

104TH CONGRESS  
2D SESSION

# H. R. 4050

To amend the Internal Revenue Code of 1986 to replace the current individual and corporate income taxes, and the Social Security and Medicare taxes, with a value added tax.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 11, 1996

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

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## A BILL

To amend the Internal Revenue Code of 1986 to replace the current individual and corporate income taxes, and the Social Security and Medicare taxes, with a value added tax.

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 (a) IN GENERAL.—This Act may be cited as the  
5 “Revenue Restructuring Act of 1996”.

6 (b) FUNDAMENTAL PRINCIPLES FOR TAX RESTRUC-  
7 TURING.—The provisions of this Act are a substitute for

1 the current Federal income taxes and Social Security and  
2 Medicare employment taxes and are designed to meet the  
3 following principles which should govern all proposals for  
4 fundamental tax reform:

5           (1) REVENUE NEUTRALITY.—The debate about  
6 the best method by which the Government raises  
7 revenue should not be confused with the issue of how  
8 much revenue the Government should raise.

9           (2) FAIRNESS.—Equitable distribution of the  
10 tax burden is of paramount importance. Tax reform  
11 should not be used as an opportunity to alter the  
12 current distribution of the burden of Federal taxes.

13           (3) SIMPLICITY.—Much of the unhappiness  
14 with the current Federal tax system arises from its  
15 perceived complexity. Tax reform should focus on  
16 the creation of a truly simpler system, thereby avoid-  
17 ing the ill will and skepticism generated by the cur-  
18 rent Federal tax system.

19           (4) ECONOMIC EFFICIENCY.—A good revenue  
20 system should minimize interference in economic  
21 markets. It should result in the least amount of dis-  
22 tortion and bias, should encourage economic growth,  
23 and should promote the vigor and competitiveness of  
24 American companies.

1           (5) INTERNATIONAL COMPETITIVENESS.—The  
2           current income tax is an impediment to maximum  
3           competitiveness of American companies in inter-  
4           national markets. Any reform proposal should be  
5           border-adjustable and promote the competitiveness  
6           of American companies.

7           (c) RESPONSIBILITIES OF DEPARTMENT OF TREAS-  
8           URY.—The rate of the value added tax and the burden  
9           adjustment provisions contained in this Act are tentative  
10          and intended to be both revenue neutral and  
11          distributionally neutral. The Secretary of the Treasury  
12          shall, within 90 days after the date of the enactment of  
13          this Act, submit to the Committee on Ways and Means  
14          of the House of Representatives such adjustments to—

15                 (1) the rate of the tax imposed by title II of  
16                 this Act, and

17                 (2) the burden adjustments established by title  
18                 III of this Act,

19          to ensure that the provisions of this Act do not result in  
20          a significant change in the amount of Federal revenues  
21          or in the distribution of the Federal tax burden.

22          (d) AMENDMENT OF 1986 CODE.—Except as other-  
23          wise expressly provided, whenever in this Act an amend-  
24          ment or repeal is expressed in terms of an amendment  
25          to, or repeal of, a section or other provision, the reference

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

3 (e) TABLE OF CONTENTS.—

Sec. 1. Short title; amendment of 1986 Code.

TITLE I—REPEAL OF INDIVIDUAL AND CORPORATE INCOME  
 TAXES AND SOCIAL SECURITY AND MEDICARE TAXES

Sec. 101. Repeal of individual and corporate income taxes.

Sec. 102. Repeal of Social Security and Medicare taxes.

TITLE II—VALUE ADDED TAX

Sec. 201. Imposition of value added tax.

“Subtitle L—Value Added Tax

“CHAPTER 100—VALUE ADDED TAX

“SUBCHAPTER A—IMPOSITION OF TAX

“Sec. 10001. Tax imposed.

“SUBCHAPTER B—COMPUTATION OF TAX

“Sec. 10011. Taxable value added.

“Sec. 10012. Business activity.

“Sec. 10013. Gross receipts from business activities.

“Sec. 10014. Business purchases.

“Sec. 10015. Exemption for certain nontaxable exchanges.

“SUBCHAPTER C—GENERAL RULES

“Sec. 10021. Accounting methods.

“Sec. 10022. Governmental entities and exempt organizations.

“Sec. 10023. Post-sale price adjustments and refunds; bad debts.

“Sec. 10024. Source rules.

“Sec. 10025. Conversions.

“SUBCHAPTER D—SPECIAL RULES

“Sec. 10031. International transportation services.

“Sec. 10032. Financial intermediation services.

“Sec. 10033. Nonbusiness imports of property or services.

“Sec. 10034. Refund for certain nonbusiness purchases.

“SUBCHAPTER E—SMALL BUSINESS EXEMPTION

“Sec. 10041. Small business exemption.

“SUBCHAPTER F—DEFINITIONS

“Sec. 10051. Definitions.

“SUBCHAPTER G—ADMINISTRATION

“Sec. 10061. Liability for tax.

“Sec. 10062. Time for filing return; taxable period.

“Sec. 10063. Treatment of related businesses.

“Sec. 10064. Secretary to be notified of certain events.

“Sec. 10065. Regulations.

Sec. 202. Refund authority.

Sec. 203. Dedication of portion of VAT revenues to Social Security Trust Funds.

### TITLE III—BURDEN ADJUSTMENTS

Sec. 301. Rebate of value added tax to low-income individuals; burden assessment on high-income individuals.

#### “CHAPTER 7—VALUE ADDED TAX BURDEN ADJUSTMENTS

##### “SUBCHAPTER A—REBATE TO LOW-INCOME INDIVIDUALS

“Sec. 1601. Rebate to low-income individuals.

“Sec. 1602. Advance payment of rebate.

##### “SUBCHAPTER B—BURDEN ASSESSMENT ON HIGH-INCOME INDIVIDUALS

“Sec. 1611. Assessment on high-income individuals.

“Sec. 1612. Inclusion of undistributed income of certain corporations.

# 1 **TITLE I—REPEAL OF INDIVID-** 2 **UAL AND CORPORATE IN-** 3 **COME TAXES AND SOCIAL SE-** 4 **CURITY AND MEDICARE** 5 **TAXES**

## 6 **SEC. 101. REPEAL OF INDIVIDUAL AND CORPORATE IN-** 7 **COME TAXES.**

8 (a) IN GENERAL.—Subchapter A of chapter 1 (relat-  
 9 ing to normal taxes and surtaxes) is hereby repealed.

10 (b) EFFECTIVE DATE.—The amendment made by  
 11 subsection (a) shall apply to taxable years beginning after  
 12 December 31, 1997.

## 13 **SEC. 102. REPEAL OF SOCIAL SECURITY AND MEDICARE** 14 **TAXES.**

15 (a) IN GENERAL.—

1           (1) Chapter 21 (relating to Federal Insurance  
2 Contributions Act) is hereby repealed.

3           (2) Chapter 2 (relating to self-employment tax)  
4 is hereby repealed.

5           (b) REPEAL OF TIER 1 RAILROAD RETIREMENT  
6 TAXES.—

7           (1) Subsection (a) of section 3201 (relating to  
8 tax on employees) is hereby repealed.

9           (2) Subsection (a) of section 3211 (relating to  
10 tax on employee representatives) is amended by  
11 striking paragraph (1).

12           (3) Section 3221 (relating to tax on employers)  
13 is amended by striking subsections (a) and (e).

