

112TH CONGRESS
1ST SESSION

S. 727

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

IN THE SENATE OF THE UNITED STATES

APRIL 5, 2011

Mr. WYDEN (for himself, Mr. COATS, and Mr. BEGICH) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

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

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

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE;**

4 **TABLE OF CONTENTS.**

5 (a) **SHORT TITLE.**—This Act may be cited as the
6 “Bipartisan Tax Fairness and Simplification Act of
7 2011”.

8 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
9 wise expressly provided, whenever in this Act an amend-

1 ment or repeal is expressed in terms of an amendment
 2 to, or repeal of, a section or other provision, the reference
 3 shall be considered to be made to a section or other provi-
 4 sion of the Internal Revenue Code of 1986.

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

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

TITLE I—INDIVIDUAL INCOME TAX REFORMS

- Sec. 101. Three progressive individual income tax rates.
- Sec. 102. Increase in basic standard deduction.
- Sec. 103. Permanent extension of expansion of earned income credit.
- Sec. 104. Permanent extension of expansion of dependent care credit.
- Sec. 105. Permanent extension of child tax credit.
- Sec. 106. Permanent repeal of limitations on personal exemptions and itemized deductions.
- Sec. 107. Elimination of individual miscellaneous itemized deductions.
- Sec. 108. Treatment of capital gains and dividends as ordinary income.
- Sec. 109. Partial exclusion of capital gains.
- Sec. 110. Partial exclusion of dividends received by individuals.
- Sec. 111. Nonrefundable personal credit for interest on State and local bonds.
- Sec. 112. Retirement savings accounts.
- Sec. 113. American Dream Accounts.
- Sec. 114. Consolidation of tax credits and deductions for education expenses.
- Sec. 115. Termination of various exclusions, exemptions, deductions, and credits.
- Sec. 116. Simplified tax return preparation.

TITLE II—CORPORATE AND BUSINESS INCOME TAX REFORMS

- Sec. 201. Corporate flat tax.
- Sec. 202. Treatment of travel on corporate aircraft.
- Sec. 203. Unlimited expensing of depreciable assets and inventories for certain small businesses.
- Sec. 204. Termination of various preferential treatments.
- Sec. 205. Pass-through business entity transparency.
- Sec. 206. Modification of effective date of leasing provisions of the American Jobs Creation Act of 2004.
- Sec. 207. Modifications of foreign tax credit rules applicable to large integrated oil companies which are dual capacity taxpayers.
- Sec. 208. Repeal of lower of cost or market value of inventory rule.
- Sec. 209. Reinstitution of per country foreign tax credit.
- Sec. 210. Application of rules treating inverted corporations as domestic corporations to certain transactions occurring after March 20, 2002.
- Sec. 211. Indexing corporate interest deduction for inflation.
- Sec. 212. Prohibition of advance refunding of bonds.

Sec. 213. CBO study on government spending on businesses.

TITLE III—REPEAL OF ALTERNATIVE MINIMUM TAX

Sec. 301. Repeal of alternative minimum tax.

TITLE IV—IMPROVEMENTS IN TAX COMPLIANCE

Sec. 401. Increase in information return penalties.

Sec. 402. E-filing requirement for certain large organizations.

Sec. 403. Implementation of standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.

Sec. 404. Expansion of IRS access to information in National Directory of New Hires for tax administration purposes.

Sec. 405. Modification of criminal penalties for willful failures involving tax payments and filing requirements.

Sec. 406. Penalties for failure to file certain returns electronically.

Sec. 407. Reporting on identification of beneficial owners of certain foreign financial accounts.

TITLE V—MISCELLANEOUS PROVISIONS

Sec. 501. Allowance of deduction for dividends received from controlled foreign corporations for 2011.

Sec. 502. Denial of deduction for punitive damages.

Sec. 503. Application of Medicare payroll tax to all State and local government employees.

Sec. 504. Corrections for CPI overstatement in cost-of-living indexation.

TITLE VI—TECHNICAL AND CONFORMING AMENDMENTS

Sec. 601. Technical and conforming amendments.

1 **SEC. 2. PURPOSE.**

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

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

7 (A) repealing the individual alternative
8 minimum tax,

9 (B) increasing the basic standard deduc-
10 tion and maintaining itemized deductions for

1 mortgage interest and charitable contributions,
2 and

3 (C) reducing the number of exclusions, ex-
4 emptions, deductions, and credits,

5 (2) to make the Federal corporate income tax
6 rate a flat 24 percent, repeal the corporate alter-
7 native minimum tax, and eliminate special tax pref-
8 erences that favor particular types of businesses or
9 activities, and

10 (3) to partially offset the Federal budget deficit
11 through the increased fiscal responsibility resulting
12 from these reforms.

13 **TITLE I—INDIVIDUAL INCOME**
14 **TAX REFORMS**

15 **SEC. 101. THREE PROGRESSIVE INDIVIDUAL INCOME TAX**
16 **RATES.**

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

“If taxable income is:	The tax is:
Not over \$75,000	15% of taxable income.
Over \$75,000 but not over \$140,000.	\$11,250, plus 25% of the excess over \$75,000.
Over \$140,000	\$27,500, plus 35% of the excess over \$140,000”.

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

“If taxable income is:	The tax is:
Not over \$56,250	15% of taxable income.

“If taxable income is:	The tax is:
Over \$56,250 but not over \$105,000.	\$8,437.50, plus 25% of the excess over \$56,250.
Over \$105,000	\$20,625, plus 35% of the excess over \$105,000”.

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

“If taxable income is:	The tax is:
Not over \$37,500	15% of taxable income.
Over \$37,500 but not over \$70,000.	\$5,625, plus 25% of the excess over \$37,500.
Over \$70,000	\$13,750, plus 35% of the excess over \$70,000”.

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

“If taxable income is:	The tax is:
Not over \$37,500	15% of taxable income.
Over \$37,500 but not over \$70,000.	\$5,625, plus 25% of the excess over \$37,500.
Over \$70,000	\$13,750, plus 35% of the excess over \$70,000”.

8 (e) REPEAL OF EGTRRA SUNSET.—

9 (1) IN GENERAL.—Title IX of the Economic
10 Growth and Tax Relief Reconciliation Act of 2001
11 shall not apply to section 101 (relating to income
12 tax rates for individuals) and section 302 (relating
13 to 15 percent bracket) of such Act.

14 (2) CONFORMING AMENDMENTS.—

15 (A) Section 1 is amended by striking sub-
16 section (i).

1 (B) Section 1(g)(7)(B)(ii)(II) is amended
2 by striking “10 percent” and inserting “15 per-
3 cent”.

4 (C) Section 3402(p)(1)(B) is amended by
5 striking “3 lowest”.

6 (D) Section 3402(p)(2) is amended by
7 striking “10 percent” and inserting “15 per-
8 cent”.

9 (E) Section 3402(q)(1) is amended by
10 striking “third” and inserting “second”.

11 (F) Section 3402(r)(3) is amended by
12 striking “fourth” and inserting “second”.

13 (G) Section 3406(a)(1) is amended by
14 striking “fourth” and inserting “second”.

15 (H) Section 13273 of the Revenue Rec-
16 onciliation Act of 1993 is amended by striking
17 “third” and inserting “second”.

18 (f) CONFORMING AMENDMENTS TO INFLATION AD-
19 JUSTMENT.—

20 (1) Section 1(f) is amended—

21 (A) by striking “1993” in paragraph (1)
22 and inserting “2012”,

23 (B) by striking “except as provided in
24 paragraph (8)” in paragraph (2)(A),

1 (C) by striking “1992” in paragraph
2 (3)(B) and inserting “2011”,

3 (D) by striking paragraphs (7) and (8),
4 and

5 (E) by striking “PHASEOUT OF MARRIAGE
6 PENALTY IN 15-PERCENT BRACKET;” in the
7 heading thereof.

8 (2) The Internal Revenue Code of 1986 is
9 amended by striking “calendar year 1992” each
10 place it appears and inserting “calendar year 2011”.

11 (g) EFFECTIVE DATES.—

12 (1) IN GENERAL.—Except as provided in para-
13 graph (2), the amendments made by this section
14 shall apply to taxable years beginning after Decem-
15 ber 31, 2011.

16 (2) AMENDMENTS TO WITHHOLDING PROVI-
17 SIONS.—The amendments made by subparagraphs
18 (C) through (H) of subsection (e)(2) shall apply to
19 amounts paid after the 60th day after the date of
20 the enactment of this Act.

21 **SEC. 102. INCREASE IN BASIC STANDARD DEDUCTION.**

22 (a) IN GENERAL.—Paragraph (2) of section 63(c) is
23 amended to read as follows:

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

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

7 “(i) a joint return, or

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

10 “(B) \$22,500 in the case of a head of
11 household (as defined in section 2(b)), or

12 “(C) \$15,000 in any other case, reduced
13 by any deduction allowed under section
14 62(a)(22) for such taxable year.”.

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

18 (c) REPEAL OF EGTRRA SUNSET.—Title IX of the
19 Economic Growth and Tax Relief Reconciliation Act of
20 2001 shall not apply to section 301 of such Act (relating
21 to standard deduction).

22 (d) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to taxable years beginning after
24 December 31, 2011.

1 **SEC. 103. PERMANENT EXTENSION OF EXPANSION OF**
2 **EARNED INCOME CREDIT.**

3 (a) REPEAL OF EGTRRA SUNSET.—Title IX of the
4 Economic Growth and Tax Relief Reconciliation Act of
5 2001 shall not apply to section 303 of such Act (relating
6 to earned income tax credit).

7 (b) EFFECTIVE DATE.—Subsection (a) shall apply to
8 taxable years beginning after December 31, 2011.

9 **SEC. 104. PERMANENT EXTENSION OF EXPANSION OF DE-**
10 **PENDENT CARE CREDIT.**

11 (a) REPEAL OF EGTRRA SUNSET.—Title IX of the
12 Economic Growth and Tax Relief Reconciliation Act of
13 2001 shall not apply to section 204 of such Act (relating
14 to dependent care credit).

15 (b) EFFECTIVE DATE.—Subsection (a) shall apply to
16 taxable years beginning after December 31, 2011.

17 **SEC. 105. PERMANENT EXTENSION OF CHILD TAX CREDIT.**

18 (a) REPEAL OF EGTRRA SUNSET.—Title IX of the
19 Economic Growth and Tax Relief Reconciliation Act of
20 2001 shall not apply to section 201 (relating to modifica-
21 tions to child tax credit) and section 203 (relating to re-
22 funds disregarded in the administration of Federal pro-
23 grams and federally assisted programs) of such Act.

24 (b) EFFECTIVE DATE.—Subsection (a) shall apply to
25 taxable years beginning after December 31, 2011.

1 **SEC. 106. PERMANENT REPEAL OF LIMITATIONS ON PER-**
2 **SONAL EXEMPTIONS AND ITEMIZED DEDUC-**
3 **TIONS.**

4 (a) REPEAL OF EGTRRA SUNSET.—Title IX of the
5 Economic Growth and Tax Relief Reconciliation Act of
6 2001 shall not apply to section 102 (relating to repeal of
7 phaseout of personal exemptions) and 103 (relating to
8 phaseout of overall limitation on itemized deductions) of
9 such Act.

10 (b) EFFECTIVE DATE.—Subsection (a) shall apply to
11 taxable years beginning after December 31, 2011.

12 **SEC. 107. ELIMINATION OF INDIVIDUAL MISCELLANEOUS**
13 **ITEMIZED DEDUCTIONS.**

14 (a) IN GENERAL.—Subsection (a) of section 67 is
15 amended to read as follows:

16 “(a) GENERAL RULE.—In the case of an individual,
17 miscellaneous deductions shall not be allowed for any tax-
18 able year beginning after December 31, 2011.”.

19 (b) CONFORMING AMENDMENTS.—

20 (1) The heading for section 67 is amended by
21 striking “**2-PERCENT FLOOR ON**” and inserting
22 “**TREATMENT OF**”.

23 (2) The item relating to section 67 in the table
24 of sections for part I of subchapter B of chapter 1
25 is amended by striking “2-percent floor on” and in-
26 serting “Treatment of”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2011.

4 **SEC. 108. TREATMENT OF CAPITAL GAINS AND DIVIDENDS**
5 **AS ORDINARY INCOME.**

6 (a) ACCELERATION OF JGTRRA SUNSET.—Section
7 303 of the Jobs and Growth Tax Relief Reconciliation Act
8 of 2003, as amended by section 102(a) of the Tax Relief,
9 Unemployment Insurance Reauthorization, and Job Cre-
10 ation Act of 2010, is amended by striking “December 31,
11 2012” and inserting “December 31, 2011”.

12 (b) TREATMENT OF CAPITAL GAINS AND DIVIDENDS
13 AS ORDINARY INCOME.—Section 1(h), after the applica-
14 tion of subsection (a), is amended by adding at the end
15 the following new paragraph:

16 “(11) TERMINATION.—This subsection shall not
17 apply to taxable years beginning after December 31,
18 2011.”.

19 **SEC. 109. PARTIAL EXCLUSION OF CAPITAL GAINS.**

20 (a) PARTIAL EXCLUSION.—Part III of subchapter B
21 of chapter 1 is amended by inserting before section 140
22 the following new section:

23 **“SEC. 139F. CAPITAL GAINS PARTIAL EXCLUSION.**

24 “For any taxable year, gross income shall not in-
25 clude—

1 “(1) 35 percent of so much of any gain from
2 the sale or exchange during such taxable year of
3 capital assets held for more than 6 months but not
4 more than 1 year as does not exceed \$500,000, plus

5 “(2) 35 percent of any long-term capital gain
6 for such taxable year (determined after the applica-
7 tion of section 1202).”.

8 (b) CLERICAL AMENDMENT.—The table of sections
9 for part III of subchapter B of chapter 1 is amended by
10 inserting before the item relating to section 140 the fol-
11 lowing new item:

 “Sec. 139F. Capital gains partial exclusion.”.

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 December 31, 2011.

15 **SEC. 110. PARTIAL EXCLUSION OF DIVIDENDS RECEIVED**
16 **BY INDIVIDUALS.**

17 (a) GENERAL RULE.—Part III of subchapter B of
18 chapter 1 is amended by inserting after section 115 the
19 following new section:

20 **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS RECEIVED**
21 **BY INDIVIDUALS.**

22 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
23 come does not include 35 percent of the qualified dividend
24 income received during the taxable year by an individual.

1 “(b) QUALIFIED DIVIDEND INCOME.—For purposes
2 of this subsection—

3 “(1) IN GENERAL.—The term ‘qualified divi-
4 dend income’ means dividends received with respect
5 to any share of stock of—

6 “(A) any domestic corporation, or

7 “(B) any foreign corporation but only if
8 such share of stock is readily tradable on an es-
9 tablished securities market.

10 “(2) CERTAIN DIVIDENDS EXCLUDED.—Such
11 term shall not include—

12 “(A) any dividend from a corporation
13 which for the taxable year of the corporation in
14 which the distribution is made, or the preceding
15 taxable year, is a corporation exempt from tax
16 under section 501 or 521,

17 “(B) any amount allowed as a deduction
18 under section 591 (relating to deduction for
19 dividends paid by mutual savings banks, etc.),
20 and

21 “(C) any dividend described in section
22 404(k).

