFORMING AMENDMENT.—Section  
13          6072(a) is amended by striking “6017, or 6031”  
14          and inserting “or 6017”.

15          (b) CONFORMING AMENDMENTS RELATING TO C  
16          CORPORATION DUE DATE OF 15TH DAY OF FOURTH  
17          MONTH FOLLOWING TAXABLE YEAR.—

18           (1) Section 170(a)(3)(B), as redesignated by  
19          the preceding provisions of this Act, is amended by  
20          striking “third month” and inserting “fourth  
21          month”.

22           (2) Section 563 is amended by striking “third  
23          month” each place it appears and inserting “fourth  
24          month”.

1           (3) Section 1354(d)(1)(B)(i) is amended by  
2 striking “3d month” and inserting “4th month”.

3           (4) Subsection (a) and (c) of section 6167 are  
4 each amended by striking “third month” and insert-  
5 ing “fourth month”.

6           (5) Section 6425(a)(1) is amended by striking  
7 “third month” and inserting “fourth month”.

8           (6) Subsections (b)(2)(A), (g)(3), and (h)(1) of  
9 section 6655 are each amended by striking “3rd  
10 month” and inserting “4th month”.

11 (c) EFFECTIVE DATES.—

12           (1) IN GENERAL.—Except as provided in para-  
13 graph (2), the amendments made by this section  
14 shall apply to returns for taxable years beginning  
15 after December 31, 2014.

16           (2) SPECIAL RULE FOR C CORPORATIONS WITH  
17 FISCAL YEARS ENDING ON JUNE 30.—In the case of  
18 any C corporation with a fiscal year ending on June  
19 30, the amendments made by this section shall not  
20 apply to any taxable year beginning in 2022.

21 **SEC. 6202. MODIFICATION OF DUE DATES BY REGULATION.**

22           In the case of returns for taxable years beginning  
23 after December 31, 2014, the Secretary of the Treasury,  
24 or the Secretary’s designee, shall modify appropriate regu-  
25 lations to provide as follows:

1           (1) The maximum extension for the returns of  
2           partnerships filing Form 1065 shall be a 6-month  
3           period ending on September 15 for calendar year  
4           taxpayers.

5           (2) The maximum extension for the returns of  
6           trusts filing Form 1041 shall be a 5½-month period  
7           ending on September 30 for calendar year taxpayers.

8           (3) The maximum extension for the returns of  
9           employee benefit plans filing Form 5500 shall be an  
10          automatic 3½-month period ending on November 15  
11          for calendar year plans.

12          (4) The maximum extension for the returns of  
13          organizations exempt from income tax filing Form  
14          990 shall be an automatic 6-month period ending on  
15          November 15 for calendar year filers.

16          (5) The due date of Form 3520–A (relating to  
17          the Annual Information Return of Foreign Trust  
18          with a United States Owner) for calendar year filers  
19          shall be April 15 with a maximum extension for a  
20          6-month period ending on October 15.

21          (6) The due date of Form TD F 90–22.1 (re-  
22          lating to Report of Foreign Bank and Financial Ac-  
23          counts) shall be April 15 with a maximum extension  
24          for a 6-month period ending on October 15 and with  
25          provision for an extension under rules similar to the

1 rules in Treas. Reg. section 1.6081–5. For any tax-  
 2 payer required to file such Form for the first time,  
 3 any penalty for failure to timely request for, or file,  
 4 an extension, may be waived by the Secretary.

5 **SEC. 6203. CORPORATIONS PERMITTED STATUTORY AUTO-**  
 6 **MATIC 6-MONTH EXTENSION OF INCOME TAX**  
 7 **RETURNS.**

8 (a) IN GENERAL.—Section 6081(b) is amended by  
 9 striking “3 months” and inserting “6 months”.

10 (b) EFFECTIVE DATE.—The amendments made by  
 11 this section shall apply to returns for taxable years begin-  
 12 ning after December 31, 2014.

13 **Subtitle D—Compliance Reforms**

14 **SEC. 6301. PENALTY FOR FAILURE TO FILE.**

15 (a) IN GENERAL.—Section 6651(a) is amended by  
 16 striking “\$135” in the flush material at the end and in-  
 17 serting “\$400”.

18 (b) EFFECTIVE DATE.—The amendments made by  
 19 this section shall apply to returns the due date for the  
 20 filing of which (including extension) is after December 31,  
 21 2014.

22 **SEC. 6302. PENALTY FOR FAILURE TO FILE CORRECT IN-**  
 23 **FORMATION RETURNS AND PROVIDE PAYEE**  
 24 **STATEMENTS.**

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

1           (1) by striking “\$100” and inserting “\$250”,  
2           and

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

5           (b) REDUCTION WHERE CORRECTION IN SPECIFIED  
6 PERIOD.—

7           (1) CORRECTION WITHIN 30 DAYS.—Section  
8           6721(b)(1) is amended—

9                   (A) by striking “\$30” and inserting  
10                  “\$50”,

11                   (B) by striking “\$100” and inserting  
12                  “\$250”, and

13                   (C) by striking “\$250,000” and inserting  
14                  “\$500,000”.

15           (2) FAILURES CORRECTED ON OR BEFORE AU-  
16 GUST 1.—Section 6721(b)(2) is amended—

17                   (A) by striking “\$60” and inserting  
18                  “\$100”,

19                   (B) by striking “\$100” (prior to amend-  
20                  ment by subparagraph (A)) and inserting  
21                  “\$250”, and

22                   (C) by striking “\$500,000” and inserting  
23                  “\$1,500,000”.



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

4 (1) in subparagraph (A)—

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

7 (B) by striking “\$1,500,000” and insert-  
8 ing “\$3,000,000”,

9 (2) in subparagraph (B)—

10 (A) by striking “\$75,000” and inserting  
11 “\$175,000”, and

12 (B) by striking “\$250,000” and inserting  
13 “\$500,000”, and

14 (3) in subparagraph (C)—

15 (A) by striking “\$200,000” and inserting  
16 “\$500,000”, and

17 (B) by striking “\$500,000” (prior to  
18 amendment by subparagraph (A)) and inserting  
19 “\$1,500,000”.

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

22 (1) by striking “\$250” in paragraph (2) and in-  
23 serting “\$500”, and

24 (2) by striking “\$1,500,000” in paragraph  
25 (3)(A) and inserting “\$3,000,000”.

1 (e) FAILURE TO FURNISH CORRECT PAYEE STATE-  
2 MENTS.—

3 (1) IN GENERAL.—Section 6722(a)(1) is  
4 amended—

5 (A) by striking “\$100” and inserting  
6 “\$250”, and

7 (B) by striking “\$1,500,000” and insert-  
8 ing “\$3,000,000”.

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

11 (A) CORRECTION WITHIN 30 DAYS.—Sec-  
12 tion 6722(b)(1) is amended—

13 (i) by striking “\$30” and inserting  
14 “\$50”,

15 (ii) by striking “\$100” and inserting  
16 “\$250”, and

17 (iii) by striking “\$250,000” and in-  
18 serting “\$500,000”.

19 (B) FAILURES CORRECTED ON OR BEFORE  
20 AUGUST 1.—Section 6722(b)(2) is amended—

21 (i) by striking “\$60” and inserting  
22 “\$100”,

23 (ii) by striking “\$100” (prior to  
24 amendment by clause (i)) and inserting  
25 “\$250”, and

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

3 (3) LOWER LIMITATION FOR PERSONS WITH  
4 GROSS RECEIPTS OF NOT MORE THAN \$5,000,000.—  
5 Section 6722(d)(1) is amended—

6 (A) in subparagraph (A)—

7 (i) by striking “\$500,000” and insert-  
8 ing “\$1,000,000”, and

9 (ii) by striking “\$1,500,000” and in-  
10 serting “\$3,000,000”,

11 (B) in subparagraph (B)—

12 (i) by striking “\$75,000” and insert-  
13 ing “\$175,000”, and

14 (ii) by striking “\$250,000” and in-  
15 serting “\$500,000”, and

16 (C) in subparagraph (C)—

17 (i) by striking “\$200,000” and insert-  
18 ing “\$500,000”, and

19 (ii) by striking “\$500,000” (prior to  
20 amendment by subparagraph (A)) and in-  
21 serting “\$1,500,000”.

22 (4) PENALTY IN CASE OF INTENTIONAL DIS-  
23 REGARD.—Section 6722(e) is amended—

24 (A) by striking “\$250” in paragraph (2)  
25 and inserting “\$500”, and

1 (B) by striking “\$1,500,000” in paragraph  
2 (3)(A) and inserting “\$3,000,000”.

3 (f) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply with respect to returns and state-  
5 ments required to be filed after December 31, 2014.

6 **SEC. 6303. CLARIFICATION OF 6-YEAR STATUTE OF LIMITA-**  
7 **TIONS IN CASE OF OVERSTATEMENT OF**  
8 **BASIS.**

9 (a) IN GENERAL.—Subparagraph (B) of section  
10 6501(e)(1) is amended—

11 (1) by striking “and” at the end of clause (i),  
12 by redesignating clause (ii) as clause (iii), and by in-  
13 serting after clause (i) the following new clause:

14 “(ii) An understatement of gross in-  
15 come by reason of an overstatement of un-  
16 recovered cost or other basis is an omission  
17 from gross income; and”, and

18 (2) by inserting “(other than in the case of an  
19 overstatement of unrecovered cost or other basis)”  
20 in clause (iii) (as so redesignated) after “In deter-  
21 mining the amount omitted from gross income”.

22 (b) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to—

24 (1) returns filed after the date of the enactment  
25 of this Act, and

1           (2) returns filed on or before such date if the  
2           period specified in section 6501 of the Internal Rev-  
3           enue Code of 1986 (determined without regard to  
4           such amendments) for assessment of the taxes with  
5           respect to which such return relates has not expired  
6           as of such date.

7   **SEC. 6304. REFORM OF RULES RELATED TO QUALIFIED TAX**  
8                           **COLLECTION CONTRACTS.**

9           (a) **REQUIREMENT TO COLLECT CERTAIN INACTIVE**  
10 **TAX RECEIVABLES UNDER QUALIFIED TAX COLLECTION**  
11 **CONTRACTS.**—Section 6306 is amended by redesignating  
12 subsections (e) through (f) as subsections (d) through (g),  
13 respectively, and by inserting after subsection (b) the fol-  
14 lowing new subsection:

15           “(c) **COLLECTION OF INACTIVE TAX RECEIV-**  
16 **ABLES.**—

17                   “(1) **IN GENERAL.**—Notwithstanding any other  
18           provision of law, the Secretary shall enter into one  
19           or more qualified tax collection contracts for the col-  
20           lection of all outstanding inactive tax receivables.