14           (4) Paragraph (2) of section 3231(e) is amend-  
15 ed—

16                   (A) by striking clause (iii) of subparagraph  
17 (A), and

18                   (B) by striking subparagraph (B) and in-  
19 serting the following new subparagraph:

20                           “(B) APPLICABLE BASE.—The term ‘appli-  
21 cable base’ means for any calendar year the  
22 contribution and benefit base determined under  
23 section 230 of the Social Security Act for such  
24 calendar year; except that—

25                                   “(i) for purposes of this chapter, and

1           “(ii) computing average monthly com-  
2           pensation under section 3(j) of the Rail-  
3           road Retirement Act of 1974 (except with  
4           respect to annuity amounts determined  
5           under subsection (a) or (f)(3) of section 3  
6           of such Act),

7           clause (2) of the first sentence, and the second  
8           sentence, of subsection (c) of section 230 of the  
9           Social Security Act shall be disregarded.”

10          (4) Subsection (e) of section 3231 is amended  
11          by striking paragraph (4).

12          (c) EFFECTIVE DATE.—

13           (1) IN GENERAL.—The amendments made by  
14           this section (other than subsection (a)(2)) shall  
15           apply to remuneration paid after December 31,  
16           1997.

17           (2) SELF-EMPLOYMENT TAX.—The amendment  
18           made by subsection (a)(2) shall apply to taxable  
19           years beginning after December 31, 1997.

## 20       **TITLE II—VALUE ADDED TAX**

### 21       **SEC. 201. IMPOSITION OF VALUE ADDED TAX.**

22           The Internal Revenue Code of 1986 is amended by  
23       adding at the end the following new subtitle:

## 24       **“Subtitle L—Value Added Tax**

          “CHAPTER 100. Value added tax.

1           **“CHAPTER 100—VALUE ADDED TAX**

                  “SUBCHAPTER A. Imposition of tax.  
                  “SUBCHAPTER B. Computation of tax.  
                  “SUBCHAPTER C. General rules.  
                  “SUBCHAPTER D. Special rules.  
                  “SUBCHAPTER E. Small business exemption.  
                  “SUBCHAPTER F. Definitions.  
                  “SUBCHAPTER G. Administration.

2           **“Subchapter A—Imposition of Tax**

                  “Sec. 10001. Tax imposed.

3           **“SEC. 10001. TAX IMPOSED.**

4            “In the case of any person engaged in any business  
5 activity, there is hereby imposed for each taxable period  
6 a tax in an amount equal to 20 percent of the taxable  
7 value added.

8           **“Subchapter B—Computation of Tax**

                  “Sec. 10011. Taxable value added.  
                  “Sec. 10012. Business activity.  
                  “Sec. 10013. Gross receipts from business activities.  
                  “Sec. 10014. Business purchases.  
                  “Sec. 10015. Exemption for certain nontaxable exchanges.

9           **“SEC. 10011. TAXABLE VALUE ADDED.**

10          “(a) IN GENERAL.—For purposes of this chapter, the  
11 term ‘taxable value added’ means the amount by which—

12               “(1) the gross receipts of any person from busi-  
13 ness activities for a taxable period, exceed

14               “(2) the business purchases of such person for  
15 the taxable period.

16          “(b) REFUND IF BUSINESS PURCHASES EXCEED  
17 GROSS RECEIPTS.—If the business purchases described in  
18 subsection (a)(2) exceeds the gross receipts described in

1 subsection (a)(1) for any taxable period, an amount equal  
2 to 20 percent of such excess shall be treated as an over-  
3 payment of the tax imposed by section 10001 for such pe-  
4 riod.

5 **“SEC. 10012. BUSINESS ACTIVITY.**

6 “(a) IN GENERAL.—For purposes of this chapter, the  
7 term ‘business activity’ means—

8 “(1) any of the following transactions by any  
9 person in connection with a business—

10 “(A) any sale of property in the United  
11 States,

12 “(B) any grant of a right to use property  
13 in the United States, and

14 “(C) the performance of services in the  
15 United States, and

16 “(2) the export of property or services from the  
17 United States in connection with a business.

18 For purposes of the preceding sentence, the term ‘prop-  
19 erty’ does not include any financial instrument (as defined  
20 in section 10051) or money.

21 “(b) EXCEPTION FOR SERVICES PERFORMED AS EM-  
22 PLOYEE.—For purposes of this chapter, the term ‘busi-  
23 ness activity’ does not include the performance of services  
24 by an employee for the employee’s employer.

1 **“SEC. 10013. GROSS RECEIPTS FROM BUSINESS ACTIVITIES.**

2 “(a) IN GENERAL.—For purposes of this chapter, the  
3 term ‘gross receipts’ means all receipts from a business  
4 activity.

5 “(b) EXPORTS.—

6 “(1) GENERAL RULE.—For purposes of this  
7 chapter, the term ‘gross receipts’ does not include  
8 amounts received by the exporter for property or  
9 services exported from the United States for use or  
10 consumption outside the United States.

11 “(2) EXPORT THROUGH NONBUSINESS EN-  
12 TITY.—For purposes of paragraph (1), if property or  
13 services are sold to a governmental entity or exempt  
14 organization for export and are exported other than  
15 in a business activity of such entity or organization,  
16 then the seller of such property or services is deemed  
17 to be the exporter thereof.

18 “(3) INTERNATIONAL TRANSPORTATION.—

**“For treatment of international transportation  
services, see section 10031.**

19 “(c) EXCHANGES.—For purposes of this chapter, the  
20 amount treated as gross receipts from an exchange is the  
21 amount of money plus the fair market value of other con-  
22 sideration received in the exchange.

23 “(d) CERTAIN INSURANCE PROCEEDS.—For pur-  
24 poses of this chapter, the term ‘gross receipts’ includes

1 the proceeds of property and casualty insurance for losses  
2 in connection with a business activity.

3 “(e) TAXES.—For purposes of this chapter, the term  
4 ‘gross receipts’ shall not include—

5 “(1) any separately stated excise tax, sales tax,  
6 customs duty, or other levy imposed by a Federal,  
7 State, or local government which is imposed on a  
8 business transaction and which is received or col-  
9 lected by the seller in connection with the sale, and

10 “(2) any tax imposed by chapter 31, 32, 33, 34,  
11 35, 36, 39, 51, 52, or 53.

12 “(f) TRANSFERS TO RELATED PERSONS.—

13 “(1) IN GENERAL.—For purposes of this chap-  
14 ter, the amount treated as the gross receipts from  
15 any transaction described in section 10012(a)(1) be-  
16 tween related persons shall be the fair market value  
17 of the property sold, right granted, or services per-  
18 formed (as the case may be).

19 “(2) RELATED PERSON.—For purposes of this  
20 subsection, the term ‘related person’ means—

21 “(A) in the case of an employment rela-  
22 tionship, an employer and employee,

23 “(B) in the case of any entity, an owner of  
24 the entity,

1           “(C) any person specified in regulations,  
2           and

3           “(D) any member of the family (within the  
4           meaning of section 267(c)(4)) of any individual  
5           described in subparagraph (A), (B), or (C).

6           “(3) OWNER.—For purposes of paragraph (2),  
7           the term ‘owner’ means—

8           “(A) the proprietor of a sole proprietor-  
9           ship, and

10           “(B) any holder of a beneficial interest in  
11           a corporation, partnership, trust, or other en-  
12           tity.

13   **“SEC. 10014. BUSINESS PURCHASES.**

14           “(a) IN GENERAL.—For purposes of this chapter, the  
15           term ‘business purchase’ means any amount paid or in-  
16           curred to acquire property, a right to use property, or  
17           services for use or sale in a business activity. For purposes  
18           of the preceding sentence, the term ‘property’ does not in-  
19           clude any financial instrument or money.

20           “(b) EXCEPTIONS.—The term ‘business purchase’  
21           does not include—

22           “(1) any amount paid or incurred as current or  
23           deferred compensation to employees or for employee  
24           benefits,

1           “(2) any payment which is unlawful under Fed-  
2           eral, State, or local law, or

3           “(3) except as provided in subsection (d)—

4                   “(A) any amount paid or incurred as a  
5           premium for insurance other than property and  
6           casualty insurance, or

7                   “(B) any other implicit intermediation  
8           fees.

