113TH CONGRESS
2nd Session

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TAX REFORM ACT OF 2014 DISCUSSION DRAFT

AS RELEASED ON FEBRUARY 26, 2014

Statutory Text and Section-by-Section Summary
Prepared by the Committee on Ways and Means
Majority Tax Staff

PRINTED FOR THE USE OF THE COMMITTEE ON
WAYS AND MEANS BY ITS STAFF

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TAX REFORM ACT OF 2014 DISCUSSION DRAFT

AS RELEASED ON FEBRUARY 26, 2014

Statutory Text

[DISCUSSION DRAFT]

FEBRUARY 21, 2014

113TH CONGRESS
2D SESSION

H. R. ______

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

IN THE HOUSE OF REPRESENTATIVES

Mr. CAMP introduced the following bill; which was referred to the Committee on ______________________________

A BILL

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

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

SECTION 1. SHORT TITLE; ETC.

(a) SHORT TITLE.—This Act may be cited as the ''Tax Reform Act of 2014''.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

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

Subtitle E—Deductions, Exclusions, and Certain Other Provisions

Subtitle F—Employment Tax Modifications

Subtitle G—Pensions and Retirement

Part 1—Individual Retirement Plans

Part 2—Employer-Provided Plans

PART 3—CERTAIN RULES FOR DETERMINING GAIN AND LOSS

PART 4—TAX FAVORED BONDS

Subtitle F—Insurance Reforms

Subtitle G—Pass-Thru and Certain Other Entities

PART 1—S CORPORATIONS

PART 2—PARTNERSHIPS

TITLE I—TAX REFORM FOR INDIVIDUALS

Subtitle A—Individual Income Tax Rate Reform

SEC. 1001. SIMPLIFICATION OF INDIVIDUAL INCOME TAX RATES.

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

"SEC. 1. TAX IMPOSED.

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

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

"(2) 25 PERCENT BRACKET.—25 percent of so much of the taxable income as exceeds the 25-percent bracket threshold amount, plus

"(3) 35 PERCENT BRACKET.—10 percent of so much of the modified adjusted gross income (as defined in section 2) as exceeds the 35-percent bracket threshold amount.

"(b) BRACKET THRESHOLD AMOUNTS.—For purposes of this section—

"(1) 25-PERCENT BRACKET THRESHOLD AMOUNT.—The term '25-percent bracket threshold amount' means—

"(A) in the case of a joint return or surviving spouse, $71,200,

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

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

"(2) 35-PERCENT BRACKET THRESHOLD AMOUNT.—The term '35-percent bracket threshold amount' means—

"(A) in the case of a joint return or surviving spouse, $450,000,

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

"(C) in the case of an estate or trust, $12,000.

"(c) INFLATION ADJUSTMENT.—

"(1) IN GENERAL.—In the case of any taxable year beginning after 2014, each dollar amount in subsections (b)(1)(A), (b)(2)(A), (b)(2)(B), (b)(2)(C), (e)(3)(A), and (e)(3)(B) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under this subsection for the calendar year in which the taxable year begins.

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

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

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

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

"(ii) the normalized CPI for calendar year 2012.

"(B) SPECIAL RULE FOR ADJUSTMENTS WITH A BASE YEAR AFTER 2012.—For purposes of any provision which provides for the substitution of a year after 2012 for '2012' in subparagraph (A)(ii), subparagraph (A) shall be applied by substituting 'C-CPI-U' for 'normalized CPI' in clause (ii).

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

"(A) the CPI for such calendar year, multiplied by

"(B) the C-CPI-U transition multiple.

"(4) C-CPI-U TRANSITION MULTIPLE.—For purposes of this subsection, the term 'C-CPI-U transition multiple' means the amount obtained by dividing—

"(A) the C-CPI-U for calendar year 2013, by

"(B) the CPI for calendar year 2013.

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

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

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

"(6) CPI.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'Consumer Price Index' means the last Consumer Price Index for All Urban Consumers published by the Department of Labor. For purposes of the preceding sentence, the revision of the Consumer Price Index which is most consistent with the Consumer Price Index for calendar year 1986 shall be used.

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

"(d) SPECIAL RULES FOR CERTAIN CHILDREN WITH UNEARNED INCOME.—

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

"(A) the 25-percent bracket threshold amount shall not be more than the taxable income of such child for the taxable year reduced by the net unearned income of such child, and

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

"(i) the taxable income of such child for the taxable year reduced by the net unearned income of such child, plus

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

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

"(A) such child—

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

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

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

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

"(3) CERTAIN CHILDREN WHOSE EARNED INCOME DOES NOT EXCEED ONE-HALF OF INDIVIDUAL'S SUPPORT.—A child is described in this paragraph if—

"(A) such child—

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

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

"(B) such child's earned income (as defined in section 911(d)(2)) for such taxable year does not exceed one-half of the amount of the individual's support (within the meaning of section 7705(c)(1)(D) after the application of section 7705(f)(5) (without regard to subparagraph (A) thereof)) for such taxable year.

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

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

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

"(ii) the sum of—

"(I) the amount in effect for the taxable year under section 63(c)(4)(A) (relating to limitation on standard deduction in the case of certain dependents) , plus

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

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

"(e) PHASEOUT OF 10-PERCENT RATE.—

"(1) IN GENERAL.—The amount of tax imposed by this section (determined without regard to this subsection) shall be increased by 5 percent of the excess (if any) of—

"(A) modified adjusted gross income, over

"(B) the applicable dollar amount.

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

"(A) the taxpayer's taxable income for such taxable year, or

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

"(3) APPLICABLE DOLLAR AMOUNT.—For purposes of this subsection, the term 'applicable dollar amount' means—

"(A) in the case of a joint return or a surviving spouse, $300,000,

"(B) in the case of any other individual, $250,000.

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

"(f) DETERMINATION OF HIGHEST RATE.—For purposes of any provision of law which refers to the highest rate of tax specified in this section (or any subsection of this section), such highest rate shall be treated as being 35 percent.".

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

"(b) MODIFIED ADJUSTED GROSS INCOME.—For purposes of section 1—

"(1) IN GENERAL.—The term 'modified adjusted gross income' means adjusted gross income—

"(A) increased by—

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

"(ii) the excess (if any) of—

"(I) amounts of interest received or accrued by the taxpayer during the taxable year which are exempt from tax, over

"(II) amounts disallowed as a deduction by reason of section 163(d)(1)(A) or 171(a)(2), "(iii) any exclusion from gross income with respect to the cost described in section 6051(a)(14) (without regard to subparagraphs (A) and (B) thereof),

"(iv) any deduction allowable under section 162(l) (relating to special rules for health insurance costs of self-employed individuals),

"(v) any annual addition (as defined in section 415(c)(2)) to a defined contribution plan which is not includible in, or which is deductible from, the gross income of the individual for the taxable year,

"(vi) any deduction allowable under section 223, and

"(vii) the excess (if any) of—

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

"(II) the amount included in the gross income of such individual for such taxable year under section 86, and

"(B) decreased by—

''(i) any deduction allowed under section 170 (and in the case of an estate or trust, any deduction allowed under section 642(c)), and

''(ii) qualified domestic manufacturing income.

''(2) DETERMINATION OF ADJUSTED GROSS INCOME IN CASE OF ESTATES AND TRUSTS.—For purposes of this subsection, the adjusted gross income of an estate or trust shall be computed in the same manner as in the case of an individual, except that—

''(A) the deductions for costs which are paid or incurred in connection with the administration of the estate or trust and which would not have been incurred if the property were not held in such trust or estate, and

''(B) the deductions allowable under sections 642(b), 651, and 661,

shall be treated as allowable in arriving at adjusted gross income. Under regulations, appropriate adjustments shall be made in the application of part I of subchapter J of this chapter to take into account the application of this paragraph.

"(c) QUALIFIED DOMESTIC MANUFACTURING INCOME.—

"(1) IN GENERAL.—For purposes of subsection (b), the term 'qualified domestic manufacturing income' for any taxable year means an amount equal to the excess (if any) of—

"(A) the taxpayer's domestic manufacturing gross receipts for such taxable year, over

"(B) the sum of—

"(i) the cost of goods sold that are allocable to such receipts, and

"(ii) other expenses, losses, or deductions, which are properly allocable to such receipts.

"(2) ALLOCATION METHOD.—The Secretary shall prescribe rules for the proper allocation of items described in paragraph (1) for purposes of determining qualified domestic manufacturing income. Such rules shall provide for the proper allocation of items whether or not such items are directly allocable to domestic manufacturing gross receipts.

"(3) SPECIAL RULES FOR DETERMINING COSTS.—

"(A) IN GENERAL.—For purposes of determining costs under clause (i) of paragraph

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

"(B) EXPORTS FOR FURTHER MANUFACTURE.—In the case of any property described in subparagraph (A) that had been exported by the taxpayer for further manufacture, the increase in cost or adjusted basis under subparagraph (A) shall not exceed the difference between the value of the property when exported and the value of the property when brought back into the United States after the further manufacture.

"(4) DOMESTIC MANUFACTURING GROSS RECEIPTS.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'domestic manufacturing gross receipts' means the gross receipts of the taxpayer which are derived from—

"(i) any lease, rental, license, sale, exchange, or other disposition of tangible personal property which was manufactured, produced, grown, or extracted by the taxpayer in whole or in significant part within the United States, or

"(ii) in the case of a taxpayer engaged in the active conduct of a construction trade or business, construction of real property performed in the United States by the taxpayer in the ordinary course of such trade or business if such real property is placed in service after December 31, 2014.

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

"(i) the sale of food and beverages prepared by the taxpayer at a retail establishment,

"(ii) the transmission or distribution of electricity, natural gas, or potable water, and

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

"(C) SPECIAL RULE FOR CERTAIN GOVERNMENT CONTRACTS.—Gross receipts derived from the manufacture or production of any property described in subparagraph (A)(i) shall be treated as meeting the requirements of subparagraph (A)(i) if—

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

"(ii) the Federal Acquisition Regulation requires that title or risk of loss with respect to such property be transferred to the Federal Government before the manufacture or production of such property is complete.

"(D) TREATMENT OF ACTIVITIES IN PUERTO RICO.—In the case of any taxpayer with gross receipts for any taxable year from sources within the Commonwealth of Puerto Rico, if all of such receipts are taxable under section 1 for such taxable year, then this paragraph shall be applied by treating each reference in subparagraph (A) to the United States as including the Commonwealth of Puerto Rico.

"(E) TANGIBLE PERSONAL PROPERTY.—The term 'tangible personal property' shall not include computer software or any property described in paragraph (3) or (4) of section 168(f).

"(F) RELATED PERSONS.—

"(i) IN GENERAL.—The term 'domestic manufacturing gross receipts' shall not include any gross receipts of the taxpayer derived from property leased, licensed, or rented by the taxpayer for use by any related person.

"(ii) RELATED PERSON.—For purposes of clause (i), a person shall be treated as related to another person if such persons are treated as a single employer under subsection (a) or (b) of section 52 or subsection (m) or (o) of section 414, except that determinations under subsections (a) and (b) of section 52 shall be made without regard to section 1563(b).

"(5) CERTAIN INCOME NOT QUALIFIED.—

"(A) NET EARNINGS FROM SELF EMPLOYMENT.—Domestic manufacturing gross receipts shall not include any amount which is properly allocable to the taxpayer's net earnings from self employment (determined after any reduction provided under section 1402(m)).

"(B) CERTAIN ACCOUNTING METHOD ADJUSTMENTS.—Domestic manufacturing gross receipts shall not include any amount attributable to—

"(i) a qualified change in method of accounting (as defined in section 3301(d)(2) of the Tax Reform Act of 2014), or

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

"(6) APPLICATION OF SECTION TO PASS-THROUGH ENTITIES.—

"(A) PARTNERSHIPS AND S CORPORATIONS.—Except as provided in subparagraph (B), in the case of a partnership or S corporation, each partner or shareholder shall take into account such person's allocable share of each item described in subparagraph (A) or (B) of paragraph (1) (determined without regard to whether the items described in such subparagraph (A) exceed the items described in such subparagraph (B)).

"(B) PUBLICLY TRADED PARTNERSHIPS.—In the case of a publicly traded partnership described in section 7704(c), each partner shall not take into account any allocable share of any item referred to in subparagraph (A).

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

"(7) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be necessary or appropriate to carry out the purposes of this section, including regulations or other guidance—

"(A) which prevent more than 1 taxpayer from taking into account the same qualified domestic manufacturing income, and

"(B) which require or restrict the allocation of items under paragraph (6) and require such reporting for purposes of carrying out such paragraph as the Secretary determines appropriate.

"(8) PHASE-IN OF EXCLUSION.—In the case of any taxable year beginning before January 1, 2017, the term 'qualified domestic manufacturing income' shall be an amount equal to the product of the qualified domestic manufacturing income determined without regard to this paragraph, multiplied by—

"(A) in the case of any taxable year beginning in 2015, 33 percent, and

"(B) in the case of any taxable year beginning in 2016, 67 percent.".

(c) APPLICATION OF SECTION 15.—

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

(2) CONFORMING AMENDMENTS.—

(A) Section 15 is amended by striking subsections (d) and (f) and by redesignating subsection (e) as subsection (d).

(B) Section 15(d), as redesignated by subparagraph (A), is amended by striking "section 1 or 11(b)" and inserting "section 11(b)".

(C) Subchapter A of chapter 1 is amended—

(i) by redesignating section 12 as section 13,

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

(iii) by striking part III, and

(iv) by amending the table of sections for part II of such subchapter by redesignating the item relating to section 12 as an item relating to section 13 and by inserting after the item relating to section 11 the following new item:

"Sec. 12. Effect of changes.".

(D) Section 6013(c) is amended by striking "sections 15, 443, and 7851(a)(1)(A)" and inserting "sections 443 and 7851(a)(1)(A)".

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

SEC. 1002. DEDUCTION FOR ADJUSTED NET CAPITAL GAIN.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1, as amended by section 3105, is amended by inserting after section 168 the following new section:

"SEC. 169. ADJUSTED NET CAPITAL GAIN.

"(a) IN GENERAL.—If for any taxable year a taxpayer other than a corporation has an adjusted net capital gain, 40 percent of the amount of the adjusted net capital gain shall be allowed as a deduction from gross income.

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

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

"(2) qualified dividend income.

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

"(d) NET COLLECTIBLES GAIN.—For purposes of this section—

"(1) IN GENERAL.—The term 'net collectibles gain' means the excess (if any) of—

"(A) collectibles gain, over

"(B) collectibles loss.

"(2) COLLECTIBLES GAIN AND LOSS.—The terms 'collectibles gain' and 'collectibles loss' mean gain or loss (respectively) from the sale or exchange of a collectible (as defined in section 408(m) without regard to paragraph (3) thereof) which is a capital asset held for more than 1 year but only to the extent such gain is taken into account in computing gross income and such loss is taken into account in computing taxable income.

"(3) PARTNERSHIPS, ETC.—For purposes of paragraph (2), any gain from the sale of an interest in a partnership, S corporation, or trust which is attributable to unrealized appreciation in the value of collectibles shall be treated as gain from the sale or exchange of a collectible. Rules similar to the rules of section 751 shall apply for purposes of the preceding sentence.

"(e) QUALIFIED DIVIDEND INCOME.—For purposes of this section—

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

"(A) domestic corporations, and

"(B) qualified foreign corporations.

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

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

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

''(C) any dividend described in section 404(k).

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

''(A) with respect to which the holding period requirements of section 246(c) are not met (determined without regard to paragraph (5) of section 246(c) and by substituting in section 246(c) '60 days' for '45 days' each place it appears and by substituting '121-day period' for '91-day period'), or

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

''(4) QUALIFIED FOREIGN CORPORATIONS.—

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

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

"(ii) such corporation is eligible as a qualified resident for all of the benefits provided under a comprehensive income tax treaty with the United States which the Secretary determines is satisfactory for purposes of this paragraph and which includes an exchange of information program.

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

"(C) EXCLUSION OF DIVIDENDS OF CERTAIN FOREIGN CORPORATIONS.—The term 'qualified foreign corporation' shall not include any foreign corporation which for the taxable year of the corporation in which the dividend was paid, or the preceding taxable year, is a passive foreign investment company (as defined in section 1297).

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

(b) DEDUCTION ALLOWED WHETHER OR NOT INDIVIDUAL ITEMIZES DEDUCTIONS.—Section 62(a) is amended by inserting after paragraph (7) the following new paragraph:

"(8) ADJUSTED NET CAPITAL GAIN.—The deduction allowed by section 169.".

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

SEC. 1003. CONFORMING AMENDMENTS RELATED TO SIMPLIFICATION OF INDIVIDUAL INCOME TAX RATES.

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

(1) Section 25B(b)(3)(B) is amended by striking "section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2005' for 'calendar year 1992' in subparagraph (B) thereof" and inserting "section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2005' for 'calendar year 2012' in clause (ii) thereof".

(2) Subclause (II) of section 36B(b)(3)(A)(ii) is amended by striking "consumer price index" and inserting "C-CPI-U (as defined in section 1(c))".

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

"(C) COST-OF-LIVING ADJUSTMENT DEFINED.—

"(i) IN GENERAL.—The cost-of-living adjustment for any calendar year is the cost-of-living adjustment for such calendar year determined under section 1(c)(2)(A), by substituting 'calendar year 1987' for 'calendar year 2012' in clause (ii) thereof.

"(ii) SPECIAL RULE WHERE BASE PERIOD ENDS IN A CALENDAR YEAR OTHER THAN 1983 OR 1984.—If the base period of any taxpayer does not end in 1983 or 1984, clause (i) shall be applied by substituting the calendar year in which such base period ends for 1987.".

(4) Section 125(i)(2) is amended—

(A) by striking "section 1(f)(3) for the calendar year in which the taxable year begins by substituting 'calendar year 2012' for 'calendar year 1992' in subparagraph (B) thereof" in subparagraph (B) and inserting "section 1(c)(2)(A) for the calendar year in which the taxable year begins", and

(B) by striking "$50" both places it appears in the last sentence and inserting "$100".

(5) Section 137(f) is amended—

(A) by striking "section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2001' for 'calendar year 1992' in subparagraph (B) thereof'' in paragraph (2) and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2001' for 'calendar year 2012' in clause (ii) thereof'', and

(B) in the last sentence thereof—

(i) by striking ''$10'' the first place it appears and inserting ''$100'', and

(ii) by striking ''nearest multiple of $10'' and inserting ''next lowest multiple of $100''.

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

(7) Section 220(g)(2) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1997' for 'calendar year 2012' in clause (ii) thereof''.

(8) Section 223(g)(1) is amended by striking all that follows subparagraph (A) and inserting the following:

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined—

"(i) by substituting for 'calendar year 2012' in clause (ii) thereof—

"(I) except as provided in clause (ii), 'calendar year 1997', and

"(II) in the case of each dollar amount in subsection (c)(2)(A), 'calendar year 2003', and

"(ii) by substituting 'March 31' for 'August 31' in paragraphs (5)(B) and (6)(B) of section 1(c).

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

(9) Section 430(c)(7)(D)(vii)(II) is amended by striking "section 1(f)(3) for the calendar year, determined by substituting 'calendar year 2009' for 'calendar year 1992' in subparagraph (B) thereof" and inserting "section 1(c)(2)(A) for the calendar year, determined by substituting 'calendar year 2009' for 'calendar year 2012' in clause (ii) thereof".

(10) Section 512(d)(2)(B) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins, by substituting 'calendar year 1994' for 'calendar year 1992' in subparagraph (B) thereof''and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1994' for 'calendar year 2012' in clause (ii) thereof''.

(11) Section 513(h)(2)(C)(ii) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins by substituting 'calendar year 1987' for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1987' for 'calendar year 2012' in clause (ii) thereof''.

(12) Section 877A(a)(3)(B)(i)(II) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins, by substituting 'calendar year 2007' for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar

year 2007' for 'calendar year 2012' in clause (ii) thereof''.

(13) Section 911(b)(2)(D)(ii)(II) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting '2004' for '1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2004' for 'calendar year 2012' in clause (ii) thereof''.

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

''(2) INFLATION ADJUSTMENT.—

''(A) IN GENERAL.—In the case of any debt instrument arising out of a sale or exchange during any calendar year after 2014, each adjusted dollar amount shall be increased by an amount equal to—

''(i) such adjusted dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2013' for 'calendar year 2012' in clause (ii) thereof.

"(B) ADJUSTED DOLLAR AMOUNTS.—For purposes of this paragraph, the term 'adjusted dollar amount' means the dollar amounts in subsections (b) and (c), in each case as in effect for calendar year 2014.

"(C) ROUNDING.—Any increase under subparagraph (A) shall be rounded to the nearest multiple of $100.".

(15) Section 2010(c)(3)(B)(ii) is amended by striking "section 1(f)(3) for such calendar year by substituting 'calendar year 2010' for 'calendar year 1992' in subparagraph (B) thereof" and inserting "section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2010' for 'calendar year 2012' in clause (ii) thereof".

(16) Section 2032A(a)(3)(B) is amended by striking "section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof" and inserting "section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 1997' for 'calendar year 2012' in clause (ii) thereof".

(17) Section 2503(b)(2)(B) is amended by striking "section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year

1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year, determined by substituting 'calendar year 1997' for 'calendar year 2012' in clause (ii) thereof''.

(18) Section 4161(b)(2)(C)(i)(II) is amended by striking ''section 1(f)(3) for such calendar year, determined by substituting '2004' for '1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2004' for 'calendar year 2012' in clause (ii) thereof''.

(19) Section 4261(e)(4)(A)(ii) is amended by striking ''section 1(f)(3) for such calendar year by substituting the year before the last nonindexed year for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for such calendar year, determined by substituting the year before the last nonindexed year for 'calendar year 2012' in clause (ii) thereof''.

(20) Section 4980I(b)(3)(C)(v)(II) is amended

(A) by striking ''section 1(f)(3)'' and inserting ''section 1(c)(2)(A)'',

(B) by striking ''subparagraph (B)'' and inserting ''clause (ii)'', and

(C) by striking "1992" and inserting "2012".

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

(A) by striking "section 1(f)(3)" and inserting "section 1(c)(2)(A)",

(B) by striking "subparagraph (B)" and inserting "clause (ii)", and

(C) by striking "1992" and inserting "2012".

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

(23) Section 6323(i)(4)(B) is amended by striking "section 1(f)(3) for the calendar year, determined by substituting 'calendar year 1996' for 'calendar year 1992' in subparagraph (B) thereof" and inserting "section 1(c)(2)(A) for the calendar year, determined by substituting 'calendar year 1996' for 'calendar year 2012' in clause (ii) thereof".

(24) Section 6334(g)(1)(B) is amended by striking "section 1(f)(3) for such calendar year, by substituting 'calendar year 1998' for 'calendar year 1992' in subparagraph (B) thereof" and inserting "section 1(c)(2)(A) for such calendar year, deter-

mined by substituting 'calendar year 1999' for 'calendar year 2012' in clause (ii) thereof''.

(25) Section 6721(f)(1) is amended—

(A) by striking ''section 1(f)(3)'' and inserting ''section 1(c)(2)(A)'',

(B) by striking ''subparagraph (B)'' and inserting ''clause (ii)'', and

(C) by striking ''1992'' and inserting ''2012''.

(26) Section 6722(f)(1) is amended—

(A) by striking ''section 1(f)(3)'' and inserting ''section 1(c)(2)(A)'',

(B) by striking ''subparagraph (B)'' and inserting ''clause (ii)'', and

(C) by striking ''1992'' and inserting ''2012''.

(27) Section 7430(c)(1) is amended by striking ''section 1(f)(3) for such calendar year, by substituting 'calendar year 1995' for 'calendar year 1992' in subparagraph (B) thereof'' in the flush text at the end and inserting ''section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 1995' for 'calendar year 2012' in clause (ii) thereof''.

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

"(5) INFLATION ADJUSTMENT.—

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

"(i) such adjusted dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2013' for 'calendar year 2012' in clause (ii) thereof.

"(B) ADJUSTED DOLLAR AMOUNT.—For purposes of this paragraph, the term 'adjusted dollar amount' means the dollar amount in paragraph (2) as in effect for calendar year 2014.

"(C) ROUNDING.—Any increase under subparagraph (A) shall be rounded to the nearest multiple of $100.".

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

(1) Section 163(d)(4)(B) is amended by striking "section 1(h)(11)(B)" and inserting "section 169(e)".

(2) Section 172(d)(2)(B) is amended by inserting "the deduction allowable under section 169 and" before "the exclusion".

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

(4) Section 306(a)(1)(D) is amended by striking "section 1(h)(11)" and inserting "section 169(e)".

(5) The last sentence of section 453A(c)(3) is amended by striking "capital gain" and all that follows and inserting "capital gain, the deduction under section 169 shall be taken into account.".

(6) Sections 531 and 541 are each amended by striking "20 percent" and inserting "21 percent".

(7) Section 584(c) is amended by striking "and to which section 1(h)(11) applies" in the last sentence and inserting "which is qualified dividend income (as defined in section 169(e)) in the hands of such common trust fund".

(8) Section 641(c)(2)(C) (prior to redesignation by title II) is amended by adding at the end the following new clause:

"(v) The deduction allowed by section 169.".

(9) The first sentence of section 642(c)(4) is amended by striking "consists of" and all that follows and inserting "consists of long-term capital gain or gain described in section 1202(a), proper adjustments shall be made for any deduction allowable to the trust or estate under section 169 and for any exclusion allowable under section 1202.".

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

(11) Section 691(c)(4) is amended by striking "1(h)" and inserting "169".

(12) Section 702(a)(5) is amended by striking "section 1(h)(11)" and inserting "section 169".

(13) Section 854 is amended—

(A) by striking "section 1(h)(11) (relating to maximum rate of tax on dividends)" in subsection (a) and inserting "section 169 (relating to adjusted net capital gain)",

(B) by striking "MAXIMUM RATE UNDER SECTION 1(h)" in the heading of subsection (b)(1)(B) and inserting "DETERMINATION OF ADJUSTED NET CAPITAL GAIN", and

(C) by striking "section 1(h)(11)(B)" in subsection (b)(4) and inserting "section 169(e)".

(14) Section 857(c)(2) is amended—

(A) by striking "section 1(h)(11)(B)" in subparagraph (D) and inserting "section 169(e)", and

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

(15) Section 904(b) is amended—

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

"(2) CAPITAL GAINS.—For purposes of this section, taxable income from sources outside the United States shall include gain from the sale or exchange of capital assets (including gain so treated under section 1231) only to the extent of the lesser of—

"(A) capital gain net income from sources without the United States, or

"(B) capital gain net income.", and

(B) by striking paragraph (3).

(16) Section 1260(a) is amended by striking "long-term capital gain" the first place such term

appears and all that follows and inserting "long-term capital gain, such gain shall be treated as ordinary income to the extent such gain exceeds the net underlying long-term capital gain.".

(17) Section 1411(c)(1)(B) is amended by inserting "(other than section 169)" after "this subtitle".

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

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

"(ii) by increasing the tax imposed by chapter 1 by the product of the amount of such withdrawal, multiplied by—

"(I) in the case of a taxpayer other than a corporation, 60 percent of the highest rate of tax specified in section 1, and

"(II) in the case of a corporation, the highest rate of tax specified in section 11.".

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

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

"(B) increasing the tax imposed by chapter 1 of such Code by the product of the amount of such withdrawal, multiplied by—

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

"(ii) in the case of a corporation, the highest rate of tax specified in section 11.", and

(B) by striking paragraph (2) and by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively.

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

"Sec. 169. Adjusted net capital gain.".

(c) OTHER CONFORMING AMENDMENTS.—

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

graph (A)," and inserting "In the case of any taxpayer not described in paragraph (1),".

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

"(aa) who is described in section 1(b)(1)(B) and who does not have any dependents for the taxable year,".

(3) Section 486B(b)(1) is amended—

(A) by striking "maximum rate in effect" and inserting "highest rate specified", and

(B) by striking "section 1(e)" and inserting "section 1".

(4) Section 511(b)(1) is amended to read as follows:

"(1) IMPOSITION OF TAX.—There is hereby imposed for each taxable year on the unrelated business taxable income of every trust described in paragraph (2) a tax computed as provided in section 1. In making such computation for purposes of this section, the terms 'taxable income' and 'modified adjusted gross income' as used in section 1 shall both be read as 'unrelated business taxable income' as defined in section 512.".

(5) Section 641(a) is amended by striking ‘‘section 1(e) shall apply to the taxable income’’ and inserting ‘‘section 1 shall apply to the income’’.

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

‘‘(A) The dollar amount in effect under section 1(b)(2)(C) shall be treated as being zero.’’.

(7) Section 646(b) is amended to read as follows:

‘‘(b) TAXATION OF INCOME OF TRUST.—Except as provided in subsection (f)(1)(B)(ii), there is hereby imposed on the taxable income of an electing Settlement Trust a tax at the rate specified in section 1(a)(1). Such tax shall be in lieu of the income tax otherwise imposed by this chapter on such income.’’.

(8) Section 685(c) is amended by striking ‘‘Section 1(e)’’ and inserting ‘‘Section 1’’.

(9) Section 1398(c) is amended by striking paragraphs (1) and (2), by redesignating paragraph (3) as paragraph (2), and by inserting before paragraph (2) as so redesignated the following new paragraph:

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

I of subchapter A, the taxable income and modified adjusted gross income of the estate shall be computed in the same manner as for an individual. The tax shall be computed under section 1 and shall be paid by the trustee.''.

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

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

(12) Section 3402(r)(3) is amended by striking ''the amount of tax which would be imposed by section 1(c) (determined without regard to any rate of tax in excess of the fourth lowest rate of tax applicable under section 1(c)) on an amount of taxable income equal to'' and inserting ''an amount equal to the product of the highest rate of tax specified in section 1 multiplied by''.

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

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

(14) Section 6103(e)(1)(A)(iii) is amended by striking ''section 1(g)'' and inserting ''section 1(d)''.

(d) WITHHOLDING FROM SUPPLEMENTAL WAGE PAYMENTS.—

(1) IN GENERAL.—If an employer elects under Treasury Regulation section 31.3402(g)–1 to determine the amount to be deducted and withheld from any supplemental wage payment by using a flat percentage rate, the rate to be used in determining such amount shall not be less than 35 percent.

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

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

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

Subtitle B—Simplification of Tax Benefits for Families

SEC. 1101. STANDARD DEDUCTION.

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

"(c) STANDARD DEDUCTION.—For purposes of this subtitle—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, the term 'standard deduction' means—

"(A) $22,000, in the case of a joint return, and

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

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

"(A) the taxpayer's modified adjusted gross income (as defined in section 2(b)) for the taxable year, over

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

"(ii) the non-joint return standard deduction phaseout threshold for the taxable year, in any other case.

"(3) STANDARD DEDUCTION PHASEOUT THRESHOLDS.—

"(A) JOINT RETURN STANDARD DEDUCTION PHASEOUT THRESHOLD.—The term 'joint return standard deduction phaseout threshold' means, with respect to any taxable year—

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

"(ii) the product of—

"(I) the dollar amount in effect under section 1(b)(1)(A) for such taxable year, multiplied by

"(II) 3.

"(B) NON-JOINT RETURN STANDARD DEDUCTION PHASEOUT THRESHOLD.—The term 'non-joint return standard deduction phaseout threshold' means, with respect to any taxable year—

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

"(ii) the product of—

"(I) the dollar amount in effect under section 1(b)(1)(B) for such taxable year, multiplied by

"(II) 3.

"(4) LIMITATION ON STANDARD DEDUCTION IN THE CASE OF CERTAIN DEPENDENTS.—In the case of an individual who is a dependent of another taxpayer for a taxable year beginning in the calendar year in which the individual's taxable year begins, the standard deduction applicable to such individual for such individual's taxable year shall not exceed the greater of—

"(A) $500, or

"(B) the sum of $250 and such individual's earned income (as defined in section 24(d)(2)).

"(5) CERTAIN INDIVIDUALS, ETC., NOT ELIGIBLE FOR STANDARD DEDUCTION.—In the case of—

"(A) a married individual filing a separate return where such individual's spouse elects to itemize deductions,

"(B) a nonresident alien individual,

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

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

the standard deduction shall be zero.

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

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined—

"(i) in the case of the dollar amount in paragraph (1)(A), under section 1(c)(2)(A) for the calendar year in which the taxable year begins,

"(ii) in the case of the dollar amount in paragraph (4)(A), under section 1(c)(2)(A) for the calendar year in which the taxable year begins determined by substituting 'calendar year 1987' for 'calendar year 2012' in clause (ii) thereof, and

"(iii) in the case of the dollar amount in paragraph (4)(B), under section 1(c)(2)(A) for the calendar year in which the taxable year begins determined by substituting 'calendar year 1997' for 'calendar year 2012' in clause (ii) thereof.

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

(b) ADDITIONAL DEDUCTION FOR UNMARRIED INDIVIDUALS WITH AT LEAST ONE QUALIFYING CHILD.—

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

"SEC. 224. DEDUCTION FOR UNMARRIED INDIVIDUALS WITH AT LEAST ONE QUALIFYING CHILD.

"(a) IN GENERAL.—In the case of an unmarried individual with at least one qualifying child (within the meaning of section 7705), there shall be allowed as a deduction an amount equal to $5,500.

"(b) PHASEOUT OF DEDUCTION.—The amount of the deduction determined under subsection (a) (without regard to this subsection) shall be reduced (but not below zero) by an amount equal to the excess (if any) of—

"(1) the taxpayer's adjusted gross income (determined without regard to this section) for the taxable year, over

"(2) $30,000.

"(c) UNMARRIED INDIVIDUAL.—For purposes of this section, the term 'unmarried individual' means any individual who—

"(1) is not married as of the close of the taxable year (as determined by applying section 7703),

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

"(3) is not a dependent of another taxpayer for a taxable year beginning in the calendar year in which the individual's taxable year begins.

"(d) INFLATION ADJUSTMENTS.—

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

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins.

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

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins determined by substituting 'calendar year 2014' for 'calendar year 2012' in clause (ii) thereof.

"(3) ROUNDING.—If any increase determined under paragraph (1) or (2) is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.".

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

"(22) DEDUCTION FOR UNMARRIED INDIVIDUALS WITH AT LEAST ONE QUALIFYING CHILD.—The deduction allowed by section 224.".

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

"(f) APPLICATION OF PHASEOUT OF STANDARD DEDUCTION TO ITEMIZED DEDUCTIONS.—

"(1) IN GENERAL.—In the case of an individual whose modified adjusted gross income (as defined in section 2(b)) exceeds the amount in effect under subsection (c)(2)(B) with respect to the taxpayer for the taxable year, the amount of the itemized deductions otherwise allowable for the taxable year shall be reduced by the lesser of—

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

"(B) the amount of the taxpayer's standard deduction for such taxable year (determined without regard to subsection (c)(2) and without regard to any election to itemize deductions).

"(2) COORDINATION WITH OTHER LIMITATIONS.—This subsection shall be applied after the application of any other limitation on the allowance of any itemized deduction.

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

(d) CONFORMING AMENDMENTS.—

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

(2) Section 199(d)(2)(B) is amended by inserting "section 224 and" before "this section".

(3) Section 469(i)(3)(F)(iii) is amended by inserting "and 224" after "219,".

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

(A) by striking "BASIC" in the heading thereof,

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

(C) by striking "basic" in paragraph (2).

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

(6) Section 6014(b)(4) is amended by striking "section 63(c)(5)" and inserting "section 63(c)(4)".

(7) The table of sections for part VII of subchapter B of chapter 1 is amended by redesignating

the item relating to section 224 as an item relating to section 225 and by inserting after the item relating to section 223 the following new item:

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

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

SEC. 1102. INCREASE AND EXPANSION OF CHILD TAX CREDIT.

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

"SEC. 24. CHILD AND DEPENDENT TAX CREDIT.

"(a) ALLOWANCE OF CREDIT.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year with respect to each dependent of the taxpayer an amount equal to $500 ($1,500 in the case of a qualifying child).

"(b) PHASEOUT OF CREDIT.—

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

"(A) the taxpayer's modified adjusted gross income (as defined in section 2(b)), over

"(B)(i) the joint return child credit phaseout threshold, in the case of a joint return or a surviving spouse (as defined in section 2(a)), or

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

"(2) JOINT RETURN CHILD CREDIT PHASEOUT THRESHOLD.—For purposes of this section, the term 'joint return child credit phaseout threshold' means, with respect to any taxable year, the sum of—

"(A) the joint return standard deduction phaseout threshold (as defined in section 63(c)(3)(A)), plus

"(B) an amount equal to—

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

"(ii) 0.2.

"(3) NON-JOINT RETURN CHILD CREDIT PHASEOUT THRESHOLD.—For purposes of this section, the term 'non-joint return child credit phaseout threshold' means, with respect to any taxable year, the sum of—

''(A) the non-joint return standard deduction phaseout threshold (as defined in section 63(c)(3)(B)), plus

''(B) an amount equal to—

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

''(ii) 0.2.

''(c) QUALIFYING CHILD.—For purposes of this section—

''(1) IN GENERAL.—Except as provided in paragraph (2), the term 'qualifying child' has the meaning given such term by section 7705.

''(2) EXCEPTION FOR CERTAIN NONCITIZENS.—The term 'qualifying child' shall not include any individual who would not be a dependent if subparagraph (A) of section 7705(b)(3) were applied without regard to all that follows 'resident of the United States'.

''(d) PORTION OF CREDIT REFUNDABLE.—

''(1) IN GENERAL.—The aggregate credits allowed under subpart C shall be increased by the lesser of—

''(A) the credit which would be allowed under this section without regard to this subsection and the limitation under section 26(a), or

"(B) the amount by which the aggregate amount of credits allowed under the subpart (determined without regard to this subsection) would increase if the limitation under section 26(a) were increased by 25 percent of the taxpayer's earned income for the taxable year.

The amount of the credit allowed under this subsection shall not be treated as a credit allowed under this subpart and shall reduce the amount of credit otherwise allowable under subsection (a) without regard to section 26(a).

"(2) EARNED INCOME.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'earned income' means—

"(i) the taxpayer's wages, salaries, tips, and other employee compensation, but only if such amounts are includible in gross income for the taxable year, plus

"(ii) the taxpayer's net earnings from self-employment for the taxable year (within the meaning of section 1402(a)) determined with regard to the deduction allowed to the taxpayer by section 164(f).

"(B) SPECIAL RULES.—For purposes of subparagraph (A)—

"(i) the earned income of an individual shall be computed without regard to any community property laws,

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

"(iii) no amount to which section 871(a) applies (relating to income of nonresident alien individuals not connected with United States business) shall be taken into account,

"(iv) no amount received for services provided by an individual while the individual is an inmate at a penal institution shall be taken into account,

"(v) no amount described in subparagraph (A) received for service performed in work activities as defined in paragraph (4) or (7) of section 407(d) of the Social Security Act to which the taxpayer is assigned under any State program under part A of title IV of such Act shall be taken into account, but only to the extent such amount is subsidized under such State program, and

"(vi) amounts excluded from gross income by reason of section 112 shall be taken into account as earned income.

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

"(3) EXCEPTION FOR TAXPAYERS EXCLUDING FOREIGN EARNED INCOME.—Paragraph (1) shall not apply to any taxpayer for any taxable year if such taxpayer elects to exclude any amount from gross income under section 911 for such taxable year.

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

"(1) such dollar amount, multiplied by

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

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

"(f) IDENTIFICATION REQUIREMENTS.—

"(1) IN GENERAL.—No credit shall be allowed under this section to a taxpayer with respect to any dependent unless the taxpayer includes the name and taxpayer identification number of such dependent on the return of tax for the taxable year.

"(2) ADDITIONAL IDENTIFICATION REQUIREMENT WITH RESPECT TO REFUNDABLE CREDIT.—

"(A) IN GENERAL.—Subsection (d) shall not apply to any taxpayer for any taxable year unless the taxpayer includes the taxpayer's Social Security number on the return of tax for such taxable year.

"(B) JOINT RETURNS.—In the case of a joint return, the requirement of subparagraph (A) shall be treated as met if the Social Security number of either spouse is included on such return.

"(g) TAXABLE YEAR MUST BE FULL TAXABLE YEAR.—Except in the case of a taxable year closed by reason of the death of the taxpayer, no credit shall be allowable under this section in the case of a taxable year covering a period of less than 12 months.''.

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

''(I) an omission of a correct TIN under section 24(f)(1) (relating to the child and dependent tax credit), or a correct Social Security number under section 24(f)(2) (relating to the refundable portion of child and dependent tax credit), to be included on a return,''.

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

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

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

''Sec. 24. Child and dependent tax credit.''.

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

SEC. 1103. MODIFICATION OF EARNED INCOME TAX CREDIT.

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

"SEC. 32. EARNED INCOME.

"(a) IN GENERAL.—In the case of an individual who is an eligible individual for any taxable year, there shall be allowed as a credit against the tax imposed by this subtitle for such taxable year an amount equal to the taxpayer's employment-related taxes for such taxable year.

"(b) LIMITATIONS.—

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

"(A) in the case of a taxpayer with 2 or more qualifying children, $3,000 ($4,000 in the case of a joint return), and

"(B) in the case of a taxpayer with 1 qualifying child, $2,400.

"(2) PHASE-OUT OF CREDIT.—The credit allowed under subsection (a) (determined after application of paragraph (1)) shall be reduced (but not below zero) by the sum of—

"(A) 19 percent of so much of the taxpayer's adjusted gross income (reduced by the amount of any excess described in subparagraph (B)) as exceeds $20,000 ($27,000 in the case of a joint return), plus

"(B) so much of the taxpayer's investment income for the taxable year as exceeds $3,300.

"(c) DEFINITIONS.—For purposes of this section—

"(1) ELIGIBLE INDIVIDUAL.—

"(A) IN GENERAL.—The term 'eligible individual' means any individual who has a qualifying child for the taxable year.

"(B) QUALIFYING CHILD INELIGIBLE.—If an individual is the qualifying child of a taxpayer for any taxable year of such taxpayer beginning in a calendar year, such individual shall not be treated as an eligible individual for any taxable year of such individual beginning in such calendar year.

"(C) EXCEPTION FOR INDIVIDUAL CLAIMING BENEFITS UNDER SECTION 911.—The term 'eligible individual' does not include any individual who claims the benefits of section 911 (relating to citizens or residents living abroad) for the taxable year.

"(D) LIMITATION ON ELIGIBILITY OF NONRESIDENT ALIENS.—The term 'eligible individual' shall not include any individual who is a nonresident alien individual for any portion of the taxable year unless such individual is treated for such taxable year as a resident of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

"(2) EMPLOYMENT-RELATED TAXES.—The term 'employment-related taxes' means, with respect to any taxpayer for any taxable year, the sum of—

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

"(B) any tax imposed under sections 3201(a), 3211(a), or 3221(a) on the compensation (as defined in section 3231(e)) received by the taxpayer during the calendar year in which the taxable year begins, and

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

"(3) QUALIFYING CHILD.—

"(A) IN GENERAL.—The term 'qualifying child' means a qualifying child of the taxpayer (within the meaning of section 7705, determined without regard to subsections (c)(1)(D) and (e) thereof).

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

"(C) TREATMENT OF MILITARY PERSONNEL STATIONED OUTSIDE THE UNITED STATES.—For purposes of subparagraph (B), the principal place of abode of a member of the Armed Forces of the United States shall be treated as in the United States during any period during which such member is stationed outside the United States while serving on extended active duty with the Armed Forces of the United States. For purposes of the preceding sentence, the term 'extended active duty' means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.

''(4) INVESTMENT INCOME.—For purposes of paragraph (1), the term 'investment income' means—

''(A) interest or dividends to the extent includible in gross income for the taxable year,

''(B) interest received or accrued during the taxable year which is exempt from tax imposed by this chapter,

''(C) the excess (if any) of—

''(i) gross income from rents or royalties not derived in the ordinary course of a trade or business, over

''(ii) the sum of—

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

''(II) interest deductions properly allocable to such gross income,

''(D) the capital gain net income (as defined in section 1222) of the taxpayer for such taxable year, and

''(E) the excess (if any) of—

''(i) the aggregate income from all passive activities for the taxable year (determined without regard to any amount with respect to which a tax described in subsection (c)(2) is imposed or an amount described in a preceding subparagraph), over

"(ii) the aggregate losses from all passive activities for the taxable year (as so determined).

For purposes of subparagraph (E), the term 'passive activity' has the meaning given such term by section 469.

"(d) IDENTIFICATION REQUIREMENTS.—

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

"(A) the taxpayer's Social Security number, and

"(B) the name, age, and Social Security number of each qualifying child taken into account under subsection (b)(1).

"(2) JOINT RETURNS.—In the case of a joint return, the requirement of paragraph (1)(A) shall be treated as met if the Social Security number of either spouse is included on such return.

"(3) OTHER METHODS OF PROVIDING CHILDREN'S INFORMATION.—The Secretary may prescribe other methods for providing the information described in paragraph (1)(B).

"(e) RESTRICTIONS ON TAXPAYERS WHO IMPROPERLY CLAIMED CREDIT IN PRIOR YEAR.—

"(1) TAXPAYERS MAKING PRIOR FRAUDULENT OR RECKLESS CLAIMS.—

"(A) IN GENERAL.—No credit shall be allowed under this section for any taxable year in the disallowance period.

"(B) DISALLOWANCE PERIOD.—For purposes of paragraph (1), the disallowance period is—

"(i) the period of 10 taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to fraud, and

"(ii) the period of 2 taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to reckless or intentional disregard of rules and regulations (but not due to fraud).

"(2) TAXPAYERS MAKING IMPROPER PRIOR CLAIMS.—In the case of a taxpayer who is denied credit under this section for any taxable year as a result of the deficiency procedures under subchapter B of chapter 63, no credit shall be allowed under this section for any subsequent taxable year unless the taxpayer provides such information as the Secretary may require to demonstrate eligibility for such credit.

"(f) OTHER SPECIAL RULES.—For purposes of this section—

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

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

"(3) COORDINATION WITH CERTAIN MEANS-TESTED PROGRAMS.—For purposes of—

"(A) the United States Housing Act of 1937,

"(B) title V of the Housing Act of 1949,

"(C) section 101 of the Housing and Urban Development Act of 1965,

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

"(E) the Food and Nutrition Act of 2008,

any refund made to an individual (or the spouse of an individual) by reason of this section, and any payment made to such individual (or such spouse) by an employer under section 3507, shall not be treated as income (and shall not be taken into account in determining resources for the month of its receipt and the following month).

"(4) Coordination with payroll tax credits.—The credit allowed under subsection (a) with respect to any taxpayer for any taxable year shall be reduced by the sum of the credits allowed under sections 3103 and 3203 with respect to such taxpayer for such taxable year.

"(g) Application to Certain Individuals Without Qualifying Children.—For purposes of this section and sections 3103 and 3203—

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

"(A) such individual shall be treated as an eligible individual,

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

"(C) subsection (b)(2)(A) shall be applied by substituting '$8,000 ($13,000' for '$20,000 ($27,000', and

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

"(i) any tax imposed under section 3101 on the wages (as defined in section 3121(a)) received by the taxpayer during the calendar year in which the taxable year begins,

"(ii) any tax imposed under sections 3201(a) (and so much of the tax imposed by section 3211(a) as is attributable to the rates of tax under subsections (a) and (b) of section 3101) on the compensation (as defined in section 3231(e)) received by the taxpayer during the calendar year in which the taxable year begins, and

"(iii) 50 percent of any tax imposed under section 1401 on the self-employment income of the taxpayer for the taxable year.

"(2) INDIVIDUAL TO WHOM SUBSECTION APPLIES.—An individual is described in this paragraph for any taxable year if—

"(A) such individual does not have a qualifying child for the taxable year,

"(B) such individual's principal place of abode is in the United States for more than one-half of such taxable year,

"(C) such individual (or, if the individual is married (within the meaning of section 7703), either the individual or the individual's spouse) has attained age 25 but not attained age 65 before the close of the taxable year, and

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

"(h) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2014, both dollar amounts in subsection (b)(1)(A), the dollar amount in subsection (b)(1)(B), both dollar amounts in subsection (b)(2)(A), the dollar amount in subsection (b)(2)(B), the $100 amount in subsection (g)(1)(B), the $8,000 and $13,000 amounts in subsection (g)(1)(C), the $4,000 amount in subsection (i)(2), and the $3,000 amount in subsection (i)(3), shall each be increased by an amount equal to—

"(1) such dollar amount, multiplied by

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

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

"(i) SPECIAL RULES FOR TAXABLE YEARS BEGINNING BEFORE 2018.—In the case of any taxable year beginning before January 1, 2018—

"(1) subsection (a) shall be applied by substituting '200 percent of the taxpayer's employment-related taxes' for 'the taxpayer's employment-related taxes', "(2) subsection (b)(1)(A) shall be applied by substituting '$4,000' for '$3,000 ($4,000 in the case of a joint return)', and

"(3) subsection (b)(1)(B) shall be applied by substituting '$3,000' for '$2,400'.".

(b) CREDIT ALLOWED AGAINST PAYROLL TAXES.—

(1) FICA TAX.—Subchapter A of chapter 21 is amended by adding at the end the following new section:

"SEC. 3103. CREDIT AGAINST TAX.

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

"(1) the amount of tax so imposed, or

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

"(b) APPLICATION OF CREDIT.—The credit determined under subsection (a) shall be taken into account under this title in the same manner as a credit or refund to which the taxpayer is entitled under section 6413(c)(1). Such credit shall not be taken into account for purposes of determining any amount deducted and withheld under section 3102.''.

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

"SEC. 3203. CREDIT AGAINST TAX.

''(a) IN GENERAL.—In the case of an individual who is allowed a credit under section 32 (determined without regard to subsection (f)(4) thereof) for a taxable year, there shall be allowed as a credit against the tax imposed by section 3201(a) (and so much of the tax imposed by section 3211(a) as is attributable to the rates of tax under subsections (a) and (b) of section 3101) with respect to compensation received by such individual during the calendar year ending with or within such taxable year the lesser of—

''(1) the amount of tax so imposed, or

''(2) the excess of—

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

''(B) the amount of the credit allowed under section 3103.

''(b) APPLICATION OF CREDIT.—The credit determined under subsection (a) shall be taken into account under this title in the same manner as a credit or refund to which the taxpayer is entitled under section 6413(c)(1). Such credit shall not be taken into account for purposes of determining any amount deducted and withheld under section 3202.''.

(c) CONFORMING AMENDMENTS.—

(1) Section 86(f)(2) is amended by striking ''section 32(c)(2)'' and inserting ''section 24(d)(2)''.

(2) Section 129(e)(2) is amended by striking ''section 32(c)(2)'' and inserting ''section 24(d)(2)''

(3) Section 6051(a)(10) is amended by striking ''for purposes of section 32 (relating to earned income credit)'' and inserting ''under section 24(d)(2)''.

(4) Section 6211(b)(4)(A) is amended by inserting ''(determined without regard to subsection (f)(4) thereof)'' after ''32''.

(5) Section 6213(g)(2)(F) is amended by striking ''taxpayer identification number'' and inserting ''Social Security number''.

(6) Section 6213(g)(2)(G) is amended by striking ''with respect to'' and all that follows and inserting ''with respect to the tax imposed under section 1401 (relating to self-employment tax) to the extent such tax has not been paid,''.

(7) Section 6213(g)(2)(K) is amended by striking "section 32(k)(2)" and inserting "section 32(e)(2)".

(8) Section 7705(f)(6)(B), as redesignated by this Act, is amended by striking clause (iv), by striking ", and" at the end of clause (iii) and inserting a period, and by inserting "and" at the end of clause (ii).

(9) The table of sections for subchapter A of chapter 21 is amended by adding at the end the following new item:

"Sec. 3103. Credit against tax.".

(10) The table of sections for subchapter A of chapter 22 is amended by adding at the end the following new item:

"Sec. 3203. Credit against tax.".

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

(e) TREATMENT OF TAXPAYERS WHO IMPROPERLY CLAIMED CREDIT IN PRIOR YEARS.—A claim of credit under section 32 of the Internal Revenue Code of 1986 (as in effect before the amendments made by this section) shall not fail to be taken into account under subsection (e) of such section (as amended by this section) merely because such claim is for a taxable year beginning before January 1, 2015.

(f) TREASURY REPORT ON MAKING CREDIT ADVANCEABLE.—Not later than the date which is 180 days after the date of the enactment of this Act, the Secretary of the Treasury (or the Secretary's designee) shall submit a report to Congress making recommendations regarding the best method for providing for advance payment of the credits established by the amendments made by this section. The recommendations in such report shall seek to—

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

(2) minimize any administrative burdens on employers and the Internal Revenue Service.

SEC. 1104. REPEAL OF DEDUCTION FOR PERSONAL EXEMPTIONS.

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

(b) DEFINITION OF DEPENDENT RETAINED.—

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

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

(c) APPLICATION TO ESTATES AND TRUSTS.—Subsection (b) of section 642 is amended—

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

(2) by striking paragraph (3), and

(3) by striking ''DEDUCTION FOR PERSONAL EXEMPTION'' in the heading thereof and inserting ''BASIC DEDUCTION''.

(d) APPLICATION TO NONRESIDENT ALIENS.—Section 873(b) is amended by striking paragraph (3).

(e) MODIFICATION OF WAGE WITHHOLDING RULES.—

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

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

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

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year.

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

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

(A) in subparagraph (A), by striking "an individual described in section 151(d)(2)" and inserting "a dependent of any other taxpayer", and

(B) in subparagraph (C), by striking "with respect to whom, on the basis of facts existing at the beginning of such day, there may reasonably be expected to be allowable an exemption under section 151(c)" and inserting "who, on the basis of facts existing at the beginning of such day, is reasonably expected to be a dependent of the employee".

(f) MODIFICATION OF RETURN REQUIREMENT.—

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

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

"(A) an individual who is not married (determined by applying section 7703) and who has gross income for the taxable year which does not exceed the standard deduction applicable to such individual for such taxable year under section 63, or

"(B) an individual entitled to make a joint return if—

"(i) the gross income of such individual, when combined with the gross income of such individual's spouse, for the taxable year does not exceed the standard deduction which would be applicable to the taxpayer for such taxable year under section 63 if such individual and such individual's spouse made a joint return,

"(ii) such individual and such individual's spouse have the same household as their home at the close of the taxable year, "(iii) such individual's spouse does not make a separate return, and

"(iv) neither such individual nor such individual's spouse is an individual described in section 63(c)(4) who has income (other than earned income) in excess of the amount in effect under section 63(c)(4)(A).".

(2) BANKRUPTCY ESTATES.—Paragraph (8) of section 6012(a) is amended by striking "the sum of the exemption amount plus the basic standard deduction under section 63(c)(2)(D)" and inserting "the standard deduction in effect under section 63(c)(1)(B)".

(g) CONFORMING AMENDMENTS.—

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

(2) Section 36B(b)(2)(A) is amended by striking "section 152" and inserting "section 7705".

(3) Section 36B(b)(3)(B) is amended by striking "unless a deduction is allowed under section 151 for the taxable year with respect to a dependent" in the flush matter at the end and inserting "unless the taxpayer has a dependent for the taxable year".

(4) Section 36B(c)(1)(D) is amended by striking "with respect to whom a deduction under section 151 is allowable to another taxpayer" and inserting "who is a dependent of another taxpayer".

(5) Section 36B(d)(1) is amended by striking "equal to the number of individuals for whom the taxpayer is allowed a deduction under section 151 (relating to allowance of deduction for personal exemptions) for the taxable year" and inserting "the sum of 1 (2 in the case of a joint return) plus the number of the taxpayer's dependents for the taxable year".

(6) Section 36B(e)(1) is amended by striking "1 or more individuals for whom a taxpayer is allowed a deduction under section 151 (relating to allowance of deduction for personal exemptions) for the taxable year (including the taxpayer or his spouse)" and inserting "1 or more of the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer".

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

(A) by striking "section 152" and inserting "section 7705", and

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

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

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

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

(11) Section 72(t)(7)(A)(iii) is amended by striking "section 152(f)(1)" and inserting "section 7705(f)(1)".

(12) Section 105(b) is amended—

(A) by striking "as defined in section 152" and inserting "as defined in section 7705",

(B) by striking "section 152(f)(1)" and inserting "section 7705(f)(1)" and

(C) by striking "section 152(e)" and inserting "section 7705(e)".

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

(14) Section 125(e)(1)(D) is amended by striking "section 152" and inserting "section 7705".

(15) Section 129(c) is amended—

(A) by striking "with respect to whom, for such taxable year, a deduction is allowable under section 151(c) (relating to personal exemptions for dependents) to" in paragraph (1) and inserting "who is a dependent of", and

(B) by striking "section 152(f)(1)" in paragraph (2) and inserting "section 7705(f)(1)".

(16) Section 132(h)(2)(B) is amended—

(A) by striking "section 152(f)(1)" and inserting "section 7705(f)(1)", and

(B) by striking "section 152(e)" and inserting "section 7705(e)".

(17) Section 139D(c)(5) is amended by striking "section 152" and inserting "section 7705".

(18) Section 162(l)(1)(D) is amended by striking "section 152(f)(1)" and inserting "section 7705(f)(1)".

(19) Section 170(g)(1) is amended by striking "section 152" and inserting "section 7705".

(20) Section 170(g)(3) is amended by striking ‘‘section 152(d)(2)’’ and inserting ‘‘section 7705(d)(2)’’.

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

(22) Section 220(b)(6) is amended by striking ‘‘with respect to whom a deduction under section 151 is allowable to’’ and inserting ‘‘who is a dependent of’’.

(23) Section 220(d)(2)(A) is amended by striking ‘‘section 152’’ and inserting ‘‘section 7705’’.

(24) Section 223(b)(6) is amended by striking ‘‘with respect to whom a deduction under section 151 is allowable to’’ and inserting ‘‘who is a dependent of’’.

(25) Section 223(d)(2)(A) is amended by striking ‘‘section 152’’ and inserting ‘‘section 7705’’.

(26) Section 401(h) is amended by striking ‘‘section 152(f)(1)’’ in the last sentence and inserting ‘‘section 7705(f)(1)’’.

(27) Section 402(l)(4)(D) is amended by striking ‘‘section 152’’ and inserting ‘‘section 7705’’.

(28) Section 409A(a)(2)(B)(ii)(I) is amended by striking ‘‘section 152(a)’’ and inserting ‘‘section 7705(a)’’.

(29) Section 501(c)(9) is amended by striking "section 152(f)(1)" and inserting "section 7705(f)(1)".

(30) Section 529(e)(2)(B) is amended by striking "section 152(d)(2)" and inserting "section 7705(d)(2)".

(31) Section 703(a)(2) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) through (F) as subparagraphs (A) through (E), respectively.

(32) Section 874 is amended by striking subsection (b) and by redesignating subsection (c) as subsection (b).

(33) Section 891 is amended by striking "under section 151 and".

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

(35) Section 931(b)(1) is amended by striking "(other than the deduction under section 151, relating to personal exemptions)".

(36) Section 933 is amended—

(A) by striking "(other than the deduction under section 151, relating to personal exemptions)" in paragraph (1), and

(B) by striking "(other than the deduction for personal exemptions under section 151)" in paragraph (2).

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

"(ii) in the case of an estate or trust, the deduction allowed for such year under section 642(b).".

(38) Section 1361(c)(1)(C) is amended by striking "section 152(f)(1)(C)" and inserting "section 7705(f)(1)(C)".

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

(40) Section 2032A(c)(7)(D) is amended by striking "section 152(f)(2)" and inserting "section 7705(f)(2)".

(41) Section 3402(m)(1) is amended by striking "other than the deductions referred to in section 151 and".

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

(43) Section 5000A(b)(3)(A) is amended by striking "section 152" and inserting "section 7705".

(44) Section 5000A(c)(4)(A) is amended by striking ''the number of individuals for whom the taxpayer is allowed a deduction under section 151 (relating to allowance of deduction for personal exemptions) for the taxable year'' and inserting ''the sum of 1 (2 in the case of a joint return) plus the number of the taxpayer's dependents for the taxable year''.

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

(A) by striking ''had less than the exemption amount of gross income'' in clause (ii) and inserting ''had no gross income'',

(B) by striking ''had gross income of the exemption amount or more'' in clause (iii) and inserting ''had any gross income'', and

(C) by striking the flush language following clause (iii).

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

''(iii) the number of the taxpayer's dependents,''.

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

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

"(2) EXEMPT AMOUNT.—

"(A) IN GENERAL.—For purposes of paragraph (1), the term 'exempt amount' means an amount equal to—

"(i) the sum of the standard deduction and the personal exemption amount, divided by

"(ii) 52.

"(B) PERSONAL EXEMPTION AMOUNT.—For purposes of subparagraph (A), the personal exemption amount is $3,900 multiplied by the number of the taxpayer's dependents for the taxable year in which the levy occurs.

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

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins.

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

“(D) VERIFIED STATEMENT.—Unless the taxpayer submits to the Secretary a written and properly verified statement specifying the facts necessary to determine the proper amount under subparagraph (A), subparagraph (A) shall be applied as if the taxpayer were a married individual filing a separate return with no dependents.”.

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

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

(51) Section 7703(b)(1) is amended by striking “section 152(f)(1)” and all that follows and inserting “section 7705(f)(1),”.

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

(53)(A) Section 7705(d)(1)(B), as redesignated by this section, is amended by striking “the exemption amount (as defined in section 151(d))” and inserting “$3,900”.

(B) Section 7705(d), as redesignated by this section, is amended by adding at the end the following new paragraph:

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

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year.

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

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

"Sec. 7705. Dependent defined.".

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

Subtitle C—Simplification of Education Incentives

SEC. 1201. AMERICAN OPPORTUNITY TAX CREDIT.

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

"SEC. 25A. AMERICAN OPPORTUNITY TAX CREDIT.

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

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

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

"(b) PORTION OF CREDIT REFUNDABLE.—So much of the credit allowable under subsection (a) (determined without regard to this subsection and section 26(a) and after application of all other provisions of this section) as does not exceed $1,500 shall be treated as a credit allowable under subpart C (and not under this part). The preceding sentence shall not apply to any taxpayer for any taxable year if such taxpayer is a child to whom section 1(d) applies for such taxable year.

"(c) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(1) IN GENERAL.—The amount allowable as a credit under subsection (a) for any taxable year shall be reduced (but not below zero) by an amount which bears the same ratio to the amount so allowable (determined without regard to this subsection and subsection (b) but after application of all other provisions of this section) as—

"(A) the excess of—

"(i) the taxpayer's modified adjusted gross income for such taxable year, over

"(ii) $43,000 (twice such amount in the case of a joint return), bears to

"(B) $20,000 (twice such amount in the case of a joint return).

"(2) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subsection, the term 'modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

"(d) OTHER LIMITATIONS.—

"(1) CREDIT ALLOWED ONLY FOR 4 TAXABLE YEARS.—An election to have this section apply may not be made for any taxable year if such an election (by the taxpayer or any other individual) is in effect with respect to such student for any 4 prior taxable years.

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

"(e) DEFINITIONS.—For purposes of this section—

"(1) ELIGIBLE STUDENT.— The term 'eligible student' means, with respect to any academic period, a student who—

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

"(B) is carrying at least 1/2 the normal full-time work load for the course of study the student is pursuing.

"(2) QUALIFIED TUITION AND RELATED EXPENSES.—

"(A) IN GENERAL.—The term 'qualified tuition and related expenses' means tuition, fees, and course materials, required for enrollment or attendance of—

"(i) the taxpayer,

"(ii) the taxpayer's spouse, or

"(iii) any dependent of the taxpayer,

at an eligible educational institution for courses of instruction of such individual at such institution.

"(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual's degree program.

"(C) EXCEPTION FOR NONACADEMIC FEES.—Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual's academic course of instruction.

"(3) ELIGIBLE EDUCATIONAL INSTITUTION.—The term 'eligible educational institution' means an institution—

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

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

"(f) SPECIAL RULES.—

"(1) IDENTIFICATION REQUIREMENT.—No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified tuition and related expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual, and the employer identification number of any institution to which such expenses were paid, on the return of tax for the taxable year.

"(2) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS, ETC.—

"(A) IN GENERAL.—The amount of qualified tuition and related expenses otherwise taken into account under subsection (a) with respect to an individual for an academic period shall be reduced (before the application of subsection (c)) by the sum of any amounts paid for the benefit of such individual which are allocable to such period as—

"(i) a qualified scholarship which is excludable from gross income under section 117,

"(ii) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or under chapter 1606 of title 10, United States Code, and

"(iii) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an eligible educational institution, which is excludable from gross income under any law of the United States.

"(B) COORDINATION WITH PELL GRANTS NOT USED FOR QUALIFIED TUITION AND RELATED EXPENSES.—For purposes of subparagraph (A), the amount of any Federal Pell Grant under section 401 of the Higher Education Act of 1965 (20 U.S.C. 1070a) shall be reduced (but not below zero) by the amount of expenses (other than qualified tuition and related expenses) which are taken into account in determining the cost of attendance (as defined in section 472 of the Higher Education Act of 1965, as in effect on the date of the enactment of this paragraph) of such individual at an eligible educational institution for the academic period for which the credit under this section is being determined.

"(3) TREATMENT OF EXPENSES PAID BY DEPENDENT.—If an individual is a dependent of another taxpayer for a taxable year beginning in the calendar year in which such individuals taxable year begins—

"(A) no credit shall be allowed under subsection (a) to such individual for such individual's taxable year, and

"(B) qualified tuition and related expenses paid by such individual during such individual's taxable year shall be treated for purposes of this section as paid by such other taxpayer.

"(4) TREATMENT OF CERTAIN PREPAYMENTS.—If qualified tuition and related expenses are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic period shall be treated for purposes of this section as beginning during such taxable year.

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

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

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

"(g) INFLATION ADJUSTMENT.—

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

''(A) such dollar amount, multiplied by

''(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2017' for 'calendar year 2012' in clause (ii) thereof.

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

''(h) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of the credit allowed under this section in cases where there is a refund in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.''.

(b) REQUIREMENT TO REPORT TUITION PAID RATHER THAN TUITION BILLED.—Section 6050S(b)(2)(B)(i) is amended by striking ''or the aggregate amount billed''.

(c) CONFORMING AMENDMENTS.—

(1) Section 72(t)(7)(B) of such Code is amended by striking ‘‘section 25A(g)(2)’’ and inserting ‘‘section 25A(f)(2)’’.

(2) Section 529(c)(3)(B)(v)(I) of such Code is amended by striking ‘‘section 25A(g)(2)’’ and inserting ‘‘section 25A(f)(2)’’.

(3) Section 529(e)(3)(B)(i) of such Code is amended by striking ‘‘section 25A(b)(3)’’ and inserting ‘‘section 25A(d)’’.

(4) Section 530(d)(2)(C) of such Code is amended—

(A) by striking ‘‘section 25A(g)(2)’’ in clause (i)(I) and inserting ‘‘section 25A(f)(2)’’, and

(B) by striking ‘‘HOPE AND LIFETIME LEARNING CREDITS’’ in the heading and inserting ‘‘AMERICAN OPPORTUNITY TAX CREDIT’’.

(5) Section 530(d)(4)(B)(iii) of such Code is amended by striking ‘‘section 25A(g)(2)’’ and inserting ‘‘section 25A(d)(4)(B)’’.

(6) Section 6050S(e) of such Code is amended by striking ‘‘subsection (g)(2)’’ and inserting ‘‘subsection (f)(2)’’.

(7) Section 6211(b)(4)(A) of such Code is amended by striking ''subsection (i)(6)'' and inserting ''subsection (b)''.