21                   “(2) **INACTIVE TAX RECEIVABLES.**—For pur-  
22           poses of this section—

23                           “(A) **IN GENERAL.**—The term ‘inactive tax  
24           receivable’ means any tax receivable if—

1           “(i) at any time after assessment, the  
2           Internal Revenue Service removes such re-  
3           ceivable from the active inventory for lack  
4           of resources or inability to locate the tax-  
5           payer,

6           “(ii) more than  $\frac{1}{3}$  of the period of the  
7           applicable statute of limitation has lapsed  
8           and no employee of the Internal Revenue  
9           Service has been assigned such receivable  
10          for collection, or

11          “(iii) in the case of a receivable which  
12          has been assigned for collection, more than  
13          365 days have passed without interaction  
14          with the taxpayer or a third party for pur-  
15          poses of furthering the collection of such  
16          receivable.

17          “(B) TAX RECEIVABLE.—The term ‘tax re-  
18          ceivable’ means any outstanding assessment  
19          which the Internal Revenue Service includes in  
20          potentially collectible inventory.”.

21          (b) CERTAIN TAX RECEIVABLES NOT ELIGIBLE FOR  
22          COLLECTION UNDER QUALIFIED TAX COLLECTION CON-  
23          TRACTS.—Section 6306, as amended by subsection (a), is  
24          amended by redesignating subsections (d) through (g) as

1 subsections (e) through (h), respectively, and by inserting  
2 after subsection (c) the following new subsection:

3       “(d) CERTAIN TAX RECEIVABLES NOT ELIGIBLE  
4 FOR COLLECTION UNDER QUALIFIED TAX COLLECTIONS  
5 CONTRACTS.—A tax receivable shall not be eligible for col-  
6 lection pursuant to a qualified tax collection contract if  
7 such receivable—

8               “(1) is subject to a pending or active offer-in-  
9 compromise or installment agreement,

10               “(2) is classified as an innocent spouse case,

11               “(3) involves a taxpayer identified by the Sec-  
12 retary as being—

13                       “(A) deceased,

14                       “(B) under the age of 18,

15                       “(C) in a designated combat zone, or

16                       “(D) a victim of identity theft,

17               “(4) is currently under examination, litigation,  
18 criminal investigation, or levy, or

19               “(5) is currently subject to a proper exercise of  
20 a right of appeal under this title.”.

21       (c) CONTRACTING PRIORITY.—Section 6306, as  
22 amended by the preceding provisions of this section, is  
23 amended by redesignating subsection (h) as subsection (i)  
24 and by inserting after subsection (g) the following new  
25 subsection:

1       “(h) CONTRACTING PRIORITY.—In contracting for  
2 the services of any person under this section, the Secretary  
3 shall give priority to private collection contractors and  
4 debt collection centers on the schedule required under sec-  
5 tion 3711(g) of title 31, United States Code, to the extent  
6 such private collection contractors and debt collection cen-  
7 ters are appropriate to carry out the purposes of this sec-  
8 tion.”.

9       (d) DISCLOSURE OF RETURN INFORMATION.—Sec-  
10 tion 6103(k) is amended by adding at the end the fol-  
11 lowing new paragraph:

12               “(11) QUALIFIED TAX COLLECTION CONTRAC-  
13 TORS.—Persons providing services pursuant to a  
14 qualified tax collection contract under section 6306  
15 may, if speaking to a person who has identified him-  
16 self or herself as having the name of the taxpayer  
17 to which a tax receivable (within the meaning of  
18 such section) relates, identify themselves as contrac-  
19 tors of the Internal Revenue Service and disclose the  
20 business name of the contractor, and the nature,  
21 subject, and reason for the contact. Disclosures  
22 under this paragraph shall be made only in such sit-  
23 uations and under such conditions as have been ap-  
24 proved by the Secretary.”.



1 (e) TAXPAYERS AFFECTED BY FEDERALLY DE-  
2 CLARED DISASTERS.—Section 6306, as amended by the  
3 preceding provisions of this section, is amended by redese-  
4 ignating subsection (i) as subsection (j) and by inserting  
5 after subsection (h) the following new subsection:

6 “(i) TAXPAYERS IN PRESIDENTIALLY DECLARED  
7 DISASTER AREAS.—The Secretary may prescribe proce-  
8 dures under which a taxpayer determined to be affected  
9 by a federally declared disaster (as defined by section  
10 165(i)(5)) may request—

11 “(1) relief from immediate collection measures  
12 by contractors under this section, and

13 “(2) a return of the inactive tax receivable to  
14 the Internal Revenue Service for collection.”.

15 (f) REPORT TO CONGRESS.—

16 (1) IN GENERAL.—Section 6306, as amended  
17 by the preceding provisions of this section, is amend-  
18 ed by redesignating subsection (j) as subsection (k)  
19 and by inserting after subsection (i) the following  
20 new subsection:

21 “(j) REPORT TO CONGRESS.—Not later than 90 days  
22 after each fiscal year ending on September 30, the Sec-  
23 retary shall submit to the Committee on Ways and Means  
24 of the House of Representatives and the Committee on  
25 Finance of the Senate a report with respect to qualified

1 tax collection contracts under this section which shall in-  
2 clude—

3 “(1) annually (with respect to each such fiscal  
4 year beginning with the first such fiscal year ending  
5 after the date of the enactment of this subsection)—

6 “(A) the total number and amount of tax  
7 receivables provided to each contractor for col-  
8 lection under this section,

9 “(B) the total amounts collected (and  
10 amounts of installment agreements entered into  
11 under subsection (b)(1)(B)) with respect to  
12 each contractor and the collection costs in-  
13 curred (directly and indirectly) by the Internal  
14 Revenue Service with respect to such amounts,

15 “(C) the impact of such contracts on the  
16 total number and amount of unpaid assess-  
17 ments, and on the number and amount of as-  
18 sessments collected by Internal Revenue Service  
19 personnel after initial contact by a contractor,

20 “(D) the amount of fees retained by the  
21 Secretary under subsection (e) and a descrip-  
22 tion of the use of such funds, and

23 “(E) a disclosure safeguard report in a  
24 form similar to that required under section  
25 6103(p)(5), and

1           “(2) biannually (beginning with the second re-  
2           port submitted under this subsection)—

3                   “(A) an independent evaluation of con-  
4                   tractor performance; and

5                   “(B) a measurement plan that includes a  
6                   comparison of the best practices used by the  
7                   private collectors to the collection techniques  
8                   used by the Internal Revenue Service and  
9                   mechanisms to identify and capture information  
10                  on successful collection techniques used by the  
11                  contractors that could be adopted by the Inter-  
12                  nal Revenue Service.”.

13           (2) REPEAL OF EXISTING REPORTING REQUIRE-  
14           MENTS WITH RESPECT TO QUALIFIED TAX COLLEC-  
15           TION CONTRACTS.—Section 881 of the American  
16           Jobs Creation Act of 2004 is amended by striking  
17           subsection (e).

18           (g) EFFECTIVE DATES.—

19                   (1) IN GENERAL.—The amendments made by  
20                   subsections (a) and (b) shall apply to tax receivables  
21                   identified by the Secretary after the date of the en-  
22                   actment of this Act.

23                   (2) CONTRACTING PRIORITY.—The amendments  
24                   made by subsection (c) shall apply to contracts and

1 agreements entered into after the date of the enact-  
2 ment of this Act.

3 (3) DISCLOSURES.—The amendments made by  
4 subsection (d) shall apply to disclosures made after  
5 the date of the enactment of this Act.

6 (4) PROCEDURES; REPORT TO CONGRESS.—The  
7 amendments made by subsections (e) and (f) shall  
8 take effect on the date of the enactment of this Act.

9 **SEC. 6305. 100 PERCENT CONTINUOUS LEVY ON PAYMENTS**  
10 **TO MEDICARE PROVIDERS AND SUPPLIERS.**

11 (a) IN GENERAL.—Paragraph (3) of section 6331(h)  
12 is amended by striking the period at the end and inserting  
13 “, or to a Medicare provider or supplier under title XVIII  
14 of the Social Security Act.”.

15 (b) EFFECTIVE DATE.—The amendment made by  
16 this section shall apply to levies issued after the date of  
17 the enactment of this Act.

18 **SEC. 6306. TREATMENT OF REFUNDABLE CREDITS FOR**  
19 **PURPOSES OF CERTAIN PENALTIES.**

20 (a) APPLICATION OF UNDERPAYMENT PENALTIES.—  
21 Section 6664(a) is amended by adding at the end the fol-  
22 lowing: “A rule similar to the rule of section 6211(b)(4)  
23 shall apply for purposes of this subsection.”.

24 (b) PENALTY FOR ERRONEOUS CLAIM OF CREDIT  
25 MADE APPLICABLE TO EARNED INCOME CREDIT.—Sec-

1 tion 6676(a) is amended by striking “(other than a claim  
2 for a refund or credit relating to the earned income credit  
3 under section 32)”.

4 (c) EFFECTIVE DATES.—

5 (1) UNDERPAYMENT PENALTIES.—The amend-  
6 ment made by subsection (a) shall apply to—

7 (A) returns filed after February 26, 2014,  
8 and

9 (B) returns filed on or before such date if  
10 the period specified in section 6501 of the In-  
11 ternal Revenue Code of 1986 for assessment of  
12 the taxes with respect to which such return re-  
13 lates has not expired as of such date.

14 (2) PENALTY FOR ERRONEOUS CLAIM OF CRED-  
15 IT.—The amendment made by subsection (b) shall  
16 apply to claims filed after February 26, 2014.

## 17 **TITLE VII—EXCISE TAXES**

### 18 **SEC. 7001. REPEAL OF MEDICAL DEVICE EXCISE TAX.**

19 (a) IN GENERAL.—Chapter 32 is amended by strik-  
20 ing subchapter E.

21 (b) CONFORMING AMENDMENTS.—

22 (1) Subsection (a) of section 4221 is amended  
23 by striking the last sentence.

24 (2) Paragraph (2) of section 6416(b) is amend-  
25 ed by striking the last sentence.

1 (c) CLERICAL AMENDMENT.—The table of sub-  
2 chapters for chapter 32 is amended by striking the item  
3 relating to subchapter E.

4 (d) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to sales after the date of the enact-  
6 ment of this Act.

7 **SEC. 7002. MODIFICATIONS RELATING TO OIL SPILL LI-**  
8 **ABILITY TRUST FUND.**

9 (a) EXTENSION OF OIL SPILL LIABILITY TRUST  
10 FUND FINANCING RATE.—Paragraph (2) of section  
11 4611(f) is amended by striking “December 31, 2017” and  
12 inserting “December 31, 2023”.

13 (b) APPLICATION WITH RESPECT TO BITUMEN AND  
14 BITUMINOUS MIXTURES AND SHALE OIL.—Paragraph  
15 (1) of section 4612(a) is amended to read as follows:

16 “(1) CRUDE OIL.—The term ‘crude oil’ includes  
17 crude oil condensates, natural gasoline, any bitumen  
18 or bituminous mixture, any oil derived from a bitu-  
19 men or bituminous mixture, shale oil, and any oil de-  
20 rived from kerogen-bearing sources.”.

21 (c) CONFORMING AMENDMENT.—Paragraph (2) of  
22 section 4612(a) is amended by striking “from a well lo-  
23 cated”.