23 “(3) EXCLUSION OF DIVIDENDS OF CERTAIN
24 FOREIGN CORPORATIONS.—Such term shall not in-
25 clude any dividend from a foreign corporation which

1 for the taxable year of the corporation in which the
2 distribution was made, or the preceding taxable
3 year, is a foreign personal holding company (as de-
4 fined in section 552), a foreign investment company
5 (as defined in section 1246(b)), or a passive foreign
6 investment company (as defined in section 1297).

7 “(4) COORDINATION WITH SECTION 246(c).—
8 Such term shall not include any dividend on any
9 share of stock—

10 “(A) with respect to which the holding pe-
11 riod requirements of section 246(c) are not met,
12 or

13 “(B) to the extent that the taxpayer is
14 under an obligation (whether pursuant to a
15 short sale or otherwise) to make related pay-
16 ments with respect to positions in substantially
17 similar or related property.

18 “(c) SPECIAL RULES.—

19 “(1) AMOUNTS TAKEN INTO ACCOUNT AS IN-
20 VESTMENT INCOME.—Qualified dividend income
21 shall not include any amount which the taxpayer
22 takes into account as investment income under sec-
23 tion 163(d)(4)(B).

24 “(2) COORDINATION WITH FOREIGN TAX CRED-
25 IT AND DEDUCTION.—No credit shall be allowed

1 under section 901, and no deduction shall be allowed
2 under this chapter, for any taxes paid or accrued
3 with respect to any income excludable under this
4 section.

5 “(3) EXTRAORDINARY DIVIDENDS.—If an indi-
6 vidual receives, with respect to any share of stock,
7 qualified dividend income from 1 or more dividends
8 which are extraordinary dividends (within the mean-
9 ing of section 1059(c)), any loss on the sale or ex-
10 change of such share shall, to the extent of such
11 dividends, be treated as long-term capital loss.

12 “(4) CERTAIN NONRESIDENT ALIENS INELI-
13 GIBLE FOR EXCLUSION.—In the case of a non-
14 resident alien individual, subsection (a) shall apply
15 only in determining the tax imposed for the taxable
16 year by sections 871(b)(1) and 877(b).

17 “(5) EXCLUSION DISREGARDED IN DETER-
18 MINING INCOME FOR CERTAIN PURPOSES.—Sub-
19 section (a) shall not apply for purposes of deter-
20 mining amounts of income under sections 32(i),
21 86(b), 135(b), 137(b), 219(g), 221(b), 408A(c)(3),
22 469(i), and 530(c), or subpart A of part IV of sub-
23 chapter A.

24 “(6) TREATMENT OF DIVIDENDS FROM REGU-
25 LATED INVESTMENT COMPANIES AND REAL ESTATE

1 INVESTMENT TRUSTS.—A dividend from a regulated
2 investment company or real estate investment trust
3 shall be subject to the limitations prescribed in sec-
4 tions 854 and 857.”.

5 (b) EXCLUSION OF DIVIDENDS FROM INVESTMENT
6 INCOME.—The last sentence of subparagraph (B) of sec-
7 tion 163(d)(4) is amended to read as follows:

8 “Such term shall include qualified dividend income
9 (as defined in section 116(b)) only to the extent the tax-
10 payer elects to treat such income as investment income
11 for purposes of this subsection.”.

12 (c) TREATMENT OF DIVIDENDS FROM REGULATED
13 INVESTMENT COMPANIES.—

14 (1) Subsection (a) of section 854 is amended by
15 inserting “section 116 (relating to partial exclusion
16 of dividends received by individuals) and” after “For
17 purposes of”.

18 (2) Paragraph (1) of section 854(b) is amended
19 by redesignating subparagraph (B) as subparagraph
20 (C) and by inserting after subparagraph (A) the fol-
21 lowing new subparagraph:

22 “(B) EXCLUSION UNDER SECTION 116.—

23 “(i) IN GENERAL.—If the aggregate
24 dividends received by a regulated invest-
25 ment company during any taxable year are

1 less than 95 percent of its gross income,
2 then, in computing the exclusion under
3 section 116, rules similar to the rules of
4 subparagraph (A) shall apply.

5 “(ii) GROSS INCOME.—For purposes
6 of clause (i), in the case of 1 or more sales
7 or other dispositions of stock or securities,
8 the term ‘gross income’ includes only the
9 excess of—

10 “(I) the net short-term capital
11 gain from such sales or dispositions,
12 over

13 “(II) the net long-term capital
14 loss from such sales or dispositions.”.

15 (3) Subparagraph (C) of section 854(b)(1), as
16 redesignated by paragraph (2), is amended by strik-
17 ing “subparagraph (A)” and inserting “subpara-
18 graph (A) or (B)”.

19 (4) Paragraph (2) of section 854(b) is amended
20 by inserting “the exclusion under section 116 and”
21 after “for purposes of”.

22 (5) Subsection (b) of section 854 is amended by
23 adding at the end the following new paragraph:

24 “(5) COORDINATION WITH SECTION 116.—For
25 purposes of paragraph (1)(B), an amount shall be

1 treated as a dividend only if the amount is qualified
2 dividend income (within the meaning of section
3 116(b)).”.

4 (d) TREATMENT OF DIVIDENDS RECEIVED FROM
5 REAL ESTATE INVESTMENT TRUSTS.—Section 857(c) is
6 amended to read as follows:

7 “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-
8 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

9 “(1) SECTION 243.—For purposes of section
10 243 (relating to deductions for dividends received by
11 corporations), a dividend received from a real estate
12 investment trust which meets the requirements of
13 this part shall not be considered a dividend.

14 “(2) SECTION 116.—For purposes of section
15 116 (relating to exclusion of dividends), rules similar
16 to the rules of section 854(b)(1)(B) shall apply to
17 dividends received from a real estate trust which
18 meets the requirements of this part.”.

19 (e) CONFORMING AMENDMENTS.—

20 (1) Subsection (f) of section 301 is amended
21 adding at the end the following new paragraph:

22 “(4) For partial exclusion from gross income of
23 dividends received by individuals, see section 116.”.

1 (2) Paragraph (1) of section 306(a) is amended
2 by adding at the end the following new subpara-
3 graph:

4 “(D) TREATMENT AS DIVIDEND.—For
5 purposes of section 116, any amount treated as
6 ordinary income under this paragraph shall be
7 treated as a dividend received from the corpora-
8 tion.”.

9 (3)(A) Subpart C of part II of subchapter C of
10 chapter 1 is repealed.

11 (B)(i) Section 338(h) is amended by striking
12 paragraph (14).

13 (ii) Sections 467(c)(5)(C), 1255(b)(2), and
14 1257(d) are each amended by striking “,
15 341(e)(12),”.

16 (iii) The table of subparts for part II of sub-
17 chapter C of chapter 1 is amended by striking the
18 item related to subpart C.

19 (4) Section 531(a) is amended by inserting “90
20 percent (80 percent in the case of taxable years be-
21 ginning after 2007) of” after “equal to”.

22 (5) Section 541(a) is amended by inserting “90
23 percent (80 percent in the case of taxable years be-
24 ginning after 2007) of” after “equal to”.

1 (6) Section 584(c) is amended by adding at the
2 end the following new flush sentence:

3 “The proportionate share of each participant in the
4 amount of dividends received by the common trust fund
5 and to which section 116 applies shall be considered for
6 purposes of such paragraph as having been received by
7 such participant.”.

8 (7) Section 643(a) is amended by redesignating
9 paragraph (7) as paragraph (8) and by inserting
10 after paragraph (6) the following new paragraph:

11 “(7) EXCLUDED DIVIDENDS.—There shall be
12 included the amount of any dividends excluded from
13 gross income under section 116 (relating to partial
14 exclusion of dividends).”.

15 (8) Paragraph (5) of section 702(a) is amended
16 to read as follows:

17 “(5) dividends with respect to which section
18 116 or part VII of subchapter B applies,”.

19 (f) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 December 31, 2011.

1 **SEC. 111. NONREFUNDABLE PERSONAL CREDIT FOR INTER-**
 2 **EST ON STATE AND LOCAL BONDS.**

3 (a) IN GENERAL.—Subpart A of part IV of sub-
 4 chapter A of chapter 1 is amended by adding at the end
 5 the following new section:

6 **“SEC. 25E. INTEREST ON STATE AND LOCAL BONDS.**

7 “(a) IN GENERAL.—If a taxpayer other than a cor-
 8 poration holds a State or local bond on one or more inter-
 9 est payment dates of the bond during any taxable year,
 10 there shall be allowed as a credit against the tax imposed
 11 by this chapter for the taxable year an amount equal to
 12 the sum of the credits determined under subsection (b)
 13 with respect to such dates.

14 “(b) AMOUNT OF CREDIT.—The amount of the credit
 15 determined under this subsection with respect to any in-
 16 terest payment date for a State or local bond is 25 percent
 17 of the amount of interest payable by the issuer with re-
 18 spect to such date.

19 “(c) STATE OR LOCAL BOND.—

20 “(1) IN GENERAL.—For purposes of this sec-
 21 tion, the term ‘State or local bond’ means any bond
 22 issued as part of an issue if the interest on such
 23 bond would (but for this section) be excludable from
 24 gross income under section 103.

25 “(2) APPLICABLE RULES.—For purposes of ap-
 26 plying paragraph (1)—

1 “(A) for purposes of section 149(b), a
2 State or local bond shall not be treated as fed-
3 erally guaranteed by reason of the credit al-
4 lowed under subsection (a), and

5 “(B) for purposes of section 148, the yield
6 on a State or local bond shall be determined
7 without regard to the credit allowed under sub-
8 section (a).

9 “(d) INTEREST PAYMENT DATE.—For purposes of
10 this section, the term ‘interest payment date’ means any
11 date on which the holder of record of the State or local
12 bond is entitled to a payment of interest under such bond.

13 “(e) SPECIAL RULES.—

14 “(1) INTEREST ON STATE OR LOCAL BONDS IN-
15 CLUDIBLE IN GROSS INCOME FOR FEDERAL INCOME
16 TAX PURPOSES.—For purposes of this title, interest
17 on any State or local bond shall be includible in
18 gross income.

19 “(2) APPLICATION OF CERTAIN RULES.—Rules
20 similar to the rules of subsections (f), (g), (h), and
21 (i) of section 54A shall apply for purposes of the
22 credit allowed under subsection (a).

23 “(f) REGULATIONS.—The Secretary may prescribe
24 such regulations and other guidance as may be necessary
25 or appropriate to carry out this section.”.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Section 103(b) is amended by adding at the
3 end the following new paragraph:

4 “(4) INTEREST FOR WHICH CREDIT IS ALLOW-
5 ABLE.—The interest on any State or local bond for
6 which a credit under section 25E is allowable.”.

7 (2) The table of sections for subpart A of part
8 IV of subchapter A of chapter 1 is amended by add-
9 ing at the end the following new item:

“Sec. 25E. Interest on State and local bonds.”.

10 (c) TRANSITIONAL COORDINATION WITH STATE
11 LAW.—Except as otherwise provided by a State after the
12 date of the enactment of this Act, the interest on any
13 State or local bond (as defined in section 25E of the Inter-
14 nal Revenue Code of 1986, as added by this section) and
15 the amount of any credit determined under such section
16 with respect to such bond shall be treated for purposes
17 of the income tax laws of such State as being exempt from
18 Federal income tax.

19 (d) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to obligations issued after Decem-
21 ber 31, 2011.

22 **SEC. 112. RETIREMENT SAVINGS ACCOUNTS.**

23 (a) IN GENERAL.—Section 408A is amended to read
24 as follows:

1 **“SEC. 408A. RETIREMENT SAVINGS ACCOUNTS.**

2 “(a) IN GENERAL.—Except as provided in this sec-
3 tion, a retirement savings account shall be treated for pur-
4 poses of this title in the same manner as an individual
5 retirement plan.

6 “(b) RETIREMENT SAVINGS ACCOUNT.—For pur-
7 poses of this title, the term ‘retirement savings account’
8 means an individual retirement plan (as defined in section
9 7701(a)(37)) which—

10 “(1) is designated (in such manner as the Sec-
11 retary may prescribe) at the time of establishment
12 of the plan as a retirement savings account, and

13 “(2) does not accept any contribution (other
14 than a qualified rollover contribution) which is not
15 in cash.

16 “(c) TREATMENT OF CONTRIBUTIONS.—

17 “(1) CONTRIBUTION LIMIT.—Notwithstanding
18 subsections (a)(1) and (b)(2)(A) of section 408, the
19 aggregate amount of contributions for any taxable
20 year to all retirement savings accounts maintained
21 for the benefit of an individual shall not exceed the
22 lesser of—

23 “(A) \$5,000, or

24 “(B) the amount of compensation includ-
25 ible in the individual’s gross income for such
26 taxable year.

1 “(2) SPECIAL RULE FOR CERTAIN MARRIED IN-
2 DIVIDUALS.—In the case of any individual who files
3 a joint return for the taxable year, the amount taken
4 into account under paragraph (1)(B) shall be in-
5 creased by the excess (if any) of—

6 “(A) the compensation includible in the
7 gross income of such individual’s spouse for the
8 taxable year, over

9 “(B) the aggregate amount of contribu-
10 tions for the taxable year to all retirement sav-
11 ings accounts maintained for the benefit of such
12 spouse.

13 “(3) CONTRIBUTIONS PERMITTED AFTER AGE
14 70½.—Contributions to a retirement savings ac-
15 count may be made even after the individual for
16 whom the account is maintained has attained age
17 70½.

18 “(4) MANDATORY DISTRIBUTION RULES NOT
19 TO APPLY BEFORE DEATH.—Notwithstanding sub-
20 sections (a)(6) and (b)(3) of section 408 (relating to
21 required distributions), the following provisions shall
22 not apply to any retirement savings account:

23 “(A) Section 401(a)(9)(A).

24 “(B) The incidental death benefit require-
25 ments of section 401(a).

1 “(5) ROLLOVER CONTRIBUTIONS.—

2 “(A) IN GENERAL.—No rollover contribu-
3 tion may be made to a retirement savings ac-
4 count unless it is a qualified rollover contribu-
5 tion.

6 “(B) COORDINATION WITH LIMIT.—A
7 qualified rollover contribution shall not be taken
8 into account for purposes of paragraph (1).

9 “(6) ROLLOVERS FROM PLANS WITH TAXABLE
10 DISTRIBUTIONS.—

11 “(A) IN GENERAL.—Notwithstanding sec-
12 tions 402(c), 403(a)(4), 403(b)(8), 408(d)(3),
13 and 457(e)(16), in the case of any contribution
14 to which this paragraph applies—

15 “(i) there shall be included in gross
16 income any amount which would be includ-
17 ible were it not part of a qualified rollover
18 contribution,

19 “(ii) section 72(t) shall not apply, and

20 “(iii) unless the taxpayer elects not to
21 have this clause apply for any taxable year,
22 any amount required to be included in
23 gross income for such taxable year by rea-
24 son of this paragraph for any contribution
25 before January 1, 2012, shall be so in-

1 cluded ratably over the 4-taxable year pe-
2 riod beginning with such taxable year.

3 Any election under clause (iii) for any contribu-
4 tions during a taxable year may not be changed
5 after the due date (including extensions of
6 time) for filing the taxpayer's return for such
7 taxable year.

8 “(B) CONTRIBUTIONS TO WHICH PARA-
9 GRAPH APPLIES.—This paragraph shall apply
10 to any qualified rollover contribution to a retire-
11 ment savings account (other than a rollover
12 contribution from another such account).