(8) Section 6213(g)(2)(J) of such Code is amended by striking ''TIN required under section 25A(g)(1)'' and inserting ''TIN, and employer identification number, required under section 25A(f)(1)''.

(9) Section 1004(c) of division B of the American Recovery and Reinvestment Tax Act of 2009 is amended—

(A) in paragraph (1)—

(i) by striking ''section 25A(i)(6)'' each place it appears and inserting ''section 25A(b)'', and

(ii) by striking ''with respect to taxable years beginning after 2008 and before 2018'' each place it appears and inserting ''with respect to each taxable year'',

(B) in paragraph (2), by striking ''Section 25A(i)(6)'' and inserting ''Section 25A(b)'', and

(C) in paragraph (3)(C), by striking ''subsection (i)(6)'' and inserting ''subsection (b)''.

(10) The table of sections for subpart A of part IV of subchapter A of chapter 1 of the Internal Rev-

enue Code of 1986 is amended by striking the item relating to section 25A and inserting the following new item:

"Sec. 25A. American opportunity tax credit.".

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

SEC. 1202. EXPANSION OF PELL GRANT EXCLUSION FROM GROSS INCOME.

(a) IN GENERAL.—Paragraph (1) of section 117(b) of the Internal Revenue Code of 1986 is amended—

(1) by striking the period at the end and inserting ", or",

(2) by striking "received by an individual as a scholarship" and inserting the following: "received by an individual—

"(A) as a scholarship", and

(3) by adding at the end the following new subparagraph:

"(B) as a Federal Pell Grant under section 401 of the Higher Education Act of 1965 (20 U.S.C. 1070a).".

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

SEC. 1203. REPEAL OF EXCLUSION OF INCOME FROM UNITED STATES SAVINGS BONDS USED TO PAY HIGHER EDUCATION TUITION AND FEES.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by striking section 135 (and by striking the item relating to such section in the table of sections for such part).

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

SEC. 1204. REPEAL OF DEDUCTION FOR INTEREST ON EDUCATION LOANS.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by striking section 221 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—Section 62(a) is amended by striking paragraph (17).

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

SEC. 1205. REPEAL OF DEDUCTION FOR QUALIFIED TUITION AND RELATED EXPENSES.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by striking section 222 (and by striking

the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—Section 62(a) is amended by striking paragraph (18).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2013.

SEC. 1206. NO NEW CONTRIBUTIONS TO COVERDELL EDUCATION SAVINGS ACCOUNTS.

(a) IN GENERAL.—Section 530(b)(1)(A) is amended to read as follows:

"(A) Except in the case of rollover contributions, no contribution will be accepted after December 31, 2014.".

(b) ROLLOVERS TO QUALIFIED TUITION PROGRAMS PERMITTED.—Section 530(d)(5) is amended by inserting ", or into (by purchase or contribution) a qualified tuition program (as defined in section 529)," after "into another Coverdell education savings account".

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to contributions made after December 31, 2014.

(2) ROLLOVERS TO QUALIFIED TUITION PROGRAMS.—The amendments made by subsection (b) shall apply to distributions after December 31, 2014.

SEC. 1207. REPEAL OF EXCLUSION FOR DISCHARGE OF STUDENT LOAN INDEBTEDNESS.

(a) IN GENERAL.—Section 108 is amended by striking subsection (f).

(b) CONFORMING AMENDMENTS.—

(1) Section 3121(a)(20) is amended by striking "108(f)(4),".

(2) Section 209(a)(17) of the Social Security Act is amended by striking "108(f)(4),".

(3) Section 3231(e)(5) is amended by striking "108(f)(4),".

(4) Section 3306(b)(16) is amended by striking "108(f)(4),".

(5) Section 3401(a)(19) is amended by striking "108(f)(4),".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts discharged after December 31, 2014.

SEC. 1208. REPEAL OF EXCLUSION FOR QUALIFIED TUITION REDUCTIONS.

(a) IN GENERAL.—Section 117 is amended by striking subsection (d).

(b) CONFORMING AMENDMENTS.—

(1) Section 117(c)(1) is amended—

(A) by striking "subsections (a) and (d)" and inserting "subsection (a)", and

(B) by striking "or qualified tuition reduction".

(2) Section 414(n)(3)(C) is amended by striking "117(d),".

(3) Section 414(t)(2) is amended by striking "117(d),".

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

SEC. 1209. REPEAL OF EXCLUSION FOR EDUCATION ASSISTANCE PROGRAMS.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by striking section 127 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 125(f)(1) is amended by striking "127,".

(2) Section 132(j)(8) is amended by striking "which are not excludable from gross income under section 127".

(3) Section 137(c) is amended to read as follows:

"(c) ADOPTION ASSISTANCE PROGRAM.—

"(1) IN GENERAL.—For purposes of this section, an adoption assistance program is a separate written plan of an employer for the exclusive benefit of such employer's employees under which the employer provides such employees with adoption assistance. Except as provided in paragraph (6), such program must meet the requirements of paragraphs (2), (3), and (4).

"(2) ELIGIBILITY.—The program shall benefit employees who qualify under a classification set up by the employer and found by the Secretary not to be discriminatory in favor of employees who are highly compensated employees (within the meaning of section 414(q)) or their dependents. For purposes of this paragraph, there shall be excluded from consideration employees not included in the program who are included in a unit of employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and one or more employers, if there is evidence that adoption assistance benefits were the subject of good faith bargaining between such employee representatives and such employer or employers.

"(3) PRINCIPAL SHAREHOLDERS OR OWNERS.—Not more than 5 percent of the amounts paid or incurred by the employer for adoption assistance during the year may be provided for the class of individuals who are shareholders or owners (or their spouses or dependents), each of whom (on any day of the year) owns more than 5 percent of the stock or of the capital or profits interest in the employer.

"(4) NOTIFICATION OF EMPLOYEES.—Reasonable notification of the availability and terms of the program must be provided to eligible employees.

"(5) NO FUNDING REQUIRED.—A program referred to in paragraph (1) is not required to be funded.

"(6) CERTAIN FEDERAL PROGRAMS.—An adoption reimbursement program operated under section 1052 of title 10, United States Code (relating to armed forces) or section 514 of title 14, United States Code (relating to members of the Coast

Guard) shall be treated as an adoption assistance program for purposes of this section.''.

(4) Section 414(n)(3)(C) is amended by striking ''127,''.

(5) Section 414(t)(2) is amended by striking ''127,''.

(6) Section 3121(a)(18) is amended by striking ''127,''.

(7) Section 209(a)(15) of the Social Security Act is amended by striking ''127 or''.

(8) Section 3231(e) is amended by striking paragraph (6).

(9) Section 3306(b)(13) is amended by striking ''127,''.

(10) Section 3401(a)(18) is amended by striking ''127,''.

(11) Section 6039D(d)(1) is amended by striking ''127,''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

SEC. 1210. REPEAL OF EXCEPTION TO 10-PERCENT PENALTY FOR HIGHER EDUCATION EXPENSES.

(a) IN GENERAL.—Section 72(t)(2) is amended by striking subparagraph (E).

(b) CONFORMING AMENDMENT.—Section 72(t) is amended by striking paragraph (7).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2014.

Subtitle D—Repeal of Certain Credits for Individuals

SEC. 1301. REPEAL OF DEPENDENT CARE CREDIT.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 is amended by striking section 21 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 129(a)(2) is amended by striking subparagraph (C).

(B) Section 129(e) is amended by adding at the end the following new paragraph:

"(10) MARITAL STATUS.—Rules similar to the rules of subsections (a) and (b) of section 7703 shall apply for purposes of this section.".

(2) Section 129(e)(1) is amended to read as follows:

"(1) DEPENDENT CARE ASSISTANCE.—

"(A) IN GENERAL.—The term 'dependent care assistance' means employment-related expenses and the provision of services which constitute employment-related expenses.

"(B) EMPLOYMENT-RELATED EXPENSES.—The term 'employment-related expenses' means amounts paid for the following expenses, but only if such expenses are incurred to enable the employee to be gainfully employed for any period for which there are 1 or more qualifying individuals with respect to the employee:

"(i) expenses for household services, and

"(ii) expenses for the care of a qualifying individual.

Such term shall not include any amount paid for services outside the employee's household at a camp where the qualifying individual stays overnight.

"(C) EXCEPTION.—Employment-related expenses described in subparagraph (A) which are incurred for services outside the employee's household shall be taken into account only if incurred for the care of—

"(i) a qualifying individual described in subparagraph (D)(i), or "(ii) a qualifying individual (not described in subparagraph (D)(i)) who regularly spends at least 8 hours each day in the employee's household.

"(D) QUALIFYING INDIVIDUAL.—The term 'qualifying individual' means—

"(i) a dependent of the taxpayer (as defined in section 7705(a)(1)) who has not attained age 13,

"(ii) a dependent of the taxpayer (as defined in section 7705, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B)) who is physically or mentally incapable of caring for himself or herself and who has the same principal place of abode as the taxpayer for more than one-half of such taxable year, or

"(iii) the spouse of the taxpayer, if the spouse is physically or mentally incapable of caring for himself or herself and who has the same principal place of abode as the taxpayer for more than one-half of such taxable year.

"(E) DEPENDENT CARE CENTERS.—Employment-related expenses described in subparagraph (A) which are incurred for services provided outside the employee's household by a dependent care center shall be taken into account only if—

"(i) such center complies with all applicable laws and regulations of a State or unit of local government, and

"(ii) the requirements of subparagraph (B) are met.

"(F) DEPENDENT CARE CENTER DEFINED.—For purposes of this paragraph, the term 'dependent care center' means any facility which—

"(i) provides care for more than six individuals (other than individuals who reside at the facility), and

"(ii) receives a fee, payment, or grant for providing services for any of the individuals (regardless of whether such facility is operated for profit).

"(G) PLACE OF ABODE.—For purposes of this paragraph, an individual shall not be treated as having the same principal place of abode as the taxpayer if at any time during the taxable year of the taxpayer the relationship between the individual and the taxpayer is in violation of local law.

"(H) SPECIAL DEPENDENCY TEST IN CASE OF DIVORCED PARENTS, ETC..—If—

"(i) section 7705(e) applies to any child with respect to any calendar year, and

"(ii) such child is under the age of 13 or is physically or mentally incapable of caring for himself, in the case of any taxable year beginning in such calendar year,

such child shall be treated as a qualifying individual described in clause (i) or (ii) of subparagraph (D) (whichever is appropriate) with respect to the custodial parent (as defined in section 7705(e)(4)(A)), and shall not be treated as a qualifying individual with respect to the noncustodial parent.".

(3) Section 6213(g)(2)(L) is amended by striking "21,".

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

SEC. 1302. REPEAL OF CREDIT FOR ADOPTION EXPENSES.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 is amended by striking section 23 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 137 is amended by striking subsections (d) and (e).

(2) Subsections (d) and (e) of section 23 (prior to being stricken by subsection (a)) are each moved to section 137 (after amendment by paragraph (1)) and inserted after subsection (c) as new subsections (d) and (e), respectively.

(3) Section 137(d)(1)(D), as amended by paragraphs (1) and (2), is amended by inserting ''(determined without regard to reimbursements under this section)'' before the period at the end.

(4) Section 137(e), as amended by paragraphs (1) and (2), is amended by striking ''(as defined in section 217(h)(3))'' and inserting ''(or any possession of the United States)''.

(5) Section 137 is amended by redesignating subsection (f) as subsection (h), and by inserting before subsection (h) (as so redesignated) the following new subsections:

''(f) FILING REQUIREMENTS.—

"(1) MARRIED COUPLES MUST FILE JOINT RETURN.—

"(A) IN GENERAL.—If the taxpayer is married at the close of the taxable year, subsection (a) shall apply to the taxpayer only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

"(B) MARITAL STATUS.—Rules similar to the rules of subsections (a) and (b) of section 7703 shall apply for purposes of this section.

"(2) TAXPAYER MUST INCLUDE TIN.—

"(A) IN GENERAL.—Subsection (a) shall apply with respect to any child only if the taxpayer includes (if known) the name, age, and TIN of such child on the return of tax for the taxable year.

"(B) OTHER METHODS.—The Secretary may, in lieu of the information referred to in subparagraph (A), require other information meeting the purposes of subparagraph (A), including identification of an agent assisting with the adoption.

"(g) BASIS ADJUSTMENTS.—For purposes of this subtitle, if the amount of any expenditure with respect to any property is excluded from gross income under this section, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of such expenditure which is so excluded.''.

(6) Section 1016(a)(26) is amended by striking ''sections 23(g) and 137(e)'' and inserting ''section 137(g)''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

(2) SPECIAL NEEDS ADOPTIONS.—For purposes of paragraph (1), any amount treated as paid by the taxpayer under section 23(a)(3) of the Internal Revenue Code of 1986 (as in effect before its repeal by subsection (a)) shall be treated as paid on the date that the adoption referred to in such section becomes final.

SEC. 1303. REPEAL OF CREDIT FOR NONBUSINESS ENERGY PROPERTY.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 is amended by striking section 25C (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENT.—Section 1016(a) is amended by striking paragraph (33).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2013.

SEC. 1304. REPEAL OF CREDIT FOR RESIDENTIAL ENERGY EFFICIENT PROPERTY.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 is amended by striking section 25D (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 1016(a) is amended by striking paragraph (34).

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service after December 31, 2014.

SEC. 1305. REPEAL OF CREDIT FOR QUALIFIED ELECTRIC VEHICLES.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 is amended by striking section 30 (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 1016(a) is amended by striking paragraph (25).

(2) Section 6501(m) is amended by striking "section 30(e)(6),".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to vehicles acquired after December 31, 2011.

SEC. 1306. REPEAL OF ALTERNATIVE MOTOR VEHICLE CREDIT.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 is amended by striking section 30B (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (25).

(2) Section 1016(a) is amended by striking paragraph (35).

(3) Section 6501(m) is amended by striking "30B(h)(9),".

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to property purchased after December 31, 2014.

SEC. 1307. REPEAL OF ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY CREDIT.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 is amended by striking section 30C (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (26).

(2) Section 1016(a) is amended by striking paragraph (36).

(3) Section 6501(m) is amended by striking "30C(e)(5),".

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service after December 31, 2014.

SEC. 1308. REPEAL OF CREDIT FOR NEW QUALIFIED PLUG-IN ELECTRIC DRIVE MOTOR VEHICLES.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 is amended by striking section 30D (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (35).

(2) Section 1016(a) is amended by striking paragraph (37).

(3) Section 6501(m) is amended by striking "30D(e)(4),".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to vehicles acquired after December 31, 2014.

SEC. 1309. REPEAL OF CREDIT FOR HEALTH INSURANCE COSTS OF ELIGIBLE INDIVIDUALS.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 is amended by striking section 35 (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Chapter 77 is amended by striking section 7527 (and by striking the item relating to such section in the table of sections of such chapter).

(2) Section 4980B(f)(5)(C)(iv)(II) is amended by inserting ''as in effect before its repeal'' after ''section 35(c)''.

(3) Section 6211(b)(4)(A) is amended by striking ''35,''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to months beginning after December 31, 2013.

SEC. 1310. REPEAL OF FIRST-TIME HOMEBUYER CREDIT.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 is amended by striking section 36 (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 26(b)(2) is amended by striking subparagraph (W).

(2) Section 1400C(e) is amended by striking paragraph (4).

(3) Section 6211(b)(4)(A) is amended by striking "36,".

(4) Section 6213(g)(2) is amended by striking subparagraphs (O) and (P).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to residences purchased after June 30, 2011.

Subtitle E—Deductions, Exclusions, and Certain Other Provisions

SEC. 1401. EXCLUSION OF GAIN FROM SALE OF A PRINCIPAL RESIDENCE.

(a) REQUIREMENT THAT RESIDENCE BE PRINCIPAL RESIDENCE FOR 5 YEARS DURING 8-YEAR PERIOD.—Subsection (a) of section 121 is amended—

(1) by striking "5-year period" and inserting "8-year period", and

(2) by striking "2 years" and inserting "5 years".

(b) APPLICATION TO ONLY 1 SALE OR EXCHANGE EVERY 5 YEARS.—Paragraph (3) of section 121(b) is amended to read as follows:

"(3) APPLICATION TO ONLY 1 SALE OR EXCHANGE EVERY 5 YEARS.—Subsection (a) shall not apply to any sale or exchange by the taxpayer if, during the 5-year period ending on the date of such sale or exchange, there was any other sale or exchange by the taxpayer to which subsection (a) applied.".

(c) PHASEOUT BASED ON MODIFIED ADJUSTED GROSS INCOME.—Section 121 is amended by adding at the end the following new subsection:

"(h) PHASEOUT BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(1) IN GENERAL.—If the modified adjusted gross income of the taxpayer for the taxable year exceeds $250,000 (twice such amount in the case of a joint return), the amount which would (but for this subsection) be excluded from gross income under subsection (a) for such taxable year shall be reduced (but not below zero) by the amount of such excess.

"(2) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subsection, the term 'modified adjusted gross income' has the meaning given such term by section 2 determined after the application of this section but without regard to this subsection.''.

(d) CONFORMING AMENDMENTS.—

(1) The last paragraph of section 121(b) (relating to exclusion of gain allocated to nonqualified use) is redesignated as paragraph (5).

(2) The following provisions of section 121 are each amended by striking ''5-year period'' each place it appears therein and inserting ''8-year period'':

(A) Subsection (b)(5)(C)(ii)(I) (as redesignated by paragraph (1)).

(B) Subsection (c)(1)(B)(i)(I).

(C) Subsection (d)(7)(B).

(D) Subparagraphs (A) and (B) of subsection (d)(9).

(E) Subsection (d)(10)

(F) Subsection (d)(12)(A).

(3) Section 121(c)(1)(B)(ii) is amended by striking ''2 years'' and inserting ''5 years'':

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to sales and exchanges after December 31, 2014.

SEC. 1402. MORTGAGE INTEREST.

(a) MODIFICATION OF LIMITATIONS.—

(1) IN GENERAL.—Paragraph (3) of section 163(h) is amended to read as follows:

"(3) QUALIFIED RESIDENCE INTEREST.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'qualified residence interest' means any interest which is paid or accrued during the taxable year on indebtedness which—

"(i) is incurred in acquiring, constructing, or substantially improving any qualified residence (determined as of the time the interest is accrued) of the taxpayer, and

"(ii) is secured by such residence.

Such term also includes interest on any indebtedness secured by such residence resulting from the refinancing of indebtedness meeting the requirements of the preceding sentence (or this sentence); but only to the extent the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

"(B) LIMITATION.—

"(i) IN GENERAL.—The aggregate amount of indebtedness taken into account under subparagraph (A) for any period shall not exceed $500,000 (half of such amount in the case of a married individual filing a separate return).

"(ii) PHASE-IN OF DECREASED LIMITATION.—For purposes of applying clause (i) with respect to any indebtedness incurred during a calendar year after 2014 and before 2018, the $500,000 amount in clause (i) shall be increased by the phase-in amount determined in accordance with the following table:

"In the case of indebtedness incurred during:	The phase-in amount is:
2015	$375,000
2016	$250,000
2017	$125,000

"(iii) TREATMENT OF REFINANCINGS OF INDEBTEDNESS INCURRED DURING PHASE-IN PERIOD.—In the case of any indebtedness which is incurred to refinance indebtedness to which clause (ii) applies (or to which this clause applies), such refinanced indebtedness shall be treated for purposes of clause (ii) as incurred on the date that the original indebtedness was incurred to the extent the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

"(C) TREATMENT OF INDEBTEDNESS INCURRED BEFORE JANUARY 1, 2015.—

"(i) IN GENERAL.—In the case of any pre-January 1, 2015, indebtedness, this paragraph shall apply as in effect immediately before the enactment of the Tax Reform Act of 2014.

"(ii) REDUCTION IN DOLLAR LIMITATION.—The limitation of subparagraph (B) (after application of clause (ii) thereof) shall be reduced (but not below zero) by the aggregate amount of outstanding pre-January 1, 2015, indebtedness of the taxpayer with respect to which interest is allowable as a deduction by reason of this subparagraph.

"(iii) PRE-JANUARY 1, 2015, INDEBTEDNESS.—For purposes of this subparagraph, the term 'pre-January 1, 2015, indebtedness' means—

"(I) any indebtedness incurred before January 1, 2015, and

"(II) any indebtedness incurred on or after such date to refinance indebtedness described in subclause (I) (or refinanced indebtedness meeting the requirements of this subclause) to the extent the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

"(D) LIMITATION ON PERIOD OF REFINANCING.—Subparagraphs (B)(iii) and (C)(iii)(II) shall not apply to any indebtedness after—

"(i) the expiration of the term of the original indebtedness, or

"(ii) if the principal of such original indebtedness is not amortized over its term, the expiration of the term of the 1st refinancing of such indebtedness (or if earlier, the date which is 30 years after the date of such 1st refinancing).

"(E) COORDINATION WITH CERTAIN EXCLUSIONS.—The amount otherwise treated as qualified residence interest (determined without regard to this subparagraph) with respect to any residence of the taxpayer for any taxable year shall be reduced by the sum of the amounts excludable from the gross income of such taxpayer under sections 107 and 119 with respect to such residence.''.

(2) CONFORMING AMENDMENTS.—

(A) Section 108(h)(2) is amended to read as follows:

''(2) QUALIFIED PRINCIPAL RESIDENCE INDEBTEDNESS.—For purposes of this section, the term 'qualified principal residence indebtedness' means indebtedness described in section 163(h)(3) applied without regard to clauses (ii) and (iii) of subparagraph (B) thereof and by substituting '$2,000,000' for '$500,000' in subparagraph (B)(i) thereof.''.

(B) Section 163(h) is amended—

(i) by striking subparagraph (E) in paragraph (3),

(ii) by striking subparagraphs (E) and (F) in paragraph (4), and

(iii) by striking paragraph (5).

(C) Section 265(a)(6) is amended—

(i) by striking "an amount as—" and all that follows and inserting "an amount as a military housing allowance.", and

(ii) by striking "PARSONAGE AND" in the heading thereof.

(b) MODIFICATION OF REPORTING REQUIREMENTS.—

(1) INFORMATION RETURN REQUIREMENTS.—Paragraph (2) of section 6050H(b) is amended by striking "and" at the end of subparagraph (C), by redesignating subparagraph (D) as subparagraph (F) and by inserting after subparagraph (C) the following new subparagraphs:

"(D) the amount of outstanding principal on the mortgage as of the beginning of such calendar year,

"(E) the date of the origination of the mortgage, and".

(2) STATEMENTS TO INDIVIDUALS.—Paragraph (2) of section 6050H(d) is amended by striking "subsection (b)(2)(C)" and inserting "subparagraphs (C), (D), and (E) of subsection (b)(2)".

(c) EFFECTIVE DATES.—

(1) MODIFICATION OF LIMITATIONS.—

(A) IN GENERAL.—The amendments made by subsection (a) shall apply to interest paid or accrued in taxable years beginning after December 31, 2014, with respect to indebtedness incurred before, on, or after such date.

(B) TREATMENT OF GRANDFATHERED INDEBTEDNESS.—For application of the amendments made by subsection (a) to grandfathered indebtedness, see section 163(h)(3)(C) of the Internal Revenue Code of 1986 as amended by this section.

(2) MODIFICATION OF REPORTING REQUIREMENTS.—The amendments made by subsection (b) shall apply to returns and statements for calendar years after December 31, 2014.

SEC. 1403. CHARITABLE CONTRIBUTIONS.

(a) 2 PERCENT FLOOR ON CHARITABLE DEDUCTION FOR INDIVIDUALS.—Paragraph (3) of section 170(b) is amended to read as follows:

"(3) 2 PERCENT FLOOR ON CHARITABLE DEDUCTION FOR INDIVIDUALS.—The amount of charitable contributions taken into account under this section as made by any individual during a taxable year (determined without regard to subsection (d)) shall be reduced by 2 percent of the taxpayer's contribution base for such taxable year. Such reduction shall apply—

"(A) first, to charitable contributions to which paragraph (1)(B) applies to the extent thereof,

"(B) second, to charitable contributions to which paragraph (1)(C) applies to the extent thereof, and

"(C) third, to charitable contributions to which paragraph (1)(A) applies to the extent thereof.".

(b) EXTENSION OF TIME FOR MAKING CHARITABLE CONTRIBUTIONS.—Subsection (a) of section 170 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

"(2) TREATMENT OF CHARITABLE CONTRIBUTIONS MADE BY INDIVIDUALS BEFORE DUE DATE OF RETURN.—If any charitable contribution is made by an individual after the close of a taxable year but not later than the due date (determined without regard to extensions) for the return of tax for such taxable year, then the taxpayer may elect to treat such charitable contribution as made in such taxable year. Such election may be made only at the time of the filing of such return of tax and shall be signified in such manner as the Secretary may provide.''.

(c) DEDUCTION FOR CONTRIBUTIONS OF PROPERTY GENERALLY LIMITED TO ADJUSTED BASIS.—

(1) IN GENERAL.—Subsection (e) of section 170 is amended—

(A) by striking paragraphs (1) and (6),

(B) by redesignating paragraphs (2), (3), (4), and (5) as paragraphs (3), (4), (5), and (6), respectively, and

(C) by inserting before paragraph (3) (as so redesignated) the following new paragraphs:

''(1) IN GENERAL.—Except in the case of property to which paragraph (2) applies, the amount of any charitable contribution of property otherwise taken into account under this section shall be reduced by the amount of gain which would have been realized if the property contributed had been sold by the taxpayer for its fair market value (determined at the time of such contribution).

''(2) SPECIAL RULE FOR CERTAIN PROPERTY.—

''(A) IN GENERAL.—In the case of property to which this paragraph applies, the amount of any charitable contribution of property otherwise taken into account under this section shall be reduced by the amount of gain which would not have been long-term capital gain if the property contributed had been sold by the taxpayer at its fair market value (determined at the time of such contribution).

"(B) PROPERTY TO WHICH THIS PARAGRAPH APPLIES.—This paragraph shall apply to—

"(i) any contribution of tangible personal property if the use of such property by the donee is related to the purpose or function constituting the basis for its exemption under section 501 (or, in the case of a governmental unit, to any purpose or function described in subsection (c)),

"(ii) any qualified conservation contribution (as defined in subsection (h)(1)),

"(iii) any qualified contribution (as defined in paragraph (4)(A)),

"(iv) any qualified research contribution (as defined in paragraph (5)(B)), and

"(v) any qualified appreciated stock (as defined in subsection (e)(6)).

"(C) SPECIAL RULES FOR DETERMINING LONG-TERM CAPITAL GAIN.—

"(i) IN GENERAL.—For purposes of applying this paragraph (other than in the case of gain to which section 1245(a), 1250(a), 1252(a), or 1254(a) applies), property which is property used in the trade or business (as defined in section 1231(b)) shall be treated as a capital asset.

"(ii) CONTRIBUTIONS OF STOCK IN S CORPORATIONS.—For purposes of applying this paragraph in the case of a charitable contribution of stock in an S corporation, rules similar to the rules of section 751 shall apply in determining whether gain on such stock would have been long-term capital gain if such stock were sold by the taxpayer.".

(2) REPEAL OF SPECIAL RULES FOR FOOD AND BOOK INVENTORY.—Paragraph (4) of section 170(e), as redesignated by paragraph (1), is amended by striking subparagraphs (C) and (D) and by redesignating subparagraph (E) as subparagraph (C).

(3) CONFORMING AMENDMENTS.—

(A) Section 170(e)(3), as redesignated by paragraph (1), is amended by striking "paragraph (1)'' and inserting ''paragraphs (1) and (2)''.

(B) Paragraphs (4) and (5) of section 170(e), as redesignated by paragraph (1), are each amended by striking ''paragraph (1)(A)'' each place it appears and inserting ''paragraph (2)(A)''.

(C) Section 170(e)(6), as redesignated by paragraph (1), is amended—

(i) by striking all that precedes ''for purposes of this paragraph'' in subparagraph (B) and inserting the following:

''(6) QUALIFIED APPRECIATED STOCK.—

''(A) IN GENERAL.—Except as provided in subparagraph (B),'',

(ii) by redesignating subparagraph (C) as subparagraph (B), and

(iii) by striking ''in a contribution to which paragraph (1)(B)(ii) applies (determined without regard to this paragraph)'' in subparagraph (B) as so redesignated.

(d) MODIFICATION OF INCOME BASED CONTRIBUTION LIMITATIONS.—

(1) IN GENERAL.—Section 170(b)(1) is amended—

(A) by striking "30 percent" in subparagraph (B)(i) and inserting "25 percent", and

(B) by striking "50 percent" and inserting "40 percent" in—

(i) the flush matter at the end of subparagraph (A),

(ii) subparagraph (B)(ii), and

(iii) clauses (i), (iv)(I), and (v) of subparagraph (C) (as redesignated by paragraph (2)).

(2) REPEAL OF SPECIAL LIMITATIONS FOR CERTAIN CAPITAL GAIN PROPERTY.—

(A) IN GENERAL.—Paragraph (1) of section 170(b) is amended by striking subparagraphs (C) and (D) and by redesignating subparagraphs (E), (F), and (G) as subparagraphs (C), (D), and (E), respectively.

(B) CONFORMING AMENDMENTS.—

(i) Section 170(b)(1)(A)(vii) is amended by striking "subparagraph (F)" and inserting "subparagraph (D)"

(ii) Section 170(b)(1)(B)(ii) is amended by striking "(determined without regard to subparagraph (C))".

(iii) Section 170(b)(1)(C)(iii), as redesignated by paragraph (1), is amended by striking ‘‘subparagraph (A), (B), (C) or (D)’’ and inserting ‘‘subparagraph (A) or (B)’’.

(iv) Section 170(b)(2)(B)(i)(I) is amended by striking ‘‘paragraph (1)(E)(v)’’ and inserting ‘‘paragraph (1)(C)(v)’’.

(v) Section 545(b)(2) is amended by striking ‘‘(D), and (E)’’ and inserting ‘‘and (C)’’.

(e) QUALIFIED CONSERVATION CONTRIBUTIONS.—

(1) RULES MADE PERMANENT.—

(A) IN GENERAL.—Subparagraph (C) of section 170(b)(1), as redesignated by subsection (d), is amended by striking clause (vi).

(B) CORPORATE FARMERS AND RANCHERS.—Subparagraph (B) of section 170(b)(2) is amended by striking clause (iii).

(2) TREATMENT OF GOLF COURSE EASEMENTS.—Subsection (h) of section 170 is amended by adding at the end the following new paragraph:

‘‘(7) SPECIAL RULE WITH RESPECT TO GOLF COURSES.—An interest in real property shall not be treated as a qualified real property interest for purposes of this subsection if (at the time of the contribution of such interest) such property is, or is reasonably expected to be, used as a golf course.''.

(3) CONFORMING AMENDMENTS.—

(A) Section 170(b)(1)(C)(iv)(II), as redesignated by subsection (d), is amended by striking ''made after the date of the enactment of this subparagraph''.

(B) Section 170(b)(2)(B)(i)(II) is amended by striking '', in the case of contributions made after the date of the enactment of this subparagraph,''.

(f) REPEAL OF SPECIAL RULE FOR COLLEGE ATHLETIC EVENT SEATING RIGHTS.—Section 170 is amended by striking subsection (l).

(g) REPEAL OF SPECIAL RULE TREATING DONEE INCOME FROM INTELLECTUAL PROPERTY AS AN ADDITIONAL CHARITABLE CONTRIBUTIONS.—

(1) IN GENERAL.—Section 170 is amended by striking subsection (m).

(2) CONFORMING AMENDMENTS.—Section 6050L is amended—

(A) by striking subsection (b) and redesignating subsection (c) as subsection (b), and

(B) by striking "or (b)" in subsection (b) (as redesignated by subparagraph (A)).

(h) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to contributions made in taxable years beginning after December 31, 2014.

(2) QUALIFIED CONSERVATION CONTRIBUTIONS.—The amendments made by subsection (e) shall apply to contributions made in taxable years beginning after December 31, 2013.

SEC. 1404. DENIAL OF DEDUCTION FOR EXPENSES ATTRIBUTABLE TO THE TRADE OR BUSINESS OF BEING AN EMPLOYEE.

(a) IN GENERAL.—Part IX of subchapter B of chapter 1 is amended by inserting after the item relating to section 262 the following new item:

"SEC. 262A. EXPENSES ATTRIBUTABLE TO BEING AN EMPLOYEE.

"(a) IN GENERAL.—Except as otherwise provided in this section, no deduction shall be allowed with respect to any trade or business of the taxpayer which consists of the performance of services by the taxpayer as an employee.

"(b) EXCEPTION FOR ABOVE-THE-LINE DEDUCTIONS.—Subsection (a) shall not apply to any deduction allowable (determined without regard to subsection (a)) in determining adjusted gross income.".

(b) REPEAL OF CERTAIN ABOVE-THE-LINE TRADE AND BUSINESS DEDUCTIONS OF EMPLOYEES.—

(1) IN GENERAL.—Paragraph (2) of section 62(a) is amended—

(A) by striking subparagraphs (B), (C), and (D), and

(B) by redesignating subparagraph (E) as subparagraph (B).

(2) CONFORMING AMENDMENTS.—

(A) Section 62 is amended by striking subsections (b) and (d) and by redesignating subsections (c) and (e) as subsections (b) and (c), respectively.

(B) Section 62(a)(20) is amended by striking "subsection (e)" and inserting "subsection (c)".

(c) CONTINUED EXCLUSION OF WORKING CONDITION FRINGE BENEFITS.—Section 132(d) is amended by inserting "(determined without regard to section 262A)" after "section 162".

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

SEC. 1405. REPEAL OF DEDUCTION FOR TAXES NOT PAID OR ACCRUED IN A TRADE OR BUSINESS.

(a) IN GENERAL.—Subsection (b) of section 164 is amended by striking paragraphs (5) and (6) and inserting the following new paragraph:

"(5) LIMITATION IN CASE OF INDIVIDUALS.—In the case of a taxpayer other than a corporation—

"(A) paragraphs (1) and (2) of subsection (a) shall only apply to taxes which are paid or accrued in carrying on a trade or business or an activity described in section 212, and

"(B) paragraph (3) of subsection (a) shall not apply to State and local taxes.".

(b) CONFORMING AMENDMENTS.—

(1) Section 164(a) is amended by striking paragraph (6).

(2)(A) Section 216(a) is amended by striking "proportionate share of—" and all that follows and inserting "proportionate share of the interest allowable as a deduction to the corporation under section 163 which is paid or incurred by the corporation on its indebtedness contracted—

"(1) in the acquisition, construction, alteration, rehabilitation, or maintenance of the houses or apartment building, or

"(2) in the acquisition of the land on which the houses (or apartment building) are situated.".

(B) Section 216(b)(3)(B)(i) is amended—

(i) by striking "a share of such corporation's real estate taxes described in subsection (a)(1) or" in subclause (I), and

(ii) by striking "of such taxes, or of such interest," in subclause (II) and inserting "of such interest".

(C) Section 216(d) is amended by striking "subsections (a)(1) and (a)(2)" and inserting "subsection (a)".

(3) Section 274(f) is amended by striking "TAXES," in the heading thereof.

(4) Section 280A(b) is amended by striking "TAXES," in the heading thereof.

(5) Section 911(c)(3)(A)(ii) is amended—

(A) by striking "and taxes", and

(B) by striking "or 164".

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

SEC. 1406. REPEAL OF DEDUCTION FOR PERSONAL CASUALTY LOSSES.

(a) IN GENERAL.—Subsection (c) of section 165 is amended by inserting ''and'' at the end of paragraph (1), by striking ''; and'' at the end of paragraph (2) and inserting a period, and by striking paragraph (3).

(b) CONFORMING AMENDMENTS.—

(1) Section 165 is amended by striking subsections (h) and (k).

(2) Subsection (i) of section 165 is amended—

(A) in paragraph (1)—

(i) by striking ''(as defined by clause (ii) of subsection (h)(3)(C))'', and

(ii) by striking ''(as defined by clause (i) of such subsection)'',

(B) by striking ''(as defined by subsection (h)(3)(C)(i)'' in paragraph (4), and

(C) by adding at the end the following new paragraph:

''(5) FEDERALLY DECLARED DISASTER.—For purposes of this subsection—

''(A) FEDERALLY DECLARED DISASTER.—The term 'federally declared disaster' means any disaster subsequently determined by the President of the United States to warrant assistance by the Federal Government under the

Robert T. Stafford Disaster Relief and Emergency Assistance Act.

"(B) DISASTER AREA.—The term 'disaster area' means the area so determined to warrant such assistance.".

(3)(A) Section 165(l)(1) is amended by striking "a loss described in subsection (c)(3)" and inserting "an ordinary loss described in subsection (c)(2)".

(B) Section 165(l) is amended—

(i) by striking paragraph (5),

(ii) by redesignating paragraphs (2), (3), and (4) as paragraphs (3), (4), and (5), respectively, and

(iii) by inserting after paragraph (1) the following new paragraph:

"(2) LIMITATIONS.—

"(A) DEPOSIT MAY NOT BE FEDERALLY INSURED.—No election may be made under paragraph (1) with respect to any loss on a deposit in a qualified financial institution if part or all of such deposit is insured under Federal law.

"(B) DOLLAR LIMITATION.—With respect to each financial institution, the aggregate amount of losses attributable to deposits in such financial institution to which an election under paragraph (1) may be made by the taxpayer for any taxable year shall not exceed $20,000 ($10,000 in the case of a separate return by a married individual). The limitation of the preceding sentence shall be reduced by the amount of any insurance proceeds under any State law which can reasonably be expected to be received with respect to losses on deposits in such institution.''.

(4) Section 172(b)(1)(F)(ii), prior to redesignation under title III, is amended—

(A) by striking subclause (I) and by redesignating subclauses (II) and (III) as subclauses (I) and (II), respectively, and

(B) by striking ''subsection (h)(3)(C)(i)'' and inserting ''section 165(i)(5)''.

(5) Section 172(d)(4)(C) is amended by striking ''paragraph (2) or (3) of section 165(c)'' and inserting ''section 165(c)(2)''.

(6) Section 274(f) is amended by striking ''CASUALTY LOSSES,'' in the heading thereof.

(7) Section 280A(b) is amended by striking ''CASUALTY LOSSES,'' in the heading thereof.

(8) Section 873(b), as amended by the preceding provisions of this Act, is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

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

SEC. 1407. LIMITATION ON WAGERING LOSSES.

(a) IN GENERAL.—Section 165(d) is amended by adding at the end the following: ''For purposes of the preceding sentence, the term 'losses from wagering transactions' includes any deduction otherwise allowable under this chapter incurred in carrying on any wagering transaction.''.

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

SEC. 1408. REPEAL OF DEDUCTION FOR TAX PREPARATION EXPENSES.

(a) IN GENERAL.—Section 212 is amended by adding ''or'' at the end of paragraph (1), by striking ''; or'' at the end of paragraph (2) and inserting a period, and by striking paragraph (3).

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

SEC. 1409. REPEAL OF DEDUCTION FOR MEDICAL EXPENSES.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by striking section 213 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 223 is amended by redesignating subsections (e), (f), (g), and (h) as subsections (f), (g), (h), and (i), respectively, and by inserting after subsection (d) the following new subsection:

''(e) MEDICAL CARE.—For purposes of this section—

''(1) IN GENERAL.—The term 'medical care' means amounts paid—

''(A) for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body,

''(B) for transportation primarily for and essential to medical care referred to in subparagraph (A), "(C) for qualified long-term care services (as defined in section 7702B(c)), or

"(D) for insurance (including amounts paid as premiums under part B of title XVIII of the Social Security Act, relating to supplementary medical insurance for the aged) covering medical care referred to in subparagraphs (A) and (B) or for any qualified long-term care insurance contract (as defined in section 7702B(b)).

In the case of a qualified long-term care insurance contract (as defined in section 7702B(b)), only eligible long-term care premiums (as defined in paragraph (7)) shall be taken into account under subparagraph (D).

"(2) AMOUNTS PAID FOR CERTAIN LODGING AWAY FROM HOME TREATED AS PAID FOR MEDICAL CARE.—Amounts paid for lodging (not lavish or extravagant under the circumstances) while away from home primarily for and essential to medical care referred to in paragraph (1)(A) shall be treated as amounts paid for medical care if—

"(A) the medical care referred to in paragraph (1)(A) is provided by a physician in a licensed hospital (or in a medical care facility which is related to, or the equivalent of, a licensed hospital), and

"(B) there is no significant element of personal pleasure, recreation, or vacation in the travel away from home.

The amount taken into account under the preceding sentence shall not exceed $50 for each night for each individual.

"(3) PHYSICIAN.—The term 'physician' has the meaning given to such term by section 1861(r) of the Social Security Act (42 U.S.C. 1395x(r)).

"(4) CONTRACTS COVERING OTHER THAN MEDICAL CARE.—In the case of an insurance contract under which amounts are payable for other than medical care referred to in subparagraphs (A), (B) and (C) of paragraph (1)—

"(A) no amount shall be treated as paid for insurance to which paragraph (1)(D) applies unless the charge for such insurance is either separately stated in the contract, or furnished to the policyholder by the insurance company in a separate statement,

"(B) the amount taken into account as the amount paid for such insurance shall not exceed such charge, and

"(C) no amount shall be treated as paid for such insurance if the amount specified in the contract (or furnished to the policyholder by the insurance company in a separate statement) as the charge for such insurance is unreasonably large in relation to the total charges under the contract.

"(5) CERTAIN PRE-PAID CONTRACTS.— Subject to the limitations of paragraph (4), premiums paid during the taxable year by a taxpayer before he attains the age of 65 for insurance covering medical care (within the meaning of subparagraphs (A), (B), and (C) of paragraph (1)) for the taxpayer, his spouse, or a dependent after the taxpayer attains the age of 65 shall be treated as expenses paid during the taxable year for insurance which constitutes medical care if premiums for such insurance are payable (on a level payment basis) under the contract for a period of 10 years or more or until the year in which the taxpayer attains the age of 65 (but in no case for a period of less than 5 years).

"(6) COSMETIC SURGERY.—

"(A) IN GENERAL.—The term 'medical care' does not include cosmetic surgery or other similar procedures, unless the surgery or procedure is necessary to ameliorate a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or disfiguring disease.

''(B) COSMETIC SURGERY DEFINED .—For purposes of this paragraph, the term 'cosmetic surgery' means any procedure which is directed at improving the patient's appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease.

''(7) ELIGIBLE LONG-TERM CARE PREMIUMS.—

''(A) IN GENERAL.—For purposes of this section, the term 'eligible long-term care premiums' means the amount paid during a taxable year for any qualified long-term care insurance contract (as defined in section 7702B(b)) covering an individual, to the extent such amount does not exceed the limitation determined under the following table:

''In the case of an individual with an attained age before the close of the taxable year of:	The limitation is:
40 or less	$200
More than 40 but not more than 50	$375
More than 50 but not more than 60	$750
More than 60 but not more than 70	$2,000
More than 70	$2,500

''(B) INDEXING.—

"(i) IN GENERAL.—In the case of any taxable year beginning after 1997, each dollar amount in subparagraph (A) shall be increased by the medical care cost adjustment of such amount for such calendar year. Any increase determined under the preceding sentence shall be rounded to the nearest multiple of $10.

"(ii) MEDICAL CARE COST ADJUSTMENT.—For purposes of clause (i), the medical care cost adjustment for any calendar year is the adjustment prescribed by the Secretary, in consultation with the Secretary of Health and Human Services, for purposes of such clause. To the extent that CPI (as defined section 1(c)), or any component thereof, is taken into account in determining such adjustment, such adjustment shall be determined by taking into account C-CPI-U (as so defined), or the corresponding component thereof, in lieu of such CPI (or component thereof), but only with respect to the portion of such adjustment which relates to periods after December 31, 2014.

"(8) CERTAIN PAYMENTS TO RELATIVES TREATED AS NOT PAID FOR MEDICAL CARE.—An amount paid for a qualified long-term care service (as defined in section 7702B(c)) provided to an individual shall be treated as not paid for medical care if such service is provided—

"(A) by the spouse of the individual or by a relative (directly or through a partnership, corporation, or other entity) unless the service is provided by a licensed professional with respect to such service, or

"(B) by a corporation or partnership which is related (within the meaning of section 267(b) or 707(b)) to the individual.

For purposes of this paragraph, the term 'relative' means an individual bearing a relationship to the individual which is described in any of subparagraphs (A) through (G) of section 7705(d)(2). This paragraph shall not apply for purposes of section 105(b) with respect to reimbursements through insurance.".

(B) Section 72(t)(2)(D)(i)(III) is amended by striking "section 213(d)(1)(D)" and inserting "section 223(e)(1)(D)".

(C) Section 104(a) is amended by striking ‘‘section 213(d)(1)’’ in the last sentence and inserting ‘‘section 223(e)(1)’’.

(D) Section 105(b) is amended by striking ‘‘section 213(d)’’ and inserting ‘‘section 223(e)’’.

(E) Section 139D is amended by striking ‘‘section 213’’ and inserting ‘‘section 223’’.

(F) Section 162(l)(2) is amended by striking ‘‘section 213(d)(10)’’ and inserting ‘‘section 223(e)(7)’’.

(G) Section 220(d)(2)(A) is amended by striking ‘‘section 213(d)’’ and inserting ‘‘section 223(e)’’.

(H) Section 223(d)(2)(A) is amended by striking ‘‘section 213(d)’’ and inserting ‘‘subsection (e))’’.

(I) Section 419A(f)(2) is amended by striking ‘‘section 213(d)’’ and inserting ‘‘section 223(e)’’.

(J) Section 501(c)(26)(A) is amended by striking ‘‘section 213(d)’’ and inserting ‘‘section 223(e)’’.

(K) Section 2503(e) is amended by striking ‘‘section 213(d)’’ and inserting ‘‘section 223(e)’’.

(L) Section 4980B(c)(4)(B)(i)(I) is amended by striking ‘‘section 213(d)’’ and inserting ‘‘section 223(e)’’.

(M) Section 6041(f) is amended by striking "section 213(d)" and inserting "section 223(e)".

(N) Section 7702B(a)(2) is amended by striking "section 213(d)" and inserting "section 223(e)".

(O) Section 7702B(a)(4) is amended by striking "section 213(d)(1)(D)" and inserting "section 223(e)(1)(D)".

(P) Section 7702B(d)(5) is amended by striking "section 213(d)(10)" and inserting "section 223(e)(7)".

(Q) Section 9832(d)(3) is amended by striking "section 213(d)" and inserting "section 223(e)".

(2) Section 72(t)(2)(B) is amended to read as follows:

"(B) MEDICAL EXPENSES.—Distributions made to an individual (other than distributions described in subparagraph (A), (C), or (D) to the extent such distributions do not exceed the excess of—

"(i) the expenses paid by the taxpayer during the taxable year, not compensated for by insurance or otherwise, for medical care (as defined in 223(e)) of the taxpayer, his spouse, or a dependent (as defined in section 7705, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B) thereof), over

"(ii) 10 percent of the taxpayer's adjusted gross income.".

(3) Section 105 is amended by striking subsection (f).

(4) Section 162(l) is amended by striking paragraph (3).

(5) Section 402(l) is amended by striking paragraph (7) and redesignating paragraph (8) as paragraph (7).

(6) Section 220(f) is amended by striking paragraph (6).

(7) Section 223(f) is amended by striking paragraph (6).

(8) Section 7702B(e) is amended by striking paragraph (2).

(9) Section 7705(f)(7), as redesignated by this Act, is amended by striking "sections 105(b), 132(h)(2)(B), and 213(d)(5)" and inserting "sections 105(b) and 132(h)(2)(B)".

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

SEC. 1410. REPEAL OF DISQUALIFICATION OF EXPENSES FOR OVER-THE-COUNTER DRUGS UNDER CERTAIN ACCOUNTS AND ARRANGEMENTS.

(a) HSAs.—Subparagraph (A) of section 223(d)(2) is amended by striking the last sentence.

(b) ARCHER MSAs.—Subparagraph (A) of section 220(d)(2) is amended by striking the last sentence.

(c) HEALTH FLEXIBLE SPENDING ARRANGEMENTS AND HEALTH REIMBURSEMENT ARRANGEMENTS.—Section 106 is amended by striking subsection (f).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses incurred after December 31, 2014.

SEC. 1411. REPEAL OF DEDUCTION FOR ALIMONY PAYMENTS AND CORRESPONDING INCLUSION IN GROSS INCOME.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by striking section 215 (and by striking the item relating to such section in the table of sections for such part).

(b) CORRESPONDING REPEAL OF PROVISIONS PROVIDING FOR INCLUSION OF ALIMONY IN GROSS INCOME.—

(1) Subsection (a) of section 61 is amended by striking paragraph (8) and by redesignating para-

graphs (9) through (15) as paragraphs (8) through (14), respectively.

(2) Part II of subchapter B of chapter 1 is amended by striking section 71 (and by striking the item relating to such section in the table of sections for such part).

(3) Subpart F of part I of subchapter J of chapter 1 is amended by striking section 682 (and by striking the item relating to such section in the table of sections for such subpart).

(c) CONFORMING AMENDMENTS.—

(1) RELATED TO REPEAL OF SECTION 215.—

(A) Section 62(a) is amended by striking paragraph (10).

(B) Section 3402(m)(1) is amended by striking ''(other than paragraph (10) thereof)''.

(2) RELATED TO REPEAL OF SECTION 71.—

(A) Section 121(d)(3) is amended—

(i) by striking ''(as defined in section 71(b)(2))'' in subparagraph (B), and

(ii) by adding at the end the following new subparagraph:

''(C) DIVORCE OR SEPARATION INSTRUMENT.—For purposes of this paragraph, the term 'divorce or separation instrument' means—

"(i) a decree of divorce or separate maintenance or a written instrument incident to such a decree,

"(ii) a written separation agreement, or

"(iii) a decree (not described in clause (i)) requiring a spouse to make payments for the support or maintenance of the other spouse.".

(B) Section 220(f)(7) is amended by striking "subparagraph (A) of section 71(b)(2)" and inserting "clause (i) of section 121(d)(3)(C)".

(C) Section 223(f)(7) is amended by striking "subparagraph (A) of section 71(b)(2)" and inserting "clause (i) of section 121(d)(3)(C)".

(D) Section 382(l)(3)(B)(iii) is amended by striking "section 71(b)(2)" and inserting "section 121(d)(3)(C)".

(E) Section 408(d)(6) is amended by striking "subparagraph (A) of section 71(b)(2)" and inserting "clause (i) of section 121(d)(3)(C)".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to—

(1) any divorce or separation instrument (as defined in section 71(b)(2) of the Internal Revenue Code of 1986 as in effect before the date of the enactment of this Act) executed after December 31, 2014, and

(2) any divorce or separation instrument (as so defined) executed on or before such date and modified after such date if the modification expressly provides that the amendments made by this section apply to such modification.

SEC. 1412. REPEAL OF DEDUCTION FOR MOVING EXPENSES.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by striking section 217 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 62(a) is amended by striking paragraph (15).

(2)(A) Section 132(a) is amended by striking paragraph (6).

(B) Section 82 is amended by striking ''Except as provided in section 132(a)(6), there'' and inserting ''There''.

(3)(A) Section 132 is amended by striking subsection (g).

(B) Section 132(l) is amended by striking by striking ''subsections (e) and (g)'' and inserting ''subsection (e)''.

(4) Section 274(m)(3) is amended by striking ''(other than section 217)''.

(5) Section 3121(a) is amended by striking paragraph (11).

(6) Section 209(a) of the Social Security Act is amended by striking paragraph (9).

(7) Section 3306(b) is amended by striking paragraph (9).

(8) Section 3401(a) is amended by striking paragraph (15).

(9) Section 7872(f) is amended by striking paragraph (11).

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

SEC. 1413. TERMINATION OF DEDUCTION AND EXCLUSIONS FOR CONTRIBUTIONS TO MEDICAL SAVINGS ACCOUNTS.

(a) TERMINATION OF INCOME TAX DEDUCTION.—Section 220 is amended by adding at the end the following new subsection:

"(k) TERMINATION.—No deduction shall be allowed under subsection (a) with respect to any taxable year beginning after December 31, 2014.".

(b) TERMINATION OF EXCLUSION FOR EMPLOYER-PROVIDED CONTRIBUTIONS.—Section 106 is amended by striking subsection (b).

(c) CONFORMING AMENDMENTS.—

(1) Section 62(a) is amended by striking paragraph (16).

(2) Section 106(d) is amended by striking paragraph (2), by redesignating paragraph (3) as paragraph (6), and by inserting after paragraph (1) the following new paragraphs:

"(2) NO CONSTRUCTIVE RECEIPT.—No amount shall be included in the gross income of any employee solely because the employee may choose between the contributions referred to in paragraph (1) and employer contributions to another health plan of the employer.

"(3) SPECIAL RULE FOR DEDUCTION OF EMPLOYER CONTRIBUTIONS.—Any employer contribution to a health savings account (as so defined), if otherwise allowable as a deduction under this chapter, shall be allowed only for the taxable year in which paid.

"(4) EMPLOYER HEALTH SAVINGS ACCOUNT CONTRIBUTION REQUIRED TO BE SHOWN ON RETURN.— Every individual required to file a return under section 6012 for the taxable year shall include on such return the aggregate amount contributed by employers to the health savings accounts (as so defined) of such individual or such individual's spouse for such taxable year.

"(5) HEALTH SAVINGS ACCOUNT CONTRIBUTIONS NOT PART OF COBRA COVERAGE.— Paragraph (1) shall not apply for purposes of section 4980B.".

(3) Section 223(b)(4) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

(4) Section 3231(e) is amended by striking paragraph (10) and by redesignating paragraphs (11) and (12) as paragraphs (10) and (11), respectively.

(5) Section 3306(b) is amended by striking paragraph (17).

(6) Section 3401(a) is amended by striking paragraph (21).

(7) Chapter 43 is amended by striking section 4980E (and by striking the item relating to such section in the table of sections for such chapter).

(8) Section 4980G is amended to read as follows:

"SEC. 4980G. FAILURE OF EMPLOYER TO MAKE COMPARABLE HEALTH SAVINGS ACCOUNT CONTRIBUTIONS.

"(a) IN GENERAL.—In the case of an employer who makes a contribution to the health savings account of any employee during a calendar year, there is hereby imposed a tax on the failure of such employer to meet the requirements of subsection (d) for such calendar year.

"(b) AMOUNT OF TAX.—The amount of the tax imposed by subsection (a) on any failure for any calendar year is the amount equal to 35 percent of the aggregate amount contributed by the employer to health savings accounts of employees for taxable years of such employees ending with or within such calendar year.

"(c) WAIVER BY SECRETARY.—In the case of a failure which is due to reasonable cause and not to willful neglect, the Secretary may waive part or all of the tax imposed by subsection (a) to the extent that the payment of such tax would be excessive relative to the failure involved.

"(d) EMPLOYER REQUIRED TO MAKE COMPARABLE HEALTH SAVINGS ACCOUNT CONTRIBUTIONS FOR ALL PARTICIPATING EMPLOYEES.—

"(1) IN GENERAL.—An employer meets the requirements of this subsection for any calendar year if the employer makes available comparable contributions to the health savings accounts of all comparable participating employees for each coverage period during such calendar year.

"(2) COMPARABLE CONTRIBUTIONS.—

"(A) IN GENERAL.—For purposes of paragraph (1), the term 'comparable contributions' means contributions—

"(i) which are the same amount, or

"(ii) which are the same percentage of the annual deductible limit under the high deductible health plan covering the employees.

"(B) PART-YEAR EMPLOYEES.—In the case of an employee who is employed by the employer for only a portion of the calendar year, a contribution to the health savings account of such employee shall be treated as comparable if it is an amount which bears the same ratio to the comparable amount (determined without regard to this subparagraph) as such portion bears to the entire calendar year.

"(3) COMPARABLE PARTICIPATING EMPLOYEES.—

"(A) IN GENERAL.—For purposes of paragraph (1), the term 'comparable participating employees' means all employees—

"(i) who are eligible individuals covered under any high deductible health plan of the employer, and

"(ii) who have the same category of coverage.

"(B) CATEGORIES OF COVERAGE.—For purposes of subparagraph (B), the categories of coverage are self-only and family coverage.

"(4) PART-TIME EMPLOYEES.—

"(A) IN GENERAL .—Paragraph (3) shall be applied separately with respect to part-time employees and other employees.

"(B) PART-TIME EMPLOYEE.—For purposes of subparagraph (A), the term 'part-time employee' means any employee who is customarily employed for fewer than 30 hours per week.

"(5) SPECIAL RULE FOR NON-HIGHLY COMPENSATED EMPLOYEES.—For purposes of applying this section to a contribution to a health savings account of an employee who is not a highly compensated employee (as defined in section 414(q)), highly compensated employees shall not be treated as comparable participating employees.

"(e) CONTROLLED GROUPS.—For purposes of this section, all persons treated as a single employer under subsection (b), (c), (m), or (o) of section 414 shall be treated as 1 employer.

"(f) DEFINITIONS.—Terms used in this section which are also used in section 223 have the respective meanings given such terms in section 223.

"(g) REGULATIONS.—The Secretary shall issue regulations to carry out the purposes of this section.".

(9) Section 6051(a) is amended by striking paragraph (11).

(10) Section 6051(a)(14)(A) is amended by striking "paragraphs (11) and (12)" and inserting "paragraph (12)".

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

SEC. 1414. REPEAL OF 2-PERCENT FLOOR ON MISCELLANEOUS ITEMIZED DEDUCTIONS.

(a) IN GENERAL.—Part 1 of subchapter B of chapter 1 is amended by striking section 67 (and the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 642(b)(2)(C)(i)(II) is amended to read as follows:

"(II) by determining the adjusted gross income of the trust under the rules of section 2(b)(2) (without the reference to section 642(b)).".

(2) Section 162(o) is amended by striking paragraph (2).

(3) Section 302(b)(5) is amended by striking "section 67(c)(2)(B)" and inserting "section 562(c)(2)".

(4) Section 562(c) is amended—

(A) by striking "(as defined in section 67(c)(2)(B))",

(B) by striking "(as so defined)",

(C) by striking "Except in the case of" and inserting the following:

"(1) IN GENERAL.—Except in the case of", and

(D) by adding at the end the following new paragraph:

"(2) PUBLICLY OFFERED REGULATED INVESTMENT COMPANY.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'publicly offered regulated investment company' means a regulated investment company the shares of which are—

"(i) continuously offered pursuant to a public offering (within the meaning of section 4 of the Securities Act of 1933, as amended (15 U.S.C. 77a to 77aa)),

"(ii) regularly traded on an established securities market, or

"(iii) held by or for no fewer than 500 persons at all times during the taxable year.

"(B) SECRETARY MAY REDUCE 500 PERSON REQUIREMENT.—The Secretary may by regulation decrease the minimum shareholder requirement of clause (i)(III) in the case of regulated investment companies which experience a loss of shareholders through net redemptions of their shares.''.

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

SEC. 1415. REPEAL OF OVERALL LIMITATION ON ITEMIZED DEDUCTIONS.

(a) IN GENERAL.—Part 1 of subchapter B of chapter 1 is amended by striking section 68 (and the item relating to such section in the table of sections for such part).

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

SEC. 1416. DEDUCTION FOR AMORTIZABLE BOND PREMIUM ALLOWED IN DETERMINING ADJUSTED GROSS INCOME.

(a) IN GENERAL.—Subsection (a) of section 62, as amended by section 1411, is amended by inserting after paragraph (9) the following new paragraph:

''(10) AMORTIZABLE BOND PREMIUM.—The deduction allowed under section 171(a)(1).''.

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

SEC. 1417. REPEAL OF EXCLUSION, ETC., FOR EMPLOYEE ACHIEVEMENT AWARDS.

(a) IN GENERAL.—Section 74 is amended by striking subsection (c).

(b) REPEAL OF LIMITATION ON DEDUCTION.—Section 274 is amended by striking subsection (j).

(c) CONFORMING AMENDMENTS.—

(1) Section 102(c)(2) is amended by striking the first sentence.

(2) Section 414(n)(3)(C) is amended by striking "274(j),".

(3) Section 414(t)(2) is amended by striking "274(j),".

(4) Section 3121(a)(20) is amended by striking "74(c),".

(5) Section 209(a)(17) of the Social Security Act is amended by striking "74(c),".

(6) Section 3231(e)(5) is amended by striking "74(c),".

(7) Section 3306(b)(16) is amended by striking "74(c),".

(8) Section 3401(a)(19) is amended by striking "74(c),".

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

SEC. 1418. CLARIFICATION OF SPECIAL RULE FOR CERTAIN GOVERNMENTAL PLANS.

(a) TREATMENT OF BENEFICIARIES.—Section 105(j)(1) is amended—

(1) by striking ''the taxpayer'' and inserting ''an employee, spouse, dependent (as defined for purposes of subsection (b)), or child (as so defined)'', and

(2) by striking ''deceased plan participant's beneficiary'' and inserting ''deceased employee's beneficiary who is not a surviving spouse, dependent (as so defined), or child (as so defined)''.

(b) APPLICATION TO POLITICAL SUBDIVISIONS OF STATES.—Section 105(j)(2) is amended—

(1) by inserting ''or established by or on behalf of a State or political subdivision thereof'' after ''public retirement system'', and

(2) by inserting ''or 501(c)(9)'' after ''section 115'' in subparagraph (B) thereof.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to payments after the date of the enactment of this Act.

SEC. 1419. LIMITATION ON EXCLUSION FOR EMPLOYER-PROVIDED HOUSING.

(a) IN GENERAL.—Section 119 is amended by adding at the end the following new subsection:

''(e) LIMITATION ON EXCLUSION OF LODGING.—

''(1) IN GENERAL.—The aggregate amount excluded from gross income of the taxpayer under subsections (a) and (d) with respect to lodging for any taxable year shall not exceed $50,000 (half such amount in the case of a married individual filing a separate return).

''(2) LIMITATION TO 1 HOME.—Subsections (a) and (d) (separately and in combination) shall not apply with respect to more than 1 residence of the taxpayer at any given time. In the case of a joint return, the preceding sentence shall apply separately to each spouse for any period during which each spouse resides separate from the other spouse in a residence which is provided in connection with the employment of each spouse, respectively.''.

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

SEC. 1420. FRINGE BENEFITS.

(a) REPEAL OF SPECIAL RULE FOR AIR TRANSPORTATION BY PARENT OF EMPLOYEE.—Subsection (h) of section 132 is amended by striking paragraph (3).

(b) TRANSPORTATION AND PARKING.—

(1) FREEZE AT CURRENT LEVELS.—

(A) IN GENERAL.—Paragraph (2) of section 132(f) is amended—

(i) in subparagraph (A) by striking ''$100'' and inserting ''$130'', and

(ii) in subparagraph (B) by striking ''$175'' and inserting ''$250''.

(B) INFLATION ADJUSTMENT.—Subsection (f) of such section is amended by striking paragraph (6) and redesignating paragraph (7) as paragraph (6).

(2) REPEAL OF BICYCLE BENEFIT.—

(A) IN GENERAL.—Paragraph (1) of section 132(f) is amended by striking subparagraph (D).

(B) CONFORMING AMENDMENTS.—

(i) Section 132(f)(2) is amended by inserting ''and'' at the end of subparagraph (A), by striking ''and'' at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C).

(ii) Section 132(f)(4) is amended by striking ''(other than a qualified bicycle commuting reimbursement)''.

(iii) Section 132(f)(5) is amended by striking subparagraph (F).

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

SEC. 1421. REPEAL OF EXCLUSION OF NET UNREALIZED APPRECIATION IN EMPLOYER SECURITIES.

(a) IN GENERAL.—Section 402(e) is amended by striking paragraph (4).

(b) CONFORMING AMENDMENTS.—

(1) Section 401(k)(10) is amended by striking subparagraph (B) and inserting the following new subparagraphs:

"(B) DISTRIBUTIONS MUST BE LUMP SUM DISTRIBUTIONS.—A termination shall not be treated as described in subparagraph (A) with respect to any employee unless the employee receives a lump sum distribution by reason of the termination.

"(C) LUMP-SUM DISTRIBUTION DEFINED.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'lump sum distribution' means the distribution or payment within one taxable year of the recipient of the balance to the credit of an employee which becomes payable to the recipient from a trust which forms a part of a plan described in section 401(a) and which is exempt from tax under section 501 or from a plan described in section 403(a). Such term includes a distribution of an annuity contract from—

"(I) a trust which forms a part of a plan described in section 401(a) and which is exempt from tax under section 501(a), or

"(II) an annuity plan described in section 403(a).

For purposes of this clause, a distribution to two or more trusts shall be treated as a distribution to one recipient.

"(ii) AGGREGATION OF CERTAIN TRUSTS AND PLANS.—For purposes of determining the balance to the credit of an employee under clause (i)—

"(I) all trusts which are part of a plan shall be treated as a single trust, all pension plans maintained by the employer shall be treated as a single plan, all profit-sharing plans maintained by the employer shall be treated as a single plan, and all stock bonus plans maintained by the employer shall be treated as a single plan, and

"(II) trusts which are not qualified trusts under section 401(a) and annuity contracts which do not satisfy the requirements of section 404(a)(2) shall not be taken into account.

"(iii) COMMUNITY PROPERTY LAWS.—The provisions of this subparagraph shall be applied without regard to community property laws.

"(iv) BALANCE TO CREDIT OF EMPLOYEE NOT TO INCLUDE AMOUNTS PAYABLE UNDER QUALIFIED DOMESTIC RELATIONS ORDER.—The balance to the credit of an employee shall not include any amount payable to an alternate payee under a qualified domestic relations order (within the meaning of section 414(p)).

"(v) TRANSFERS TO COST-OF-LIVING ARRANGEMENT NOT TREATED AS DISTRIBUTION.—The balance to the credit of an employee under a defined contribution plan shall not include any amount transferred from such defined contribution plan to a qualified cost-of-living arrangement (within the meaning of section 415(k)(2)) under a defined benefit plan. (vii)

"(vi) LUMP-SUM DISTRIBUTIONS OF ALTERNATE PAYEES.—If any distribution or payment of the balance to the credit of an employee would be treated as a lump-sum distribution, then, for purposes of this paragraph, the payment under a qualified domestic relations order (within the meaning of section 414(p)) of the balance to the credit of an alternate payee who is the spouse or former spouse of the employee shall be treated as a lump-sum distribution. For purposes of this clause, the balance to the credit of the alternate payee shall not include any amount payable to the employee.

"(vii) EXCLUSION OF ACCUMULATE DEDUCTIBLE EMPLOYEE CONTRIBUTIONS.— For purposes of this subparagraph, the balance to the credit of the employee does not include the accumulated deductible employee contributions under the plan (within the meaning of section 72(o)(5)).''.

(2) Section 3405(e) is amended by striking paragraph (8).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2014.

SEC. 1422. CONSISTENT BASIS REPORTING BETWEEN ESTATE AND PERSON ACQUIRING PROPERTY FROM DECEDENT.

(a) PROPERTY ACQUIRED FROM A DECEDENT.—Section 1014 is amended by adding at the end the following new subsection:

''(f) BASIS MUST BE CONSISTENT WITH ESTATE TAX RETURN.—For purposes of this section—

''(1) IN GENERAL.—The basis of any property to which subsection (a) applies shall not exceed—

''(A) in the case of property the final value of which has been determined for purposes of the tax imposed by chapter 11 on the estate of such decedent, such value, and

''(B) in the case of property not described in subparagraph (A) and with respect to which a statement has been furnished under section

6035(a) identifying the value of such property, such value.

"(2) EXCEPTION.—Paragraph (1) shall only apply to any property whose inclusion in the decedent's estate increased the liability for the tax imposed by chapter 11 (reduced by credits allowable against such tax) on such estate.