9           “(c) IMPORTS.—The term ‘business purchase’ does  
10   not include—

11                   “(1) any amount paid or incurred for the im-  
12           port of property or services, and

13                   “(2) in the case of imported property, any  
14           amounts paid or incurred for the transportation of  
15           such property to the United States (if such costs are  
16           not included in the amount paid for the property).

17           “(d) FINANCIAL INTERMEDIATION SERVICES.—

18                   “(1) IN GENERAL.—For purposes of this chap-  
19           ter, business purchases include implicit financial  
20           intermediation fees.

21                   “(2) IMPLICIT FINANCIAL INTERMEDIATION  
22           FEES.—For purposes of paragraph (1), the term  
23           ‘implicit financial intermediation fees’ means  
24           amounts allocable to the business activity for which  
25           a person has received notice under section 10032(d)

1 (relating to implicit financial intermediation fees)  
2 and which have otherwise not been taken into ac-  
3 count.

4 “(3) CROSS REFERENCE.—

**For additional treatment of financial intermediation services, see section 10032.**

5 “(e) EXCHANGES.—For purposes of this chapter, the  
6 amount treated as paid or incurred for business purchases  
7 in connection with an exchange is the amount of money  
8 plus the fair market value of other consideration trans-  
9 ferred in the exchange.

10 “(f) TAXES.—For purposes of this chapter, the term  
11 ‘business purchase’ does not include any excise tax, sales  
12 tax, customs duty, or other separately stated levy imposed  
13 by a Federal, State, or local government on business pur-  
14 chases.

15 “(g) GAMBLING PAYMENTS.—Except as provided in  
16 subsection (a), in the case of a business activity involving  
17 gambling, lotteries, or other games of chance, business  
18 purchases include amounts paid to winners.

19 **“SEC. 10015. EXEMPTION FOR CERTAIN NONTAXABLE EX-**  
20 **CHANGES.**

21 “(a) GENERAL RULE.—For purposes of this chapter,  
22 gross receipts shall not include gross receipts from an ap-  
23 plicable nontaxable transaction except to the extent attrib-

1 utable to money or other property received in the trans-  
2 action.

3 “(b) APPLICABLE NONTAXABLE TRANSACTIONS.—

4 For purposes of this section, the term ‘applicable non-  
5 taxable transaction’ means any transaction—

6 “(1) to which section 332, 351, 368, or 721 ap-  
7 plies, or

8 “(2) which is specified by the Secretary and  
9 with respect to which gain is not recognized in whole  
10 or in part under chapter 1.

### 11 **“Subchapter C—General Rules**

“Sec. 10021. Accounting methods.

“Sec. 10022. Governmental entities and exempt organizations.

“Sec. 10023. Post-sale price adjustments and refunds; bad debts.

“Sec. 10024. Source rules.

“Sec. 10025. Conversions.

### 12 **“SEC. 10021. ACCOUNTING METHODS.**

13 “(a) IN GENERAL.—Except as provided in this sec-  
14 tion, a person subject to tax under this chapter may use  
15 any of the following methods of accounting for purposes  
16 of this chapter:

17 “(1) The cash receipts and disbursements  
18 method.

19 “(2) An accrual method.

20 “(3) Any other method permitted by the Sec-  
21 retary.

22 The Secretary may require a person to modify any method  
23 to clearly reflect gross receipts and business purchases.

1       “(b) CONSISTENCY REQUIREMENT.—All persons  
2 which are members of a controlled group of corporations  
3 which does not elect to be treated as one person for pur-  
4 poses of this chapter under section 10063(a)(2) shall use  
5 the same method of accounting for purposes of this chap-  
6 ter.

7       “(c) SPECIAL RULES FOR LONG-TERM CON-  
8 TRACTS.—

9               “(1) IN GENERAL.—In the case of any sale pur-  
10 suant to a long-term contract (as defined in section  
11 460(f))—

12                       “(A) the seller shall use the percentage of  
13 completion method in computing gross receipts  
14 from the contract, and

15                       “(B) the purchaser shall use the cash re-  
16 cepts and disbursements method in computing  
17 business purchases from the contract.

18               “(2) REPORTING.—The Secretary may require  
19 taxpayers to file statements containing such infor-  
20 mation with respect to long-term contracts as the  
21 Secretary may prescribe.

22       “(d) INSTALLMENT METHOD PROHIBITED.—Gross  
23 receipts from the sale of property shall not be taken into  
24 account for purposes of this chapter under the installment  
25 method.

1 **“SEC. 10022. GOVERNMENTAL ENTITIES AND EXEMPT OR-**  
2 **GANIZATIONS.**

3 “(a) IN GENERAL.—For purposes of this chapter, the  
4 transfer of property, the grant of a right to use property,  
5 or the furnishing of services by a governmental entity or  
6 an exempt organization shall be treated as a business ac-  
7 tivity if there is a separately stated charge for such trans-  
8 fer, grant, or furnishing.

9 “(b) SPECIAL RULES FOR GOVERNMENTAL ENTI-  
10 TIES.—For purposes of this chapter—

11 “(1) IN GENERAL.—The transfer of property,  
12 the grant of a right to use property, or furnishing  
13 of services by a governmental entity with respect to  
14 any of the following activities shall be treated as a  
15 business activity whether or not there is a separately  
16 stated charge for such transfer or furnishing:

17 “(A) Public utility services.

18 “(B) Mass transit services.

19 “(C) Postal services.

20 “(D) Any activity not involving the exer-  
21 cise of any essential governmental function  
22 (within the meaning of section 115).

23 “(2) GROSS RECEIPTS.—In the case of a trans-  
24 fer of property, grant of a right to use property, or  
25 furnishing of services which is treated as a business  
26 activity solely by reason of paragraph (1), gross re-

1 receipts shall be determined on the basis of the fair  
2 market value of such property, right, or services.

3 “(c) BUSINESS PURCHASES REDUCED BY SUB-  
4 SIDIES.—

5 “(1) IN GENERAL.—For purposes of this chap-  
6 ter, in the case of a business activity of an exempt  
7 organization or a governmental entity (other than an  
8 activity which is treated as a business activity solely  
9 by reason of subsection (b)(1)), the business pur-  
10 chases for such activity shall be reduced by the  
11 amount of any subsidy provided for that activity.

12 “(2) SUBSIDY.—For purposes of paragraph (1),  
13 the term ‘subsidy’ means the portion of the cost of  
14 the transfer of property, the right to use property,  
15 or the furnishing of services, which is not borne by  
16 amounts charged therefor.

17 “(d) ALLOCATION.—The Secretary shall by regula-  
18 tion provide for the proper allocation of gross receipts and  
19 business purchases between business activities and other  
20 activities.

21 “(e) SELF-CONSUMPTION OF PROPERTY OR SERV-  
22 ICES.—Notwithstanding the provisions of this section, the  
23 Secretary may by regulation provide that property pro-  
24 duced, or services furnished, by a governmental entity or  
25 an exempt organization for use by itself are to be treated

1 as sold in a business activity if such treatment is necessary  
2 to carry out the purposes of this chapter. In any such case  
3 the taxable value added shall be determined by reference  
4 to the fair market value of the property or services.

5 **“SEC. 10023. POST-SALE PRICE ADJUSTMENTS AND RE-**  
6 **FUNDS; BAD DEBTS.**

7 “(a) PRICE ADJUSTMENTS AND REFUNDS.—

8 “(1) RECEIPT TREATED AS REDUCTION IN  
9 BUSINESS PURCHASES.—If a person subject to tax  
10 under this chapter receives a post-sale price adjust-  
11 ment attributable to a business purchase which was  
12 taken into account in computing the taxable value  
13 added for a prior taxable period, then the amount of  
14 such adjustment shall be treated as a reduction in  
15 business purchases for the taxable period in which it  
16 is received.