24 (d) EFFECTIVE DATE.—The amendments made by  
25 this section shall apply to oil and petroleum products re-

1 ceived or entered during calendar quarters beginning more  
 2 than 60 days after the date of the enactment of this Act.

3 **SEC. 7003. MODIFICATION RELATING TO INLAND WATER-**  
 4 **WAYS TRUST FUND FINANCING RATE.**

5 (a) IN GENERAL.—Section 4042(b)(2)(A) is amend-  
 6 ed to read as follows:

7 “(A) The Inland Waterways Trust Fund  
 8 financing rate is 26 cents per gallon.”.

9 (b) EFFECTIVE DATE.—The amendment made by  
 10 this section shall apply to fuel used after December 31,  
 11 2014.

12 **SEC. 7004. EXCISE TAX ON SYSTEMICALLY IMPORTANT FI-**  
 13 **NANCIAL INSTITUTIONS.**

14 (a) IN GENERAL.—Chapter 36 is amended by adding  
 15 at the end the following new subchapter:

16 **“Subchapter E—Tax on Systemically**  
 17 **Important Financial Institutions**

“Sec. 4491. Tax on systemically important financial institutions.

18 **“SEC. 4491. TAX ON SYSTEMICALLY IMPORTANT FINANCIAL**  
 19 **INSTITUTIONS.**

20 “(a) IN GENERAL.—There is hereby imposed a tax  
 21 on the excess total consolidated assets of any systemically  
 22 important financial institution on the close of each cal-  
 23 endar quarter.

1       “(b) AMOUNT OF TAX.—The rate of tax imposed by  
2 subsection (a) is 0.035 percent of such excess total consoli-  
3 dated assets.

4       “(c) BY WHOM PAID.—The tax imposed by sub-  
5 section (a) shall be paid by the systemically important fi-  
6 nancial institution.

7       “(d) DUE DATE.—The tax imposed by subsection (a)  
8 for a calendar quarter shall be due on the first day of  
9 the third month beginning after the close of such quarter.

10       “(e) SYSTEMICALLY IMPORTANT FINANCIAL INSTI-  
11 TUTION.—For purposes of this section, the term ‘system-  
12 ically important financial institution’ means any person  
13 subject to section 165 of the Dodd-Frank Wall Street Re-  
14 form and Consumer Protection Act.

15       “(f) EXCESS TOTAL CONSOLIDATED ASSETS.—For  
16 purposes of this section, the term ‘excess total consoli-  
17 dated assets’ means the excess of—

18               “(1) total consolidated assets (within the mean-  
19 ing of section 165 of the Dodd-Frank Wall Street  
20 Reform and Consumer Protection Act), over

21               “(2) \$500,000,000,000.

22       “(g) ADJUSTMENT OF DOLLAR AMOUNT.—

23               “(1) IN GENERAL.—In the case of any calendar  
24 year beginning after 2015, there shall be substituted  
25 for the dollar amount in subsection (f)(2) a dollar



1 amount which bears the same ratio to such amount  
2 (determined without regard to this subsection) as—

3 “(A) the GDP for the preceding calendar  
4 year, bears to

5 “(B) the GDP for 2014.

6 Any dollar amount determined under this paragraph  
7 for substitution in subsection (f)(2) which is not a  
8 multiple of \$1,000,000,000 shall be rounded to the  
9 nearest multiple of \$1,000,000,000.

10 “(2) GDP.—For purposes of this subsection,  
11 the GDP for any calendar year means the latest es-  
12 timate of the gross domestic product published by  
13 the Department of Commerce for the preceding cal-  
14 endar year.

15 “(h) TREATMENT OF CERTAIN REFERENCES.—Any  
16 reference in this section to any provision of the Dodd-  
17 Frank Wall Street Reform and Consumer Protection Act  
18 shall be treated as a reference to such provision as in ef-  
19 fect on the date of the enactment of this section.”.

20 (b) CLERICAL AMENDMENT.—The table of sub-  
21 chapters for chapter 36 is amended by adding at the end  
22 the following new item:

“SUBCHAPTER E. TAX ON SYSTEMICALLY IMPORTANT FINANCIAL  
INSTITUTIONS.”.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to calendar quarters beginning  
3 after December 31, 2014.

4 **SEC. 7005. CLARIFICATION OF ORPHAN DRUG EXCEPTION**  
5 **TO ANNUAL FEE ON BRANDED PRESCRIP-**  
6 **TION PHARMACEUTICAL MANUFACTURERS**  
7 **AND IMPORTERS.**

8 (a) IN GENERAL.—Paragraph (3) of section 9008(e)  
9 of the Patient Protection and Affordable Care Act (Public  
10 Law 111–148) is amended to read as follows:

11 “(3) EXCLUSION OF ORPHAN DRUG SALES.—

12 “(A) IN GENERAL.—The term ‘branded  
13 prescription drug sales’ shall not include sales  
14 of any drug or biological product—

15 “(i) with respect to which a credit was  
16 allowed for any taxable year under section  
17 45C of the Internal Revenue Code of 1986  
18 (as in effect before its repeal by the Tax  
19 Reform Act of 2014); or

20 “(ii) which is approved or licensed by  
21 the Food and Drug Administration for  
22 marketing solely for one or more rare dis-  
23 eases or conditions.

24 “(B) LIMITATION.—Subparagraph (A)  
25 shall not apply with respect to any drug or bio-

1           logical product after the date on which the drug  
2           or biological product is approved or licensed by  
3           the Food and Drug Administration for mar-  
4           keting for any indication other than the treat-  
5           ment of a rare disease or condition.

6                   “(C) RARE DISEASE OR CONDITION.—

7                           “(i) IN GENERAL.—For purposes of  
8                           this paragraph, the term ‘rare disease or  
9                           condition’ means any disease or condition  
10                           which—

11                                   “(I) affects less than 200,000  
12                                   persons in the United States, or

13                                   “(II) affects more than 200,000  
14                                   persons in the United States but for  
15                                   which there is no reasonable expecta-  
16                                   tion that the cost of developing and  
17                                   making available in the United States  
18                                   a drug or biological product for such  
19                                   disease or condition will be recovered  
20                                   from sales in the United States of  
21                                   such drug or biological product.

22                           “(ii) TIME OF DETERMINATION.—De-  
23                           terminations under the preceding sentence  
24                           with respect to any drug or biological prod-

1           uct shall be made on the basis of the facts  
2           and circumstances as of—

3                   “(I) in the case a drug or biologi-  
4                   cal product that has been designated  
5                   under section 526 of the Federal  
6                   Food, Drug, and Cosmetic Act for a  
7                   particular indication, the date of such  
8                   designation, and

9                   “(II) in any other case, the date  
10                  such drug or biological product is ap-  
11                  proved or licensed by the Food and  
12                  Drug Administration for marketing  
13                  for the treatment of the disease or  
14                  condition referred to in clause (i).”.

15           (b) EFFECTIVE DATE.—The amendment made by  
16 this section shall apply to fees imposed under section  
17 9008(a)(1) of the Patient Protection and Affordable Care  
18 Act with annual payment dates after 2013.

19           **TITLE VIII—DEADWOOD AND**  
20           **TECHNICAL PROVISIONS**

21           **Subtitle A—Repeal of Deadwood**

22           **SEC. 8001. REPEAL OF PUERTO RICO ECONOMIC ACTIVITY**  
23           **CREDIT.**

24           Subpart B of part IV of subchapter A of chapter 1  
25 is amended by striking section 30A (and by striking the

1 item relating to such section in the table of sections of  
2 such subpart).

3 **SEC. 8002. REPEAL OF MAKING WORK PAY CREDIT.**

4 (a) IN GENERAL.—Subpart C of part IV of sub-  
5 chapter A of chapter 1 is amended by striking section 36A  
6 (and by striking the item relating to such section in the  
7 table of sections of such subpart).

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 6211(b)(4)(A) is amended by strik-  
10 ing “36A.”

11 (2) Section 6213(g)(2) is amended by striking  
12 subparagraph (N).

13 **SEC. 8003. GENERAL BUSINESS CREDIT.**

14 Subsection (d) of section 38 is amended by striking  
15 paragraph (3).

16 **SEC. 8004. ENVIRONMENTAL TAX.**

17 (a) IN GENERAL.—Subchapter A of chapter 1 is  
18 amended by striking part VII (and the table of parts for  
19 such chapter is amended by striking the item relating to  
20 part VII).

21 (b) CONFORMING AMENDMENTS.—

22 (1) Section 26(b)(2) is amended by striking  
23 subparagraph (B).

24 (2) Section 164(a) is amended by striking para-  
25 graph (5).

1           (3) Section 275(a) is amended by striking the  
2 last sentence.

3           (4) Section 882(a)(1) is amended by striking  
4 “59A,”.

5           (5) Section 6425(c)(1)(A), as amended by the  
6 preceding provisions of this Act, is amended to read  
7 as follows:

8                   “(A) the tax imposed by section 11 or  
9 1201(a), or subchapter L of chapter 1, which-  
10 ever is applicable, over”.

11           (6) Section 6655(g)(1)(A), as amended by the  
12 preceding provisions of this Act, is amended by add-  
13 ing “plus” at the end of clause (i) and by striking  
14 clause (ii).

15 **SEC. 8005. ANNUITIES; CERTAIN PROCEEDS OF ENDOW-**  
16 **MENT AND LIFE INSURANCE CONTRACTS.**

17 Section 72 is amended—

18           (1) in subsection (c)(4) by striking “; except  
19 that if such date was before January 1, 1954, then  
20 the annuity starting date is January 1, 1954”, and

21           (2) in subsection (g)(3) by striking “January 1,  
22 1954, or” and “, whichever is later”.

23 **SEC. 8006. UNEMPLOYMENT COMPENSATION.**

24 Section 85 is amended by striking subsection (c).

1 **SEC. 8007. FLEXIBLE SPENDING ARRANGEMENTS.**

2 Section 106(c)(1) is amended by striking “Effective  
3 on and after January 1, 1997, gross” and inserting  
4 “Gross”.

5 **SEC. 8008. CERTAIN COMBAT ZONE COMPENSATION OF**  
6 **MEMBERS OF THE ARMED FORCES.**

7 Subsection (c) of section 112 is amended—

8 (1) by striking “(after June 24, 1950)” in  
9 paragraph (2), and

10 (2) striking “such zone;” and all that follows in  
11 paragraph (3) and inserting “such zone.”.

12 **SEC. 8009. QUALIFIED GROUP LEGAL SERVICES PLANS.**

13 (a) **IN GENERAL.**—Part III of subchapter B of chap-  
14 ter 1 is amended by striking section 120 (and by striking  
15 the item relating to such section in the table of sections  
16 for such part).

17 (b) **TAX-EXEMPTION OF GROUP LEGAL SERVICES**  
18 **PLANS.**—Section 501(c) is amended by striking paragraph  
19 (20).

20 (c) **CONFORMING AMENDMENTS.**—

21 (1) Section 414(n)(3)(C) is amended by strik-  
22 ing “120,”.