"(3) REGULATIONS.—The Secretary may by regulations provide exceptions to the application of this subsection.".

(b) INFORMATION REPORTING.—

(1) IN GENERAL.—Subpart A of part III of subchapter A of chapter 61 is amended by inserting after section 6034A the following new section:

"SEC. 6035. BASIS INFORMATION TO PERSONS ACQUIRING PROPERTY FROM DECEDENT.

"(a) INFORMATION WITH RESPECT TO PROPERTY ACQUIRED FROM DECEDENTS.—

"(1) IN GENERAL.—The executor of any estate required to file a return under section 6018(a) shall furnish to the Secretary and to each person acquiring any interest in property included in the decedent's gross estate for Federal estate tax purposes a statement identifying the value of each interest in such property as reported on such return and such other information with respect to such interest as the Secretary may prescribe.

"(2) STATEMENTS BY BENEFICIARIES.—Each person required to file a return under section 6018(b) shall furnish to the Secretary and to each other person who holds a legal or beneficial interest in the property to which such return relates a statement identifying the information described in paragraph (1).

"(3) TIME FOR FURNISHING STATEMENT.—

"(A) IN GENERAL.—Each statement required to be furnished under paragraph (1) or (2) shall be furnished at such time as the Secretary may prescribe, but in no case at a time later than the earlier of—

"(i) the date which is 30 days after the date on which the return under section 6018 was required to be filed (including extensions, if any), or

"(ii) the date which is 30 days after the date such return is filed.

"(B) ADJUSTMENTS.—In any case in which there is an adjustment to the information required to be included on a statement filed under paragraph (1) or (2) after such statement has been filed, a supplemental statement under such paragraph shall be filed not later than the date which is 30 days after such adjustment is made.

"(b) REGULATIONS.—The Secretary shall prescribe such regulations as necessary to carry out this section, including regulations relating to—

"(1) the application of this section to property with regard to which no estate tax return is required to be filed, and

"(2) situations in which the surviving joint tenant or other recipient may have better information than the executor regarding the basis or fair market value of the property.".

(2) PENALTY FOR FAILURE TO FILE.—

(A) RETURN.—Section 6724(d)(1) is amended by striking "and" at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting ", and", and by adding at the end the following new subparagraph:

"(D) any statement required to be filed with the Secretary under section 6035.".

(B) STATEMENT.—Section 6724(d)(2) is amended by striking "or" at the end of subparagraph (GG), by striking the period at the end of subparagraph (HH) and inserting ", or", and by adding at the end the following new subparagraph:

"(II) section 6035 (other than a statement described in paragraph (1)(D)).".

(3) CLERICAL AMENDMENT.—The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6034A the following new item:

"Sec. 6035. Basis information to persons acquiring property from decedent.".

(c) PENALTY FOR INCONSISTENT REPORTING.—

(1) IN GENERAL.—Subsection (b) of section 6662 is amended by inserting after paragraph (7) the following new paragraph:

"(8) Any inconsistent estate basis.".

(2) INCONSISTENT BASIS REPORTING.—Section 6662 is amended by adding at the end the following new subsection:

"(k) INCONSISTENT ESTATE BASIS REPORTING.—For purposes of this section, the term 'inconsistent estate basis' means the portion of the understatement which is attributable to in the case of property acquired from a decedent, a basis determination with respect to such property which is not consistent with the value of such property as determined under section 1014(f).".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers for which an estate tax return is filed after the date of the enactment of this Act.

Subtitle F—Employment Tax Modifications

SEC. 1501. MODIFICATIONS OF DEDUCTION FOR SOCIAL SECURITY TAXES IN COMPUTING NET EARNINGS FROM SELF-EMPLOYMENT.

(a) IN GENERAL.—Paragraph (12) of section 1402(a) is amended to read as follows:

"(12) in lieu of the deduction allowable under section 164(f) (relating to deduction for one-half of self-employment taxes), there shall be allowed as a deduction an amount equal to the sum of—

"(A) 7.1064 percent of so much of the individual's net earnings from self-employment for the taxable year (determined without regard to this paragraph) as does not exceed an amount equal to the product of 1.0765 and the excess (if any) of—

"(i) the contribution and benefit base (as determined under section 230 of the Social Security Act) in effect for the calendar year in which the taxable year begins, over

"(ii) the wages (within the meaning of subsection (b)(1)) paid to the individual during such taxable year, plus

"(B) 1.4293 percent of the excess (if any) of the individual's net earnings from self-employment for the taxable year (determined without regard to this paragraph) over the amount of such net earnings taken into account under subparagraph (A);".

(b) COORDINATION WITH BENEFITS.—Paragraph (11) of section 211(a) of the Social Security Act is amended to read as follows:

"(11) in lieu of the deduction allowable under section 164(f) of the Internal Revenue Code of 1986 (relating to deduction for one-half of self-employment taxes), there shall be allowed as a deduction an amount equal to the sum of—

"(A) 7.1064 percent of so much of the individual's net-earnings from self-employment for the taxable year (determined without regard to this paragraph) as does not exceed an amount equal to the product of 1.0765 and the excess (if any) of—

"(i) the contribution and benefit base (as determined under section 230) in effect for the calendar year in which the taxable year begins,

"(ii) the wages (within the meaning of section 1402(b)(1) of the Internal Revenue Code of 1986) paid to the individual during such taxable year, plus

"(B) 1.4293 percent of the excess (if any) of such net earnings over the amount of such net earnings taken into account under subparagraph (A);".

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

SEC. 1502. DETERMINATION OF NET EARNINGS FROM SELF-EMPLOYMENT.

(a) PRO RATA SHARE OF S CORPORATION ITEMS INCLUDED AS NET EARNINGS FROM SELF-EMPLOYMENT.—

(1) IN GENERAL.—Section 1402(a) is amended by inserting ", plus (notwithstanding subsection (c)(2)) his pro rata share of nonseparately computed income or loss (as defined in section 1366(a)(2)) from any trade or business carried on by an S cor-

poration in which he is a shareholder'' before ''; except that'' in the matter preceding paragraph (1).

(2) APPLICATION OF ADJUSTMENTS.—Section 1402(a) is amended by inserting ''and such pro rata share of S corporation nonseparately computed income or loss'' after ''such distributive share of partnership ordinary income or loss'' in the matter preceding paragraph (1).

(3) CONFORMING AMENDMENTS.—Section 211(a) of the Social Security Act is amended in the matter preceding paragraph (1)—

(A) by inserting '', plus (notwithstanding subsection (c)(2)) his pro rata share of nonseparately computed income or loss (as defined in section 1366(a)(2) of the Internal Revenue Code of 1986)from any trade or business carried on by an S corporation in which he is a shareholder'' before ''; except that'', and

(B) by inserting ''and such pro rata share of S corporation nonseparately computed income or loss'' after ''such distributive share of partnership ordinary income or loss''.

(b) REPEAL OF EXCEPTION FOR LIMITED PARTNERS.—

(1) IN GENERAL.—Section 1402(a) is amended by striking paragraph (13).

(2) CONFORMING AMENDMENT.—Section 211(a) of the Social Security Act is amended by striking paragraph (12).

(c) DEDUCTION FOR RETURN ON INVESTED CAPITAL.—

(1) IN GENERAL.—Section 1402 is amended by adding at the end the following new subsection:

"(m) DEDUCTION FOR RETURN ON INVESTED CAPITAL.—

"(1) IN GENERAL.—An individual's net earnings from self-employment shall be reduced (but not below zero) by the lesser of—

"(A) 30 percent of the sum of—

"(i) such individual's pass-through net earnings from self-employment, and

"(ii) such individual's wages (as defined in section 3121) paid with respect to any trade or business carried on by an S corporation in which he is a shareholder, or

"(B) such individual's pass-through net earnings from self-employment.

"(2) PASS-THROUGH NET EARNINGS FROM SELF-EMPLOYMENT.—For purposes of this subsection, the term 'pass-through net earnings from self-employment' means net earnings from self-employment (as computed under subsection (a) without regard to this subsection) determined without regard to any trade or business carried on by the individual.

"(3) 100 PERCENT DEDUCTION WHERE NO MATERIAL PARTICIPATION.—

"(A) IN GENERAL.—If an individual does not have material participation with respect to an entity (as determined under subparagraph (B)), in lieu of the reduction provided under paragraph (1) such individual's net earnings from self-employment shall be reduced (but not below zero) by the sum of—

"(i) the reduction determined under paragraph (1) applied—

"(I) by substituting '100 percent' for '30 percent' in subparagraph (A) thereof, and

"(II) by determining pass-through net earnings from self-employment by only taking into account distributive and pro rata shares from non-participation entities, and

"(III) by only taking into account under subparagraph (A)(ii) thereof wages paid with respect to trades or businesses carried on by S corporations which are non-participation entities, plus

"(ii) the reduction determined under paragraph (1) applied—

"(I) by determining pass-through net earnings from self-employment by not taking into account any distributive or pro rata share from a non-participation entity, and

"(II) by not taking into account under subparagraph (A)(ii) thereof any wages paid with respect to trades or businesses carried on by an S corporation which is a non-participation entity.

"(B) MATERIAL PARTICIPATION.—For purposes of this paragraph—

"(i) IN GENERAL.—An individual does not have material participation with respect to an entity (hereafter referred to as the top-tier entity) if such individual demonstrates to the satisfaction of the Secretary that such individual—

"(I) does not materially participate (as determined under section 469(h) without regard to paragraph (2) thereof) in any activity carried on by such top-tier entity, and

"(II) does not materially participate (as so determined) in any activity carried on by any entity in which such top-tier entity holds (directly or indirectly) any interest.

"(ii) FAMILY ATTRIBUTION.—For purposes of applying clause (i), the participation of any individual in any activity shall also be treated as performed by such individual's spouse and the lineal descendants of such individual and such individual's spouse.

"(C) NON-PARTICIPATION ENTITY.—For purposes of this paragraph, the term 'non-participation entity' means, with respect to any individual, any entity with respect to which such individual does not have material participation (as determined under subparagraph (B)).''.

(2) CONFORMING AMENDMENT.—Section 211 of the Social Security Act is amended by adding at the end the following new subsection:

''(l) DEDUCTION FOR RETURN ON INVESTED CAPITAL.—

''(1) IN GENERAL.—An individual's net earnings from self-employment shall be reduced (but not below zero) by the lesser of—

''(A) 30 percent of the sum of—

''(i) such individual's pass-through net earnings from self-employment, and

''(ii) such individual's wages (as defined in section 209) paid with respect to any trade or business carried on by an S corporation in which he is a shareholder, or

''(B) such individual's pass-through net earnings from self-employment.

''(2) PASS-THROUGH NET EARNINGS FROM SELF-EMPLOYMENT.—For purposes of this subsection, the term 'pass-through net earnings from self-employment' means net earnings from self-employment (as computed under subsection (a) without regard to this subsection) determined without regard to any trade or business carried on by the individual.

"(3) 100 PERCENT DEDUCTION WHERE NO MATERIAL PARTICIPATION.—

"(A) IN GENERAL.—If an individual does not have material participation with respect to an entity (as determined under subparagraph (B)), in lieu of the reduction provided under paragraph (1) such individual's net earnings from self-employment shall be reduced (but not below zero) by the sum of—

"(i) the reduction determined under paragraph (1) applied—

"(I) by substituting '100 percent' for '30 percent' in subparagraph (A) thereof, and

"(II) by determining pass-through net earnings from self-employment by only taking into account distributive and pro rata shares from non-participation entities, and

"(III) by only taking into account under subparagraph (A)(ii) thereof wages paid with respect to trades or businesses carried on by S corporations which are non-participation entities, plus

"(ii) the reduction determined under paragraph (1) applied—

"(I) by determining pass-through net earnings from self-employment by not taking into account any distributive or pro rata share from a non-participation entity, and

"(II) by not taking into account under subparagraph (A)(ii) thereof any wages paid with respect to trades or businesses carried on by an S corporation which is a nonparticipation entity.

"(B) MATERIAL PARTICIPATION.—For purposes of this paragraph—

"(i) IN GENERAL.—An individual does not have material participation with respect to an entity (hereafter referred to as the top-tier entity) if such individual demonstrates to the satisfaction of the Secretary of the Treasury under section 1402(m) of the Internal Revenue Code of 1986 that such individual—

"(I) does not materially participate (as determined under section 469(h) of the Internal Revenue Code of 1986 without regard to paragraph (2) thereof) in any activity carried on by such top-tier entity, and

"(II) does not materially participate (as so determined) in any activity carried on by any entity in which such top-tier entity holds (directly or indirectly) any interest.

"(ii) FAMILY ATTRIBUTION.—For purposes of applying clause (i), the participation of any individual in any activity shall also be treated as performed by such individual's spouse and the lineal descendants of such individual and such individual's spouse.

"(C) NONPARTICIPATION ENTITY.—For purposes of this paragraph, the term 'nonparticipation entity' means, with respect to any individual, any entity with respect to which such individual does not have material participation (as determined under subparagraph (B)).".

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

SEC. 1503. REPEAL OF EXEMPTION FROM FICA TAXES FOR CERTAIN FOREIGN WORKERS.

(a) IN GENERAL.—Subsection (b) of section 3121 is amended by striking paragraphs (1) and (19).

(b) COORDINATION WITH BENEFITS.—Subsection (a) of section 210 of the Social Security Act is amended by striking paragraphs (1) and (19).

(c) RAILROAD RETIREMENT TAX.—Paragraph (1) of section 3231(e) is amended by striking the third sentence.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to remuneration received for services performed after December 31, 2014.

SEC. 1504. REPEAL OF EXEMPTION FROM FICA TAXES FOR CERTAIN STUDENTS.

(a) IN GENERAL.—Paragraph (10) of section 3121(b) is amended—

(1) by inserting ''during any calendar year'' after ''service performed'' in the matter preceding subparagraph (A), and

(2) by inserting '', and the remuneration paid by the employer with respect to such service during such calendar year is less than the dollar amount in

effect under section 213(d) of the Social Security Act (relating to amount required for a quarter of coverage) with respect to such year'' before the semicolon at the end.

(b) COLLEGE CLUBS, FRATERNITIES, AND SORORITIES.—Paragraph (2) of section 3121(b) is amended—

(1) by inserting ''during any calendar year'' after ''domestic service performed'', and

(2) by inserting '', if the remuneration paid by the employer with respect to such service during such calendar year is less than the dollar amount in effect under section 213(d) of the Social Security Act (relating to amount required for a quarter of coverage) with respect to such year'' before the semicolon at the end.

(c) DEDUCTION OF TAX FROM WAGES.—Subsection (a) of section 3102 is amended by inserting ''; and an employer who in any calendar year pays to an employee remuneration to which paragraph (2) or (10) of section 3121(b) is applicable may deduct an amount equivalent to such tax from any such payment of remuneration, even though at the time of payment the total amount of such remuneration paid to the employee by the employer in the calendar year is less than the dollar amount in effect under section 213(d) of the Social Security Act with respect to such year'' before the period at the end.

(d) COORDINATION WITH BENEFITS.—

(1) Paragraph (10) of section 210(a) of the Social Security Act is amended—

(A) by inserting ''during any calendar year'' after ''Service performed'' in the matter preceding subparagraph (A), and

(B) by inserting '', and the remuneration paid by the employer with respect to such service during such calendar year is less than the dollar amount in effect under section 213(d) (relating to amount required for a quarter of coverage) with respect to such year'' before the semicolon at the end.

(2) Paragraph (2) of section 210(a) of the Social Security Act is amended—

(A) by inserting ''during any calendar year'' after ''Domestic service performed'', and

(B) by inserting '', if the remuneration paid by the employer with respect to such service during such calendar year is less than the dollar amount in effect under section 213(d) (relating to amount required for a quarter of coverage) with respect to such year'' before the semicolon at the end.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to remuneration received for services performed after December 31, 2014.

SEC. 1505. OVERRIDE OF TREASURY GUIDANCE PROVIDING THAT CERTAIN EMPLOYER-PROVIDED SUPPLEMENTAL UNEMPLOYMENT BENEFITS ARE NOT SUBJECT TO EMPLOYMENT TAXES.

(a) IN GENERAL.—Effective with respect to amounts paid after December 31, 2014—

(1) Revenue Ruling 56-249,

(2) Revenue Ruling 58-128,

(3) Revenue Ruling 60-330,

(4) so much of the holding of Revenue Ruling 77-347 as relates to Plan (1) and Plan (2),

(5) Revenue Ruling 90-72, and

(6) any other ruling, regulation, or other guidance provided by the Secretary of the Treasury, or his designee, to the extent that such ruling, regulation, or guidance provides that any payment made by an employer by reason of involuntary termination of employment shall not be treated as wages or compensation for purposes of any provision of the Internal Revenue Code of 1986,

shall be null and void. The preceding sentence shall not apply to the extent a ruling, regulation, or other guidance implements a statutory exception to wages or compensation.

(b) REPEAL OF WITHHOLDING REQUIREMENT.—

(1) IN GENERAL.—Section 3402(o)(1) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

(2) CONFORMING AMENDMENTS.—

(A) Section 3402(o)(2) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

(B) Section 3402(o)(5)(A) is amended by striking "paragraph (1)(C)" and inserting "paragraph (1)(B)".

(3) EFFECTIVE DATE.—

(A) IN GENERAL.—The amendments made by this subsection shall apply to amounts paid after December 31, 2013.

(B) NO INFERENCE.—No amendment made by this subsection shall be construed to create any inference with respect to any amounts paid before January 1, 2014.

SEC. 1506. CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATIONS.

(a) EMPLOYMENT TAXES.—Chapter 25 is amended by adding at the end the following new section:

"SEC. 3511. CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATIONS.

''(a) GENERAL RULES.—For purposes of the taxes and other obligations imposed by this subtitle—

''(1) a certified professional employer organization shall be treated as the employer (and no other person shall be treated as the employer) of any work site employee performing services for any customer of such organization, but only with respect to remuneration remitted by such organization to such work site employee, and

''(2) the exemptions, exclusions, definitions, and other rules which are based on type of employer and which would (but for paragraph (1)) apply shall apply with respect to such taxes imposed on such remuneration.

''(b) SUCCESSOR EMPLOYER STATUS.—For purposes of sections 3121(a)(1), 3231(e)(2)(C), and 3306(b)(1)—

''(1) a certified professional employer organization entering into a service contract with a customer with respect to a work site employee shall be treated as a successor employer and the customer shall be treated as a predecessor employer during the term of such service contract, and

"(2) a customer whose service contract with a certified professional employer organization is terminated with respect to a work site employee shall be treated as a successor employer and the certified professional employer organization shall be treated as a predecessor employer.

"(c) LIABILITY OF CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATION.—Solely for purposes of its liability for the taxes and other obligations imposed by this subtitle—

"(1) a certified professional employer organization shall be treated as the employer of any work site employee (other than a person described in subsection (e)) who is performing services covered by a contract meeting the requirements of section 7706(e)(2), but only with respect to remuneration remitted by such organization to such individual, and

"(2) exemptions, exclusions, definitions, and other rules which are based on type of employer and which would (but for paragraph (1)) apply shall apply with respect to such taxes imposed on such remuneration.

"(d) SPECIAL RULE FOR RELATED PARTY.—This section shall not apply in the case of a customer which bears a relationship to a certified professional employer organization described in section 267(b) or 707(b). For purposes of the preceding sentence, such sections shall be applied by substituting '10 percent' for '50 percent'.

"(e) SPECIAL RULE FOR CERTAIN INDIVIDUALS.—For purposes of the taxes imposed under this subtitle, an individual with net earnings from self-employment derived from the customer's trade or business (including a partner in a partnership that is a customer), is not a work site employee with respect to remuneration paid by a certified professional employer organization.

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

(b) CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATION DEFINED.—Chapter 79, as amended by the preceding provisions of this Act, is amended by adding at the end the following new section:

"SEC. 7706. CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATIONS.

"(a) IN GENERAL.—For purposes of this title, the term 'certified professional employer organization' means a person who applies to be treated as a certified professional employer organization for purposes of section 3511 and who has been certified by the Secretary as meeting the requirements of subsection (b).

"(b) CERTIFICATION REQUIREMENTS.—A person meets the requirements of this subsection if such person—

"(1) demonstrates that such person (and any owner, officer, and such other persons as may be specified in regulations) meets such requirements as the Secretary shall establish with respect to tax status, background, experience, business location, and annual financial audits,

"(2) agrees that it will satisfy the bond and independent financial review requirements of subsections (c) on an ongoing basis,

"(3) agrees that it will satisfy such reporting obligations as may be imposed by the Secretary,

"(4) computes its taxable income using an accrual method of accounting unless the Secretary approves another method,

"(5) agrees to verify on such periodic basis as the Secretary may prescribe that it continues to meet the requirements of this subsection, and

"(6) agrees to notify the Secretary in writing, within such time as the of Secretary may prescribe, of any change that materially affects the continuing accuracy of any agreement or information which was previously made or provided.

"(c) BOND AND INDEPENDENT FINANCIAL REVIEW.—

"(1) IN GENERAL.—An organization meets the requirements of this paragraph if such organization—

"(A) meets the bond requirements of paragraph (2), and

"(B) meets the independent financial review requirements of paragraph (3).

"(2) BOND.—

"(A) IN GENERAL.—A certified professional employer organization meets the requirements of this paragraph if the organization has posted a bond for the payment of taxes under subtitle C (in a form acceptable to the Secretary) that is in an amount at least equal to the amount specified in subparagraph (B).

"(B) AMOUNT OF BOND.—

"(i) IN GENERAL.—For the period April 1 of any calendar year through March 31 of the following calendar year, the amount of the bond required is equal to the greater of—

"(I) 5 percent of the organization's liability under section 3511 for taxes imposed by subtitle C during the preceding calendar year (but not to exceed $1,000,000), or

"(II) $50,000.

"(ii) SPECIAL RULE FOR NEWLY CREATED PROFESSIONAL EMPLOYER ORGANIZATIONS.—During the first three full calendar years that an organization is in existence, subclause (I) of clause (i) shall not apply. For this purpose—

"(I) under rules provided by the Secretary, an organization is treated as in existence as of the date that such organization began providing services to any customer which were comparable to the services being provided with respect to work site employees, regardless of whether such date occurred before or after the organization is certified under subsection (b), and

"(II) an organization with liability under section 3511 for taxes imposed by subtitle C during the preceding calendar year in excess of $5,000,000 shall no longer be described in this clause (ii) as of April 1 of the year following such calendar year.

"(3) INDEPENDENT FINANCIAL REVIEW REQUIREMENTS.—A certified professional employer organization meets the requirements of this paragraph if such organization—

"(A) has, as of the most recent audit date, caused to be prepared and provided to the Secretary (in such manner as the Secretary may prescribe) an opinion of an independent certified public accountant as to whether the certified professional employer organization's financial statements are presented fairly in accordance with generally accepted accounting principles, and

"(B) provides to the Secretary an assertion regarding Federal employment tax payments and an examination level attestation on such assertion from an independent certified public accountant not later than the last day of the second month beginning after the end of each calendar quarter. Such assertion shall state that the organization has withheld and made deposits of all taxes imposed by chapters 21, 22, and 24 of the Internal Revenue Code in accordance with regulations imposed by the Secretary for such calendar quarter and such examination level attestation shall state that such assertion is fairly stated, in all material respects.

"(4) CONTROLLED GROUP RULES.—For purposes of the requirements of paragraphs (2) and (3), all professional employer organizations that are members of a controlled group within the meaning of sections 414(b) and (c) shall be treated as a single organization.

"(5) FAILURE TO FILE ASSERTION AND ATTESTATION.—If the certified professional employer organization fails to file the assertion and attestation required by paragraph (3) with respect to any calendar quarter, then the requirements of paragraph (3) with respect to such failure shall be treated as not satisfied for the period beginning on the due date for such attestation.

"(6) AUDIT DATE.—For purposes of paragraph (3)(A), the audit date shall be six months after the completion of the organization's fiscal year.

"(d) SUSPENSION AND REVOCATION AUTHORITY.—The Secretary may suspend or revoke a certification of any person under subsection (b) for purposes of section 3511 if the Secretary determines that such person is not satisfying the agreements or requirements of subsections (b) or (c), or fails to satisfy applicable accounting, reporting, payment, or deposit requirements.

"(e) WORK SITE EMPLOYEE.—For purposes of this title—

"(1) IN GENERAL.—The term 'work site employee' means, with respect to a certified professional employer organization, an individual who—

"(A) performs services for a customer pursuant to a contract which is between such customer and the certified professional employer organization and which meets the requirements of paragraph (2), and

"(B) performs services at a work site meeting the requirements of paragraph (3).

"(2) SERVICE CONTRACT REQUIREMENTS.—A contract meets the requirements of this paragraph with respect to an individual performing services for a customer if such contract is in writing and provides that the certified professional employer organization shall—

"(A) assume responsibility for payment of wages to the individual, without regard to the receipt or adequacy of payment from the customer for such services,

"(B) assume responsibility for reporting, withholding, and paying any applicable taxes under subtitle C, with respect to the individual's wages, without regard to the receipt or adequacy of payment from the customer for such services,

"(C) assume responsibility for any employee benefits which the service contract may require the certified professional employer organization to provide, without regard to the receipt or adequacy of payment from the customer for such services,

"(D) assume responsibility for hiring, firing and for recruiting workers in addition to the customer's responsibility for recruiting, hiring, and firing workers,

"(E) maintain employee records relating to the individual, and

"(F) agree to be treated as a certified professional employer organization for purposes of section 3511 with respect to such individual.

"(3) WORK SITE COVERAGE REQUIREMENT.—The requirements of this paragraph are met with respect to an individual if at least 85 percent of the individuals performing services for the customer at the work site where such individual performs services are subject to 1 or more contracts with the certified professional employer organization which meet the requirements of paragraph (2) (but not taking into account those individuals who are excluded employees within the meaning of section 414(q)(5)).

"(f) DETERMINATION OF EMPLOYMENT STATUS.—Except to the extent necessary for purposes of section 3511, nothing in this section shall be construed to affect the determination of who is an employee or employer for purposes of this title.

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

(c) CONFORMING AMENDMENTS.—

(1) Section 3302 is amended by adding at the end the following new subsection:

"(h) TREATMENT OF CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATIONS.—If a certified professional employer organization (as defined in section 7706), or a customer of such organization, makes a contribution to the State's unemployment fund with respect to a work site employee, such organization shall be eligible for the credits available under this section with respect to such contribution.".

(2) Section 3303(a) is amended—

(A) by striking the period at the end of paragraph (3) and inserting "; and" and by inserting after paragraph (3) the following new paragraph:

"(4) if the taxpayer is a certified professional employer organization (as defined in section 7706) that is treated as the employer under section 3511, such certified professional employer organization is permitted to collect and remit, in accordance with paragraphs (1), (2), and (3), contributions during the taxable year to the State unemployment fund with respect to a work site employee.", and

(B) in the last sentence—

(i) by striking "paragraphs (1), (2), and (3)" and inserting "paragraphs (1), (2), (3), and (4)", and

(ii) by striking "paragraph (1), (2), or (3)" and inserting "paragraph (1), (2), (3), or (4)".

(3) Section 6053(c) is amended by adding at the end the following new paragraph:

"(8) CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATIONS.—For purposes of any report required by this subsection, in the case of a certified professional employer organization that is treated, under section 3511, as the employer of a work site employee, the customer with respect to whom a work site employee performs services shall be the employer for purposes of reporting under this section and the certified professional employer organization shall furnish to the customer any information necessary to complete such reporting no later than such time as the Secretary shall prescribe.".

(d) CLERICAL AMENDMENTS.—

(1) The table of sections for chapter 25 is amended by adding at the end the following new item:

"Sec. 3511. Certified professional employer organizations.".

(2) The table of sections for chapter 79, as amended by the preceding provisions of this Act, is

amended by adding at the end the following new item:

"Sec. 7706. Certified professional employer organizations.".

(e) REPORTING REQUIREMENTS AND OBLIGATIONS.—The Secretary of the Treasury shall develop such reporting and recordkeeping rules, regulations, and procedures as the Secretary determines necessary or appropriate to ensure compliance with the amendments made by this section with respect to entities applying for certification as certified professional employer organizations or entities that have been so certified. Such rules shall be designed in a manner which streamlines, to the extent possible, the application of requirements of such amendments, the exchange of information between a certified professional employer organization and its customers, and the reporting and recordkeeping obligations of the certified professional employer organization.

(f) USER FEES.—Subsection (b) of section 7528 is amended by adding at the end thereof the following new paragraph:

"(4) CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATIONS.—The fee charged under the program in connection with the certification by the Secretary of a professional employer organization under section 7706 shall be an annual fee not to exceed $1,000 per year.".

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply with respect to wages for services performed on or after January 1 of the first calendar year beginning more than 12 months after the date of the enactment of this Act.

(2) CERTIFICATION PROGRAM.—The Secretary of the Treasury shall establish the certification program described in section 7706(b) of the Internal Revenue Code of 1986, as added by this section, not later than 6 months before the effective date determined under paragraph (1).

(h) NO INFERENCE.—Nothing contained in this section or the amendments made by this section shall be construed to create any inference with respect to the determination of who is an employee or employer—

(1) for Federal tax purposes (other than the purposes set forth in the amendments made by this section), or

(2) for purposes of any other provision of law.

Subtitle G—Pensions and Retirement

PART 1—INDIVIDUAL RETIREMENT PLANS

SEC. 1601. ELIMINATION OF INCOME LIMITS ON CONTRIBUTIONS TO ROTH IRAs.

(a) IN GENERAL.—Subsection (c) of section 408A is amended by striking paragraph (3).

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

SEC. 1602. NO NEW CONTRIBUTIONS TO TRADITIONAL IRAs.

(a) IN GENERAL.—

(1) INDIVIDUAL RETIREMENT ACCOUNTS.—Paragraph (1) of section 408(a) is amended by striking ‘‘in excess of the amount’’ and all that follows through the end and inserting the following: ‘‘unless it is a contribution under a simplified employee pension described in subsection (k) not in excess of the amount of the limitation in effect for such taxable year under section 415(c)(1)(A), a contribution to a simple retirement account described in subsection (p) not in excess of the amount described in section 408(p)(8) for such taxable year, or a contribution to a Roth IRA described in section 408A not in excess of the amount in effect for the taxable

year with respect to such individual under section 408A(c)(1)(A)(i).''.

(2) INDIVIDUAL RETIREMENT ANNUITIES.—

(A) IN GENERAL.—Subparagraph (B) of section 408(b)(2) is amended to read as follows:

''(B) any amount paid as a premium on behalf of any individual for a taxable year would meet the requirements of subsection (a)(1) if it were paid as a contribution to an individual retirement account, and''.

(B) ENDOWMENT CONTRACT REQUIREMENT.—The last sentence of section 408(b) is amended by striking ''the dollar amount in effect under section 219(b)(1)(A)'' and inserting ''the amounts described in paragraph (2)(B)''.

(b) CONFORMING AMENDMENTS.—

(1) AMENDMENTS RELATING TO DEDUCTIBILITY.—

(A) Section 219(a) is amended by striking ''equal to the qualified retirement contributions of the individual'' and inserting ''equal to the amounts contributed on behalf of the individual to a plan described in section 501(c)(18)''.

(B) Section 219(b) is amended—

(i) by striking "MAXIMUM AMOUNT OF DEDUCTION" and all that follows through "Notwithstanding paragraph (1), the amount allowable as a deduction" and inserting "MAXIMUM AMOUNT OF DEDUCTION.—The amount allowable as a deduction", and

(ii) by striking paragraphs (4) and (5).

(C) Section 219 is amended by striking subsections (c), (d), (e), (g), and (h) and by redesignating subsection (f) as subsection (c).

(D) Section 219(c), as so redesignated, is amended—

(i) by striking "OTHER DEFINITIONS AND SPECIAL RULES" and inserting "SPECIAL RULES",

(ii) by striking paragraphs (1), (3), (4), (5), (6), (7), and (8), and

(iii) by inserting before paragraph (2) the following new paragraph:

"(1) BENEFICIARY MUST BE UNDER AGE 70½.—No deduction shall be allowed under this section with respect to any amount contributed on behalf of an individual to a plan described in section

501(c)(18) if such individual has attained age 70½ before the close of such individual's taxable year for which the contribution was made.''.

(E) Section 4973(b)(2)(C) is amended by striking ''(determined without regard to section 219(f)(6))''.

(2) AMENDMENTS RELATING TO ROTH IRA CONTRIBUTION LIMITS.—

(A) Section 408A(c), as amended by this Act, is amended—

(i) by striking paragraphs (1) and (2) and inserting the following new paragraphs:

''(1) MAXIMUM CONTRIBUTION.—

''(A) IN GENERAL.—The aggregate amount of contributions for any taxable year to all Roth IRAs maintained for the benefit of an individual shall not exceed the lesser of—

''(i) $5,500, or

''(ii) an amount equal to the compensation includible in the individual's gross income for such taxable year.

''(B) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS 50 OR OLDER.—In the case of an individual who has attained the age of 50 before the close of the taxable year, the amount in effect under subparagraph (A)(i) for such taxable year shall be increased by $1,000.

"(2) SPECIAL RULE FOR CERTAIN MARRIED INDIVIDUALS.—In the case of an individual to whom this paragraph applies for the taxable year, the limitation of paragraph (1) shall be equal to the lesser of—

"(A) the dollar amount in effect under paragraph (1)(A)(i) for the taxable year, or

"(B) the sum of—

"(i) the compensation includible in such individual's gross income for the taxable year, plus

"(ii) the compensation includible in the gross income of such individual's spouse for the taxable year reduced by—

"(I) the amount allowed as a deduction under section 219(a) to such spouse for such taxable year,

"(II) the amount of any contribution on behalf of such spouse to a Roth IRA for such taxable year.

"(3) INDIVIDUALS TO WHOM PARAGRAPH (2) APPLIES.—Paragraph (2) shall apply to any individual if—

"(A) such individual files a joint return for the taxable year, and

"(B) the amount of compensation (if any) includible in such individual's gross income for the taxable year is less than the compensation includible in the gross income of such individual's spouse for the taxable year.".

(ii) by striking "paragraph (2)" in paragraph (6) and inserting "paragraph (1)",

(iii) by striking "the rule of section 219(f)(3) shall apply" in paragraph (7) and inserting the following: "a taxpayer shall be deemed to have made a contribution to a Roth IRA on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof)", and

(iv) by adding at the end the following new paragraphs:

"(8) COMPENSATION.—For purposes of this section, the term 'compensation' includes earned income (as defined in section 401(c)(2)). The term 'compensation' does not include any amount received as a pension or annuity and does not include any amount received as deferred compensation. For purposes of this paragraph, section 401(c)(2) shall be applied as if the term trade or business for purposes of section 1402 included service described in subsection (c)(6) thereof. The term compensation includes any differential wage payment (as defined in section 3401(h)(2)).

"(9) MARRIED INDIVIDUALS.—The limitation under this subsection shall be computed separately for each individual, and this section shall be applied without regard to any community property laws.

"(10) SPECIAL RULE FOR COMPENSATION EARNED BY MEMBERS OF ARMED FORCES FOR SERVICES IN COMBAT ZONE.—For purposes of paragraphs (1)(A)(ii) and (2), the amount of compensation includible in an individual's gross income shall be determined without regard to section 112.".

(B) Section 408A(d)(3)(A) is amended—

(i) by inserting ''and'' at the end of clause (i),

(ii) by striking '', and'' at the end of clause (ii) and inserting a period,

(iii) by striking clause (iii), and

(iv) by striking the last sentence.

(3) AMENDMENTS RELATING TO TRADITIONAL IRAS.—

(A) Section 408(d)(4) is amended—

(i) by striking subparagraph (B) and inserting the following:

''(B) in the case of simplified employee pension, such contribution is not excluded from gross income under section 402(h),''.

(ii) by adding at the end the following: ''This paragraph shall not apply to any contribution to a simple retirement account.''.

(B) Section 408(d)(5)(A) is amended—

(i) by striking ''in effect under section 219(b)(1)(A)'' and inserting ''in effect with respect to the taxpayer for the taxable year under section 408A(c)(1)(A)(i)'',

(ii) by striking ''the amount allowable as a deduction'' and all that follows through ‘‘such excess contribution.’’ and inserting ‘‘the amount that may be contributed under section 408A(c)(1) for the taxable year for which the contribution was made if such distribution is received after the date described in paragraph (4).’’,

(iii) by adding at the end of subparagraph (A) the following: ‘‘This paragraph shall not apply to any contribution to a simple retirement account.’’, and

(iv) by striking the last sentence.

(C) Section 408 is amended by striking subsection (o).

(4) AMENDMENTS RELATING TO SIMPLE RETIREMENT ACCOUNTS.—

(A) Section 408(p)(2)(D)(ii) is amended by striking ‘‘means a plan, contract’’ and all that follows through the period at the end and inserting the following: ‘‘means—

‘‘(I) a plan described in section 401(a) which includes a trust exempt from tax under section 501(a),

‘‘(II) an annuity plan described in section 403(a), "(III) an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A)),

"(IV) an annuity contract described in section 403(b),

"(V) a simplified employee pension (within the meaning of section 408(k)),

"(VI) any simple retirement account (within the meaning of section 408(p)), or

"(VII) a trust described in section 501(c)(18).".

(B) Section 408(p)(8) is amended to read as follows:

"(8) COORDINATION WITH MAXIMUM LIMITATION UNDER SUBSECTION (a).—In the case of a simple retirement account, for purposes of subsections (a)(1) and (b)(2), contributions may not exceed the sum of—

"(A) the dollar amount in effect under paragraph (2)(A)(ii), and

"(B) the employer contribution required under subparagraph (A)(iii) or (B)(i) of paragraph (2), whichever is applicable.".

(5) AMENDMENTS RELATING TO SEPS.—Section 408 is amended by striking subsection (j).

(6) AMENDMENTS RELATING TO EXCISE TAX ON EXCESS CONTRIBUTIONS.—

(A) TRADITIONAL IRAS.—Subsection (b) of section 4973 is amended—

(i) by striking paragraph (1) and inserting the following:

"(1) the amounts contributed for the taxable year to the accounts or for the annuities or bonds (other than any contributions to a Roth IRA) which are not permitted contributions under subsection (a)(1) or (b)(2) of section 408, and".

(ii) in paragraph (2)(C), by striking "the maximum amount allowable" and all that follows through "without regard to section 219(f)(6))" and inserting "the permitted contributions under subsection (a)(1) or (b)(2) of section 408 for the taxable year over the amount contributed", and

(iii) by striking the last sentence and inserting the following: ''Paragraph (2) shall be determined separately with respect to any simplified employee pension (within the meaning of section 408(k)) and any simple retirement account (within the meaning of section 408(p)).''.

(B) ROTH IRAS.—Section 4973(f) is amended by striking ''sections 408A(c)(2) and (c)(3)'' each place it appears and inserting ''section 408A(c)(1)''.

(7) AMENDMENTS RELATING TO SAVER'S CREDIT.—Section 25B(d)(1)(A) is amended to read as follows:

''(A) the amounts—

''(i) paid in cash for the taxable year by or on behalf of an individual to all Roth IRAs maintained for such individual's benefit, and

''(ii) contributed on behalf of the individual to a plan described in section 501(c)(18),''.

(8) OTHER CONFORMING AMENDMENTS.—

(A) Section 86(f)(3) is amended by striking "219(f)(1)" and inserting "section 408A(c)(8)".

(B) Section 132(m)(3) is amended by striking "section 219(g)(5)" and inserting "section 408(p)(2)(D)(ii)".

(C)(i) Section 223(d) is amended—

(I) by redesignating paragraph (4) as paragraph (7),

(II) by inserting after paragraph (3) the following new paragraphs:

"(4) RECONTRIBUTED AMOUNTS.—No deduction shall be allowed under this section with respect to a rollover contribution described in subsection (f)(5).

"(5) TIME WHEN CONTRIBUTIONS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a contribution to a health savings account on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).

"(6) EMPLOYER PAYMENTS.—Except as provided in section 106(d), for purposes of this title, any amount paid by an employer to a health savings account shall be treated as payment of compensation to the employee (other than a self-employed individual who is an employee within the meaning of section 401(c)(1)) includible in his gross income in the taxable year for which the amount was contributed, whether or not a deduction for such payment is allowable under this section to the employee.".

(ii) Section 223(d)(7), as so redesignated, is amended by striking subparagraphs (A), (B), and (C), and redesignating subparagraphs (D) and (E) as subparagraphs (A) and (B), respectively.

(D) Section 409A(d)(2)(A) is amended by striking "subparagraph (A) or (B) of section 219(g)(5) (without regard to subparagraph (A)(iii))" and inserting "section 408(p)(2)(D)(ii) (without regard to subclause (III) thereof)".

(E) Section 501(c)(18)(D)(i) is amended by striking "section 219(b)(3)" and inserting "section 219(a)".

(F) Section 877A(d)(4)(A) is amended by striking "section 219(g)(5)" and inserting "408(p)(2)(D)(ii)".

(G) Section 6652 is amended by striking subsection (g).

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

SEC. 1603. INFLATION ADJUSTMENT FOR ROTH IRA CONTRIBUTIONS.

(a) IN GENERAL.—Subsection (c) of section 408A, as amended by this Act, is amended by adding at the end the following new paragraph:

"(11) COST-OF-LIVING ADJUSTMENT.—In the case of any taxable year beginning after 2023, the dollar amount in paragraph (1)(A)(i) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2022' for 'calendar year 2012' in clause (ii) thereof.

If any increase determined under the preceding sentence is not a multiple of $500, such increase shall be rounded to the next lowest multiple of $500.''.

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

SEC. 1604. REPEAL OF SPECIAL RULE PERMITTING RECHARACTERIZATION OF ROTH IRA CONTRIBUTIONS AS TRADITIONAL IRA CONTRIBUTIONS.

(a) IN GENERAL.—Section 408A(d) is amended by striking paragraph (6) and by redesignating paragraph (7) as paragraph (6).

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

SEC. 1605. REPEAL OF EXCEPTION TO 10-PERCENT PENALTY FOR FIRST HOME PURCHASES.

(a) IN GENERAL.—Section 72(t)(2) is amended by striking subparagraph (F).

(b) ROTH IRAs.—Subparagraph (A) of section 408A(d)(2) is amended by inserting ''or'' at the end of clause (ii), and by striking '', or'' at the end of clause (iii) and inserting a period, and by striking clause (iv).

(c) CONFORMING AMENDMENT.—

(1) Section 72(t) is amended by striking paragraph (8).

(2) Section 408A(d), as amended by this Act, is amended by striking paragraph (5) and by redesignating paragraph (6) as paragraph (5).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2014.

PART 2—EMPLOYER-PROVIDED PLANS

SEC. 1611. TERMINATION FOR NEW SEPs.

(a) IN GENERAL.—

(1) Section 408(k) is amended by redesignating paragraph (9) as paragraph (10) and by inserting after paragraph (8) the following new paragraph:

"(9) TERMINATION.—This subsection shall not apply to years beginning after December 31, 2014. The preceding sentence shall not apply to any simplified employee pension of an employer if such simplified employee pension, and the terms thereof, meet the requirements of this subsection on and after such date.".

(2) Section 402(h) is amended by adding at the end the following new paragraph:

"(4) TERMINATION.—This subsection shall not apply to any simplified employee pension the arrangement for which is established after December 31, 2014.''.

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

SEC. 1612. TERMINATION FOR NEW SIMPLE 401(k)s.

(a) AMENDMENTS RELATING TO SIMPLE 401(k)s.—Section 401(k)(11) is amended by adding at the end the following new subparagraph:

''(E) TERMINATION.—This paragraph shall apply to a cash or deferred arrangement for any plan year beginning after December 31, 2014, only if such arrangement meets the requirements of this paragraph for the last plan year beginning before January 1, 2015, and for each plan year thereafter.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to plan years beginning after December 31, 2014.

SEC. 1613. RULES RELATED TO DESIGNATED ROTH CONTRIBUTIONS.

(a) APPLICABLE RETIREMENT PLANS WHICH PERMIT ELECTIVE DEFERRALS REQUIRED TO ACCEPT DESIGNATED ROTH CONTRIBUTIONS.—

(1) IN GENERAL.—Paragraph (30) of section 401(a) is amended—

(A) by striking "DEFERRALS.—" and all that follows through "In the case of a trust" and inserting the following: "DEFERRALS.—

"(A) IN GENERAL.—In the case of a trust",

(B) by striking "unless the plan provides that" and inserting the following: "unless the plan—

"(i) provides that",

(C) by striking the period at the end and inserting ", and", and

(D) by adding at the end the following:

"(ii) except as provided in subparagraph (B), includes a qualified Roth contribution program (as defined in section 402A(b)).

"(B) EXCEPTION FOR CERTAIN SMALL PLANS.—Subparagraph (A)(ii) shall not apply to any plan of an eligible employer (as defined in section 408(p)(2)(C)).".

(2) CONFORMING AMENDMENTS.—

(A) Section 402A(b)(1) is amended by striking all that follows ‘‘designated Roth contributions’’ and inserting a period.

(B) The heading of section 402A (and the item relating to such section in the table of sections for part I of subchapter D of chapter 1) is amended by striking ‘‘**OPTIONAL TREATMENT OF ELECTIVE DEFERRALS AS ROTH CONTRIBUTIONS**’’ and inserting ‘‘**DESIGNATED ROTH CONTRIBUTIONS**’’.

(b) RESTRICTION ON PORTION OF ELECTIVE DEFERRAL LIMITATION WHICH MAY APPLY TO TRADITIONAL ELECTIVE DEFERRALS.—

(1) IN GENERAL.—Subparagraph (A) of section 402(g)(1) is amended by striking ‘‘the applicable dollar amount’’ and inserting ‘‘50 percent (100 percent in the case of elective deferrals with respect to any plan of an eligible employer (as defined in section 408(p)(2)(C)) of the applicable dollar amount’’.

(2) GOVERNMENT 457(b) PLANS.—

(A) IN GENERAL.—Subsection (b) of section 457 is amended by striking ‘‘and’’ at the end of paragraph (5), by redesignating paragraph (6) as paragraph (7), and by inserting after paragraph (5) the following new paragraph:

"(6) which, in the case of a plan maintained by an employer described in subsection (e)(1)(A), meets requirements similar to the requirements of section 401(a)(30), and".

(B) CONFORMING AMENDMENT.—Section 402(g)(1)(A) is amended by inserting "and section 457(a)(1)" after "(h)(1)(B)".

(C) CROSS-REFERENCE.—For treatment of amounts deferred under an eligible compensation plan of a governmental employer as elective deferrals, see section 1618(b)(1) of this Act.

(3) ROTH ELECTIVE DEFERRALS PERMITTED TO EXTENT OF FULL LIMITATION AMOUNT.—

(A) IN GENERAL.—Section 402A(c)(2)(A) is amended to read as follows:

"(A) the applicable dollar amount in effect under section 402(g)(1)(B) with respect to the employee for the taxable year, over".

(B) CONFORMING AMENDMENTS.—

(i) Section 401(a)(30) is amended—

(I) by inserting "(including contributions treated as elective deferrals under section 402A(a)(1))" after "section 402(g)(3)", and

(II) by striking "section 402(g)(1)(A)" and inserting "section 402(g)(1)(B), and that the amount of elective deferrals not included in gross income may not exceed the amount of the limitation in effect under section 402(g)(1)(A),".

(ii) Section 402(g)(1)(C) is amended—

(I) by striking "In addition to subparagraph (A)" and inserting "For purposes of subparagraph (A)".

(II) by striking "gross income shall not include" and all that follows through "does not exceed" and inserting "the applicable dollar amount in effect for the taxable year under subparagraph (B) shall be increased by".

(iii)(I) So much of section 402(g)(2)(A) as precedes clause (i) is amended to read as follows:

"(A) IN GENERAL.—If an individual's aggregate elective deferrals for a taxable year exceed the applicable dollar amount under paragraph (1) (hereinafter in this paragraph referred to as 'excess total deferrals') or if an individual's aggregate elective deferrals (disregarding designated Roth contributions and simple Roth contributions) exceed the amount excludable under paragraph (1)(A) (hereinafter in this paragraph referred to as 'excess non-Roth deferrals')—''.

(II) Section 402(g)(2)(A)(i) is amended by striking ''such excess deferrals'' and inserting ''such excess total deferrals or excess non-Roth deferrals''.

(III) Section 402(g)(2)(C)(ii) is amended by striking ''the excess deferral'' and inserting ''the excess total deferral or excess non-Roth deferral''.

(IV) Section 402A(d)(2)(C) is amended by striking ''excess deferral'' and inserting ''excess total deferral''.

(V) Section 402A(d)(3) is amended by striking ''excess deferral'' each place it appears and inserting ''excess total deferral''.

(VI) Section 402(g)(1)(A) is amended by striking the second sentence.

(iv) Section 402A(c)(1)(A) is amended by striking ''without regard to this section'' and inserting ''(determined without regard to this section and section 402(g))''.

(4) REPORTING BY EMPLOYERS.—Section 6051(a)(8) is amended by inserting after ''(as defined in section 402A)'' the following: '', and the type of plan under which amounts are deferred or contributed''.

(c) SIMPLE ROTH RETIREMENT ACCOUNTS PERMITTED.—

(1) IN GENERAL.—Subsection (p) of section 408 is amended by adding at the end the following new paragraph:

''(11) ROTH CONTRIBUTIONS.—For purposes of this section—

''(A) IN GENERAL.—If a qualified salary reduction arrangement with respect to a simple retirement account includes a simple Roth contribution program, any simple Roth contribution made by an employer pursuant to such program shall be treated as an elective employer contribution, except that such contribution shall be paid to a Roth IRA and shall not be excludable from gross income.

"(B) SIMPLE ROTH CONTRIBUTION PROGRAM.—The term 'simple Roth contribution program' means a program under which an employee may elect to make simple Roth contributions.

"(C) SIMPLE ROTH CONTRIBUTION.—The term 'simple Roth contribution' means any elective employer contribution which—

"(i) is excludable from gross income of an employee without regard to this paragraph, and

"(ii) the employee designates (at such time and in such manner as the Secretary may prescribe) as not being so excludable.

"(D) LIMITATION.—In the case of an eligible employer which elects the application of this subparagraph with respect to the simple retirement accounts established pursuant to a qualified salary reduction arrangement of such employer, notwithstanding paragraph (2)(E), the applicable dollar amount for purposes of paragraph (2)(A)(ii), shall be equal to—

"(i) in the case of any such account which is not designated as a Roth IRA, 50 percent of the applicable dollar amount in effect under section 402(g)(1)(B) for the taxable year, and

"(ii) in the case of any such account which is designated as a Roth IRA, the excess (if any) of—

"(I) the applicable dollar amount in effect under section 402(g)(1)(B) for the taxable year, over

"(II) the aggregate amount of elective employer contributions to any account described in clause (i).

In the case of a simple retirement account with respect to which the application of this subparagraph is elected, the employer shall not be treated as an eligible employer for purposes of section 402(g)(1)(A), and the applicable dollar amount with respect to any eligible participant (as defined in section 414(v)) shall, notwithstanding section 414(v)(2)(B)(ii), be determined by reference to section 402(g)(1)(C).".

(2) COORDINATION WITH MAXIMUM ROTH LIMITATION.—Subsection (c) of section 408A, as amend-

ed by this Act, is amended by adding at the end the following new paragraph:

"(12) INCREASE IN MAXIMUM LIMITATION FOR SIMPLE ROTH.—In the case of any simple retirement account, subparagraphs (A)(i) and (B) of paragraph (1) shall be applied by disregarding any contributions made to a simple retirement account and any qualified rollover contributions.".

(3) CONFORMING AMENDMENTS.—

(A) Section 408A(f)(1) is amended by striking "or a simple retirement account".

(B) Section 6051(a)(8), as amended by this Act, is amended by inserting after "(as defined in section 402A)" the following: "and simple Roth contributions (as defined in section 408(p)(11)(C))".

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to plan years and taxable years beginning after December 31, 2014.

(2) SUBSECTION (c).—The amendments made by subsection (c) shall apply to calendar years beginning after December 31, 2014.

SEC. 1614. MODIFICATIONS OF REQUIRED DISTRIBUTION RULES FOR PENSION PLANS.

(a) IN GENERAL.—Section 401(a)(9)(B) of the Internal Revenue Code of 1986 is amended to read as follows:

"(B) REQUIRED DISTRIBUTIONS WHERE EMPLOYEE DIES BEFORE ENTIRE INTEREST IS DISTRIBUTED.—

"(i) 5-YEAR GENERAL RULE.—A trust shall not constitute a qualified trust under this section unless the plan provides that, if an employee dies before the distribution of the employee's interest (whether or not such distribution has begun in accordance with subparagraph (A)), the entire interest of the employee will be distributed within 5 years after the death of such employee.

"(ii) EXCEPTION FOR ELIGIBLE DESIGNATED BENEFICIARIES.—If—

"(I) any portion of the employee's interest is payable to (or for the benefit of) an eligible designated beneficiary,

"(II) such portion will be distributed (in accordance with regulations) over the life of such eligible designated beneficiary (or over a period not extending beyond the life expectancy of such beneficiary), and

"(III) such distributions begin not later than 1 year after the date of the employee's death or such later date as the Secretary may by regulations prescribe,

then, for purposes of clause (i) and except as provided in clause (iv) or subparagraph (E)(iii), the portion referred to in subclause (I) shall be treated as distributed on the date on which such distributions begin.

"(iii) SPECIAL RULE FOR SURVIVING SPOUSE OF EMPLOYEE.—If the eligible designated beneficiary referred to in clause (ii)(I) is the surviving spouse of the employee—

"(I) the date on which the distributions are required to begin under clause (ii)(III) shall not be earlier than the date on which the employee would have attained age 70 ½, and

"(II) if the surviving spouse dies before the distributions to such spouse begin, this subparagraph shall be applied as if the surviving spouse were the employee.

"(iv) RULES UPON DEATH OF ELIGIBLE DESIGNATED BENEFICIARY.—If an eligible designated beneficiary dies before the portion of an employee's interest described in clause (ii) is entirely distributed, clause (ii) shall not apply to any beneficiary of such eligible designated beneficiary and the remainder of such portion shall be distributed within 5 years after the death of such beneficiary.".

(b) DEFINITION OF ELIGIBLE DESIGNATED BENEFICIARY.—Section 401(a)(9)(E) of such Code is amended to read as follows:

"(E) DEFINITIONS AND RULES RELATING TO DESIGNATED BENEFICIARY.—For purposes of this paragraph—

"(i) DESIGNATED BENEFICIARY.—The term 'designated beneficiary' means any individual designated as a beneficiary by the employee.

"(ii) ELIGIBLE DESIGNATED BENEFICIARY.—The term 'eligible designated beneficiary' means, with respect to any employee, any designated beneficiary who, as of the date of death of the employee, is—

"(I) the surviving spouse of the employee,

"(II) subject to clause (iii), a child of the employee who has not attained age 22,

"(III) disabled (within the meaning of section 72(m)(7)),

"(IV) a chronically ill individual (within the meaning of section 7702B(c)(2), except that the requirements of subparagraph (A)(i) thereof shall only be treated as met if there is a certification that, as of such date, the period of inability described in such subparagraph with respect to the individual is an indefinite one that is reasonably expected to be lengthy in nature), or

"(V) an individual not described in any of the preceding subparagraphs who is not more than 10 years younger than the employee.

"(iii) SPECIAL RULE FOR CHILDREN.—Subject to subparagraph (F), an individual described in clause (ii)(II) shall cease to be an eligible designated beneficiary as of the date the individual attains age 22 and the requirement of subparagraph (B)(i) shall not be treated as met with respect to any remaining portion of an employee's interest payable to the individual unless such portion is distributed within 5 years after such date.".

(c) REQUIRED BEGINNING DATE.—Section 401(a)(9)(C) of such Code is amended by adding at the end the following new clause:

"(v) EMPLOYEES BECOMING 5-PERCENT OWNERS AFTER AGE 70½.—If an employee becomes a 5-percent owner (as defined in section 416) with respect to a plan year ending in a calendar year after the calendar year in which the employee attains age 70½, then clause (i)(II) shall be applied by substituting the calendar year in which the employee became such an owner for the calendar year in which the employee retires.".

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in this subsection, the amendments made by this section shall apply to distributions with respect to employees who die after December 31, 2014.

(2) REQUIRED BEGINNING DATE.—The amendment made by subsection (c) shall apply to employees becoming a 5-percent owner with respect to plan years ending in calendar years beginning before, on, or after the date of the enactment of this Act, except that—

(A) if, without regard to such amendment, an employee's required beginning date occurs before April 1, 2015, such amendment shall not result in an earlier required beginning date for such employee, and

(B) if, solely by reason of such amendment, an employee's required beginning date would occur before April 1, 2015, such employee's required beginning date shall occur on April 1, 2015.

(3) EXCEPTION FOR CERTAIN BENEFICIARIES.—If a designated beneficiary of an employee who dies before January 1, 2015, dies after December 31, 2014—

(A) the amendments made by this section shall apply to any beneficiary of such designated beneficiary, and

(B) the designated beneficiary shall be treated as an eligible designated beneficiary for purposes of applying section 401(a)(9)(B)(iv) of such Code (as in effect after the amendments made by this section).

(4) EXCEPTION FOR CERTAIN EXISTING ANNUITY CONTRACTS.—

(A) IN GENERAL.—The amendments made by this section shall not apply to a qualified annuity which is a binding annuity contract in effect on the date of the enactment of this Act and at all times thereafter.

(B) QUALIFIED ANNUITY CONTRACT.—For purposes of this paragraph, the term ''qualified annuity'' means, with respect to an employee, an annuity—

(i) which is a commercial annuity (as defined in section 3405(e)(6) of such Code) or payable by a defined benefit plan,

(ii) under which the annuity payments are substantially equal periodic payments (not less frequently than annually) over the lives of such employee and a designated beneficiary (or over a period not extending beyond the life expectancy of such employee or the life expectancy of such employee and a designated beneficiary) in accordance with the regulations described in section 401(a)(9)(A)(ii) of such Code (as in effect before such amendments) and which meets the other requirements of this section 401(a)(9) of such Code (as so in effect) with respect to such payments, and

(iii) with respect to which—

(I) annuity payments to the employee have begun before January 1, 2015, and the employee has made an irrevocable election before such date as to the method and amount of the annuity payments to the employee or any designated beneficiaries, or

(II) if subclause (I) does not apply, the employee has made an irrevocable election before the date of the enactment of this Act as to the method and amount of the annuity payments to the employee or any designated beneficiaries.

SEC. 1615. REDUCTION IN MINIMUM AGE FOR ALLOWABLE IN-SERVICE DISTRIBUTIONS.

(a) IN GENERAL.—Section 401(a)(36) is amended by striking ‘‘age 62’’ and inserting ‘‘age 59 ½’’.

(b) APPLICATION TO GOVERNMENTAL SECTION 457(b) PLANS.—Clause (i) of section 457(d)(1)(A) is amended by inserting ‘‘(in the case of a plan maintained by an employer described in subsection (e)(1)(A), age 59 ½)’’ before the comma at the end.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made after December 31, 2014.

SEC. 1616. MODIFICATION OF RULES GOVERNING HARDSHIP DISTRIBUTIONS.

(a) IN GENERAL.—Not later than 1 year after the date of the enactment of this Act, the Secretary of the Treasury shall modify Treasury Regulation section 1.401(k)–1(d)(3)(iv)(E) to—

(1) delete the 6-month prohibition on contributions imposed by paragraph (2) thereof, and

(2) to make any other modifications necessary to carry out the purposes of section

401(k)(2)(B)(i)(IV) of the Internal Revenue Code of 1986.

(b) EFFECTIVE DATE.—The revised regulations under this section shall apply to plan years beginning after December 31, 2014.

SEC. 1617. EXTENDED ROLLOVER PERIOD FOR THE ROLLOVER OF PLAN LOAN OFFSET AMOUNTS IN CERTAIN CASES.

(a) IN GENERAL.—Paragraph (3) of section 402(c) is amended by adding at the end the following new subparagraph:

"(C) ROLLOVER OF CERTAIN PLAN LOAN OFFSET AMOUNTS.—

"(i) IN GENERAL.—In the case of a qualified plan loan offset amount, paragraph (1) shall not apply to any transfer of such amount made after the due date (including extensions) for filing the return of tax for the taxable year in which such amount is treated as distributed from a qualified employer plan.

"(ii) QUALIFIED PLAN LOAN OFFSET AMOUNT.—For purposes of this subparagraph, the term 'qualified plan loan offset amount' means a plan loan offset amount which is treated as distributed from a qualified employer plan to a participant or beneficiary solely by reason of—

''(I) the termination of the qualified employer plan, or

''(II) the failure to meet the repayment terms of the loan from such plan because of the separation from service of the participant (whether due to layoff, cessation of business, termination of employment, or otherwise).

''(iii) PLAN LOAN OFFSET AMOUNT.—For purposes of clause (ii), the term 'plan loan offset amount' means the amount by which the participant's accrued benefit under the plan is reduced in order to repay a loan from the plan.

''(iv) LIMITATION.—This subparagraph shall not apply to any plan loan offset amount unless such plan loan offset amount relates to a loan to which section 72(p)(1) does not apply by reason of section 72(p)(2).

"(v) QUALIFIED EMPLOYER PLAN.—For purposes of this subsection, the term 'qualified employer plan' has the meaning given such term by section 72(p)(4).".

(b) CONFORMING AMENDMENT.—Subparagraph (A) of section 402(c)(3) is amended by striking "subparagraph (B)" and inserting "subparagraphs (B) and (C)".

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

SEC. 1618. COORDINATION OF CONTRIBUTION LIMITATIONS FOR 403(b) PLANS AND GOVERNMENTAL 457(b) PLANS.

(a) 403(b) PLANS.—

(1) ELIMINATION OF SPECIAL CATCH-UP RULE.—Subsection (g) of section 402 is amended by striking paragraph (7) and by redesignating paragraph (8) as paragraph (7).

(2) ELIMINATION OF POST TERMINATION NONELECTIVE CONTRIBUTIONS.—Subsection (b) of section 403 is amended—

(A) in paragraph (3), by striking "for the most recent period" and all that follows through "more than five years", and

(B) by striking paragraph (4).

(3) ELIMINATION OF INCREASED CONTRIBUTION LIMIT FOR CHURCH PLANS.—Subsection (c) of section 415 is amended by striking paragraph (7).

(4) ELIMINATION OF SEPARATE 415(c) LIMITS.—Paragraph (4) of section 415(k) is amended by striking ‘‘each employer with respect to which the participant has the control required’’ and inserting ‘‘the employer and each employer which is part of a controlled group or under common control’’.

(b) 457(b) PLANS.—

(1) ELIMINATION OF SEPARATE DEFERRAL LIMIT.—Paragraph (3) of section 402(g) is amended by striking ‘‘and’’ at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ‘‘, and’’, and by inserting after subparagraph (D) the following new subparagraph:

‘‘(E) any amount deferred under an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A).’’.

(2) TAKEN INTO ACCOUNT UNDER LIMITATION FOR DEFINED CONTRIBUTION PLANS.—

(A) IN GENERAL.—Paragraph (2) of section 415(a) is amended by striking ‘‘or’’ at the end of subparagraph (B), by inserting ‘‘or’’ at the end of subparagraph (C), and by inserting after subparagraph (C) the following new subparagraph:

"(D) an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A),".

(B) DEFINITION.—Paragraph (1) of section 415(k) is amended by striking "or" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ", or", and by adding at the end the following new subparagraph:

"(E) an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A).".

(3) ELIMINATION OF SPECIAL CATCH-UP RULE.—Paragraph (3) of section 457(b) is amended by inserting ", in the case of an eligible employer described in subsection (e)(1)(B)," after "which".

(c) CONFORMING AMENDMENTS.—

(1) Section 25B(d)(1)(B) is amended—

(A) by striking clause (ii), and

(B) by striking "the amount of—" and all that follows through "any elective deferrals" and inserting the following: "the amount of any elective deferrals".

(2) Section 402A(e)(2) is amended—

(A) by striking ", and" and all that follows and inserting a period, and

(B) by striking "means—" and all that follows through "any elective deferral described in subparagraph (A) or (C)" and inserting the following: "means any elective deferral described in (A), (C), or (E)".

(3) Section 457(e) is amended by striking paragraph (18).

(4) Section 414(u)(2)(C) is amended by inserting "by an eligible employer described in section 457(e)(1)(B)" after "(as defined in section 457(b))".

(5) Section 414(v)(2)(D) is amended—

(A) by striking "clauses (i), (ii), and (iv) of", and

(B) by striking ", and plans described in clause (iii)" and all that follows through the end and inserting a period.

(6) Section 414(v)(3)(A)(i) is amended by striking "(determined without regard to section 457(b)(3))".

(7) Section 414(v)(6)(B) is amended by striking ''subsection (u)(2)(C)'' and inserting ''section 402(g)(3)''.

(8) Section 414(v)(6) is amended by striking subparagraph (C).

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

SEC. 1619. APPLICATION OF 10-PERCENT EARLY DISTRIBUTION TAX TO GOVERNMENTAL 457 PLANS.

(a) IN GENERAL.—Paragraph (1) of section 72(t) is amended by inserting ''or an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A),'' after ''section 4974(c)),''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to withdrawals on or after February 26, 2014.

SEC. 1620. INFLATION ADJUSTMENTS FOR QUALIFIED PLAN BENEFIT AND CONTRIBUTION LIMITATIONS.

(a) DEFINED BENEFIT PLANS.—

(1) CURRENT LIMIT.—Subparagraph (A) of section 415(b)(1) is amended by striking ''$160,000'' and inserting ''$210,000''.

(2) INFLATION ADJUSTMENT.—Section 415(d) is amended—

(A) in paragraph (1)(A)—

(i) by striking ''$160,000'' and inserting ''$210,000'', and

(ii) by inserting ''for calendar years beginning after 2023'' after ''subsection (b)(1)(A)'',

(B) paragraph (3)(A), by striking ''July 1, 2001'' and inserting ''July 1, 2022''.

(b) DEFINED CONTRIBUTION PLANS.—

(1) CURRENT LIMIT.—Subparagraph (A) of section 415(c)(1) is amended by striking ''$40,000'' and inserting ''$52,000''.

(2) INFLATION ADJUSTMENT.—Subsection (d) of section 415 is amended—

(A) in paragraph (1)(C)—

(i) by striking ''$40,000'' and inserting ''$52,000'',

(ii) by inserting ''for calendar years beginning after 2023'' after ''subsection (c)(1)(A)'',

(B) in paragraph (3)(D), by striking ''July 1, 2001'' and inserting ''July 1, 2022''.

(c) CONFORMING AMENDMENTS.—

(1) Section 415(b)(2) is amended by striking "$160,000" each place it appears in subparagraphs (C) and (D) and inserting "$210,000".

(2) Section 415(b) is amended by striking "$160,000" in the fourth sentence of paragraph (7) and inserting "$210,000".

(3) The headings for subparagraphs (C) and (D) of section 415(b)(2) are each amended by striking "$160,000" and inserting "$210,000".

(4) The heading for subparagraph (A) of section 415(d)(3) is amended by striking "$160,000" and inserting "$210,000".

(5) The heading for subparagraph (D) of section 415(d)(3) is amended by striking "$40,000" and inserting "$52,000".

(6) The heading for subparagraph (A) of section 415(d)(4) is amended by striking "$160,000" and inserting "$210,000".

(7) The heading for subparagraph (B) of section 415(d)(4) is amended by striking "$40,000" and inserting "$52,000".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to years ending with or within a calendar year beginning after 2014.

SEC. 1621. INFLATION ADJUSTMENTS FOR QUALIFIED PLAN ELECTIVE DEFERRAL LIMITATIONS.