13 “(C) CONVERSIONS OF IRAS.—The conver-
14 sion of an individual retirement plan (other
15 than a retirement savings account) to a retire-
16 ment savings account shall be treated for pur-
17 poses of this paragraph as a contribution to
18 which this paragraph applies.

19 “(D) ADDITIONAL REPORTING REQUIRE-
20 MENTS.—Trustees and plan administrators of
21 eligible retirement plans (as defined in section
22 402(c)(8)(B)) and retirement savings accounts
23 shall report such information as the Secretary
24 may require to ensure that amounts required to
25 be included in gross income under subpara-

1 graph (A) are so included. Such reports shall be
2 made at such time and in such form and man-
3 ner as the Secretary may require. The Sec-
4 retary may provide that such information be in-
5 cluded as additional information in reports re-
6 quired under section 408(i) or 6047.

7 “(E) SPECIAL RULES FOR CONTRIBUTIONS
8 TO WHICH A 4-YEAR AVERAGING APPLIES.—In
9 the case of a qualified rollover contribution to
10 which subparagraph (A)(iii) applied, the fol-
11 lowing rules shall apply:

12 “(i) ACCELERATION OF INCLUSION.—

13 “(I) IN GENERAL.—The amount
14 required to be included in gross in-
15 come for each of the first 3 taxable
16 years in the 4-year period under sub-
17 paragraph (A)(iii) shall be increased
18 by the aggregate distributions from
19 retirement savings accounts for such
20 taxable year which are allocable under
21 subsection (d)(3) to the portion of
22 such qualified rollover contribution re-
23 quired to be included in gross income
24 under subparagraph (A)(i).

1 “(II) LIMITATION ON AGGRE-
2 GATE AMOUNT INCLUDED.—The
3 amount required to be included in
4 gross income for any taxable year
5 under subparagraph (A)(iii) shall not
6 exceed the aggregate amount required
7 to be included in gross income under
8 subparagraph (A)(iii) for all taxable
9 years in the 4-year period (without re-
10 gard to subclause (I)) reduced by
11 amounts included for all preceding
12 taxable years.

13 “(ii) DEATH OF DISTRIBUTEE.—

14 “(I) IN GENERAL.—If the indi-
15 vidual required to include amounts in
16 gross income under such subpara-
17 graph dies before all of such amounts
18 are included, all remaining amounts
19 shall be included in gross income for
20 the taxable year which includes the
21 date of death.

22 “(II) SPECIAL RULE FOR SUR-
23 VIVING SPOUSE.—If the spouse of the
24 individual described in subclause (I)
25 acquires the individual’s entire inter-

1 est in any retirement savings account
2 to which such qualified rollover con-
3 tribution is properly allocable, the
4 spouse may elect to treat the remain-
5 ing amounts described in subclause
6 (I) as includible in the spouse's gross
7 income in the taxable years of the
8 spouse ending with or within the tax-
9 able years of such individual in which
10 such amounts would otherwise have
11 been includible. Any such election may
12 not be made or changed after the due
13 date (including extensions of time) for
14 filing the spouse's return for the tax-
15 able year which includes the date of
16 death.

17 “(F) 5-YEAR HOLDING PERIOD RULES.—

18 If—

19 “(i) any portion of a distribution from
20 a retirement savings account is properly al-
21 locable to a qualified rollover contribution
22 with respect to which an amount is includ-
23 ible in gross income under subparagraph
24 (A)(i),

1 “(ii) such distribution is made during
2 the 5-taxable year period beginning with
3 the taxable year for which such contribu-
4 tion was made, and

5 “(iii) such distribution is not de-
6 scribed in clause (i), (ii), or (iii) of sub-
7 section (d)(2)(A),

8 then section 72(t) shall be applied as if such
9 portion were includible in gross income.

10 “(7) TIME WHEN CONTRIBUTIONS MADE.—For
11 purposes of this section, a taxpayer shall be deemed
12 to have made a contribution to a retirement savings
13 account on the last day of the preceding taxable year
14 if the contribution is made on account of such tax-
15 able year and is made not later than the time pre-
16 scribed by law for filing the return for such taxable
17 year (not including extensions thereof).

18 “(8) COST-OF-LIVING ADJUSTMENT.—

19 “(A) IN GENERAL.—In the case of any
20 taxable year beginning in a calendar year after
21 2012, the \$5,000 amount under paragraph
22 (1)(A) shall be increased by an amount equal
23 to—

24 “(i) such dollar amount, multiplied by

1 “(ii) the cost-of-living adjustment de-
2 termined under section 1(f)(3) for the cal-
3 endar year in which the taxable year be-
4 gins.

5 “(B) ROUNDING RULES.—If any amount
6 after adjustment under subparagraph (A) is not
7 a multiple of \$500, such amount shall be
8 rounded to the next lower multiple of \$500.

9 “(d) DISTRIBUTION RULES.—For purposes of this
10 title—

11 “(1) EXCLUSION.—Any qualified distribution
12 from a retirement savings account shall not be in-
13 cludible in gross income.

14 “(2) QUALIFIED DISTRIBUTION.—For purposes
15 of this subsection—

16 “(A) IN GENERAL.—The term ‘qualified
17 distribution’ means any payment or distribu-
18 tion—

19 “(i) made on or after the date on
20 which the individual attains age 58,

21 “(ii) made to a beneficiary (or to the
22 estate of the individual) on or after the
23 death of the individual,

1 “(iii) attributable to the individual’s
2 being disabled (within the meaning of sec-
3 tion 72(m)(7)), or

4 “(iv) to which section 72(t)(2)(F) ap-
5 plies (if such payment or distribution is
6 made before January 1, 2015).

7 “(B) DISTRIBUTIONS OF EXCESS CON-
8 TRIBUTIONS AND EARNINGS.—The term ‘quali-
9 fied distribution’ shall not include any distribu-
10 tion of any contribution described in section
11 408(d)(4) and any net income allocable to the
12 contribution.

13 “(3) ORDERING RULES.—For purposes of ap-
14 plying this section and section 72 to any distribution
15 from a retirement savings account, such distribution
16 shall be treated as made—

17 “(A) from contributions to the extent that
18 the amount of such distribution, when added to
19 all previous distributions from the retirement
20 savings account, does not exceed the aggregate
21 contributions to the retirement savings account,
22 and

23 “(B) from such contributions in the fol-
24 lowing order:

1 “(i) Contributions other than qualified
2 rollover contributions with respect to which
3 an amount is includible in gross income
4 under subsection (c)(6)(A)(i).

5 “(ii) Qualified rollover contributions
6 with respect to which an amount is includ-
7 ible in gross income under subsection
8 (c)(6)(A)(i) on a first-in, first-out basis.

9 Any distribution allocated to a qualified rollover con-
10 tribution under subparagraph (B)(ii) shall be allo-
11 cated first to the portion of such contribution re-
12 quired to be included in gross income.

13 “(4) AGGREGATION RULES.—Section 408(d)(2)
14 shall be applied separately with respect to retirement
15 savings accounts and other individual retirement
16 plans.

17 “(e) QUALIFIED ROLLOVER CONTRIBUTION.—

18 “(1) IN GENERAL.—For purposes of this sec-
19 tion, the term ‘qualified rollover contribution’
20 means—

21 “(A) a rollover contribution to a retirement
22 savings account of an individual from another
23 such account of such individual or such individ-
24 ual’s spouse, or from an individual retirement
25 plan of such individual, but only if such rollover

1 contribution meets the requirements of section
2 408(d)(3), and

3 “(B) a rollover contribution described in
4 section 402(e), 402A(c)(3)(A), 403(a)(4),
5 403(b)(8), or 457(e)(16).

6 “(2) COORDINATION WITH LIMITATION ON IRA
7 ROLLOVERS.—For purposes of section 408(d)(3)(B),
8 there shall be disregarded any qualified rollover con-
9 tribution from an individual retirement plan (other
10 than a retirement savings account) to a retirement
11 savings account.

12 “(f) INDIVIDUAL RETIREMENT PLAN.—For purposes
13 of this section—

14 “(1) a simplified employee pension or a simple
15 retirement account may not be designated as a re-
16 tirement savings account, and

17 “(2) contributions to any such pension or ac-
18 count shall not be taken into account for purposes
19 of subsection (c)(1).

20 “(g) COMPENSATION.—For purposes of this section,
21 the term ‘compensation’ includes earned income (as de-
22 fined in section 401(c)(2)). Such term does not include
23 any amount received as a pension or annuity and does not
24 include any amount received as deferred compensation.
25 Such term shall include any amount includible in the indi-

1 vidual’s gross income under section 71 with respect to a
2 divorce or separation instrument described in section
3 71(b)(2)(A). For purposes of this subsection, section
4 401(c)(2) shall be applied as if the term trade or business
5 for purposes of section 1402 included service described in
6 section 1402(c)(6).”.

7 (b) ROTH IRAS TREATED AS RETIREMENT SAVINGS
8 ACCOUNTS.—In the case of any taxable year beginning
9 after December 31, 2011, any Roth IRA (as defined in
10 section 408A(b) of the Internal Revenue Code of 1986,
11 as in effect on the day before the date of the enactment
12 of this Act) shall be treated for purposes of such Code
13 as having been designated at the time of the establishment
14 of the plan as a retirement savings account under section
15 408A(b) of such Code (as amended by this section).

16 (c) CONTRIBUTIONS TO OTHER INDIVIDUAL RETIRE-
17 MENT PLANS PROHIBITED.—

18 (1) INDIVIDUAL RETIREMENT ACCOUNTS.—
19 Paragraph (1) of section 408(a) is amended to read
20 as follows:

21 “(1) Except in the case of a simplified employee
22 pension, a simple retirement account, or a rollover
23 contribution described in subsection (d)(3) or in sec-
24 tion 402(c), 403(a)(4), 403(b)(8), or 457(e)(16), no
25 contribution will be accepted on behalf of any indi-

1 vidual for any taxable year beginning after Decem-
 2 ber 31, 2011. In the case of any simplified employee
 3 pension or simple retirement account, no contribu-
 4 tion will be accepted unless it is in cash and con-
 5 tributions will not be accepted for the taxable year
 6 on behalf of any individual in excess of—

7 “(A) in the case of a simplified employee
 8 pension, the amount of the limitation in effect
 9 under section 415(c)(1)(A), and

10 “(B) in the case of a simple retirement ac-
 11 count, the sum of the dollar amount in effect
 12 under subsection (p)(2)(A)(ii) and the employer
 13 contribution required under subparagraph
 14 (A)(iii) or (B)(i) of subsection (p)(2).”.

15 (2) INDIVIDUAL RETIREMENT ANNUITIES.—

16 Paragraph (2) of section 408(b) is amended—

17 (A) by redesignating subparagraphs (A),
 18 (B), and (C) as subparagraphs (B), (C), and
 19 (D), respectively, and by inserting before sub-
 20 paragraph (B), as so redesignated, the following
 21 new subparagraph:

22 “(A) except in the case of a simplified em-
 23 ployee pension, a simple retirement account, or
 24 a rollover contribution described in subsection
 25 (d)(3) or in section 402(c), 403(a)(4),

1 403(b)(8), or 457(e)(16), a premium shall not
2 be accepted on behalf of any individual for any
3 taxable year beginning after December 31,
4 2011,” and

5 (B) by amending subparagraph (C), as re-
6 designated by subparagraph (A), to read as fol-
7 lows:

8 “(C) the annual premium on behalf of any
9 individual will not exceed—

10 “(i) in the case of a simplified em-
11 ployee pension, the amount of the limita-
12 tion in effect under section 415(c)(1)(A),
13 and

14 “(ii) in the case of a simple retire-
15 ment account, the sum of the dollar
16 amount in effect under subsection
17 (p)(2)(A)(ii) and the employer contribution
18 required under subparagraph (A)(iii) or
19 (B)(i) of subsection (p)(2), and”.

20 (d) CONFORMING AMENDMENTS.—

21 (1)(A) Section 219 is amended to read as fol-
22 lows:

1 **“SEC. 219. CONTRIBUTIONS TO CERTAIN RETIREMENT**
2 **PLANS ALLOWING ONLY EMPLOYEE CON-**
3 **TRIBUTIONS.**

4 “(a) ALLOWANCE OF DEDUCTION.—In the case of an
5 individual, there shall be allowed as a deduction the
6 amount contributed on behalf of such individual to a plan
7 described in section 501(c)(18).

8 “(b) MAXIMUM AMOUNT OF DEDUCTION.—The
9 amount allowable as a deduction under subsection (a) to
10 any individual for any taxable year shall not exceed the
11 lesser of—

12 “(1) \$7,000, or

13 “(2) an amount equal to 25 percent of the com-
14 pensation (as defined in section 415(c)(3)) includible
15 in the individual’s gross income for such taxable
16 year.

17 “(c) BENEFICIARY MUST BE UNDER AGE 70½.—
18 No deduction shall be allowed under this section with re-
19 spect to any contribution on behalf of an individual if such
20 individual has attained age 70½ before the close of such
21 individual’s taxable year for which the contribution was
22 made.

23 “(d) SPECIAL RULES.—

24 “(1) MARRIED INDIVIDUALS.—The maximum
25 deduction under subsection (b) shall be computed
26 separately for each individual, and this section shall

1 be applied without regard to any community prop-
2 erty laws.

3 “(2) REPORTS.—The Secretary shall prescribe
4 regulations which prescribe the time and the manner
5 in which reports to the Secretary and plan partici-
6 pants shall be made by the plan administrator of a
7 qualified employer or government plan receiving
8 qualified voluntary employee contributions.

9 “(e) CROSS REFERENCE.—For failure to provide re-
10 quired reports, see section 6652(g).”.

11 (B) Section 25B(d) is amended—

12 (i) in paragraph (1)(A), by striking “(as
13 defined in section 219(e))”, and

14 (ii) by adding at the end the following new
15 paragraph:

16 “(3) QUALIFIED RETIREMENT CONTRIBU-
17 TION.—The term ‘qualified retirement contribution’
18 means—

19 “(A) any amount paid in cash for the tax-
20 able year by or on behalf of an individual to an
21 individual retirement plan for such individual’s
22 benefit, and

23 “(B) any amount contributed on behalf of
24 any individual to a plan described in section
25 501(c)(18).”.

1 (C) Section 86(f)(3) is amended by striking
2 “section 219(f)(1)” and inserting “section 408A(g)”.

3 (D) Section 132(m)(3) is amended by inserting
4 “(as in effect on the day before the date of the en-
5 actment of the Retirement Savings Account Act)”
6 after “section 219(g)(5)”.

7 (E) Subparagraphs (A), (B), and (C) of section
8 220(d)(4) are each amended by inserting “, as in ef-
9 fect on the day before the date of the enactment of
10 the Retirement Savings Account Act” at the end.

11 (F) Section 408(b) is amended in the last sen-
12 tence by striking “section 219(b)(1)(A)” and insert-
13 ing “paragraph (2)(C)”.

14 (G) Section 408(p)(2)(D)(ii) is amended by in-
15 serting “(as in effect on the day before the date of
16 the enactment of the Retirement Savings Account
17 Act)” after “section 219(g)(5)”.

18 (H) Section 409A(d)(2) is amended by insert-
19 ing “(as in effect on the day before the date of the
20 enactment of the Retirement Savings Account Act)”
21 after “subparagraph (A)(iii)”.