23 (2) Section 414(t)(2) is amended by striking  
24 “120,”.

25 (3) Section 3121(a) is amended by striking  
26 paragraph (17).

1           (4) Section 3231(e) is amended by striking  
2 paragraph (7).

3           (5) Section 3306(b) is amended by striking  
4 paragraph (12).

5           (6) Section 6039D(d)(1) is amended by striking  
6 “120,”.

7           (7) Section 209(a)(14) of the Social Security  
8 Act is amended—

9                   (A) by striking subparagraph (B), and

10                   (B) by striking “(14)(A)” and inserting  
11 “(14)”.

12 **SEC. 8010. CERTAIN REDUCED UNIFORMED SERVICES RE-**  
13 **TIREMENT PAY.**

14           Section 122(b)(1) is amended by striking “after De-  
15 cember 31, 1965,”.

16 **SEC. 8011. GREAT PLAINS CONSERVATION PROGRAM.**

17           Section 126(a) is amended by striking paragraph (6)  
18 and by redesignating paragraphs (7),(8), (9), and (10) as  
19 paragraphs (6), (7), (8), and (9), respectively.

20 **SEC. 8012. STATE LEGISLATORS’ TRAVEL EXPENSES AWAY**  
21 **FROM HOME.**

22           Paragraph (4) of section 162(h) is amended by strik-  
23 ing “For taxable years beginning after December 31,  
24 1980, this” and inserting “This”.



1 **SEC. 8013. TREBLE DAMAGE PAYMENTS UNDER THE ANTI-**  
2 **TRUST LAW.**

3 Section 162(g) is amended by striking the last sen-  
4 tence.

5 **SEC. 8014. PHASE-IN OF LIMITATION ON INVESTMENT IN-**  
6 **TEREST.**

7 Section 163(d) is amended by striking paragraph (6).

8 **SEC. 8015. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.**

9 Section 170 is amended by striking subsection (k).

10 **SEC. 8016. AMORTIZABLE BOND PREMIUM.**

11 (a) IN GENERAL.—Subparagraph (B) of section  
12 171(b)(1) is amended to read as follows:

13 “(B)(i) with reference to the amount pay-  
14 able on maturity (or if it results in a smaller  
15 amortizable bond premium attributable to the  
16 period before the call date, with reference to the  
17 amount payable on the earlier call date), in the  
18 case of a bond described in subsection (a)(1),  
19 and

20 “(ii) with reference to the amount payable  
21 on maturity or on an earlier call date, in the  
22 case of a bond described in subsection (a)(2).”.

23 (b) CONFORMING AMENDMENTS.—Paragraphs  
24 (2)(B) and (3)(B) of section 171(b) are each amended by  
25 striking “paragraph (1)(B)(ii)” and inserting “paragraph  
26 (1)(B)(i)”.

1 **SEC. 8017. REPEAL OF DEDUCTION FOR CLEAN-FUEL VEHI-**  
2 **CLES AND CERTAIN REFUELING PROPERTY.**

3 (a) IN GENERAL.—Part VI of subchapter B of chap-  
4 ter 1 is amended by striking section 179A (and by striking  
5 the item relating to such section in the table of sections  
6 for such part).

7 (b) CONFORMING AMENDMENT.—

8 (1) Section 62(a) is amended by striking para-  
9 graph (14).

10 (2) Section 280F(a)(1) is amended by striking  
11 subparagraph (C).

12 (3) Section 312(k)(3), as amended by this Act,  
13 is amended by striking “, 179A” each place it ap-  
14 pears.

15 (4) Section 1016(a) is amended by striking  
16 paragraph (24).

17 (c) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to property placed in service after  
19 December 31, 2005.

20 **SEC. 8018. REPEAL OF DEDUCTION FOR CAPITAL COSTS IN-**  
21 **CURRED IN COMPLYING WITH ENVIRON-**  
22 **MENTAL PROTECTION AGENCY SULFUR REG-**  
23 **ULATIONS.**

24 (a) IN GENERAL.—Part VI of subchapter B of chap-  
25 ter 1 is amended by striking section 179B (and by striking

1 the item relating to such section in the table of sections  
2 for such part).

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 312(k)(3), as amended by this Act,  
5 is amended by striking “, 179B” each place it ap-  
6 pears.

7 (2) Section 1016(a) is amended by striking  
8 paragraph (30).

9 (c) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to amounts paid or incurred after  
11 December 31, 2009.

12 **SEC. 8019. ACTIVITIES NOT ENGAGED IN FOR PROFIT.**

13 Section 183(e)(1) is amended by striking the last sen-  
14 tence.

15 **SEC. 8020. DIVIDENDS RECEIVED ON CERTAIN PREFERRED**  
16 **STOCK; AND DIVIDENDS PAID ON CERTAIN**  
17 **PREFERRED STOCK OF PUBLIC UTILITIES.**

18 (a) IN GENERAL.—Sections 244 and 247 are hereby  
19 repealed, and the table of sections for part VIII of sub-  
20 chapter B of chapter 1 is amended by striking the items  
21 relating to sections 244 and 247.

22 (b) CONFORMING AMENDMENTS.—

23 (1) Paragraph (5) of section 172(d) is amended  
24 to read as follows:

1           “(5) COMPUTATION OF DEDUCTION FOR DIVI-  
2           DENDS RECEIVED.—The deductions allowed by sec-  
3           tion 243 (relating to dividends received by corpora-  
4           tions) and 245 (relating to dividends received from  
5           certain foreign corporations) shall be computed with-  
6           out regard to section 246(b) (relating to limitation  
7           on aggregate amount of deductions).”.

8           (2) Paragraph (1) of section 243(c) is amended  
9           to read as follows:

10           “(1) IN GENERAL.—In the case of any dividend  
11           received from a 20-percent owned corporation, sub-  
12           section (a)(1) shall be applied by substituting ‘80  
13           percent’ for ‘70 percent’”.

14           (3) Section 243(d) is amended by striking para-  
15           graph (4).

16           (4) Section 246 is amended—

17           (A) by striking “, 244,” in subsection  
18           (a)(1),

19           (B) in subsection (b)(1)—

20           (i) by striking “sections 243(a)(1),  
21           244(a),” the first place it appears and in-  
22           serting “section 243(a)(1)”,

23           (ii) by striking “244(a),” the second  
24           place it appears, and

1 (iii) by striking “subsection (a) or (b)  
2 of section 245, and 247,” and inserting  
3 “and subsection (a) or (b) of section  
4 245,” and  
5 (C) by striking “, 244,” in subsection  
6 (c)(1).

7 (5) Section 246A is amended by striking “,  
8 244,” both places it appears in subsections (a) and  
9 (e).

10 (6) Sections 263(g)(2)(B)(iii), 277(a),  
11 301(e)(2), 469(e)(4), 512(a)(3)(A), 805(a)(4)(A),  
12 (C), and (D), 805(b)(4) (as redesignated by this  
13 Act), 832(b)(5)(B)(ii), (D)(i), and (D)(ii)(I),  
14 833(b)(3)(E), and 1059(b)(2)(B) are each amended  
15 by striking “, 244,” each place it appears.

16 (7) Section 805(a)(4)(B) is amended by strik-  
17 ing “, 244(a),” each place it appears.

18 (8) Section 810(c)(2)(B) is amended by striking  
19 “244 (relating to dividends on certain preferred  
20 stock of public utilities),”.

21 (9) Section 1244(c)(2)(C) is amended by strik-  
22 ing “244,”.

1 **SEC. 8021. ACQUISITIONS MADE TO EVADE OR AVOID IN-**  
2 **COME TAX.**

3 Paragraphs (1) and (2) of section 269(a) are each  
4 amended by striking “or acquired on or after October 8,  
5 1940,”.

6 **SEC. 8022. DISTRIBUTIONS OF PROPERTY.**

7 Paragraph (3) of section 301(e) is amended to read  
8 as follows:

9 “(3) AMOUNTS IN EXCESS OF BASIS.—That  
10 portion of the distribution which is not a dividend,  
11 to the extent that it exceeds the adjusted basis of  
12 the stock, shall be treated as gain from the sale or  
13 exchange of property.”.

14 **SEC. 8023. EFFECT ON EARNINGS AND PROFITS.**

15 Subsection (d) of section 312 is amended by striking  
16 paragraph (2) and redesignating paragraph (3) as para-  
17 graph (2).

18 **SEC. 8024. BASIS TO CORPORATIONS.**

19 Section 362(a) is amended by striking “on or after  
20 June 22, 1954,”.

21 **SEC. 8025. TAX CREDIT EMPLOYEE STOCK OWNERSHIP**  
22 **PLANS.**

23 Section 409 is amended by striking subsection (q).

24 **SEC. 8026. EMPLOYEE STOCK PURCHASE PLANS.**

25 Section 423(a) is amended by striking “after Decem-  
26 ber 31, 1963”.

1 **SEC. 8027. TRANSITION RULES.**

2 (a) Paragraph (5) of section 430(c) is amended by  
3 striking subparagraph (B) and by striking “(A) IN GEN-  
4 ERAL.—”.

5 (b) Paragraph (2) of section 430(h) is amended by  
6 striking subparagraph (G).

7 (c) Paragraph (3) of section 436(j) is amended by  
8 striking subparagraphs (B) and (C) and by striking “(A)  
9 IN GENERAL.—”

10 (d) Section 436 is amended by striking subsection  
11 (m).

12 **SEC. 8028. LIMITATION ON DEDUCTIONS FOR CERTAIN**  
13 **FARMING.**

14 (a) IN GENERAL.—Section 464 is amended by strik-  
15 ing “any farming syndicate (as defined in subsection (c))”  
16 both places it appears in subsections (a) and (b) and in-  
17 serting “any taxpayer to whom subsection (d) applies”.

18 (b) FARMING SYNDICATE.—

19 (1) Subsection (c) of section 464 is hereby  
20 moved to the end of section 461 and redesignated as  
21 subsection (j).

22 (2) Such subsection (j) is amended—

23 (A) by striking “For purposes of this sec-  
24 tion” in paragraph (1) and inserting “For pur-  
25 poses of subsection (i)(4)”, and

1 (B) by adding at the end the following new  
2 paragraphs:

3 “(3) FARMING.—For purposes of this sub-  
4 section, the term ‘farming’ has the meaning given to  
5 such term by section 464(e).

6 “(4) LIMITED ENTREPRENEUR.—For purposes  
7 of this subsection, the term ‘limited entrepreneur’  
8 means a person who—

9 “(A) has an interest in an enterprise other  
10 than as a limited partner, and

11 “(B) does not actively participate in the  
12 management of such enterprise.”.

13 (C) Paragraph (4) of section 461(i) is  
14 amended by striking “section 464(e)” and in-  
15 serting “subsection (j)”.