(a) CURRENT LIMIT.—Subparagraph (B) of section 402(g)(1) is amended by striking ''shall be'' and all that follows and inserting ''is $17,500.''

(b) INFLATION ADJUSTMENT.—Paragraph (4) of section 402(g) is amended—

(1) by striking ''December 31, 2006'' and inserting ''December 31, 2023'',

(2) by striking ''$15,000'' and inserting ''$17,500'', and

(3) by striking ''2005'' and inserting ''2022''.

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

SEC. 1622. INFLATION ADJUSTMENTS FOR SIMPLE RETIREMENT ACCOUNTS.

(a) CURRENT LIMIT.—Clause (i) of section 408(p)(2)(E) is amended by striking ''shall be'' and all that follows and inserting ''shall be $12,000''.

(b) INFLATION ADJUSTMENT.—Clause (ii) of section 408(p)(2)(E) is amended—

(1) by striking ''December 31, 2005'' and inserting ''December 31, 2023'',

(2) by striking ''$10,000'' and inserting ''$12,000'',

(3) by striking ''2004'' and inserting ''2022''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years beginning after 2014.

SEC. 1623. INFLATION ADJUSTMENTS FOR CATCH-UP CONTRIBUTIONS FOR CERTAIN EMPLOYER PLANS.

(a) CURRENT LIMIT.—

(1) PLANS OTHER THAN SIMPLE 401(k) AND SIMPLE RETIREMENT ACCOUNTS.—Clause (i) of section 414(v)(2)(B) is amended by striking ''determined in accordance with the following table'' and all that follows through the period at the end and inserting ''$5,500.''.

(2) SIMPLE 401(k) AND SIMPLE RETIREMENT ACCOUNTS.—Clause (ii) of section 414(v)(2)(B) is amended by striking ''determined in accordance with the following table'' and all that follows through the period at the end and inserting ''$2,500.''.

(b) INFLATION ADJUSTMENT.—Subparagraph (C) of section 414(v)(2) is amended—

(1) by striking ''December 31, 2006'' and inserting ''December 31, 2023'',

(2) by striking ''$5,000'' and inserting ''$5,500'', and

(3) by striking "2005" and inserting "2022".

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

SEC. 1624. INFLATION ADJUSTMENTS FOR GOVERNMENTAL AND TAX-EXEMPT ORGANIZATION PLANS.

(a) CURRENT LIMIT.—Subparagraph (A) of section 457(b)(2) is amended by striking "the applicable dollar amount" and inserting "$17,500".

(b) INFLATION ADJUSTMENT.—Paragraph (15) of section 457(e) is amended—

(1) by striking "APPLICABLE DOLLAR AMOUNT.—" and all that follows through "COST-OF-LIVING ADJUSTMENTS.—In the case of taxable years beginning after December 31, 2006" and inserting the following: "COST-OF-LIVING ADJUSTMENTS.—In the case of taxable years beginning after December 31, 2023",

(2) by striking "the $15,000 amount under subparagraph (A)" and inserting "the $17,500 amount under subsection (b)(2)(A)", and

(3) by striking "2005" and inserting "2022".

(c) CONFORMING AMENDMENT.—Section 457(f)(4)(A) is amended by striking "twice the applicable dollar limit determined under subsection (e)(15)" and inserting "twice the amount in effect under subsection (b)(2)(A)".

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

Subtitle H—Certain Provisions Related to Members of Indian Tribes

SEC. 1701. INDIAN GENERAL WELFARE BENEFITS.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by inserting before section 140 the following new section:

"SEC. 139E. INDIAN GENERAL WELFARE BENEFITS.

"(a) IN GENERAL.—Gross income does not include the value of any Indian general welfare benefit.

"(b) INDIAN GENERAL WELFARE BENEFIT.—For purposes of this section, the term 'Indian general welfare benefit' includes any payment made or services provided to or on behalf of a member of an Indian tribe (or any spouse or dependent of such a member) pursuant to an Indian tribal government program, but only if—

"(1) the program is administered under specified written guidelines and does not discriminate in favor of members of the governing body of the tribe, and

"(2) the benefits provided under such program—

"(A) are available to any tribal member who meets such guidelines,

"(B) are for the promotion of general welfare,

"(C) are not lavish or extravagant, and

"(D) are not compensation for services.

"(c) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) INDIAN TRIBAL GOVERNMENT.—For purposes of this section, the term 'Indian tribal government' includes any agencies or instrumentalities of an Indian tribal government and any Alaska Native regional or village corporation, as defined in, or established pursuant to, the Alaska Native Claims Settlement Act (43 U.S.C. 1601, et seq.).

"(2) DEPENDENT.—The term 'dependent' has the meaning given such term by section 7705, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B).

"(3) LAVISH OR EXTRAVAGANT.—The Secretary shall, in consultation with the Tribal Advisory Committee (as established under section 1702 of the Tax Reform Act of 2014), establish guidelines for what constitutes lavish or extravagant benefits with respect to Indian tribal government programs.

"(4) ESTABLISHMENT OF TRIBAL GOVERNMENT PROGRAM.—A program shall not fail to be treated as an Indian tribal government program solely by reason of the program being established by tribal custom or government practice.".

(b) CONFORMING AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by inserting before the item relating to section 140 the following new item:

"Sec. 139E. Indian general welfare benefits.".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years for which the period of limitation on refund or credit under section 6511 of the Internal Revenue Code of 1986 has not expired.

(2) ONE-YEAR WAIVER OF STATUTE OF LIMITATIONS.—If the period of limitation on a credit or refund resulting from the amendments made by subsection (a) expires before the end of the 1-year period beginning on the date of the enactment of this Act, refund or credit of such overpayment (to the extent attributable to such amendments) may, never-

theless, be made or allowed if claim therefor is filed before the close of such 1-year period.

SEC. 1702. TRIBAL ADVISORY COMMITTEE.

(a) ESTABLISHMENT.—The Secretary of the Treasury shall establish a Tribal Advisory Committee (hereinafter in this subsection referred to as the ''Committee'').

(b) DUTIES.—

(1) IMPLEMENTATION.—The Committee shall advise the Secretary on matters relating to the taxation of Indians.

(2) EDUCATION AND TRAINING.—The Secretary shall, in consultation with the Committee, establish and require—

(A) training and education for internal revenue field agents who administer and enforce internal revenue laws with respect to Indian tribes on Federal Indian law and the Federal Government's unique legal treaty and trust relationship with Indian tribal governments, and

(B) training of such internal revenue field agents, and provision of training and technical assistance to tribal financial officers, about implementation of this Act and the amendments made thereby.

(c) MEMBERSHIP.—

(1) IN GENERAL.—The Committee shall be composed of 7 members appointed as follows:

(A) Three members appointed by the Secretary of the Treasury.

(B) One member appointed by the Chairman, and one member appointed by the Ranking Member, of the Committee on Ways and Means of the House of Representatives.

(C) One member appointed by the Chairman, and one member appointed by the Ranking Member, of the Committee on Finance of the Senate.

(2) TERM.—

(A) IN GENERAL.—Except as provided in subparagraph (B), each member's term shall be 4 years.

(B) INITIAL STAGGERING.—The first appointments made by the Secretary under paragraph (1)(A) shall be for a term of 2 years.

SEC. 1703. OTHER RELIEF FOR INDIAN TRIBES.

(a) WAIVER OF PENALTIES AND INTEREST.—The Secretary of the Treasury may waive any interest and penalties imposed under the Internal Revenue Code of 1986 on any Indian tribal government or member of an Indian tribe (or any spouse or dependent of such a member) to the extent such interest and penalties relate to excluding a payment or benefit from gross income under the general welfare exclusion.

(b) DEFINITIONS.—For purposes of this section—

(1) INDIAN TRIBAL GOVERNMENT.—The term ''Indian tribal government'' shall have the meaning given such term by section 139E of such Code, as added by this Act.

(2) INDIAN TRIBE.—The term ''Indian tribe'' shall have the meaning given such term by section 139D(c)(1) of such Code, as amended by this Act.

TITLE II—ALTERNATIVE MINIMUM TAX REPEAL

SEC. 2001. REPEAL OF ALTERNATIVE MINIMUM TAX.

(a) IN GENERAL.—Subchapter A of chapter 1 is amended by striking part VI (and by striking the item relating to such part in the table of parts for subchapter A).

(b) CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—

(1) LIMITATION.—Subsection (c) of section 53 is amended to read as follows:

''(c) LIMITATION.—The credit allowed under subsection (a) shall not exceed the regular tax liability of the taxpayer reduced by the sum of the credits allowed under subparts A, B, and D.''.

(2) CREDITS TREATED AS REFUNDABLE.—Subsection (e) of section 53 is amended to read as follows:

''(e) PORTION OF CREDIT TREATED AS REFUNDABLE.—

''(1) IN GENERAL.—In the case of any taxable year beginning in 2016, 2017, 2018, or 2019, the limitation under subsection (c) shall be increased by the AMT refundable credit amount for such year.

''(2) AMT REFUNDABLE CREDIT AMOUNT.—For purposes of paragraph (1), the AMT refundable credit amount is an amount equal to 50 percent (100 percent in the case of a taxable year beginning in 2019) of the excess (if any) of—

''(A) the minimum tax credit determined under subsection (b) for the taxable year, over

''(B) the minimum tax credit allowed under subsection (a) for such year (before the application of this subsection for such year).

''(3) CREDIT REFUNDABLE.—For purposes of this title (other than this section), the credit allowed by reason of this subsection shall be treated as a credit allowed under subpart C (and not this subpart).

"(4) SHORT TAXABLE YEARS.—In the case of any taxable year of less than 365 days, the AMT refundable credit amount determined under paragraph (2) with respect to such taxable year shall be the amount which bears the same ratio to such amount determined without regard to this paragraph as the number of days in such taxable year bears to 365.".

(3) TREATMENT OF REFERENCES.—Section 53(d) is amended by adding at the end the following new paragraph:

"(3) AMT TERM REFERENCES.—Any references in this subsection to section 55, 56, or 57 shall be treated as a reference to such section as in effect before its repeal by the Tax Reform Act of 2014.".

(4) REPEAL OF SPECIAL RULES WITH RESPECT TO TREATMENT OF INCENTIVE STOCK OPTIONS.—Section 53 is amended by striking subsection (f).

(c) CONFORMING AMENDMENTS RELATED TO AMT REPEAL.—

(1) Section 2(e), as redesignated by section 1001, is amended by striking "sections 1 and 55" and inserting "section 1".

(2) Section 5(a) is amended by striking paragraph (4).

(3) Section 11(d) is amended by striking "the taxes imposed by subsection (a) and section 55" and inserting "the tax imposed by subsection (a)".

(4) Section 13, as redesignated by title I, is amended by striking paragraph (7).

(5) Section 26(a) is amended to read as follows:

"(a) LIMITATION BASED ON AMOUNT OF TAX.—The aggregate amount of credits allowed by this subpart for the taxable year shall not exceed the taxpayer's regular tax liability for the taxable year.".

(6) Section 26(b)(2) is amended by striking subparagraph (A).

(7) Section 26 is amended by striking subsection (c).

(8) Section 38(c) is amended—

(A) by striking paragraphs (1) through (5),

(B) by redesignating paragraph (6) as paragraph (2),

(C) by inserting before paragraph (2) (as so redesignated) the following new paragraph:

"(1) IN GENERAL.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

"(A) the sum of—

"(i) so much of the regular tax liability as does not exceed $25,000, plus

"(ii) 75 percent of so much of the regular tax liability as exceeds $25,000, over

"(B) the sum of the credits allowable under subparts A and B of this part.", and

(D) by striking "subparagraph (B) of paragraph (1)" each place it appears in paragraph (2) (as so redesignated) and inserting "clauses (i) and (ii) of paragraph (1)(A)".

(9) Section 45D(g)(4)(B) is amended by striking "or for purposes of section 55".

(10) Section 54(c)(1) is amended to read as follows:

"(1) regular tax liability (as defined in section 26(b)), over".

(11) Section 54A(c)(1)(A) is amended to read as follows:

"(A) regular tax liability (as defined in section 26(b)), over".

(12)(A) Section 108(b)(2) is amended by striking subparagraph (C) and by redesignating subparagraphs (D) through (G) as subparagraphs (C) through (F), respectively.

(B) Section 108(b)(3)(B) is amended—

(i) by striking "subparagraphs (B), (C), and (G)" and inserting "subparagraphs (B) and (F) of paragraph (2)", and

(ii) by striking "subparagraph (F)" and inserting "paragraph (2)(E)".

(C) Section 108(b)(4)(B) is amended by striking "subparagraph (A) or (D)" in the heading and text thereof and inserting "subparagraph (A) or (C)".

(D) Section 108(b)(4)(C) is amended by striking "subparagraphs (B) and (G)" in the heading and text thereof and inserting "subparagraphs (B) and (F)".

(13) Section 168(k)(2) is amended by striking subparagraph (G).

(14) Section 173 is amended by striking subsection (b).

(15) Section 174(f) is amended to read as follows:

"(f) CROSS REFERENCE.—For adjustments to basis of property for amounts allowed as deductions as deferred expenses under subsection (b), see section 1016(a)(14).".

(16) Section 263A(c) is amended by striking paragraph (6).

(17) Section 382(l) is amended by striking paragraph (7) and by redesignating paragraph (8) as paragraph (7).

(18) Section 443 (relating to returns for a period of less than 12 months) adjustment in computing minimum tax and tax preferences) is amended by striking subsection (d) and by redesignating subsection (e) as subsection (d).

(19) Section 641(c) is amended—

(A) in paragraph (2) by striking subparagraph (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively, and

(B) in paragraph (3), by striking "paragraph (2)(C)" and inserting "paragraph (2)(B)".

(20) Subsections (b) and (c) of section 666 are each amended by striking "(other than the tax imposed by section 55)".

(21) Section 815(c)(2) is amended by striking the last sentence.

(22) Section 847 is amended—

(A) by striking the last sentence of paragraph (9), and

(B) in paragraph (10), by inserting ''and'' at the end of subparagraph (A), by striking subparagraph (B), and by redesignating subparagraph (C) as subparagraph (B).

(23) Section 848 is amended by striking subsection (i) and by redesignating subsection (j) as subsection (i).

(24) Section 860E(a) is amended by striking paragraph (4).

(25) Section 871(b)(1) is amended by striking ''or 55''.

(26) Section 882(a)(1) is amended by striking ''55,''.

(27) Section 897(a) is amended to read as follows:

''(a) TREATMENT AS EFFECTIVELY CONNECTED WITH UNITED STATES TRADE OR BUSINESS.—For purposes of this title, gain or loss of a nonresident alien individual or a foreign corporation from the disposition of a

United States real property interest shall be taken into account—

"(1) in the case of a nonresident alien individual, under section 871(b)(1), or

"(2) in the case of a foreign corporation, under section 882(a)(1), as if the taxpayer were engaged in a trade or business within the United States during the taxable year and as if such gain or loss were effectively connected with such trade or business.".

(28) Section 904(k) is amended to read as follows:

"(k) CROSS REFERENCE.—For increase of limitation under subsection (a) for taxes paid with respect to amounts received which were included in the gross income of the taxpayer for a prior taxable year as a United States shareholder with respect to a controlled foreign corporation, see section 960(b).".

(29) Section 911(f) is amended to read as follows:

"(f) DETERMINATION OF TAX LIABILITY.—If, for any taxable year, any amount is excluded from gross income of a taxpayer under subsection (a), then, notwithstanding section 1, if such taxpayer has taxable income for such taxable year, the tax imposed by section 1 for such taxable year shall be equal to the excess (if any) of—

"(1) the tax which would be imposed by section 1 for such taxable year if the taxpayer's taxable income were increased by the amount excluded under subsection (a) for such taxable year, over

"(2) the tax which would be imposed by section 1 for such taxable year if the taxpayer's taxable income were equal to the amount excluded under subsection (a) for such taxable year.".

(30) Section 962(a)(1) is amended—

(A) by striking "sections 1 and 55" and inserting "section 1", and

(B) by striking "sections 11 and 55" and inserting "section 11".

(31) Section 1016(a) is amended by striking paragraph (20).

(32) Section 1202(a)(4) is amended by inserting "and" at the end of subparagraph (A), by striking ", and" and inserting a period at the end of subparagraph (B), and by striking subparagraph (C).

(33) Section 1374(b)(3)(B) is amended by striking the last sentence thereof.

(34) Section 1397E(c)(1) is amended to read as follows:

"(1) regular tax liability (as defined in section 26(b), over".

(35) Section 1561(a) is amended—

(A) by inserting ''and'' at the end of paragraph (1), by striking the comma at the end of paragraph (2) and inserting a period, and by striking paragraphs (3) and (4), and

(B) by striking the last sentence.

(36) Section 6015(d)(2)(B) is amended by striking ''or 55''.

(37) Section 6425(c)(1)(A) is amended—

(A) by adding ''plus'' at the end of clause (i), and

(B) by striking clause (ii) and by redesignating clause (iii) as clause (ii).

(38) Section 6654(d)(2) is amended—

(A) in clause (i) of subparagraph (B), by striking '', alternative minimum taxable income,'', and

(B) in clause (i) of subparagraph (C), by striking '', alternative minimum taxable income,''.

(39) Section 6655(e)(2)(B) is amended—

(A) by striking ''The taxable income, alternative minimum taxable income, and modified alternative taxable income shall'' and inserting ''Taxable income shall'', and

(B) by striking clause (iii).

(40) Section 6655(g)(1)(A) is amended—

(A) by striking clause (ii), and

(B) by redesignating clauses (iii) and (iv) as clauses (ii) and (iii), respectively.

(41) Section 6662(e)(3)(C) is amended by striking "the regular tax (as defined in section 55(c))" and inserting "the regular tax liability (as defined in section 26(b))".

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) PRIOR ELECTIONS WITH RESPECT TO CERTAIN TAX PREFERENCES.—So much of the amendment made by subsection (a) as relates to the repeal of section 59(e) of the Internal Revenue Code of 1986 shall apply to amounts paid or incurred after December 31, 2014.

(3) TREATMENT OF NET OPERATING LOSS CARRYBACKS.—For purposes of section 56(d) of the Internal Revenue Code of 1986 (as in effect before its repeal), the amount of any net operating loss which may be carried back from a taxable year be-

ginning after December 31, 2014, to taxable years beginning before January 1, 2015, shall be determined without regard to any adjustments under section 56(d)(2)(A) of such Code (as so in effect).

TITLE III—BUSINESS TAX REFORM

Subtitle A—Tax Rates

SEC. 3001. 25-PERCENT CORPORATE TAX RATE.

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

"(b) AMOUNT OF TAX.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the amount of the tax imposed by subsection (a) shall be 25 percent of taxable income.

"(2) PHASE-IN FOR TAXABLE YEARS BEGINNING BEFORE 2019.—

"(A) IN GENERAL.—In the case of taxable years beginning before 2019, the amount of tax imposed by subsection (a) shall be the sum of—

"(i) 25 percent of so much of the taxable income as does not exceed $75,000, and

"(ii) the applicable percentage of so much of taxable income as exceeds $75,000.

"(B) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the applicable percentage shall be determined in accordance with the following table:

"In the case of taxable years beginning during calendar year	The applicable percentage is:
2015	33%
2016	31%
2017	29%
2018	27%".

(b) CONFORMING AMENDMENTS.—

(1) Paragraphs (2)(B) and (6)(A)(ii) of section 860E(e) are each amended by striking "section 11(b)(1)" and inserting "section 11(b)".

(2)(A) Part I of subchapter P of chapter 1 is amended by striking section 1201 (and by striking the item relating to such section in the table of sections for such part).

(B) Section 13, as amended and redesignated by the preceding provisions of this Act, is amended by striking paragraphs (4) and (6), and by redesignating paragraph (5) as paragraph (4).

(C) Section 527(b) is amended—

(i) by striking paragraph (2), and

(ii) by striking all that precedes "is hereby imposed" and inserting:

"(b) TAX IMPOSED.—A tax".

(D) Sections 594(a) is amended by striking “taxes imposed by section 11 or 1201(a)” and inserting “tax imposed by section 11”.

(E) Section 691(c)(4) is amended by striking “1201,”.

(F) Section 801(a) is amended—

(i) by striking paragraph (2), and

(ii) by striking all that precedes “is hereby imposed” and inserting:

“(a) TAX IMPOSED.—A tax”.

(G) Section 831(d) is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(H) Sections 832(c)(5) and 834(b)(1)(D) are each amended by striking “sec. 1201 and following,”.

(I) Section 852(b)(3)(A) is amended by striking “section 1201(a)” and inserting “section 11(b)”.

(J) Section 857(b)(3) is amended—

(i) by striking subparagraph (A) and redesignating subparagraphs (B) through (F) as subparagraphs (A) through (E), respectively,

(ii) in subparagraph (C), as so redesignated—

(I) by striking ''subparagraph (A)(ii)'' in clause (i) thereof and inserting ''paragraph (1)'',

(II) by striking ''the tax imposed by subparagraph (A)(ii)'' in clauses (ii) and (iv) thereof and inserting ''the tax imposed by paragraph (1) on undistributed capital gain'',

(iii) in subparagraph (E), as so redesignated, by striking ''subparagraph (B) or (D)'' and inserting ''subparagraph (A) or (C)'', and

(iv) by adding at the end the following new subparagraph:

''(F) UNDISTRIBUTED CAPITAL GAIN.—For purposes of this paragraph, the term 'undistributed capital gain' means the excess of the net capital gain over the deduction for dividends paid (as defined in section 561) determined with reference to capital gain dividends only.''.

(K) Section 882(a)(1) is amended by striking '', or 1201(a)''.

(L) Section 1374(b) is amended by striking paragraph (4).

(M) Section 1381(b) is amended by striking ‘‘taxes imposed by section 11 or 1201’’ and inserting ‘‘tax imposed by section 11’’.

(N) Sections 6425(c)(1)(A)(i) and 6655(g)(1)(A)(i) are each amended by striking ‘‘or 1201(a),’’.

(3)(A) Section 1445(e)(1) is amended—

(i) by striking ‘‘35 percent’’ and inserting ‘‘the highest rate of tax in effect for the taxable year under section 11(b)’’, and

(ii) by striking ‘‘of the gain’’ and inserting ‘‘multiplied by the gain’’.

(B) Section 1445(e)(2) is amended by striking ‘‘35 percent of the amount’’ and inserting ‘‘the highest rate of tax in effect for the taxable year under section 11(b) multiplied by the amount’’.

(C) Section 1445(e)(6) is amended—

(i) by striking ‘‘35 percent’’ and inserting ‘‘the highest rate of tax in effect for the taxable year under section 11(b)’’, and

(ii) by striking ‘‘of the amount’’ and inserting ‘‘multiplied by the amount’’.

(D) Section 1446(b)(2)(B) is amended by striking ‘‘section 11(b)(1)’’ and inserting ‘‘section 11(b)’’.

(4) Section 852(b)(1) is amended by striking the last sentence.

(5)(A) Part I of subchapter B of chapter 5 is amended by striking section 1551 (and by striking the item relating to such section in the table of sections for such part).

(B) Section 535(c)(5) is amended to read as follows:

"(5) CROSS REFERENCE.—For limitation on credit provided in paragraph (2) or (3) in the case of certain controlled corporations, see section 1561.".

(6)(A) Section 1561, as amended by the preceding provisions of this Act, is amended to read as follows:

"SEC. 1561. LIMITATION ON ACCUMULATED EARNINGS CREDIT IN THE CASE OF CERTAIN CONTROLLED CORPORATIONS.

"(a) IN GENERAL.—The component members of a controlled group of corporations on a December 31 shall, for their taxable years which include such December 31, be limited for purposes of this subtitle to one $250,000 ($150,000 if any component member is a corporation described in section 535(c)(2)(B)) amount for purposes of computing the accumulated earnings credit under section

535(c)(2) and (3). Such amount shall be divided equally among the component members of such group on such December 31 unless the Secretary prescribes regulations permitting an unequal allocation of such amount.

"(b) CERTAIN SHORT TAXABLE YEARS.—If a corporation has a short taxable year which does not include a December 31 and is a component member of a controlled group of corporations with respect to such taxable year, then for purposes of this subtitle, the amount to be used in computing the accumulated earnings credit under section 535(c)(2) and (3) of such corporation for such taxable year shall be the amount specified in subsection (a) with respect to such group, divided by the number of corporations which are component members of such group on the last day of such taxable year. For purposes of the preceding sentence, section 1563(b) shall be applied as if such last day were substituted for December 31.".

(B) The table of sections for part II of subchapter B of chapter 5 is amended by striking the item relating to section 1561 and inserting the following new item:

"Sec. 1561. Limitation on accumulated earnings credit in the case of certain controlled corporations.".

(7) Section 7874(e)(1)(B) is amended by striking "section 11(b)(1)" and inserting "section 11(b)".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) WITHHOLDING.—The amendments made by subsection (b)(3) shall apply to distributions made after December 31, 2014.

(3) CERTAIN TRANSFERS.—The amendments made by subsection (b)(5) shall apply to transfers made after December 31, 2018.

(4) CERTAIN OTHER AMENDMENTS RELATED TO SINGLE RATE OF TAX.—The amendments made by paragraphs (4) and (6) of subsection (b) shall apply to taxable years beginning after December 31, 2018.

Subtitle B—Reform of Business-related Exclusions and Deductions

SEC. 3101. REVISION OF TREATMENT OF CONTRIBUTIONS TO CAPITAL.

(a) INCLUSION OF CONTRIBUTIONS TO CAPITAL.—Part II of subchapter B of chapter 1 is amended by inserting after section 75 the following new section:

"SEC. 76. CONTRIBUTIONS TO CAPITAL.

"(a) IN GENERAL.—Gross income includes—

"(1) any contribution to the capital of any entity, and

"(2) any premium received by such entity with respect to any option on any interest in such entity.

"(b) TREATMENT OF CONTRIBUTIONS IN EXCHANGE FOR STOCK, ETC.—

"(1) IN GENERAL.—In the case of any contribution of money or other property to a corporation in exchange for stock of such corporation—

"(A) such contribution shall not be treated for purposes of subsection (a) as a contribution to the capital of such corporation (and shall not be includible in the gross income of such corporation), and

"(B) no gain or loss shall be recognized to such corporation upon the issuance of such stock.

"(2) TREATMENT LIMITED TO VALUE OF STOCK.— For purposes of this subsection, a contribution of money or other property to a corporation shall be treated as being in exchange for stock of such corporation only to the extent that the fair market value of such money and other property does not exceed the fair market value of such stock.

"(3) APPLICATION TO ENTITIES OTHER THAN CORPORATIONS.—In the case of any entity other than a corporation, rules similar to the rules of paragraphs (1) and (2) shall apply in the case of any contribution of money or other property to such entity in exchange for any interest in such entity.

"(c) TREASURY STOCK TREATED AS STOCK.—Any reference in this section to stock shall be treated as including a reference to treasury stock.".

(b) BASIS OF CORPORATION IN CONTRIBUTED PROPERTY.—

(1) CONTRIBUTIONS TO CAPITAL.—Subsection (c) of section 362 is amended to read as follows:

"(c) CONTRIBUTIONS TO CAPITAL.—If property other than money is transferred to a corporation as a contribution to the capital of such corporation (within the meaning of section 76) then the basis of such property shall be the greater of—

"(1) the basis determined in the hands of the transferor, increased by the amount of gain recognized to the transferor on such transfer, or

"(2) the amount included in gross income by such corporation under section 76 with respect to such contribution.".

(2) CONTRIBUTIONS IN EXCHANGE FOR STOCK.—Paragraph (2) of section 362(a) is amended by striking ''contribution to capital'' and inserting ''contribution in exchange for stock of such corporation (determined under rules similar to the rules of paragraphs (2) and (3) of section 76(b))''.

(c) CONFORMING AMENDMENTS.—

(1) Section 108(e) is amended by striking paragraph (6).

(2) Part III of subchapter B of chapter 1 is amended by striking section 118 (and by striking the item relating to such section in the table of sections for such part).

(3) The table of sections for part II of subchapter B of chapter 1 is amended by inserting after the item relating to section 75 the following new item:

''Sec. 76. Contributions to capital.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions made, and transactions entered into, after the date of the enactment of this Act.

SEC. 3102. REPEAL OF DEDUCTION FOR LOCAL LOBBYING EXPENSES.

(a) IN GENERAL.—Section 162(e) is amended by striking paragraphs (2) and (7) and by redesignating paragraphs (3), (4), (5), (6), and (8) as paragraphs (2), (3), (4), (5), and (6), respectively.

(b) CONFORMING AMENDMENT.—Section 6033(e)(1)(B)(ii) is amended by striking ''section 162(e)(5)(B)(ii)'' and inserting ''section 162(e)(4)(B)(ii)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

SEC. 3103. EXPENDITURES FOR REPAIRS IN CONNECTION WITH CASUALTY LOSSES.

(a) IN GENERAL.—Section 165, as amended by the preceding provisions of this Act, is amended by inserting after subsection (g) the following new subsection:

''(h) SPECIAL RULE FOR CASUALTY LOSSES.—

''(1) EXPENDITURES FOR REPAIRS IN CONNECTION WITH CASUALTY LOSSES.—If a deduction is allowable under this section for any casualty loss with respect to any property, any expenditure made for any repair of damage to such property in connection with such casualty loss shall be treated as a permanent improvement made to increase the value of such property for purposes of section 263(a)(1).

''(2) ELECTION TO EXPENSE REPAIR IN LIEU OF DEDUCTING CASUALTY LOSS.—If the taxpayer elects the application of this paragraph with respect to any property with respect to which there is a casualty loss, no deduction shall be allowable under this section for the casualty loss with respect to such property and paragraph (1) shall not apply to expenditures made for repair of damage to such property in connection with such casualty loss. Any election under this paragraph shall be made not later than the due date for the return of tax (including extensions) for the taxable year in which the casualty loss occurs and, once made, may be revoked only with the consent of the Secretary.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to losses sustained after December 31, 2014.

SEC. 3104. REFORM OF ACCELERATED COST RECOVERY SYSTEM.

(a) APPLICABLE DEPRECIATION METHOD.—Subsection (b) of section 168 is amended to read as follows:

''(b) APPLICABLE DEPRECIATION METHOD.—For purposes of this section—

''(1) IN GENERAL.—The applicable depreciation method is the straight line method.

''(2) SALVAGE VALUE TREATED AS ZERO.—Salvage value shall be treated as zero.''.

(b) APPLICABLE RECOVERY PERIOD.—Subsection (c) of section 168 is amended to read as follows:

"(c) APPLICABLE RECOVERY PERIOD.—For purposes of this section—

"(1) IN GENERAL.—Except as provided in paragraph (2), the applicable recovery period for any property is the class life of such property.

"(2) SPECIAL RULES FOR DETERMINING CLASS LIFE OF CERTAIN PROPERTY.—

"(A) PROPERTY WITH NO CLASS LIFE.—In the case of personal property with no class life, the recovery period is 12 years.

"(B) CERTAIN HORSES.—In the case of any race horse, and any horse other than a race horse which is more than 12 years old at the time it is placed in service, 3 years.

"(C) SEMI-CONDUCTOR MANUFACTURING EQUIPMENT.—In the case of any semi-conductor manufacturing equipment, the recovery period is 5 years.

"(D) QUALIFIED TECHNOLOGICAL EQUIPMENT.—In the case of any qualified technological equipment, the recovery period is 5 years.

"(E) AUTOMOBILE OR LIGHT GENERAL PURPOSE TRUCK.—In the case of any automobile or light general purpose truck, the recovery period is 5 years.

"(F) QUALIFIED RENT-TO-OWN PROPERTY.—In the case of any qualified rent-to-own property, the recovery period is 9 years.

"(G) CERTAIN TELEPHONE SWITCHING EQUIPMENT.—In the case of any computer-based telephone central office switching equipment, the recovery period is 9.5 years.

"(H) RAILROAD TRACK.—In the case of any railroad track, the recovery period is 10 years.

"(I) SMART ELECTRIC DISTRIBUTION PROPERTY.—In the case of qualified smart electric meters and qualified smart electric grid systems, the recovery period is 10 years.

"(J) AIRPLANES.—In the case of any fixed-wing aircraft (including any fixed-wing airframe or engine), the recovery period is 12 years.

"(K) NATURAL GAS GATHERING LINE.—In the case of any natural gas gathering line, the recovery period is 14 years.

"(L) TREE OR VINE BEARING FRUIT OR NUTS.—In the case of any tree or vine bearing fruit or nuts, the recovery period is 20 years.

"(M) TELEPHONE DISTRIBUTION PLANT.—In the case of any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications by cable, the recovery period is 24 years.

"(N) REAL PROPERTY.—In the case of nonresidential real property, residential rental property, and any section 1245 property (as defined in section 1245(a)(3)) which is real property with no class life, the recovery period is 40 years.

"(O) WATER TREATMENT AND UTILITY PROPERTY.—In the case of any municipal wastewater treatment plant or water utility property, the recovery period is 50 years.

"(P) CLEARING AND GRADING IMPROVEMENTS; TUNNEL BORE.—In the case of any clearing and grading land improvements or tunnel bore, the recovery period is 50 years.

"(Q) TAX-EXEMPT USE PROPERTY SUBJECT TO LEASE.—In the case of any tax-exempt use property subject to a lease, the recovery period used for purposes of paragraph (2) shall (notwithstanding any other subparagraph of this paragraph) in no event be less than 125 percent of the lease term.''.

(c) NEUTRAL COST RECOVERY SYSTEM.—Section 168, as amended by subsection (f), is amended by adding at the end the following new subsection:

''(i) NEUTRAL COST RECOVERY SYSTEM.—

''(1) IN GENERAL.—In the case of any property (to which this section applies) placed in service by the taxpayer in a taxable year for which such taxpayer has elected the application of this subsection, the deduction determined under subsection (a) with respect to such property for any taxable year shall be increased by an amount equal to the product of—

''(A) the modified adjusted basis of such property determined as of the close of such taxable year (determined without regard to this subsection but after taking all other adjustments for such taxable year into account), multiplied by

''(B) the inflation adjustment percentage for the calendar year in which such taxable year begins.

"(2) MODIFIED ADJUSTED BASIS.—For purposes of this subsection, the term 'modified adjusted basis' means, with respect to any property, the adjusted basis which would be determined with respect to such property if this subsection never applied to such property.

"(3) INFLATION ADJUSTMENT PERCENTAGE.—For purposes of this subsection, the term 'inflation adjustment percentage' means, with respect to any calendar year, the cost-of-living adjustment which would be determined under section 1(c)(2)(A) for such calendar year if clause (ii) thereof were applied by substituting 'the C-CPI-U for the calendar year preceding the calendar year referred to in clause (i)' for 'the normalized CPI for calendar year 2012'.

"(4) INCREASE FOR FIRST TAXABLE YEAR REDUCED TO TAKE INTO ACCOUNT PLACED IN SERVICE CONVENTION.—In the case of the taxable year in which any property is placed in service, the increase determined under paragraph (1) with respect to such property shall be equal to—

"(A) in the case of any property to which subsection (d)(3) applies, ⅛ of the amount of such increase determined without regard to this paragraph, and

"(B) in the case of any other property, ½ of the amount of such increase determined without regard to this paragraph.

"(5) OVERALL DEPRECIATION ALLOWANCE NOT TO EXCEED BASIS.—The deduction determined under subsection (a) (after any increase determined under this subsection) with respect to any property for any taxable year shall not exceed the adjusted basis of such property determined as of the beginning of such taxable year.

"(6) CERTAIN PROPERTY EXCLUDED.—Paragraph (1) shall not apply to any specified property used outside the United States or to any property described in subsection (d)(2).

"(7) ELECTION.—

"(A) IN GENERAL.—An election under paragraph (1) for any taxable year shall be made not later than the due date (including extensions) for the return of tax for such taxable year. Such election, once made, shall be irrevocable. Such election shall apply with respect to all property placed in service during the taxable for which made (and shall apply for subsequent taxable years but only with respect to such property).

"(B) TAXPAYER ENGAGED IN MORE THAN ONE BUSINESS.—A taxpayer engaged in more than one trade or business may make separate elections under paragraph (1) with respect to each such trade or business.".

(d) APPLICATION OF MID-MONTH CONVENTION.—

(1) IN GENERAL.—Subparagraphs (A), (B) and (C) of section 168(d)(2) are amended to read as follows:

"(A) real property,

"(B) water treatment and utility property, and

"(C) any clearing and grading land improvements or tunnel bore,".

(2) CONFORMING AMENDMENT.—Clause (i) of section 168(d)(3)(B) is amended to read as follows:

"(i) any property described in paragraph (2),".

(e) DEFINITIONS.—Subsection (e) of section 168 is amended to read as follows:

"(e) DEFINITIONS.—For purposes of this section—

"(1) CLASS LIFE.—

"(A) IN GENERAL.—Except as provided in this section, the term 'class life' means the class life (if any) which would be applicable with respect to any property as of January 1, 1986, under subsection (m) of section 167 (determined without regard to paragraph (4) and as if the taxpayer had made an election under such subsection). The reference in this paragraph to subsection (m) of section 167 shall be treated as a reference to such subsection as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990.

"(B) SECRETARIAL AUTHORITY TO MODIFY REV. PROC. 87-56.—

"(i) IN GENERAL.—The Secretary, through the Office of Tax Analysis and in consultation with the Bureau of Economic Analysis of the Department of Commerce, shall—

"(I) determine, and develop a schedule of, the economic depreciation of the major categories of depreciable property (other than property with a specified class life under subsection (c)(2)) to approximate constant straight-line depreciation, and

"(II) develop recommendations regarding the proper economic depreciation for property with a specified class life under subsection (c)(2).

"(ii) REPORT.—Not later than December 31, 2017, the Secretary shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate—

"(I) the schedule developed under clause (i)(I), and

"(II) the recommendations developed under clause (i)(II).

The schedule developed under clause (i)(I) shall take effect with respect to property placed in service after the later of December 31, 2017, or the end of the first calendar year ending after the calendar year during which such schedule is submitted.

"(2) RESIDENTIAL RENTAL PROPERTY.—

"(A) IN GENERAL.—The term 'residential rental property' means any building or structure if 80 percent or more of the gross rental income from such building or structure for the taxable year is rental income from dwelling units.

"(B) DWELLING UNIT.—For purposes of subparagraph (A)—

"(i) the term 'dwelling unit' means a house or apartment used to provide living accommodations in a building or structure, but does not include a unit in a hotel, motel, or other establishment more than one-half of the units in which are used on a transient basis, and

"(ii) if any portion of the building or structure is occupied by the taxpayer, the gross rental income from such building or structure shall include the rental value of the portion so occupied.

"(3) NONRESIDENTIAL REAL PROPERTY.—The term 'nonresidential real property' means section 1250 property which is not—

"(A) residential rental property, or

"(B) property with a class life of less than 27.5 years.

"(4) WATER UTILITY PROPERTY.—The term 'water utility property' means property—

''(A) which is an integral part of the gathering, treatment, or commercial distribution of water, and

''(B) any municipal sewer.

''(5) QUALIFIED RENT-TO-OWN PROPERTY.—

''(A) IN GENERAL.—The term 'qualified rent-to-own property' means any property held by a rent-to-own dealer for purposes of being subject to a rent-to-own contract.

''(B) RENT-TO-OWN DEALER.—The term 'rent-to-own dealer' means a person that, in the ordinary course of business, regularly enters into rent-to-own contracts with customers for the use of consumer property, if a substantial portion of those contracts terminate and the property is returned to such person before the receipt of all payments required to transfer ownership of the property from such person to the customer.

''(C) CONSUMER PROPERTY.—The term 'consumer property' means tangible personal property of a type generally used within the home for personal use.

''(D) RENT-TO-OWN CONTRACT.—The term 'rent-to-own contract' means any lease for the use of consumer property between a rent-to-own dealer and a customer who is an individual which—

"(i) is titled 'Rent-to-Own Agreement' or 'Lease Agreement with Ownership Option', or uses other similar language,

"(ii) provides for level (or decreasing where no payment is less than 40 percent of the largest payment), regular periodic payments (for a payment period which is a week or month),

"(iii) provides that legal title to such property remains with the rent-to-own dealer until the customer makes all the payments described in clause (ii) or early purchase payments required under the contract to acquire legal title to the item of property,

"(iv) provides a beginning date and a maximum period of time for which the contract may be in effect that does not exceed 156 weeks or 36 months from such beginning date (including renewals or options to extend), "(v) provides for payments within the 156-week or 36-month period that, in the aggregate, generally exceed the normal retail price of the consumer property plus interest,

"(vi) provides for payments under the contract that, in the aggregate, do not exceed $10,000 per item of consumer property,

"(vii) provides that the customer does not have any legal obligation to make all the payments referred to in clause (ii) set forth under the contract, and that at the end of each payment period the customer may either continue to use the consumer property by making the payment for the next payment period or return such property to the rent-to-own dealer in good working order, in which case the customer does not incur any further obligations under the contract and is not entitled to a return of any payments previously made under the contract, and

"(viii) provides that the customer has no right to sell, sublease, mortgage, pawn, pledge, encumber, or otherwise dispose of the consumer property until all the payments stated in the contract have been made.

"(6) QUALIFIED TECHNOLOGICAL EQUIPMENT.—

"(A) IN GENERAL.—The term 'qualified technological equipment' means—

"(i) any computer or peripheral equipment,

"(ii) any high technology telephone station equipment installed on the customer's premises, and

"(iii) any high technology medical equipment.

"(B) COMPUTER OR PERIPHERAL EQUIPMENT DEFINED.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'computer or peripheral equipment' means—

"(I) any computer, and

"(II) any related peripheral equipment.

''(ii) COMPUTER.—The term 'computer' means a programmable electronically activated device which—

''(I) is capable of accepting information, applying prescribed processes to the information, and supplying the results of these processes with or without human intervention, and

''(II) consists of a central processing unit containing extensive storage, logic, arithmetic, and control capabilities.

''(C) HIGH TECHNOLOGY MEDICAL EQUIPMENT.—For purposes of this paragraph, the term 'high technology medical equipment' means any electronic, electromechanical, or computer-based high technology equipment used in the screening, monitoring, observation, diagnosis, or treatment of patients in a laboratory, medical, or hospital environment.

''(7) NATURAL GAS GATHERING LINE.—The term 'natural gas gathering line' means—

''(A) the pipe, equipment, and appurtenances determined to be a gathering line by the Federal Energy Regulatory Commission, and

"(B) the pipe, equipment, and appurtenances used to deliver natural gas from the wellhead or a commonpoint to the point at which such gas first reaches—

"(i) a gas processing plant,

"(ii) an interconnection with a transmission pipeline for which a certificate as an interstate transmission pipeline has been issued by the Federal Energy Regulatory Commission,

"(iii) an interconnection with an intrastate transmission pipeline, or

"(iv) a direct interconnection with a local distribution company, a gas storage facility, or an industrial consumer.

"(8) QUALIFIED SMART ELECTRIC METERS.—

"(A) IN GENERAL.—The term 'qualified smart electric meter' means any smart electric meter which—

"(i) is placed in service by a taxpayer that is a supplier of electric energy or a provider of electric energy services, and "(ii) does not have a class life (determined without regard to subsection (c)) of less than 10 years.

"(B) SMART ELECTRIC METER.—For purposes of subparagraph (A), the term 'smart electric meter' means any time-based meter and related communication equipment which is capable of being used by the taxpayer as part of a system that—

"(i) measures and records electricity usage data on a time-differentiated basis in at least 24 separate time segments per day,

"(ii) provides for the exchange of information between supplier or provider and the customer's electric meter in support of time-based rates or other forms of demand response,

"(iii) provides data to such supplier or provider so that the supplier or provider can provide energy usage information to customers electronically, and

"(iv) provides net metering.

"(9) QUALIFIED SMART ELECTRIC GRID SYSTEMS.—

''(A) IN GENERAL.—The term 'qualified smart electric grid system' means any smart grid property which—

''(i) is used as part of a system for electric distribution grid communications, monitoring, and management placed in service by a taxpayer who is a supplier of electric energy or a provider of electric energy services, and

''(ii) does not have a class life (determined without regard to subsection (c)) of less than 10 years.

''(B) SMART GRID PROPERTY.—For the purposes of subparagraph (A), the term 'smart grid property' means electronics and related equipment that is capable of—

''(i) sensing, collecting, and monitoring data of or from all portions of a utility's electric distribution grid,

''(ii) providing real-time, two-way communications to monitor or manage such grid, and

''(iii) providing real time analysis of and event prediction based upon collected data that can be used to improve electric distribution system reliability, quality, and performance.

"(10) SPECIFIED PROPERTY USED OUTSIDE THE UNITED STATES.—

"(A) IN GENERAL.—The term 'specified property used outside the United States' means—

"(i) any aircraft which is registered by the Administrator of the Federal Aviation Agency and which is operated to and from the United States or is operated under contract with the United States,

"(ii) rolling stock which is used within and without the United States and which is—

"(I) of a rail carrier subject to part A of subtitle IV of title 49, or

"(II) of a United States person (other than a corporation described in subclause (I)) but only if the rolling stock is not leased to one or more foreign persons for periods aggregating more than 12 months in any 24-month period, "(iii) any vessel documented under the laws of the United States which is operated in the foreign or domestic commerce of the United States,

"(iv) any motor vehicle of a United States person (as defined in section 7701(a)(30)) which is operated to and from the United States,

"(v) any container of a United States person which is used in the transportation of property to and from the United States,

"(vi) any property (other than a vessel or an aircraft) of a United States person which is used for the purpose of exploring for, developing, removing, or transporting resources from the outer Continental Shelf (within the meaning of section 2 of the Outer Continental Shelf Lands Act, as amended and supplemented; (43 U.S.C. 1331)),

"(vii) any property which is owned by a domestic corporation or by a United States citizen (other than a citizen entitled to the benefits of section 931 or 933) and which is used predominantly in a possession of the United States by such a corporation, or such a citizen, or by a corporation created or organized in, or under the law of, a possession of the United States,

"(viii) any communications satellite (as defined in section 103(3) of the Communications Satellite Act of 1962, 47 U.S.C. 702(3)), or any interest therein, of a United States person,

"(ix) any cable, or any interest therein, of a domestic corporation engaged in furnishing telephone service to which section 168(e)(10)(C) applies (or of a wholly owned domestic subsidiary of such a corporation), if such cable is part of a submarine cable system which constitutes part of a communication link exclusively between the United States and one or more foreign countries,

"(x) any property (other than a vessel or an aircraft) of a United States person which is used in international or territorial waters within the northern portion of the Western Hemisphere for the purpose of exploring for, developing, removing, or transporting resources from ocean waters or deposits under such waters,

"(xi) any property described in section 48(l)(3)(A)(ix) (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990) which is owned by a United States person and which is used in international or territorial waters to generate energy for use in the United States, and

"(xii) any satellite (not described in clause (viii)) or other spacecraft (or any interest therein) held by a United States person if such satellite or other spacecraft was launched from within the United States.

"(B) NORTHERN PORTION OF THE WESTERN HEMISPHERE.—For purposes of subparagraph (A)(x), the term 'northern portion of the Western Hemisphere' means the area lying west of the 30th meridian west of Greenwich, east of the international dateline, and north of the Equator, but not including any foreign country which is a country of South America.".

(f) CONFORMING AMENDMENTS.—

(1) AMENDMENTS TO SECTION 168.—

(A) Section 168 is amended by striking subsections (g), (j), (k), (l), (m), and (n), and by redesignating subsections (h) and (i) as subsections (g) and (h), respectively.

(B) Section 168(h), as redesignated by subparagraph (A), is amended—

(i) by striking paragraphs (1), (2), (11), (12), (13), (14), (15), (16), (17), (18), and (19) and by redesignating paragraphs (3) through (10) as paragraphs (1) through (8), respectively, and

(ii) by striking ''DEFINITIONS AND'' in the heading thereof.

(C) Section 168(h)(8), as redesignated by subparagraphs (A) and (B), is moved to the end of section 168(e) (as amended by subsection (e)) and redesignated as paragraph (11).

(2) OTHER CONFORMING AMENDMENTS.—

(A) Section 50(b)(4) is amended—

(i) in subparagraph (A)(ii)—

(I) by striking ''section 168(h)(2)(C)'' and inserting ''section 168(g)(2)(C)'',

(II) by striking "section 168(h)(2)(A)(iii)" and inserting "section 168(g)(2)(A)(iii)", and

(III) by striking "section 168(h)(2)(B)" and inserting "section 168(g)(2)(B)",

(ii) in subparagraph (B), by striking "section 168(i)(3)" and inserting "section 168(h)(1)", and

(iii) in subparagraphs (D) and (E), by striking "section 168(h)" each place it appears and inserting "section 168(g)".

(B)(i) Section 50(b)(1)(B) is amended by striking "any property described in section 168(g)(4)" and inserting "any specified property used outside the United States (as defined in section 168(e)(10)".

(ii) Section 865(c)(3)(B) is amended by striking "property of a kind described in section 168(g)(4)" and inserting "specified property used outside the United States (as defined in section 168(e)(10)".

(C) Section 179(e)(2) is amended by inserting "as in effect before its repeal by the

Tax Reform Act of 2014'' after ''section 168(n)(2)''.

(D) Section 179(f), as amended by section 3111, is amended—

(i) by striking paragraph (2), and

(ii) by inserting after paragraph (1) the following new paragraphs:

''(2) QUALIFIED REAL PROPERTY.—For purposes of this subsection, the term 'qualified real property' means qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.

''(3) QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'qualified leasehold improvement property' means any improvement to an interior portion of a building which is nonresidential real property if—

''(i) such improvement is made under or pursuant to a lease (as defined in section 168(g)(7))—

''(I) by the lessee (or any sublessee) of such portion, or

''(II) by the lessor of such portion,

''(ii) such portion is to be occupied exclusively by the lessee (or any sublessee) of such portion, and

''(iii) such improvement is placed in service more than 3 years after the date the building was first placed in service.

''(B) CERTAIN IMPROVEMENTS NOT INCLUDED.—Such term shall not include any improvement for which the expenditure is attributable to—

''(i) the enlargement of the building,

''(ii) any elevator or escalator,

''(iii) any structural component benefitting a common area, and

''(iv) the internal structural framework of the building.

''(C) DEFINITIONS AND SPECIAL RULES.—For purposes of this paragraph—

''(i) COMMITMENT TO LEASE TREATED AS LEASE.—A commitment to enter into a lease shall be treated as a lease, and the parties to such commitment shall be treated as lessor and lessee, respectively.

''(ii) RELATED PERSONS.—A lease between related persons shall not be considered a lease. For purposes of the preceding sentence, the term 'related persons' means—

"(I) members of an affiliated group (as defined in section 1504), and

"(II) persons having a relationship described in subsection (b) of section 267; except that, for purposes of this subclause, the phrase '80 percent or more' shall be substituted for the phrase 'more than 50 percent' each place it appears in such subsection.

"(D) IMPROVEMENTS MADE BY LESSOR.—In the case of an improvement made by the person who was the lessor of such improvement when such improvement was placed in service, such improvement shall be qualified leasehold improvement property (if at all) only so long as such improvement is held by such person.

"(E) EXCEPTION FOR CHANGES IN FORM OF BUSINESS.—Property shall not cease to be qualified leasehold improvement property by reason of—

"(i) death,

"(ii) a transaction to which section 381(a) applies,

"(iii) a mere change in the form of conducting the trade or business so long as the property is retained in such trade or business as qualified leasehold improvement property and the taxpayer retains a substantial interest in such trade or business,

"(iv) the acquisition of such property in an exchange described in section 1031 (as in effect before its repeal by the Tax Reform Act of 2014), 1033, or 1038 to the extent that the basis of such property includes an amount representing the adjusted basis of other property owned by the taxpayer or a related person, or

"(v) the acquisition of such property by the taxpayer in a transaction described in section 332, 351, 361, 721, or 731 (or the acquisition of such property by the taxpayer from the transferee or acquiring corporation in a transaction described in such section), to the extent that the basis of the property in the hands of the taxpayer is determined by reference to its basis in the hands of the transferor or distributor.

"(4) QUALIFIED RESTAURANT PROPERTY.—For purposes of this subsection, the term 'qualified restaurant property' means any section 1250 property which is—

"(A) a building, or

"(B) an improvement to a building,

if more than 50 percent of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals.

"(5) QUALIFIED RETAIL IMPROVEMENT PROPERTY.—

"(A) IN GENERAL.—The term 'qualified retail improvement property' means any improvement to an interior portion of a building which is nonresidential real property if—

"(i) such portion is open to the general public and is used in the retail trade or business of selling tangible personal property to the general public, and

"(ii) such improvement is placed in service more than 3 years after the date the building was first placed in service.

"(B) IMPROVEMENTS MADE BY OWNER.—In the case of an improvement made by the owner of such improvement, such improvement shall be qualified retail improvement property (if at all) only so long as such improvement is held by such owner. Rules similar to the rules under paragraph (3)(E) shall apply for purposes of the preceding sentence.

"(C) CERTAIN IMPROVEMENTS NOT INCLUDED.—Such term shall not include any improvement for which the expenditure is attributable to—

"(i) the enlargement of the building,

"(ii) any elevator or escalator,

"(iii) any structural component benefitting a common area, or

"(iv) the internal structural framework of the building.".

(E) Section 280F(b) is amended—

(i) by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively, and

(ii) by striking ", and the depreciation deduction" and all that follows through "alternative depreciation system)" in paragraph (1) (as redesignated by clause (i)).

(F) Section 280F(d)(4)(A)(iv) is amended by striking "section 168(i)(2)(B)" and inserting "section 168(e)(6)(B)".

(G) Section 312(k)(3) is amended by striking "EXCEPTION FOR TANGIBLE PROPERTY" and all that follows through "For purposes of computing the earnings and profits" and inserting "EXCEPTION FOR CERTAIN TANGIBLE PROPERTY.—For purposes of computing the earnings and profits".

(H) Section 460(c) is amended by striking paragraph (6).

(I) Section 460(d)(2) is amended by striking "section 168(h)(2)(D)" and inserting "section 168(g)(2)(D)".

(J) Section 460(e)(6) is amended by striking "section 168(e)(2)(A)(ii)" each place it appears and inserting "section 168(e)(2)(B)".

(K)(i) Subparagraphs (A) and (C) of section 470(c)(2) are each amended by striking "section 168(h)" and inserting "section 168(g)."

(ii) Section 470(c)(2)(B) is amended by striking "section 168(h)(6)" and inserting "section 168(g)(6)".

(L) Section 512(b)(17)(B)(ii)(I) is amended by striking "section 168(h)(4)(B)" and inserting "section 168(g)(4)(B)".

(M) Section 514(c)(9)(B)(vi)(II) is amended by striking "section 168(h)(6)" and inserting "section 168(g)(6)".

(N) Section 527(i)(3)(D) is amended by striking "section 168(h)(4)" and inserting "section 168(g)(4)".

(O) The second sentence of section 860E(e)(5) is amended by striking "section 168(h)(2)(D)" and inserting "section 168(g)(2)(D)".

(P) Section 1245(a) is amended—

(i) in paragraph (3)(D), by striking "section 168(i)(13)" and inserting "paragraph (4)", and

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

"(4) SINGLE PURPOSE AGRICULTURAL OR HORTICULTURAL STRUCTURE.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'single purpose agricultural or horticultural structure' means—

"(i) a single purpose livestock structure, and

"(ii) a single purpose horticultural structure.

"(B) DEFINITIONS.—For purposes of this paragraph—

"(i) SINGLE PURPOSE LIVESTOCK STRUCTURE.—The term 'single purpose livestock structure' means any enclosure or structure specifically designed, constructed, and used—

"(I) for housing, raising, and feeding a particular type of livestock and their produce, and

"(II) for housing the equipment (including any replacements) necessary for the housing, raising, and feeding referred to in subclause (I).

"(ii) SINGLE PURPOSE HORTICULTURAL STRUCTURE.—The term 'single purpose horticultural structure' means—

"(I) a greenhouse specifically designed, constructed, and used for the commercial production of plants, and

"(II) a structure specifically designed, constructed, and used for the commercial production of mushrooms.

"(iii) STRUCTURES WHICH INCLUDE WORK SPACE.—An enclosure or structure which provides work space shall be treated as a single purpose agricultural or horticultural structure only if such work space is solely for—

"(I) the stocking, caring for, or collecting of livestock or plants (as the case may be) or their produce,

"(II) the maintenance of the enclosure or structure, and

"(III) the maintenance or replacement of the equipment or stock enclosed or housed therein.

"(iv) LIVESTOCK.—The term "livestock" includes poultry.".

(Q) Section 1245(a)(3)(F) is amended to read as follows:

"(F) any clearing and grading land improvements or tunnel bore (within the meaning of section 168(c)(2)(P)).".

(R) Section 6050V(d)(3) is amended by striking "section 168(h)(2)(A)(iv)" and inserting "section 168(g)(2)(A)(iv)".

(S) Section 6211(b)(4)(A) is amended by striking "168(k)(4),".

(T) The second sentence of section 7701(e)(4)(A) is amended by striking "section 168(h)" and inserting "section 168(g)".

(U) Section 7871(f)(3) is amended—

(i) by striking "(as defined in section 168(j)(6))" in subparagraph (B)(ii), and

(ii) by adding at the end the following new subparagraph:

"(D) INDIAN RESERVATION.—For purposes of this paragraph, the term 'Indian reservation' means a reservation, as defined in—

"(i) section 3(d) of the Indian Financing Act of 1974 (25 U.S.C. 1452(d)), or

"(ii) section 4(10) of the Indian Child Welfare Act of 1978 (25 U.S.C. 1903(10)).

For purposes of the preceding sentence, such section 3(d) shall be applied by treating the term 'former Indian reservations in Oklahoma' as including only lands which are within the jurisdictional area of an Oklahoma Indian tribe (as determined by the Secretary of the Interior) and are recognized by such Secretary as eligible for trust land status under 25 CFR Part 151 (as in effect on August 5, 1997).''.

(g) NORMALIZATION REQUIREMENTS.—

(1) IN GENERAL.—A normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168 of the Internal Revenue Code of 1986 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method.

(2) ALTERNATIVE METHOD FOR CERTAIN TAXPAYERS.—If, as of the first day of the taxable year that includes the date of enactment of this Act—

(A) the taxpayer was required by a regulatory agency to compute depreciation for public utility property on the basis of an average life or composite rate method, and

(B) the taxpayer's books and underlying records did not contain the vintage account data necessary to apply the average rate assumption method,

the taxpayer will be treated as using a normalization method of accounting if, with respect to such jurisdiction, the taxpayer uses the alternative method for public utility property that is subject to the regulatory authority of that jurisdiction.

(3) DEFINITIONS.—For purposes of this subsection—

(A) EXCESS TAX RESERVE.—The term "excess tax reserve" means the excess of—

(i) the reserve for deferred taxes (as described in section 168(i)(9)(A)(ii) of the Internal Revenue Code of 1986 as in effect on the day before the date of the enactment of this Act), over

(ii) the amount which would be the balance in such reserve if the amount of such reserve were determined by assuming that the corporate rate reductions provided in this Act were in effect for all prior periods.

(B) AVERAGE RATE ASSUMPTION METHOD.—The average rate assumption method is the method under which the excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in its regulated books of account which gave rise to the reserve for deferred taxes. Under such method, if timing differences for the property reverse, the amount of the adjustment to the reserve for the deferred taxes is calculated by multiplying—

(i) the ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property as of the beginning of the period in question, by

(ii) the amount of the timing differences which reverse during such period.

(C) ALTERNATIVE METHOD.—The ''alternative method'' is the method in which the taxpayer—

(i) computes the excess tax reserve on all public utility property included in the plant account on the basis of the weighted average life or composite rate used to compute depreciation for regulatory purposes, and

(ii) reduces the excess tax reserve ratably over the remaining regulatory life of the property.

(4) TAX INCREASED FOR NORMALIZATION VIOLATION.— If, for any taxable year ending after the date of the enactment of this Act, the taxpayer does not use a normalization method of accounting, the taxpayer's tax for the taxable year shall be increased by the amount by which it reduces its excess tax reserve more rapidly than permitted under a normalization method of accounting.

(h) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2016.

SEC. 3105. REPEAL OF AMORTIZATION OF POLLUTION CONTROL FACILITIES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 169 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 642(f) is amended by striking ''the deductions for amortization provided by sections 169 and 197'' and inserting ''the deduction for amortization provided by section 197''.

(2) Section 1250(b)(3) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''169''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to facilities placed in service after December 31, 2014.

SEC. 3106. NET OPERATING LOSS DEDUCTION.

(a) LIMITATION ON NET OPERATING LOSSES OF CORPORATIONS.—

(1) IN GENERAL.—Section 172(a) is amended to read as follows:

''(a) DEDUCTION ALLOWED.—

''(1) IN GENERAL.—There shall be allowed as a deduction for the taxable year an amount equal to the aggregate of—

''(A) the net operating loss carryovers to such year, plus

''(B) the net operating loss carrybacks to such year.

''(2) LIMITATION IN CASE OF CORPORATIONS.—In the case of a corporation—

"(A) the deduction allowed under paragraph (1) for the taxable year shall not exceed 90 percent of the taxable income for such year computed without regard to the deduction allowable under this section, and

"(B) appropriate adjustments in the application of subsection (b)(2) shall be made to take into account the limitation of subparagraph (A).

"(3) NET OPERATING LOSS DEDUCTION DEFINED.—For purposes of this subtitle, the term 'net operating loss deduction' means the deduction allowed by this subsection.".

(2) COORDINATION WITH LIMITATION ON DEDUCTION FOR CHARITABLE CONTRIBUTIONS.—

(A) IN GENERAL.—Section 170(b)(2)(C) is amended by redesignating clauses (iv) and (v) as clauses (v) and (vi), respectively, and by inserting after clause (iii) the following new clause:

"(iv) the limitation imposed under section 172(a)(2)(A),".

(B) LIFE INSURANCE COMPANIES.—Section 805(b)(2)(A) is amended by redesignating clauses (ii) through (v) as clauses (iii) through (vi), respectively, and by inserting after clause (i) the following new clause:

"(ii) the limitation imposed under section 172(a)(2)(A),".

(b) REPEAL OF SPECIAL CARRYBACK PROVISIONS.—

(1) IN GENERAL.—Section 172(b)(1) is amended by striking subparagraphs (C), (D), (E), (G), (H), (I), and (J) and by redesignating subparagraph (F) as subparagraph (C).

(2) CONFORMING AMENDMENTS.—

(A) Section 172(b)(1)(C), as redesignated by paragraph (1), is amended—

(i) in clause (ii), by striking the last sentence, and

(ii) in clause (iv), by striking "in a manner similar to the manner in which a specified liability loss is treated" and inserting "as a separate net operating loss for such taxable year to be taken into account after the remaining portion of the net operating loss for such taxable year".

(B) Section 172 is amended by striking subsections (f), (g), (h), (i), and (j) and by redesignating subsection (k) as subsection (f).

(c) EFFECTIVE DATES.—

(1) LIMITATION ON NOLS OF CORPORATIONS.—The amendments made by subsection (a) shall apply to—

(A) taxable years beginning after December 31, 2014, and

(B) to carrybacks of losses arising in taxable years beginning after December 31, 2014, to taxable years beginning on or before such date.

(2) REPEAL OF SPECIAL CARRYBACKS.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendments made by subsection (b) shall apply to losses arising in taxable years beginning after December 31, 2014.

(B) EXPIRED PROVISIONS.—So much of the amendments made by subsection (b) as relate to striking subparagraphs (D), (H), (I), and (J) of section 172(b)(1) of the Internal Revenue Code of 1986 shall take effect on the date of the enactment of this Act.

SEC. 3107. CIRCULATION EXPENDITURES.

(a) IN GENERAL.—Section 173 is amended to read as follows:

"SEC. 173. CIRCULATION EXPENDITURES.

''(a) IN GENERAL.—In the case of a taxpayer's specified circulation expenditures—

''(1) except as provided in paragraph (2), no deduction shall be allowed for such expenditures, and

''(2) the taxpayer shall—

''(A) charge such expenditures to capital account, and

''(B) be allowed an amortization deduction of such expenditures ratably over the 36-month period beginning with the midpoint of the month in which such expenditures are paid or incurred.

''(b) SPECIFIED CIRCULATION EXPENDITURES.—For purposes of this section, the term 'specified circulation expenditures' means all expenditures (other than expenditures for the purchase of land or depreciable property or for the acquisition of circulation through the purchase of any part of the business of another publisher of a newspaper, magazine, or other periodical) to establish, maintain, or increase the circulation of a newspaper, magazine, or other periodical.

''(c) TREATMENT UPON ABANDONMENT.—If any property with respect to which specified circulation expenditures are paid or incurred is disposed, retired, or abandoned during the period during which such expenditures are allowed as an amortization deduction under this section, no deduction shall be allowed with respect to such expenditures on account of such disposition, retirement, or abandonment and such amortization deduction shall continue with respect to such expenditures.

"(d) PHASE-IN FOR TAXABLE YEARS BEGINNING BEFORE 2019.—

"(1) IN GENERAL.—In the case of specified circulation expenditures paid or incurred in taxable years beginning before 2019—

"(A) notwithstanding subsection (a), the applicable percentage of such expenditures shall be allowed as a deduction for the taxable year in which paid or incurred, and

"(B) subsection (a) shall apply to the remainder of such expenditures.

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be determined in accordance with the following table:

"In the case of taxable years beginning in:	The applicable percentage is:
2016	75%
2017	50%
2018	25%

"(3) ELECTION OUT OF PHASE-IN.—The taxpayer may elect, at such time and in such form and manner as the Secretary shall prescribe, for paragraph (1) not to apply for all taxable years beginning before 2019. Such election, once made, shall be irrevocable.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2015.

SEC. 3108. AMORTIZATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES.

(a) IN GENERAL.—Section 174 is amended to read as follows:

''SEC. 174. AMORTIZATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES.

''(a) IN GENERAL.—In the case of a taxpayer's specified research or experimental expenditures for any taxable year—

''(1) except as provided in paragraph (2), no deduction shall be allowed for such expenditures, and

''(2) the taxpayer shall—

''(A) charge such expenditures to capital account, and

''(B) be allowed an amortization deduction of such expenditures ratably over the 5-year period (15-year period in the case of any specified research or experimental expenditures which are attributable to foreign research (within the meaning of section 41(d)(4)(F))) beginning with the midpoint of the taxable year in which such expenditures are paid or incurred.

"(b) SPECIFIED RESEARCH OR EXPERIMENTAL EXPENDITURES.—For purposes of this section, the term 'specified research or experimental expenditures' means, with respect to any taxable year, research or experimental expenditures which are paid or incurred by the taxpayer during such taxable year in connection with the taxpayer's trade or business.

"(c) SPECIAL RULES.—

"(1) LAND AND OTHER PROPERTY.—This section shall not apply to any expenditure for the acquisition or improvement of land, or for the acquisition or improvement of property to be used in connection with the research or experimentation and of a character which is subject to the allowance under section 167 (relating to allowance for depreciation, etc.) or section 611 (relating to allowance for depletion); but for purposes of this section allowances under section 167, and allowances under section 611, shall be considered as expenditures.

"(2) EXPLORATION EXPENDITURES.—This section shall not apply to any expenditure paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral (including oil and gas).

"(3) SOFTWARE DEVELOPMENT.—For purposes of this section, any amount paid or incurred in connection with the development of any software shall be treated as a research or experimental expenditure.

"(d) TREATMENT UPON DISPOSITION, RETIREMENT, OR ABANDONMENT.—If any property with respect to which specified research or experimental expenditures are paid or incurred is disposed, retired, or abandoned during the period during which such expenditures are allowed as an amortization deduction under this section, no deduction shall be allowed with respect to such expenditures on account of such disposition, retirement, or abandonment and such amortization deduction shall continue with respect to such expenditures.