22 (I) Section 501(c)(18)(D)(i) is amended by
23 striking “section 219(b)(3)” and inserting “section
24 219(b)”.

1 (J) Section 6652(g) is amended by striking
2 “section 219(f)(4)” and inserting “section
3 219(d)(2)”.

4 (K) The table of sections for part VII of sub-
5 chapter B of chapter 1 is amended by striking the
6 item relating to section 219 and inserting the fol-
7 lowing new item:

 “Sec. 219. Contributions to certain retirement plans allowing only employee
 contributions.”.

8 (2)(A) Section 408(d)(4)(B) is amended to read
9 as follows:

10 “(B) no amount is excludable from gross
11 income under subsection (h) or (k) of section
12 402 with respect to such contribution, and”.

13 (B) Section 408(d)(5)(A) is amended to read as
14 follows:

15 “(A) IN GENERAL.—In the case of any in-
16 dividual, if the aggregate contributions (other
17 than rollover contributions) paid for any taxable
18 year to an individual retirement account or for
19 an individual retirement annuity do not exceed
20 the dollar amount in effect under subsection
21 (a)(1) or (b)(2)(C), as the case may be, para-
22 graph (1) shall not apply to the distribution of
23 any such contribution to the extent that such
24 contribution exceeds the amount which is ex-

1 cludable from gross income under subsection
2 (h) or (k) of section 402, as the case may be,
3 for the taxable year for which the contribution
4 was paid—

5 “(i) if such distribution is received
6 after the date described in paragraph (4),

7 “(ii) but only to the extent that such
8 excess contribution has not been excluded
9 from gross income under subsection (h) or
10 (k) of section 402.”.

11 (C) Section 408(d)(5) is amended by striking
12 the last sentence.

13 (D) Section 408(d)(7) is amended to read as
14 follows:

15 “(7) CERTAIN TRANSFERS FROM SIMPLIFIED
16 EMPLOYEE PENSIONS PROHIBITED UNTIL DEFERRAL
17 TEST MET.—Notwithstanding any other provision of
18 this subsection or section 72(t), paragraph (1) and
19 section 72(t)(1) shall apply to the transfer or dis-
20 tribution from a simplified employee pension of any
21 contribution under a salary reduction arrangement
22 described in subsection (k)(6) (or any income allo-
23 cable thereto) before a determination as to whether
24 the requirements of subsection (k)(6)(A)(iii) are met
25 with respect to such contribution.”.

1 (E) Section 408 is amended by striking sub-
2 section (j).

3 (F)(i) Section 408 is amended by striking sub-
4 section (o).

5 (ii) Section 6693 is amended by striking sub-
6 section (b) and by redesignating subsections (c) and
7 (d) as subsections (b) and (c), respectively.

8 (G) Section 408(p) is amended by striking
9 paragraph (8) and by redesignating paragraphs (9)
10 and (10) as paragraphs (8) and (9), respectively.

11 (3)(A) Section 4973(a)(1) is amended to read
12 as follows:

13 “(1) an individual retirement plan,”.

14 (B) Section 4973(b) is amended to read as fol-
15 lows:

16 “(b) EXCESS CONTRIBUTIONS TO SIMPLIFIED EM-
17 PLOYEE PENSIONS AND SIMPLE RETIREMENT AC-
18 COUNTS.—For purposes of this section, in the case of sim-
19 plified employee pensions or simple retirement accounts,
20 the term ‘excess contributions’ means the sum of—

21 “(1) the excess (if any) of—

22 “(A) the amount contributed for the tax-
23 able year to the pension or account, over

1 “(B) the amount applicable to the pension
2 or account under subsection (a)(1) or (b)(2) of
3 section 408, and

4 “(2) the amount determined under this sub-
5 section for the preceding taxable year, reduced by
6 the sum of—

7 “(A) the distributions out of the account
8 for the taxable year which were included in the
9 gross income of the payee under section
10 408(d)(1),

11 “(B) the distributions out of the account
12 for the taxable year to which section 408(d)(5)
13 applies, and

14 “(C) the excess (if any) of the maximum
15 amount excludable from gross income for the
16 taxable year under subsection (h) or (k) of sec-
17 tion 402 over the amount contributed to the
18 pension or account for the taxable year.

19 For purposes of this subsection, any contribution which
20 is distributed from a simplified employee pension or simple
21 retirement account in a distribution to which section
22 408(d)(4) applies shall be treated as an amount not con-
23 tributed.”.

24 (C) Section 4973 is amended by adding at the
25 end the following new subsection:

1 “(h) EXCESS CONTRIBUTIONS TO CERTAIN INDI-
 2 VIDUAL RETIREMENT PLANS.—For purposes of this sec-
 3 tion, in the case of individual retirement plans (other than
 4 retirement savings accounts, simplified employee pensions,
 5 and simple retirement accounts), the term ‘excess con-
 6 tribution’ means the sum of—

7 “(1) the aggregate amount contributed for the
 8 taxable year to the individual retirement plans, and

9 “(2) the amount determined under this sub-
 10 section for the preceding taxable year, reduced by
 11 the sum of—

12 “(A) the distributions out of the plans
 13 which were included in gross income under sec-
 14 tion 408(d)(1), and

15 “(B) the distributions out of the plans for
 16 the taxable year to which section 408(d)(5) ap-
 17 plies.

18 For purposes of this subsection, any contribution which
 19 is distributed from the plan in a distribution to which sec-
 20 tion 408(d)(4) applies shall be treated as an amount not
 21 contributed.”.

22 (4)(A) Sections 402(c)(8)(B),
 23 402A(c)(3)(A)(ii), 1361(c)(2)(A), 3405(e)(1)(B),
 24 and 4973(f) are each amended by striking “Roth

1 IRA” each place it appears and inserting “retire-
2 ment savings account”.

3 (B) Section 4973(f)(1)(A) is amended by strik-
4 ing “Roth IRAs” and inserting “retirement savings
5 accounts”.

6 (C) Paragraphs (1)(B) and (2)(B) of section
7 4973(f) are each amended by striking “sections
8 408A(c)(2) and (c)(3)” and inserting “section
9 408A(c)(1)”.

10 (D) Subsection (f) of section 4973 is amended
11 in the heading by striking “**ROTH IRAS**” and insert-
12 ing “**RETIREMENT SAVINGS ACCOUNTS**”.

13 (e) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 December 31, 2011.

16 **SEC. 113. AMERICAN DREAM ACCOUNTS.**

17 (a) IN GENERAL.—Subchapter F of Chapter 1 is
18 amended by adding at the end the following new part:

19 **“PART IX—AMERICAN DREAM ACCOUNTS**
20 **“SEC. 530A. AMERICAN DREAM ACCOUNTS.**

21 “(a) GENERAL RULE.—An American Dream Account
22 shall be exempt from taxation under this subtitle. Not-
23 withstanding the preceding sentence, such account shall
24 be subject to the taxes imposed by section 511 (relating

1 to imposition of tax on unrelated business income of chari-
2 table organizations).

3 “(b) AMERICAN DREAM ACCOUNT.—For purposes of
4 this section, the term ‘American Dream Account’ means
5 a trust created or organized in the United States for the
6 exclusive benefit of an individual or his beneficiaries and
7 which is designated (in such manner as the Secretary shall
8 prescribe) at the time of the establishment of the trust
9 as an American Dream Account, but only if the written
10 governing instrument creating the trust meets the fol-
11 lowing requirements:

12 “(1) Except in the case of a qualified rollover
13 contribution described in subsection (d)—

14 “(A) no contribution will be accepted un-
15 less it is in cash, and

16 “(B) contributions will not be accepted for
17 the calendar year in excess of the contribution
18 limit specified in subsection (e)(1).

19 “(2) The trustee is a bank (as defined in sec-
20 tion 408(n)) or another person who demonstrates to
21 the satisfaction of the Secretary that the manner in
22 which that person will administer the trust will be
23 consistent with the requirements of this section or
24 who has so demonstrated with respect to any indi-
25 vidual retirement plan.

1 “(3) No part of the trust assets will be invested
2 in life insurance contracts.

3 “(4) The interest of an individual in the bal-
4 ance of his account is nonforfeitable.

5 “(5) The assets of the trust shall not be com-
6 mingled with other property except in a common
7 trust fund or common investment fund.

8 “(c) TREATMENT OF CONTRIBUTIONS AND DIS-
9 TRIBUTIONS.—

10 “(1) CONTRIBUTION LIMIT.—

11 “(A) IN GENERAL.—The aggregate
12 amount of contributions (other than qualified
13 rollover contributions described in subsection
14 (d)) for any calendar year to all American
15 Dream Accounts maintained for the benefit of
16 an individual shall not exceed \$2,000.

17 “(B) COST-OF-LIVING ADJUSTMENT.—

18 “(i) IN GENERAL.—In the case of any
19 calendar year after 2012, the \$2,000
20 amount under subparagraph (A) shall be
21 increased by an amount equal to—

22 “(I) such dollar amount, multi-
23 plied by

1 “(II) the cost-of-living adjust-
2 ment determined under section 1(f)(3)
3 for the calendar year.

4 “(ii) ROUNDING RULES.—If any
5 amount after adjustment under clause (i)
6 is not a multiple of \$500, such amount
7 shall be rounded to the next lower multiple
8 of \$500.

9 “(2) DISTRIBUTIONS.—Any distribution from
10 an American Dream Account shall not be includible
11 in gross income.

12 “(d) QUALIFIED ROLLOVER CONTRIBUTION.—For
13 purposes of this section, the term ‘qualified rollover con-
14 tribution’ means a contribution to an American Dream
15 Account—

16 “(1) from another such account of the same
17 beneficiary, but only if such amount is contributed
18 not later than the 60th day after the distribution
19 from such other account,

20 “(2) from an American Dream Account of a
21 spouse of the beneficiary of the account to which the
22 contribution is made, but only if such amount is
23 contributed not later than the 60th day after the
24 distribution from such other account, and

25 “(3) before January 1, 2012, from—

1 “(A) a qualified tuition program pursuant
2 to section 529(c)(3)(E), or

3 “(B) a Coverdell education savings account
4 pursuant to section 530(d)(9).

5 “(e) LOSS OF TAXATION EXEMPTION OF ACCOUNT
6 WHERE BENEFICIARY ENGAGES IN PROHIBITED TRANS-
7 ACTION.—Rules similar to the rules of paragraph (2) of
8 section 408(e) shall apply to any American Dream Ac-
9 count.

10 “(f) CUSTODIAL ACCOUNTS.—For purposes of this
11 section, a custodial account or an annuity contract issued
12 by an insurance company qualified to do business in a
13 State shall be treated as a trust under this section if—

14 “(1) the custodial account or annuity contract
15 would, except for the fact that it is not a trust, con-
16 stitute a trust which meets the requirements of sub-
17 section (b), and

18 “(2) in the case of a custodial account, the as-
19 sets of such account are held by a bank (as defined
20 in section 408(n)) or another person who dem-
21 onstrates, to the satisfaction of the Secretary, that
22 the manner in which he will administer the account
23 will be consistent with the requirements of this sec-
24 tion.

1 For purposes of this title, in the case of a custodial ac-
2 count or annuity contract treated as a trust by reason of
3 the preceding sentence, the person holding the assets of
4 such account or holding such annuity contract shall be
5 treated as the trustee thereof.

6 “(g) REPORTS.—The trustee of an American Dream
7 Account shall make such reports regarding such account
8 to the Secretary and to the beneficiary of the account with
9 respect to contributions, distributions, and such other
10 matters as the Secretary may require. The reports re-
11 quired by this subsection shall be filed at such time and
12 in such manner and furnished to such individuals at such
13 time and in such manner as may be required.”.

14 (b) TAX ON EXCESS CONTRIBUTIONS.—

15 (1) IN GENERAL.—Subsection (a) of section
16 4973 is amended by striking “or” at the end of
17 paragraph (4), by inserting “or” at the end of para-
18 graph (5), and by inserting after paragraph (5) the
19 following new paragraph:

20 “(6) an American Dream Account (as defined
21 in section 530A),”.

22 (2) EXCESS CONTRIBUTION.—Section 4973 is
23 amended by adding at the end the following new
24 subsection:

1 “(h) EXCESS CONTRIBUTIONS TO AMERICAN DREAM
2 ACCOUNTS.—For purposes of this section—

3 “(1) IN GENERAL.—In the case of American
4 Dream Accounts (within the meaning of section
5 530A), the term ‘excess contributions’ means the
6 sum of—

7 “(A) the amount by which the amount con-
8 tributed for the calendar year to such accounts
9 (other than qualified rollover contributions (as
10 defined in section 530A(d))) exceeds the con-
11 tribution limit under section 530A(c)(1), and

12 “(B) the amount determined under this
13 subsection for the preceding calendar year, re-
14 duced by the excess (if any) of the maximum
15 amount allowable as a contribution under sec-
16 tion 530A(c)(1) for the calendar year over the
17 amount contributed to the accounts for the cal-
18 endar year.

19 “(2) SPECIAL RULE.—A contribution shall not
20 be taken into account under paragraph (1) if such
21 contribution (together with the amount of net in-
22 come attributable to such contribution) is returned
23 to the beneficiary before July 1 of the year following
24 the year in which the contribution is made.”.

1 (c) FAILURE TO PROVIDE REPORTS ON AMERICAN
2 DREAM ACCOUNTS.—Paragraph (2) of section 6693(a) is
3 amended by striking “and” at the end of subparagraph
4 (D), by striking the period at the end of subparagraph
5 (E) and inserting “, and”, and by adding at the end the
6 following new subparagraph:

7 “(F) section 530A(g) (relating to Amer-
8 ican Dream Accounts).”.

9 (d) ROLLOVERS FROM CERTAIN OTHER TAX-FREE
10 ACCOUNTS.—

11 (1) QUALIFIED STATE TUITION PLANS.—Para-
12 graph (3) of section 529(c) is amended by adding at
13 the end the following new subparagraph:

14 “(E) ROLLOVERS TO AMERICAN DREAM
15 ACCOUNTS.—

16 “(i) IN GENERAL.—Subparagraph (A)
17 shall not apply to the qualified portion of
18 any distribution which, before January 1,
19 2013, and within 60 days of such distribu-
20 tion, is transferred to an American Dream
21 Account (within the meaning of section
22 530A) of the designated beneficiary. This
23 subparagraph shall only apply to distribu-
24 tions in accordance with the previous sen-
25 tence from an account which was in exist-

1 ence with respect to such designated bene-
2 ficiary on December 31, 2010.

3 “(ii) QUALIFIED PORTION.—For pur-
4 poses of this subparagraph, the term
5 ‘qualified portion’ means the amount equal
6 to the sum of—

7 “(I) the lesser of \$50,000 or the
8 amount which is in the account of the
9 designated beneficiary on December
10 31, 2010,

11 “(II) any contributions to such
12 account for the taxable year beginning
13 after December 31, 2010, and before
14 January 1, 2012, and

15 “(III) any earnings of such ac-
16 count for such year.

17 “(iii) LIMITATION.—The sum of the
18 amounts taken into account under clause
19 (ii)(II) with respect to all accounts of the
20 designated beneficiary plus any amounts
21 with respect to such designated beneficiary
22 taken into account under section
23 530(d)(9)(B)(ii) shall not exceed the sum
24 of \$2,000 plus the earnings attributable to
25 such amounts.”.