16 (c) Section 464 is amended—

17 (1) by striking subsections (e) and (g) and re-  
18 designating subsections (d) and (f) as subsections  
19 (c) and (d), respectively, and

20 (2) by inserting after subsection (d) the fol-  
21 lowing new subsection:

22 “(e) FARMING.—For purposes of this section, the  
23 term ‘farming’ means the cultivation of land or the raising  
24 or harvesting of any agricultural or horticultural com-  
25 modity including the raising, shearing, feeding, caring for,



1 training, and management of animals. For purposes of the  
2 preceding sentence, trees (other than trees bearing fruit  
3 or nuts) shall not be treated as an agricultural or horti-  
4 cultural commodity.”.

5 (d) Subsection (d) of section 464 of such Code, as  
6 redesignated by subsection (c), is amended—

7 (1) by striking paragraph (1) and redesignating  
8 paragraphs (2), (3), and (4) as paragraphs (1), (2),  
9 and (3), respectively, and

10 (2) by striking “SUBSECTIONS (A) AND (B)  
11 TO APPLY TO” in the subsection heading.

12 (e) Subparagraph (A) of section 58(a)(2) is amended  
13 by striking “section 464(c)” and inserting “section  
14 461(j)”.

15 **SEC. 8029. DEDUCTIONS LIMITED TO AMOUNT AT RISK.**

16 Paragraph (3) of section 465(c) is amended by strik-  
17 ing “In the case of taxable years beginning after Decem-  
18 ber 31, 1978, this” and inserting “This”.

19 **SEC. 8030. PASSIVE ACTIVITY LOSSES AND CREDITS LIM-**  
20 **ITED.**

21 Section 469 is amended by striking subsection (m).

22 **SEC. 8031. ADJUSTMENTS REQUIRED BY CHANGES IN**  
23 **METHOD OF ACCOUNTING.**

24 Section 481(b)(3) is amended by striking subpara-  
25 graph (C).

1 **SEC. 8032. EXEMPTION FROM TAX ON CORPORATIONS, CER-**  
2 **TAIN TRUSTS, ETC.**

3 Section 501 is amended by striking subsection (s).

4 **SEC. 8033. REQUIREMENTS FOR EXEMPTION.**

5 (a) Section 503(a)(1) is amended to read as follows:

6 “(1) GENERAL RULE.—An organization de-  
7 scribed in paragraph (17) or (18) of section 501(c)  
8 or described in section 401(a) and referred to in sec-  
9 tion 4975(g)(2) or (3) shall not be exempt from tax-  
10 ation under section 501(a) if it has engaged in a  
11 prohibited transaction.”

12 (b) Paragraph (2) of section 503(a) is amended by  
13 striking “described in section 501(c)(17) or (18) or para-  
14 graph (a)(1)(B)” and inserting “described in paragraph  
15 (1)”.

16 (c) Subsection (c) of section 503 is amended by strik-  
17 ing “described in section 501(c)(17) or (18) or subsection  
18 (a)(1)(B)” and inserting “described in subsection (a)(1)”.

19 **SEC. 8034. REPEAL OF SPECIAL TREATMENT FOR RELI-**  
20 **GIOUS BROADCASTING COMPANY.**

21 (a) IN GENERAL.—Subsection (b) of section 512 is  
22 amended by striking paragraph (15).

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

1 **SEC. 8035. REPEAL OF EXCLUSION OF GAIN OR LOSS FROM**  
2 **DISPOSITION OF BROWNFIELD PROPERTY.**

3 (a) IN GENERAL.—Subsection (b) of section 512 is  
4 amended by striking paragraph (19).

5 (b) EFFECTIVE DATE.—The amendment made by  
6 this section shall apply to property acquired after Decem-  
7 ber 31, 2009.

8 **SEC. 8036. ACCUMULATED TAXABLE INCOME.**

9 Paragraph (1) of section 535(b) and paragraph (1)  
10 of section 545(b) are each amended by striking “section  
11 531” and all that follows and inserting “section 531 or  
12 the personal holding company tax imposed by section  
13 541.”.

14 **SEC. 8037. CERTAIN PROVISIONS RELATED TO DEPLETION.**

15 (a) Section 614(b)(3) (before being redesignated by  
16 title III) is amended by striking subparagraph (C).

17 (b) Section 614(b)(4) (before being redesignated by  
18 title III) is amended by striking “whichever of the fol-  
19 lowing taxable years is the later: The first taxable year  
20 beginning after December 31, 1963, or”.

21 (c) Section 614(b) (before being redesignated by title  
22 III) is amended by striking paragraph (5).

1 **SEC. 8038. AMOUNTS RECEIVED BY SURVIVING ANNUITANT**  
2 **UNDER JOINT AND SURVIVOR ANNUITY CON-**  
3 **TRACT.**

4 Subparagraph (A) of section 691(d)(1) is amended  
5 by striking “after December 31, 1953, and”.

6 **SEC. 8039. INCOME TAXES OF MEMBERS OF ARMED FORCES**  
7 **ON DEATH.**

8 Section 692(a)(1) is amended by striking “after June  
9 24, 1950”.

10 **SEC. 8040. SPECIAL RULES FOR COMPUTING RESERVES.**

11 Paragraph (7) of section 807(e) is amended by strik-  
12 ing subparagraph (B) and redesignating subparagraph  
13 (C) as subparagraph (B).

14 **SEC. 8041. INSURANCE COMPANY TAXABLE INCOME.**

15 (a) Section 832(e) is amended by striking “of taxable  
16 years beginning after December 31, 1966,”.

17 (b) Section 832(e)(6) is amended by striking “In the  
18 case of any taxable year beginning after December 31,  
19 1970, the” and inserting “The”.

20 **SEC. 8042. CAPITALIZATION OF CERTAIN POLICY ACQUI-**  
21 **SITION EXPENSES.**

22 Section 848 (as amended by title II) is amended by  
23 striking subsection (i).

1 **SEC. 8043. REPEAL OF PROVISION ON EXPATRIATION TO**  
2 **AVOID TAX.**

3 (a) IN GENERAL.—Subpart A of part II of sub-  
4 chapter N of chapter 1 is amended by striking section 877  
5 (and by striking the item relating to such section in the  
6 table of sections for such subpart).

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 2(d) is amended by striking “or  
9 877”.

10 (2) Section 121 is amended by striking sub-  
11 section (e).

12 (3) Section 865(j)(3) is amended by inserting  
13 “as in effect before its repeal” after “section 877”.

14 (4) Paragraph (2) of section 871(o) (as amend-  
15 ed by this Act) is amended to read as follows:

16 “(2) For taxation of covered expatriates, see  
17 section 877A.”.

18 (5)(A) Section 877A(g)(1)(A) is amended to  
19 read as follows:

20 “(A) IN GENERAL.—The term ‘covered ex-  
21 patriate’ means any expatriate if—

22 “(i) the average annual net income  
23 tax of such individual for the period of 5  
24 taxable years ending before the date of the  
25 loss of United States citizenship is greater  
26 than \$124,000,

1           “(ii) the net worth of the individual as  
2           of such date is \$2,000,000 or more, or

3           “(iii) such individual fails to certify  
4           under penalty of perjury that he has met  
5           the requirements of this title for the 5 pre-  
6           ceding taxable years or fails to submit such  
7           evidence of such compliance as the Sec-  
8           retary may require.”.

9           (B) Section 877A(g)(1)(B) is amended by strik-  
10          ing “shall not be treated as meeting the require-  
11          ments of subparagraph (A) or (B) of section  
12          877(a)(2)” and inserting “shall not be treated as de-  
13          scribed in clause (i) or (ii) of subparagraph (A)”.

14          (C) Section 877A(g)(1) is amended by redesignig-  
15          nating subparagraph (C) as subparagraph (D) and  
16          inserting after subparagraph (B) the following new  
17          subparagraph:

18                 “(C) NET INCOME TAX.—For purposes of  
19                 subparagraph (A), the term ‘net income tax’  
20                 means the regular tax liability reduced by the  
21                 credits allowed under subparts A, B, and D of  
22                 part IV of subchapter A.”.

23          (D) Section 877A(g)(1), as amended by sub-  
24          paragraph (C), is amended by adding at the end the  
25          following new subparagraph:

1           “(E) INFLATION ADJUSTMENT.—In the  
2 case of the loss of United States citizenship in  
3 any calendar year after 2007, the dollar amount  
4 in subparagraph (A)(i) shall be increased by an  
5 amount equal to—

6                   “(i) such dollar amount, multiplied by

7                   “(ii) the cost-of-living adjustment de-  
8 termined under section 1(c)(2)(A) for the  
9 calendar year in which such loss of United  
10 States citizenship occurs determined by  
11 substituting ‘calendar year 2003’ for ‘cal-  
12 endar year 2012’ in clause (ii) thereof.

13 Any increase determined under the preceding  
14 sentence shall be rounded to the nearest mul-  
15 tiple of \$1,000.”.

16           (E) Section 877A(g)(5) is amended to read as  
17 follows:

18                   “(5) LONG-TERM RESIDENT.—The term ‘long-  
19 term resident’ means any individual (other than a  
20 citizen of the United States) who is a lawful perma-  
21 nent resident of the United States in at least 8 tax-  
22 able years during the period of 15 taxable years end-  
23 ing with the taxable year during which the event de-  
24 scribed in subparagraph (A) or (B) of paragraph (2)  
25 occurs. For purposes of the preceding sentence, an

1 individual shall not be treated as a lawful permanent  
2 resident for any taxable year if such individual is  
3 treated as a resident of a foreign country for the  
4 taxable year under the provisions of a tax treaty be-  
5 tween the United States and the foreign country and  
6 does not waive the benefits of such treaty applicable  
7 to residents of the foreign country.”.

8 (6) Section 894(b) is amended by striking the  
9 last sentence.

10 (7) Section 2107 is amended by striking sub-  
11 section (e).

12 (8) Section 2501(a) is amended by striking  
13 paragraphs (3) and (5) and by redesignating para-  
14 graph (4) as paragraph (3).

15 (9) Section 3405(e)(13)(B) is amended by  
16 striking “that such person is not—” and all that fol-  
17 lows and inserting “that such person is not a United  
18 States citizen or a resident alien of the United  
19 States.”.

20 (10) Section 6039G(a) is amended by striking  
21 “section 877(b) or 877A” and inserting “section  
22 877A”.

23 (11) Section 6039G(d) is amended by striking  
24 “section 877(a) or 877A” and inserting “section  
25 877A”.



1           (12) Section 7701(b) is amended by striking  
2           paragraph (10) and by redesignating paragraph (11)  
3           as paragraph (10).

4           (c) EFFECTIVE DATE.—The amendments made by  
5           this subsection shall apply to individuals whose expatria-  
6           tion date (as defined in section 877A(g)(3) of the Internal  
7           Revenue Code of 1986) is on or after June 17, 2008.

8   **SEC. 8044. REPEAL OF CERTAIN TRANSITION RULES ON IN-**  
9                           **COME FROM SOURCES WITHOUT UNITED**  
10                          **STATES.**

11          (a) LIMITATION ON CREDIT.—Paragraph (2) of sec-  
12          tion 904(d) is amended by striking subparagraph (J).