"(e) SPECIAL RULES FOR EXPENDITURES FOR DOMESTIC RESEARCH DURING TAXABLE YEARS BEGINNING BEFORE 2021.—

"(1) IN GENERAL.—In the case of domestic research or experimental expenditures paid or incurred during any taxable year beginning before 2021—

"(A) notwithstanding subsection (a), the applicable percentage of such expenditures shall be allowed as a deduction in the taxable year in which paid or incurred, and

"(B) subsection (a) shall apply to the remainder of such expenditures by substituting the applicable period for 'the 5-year period'.

"(2) DOMESTIC RESEARCH OR EXPERIMENTAL EXPENDITURES.—For purposes of this subsection, the term 'domestic research or experimental expenditures' means any expenditures—

"(A) to which subsection (a) applies (determined without regard to this subsection), and

"(B) which are not attributable to foreign research (within the meaning of section 41(d)(4)(F)).

"(3) APPLICABLE PERCENTAGE.—For purposes of this subsection, the applicable percentage shall be determined in accordance with the following table:

"In the case of taxable years beginning in:	The applicable percentage is:
2015	60%
2016 or 2017	40%
2018, 2019, or 2020	20%

"(4) APPLICABLE PERIOD.—For purposes of this subsection, the applicable period shall be determined in accordance with the following table:

"In the case of taxable years beginning in:	The applicable period is the:
2015	2-year period
2016 or 2017	3-year period
2018, 2019, or 2020	4-year period

"(5) ELECTION OUT OF PHASE-IN.—The taxpayer may elect, at such time and in such form and manner as the Secretary shall prescribe, for paragraph (1) not to apply to all domestic research or experimental expenditures of the taxpayer for any taxable years beginning before 2021. Such election, once made, shall be irrevocable.".

(b) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by striking the item relating to section 174 and inserting the following new item:

"Sec. 174. Amortization of research and experimental expenditures.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3109. REPEAL OF DEDUCTIONS FOR SOIL AND WATER CONSERVATION EXPENDITURES AND ENDANGERED SPECIES RECOVERY EXPENDITURES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 175 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—Paragraphs (1)(A) and (2) of section 1252(a) are each amended by striking ''relating to soil and water conservation expenditures'' and inserting ''as in effect before its repeal by the Tax Reform Act of 2014''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

(2) ASSESSMENTS TREATED AS PAID OR INCURRED.—In the case of any amount paid or incurred before December 31, 2014, and treated as paid or incurred in any succeeding taxable year by reason of section 175(f) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of this Act), paragraph (1) shall not apply.

SEC. 3110. AMORTIZATION OF CERTAIN ADVERTISING EXPENSES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by inserting after section 176 the following new section:

"SEC. 177. AMORTIZATION OF CERTAIN ADVERTISING EXPENSES.

"(a) IN GENERAL.—In the case of a taxpayer's amortizable advertising expenses for any taxable year—

"(1) except as provided in paragraph (2), no deduction shall be allowed for such expenses, and

"(2) the taxpayer shall—

"(A) charge such expenses to capital account, and

"(B) be allowed an amortization deduction of such expenses ratably over the 10-year period beginning with the midpoint of the taxable year in which such expenses are paid or incurred.

"(b) EXEMPTION.—

"(1) IN GENERAL.—So much of the taxpayer's otherwise deductible advertising expenses for any taxable year as do not exceed $1,000,000 shall not be taken into account in determining such taxpayer's amortizable advertising expenses for such taxable year.

"(2) PHASEOUT OF EXEMPTION.—In the case of a taxpayer whose otherwise deductible advertising expenses for any taxable year exceed $1,500,000, the dollar amount in effect under paragraph (1) with respect to such taxpayer for such taxable year shall be reduced (but not below zero) by twice such excess.

"(3) AGGREGATION; SHORT TAXABLE YEARS.—For purposes of this subsection, rules similar to the rules of paragraphs (2) and (3)(B) of section 448(b) shall apply.

"(c) AMORTIZABLE ADVERTISING EXPENSES.—

"(1) IN GENERAL.—For purposes of this section, the term 'amortizable advertising expenses' means, with respect to any taxpayer for any taxable year, the applicable percentage of the taxpayer's otherwise deductible advertising expenses for such taxable year.

"(2) APPLICABLE PERCENTAGE.—For purposes of this subsection, the term 'applicable percentage' means (with respect to the taxpayer's otherwise deductible advertising expenses for any taxable year) the percentage determined in accordance with the following table:

"For taxable years beginning in:	The applicable percentage is:
2015	20 percent
2016	30 percent
2017	40 percent
2018 or thereafter	50 percent.

"(3) ELECTION OUT OF PHASE-IN.—The taxpayer may elect, at such time and in such form and manner as the Secretary shall prescribe, to treat the applicable percentage as being equal to 50 percent for all taxable years beginning before 2018. Such election, once made, shall be irrevocable.

''(d) OTHERWISE DEDUCTIBLE ADVERTISING EXPENSES.—For purposes of this section—

''(1) IN GENERAL.—The term 'otherwise deductible advertising expenses' means, with respect to any taxpayer for any taxable year, the deductions which would (but for this section) be allowable to the taxpayer for such taxable year with respect to specified advertising expenses.

''(2) SPECIFIED ADVERTISING EXPENSES.—The term 'specified advertising expenses' means any amount paid or incurred for the development, production, or placement (including any form of transmission, broadcast, publication, display, or distribution) of any communication to the general public (or portions thereof) which is intended to promote the taxpayer or a trade or business of the taxpayer (or any service, facility, or product provided pursuant to such trade or business).

''(3) EXCEPTIONS.—The term 'specified advertising expenses' shall not include—

"(A) CERTAIN WAGES.—Wages paid or incurred to any employee unless the services rendered by such employee are primarily related to—

"(i) an activity described in paragraph (2) (other than the direct sale of goods or services to customers of the taxpayer), or

"(ii) the direct supervision of employees rendering services primarily related to such an activity.

"(B) DEPRECIATION OF TANGIBLE PROPERTY.—In the case of any tangible property, any amount for which a deduction is allowed for depreciation under section 167.

"(C) AMORTIZABLE SECTION 197 INTANGIBLES.—Any amount for which a deduction is allowed for amortization under section 197.

"(D) DISCOUNTS, ETC.—Any discount, coupon, rebate, slotting allowance, sample, prize, loyalty reward point, or any item determined by the Secretary to be similar to any of the foregoing (other than any amount paid or incurred to promote any of the foregoing).

"(E) CERTAIN COMMUNICATIONS ON TAXPAYER'S PROPERTY.—Any amount paid or incurred with respect to any communication appearing on tangible property of the taxpayer which—

"(i) is of a character subject to the allowance for depreciation, or

"(ii) is properly treated as inventory for purposes of section 471.

"(F) CREATION OF LOGOS, TRADE NAMES, ETC.—Any amount paid or incurred for the creation of any logo, trademark, or trade name.

"(G) PACKAGE DESIGN.—Any amount to which section 263A(i) applies.

"(H) MARKETING RESEARCH.—Any amount paid or incurred for marketing research.

"(I) BUSINESS MEALS.—Any amount paid or incurred for meals.

"(J) QUALIFIED SPONSORSHIP PAYMENTS.—Any amount paid or incurred as a qualified sponsorship payment (as defined in section 513(i)(2)) with respect to an organization subject to the tax imposed by section 511.

"(e) TREATMENT UPON ABANDONMENT.—If any property with respect to which specified advertising expenses are paid or incurred is disposed, retired, or abandoned during the period during which such expenses are allowed as an amortization deduction under this section, no deduction shall be allowed with respect such expenses on account of such disposition, retirement, or abandonment and such amortization deduction shall continue with respect to such expenses.

"(f) INFLATION ADJUSTMENT.—

"(1) IN GENERAL.—In the case of any taxable year beginning after 2015, each of the dollar amounts in subsection (b) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2014' for 'calendar year 2012' in clause (ii) thereof.

"(2) ROUNDING.—The amount of any increase under paragraph (1) shall be rounded to the nearest multiple of $10,000.".

(b) CAPITALIZATION OF PACKAGE DESIGN EXPENSES.—Section 263A is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

"(i) CAPITALIZATION OF PACKAGE DESIGN EXPENSES.—For purposes of this section, in the case of any amount paid or incurred for package design, such amounts shall be treated as an indirect cost described in subsection (a)(2)(B) with respect to packages which utilize such design.".

(c) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by inserting after the item relating to section 176 the following new item:

"Sec. 177. Amortization of certain advertising expenses.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3111. EXPENSING CERTAIN DEPRECIABLE BUSINESS ASSETS FOR SMALL BUSINESS.

(a) IN GENERAL.—

(1) DOLLAR LIMITATION.—Paragraph (1) of section 179(b) is amended by striking "shall not exceed—" and all that follows and inserting "shall not exceed $250,000.".

(2) REDUCTION IN LIMITATION.—Paragraph (2) of section 179(b) is amended by striking "exceeds—" and all that follows and inserting "exceeds $800,000.".

(b) COMPUTER SOFTWARE.—Clause (ii) of section 179(d)(1)(A) is amended by striking ''to which section 167 applies, and which is placed in service in a taxable year beginning after 2002 and before 2014'' and inserting ''and to which section 167 applies''.

(c) ELECTION.—Paragraph (2) of section 179(c) is amended—

(1) by striking ''may not be revoked'' and all that follows through ''and before 2014'', and

(2) by striking ''IRREVOCABLE'' in the heading thereof.

(d) AIR CONDITIONING AND HEATING UNITS.—Paragraph (1) of section 179(d) is amended by striking ''and shall not include air conditioning or heating units''.

(e) QUALIFIED REAL PROPERTY.—Section 179(f) is amended—

(1) by striking ''beginning in 2010, 2011, 2012, or 2013'' in paragraph (1), and

(2) by striking paragraphs (3) and (4).

(f) INFLATION ADJUSTMENT.—Subsection (b) of section 179 is amended by adding at the end the following new paragraph:

''(6) INFLATION ADJUSTMENT.—

''(A) IN GENERAL.—In the case of any taxable year beginning after 2014, the dollar amounts in paragraphs (1) and (2) shall each be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2013' for 'calendar year 2012' in clause (ii) thereof.

"(B) ROUNDING.—The amount of any increase under subparagraph (A) shall be rounded to the nearest multiple of $10,000.".

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2013.

SEC. 3112. REPEAL OF ELECTION TO EXPENSE CERTAIN REFINERIES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 179C (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—Section 312(k)(3), as amended by the preceding provisions of this Act, is amended by striking ", 179C" each place it appears.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2013.

SEC. 3113. REPEAL OF DEDUCTION FOR ENERGY EFFICIENT COMMERCIAL BUILDINGS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 179D (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—

(1) Section 1016(a) is amended by striking paragraph (31).

(2) Section 312(k)(3), as amended by the preceding provisions of this Act, is amended by striking ", 179D" each place it appears.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2013.

SEC. 3114. REPEAL OF ELECTION TO EXPENSE ADVANCED MINE SAFETY EQUIPMENT.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 179E (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—Section 312(k)(3), as amended by the preceding provisions of this Act, is amended—

(1) by striking ", or 179E, as the case may be", and

(2) by striking ", or 179E" each place it appears.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2013.

SEC. 3115. REPEAL OF DEDUCTION FOR EXPENDITURES BY FARMERS FOR FERTILIZER, ETC.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 180 (and by striking the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3116. REPEAL OF SPECIAL TREATMENT OF CERTAIN QUALIFIED FILM AND TELEVISION PRODUCTIONS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 181 (and by striking

the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to productions commencing after December 31, 2013.

SEC. 3117. REPEAL OF SPECIAL RULES FOR RECOVERIES OF DAMAGES OF ANTITRUST VIOLATIONS, ETC.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 186 (and by striking the item relating to such section in the table of sections for such part).

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

SEC. 3118. TREATMENT OF REFORESTATION EXPENDITURES.

(a) ELIMINATION OF EXPENSING ELECTION.—Section 194 is amended by striking subsections (a) and (b), by redesignating subsection (c) and (d) as subsections (b) and (c), respectively, and by inserting before subsection (b) (as so redesignated) the following new subsection:

"(a) IN GENERAL.—In the case of a taxpayer's qualified reforestation expenditures for any taxable year—

"(1) except as provided in paragraph (2), no deduction shall be allowed for such expenditures, and

"(2) the taxpayer shall—

"(A) charge such expenditures to capital account, and

"(B) be allowed an amortization deduction of such expenditures ratably over the 7-year period beginning with the midpoint of the taxable year in which such expenditures are paid or incurred.".

(b) QUALIFIED REFORESTATION EXPENDITURES.—Section 194(b), as redesignated by subsection (a), is amended by striking paragraph (2), by redesignating paragraph (1) as paragraph (2), and by inserting before paragraph (2) (as so redesignated the following new paragraph:

"(1) QUALIFIED REFORESTATION EXPENDITURES.—The term 'qualified reforestation expenditures' means, with respect to any taxable year, the reforestation expenditures paid or incurred by the taxpayer during such taxable year with respect to qualified timber property.".

(c) QUALIFIED TIMBER PROPERTY LIMITED TO ORNAMENTAL TREES.—Section 194(b)(2), as redesignated by subsections (a) and (b), is amended to read as follows:

"(2) QUALIFIED TIMBER PROPERTY.—The term 'qualified timber property' means a woodlot or other site located in the United States which—

"(A) will contain evergreen trees in significant commercial quantities which are reasonably expected to be more than 6 years old at the time severed from the roots, and

"(B) is held by the taxpayer for the planting, cultivating, caring for, and cutting of such trees for sale for ornamental purposes.".

(d) DETERMINATION OF RECOMPUTED BASIS.—Section 1245(b) is amended by striking paragraph (7).

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3119. 20-YEAR AMORTIZATION OF GOODWILL AND CERTAIN OTHER INTANGIBLES.

(a) IN GENERAL.—Subsection (a) of section 197 is amended by striking "15-year period" and inserting "20-year period".

(b) MORTGAGE SERVICING RIGHTS.—Subsection (e) of section 197 is amended by striking paragraph (6) and by redesignating paragraph (7) as paragraph (6).

(c) CONFORMING AMENDMENTS.—

(1) Clause (i) of section 197(e)(4)(D) is amended by striking ''15 years'' and inserting ''20 years''.

(2) Section 167(f) is amended by striking paragraph (3).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to property acquired after December 31, 2014.

SEC. 3120. TREATMENT OF ENVIRONMENTAL REMEDIATION COSTS.

(a) IN GENERAL.—Subsection (a) of section 198 is amended to read as follows:

''(a) IN GENERAL.—In the case of a taxpayer's qualified environmental remediation expenditures for any taxable year—

''(1) except as provided in paragraph (2), no deduction shall be allowed for such expenditures, and

''(2) the taxpayer shall—

''(A) charge such expenditures to capital account, and

"(B) be allowed an amortization deduction of such expenditures ratably over the 40-year period beginning with the midpoint of the taxable year in which such expenditures are paid or incurred.".

(b) MADE PERMANENT.—Section 198 is amended by striking subsection (h).

(c) CONFORMING AMENDMENTS.—

(1) Section 198, as amended by subsection (b), is amended by striking subsection (f) and by redesignating subsection (g) as subsection (f).

(2) Section 198 (and the item relating to such section in the table of sections for part VI of subchapter B of chapter 1) is amended by striking "**EXPENSING**" in the heading thereof and inserting "**AMORTIZATION**".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures paid or incurred after December 31, 2014.

SEC. 3121. REPEAL OF EXPENSING OF QUALIFIED DISASTER EXPENSES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 198A (and by striking the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

SEC. 3122. PHASEOUT AND REPEAL OF DEDUCTION FOR INCOME ATTRIBUTABLE TO DOMESTIC PRODUCTION ACTIVITIES.

(a) PHASEOUT.—

(1) IN GENERAL.—Subsection (a) of section 199 is amended by adding at the end the following new paragraph:

"(3) PHASEOUT.—In the case of any taxable year beginning after 2014, paragraph (1) shall be applied by substituting for the percentage contained therein the phaseout percentage determined under the following table:

"For taxable years beginning in:	The phaseout percentage is:
2015	6%
2016	3%".

(2) COORDINATION WITH OIL RELATED QUALIFIED PRODUCTION ACTIVITIES INCOME.—Section 199(d) is amended by striking paragraph (9).

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

(b) REPEAL.—

(1) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 199 (and by striking the item relating to such section in the table of sections for such part).

(2) CONFORMING AMENDMENTS.—

(A) Sections 86(b)(2)(A), 137(b)(3)(A), 246(b)(1), and 469(i)(3)(F)(iii) are each amended by striking ''199,''.

(B) Section 163(j)(6)(A)(i), as amended by the preceding provisions of this Act, is amended by striking subclause (III) and by redesignating subclauses (IV) and (V) as subclauses (III) and (IV), respectively.

(C) Section 170(b)(2)(C), as amended by the preceding provisions of this Act, is amended by striking clause (v), by redesignating clause (vi) as clause (v), and by inserting ''and'' at the end of clause (iv).

(D) Section 172(d) is amended by striking paragraph (7).

(E) Section 1402(a) is amended by adding ''and'' at the end of paragraph (15) and by striking paragraph (16).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2016.

SEC. 3123. UNIFICATION OF DEDUCTION FOR ORGANIZATIONAL EXPENDITURES.

(a) IN GENERAL.—Subsections (a) and (b) of section 195 is amended by inserting ''and organizational'' after ''start-up'' each place it appears.

(b) ORGANIZATIONAL EXPENDITURES.—Subsection (c) of section 195 is amended by adding at the end the following new paragraph:

''(3) ORGANIZATIONAL EXPENDITURES.—The term 'organizational expenditures' means any expenditure which—

''(A) is incident to the creation of a corporation or a partnership,

''(B) is chargeable to capital account, and

''(C) is of a character which, if expended incident to the creation of a corporation or a partnership having a limited life, would be amortizable over such life.''.

(c) DOLLAR AMOUNTS.—Clause (ii) of section 195(b)(1)(A) is amended—

(1) by striking ''$5,000'' and inserting ''$10,000'', and

(2) by striking "$50,000" and inserting "$60,000".

(d) MID-YEAR CONVENTION.—Subparagraph (B) of section 195(b)(1), as amended by subsection (a), is amended to read as follows:

"(B) the remainder of such start-up and organizational expenditures shall be charged to capital account and allowed as an amortization deduction determined by amortizing such expenditures ratably over the 15-year period beginning with the midpoint of the taxable year in which the active trade or business begins.".

(e) CONFORMING AMENDMENTS.—

(1) Section 195(b)(1) is amended—

(A) by inserting "(or, in the case of a partnership, the partnership elects)" after "If a taxpayer elects", and

(B) by inserting "(or the partnership, as the case may be)" after "the taxpayer" in subparagraph (A).

(2) Section 195(b)(2) is amended—

(A) by striking "AMORTIZATION PERIOD.—In any case" and inserting the following: "AMORTIZATION PERIOD.—

"(A) IN GENERAL.—In any case", and

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

"(B) SPECIAL PARTNERSHIP RULE.—In the case of a partnership, subparagraph (A) shall be applied at the partnership level.".

(3) Section 195(b) is amended by striking paragraph (3).

(4)(A) Part VIII of subchapter B of chapter 1 is amended by striking section 248 (and by striking the item relating to such section in the table of sections for such part).

(B) Section 170(b)(2)(C)(ii) is amended by striking "(except section 248)".

(C) Section 312(n)(3) is amended by striking "Sections 173 and 248" and inserting "Section 173".

(D) Section 535(b)(3) is amended by striking "(except section 248)".

(E) Section 545(b)(3) is amended by striking "(except section 248)".

(F) Section 834(c)(7) is amended by striking "(except section 248)".

(G) Section 852(b)(2)(C) is amended by striking "(except section 248)".

(H) Section 857(b)(2)(A) is amended by striking "(except section 248)".

(I) Section 1363(b) is amended by inserting "and" at the end of paragraph (2), by striking paragraph (3), and by redesignating paragraph (4) as paragraph (3).

(J) Section 1375(b)(1)(B)(i) is amended by striking "(other than the deduction allowed by section 248, relating to organization expenditures)".

(5) Part I of subchapter K of chapter 1 is amended by striking section 709 (and by striking the item relating to such section in the table of sections for such part).

(6) The heading of section 195 (and the item relating to such section in the table of sections for part VI of subchapter B of chapter 1) are each amended by inserting "and organizational" after "Start-up".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3124. PREVENTION OF ARBITRAGE OF DEDUCTIBLE INTEREST EXPENSE AND TAX-EXEMPT INTEREST INCOME.

(a) PRO RATA ALLOCATION RULES APPLICABLE TO FINANCIAL INSTITUTIONS MODIFIED AND MADE APPLICABLE TO ALL C CORPORATIONS.—

(1) APPLICATION TO CORPORATIONS.—So much of section 265(b) as precedes paragraph (3) is amended to read as follows:

''(b) PRO RATA ALLOCATION OF INTEREST EXPENSE OF CORPORATIONS AND FINANCIAL INSTITUTIONS TO TAX-EXEMPT INTEREST.—

''(1) IN GENERAL.—In the case of a C corporation or a financial institution, no deduction shall be allowed for that portion of the taxpayer's interest expense which is allocable to tax-exempt interest.

''(2) ALLOCATION.—For purposes of paragraph (1), the portion of the taxpayer's interest expense which is allocable to tax-exempt interest is an amount which bears the same ratio to such interest expense as—

''(A) the taxpayer's average adjusted bases (within the meaning of section 1016) of tax-exempt obligations acquired on or after February 26, 2014 (August 7, 1986, in the case of a financial institution), bears to

"(B) such average adjusted bases for all assets of the taxpayer.".

(2) REPEAL OF EXCEPTIONS.—Section 265(b) is amended by striking paragraphs (3) and (7).

(b) LIMITATION ON INVESTMENT INTEREST.—

(1) IN GENERAL.—Section 163(d)(1) is amended to read as follows:

"(1) IN GENERAL.—In the case of a taxpayer other than a corporation, the amount allowed as a deduction under this chapter for investment interest for any taxable year—

"(A) shall be reduced by the amount of tax-exempt interest received by the taxpayer during such taxable year, and

"(B) shall not (after any reduction under subparagraph (A)) exceed the net investment income of the taxpayer for such taxable year.".

(2) REDUCTIONS FOR TAX-EXEMPT INTEREST NOT CARRIED FORWARD.—Section 163(d)(2) is amended by striking "paragraph (1)" and inserting "paragraph (1)(B)".

(3) CLARIFICATION THAT PROPERTY HELD FOR INVESTMENT INCLUDES PROPERTY PRODUCING TAX-EXEMPT INTEREST.—Section 163(d)(5)(A) is amended by striking "and" at the end of clause (i),

by striking the period at the end of clause (ii)(II) and inserting ", and", and by adding at the end the following new clause:

"(iii) any property held for the production of tax-exempt interest (including any shares of stock of a regulated investment company which during the taxable year of the holder thereof distributes exempt-interest dividends).".

(4) COORDINATION WITH SECTION 265.—

(A) IN GENERAL.—Section 265(a) is amended by—

(i) striking paragraph (2) and inserting the following new paragraph:

"(2) INTEREST.—

"(A) CORPORATIONS AND FINANCIAL INSTITUTIONS.—For pro rata allocation rules in the case of corporations and financial institutions, see subsection (b).

"(B) OTHER TAXPAYERS.—For limitation on investment interest in the case of other taxpayers, see section 163(d).", and

(ii) by striking paragraphs (4) and (5) and by redesignating paragraph (6) as paragraph (4).

(B) CONFORMING AMENDMENTS.—

(i) Section 265(b), as amended by subsection (a), is amended by inserting after paragraph (2) the following new paragraph:

"(3) SPECIAL RULES FOR SHORT SALES.—

"(A) IN GENERAL.—For purposes of this subsection, interest includes any amount paid or incurred—

"(i) by any person making a short sale in connection with personal property used in such short sale, or

"(ii) by any other person for the use of any collateral with respect to such short sale.

"(B) EXCEPTION WHERE NO RETURN ON CASH COLLATERAL .—If—

"(i) the taxpayer provides cash as collateral for any short sale, and

"(ii) the taxpayer receives no material earnings on such cash during the period of the sale,

subparagraph (A)(i) shall not apply to such short sale.".

(ii) Section 265(b)(6) is amended to read as follows:

"(6) COORDINATION WITH SECTION 263A.—This section shall be applied before the application of section 263A (relating to capitalization of certain expenses where taxpayer produces property).".

(iii) Section 163(n)(2) is amended to read as follows:

"(2) For disallowance of deduction for interest relating to tax-exempt income, see sections 163(d) and 265(b)".

(c) EFFECTIVE DATES.—

(1) APPLICATION OF PRO RATA ALLOCATION RULES.—

(A) APPLICATION TO C CORPORATIONS.—The amendments made by subsection (a)(1) shall apply to taxable years ending on or after February 26, 2014.

(B) REPEAL OF EXCEPTIONS.—The amendments made by subsection (a)(2) shall apply to obligations issued on or after February 26, 2014.

(2) LIMITATION ON INVESTMENT INTEREST.—The amendments made by subsection (b) shall apply to taxable years beginning after December 31, 2014.

SEC. 3125. PREVENTION OF TRANSFER OF CERTAIN LOSSES FROM TAX INDIFFERENT PARTIES.

(a) IN GENERAL.—Section 267(d) is amended to read as follows:

"(d) AMOUNT OF GAIN WHERE LOSS PREVIOUSLY DISALLOWED.—

"(1) IN GENERAL.—If—

"(A) in the case of a sale or exchange of property to the taxpayer a loss sustained by the transferor is not allowable to the transferor as a deduction by reason of subsection (a)(1), and

"(B) the taxpayer sells or otherwise disposes of such property (or of other property the basis of which in the taxpayer's hands is determined directly or indirectly by reference to such property) at a gain,

then such gain shall be recognized only to the extent that it exceeds so much of such loss as is properly allocable to the property sold or otherwise disposed of by the taxpayer.

"(2) EXCEPTION FOR WASH SALES.—Paragraph (1) shall not apply if the loss sustained by the transferor is not allowable to the transferor as a deduction by reason of section 1091 (relating to wash sales).

"(3) EXCEPTION FOR TRANSFERS FROM TAX INDIFFERENT PARTIES.—Paragraph (1) shall not apply to the extent any loss sustained by the transferor (if allowed) would not be taken into account in determining a tax imposed under section 1 or 11 or a tax computed as provided by either of such sections.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to sales and exchanges after December 31, 2014.

SEC. 3126. ENTERTAINMENT, ETC. EXPENSES.

(a) DENIAL OF DEDUCTION.—Subsection (a) of section 274 is amended to read as follows:

"(a) ENTERTAINMENT, AMUSEMENT, OR RECREATION.—

"(1) IN GENERAL.—No deduction otherwise allowable under this chapter shall be allowed for amounts paid or incurred for any of the following items:

"(A) ACTIVITY.—With respect to an activity which is of a type generally considered to constitute entertainment, amusement, or recreation.

"(B) MEMBERSHIP DUES.—With respect to membership in any club organized for business, pleasure, recreation or other social purposes.

"(C) AMENITY.—With respect to a de minimis fringe (as defined in section 132(e)(1)) that is primarily personal in nature and involving property or services that are not directly related to the taxpayer's trade or business.

"(D) FACILITY.—With respect to a facility or portion thereof used in connection with an activity referred to in subparagraph (A), membership dues or similar amounts referred to in subparagraph (B), or an amenity referred to in subparagraph (C).

"(E) QUALIFIED TRANSPORTATION FRINGE AND PARKING FACILITY.—Which is a qualified transportation fringe (as defined in section 132(f)) or which is a parking facility used in connection with qualified parking (as defined in section 132(f)(5)(C)).

"(2) SPECIAL RULES.—For purposes of applying paragraph (1), an activity described in section 212 shall be treated as a trade or business.

"(3) REGULATIONS.—Under the regulations prescribed to carry out this section, the Secretary shall include regulations—

"(A) defining entertainment, amenities, recreation, amusement, and facilities for purposes of this subsection,

"(B) providing for the appropriate allocation of depreciation and other costs with respect to facilities used for parking, and

"(C) specifying arrangements a primary purpose of which is the avoidance of this subsection.".

(b) EXCEPTION FOR CERTAIN EXPENSES INCLUDIBLE IN INCOME OF RECIPIENT.—

(1) EXPENSES TREATED AS COMPENSATION.—Paragraph (2) of section 274(e) is amended to read as follows:

"(2) EXPENSES TREATED AS COMPENSATION.—Expenses for goods, services, and facilities, to the extent that the expenses do not exceed the amount of the expenses which are treated by the taxpayer, with respect to the recipient of the entertainment, amusement, or recreation, as compensation to an employee on the taxpayer's return of tax under this chapter and as wages to such employee for purposes of chapter 24 (relating to withholding of income tax at source on wages).".

(2) EXPENSES INCLUDIBLE IN INCOME OF PERSONS WHO ARE NOT EMPLOYEES.—Paragraph (9) of section 274(e) is amended by striking ''to the extent that the expenses'' and inserting ''to the extent that the expenses do not exceed the amount of the expenses that''.

(c) EXCEPTIONS FOR REIMBURSED EXPENSES.—Paragraph (3) of section 274(e) is amended to read as follows:

''(3) REIMBURSED EXPENSES.—

''(A) IN GENERAL.—Expenses paid or incurred by the taxpayer, in connection with the performance by him of services for another person (whether or not such other person is the taxpayer's employer), under a reimbursement or other expense allowance arrangement with such other person, but this paragraph shall apply—

''(i) where the services are performed for an employer, only if the employer has not treated such expenses in the manner provided in paragraph (2), or

''(ii) where the services are performed for a person other than an employer, only if the taxpayer accounts (to the extent provided by subsection (d)) to such person.

"(B) EXCEPTION.—Except as provided by the Secretary, subparagraph (A) shall not apply—

"(i) in the case of an arrangement in which the person other than the employer is an entity described in section 168(g)(2)(A), or

"(ii) to any other arrangement designated by the Secretary as having the effect of avoiding the limitation under subparagraph (A).".

(d) 50 PERCENT LIMITATION ON MEALS AND ENTERTAINMENT EXPENSES.—Subsection (n) of section 274 is amended to read as follows:

"(n) LIMITATION ON CERTAIN EXPENSES.—

"(1) IN GENERAL.—The amount allowable as a deduction under this chapter for any expense for food or beverages (pursuant to subsection (e)(1)) or business meals (pursuant to subsection (k)(1)) shall not exceed 50 percent of the amount of such expense or item which would (but for this paragraph) be allowable as a deduction under this chapter.

"(2) EXCEPTIONS.—Paragraph (1) shall not apply to any expense if—

"(A) such expense is described in paragraph (2), (3), (6), (7), or (8) of subsection (e),

"(B) in the case of an expense for food or beverages, such expense is excludable from the gross income of the recipient under section 132 by reason of subsection (e) thereof (relating to de minimis fringes) or under section 119 (relating to meals and lodging furnished for convenience of employer), or

"(C) in the case of an employer who pays or reimburses moving expenses of an employee, such expenses are includible in the income of the employee under section 82.

"(3) SPECIAL RULE FOR INDIVIDUALS SUBJECT TO FEDERAL HOURS OF SERVICE.—In the case of any expenses for food or beverages consumed while away from home (within the meaning of section 162(a)(2)) by an individual during, or incident to, the period of duty subject to the hours of service limitations of the Department of Transportation, paragraph (1) shall be applied by substituting '80 percent' for '50 percent'.".

(e) CONFORMING AMENDMENTS.—

(1) Section 274(d) is amended—

(A) by striking paragraph (2) and redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively, and

(B) in the flush material following paragraph (3) (as so redesignated)—

(i) by striking ", entertainment, amusement, recreation, or" in item (B), and

(ii) by striking "(D) the business relationship to the taxpayer of persons entertained, using the facility or property, or receiving the gift" and inserting "(D) the business relationship to the taxpayer of the person receiving the benefit".

(2) Section 274(e) is amended by striking paragraph (4) and redesignating paragraphs (5), (6), (7), (8), and (9) as paragraphs (4), (5), (6), (7), and (8), respectively.

(3) Section 274(k)(2)(A) is amended by striking "(4), (7), (8), or (9)" and inserting "(6), (7), or (8)".

(4) Section 274 is amended by striking subsection (l).

(5) Section 274(m)(1)(B)(ii) is amended by striking ''(4), (7), (8), or (9)'' and inserting ''(6), (7), or (8)''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

SEC. 3127. REPEAL OF LIMITATION ON CORPORATE ACQUISITION INDEBTEDNESS.

(a) IN GENERAL.—Part IX of subchapter B of chapter 1 is amended by striking section 279 (and by striking the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to interest paid or incurred with respect to indebtedness incurred after December 31, 2014.

SEC. 3128. DENIAL OF DEDUCTIONS AND CREDITS FOR EXPENDITURES IN ILLEGAL BUSINESSES.

(a) IN GENERAL.—Section 280E is amended to read as follows:

''SEC. 280E. EXPENDITURES IN CONNECTION WITH ILLEGAL BUSINESSES.

''No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if—

"(1) such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted, or

"(2) the carrying out of such trade or business is a felony under Federal law or the law of any State in which such trade or business is conducted.".

(b) CLERICAL AMENDMENT.—The table of sections for part IX of subchapter B of chapter 1 is amended by striking the item relating to section 280E and inserting the following new item:

"Sec. 280E. Expenditures in connection with illegal businesses.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after the date of the enactment of this Act in taxable years ending after the date of the enactment of this Act.

SEC. 3129. LIMITATION ON DEDUCTION FOR FDIC PREMIUMS.

(a) IN GENERAL.—Section 162 is amended by redesignating subsection (q) as subsection (r) and by inserting after subsection (p) the following new subsection:

"(q) DISALLOWANCE OF FDIC PREMIUMS PAID BY CERTAIN LARGE FINANCIAL INSTITUTIONS.—

"(1) IN GENERAL.—No deduction shall be allowed for the applicable percentage of any FDIC premium paid or incurred by the taxpayer.

"(2) EXCEPTION FOR SMALL INSTITUTIONS.—Paragraph (1) shall not apply to any taxpayer for any taxable year if the total consolidated assets of such taxpayer (determined as of the close of such taxable year) do not exceed $10,000,000,000.

"(3) APPLICABLE PERCENTAGE.—For purposes of this subsection, the term 'applicable percentage' means, with respect to any taxpayer for any taxable year, the ratio (expressed as a percentage but not greater than 100 percent) which—

"(A) the excess of—

"(i) the total consolidated assets of such taxpayer (determined as of the close of such taxable year), over

"(ii) $10,000,000,000, bears to

"(B) $40,000,000,000.

"(4) FDIC PREMIUMS.—For purposes of this subsection, the term 'FDIC premium' means any assessment imposed under section 7(b) of the Federal Deposit Insurance Act (12 U.S.C. 1817(b)).

"(5) TOTAL CONSOLIDATED ASSETS.—For purposes of this subsection, the term 'total consolidated assets' has the meaning given such term under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5365).

"(6) AGGREGATION RULE.—

"(A) IN GENERAL.—Members of an expanded affiliated group shall be treated as a single taxpayer for purposes of applying this subsection.

"(B) EXPANDED AFFILIATED GROUP.—For purposes of this paragraph, the term 'expanded affiliated group' means an affiliated group as defined in section 1504(a), determined—

"(i) by substituting 'more than 50 percent' for 'at least 80 percent' each place it appears, and

"(ii) without regard to paragraphs (2) and (3) of section 1504(b).

A partnership or any other entity (other than a corporation) shall be treated as a member of an expanded affiliated group if such entity is controlled (within the meaning of section 954(d)(3)) by members of such group (including any entity treated as a member of such group by reason of this sentence).".

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

SEC. 3130. REPEAL OF PERCENTAGE DEPLETION.

(a) IN GENERAL.—Part I of subchapter I of chapter 1 is amended by striking sections 613 and 613A (and by striking the items relating to such sections in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1)(A) Such part is amended by redesignating section 614 as section 613 (and, in the table of sections for such part, by redesignating the item relating to section 614 as an item relating to section 613).

(B) Clauses (iv) and (v) of section 465(c)(2)(A) are each amended by striking ‘‘section 614’’ and inserting ‘‘section 613’’.

(C) Section 1016(e) is amended by striking ‘‘section 614’’ and inserting ‘‘section 613’’.

(D) Section 1254(a)(3) is amended by striking ‘‘section 614’’ and inserting ‘‘section 613’’.

(2) Section 45(c)(4) is amended to read as follows:

‘‘(4) GEOTHERMAL ENERGY.—

"(A) IN GENERAL.—The term 'geothermal energy' means energy derived from a geothermal deposit.

"(B) GEOTHERMAL DEPOSIT.—The term 'geothermal deposit' means a geothermal reservoir consisting of natural heat which is stored in rocks or in an aqueous liquid or vapor (whether or not under pressure).".

(3) Section 48(a)(3)(A)(iii) is amended by striking "section 613(e)(2)" and inserting "section 45(c)(4)(B)"

(4) Section 381(c) is amended by striking paragraph (18).

(5) Section 465(c)(1)(E) is amended by striking "section 613(e)(2)" and inserting "section 45(c)(4)(B)".

(6) Section 468(d)(3) is amended by striking "section 614" and inserting "section 613".

(7) Section 611(a) is amended by striking the second sentence.

(8) Section 613(d), as redesignated by paragraph (1), is amended by striking "includes only" and all that follows and inserting "includes only an interest burdened by the costs of production.".

(9) Section 636(a) is amended by striking "(for purposes of section 613)".

(10) Section 636(d) is amended by striking "section 614(a)" and inserting "section 613(a)".

(11) Section 705(a) is amended—

(A) in paragraph (1), by adding "and" at the end of subparagraph (A), by striking "; and" at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C),

(B) in paragraph (2), by striking "; and" at the end of subparagraph (B) and inserting a period, and

(C) by striking paragraph (3).

(12) Section 901(e)(1)(A) is amended by striking "(or, if smaller" and all that follows through "under section 613)".

(13) Section 993(c)(2)(C) is amended by inserting "(as each such section was in effect before its repeal by the Tax Reform Act of 2014)" after "section 613 or 613A".

(14) Section 1202(e)(3)(D) is amended by inserting "(as each such section was in effect before its repeal by the Tax Reform Act of 2014)" after "section 613 or 613A".

(15) Section 1367(a) is amended—

(A) in paragraph (1), by adding ''and'' at the end of subparagraph (A), by striking '', and'' at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C), and

(B) in paragraph (2), by adding ''and'' at the end of subparagraph (C), by striking '', and'' at the end of subparagraph (D) and inserting a period, and by striking subparagraph (E).

(16) Section 1446(c) is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(17) Section 4612(a)(7) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 613''.

(18) Section 4940(c)(3)(B) is amended—

(A) by striking clause (ii), and

(B) by striking all that precedes ''The deduction provided'' and inserting the following:

''(B) MODIFICATIONS.—For purposes of subparagraph (A), the deduction provided''.

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

SEC. 3131. REPEAL OF PASSIVE ACTIVITY EXCEPTION FOR WORKING INTERESTS IN OIL AND GAS PROPERTY.

(a) IN GENERAL.—Subsection (c) of section 469 is amended by striking paragraph (3).

(b) CONFORMING AMENDMENTS.—Section 469 is amended—

(1) by striking paragraph (4) and by redesignating paragraphs (5), (6), and (7) as paragraphs (3), (4), and (5), respectively, and

(2) in paragraph (2)—

(A) by striking ''paragraph (7)'' and inserting ''paragraph (5)'', and

(B) by inserting '', without regard to whether or not the taxpayer materially participates in the activity'' before the period at the end.

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

SEC. 3132. REPEAL OF SPECIAL RULES FOR GAIN OR LOSS ON TIMBER, COAL, OR DOMESTIC IRON ORE.

(a) IN GENERAL.—Subchapter I of chapter 1 is amended by striking part III (and by striking the item relating to such part in the table of parts for such subchapter).

(b) CONFORMING AMENDMENTS.—

(1) Section 512(b)(5) is amended by striking the last sentence.

(2) Section 871(a)(1)(B) is amended by striking "gains described in section 631(b) or (c), and".

(3) Section 871(d)(1)(A) is amended—

(A) by striking ", (ii) rents" and inserting "and (ii) rents", and

(B) by striking ", and (iii) gains described in section 631(b) or (c)".

(4)(A) Section 881(a) is amended by striking paragraph (2) and by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively.

(B) Section 1442(a) is amended—

(i) by striking "881(a)(3) and (4)" and inserting "881(a)(2) and (3)",

(ii) by striking "881(a)(3)," and inserting "881(a)(2),", and

(iii) by striking "881(a)(4)" and inserting "881(a)(3)".

(5) Section 882(d)(1)(A) is amended—

(A) by striking ", (ii) rents" and inserting "and (ii) rents", and

(B) by striking ", and (iii) gains described in section 631(b) or (c)".

(6) Section 1231(b) is amended by striking paragraph (2).

(7) Section 1402(a)(3) is amended by inserting "or" at the end of subparagraph (A) and by striking subparagraph (B) and redesignating subparagraph (C) as subparagraph (B).

(8) Section 1441 is amended—

(A) in subsection (b), by striking ", gains described in section 631(b) or (c)", and

(B) in subsection (c)(5), by striking "gains described in section 631(b) or (c), gains subject to tax under section 871(a)(1)(D)," and inserting "gains subject to tax under section 871(a)(1)(D)".

(9) (A) Part IX of subchapter B of chapter 1 is amended by striking section 272 (and by striking the item relating to such section in the table of sections for such subpart).

(B) Section 1016(a) is amended by striking paragraph (15).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) BASIS ADJUSTMENTS.—The amendment made by subsection (b)(9)(B) shall apply to deductions determined for taxable years beginning after December 31, 2014.

SEC. 3133. REPEAL OF LIKE-KIND EXCHANGES.

(a) IN GENERAL.—Part III of subchapter O of chapter 1 is amended by striking section 1031 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 121(d)(10) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 1031''.

(2) Section 197(f)(2)(B)(i) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''1031''.

(3) Section 453(f) is amended by striking paragraph (6).

(4) Section 470(e)(4) is amended—

(A) by striking ‘‘Sections 1031(a) and’’ in subparagraph (A) and inserting ‘‘Section’’,

(i) by striking ‘‘1031 or’’ in subparagraph (B), and

(ii) by striking ‘‘SECTIONS 1031 AND’’ in the heading thereof and inserting ‘‘SECTION’’.

(5)(A) Section 501(c)(12)(C)(v) is amended by striking ‘‘asset exchange or conversion transaction’’ and inserting ‘‘specified involuntary conversion’’.

(B) Section 501(c)(12)(G) is amended—

(i) by striking ‘‘asset exchange or conversion transaction’’ and inserting ‘‘specified involuntary conversion’’,

(ii) by striking ‘‘voluntary exchange or’’, and

(iii) by striking ‘‘1031 or’’.

(6)(A) Section 704(c) is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(B) Section 704(c)(2), as so redesignated, is amended by striking ‘‘or (2)’’.

(7) Section 857(e)(2) is amended by striking subparagraph (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively.

(8)(A) Section 1035 is amended by striking subsection (d) and inserting the following new subsections:

"(d) GAIN FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of subsection (a), of section 1036(a), or of section 1037(a), if it were not for the fact that the property received in exchange consists not only of property permitted by such provisions to be received without the recognition of gain, but also of other property or money, then the gain, if any, to the recipient shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property.

"(e) LOSS FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of subsection (a), of section 1036(a), or of section 1037(a), if it were not for the fact that the property received in exchange consists not only of property permitted by such provisions to be received without the recognition of gain or loss, but also of other property or money, then no loss from the exchange shall be recognized.

"(f) BASIS.—If property was acquired on an exchange described in this section, section 1036(a), or section 1037(a), then the basis shall be the same as that of the property exchanged, decreased in the amount of any money received by the taxpayer and increased in the amount of gain or decreased in the amount of loss to the taxpayer that was recognized on such exchange. If the property so acquired consisted in part of the type of property permitted by this section, section 1036(a), or section 1037(a), to be received without the recognition of gain or loss, and in part of other property, the basis provided in this subsection shall be allocated between the properties (other than money) received, and for the purpose of the allocation there shall be assigned to such other property an amount equivalent to its fair market value at the date of the exchange. For purposes of this section and section 1036(a), where as part of the consideration to the taxpayer another party to the exchange assumed (as determined under section 357(d)) a liability of the taxpayer, such assumption shall be considered as money received by the taxpayer on the exchange.''.

(B) Section 1036(c) is amended—

(i) in paragraph (1), by striking ''subsections (b) and (c) of section 1031'' and inserting ''subsections (d) and (e) of section 1035'', and

(ii) in paragraph (2), by striking ''subsection (d) of section 1031'' and inserting ''subsection (f) of section 1035''.

(C) Section 1037(c) is amended—

(i) in paragraph (1), by striking "subsections (b) and (c) of section 1031" and inserting "subsections (d) and (e) of section 1035", and

(ii) in paragraph (2), by striking "subsection (d) of section 1031" and inserting "subsection (f) of section 1035".

(D) Section 83(g) is amended by striking "section 1031" and inserting "section 1035".

(E) Section 424(b) is amended by striking "section 1031" and inserting "section 1035".

(F) Section 424(c)(1)(B) is amended by striking "section 1031" and inserting "section 1035".

(9) Section 1060(c) is amended by striking the second sentence thereof.

(10) Section 1245(b)(4) is amended—

(A) by striking "LIKE KIND EXCHANGES; INVOLUNTARY" and inserting "INVOLUNTARY", and

(B) by striking "1031 or".

(11) Section 1250(d)(4) is amended—

(A) by striking "LIKE KIND EXCHANGES; INVOLUNTARY" and inserting "INVOLUNTARY",

(B) by striking ''1031 or'' in subparagraph (A), and

(C) by striking ''1031 or'' in subparagraph (E).

(12) Section 2032A(e)(14)(C) is amended—

(A) in clause (i)(I), by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 1031'', and

(B) in clause (ii)(I), by inserting ''(as so in effect)'' after ''section 1031''.

(13) Section 4940(c)(4) is amended by striking subparagraph (D).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to transfers after December 31, 2014.

(2) EXCEPTION FOR TRANSFERS PURSUANT TO BINDING CONTRACTS.—Notwithstanding paragraph (1), the amendments made by this section shall not apply to any transfer if—

(A) such transfer is pursuant to a written binding contract entered into before January 1, 2015, and

(B) the exchange of which such transfer is a part is completed before January 1, 2017.

SEC. 3134. RESTRICTION ON TRADE OR BUSINESS PROPERTY TREATED AS SIMILAR OR RELATED IN SERVICE TO INVOLUNTARILY CONVERTED PROPERTY IN DISASTER AREAS.

(a) CLASS LIFE OF REPLACEMENT PROPERTY NOT TO EXCEED CONVERTED PROPERTY.—Section 1033(h)(2) is amended by inserting "if the class life of such tangible property does not exceed the class life of the property so converted" before the period at the end.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to disasters declared after December 31, 2014.

SEC. 3135. REPEAL OF ROLLOVER OF PUBLICLY TRADED SECURITIES GAIN INTO SPECIALIZED SMALL BUSINESS INVESTMENT COMPANIES.

(a) IN GENERAL.—Part III of subchapter O of chapter 1 is amended by striking section 1044 (and by striking the item relating to such section in the table of sections of such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 45D(c)(2)(A) is amended to read as follows:

"(A) any partnership or corporation which is licensed by the Small Business Administration under section 301(d) of the Small Business

Investment Act of 1958 (as in effect on May 13, 1993), and''.

(2) Section 1016(a)(23) is amended—

(A) by striking ''1044,'', and

(B) by striking ''1044(d),''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after December 31, 2014.

SEC. 3136. TERMINATION OF SPECIAL RULES FOR GAIN FROM CERTAIN SMALL BUSINESS STOCK.

(a) TERMINATION OF PARTIAL EXCLUSION.—Section 1202 is amended—

(1) by inserting ''and before the date of the enactment of the Tax Reform Act of 2014'' after ''Revenue Reconciliation Act of 1993'' in subsection (c)(1), and

(2) by adding at the end the following new subsection:

''(l) TERMINATION.—For termination with respect to qualified small business stock issued after the date of the enactment of the Tax Reform Act of 2014, see subsection (c)(1).''.

(b) REPEAL OF ROLLOVER RULES.—

(1) IN GENERAL.—Part III of subchapter O of chapter 1 is amended by striking section 1045 (and

by striking the item relating to such section in the table of sections of such part).

(2) CONFORMING AMENDMENTS.—

(A) Section 1016(a)(23) is amended—

(i) by striking ''1045,'', and

(ii) by striking ''1045(b)(3),''.

(B) Section 1223 is amended by striking paragraph (13).

(c) EFFECTIVE DATES.—

(1) TERMINATION OF PARTIAL EXCLUSION.—The amendments made by subsection (a) shall apply to sales and exchanges after the date of the enactment of this Act.

(2) REPEAL OF ROLLOVER RULES.—

(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by subsection (b) shall apply to sales after the date of the enactment of this Act.

(B) SAVINGS PROVISION.—The amendments made by subsection (b)(2) shall not apply with respect to property the acquisition of which was before the date of the enactment of this Act.

SEC. 3137. CERTAIN SELF-CREATED PROPERTY NOT TREATED AS A CAPITAL ASSET.

(a) PATENTS, ETC.—Section 1221(a)(3) is amended by inserting ''a patent, invention, model or design (whether or not patented), a secret formula or process,'' before ''a copyright''.

(b) SELF-CREATED MUSICAL WORKS.—Section 1221(b) is amended by striking paragraph (3).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 2014.

SEC. 3138. REPEAL OF SPECIAL RULE FOR SALE OR EXCHANGE OF PATENTS.

(a) IN GENERAL.—Part IV of subchapter P of chapter 1 is amended by striking section 1235 (and by striking the item relating to such section in the table of sections of such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 483(d) is amended by striking paragraph (4).

(2)(A) Section 871(a)(1), as amended by the preceding provisions of this Act, is amended by striking subparagraph (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively.

(B) Section 871(g)(3) is amended by striking "(a)(1)(C)" and inserting "(a)(1)(B)".

(C) Subsections (h)(1) and (i)(1) of section 871 are each amended by striking "(1)(C)" and inserting "(1)(B)".

(D) Section 1441, as amended by the preceding provisions of this Act, is amended—

(i) in subsections (b) and (c)(8), by striking "871(a)(1)(C)" and inserting "871(a)(1)(B)", and

(ii) in subsections (b) and (c)(5), by striking "871(a)(1)(D)" and inserting "871(a)(1)(C)".

(E) Section 1442(a), as amended by the preceding provisions of this Act, is amended—

(i) by striking "871(a)(1)(C) and (D)" and inserting "871(a)(1)(B) and (C)", and

(ii) by striking "871(a)(1)(D)" and inserting "871(a)(1)(C)".

(3) Section 901(l)(5) is amended by striking "without regard to section 1235 or any similar rule" and inserting "without regard to any provision which treats a disposition as a sale or exchange of a capital asset held for more than 1 year or any similar provision".

(4) Section 1274(c)(3) is amended by striking subparagraph (E) and redesignating subparagraph (F) as subparagraph (E).

(5) Subsections (b) and (c)(5) of section 1441, as amended by the preceding provisions of this Act, are each amended by striking ''gains subject to tax under section 871(a)(1)(C), and gains on transfers described in section 1235 made on or before October 4, 1966'' and inserting ''and gains subject to tax under section 871(a)(1)(C)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 2014.

SEC. 3139. DEPRECIATION RECAPTURE ON GAIN FROM DISPOSITION OF CERTAIN DEPRECIABLE REALTY.

(a) IN GENERAL.—Subsection (a) of section 1250 is amended to read as follows:

''(a) IN GENERAL.—Except as otherwise provided in this section, if section 1250 property is disposed of after December 31, 2014, the amount of gain with respect to such property which is treated as ordinary income shall be an amount equal to the lesser of—

''(1) the sum of—

"(A) the amount of additional depreciation attributable to periods before January 1, 2015, in respect of such property, and

"(B) the amount of depreciation adjustments attributable to periods after December 31, 2014, in respect of such property, or

"(2) the excess of the amount realized (or, in the case of a disposition other than a sale, exchange, or involuntary conversion, the fair market value of such property), over the adjusted basis of such property.".

(b) CONFORMING AMENDMENTS.—

(1) Section 267(e)(5)(D)(i) is amended to read as follows:

"(i) any interest in—

"(I) any section 1250 property with respect to which a mortgage is insured under section 221(d)(3) or 236 of the National Housing Act, or housing financed or assisted by direct loan or tax abatement under similar provisions of State or local laws and with respect to which the owner is subject to the restrictions described in section 1039(b)(1)(B) (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990),

''(II) dwelling units which, on the average, were held for occupancy by families or individuals eligible to receive subsidies under section 8 of the United States Housing Act of 1937, as amended, or under the provisions of State or local law authorizing similar levels of subsidy for lower-income families,

''(III) any section 1250 property with respect to which a depreciation deduction for rehabilitation expenditures was allowed under section 167(k), or

''(IV) any section 1250 property with respect to which a loan is made or insured under title V of the Housing Act of 1949, and''.

(2) Section 1250(b) is amended by striking paragraph (4) and by redesignating paragraph (5) as paragraph (4).

(3) Section 1250(c) is amended by striking ''For purposes of this section'' and inserting ''For purposes of this title''

(4)(A) Section 1250(d)(5)(B)(i) is amended by striking ''and the applicable percentage for the property had been 100 percent''.

(B) Section 1250(d)(5)(B)(ii) is amended to read as follows:

''(ii) the amount of such gain (if any) to which section 751(b) applied.''.

(5) Section 1250(d) is amended by striking paragraph (7).

(6) Section 1250 is amended by striking subsections (e) and (f) and by redesignating subsections (g) and (h) as subsections (e) and (f), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 2014.

SEC. 3140. COMMON DEDUCTION CONFORMING AMENDMENTS.

(a) IN GENERAL.—

(1) Section 1245(a)(2)(C) is amended by striking ''section 179,'' and all that follows through ''or 194'' and inserting ''section 179 or (as in effect before repeal by the Tax Reform Act of 2014) section

179A, 179B, 179C, 179D, 179E, 181, 190, 193, or 194,''

(2) Section 1245(a)(3)(C) is amended by striking ''section 169'' and all that follows through ''or 194'' and inserting ''section 179, 185, 188 (as in effect before its repeal by the Revenue Reconciliation Act of 1990), or (as in effect before repeal by the Tax Reform Act of 2014) section 169, 179A, 179B, 179C, 179D, 179E, 190, 193, or 194''.

(3) Section 263(a)(1) is amended by striking subparagraphs (C), (D), (F), (H), (I), (J), (K), and (L) and by redesignating subparagraphs (E) and (G) as subparagraphs (C) and (D), respectively.

(4) Section 280C, as amended by the preceding provisions of this Act, is amended by redesignating subsections (c) and (g) as subsections (b) and (c), respectively.

(b) EFFECTIVE DATE.—Each portion of each amendment made by this section shall take effect as if included in the provision of this subtitle to which such portion relates.

Subtitle C—Reform of Business Credits

SEC. 3201. REPEAL OF CREDIT FOR ALCOHOL, ETC., USED AS FUEL.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 40 (and by striking the item relating to such section in the table of sections for such subpart).

(b) REPEAL OF CORRESPONDING EXCISE TAX CREDITS.—

(1) CREDIT.—Subchapter B of chapter 65 is amended by striking section 6426 (and by striking the item relating to such section in the table of sections for such subchapter).

(2) PAYMENT.—Section 6427 is amended by striking subsection (e).

(c) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (3).

(2) Section 6416(a)(4)(C) is amended—

(A) by striking ‘‘section 6427(i)(4)’’ and inserting ‘‘section 6427(i)(3)’’, and

(B) by striking ‘‘section 6427(i)(3)(B)’’ and inserting ‘‘subparagraph (B) thereof’’.

(3) Section 6427(i) is amended by striking paragraph (3) and by redesignating paragraph (4) as paragraph (3).

(4) Section 6427(i)(3), as redesignated by paragraph (2), is amended—

(A) by striking the sentence at the end of subparagraph (A),

(B) by redesignating subparagraph (B) as subparagraph (C), and

(C) by inserting after subparagraph (A) the following new subparagraph:

"(B) PAYMENT OF CLAIM.—Notwithstanding subsection (l)(1), if the Secretary has not paid pursuant to a claim filed under subsection (b)(4), (l)(4)(C)(ii), or (l)(5) within 45 days of the date of the filing of such claim (20 days in the case of an electronic claim), the claim shall be paid with interest from such date determined by using the overpayment rate and method under section 6621.".

(5) Subpart B of part III of subchapter A of chapter 32 is amended by striking section 4104 (and by striking the item relating to such section in the table of sections for such subpart).

(6) Section 6501(m) is amended by striking "40(f),".

(7) Section 9503(b)(1) is amended by striking the second sentence.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to fuels sold or used after December 31, 2013.

SEC. 3202. REPEAL OF CREDIT FOR BIODIESEL AND RENEWABLE DIESEL USED AS FUEL.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 40A (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (17).

(2) Part II of subchapter B of chapter 1 is amended by striking section 87 (and by striking the item relating to such section in the table of sections for such subpart).

(3) Section 4101(a)(1) is amended by striking ", every person producing" and all that follows through "section 40(b)(6)(E))".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to fuels sold or used after December 31, 2013.

SEC. 3203. RESEARCH CREDIT MODIFIED AND MADE PERMANENT.

(a) PERMANENT SIMPLIFICATION OF INCREMENTAL RESEARCH CREDIT AND ELIMINATION OF CREDIT FOR ENERGY RESEARCH CONSORTIUM PAYMENTS.—

(1) IN GENERAL.—Subsection (a) of section 41 is amended to read as follows:

"(a) IN GENERAL.—For purposes of section 38, the research credit determined under this section for the taxable year shall be an amount equal to the sum of—

"(1) 15 percent of so much of the qualified research expenses for the taxable year as exceeds 50 percent of the average qualified research expenses for the 3 taxable years preceding the taxable year for which the credit is being determined, plus

"(2) 15 percent of so much of the basic research payments for the taxable year as exceeds 50 percent of the average basic research payments for the 3 taxable years preceding the taxable year for which the credit is being determined.".

(2) REPEAL OF TERMINATION.—Section 41 is amended by striking subsection (h).

(3) CONFORMING AMENDMENTS.—

(A) Subsection (c) of section 41 is amended to read as follows:

"(c) DETERMINATION OF AVERAGE RESEARCH EXPENSES FOR PRIOR YEARS.—

"(1) SPECIAL RULE IN CASE OF NO QUALIFIED RESEARCH EXPENDITURES IN ANY OF 3 PRECEDING TAXABLE YEARS.—In any case in which the taxpayer has no qualified research expenses in any one of the 3 taxable years preceding the taxable year for which the credit is being determined, the amount determined under subsection (a)(1) for such taxable year shall be equal to 10 percent of the qualified research expenses for the taxable year.

"(2) CONSISTENT TREATMENT OF EXPENSES.—

"(A) IN GENERAL.—Notwithstanding whether the period for filing a claim for credit or refund has expired for any taxable year taken into account in determining the average qualified research expenses, or average basic research payments, taken into account under subsection (a), the qualified research expenses and basic research payments taken into account in determining such averages shall be determined on a basis consistent with the determination of qualified research expenses and basic research payments, respectively, for the credit year.

"(B) PREVENTION OF DISTORTIONS.—The Secretary may prescribe regulations to prevent distortions in calculating a taxpayer's qualified research expenses or basic research payments caused by a change in accounting methods used by such taxpayer between the current year and a year taken into account in determining the average qualified research expenses or average basic research payments taken into account under subsection (a).".

(B) Section 41(e) is amended—

(i) by striking all that precedes paragraph (6) and inserting the following:

"(e) BASIC RESEARCH PAYMENTS.—For purposes of this section—

"(1) IN GENERAL.—The term 'basic research payment' means, with respect to any taxable year, any amount paid in cash during such taxable year by a corporation to any qualified organization for basic research but only if—

"(A) such payment is pursuant to a written agreement between such corporation and such qualified organization, and

"(B) such basic research is to be performed by such qualified organization.

"(2) EXCEPTION TO REQUIREMENT THAT RESEARCH BE PERFORMED BY THE ORGANIZATION.—In the case of a qualified organization described in subparagraph (C) or (D) of paragraph (3), subparagraph (B) of paragraph (1) shall not apply.",

(ii) by redesignating paragraphs (6) and (7) as paragraphs (3) and (4), respectively, and

(iii) in paragraph (4) as so redesignated, by striking subparagraphs (B) and (C) and by redesignating subparagraphs (D) and (E) as subparagraphs (B) and (C), respectively.

(C)(i) Section 41(f)(1) is amended by striking ", basic research payments, and amounts paid or incurred to energy research consortiums," in subparagraphs (A)(ii) and (B)(ii) and inserting "and basic research payments".

(ii) Section 41(f) is amended by striking paragraph (6).

(4) EFFECTIVE DATE.—

(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by this subsection shall apply to taxable years beginning after December 31, 2013.

(B) PARAGRAPH (2).—The amendment made by paragraph (2) shall apply to amounts paid or incurred after December 31, 2013.

(b) OTHER REFORMS.—

(1) ELIMINATION OF CREDIT FOR COMPUTER SOFTWARE.—Subparagraph (E) of section 41(d)(4) is amended—

(A) by striking ''Except to the extent provided in regulations, any research'' and inserting ''Any research'', and

(B) by striking ''which is developed by'' and all that follows through the end and inserting a period.

(2) ELIMINATION OF INCREASED CREDIT FOR AMOUNTS PAID TO CERTAIN ENTITIES.—Paragraph (3) of section 41(b) is amended by striking subparagraphs (C) and (D).

(3) ELIMINATION OF CREDIT FOR SUPPLIES.—Subparagraph (A) of section 41(b)(2) is amended by inserting "and" at the end of clause (i), by striking clause (ii), and by redesignating clause (iii) as clause (ii).

(4) ELIMINATION OF ELECTION OF REDUCED CREDIT.—Section 280C(c) is amended by striking paragraphs (3) and (4).

(5) CONFORMING AMENDMENTS.—

(A) The second sentence of section 41(b)(2)(A) is amended by striking "Clause (iii)" and inserting "Clause (ii)".

(B) Section 41(b)(2) is amended by striking subparagraph (C) and by redesignating subparagraph (D) as subparagraph (C).

(C) Section 41(d)(2)(B) is amended by striking ", computer software".

(6) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2013.

SEC. 3204. LOW-INCOME HOUSING TAX CREDIT.

(a) REFORM OF LIMITATION AND ALLOCATION RULES.—

(1) ALLOCATIONS OF ELIGIBLE BASIS AMOUNTS RATHER THAN CREDIT AMOUNTS; ELIMINATION OF

NATIONAL REALLOCATIONS.—Subsection (h) of section 42 is amended to read as follows:

"(h) LIMITATION ON QUALIFIED BASIS WITH RESPECT TO PROJECTS LOCATED IN A STATE.—

"(1) QUALIFIED BASIS MAY NOT EXCEED LIMITATION AMOUNT ALLOCATED TO BUILDING.—

"(A) IN GENERAL.—The qualified basis of any building which is taken into account under subsection (a) for any taxable year shall not exceed the limitation amount allocated to such building under this subsection.

"(B) TIME FOR MAKING ALLOCATION.—Except in the case of an allocation which meets the requirements of subparagraph (C), (D), (E), or (F), an allocation shall be taken into account under subparagraph (A) only if it is made not later than the close of the calendar year in which the building is placed in service.

"(C) EXCEPTION WHERE BINDING COMMITMENT.—An allocation meets the requirements of this subparagraph if there is a binding commitment (not later than the close of the calendar year in which the building is placed in service) by the housing credit agency to allocate a specified limitation amount to such building beginning in a specified later taxable year.

"(D) EXCEPTION WHERE INCREASE IN QUALIFIED BASIS.—

"(i) IN GENERAL.—An allocation meets the requirements of this subparagraph if such allocation is made not later than the close of the calendar year in which ends the taxable year to which it will 1st apply but only to the extent the amount of such allocation does not exceed the limitation under clause (ii).

"(ii) LIMITATION.—The limitation under this clause is the excess of—

"(I) the qualified basis of such building as of the close of the 1st taxable year to which such allocation will apply, over

"(II) the qualified basis of such building as of the close of the 1st taxable year to which the most recent prior allocation with respect to such building applied.

"(iii) HOUSING CREDIT BASIS LIMITATION REDUCED BY FULL ALLOCATION.—

Notwithstanding clause (i), the full amount of the allocation shall be taken into account under paragraph (2).

"(E) EXCEPTION WHERE 10 PERCENT OF COST INCURRED.—

"(i) IN GENERAL.—An allocation meets the requirements of this subparagraph if such allocation is made with respect to a qualified building which is placed in service not later than the close of the second calendar year following the calendar year in which the allocation is made.

"(ii) QUALIFIED BUILDING.—For purposes of clause (i), the term 'qualified building' means any building which is part of a project if the taxpayer's basis in such project (as of the date which is 1 year after the date that the allocation was made) is more than 10 percent of the taxpayer's reasonably expected basis in such project (as of the close of the second calendar year referred to in clause (i)). Such term does not include any existing building unless a credit is allowable under subsection (e) for rehabilitation expenditures paid or incurred by the taxpayer with respect to such building for a taxable year ending during the second calendar year referred to in clause (i) or the prior taxable year.

"(F) ALLOCATION OF CREDIT ON A PROJECT BASIS.—

"(i) IN GENERAL.—In the case of a project which includes (or will include) more than 1 building, an allocation meets the requirements of this subparagraph if—

"(I) the allocation is made to the project for a calendar year during the project period,

"(II) the allocation only applies to buildings placed in service during or after the calendar year for which the allocation is made, and

"(III) the portion of such allocation which is allocated to any building in such project is specified not later than the close of the calendar year in which the building is placed in service.

"(ii) PROJECT PERIOD.—For purposes of clause (i), the term 'project period' means the period—

"(I) beginning with the 1st calendar year for which an allocation may be made for the 1st building placed in service as part of such project, and

"(II) ending with the calendar year the last building is placed in service as part of such project.

"(2) ALLOCATED LIMITATION AMOUNT TO APPLY TO ALL TAXABLE YEARS ENDING DURING OR AFTER ALLOCATION YEAR.—Any limitation amount allocated to any building for any calendar year—

"(A) shall apply to such building for all taxable years in the compliance period ending during or after such calendar year, and

"(B) shall reduce the aggregate limitation amount of the allocating agency only for such calendar year.

"(3) LIMITATION AMOUNT FOR AGENCIES.—

"(A) IN GENERAL.—The limitation amount which a housing credit agency may allocate for any calendar year is the portion of the State limitation allocated under this paragraph for such calendar year to such agency.

"(B) STATE LIMITATION INITIALLY ALLOCATED TO STATE HOUSING CREDIT AGENCIES.—Except as provided in subparagraph (F), the State limitation for each calendar year shall be allocated to the housing credit agency of such State. If there is more than 1 housing credit agency of a State, all such agencies shall be treated as a single agency.

"(C) STATE LIMITATION.—The State limitation applicable to any State for any calendar year shall be an amount equal to the sum of—

"(i) the unused State limitation (if any) of such State for the preceding calendar year,

"(ii) the greater of—

"(I) $31.20 multiplied by the State population, or

"(II) $36,300,000, plus

"(iii) the amount of State limitation returned in the calendar year.