1 (2) COVERDELL EDUCATION SAVINGS AC-
2 COUNTS.—Subsection (d) of section 530 is amended
3 by inserting at the end the following new paragraph:

4 “(10) ROLLOVERS TO AMERICAN DREAM AC-
5 COUNTS.—

6 “(A) IN GENERAL.—Paragraph (1) shall
7 not apply to the qualified portion of any
8 amount paid or distributed from a Coverdell
9 education savings account to the extent that the
10 amount received is paid, before January 1,
11 2013, and not later than the 60th day after the
12 date of such payment or distribution, into an
13 American Dream Account (within the meaning
14 of section 530A) for the benefit of the same
15 beneficiary. This paragraph shall only apply to
16 amounts paid or distributed in accordance with
17 the preceding sentence from an account which
18 was in existence with respect to such bene-
19 ficiary on December 31, 2010.

20 “(B) QUALIFIED PORTION.—For purposes
21 of this paragraph, the term ‘qualified portion’
22 means the amount equal to the sum of—

23 “(i) the amount which is in the ac-
24 count of the beneficiary on December 31,
25 2010,

1 “(ii) any contributions to such ac-
 2 count for the taxable year beginning after
 3 December 31, 2010, and before January 1,
 4 2012, and

5 “(iii) any earnings of such account for
 6 such year.

7 “(C) LIMITATION.—The sum of the
 8 amounts taken into account under subpara-
 9 graph (B)(ii) with respect to all accounts of the
 10 beneficiary plus any amounts with respect to
 11 such beneficiary taken into account under sec-
 12 tion 529(c)(3)(E)(ii)(II) shall not exceed the
 13 sum of \$2,000 plus the earnings attributable to
 14 such amounts.”.

15 (e) CONFORMING AMENDMENT.—The table of parts
 16 for subchapter F of chapter 1 is amended by adding at
 17 the end the following new item:

 “PART IX. AMERICAN DREAM ACCOUNTS”.

18 (f) EFFECTIVE DATE.—The amendments made by
 19 this section shall apply to taxable years beginning after
 20 December 31, 2011.

21 **SEC. 114. CONSOLIDATION OF TAX CREDITS AND DEDUC-**
 22 **TIONS FOR EDUCATION EXPENSES.**

23 (a) IN GENERAL.—Section 25A of the Internal Rev-
 24 enue Code of 1986, after the application of section 901

1 of the Economic Growth and Tax Relief Reconciliation Act
2 of 2001, is amended to read as follows:

3 **“SEC. 25A. QUALIFIED TUITION AND RELATED EXPENSES**
4 **CREDIT.**

5 “(a) ALLOWANCE OF CREDIT.—

6 “(1) IN GENERAL.—In the case of any eligible
7 individual for whom an election is in effect under
8 this section, there shall be allowed as a credit
9 against the tax imposed by this chapter for the tax-
10 able year an amount equal to the applicable percent-
11 age of so much of the qualified tuition and related
12 expenses paid by the taxpayer during the taxable
13 year (for education furnished to the eligible indi-
14 vidual during any academic period beginning in such
15 taxable year) as does not exceed \$10,000.

16 “(2) APPLICABLE PERCENTAGE.—For purposes
17 of subsection (a), the applicable percentage is—

18 “(A) for the first 2 taxable years such an
19 election is in effect with respect to an eligible
20 individual, 20 percent,

21 “(B) for the next 2 such taxable years, 15
22 percent, and

23 “(C) notwithstanding subparagraph (A),
24 for any taxable year such eligible individual at-

1 tends or is enrolled in only one academic period,
2 15 percent.

3 “(b) LIMITATIONS.—

4 “(1) MODIFIED ADJUSTED GROSS INCOME LIM-
5 TATION.—

6 “(A) IN GENERAL.—The amount which
7 would (but for this paragraph) be taken into ac-
8 count under subsection (a) for the taxable year
9 shall be reduced (but not below zero) by the
10 amount determined under paragraph (2).

11 “(B) AMOUNT OF REDUCTION.—The
12 amount determined under this paragraph is the
13 amount which bears the same ratio to the
14 amount which would be so taken into account
15 as—

16 “(i) the excess of—

17 “(I) the taxpayer’s modified ad-
18 justed gross income for such taxable
19 year, over

20 “(II) \$50,000 (twice such
21 amount in the case of a joint return),
22 bears to

23 “(ii) \$40,000 (twice such amount in
24 the case of a joint return).

1 “(C) MODIFIED ADJUSTED GROSS IN-
2 COME.—The term ‘modified adjusted gross in-
3 come’ means the adjusted gross income of the
4 taxpayer for the taxable year increased by any
5 amount excluded from gross income under sec-
6 tion 911, 931, or 933.

7 “(2) CREDIT ALLOWED FOR ONLY 4 TAXABLE
8 YEARS.—An election to have this section apply with
9 respect to any eligible individual may not be made
10 for any taxable year if such an election (by the tax-
11 payer or any other individual) is in effect with re-
12 spect to such individual for any 4 prior taxable
13 years.

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

15 “(1) ELIGIBLE INDIVIDUAL.—The term ‘eligible
16 individual’ means any individual described in para-
17 graph (2).

18 “(2) QUALIFIED TUITION AND RELATED EX-
19 PENSES.—

20 “(A) IN GENERAL.—The term ‘qualified
21 tuition and related expenses’ means tuition and
22 fees required for the enrollment or attendance
23 of—

24 “(i) taxpayer,

25 “(ii) the taxpayer’s spouse, or

1 “(iii) any dependent of the taxpayer
2 with respect to whom the taxpayer is al-
3 lowed a deduction under section 151,
4 at an eligible educational institution for courses
5 of instruction of such individual at such institu-
6 tion.

7 “(B) STUDENT LOAN INTEREST.—

8 “(i) IN GENERAL.—Such term shall
9 include so much of the interest paid on any
10 qualified education loan of such individual
11 as does not exceed \$2,500, reduced by any
12 amount taken into account under this sec-
13 tion for any preceding taxable year.

14 “(ii) QUALIFIED EDUCATION LOAN.—

15 For purposes of clause (i), the term ‘quali-
16 fied education loan’ means any indebted-
17 ness incurred by the taxpayer solely to pay
18 qualified tuition and related expenses—

19 “(I) which are incurred on behalf
20 of an eligible individual as of the time
21 the indebtedness was incurred,

22 “(II) which are paid or incurred
23 within a reasonable period of time be-
24 fore or after the indebtedness is in-
25 curred, and

1 “(III) which are attributable to
2 education furnished during a period
3 during which the recipient was an eli-
4 gible individual.

5 Such term includes indebtedness used to
6 refinance indebtedness which qualifies as a
7 qualified education loan. Such term shall
8 not include any indebtedness owed to a
9 person who is related (within the meaning
10 of section 267(b) or 707(b)(1)) to the eligi-
11 ble individual or to any person by reason
12 of a loan under any qualified employer
13 plan (as defined in section 72(p)(4)) or
14 under any contract referred to in section
15 72(p)(5).

16 “(C) BOOKS.—Such term shall include
17 books required for such individual’s academic
18 courses of instruction at the eligible educational
19 institution.

20 “(D) EXCEPTION FOR EDUCATION INVOLV-
21 ING SPORTS, ETC.—Such term does not include
22 expenses with respect to any course or other
23 education involving sports, games, or hobbies,
24 unless such course or other education is part of
25 the individual’s degree program.

1 “(E) EXCEPTION FOR NONACADEMIC
2 FEES.—Such term does not include student ac-
3 tivity fees, athletic fees, insurance expenses, or
4 other expenses unrelated to an individual’s aca-
5 demic course of instruction.

6 “(3) ELIGIBLE EDUCATIONAL INSTITUTION.—
7 The term ‘eligible educational institution’ means an
8 institution—

9 “(A) which is described in section 481 of
10 the Higher Education Act of 1965, as in effect
11 on the date of the enactment of the Taxpayer
12 Relief Act of 1997, and

13 “(B) which is eligible to participate in a
14 program under title IV of the Higher Education
15 Act of 1965.

16 “(d) SPECIAL RULES.—

17 “(1) IDENTIFICATION REQUIREMENT.—No
18 credit shall be allowed under subsection (a) to a tax-
19 payer with respect to an eligible student unless the
20 taxpayer includes the name and taxpayer identifica-
21 tion number of such student on the return of tax for
22 the taxable year.

23 “(2) ADJUSTMENT FOR CERTAIN SCHOLAR-
24 SHIPS.—The amount of qualified tuition and related
25 expenses otherwise taken into account under sub-

1 section (a) with respect to an individual for an aca-
2 demic period shall be reduced (before the application
3 of subsections (a) and (b)) by the sum of any
4 amounts paid for the benefit of such individual
5 which are allocable to such period as—

6 “(A) a qualified scholarship which is ex-
7 cludable from gross income under section 117,

8 “(B) an educational assistance allowance
9 under chapter 30, 31, 32, 34, or 35 of title 38,
10 United States Code, or under chapter 1606 of
11 title 10, United States Code, and

12 “(C) a payment (other than a gift, be-
13 quest, devise, or inheritance within the meaning
14 of section 102(a)) for such student’s edu-
15 cational expenses, or attributable to such indi-
16 vidual’s enrollment at an eligible educational in-
17 stitution, which is excludable from gross income
18 under any law of the United States.

19 “(3) TREATMENT OF EXPENSES PAID BY DE-
20 PENDENT.—If a deduction under section 151 with
21 respect to an individual is allowed to another tax-
22 payer for a taxable year beginning in the calendar
23 year in which such individual’s taxable year begins—

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

4 “(B) qualified tuition and related expenses
5 paid by such individual during such individual’s
6 taxable year shall be treated for purposes of
7 this section as paid by such other taxpayer.

8 “(4) TREATMENT OF CERTAIN PREPAY-
9 MENTS.—If qualified tuition and related expenses
10 are paid by the taxpayer during a taxable year for
11 an academic period which begins during the first 3
12 months following such taxable year, such academic
13 period shall be treated for purposes of this section
14 as beginning during such taxable year.

15 “(5) DENIAL OF DOUBLE BENEFIT.—No credit
16 shall be allowed under this section for any expense
17 for which deduction is allowed under any other pro-
18 vision of this chapter.

19 “(6) NO CREDIT FOR MARRIED INDIVIDUALS
20 FILING SEPARATE RETURNS.—If the taxpayer is a
21 married individual (within the meaning of section
22 7703), this section shall apply only if the taxpayer
23 and the taxpayer’s spouse file a joint return for the
24 taxable year.

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

7 “(e) INFLATION ADJUSTMENT.—

8 “(1) IN GENERAL.—In the case of any taxable
9 year beginning after 2012, the \$50,000 amount in
10 subsection (b)(1)(B)(i)(II) 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(f)(3) for the calendar
15 year in which the taxable year begins.

16 “(2) ROUNDING.—If any amount as adjusted
17 under paragraph (1) is not a multiple of \$1,000,
18 such amount shall be rounded to the next lowest
19 multiple of \$1,000.

20 “(f) REGULATIONS.—The Secretary may prescribe
21 such regulations as may be necessary or appropriate to
22 carry out this section, including regulations providing for
23 a recapture of the credit allowed under this section in
24 cases where there is a refund in a subsequent taxable year

1 of any expense which was taken into account in deter-
2 mining the amount of such credit.”.

3 (b) REPEAL OF DEDUCTION FOR INTEREST ON EDU-
4 CATION LOANS.—Part VII of subchapter B of chapter 1
5 is amended by striking section 221.

6 (c) CONFORMING AMENDMENTS.—

7 (1) Section 62(a) is amended by striking para-
8 graph (17).

9 (2) Subparagraph (A) of section 86(b)(2) is
10 amended by striking “, 221”.

11 (3) Subparagraph (B) of section 72(t)(7) is
12 amended by striking “section 25A(g)(2)” and insert-
13 ing “section 25A(d)(2)”.

14 (4) Subparagraph (A) of section 135(c)(4) is
15 amended by striking “, 221”.

16 (5) Subparagraph (A) of section 137(b)(3) is
17 amended by striking “, 221”.

18 (6) Paragraph (2) of section 163(h) is amended
19 by adding “and” at the end of subparagraph (D), by
20 striking “, and” at the end of subparagraph (E) and
21 inserting a period, and by striking subparagraph
22 (F).

23 (7) Subparagraph (A) of section 199(d)(2) is
24 amended by striking “, 221”.

1 (8) Clause (ii) of section 219(g)(3)(A) is
2 amended by striking “, 221”.

3 (9) Clause (iii) of section 469(i)(3)(F) is
4 amended by striking “, 221”.

5 (10) Subclause (I) of section 529(c)(3)(B)(v) is
6 amended by striking “section 25A(g)(2)” and insert-
7 ing “section 25A(d)(2)”.

8 (11) Paragraph (3) of section 529(e) is amend-
9 ed—

10 (A) by striking “(as defined in section
11 25A(b)(3))” in subparagraph (A), and

12 (B) by adding at the end the following new
13 subparagraph:

14 “(C) ELIGIBLE STUDENT.—For purposes
15 of this paragraph, the term ‘eligible student’
16 means, with respect to any academic period, a
17 student who—

18 “(i) meets the requirements of section
19 484(a)(1) of the Higher Education Act of
20 1965 (20 U.S.C. 1091(a)(1)), as in effect
21 on the date of the enactment of the Tax-
22 payer Relief Act of 1997, and

23 “(ii) is carrying at least ½ the normal
24 full-time workload for the course of study
25 the student is pursuing.”.

1 (12) Clause (iii) of section 530(d)(4)(B) is
2 amended by striking “section 25A(g)(2)” and insert-
3 ing “section 25A(d)(2)”.

4 (13) Section 1400O is amended by adding at
5 the end the following flush sentence:

6 “For purposes of this section, any reference to section 25A
7 shall be treated as a reference to such section as in effect
8 on the day before the date of the enactment of this sen-
9 tence.”.

10 (14) Subparagraph (J) of section 6213(g)(2) is
11 amended by striking “section 25A(g)(1)” and insert-
12 ing “section 25A(d)(1)”.

13 (15) Subsection (e) of section 6050S is amend-
14 ed by inserting “(as in effect before the date of the
15 enactment of the Bipartisan Tax Fairness and Sim-
16 plification Act of 2011)” before the end period.

17 (d) CLERICAL AMENDMENTS.—

18 (1) The table of sections for subpart A of part
19 IV of subchapter A of chapter 1 is amended by
20 striking the item relating to section 25A and insert-
21 ing the following:

“25A. Qualified tuition and related expenses credit.”.

22 (2) The table of sections for part VII of sub-
23 chapter B of chapter 1 is amended by striking the
24 item relating to section 221.

1 (e) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to expenses paid after December
3 31, 2011, for education furnished in academic periods be-
4 ginning after such date.

5 **SEC. 115. TERMINATION OF VARIOUS EXCLUSIONS, EXEMP-**
6 **TIONS, DEDUCTIONS, AND CREDITS.**

7 (a) IN GENERAL.—Subchapter C of chapter 90 is
8 amended by adding at the end the following new section:

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

10 “The following provisions shall not apply to taxable
11 years beginning after December 31, 2011:

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

14 “(2) Section 79 (relating to exclusion of group-
15 term life insurance purchased for employees).