13          (b) FOREIGN EARNED INCOME.—Clause (i) of section  
14          911(b)(2)(D) is amended to read as follows:

15                           “(i) IN GENERAL.—The exclusion  
16                           amount for any calendar year is \$80,000.”.

17   **SEC. 8045. REPEAL OF PUERTO RICO AND POSSESSION TAX**  
18                           **CREDIT.**

19          (a) IN GENERAL.—Subpart D of part III of sub-  
20          chapter N of chapter 1 is amended by striking section 936  
21          (and by striking the item relating to such section in the  
22          table of sections of such subpart).

23          (b) CONFORMING AMENDMENTS.—

24                  (1)(A) Section 27 is amended to read as fol-  
25          lows:

1 **“SEC. 27. TAXES OF FOREIGN COUNTRIES AND POSSES-**  
2 **SIONS OF THE UNITED STATES.**

3 “The amount of taxes imposed by foreign countries  
4 and possessions of the United States shall be allowed as  
5 a credit against the tax imposed by this chapter to the  
6 extent provided in section 901.”.

7 (B) The item relating to section 27 in the table  
8 of sections for subpart B of part IV of subchapter  
9 A of chapter 1 is amended to read as follows:

“Sec. 27. Taxes of foreign countries and possessions of the United States.”.

10 (2) Section 243(b)(1)(B) is amended to read as  
11 follows:

12 “(B) if such dividend is distributed out of  
13 the earnings and profits of a taxable year of the  
14 distributing corporation which ends after De-  
15 cember 31, 1963, and on each day of which the  
16 distributing corporation and the corporation re-  
17 ceiving the dividend were members of such af-  
18 filiated group.”.

19 (3) Section 246 is amended by striking sub-  
20 section (e).

21 (4) Section 338(h)(6)(B)(i) is amended by  
22 striking “, a DISC, or a corporation to which an  
23 election under section 936 applies” and inserting “or  
24 a DISC”.

25 (5) Section 861(a)(2) is amended—

1 (A) by striking subparagraph (A) and by  
2 redesignating subparagraphs (B), (C), and (D)  
3 as subparagraphs (A), (B), and (C), respec-  
4 tively, and

5 (B) by striking “subparagraph (B)” each  
6 place it appears and inserting “subparagraph  
7 (A)”.

8 (6) Section 864(d)(5) is amended to read as fol-  
9 lows:

10 “(5) CERTAIN PROVISIONS NOT TO APPLY.—  
11 The following provisions shall not apply to any  
12 amount treated as interest under paragraph (1) or  
13 (6):

14 “(A) Section 904(d)(2)(B)(iii)(I) (relating  
15 to exceptions for export financing interest).

16 “(B) Subparagraph (A) of section  
17 954(b)(3) (relating to exception where foreign  
18 base company income is less than 5 percent or  
19 \$1,000,000).

20 “(C) Subparagraph (B) of section  
21 954(c)(2) (relating to certain export financing).

22 “(D) Clause (i) of section 954(c)(3)(A)  
23 (relating to certain income received from related  
24 persons).”.

1           (7) Section 865(j)(3) is amended by striking “,  
2           933, and 936” and inserting “and 933”.

3           (8) Section 901(g)(2) is amended by inserting  
4           “(as in effect before its repeal)” after “936”.

5           (9) Section 904(b) is amended by striking para-  
6           graph (4).

7           (10) Section 1202(e)(4) is amended by striking  
8           subparagraph (B) and by redesignating subpara-  
9           graphs (C) and (D) as subparagraphs (B) and (C),  
10          respectively.

11          (11) Section 1361(b)(2) is amended by adding  
12          “or” at the end of subparagraph (B), by striking  
13          subparagraph (C), and by redesignating subpara-  
14          graph (D) as subparagraph (C).

15          (12) Section 1504(b) is amended by striking  
16          paragraph (4).

17          (13) Section 6091(b)(2)(B) is amended by  
18          striking clause (ii) and by redesignating clauses (iii)  
19          and (iv) as clauses (ii) and (iii), respectively.

20          (14) Section 6654(d)(2)(D) is amended—

21                 (A) by striking “936(h) or” in clause (i),

22                 and

23                 (B) by striking “AND SECTION 936” in the  
24                 heading.

25          (15) Section 6655(e)(4) is amended—

1 (A) by striking “936(h) or” in subpara-  
2 graph (A), and

3 (B) by striking “AND SECTION 936” in the  
4 heading.

5 (16)(A) Section 367(d) is amended by adding  
6 at the end the following new paragraph:

7 “(4) INTANGIBLE PROPERTY.—For purposes of  
8 this subsection, the term ‘intangible property’ means  
9 any—

10 “(A) patent, invention, formula, process,  
11 design, pattern, or know-how,

12 “(B) copyright, literary, musical, or artis-  
13 tic composition,

14 “(C) trademark, trade name, or brand  
15 name,

16 “(D) franchise, license, or contract,

17 “(E) method, program, system, procedure,  
18 campaign, survey, study, forecast, estimate,  
19 customer list, or technical data, or

20 “(F) any similar item,

21 which has substantial value independent of the serv-  
22 ices of any individual.”.

23 (B) Section 367(a)(3)(B)(iv) is amended by  
24 striking “section 936(h)(3)(B)” and inserting “sub-  
25 section (d)(4)”.

1 (C) Sections 482 and 1298(e)(2)(A) are each  
2 amended by striking “section 936(h)(4)(B)” and in-  
3 serting “section 367(d)(4)”.

4 **SEC. 8046. BASIS OF PROPERTY ACQUIRED FROM DECE-**  
5 **DENT.**

6 Section 1014 is amended—

7 (1) by striking “either” and by striking “or sec-  
8 tion 811(j) of the Internal Revenue Code of 1939  
9 where the decedent died after October 21, 1942” in  
10 subsection (a)(2), and

11 (2) by striking paragraphs (7) and (8) of sub-  
12 section (b).

13 **SEC. 8047. PROPERTY ON WHICH LESSEE HAS MADE IM-**  
14 **PROVEMENTS.**

15 Section 1019 is amended by striking the last sen-  
16 tence.

17 **SEC. 8048. INVOLUNTARY CONVERSION.**

18 Section 1033 is amended by striking subsection (j)  
19 and by redesignating subsection (k) as subsection (j).

20 **SEC. 8049. PROPERTY ACQUIRED DURING AFFILIATION.**

21 Section 1051 is hereby repealed, and the table of sec-  
22 tions for part IV of subchapter O of chapter 1 is amended  
23 by striking the item relating to section 1051.

1 **SEC. 8050. REPEAL OF SPECIAL HOLDING PERIOD RULES**  
2 **FOR CERTAIN COMMODITY FUTURES TRANS-**  
3 **ACTIONS.**

4 Section 1222 is amended by striking the last sen-  
5 tence.

6 **SEC. 8051. HOLDING PERIOD OF PROPERTY.**

7 (a) Paragraph (1) of section 1223 is amended by  
8 striking “, in the case of such exchanges after March 1,  
9 1954,”.

10 (b) Paragraph (4) of section 1223 is amended by  
11 striking “(or under so much of section 1052(c) as refers  
12 to section 113(a)(23) of the Internal Revenue Code of  
13 1939)”.

14 (c) Paragraph (6) of section 1223 is repealed.

15 (d) Paragraph (8) of section 1223 is repealed.

16 **SEC. 8052. PROPERTY USED IN THE TRADE OR BUSINESS**  
17 **AND INVOLUNTARY CONVERSIONS.**

18 Subparagraph (A) of section 1231(c)(2) is amended  
19 by striking “beginning after December 31, 1981”.

20 **SEC. 8053. SALE OF PATENTS.**

21 Subsection (a) of section 1249 is amended by striking  
22 “after December 31, 1962,”.

23 **SEC. 8054. GAIN FROM DISPOSITION OF FARMLAND.**

24 (a) Paragraph (1) of section 1252(a), as amended by  
25 the preceding provisions of this Act, is amended—

1           (1) by striking “beginning after December 31,  
2           1969” in the matter preceding subparagraph (A),  
3           and

4           (2) by amending subparagraph (A) to read as  
5           follows:

6                   “(A) the applicable percentage of the ag-  
7                   gregate deductions allowed under section 175  
8                   (as in effect before its repeal by the Tax Re-  
9                   form Act of 2014) with respect to the farmland,  
10                   or”.

11           (b) Paragraph (2) of section 1252(a) is amended by  
12           striking “sections 175” and all that follows and inserting  
13           “section 175 (as in effect before its repeal by the Tax Re-  
14           form Act of 2014).”.

15   **SEC. 8055. TRANSITION RULES RELATED TO THE TREAT-**  
16                   **MENT OF AMOUNTS RECEIVED ON RETIRE-**  
17                   **MENT OR SALE OR EXCHANGE OF DEBT IN-**  
18                   **STRUMENTS.**

19           (a) Section 1271 is amended by striking subsection  
20           (c).

21           (b) Section 1271(a)(2)(B) is amended by striking  
22           “(and paragraph (2) of subsection (c))”.



1 **SEC. 8056. CERTAIN RULES WITH RESPECT TO DEBT IN-**  
2 **STRUMENTS ISSUED BEFORE JULY 2, 1982.**

3 (a) Section 1272 is amended by striking subsection  
4 (b).

5 (b) Section 163(j)(2)(C)(ii) is amended by striking  
6 “or (b)(4)”.

7 (c) Section 1271(a)(2)(A)(ii) is amended by striking  
8 “subsection (a)(7) or (b)(4) of section 1272” and inserting  
9 “section 1272(a)(7)”.

10 (d) Section 1271(b)(1) is amended to read as follows:

11 “(1) IN GENERAL.—This section shall not apply  
12 to any obligation issued by a natural person before  
13 June 9, 1997.”.

14 (e) Section 1279(a)(4)(A)(ii), as amended by the pre-  
15 ceding provisions of this Act, is amended by striking “or  
16 (b)(4)”.

17 (f) The amendments made by this section shall apply  
18 to debt instruments issued after July 1, 1982.

19 **SEC. 8057. CERTAIN RULES WITH RESPECT TO STRIPPED**  
20 **BONDS PURCHASED BEFORE JULY 2, 1982.**

21 (a) Section 1286 is amended by striking subsection  
22 (c).

23 (b) Section 1286(e)(5) is amended by striking the  
24 last sentence.

25 (c) Subsections (a) and (b) of section 1286 are each  
26 amended by striking “after July 1, 1982,”.

1 (d) The amendments made by this section shall apply  
2 to bonds and coupons purchased after July 1, 1982.

3 **SEC. 8058. AMOUNT AND METHOD OF ADJUSTMENT.**

4 Section 1314 is amended by striking subsection (d)  
5 and by redesignating subsection (e) as subsection (d).

6 **SEC. 8059. OLD-AGE, SURVIVORS, AND DISABILITY INSUR-**  
7 **ANCE.**

8 Subsection (a) of section 1401 is amended by striking  
9 “the following percent” and all that follows and inserting  
10 “12.4 percent of the amount of the self-employment in-  
11 come for such taxable year.”.