"(D) UNUSED STATE LIMITATION.—For purposes of subparagraph (C)(i), the unused State limitation for any calendar year is the excess (if any) of the sum of the amounts described in clauses (ii) and (iii) of subparagraph (C) over the aggregate limitation amount allocated for such year.

"(E) STATE LIMITATION RETURNED IN THE CALENDAR YEAR.—For purposes of subparagraph (C)(iii), the amount of State limitation returned in the calendar year equals the limitation amount previously allocated within the State to any project—

"(i) which fails to meet the 10 percent test under paragraph (1)(E)(ii) on a date after the close of the calendar year in which the allocation was made,

"(ii) which does not become a qualified low-income housing project within the period required by this section or the terms of the allocation, or

"(iii) with respect to which an allocation is cancelled by mutual consent of the housing credit agency and the allocation recipient.

"(F) STATE MAY PROVIDE FOR DIFFERENT ALLOCATION.—For purposes of this paragraph, a State may by law provide (or a

Governor of a State may proclaim) a different formula for allocating the State limitation among the State housing credit agencies in such State.

"(G) POPULATION.—For purposes of this paragraph, determinations of the population of any State shall be made with respect to any calendar year on the basis of the most recent census estimate of the resident population of such State released by the Bureau of Census before the beginning of such calendar year.

"(H) COST-OF-LIVING ADJUSTMENT.—

"(i) IN GENERAL.—In the case of a calendar year after 2015, the dollar amounts in subparagraph (C)(ii) shall each be increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2014' for 'calendar year 2012' in clause (ii) thereof.

"(ii) ROUNDING.—

"(I) In the case of the dollar amount in subparagraph (C)(ii)(I), any increase under clause (i) which is not a multiple of 20 cents shall be rounded to the next lowest multiple of 20 cents.

"(II) In the case of the dollar amount in subparagraph (C)(ii)(II), any increase under clause (i) which is not a multiple of $100,000 shall be rounded to the next lowest multiple of $100,000.

"(4) PORTION OF STATE LIMITATION SET-ASIDE FOR CERTAIN PROJECTS INVOLVING QUALIFIED NONPROFIT ORGANIZATIONS.—

"(A) IN GENERAL.—Not more than 90 percent of the State limitation for any State for any calendar year shall be allocated to projects other than qualified low-income housing projects described in subparagraph (B).

"(B) PROJECTS INVOLVING QUALIFIED NONPROFIT ORGANIZATIONS.—For purposes of subparagraph (A), a qualified low-income housing project is described in this subparagraph if a qualified nonprofit organization is to own an interest in the project (directly or through a partnership) and materially participate (within the meaning of section 469(h)) in the development and operation of the project throughout the credit period.

"(C) QUALIFIED NONPROFIT ORGANIZATION.—For purposes of this paragraph, the term 'qualified nonprofit organization' means any organization if—

"(i) such organization is described in paragraph (3) or (4) of section 501(c) and is exempt from tax under section 501(a),

"(ii) such organization is determined by the State housing credit agency not to be affiliated with or controlled by a for-profit organization; and

"(iii) 1 of the exempt purposes of such organization includes the fostering of low-income housing.

"(D) TREATMENT OF CERTAIN SUBSIDIARIES.—

"(i) IN GENERAL.—For purposes of this paragraph, a qualified nonprofit organization shall be treated as satisfying the ownership and material participation test of subparagraph (B) if any qualified corporation in which such organization holds stock satisfies such test.

"(ii) QUALIFIED CORPORATION.—For purposes of clause (i), the term 'qualified corporation' means any corporation if 100 percent of the stock of such corporation is held by 1 or more qualified nonprofit organizations at all times during the period such corporation is in existence.

"(E) STATE MAY NOT OVERRIDE SET-ASIDE.—Nothing in subparagraph (F) of paragraph (3) shall be construed to permit a State not to comply with subparagraph (A) of this paragraph.

"(5) BUILDINGS ELIGIBLE FOR CREDIT ONLY IF MINIMUM LONG-TERM COMMITMENT TO LOW-INCOME HOUSING.—

"(A) IN GENERAL.—No credit shall be allowed by reason of this section with respect to any building for the taxable year unless an extended low-income housing commitment is in effect as of the end of such taxable year.

"(B) EXTENDED LOW-INCOME HOUSING COMMITMENT.—For purposes of this paragraph, the term 'extended low-income housing commitment' means any agreement between the taxpayer and the housing credit agency—

"(i) which requires that the applicable fraction (as defined in subsection (c)(1)) for the building for each taxable year in the extended use period will not be less than the applicable fraction specified in such agreement and which prohibits the actions described in subclauses (I) and (II) of subparagraph (E)(ii),

"(ii) which allows individuals who meet the income limitation applicable to the building under subsection (g) (whether prospective, present, or former occupants of the building) the right to enforce in any State court the requirement and prohibitions of clause (i),

"(iii) which prohibits the disposition to any person of any portion of the building to which such agreement applies unless all of the building to which such agreement applies is disposed of to such person,

"(iv) which prohibits the refusal to lease to a holder of a voucher or certificate of eligibility under section 8 of the United States Housing Act of 1937 because of the status of the prospective tenant as such a holder,

"(v) which is binding on all successors of the taxpayer, and

"(vi) which, with respect to the property, is recorded pursuant to State law as a restrictive covenant.

"(C) ALLOCATION OF LIMITATION AMOUNT MAY NOT EXCEED AMOUNT NECESSARY TO SUPPORT COMMITMENT.—The limitation amount allocated to any building may not exceed the amount necessary to support the applicable fraction specified in the extended low-income housing commitment for such building.

"(D) EXTENDED USE PERIOD.—For purposes of this paragraph, the term 'extended use period' means the period—

"(i) beginning on the 1st day in the credit period on which such building is part of a qualified low-income housing project, and

"(ii) ending on the later of—

"(I) the date specified by such agency in such agreement, or

"(II) the date which is 15 years after the close of the credit period.

"(E) EXCEPTIONS IF FORECLOSURE OR IF NO BUYER WILLING TO MAINTAIN LOW-INCOME STATUS.—

"(i) IN GENERAL.—The extended use period for any building shall terminate—

"(I) on the date the building is acquired by foreclosure (or instrument in lieu of foreclosure) unless the Secretary determines that such acquisition is part of an arrangement with the taxpayer a purpose of which is to terminate such period, or

"(II) on the last day of the period specified in subparagraph (I) if the housing credit agency is unable to present during such period a qualified contract for the acquisition of the low-income portion of the building by any person who will continue to operate such portion as a qualified low-income building.

Subclause (II) shall not apply to the extent more stringent requirements are provided in the agreement or in State law.

"(ii) EVICTION, ETC., OF EXISTING LOW-INCOME TENANTS NOT PERMITTED.—The termination of an extended use period under clause (i) shall not be construed to permit before the close of the 3-year period following such termination—

"(I) the eviction or the termination of tenancy (other than for good cause) of an existing tenant of any low-income unit, or

"(II) any increase in the gross rent with respect to such unit not otherwise permitted under this section.

"(F) QUALIFIED CONTRACT.—For purposes of subparagraph (E), the term 'qualified contract' means a bona fide contract to acquire (within a reasonable period after the contract is entered into) the nonlow-income portion of the building for fair market value and the low-income portion of the building for an amount not less than the applicable fraction (specified in the extended low-income housing commitment) of—

"(i) the sum of—

"(I) the outstanding indebtedness secured by, or with respect to, the building,

"(II) the adjusted investor equity in the building, plus

"(III) other capital contributions not reflected in the amounts described in subclause (I) or (II), reduced by

"(ii) cash distributions from (or available for distribution from) the project.

The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out this paragraph, including regulations to prevent the manipulation of the amount determined under the preceding sentence.

"(G) ADJUSTED INVESTOR EQUITY.—

"(i) IN GENERAL.—For purposes of subparagraph (F), the term 'adjusted investor equity' means, with respect to any calendar year, the aggregate amount of cash taxpayers invested with respect to the project increased by the amount equal to—

"(I) such amount, multiplied by

"(II) the cost-of-living adjustment for such calendar year, determined under section 1(c)(2)(A) by substituting the base calendar year for 'calendar year 2012' in clause (ii) thereof.

An amount shall be taken into account as an investment in the project only to the extent there was an obligation to invest such amount as of the beginning of the credit period and to the extent such amount is reflected in the adjusted basis of the project.

"(ii) COST-OF-LIVING INCREASES IN EXCESS OF 5 PERCENT NOT TAKEN INTO ACCOUNT.—Under regulations prescribed by the Secretary, if the C-CPI-U for any calendar year (within the meaning of section 1(c)) exceeds the C-CPI-U for the preceding calendar year by more than 5 percent, the C-CPI-U for the base calendar year shall be increased such that such excess shall never be taken into account under clause (i).

"(iii) BASE CALENDAR YEAR.—For purposes of this subparagraph, the term 'base calendar year' means the calendar year with or within which the 1st taxable year of the credit period ends.

"(H) LOW-INCOME PORTION.—For purposes of this paragraph, the low-income portion of a building is the portion of such building equal to the applicable fraction specified in the extended low-income housing commitment for the building.

"(I) PERIOD FOR FINDING BUYER.—The period referred to in this subparagraph is the 1-year period beginning on the date (after the 14th year of the credit period) the taxpayer submits a written request to the housing credit agency to find a person to acquire the taxpayer's interest in the low-income portion of the building.

"(J) EFFECT OF NONCOMPLIANCE.—If, during a taxable year, there is a determination that an extended low-income housing agreement was not in effect as of the beginning of such year, such determination shall not apply to any period before such year and subparagraph (A) shall be applied without regard to such determination if the failure is corrected within 1 year from the date of the determination.

"(K) PROJECTS WHICH CONSIST OF MORE THAN 1 BUILDING.—The application of this paragraph to projects which consist of more than 1 building shall be made under regulations prescribed by the Secretary.

"(6) SPECIAL RULES.—

"(A) BUILDING MUST BE LOCATED WITHIN JURISDICTION OF CREDIT AGENCY.—A housing credit agency may allocate its limitation amount only to buildings located in the jurisdiction of the governmental unit of which such agency is a part.

"(B) AGENCY ALLOCATIONS IN EXCESS OF LIMIT.—If the limitation amounts allocated by a housing credit agency for any calendar year exceed the portion of the State limitation allocated to such agency for such calendar year, the limitation amounts so allocated shall be reduced (to the extent of such excess) for buildings in the reverse of the order in which the allocations of such amounts were made.

"(C) CREDIT REDUCED IF CREDIT IS LESS THAN CREDIT WHICH WOULD BE ALLOWABLE WITHOUT REGARD TO PLACED IN SERVICE CONVENTION, ETC..—

"(i) IN GENERAL.—The amount of the credit determined under this section with respect to any building shall not exceed the clause (ii) percentage of the amount of the credit which would (but for this subparagraph) be determined under this section with respect to such building.

"(ii) DETERMINATION OF PERCENTAGE.—For purposes of clause (i), the clause (ii) percentage with respect to any building is the percentage which—

"(I) the credit amount which would be determined under this section with respect to the building if the limitation amount allocated to such building were equal to the qualified basis of such building, bears to

"(II) the credit amount determined in accordance with clause (iii).

"(iii) DETERMINATION OF CREDIT AMOUNT.—The credit amount determined in accordance with this clause is the amount of the credit which would (but for this subparagraph) be determined under this section with respect to the building if this section were applied without regard to subsection (f)(2)(A).

"(7) OTHER DEFINITIONS.—For purposes of this subsection—

"(A) HOUSING CREDIT AGENCY.—The term 'housing credit agency' means any agency authorized to carry out this subsection.

"(B) POSSESSIONS TREATED AS STATES.—The term 'State' includes a possession of the United States.".

(2) CONFORMING AMENDMENTS.—

(A) Section 42(f) is amended by striking paragraph (3).

(B) Section 42(i)(3)(B)(iii)(II) is amended by striking "subsection (h)(5)" and inserting "subsection (h)(4)".

(C) Section 42(i)(7)(A) is amended by striking "subsection (h)(5)(C)" and inserting "subsection (h)(4)(C)".

(D) Section 42(i)(8) is amended by striking the last sentence.

(E) Section 42(i) is amended by striking paragraph (9).

(F) Section 42(k)(2)(A) is amended by striking ''subsection (h)(5)'' and inserting ''subsection (h)(4)''.

(G) Section 42(l)(3) is amended by striking ''housing credit amount'' both places it appears and inserting ''limitation amount''.

(H) Section 42(m)(1)(A) is amended by striking ''housing credit dollar amount'' both places it appears and inserting ''limitation amount''.

(I) Section 42(m)(1)(B)(ii) is amended by striking ''housing credit dollar amounts'' and inserting ''limitation amounts''.

(J) Section 42(m)(1) is amended by striking subparagraph (D).

(K) Subparagraphs (A), (B)(iii), (C)(i)(I), and (C)(i)(II) of section 42(m)(2) are each amended by striking ''housing credit dollar amount'' and inserting ''limitation amount''.

(L) Section 42(m)(2) is amended by striking subparagraph (D).

(b) 15-YEAR CREDIT PERIOD.—

(1) IN GENERAL.—Section 42(f)(1) is amended by striking ''10 taxable years'' and inserting ''15 taxable years''.

(2) REPEAL OF RECAPTURE.—Section 42 is amended by striking subsection (j).

(3) CONFORMING AMENDMENTS.—

(A) Section 42(d)(7) is amended—

(i) by striking ''COMPLIANCE PERIOD'' in the heading thereof and inserting ''CREDIT PERIOD'', and

(ii) by striking ''compliance period'' in subparagraph (B)(ii) and inserting ''credit period''.

(B) Section 42(f)(4) is amended by striking the last sentence thereof.

(C) Section 42(i) is amended by striking paragraph (1).

(D) Section 42(i)(6) is amended by striking ''and any increase in tax under subsection (j)''.

(E) Section 42(k)(4)(C) is amended to read as follows:

''(C) SPECIAL RULES.—

''(i) TAX BENEFIT RULE.—The tax for the taxable year shall be increased under subparagraph (A) only with respect to credits allowed by reason of this section which were used to reduce tax liability. In the case of credits not so used to reduce tax liability, the carryforwards and carrybacks under section 39 shall be appropriately adjusted.

"(ii) NO CREDITS AGAINST TAX.—Any increase in tax under this paragraph shall not be treated as a tax imposed by this chapter for purposes of determining the amount of any credit under this chapter.".

(c) DETERMINATION OF APPLICABLE PERCENTAGE.—

(1) ELIMINATION OF 30 PERCENT CREDIT; MODIFICATION OF DISCOUNT RATE.—Subsection (b) of section 42 is amended to read as follows:

"(b) APPLICABLE PERCENTAGE.—

"(1) IN GENERAL.—For purposes of this section, the term 'applicable percentage' means with respect to any building, the appropriate percentage prescribed by the Secretary for the earlier of—

"(A) the month in which such building is placed in service, or

"(B) at the election of the taxpayer, the month in which the taxpayer and the housing credit agency enter into an agreement with respect to such building (which is binding on such agency, the taxpayer, and all successors in interest) as to the limitation amount to be allocated to such building.

A month may be elected under subparagraph (B) only if the election is made not later than the 5th day after the close of such month. Such an election, once made, shall be irrevocable.

"(2) METHOD OF PRESCRIBING PERCENTAGES.—The percentages prescribed by the Secretary for any month shall be percentages which will yield over a 15-year period amounts of credit under subsection (a) which have a present value equal to 70 percent of the qualified basis of the building.

"(3) METHOD OF DISCOUNTING.—

"(A) IN GENERAL.—The present value under paragraph (2) shall be determined—

"(i) as of the last day of the 1st year of the 15-year period referred to in paragraph (2),

"(ii) by using a discount rate equal to the applicable discount percentage of the average of the annual Federal mid-term rate and the annual Federal long-term rate applicable under section 1274(d)(1) to the month applicable under subparagraph (A) or (B) of paragraph (1) and compounded annually, and

''(iii) by assuming that the credit allowable under this section for any year is received on the last day of such year.

''(B) APPLICABLE DISCOUNT PERCENTAGE.—For purposes of this paragraph, the term 'applicable discount percentage' means, with respect to any month referred to in subparagraph (A)(ii) the number of percentage points by which 100 percent exceeds the highest rate of tax in effect under section 11 for a taxable year which begins in such month.

''(4) CROSS REFERENCE.—For treatment of certain rehabilitation expenditures as separate new buildings, see subsection (e).''.

(2) EXISTING AND FEDERALLY SUBSIDIZED BUILDINGS INELIGIBLE FOR CREDIT.—Section 42(d) is amended—

(A) by striking paragraphs (1), (2), and (6), and redesignating paragraphs (3), (4), (5), and (7) as paragraphs (2), (3), (4), and (5), respectively, and

(B) by inserting before paragraph (2) (as so redesignated) the following new paragraph:

"(1) IN GENERAL.—The eligible basis of any building is—

"(A) in the case a new building which is not Federally subsidized for the taxable year, its adjusted basis as of the close of the 1st taxable year of the credit period, and

"(B) zero in any other case.".

(3) CONFORMING AMENDMENTS.—

(A) Section 42(e) is amended—

(i) in paragraph (2)(B), by striking "paragraph (3) or (4)" and inserting "paragraph (2) or (3)".

(ii) in paragraph (3), by striking subparagraph (B) and redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively,

(iii) in paragraph (4), by striking the last sentence thereof, and

(iv) by striking paragraph (5) and redesignating paragraph (6) as paragraph (5).

(B) Section 42(f) is amended by striking paragraph (5).

(C) Section 42(i)(2)(A) is amended by striking ''for purposes of subsection (b)(1),''.

(D) Section 42(i)(3) is amended—

(i) by striking ''(as defined in subsection (d)(2)(D)(iii))'' in subparagraph (C)(ii) and inserting ''(within the meaning of subparagraph (F))'', and

(ii) by adding at the end the following new subparagraph:

''(F) RELATED PERSON.—For purposes of subparagraph (C), a person (hereinafter in this subparagraph referred to as the 'related person') is related to any person if the related person bears a relationship to such person specified in section 267(b) or 707(b)(1), or the related person and such person are engaged in trades or businesses under common control (within the meaning of subsections (a) and (b) of section 52).''.

(E) Section 42(i) is amended by striking paragraph (5).

(F) Section 42(k)(2)(B) is amended by striking ", except that'' and all that follows and inserting a period.

(d) REPEAL OF SPECIAL RULES FOR BUILDINGS IN HIGH COST AND DIFFICULT DEVELOPMENT AREAS.—

(1) IN GENERAL.—Paragraph (4) of section 42(d), as redesignated by subsection (c)(2), is amended to read as follows:

"(4) FEDERAL GRANTS NOT TAKEN INTO ACCOUNT IN DETERMINING ELIGIBLE BASIS.—The eligible basis of a building shall not include any costs financed with the proceeds of a federally funded grant.''.

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (3) of section 42(d), as redesignated by subsection (c)(2), is amended—

(i) by striking "(as defined in paragraph (5)(C))'' in subparagraph (C)(i), and

(ii) by adding at the end the following new subparagraph:

"(E) QUALIFIED CENSUS TRACT.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'qualified census tract' means any census tract which is designated by the Secretary of Housing and Urban Development and, for the most recent year for which census data are available on household income in such tract, either in which 50 percent or more of the households have an income which is less than 60 percent of the area median gross income for such year or which has a poverty rate of at least 25 percent. If the Secretary of Housing and Urban Development determines that sufficient data for any period are not available to apply this subparagraph on the basis of census tracts, such Secretary shall apply this subparagraph for such period on the basis of enumeration districts.

"(ii) LIMIT ON MSA'S DESIGNATED.—The portion of a metropolitan statistical area which may be designated for purposes of this subparagraph shall not exceed an area having 20 percent of the population of such metropolitan statistical area.

"(iii) DETERMINATION OF AREAS.—For purposes of this subparagraph, each metropolitan statistical area shall be treated as a separate area and all nonmetropolitan areas in a State shall be treated as 1 area.''.

(B) Clause (i) of section 42(d)(5)(A), as redesignated by subsection (c)(2), is amended to read as follows:

''(i) such building shall be treated as a new building, but''.

(e) REPEAL OF CERTAIN EXCEPTIONS TO RULES AGAINST PREFERENTIAL TREATMENT.—Section 42(g)(9) is amended—

(1) by adding ''or'' at the end of subparagraph (A), and

(2) by striking subparagraphs (B) and (C) and inserting the following new subparagraph:

''(B) who are veterans (as defined in section 101 of title 38, United States Code).''.

(f) MODIFICATION OF SELECTION CRITERIA.—Section 42(m)(1)(C) is amended—

(1) by adding ''and'' at the end of clause (vii),

(2) by striking the comma at the end of clause (viii) and inserting a period, and

(3) by striking clauses (ix) and (x).

(g) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply with respect to State limitation amounts determined for calendar years after 2014 (and to determinations with respect to allocations of such limitation amounts).

(2) TRANSITION RULE.—For purposes of determining the State limitation amount for calendar year 2015 under section 42(h)(3)(C) of the Internal Revenue Code of 1986, as amended by this section, the amount described in clause (i) of such section shall be treated as being equal to the quotient of—

(A) the amount which would be described in section 42(h)(3)(C)(i) of such Code (determined without regard to the amendments made by this section), divided by

(B) the applicable percentage determined under section 42(b)(1)(B)(i) for December 2014 (determined without regard to the amendments made by this section).

SEC. 3205. REPEAL OF ENHANCED OIL RECOVERY CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 43 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (6).

(2) Section 6501(m) is amended by striking "43,".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 3206. PHASEOUT AND REPEAL OF CREDIT FOR ELECTRICITY PRODUCED FROM CERTAIN RENEWABLE RESOURCES.

(a) REDUCTION OF CREDIT AND PHASEOUT AMOUNTS.—

(1) IN GENERAL.—Section 45(b) is amended by striking paragraph (2).

(2) CONFORMING AMENDMENTS.—Section 45(e)(2) is amended—

(A) by striking "the inflation adjustment factor and" in subparagraph (A), and

(B) by striking subparagraph (B) and redesignating subparagraph (C) as subparagraph (B).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to electricity, and refined coal, produced and sold after December 31, 2014.

(b) SPECIAL RULE FOR DETERMINING BEGINNING OF CONSTRUCTION.—

(1) IN GENERAL.—Section 45(e) is amended by adding at the end the following new paragraph:

"(12) SPECIAL RULE FOR DETERMINING BEGINNING OF CONSTRUCTION.—For purposes of subsection (d) and section 48(a)(5), the construction of any facility, modification, improvement, addition, or other property shall not be treated as beginning before any date unless there is a continuous program of construction which begins before such date and ends on the date that such property is placed in service.".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to taxable years beginning before, on, or after the date of the enactment of this Act.

(c) REPEAL OF CREDIT.—

(1) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45 (and by striking the item relating to such section in the table of sections for such subpart).

(2) CONFORMING AMENDMENT.—Section 38(b) is amended by striking paragraph (8).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to electricity, and refined coal, produced and sold after December 31, 2024.

SEC. 3207. REPEAL OF INDIAN EMPLOYMENT CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45A (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—

(1) Section 38(b) is amended by striking paragraph (10).

(2) Section 139D(c)(1) is amended to read as follows:

"(1) INDIAN TRIBE.—The term 'Indian tribe' means any Indian tribe, band, nation, pueblo, or other organized group or community, including any Alaska Native village or regional or village corporation, as defined in, or established pursuant to, the Alaska Native Claims Settlement Act (43 U.S.C. 1601 et seq.) which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.".

(3) Section 280C(a) is amended by striking "45A,".

(4) Section 5000A(e)(3) is amended by striking "section 45A(c)(6)" and inserting "section 139D(c)(1)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2013.

SEC. 3208. REPEAL OF CREDIT FOR PORTION OF EMPLOYER SOCIAL SECURITY TAXES PAID WITH RESPECT TO EMPLOYEE CASH TIPS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45B (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (11).

(2) Section 6501(m) is amended by striking "45B,".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to tips received for services performed after December 31, 2014.

SEC. 3209. REPEAL OF CREDIT FOR CLINICAL TESTING EXPENSES FOR CERTAIN DRUGS FOR RARE DISEASES OR CONDITIONS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45C (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (12).

(2) Section 280C is amended by striking subsection (b).

(3) Section 6501(m) is amended by striking "45C(d)(4),".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3210. REPEAL OF CREDIT FOR SMALL EMPLOYER PENSION PLAN STARTUP COSTS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45E (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—Section 38(b) is amended by striking paragraph (14).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to costs paid or incurred after December 31, 2014, with respect to qualified employer plans first effective after such date.

SEC. 3211. REPEAL OF EMPLOYER-PROVIDED CHILD CARE CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45F (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (15).

(2) Section 1016(a) is amended by striking paragraph (28).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) BASIS ADJUSTMENTS.—The amendment made by subsection (b)(2) shall apply to credits determined for taxable years beginning after December 31, 2014.

SEC. 3212. REPEAL OF RAILROAD TRACK MAINTENANCE CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45G (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (16).

(2) Section 1016(a) is amended by striking paragraph (29).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2013.

(2) BASIS ADJUSTMENTS.—The amendment made by subsection (b)(2) shall apply to credits determined for taxable years beginning after December 31, 2013.

SEC. 3213. REPEAL OF CREDIT FOR PRODUCTION OF LOW SULFUR DIESEL FUEL.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45H (and by striking the item relating to such section in the table of sections for such subpart).

(b) Conforming Amendments.—

(1) Section 38(b) is amended by striking paragraph (18).

(2) Section 280C is amended by striking subsection (d).

(3) Section 6501(m) is amended by striking "45H(g),".

(4) Section 6720A is amended—

(A) by striking "(as defined in section 45H(c)(3))" in subsection (a), and

(B) by adding at the end the following new subsection:

"(c) Applicable EPA Regulations.—The term 'applicable EPA regulations' means the Highway Diesel Fuel Sulfur Control Requirements of the Environmental Protection Agency.".

(c) Effective Date.—The amendments made by this section shall apply to expenses paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3214. REPEAL OF CREDIT FOR PRODUCING OIL AND GAS FROM MARGINAL WELLS.

(a) In General.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45I (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 38(b) is amended by striking paragraph (19).

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

SEC. 3215. REPEAL OF CREDIT FOR PRODUCTION FROM ADVANCED NUCLEAR POWER FACILITIES.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45J (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 38(b) is amended by striking paragraph (21).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to electricity produced and sold after December 31, 2014.

SEC. 3216. REPEAL OF CREDIT FOR PRODUCING FUEL FROM A NONCONVENTIONAL SOURCE.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45K (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (22).

(2) Section 45(e)(9) is amended—

(A) in subparagraph (A)—

(i) by inserting ", as in effect before its repeal" after "within the meaning of section 45K", and

(ii) by inserting "(as in effect before its repeal)" after "under section 45K", and

(B) in subparagraph (B), by inserting "(as in effect before its repeal)" after "section 45K".

(3) Section 4041(a)(2) is amended—

(A) by striking "(as defined in section 45K(c)(3))" in subparagraph (B)(ii), and

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

"(C) BIOMASS.—The term "biomass" means any organic material other than—

"(i) oil and natural gas (or any product thereof), and

"(ii) coal (including lignite) or any product thereof.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to fuel produced and sold after December 31, 2013.

SEC. 3217. REPEAL OF NEW ENERGY EFFICIENT HOME CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45L (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (23).

(2) Section 1016(a) is amended by striking paragraph (32).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to homes acquired after December 31, 2013.

SEC. 3218. REPEAL OF ENERGY EFFICIENT APPLIANCE CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45M (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 38(b) is amended by striking paragraph (24).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to appliances produced after December 31, 2013.

SEC. 3219. REPEAL OF MINE RESCUE TEAM TRAINING CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45N (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (31).

(2) Section 280C is amended by striking subsection (e).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2013.

SEC. 3220. REPEAL OF AGRICULTURAL CHEMICALS SECURITY CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45O (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (32).

(2) Section 280C is amended by striking subsection (f).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2012.

SEC. 3221. REPEAL OF CREDIT FOR CARBON DIOXIDE SEQUESTRATION.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45Q (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 38(b) is amended by striking paragraph (34).

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

SEC. 3222. REPEAL OF CREDIT FOR EMPLOYEE HEALTH INSURANCE EXPENSES OF SMALL EMPLOYERS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45R (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (36).

(2) Section 280C is amended by striking subsection (h).

(3) Section 6055(b)(2) is amended by inserting ‘‘and’’ at the end of subparagraph (A), by striking ‘‘, and’’ at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred for taxable years beginning after December 31, 2014.

SEC. 3223. REPEAL OF REHABILITATION CREDIT.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 is amended by striking section 47 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 170(f)(14)(A) is amended by inserting ‘‘(as in effect before its repeal by the Tax Reform Act of 2014)’’ after ‘‘section 47’’.

(2) Section 170(h)(4) is amended—

(A) by striking ‘‘(as defined in section 47(c)(3)(B))’’ in subparagraph (C)(ii), and

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

‘‘(D) REGISTERED HISTORIC DISTRICT.—The term ‘registered historic district’ means—

‘‘(i) any district listed in the National Register, and "(ii) any district—

"(I) which is designated under a statute of the appropriate State or local government, if such statute is certified by the Secretary of the Interior to the Secretary as containing criteria which will substantially achieve the purpose of preserving and rehabilitating buildings of historic significance to the district, and

"(II) which is certified by the Secretary of the Interior to the Secretary as meeting substantially all of the requirements for the listing of districts in the National Register.".

(3) Section 469(i)(3) is amended by striking subparagraph (B).

(4) Section 469(i)(6)(B) is amended—

(A) by striking "in the case of—" and all that follows and inserting "in the case of any credit determined under section 42 for any taxable year.", and

(B) by striking ", REHABILITATION CREDIT," in the heading thereof.

(5) Section 469(k)(1) is amended by striking ", or any rehabilitation credit determined under section 47,".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to amounts paid after December 31, 2014.

(2) TRANSITION RULE.—In the case of qualified rehabilitation expenditures (within the meaning of section 47 of the Internal Revenue Code of 1986 as in effect before its repeal) with respect to any building—

(A) acquired by the taxpayer before January 1, 2015, and

(B) with respect to which the 24-month period selected by the taxpayer under section 47(c)(1)(C) of such Code begins not later than January 1, 2015,

the amendments made by this section shall apply to amounts paid after December 31, 2016.

SEC. 3224. REPEAL OF ENERGY CREDIT.

(a) TERMINATION.—Section 48 is amended by adding at the end the following new subsection:

"(e) APPLICATION OF SECTION.—This section shall not apply to any energy property placed in service after December 31, 2016.".

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (2)(A)(i)(II), and clauses (ii) and (vii) of paragraph (3)(A), of section 48(a) are each amended by striking "but only with respect to periods ending before January 1, 2017".

(2) Paragraph (1) of section 48(c) is amended by striking subparagraph (D).

(3) Paragraph (2) of section 48(c) is amended by striking subparagraph (D).

(4) Subparagraph (A) of section 48(c)(3) is amended by inserting "and" at the end of clause (ii), by striking ", and" at the end of clause (iii) and inserting a period, and by striking clause (iv).

(5) Paragraph (4) of section 48(c) is amended by striking subparagraph (C).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2016.

SEC. 3225. REPEAL OF QUALIFYING ADVANCED COAL PROJECT CREDIT.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 is amended by striking section 48A (and by striking the item relating to such section in the table of sections for such subpart).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to allocations and reallocations after December 31, 2014.

SEC. 3226. REPEAL OF QUALIFYING GASIFICATION PROJECT CREDIT.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 is amended by striking section 48B (and by striking the item relating to such section in the table of sections for such subpart).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to allocations and reallocations after December 31, 2014.

SEC. 3227. REPEAL OF QUALIFYING ADVANCED ENERGY PROJECT CREDIT.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 is amended by striking section 48C (and by striking the item relating to such section in the table of sections for such subpart).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to allocations and reallocations after December 31, 2014.

SEC. 3228. REPEAL OF QUALIFYING THERAPEUTIC DISCOVERY PROJECT CREDIT.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 is amended by striking section 48D (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—Section 280C is amended by striking the second subsection (g) (as added by the Patient Protection and Affordable Care Act).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to allocations and reallocations after December 31, 2014.

SEC. 3229. REPEAL OF WORK OPPORTUNITY TAX CREDIT.

(a) IN GENERAL.—Subpart F of part IV of subchapter A of chapter 1 is amended by striking section 51 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CLERICAL AMENDMENT.—The heading of such subpart F (and the item relating to such subpart in the table of subparts for part IV of subchapter A of chapter 1) are each amended by striking ''Rules for Computing Work Opportunity Credit'' and inserting ''Special Rules''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred to individuals who begin work for the employer after December 31, 2013.

SEC. 3230. REPEAL OF DEDUCTION FOR CERTAIN UNUSED BUSINESS CREDITS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 196 (and by striking the item relating to such section in the table of sections for such part).

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

Subtitle D—Accounting Methods

SEC. 3301. LIMITATION ON USE OF CASH METHOD OF ACCOUNTING.

(a) IN GENERAL.—Section 448 is amended to read as follows:

"SEC. 448. LIMITATION ON USE OF CASH METHOD OF ACCOUNTING.

"(a) IN GENERAL.—The cash receipts and disbursements method of accounting may only be used by—

"(1) a natural person,

"(2) a farming business, and

"(3) any other entity which meets the gross receipts test of subsection (b) for the taxable year.

Such method may not be used by a tax shelter (as defined in subsection (d)).

"(b) GROSS RECEIPTS TEST.—For purposes of this section—

"(1) IN GENERAL.—An entity meets the gross receipts test of this subsection for any taxable year if the average annual gross receipts of such entity for the 3-taxable-year period ending with the taxable year which precedes such taxable year does not exceed $10,000,000.

"(2) AGGREGATION RULES.—All persons treated as a single employer under subsection (a) or (b) of section 52 or subsection (m) or (o) of section 414 shall be treated as one entity for purposes of paragraph (1).

"(3) SPECIAL RULES.—For purposes of this subsection—

"(A) NOT IN EXISTENCE FOR ENTIRE 3-YEAR PERIOD.—If the entity was not in existence for the entire 3-year period referred to in paragraph (1), such paragraph shall be applied on the basis of the period during which such entity (or trade or business) was in existence.

"(B) SHORT TAXABLE YEARS.—Gross receipts for any taxable year of less than 12 months shall be annualized by multiplying the gross receipts for the short period by 12 and dividing the result by the number of months in the short period.

"(C) GROSS RECEIPTS.—Gross receipts for any taxable year shall be reduced by returns and allowances made during such year.

"(D) TREATMENT OF PREDECESSORS.—Any reference in this subsection to an entity shall include a reference to any predecessor of such entity.

"(c) FARMING BUSINESS.—For purposes of this section—

"(1) IN GENERAL.—The term 'farming business' means the trade or business of farming.

"(2) CERTAIN TRADES AND BUSINESSES INCLUDED.—

"(A) IN GENERAL.—The term 'farming business' shall include the trade or business of—

"(i) operating a nursery or sod farm, or

"(ii) the raising or harvesting of trees bearing fruit, nuts, or other crops, or ornamental trees.

"(B) CERTAIN EVERGREEN TREES NOT TREATED AS ORNAMENTAL.—For purposes of subparagraph (A)(ii), an evergreen tree which is more than 6 years old at the time severed from the roots shall not be treated as an ornamental tree.

"(d) TAX SHELTER DEFINED.—For purposes of this section, the term 'tax shelter' has the meaning given such term by section 461(i)(2) (determined after application of paragraph (3) thereof). An S corporation shall not be treated as a tax shelter for purposes of this section merely by reason of being required to file a notice of exemption from registration with a State agency described in section 461(i)(2)(A), but only if there is a requirement applicable to all corporations offering securities for sale in the State that to be exempt from such registration the corporation must file such a notice.

"(e) SPECIAL RULES.—For purposes of this section—

"(1) COORDINATION WITH SECTION 481.—In the case of any person required by this section to change its method of accounting for any taxable year—

"(A) such change shall be treated as initiated by such person, and

"(B) such change shall be treated as made with the consent of the Secretary.

"(2) USE OF RELATED PARTIES, ETC.—The Secretary shall prescribe such regulations as may be necessary to prevent the use of related parties, pass-thru entities, or intermediaries to avoid the application of this section.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 446(c)(1) is amended by inserting ''to the extent provided in section 448,'' before ''the cash receipts''.

(2) Section 451 is amended by adding at the end the following new subsection:

''(j) SPECIAL RULE FOR LOSSES OF CERTAIN SERVICE PROVIDERS ON ACCRUAL METHOD OF ACCOUNTING.—

''(1) IN GENERAL.—In the case of any person using an accrual method of accounting with respect to amounts to be received for the performance of services by such person, such person shall not be required to accrue any portion of such amounts which (on the basis of such person's experience) will not be collected if such services are in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other field identified by the Secretary for purposes of this subsection.

''(2) EXCEPTION.—Paragraph (1) shall not apply to any amount if interest is required to be paid on such amount or there is any penalty for failure to timely pay such amount.

"(3) REGULATIONS.—The Secretary shall prescribe regulations to permit taxpayers to determine amounts referred to in paragraph (1) using computations or formulas which, based on experience, accurately reflect the amount of income that will not be collected by such person. A taxpayer may adopt, or request consent of the Secretary to change to, a computation or formula that clearly reflects the taxpayer's experience. A request under the preceding sentence shall be approved if such computation or formula clearly reflects the taxpayer's experience.".

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

(d) CHANGE IN METHOD OF ACCOUNTING.—

(1) IN GENERAL.—In the case of any qualified change in method of accounting for the taxpayer's first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) if the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 by reason of such change is positive—

(i) such amount shall be taken into account during the 4-taxable year period beginning with the earlier of the taxpayer's elected taxable year or the taxpayer's first taxable year beginning after December 31, 2018, as follows:

(I) 10 percent of such amount in the first taxable year in such period,

(II) 15 percent of such amount in the second taxable year in such period,

(III) 25 percent of such amount in the third taxable year in such period, and

(IV) 50 percent of such amount in the fourth taxable year in such period, and

(ii) for purposes of applying the regulations and other guidance issued under such section (including any provisions which require accelerated inclusion), the period beginning with the taxpayer's first taxable year beginning after December 31 2014, and ending with the taxable year before the first taxable year referred to in clause (i) shall not fail to be taken into account as part of the period of the adjustment merely because such amount is not otherwise taken into account under clause (i) during such period.

(2) QUALIFIED CHANGE IN METHOD OF ACCOUNTING.—For purposes of this subsection, the term ''qualified change in method of accounting'' means any change in method of accounting which—

(A) is required by the amendments made by this section, or

(B) was prohibited under the Internal Revenue Code of 1986 prior to such amendments and is permitted under such Code after such amendments.

(3) ELECTED TAXABLE YEAR.—For purposes of this subsection, the term ''elected taxable year''

means such taxable year as the taxpayer may elect (at such time and in such form and manner as the Secretary may provide) which begins after December 31, 2014, and is before the taxpayer's second taxable year beginning after December 31, 2018.

SEC. 3302. RULES FOR DETERMINING WHETHER TAXPAYER HAS ADOPTED A METHOD OF ACCOUNTING.

(a) IN GENERAL.—Section 446 is amended by adding at the end the following new subsection:

"(g) RULES FOR TREATING ACCOUNTING METHOD AS ADOPTED BY TAXPAYER.—If the taxpayer uses a method of accounting with respect to any item on any return of tax—

"(1) in the case of any method of accounting which the taxpayer is permitted to use with respect to such item, such method shall be treated as having been adopted by the taxpayer with respect to such item, and

"(2) in the case of any method of accounting which the taxpayer is not permitted to use with respect to such item, such method shall be treated as having been adopted by the taxpayer with respect to such item if the taxpayer used the same method with respect to such item on the return of tax for the preceding taxable year.".

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

SEC. 3303. CERTAIN SPECIAL RULES FOR TAXABLE YEAR OF INCLUSION.

(a) INCLUSION NOT LATER THAN FOR FINANCIAL ACCOUNTING PURPOSES.—Section 451 is amended by redesignating subsections (b) through (j) as subsection (c) through (k), respectively, and by inserting after subsection (a) the following new subsection:

''(b) INCLUSION NOT LATER THAN FOR FINANCIAL ACCOUNTING PURPOSES.—

''(1) IN GENERAL.—In the case of a taxpayer the taxable income of which is computed under the accrual method of accounting, the amount of any portion of any item of income shall be included in gross income not later than the taxable year with respect to which such amount is taken into account as income in—

''(A) an audited financial statement of the taxpayer described in section 1221(b)(3)(B), or

''(B) such other financial statement as the Secretary may specify for purposes of this subsection.

"(2) COORDINATION WITH SPECIAL RULES FOR LONG-TERM CONTRACTS.—Paragraph (1) shall not apply with respect to any item of income to which section 460 applies.".

(b) TREATMENT OF ADVANCE PAYMENTS.—Section 451, as amended by subsection (a), is amended by redesignating subsections (c) through (k) as subsections (d) through (l), respectively, and by inserting after subsection (b) the following new subsection:

"(c) TREATMENT OF ADVANCE PAYMENTS.—

"(1) IN GENERAL.—A taxpayer which computes taxable income under the accrual method of accounting, and receives any advance payment during the taxable year, shall—

"(A) except as provided in subparagraph (B), include such advance payment in gross income for such taxable year, or

"(B) if the taxpayer elects the application of this subparagraph with respect to the category of advance payments to which such advance payment belongs, the taxpayer shall—

"(i) to the extent that any portion of such advance payment is required under subsection (b) to be included in gross income in the taxable year in which such payment is received, so include such portion, and

"(ii) include the remaining portion of such advance payment in gross income in the taxable year following the taxable year in which such payment is received.

"(2) ELECTION.—

"(A) IN GENERAL.—Except as otherwise provided in this paragraph, the election under paragraph (1)(B) shall be made at such time, in such form and manner, and with respect to such categories of advance payments, as the Secretary may provide.

"(B) PERIOD TO WHICH ELECTION APPLIES.—An election under paragraph (1)(B) shall be effective for the taxable year with respect to which it is first made and for all subsequent taxable years, unless the taxpayer secures the consent of the Secretary to revoke such election. For purposes of this title, the computation of taxable income under an election made under paragraph (1)(B) shall be treated as a method of accounting.

"(3) ADVANCE PAYMENT.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'advance payment' means any payment—

"(i) the full inclusion of which in the gross income of the taxpayer for the taxable year of receipt is a permissible method of accounting under this section (determined without regard to this subsection), and

"(ii) which is for goods, services, or such other items as may be identified by the Secretary for purposes of this clause.

"(B) EXCLUSIONS.—Except as otherwise provided by the Secretary, such term shall not include—

"(i) rent,

"(ii) insurance premiums,

"(iii) payments with respect to financial instruments,

"(iv) payments with respect to warranty or guarantee contracts under which a third party is the primary obligor,

"(v) payments subject to section 871(a), 881, 1441, or 1442,

"(vi) payments in property to which section 83 applies, and "(vii) any other payment identified by the Secretary for purposes of this subparagraph.".

(c) CROP INSURANCE PROCEEDS AND DISASTER PAYMENTS.—Section 451, as amended by subsections (a) and (b), is amended by striking subsection (f).

(d) LIVESTOCK SOLD ON ACCOUNT OF DROUGHT, FLOOD, AND OTHER WEATHER-RELATED CONDITIONS.—Section 451, as amended by subsections (a) and (b), is amended by striking subsection (g).

(e) SALES OR DISPOSITIONS TO IMPLEMENT FEDERAL ENERGY REGULATORY COMMISSION OR STATE ELECTRIC RESTRUCTURING POLICY.—Section 451, as amended by subsections (a) and (b), is amended by striking subsection (k).

(f) CONFORMING AMENDMENTS.—Section 451, as amended by subsections (a), (b), (c), (d), and (e), is amended by redesignating subsections (h), (i), (j), and (l) as subsections (f), (g), (h), and (i), respectively.

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) CROP INSURANCE PROCEEDS AND DISASTER PAYMENTS.——

(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by subsection (c) shall apply to destruction and damage of crops occurring after December 31, 2014.

(B) INABILITY TO PLANT.—In the case of inability to plant crops because of a natural disaster, the amendments made by subsection (c) shall apply to natural disasters occurring after December 31, 2014.

(3) LIVESTOCK.—The amendments made by subsection (d) shall apply to sales and exchanges after December 31, 2014.

(4) SALES OR DISPOSITIONS TO IMPLEMENT ELECTRIC RESTRUCTURING POLICY.—The amendments made by subsection (e) shall apply to sales and dispositions after December 31, 2013.

(5) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by subsections (a) and (b) to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer, and

(B) such change shall be treated as made with the consent of the Secretary of the Treasury.

SEC. 3304. INSTALLMENT SALES.

(a) REPEAL OF EXCEPTIONS TO TREATMENT AS DEALER DISPOSITIONS.—Section 453(l) is amended to read as follows:

''(l) DEALER DISPOSITIONS.—For purposes of subsection (b)(2)(A), the term 'dealer disposition' means any of the following dispositions:

''(1) PERSONAL PROPERTY.—Any disposition of personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan.

''(2) REAL PROPERTY.—Any disposition of real property which is held by the taxpayer for sale to customers in the ordinary course of the taxpayer's trade or business.''.

(b) MODIFICATION OF RULES FOR NONDEALERS.—

(1) REPEAL OF SPECIAL RULE FOR INTEREST PAYMENTS.—Section 453A(b)(2) is amended to read as follows:

"(2) INTEREST PAYMENT EXCEPTION FOR OBLIGATIONS NOT OUTSTANDING AT CLOSE OF TAXABLE YEAR.—Subsection (a)(1) shall apply to an obligation described in paragraph (1) arising during any taxable year only if such obligation is outstanding as of the close of such taxable year.".

(2) REPEAL OF EXCEPTION FOR FARM PROPERTY.—Section 453A(b)(3) is amended—

(A) by striking "from the disposition—" and all that follows and inserting "from the disposition by an individual of personal use property (within the meaning of section 1275(b)(3)).", and

(B) by striking "AND FARM" in the heading.

(3) REPEAL OF SPECIAL RULE FOR TIMESHARES AND RESIDENTIAL LOTS.—Section 453A(b) is amended by striking paragraph (4) and by redesignating paragraph (5) as paragraph (4).

(4) CONFORMING AMENDMENT.—Section 453A(c) is amended—

(A) by striking "the applicable percentage of" in paragraph (2)(A), and

(B) by striking paragraph (4) and by redesignating paragraphs (5) and (6) as paragraphs (4) and (5), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales and other dispositions after December 31, 2014.

SEC. 3305. REPEAL OF SPECIAL RULE FOR PREPAID SUBSCRIPTION INCOME.

(a) IN GENERAL.—Subpart B of part II of subchapter E of chapter 1 is amended by striking section 455 (and by striking the item relating to such section in the table of sections for such subpart).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to payments received after December 31, 2014.

SEC. 3306. REPEAL OF SPECIAL RULE FOR PREPAID DUES INCOME OF CERTAIN MEMBERSHIP ORGANIZATIONS.

(a) IN GENERAL.—Subpart B of part II of subchapter E of chapter 1 is amended by striking section 456 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 277(b)(2) is amended by inserting ''(as in effect before its repeal)'' after ''section 456(c)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to payments received after December 31, 2014.

SEC. 3307. REPEAL OF SPECIAL RULE FOR MAGAZINES, PAPERBACKS, AND RECORDS RETURNED AFTER CLOSE OF THE TAXABLE YEAR.

(a) IN GENERAL.—Subpart B of part II of subchapter E of chapter 1 is amended by striking section 458 (and by striking the item relating to such section in the table of sections for such subpart).

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer, and

(B) such change shall be treated as made with the consent of the Secretary of the Treasury.

SEC. 3308. MODIFICATION OF RULES FOR LONG-TERM CONTRACTS.

(a) REPEAL OF EXCEPTION FOR HOME CONSTRUCTION CONTRACTS.—Paragraph (1) of section 460(e) is amended to read as follows:

"(1) EXCEPTION FOR CERTAIN CONSTRUCTION CONTRACTS.—Subsections (a), (b), and (c)(1) and (2) shall not apply to any construction contract entered into by a taxpayer—

"(A) who estimates (at the time such contract is entered into) that such contract will be completed within the 2-year period beginning on the contract commencement date of such contract, and

"(B) whose average annual gross receipts for the 3 taxable years preceding the taxable year in which such contract is entered into do not exceed $10,000,000.

For purposes of this paragraph, rules similar to the rules of paragraphs (2) and (3) of section 448(b) shall apply.".

(b) REPEAL OF SPECIAL RULE FOR OTHER RESIDENTIAL CONSTRUCTION CONTRACTS.—Section 460(e) is amended by striking paragraphs (5) and (6).

(c) REPEAL OF SPECIAL RULES FOR QUALIFIED SHIP CONTRACTS.—

(1) IN GENERAL.—Section 10203(b) of the Revenue Act of 1987 is amended by striking paragraph (2).

(2) QUALIFIED NAVAL SHIP CONTRACTS.—The American Jobs Creation Act of 2004 is amended by striking section 708.

(d) CONFORMING AMENDMENTS.—Section 460(e) is amended by striking paragraphs (2) and (3) and by redesignating paragraph (4) as paragraph (2).

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to contracts entered into after December 31, 2014.

SEC. 3309. NUCLEAR DECOMMISSIONING RESERVE FUNDS.

(a) GROSS INCOME ON NUCLEAR DECOMMISSIONING RESERVE FUNDS TAXED AT CORPORATE RATE.—Section 468A(e)(2) is amended by striking ''at the rate of 20 percent'' and inserting ''at a rate equal to the maximum rate in effect for such taxable year under section 11''.

(b) INCOME INCLUSION UPON DISQUALIFIED DISTRIBUTION.—Section 468A(c)(1) is amended by striking ''and'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', and'', and by adding at the end the following new subparagraph:

"(C) if any distribution is made from the Fund during such taxable year which is not used as provided in subsection (e)(4), the balance of the Fund determined immediately before such distribution.".

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

SEC. 3310. REPEAL OF LAST-IN, FIRST-OUT METHOD OF INVENTORY.

(a) IN GENERAL.—Section 471 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) LAST-IN, FIRST-OUT METHOD NOT PERMISSIBLE.—The last-in, first-out method of determining inventories shall in no event be treated as clearly reflecting income.".

(b) CONFORMING AMENDMENTS.—

(1) Subpart D of part II of subchapter E of chapter 1 is amended by striking sections 472, 473, and 474 (and by striking the items relating to such sections in the table of sections for such subpart).

(2)(A) Section 312(n), as amended by the preceding provisions of this Act, is amended by striking paragraph (3) and by redesignating paragraphs (4) through (7) as paragraphs (3) through (6), respectively.

(B) Section 312(n)(6), as amended by the preceding provisions of this Act, is amended—

(i) by striking "paragraphs (4) and (6)" in subparagraph (A) and inserting "paragraph (4)", and

(ii) by striking "paragraph (5)" in subparagraph (B) and inserting "paragraph (3)".

(C) Section 301(e)(3), as amended by the preceding provisions of this Act, is amended—

(i) by striking "paragraph (6)" and inserting "paragraph (5)", and

(ii) by striking "SECTION 312(n)(6)" in the heading and inserting "SECTION 312(n)(5)".

(D) Section 952(c)(3), as amended by the preceding provisions of this Act, is amended by striking "paragraphs (3), (4), and (5)" and inserting "paragraphs (2), (3), and (4)".

(E) Section 1293(e)(3), as amended by the preceding provisions of this Act, is amended by striking "paragraphs (3), (4), and (5)" and inserting "paragraphs (2), (3), and (4)".

(F) Section 1503(e)(2)(C), as amended by the preceding provisions of this Act, is amended—

(i) by striking "paragraph (6)" and inserting "paragraph (5)", and

(ii) by striking "SECTION 312(n)(6)" in the heading and inserting "SECTION 312(n)(5)".

(3) Section 1363 is amended by striking subsection (d).

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

(d) CHANGE IN METHOD OF ACCOUNTING.—

(1) IN GENERAL.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) if the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 by reason of such change is positive—

(i) such amount shall be taken into account during the 4-taxable year period beginning with the earlier of the taxpayer's elected taxable year or the taxpayer's first taxable year beginning after December 31, 2018, as follows:

(I) 10 percent of such amount in the first taxable year in such period,

(II) 15 percent of such amount in the second taxable year in such period,

(III) 25 percent of such amount in the third taxable year in such period, and

(IV) 50 percent of such amount in the fourth taxable year in such period, and

(ii) for purposes of applying the regulations and other guidance issued under such section (including any provisions which require accelerated inclusion), the period beginning with the taxpayer's first taxable year beginning after December 31

2014, and ending with the taxable year before the first taxable year referred to in clause (i) shall not fail to be taken into account as part of the period of the adjustment merely because such amount is not otherwise taken into account under clause (i) during such period.

(2) ELECTED TAXABLE YEAR.—For purposes of this subsection, the term ''elected taxable year'' means such taxable year as the taxpayer may elect (at such time and in such form and manner as the Secretary may provide) which begins after December 31, 2014, and is before the taxpayer's second taxable year beginning after December 31, 2018.

(3) REDUCTION IN AMOUNT OF ADJUSTMENT FOR CLOSELY-HELD ENTITIES.—

(A) IN GENERAL.—In the case of any closely-held entity, paragraph (1)(C) shall be applied by treating any reference to ''such amount'' as a reference to 20 percent (28 percent in the case of a C corporation) of such amount.

(B) CLOSELY-HELD ENTITY.—For purposes of this paragraph—

(i) IN GENERAL.—The term ''closely-held entity'' means any domestic corporation or domestic partnership which—

(I) is not an ineligible entity,

(II) does not have more than 100 shareholders or partners (as the case may be), and

(III) does not have as a shareholder or partner a person (other than an estate, a trust described in section 1361(c)(2) of the Internal Revenue Code of 1986, or an organization described section 1361(c)(6) of such Code) who is not an individual.

(ii) CERTAIN SUBSIDIARIES.—An entity shall not fail to be treated as a closely-held entity by reason of clause (i)(III) if all of the interests in such entity are held by a single closely-held entity (determined without regard to this clause) and individuals taken into account under clause (i)(II) with respect to such entity. In the case of tiered entities (other than the top tier entity), the preceding sentence shall be applied—

(I) by substituting ''(determined after application of this clause)'' for ''(determined without regard to this clause)'', and

(II) by substituting ''with respect to the top tier entity'' for ''with respect to such entity''.

(iii) INELIGIBLE ENTITY.—The term ''ineligible entity'' means any entity described in section 1361(b)(2) of the Internal Revenue Code of 1986 applied by substituting ''corporation or partnership'' for ''corporation'' each place it appears.

(iv) DATE OF DETERMINATION.—The status of any entity as a closely-held entity shall be determined as of February 26, 2014.

(v) SOLE PROPRIETORS.—An individual operating a trade or business shall be treated as a closely-held entity.

(C) CERTAIN TRANSFERS DISREGARDED.—

(i) IN GENERAL.—In the case of any specified inventory transfer, the adjustments referred to in paragraph (1)(C) shall be determined—

(I) with respect to the transferor, as though the property transferred continued to be held at all times by such transferor, and

(II) with respect to the transferee, as though such property was never transferred to such transferee.

(ii) SPECIFIED INVENTORY TRANSFER.—The term ''specified inventory transfer'' means any transfer of property described in section 1221(a)(1) if—

(I) such transfer is to a closely-held entity from any person who is not a closely-held entity,

(II) such transfer is on or after February 26, 2014, and before the beginning of the transferor's first taxable year beginning after December 31, 2014, and

(III) the basis of such property in the hands of the transferee immediately after such transfer is either determined by reference to the basis of such property in the hands of the transferor or is less than the fair market value of such property at the time of such transfer.

SEC. 3311. REPEAL OF LOWER OF COST OR MARKET METHOD OF INVENTORY.

(a) IN GENERAL.—Section 471, as amended by the preceding provisions of this Act, is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

"(d) LOWER OF COST OR MARKET METHOD NOT PERMISSIBLE.—The lower of cost or market method of determining inventories shall in no event be treated as clearly reflecting income. For purposes of the preceding sentence, the lower of cost or market shall include the lower of cost or bona fide net selling price.".

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

(c) CHANGE IN METHOD OF ACCOUNTING.—

(1) IN GENERAL.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) if the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 by reason of such change is positive—

(i) such amount shall be taken into account during the 4-taxable year period beginning with the earlier of the taxpayer's elected taxable year or the taxpayer's first taxable year beginning after December 31, 2018, as follows:

(I) 10 percent of such amount in the first taxable year in such period,

(II) 15 percent of such amount in the second taxable year in such period,

(III) 25 percent of such amount in the third taxable year in such period, and

(IV) 50 percent of such amount in the fourth taxable year in such period, and

(ii) for purposes of applying the regulations and other guidance issued under such section (including any provisions which require accelerated inclusion), the period beginning with the taxpayer's first taxable year beginning after December 31 2014, and ending with the taxable year before the first taxable year referred to in clause (i) shall not fail to be taken into account as part of the period of the adjustment merely because such amount is not otherwise taken into account under clause (i) during such period.

(2) ELECTED TAXABLE YEAR.—For purposes of this subsection, the term ''elected taxable year'' means such taxable year as the taxpayer may elect (at such time and in such form and manner as the Secretary may provide) which begins after December 31, 2014, and is before the taxpayer's second taxable year beginning after December 31, 2018.

SEC. 3312. MODIFICATION OF RULES FOR CAPITALIZATION AND INCLUSION IN INVENTORY COSTS OF CERTAIN EXPENSES.

(a) $10,000,000 GROSS RECEIPTS EXCEPTION TO APPLY TO PROPERTY PRODUCED BY THE TAXPAYER.—

Section 263A(b) is amended by striking all that follows paragraph (1) and inserting the following new paragraphs:

"(2) PROPERTY ACQUIRED FOR RESALE.—Real or personal property described in section 1221(a)(1) which is acquired by the taxpayer for resale.

"(3) EXCEPTION FOR TAXPAYER WITH GROSS RECEIPTS OF $10,000,000 OR LESS.—This section shall not apply to any property produced or acquired by the taxpayer during any taxable year if the average annual gross receipts of the taxpayer (or any predecessor) for the 3-taxable year period ending with the taxable year preceding such taxable year do not exceed $10,000,000. For purposes of this paragraph, rules similar to the rules of paragraphs (2) and (3) of section 448(b) shall apply.

"(4) FILMS, SOUND RECORDINGS, BOOKS, ETC.—For purposes of this subsection, the term 'tangible personal property' shall include a film, sound recording, video tape, book, or similar property.".

(b) REPEAL OF EXCEPTIONS FOR TIMBER AND CERTAIN ORNAMENTAL TREES.—Section 263A(c) is amended by striking paragraph (5).

(c) REPEAL OF EXCEPTION FOR QUALIFIED CREATIVE EXPENSES.—Section 263A is amended by striking subsection (h).

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer, and

(B) such change shall be treated as made with the consent of the Secretary of the Treasury.

SEC. 3313. MODIFICATION OF INCOME FORECAST METHOD.

(a) EXTENSION OF FORECAST PERIOD.—

(1) IN GENERAL.—Paragraph (1) of section 167(g) is amended by striking ''10th'' each place it appears and inserting ''20th''.

(2) MODIFICATION OF RECOMPUTATION YEARS.—Paragraph (4) of section 167(g) is amend-

ed by striking ''the 3d and the 10th'' and inserting ''the 5th, 10th, 15th, and 20th''.

(b) MODIFICATION OF RULES FOR TREATMENT OF PARTICIPATIONS AND RESIDUALS.—Paragraph (7) of section 167(g) is amended to read as follows:

''(7) TREATMENT OF PARTICIPATIONS AND RESIDUALS.—

''(A) IN GENERAL.—In the case of any participation or residual with respect to any property to which this subsection applies (including any property to which section 168 applies by reason of paragraph (8)), the taxpayer—

''(i) shall exclude such participation or residual from the adjusted basis of such property, and

''(ii) shall be allowed a deduction for such participation or residual in the taxable year in which such participation or residual is paid.

''(B) PARTICIPATIONS AND RESIDUALS.—For purposes of this paragraph, the term 'participation or residual' means, with respect to any property, any cost the amount of which by contract varies with the amount of income earned in connection with such property.''.

(c) ELECTION TO UTILIZE 20-YEAR STRAIGHT LINE RECOVERY.—Subsection (g) of section 167 is amended by redesignating (8) as paragraph (9) and by inserting after paragraph (7) the following new paragraph:

''(8) ELECTION TO UTILIZE 20-YEAR STRAIGHT LINE RECOVERY.—If the taxpayer elects the application of this paragraph for any taxable year, the depreciation deduction allowable with respect to any property placed in service by the taxpayer during such taxable year which would otherwise be determined under paragraph (1) shall be determined under section 168—

''(A) by treating the straight line method as the applicable depreciation method, and

''(B) by treating 20 years as the applicable recovery period.''.

(d) REPEAL OF SPECIAL RULES FOR CERTAIN MUSICAL WORKS AND COPYRIGHTS.—Subsection (g) of section 167, as amended by subsection (c), is amended by striking paragraph (9).

(e) SAFE HARBOR AMORTIZATION OF CERTAIN INTANGIBLE ASSETS.—Effective for property placed in service after December 31, 2014, the Secretary of the Treasury, or the Secretary's designee, shall revise Treasury Regulation section 1.167(a)-3(b) (and such regulation shall be applied) such that the safe harbor amortization for certain intangible assets to which such regulation applies shall allow the taxpayer to treat such asset as having a useful life equal to 20 years (and not 15 years).

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2014.

SEC. 3314. REPEAL OF AVERAGING OF FARM INCOME.

(a) IN GENERAL.—Subchapter Q of chapter 1 is amended by striking part I (and by striking the item relating to such part in the table of parts for such subchapter).

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

SEC. 3315. TREATMENT OF PATENT OR TRADEMARK INFRINGEMENT AWARDS.

(a) IN GENERAL.—Part II of subchapter B of chapter 1 is amended by adding at the end the following new section:

"SEC. 91. PATENT OR TRADEMARK INFRINGEMENT AWARDS.

"(a) IN GENERAL.—Except as provided in subsection (b), any payment received for infringement of any patent or trademark (whether by reason of judgment or settlement) shall be included in gross income as ordinary income.

"(b) IMPAIRMENT OF CAPITAL.—If the taxpayer demonstrates to the satisfaction of the Secretary that a payment described in subsection (a) constitutes damages received by reason of the reduction in value of property of the taxpayer caused by the infringement referred to in subsection (a)—

"(1) the taxpayer's basis in such property shall be reduced (but not below zero) by the amount of such payment, and

"(2) subsection (a) shall apply to so much of such payment as exceeds the amount of the reduction under paragraph (1).".

(b) CONFORMING AMENDMENTS.—

(1) Section 1016(a) is amended by adding at the end the following new paragraph:

"(38) to the extent provided in section 91(b)(1),".

(2) The table of sections for part II of subchapter B of chapter 1 is amended by adding at the end the following new item:

"Sec. 91. Patent or trademark infringement awards.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to payments received pursuant to judgments and settlements after December 31, 2014.

SEC. 3316. REPEAL OF REDUNDANT RULES WITH RESPECT TO CARRYING CHARGES.

(a) IN GENERAL.—Part IX of subchapter B of chapter 1 is amended by striking section 266 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 163(n) is amended by striking paragraph (3) and by redesignating paragraphs (4) and (5) as paragraphs (3) and (4), respectively.

(2) Section 1016(a)(1)(A)(i), as amended by section 3514, is amended by striking ''described in section 266''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

SEC. 3317. REPEAL OF RECURRING ITEM EXCEPTION FOR SPUDDING OF OIL OR GAS WELLS.

(a) IN GENERAL.—Section 461(i) is amended by striking paragraph (2) and by redesignating paragraphs (3), (4), and (5) as paragraphs (2), (3), and (4), respectively.

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

Subtitle E—Financial Instruments

PART 1—DERIVATIVES AND HEDGES

SEC. 3401. TREATMENT OF CERTAIN DERIVATIVES.

(a) IN GENERAL.—Subchapter E of chapter 1 is amended by adding at the end the following new part:

"PART IV—DERIVATIVES

"SEC. 485. TREATMENT OF CERTAIN DERIVATIVES.

"(a) IN GENERAL.—For purposes of this subtitle—

"(1) any derivative held by a taxpayer at the close of the taxable year shall be treated as sold for its fair market value on the last business day of such taxable year (and any gain or loss shall be taken into account for the taxable year), and

"(2) proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain or loss taken into account by reason of paragraph (1).

"(b) TREATMENT AS ORDINARY INCOME OR LOSS; ALLOWANCE AS NET OPERATING LOSS.—All items of income, gain, loss, and deduction with respect to any derivative—

"(1) shall be treated as ordinary income or loss, and

"(2) shall be treated for purposes of section 172(d)(4) as attributable to a trade or business of the taxpayer.

"(c) MARK TO MARKET OF CERTAIN OFFSETTING POSITIONS.—

"(1) IN GENERAL.—In the case of any straddle which includes any derivative, subsections (a) and (b) shall apply to all positions comprising such straddle in the same manner as such subsections apply to such derivative.

"(2) APPLICATION TO BUILT-IN GAIN POSITIONS.—

"(A) IN GENERAL.—In the case of any built-in gain position to which subsection (a) applies by reason of paragraph (1)—

"(i) in addition to any other time at which such position is treated as sold under subsection (a)(1), such position shall be treated as sold for its fair market value at the time that the straddle is established with respect to such position,

"(ii) proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain taken into account by reason of clause (i), and

"(iii) subsection (b) shall not apply to any gain taken into account by reason of clause (i).

"(B) BUILT-IN GAIN POSITION.—For purposes of this subsection, the term 'built-in gain position' means any position (other than a derivative to which subsection (a) applies) with respect to which a gain would be realized if such position were sold for its fair market value at the time that the straddle is established with respect to such position.

"(C) EXCEPTION FOR STRAIGHT DEBT.—Subparagraph (A) shall not apply to any position with respect to debt if—

"(i) the interest payments (or other similar amounts) with respect to such position meet the requirements of section 860G(a)(1)(B)(i), and

"(ii) such position is not convertible (directly or indirectly) into stock of the issuer or any related person.

"(D) EXCEPTION FOR STRADDLES CONSISTING OF QUALIFIED COVERED CALL OPTIONS

AND THE OPTIONED STOCK.—Subparagraph (A) shall not apply to any position which is part of a straddle if—

"(i) all the offsetting positions which are part of such straddle consist of 1 or more qualified covered call options (as defined in paragraph (6)) and the stock to be purchased from the taxpayer under such options, and

"(ii) such straddle is not part of a larger straddle.

"(3) APPLICATION TO BUILT-IN LOSS POSITIONS.—

"(A) IN GENERAL.—In the case of any built-in loss position to which subsection (a) applies by reason of paragraph (1), any gain or loss realized under subsection (a)(1) shall be properly adjusted so as not to take into account the loss referred to in subparagraph (B) with respect to such position.

"(B) BUILT-IN LOSS POSITION.—For purposes of subparagraph (A), the term 'built-in loss position' means any position (other than a derivative to which subsection (a) applies) with respect to which a loss would be realized if such position were sold for its fair market value at the time that the straddle is established with respect to such position.

"(4) HOLDING PERIOD OF NON-DERIVATIVES.—For purposes of section 1222, in the case of any position to which subsection (a) applies by reason of paragraph (1), the holding period of such position shall not include—

"(A) the period during which subsection (a) applies to such position, and

"(B) in the case of a built-in gain position, the period before such position is treated as sold under paragraph (2)(A).