17 “(2) ISSUANCE TREATED AS REDUCTION IN  
18 GROSS RECEIPTS.—If a person subject to tax under  
19 this chapter issues a post-sale price adjustment for  
20 a sale the gross receipts from which were taken into  
21 account in computing the taxable value added for a  
22 prior taxable period, then the amount of such ad-  
23 justment shall be treated as a reduction in gross re-  
24 ceipts for the taxable period in which it is issued.

1           “(3) POST-SALE PRICE ADJUSTMENT.—For  
2 purposes of this subsection, the term ‘post-sale price  
3 adjustment’ means a refund, rebate, or other price  
4 allowance attributable to a sale of property or serv-  
5 ices.

6           “(b) BAD DEBTS.—

7           “(1) SELLER.—

8           “(A) WRITEOFFS AND WRITEDOWNS.—If  
9 an amount owed to a seller of business property  
10 or services that was taken into account as gross  
11 receipts in computing the taxable value added  
12 of the seller for a prior taxable period becomes  
13 wholly or partially uncollectible during any sub-  
14 sequent taxable period, then the seller shall  
15 treat the amount (or part thereof that is  
16 uncollectible) as a reduction in gross receipts  
17 for the taxable period in which it becomes whol-  
18 ly or partially uncollectible.

19           “(B) NOTICE.—Whenever a seller treats  
20 an amount as wholly or partially uncollectible  
21 under subparagraph (A), the seller shall notify  
22 the purchaser of the amount the seller is treat-  
23 ing as uncollectible. The notice shall set forth  
24 with specificity the purchase or purchases to  
25 which the treatment relates and shall be sent to

1 the purchaser at the purchaser's last known ad-  
2 dress within 10 days after close of the taxable  
3 period in which the seller treats the amount as  
4 wholly or partially uncollectible.

5 “(C) RECOVERIES.—If a seller receives  
6 payment for an amount that was treated as a  
7 reduction in gross receipts under subparagraph  
8 (A) in a prior taxable period, then the seller  
9 shall treat the payment as a gross receipt for  
10 the taxable period in which it is received.

11 “(2) PURCHASER.—

12 “(A) WRITEOFFS AND WRITEDOWNS.—If a  
13 purchaser receives notice under paragraph  
14 (1)(B) from a seller for all or a portion of the  
15 amount owed for business property or services  
16 that the purchaser treated as a business pur-  
17 chase in a prior taxable period, then the pur-  
18 chaser shall treat such amount as a reduction  
19 in business purchases for the taxable period in  
20 which the notice is received.

21 “(B) REPAYMENTS.—If a purchaser pays  
22 all or part of an amount treated as a reduction  
23 in business purchases under subparagraph (A)  
24 in a prior taxable period, then the purchaser  
25 shall treat the amount paid as a business pur-

1           chase for the taxable period in which the pay-  
2           ment is made.

3 **“SEC. 10024. SOURCE RULES.**

4           “(a) SALES OF PROPERTY.—For purposes of this  
5 chapter, a sale of property shall be treated as occurring  
6 in the United States if the property is located in the  
7 United States at the time of the sale.

8           “(b) RIGHT TO USE PROPERTY.—For purposes of  
9 this chapter, the grant of a right to use property shall  
10 be treated as occurring in the United States to the extent  
11 such right involves the use of such property in the United  
12 States.

13           “(c) SALES OF SERVICES.—

14           “(1) GENERAL RULE.—For purposes of this  
15 chapter, a sale of services shall be treated as occur-  
16 ring in the United States to the extent that—

17                   “(A) the services are provided from a place  
18                   of business, or with respect to property, in the  
19                   United States, or

20                   “(B) the services are incidental to the pro-  
21                   vision of services within the United States.

1 “(2) CROSS REFERENCE.—

“For treatment of international transportation services, see section 10031.

2 **“SEC. 10025. CONVERSIONS.**

3 For purposes of this chapter, any conversion of prop-  
4 erty or services from use in a business activity to use in  
5 any other activity, or from use in any other activity to  
6 use in a business activity, shall be treated as a sale of  
7 the property or services for their fair market value.

8 **“Subchapter D—Special Rules**

“Sec. 10031. International transportation services.

“Sec. 10032. Financial intermediation services.

“Sec. 10033. Nonbusiness imports of property or services.

“Sec. 10034. Refund for certain nonbusiness purchases.

9 **“SEC. 10031. INTERNATIONAL TRANSPORTATION SERVICES.**

10 “(a) EXPORTS.—For purposes of this chapter, in the  
11 case of property exported from the United States—

12 “(1) GROSS RECEIPTS.—The term ‘gross re-  
13 ceipts’ does not include receipts from transportation  
14 of such property from the United States.

15 “(2) BUSINESS PURCHASES.—The term ‘busi-  
16 ness purchase’ does not include amounts paid or in-  
17 curred for transportation of such property from the  
18 United States.

19 “(b) INTERNATIONAL TRANSPORTATION OF PAS-  
20 SENGERS.—For purposes of this chapter—

21 “(1) GROSS RECEIPTS.—Gross receipts—

1           “(A) do not include receipts from the  
2           transportation of passengers from outside the  
3           United States to a destination in the United  
4           States, but

5           “(B) include receipts from the transpor-  
6           tation of passengers from the United States to  
7           a destination outside the United States.

8           “(2) BUSINESS PURCHASES.—Business pur-  
9           chases—

10           “(A) do not include amounts paid or in-  
11           curred in a business activity for the transpor-  
12           tation of passengers from outside the United  
13           States to a destination in the United States,  
14           but

15           “(B) include amounts paid or incurred in  
16           a business activity for the transportation of  
17           passengers from the United States to a destina-  
18           tion outside the United States.

19   **“SEC. 10032. FINANCIAL INTERMEDIATION SERVICES.**

20           “(a) GENERAL RULE.—For purposes of this chap-  
21           ter—

22           “(1) the providing of financial intermediation  
23           services shall be treated as a business activity, and

24           “(2) this chapter shall be applied to such busi-  
25           ness activity by substituting financial receipts and

1 adjusted business purchases properly allocable to  
2 such business activity for gross receipts and business  
3 purchases.

4 “(b) FINANCIAL RECEIPTS.—For purposes of this  
5 section, the term ‘financial receipts’ means all receipts  
6 other than amounts received as contributions to capital.

7 “(c) ADJUSTED BUSINESS PURCHASES.—For pur-  
8 poses of this section, the term ‘adjusted business pur-  
9 chases’ means business purchases, adjusted as follows:

10 “(1) PRINCIPAL AND INTEREST.—Business  
11 purchases include any principal or interest payments  
12 properly allocable to the business activity described  
13 in subsection (a).

14 “(2) FINANCIAL INSTRUMENTS.—Notwithstand-  
15 ing any other provision of this chapter, business pur-  
16 chases include the cost of, and payments under, fi-  
17 nancial instruments (other than financial instru-  
18 ments representing equity interests in the person  
19 subject to the tax imposed by this chapter).

20 “(3) INSURANCE CLAIMS.—Business purchases  
21 include claims and cash surrender values paid in  
22 connection with insurance or reinsurance services.

23 “(4) REINSURANCE.—Business purchases in-  
24 clude amounts paid for reinsurance.