12 **SEC. 8060. HOSPITAL INSURANCE.**

13 Paragraph (1) of section 1401(b) is amended by  
14 striking “the following percent” and all that follows and  
15 inserting “2.9 percent of the amount of the self-employ-  
16 ment income for such taxable year.”.

17 **SEC. 8061. MINISTERS, MEMBERS OF RELIGIOUS ORDERS,**  
18 **AND CHRISTIAN SCIENCE PRACTITIONERS.**

19 Paragraph (3) of section 1402(e) is amended by  
20 striking “whichever of the following dates is later: (A)”  
21 and by striking “; or (B)” and all that follows and insert-  
22 ing a period.

23 **SEC. 8062. AFFILIATED GROUP DEFINED.**

24 Subparagraph (A) of section 1504(a)(3) is amended  
25 by striking “for a taxable year which includes any period

1 after December 31, 1984” in clause (i) and by striking  
2 “in a taxable year beginning after December 31, 1984”  
3 in clause (ii).

4 **SEC. 8063. CREDIT FOR STATE DEATH TAXES.**

5 (a) Part II of subchapter A of chapter 11 is amended  
6 by striking section 2011 (and by striking the item relating  
7 to such section in the table of sections for such subpart).

8 (b) Subchapter A of chapter 13 is amended by strik-  
9 ing section 2604 (and by striking the item relating to such  
10 section in the table of sections for such subpart).

11 **SEC. 8064. FAMILY-OWNED BUSINESS INTEREST.**

12 Part IV of subchapter A of chapter 11 is amended  
13 by striking section 2057 (and by striking the item relating  
14 to such section in the table of sections for such part).

15 **SEC. 8065. PROPERTY WITHIN THE UNITED STATES.**

16 Subsection (c) of section 2104 is amended by striking  
17 “With respect to estates of decedents dying after Decem-  
18 ber 31, 1969, deposits” and inserting “Deposits”.

19 **SEC. 8066. REPEAL OF DEADWOOD PROVISIONS RELATING**  
20 **TO EMPLOYMENT TAXES.**

21 (a) **TAX ON EMPLOYEES.**—Subsection (a) of section  
22 3101 is amended by striking “the following percentages”  
23 and all that follows and inserting “6.2 percent of the  
24 wages (as defined in section 3121(a)) received by him with  
25 respect to employment (as defined in section 3121(b)).”.

1 (b) TAX ON EMPLOYERS.—

2 (1) Subsection (a) of section 3111 is amended  
3 by striking “the following percentages” and all that  
4 follows and inserting “6.2 percent of the wages (as  
5 defined in section 3121(a)) paid by him with respect  
6 to employment (as defined in section 3121(b)).”

7 (2) Subsection (b) of section 3111 is amended  
8 by striking “the following percentages” and all that  
9 follows and inserting “1.45 percent of the wages (as  
10 defined in section 3121(a)) paid by him with respect  
11 to employment (as defined in section 3121(b)).”

12 (3) Section 3111 is amended by striking sub-  
13 section (d) and redesignating subsection (e) as sub-  
14 section (d).

15 (c) TIER 2 TAX ON EMPLOYEES.—Subsection (b) of  
16 section 3201 is amended to read as follows:

17 “(b) TIER 2 TAX.—In addition to other taxes, there  
18 is hereby imposed on the income of each employee a tax  
19 equal to the percentage determined under section 3241 for  
20 any calendar year of the compensation received during  
21 such calendar year by such employee for services rendered  
22 by such employee.”.

23 (d) RATE OF TIER 2 TAX ON EMPLOYEE REP-  
24 RESENTATIVES.—Subsection (b) of section 3211 is  
25 amended to read as follows:

1       “(b) TIER 2 TAX.—In addition to other taxes, there  
2 is hereby imposed on the income of each employee rep-  
3 resentative a tax equal to the percentage determined under  
4 section 3241 for any calendar year of the compensation  
5 received during such calendar year by such employee rep-  
6 resentative for services rendered by such employee rep-  
7 resentative.”.

8       (e) TIER 2 TAX ON EMPLOYERS.—

9           (1) Subsection (b) of section 3221 is amended  
10 to read as follows:

11       “(b) TIER 2 TAX.—In addition to other taxes, there  
12 is hereby imposed on the income of each employer a tax  
13 equal to the percentage determined under section 3241 for  
14 any calendar year of the compensation paid during such  
15 calendar year by such employer for services rendered for  
16 such employer.”.

17           (2) Section 3221 is amended by striking sub-  
18 section (d) and redesignating subsection (e) as sub-  
19 section (d).

20       (f) EMPLOYEE UNDER RAILROAD RETIREMENT SYS-  
21 TEM.—Subsection (b) of section 3231 is amended by is  
22 amended by striking “; except” and all that follows and  
23 inserting a period.

24       (g) DEFINITION OF WAGES.—

1           (1) Section 3121(b) is amended by striking  
2 paragraph (17).

3           (2) Section 210(a) of the Social Security Act is  
4 amended by striking paragraph (17).

5 (h) CREDITS AGAINST UNEMPLOYMENT TAX.—

6           (1) Paragraph (4) of section 3302(f) is amend-  
7 ed—

8                   (A) by striking “subsection—” and all that  
9 follows through “ (A) in general—The” and in-  
10 sserting “subsection, the”,

11                   (B) by striking subparagraph (B),

12                   (C) by redesignating clauses (i) and(ii) as  
13 subparagraphs (A) and (B), respectively, and

14                   (D) by moving the text of such subpara-  
15 graphs (as so redesignated) 2 ems to the left.

16           (2) Paragraph (5) of section 3302(f) is amend-  
17 ed by striking subparagraph (D) and by redesign-  
18 ating subparagraph (E) as subparagraph (D).

19           (i) DOMESTIC SERVICE EMPLOYMENT TAXES.—Sec-  
20 tion 3510(b) is amended by striking paragraph (4).

21 **SEC. 8067. LUXURY PASSENGER AUTOMOBILES.**

22           (a) IN GENERAL.—Chapter 31 is amended by strik-  
23 ing subchapter A (and by striking the item relating to  
24 such subchapter in the table of sections for such chapter).

25           (b) CONFORMING AMENDMENTS.—

1           (1) Section 4293 is amended by striking “sub-  
2       chapter A of chapter 31,”.

3           (2) Section 4221 is amended—

4               (A) in subsections (a) and (d)(1), by strik-  
5       ing “subchapter A or” and inserting “sub-  
6       chapter”,

7               (B) in subsection (a), by striking “In the  
8       case of taxes imposed by subchapter A of chap-  
9       ter 31, paragraphs (1), (3), (4), and (5) shall  
10      not apply.”, and

11              (C) in subsection (c), by striking “4001(c),  
12      4001(d)”.

13           (3) Section 4222 is amended by striking  
14      “4001(c), 4001(d)”.

15   **SEC. 8068. TRANSPORTATION BY AIR.**

16      Section 4261(e) is amended—

17           (1) in paragraph (1) by striking subparagraph  
18      (C), and

19           (2) by striking paragraph (5).

20   **SEC. 8069. TAXES ON FAILURE TO DISTRIBUTE INCOME.**

21      (a) Paragraph (2) of section 4942(f) is amended by  
22      striking the semicolon at the end of subparagraph (B) and  
23      inserting “, and”, by striking “; and” at the end of sub-  
24      paragraph (C) and inserting a period, and by striking sub-  
25      paragraph (D).

1 (b) Subsection (g) of section 4942 (as amended by  
2 this Act) is amended—

3 (1) by striking “For all taxable years beginning  
4 on or after January 1, 1975, subject” in paragraph  
5 (2)(A) and inserting “Subject”, and

6 (2) by striking paragraph (4).

7 (c) Section 4942(i)(2) is amended by striking “begin-  
8 ning after December 31, 1969, and”.

9 **SEC. 8070. TAXES ON TAXABLE EXPENDITURES.**

10 Section 4945(f) is amended by striking “(excluding  
11 therefrom any preceding taxable year which begins before  
12 January 1, 1970)”.

13 **SEC. 8071. DEFINITIONS AND SPECIAL RULES.**

14 Section 4682 is amended by striking subsection (h).

15 **SEC. 8072. RETURNS.**

16 Subsection (a) of section 6039D is amended by strik-  
17 ing “beginning after December 31, 1984,”.

18 **SEC. 8073. INFORMATION RETURNS.**

19 Subsection (c) of section 6060 is amended by striking  
20 “year” and all that follows and inserting “year.”.

21 **SEC. 8074. ABATEMENTS.**

22 Section 6404(f) is amended by striking paragraph  
23 (3).



1 **SEC. 8075. FAILURE BY CORPORATION TO PAY ESTIMATED**  
2 **INCOME TAX.**

3 Clause (i) of section 6655(g)(4)(A) is amended by  
4 striking “(or the corresponding provisions of prior law)”.

5 **SEC. 8076. REPEAL OF 2008 RECOVERY REBATES.**

6 (a) IN GENERAL.—Subchapter B of chapter 65 is  
7 amended by striking section 6428 (and by striking the  
8 item relating to such section in the table of sections for  
9 such subchapter).

10 (b) CONFORMING AMENDMENTS.—

11 (1) Section 6211(b)(4)(A) is amended by strik-  
12 ing “6428,”.

13 (2) Section 6213(g)(2)(L) is amended by strik-  
14 ing “32, or 6428” and inserting “or 32”.

15 (3) Paragraph (2) of section 1324(b) of title  
16 31, United States Code, is amended by striking “or  
17 6428”.

18 **SEC. 8077. REPEAL OF ADVANCE PAYMENT OF PORTION OF**  
19 **INCREASED CHILD CREDIT FOR 2003.**

20 Subchapter B of chapter 65 is amended by striking  
21 section 6429 (and by striking the item relating to such  
22 section in the table of sections for such subchapter).

23 **SEC. 8078. REPEAL OF PROVISIONS RELATED TO COBRA**  
24 **PREMIUM ASSISTANCE.**

25 (a) IN GENERAL.—Subchapter B of chapter 65 is  
26 amended by striking section 6432 (and by striking the

1 item relating to such section in the table of sections for  
2 such subchapter).

3 (b) NOTIFICATION REQUIREMENT.—Part I of sub-  
4 chapter B of chapter 68 is amended by striking section  
5 6720C (and by striking the item relating to such section  
6 in the table of sections for such part).

7 (c) EXCLUSION FROM GROSS INCOME.—Part III of  
8 subchapter B of chapter 1 is amended by striking section  
9 139C (and by striking the item relating to such section  
10 in the table of sections for such part).

11 **SEC. 8079. RETIREMENT.**

12 Section 7447(i)(3)(B)(ii) is amended by striking “at  
13 4 percent per annum to December 31, 1947, and at 3 per-  
14 cent per annum thereafter”, and inserting “at 3 percent  
15 per annum”.