"(5) STRADDLE.—For purposes of this section—

"(A) the term 'straddle' has the meaning given such term by section 1092(c) applied by treating all offsetting positions as being with respect to personal property, and

"(B) the term 'position' includes any derivative.

"(6) QUALIFIED COVERED CALL OPTIONS.—

"(A) IN GENERAL.—For purposes of paragraph (2)(D), the term 'qualified covered call option' means any option granted by the taxpayer to purchase stock held by the taxpayer (or stock acquired by the taxpayer in connection with the granting of the option) but only if—

"(i) such option is traded on a national securities exchange which is registered with the Securities and Exchange Commission or other market which the Secretary determines has rules adequate to carry out the purposes of this paragraph,

"(ii) such option is granted—

"(I) more than 30 days before the day on which the option expires, and

"(II) not more than 90 days before the day on which the option expires,

"(iii) such option is not granted by an options dealer (as defined in subparagraph (B)) in connection with such dealer's activity of dealing in options, and

"(iv) gain or loss with respect to such option would not be ordinary income or loss if determined without regard to this section.

"(B) OPTIONS DEALER.—For purposes of subparagraph (A), the term 'options dealer' means—

"(i) any person registered with an appropriate national securities exchange as a market maker or specialist in listed options, and

"(ii) to the extent provided by the Secretary consistent with the purposes of this paragraph, any person whom the Secretary determines performs functions similar to the persons described in clause (i).

"(C) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph and paragraph (2)(D). Such regulations may include modifications to the provisions of this paragraph and paragraph (2)(D) which are appropriate to take account of changes in the practices of option exchanges or to prevent the use of options for tax avoidance purposes.

"(d) TERMINATIONS, ETC.—

"(1) IN GENERAL.—The rules of subsections (a) and (b) shall also apply to the termination (or transfer) during the taxable year of the taxpayer's obligation (or rights) with respect to a derivative by offsetting, by taking or making delivery, by exercise or being exercised, by assignment or being assigned, by lapse, by expiration, by settlement, or otherwise.

"(2) MARK TO MARKET OF ALL POSITIONS IN STRADDLE IF ANY POSITION TERMINATED OR TRANSFERRED.—If paragraph (1) applies with respect to any position which is part of a straddle, the rules of subsections (a) and (b) shall apply to every position which is part of such straddle.

"(e) DETERMINATION OF FAIR MARKET VALUE.—For purposes of this section—

"(1) TERMINATIONS, ETC.—For purposes of subsection (d), fair market value shall be determined at the time of the termination (or transfer).

"(2) BLOCKAGE FACTOR NOT TAKEN INTO ACCOUNT.—To the extent provided in regulations prescribed by the Secretary, fair market value shall be determined without regard to any premium or discount based on the proportion of the total available trading units which are held.

"(f) COORDINATION WITH CERTAIN RULES.—The rules of sections 263(g) and 263A shall not apply to any derivative or other position to which subsection (a) applies, and section 1091 shall not apply (and section 1092 shall apply) to any loss recognized under subsection (a).

"SEC. 486. DERIVATIVE DEFINED.

''(a) IN GENERAL.—For purposes of this part, except as otherwise provided in this section, the term 'derivative' means any contract (including any option, forward contract, futures contract, short position, swap, or similar contract) the value of which, or any payment or other transfer with respect to which, is (directly or indirectly) determined by reference to one or more of the following:

''(1) Any share of stock in a corporation.

''(2) Any partnership or beneficial ownership interest in a partnership or trust.

''(3) Any evidence of indebtedness.

''(4) Except as provided in subsection (d), any real property.

''(5) Any commodity which is actively traded (within the meaning of section 1092(d)(1)).

''(6) Any currency.

''(7) Any rate, price, amount, index, formula, or algorithm.

''(8) Any other item as the Secretary may prescribe.

Such term shall not include any item described in paragraphs (1) through (8).

"(b) EXCEPTIONS.—

"(1) CERTAIN REAL PROPERTY.—

"(A) IN GENERAL.—For purposes of subsection (a)(4), the term 'real property' shall not include—

"(i) a tract of real property (as defined in section 1237(c)), or

"(ii) any real property which would be property described in section 1221(a)(1) with respect to the taxpayer if held directly by the taxpayer.

"(B) REGULATIONS.—The Secretary shall prescribe regulations or other guidance under which multiple tracts of real property may be treated as a single tract of real property for purposes of subparagraph (A)(i) if the contract referred to in subsection (a) is of a type which is designed to facilitate the acquisition or disposition of such real property.

"(2) HEDGING TRANSACTIONS.—

"(A) IN GENERAL.—For purposes of this part, the term 'derivative' shall not include any contract which is part of a hedging transaction (as defined in section 1221(b)).

"(B) SECTION 988 HEDGING TRANSACTIONS.—For exception for section 988 hedging transactions, see section 988(d)(1).

"(3) SECURITIES LENDING, SALE-REPURCHASE, AND SIMILAR FINANCING TRANSACTIONS.—To the extent provided by the Secretary, for purposes of this part, the term 'derivative' shall not include the right to the return of the same or substantially identical securities transferred in a securities lending transaction, sale-repurchase transaction, or similar financing transaction.

"(4) OPTIONS RECEIVED IN CONNECTION WITH THE PERFORMANCE OF SERVICES.—For purposes of this part, the term 'derivative' shall not include any option described in section 83(e)(3) received in connection with the performance of services.

"(5) INSURANCE CONTRACTS, ANNUITIES, AND ENDOWMENTS.—For purposes of this part, the term 'derivative' shall not include any insurance, annuity, or endowment contract issued by an insurance company to which subchapter L applies (or issued by any foreign corporation to which such subchapter would apply if such foreign corporation were a domestic corporation).

"(6) DERIVATIVES WITH RESPECT TO STOCK OF MEMBERS OF SAME WORLDWIDE AFFILIATED GROUP.—For purposes of this part, the term 'derivative' shall not include, and subsections (c) and (d)(2) of section 485 shall not apply to, any derivative (determined without regard to this subsection) with respect to stock issued by any member of the same worldwide affiliated group (as defined in section 864(f)) in which the taxpayer is a member.

"(7) COMMODITIES USED IN NORMAL COURSE OF TRADE OR BUSINESS.—For purposes of this part, the term 'derivative' shall not include any contract with respect to any commodity if—

"(A) such contract requires physical delivery with the option of cash settlement only in unusual and exceptional circumstances, and

"(B) such commodity is used (and is used in quantities with respect to which such derivative relates) in the normal course of the taxpayer's trade or business (or, in the case of an individual, for personal consumption).

"(c) CONTRACTS WITH EMBEDDED DERIVATIVE COMPONENTS.—

"(1) IN GENERAL.—If a contract has derivative and nonderivative components, then each derivative component shall be treated as a derivative for purposes of this part. If the derivative component cannot be separately valued, then the entire contract shall be treated as a derivative for purposes of this part.

"(2) EXCEPTION FOR CERTAIN EMBEDDED DERIVATIVE COMPONENTS OF DEBT INSTRUMENTS.—A debt instrument shall not be treated as having a derivative component merely because—

"(A) such debt instrument is denominated in a nonfunctional currency (as defined in section 988(c)(1)(C)(ii)),

"(B) payments with respect to such debt instrument are determined by reference to the value of a nonfunctional currency (as so defined), or

"(C) such debt instrument is a convertible debt instrument, contingent payment debt instrument, a variable rate debt instrument, an integrated debt instrument, an investment unit, a debt instrument with alternative payment schedules, or other debt instrument with respect to which the regulations under section 1275(d) apply.

"(d) TREATMENT OF AMERICAN DEPOSITORY RECEIPTS AND SIMILAR INSTRUMENTS.—Except as otherwise provided by the Secretary, for purposes of this part, American depository receipts (and similar instruments) with respect to shares of stock in foreign corporations shall be treated as shares of stock in such foreign corporations.".

(b) COORDINATION WITH RULES FOR DEALERS AND TRADERS.—

(1) DERIVATIVES NOT TREATED AS SECURITIES.—Section 475(c)(2) is amended—

(A) by adding "and" at the end of subparagraph (C),

(B) by striking subparagraphs (D) and (E) and by redesignating subparagraph (F) as subparagraph (D),

(C) by striking "subparagraph (A), (B), (C), (D), or (E)" in subparagraph (D)(i), as so redesignated, and inserting "subparagraph (A), (B), or (C)", and

(D) by amending the last sentence to read as follows: "Such term shall not include any position to which section 485(a) applies."

(2) DERIVATIVES NOT TREATED AS COMMODITIES.—Section 475(e)(2) is amended—

(A) by adding ''and'' at the end of subparagraph (A),

(B) by striking subparagraphs (B) and (C) and by redesignating subparagraph (D) as subparagraph (B), and

(C) by striking ''subparagraph (A), (B) or (C)'' in subparagraph (B)(i), as so redesignated, and inserting ''subparagraph (A)''.

(3) CONFORMING AMENDMENTS.—

(A) Section 475(b) is amended by striking paragraph (4).

(B) Section 475(d)(2)(B) is amended—

(i) by striking ''subsection (c)(2)(F)(iii)'' and inserting ''subsection (c)(2)(D)(iii)'', and

(ii) by striking ''subsection (c)(2)(F)'' and inserting ''subsection (c)(2)(D)''.

(C) Section 475(f)(1)(D) is amended by striking ''subsections (b)(4) and (d)'' and inserting ''subsection (d)''.

(c) COORDINATION WITH STRADDLE RULES.—

(1) IN GENERAL.—Section 1092(e) is amended to read as follows:

''(e) EXCEPTION FOR HEDGING TRANSACTIONS AND STRADDLES WITH DERIVATIVES.—This section shall not apply in the case of—

''(1) any hedging transaction (as defined in section 1221(b)), and

''(2) any straddle (as defined in section 485) which includes any derivative (as defined in section 486).''.

(2) CONFORMING AMENDMENTS.—

(A) Section 263(g)(3) is amended to read as follows:

''(3) EXCEPTION FOR HEDGING TRANSACTIONS AND STRADDLES WITH DERIVATIVES.—This subsection shall not apply in the case of—

''(A) any hedging transaction (as defined in section 1221(b)), and

''(B) any straddle (as defined in section 485) which includes any derivative (as defined in section 486).''.

(B) Section 1092(b) is amended—

(i) by striking paragraph (2), and

(ii) by striking all that precedes ''The Secretary shall'' and inserting the following:

''(b) REGULATIONS.—The Secretary shall''.

(C) Section 1092(c) is amended by striking paragraph (4).

(D) Section 1092 is amended by striking subsection (f) and by redesignating subsection (g) as subsection (f).

(d) TREATMENT OF CONVERTIBLE DEBT INSTRUMENTS.—The Secretary of the Treasury, or the Secretary's designee, shall modify the regulations issued under section 1275(d) of the Internal Revenue Code of 1986 to provide that convertible debt instruments are treated in a manner similar to contingent payment debt instruments.

(e) REPEAL OF CERTAIN OTHER SUPERCEDED RULES FOR DETERMINING CAPITAL GAINS AND LOSSES.—

(1) IN GENERAL.—Part IV of subchapter P of chapter 1 is amended by striking sections 1233, 1234, 1234A, 1234B, 1236, 1256, 1258, 1259, and 1260 (and by striking the items relating to such sections in the table of sections for such part).

(2) CONFORMING AMENDMENTS RELATED TO REPEAL OF SECTION 1233.—Section 1092(b) is amended by inserting ''(as in effect before their repeal)'' after ''section 1233''.

(3) CONFORMING AMENDMENTS RELATED TO REPEAL OF SECTION 1234.—Section 6045(h)(2) is amended—

(A) by striking "(as defined in section 1234(b)(2)(A)", and

(B) by adding at the end the following: "For purposes of the preceding sentence, the term 'closing transaction' means any termination of the taxpayer's obligation under an option in property other than through the exercise or lapse of the option.".

(4) CONFORMING AMENDMENTS RELATED TO REPEAL OF SECTION 1236.—

(A) Section 475(d)(3)(A) is amended by striking "or section 1236(b)".

(B) Section 512(b)(5) is amended by striking "section 1236(c)" and inserting "section 1058(c)".

(C) Section 1058 is amended—

(i) by striking "(as defined in section 1236(c))" in subsection (a), and

(ii) by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) SECURITIES.—For purposes of this section, the term 'security' means any share of stock in any corporation, certificate of stock or interest in any corporation, note, bond, debenture, or evidence of indebtedness, or any evidence of an interest in or right to subscribe to or purchase any of the foregoing.".

(5) CONFORMING AMENDMENTS RELATED TO REPEAL OF SECTION 1256.—

(A) Section 461(i)(2)(B), as amended by the preceding provisions of this Act, is amended to read as follows:

"(B) any partnership or other entity (other than a corporation which is not an S corporation) if more than 35 percent of the losses of such entity during the taxable year are allocable to limited partners or limited entrepreneurs (within the meaning of section 461(j)(4)), and".

(B) Section 475(d)(1) is amended by striking "sections 263(g), 263A, and 1256(a)" and inserting "sections 263(g) and 263A".

(C) Section 988(c)(1) is amended by striking subparagraphs (D) and (E).

(D) Section 1092(a)(3)(C)(ii)(II) is amended by striking "section 1256(e)" and inserting "section 1221(b)".

(E) Section 1092(d) is amended by striking paragraphs (5) and (6) and by redesignating paragraphs (7) and (8) as paragraphs (5) and (6), respectively.

(F) Section 1212 is amended by striking subsection (c).

(G) Section 1223 is amended by striking paragraphs (7) and (14).

(H) Section 1281(b)(1)(E) is amended to read as follows:

''(E) is a hedging transaction (as defined in section 1221(b)), or''.

(I) Section 1402 is amended by striking subsection (i).

(J) Section 4982(e)(6)(B) is amended by striking ''sections 1256 and 1296'' and inserting ''sections 485 and 1296''.

(6) CONFORMING AMENDMENTS RELATED TO REPEAL OF SECTION 1259.—Section 475(f)(1) is amended by striking subparagraph (C) and by redesignating subparagraph (D) as subparagraph (C).

(f) OTHER CONFORMING AMENDMENTS.—

(1) Section 355(g)(2)(B)(i)(V) is amended to read as follows:

"(V) any derivative (as defined in section 486),".

(2) Section 856(n)(4) is amended by inserting "or derivatives (as defined in section 486)" after "securities (as defined in section 475(c)(2))".

(3) Section 857(e)(2)(B)(i), as amended by the preceding provisions of this Act, is amended by striking "section 860E or 1272" and inserting "section 485, 860E, or 1272".

(4) Section 988(d)(1) is amended—

(A) by striking "or 1256" and inserting "or 485", and

(B) by striking "1092, and 1256" and inserting "485, and 1092".

(5) Section 1091(e) is amended to read as follows:

"(e) COORDINATION WITH MARK TO MARKET OF DERIVATIVES.—Notwithstanding any other provision of this section, a derivative (as defined in section 486) shall not be treated as a security for purposes of this section.".

(6)(A) Section 1221(a)(6) is amended to read as follows:

"(6) any derivative (as defined in section 486),".

(B) Section 1221(b) is amended by striking paragraph (1).

(7) Section 4975(f)(11)(D) is amended by striking clauses (i) and (ii) and inserting the following:

"(i) SECURITY.—The term 'security' means any security described in section 475(c)(2) (without regard to subparagraph (D)(iii) thereof) and any derivative with respect to such a security (within the meaning of section 486).

"(ii) COMMODITY.—The term 'commodity' means any commodity described in section 475(e)(2) (without regard to subparagraph (B)(iii) thereof) and any derivative with respect to such a commodity (within the meaning of section 486).".

(8) The table of parts for subchapter E of chapter 1 is amended by adding at the end the following new item:

PART IV. DERIVATIVES.

(g) EFFECTIVE DATES.—The amendments made by this section shall apply to—

(1) taxable years ending after December 31, 2014, in the case of property acquired and positions established after December 31, 2014, and

(2) taxable years ending after December 31, 2019, in the case of any other property or position.

For purposes of this subsection, any property acquired on or before December 31, 2014, which becomes part of a straddle (as defined in section 485, as added by this section) after such date shall be treated as a position established after such date.

SEC. 3402. MODIFICATION OF CERTAIN RULES RELATED TO HEDGES.

(a) TREATMENT OF HEDGES IDENTIFIED FOR FINANCIAL ACCOUNTING PURPOSES.—

(1) IN GENERAL.—Section 1221(b), as amended by the preceding provisions of this Act, is amended to read as follows:

"(b) HEDGING TRANSACTION.—For purposes of this section—

"(1) IN GENERAL.—The term 'hedging transaction' means any transaction described in paragraph (2) and identified under paragraph (3).

"(2) TRANSACTION DESCRIBED.—A transaction is described in this paragraph if such transaction is entered into by the taxpayer in the normal course of the taxpayer's trade or business primarily—

"(A) to manage risk of price changes or currency fluctuations with respect to ordinary property which is held or to be held by the taxpayer,

"(B) to manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, by the taxpayer, or

"(C) to manage such other risks as the Secretary may prescribe in regulations.

"(3) IDENTIFICATION.—A transaction is identified under this paragraph if—

"(A) such transaction is clearly identified as a hedging transaction for purposes of this paragraph before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe), or

"(B) such transaction is treated as a hedging transaction (within the meaning of generally accepted accounting principles) for purposes of an audited financial statement of the taxpayer which—

"(i) is certified as being prepared in accordance with generally accepted accounting principles, and "(ii) is used for the purposes of a statement or report—

"(I) to shareholders, partners, or other proprietors, or to beneficiaries, or

"(II) for credit purposes.

"(4) TREATMENT OF NONIDENTIFICATION OR IMPROPER IDENTIFICATION OF HEDGING TRANSACTIONS.—The Secretary shall prescribe regulations to properly characterize any income, gain, expense, or loss arising from a transaction—

"(A) which would be a hedging transaction if identified under paragraph (3), or

"(B) which is identified under paragraph (3) but is not a transaction described in paragraph (2).

In the case of a transaction identified under paragraph (3) solely by reason of paragraph (3)(B), subparagraph (B) of this paragraph shall not apply with respect to such transaction unless the taxpayer treats such transaction as a hedging transaction for purposes of any provision of this title.

"(5) BONDS HELD BY AN INSURANCE COMPANY.—For purposes of paragraph (2)(A), in the case of an insurance company to which subchapter

L applies, any bond, debenture, note, certificate, or other evidence of indebtedness held by the taxpayer shall be treated as ordinary property.

"(6) REGULATIONS.—The Secretary shall prescribe such regulations as are appropriate to carry-out the purposes of this subsection and subsection (a)(7) in the case of transactions involving related parties.".

(2) CONFORMING AMENDMENTS.—

(A) Section 856(c)(5)(G)(i) is amended by striking "(as defined in clause (ii) or (iii) of section 1221(b)(2)(A)) which is clearly identified pursuant to section 1221(a)(7)" and inserting "(as defined in section 1221(b) (determined without regard to paragraph (2)(A) thereof)".

(B) Section 954(c)(5)(A) is amended to read as follows:

"(A) COMMODITY HEDGING TRANSACTIONS.—

"(i) IN GENERAL.—For purposes of paragraph (1)(C)(i), the term 'commodity hedging transaction' means any transaction with respect to a commodity if such transaction would be a hedging transaction under section 1221(b) if—

"(I) the only transactions described in paragraph (2) thereof were transactions described in clause (ii), and

"(II) paragraphs (3) and (4) thereof were applied by substituting 'controlled foreign corporation' for 'taxpayer' each place it appears.

"(ii) TRANSACTION DESCRIBED.—A transaction is described in this clause if such transaction is entered into by the controlled foreign corporation in the normal course of the controlled foreign corporation's trade or business primarily—

"(I) to manage risk of price changes or currency fluctuations with respect to ordinary property or property described in section 1231(b) which is held or to be held by the controlled foreign corporation, or

"(II) to manage such other risks as the Secretary may prescribe in regulations.".

(C) Section 1221(a)(7) is amended by striking ''which is clearly'' and all that follows through ''regulations prescribe)''.

(b) SPECIAL RULE FOR COMMODITY HEDGING TRANSACTIONS INVOLVING RELATED CONTROLLED FOREIGN CORPORATIONS.—Section 954(c)(5)(A), as amended by subsection (a), is amended by adding at the end the following new clause:

''(iii) APPLICATION TO RELATED CONTROLLED FOREIGN CORPORATIONS.—

''(I) IN GENERAL.—In the case of qualified property, clause (ii)(I) shall be applied by substituting 'the controlled foreign corporation or another controlled foreign corporation which is a related person (within the meaning of subsection (d)(3))' for 'the controlled foreign corporation'.

''(II) QUALIFIED PROPERTY.— For purposes of this clause, the term 'qualified property' means ordinary property or property described in section 1231(b) (if disposed of at a gain) the income from the disposition of which would be neither subpart F income nor income treated as effectively connected with the conduct of a trade or business in the United States.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions entered into after December 31, 2014.

PART 2—TREATMENT OF DEBT INSTRUMENTS

SEC. 3411. CURRENT INCLUSION IN INCOME OF MARKET DISCOUNT.

(a) IN GENERAL.—Subpart B of part V of subchapter P of chapter 1 is amended by redesignating section 1278 as section 1279 and by inserting after section 1277 the following new section:

''SEC. 1278. CURRENT INCLUSION IN INCOME OF MARKET DISCOUNT ON BONDS ACQUIRED AFTER 2014.

''(a) IN GENERAL.—There shall be included in the gross income of the holder of any market discount bond acquired after December 31, 2014, an amount equal to the sum of the daily portions of the market discount for each day during the taxable year on which such holder held such bond.

''(b) DETERMINATION OF DAILY PORTIONS.—

''(1) IN GENERAL.—For purposes of subsection (a), the daily portion of the market discount on any market discount bond shall be an amount equal to the daily portion of original issue discount which would be includible in gross income under section 1272(a) (determined without regard to paragraph (2) thereof) if such bond had been—

"(A) originally issued on the date on which such bond was acquired by the taxpayer,

"(B) for an issue price equal to the basis of such bond immediately after such acquisition.

"(2) COORDINATION WHERE BOND HAS ORIGINAL ISSUE DISCOUNT.—In the case of any bond having original issue discount, the daily portion determined under paragraph (1) shall be reduced by the daily portion of original issue discount includible in gross income under section 1272(a) (determined without regard to paragraph (2) thereof) with respect to such bond.

"(3) SPECIAL RULE WHERE PARTIAL PRINCIPAL PAYMENTS.—In the case of a bond the principal of which may be paid in 2 or more payments, the daily portions of market discount shall be determined under regulations prescribed by the Secretary.

"(c) LIMITATION.—

"(1) IN GENERAL.—The amount of market discount allocable to any accrual period for purposes of determining the sum of the daily portions under subsection (a) shall not exceed the excess (if any) of—

''(A) the product of—

''(i) the maximum accrual rate determined under paragraph (2), properly adjusted for the length of the accrual period, multiplied by

''(ii) the adjusted basis of such bond at the beginning of such accrual period, over

''(B) the sum of the qualified stated interest and original issue discount allocable to such accrual period.

''(2) MAXIMUM ACCRUAL RATE.—The maximum accrual rate determined under this paragraph with respect to any bond is the greater of—

''(A) such bonds's yield to maturity (determined as of the date of the issuance of such bond) plus 5 percentage points, or

''(B) the applicable Federal rate for such bond (determined under section 1274(d) as of the date of the acquisition of such bond and on the basis of the remaining term of such bond as of such date) plus 10 percentage points.

"(3) APPLICATION TO POOLS.—In the case of debt instruments to which section 1272(a)(6) applies, rules similar to the rules of such section shall apply for purposes of determining the daily portions of market discount.

"(4) ACCRUAL PERIOD.—For purposes of this subsection, the term 'accrual period' has the meaning given such term in section 1272(a)(5).

"(d) SPECIAL RULES.—

"(1) ACCRUALS TREATED AS INTEREST.—Except for purposes of sections 103, 871(a), 881, 1441, 1442, and 6049 (and such other provisions as may be specified in regulations), any amount included in gross income under this section shall be treated as interest for purposes of this title.

"(2) BASIS ADJUSTMENT.—The basis of any market discount bond in the hands of the taxpayer shall be increased by the amount included in gross income pursuant to this section.

"(3) TREATMENT OF LOSS ON DISPOSITION.—So much of any loss recognized by the taxpayer on the disposition of a market discount bond as does not exceed the aggregate amounts included in the taxpayer's gross income under subsection (a) with respect to such bond shall be treated for purposes of this title as an ordinary loss.''.

(b) TREATMENT OF MARKET DISCOUNT ON SHORT-TERM NONGOVERNMENTAL BONDS.—

(1) ACCRUAL BASIS TAXPAYERS, ETC.—Section 1283 is amended by striking subsection (c) and redesignating subsection (d) as subsection (c).

(2) OTHER TAXPAYERS.—

(A) Section 1271(a)(3) is amended—

(i) by striking all that precedes subparagraph (C) and inserting the following:

''(3) CERTAIN SHORT-TERM OBLIGATIONS.—

''(A) IN GENERAL.—On the sale or exchange of any short-term obligation (as defined in section 1283(a)(1)), any gain realized which does not exceed an amount equal to the ratable share of the acquisition discount shall be treated as ordinary income.'', and

(ii) by redesignating subparagraphs (C), (D), and (E) as subparagraphs (B), (C), and (D), respectively.

(B) Section 1271(a) is amended by striking paragraph (4).

(C) Section 1283(c)(3), as redesignated by paragraph (1), is amended by striking ''paragraphs (3) and (4) of section 1271(a)'' and inserting ''section 1271(a)(3)''.

(c) COORDINATION WITH RULES RELATED TO TREATING MARKET DISCOUNT AS ORDINARY INCOME UPON DISPOSITION.—

(1) IN GENERAL.—Section 1276 is amended by adding at the end the following new subsection:

''(e) COORDINATION WITH RULES FOR CURRENT INCLUSION OF MARKET DISCOUNT.—This section shall not apply to any market discount bond to which section 1278 applies.''.

(2) COORDINATION WITH DEFERRAL OF INTEREST DEDUCTION.—Section 1277 is amended by adding at the end the following new subsection:

''(d) COORDINATION WITH RULES FOR CURRENT INCLUSION OF MARKET DISCOUNT.—This section shall not apply to any market discount bond to which section 1278 applies.''.

(3) COORDINATION WITH ELECTION TO INCLUDE MARKET DISCOUNT CURRENTLY.—Section 1279(b), as redesignated by subsection (a), is amended by adding at the end the following new paragraph:

''(5) COORDINATION WITH RULES FOR CURRENT INCLUSION OF MARKET DISCOUNT.—This subsection shall not apply to any market discount bond to which section 1278 applies.''.

(d) TREATMENT OF CERTAIN BONDS HELD BY PARTNERSHIPS.—

(1) TRANSFERS OF PARTNERSHIP INTERESTS.—Section 1279(a), as redesignated by subsection (a), is amended by adding at the end the following new paragraph:

''(6) TRANSFERS OF PARTNERSHIP INTERESTS.—In the case of a transfer described in section 743 of an interest in a partnership holding a bond, the partnership shall be treated as acquiring the transferee partner's proportionate share of such bond at the time of such transfer.''.

(2) DISTRIBUTION OF BONDS BY PARTNERSHIPS.—Section 1279(a)(2), as redesignated by subsection (a), is amended by adding at the end the following new subparagraph:

''(D) DISTRIBUTION BY PARTNERSHIP.—If the basis of the taxpayer in a bond is determined under section 734(a)(2) or (b), for purposes of subparagraph (A)(ii), the basis of such bond shall not be less than its fair market value immediately after its acquisition by the taxpayer.''.

(e) MODERNIZATION OF CERTAIN DEFINITIONS.—

(1) REPEAL OF SUPERCEDED EXCEPTION FOR MARKET DISCOUNT BONDS ACQUIRED AT ISSUE.—Section 1279(a)(1), as redesignated by subsection (a), is amended by striking subparagraph (D)

(2) REVISED ISSUE PRICE.—Section 1279(a)(4), as redesignated by subsection (a), is amended—

(A) by redesignating subparagraphs (A) and (B) as clauses (i) and (ii) and by indenting such clauses appropriately,

(B) by striking ''means the sum of—'' and inserting ''means the excess of—

''(A) the sum of—'',

(C) by striking the period at the end and inserting '', over'', and

(D) by adding at the end the following new subparagraph:

''(B) the sum of—

''(i) any payments other than qualified stated interest made under the bond during periods before the acquisition of the bond by the taxpayer, and

''(ii) any premium which has accrued during such periods (determined as if owned at all times by the original holder).''.

(3) REDEMPTION PRICE .—

(A) IN GENERAL.—Section 1273(a)(2) is amended to read as follows:

''(2) REDEMPTION PRICE.—

''(A) IN GENERAL.—The term 'redemption price' means the sum of all payments provided by the debt instrument other than qualified stated interest.

''(B) QUALIFIED STATED INTEREST.—The term 'qualified stated interest' means stated interest that is unconditionally payable in money and other property (other than a debt instrument of the issuer) at least annually at a fixed rate (or to the extent provided by regulations, at a variable rate).

''(C) BASIS ADJUSTMENT.—The basis of any debt instrument shall be reduced by the amount of any payment received other than qualified stated interest.''.

(B) CONFORMING AMENDMENTS.—

(i) Each of the following provisions is amended by striking ''stated redemption price at maturity'' and inserting ''redemption price'':

(I) Section 1271(a)(3)(B) (as redesignated by subsection (b)).

(II) Section 1273(a)(1)(A).

(III) Section 1273(a)(3).

(IV) Section 1273(b)(4).

(V) Section 1274(c)(1)(A).

(VI) Section 1279(a)(5) (as redesignated by subsection (a)).

(VII) Section 1283(a)(2)(A).

(VIII) Section 1286(a)(1).

(IX) The heading and text of section 1286(e)(4).

(ii) Section 108(e)(10)(B) is amended by striking ''stated'' both places it appears.

(iii) Section 1272(a)(6)(A)(i) is amended by striking ''stated''.

(iv) Subparagraphs (A)(i) and (C) of section 1279(a)(2) (as redesignated by subsection (a)) are each amended by striking ''the stated redemption price of the bond at maturity'' and inserting ''the redemption price of the bond''.

(v) Section 1279(a)(2)(B) (as redesignated by subsection (a)) is amended by striking ''the stated redemption price of such bond at maturity'' and inserting ''the redemption price of such bond''.

(4) ADJUSTED ISSUE PRICE.—Section 1275(a) is amended by adding at the end the following new paragraph:

''(5) ADJUSTED ISSUE PRICE.—

''(A) IN GENERAL.—For purposes of this part, the adjusted issue price of any debt instrument is its issue price—

''(i) increased by the aggregate of the original issue discount includible in the gross income of all holders for prior periods (determined without regard to paragraph (7) of section 1272(a)), or, in the case of a tax-exempt obligation, the aggregate amount which accrued in the manner provided by this subsection (determined without regard to such paragraph (7)) for all prior periods, and

''(ii) reduced by the sum of—

"(I) any payments other than qualified stated interest previously made on the debt instrument, and

"(II) in the case of a debt instrument which was issued with amortizable bond premium (as defined in section 171(b)), the aggregate amount by which the basis of such instrument would have been reduced under section 1016(a)(5) for prior periods if the instrument had been held by the original holder at all times.

"(B) DE MINIMIS RULE.—The adjusted issue price of the issuer shall be properly adjusted to take into account that section 1273(a)(3) does not apply to the deduction under section 163 for original issue discount.".

(5) CERTAIN OTHER TERMS.—Paragraphs (3), (4), and (5) of section 1272(a) are amended to read as follows:

"(3) DETERMINATION OF DAILY PORTIONS.—For purposes of paragraph (1), the daily portion of the original issue discount on any debt instrument shall be determined by allocating to each day in any accrual period its ratable share of the original issue discount allocable to such accrual period. For purposes of the preceding sentence, the original issue discount allocable to any accrual period is the excess (if any) of—

"(A) the product of—

"(i) the adjusted issue price of the debt instrument at the beginning of such accrual period, multiplied by

"(ii) the yield to maturity of the debt instrument properly adjusted for the length of the accrual period, over

"(B) the amount of any qualified stated interest allocable to such accrual period.

"(4) YIELD TO MATURITY.—For purposes of this subsection, the term 'yield to maturity' means the discount rate that, when used in computing the present value of all principal and interest payments to be made under the debt instrument produces an amount equal to the issue price of the debt instrument.

"(5) ACCRUAL PERIOD.—For purposes of this subsection, the term 'accrual period' shall be determined under regulations prescribed by the Secretary, provided that an accrual period shall in no event be longer than one year.".

(f) BROKER REPORTING OF INCLUDIBLE DISCOUNT ON BONDS.—

(1) IN GENERAL.—Section 6045 is amended by adding at the end the following new subsection:

"(i) DISCOUNT ON BONDS.—

"(1) IN GENERAL.—If any customer of a broker holds a covered bond in an account with such broker at any time during a calendar year—

"(A) such broker shall file a return under subsection (a) for such calendar year, and

"(B) such return shall include with respect to each such covered bond—

"(i) the amount (if any) includible in the gross income of such customer as original issue discount with respect to such bond under section 1272 for periods during such calendar year, and.

"(ii) the amount (if any) includible in the gross income of such customer as market discount with respect to such bond under section 1278(a) for periods during such calendar year.

"(2) COVERED BOND.—For purposes of this subsection, the term 'covered bond' means any obligation to which section 1272 or 1278(a) applies if such obligation—

"(A) was acquired after December 31, 2014, through a transaction in the account in which such obligation is held, or

"(B) was transferred to such account from an account in which such obligation was a covered bond, but only if the broker received a statement under section 6045A with respect to the transfer.

"(3) STATEMENTS TO CUSTOMERS.—The requirements of subsections (b) shall apply with respect to any return filed under subsection (a) by reason of this subsection.".

(2) INFORMATION REQUIRED IN CONNECTION WITH TRANSFERS OF COVERED BONDS TO BROKERS.—Subsection (a) of section 6045A is amended—

(A) by inserting "or a covered bond (as defined in section 6045(i)(2))" after "covered security (as defined in section 6045(g)(3))", and

(B) by striking "section 6045(g)" and inserting "subsections (g) and (i) of section 6045".

(3) COORDINATION WITH REPORTING BY ISSUER OF ORIGINAL ISSUE DISCOUNT.—Paragraph (6) of section 6049(d) is amended by adding at the end the following new subparagraph:

"(C) PREVENTION OF DOUBLE REPORTING.—Except as otherwise provided by the Secretary, original issue discount with respect to any obligation shall not be required to be reported under this section if such original issue discount is required to be reported with respect to such obligation under section 6045(i).".

(g) CONFORMING AMENDMENTS.—

(1) Section 857(e)(2)(B)(i), as amended by the preceding provisions of this Act, is amended by striking "or 1272" and inserting "1272, or 1278".

(2) Section 1042(d) is amended by striking "section 1278(a)(2)(A)(ii)" in the matter following paragraph (2) and inserting "section 1279(a)(2)(A)(ii)".

(3) Section 1016(a), as amended by the preceding provisions of this Act, is amended by adding at the end the following new paragraph:

"(39) in the case of any debt instrument, to extend provided in sections 1272(d)(1), 1273(a)(2)(C), and 1278(d)(2).".

(4) Section 1276 is amended by inserting "**ON BONDS NOT SUBJECT TO CURRENT INCLUSION**" after "**ACCRUED MARKET DISCOUNT**" in the heading thereof.

(5) Section 1277 is amended by inserting "**ON BONDS NOT SUBJECT TO CURRENT INCLUSION**" after "**ACCRUED MARKET DISCOUNT**" in the heading thereof.

(6) Section 1281 is amended by striking subsection (c).

(7) Section 1282 is amended by striking subsection (d).

(8) The table of sections for subpart B of part V of subchapter P of chapter 1 is amended to read as follows:

(h) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to obligations acquired after December 31, 2014.

(2) MODERNIZATION OF TERMS.—The amendments made by subsection (e) shall take effect on January 1, 2015.

SEC. 3412. TREATMENT OF CERTAIN EXCHANGES OF DEBT INSTRUMENTS.

(a) DETERMINATION OF ISSUE PRICE.—

(1) IN GENERAL.—Subpart A of part V of subchapter P is amended by inserting after section 1274A the following new section:

"SEC. 1274B. DETERMINATION OF ISSUE PRICE IN THE CASE OF AN EXCHANGE OF DEBT INSTRUMENTS.

''(a) IN GENERAL.—In the case of an exchange (including by significant modification) by an issuer of a new debt instrument for an existing debt instrument issued by the same issuer, the issue price of the new debt instrument shall be the least of—

''(1) the adjusted issue price of the existing debt instrument,

''(2) the stated principal amount of the new debt instrument, or

''(3) the imputed principal amount of the new debt instrument.

"(b) APPLICABLE RATE.—The discount rate used to determine the imputed principal amount of the new debt instrument under subsection (a)(3) shall be the lesser of—

"(1) the applicable Federal rate determined under section 1274(d) with respect to the new debt instrument, or

"(2) the greater of—

"(A) the rate of qualified stated interest with respect to the existing debt instrument, or

"(B) the applicable Federal rate determined under section 1274(d) with respect to the existing debt instrument.

"(c) TREATMENT OF INVESTMENT UNITS.—Rules similar to the rules of section 1273(c)(2) shall apply for purposes of this section.".

(2) CONFORMING AMENDMENTS.—

(A) Section 108(e)(10)(B) is amended by striking "and 1274" and inserting ", 1274, and 1274B".

(B) Section 1274(c)(3), as amended by the preceding provisions of this Act, is amended by adding at the end the following new subparagraph:

"(F) CERTAIN MODIFIED DEBT.—Any debt instrument the issue price of which is determined under section 1274B.".

(C) The table of sections for subpart A of part V of subchapter P is amended by inserting after the item relating to section 1274A the following new item:

"Sec. 1274B. Determination of issue price in the case of an exchange of debt instruments.".

(b) NONRECOGNITION OF GAIN OR LOSS BY HOLDER.—

(1) IN GENERAL.—Section 1037 is amended to read as follows:

"SEC. 1037. CERTAIN EXCHANGES OF DEBT INSTRUMENTS.

"(a) NONRECOGNITION OF GAIN OR LOSS.—No gain or loss shall be recognized to the holder of a debt instrument if such existing debt instrument is exchanged solely for a new debt instrument (whether by exchange or significant modification) issued by the same issuer.

"(b) PROPERTY ATTRIBUTABLE TO ACCRUED INTEREST.—Subsection (a) shall not apply to the extent that any property received is attributable to interest which accrued on the existing debt instrument on or after the beginning of the holder's holding period of such instrument.

"(c) LIMITATION ON GAIN RECOGNITION IN CASE OF EXCHANGE NOT SOLELY FOR A NEW DEBT INSTRU-

MENT.—In the case of an exchange of a debt instrument to which section 1035(d) applies, the amount of gain recognized shall not exceed the amount of gain which would have been recognized if section 1274B did not apply.

"(d) CROSS REFERENCES.—

"(1) For rules relating to securities exchanged or distributed in a reorganization, etc., see sections 354, 355, and 356.

"(2) For rules relating to recognition of gain or loss where exchange was not made solely for another debt instrument of the issuer, see subsections (d) and (e) of section 1035.

"(3) For rules relating to basis of obligations acquired in an exchange described in subsection (a), see subsection (f) of section 1035.".

(2) CLERICAL AMENDMENT.—The table of sections for part III of subchapter O of chapter 1 is amended by striking the item relating to section 1037 and inserting the following new item:

"Sec. 1037. Certain exchanges of debt instruments.".

(c) APPLICATION TO EXCESS PRINCIPAL RULES FOR CORPORATE REORGANIZATIONS.—

(1) EXCHANGES OF SECURITIES IN REORGANIZATIONS.—

(A) IN GENERAL.—Section 354(a)(2)(A)(i) is amended to read as follows:

"(i) the issue price of any such securities received exceeds the adjusted issue price of any such securities surrendered, or".

(B) DEFINITIONS.—Section 354(a)(2) is amended by inserting after subparagraph (C) the following new subparagraph:

"(D) DEFINITIONS.—For purposes of this paragraph—

"(i) ISSUE PRICE.—The issue price of any security shall be determined under sections 1273, 1274, and 1274B.

"(ii) ADJUSTED ISSUE PRICE.— The adjusted issue price of any security shall be determined under section 1275(a)(5).".

(2) SECTION 355 TRANSACTIONS.—Section 355(a)(3)(A)(i) is amended to read as follows:

"(i) the issue price (as defined in section 354(a)(2)(D)) of the securities in the controlled corporation which are received exceeds the adjusted issue price (as so defined) of the securities which are surrendered in connection with such distribution, or".

(3) SECTION 356 TRANSACTIONS.—

(A) IN GENERAL.—Section 356(d)(2)(B)(ii) is amended to read as follows:

"(ii) the issue price (as defined in section 354(a)(2)(D)) of such securities received exceeds the adjusted issue price (as so defined) of such securities surrendered,".

(B) CONFORMING AMENDMENTS.—

(i) Section 356(d)(2)(B) is amended in the matter following clause (ii)—

(I) by striking "the fair market value of such excess" and inserting "the amount of such excess", and

(II) by striking "the entire principal amount" and inserting "the entire issue price (as so defined)".

(ii) Section 356(d)(2)(C) is amended to read as follows:

"(C) GREATER PRINCIPAL AMOUNT IN SECTION 355 TRANSACTION.—If, in an exchange or distribution described in section 355, the issue price (as defined in section 354(a)(2)(D)) of the securities in the controlled corporation which are received exceeds the adjusted issue price (as so defined) of the securities in the distributing corporation which are surrendered, then, with respect to such securities received, the term 'other property' means only the amount of such excess.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions after December 31, 2014.

SEC. 3413. COORDINATION WITH RULES FOR INCLUSION NOT LATER THAN FOR FINANCIAL ACCOUNTING PURPOSES.

(a) IN GENERAL.—Section 451(b), as amended by the preceding provisions of this Act, is amended by inserting immediately after the heading thereof (and before paragraph (1) thereof) the following: ''Notwithstanding any other provision of law (including part V of subchapter P)—''.

(b) EFFECTIVE DATE; CHANGE IN METHOD OF ACCOUNTING.—The amendment made by subsection (a) shall be treated for purposes of section 3303(g) as though such amendment were made by section 3303(a).

SEC. 3414. RULES REGARDING CERTAIN GOVERNMENT DEBT.

(a) REPEAL OF CERTAIN SUPERCEDED RULES.—Subpart B of part II of subchapter E of chapter 1 is amended by striking section 454 (and by striking the item relating to such section in the table of sections for such subpart).

(b) PRESERVATION OF RULES RELATED TO UNITED STATES SAVINGS BONDS.—Subpart A of part V of subchapter P of chapter 1 is amended by inserting after section 1272 the following new section:

"SEC. 1272A. UNITED STATES SAVINGS BONDS.

"(a) ELECTION TO INCLUDE INCREASE IN REDEMPTION PRICE IN INCOME.—A taxpayer holding a United States savings bond may elect (on the taxpayer's return for the taxable year) to treat any increase in the redemption price as income received in the taxable year. If any such election is made with respect to any such obligation, it shall apply also to all such obligations owned by the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by the taxpayer and shall be binding for all subsequent taxable years, unless revoked with the consent of the Secretary. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which the taxpayer's election applies, the increase in the redemption price of such obligations occurring between the date of acquisition and the first day of such taxable year shall also be treated as income received in such taxable year.

"(b) TREATMENT UPON REDEMPTION OR FINAL MATURITY.—The increase in redemption value of a United States savings bond (to the extent not previously included in gross income) in excess of the adjusted basis of such bond shall be included in gross income in the earlier of the taxable year in which the bond is redeemed or in the taxable year of final maturity.

"(c) CROSS REFERENCES.—

"(1) For exception from current inclusion of original issue discount, see section 1272(a)(2)(B).

"(2) For exception from market discount rules, see section 1279(a)(1)(B)(iii).".

(c) CONFORMING AMENDMENTS.—

(1) Section 852(b)(2), as amended by the preceding provisions of this Act, is amended by striking subparagraph (E) and redesignating subparagraphs (F) and (G) as subparagraphs (E) and (F), respectively.

(2) Section 1283(c)(3), as amended by the preceding provisions of this Act, is amended by striking all that precedes "shall not apply" and inserting the following:

"(3) COORDINATION WITH SECTION 1271.—Section 1271(a)(3)".

(3) Section 7871(a)(6) is amended by adding "and" at the end of subparagraph (A) and by striking subparagraph (C).

(4) The table of sections for subpart A of part V of subchapter P of chapter 1 is amended by inserting after the item relating to section 1272 the following new item:

"Sec. 1272A. United States savings bonds.".

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

PART 3—CERTAIN RULES FOR DETERMINING GAIN AND LOSS

SEC. 3421. COST BASIS OF SPECIFIED SECURITIES DETERMINED WITHOUT REGARD TO IDENTIFICATION.

(a) IN GENERAL.—Section 1012 is amended by adding at the end the following new subsection:

"(e) COST BASIS OF SPECIFIED SECURITIES DETERMINED WITHOUT REGARD TO IDENTIFICATION.—Except to the extent otherwise provided in this section or in regulations thereunder permitting the use of an average basis method for determining cost, in the case of the sale, exchange, or other disposition of a specified security (within the meaning of section 6045(g)(3)(B)), the basis (and holding period) of such security shall be determined on a first-in first-out basis.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 1012(c)(1) is amended by striking ''the conventions prescribed by regulations under this section'' and inserting ''the method applicable for determining the cost of such security''.

(2) Section 1012(c)(2)(A) is amended by striking ''section 1012'' and inserting ''this section (as in effect prior to the enactment of the Tax Reform Act of 2014)''.

(3) Section 6045(g)(2)(B)(i)(I) is amended by striking ''unless the customer notifies the broker by means of making an adequate identification of the stock sold or transferred''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales, exchanges, and other dispositions after December 31, 2014.

SEC. 3422. WASH SALES BY RELATED PARTIES.

(a) APPLICATION OF WASH SALE RULES TO RELATED PARTIES.—Subsection (a) of section 1091 is amended by striking ''the taxpayer has acquired'' and inserting ''the taxpayer (or a related party) has acquired''.

(b) MODIFICATION OF BASIS ADJUSTMENT RULE TO PREVENT TRANSFER OF LOSSES TO RELATED PAR-

TIES.—Subsection (d) of section 1091 is amended to read as follows:

"(d) ADJUSTMENT TO BASIS IN CASE OF WASH SALE.—If the taxpayer (or the taxpayer's spouse) acquires substantially identical stock or securities during the period which—

"(1) begins 30 days before the disposition with respect to which a deduction was disallowed under subsection (a), and

"(2) ends with the close of the taxpayer's first taxable year which begins after such disposition,

the basis of such stock or securities shall be increased by the amount of the deduction so disallowed (reduced by any amount of such deduction taken into account under this subsection to increase the basis of stock or securities previously acquired).".

(c) RELATED PARTY.—Section 1091 is amended by adding at the end the following new subsection:

"(g) RELATED PARTY.—For purposes of this section—

"(1) IN GENERAL.—The term 'related party' means—

"(A) the taxpayer's spouse,

"(B) any dependent of the taxpayer and any other taxpayer with respect to whom the taxpayer is a dependent,

"(C) any individual, corporation, partnership, trust, or estate which controls, or is controlled by, (within the meaning of section 954(d)(3)) the taxpayer or any individual described in subparagraph (A) or (B) with respect to the taxpayer (or any combination thereof),

"(D) any individual retirement plan, Archer MSA (as defined in section 220(d)), or health savings account (as defined in section 223(d)), of the taxpayer or of any individual described in subparagraph (A) or (B) with respect to the taxpayer,

"(E) any account under a qualified tuition program described in section 529 or a Coverdell education savings account (as defined in section 530(b)) if the taxpayer, or any individual described in subparagraph (A) or (B) with respect to the taxpayer, is the designated beneficiary of such account or has the right to make any decision with respect to the investment of any amount in such account, and

"(F) any account under—

"(i) a plan described in section 401(a),

"(ii) an annuity plan described in section 403(a),

"(iii) an annuity contract described in section 403(b), or

"(iv) an eligible deferred compensation plan described in section 457(b) and maintained by an employer described in section 457(e)(1)(A),

if the taxpayer or any individual described in subparagraph (A) or (B) with respect to the taxpayer has the right to make any decision with respect to the investment of any amount in such account .

"(2) RULES FOR DETERMINING STATUS.—

"(A) RELATIONSHIPS DETERMINED AT TIME OF ACQUISITION.—Determinations under paragraph (1) shall be made as of the time of the purchase or exchange referred to in subsection (a) except that determinations under subparagraphs (A) and (B) of paragraph (1) shall be made for the taxable year which includes such purchase or exchange.

"(B) DETERMINATION OF MARITAL STATUS.—

"(i) IN GENERAL.—Except as provided in clause (ii), marital status shall be determined under section 7703.

"(ii) SPECIAL RULE FOR MARRIED INDIVIDUALS FILING SEPARATELY AND LIVING APART.—A husband and wife who—

"(I) file separate returns for any taxable year, and

"(II) live apart at all times during such taxable year,

shall not be treated as married individuals.

"(3) REGULATIONS.—The Secretary shall issue such regulations or other guidance as may be necessary to prevent the avoidance of the purposes of this subsection, including regulations which treat persons as related parties if such persons are formed or availed of to avoid the purposes of this subsection.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to sales and other dispositions after December 31, 2014.

SEC. 3423. NONRECOGNITION FOR DERIVATIVE TRANSACTIONS BY A CORPORATION WITH RESPECT TO ITS STOCK.

(a) IN GENERAL.—Section 1032 is amended to read as follows:

"SEC. 1032. DERIVATIVE TRANSACTIONS BY A CORPORATION WITH RESPECT TO ITS STOCK.

"(a) IN GENERAL.—Except as otherwise provided in this section or section 76, section 1032 derivative items of a corporation shall not be taken into account in determining such corporation's liability for tax under this subtitle.

"(b) INCOME RECOGNITION ON CERTAIN FORWARD CONTRACTS.—

"(1) IN GENERAL.—If—

"(A) a corporation acquires its stock, and

"(B) such acquisition is part of a plan (or series of related transactions) pursuant to which the corporation enters into a forward contract with respect to its stock,

such corporation shall include amounts in income as if the excess of the amount to be received under the forward contract over the fair market value of the stock as of the date the corporation entered into the forward contract were original issue discount on a debt instrument acquired on such date. The preceding sentence shall apply only to the extent that the amount of stock involved in the forward contract does not exceed the amount acquired as described in subparagraph (A).

"(2) PLAN PRESUMED TO EXIST.—If a corporation enters into a forward contract with respect to its stock within the 60-day period beginning on the date which is 30 days before the date that the corporation acquires its stock, such acquisition shall be treated as pursuant to a plan described in paragraph (1)(B) unless it is established that entering into such contract and such acquisition are not pursuant to a plan or series of related transactions.

"(c) SECTION 1032 DERIVATIVE ITEMS.—For purposes of this section, the term 'section 1032 derivative item' means any item of income, gain, loss, or deduction if—

"(1) such item arises out of the rights or obligations under any derivative (as defined in section 486) to the extent such derivative relates to the corporation's stock (or is attributable to any transfer or extinguishment of any such right or obligation), or

"(2) such item arises under any other contract or position but only to the extent that such item reflects (or is determined by reference to) changes in the value of such stock or distributions thereon.

Such term shall not include any deduction with respect to which section 83(h) applies and shall not include any deduction for any item which is in the nature of compensation for services rendered. For purposes of this subparagraph, de minimis relationships, as determined by the Secretary, shall be disregarded.

"(d) TREASURY STOCK TREATED AS STOCK.—Any reference in this section to stock shall be treated as including a reference to treasury stock.

"(e) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be appropriate to carry out the purposes of this section, including regulations or other guidance which—

"(1) treat the portion of an instrument which is described in subsection (c)(1) separately from the portion of such instrument which is not so described, and

"(2) treat section 1032 derivative items as contributions to the capital of the corporation to the extent that the application of this section would be inconsistent with the purposes of section 76(b).".

(b) CLERICAL AMENDMENT.—The item relating to section 1032 in the table of sections for part III of subchapter O of chapter 1 is amended to read as follows:

"Sec. 1032. Derivative transactions by a corporation with respect to its stock.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions entered into after the date of the enactment of this Act.

PART 4—TAX FAVORED BONDS

SEC. 3431. TERMINATION OF PRIVATE ACTIVITY BONDS.

(a) IN GENERAL.—Paragraph (1) of section 103(b) is amended—

(1) by striking "which is not a qualified bond (within the meaning of section 141)", and

(2) by striking "WHICH IS NOT A QUALIFIED BOND" in the heading thereof.

(b) CONFORMING AMENDMENTS.—

(1) Section 141 is amended by striking subsection (e).

(2) Subpart A of part IV of subchapter B of chapter 1 is amended by striking sections 142, 143, 144, 145, 146, and 147 (and by striking each of the items relating to such sections in the table of sections for such subpart).

(3) Section 25 is amended by adding at the end the following new subsection:

"(j) COORDINATION WITH REPEAL OF PRIVATE ACTIVITY BONDS.—Any reference to section 143, 144, or 146 shall be treated as a reference to such section as in effect before its repeal by the Tax Reform Act of 2014.".

(4) Section 26(b)(2) is amended by striking subparagraph (D).

(5) Section 141(b) is amended by striking paragraphs (5) and (9) and by redesignating paragraphs (6), (7), and (8) as paragraphs (5), (6), and (7), respectively.

(6) Section 141(d) is amended by striking paragraph (5) and by redesignating paragraphs (6) and (7) as paragraphs (5) and (6).

(7) Section 148(b)(2)(E) is amended by striking "in the case of a bond other than a private activity bond,".

(8) Section 148(b)(3) is amended to read as follows:

"(3) TAX-EXEMPT BONDS NOT TREATED AS INVESTMENT PROPERTY.—The term 'investment property' does not include any tax-exempt bond.".

(9) Section 148(f)(3) is amended by striking "or is a private activity bond" in the fourth sentence.

(10) Section 148(f)(4) is amended—

(A) by striking "(determined in accordance with section 147(b)(2)(A))" in the flush matter following subparagraph (A)(ii),

(B) by striking the last sentence of subparagraph (D)(v), and

(C) by adding at the end the following new subparagraph:

"(E) AVERAGE MATURITY.—For purposes of this paragraph, the average maturity of any issue shall be determined by taking into account the respective issue prices of the bonds issued as part of such issue.".

(11) Section 148(f)(4)(A) is amended in the flush matter after clause (ii) by striking "In the case of an issue no bond of which is a private activity bond, clause" and inserting "Clause".

(12) Section 148(f)(4)(B)(ii) is amended—

(A) by striking subclause (II), and

(B) by striking "CERTAIN BONDS.—" and all that follows through "issue described in subclause (II)" and inserting "CERTAIN BONDS.—In the case of an issue no bond of which is a tax or revenue anticipation bond".

(13)(A) Section 148(f)(4)(C)(iv) is amended to read as follows:

"(iv) CONSTRUCTION ISSUE.—For purposes of this subparagraph, the term 'construction issue' means any issue if at least 75 percent of the available construction proceeds of such issue are to be used for construction expenditures with respect to property which is to be owned by a governmental unit.".

(B) Section 148(f)(4)(C) is amended by redesignating clauses (v) through (xvii) as clauses (viii) through (xx), respectively, and by inserting after clause (iv) the following new clauses:

"(v) CONSTRUCTION.—For purposes of this subparagraph, the term 'construction' includes reconstruction and rehabilitation.

"(vi) SAFE HARBOR FOR LEASES AND MANAGEMENT CONTRACTS.—For purposes of this subparagraph, property leased by a governmental unit shall be treated as owned by such governmental unit if—

"(I) the lessee makes an irrevocable election (binding on the lessee and all successors in interest under the lease) not to claim depreciation or an investment credit with respect to such property,

"(II) the lease term (as defined in section 168(h)(1)) is not more than 80 percent of the reasonably expected economic life of the property, and

"(III) the lessee has no option to purchase the property other than at fair market value (as of the time such option is exercised).

"(vii) DETERMINATION OF ECONOMIC LIFE.—For purposes of clause (vi), the reasonably expected economic life of any facility shall be determined as of the later of—

"(I) the date on which the bonds are issued, or

"(II) the date on which the facility is placed in service (or expected to be placed in service).".

(C) Section 148(f)(4)(D) is amended by striking "subparagraph (C)(iv)" each place it appears and inserting "subparagraph (C)(v)".

(14) Section 148(f)(4)(D)(i) is amended—

(A) by striking subclause (II),

(B) by striking ''(other than private activity bonds)'' in subclause (IV), and

(C) by redesignating subclauses (III) and (IV) (as amended by subparagraph (B)) as subclauses (II) and (III).

(15) Section 148(f)(4)(D)(ii) is amended by striking ''subclause (IV)'' both places it appears and inserting ''subclause (III)''.

(16) Section 148(f)(4)(D)(iii) is amended by striking ''subclause (IV)'' and inserting ''subclause (III)''.

(17) Section 148(f)(4)(D)(iv)(II) is amended by striking ''clause (i)(IV)'' and inserting ''clause (i)(III)''.

(18) Section 148(f)(4)(D)(vi) is amended by striking the last sentence.

(19) Section 148(f)(7) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B).

(20) Section 149(b)(3) is amended—

(A) by striking subparagraph (C) and by redesignating subparagraphs (D) and (E) as subparagraphs (C) and (D), and

(B) by striking "subparagraph (E)" in subparagraph (A)(iv) and inserting "subparagraph (D)".

(21) Section 149(e)(2) is amended—

(A) by striking subparagraphs (C), (D), and (F) and by redesignating subparagraphs (E) and (G) as subparagraphs (C) and (D), respectively, and

(B) by striking the second sentence.

(22) Section 149(f)(6) is amended—

(A) by striking subparagraph (B), and

(B) by striking "For purposes of this subsection" and all that follows through "The term" and inserting the following: "For purposes of this subsection, the term".

(23) Section 150 is amended by striking subsections (b) and (c) and by redesignating subsections (d) and (e) as subsections (b) and (c), respectively.

(24) Section 150(e)(3) is amended to read as follows:

"(3) PUBLIC APPROVAL REQUIREMENT.—A bond shall not be treated as part of an issue which meets the requirements of paragraph (1) unless such bond satisfies the requirements of section 147(f)(2) (as in effect before its repeal by the Tax Reform Act of 2014).''.

(25) Section 269A(b)(3) is amended by striking ''144(a)(3)'' and inserting ''414(n)(6)(A)''.

(26) Section 414(m)(5) is amended by striking ''section 144(a)(3)'' and inserting ''subsection (n)(6)(A)''.

(27) Section 414(n)(6)(A) is amended to read as follows:

''(A) RELATED PERSONS.—A person is a related person to another person if—

''(i) the relationship between such persons would result in a disallowance of losses under section 267 or 707(b), or

''(ii) such persons are members of the same controlled group of corporations (as defined in section 1563(a), except that 'more than 50 percent' shall be substituted for 'at least 80 percent' each place it appears therein).''.

(28) Section 6045(e)(4)(B) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 143(m)(3)''.

(29) Section 6654(f)(1) is amended by inserting "(as in effect before its repeal by the Tax Reform Act of 2014)" after "section 143(m)".

(30) Section 7871(c) is amended—

(A) by striking paragraphs (2) and (3), and

(B) by striking "TAX-EXEMPT BONDS.—" and all that follows through "Subsection (a) of section 103" and inserting the following: "TAX-EXEMPT BONDS.—Subsection (a) of section 103".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after December 31, 2014.

SEC. 3432. TERMINATION OF CREDIT FOR INTEREST ON CERTAIN HOME MORTGAGES.

(a) IN GENERAL.—Section 25, as amended by the preceding provisions of this Act, is amended by adding at the end the following new subsection:

"(k) TERMINATION.—No credit shall be allowed under this section with respect to any mortgage credit certificate issued after December 31, 2014.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after December 31, 2014.

SEC. 3433. REPEAL OF ADVANCE REFUNDING BONDS.

(a) IN GENERAL.—Paragraph (1) of section 149(d) is amended by striking "as part of an issue described in paragraph (2), (3), or (4)." and inserting "to advance refund a bond.".

(b) CONFORMING AMENDMENTS.—

(1) Section 149(d) is amended by striking paragraphs (2), (3), (4), and (6) and by redesignating paragraphs (5) and (7) as paragraphs (2) and (3).

(2) Section 148(f)(4)(C), as amended by the preceding provisions of this Act, is amended by striking clause (xvii) and by redesignating clauses (xviii), (xix), and (xx) as clauses (xvii), (xviii), and (xix), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to advance refunding bonds issued after December 31, 2014.

SEC. 3434. REPEAL OF TAX CREDIT BOND RULES.

(a) IN GENERAL.—Part IV of subchapter A of chapter 1 is amended by striking subparts H, I, and J (and by striking the items relating to such subparts in the table of subparts for such part).

(b) PAYMENTS TO ISSUERS.—Subchapter B of chapter 65 is amended by striking section 6431 (and by striking the item relating to such section in the table of sections for such subchapter).

(c) CONFORMING AMENDMENTS.—

(1) Section 6211(b)(4)(A) is amended by striking "and 6431".

(2) Section 6401(b)(1) is amended by striking "G, H, I, and J" and inserting "and G".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after the date of the enactment of this Act.

Subtitle F—Insurance Reforms

SEC. 3501. EXCEPTION TO PRO RATA INTEREST EXPENSE DISALLOWANCE FOR CORPORATE-OWNED LIFE INSURANCE RESTRICTED TO 20-PERCENT OWNERS.

(a) IN GENERAL.—Subparagraph (A) of section 264(f)(4) is amended—

(1) by striking "policy or contract)—" and all that follows through "A policy or contract" and inserting "policy or contract) a 20-percent owner of such entity. A policy or contract", and

(2) by striking ", OFFICERS, DIRECTORS, AND EMPLOYEES" in the heading.

(b) CONFORMING AMENDMENT.—Section 264(f)(4) is amended by striking subparagraph (E).

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to contracts issued after December

31, 2014. For purposes of the preceding sentence, any material increase in the death benefit or other material change in the contract shall be treated as a new contract.

SEC. 3502. NET OPERATING LOSSES OF LIFE INSURANCE COMPANIES.

(a) IN GENERAL.—Paragraph (5) of section 805(a) is amended to read as follows:

"(5) NET OPERATING LOSS DEDUCTION.—The deduction allowed under section 172, determined—

"(A) by treating the net operating loss for any taxable year as equal to the excess (if any) of—

"(i) the life insurance deductions for such taxable year, over

"(ii) the life insurance gross income for such taxable year, and

"(B) by applying subsection (d)(5) thereof with the modifications described in paragraph (4) of this subsection.".

(b) CONFORMING AMENDMENTS.—

(1) Part I of subchapter L of chapter 1 is amended by striking section 810 (and by striking the item relating to such section in the table of sections for such part).

(2) Part III of subchapter L of chapter 1 is amended by striking section 844 (and by striking the item relating to such section in the table of sections for such part).

(3) Section 381 is amended by striking subsection (d).

(4) Section 805(a)(4)(B)(i), as redesignated by the preceding provisions of this Act, is amended to read as follows:

"(ii) the net operating loss deduction provided by paragraph (5),".

(5) Section 805(b)(2)(A)(iii), as redesignated by the preceding provisions of this Act, is amended to read as follows:

"(iv) any net operating loss carryback to the taxable year under section 172 (as applied pursuant to subsection (a)(5)), and".

(6) Section 805(b) is amended by striking paragraph (4) and redesignating paragraph (5) as paragraph (4).

(7) Section 953(b)(1)(A), as redesignated by the preceding provisions of this Act, is amended by striking "operations" and inserting "net operating".

(8) Section 1351(i)(3) is amended by striking "or the operations loss deduction under section 810,".

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

SEC. 3503. REPEAL OF SMALL LIFE INSURANCE COMPANY DEDUCTION.

(a) IN GENERAL.—Part I of subchapter L of chapter 1 is amended by striking section 806 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 453B(e) is amended—

(A) by striking "(as defined in section 806(b)(3))" in paragraph (2)(B), and

(B) by adding at the end the following new paragraph:

"(3) NONINSURANCE BUSINESS.—

"(A) IN GENERAL.—For purposes of this subsection, the term 'noninsurance business' means any activity which is not an insurance business.

"(B) CERTAIN ACTIVITIES TREATED AS INSURANCE BUSINESSES.—For purposes of subparagraph (A), any activity which is not an insurance business shall be treated as an insurance business if—

"(i) it is of a type traditionally carried on by life insurance companies for investment purposes, but only if the carrying on of such activity (other than in the case of real estate) does not constitute the active conduct of a trade or business, or

"(ii) it involves the performance of administrative services in connection with plans providing life insurance, pension, or accident and health benefits.".

(2) Section 465(c)(7)(D)(v)(II) is amended by striking "section 806(b)(3)" and inserting "section 453B(e)(3)".

(3) Section 801(a)(2) is amended by striking subparagraph (C).

(4) Section 804 is amended by striking "means—" and all that follows and inserting "means the general deductions provided in section 805.".

(5) Section 805(a)(4)(B) is amended by striking clause (i) and by redesignating clauses (ii), (iii), and (iv) as clauses (i), (ii), and (iii), respectively.

(6) Section 805(b)(2)(A) is amended by striking clause (iii) and by redesignating clauses (iv) and (v) as clauses (iii) and (iv), respectively.

(7) Section 815(c)(2)(A) is amended by inserting "and" at the end of clause (i), by striking clause (ii), and by redesignating clause (iii) as clause (ii).

(8) Section 842(c) is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(9) Section 953(b)(1) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

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

SEC. 3504. COMPUTATION OF LIFE INSURANCE TAX RESERVES.

(a) IN GENERAL.—Subparagraph (B) of section 807(d)(2) is amended to read as follows:

"(B) an interest rate equal to the sum of—

"(i) the applicable Federal interest rate, plus

"(ii) 3.5 percentage points, and".

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (4) of section 807(d) is amended to read as follows:

"(4) APPLICABLE FEDERAL INTEREST RATE.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'applicable Federal interest rate' means the annual rate determined by the Secretary under subparagraph (C) for the calendar year in which the contract was issued.

"(B) ELECTION TO RECOMPUTE FEDERAL INTEREST RATE EVERY 5 YEARS.—For purposes of this subsection—

"(i) IN GENERAL.—In computing the amount of the reserve with respect to any contract to which an election under this subparagraph applies for periods during any recomputation period, the applicable Federal interest rate shall be the annual rate determined by the Secretary under subparagraph (C) for the 1st year of such period. No change in the applicable Federal interest rate shall be made under the preceding sentence unless such change would equal or exceed ½ of 1 percentage point.

"(ii) RECOMPUTATION PERIOD.—For purposes of clause (i), the term 'recomputation period' means, with respect to any contract, the 5 calendar year period beginning with the 5th calendar year beginning after the calendar year in which the contract was issued (and each subsequent 5 calendar year period).

"(iii) ELECTION.—An election under this subparagraph shall apply to all contracts issued during the calendar year for which the election was made or during any subsequent calendar year unless such election is revoked with the consent of the Secretary.

"(iv) SPREAD NOT AVAILABLE.—Subsection (f) shall not apply to any adjustment required under this paragraph.

"(C) RATE OF INTEREST.—

"(i) IN GENERAL.—For purposes of this paragraph, the rate of interest determined under this subparagraph shall be the annual rate determined by the Secretary under clause (ii).