25 “(d) REPORTING TO CUSTOMERS.—

1 “(1) ALLOCATION AND REPORTING.—

2 “(A) IN GENERAL.—A person engaged in  
3 the business activity of providing financial  
4 intermediation services shall—

5 “(i) allocate fees received for such  
6 services (other than services for which sep-  
7 arately stated fees are charged) among re-  
8 cipients of such services on a reasonable  
9 and consistent basis, and

10 “(ii) report to each recipient the fees  
11 so allocated.

12 “(B) TIMING.—The report under subpara-  
13 graph (A)(ii) shall be furnished to the recipient  
14 no later than the 45th day after the close of a  
15 taxable period.

16 “(2) EXCEPTION.—The Secretary shall estab-  
17 lish procedures under which notice need not be given  
18 under this subsection to persons with respect to  
19 whom services are not provided in connection with a  
20 business activity.

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

22 “(1) FINANCIAL INTERMEDIATION SERVICE.—  
23 The term ‘financial intermediation service’ means—

24 “(A) lending services,

25 “(B) insurance services,

1           “(C) market-making and dealer services,  
2           and

3           “(D) any other service provided as a busi-  
4           ness activity in which a person acts as an  
5           intermediary in—

6                   “(i) the transfer of property, services,  
7                   or financial assets, liabilities, risks, or in-  
8                   struments (or income or expense derived  
9                   therefrom) between two or more other per-  
10                  sons, or

11                   “(ii) the pooling of economic risk  
12                  among other persons,

13           and derives all or a portion of such person’s  
14           gross receipts from streams of income or ex-  
15           pense, discounts, or other financial flows associ-  
16           ated with the matter with respect to which such  
17           person is acting as an intermediary.

18           “(2) LENDING SERVICES.—The term ‘lending  
19           services’ means the regular making of loans and pro-  
20           viding credit to, or taking deposits from, customers,  
21           but does not include an installment or delayed pay-  
22           ment arrangement provided by a seller of property  
23           or services under which additional charges or fees  
24           are imposed by the seller for late payment and for  
25           which no interest is charged.

1           “(3) MARKET-MAKING OR DEALER SERVICES.—

2           The term ‘market-making or dealer services’ means  
3           services provided by a person who—

4                   “(A) regularly purchases financial instru-  
5                   ments from or sells financial instruments to  
6                   customers in the ordinary course of a trade or  
7                   business, or

8                   “(B) regularly offers to enter into, assume,  
9                   offset, assign, or otherwise terminate positions  
10                  in financial instruments with customers in the  
11                  ordinary course of a trade or business.

12 **“SEC. 10033. NONBUSINESS IMPORTS OF PROPERTY OR**  
13 **SERVICES.**

14           “(a) IMPOSITION OF TAX.—There is hereby imposed  
15           on the taxable nonbusiness import of any property or serv-  
16           ices a tax equal to 20 percent of the sum of—

17                   “(1) the amount paid or incurred for the prop-  
18                   erty or services, plus

19                   “(2) in the case of property, any amounts paid  
20                   or incurred for transportation costs (if such costs  
21                   are not included in the amount paid for the prop-  
22                   erty).

23           “(b) TAXABLE NONBUSINESS IMPORT.—For pur-  
24           poses of subsection (a), the term ‘taxable nonbusiness im-

1 port' means any import of any property or services for  
2 use or consumption within the United States unless—

3 “(1) such property or services is imported for  
4 use or sale in a business activity of the importer, or

5 “(2) such property is imported free of duty  
6 under chapter 98 of the Harmonized Tariff Schedule  
7 of the United States.

8 **“SEC. 10034. REFUND FOR CERTAIN NONBUSINESS PUR-**  
9 **CHASES.**

10 “(a) REFUND ALLOWED.—If the tax imposed by sec-  
11 tion 10001 was paid on any qualified nonbusiness pur-  
12 chase, the Secretary shall pay (without interest) to the  
13 purchaser an amount equal to such tax.

14 “(b) QUALIFIED NONBUSINESS PURCHASE.—For  
15 purposes of this section, the term ‘qualified nonbusiness  
16 purchase’ means any purchase of property or services if—

17 “(1) such purchase is not in connection with a  
18 business,

19 “(2) the purchaser establishes to the satisfac-  
20 tion of the Secretary that substantially all of the use  
21 of such property or services is outside the United  
22 States, and

23 “(3) the amount of the tax imposed by section  
24 10001 on such purchase is separately stated.

1       “(c) PERIOD FOR FILING CLAIMS.—No claim shall  
 2 be allowed under this section with respect to any purchase  
 3 unless filed by the purchaser not later than 180 days after  
 4 the date of such purchase.

## 5       **“Subchapter E—Small Business Exemption**

“Sec. 10041. Small business exemption.

### 6       **“SEC. 10041. SMALL BUSINESS EXEMPTION.**

7       “(a) EXEMPTION.—Except as provided in subsection  
 8 (b), if the aggregate amount of gross receipts of any per-  
 9 son for any taxable period and the 3 preceding taxable  
 10 periods does not exceed the exemption amount, no tax  
 11 shall be imposed under section 10001 (and no credit or  
 12 refund shall be allowed under section 10011) for the tax-  
 13 able period.

14       “(b) EXCEPTIONS.—

15               “(1) PERSON MUST ALWAYS BE EXEMPT.—Sub-  
 16 section (a) shall not apply to any person for a tax-  
 17 able period unless the person was exempt from the  
 18 tax imposed by section 10001 for all preceding tax-  
 19 able periods.

20               “(2) ELECTION.—Subsection (a) shall not apply  
 21 to any person for a taxable period if the person  
 22 elects not to have subsection (a) apply for the tax-  
 23 able period.

1       “(c) STATEMENTS.—A person to which this section  
2 applies for any taxable period shall file a statement con-  
3 taining such information as the Secretary may prescribe.

4       “(d) DEFINITIONS AND SPECIAL RULES.—For pur-  
5 poses of this section—

6           “(1) EXEMPTION AMOUNT.—The term ‘exemp-  
7 tion amount’ means \$12,000 (or an equivalent  
8 amount if the taxable period is not a calendar quar-  
9 ter).

10          “(2) PERSONS NOT ENGAGED IN BUSINESS FOR  
11 ENTIRE PERIOD.—If a person was not engaged in a  
12 business activity for the entire period referred to in  
13 subsection (a), such subsection shall be applied on  
14 the basis of the period the person was so engaged.

15          “(3) PREDECESSORS.—Any reference in this  
16 section to a person shall include a reference to any  
17 predecessor of the person.

## 18                   **“Subchapter F—Definitions**

“Sec. 10051. Definitions.

### 19   **“SEC. 10051. DEFINITIONS.**

20       “For purposes of this chapter—

21           “(1) SALE OF SERVICES.—The term ‘sale of  
22 services’ means the performance of services for con-  
23 sideration, and includes the granting of a right to  
24 the performance of services or to reimbursement (in-

1 including the granting of warranties, insurance, and  
2 similar items) for consideration.

3 “(2) GRANT OF RIGHT TO USE PROPERTY.—  
4 The term ‘grant of a right to use property’ means  
5 the granting of a right to use property for consider-  
6 ation.

7 “(3) SALE OF PROPERTY.—The term ‘sale of  
8 property’ means the transfer of ownership of prop-  
9 erty from a seller to a purchaser for consideration.

10 “(4) PROPERTY.—The term ‘property’ means  
11 any tangible or intangible property.

12 “(5) BUSINESS.—The term ‘business’ includes  
13 any activity carried on continuously or regularly,  
14 whether or not for profit, that involves or is intended  
15 to involve the sale of property, the grant of a right  
16 to use property, or the sale of services.

17 “(6) BUSINESS PROPERTY OR SERVICE.—The  
18 term ‘business property or service’ means any prop-  
19 erty or service the sale of which by the owner or pro-  
20 vider thereof would be a business activity or which  
21 is used by the owner or provider in a business activ-  
22 ity.