16 **SEC. 8080. ANNUITIES TO SURVIVING SPOUSES AND DE-**  
17 **PENDENT CHILDREN OF JUDGES.**

18 (a) Paragraph (2) of section 7448(a) is amended by  
19 striking “or under section 1106 of the Internal Revenue  
20 Code of 1939” and by striking “or pursuant to section  
21 1106(d) of the Internal Revenue Code of 1939”.

22 (b) Subsection (g) of section 7448 is amended by  
23 striking “or other than pursuant to section 1106 of the  
24 Internal Revenue Code of 1939”.

1 (c) Subsections (g), (j)(1), and (j)(2) of section 7448  
2 are each amended by striking “at 4 percent per annum  
3 to December 31, 1947, and at 3 percent per annum there-  
4 after” and inserting “at 3 percent per annum”.

5 **SEC. 8081. MERCHANT MARINE CAPITAL CONSTRUCTION**  
6 **FUNDS.**

7 Paragraph (4) of section 7518(g) is amended by  
8 striking “any nonqualified withdrawal” and all that fol-  
9 lows through “shall be determined” and inserting “any  
10 nonqualified withdrawal shall be determined”.

11 **SEC. 8082. VALUATION TABLES.**

12 (a) Subsection (c) of section 7520 is amended by  
13 striking paragraph (2) and by redesignating paragraph  
14 (3) as paragraph (2).

15 (b) Paragraph (2) of section 7520(c) of such Code,  
16 as so redesignated, is amended—

17 (1) by striking “Not later than December 31,  
18 1989, the” and inserting “The”, and

19 (2) by striking “thereafter” in the last sentence  
20 thereof.

21 **SEC. 8083. DEFINITION OF EMPLOYEE.**

22 Section 7701(a)(20) is amended by striking “chapter  
23 21” and all that follows and inserting “chapter 21.”.

1 **SEC. 8084. EFFECTIVE DATE.**

2 (a) GENERAL RULE.—Except as otherwise provided  
3 in subsection (b) of this section and the preceding sections  
4 of this subtitle, the amendments made by this subtitle  
5 shall take effect on the date of enactment of this Act.

6 (b) SAVINGS PROVISION.—If—

7 (1) any provision amended or repealed by the  
8 amendments made by this subtitle applied to—

9 (A) any transaction occurring before the  
10 date of the enactment of this Act,

11 (B) any property acquired before such date  
12 of enactment, or

13 (C) any item of income, loss, deduction, or  
14 credit taken into account before such date of  
15 enactment, and

16 (2) the treatment of such transaction, property,  
17 or item under such provision would (without regard  
18 to the amendments or repeals made by this subtitle)  
19 affect the liability for tax for periods ending after  
20 such date of enactment,

21 nothing in the amendments or repeals made by this sub-  
22 title shall be construed to affect the treatment of such  
23 transaction, property, or item for purposes of determining  
24 liability for tax for periods ending after such date of enact-  
25 ment.

1 **Subtitle B—Conforming Amend-**  
2 **ments Related to Multiple Sec-**  
3 **tions**

4 **SEC. 8101. CONFORMING AMENDMENTS RELATED TO MUL-**  
5 **TIPLE SECTIONS.**

6 (a) GENERAL BUSINESS CREDIT.—Section 38(b), as  
7 amended by the preceding provisions of this Act, is amend-  
8 ed—

9 (1) by redesignating paragraphs (4), (5), (7),  
10 (8), (13), (20), and (33) as paragraphs (3), (4), (5),  
11 (6), (7), (8), and (9), respectively,

12 (2) by adding “plus” at the end of paragraph  
13 (8) (as so redesignated), and

14 (3) by striking the comma at the end of para-  
15 graph (9) (as so redesignated) and inserting a pe-  
16 riod.

17 (b) ADJUSTMENTS TO BASIS.—Section 1016(a), as  
18 amended by the preceding provisions of this Act, is amend-  
19 ed—

20 (1) by striking the last two sentences of para-  
21 graph (2),

22 (2) in paragraph (4) by striking “(not includ-  
23 ing” and all that follows through “1921)”,

24 (3) by striking paragraph (12),

1           (4) by redesignating paragraphs (11), (14),  
2           (16), (17), (18), (21), (23), (26), (38), and (39) as  
3           paragraphs (9), (10), (11), (12), (13), (14), (15),  
4           (16), (17), and (18), respectively, and

5           (5) by adding “and” at the end of paragraph  
6           (17) (as so redesignated).

7           (c) HOLDING PERIOD OF PROPERTY.—Section 1223,  
8           as amended by the preceding provisions of this Act, is  
9           amended by redesignating paragraphs (9), (10), (11),  
10          (12), and (15) as paragraphs (6), (7), (8), (9) and (10),  
11          respectively.

12          (d) CORPORATE PREFERENCE ITEMS.—

13           (1) IN GENERAL.—Subchapter B of chapter 1,  
14           as amended by this Act, is amended by striking part  
15           XI (and by striking the item relating to such part  
16           from the table of parts for such subchapter).

17           (2) PRESERVATION OF SPECIAL RULE FOR  
18           TREATMENT OF INTANGIBLE DRILLING COSTS.—

19           Section 263(c) is amended—

20           (A) by striking all that precedes “and ex-  
21           cept as provided in subsection (i)” and inserting  
22           the following:

23           “(c) INTANGIBLE DRILLING AND DEVELOPMENT  
24           COSTS IN THE CASE OF OIL AND GAS WELLS AND GEO-  
25           THERMAL WELLS.—

1           “(1) IN GENERAL.—Notwithstanding subsection  
2 (a),” and

3           (B) by adding at the end the following new  
4 paragraph:

5           “(2) REDUCTION FOR INTEGRATED OIL COMPA-  
6 NIES.—

7           “(A) IN GENERAL.—In the case of a cor-  
8 poration which is an integrated oil company,  
9 the amount allowable as a deduction for any  
10 taxable year (determined without regard to this  
11 paragraph) under paragraph (1) shall be re-  
12 duced by 30 percent.

13           “(B) AMORTIZATION OF DISALLOWED  
14 AMOUNTS.—The amount not allowable as a de-  
15 duction under paragraph (1) for any taxable  
16 year by reason of subparagraph (A) shall be al-  
17 lowable as a deduction ratably over the 60-  
18 month period beginning with the month in  
19 which the costs are paid or incurred.

20           “(C) DISPOSITIONS.—For purposes of sec-  
21 tion 1254, any deduction under subparagraph  
22 (B) shall be treated as a deduction allowable  
23 under paragraph (1).

24           “(D) INTEGRATED OIL COMPANY.—For  
25 purposes of this paragraph, the term ‘inte-

1           grated oil company’ means, with respect to any  
2           taxable year, any producer of crude oil to whom  
3           subsection (c) of section 613A does not apply  
4           by reason of paragraph (2) or (4) of section  
5           613A(d) (as such provisions were in effect be-  
6           fore their repeal by the Tax Reform Act of  
7           2014).

8           “(E) COORDINATION WITH COST DEPLE-  
9           TION.—The portion of the adjusted basis of any  
10          property which is attributable to amounts to  
11          which subparagraph (A) applied shall not be  
12          taken into account for purposes of determining  
13          depletion under section 611.”.

14          (3) PRESERVATION OF LIMITATION ON CERTAIN  
15          INTEREST ON INDEBTEDNESS OF FINANCIAL INSTI-  
16          TUTIONS.—

17                 (A) IN GENERAL.—Section 163 is amended  
18                 by redesignating subsection (n) as subsection  
19                 (o) and by inserting after subsection (m) the  
20                 following new subsection:

21          “(n) LIMITATION ON CERTAIN INTEREST ON IN-  
22          DEBTEDNESS OF FINANCIAL INSTITUTIONS.—

23                 “(1) IN GENERAL.—For purposes of this sub-  
24                 title, in the case of a corporation, the amount allow-  
25                 able as a deduction under this chapter (determined



1 without regard to this subsection) with respect to  
2 the amount described in paragraph (2) shall be re-  
3 duced by 20 percent.

4 “(2) INTEREST ON DEBT TO CARRY TAX-EX-  
5 EMPT OBLIGATIONS ACQUIRED AFTER DECEMBER 31,  
6 1982, AND BEFORE AUGUST 8, 1986.—

7 “(A) IN GENERAL.—In the case of a finan-  
8 cial institution which is a bank (as defined in  
9 section 585(a)(2)), the amount described in this  
10 paragraph is the amount of interest on indebt-  
11 edness incurred or continued to purchase or  
12 carry obligations acquired after December 31,  
13 1982, and before August 8, 1986, the interest  
14 on which is exempt from taxes for the taxable  
15 year, to the extent that a deduction would (but  
16 for this paragraph or section 265(b)) be allow-  
17 able with respect to such interest for such tax-  
18 able year.

19 “(B) DETERMINATION OF INTEREST ALLO-  
20 CABLE TO INDEBTEDNESS ON TAX-EXEMPT OB-  
21 LIGATIONS.—Unless the taxpayer (under regu-  
22 lations prescribed by the Secretary) establishes  
23 otherwise, the amount determined under sub-  
24 paragraph (A) shall be an amount which bears  
25 the same ratio to the aggregate amount allow-

1           able (determined without regard to this section  
2           and section 265(b)) to the taxpayer as a deduc-  
3           tion for interest for the taxable year as—

4                   “(i) the taxpayer’s average adjusted  
5                   basis (within the meaning of section 1016)  
6                   of obligations described in subparagraph  
7                   (A), bears to

8                   “(ii) such average adjusted basis for  
9                   all assets of the taxpayer.

10           “(C) INTEREST.—For purposes of this  
11           paragraph, the term ‘interest’ includes amounts  
12           (whether or not designated as interest) paid in  
13           respect of deposits, investment certificates, or  
14           withdrawable or repurchasable shares.

15           “(D) APPLICATION OF SUBPARAGRAPH TO  
16           CERTAIN OBLIGATIONS ISSUED AFTER AUGUST  
17           7, 1986.—For application of this subparagraph  
18           to certain obligations issued after August 7,  
19           1986, see section 265(b)(3) (as in effect before  
20           the enactment of the Tax Reform Act of 2014).  
21           That portion of any obligation not taken into  
22           account under paragraph (2)(A) of section  
23           265(b) (as so in effect) by reason of paragraph  
24           (7) of such section shall be treated for purposes

1 of this section as having been acquired on Au-  
2 gust 7, 1986.”.

3 (B) CONFORMING AMENDMENTS.—

4 (i) Section 1277(c) is amended by  
5 striking “section 291(e)(1)(B)(ii)” and in-  
6 serting “section 163(n)(2)(B)”.

7 (ii) Section 1363(b)(3), as amended  
8 by the preceding provisions of this Act, is  
9 amended by striking “section 291” and in-  
10 serting “section 163(n)”.

11 (4) EFFECTIVE DATE.—Except as otherwise  
12 provided in this Act with respect to amendments  
13 made to section 291 of the Internal Revenue Code  
14 of 1986, the amendments made this subsection shall  
15 apply to taxable years beginning after December 31,  
16 2014.

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