16 “(3) Section 119 (relating to exclusion of meals
17 or lodging furnished for the convenience of the em-
18 ployer).

19 “(4) Section 125 (relating to exclusion of cafe-
20 teria plan benefits).

21 “(5) Section 132 (relating to certain fringe ben-
22 efits), except with respect to subsection (a)(5) there-
23 of (relating to exclusion of qualified transportation
24 fringe).

1 “(6) Section 217 (relating to deduction for
2 moving expenses).

3 “(7) Section 454 (relating to deferral of tax on
4 obligations issued at discount).

5 “(8) Section 501(c)(9) (relating to tax-exempt
6 status of voluntary employees’ beneficiary associa-
7 tions).

8 “(9) Section 911 (relating to exclusion of
9 earned income of citizens or residents of the United
10 States living abroad).

11 “(10) Section 912 (relating to exemption for
12 certain allowances).”.

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

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

16 **SEC. 116. SIMPLIFIED TAX RETURN PREPARATION.**

17 Beginning on January 1, 2012, the Internal Revenue
18 Service shall provide to any taxpayer who requests it a
19 simplified “Easyfile” pre-prepared income tax return, on
20 paper, compact disc, or through the Internet, based on
21 data the Internal Revenue Service receives with respect
22 to such taxpayer (including wages, self-employment in-
23 come, and dividend, capital gains, and interest income).
24 The Internal Revenue Service shall provide with every
25 “Easyfile” a one-page summary of how the most recently

1 available fiscal year's tax revenue was spent, including
2 spending on Social Security, Medicare, Medicaid, defense,
3 and interest on the Federal debt.

4 **TITLE II—CORPORATE AND**
5 **BUSINESS INCOME TAX RE-**
6 **FORMS**

7 **SEC. 201. CORPORATE FLAT TAX.**

8 (a) IN GENERAL.—Subsection (b) of section 11 is
9 amended to read as follows:

10 “(b) AMOUNT OF TAX.—The amount of tax imposed
11 by subsection (a) shall be equal to 24 percent of the tax-
12 able income.”.

13 (b) CONFORMING AMENDMENTS.—

14 (1) Section 280C(c)(3)(B)(ii)(II) is amended by
15 striking “maximum rate of tax under section
16 11(b)(1)” and inserting “rate of tax under section
17 11(b)”.

18 (2) Sections 860E(e)(2)(B), 860E(e)(6)(A)(ii),
19 860K(d)(2)(A)(ii), 860K(e)(1)(B)(ii),
20 1446(b)(2)(B), and 7874(e)(1)(B) are each amended
21 by striking “highest rate of tax specified in section
22 11(b)(1)” and inserting “rate of tax specified in sec-
23 tion 11(b)”.

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

4 (4) Section 962 is amended by striking sub-
5 section (e) and by redesignating subsection (d) as
6 subsection (e).

7 (5) Section 1561(a) is amended—

8 (A) by striking paragraph (1) and by re-
9 designating paragraphs (2), (3), and (4) as
10 paragraphs (1), (2), and (3), respectively,

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

13 (C) by striking “paragraph (2)” and in-
14 serting “paragraph (1)”,

15 (D) by striking “paragraph (3)” both
16 places it appears and inserting “paragraph
17 (2)”,

18 (E) by striking “paragraph (4)” and in-
19 serting “paragraph (3)”, and

20 (F) by striking the fourth sentence.

21 (6) Subsection (b) of section 1561 is amended
22 to read as follows:

23 “(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-
24 poration has a short taxable year which does not include
25 a December 31 and is a component member of a controlled

1 group of corporations with respect to such taxable year,
2 then for purposes of this subtitle, the amount to be used
3 in computing the accumulated earnings credit under sec-
4 tion 535(c) (2) and (3) of such corporation for such tax-
5 able year shall be the amount specified in subsection
6 (a)(1) divided by the number of corporations which are
7 component members of such group on the last day of such
8 taxable year. For purposes of the preceding sentence, sec-
9 tion 1563(b) shall be applied as if such last day were sub-
10 stituted for December 31.”.

11 (c) TREATMENT OF CAPITAL GAINS AS ORDINARY
12 INCOME.—

13 (1) IN GENERAL.—Section 1201 is amended by
14 adding at the end the following new subsection:

15 “(d) TERMINATION.—This section shall not apply to
16 taxable years beginning after December 31, 2011.”.

17 (2) CONFORMING AMENDMENTS.—

18 (A) Section 527(b)(2) is amended by add-
19 ing at the end the following new flush sentence:
20 “This paragraph shall not apply to taxable years be-
21 ginning after December 31, 2011.”.

22 (B) Section 801(a)(2) is amended by add-
23 ing at the end the following new subparagraph:

1 “(D) TERMINATION.—This paragraph
2 shall not apply to taxable years beginning after
3 December 31, 2011.”.

4 (C) Section 852(b)(3)(A) is amended by
5 adding at the end the following new sentence:
6 “This subparagraph shall not apply to taxable
7 years beginning after December 31, 2011.”.

8 (D) Section 857(b)(3)(A) is amended by
9 adding at the end the following new flush sen-
10 tence:

11 “‘This subparagraph shall not apply to taxable years
12 beginning after December 31, 2011.’”.

13 (E) Section 904(b)(2)(B) is amended by
14 adding at the end the following new flush sen-
15 tence:

16 “‘This subparagraph shall not apply to taxable years
17 beginning after December 31, 2011.’”.

18 (d) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to taxable years beginning after
20 December 31, 2011.

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

23 (a) IN GENERAL.—Section 162 is amended by redес-
24 ignating subsection (q) as subsection (r) and by inserting
25 after subsection (p) the following new subsection:

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

8 (b) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply to taxable years beginning after
 10 December 31, 2011.

11 **SEC. 203. UNLIMITED EXPENSING OF DEPRECIABLE ASSETS**
 12 **AND INVENTORIES FOR CERTAIN SMALL**
 13 **BUSINESSES.**

14 (a) UNLIMITED EXPENSING.—Section 179 is amend-
 15 ed by adding at the end the following new subsection:

16 “(g) UNLIMITED EXPENSING FOR CERTAIN SMALL
 17 BUSINESS TAXPAYERS.—

18 “(1) IN GENERAL.—In the case of any eligible
 19 taxpayer, this section shall be applied with respect to
 20 any taxable year without regard to subsection (b).

21 “(2) ELIGIBLE TAXPAYER.—For purposes of
 22 this subsection, a taxpayer is an eligible taxpayer
 23 with respect to any taxable year if for all prior tax-
 24 able years beginning after December 31, 2011, the
 25 taxpayer (or any predecessor) met the gross receipts

1 test of section 448(c) (determined by substituting
2 ‘\$1,000,000’ for ‘\$5,000,000’ each place it ap-
3 pears).”.

4 (b) CLARIFICATION OF INVENTORY RULES FOR
5 SMALL BUSINESS.—Section 471 is amended by redesignig-
6 nating subsection (c) as subsection (d) and by inserting
7 after subsection (b) the following new subsection:

8 “(c) SMALL BUSINESS TAXPAYERS NOT REQUIRED
9 TO USE INVENTORIES.—

10 “(1) IN GENERAL.—An eligible taxpayer (as de-
11 termined under section 179(g)(2)) shall not be re-
12 quired to use inventories under this section for a
13 taxable year.

14 “(2) TREATMENT OF TAXPAYERS NOT USING
15 INVENTORIES.—If an eligible taxpayer does not use
16 inventories with respect to any property for any tax-
17 able year beginning after December 31, 2011, such
18 property shall be treated as a material or supply
19 which is not incidental.”.

20 (c) EFFECTIVE DATE AND SPECIAL RULES.—

21 (1) IN GENERAL.—The amendments made by
22 this section shall apply to taxable years beginning
23 after December 31, 2011.

24 (2) CHANGE IN METHOD OF ACCOUNTING.—In
25 the case of any taxpayer changing the taxpayer’s

1 method of accounting for any taxable year under the
2 amendments made by this section—

3 (A) such change shall be treated as initi-
4 ated by the taxpayer,

5 (B) such change shall be treated as made
6 with the consent of the Secretary of the Treas-
7 ury, and

8 (C) the net amount of the adjustments re-
9 quired to be taken into account by the taxpayer
10 under section 481 of the Internal Revenue Code
11 of 1986 shall be taken into account over a pe-
12 riod (not greater than 4 taxable years) begin-
13 ning with such taxable year.

14 **SEC. 204. TERMINATION OF VARIOUS PREFERENTIAL**
15 **TREATMENTS.**

16 (a) IN GENERAL.—Section 7875, as added by this
17 Act, is amended—

18 (1) by inserting “(or transactions in the case of
19 sections referred to in paragraphs (13), (14), (15),
20 (16), and (19))” after “taxable years beginning”,
21 and

22 (2) by adding at the end the following new
23 paragraphs:

24 “(11) Section 43 (relating to enhanced oil re-
25 covery credit).

1 “(12) Section 199 (relating to income attrib-
2 utable to domestic production activities).

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

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

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

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

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

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

22 “(19) Sections 861(a)(6), 862(a)(6), 863(b)(2),
23 863(b)(3), and 865(b) (relating to inventory prop-
24 erty sales source rule exception).”.

1 (b) FULL TAX RATE ON NUCLEAR DECOMMISS-
2 SIONING RESERVE FUND.—Subparagraph (B) of section
3 468A(e)(2) is amended to read as follows:

4 “(B) RATE OF TAX.—For purposes of sub-
5 paragraph (A), the rate set forth in this sub-
6 paragraph is 25 percent.”.

7 (c) DEFERRAL OF ACTIVE INCOME OF CONTROLLED
8 FOREIGN CORPORATIONS.—Section 952 is amended by
9 adding at the end the following new subsection:

10 “(d) SPECIAL APPLICATION OF SUBPART.—

11 “(1) IN GENERAL.—For taxable years begin-
12 ning after December 31, 2011, notwithstanding any
13 other provision of this subpart, the term ‘subpart F
14 income’ means, in the case of any controlled foreign
15 corporation, the income of such corporation derived
16 from any foreign country.

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

20 (d) DEPRECIATION ON TANGIBLE PROPERTY IN EX-
21 CESS OF ALTERNATIVE DEPRECIATION SYSTEM.—Section
22 168(g)(1) is amended by striking “and” at the end of sub-
23 paragraph (D), by adding “and” at the end of subpara-
24 graph (E), and by inserting after subparagraph (E) the
25 following new subparagraph:

1 “(F) notwithstanding subsection (a), any
2 tangible property placed in service after Decem-
3 ber 31, 2011,”.

4 (e) EFFECTIVE DATE.—The amendments made by
5 subsections (b) and (c) shall apply to taxable years begin-
6 ning after December 31, 2011.

7 **SEC. 205. PASS-THROUGH BUSINESS ENTITY TRANS-**
8 **PARENCY.**

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

20 **SEC. 206. MODIFICATION OF EFFECTIVE DATE OF LEASING**
21 **PROVISIONS OF THE AMERICAN JOBS CRE-**
22 **ATION ACT OF 2004.**

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

1 “(5) LEASES TO FOREIGN ENTITIES.—In the
2 case of tax-exempt use property leased to a tax-ex-
3 empt entity which is a foreign person or entity, the
4 amendments made by this part shall apply to taxable
5 years beginning after December 31, 2011, with re-
6 spect to leases entered into on or before March 12,
7 2004.”.

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

11 **SEC. 207. MODIFICATIONS OF FOREIGN TAX CREDIT RULES**
12 **APPLICABLE TO LARGE INTEGRATED OIL**
13 **COMPANIES WHICH ARE DUAL CAPACITY**
14 **TAXPAYERS.**

15 (a) IN GENERAL.—Section 901 is amended by redес-
16 ignating subsection (n) as subsection (o) and by inserting
17 after subsection (m) the following new subsection:

18 “(n) SPECIAL RULES RELATING TO LARGE INTE-
19 GRATED OIL COMPANIES WHICH ARE DUAL CAPACITY
20 TAXPAYERS.—

21 “(1) GENERAL RULE.—Notwithstanding any
22 other provision of this chapter, any amount paid or
23 accrued by a dual capacity taxpayer which is a large
24 integrated oil company to a foreign country or pos-

1 session of the United States for any period shall not
2 be considered a tax—

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

6 “(B) to the extent such amount exceeds
7 the amount (determined in accordance with reg-
8 ulations) which—

9 “(i) is paid by such dual capacity tax-
10 payer pursuant to the generally applicable
11 income tax imposed by the country or pos-
12 session, or

13 “(ii) would be paid if the generally ap-
14 plicable income tax imposed by the country
15 or possession were applicable to such dual
16 capacity taxpayer.

17 Nothing in this paragraph shall be construed to
18 imply the proper treatment of any such amount
19 not in excess of the amount determined under
20 subparagraph (B).

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

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

3 “(B) receives (or will receive) directly or
4 indirectly a specific economic benefit (as deter-
5 mined in accordance with regulations) from
6 such country or possession.

7 “(3) GENERALLY APPLICABLE INCOME TAX.—
8 For purposes of this subsection—

9 “(A) IN GENERAL.—The term ‘generally
10 applicable income tax’ means an income tax (or
11 a series of income taxes) which is generally im-
12 posed under the laws of a foreign country or
13 possession on income derived from the conduct
14 of a trade or business within such country or
15 possession.

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

19 “(i) persons who are not dual capacity
20 taxpayers, and

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

23 “(4) LARGE INTEGRATED OIL COMPANY.—For
24 purposes of this subsection, the term ‘large inte-
25 grated oil company’ means, with respect to any tax-

1 able year, an integrated oil company (as defined in
2 section 291(b)(4)) which—

3 “(A) had gross receipts in excess of
4 \$1,000,000,000 for such taxable year, and

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

8 (b) EFFECTIVE DATE.—

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

13 (2) CONTRARY TREATY OBLIGATIONS
14 UPHELD.—The amendments made by this section
15 shall not apply to the extent contrary to any treaty
16 obligation of the United States.

17 **SEC. 208. REPEAL OF LOWER OF COST OR MARKET VALUE**
18 **OF INVENTORY RULE.**

19 (a) IN GENERAL.—Subsection (a) of section 471 is
20 amended to read as follows:

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

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

4 **SEC. 209. REINSTITUTION OF PER COUNTRY FOREIGN TAX**
5 **CREDIT.**

6 (a) IN GENERAL.—Subsection (a) of section 904 is
7 amended to read as follows:

8 “(a) LIMITATION.—The amount of the credit in re-
9 spect of the tax paid or accrued to any foreign country
10 or possession of the United States shall not exceed the
11 same proportion of the tax against which such credit is
12 taken which the taxpayer’s taxable income from sources
13 within such country or possession (but not in excess of
14 the taxpayer’s entire taxable income) bears to such tax-
15 payer’s entire taxable income for the same taxable year.”.

16 (b) EFFECTIVE DATE.—The amendment made by
17 this section shall apply to taxable years beginning after
18 December 31, 2011.