23 “(7) EMPLOYEE.—The term ‘employee’ has the  
24 same meaning as when such term is used for pur-  
25 poses of chapter 24 (relating to withholding).

1           “(8) PERSON.—The term ‘person’ has the  
2 meaning given such term by section 7701(a)(1), but  
3 also includes any governmental entity.

4           “(9) UNITED STATES.—The term ‘United  
5 States’, when used in a geographic sense, includes  
6 the customs territory of the United States (as de-  
7 fined in General Headnote 2 of the Harmonized  
8 Tariff Schedules of the United States) and any area  
9 seaward of the States lying within the outer bound-  
10 aries of the outer continental shelf (as defined in  
11 section 1331 of title 43, United States Code).

12           “(10) GOVERNMENTAL ENTITY.—The term  
13 ‘governmental entity’ means the United States, any  
14 State or political subdivision thereof, the District of  
15 Columbia, a Commonwealth or possession of the  
16 United States, or any agency or instrumentality of  
17 any of the foregoing.

18           “(11) EXEMPT ORGANIZATION.—The term ‘ex-  
19 empt organization’ means any organization exempt  
20 from taxation under chapter 1.

21           “(12) FINANCIAL INSTRUMENT DEFINED.—The  
22 term ‘financial instrument’ means any—

23                   “(A) share of stock in a corporation,

1           “(B) partnership or beneficial ownership  
2 interest in a widely held or publicly traded part-  
3 nership or trust,

4           “(C) note, bond, debenture, or other evi-  
5 dence of indebtedness,

6           “(D) interest rate, currency, or equity no-  
7 tional principal contract,

8           “(E) evidence of an interest in, or a deriv-  
9 ative financial instrument in, any financial in-  
10 strument described in subparagraph (A), (B),  
11 (C), or (D), or any currency, including any op-  
12 tion, forward contract, short position, and any  
13 similar financial instrument in such a financial  
14 instrument or currency, and

15           “(F) position which—

16           “(i) is not a financial instrument de-  
17 scribed in subparagraph (A), (B), (C), (D),  
18 or (E),

19           “(ii) is a hedge with respect to such  
20 a financial instrument, and

21           “(iii) is clearly identified in the deal-  
22 er’s records as being described in this sub-  
23 paragraph before the close of the day on  
24 which it was acquired or entered into (or

1           such other time as the Secretary may by  
2           regulations prescribe).

3           “(13) USE INCLUDES HELD FOR USE.—Prop-  
4           erty or services held for use by any person shall be  
5           treated as used by that person.

6           “(14) EXCHANGES TREATED AS SALES.—An  
7           exchange shall be treated as a sale.

## 8           **“Subchapter G—Administration**

          “Sec. 10061. Liability for tax.

          “Sec. 10062. Time for filing return; taxable period.

          “Sec. 10063. Treatment of related businesses.

          “Sec. 10064. Secretary to be notified of certain events.

          “Sec. 10065. Regulations.

### 9           **“SEC. 10061. LIABILITY FOR TAX.**

10          “The person selling property, granting the right to  
11          use property, or selling services shall be liable for the tax  
12          imposed by section 10001.

### 13          **“SEC. 10062. TIME FOR FILING RETURN; TAXABLE PERIOD.**

14          “(a) FILING RETURN.—Before the 16th day of the  
15          second calendar month beginning after the close of each  
16          taxable period, each person subject to tax under this chap-  
17          ter shall file a return of the tax imposed by section 10001  
18          for such taxable period.

19          “(b) TAXABLE PERIOD.—For purposes of this chap-  
20          ter—

21                 “(1) IN GENERAL.—The term ‘taxable period’  
22                 means a calendar quarter, except that if a taxpayer  
23                 has a taxable year under chapter 1 other than the

1 calendar year, then such term means a quarter of  
2 that taxable year.

3 “(2) OTHER PERIODS.—To the extent provided  
4 in regulations, the term ‘taxable period’ includes a  
5 period selected by a person other than a calendar  
6 quarter.

7 “(3) AUTHORITY TO SHORTEN LENGTH OF TAX  
8 PERIOD.—The Secretary may shorten the length of  
9 a person’s taxable period under this subsection to  
10 the extent the Secretary deems such action nec-  
11 essary to protect the revenue.

12 **“SEC. 10063. TREATMENT OF RELATED BUSINESSES.**

13 “(a) GENERAL RULE.—For purposes of this chap-  
14 ter—

15 “(1) AFFILIATED GROUPS AND BUSINESSES  
16 UNDER COMMON CONTROL.—Except to the extent  
17 otherwise provided in regulations—

18 “(A) an affiliated group of corporations (as  
19 defined in section 1504(a) without regard to  
20 paragraphs (2), (4), and (7) of section  
21 1504(b)), or

22 “(B) two or more businesses (whether or  
23 not incorporated) under common control within  
24 the meaning of section 52(b) and the regula-  
25 tions thereunder,

1 shall be treated as one person.

2 “(2) CONTROLLED GROUP.—A controlled group  
3 of corporations, as defined in section 1563(a) (deter-  
4 mined without regard to the second sentence of  
5 paragraph (4) of such section and without regard to  
6 section 1563(e)(3)(C)), may elect to be treated as  
7 one person.

8 “(b) RELATED PARTY TRANSACTIONS.—For pur-  
9 poses of this chapter, transactions in the United States  
10 between corporations or other businesses that are treated,  
11 or that may elect to be treated, as one person under sub-  
12 section (a) shall not be taken into account in computing  
13 the gross receipts or business purchases of any such cor-  
14 poration or business.

15 **“SEC. 10064. SECRETARY TO BE NOTIFIED OF CERTAIN**  
16 **EVENTS.**

17 “To the extent provided in regulations, each person  
18 engaged in a business shall notify the Secretary (at such  
19 time or times as may be prescribed by regulation) of—

20 “(1) any change in the form in which the busi-  
21 ness is conducted, and

22 “(2) any other change that might affect—

23 “(A) the liability for the tax imposed by  
24 section 10001,

1                   “(B) the amount of such tax or any credit  
2                   against such tax, or

3                   “(C) the administration of such tax in the  
4                   case of such person.

5 **“SEC. 10065. REGULATIONS.**

6                   “The Secretary shall prescribe such regulations as  
7 may be necessary to carry out the provisions of this chap-  
8 ter.”

9 **SEC. 202. REFUND AUTHORITY.**

10                  Section 6402 (relating to authority to make credits  
11 or refunds) is amended by designating subsection (h) as  
12 subsection (j) and by inserting after subsection (g) the fol-  
13 lowing new subsection:

14                  “(h) REPAYMENT OF VALUE ADDED TAX.—Within  
15 45 days after the date on which a value added tax return  
16 is filed pursuant to section 10062 showing an overpay-  
17 ment, the Secretary shall make, to the extent the Sec-  
18 retary deems practical, a limited examination of the return  
19 to discover omissions and errors of computation, and shall  
20 determine the amount of the overpayment, if any, for the  
21 taxable period to which the return relates and refund the  
22 amount of such overpayment to the person who filed the  
23 return.”

1 **SEC. 203. DEDICATION OF PORTION OF VAT REVENUES TO**  
 2 **SOCIAL SECURITY TRUST FUNDS.**

3 (a) IN GENERAL.—The Secretary of the Treasury  
 4 shall deposit in each Social Security Trust Fund for peri-  
 5 ods after 1997 that portion of the revenues from the tax  
 6 imposed by chapter 100 of the Internal Revenue Code of  
 7 1986 which is necessary to maintain each such Fund in  
 8 the same position it would be in but for the amendments  
 9 made by section 102 of this Act.