19 **SEC. 210. APPLICATION OF RULES TREATING INVERTED**
20 **CORPORATIONS AS DOMESTIC CORPORA-**
21 **TIONS TO CERTAIN TRANSACTIONS OCCUR-**
22 **RING AFTER MARCH 20, 2002.**

23 (a) IN GENERAL.—Section 7874(b) is amended to
24 read as follows:

1 “(b) INVERTED CORPORATIONS TREATED AS DO-
2 MESTIC CORPORATIONS.—

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

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

11 “(A) IN GENERAL.—If—

12 “(i) paragraph (1) does not apply to
13 a foreign corporation, but

14 “(ii) paragraph (1) would apply to
15 such corporation if, in addition to the sub-
16 stitution under paragraph (1), subsection
17 (a)(2) were applied by substituting ‘March
18 20, 2002’ for ‘March 4, 2003’ each place
19 it appears,

20 then paragraph (1) shall apply to such corpora-
21 tion but only with respect to taxable years of
22 such corporation beginning after December 31,
23 2011.

24 “(B) SPECIAL RULES.—Subject to such
25 rules as the Secretary may prescribe, in the

1 case of a corporation to which paragraph (1)
2 applies by reason of this paragraph—

3 “(i) the corporation shall be treated,
4 as of the close of its last taxable year be-
5 ginning before January 1, 2012, as having
6 transferred all of its assets, liabilities, and
7 earnings and profits to a domestic corpora-
8 tion in a transaction with respect to which
9 no tax is imposed under this title,

10 “(ii) the bases of the assets trans-
11 ferred in the transaction to the domestic
12 corporation shall be the same as the bases
13 of the assets in the hands of the foreign
14 corporation, subject to any adjustments
15 under this title for built-in losses,

16 “(iii) the basis of the stock of any
17 shareholder in the domestic corporation
18 shall be the same as the basis of the stock
19 of the shareholder in the foreign corpora-
20 tion for which it is treated as exchanged,
21 and

22 “(iv) the transfer of any earnings and
23 profits by reason of clause (i) shall be dis-
24 regarded in determining any deemed divi-
25 dend or foreign tax creditable to the do-

1 mestic corporation with respect to such
2 transfer.

3 “(C) REGULATIONS.—The Secretary may
4 prescribe such regulations as may be necessary
5 or appropriate to carry out this paragraph, in-
6 cluding regulations to prevent the avoidance of
7 the purposes of this paragraph.”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 this section shall apply to taxable years beginning after
10 December 31, 2011.

11 **SEC. 211. INDEXING CORPORATE INTEREST DEDUCTION**
12 **FOR INFLATION.**

13 (a) IN GENERAL.—Section 163 is amended by redес-
14 ignating subsection (n) as subsection (o) and by inserting
15 after subsection (m) the following new subsection:

16 “(n) INDEXING CORPORATE INTEREST DEDUCTION
17 FOR INFLATION.—

18 “(1) IN GENERAL.—In the case of a corpora-
19 tion, the deduction allowed under this chapter for in-
20 terest paid for any taxable year with respect to any
21 obligation shall be adjusted by multiplying the
22 amount otherwise so allowed by 1 minus the frac-
23 tional exclusion rate for such taxable year.

1 “(2) FRACTIONAL EXCLUSION RATE.—For any
2 taxable year, the Secretary shall determine the frac-
3 tional exclusion rate using—

4 “(A) a fraction—

5 “(i) the numerator of which is the
6 cost-of-living adjustment determined under
7 section 1(f)(3) for the calendar year in
8 which the taxable year begins by sub-
9 stituting ‘the second preceding calendar
10 year’ for ‘calendar year 2011’ in subpara-
11 graph (B) thereof, and

12 “(ii) the denominator of which is the
13 nominal interest rate for such obligation,
14 and

15 “(B) a constant real before tax rate of re-
16 turn of 6 percent.”.

17 (b) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 2011.

20 **SEC. 212. PROHIBITION OF ADVANCE REFUNDING OF**
21 **BONDS.**

22 (a) IN GENERAL.—Subsection (d) of section 149 is
23 amended—

24 (1) by striking paragraphs (1), (2), (3), (4),
25 and (6),

1 (2) by redesignating paragraphs (5) and (7) as
2 paragraphs (2) and (3), respectively, and

3 (3) by inserting before paragraph (2) (as redesi-
4 gnated by paragraph (2) the following new para-
5 graph:

6 “(1) PROHIBITION.—Nothing in section 103(a)
7 or in any other provision of law shall be construed
8 to provide an exemption from Federal income tax for
9 interest on any bond issued as part of an issue to
10 advance refund a bond.”.

11 (b) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to refunding bonds issued on or
13 after the date of the enactment of this Act.

14 **SEC. 213. CBO STUDY ON GOVERNMENT SPENDING ON**
15 **BUSINESSES.**

16 (a) STUDY.—The Congressional Budget Office shall
17 identify the Federal Government’s direct and indirect
18 spending on businesses, using among other sources, the
19 corporate welfare lists produced by the Cato Institute and
20 the Bureau of Economic Analysis of the Department of
21 Commerce, and, from that pool of spending, identify the
22 least economically justifiable and suggest options for how
23 Congress could potentially reduce Federal spending on the
24 least justifiable programs by at least \$230,000,000,000
25 during a 10-year period.

1 (b) REPORT.—The Congressional Budget Office shall
 2 report not later than one year after the date of the enact-
 3 ment of this Act on the results of the study required under
 4 subsection (a) and shall submit such report for the pur-
 5 pose of hearing by the Committee on the Budget of the
 6 House of Representatives and the Committee on the
 7 Budget of the Senate.

8 **TITLE III—REPEAL OF**
 9 **ALTERNATIVE MINIMUM TAX**

10 **SEC. 301. REPEAL OF ALTERNATIVE MINIMUM TAX.**

11 (a) IN GENERAL.—Section 55(a) is amended by add-
 12 ing at the end the following new flush sentence:

13 “For purposes of this title, the tentative minimum tax on
 14 any taxpayer for any taxable year beginning after Decem-
 15 ber 31, 2011, shall be zero.”.

16 (b) MODIFICATION OF LIMITATION ON USE OF
 17 CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—
 18 Subsection (c) of section 53 is amended to read as follows:

19 “(c) LIMITATION.—

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

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

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

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

5 “(2) TAXABLE YEARS BEGINNING AFTER
6 2011.—In the case of any taxable year beginning
7 after December 31, 2011, the credit allowable under
8 subsection (a) to a taxpayer other than a corpora-
9 tion for any taxable year shall not exceed 90 percent
10 of the regular tax liability of the taxpayer for such
11 taxable year reduced by the sum of the credits allow-
12 able under subparts A, B, D, E, and F of this
13 part.”.

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years beginning after
16 December 31, 2011.

17 **TITLE IV—IMPROVEMENTS IN**
18 **TAX COMPLIANCE**

19 **SEC. 401. INCREASE IN INFORMATION RETURN PENALTIES.**

20 (a) FAILURE TO FILE CORRECT INFORMATION RE-
21 TURNS.—

22 (1) IN GENERAL.—Section 6721(a)(1) is
23 amended—

24 (A) by striking “\$100” and inserting
25 “\$250”, and

1 (B) by striking “\$1,500,000” and insert-
2 ing “\$3,000,000”.

3 (2) REDUCTION WHERE CORRECTION IN SPECI-
4 FIED PERIOD.—

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

7 (i) by striking “\$30” and inserting
8 “\$50”,

9 (ii) by striking “\$100” and inserting
10 “\$250”, and

11 (iii) by striking “\$250,000” and in-
12 serting “\$500,000”.

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

15 (i) by striking “\$100” and inserting
16 “\$250”,

17 (ii) by striking “\$60” and inserting
18 “\$100”, and

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

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

24 (A) in subparagraph (A)—

1 (i) by striking “\$500,000” and insert-
2 ing “\$1,000,000”, and

3 (ii) by striking “\$1,500,000” and in-
4 sserting “\$3,000,000”,

5 (B) in subparagraph (B)—

6 (i) by striking “\$75,000” and insert-
7 ing “\$175,000”, and

8 (ii) by striking “\$250,000” and in-
9 sserting “\$500,000”, and

10 (C) in subparagraph (C)—

11 (i) by striking “\$500,000” and insert-
12 ing “\$1,500,000”, and

13 (ii) by striking “\$200,000” and in-
14 sserting “\$500,000”.

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

17 (A) by striking “\$250” in paragraph (2)
18 and inserting “\$500”, and

19 (B) by striking “\$1,500,000” in paragraph
20 (3)(A) and inserting “\$3,000,000”.

21 (b) FAILURE TO FURNISH CORRECT PAYEE STATE-
22 MENTS.—

23 (1) IN GENERAL.—Section 6722(a)(1) is
24 amended by striking “\$100” and inserting “\$250”.

1 (2) REDUCTION WHERE CORRECTION IN SPECI-
2 FIED PERIOD.—Section 6722(b) is amended—

3 (A) in paragraph (1)(A)—

4 (i) by striking “\$30” and inserting
5 “\$60”, and

6 (ii) by striking “\$100” and inserting
7 “\$250”,

8 (B) by striking “\$250,000” in paragraph
9 (1)(B) and inserting “\$500,000”,

10 (C) in paragraph (2)(A)—

11 (i) by striking “\$60” and inserting
12 “\$100”, and

13 (ii) by striking “\$100” and inserting
14 “\$250”, and

15 (D) by striking “\$500,000” in paragraph
16 (2)(B) and inserting “\$1,500,000”.

17 (3) LOWER LIMITATIONS.—Section 6722(d)(1)
18 is amended—

19 (A) in subparagraph (B)—

20 (i) by striking “\$250,000” and insert-
21 ing “\$500,000”, and

22 (ii) by striking “\$75,000” and insert-
23 ing “\$250,000”, and

24 (B) in subparagraph (C)—

1 (i) by striking “\$500,000” and insert-
2 ing “\$1,500,000”, and

3 (ii) by striking “\$200,000” and in-
4 serting “\$500,000”.

5 (4) PENALTY IN CASE OF INTENTIONAL DIS-
6 REGARD.—Section 6722(e(2)) is amended by strik-
7 ing “\$250” and inserting “\$500”.

8 (c) FAILURE TO COMPLY WITH OTHER INFORMA-
9 TION REPORTING REQUIREMENTS.—Section 6723 is
10 amended—

11 (1) by striking “\$50” and inserting “\$250”,
12 and

13 (2) by striking “\$100,000” and inserting
14 “\$1,000,000”.

15 (d) EFFECTIVE DATE.—The amendments made by
16 this section shall apply with respect to information returns
17 required to be filed on or after January 1, 2012.

18 **SEC. 402. E-FILING REQUIREMENT FOR CERTAIN LARGE**
19 **ORGANIZATIONS.**

20 (a) IN GENERAL.—The first sentence of section
21 6011(e)(2) is amended to read as follows: “In prescribing
22 regulations under paragraph (1), the Secretary shall take
23 into account (among other relevant factors) the ability of
24 the taxpayer to comply at reasonable cost with the require-
25 ments of such regulations.”.

1 (b) CONFORMING AMENDMENT.—Section 6724 is
2 amended by striking subsection (e).

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years ending on or after
5 December 31, 2011.

6 **SEC. 403. IMPLEMENTATION OF STANDARDS CLARIFYING**
7 **WHEN EMPLOYEE LEASING COMPANIES CAN**
8 **BE HELD LIABLE FOR THEIR CLIENTS' FED-**
9 **ERAL EMPLOYMENT TAXES.**

10 With respect to employment tax returns required to
11 be filed with respect to wages paid on or after January
12 1, 2012, the Secretary of the Treasury shall issue regula-
13 tions establishing—

14 (1) standards for holding employee leasing com-
15 panies jointly and severally liable with their clients
16 for Federal employment taxes under chapters 21,
17 22, 23, and 24 of the Internal Revenue Code of
18 1986, and

19 (2) standards for holding such companies solely
20 liable for such taxes.

1 **SEC. 404. EXPANSION OF IRS ACCESS TO INFORMATION IN**
2 **NATIONAL DIRECTORY OF NEW HIRES FOR**
3 **TAX ADMINISTRATION PURPOSES.**

4 (a) IN GENERAL.—Paragraph (3) of section 453(i)
5 of the Social Security Act (42 U.S.C. 653(i)) is amended
6 to read as follows:

7 “(3) ADMINISTRATION OF FEDERAL TAX
8 LAWS.—The Secretary of the Treasury shall have
9 access to the information in the National Directory
10 of New Hires for purposes of administering the In-
11 ternal Revenue Code of 1986.”

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall take effect on the date of the enactment
14 of this Act.

15 **SEC. 405. MODIFICATION OF CRIMINAL PENALTIES FOR**
16 **WILLFUL FAILURES INVOLVING TAX PAY-**
17 **MENTS AND FILING REQUIREMENTS.**

18 (a) INCREASE IN PENALTY FOR ATTEMPT TO EVADE
19 OR DEFEAT TAX.—Section 7201 is amended—

20 (1) by striking “\$500,000” and inserting
21 “\$1,000,000”,

22 (2) by striking “\$100,000” and inserting
23 “\$500,000”, and

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

1 (b) MODIFICATION OF PENALTIES FOR WILLFUL
2 FAILURE TO FILE RETURN, SUPPLY INFORMATION, OR
3 PAY TAX.—

4 (1) IN GENERAL.—Section 7203 is amended—

5 (A) in the first sentence—

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

8 “(a) IN GENERAL.—Any person”, and

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

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

13 (C) by adding at the end the following new
14 subsection:

15 “(b) AGGRAVATED FAILURE TO FILE.—

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

19 “(A) ‘felony’ for ‘misdemeanor’,

20 “(B) ‘\$250,000 (\$500,000’ for ‘\$50,000
21 (\$100,000’, and

22 “(C) ‘5 years’ for ‘1 year’.

23 “(2) FAILURE DESCRIBED.—A failure described
24 in this paragraph is—

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

6 “(B) a failure to make a return if the tax
7 liability giving rise to the requirement to make
8 such return is attributable to an activity which
9 is a felony under any State or Federal law.”.

10 (2) PENALTY MAY BE APPLIED IN ADDITION TO
11 OTHER PENALTIES.—Section 7204 is amended by
12 striking “the penalty provided in section 6674” and
13 inserting “the penalties provided in sections 6674
14 and 7203(b)”.

15 (c) FRAUD AND FALSE STATEMENTS.—Section 7206
16 is amended—

17 (1) by striking “\$100,000” and inserting
18 “\$500,000”,

19 (2) by striking “\$500,000” and inserting
20 “\$1,000,000”, and

21 (3) by striking “3 years” and inserting “5
22 years”.

23 (d) INCREASE IN MONETARY LIMITATION FOR UN-
24 DERPAYMENT OR OVERPAYMENT OF TAX DUE TO

1 FRAUD.—Section 7206, as amended by subsection (c), is
2 amended—

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

5 (2) by adding at the end the following new sub-
6 section:

7 “(b) INCREASE IN MONETARY LIMITATION FOR UN-
8 DERPAYMENT OR OVERPAYMENT OF TAX DUE TO
9 FRAUD.—If any portion of any underpayment (as defined
10 in section 6664(a)) or overpayment (as defined in section
11 6401(a)) of tax required to be shown on a return is attrib-
12 utable to fraudulent action described in subsection (a), the
13 applicable dollar amount under subsection (a) shall in no
14 event be less than an amount equal to such portion. A
15 rule similar to the rule under section 6663(b) shall apply
16 for purposes of determining the portion so attributable.”.

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

20 **SEC. 406. PENALTIES FOR FAILURE TO FILE CERTAIN RE-**
21 **TURNS ELECTRONICALLY.**

22 (a) IN GENERAL.—Part I of subchapter A of chapter
23 68 is amended by inserting after section 6652 the fol-
24 lowing new section:

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

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

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

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

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

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

17 “(b) AMOUNT OF PENALTY.—

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

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

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

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

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

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

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

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

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

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

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

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

15 “(I) \$50,000, plus

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

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

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

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

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

6 “(I) \$250,000, plus

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

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

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

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

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

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to returns required to be filed on
25 or after January 1, 2012.

1 **SEC. 407. REPORTING ON IDENTIFICATION OF BENEFICIAL**
 2 **OWNERS OF CERTAIN FOREIGN FINANCIAL**
 3 **ACCOUNTS.**

4 (a) IN GENERAL.—Subchapter A of chapter 3 is
 5 amended by adding at the end the following new section:

6 **“SEC. 1447. WITHHOLDABLE PAYMENTS TO CERTAIN FOR-**
 7 **EIGN FINANCIAL ACCOUNTS.**

8 “(a) IN GENERAL.—In the case of any withholdable
 9 payment to a foreign financial account, the withholding
 10 agent with respect to such payment shall deduct and with-
 11 hold from such payment a tax equal to 30 percent of the
 12 amount of such payment if such agent does not meet the
 13 reporting requirements under subsection (b) with respect
 14 to such payment.

15 “(b) REPORTING REQUIREMENTS.—The require-
 16 ments of this subsection are met with respect to any
 17 withholdable payment to a foreign financial account if the
 18 withholding agent with respect to such payment—

19 “(1) identifies—

20 “(A) the beneficial owner or owners of
 21 such account by name, address, TIN (if any),
 22 and

23 “(B) the account number,

24 “(2) obtains evidence of the nationality of such
 25 owner or owners,

1 “(3) complies with such verification and due
2 diligence procedures as the Secretary may require
3 with respect to such identification and obtaining of
4 such evidence, and

5 “(4) reports such identification and evidence to
6 the Secretary in such manner as the Secretary re-
7 quires.

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

9 “(1) WITHHOLDABLE PAYMENT.—Except as
10 otherwise provided by the Secretary, the term
11 ‘withholdable payment’ means—

12 “(A) any payment of interest (including
13 any original issue discount), dividends, rents,
14 and other fixed or determinable annual or peri-
15 odical gains and profits, if such payment is
16 from sources within the United States, and

17 “(B) any gross proceeds from the sale or
18 other disposition of any property of a type
19 which can produce interest or dividends from
20 sources within the United States.

21 “(2) WITHHOLDING AGENT.—The term ‘with-
22 holding agent’ means all persons, in whatever capac-
23 ity acting, having the control, receipt, custody, dis-
24 posal, or payment of any withholdable payment.

25 “(3) FOREIGN FINANCIAL ACCOUNT.—

1 “(A) IN GENERAL.—The term ‘foreign fi-
2 nancial account’ means any financial account
3 maintained by a foreign financial institution.

4 “(B) FINANCIAL ACCOUNT.—Except as
5 otherwise provided by the Secretary, the term
6 ‘financial account’ means, with respect to any
7 foreign financial institution—

8 “(i) any depository account main-
9 tained by such financial institution, and

10 “(ii) any custodial account maintained
11 by such financial institution.

12 “(4) FOREIGN FINANCIAL INSTITUTION.—

13 “(A) IN GENERAL.—The term ‘foreign fi-
14 nancial institution’ means any financial institu-
15 tion which is a foreign entity. Except as other-
16 wise provided by the Secretary, such term shall
17 not include a financial institution which is orga-
18 nized under the laws of any possession of the
19 United States.

20 “(B) FINANCIAL INSTITUTION.—Except as
21 otherwise provided by the Secretary, the term
22 ‘financial institution’ means any entity that—

23 “(i) accepts deposits in the ordinary
24 course of a banking or similar business,

1 “(ii) is engaged primarily in the busi-
2 ness of holding financial assets for the ac-
3 count of others, or

4 “(iii) is engaged (or holding itself out
5 as being engaged) primarily in the business
6 of investing, reinvesting, or trading in se-
7 curities (as defined in section 475(e)(2))
8 without regard to the last sentence there-
9 of), partnership interests, commodities (as
10 defined in section 475(e)(2)), or any inter-
11 est (including a futures or forward con-
12 tract or option) in such securities, partner-
13 ship interests, or commodities.

14 “(C) FOREIGN ENTITY.—The term ‘foreign
15 entity’ means any entity which is not a United
16 States person.

17 “(d) EXCEPTION FOR CERTAIN PAYMENTS.—Sub-
18 section (a) shall not apply to any payment to the extent
19 that the beneficial owner of such payment is—

20 “(1) any foreign government, any political sub-
21 division of a foreign government, or any wholly
22 owned agency or instrumentality of any one or more
23 of the foregoing,

24 “(2) any international organization or any
25 wholly owned agency or instrumentality thereof,

1 “(3) any foreign central bank of issue, or

2 “(4) any other class of persons identified by the
3 Secretary for purposes of this subsection as posing
4 a low risk of tax evasion.

5 “(e) CONFIDENTIALITY OF INFORMATION.—For pur-
6 poses of this section, rules similar to the rules of section
7 3406(f) shall apply.

8 “(f) COORDINATION WITH OTHER WITHHOLDING
9 PROVISIONS.—The Secretary shall provide for the coordi-
10 nation of this section with other withholding provisions
11 under this title, including providing for the proper cred-
12 iting of amounts deducted and withheld under this section
13 against amounts required to be deducted and withheld
14 under such other provisions.

15 “(g) REGULATIONS.—The Secretary shall prescribe
16 such regulations or other guidance as may be necessary
17 or appropriate to carry out the purposes of, and prevent
18 the avoidance of, this section.”.

19 (b) CONFORMING AMENDMENT.—The table of sec-
20 tions for subchapter A of chapter 3 is amended by adding
21 at the end the following new item:

 “Sec. 1447. Withholdable payments to certain foreign financial accounts.”.

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to payments made after December
24 31, 2011.

1 **TITLE V—MISCELLANEOUS**
2 **PROVISIONS**

3 **SEC. 501. ALLOWANCE OF DEDUCTION FOR DIVIDENDS RE-**
4 **CEIVED FROM CONTROLLED FOREIGN COR-**
5 **PORATIONS FOR 2011.**

6 (a) IN GENERAL.—Section 965 of the Internal Rev-
7 enue Code of 1986 is amended by adding at the end the
8 following new subsection:

9 “(g) ALLOWANCE FOR DEDUCTION FOR AN ADDI-
10 TIONAL YEAR.—

11 “(1) IN GENERAL.—In the case of an election
12 under this subsection, subsection (f)(1) shall be ap-
13 plied by substituting ‘January 1, 2011,’ for ‘the date
14 of the enactment of this section’.

15 “(2) SPECIAL RULES.—For purposes of para-
16 graph (1)—

17 “(A) EXTRAORDINARY DIVIDENDS.—Sub-
18 section (b)(2) shall be applied by substituting
19 ‘June 30, 2010’ for ‘June 30, 2003’.

20 “(B) DETERMINATIONS RELATING TO RE-
21 LATED PARTY INDEBTEDNESS.—Subsection
22 (b)(3)(B) shall be applied by substituting ‘Octo-
23 ber 3, 2011’ for ‘October 3, 2004’.

24 “(C) APPLICABLE FINANCIAL STATE-
25 MENT.—Subsection (c)(1) shall be applied by

1 substituting ‘June 30, 2010’ for ‘June 30,
2 2003’ each place it occurs.

3 “(D) DETERMINATIONS RELATING TO
4 BASE PERIOD.—Subsection (c)(2) shall be ap-
5 plied by substituting ‘June 30, 2010’ for ‘June
6 30, 2003’.

7 “(E) REQUIREMENTS FOR INVESTMENT IN
8 UNITED STATES.—Subsection (b)(4) shall be
9 applied—

10 “(i) by inserting ‘deposited in 1 or
11 more United States financial institutions
12 and’ after ‘amount of the dividend’, and

13 “(ii) by striking subparagraph (B)
14 thereof and inserting the following:

15 ““(B) provides for the reinvestment of
16 such dividend in the United States (other than
17 as payment for executive compensation) as a
18 source of funding for only 1 or more of the fol-
19 lowing purposes:

20 ““(i) worker hiring and training,

21 ““(ii) research and development,

22 ““(iii) capital improvements,

23 ““(iv) acquisitions of business entities
24 for the purpose of retaining or creating
25 jobs in the United States, and

1 “(v) clean energy initiatives (such as
 2 clean energy research and development, en-
 3 ergy efficiency, clean energy start ups, and
 4 clean energy jobs).

5 For any purpose described in clause (i), (ii), or
 6 (iii), funding shall qualify for purposes of this
 7 paragraph only if such funding supplements but
 8 does not supplant otherwise scheduled funding
 9 for either taxable year described in subsection
 10 (f) by the taxpayer for such purpose. Such
 11 scheduled funding shall be certified by the indi-
 12 vidual and entity approving the domestic rein-
 13 vestment plan.’.

14 “(3) AUDIT.—Not later than 2 years after the
 15 date of the election under this subsection, the Inter-
 16 nal Revenue Service shall conduct an audit of the
 17 taxpayer with respect to any reinvestment trans-
 18 action arising from such election.”.

19 (b) EFFECTIVE DATE.—The amendment made by
 20 subsection (a) shall apply to taxable years ending on or
 21 after January 1, 2011.

22 **SEC. 502. DENIAL OF DEDUCTION FOR PUNITIVE DAMAGES.**

23 (a) DISALLOWANCE OF DEDUCTION.—

24 (1) IN GENERAL.—Section 162(g) is amend-
 25 ed—

1 (A) by redesignating paragraphs (1) and
 2 (2) as subparagraphs (A) and (B), respectively,
 3 (B) by striking “If” and inserting:

4 “(1) TREBLE DAMAGES.—If”, and

5 (C) by adding at the end the following new
 6 paragraph:

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

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

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

18 (1) IN GENERAL.—Part II of subchapter B of
 19 chapter 1 is amended by adding at the end the fol-
 20 lowing new section:

21 **“SEC. 91. PUNITIVE DAMAGES COMPENSATED BY INSUR-**
 22 **ANCE OR OTHERWISE.**

23 “Gross income shall include any amount paid to or
 24 on behalf of a taxpayer as insurance or otherwise by rea-

1 son of the taxpayer's liability (or agreement) to pay puni-
2 tive damages.”.

3 (2) REPORTING REQUIREMENTS.—Section 6041
4 is amended by adding at the end the following new
5 subsection:

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

11 (3) CONFORMING AMENDMENT.—The table of
12 sections for part II of subchapter B of chapter 1 is
13 amended by adding at the end the following new
14 item:

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

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

18 **SEC. 503. APPLICATION OF MEDICARE PAYROLL TAX TO**
19 **ALL STATE AND LOCAL GOVERNMENT EM-**
20 **PLOYEES.**

21 (a) IN GENERAL.—Paragraph (2) of section 3121(u)
22 is amended—

23 (1) by striking “subparagraphs (B) and (C)” in
24 subparagraph (A) and inserting “subparagraph
25 (B)”, and

1 (2) by striking subparagraphs (C) and (D).

2 (b) ENTITLEMENT TO HOSPITAL INSURANCE BENE-
3 FITS.—Subsection (p) of section 210 of the Social Security
4 Act is amended—

5 (1) by striking “paragraphs (2) and (3)” in
6 paragraph (1)(B) and inserting “paragraph (2)”,
7 and

8 (2) by striking paragraphs (3) and (4).

9 (c) CONFORMING AMENDMENT.—Paragraph (2) of
10 section 218(v) of the Social Security Act is amended to
11 read as follows:

12 “(2) This subsection shall apply only with re-
13 spect to employees who are not otherwise covered
14 under the State’s agreement under this section.”.

15 (d) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to services performed after the
17 date of the enactment of this Act.

18 **SEC. 504. CORRECTIONS FOR CPI OVERSTATEMENT IN**

19 **COST-OF-LIVING INDEXATION.**

20 (a) IN GENERAL.—Paragraph (3) of section 1(f), as
21 amended by this Act, is amended to read as follows:

22 “(3) COST-OF-LIVING ADJUSTMENT.—

23 “(A) IN GENERAL.—For purposes of para-
24 graph (2), the cost-of-living adjustment for any
25 calendar year is the product of—

1 “(i) the CPI fraction for calendar
2 years before 2014, multiplied by

3 “(ii) the Chained CPI fraction for cal-
4 endar years after 2013,
5 reduced by 1.

6 “(B) CPI FRACTION FOR CALENDAR
7 YEARS BEFORE 2014.—The CPI fraction for cal-
8 endar years before 2014 is the fraction—

9 “(i) the numerator of which is the
10 CPI for the calendar year 2012, and

11 “(ii) the denominator of which is the
12 CPI for the calendar year 2011.

13 “(C) CHAINED CPI FRACTION FOR CAL-
14 ENDAR YEARS AFTER 2013.—The Chained CPI
15 fraction for calendar years after 2013 is the
16 fraction—

17 “(i) the numerator of which is the
18 Chained CPI for the preceding calendar
19 year, and

20 “(ii) the denominator of which is the
21 Chained CPI for the calendar year 2012.”.

22 (b) CONFORMING AMENDMENTS.—

23 (1) Paragraph (4) of section 1(f) is amended to
24 read as follows:

1 “(4) CPI AND CHAINED CPI FOR ANY CAL-
2 ENDAR YEAR.—For purposes of paragraph (3)—

3 “(A) CPI.—The CPI for any calendar year
4 is the average of the Consumer Price Index as
5 of the close of the 12-month period ending on
6 August 31 of such calendar year.

7 “(B) CHAINED CPI.—The Chained CPI for
8 any calendar year is the average of the Chained
9 Consumer Price Index as of the close of the 12-
10 month period ending on August 31 of such cal-
11 endar year.”.

12 (2) Paragraph (5) of section 1(f) is amended to
13 read as follows:

14 “(5) CONSUMER PRICE INDEX AND CHAINED
15 CONSUMER PRICE INDEX.—For purposes of para-
16 graph (4)—

17 “(A) CONSUMER PRICE INDEX.—The term
18 ‘Consumer Price Index’ means the last Con-
19 sumer Price Index for all-urban consumers pub-
20 lished by the Department of Labor. For pur-
21 poses of the preceding sentence, the revision of
22 the Consumer Price Index which is most con-
23 sistent with the Consumer Price Index for cal-
24 endar year 1986 shall be used.

1 “(B) CHAINED CONSUMER PRICE INDEX.—
2 The term ‘Chained Consumer Price Index’
3 means the initial Chained Consumer Price
4 Index for all-urban consumers published by the
5 Department of Labor.”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to taxable years beginning after
8 December 31, 2013.

9 **TITLE VI—TECHNICAL AND**
10 **CONFORMING AMENDMENTS**

11 **SEC. 601. TECHNICAL AND CONFORMING AMENDMENTS.**

12 The Secretary of the Treasury or the Secretary’s del-
13 egate shall not later than 90 days after the date of the
14 enactment of this Act, submit to the Committee on Ways
15 and Means of the House of Representatives and the Com-
16 mittee on Finance of the Senate a draft of any technical
17 and conforming changes in the Internal Revenue Code of
18 1986 which are necessary to reflect throughout such Code
19 the purposes of the provisions of, and amendments made
20 by, this Act.

○