10 (b) SOCIAL SECURITY TRUST FUNDS.—For purposes  
 11 of subsection (a), the Social Security Trust Funds are—

12 (1) the Federal Old-Age and Survivors Insur-  
 13 ance Trust Fund established by section 201(a) of  
 14 the Social Security Act,

15 (2) the Federal Disability Insurance Trust  
 16 Fund established by section 201(b) of such Act, and

17 (3) the Federal Hospital Insurance Trust Fund  
 18 established by section 1817(a) of such Act.

19 **TITLE III—BURDEN**  
 20 **ADJUSTMENTS**

21 **SEC. 301. REBATE OF VALUE ADDED TAX TO LOW-INCOME**  
 22 **INDIVIDUALS; BURDEN ASSESSMENT ON**  
 23 **HIGH-INCOME INDIVIDUALS.**

24 (a) IN GENERAL.—Subtitle A is amended by adding  
 25 at the end the following new chapter:

1 **“CHAPTER 7—VALUE ADDED TAX BURDEN**  
 2 **ADJUSTMENTS**

“Subchapter A. Rebate to low-income individuals.

“Subchapter B. Burden assessment on high-income individuals.

3 **“Subchapter A—Rebate to Low-Income**  
 4 **Individuals**

“Sec. 1601. Rebate to low-income individuals.

“Sec. 1602. Advance payment of rebate.

5 **“SEC. 1601. REBATE TO LOW-INCOME INDIVIDUALS.**

6 “(a) GENERAL RULE.—The Secretary shall, for each  
 7 taxable year, pay to each eligible individual an amount  
 8 equal to the VAT rebate for such year.

9 “(b) VAT REBATE.—For purposes of this section—

10 “(1) IN GENERAL.—The VAT rebate for any  
 11 taxable year is an amount equal to the applicable  
 12 percentage of so much of the adjusted net income of  
 13 the eligible individual for such year as does not ex-  
 14 ceed \$30,000.

15 “(2) APPLICABLE PERCENTAGE.—For purposes  
 16 of paragraph (1), the applicable percentage is 20  
 17 percent reduced (but not below zero) by  $\frac{2}{3}$  of 1 per-  
 18 centage point for each whole \$1,000 of the individ-  
 19 ual’s adjusted net income.

20 “(3) ADJUSTED NET INCOME.—The term ‘ad-  
 21 justed net income’ means the sum of—

22 “(A) the net income (as defined in section  
 23 1611(c)) for the taxable year, plus

1           “(B) the value of specified Federal trans-  
2           fer payments received during the taxable year.

3           “(4) SPECIFIED FEDERAL TRANSFER PAY-  
4           MENTS.—The term ‘specified Federal transfer pay-  
5           ments’ means—

6           “(A) aid provided under a State plan ap-  
7           proved under part A of title IV of the Social  
8           Security Act (relating to aid to families with de-  
9           pendent children),

10          “(B) assistance provided under—

11               “(i) the food stamp program (as de-  
12               fined in section 3(h) of the Food Stamp  
13               Act of 1977), or

14               “(ii) the portion of the program under  
15               sections 21 and 22 of such Act which pro-  
16               vides food assistance, and

17           “(C) any other Federal assistance which  
18           consists of money payments or script and which  
19           is not adjusted for changes in the cost-of-living.

20          “(c) ELIGIBLE INDIVIDUAL.—For purposes of this  
21          section, the term ‘eligible individual’ means any individual  
22          if—

23               “(1) such individual is a citizen or resident of  
24               the United States for the entire taxable year,

1           “(2) such individual’s principal place of abode  
2           is in the United States for more than one-half of  
3           such taxable year,

4           “(3) such individual is not a dependent of an-  
5           other taxpayer for any taxable year beginning in the  
6           same calendar year as such taxable year, and

7           “(4) such individual’s adjusted net income for  
8           the taxable year does not exceed \$30,000.

9           “(d) AMOUNT OF REBATE TO BE DETERMINED  
10          UNDER TABLES.—

11           “(1) IN GENERAL.—The amount of the rebate  
12           allowed by this section shall be determined under ta-  
13           bles prescribed by the Secretary.

14           “(2) REQUIREMENTS FOR TABLES.—The tables  
15           prescribed under paragraph (1) shall reflect the pro-  
16           visions of subsection (b) and shall have income  
17           brackets of not greater than \$50 each.

18           “(e) MARRIED INDIVIDUALS MUST FILE JOINT  
19          CLAIM.—In the case of an individual who is married  
20          (within the meaning of section 7703), this section shall  
21          apply only if a joint claim is filed by such individual and  
22          such individual’s spouse, and such joint claim shows the  
23          combined adjusted net incomes of such individual and  
24          spouse.

1       “(f) COORDINATION WITH PERIODIC PAYMENTS OF  
2 REBATE.—If any payment is made to the individual under  
3 section 1602 during any calendar year or if periodic pay-  
4 ments have been made to the individual under this section  
5 during any calendar year, then such individual shall pay  
6 to the Secretary an amount equal to the excess (if any)  
7 of—

8               “(1) the aggregate amount of such payments,  
9 over

10              “(2) the maximum amount which would be pay-  
11 able to such individual under this section (for such  
12 individual’s last taxable year beginning in such cal-  
13 endar year) without regard to such payments and on  
14 the basis of the actual adjusted net income of such  
15 individual for such taxable year.

16 Any amount required to be paid under this subsection  
17 shall be assessed and collected in the same manner as tax  
18 imposed by chapter 1.

19       “(g) CLAIM REQUIRED TO BE FILED, ETC.—

20              “(1) IN GENERAL.—No payment shall be made  
21 under this section unless claim therefor is filed with  
22 the Secretary.

23              “(2) REBATE PAYABLE WITH FEDERAL TRANS-  
24 FER PAYMENTS, ETC.—To the maximum extent  
25 practical, the Secretary shall arrange for the pay-

1       ment of the rebate under this section to be made  
2       with Federal transfer payments and payments of so-  
3       cial security benefits.

4       **“SEC. 1602. ADVANCE PAYMENT OF REBATE.**

5       “(a) GENERAL RULE.—Except as otherwise provided  
6       in this section, every employer making payment of wages  
7       to an employee with respect to whom a VAT rebate eligi-  
8       bility certificate is in effect shall, at the time of paying  
9       such wages, make an additional payment to such employee  
10      equal to such employee’s VAT rebate advance amount.

11      “(b) VAT REBATE ELIGIBILITY CERTIFICATE.—For  
12      purposes of this title, a VAT rebate eligibility certificate  
13      is a statement furnished by an employee to the employer  
14      which—

15              “(1) certifies that the employee will be eligible  
16      to receive payments under section 1601 for the tax-  
17      able year,

18              “(2) certifies the employee’s estimate of his ad-  
19      justed net income (as defined in section 1601(b)) for  
20      the taxable year other than income from wages from  
21      such employer, and

22              “(3) certifies—

23                      “(A) that the employee does not have an-  
24                      other VAT rebate eligibility certificate in effect

1 for the calendar year with respect to the pay-  
2 ment of wages by another employer, and

3 “(B) that the spouse of the employee does  
4 not have a VAT rebate eligibility certificate in  
5 effect.

6 For purposes of this section, a certificate shall be treated  
7 as being in effect with respect to a spouse if such a certifi-  
8 cate will be in effect on the first status determination date  
9 following the date on which the employee furnishes the  
10 statement in question.

11 “(c) VAT REBATE ADVANCE AMOUNT.—For pur-  
12 poses of this title, the term ‘VAT rebate advance amount’  
13 means, with respect to any payroll period, the amount de-  
14 termined—

15 “(1) on the basis of the employee’s wages from  
16 the employer for such period and the employee’s es-  
17 timate under subsection (b)(2) of his adjusted net  
18 income (as defined in section 1601(b)) for the tax-  
19 able year other than from such wages, and

20 “(2) in accordance with tables prescribed by the  
21 Secretary.

22 “(d) PAYMENTS TO BE TREATED AS PAYMENTS  
23 VALUE ADDED TAX.—

1           “(1) IN GENERAL.—For purposes of this title,  
2           payments made by an employer under subsection (a)  
3           to his employees for any payroll period—

4                   “(A) shall not be treated as the payment  
5                   of compensation, and

6                   “(B) shall be treated as made out of  
7                   amounts of the taxes imposed for the payroll  
8                   period under chapter 100 (relating to value  
9                   added tax), as if the employer had paid to the  
10                  Secretary, on the day on which the wages are  
11                  paid to the employees, an amount equal to such  
12                  payments.

13           “(2) ADVANCE PAYMENTS EXCEED TAXES  
14           DUE.—In the case of any employer, if for any pay-  
15           roll period the aggregate amount of VAT rebate ad-  
16           vance payments exceeds the sum of the amounts re-  
17           ferred to in paragraph (1)(B), each such advance  
18           payment shall be reduced by an amount which bears  
19           the same ratio to such excess as such advance pay-  
20           ment bears to the aggregate amount of all such ad-  
21           vance payments.

22           “(3) EMPLOYER MAY MAKE FULL ADVANCE  
23           PAYMENTS.—The Secretary shall prescribe regula-  
24           tions under which an employer may elect (in lieu of  
25           any application of paragraph (2))—



1       come determined with the modifications described in  
2       the following paragraphs.

3           “(2) CERTAIN EXCLUSIONS DISREGARDED.—

4       Net income shall be determined without regard to—

5           “(A) sections 911, 931, and 933,

6           “(B) section 457, and

7           “(C) any exclusion from gross income for  
8       any elective deferral (as defined in section  
9       402(g)(3)).

10          “(3) CERTAIN AMOUNTS INCLUDED.—

11           “(A) TAX EXEMPT INTEREST.—Net in-  
12       come shall be increased by the amount of inter-  
13       est received or accrued by the taxpayer during  
14       the taxable year which is exempt from tax.

15           “(B) NONQUALIFIED DEFERRED COM-  
16       PENSATION.—Deferred compensation shall be  
17       included in gross income for the 1st taxable  
18       year in which there is no substantial risk of for-  
19       feiture of the rights to such compensation  
20       (within the meaning of section 457(f)(3)). The  
21       preceding sentence shall not apply to any plan  
22       or contract described in section 457(f)(2).

23          “(4) ESTATES AND TRUSTS.—The adjusted  
24       gross income of an estate or trust shall be deter-  
25       mined in accordance with section 67(e).

1       “(d) THRESHOLD AMOUNT.—For purposes of this  
2 section—

3           “(1) IN GENERAL.—The term ‘threshold  
4 amount’ means—

5               “(A) except as provided in subparagraph  
6 (B), \$75,000, and

7               “(B) zero in the case of a taxpayer who—

8                   “(i) is married as of the close of the  
9 taxable year (within the meaning of section  
10 7703) but does not file a joint return for  
11 such year, and

12                   “(ii) does not live apart from his  
13 spouse at all times during the taxable year.

14       “(2) SPECIAL RULES FOR TRUSTS.—

15           “(A) IN GENERAL.—Except as otherwise  
16 provided in this paragraph, the threshold  
17 amount for any trust shall be zero.

18           “(B) EXCEPTION FOR CURRENT DISTRIBUTION  
19 TRUSTS.—Subparagraph (A) shall not  
20 apply to any trust to which section 651 applies  
21 for the taxable year.

22           “(C) BENEFICIARY MAY ALLOCATE  
23 THRESHOLD.—Any beneficiary of a trust to  
24 which subparagraph (A) applies may elect to al-  
25 locate any portion of such beneficiary’s thresh-

1 old amount under paragraph (1) for any tax-  
2 able year to such trust. Such allocation shall  
3 apply for such trust's taxable year beginning in  
4 the taxable year from which made and shall re-  
5 duce the threshold amount otherwise available  
6 to such beneficiary.

7 “(d) ASSESSMENT COLLECTED AS TAX.—For pur-  
8 poses of subtitle F, the assessment imposed by this section  
9 shall be treated as if it were a tax imposed by chapter  
10 1.

11 **“SEC. 1612. INCLUSION OF UNDISTRIBUTED INCOME OF**  
12 **CERTAIN CORPORATIONS.**

13 “(a) GENERAL RULE.—Each assessable person who  
14 owns (within the meaning of section 542(a)) stock in a  
15 corporation on the last day in the taxable year of such  
16 corporation on which such corporation was an applicable  
17 corporation shall include in gross income (for such per-  
18 son's taxable year in which or with which such taxable  
19 year of the corporation ends) as a dividend the amount  
20 such person would have received as a dividend if on such  
21 last day such corporation had distributed pro rata to its  
22 shareholders an amount which bears the same ratio to the  
23 undistributed income of the corporation for the taxable  
24 year as the portion of such taxable year during which such

1 corporation is an applicable corporation bears to the entire  
2 taxable year.

3 “(b) APPLICABLE CORPORATION.—For purposes of  
4 this section—

5 “(1) IN GENERAL.—The term ‘applicable cor-  
6 poration’ means—

7 “(A) any corporation engaged in a service-  
8 related business in which a shareholder per-  
9 forms substantial services, and

10 “(B) any closely held C corporation.

11 Such term shall not include any corporation exempt  
12 from taxation under chapter 1.

13 “(2) SERVICE-RELATED BUSINESS.—The term  
14 ‘service-related business’ means any trade or busi-  
15 ness described in subparagraph (A) of section  
16 1202(e)(3).

17 “(3) CLOSELY HELD C CORPORATION.—The  
18 term ‘closely held C corporation’ means any C cor-  
19 poration if, at any time during the last half of the  
20 taxable year, more than 50 percent in value of its  
21 outstanding stock is owned, directly or indirectly  
22 through the application of section 544, by or for not  
23 more than 10 individuals.

24 “(c) UNDISTRIBUTED INCOME.—For purposes of this  
25 section—

1           “(1) IN GENERAL.—The term ‘undistributed in-  
2           come’ means the net income of the corporation for  
3           the taxable year reduced any distributions by the  
4           corporation to its shareholders with respect to its  
5           stock—

6                   “(A) which are made during the taxable  
7                   year and not taken into account under subpara-  
8                   graph (B) for the preceding taxable year, or

9                   “(B) which—

10                           “(i) are made after the close of the  
11                           taxable year and on or before the 45th day  
12                           following the close of the taxable year, and

13                           “(ii) are designated, at such time and  
14                           in such manner as the Secretary may pre-  
15                           scribe, as distributions for purposes of this  
16                           paragraph.

17           Any distribution described in subparagraph (B) shall  
18           be included in the gross income of the shareholder  
19           for the shareholder’s taxable year which includes the  
20           last day of the taxable year of the corporation for  
21           which the reduction under this paragraph was made.

22           “(2) NET INCOME.—Net income shall be deter-  
23           mined in the same way as taxable income under  
24           chapter 1 as in effect on the day before the date of  
25           the enactment of this section.

1       “(d) CERTAIN RULES TO APPLY.—Rules similar to  
2 the rules of subsections (d) and (e) of section 551 shall  
3 apply with respect to amounts required to be included in  
4 gross income under this section.”

5       (b) CLERICAL AMENDMENT.—The table of chapters  
6 for subtitle A is amended adding at the end the following  
7 new item:

“Chapter 7. Value added tax burden adjustments.”

8       (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 1997.

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