"(ii) DETERMINATION OF ANNUAL RATE.—

"(I) IN GENERAL.—The annual rate determined by the Secretary under this clause for any calendar year shall be a rate equal to the average of the applicable Federal mid-term rates (as defined in section 1274(d) but based on annual compounding) effective as of the beginning of each of the calendar months in the test period.

"(II) TEST PERIOD.—For purposes of subclause (I), the test period is the most recent 60-calendar-month period ending before the beginning of the calendar year for which the determination is made.".

(2) The first sentence following paragraph (6) in section 807(c) is amended by striking "the applicable Federal interest rate under subsection (d)(2)(B)(i), the prevailing State assumed interest rate under subsection (d)(2)(B)(ii)," and inserting

"the interest rate determined under subsection (d)(2)(B)".

(3) Section 808 is amended by adding at the end the following new subsection:

"(g) PREVAILING STATE ASSUMED INTEREST RATE.—For purposes of this subchapter—

"(1) IN GENERAL.—The term 'prevailing State assumed interest rate' means, with respect to any contract, the highest assumed interest rate permitted to be used in computing life insurance reserves for insurance contracts or annuity contracts (as the case may be) under the insurance laws of at least 26 States. For purposes of the preceding sentence, the effect of nonforfeiture laws of a State on interest rates for reserves shall not be taken into account.

"(2) WHEN RATE DETERMINED.—The prevailing State assumed interest rate with respect to any contract shall be determined as of the beginning of the calendar year in which the contract was issued.".

(4) Paragraph (1) of section 811(d) is amended by striking "the greater of the prevailing State assumed interest rate or applicable Federal interest

rate in effect under section 807'' and inserting ''the interest rate in effect under section 807(d)(2)(B)''.

(5) Subparagraph (A) of section 846(f)(6) is amended by striking ''except that'' and all that follows and inserting ''except that the limitation of subsection (a)(3) shall apply in lieu of the limitation of the last sentence of section 807(d)(1), and''.

(6) Subparagraph (B) of section 954(i)(5) is amended by striking ''shall be substituted for the prevailing State assumed interest rate'' and inserting ''shall, if higher, be substituted for the interest rate in effect under section 807(d)(2)(B)''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) TRANSITION RULE.—For the first taxable year beginning after December 31, 2014, the reserve with respect to any contract (as determined under section 807(d)(2) of the Internal Revenue Code of 1986) at the end of the preceding taxable year shall be determined as if the amendments made by this section had applied to such reserve in such preceding taxable year and by using the interest rate applicable to such reserves under section 807(d)(2) of the

Internal Revenue Code of 1986 for calendar year 2015. For subsequent taxable years, such amendments shall be applied with respect to such reserve by using the interest rate applicable under such section for calendar year 2015.

(3) TRANSITION RELIEF.—

(A) IN GENERAL.—If—

(i) the reserve determined under section 807(d)(2) of the Internal Revenue Code of 1986 with respect to any contract as of the close of the year preceding the first taxable year beginning after December 31, 2014, differs from

(ii) the reserve which would have been determined with respect to such contract as of the close of such taxable year under such section determined without regard to paragraph (2),

then the difference between the amount of the reserve described in clause (i) and the amount of the reserve described in clause (ii) shall be taken into account under the method provided in subparagraph (B).

(B) METHOD.—The method provided in this subparagraph is as follows:

(i) if the amount determined under subparagraph (A)(i) exceeds the amount determined under subparagraph (A)(ii), ⅛ of such excess shall be taken into account, for each of the 8 succeeding taxable years, as a deduction under section 805(a)(2) of such Code, or

(ii) if the amount determined under subparagraph (A)(ii) exceeds the amount determined under subparagraph (A)(i), ⅛ of such excess shall be included in gross income, for each of the 8 succeeding taxable years, under section 803(a)(2) of such Code.

SEC. 3505. ADJUSTMENT FOR CHANGE IN COMPUTING RESERVES.

(a) IN GENERAL.—Paragraph (1) of section 807(f) is amended to read as follows:

"(1) TREATMENT AS CHANGE IN METHOD OF ACCOUNTING.—If the basis for determining any item referred to in subsection (c) as of the close of any taxable year differs from the basis for such determination as of the close of the preceding taxable year, then so much of the difference between—

"(A) the amount of the item at the close of the taxable year, computed on the new basis, and

"(B) the amount of the item at the close of the taxable year, computed on the old basis,

as is attributable to contracts issued before the taxable year shall be taken into account under section 481 as adjustments attributable to a change in method of accounting initiated by the taxpayer and made with the consent of the Secretary.".

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

SEC. 3506. MODIFICATION OF RULES FOR LIFE INSURANCE PRORATION FOR PURPOSES OF DETERMINING THE DIVIDENDS RECEIVED DEDUCTION.

(a) IN GENERAL.—Section 812 is amended to read as follows:

"SEC. 812. DETERMINATION OF COMPANY'S AND POLICYHOLDER'S SHARE ON ACCOUNT BY ACCOUNT BASIS.

"(a) DETERMINATION ON ACCOUNT BY ACCOUNT BASIS.—Sections 805(a)(4) and 807 shall be applied on an account by account basis.

"(b) COMPANY'S SHARE.—For purposes of section 805(a)(4), the term 'company's share' means, with respect to any account for any taxable year, the ratio (expressed as a percentage) of—

"(1) the excess of—

"(A) the mean assets of such account for such taxable year, over

"(B) the mean reserves with respect to such account for such taxable year, divided by

"(2) the mean assets of such account for such taxable year.

"(c) POLICYHOLDER'S SHARE.—For purposes of section 807, the term 'policyholder's share' means, with respect to any account for any taxable year, the excess of 100 percent over the percentage determined under paragraph (2).

"(d) MEAN ASSETS AND MEAN RESERVES DEFINED.—For purposes of this subsection—

"(1) MEAN ASSETS.—The term 'mean assets' means, with respect to any account for any taxable year, 50 percent of the sum of—

"(A) the fair market value of the assets of such account determined as of the beginning of such taxable year, and

"(B) the fair market value of the assets of such account determined as of the close of such taxable year.

"(2) MEAN RESERVES.—The term 'mean reserves' means, with respect to any account for any taxable year, 50 percent of the sum of—

"(A) the reserves with respect to such account as determined under section 807 as of the beginning of such taxable year, and

"(B) the reserves with respect to such account as determined under section 807 as of the close of such taxable year.

"(3) CERTAIN DIVIDENDS NOT TAKEN INTO ACCOUNT.—Dividends described in section 246(c) shall not be taken into account for purposes of determining mean assets or mean reserves.

"(4) FEES AND EXPENSES NOT TAKEN INTO ACCOUNT.—Fees and expenses shall not be taken into account for purposes of determining mean assets or mean reserves.".

(b) CONFORMING AMENDMENT.—Section 817A(e)(2) is amended by striking ", 807(d)(2)(B), and 812" and inserting "and 807(d)(2)(B)"

(c) CLERICAL AMENDMENT.—The table of sections for subpart D of part I of subchapter L of chapter 1 is amended by striking the item relating to section 812 and inserting the following:

"Sec. 812. Determination of company's and policyholder's share on account by account basis.".

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

SEC. 3507. REPEAL OF SPECIAL RULE FOR DISTRIBUTIONS TO SHAREHOLDERS FROM PRE-1984 POLICYHOLDERS SURPLUS ACCOUNT.

(a) IN GENERAL.—Subpart D of part I of subchapter L is amended by striking section 815 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 801 is amended by striking subsection (c).

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

(d) PHASED INCLUSION OF REMAINING BALANCE OF POLICYHOLDERS SURPLUS ACCOUNTS.—In the case of any stock life insurance company which has a balance (determined as of the close of such company's last taxable year beginning before January 1, 2015) in an existing policyholders surplus account (as defined in section 815 of the Internal Revenue Code of 1986, as in effect before its repeal), the tax imposed by section 801 of such Code for the first 8 taxable years beginning after December 31, 2014, shall be the amount which would be imposed by such section for such year on the sum of—

(1) life insurance company taxable income for such year (within the meaning of such section 801 but not less than zero), plus

(2) ⅛ of such balance.

SEC. 3508. MODIFICATION OF PRORATION RULES FOR PROPERTY AND CASUALTY INSURANCE COMPANIES.

(a) IN GENERAL.—Section 832(b)(5)(B) is amended by striking ''15 percent'' and inserting ''the percentage determined under subparagraph (F))''.

(b) DETERMINATION OF PERCENTAGE.—Section 832(b)(5) is amended by adding at the end the following new subparagraph:

''(F) DETERMINATION OF PERCENTAGE.—

''(i) IN GENERAL.—For purposes of subparagraph (B), the percentage determined under this subparagraph is the ratio (expressed as a percentage) of—

''(I) the average adjusted bases (within the meaning of section 1016) of tax-exempt assets of the company, to

"(II) such average adjusted bases of all assets of the company.

"(ii) TAX-EXEMPT ASSETS.—For purposes of clause (i)(I), the term 'tax-exempt assets' means assets of the type which give rise to income described in subparagraph (B).".

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

SEC. 3509. REPEAL OF SPECIAL TREATMENT OF BLUE CROSS AND BLUE SHIELD ORGANIZATIONS, ETC.

(a) TRANSITIONAL REPEAL OF SPECIAL RULES.—

(1) IN GENERAL.—Section 833 is amended by striking subsection (b), by redesignating subsection (c) as subsection (b), and by amending subsection (a) to read as follows:

"(a) IN GENERAL.—An organization to which this section applies shall be taxable under this part in the same manner as if it were a stock insurance company.".

(2) TAX STATUS NOT DEPENDENT ON MEDICAL LOSS RATIO.—Subsection (b) of section 833, as re-

designated by subsection (a), is amended by striking paragraph (5).

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

(b) REPEAL OF STATUTORY TREATMENT AS A STOCK INSURANCE COMPANY.—

(1) IN GENERAL.—Part II of subchapter L of chapter is amended by striking section 833 (and by striking the item relating to such section in the table of sections for such part).

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2016.

SEC. 3510. MODIFICATION OF DISCOUNTING RULES FOR PROPERTY AND CASUALTY INSURANCE COMPANIES.

(a) MODIFICATION OF RATE OF INTEREST USED TO DISCOUNT UNPAID LOSSES.—Paragraph (2) of section 846(c) is amended to read as follows:

''(2) DETERMINATION OF ANNUAL RATE.—The annual rate determined by the Secretary under this paragraph for any calendar year shall be a rate determined on the basis of the corporate bond yield curve (as defined in section 430(h)(2)(D)(i)).''.

(b) MODIFICATION OF COMPUTATIONAL RULES FOR LOSS PAYMENT PATTERNS.—Section 846(d)(3) is amended by striking subparagraphs (B) through (G) and inserting the following new subparagraphs:

"(B) TREATMENT OF CERTAIN LOSSES.—Losses which would have been treated as paid in the last year of the period applicable under subparagraph (A)(i) or (A)(ii) shall be treated as paid in the following manner:

"(i) 3-YEAR LOSS PAYMENT PATTERN.—

"(I) IN GENERAL.—The period taken into account under subparagraph (A)(i) shall be extended to the extent required under subclause (II).

"(II) COMPUTATION OF EXTENSION.—The amount of losses which would have been treated as paid in the 3d year after the accident year shall be treated as paid in such 3d year and each subsequent year in an amount equal to the amount of the losses treated as paid in the 2d year after the accident year (or, if lesser, the portion of the unpaid losses not theretofore taken into account).

"(ii) 10-YEAR LOSS PAYMENT PATTERN.—

"(I) IN GENERAL.—The period taken into account under subparagraph (A)(ii) shall be extended to the extent required under subclause (II).

"(II) COMPUTATION OF EXTENSION.—The amount of losses which would have been treated as paid in the 10th year after the accident year shall be treated as paid in such 10th year and each subsequent year in an amount equal to the amount of the losses treated as paid in the 9th year after the accident year (or, if lesser, the portion of the unpaid losses not theretofore taken into account).

"(C) SPECIAL RULE FOR INTERNATIONAL AND REINSURANCE LINES OF BUSINESS.—Except as otherwise provided by regulations, any determination made under subsection (a) with respect to unpaid losses relating to the international or reinsurance lines of business shall be made using, in lieu of the loss payment pattern applicable to the respective lines of business, a pattern determined by the Secretary under paragraphs (1) and (2) based on the combined losses for all lines of business described in subparagraph (A)(ii).

"(D) SPECIAL RULE FOR 2D OR 9TH YEAR IF NEGATIVE OR ZERO.—

"(i) 3-YEAR LOSS PAYMENT PATTERN.—If the amount of the losses treated as paid in the 2d year after the accident year is zero or a negative amount, subparagraph (B)(i)(II) shall be applied by substituting the average of the losses treated as paid in the 1st and 2d years after the accident year for the losses treated as paid in the 2d year after the accident year.

"(ii) 10-YEAR LOSS PAYMENT PATTERN.—If the amount of the losses treated as paid in the 9th year after the accident year is zero or a negative amount, subparagraph (B)(ii)(II) shall be applied by substituting the average of the losses treated as paid in the 7th, 8th, and 9th years after the accident year for the losses treated as paid in the 9th year after the accident year.''.

(c) REPEAL OF HISTORICAL PAYMENT PATTERN ELECTION.—Section 846 is amended by striking subsection (e) and by redesignating subsections (f) and (g) as subsections (e) and (f), respectively.

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

(e) TRANSITIONAL RULE.—For the first taxable year beginning after December 31, 2014—

(1) the unpaid losses and the expenses unpaid (as defined in paragraphs (5)(B) and (6) of section 832(b) of the Internal Revenue Code of 1986) at the end of the preceding taxable year, and

(2) the unpaid losses as defined in sections 807(c)(2) and 805(a)(1) of such Code at the end of the preceding taxable year,

shall be determined as if the amendments made by this section had applied to such unpaid losses and expenses unpaid in the preceding taxable year and by using the interest rate and loss payment patterns applicable to accident years ending with calendar year 2015, and any adjustment shall be taken into account ratably in such first taxable year and the 7 succeeding taxable years. For subsequent taxable years, such amendments shall be applied with respect to such unpaid losses and expenses unpaid by using the interest rate and loss payment patterns applicable to accident years ending with calendar year 2015.

SEC. 3511. REPEAL OF SPECIAL ESTIMATED TAX PAYMENTS.

(a) IN GENERAL.—Part III of subchapter L of chapter 1 is amended by striking section 847 (and by striking the item relating to such section in the table of sections for such part).

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

SEC. 3512. CAPITALIZATION OF CERTAIN POLICY ACQUISITION EXPENSES.

(a) IN GENERAL.—Paragraph (1) of section 848(c) is amended by striking subparagraphs (A), (B), and (C) and inserting the following new subparagraphs:

"(A) 5 percent of the net premiums for such taxable year on specified insurance contracts which are group contracts, and

"(B) 12 percent of the net premiums for such taxable year on specified insurance contracts not described in subparagraph (A).".

(b) GROUP CONTRACTS.—So much of paragraph (2) of section 848(e) as precedes subparagraph (A) thereof is amended to read as follows:

"(2) GROUP CONTRACT.—The term 'group contract' means any specified insurance contract—".

(c) CONFORMING AMENDMENTS.—Section 848(e) is amended by striking paragraphs (3) and (6) and by redesignating paragraphs (4) and (5) as paragraphs (3) and (4), respectively.

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

SEC. 3513. TAX REPORTING FOR LIFE SETTLEMENT TRANSACTIONS.

(a) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 is amended by adding at the end the following new section:

"SEC. 6050X. RETURNS RELATING TO CERTAIN LIFE INSURANCE CONTRACT TRANSACTIONS.

"(a) REQUIREMENT OF REPORTING OF CERTAIN PAYMENTS.—

"(1) IN GENERAL.—Every person who acquires a life insurance contract or any interest in a life insurance contract in a reportable policy sale during any taxable year shall make a return for such taxable year (at such time and in such manner as the Secretary shall prescribe) setting forth—

"(A) the name, address, and TIN of such person,

"(B) the name, address, and TIN of each recipient of payment in the reportable policy sale,

"(C) the date of such sale,

"(D) the name of the issuer of the life insurance contract sold and the policy number of such contract, and

"(E) the amount of each payment.

"(2) STATEMENT TO BE FURNISHED TO PERSONS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under this subsection shall furnish to each person whose name is required to be set forth in such return a written statement showing—

"(A) the name, address, and phone number of the information contact of the person required to make such return, and

"(B) the information required to be shown on such return with respect to such person, except that in the case of an issuer of a life insurance contract, such statement is not required to include the information specified in paragraph (1)(E).

"(b) REQUIREMENT OF REPORTING OF SELLER'S BASIS IN LIFE INSURANCE CONTRACTS.—

"(1) IN GENERAL.—Upon receipt of the statement required under subsection (a)(2) or upon notice of a transfer of a life insurance contract to a foreign person, each issuer of a life insurance contract shall make a return (at such time and in such manner as the Secretary shall prescribe) setting forth—

"(A) the name, address, and TIN of the seller who transfers any interest in such contract in such sale,

"(B) the investment in the contract (as defined in section 72(e)(6)) with respect to such seller, and

"(C) the policy number of such contract.

"(2) STATEMENT TO BE FURNISHED TO PERSONS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under this subsection shall furnish to each person whose name is required to be set forth in such return a written statement showing—

"(A) the name, address, and phone number of the information contact of the person required to make such return, and

"(B) the information required to be shown on such return with respect to each seller whose name is required to be set forth in such return.

"(c) REQUIREMENT OF REPORTING WITH RESPECT TO REPORTABLE DEATH BENEFITS.—

"(1) IN GENERAL.—Every person who makes a payment of reportable death benefits during any taxable year shall make a return for such taxable year (at such time and in such manner as the Secretary shall prescribe) setting forth—

"(A) the name, address, and TIN of the person making such payment,

"(B) the name, address, and TIN of each recipient of such payment,

"(C) the date of each such payment, and

"(D) the amount of each such payment.

"(2) STATEMENT TO BE FURNISHED TO PERSONS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under this subsection shall furnish to each person whose name is required to be set forth in such return a written statement showing—

"(A) the name, address, and phone number of the information contact of the person required to make such return, and

"(B) the information required to be shown on such return with respect to each recipient of payment whose name is required to be set forth in such return.

"(d) DEFINITIONS.—For purposes of this section:

"(1) PAYMENT.—The term 'payment' means the amount of cash and the fair market value of any consideration transferred in a reportable policy sale.

"(2) REPORTABLE POLICY SALE.—The term 'reportable policy sale' has the meaning given such term in section 101(a)(3)(B).

"(3) ISSUER.—The term 'issuer' means any life insurance company that bears the risk with respect to a life insurance contract on the date any return or statement is required to be made under this section.

"(4) REPORTABLE DEATH BENEFITS.—The term 'reportable death benefits' means amounts paid by reason of the death of the insured under a life insurance contract that has been transferred in a reportable policy sale.".

(b) CLERICAL AMENDMENT.—The table of sections for subpart B of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6050W the following new item:

''Sec. 6050X. Returns relating to certain life insurance contract transactions.''.

(c) CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 6724 is amended—

(A) by striking ''or'' at the end of clause (xxiv) of paragraph (1)(B), by striking ''and'' at the end of clause (xxv) of such paragraph and inserting ''or'', and by inserting after such clause (xxv) the following new clause:

''(xxvi) section 6050X (relating to returns relating to certain life insurance contract transactions), and'', and

(B) by striking ''or'' at the end of subparagraph (GG) of paragraph (2), by striking the period at the end of subparagraph (HH) of such paragraph and inserting '', or'', and by inserting after such subparagraph (HH) the following new subparagraph:

''(II) subsection (a)(2), (b)(2), or (c)(2) of section 6050X (relating to returns relating to certain life insurance contract transactions).''.

(2) Section 6047 is amended—

(A) by redesignating subsection (g) as subsection (h),

(B) by inserting after subsection (f) the following new subsection:

"(g) INFORMATION RELATING TO LIFE INSURANCE CONTRACT TRANSACTIONS.—This section shall not apply to any information which is required to be reported under section 6050X.", and

(C) by adding at the end of subsection (h), as so redesignated, the following new paragraph:

"(4) For provisions requiring reporting of information relating to certain life insurance contract transactions, see section 6050X.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to—

(1) reportable policy sales (as defined in section 6050X(d)(2) of the Internal Revenue Code of 1986 (as added by subsection (a)) after December 31, 2014, and

(2) reportable death benefits (as defined in section 6050X(d)(4) of such Code (as added by subsection (a)) paid after December 31, 2014.

SEC. 3514. CLARIFICATION OF TAX BASIS OF LIFE INSURANCE CONTRACTS.

(a) CLARIFICATION WITH RESPECT TO ADJUSTMENTS.—Paragraph (1) of section 1016(a) is amended by striking subparagraph (A) and all that follows and inserting the following:

"(A) for—

"(i) taxes or other carrying charges described in section 266; or

"(ii) expenditures described in section 173 (relating to circulation expenditures),

for which deductions have been taken by the taxpayer in determining taxable income for the taxable year or prior taxable years; or

"(B) for mortality, expense, or other reasonable charges incurred under an annuity or life insurance contract;".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to transactions entered into after August 25, 2009.

SEC. 3515. EXCEPTION TO TRANSFER FOR VALUABLE CONSIDERATION RULES.

(a) IN GENERAL.—Subsection (a) of section 101 is amended by inserting after paragraph (2) the following new paragraph:

"(3) EXCEPTION TO VALUABLE CONSIDERATION RULES FOR COMMERCIAL TRANSFERS.—

"(A) IN GENERAL.—The second sentence of paragraph (2) shall not apply in the case of a transfer of a life insurance contract, or any interest therein, which is a reportable policy sale.

"(B) REPORTABLE POLICY SALE.—For purposes of this paragraph, the term 'reportable policy sale' means the acquisition of an interest in a life insurance contract, directly or indirectly, if the acquirer has no substantial family, business, or financial relationship with the insured apart from the acquirer's interest in such life insurance contract. For purposes of the preceding sentence, the term 'indirectly' applies to the acquisition of an interest in a partnership, trust, or other entity that holds an interest in the life insurance contract.".

(b) CONFORMING AMENDMENT.—Paragraph (1) of section 101(a) is amended by striking "paragraph (2)" and inserting "paragraphs (2) and (3)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers after December 31, 2014.

Subtitle G—Pass-Thru and Certain Other Entities

PART 1—S CORPORATIONS

SEC. 3601. REDUCED RECOGNITION PERIOD FOR BUILT-IN GAINS MADE PERMANENT.

(a) IN GENERAL.—Paragraph (7) of section 1374(d) (relating to definitions and special rules) is amended to read as follows:

"(7) RECOGNITION PERIOD.—

"(A) IN GENERAL.—The term 'recognition period' means the 5-year period beginning with the 1st day of the 1st taxable year for which the corporation was an S corporation. For purposes of applying this section to any amount includible in income by reason of distributions to shareholders pursuant to section 593(e), the preceding sentence shall be applied without regard to the phrase '5-year'.

"(B) INSTALLMENT SALES.—If an S corporation sells an asset and reports the income from the sale using the installment method under section 453, the treatment of all payments received shall be governed by the provisions of this paragraph applicable to the taxable year in which such sale was made.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2013.

SEC. 3602. MODIFICATIONS TO S CORPORATION PASSIVE INVESTMENT INCOME RULES.

(a) INCREASED PERCENTAGE LIMIT.—Paragraph (2) of section 1375(a) is amended by striking ''25 percent'' and inserting ''60 percent''.

(b) REPEAL OF EXCESSIVE PASSIVE INCOME AS A TERMINATION EVENT.—Section 1362(d) is amended by striking paragraph (3).

(c) CONFORMING AMENDMENTS.—

(1) Subsection (b) of section 1375 is amended by striking paragraphs (3) and (4) and inserting the following new paragraph:

''(3) PASSIVE INVESTMENT INCOME DEFINED.—

''(A) IN GENERAL.—Except as otherwise provided in this paragraph, the term 'passive investment income' means gross receipts derived from royalties, rents, dividends, interest, and annuities.

''(B) EXCEPTION FOR INTEREST ON NOTES FROM SALES OF INVENTORY.—The term 'passive investment income' shall not include interest on any obligation acquired in the ordinary course of the corporation's trade or business from its sale of property described in section 1221(a)(1).

"(C) TREATMENT OF CERTAIN LENDING OR FINANCE COMPANIES.—If the S corporation meets the requirements of section 542(c)(6) for the taxable year, the term 'passive investment income' shall not include gross receipts for the taxable year which are derived directly from the active and regular conduct of a lending or finance business (as defined in section 542(d)(1)).

"(D) TREATMENT OF CERTAIN DIVIDENDS.—If an S corporation holds stock in a C corporation meeting the requirements of section 1504(a)(2), the term 'passive investment income' shall not include dividends from such C corporation to the extent such dividends are attributable to the earnings and profits of such C corporation derived from the active conduct of a trade or business.

"(E) EXCEPTION FOR BANKS, ETC.—In the case of a bank (as defined in section 581) or a depository institution holding company (as defined in section 3(w)(1) of the Federal Deposit Insurance Act (12 U.S.C. 1813(w)(1)), the term 'passive investment income' shall not include—

"(i) interest income earned by such bank or company, or

"(ii) dividends on assets required to be held by such bank or company, including stock in the Federal Reserve Bank, the Federal Home Loan Bank, or the Federal Agricultural Mortgage Bank or participation certificates issued by a Federal Intermediate Credit Bank.

"(F) GROSS RECEIPTS FROM THE SALES OF CERTAIN ASSETS.—For purposes of this paragraph—

"(i) CAPITAL ASSETS OTHER THAN STOCK AND SECURITIES.—In the case of dispositions of capital assets (other than stock and securities), gross receipts from such dispositions shall be taken into account only to the extent of capital gain net income therefrom.

"(ii) STOCK AND SECURITIES.—In the case of sales or exchanges of stock or securities, gross receipts shall be taken into account only to the extent of the gain therefrom.

"(G) COORDINATION WITH SECTION 1374.—The amount of passive investment income shall be determined by not taking into account any recognized built-in gain or loss of the S corporation for any taxable year in the recognition period. Terms used in the preceding sentence shall have the same respective meanings as when used in section 1374.".

(2)(A) Subparagraph (J) of section 26(b)(2) is amended by striking "25 percent" and inserting "60 percent".

(B) Clause (i) of section 1375(b)(1)(A) is amended by striking "25 percent" and inserting "60 percent".

(C) The heading for section 1375 is amended by striking "**25 PERCENT**" and inserting "**60 PERCENT**".

(D) The item relating to section 1375 in the table of sections for part III of subchapter S of chapter 1 is amended by striking "25 percent" and inserting "60 percent".

(3) Subparagraph (B) of section 1362(f)(1) is amended by striking ‘‘paragraph (2) or (3) of subsection (d)’’ and inserting ‘‘subsection (d)(2)’’.

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

SEC. 3603. EXPANSION OF QUALIFYING BENEFICIARIES OF AN ELECTING SMALL BUSINESS TRUST.

(a) NO LOOK-THROUGH FOR ELIGIBILITY PURPOSES.—Subparagraph (C) of section 1361(b)(1) is amended by inserting ‘‘(determined without regard to subsection (c)(2)(B)(v))’’ after ‘‘shareholder’’.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on January 1, 2015.

SEC. 3604. CHARITABLE CONTRIBUTION DEDUCTION FOR ELECTING SMALL BUSINESS TRUSTS.

(a) IN GENERAL.—Paragraph (2) of section 641(c), as amended by the preceding provisions of this Act, is amended by inserting after subparagraph (C) the following new subparagraph:

‘‘(D)(i) Section 642(c) shall not apply.

‘‘(ii) For purposes of section 170(b)(1)(E), adjusted gross income shall be computed in the same manner as in the case of an individual, except that the deductions for costs which are paid or incurred in connection with the administration of the trust and which would not have been incurred if the property were not held in such trust shall be treated as allowable in arriving at adjusted gross income.''.

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

SEC. 3605. PERMANENT RULE REGARDING BASIS ADJUSTMENT TO STOCK OF S CORPORATIONS MAKING CHARITABLE CONTRIBUTIONS OF PROPERTY.

(a) IN GENERAL.—Section 1367(a)(2) (relating to decreases in basis) is amended by striking the last sentence.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to contributions made in taxable years beginning after December 31, 2013.

SEC. 3606. EXTENSION OF TIME FOR MAKING S CORPORATION ELECTIONS.

(a) IN GENERAL.—Subsection (b) of section 1362 is amended to read as follows:

''(b) WHEN MADE.—

''(1) IN GENERAL.—An election under subsection (a) may be made by a small business corporation for any taxable year not later than the due date for filing the return of the S corporation for such taxable year (including extensions).

"(2) CERTAIN ELECTIONS TREATED AS MADE FOR NEXT TAXABLE YEAR.—If—

"(A) an election under subsection (a) is made for any taxable year within the period described in paragraph (1), but

"(B) either—

"(i) on 1 or more days in such taxable year and before the day on which the election was made the corporation did not meet the requirements of subsection (b) of section 1361, or

"(ii) 1 or more of the persons who held stock in the corporation during such taxable year and before the election was made did not consent to the election,

then such election shall be treated as made for the following taxable year.

"(3) AUTHORITY TO TREAT LATE ELECTIONS, ETC., AS TIMELY.—If—

"(A) an election under subsection (a) is made for any taxable year after the date prescribed by this subsection for making such election for such taxable year or no such election is made for any taxable year, and

"(B) the Secretary determines that there was reasonable cause for the failure to timely make such election,

the Secretary may treat such an election as timely made for such taxable year.

"(4) ELECTION ON TIMELY FILED RETURNS.—Except as otherwise provided by the Secretary, an election under subsection (a) for any taxable year may be made on a timely filed return of the S corporation for such taxable year.

"(5) SECRETARIAL AUTHORITY.—The Secretary may prescribe such regulations, rules, or other guidance as may be necessary or appropriate for purposes of applying this subsection.".

(b) COORDINATION WITH CERTAIN OTHER PROVISIONS.—

(1) QUALIFIED SUBCHAPTER S SUBSIDIARIES.—Section 1361(b)(3)(B) is amended by adding at the end the following flush sentence:

"Rules similar to the rules of section 1362(b) shall apply with respect to any election under clause (ii).".

(2) QUALIFIED SUBCHAPTER S TRUSTS.—Section 1361(d)(2) is amended by striking subparagraph (D).

(c) REVOCATIONS.—Paragraph (1) of section 1362(d) is amended—

(1) by striking "subparagraph (D)" in subparagraph (C) and inserting "subparagraphs (D) and (E)", and

(2) by adding at the end the following new subparagraph:

"(E) AUTHORITY TO TREAT LATE REVOCATIONS AS TIMELY.—If—

"(i) a revocation under subparagraph (A) is made for any taxable year after the date prescribed by this paragraph for making such revocation for such taxable year or no such revocation is made for any taxable year, and

"(ii) the Secretary determines that there was reasonable cause for the failure to timely make such revocation,

the Secretary may treat such a revocation as timely made for such taxable year.".

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to elections for taxable years beginning after December 31, 2014.

(2) REVOCATIONS.—The amendments made by subsection (c) shall apply to revocations after December 31, 2014.

SEC. 3607. RELOCATION OF C CORPORATION DEFINITION.

(a) IN GENERAL.—Subsection (a) of section 1361 is amended—

(1) by striking paragraph (2), and

(2) by striking ''S CORPORATION DEFINED.—'' and all that follows through ''For purposes of this title, the term 'S corporation' means'' and inserting the following: ''IN GENERAL.—For purposes of this title, the term 'S corporation' means''.

(b) CONFORMING AMENDMENT.—Section 7701(a)(3) is amended—

(1) by striking ''CORPORATION.—The term 'corporation' means'' and inserting the following: ''CORPORATIONS.—

''(1) IN GENERAL.—The term 'corporation' means'', and

(2) by adding at the end the following new paragraph:

"(2) C CORPORATIONS.—The term 'C corporation' means, with respect to any taxable year, a corporation which is not an S corporation for such year.".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

PART 2—PARTNERSHIPS

SEC. 3611. REPEAL OF RULES RELATING TO GUARANTEED PAYMENTS AND LIQUIDATING DISTRIBUTIONS.

(a) PAYMENT TO PARTNER FOR SERVICES OR USE OF CAPITAL.—

(1) IN GENERAL.—Section 707 is amended by striking subsection (c).

(2) CONFORMING AMENDMENTS.—

(A) Section 267(e) is amended by striking paragraph (4).

(B) Section 706(a) is amended by striking "and 707(c)".

(C) Section 1402(a) is amended, in the matter following paragraph (17)—

(i) by striking "(after such gross income has been reduced by the sum of all payments to which section 707(c) applies)'' in clauses (iii) and (iv), and

(ii) by striking ''(after such gross income has been so reduced)'' in clause (iv).

(D) Section 2701(c)(1)(B) is amended by inserting ''or'' at the end of clause (i), by striking '', or'' at the end of clause (ii) and inserting a period, and by striking clause (iii).

(E) Section 7519(d) is amended by striking paragraph (5).

(3) EFFECTIVE DATES.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendments made by this subsection shall apply to partnership taxable years beginning after December 31, 2014.

(B) TRANSFERS.—The amendment made by paragraph (2)(E) shall apply to transfers after December 31, 2014.

(b) PAYMENTS MADE IN LIQUIDATION OF RETIRING OR DECEASED PARTNER.—

(1) IN GENERAL.—Subpart B of part II of subchapter K of chapter 1 is amended by striking section 736 (and by striking the item relating to such section in the table of sections for such subpart).

(2) RETIRED PARTNERS AND SUCCESSORS IN INTEREST OF DECEASED PARTNERS TREATED AS PARTNERS UNTIL LIQUIDATION.—Section 761(d) is amended by adding at the end the following: ''For purposes of this subchapter, any retired partner or a deceased partner's successor in interest shall be treated as a partner until the complete liquidation of such interest.''

(3) CONFORMING AMENDMENT.—

(A) Section 357(c)(3)(A) is amended by striking ''payment of which either—'' and all that follows through ''then, for purposes of'' and inserting ''payment of which would give rise to a deduction, then, for purposes of''.

(B) Section 731(d) is amended—

(i) by striking ''section 736 (relating to payments to a retiring partner or a deceased partner's successor in interest),'', and

(ii) by striking ''items), and'' and inserting ''items) and''.

(C) Section 751(b)(2) is amended—

(i) by striking subparagraph (B), and

(ii) by striking ''shall not apply to— '' and all that follows through ''a distribution of property'' and inserting the following: ''shall not apply to a distribution of property''.

(D)(i) Section 753 is amended by striking ''The amount includible'' and all that follows and inserting ''For treatment of income in respect of a decedent, see section 691.''

(ii) Section 691 is amended by striking subsection (e).

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply to partners retiring or dying after December 31, 2014.

SEC. 3612. MANDATORY ADJUSTMENTS TO BASIS OF PARTNERSHIP PROPERTY IN CASE OF TRANSFER OF PARTNERSHIP INTERESTS.

(a) IN GENERAL.—Section 743 is amended—

(1) by striking subsections (a), (c), (d), (e), and (f) and by redesignating subsection (b) as subsection (a),

(2) in subsection (a) (as so redesignated) by striking ''with respect to which the election provided in section 754 is in effect or which has a substantial built-in loss immediately after such transfer'', and

(3) by adding at the end the following new subsection:

"(b) ALLOCATION OF BASIS.—

"(1) GENERAL RULE.—Any increase or decrease in the adjusted basis of partnership property under subsection (a) shall, except as provided in paragraph (2), be allocated—

"(A) in a manner which has the effect of reducing the difference between the fair market value and the adjusted basis of partnership properties, or

"(B) in any other manner permitted by regulations prescribed by the Secretary.

"(2) SPECIAL RULE.—In applying the allocation rules provided in paragraph (1), increases or decreases in the adjusted basis of partnership property arising from a transfer of an interest attributable to property consisting of—

"(A) capital assets and property described in section 1231(b), or

"(B) any other property of the partnership,

shall be allocated to partnership property of a like character except that the basis of any such partnership property shall not be reduced below zero.".

(b) CONFORMING AMENDMENTS.—

(1) Section 704(c)(1) is amended—

(A) by adding ''and'' at the end of subparagraph (A),

(B) by striking '', and'' at the end of subparagraph (B) and inserting a period, and

(C) by striking all that follows subparagraph (B).

(2) Section 732 is amended by striking subsection (d) and by redesignating subsections (e) and (f) as subsections (d) and (e), respectively.

(3) Section 761(e)(2) is amended by striking ''optional''.

(4) Section 6031 is amended by striking subsection (f).

(5) The heading for section 743 is amended to read as follows: ''**ADJUSTMENT TO BASIS OF PARTNERSHIP PROPERTY.**''

(6) The heading for subsection (a) (as redesignated by the preceding provisions of this Act) of section 743 is amended by striking ''ADJUSTMENT TO BASIS OF PARTNERSHIP PROPERTY'' and inserting ''IN GENERAL''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers after December 31, 2014.

SEC. 3613. MANDATORY ADJUSTMENTS TO BASIS OF UNDISTRIBUTED PARTNERSHIP PROPERTY.

(a) IN GENERAL.—Section 734 is amended to read as follows:

"SEC. 734. ADJUSTMENT TO BASIS OF UNDISTRIBUTED PARTNERSHIP PROPERTY.

"(a) IN GENERAL.—In the case of any distribution to a partner, the partnership shall adjust the basis of partnership property such that each remaining partner's net liquidation amount immediately after such distribution is equal to such partner's net liquidation amount immediately before such distribution.

"(b) DISTRIBUTIONS OTHER THAN IN LIQUIDATION OF A PARTNER'S INTEREST.—In the case of any distribution to a partner other than in liquidation of such partner's interest, proper adjustment shall be made under subsection (a) with respect to such partner to take into account—

"(1) the amount of any gain recognized by such partner with respect to such distribution under section 731(a), and

"(2) the amount of any gain or loss which would be recognized by such partner if such partner sold the property distributed at fair market value immediately after such distribution.

"(c) NET LIQUIDATION AMOUNT.—For purposes of this section, the term 'net liquidation amount' means, with respect to any partner, the net amount of gain or loss (if any) which would be taken into account by the partner under section 702 if the partnership sold all of its assets at fair market value (and no other amounts were taken into account under such section).

"(d) ALLOCATION OF BASIS.—

"(1) DECREASES IN BASIS.—Any decrease in the adjusted basis of partnership property which is required under this section—

"(A) shall be made in accordance with paragraph (3) of section 732(c), and

"(B) shall be made first with respect to property other than unrealized receivables (as defined in section 751(c)) and inventory (as defined in section 751(d)) to the extent thereof.

If any such decrease is prevented by the absence of sufficient adjusted basis of partnership property, each partner shall recognize gain in the amount of such partner's distributive share of such prevented decrease. Such gain shall be treated as gain from the sale of the partner's partnership interest.

"(2) INCREASES IN BASIS.—Any increase in the adjusted basis of partnership property which is required under this section—

"(A) shall be made in accordance with paragraph (2) of section 732(c), and

"(B) shall be made only with respect to property other than unrealized receivables (as defined in section 751(c)) and inventory (as defined in section 751(d)).

If any such increase is prevented by the absence of property described in subparagraph (B), each partners shall recognize a loss in the amount of such partner's distributive share of such prevented increase. Such loss shall be treated as a loss from the sale of the partner's partnership interest.

"(e) NO ALLOCATION OF BASIS DECREASE TO STOCK OF CORPORATE PARTNER.—In making an allocation under subsection (d) of any decrease in the adjusted basis of partnership property required under subsection (a)—

"(1) no allocation may be made to stock in a corporation (or any person related (within the meaning of section 267(b) or 707(b)(1)) to such corporation) which is a partner in the partnership, and

"(2) any amount not allocable to stock by reason of paragraph (1) shall be allocated under subsection (d) to other partnership property.

Gain shall be recognized by the partnership to the extent that the amount required to be allocated to other partnership property under subsection (e)(2) exceeds the aggregate adjusted basis of such other property immediately before the allocation required by subsection (a).".

(b) CONFORMING AMENDMENTS.—

(1)(A) Subpart D of part II of subchapter K of chapter 1 is amended by striking sections 754 and 755 (and by striking items relating to such sections in the table of sections of such subpart).

(B) Clause (ii) of section 706(d)(2)(D) is amended by striking "section 755" and inserting "section 743(b)".

(2) Subsection (d) of section 1060 is amended—

(A) by striking "section 755" in paragraph (1) and inserting "sections 734 and 743", and

(B) by striking "section 755" in paragraph (2) and inserting "section 734 or 743".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2014.

SEC. 3614. CORRESPONDING ADJUSTMENTS TO BASIS OF PROPERTIES HELD BY PARTNERSHIP WHERE PARTNERSHIP BASIS ADJUSTED.

(a) IN GENERAL.—Subpart B of part II of subchapter K of chapter 1, as amended by the preceding provisions of this Act, is amended by inserting after section 735 the following new section:

"SEC. 736. CORRESPONDING ADJUSTMENT TO BASIS OF PROPERTIES HELD BY LOWER-TIER PARTNERSHIP IN CASE OF UPPER-TIER PARTNERSHIP BASIS ADJUSTMENTS.

"(a) DISTRIBUTIONS BY UPPER-TIER PARTNERSHIP.—In the case of any distribution of property to a partner by an upper-tier partnership, if such distribution results in an adjustment in the upper-tier partnership's adjusted basis in an interest in a lower-tier partnership under section 734, then such lower-tier partnership shall make a corresponding adjustment to the adjusted basis of its partnership property.

"(b) DISTRIBUTIONS OF INTERESTS IN LOWER-TIER PARTNERSHIP.—In the case of any distribution of an interest in a lower-tier partnership by an upper-tier partnership—

"(1) if the adjusted basis of such interest in the hands of the upper-tier partnership (determined immediately before such distribution) exceeds the adjusted basis of such interest in the hands of the distributee partner (determined immediately after such distribution), then such lower-tier partnership shall decrease the adjusted basis of its partnership property by the amount of such excess, or

"(2) if the adjusted basis of such interest in the hands of the distributee partner (determined immediately after such distribution) exceeds the adjusted basis of such interest in the hands of the upper-tier partnership (determined immediately before such distribution), then such lower-tier partnership shall increase the adjusted basis of its partnership property by the amount of such excess.

"(c) DISPOSITIONS OF INTERESTS IN UPPER-TIER PARTNERSHIP.—In the case of a disposition of an interest in an upper-tier partnership which holds an interest in a lower-tier partnership, if there is an adjustment to the adjusted basis of the lower-tier partnership under section 743, then such lower-tier partnership shall make a corresponding adjustment to the adjusted basis of its partnership property.

"(d) MULTI-TIERED PARTNERSHIPS.—In the case of any adjustment under subsection (a), (b), or (c) in the adjusted basis of an interest in another partnership, such other partnership shall make a corresponding adjustment in the adjusted basis of its partnership property.

"(e) ALLOCATION OF BASIS; RECOGNITION OF GAIN.—In the case of any adjustment in the adjusted basis of partnership property—

"(1) under subsection (a), (b), (c), or (d), such adjustment shall be made only with respect to the upper-tier partnership's proportionate share (as determined under section 743(a)) of the adjusted basis of the lower-tier partnership's property,

"(2) under subsection (a) or (b) (or so much of subsection (d) as relates to either such subsection), rules similar to the rules of section 734(d) shall apply, and

"(3) under subsection (c) (or so much of subsection (d) as relates to such subsection), rules similar to the rules of section 743(b) shall apply.

"(f) REPORTING.—In the case of any adjustment in the adjusted basis of partnership property by a lower-tier partnership under this section by reason of a distribution by, or a disposition of an interest in, an upper-tier partnership, such upper-tier partnership shall furnish (in such manner as the Secretary shall prescribe) to such lower-tier partnership such information as is necessary to enable such lower-tier partnership to make such adjustment.

"(g) UPPER- AND LOWER-TIER PARTNERSHIPS.—For purposes of this section—

"(1) UPPER-TIER PARTNERSHIP.—The term 'upper-tier partnership' means a partnership owning an interest in another partnership.

"(2) LOWER-TIER PARTNERSHIP.—The term 'lower-tier partnership' means the partnership referred to in paragraph (1) an interest in which is owned by the upper-tier partnership.".

(b) EFFECTIVE DATES.—The amendments made by this section shall apply to distributions and transfers after December 31, 2014.

SEC. 3615. CHARITABLE CONTRIBUTIONS AND FOREIGN TAXES TAKEN INTO ACCOUNT IN DETERMINING LIMITATION ON ALLOWANCE OF PARTNER'S SHARE OF LOSS.

(a) IN GENERAL.—Subsection (d) of section 704 is amended—

(1) by striking "A partner's distributive share" and inserting the following:

"(1) IN GENERAL.—A partner's distributive share",

(2) by striking "Any excess of such loss" and inserting the following:

"(2) CARRYOVER.—Any excess of such loss", and

(3) by adding at the end the following new paragraph:

"(3) SPECIAL RULES.—In determining the amount of any loss under paragraph (1), there shall be taken into account as a deduction the partner's distributive share of—

"(A) the adjusted basis of charitable contributions described in paragraph (4) of section 702(a), and

"(B) the amount of taxes described in paragraph (6) of such section.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to partnership taxable years beginning after December 31, 2014.

SEC. 3616. REVISIONS RELATED TO UNREALIZED RECEIVABLES AND INVENTORY ITEMS.

(a) REPEAL OF REQUIREMENT THAT INVENTORY BE SUBSTANTIALLY APPRECIATED IN CERTAIN PARTNERSHIP DISTRIBUTIONS TREATED AS SALE OR EXCHANGE.—

(1) IN GENERAL.—Clause (ii) of section 751(b)(1)(A) is amended by striking "which have appreciated substantially in value".

(2) CONFORMING AMENDMENT.—Section 751(b) is amended by striking paragraph (3).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to distributions after December 31, 2014.

(b) REVISION OF REGULATIONS RELATING TO TREATMENT OF UNREALIZED RECEIVABLES AND INVENTORY ITEMS.—The Secretary of the Treasury shall revise regulations issued under section 751(b) of the Internal Revenue Code of 1986 to take into account the partner's share of income and gain rather than the partner's share of partnership assets.

(c) SIMPLIFICATION OF DEFINITION OF UNREALIZED RECEIVABLES.—

(1) IN GENERAL.—Section 751(c) is amended by striking all that follows paragraph (2) and inserting the following:

"For purposes of this section and sections 731, 732, 734, and 741, such term also includes any property other than inventory items, but only to the extent of the amount which would be treated as ordinary income if (at the time of the transaction described in the applicable section) such property had been sold by the partnership for its fair market value.".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to partnership taxable years beginning after December 31, 2014.

SEC. 3617. REPEAL OF TIME LIMITATION ON TAXING PRECONTRIBUTION GAIN.

(a) IN GENERAL.—Subparagraph (B) of section 704(c)(1) is amended by striking ''within 7 years of being contributed''.

(b) CONFORMING AMENDMENT.—Paragraph (1) of section 737(b) is amended by striking ''within 7 years of the distribution''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property contributed to a partnership after December 31, 2014.

SEC. 3618. PARTNERSHIP INTERESTS CREATED BY GIFT.

(a) IN GENERAL.—Section 761(b) is amended by adding at the end the following: ''In the case of a capital interest in a partnership in which capital is a material income-producing factor, whether a person is a partner with respect to such interest shall be determined without regard to whether such interest was derived by gift from any other person.''.

(b) CONFORMING AMENDMENTS.—Section 704(e) is amended—

(1) by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively,

(2) by striking ''this section'' in paragraph (2) (as so redesignated) and inserting ''this subsection'', and

(3) by striking ''FAMILY PARTNERSHIPS'' in the heading and inserting ''PARTNERSHIP INTERESTS CREATED BY GIFT''.

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

SEC. 3619. REPEAL OF TECHNICAL TERMINATION.

(a) IN GENERAL.—Paragraph (1) of section 708(b) is amended—

(1) by striking '', or'' and all that follows and inserting a period, and

(2) by striking ''only if—'' and all that follows through ''no part of any business'' and inserting the following: ''only if no part of any business''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to partnership taxable years beginning after December 31, 2014.

SEC. 3620. PUBLICLY TRADED PARTNERSHIP EXCEPTION RESTRICTED TO MINING AND NATURAL RESOURCES PARTNERSHIPS.

(a) IN GENERAL.—Subsection (d) of section 7704 is amended to read as follows:

"(d) QUALIFYING INCOME.—For purposes of this section, the term 'qualifying income' means—

"(1) income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including geothermal energy and excluding fertilizer and timber) or industrial source carbon dioxide, and

"(2) any gain from the sale or disposition of a capital asset (or property described in section 1231(b)) held for the production of income described in paragraph (1).

For purposes of this subsection, the term 'mineral or natural resource' means any product of a character with respect to which a deduction for depletion is allowable under section 611 (other than minerals from sea water or the air (or similar inexhaustible sources), soil, sod, dirt, turf, water, or mosses).".

(b) CONFORMING AMENDMENTS.—Section 988(c)(1)(E) is amended—

(1) by striking "income or gains described in subparagraph (A), (B), or (G) of section 7704(d)(1)" in clause (iii)(III) and inserting "qualifying income or gains",

(2) by striking subclause (III) of clause (vi) and by redesignating subclause (IV) as subclause (III),

(3) by redesignating clause (vi) (as amended by this subparagraph) as clause (viii), and

(4) by inserting after clause (v) the following new clauses:

"(vi) QUALIFYING INCOME OR GAINS.—The term 'qualifying income or gains' means—

"(I) interest,

"(II) dividends, and

"(III) in the case of a partnership described in the second sentence of section 7704(c)(3), income and gains from commodities (not described in section 1221(a)(1)) or futures, forwards, and options with respect to commodities.

"(vii) INADVERTENT TERMINATIONS.—If—

''(I) A partnership fails to meet the gross income requirements of this subparagraph,

''(II) the Secretary determines that such failure was inadvertent,

''(III) no later than a reasonable time after the discovery of such failure, steps are taken so that such partnership once more meets such gross income requirements, and

''(IV) such partnership agrees to make such adjustments (including adjustments with respect to the partners) or to pay such amounts as may be required by the Secretary with respect to such period,

then, notwithstanding such failure, such entity shall be treated as continuing to meet such gross income requirements for such period.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2016.

SEC. 3621. ORDINARY INCOME TREATMENT IN THE CASE OF PARTNERSHIP INTERESTS HELD IN CONNECTION WITH PERFORMANCE OF SERVICES.

(a) IN GENERAL.—Part IV of subchapter O of chapter 1 is amended—

(1) by redesignating section 1061 as section 1062, and

(2) by inserting after section 1060 the following new section:

"SEC. 1061. PARTNERSHIP INTERESTS HELD IN CONNECTION WITH PERFORMANCE OF SERVICES.

''(a) IN GENERAL.—If one or more applicable partnership interests are held by a taxpayer at any time during the taxable year, so much of—

''(1) the taxpayer's net capital gain with respect to such interests for such taxable year, as does not exceed

''(2) the taxpayer's recharacterization account balance for such taxable year,

shall be treated as ordinary income.

''(b) NET CAPITAL GAIN.—

''(1) IN GENERAL.—For purposes of subsection (a)(1), net capital gain shall be determined under section 1222, except that such section shall be applied—

"(A) without regard to the recharacterization of any item as ordinary income under this section,

"(B) by only taking into account items of gain and loss—

"(i) taken into account by the taxpayer under section 702 with respect to any applicable partnership interest,

"(ii) recognized by the taxpayer on the disposition of any such interest, or

"(iii) recognized by the taxpayer under paragraph (4) on a distribution of property with respect to such interest, and

"(C) in the case of a taxable year for which section 1231 gains (as defined in section 1231(a)(3)(A)) exceed section 1231 losses (as defined in section 1231(a)(3)(B)), by treating property which is taken into account in determining such gains and losses as capital assets held for more than 1 year.

"(2) Allocation to items of gain.—The amount treated as ordinary income under subsection (a) shall be allocated ratably among the items of long-term capital gain taken into account in determining net capital gain under paragraph (1).

"(3) RECOGNITION OF GAIN ON DISPOSITION OF APPLICABLE PARTNERSHIP INTERESTS.—Any gain on the disposition of any applicable partnership interest shall be recognized notwithstanding any other provision of this title.

"(4) RECOGNITION OF GAIN ON DISTRIBUTIONS OF PARTNERSHIP PROPERTY.—

"(A) IN GENERAL.—In the case of any distribution of property by a partnership with respect to any applicable partnership interest, the partner receiving such property shall recognize gain equal to the excess (if any) of—

"(i) the fair market value of such property at the time of such distribution, over

"(ii) the adjusted basis of such property in the hands of such partner (determined without regard to subparagraph (B)).

"(B) ADJUSTMENT OF BASIS.—In the case of a distribution to which subparagraph (A) applies, the basis of the distributed property in the hands of the distributee partner shall be the amount determined under subparagraph (A)(i).

"(c) RECHARACTERIZATION ACCOUNT BALANCE.—

"(1) IN GENERAL.—For purposes of this section, the term 'recharacterization account balance' means, with respect to any taxpayer for any taxable year, the excess (if any) of—

"(A) the sum of—

"(i) the taxpayer's aggregate annual recharacterization amounts with respect to applicable partnership interests for such taxable year, plus

"(ii) the taxpayer's recharacterization account balance for the taxable year preceding such taxable year, over

"(B) the sum of—

"(i) the taxpayer's net ordinary income with respect to applicable partnership interests for such taxable year (determined without regard to this section), plus

"(ii) the amount treated as ordinary income of the taxpayer under this section for the taxable year preceding such taxable year.

"(2) ANNUAL RECHARACTERIZATION AMOUNT.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'annual recharacterization amount' means, with respect to any applicable partnership interest for any partnership taxable year, an amount equal to the product of—

"(i) the specified rate determined under subparagraph (B) for the calendar year in which such taxable year begins, multiplied by

"(ii) the excess (if any) of—

"(I) an amount equal to the applicable percentage of the partnership's aggregate invested capital for such taxable year, over

"(II) the specified capital contribution of the partner with respect to the applicable partnership interest for such taxable year.

If a taxpayer holds an applicable partnership interest for less than the entire taxable year, the amount determined under the preceding sentence shall be ratably reduced.

"(B) SPECIFIED RATE.—For purposes of subparagraph (A), the term 'specified rate' means, with respect to any calendar year, a percentage equal to—

"(i) the Federal long-term rate determined under section 1274(d)(1) for the last month of the calendar year, plus

"(ii) 10 percentage points.

"(C) APPLICABLE PERCENTAGE.—

"(i) IN GENERAL.—The term 'applicable percentage' means, with respect to any applicable partnership interest, the highest percentage of profits of the partnership that could be allocated with respect to such interest for the taxable year (consistent with the partnership agreement and assuming such facts and circumstances with respect to such taxable year as would result in such highest percentage).

"(ii) SECRETARIAL AUTHORITY.—The Secretary shall prescribe rules for the determination of the applicable percentage in cases in which the percentage of profits of a partnership that are to be allocated with respect to an applicable partnership interest varies on the basis of the aggregate amount of such profits. Such rules may provide a percentage which may be used in lieu of the highest percentage determined under clause (i) in cases where such other percentage is consistent with the purposes of this section.

"(D) AGGREGATE INVESTED CAPITAL.—

"(i) IN GENERAL.—The term 'aggregate invested capital' means, with respect to any taxable year, the average daily amount of invested capital of the partnership for such taxable year.

"(ii) INVESTED CAPITAL.—The term 'invested capital' means, with respect to any partnership as of any day, the total cumulative value, determined at the time of contribution, of all money or other property contributed to the partnership on or before such day.

"(iii) REDUCTION FOR LIQUIDATION OF PARTNERSHIP INTERESTS.—The invested capital of a partnership shall be reduced by the aggregate amount distributed in liquidation of interests in the partnership.

"(iv) TREATMENT OF CERTAIN INDEBTEDNESS AS INVESTED CAPITAL.—The following amounts shall be treated as invested capital:

"(I) PARTNER LOANS.—The aggregate value (determined as of the time of the loan) of money or other property which a partner loans to the partnership.

"(II) INDEBTEDNESS ELIGIBLE TO SHARE IN EQUITY OF THE PARTNERSHIP.—The face amount of any convertible debt of the partnership or any debt obligation providing equity participation in the partnership.

"(E) SPECIFIED CAPITAL CONTRIBUTION.—

"(i) IN GENERAL.—The term 'specified capital contribution' means, with respect to any applicable partnership interest for any taxable year, the average daily amount of contributed capital with respect to such interest for such year.

"(ii) CONTRIBUTED CAPITAL.—The term 'contributed capital' means, with respect to applicable partnership interest as of any day, the excess (if any) of—

"(I) the total cumulative value, determined at the time of contribution, of all money or other property contributed by the partner to the partnership with respect to such interest as of such day, over

"(II) the total cumulative value, determined at the time of distribution, of all money or other property distributed by the partnership to the partner with respect to such interest as of such day.

"(iii) TREATMENT OF RELATED PARTY BORROWINGS.—Any amount borrowed directly or indirectly from the partnership or any other partner of the partnership or any person related to such other partner or such partnership shall not be taken into account under this subparagraph. For purposes of the preceding sentence, a person shall be treated as related to another person if the relationship between such persons would be described in section 267(b) or 707(b) if such sections and section 267(f) were applied by substituting '10 percent' for '50 percent' each place it appears.

"(F) MULTIPLE INTERESTS.—If at any time during a taxable year a taxpayer holds directly or indirectly more than 1 applicable partnership interest in a single partnership, such interests shall be treated as 1 applicable partnership interest for purposes of applying this paragraph.

"(3) NET ORDINARY INCOME.—For purposes of this subsection, the net ordinary income with respect to applicable partnership interests for any taxable year is the excess (if any) of—

"(A) the taxpayer's distributive share of items of income and gain under section 702 with respect to applicable partnership interests for such taxable year (determined without regard to any items of gain taken into account in determining net capital gain under subsection (b)(1)), over

"(B) the taxpayer's distributive share of items of deduction and loss under section 702 with respect to such interests for such taxable year (determined without regard to any items of loss taken into account in determining net capital gain under subsection (b)(1)).

"(d) APPLICABLE PARTNERSHIP INTEREST.—For purposes of this section—

"(1) IN GENERAL.—The term 'applicable partnership interest' means any interest in a partnership which, directly or indirectly, is transferred to (or is held by) the taxpayer in connection with the performance of services by the taxpayer, or any other person, in any applicable trade or business.

"(2) APPLICABLE TRADE OR BUSINESS.—

"(A) IN GENERAL.—The term 'applicable trade or business' means any trade or business conducted on a regular, continuous, and substantial basis which, regardless of whether the activities are conducted in one or more entities, consists, in whole or in part, of—

"(i) raising or returning capital,

"(ii) investing in (or disposing of) trades or businesses (or identifying trades or businesses for such investing or disposition), and

"(iii) developing such trades or businesses.

"(B) TREATMENT OF RESEARCH AND EXPERIMENTATION ACTIVITIES.—Any activity involving research or experimentation (within the meaning of section 469(c)(4)) shall be treated as a trade or business for purposes of clauses (ii) and (iii) of subparagraph (A).

"(e) TRANSFER OF APPLICABLE PARTNERSHIP INTEREST TO RELATED PERSON.—

"(1) IN GENERAL.—If a taxpayer transfers any applicable partnership interest, directly or indirectly, to a person related to the taxpayer, the taxpayer shall include in gross income (as ordinary income) so much of the taxpayer's recharacterization account balance for such taxable year as is allocable to such interest (determined in such manner as the Secretary may provide and reduced by any amount treated as ordinary income under subsection (a) with respect to the transfer of such interest).

"(2) RELATED PERSON.—For purposes of this paragraph, a person is related to the taxpayer if—

"(A) the person is a member of the taxpayer's family within the meaning of section 318(a)(1), or

"(B) the person performed a service within the current calendar year or the preceding three calendar years in any applicable trade or business in which or for which the taxpayer performed a service.

"(f) REPORTING BY ENTITY OF TAXPAYER'S ANNUAL RECHARACTERIZATION AMOUNT.—A partnership shall report to the Secretary, and include with the information required to be furnished under section 6031(b) to each partner, the amount of the partner's annual recharacterization amount for the taxable year, if any. A similar rule applies to any entity that receives a report of an annual recharacterization amount for the taxable year.

"(g) REGULATIONS.—The Secretary shall issue such regulations or other guidance as necessary to carry out this section, including regulations—

"(1) to prevent the abuse of the purposes of this section, including through—

"(A) the allocation of income to tax indifferent parties, or

"(B) a reduction in the invested capital of the partnership (including attempts to undervalue contributed or loaned property),

"(2) which provide that partnership interests shall not fail to be treated as transferred or held in connection with the performance of services merely because the taxpayer also made contributions to the partnership,

"(3) which provide for the application of this section in cases where the taxpayer has more than 1 applicable interest in a partnership, and

"(4) which provide for the application of this section in cases of tiered structures of entities.".

(b) COORDINATION WITH SECTION 83.—Subsection (e) of section 83 is amended by striking "or" at the end of paragraph (4), by striking the period at the end of paragraph (5) and inserting ", or", and by adding at the end the following new paragraph:

"(6) a transfer of a partnership interest to which section 1061 applies.".

(c) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter O of chapter 1 is amended by striking the item relating to 1061 and inserting the following new items:

"Sec. 1061. Partnership interests held in connection with performance of services.
"Sec. 1062. Cross references.".

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

SEC. 3622. PARTNERSHIP AUDITS AND ADJUSTMENTS.

(a) REPEAL OF TEFRA PARTNERSHIP AUDIT RULES.—Chapter 63 is amended by striking subchapter

C (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(b) REPEAL OF ELECTING LARGE PARTNERSHIP RULES.—

(1) IN GENERAL.—Subchapter K of chapter 1 is amended by striking part IV (and by striking the item relating to such part in the table of parts for such subchapter).

(2) ASSESSMENT RULES RELATING TO ELECTING LARGE PARTNERSHIPS.—Chapter 63 is amended by striking subchapter D (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(3) EFFECTIVE DATE.—The amendments made by this section shall apply to returns filed after December 31, 2014.

(c) PARTNERSHIP AUDIT REFORM.—

(1) IN GENERAL.—Chapter 63, as amended by the preceding provisions of this Act, is amended by inserting after subchapter B the following new subchapter:

"Subchapter C—Treatment of Partnerships

"PART I—IN GENERAL

"PART II—PARTNERSHIP ADJUSTMENTS

"PART III—PROCEDURE

"PART IV—DEFINITIONS AND SPECIAL RULES

"PART I—IN GENERAL

"SEC. 6221. DETERMINATION AT PARTNERSHIP LEVEL.

"(a) IN GENERAL.—Items of income, gain, loss, deduction, or credit of a partnership for a partnership taxable year (and any partner's distributive share thereof) shall be audited, any tax attributable thereto shall be assessed and collected, and the applicability of any penalty, addition to tax, or additional amount which relates to an adjustment to any such item or share shall be determined, at the partnership level pursuant to this subchapter.

"(b) ELECTION OUT FOR CERTAIN PARTNERSHIPS WITH 100 OR FEWER PARTNERS.—This subchapter shall not apply with respect to any partnership for any taxable year if—

"(1) the partnership elects the application of this subsection for such taxable year,

"(2) the partnership has 100 or fewer partners on the last day of such taxable year,

"(3) each of the partners of such partnership is an individual, a C corporation (other than a real estate investment trust or a regulated investment company), any foreign entity that would be treated as a C corporation were it domestic, or an estate of a deceased partner, "(4) the election—

"(A) is made with a timely filed return for such taxable year, and

"(B) includes (in the manner prescribed by the Secretary) a disclosure of the name and taxpayer identification number of each partner of such partnership, and

"(5) the partnership notifies each such partner of such election in the manner prescribed by the Secretary.

For purposes of paragraph (4)(B), the Secretary may provide for alternative identification of any foreign partners.

"SEC. 6222. PARTNER'S RETURN MUST BE CONSISTENT WITH PARTNERSHIP RETURN.

"(a) IN GENERAL.—A partner of any partnership shall, on the partner's return, treat each item of income, gain, loss, deduction, or credit attributable to such partnership in a manner which is consistent with the treatment of such income, gain, loss, deduction, or credit on the partnership return.

"(b) UNDERPAYMENT DUE TO INCONSISTENT TREATMENT ASSESSED AS MATH ERROR.—Any underpayment of tax by a partner by reason of failing to comply with the requirements of subsection (a) shall be assessed and collected in the same manner as if such underpayment were on account of a mathematical or clerical error appearing on the partner's return. Paragraph (2) of section 6213(b) shall not apply to any assessment of an underpayment referred to in the preceding sentence.

"(c) ADDITION TO TAX FOR FAILURE TO COMPLY WITH SECTION.—For addition to tax in the case of partner's disregard of the requirements of this section, see part II of subchapter A of chapter 68.

"SEC. 6223. PARTNERS BOUND BY ACTIONS OF PARTNERSHIP.

"(a) DESIGNATION OF PARTNER.—Each partnership shall designate (in the manner prescribed by the Secretary) a partner (or other person) as the partnership representative who shall have the sole authority to act on behalf of the partnership under this subchapter. In any case in which such a designation is not in effect, the Secretary may select any partner as the partnership representative.

"(b) BINDING EFFECT.—A partnership and all partners of such partnership shall be bound—

"(1) by actions taken under this subchapter by the partnership, and

"(2) by any decision in a proceeding brought under this subchapter.

"PART II—PARTNERSHIP ADJUSTMENTS

"SEC. 6225. PARTNERSHIP ADJUSTMENT BY SECRETARY.

''(a) IN GENERAL.—In the case of any adjustment by the Secretary in the amount of any item of income, gain, loss, deduction, or credit of a partnership, or any partner's distributive share thereof—

''(1) the partnership shall pay any imputed underpayment with respect to such adjustment in the adjustment year as provided in section 6232, and

''(2) any imputed overpayment shall be taken into account by the partnership in the adjustment year as a reduction in non-separately stated income or an increase in non-separately stated loss (whichever is appropriate) under section 702(a)(8).

''(b) DETERMINATION OF IMPUTED UNDERPAYMENTS AND OVERPAYMENTS.—For purposes of this subchapter—

''(1) IN GENERAL.—Except as provided in subsection (c), any imputed underpayment or imputed overpayment with respect to any partnership adjustment for any reviewed year shall be determined—

''(A) by netting all adjustments of items of income, gain, loss, or deduction and multiplying such net amount by the highest rate of tax in effect for the reviewed year under section 1 or 11, "(B) by treating any net increase or decrease in loss under subparagraph (A) as a decrease or increase, respectively, in income, and

"(C) by taking into account any adjustments to items of credit as an increase or decrease, as the case may be, in the amount determined under subparagraph (A).

"(2) ADJUSTMENTS TO DISTRIBUTIVE SHARES OF PARTNERS NOT NETTED.—In the case of any adjustment which reallocates the distributive share of any item from one partner to another, such adjustment shall be taken into account under paragraph (1) by disregarding—

"(A) any decrease in any item of income or gain, and

"(B) any increase in any item of deduction, loss, or credit.

"(c) MODIFICATION OF IMPUTED UNDERPAYMENTS.—

"(1) METHOD IN GENERAL.—The Secretary shall establish procedures under which the imputed underpayment amount may be modified consistent with the requirements of this subsection.

"(2) AMENDED RETURNS OF PARTNERS.—Such procedures shall provide that if—

"(A) one or more partners file returns for the taxable year of the partners which includes the end of the reviewed year of the partnership,

"(B) such returns take into account all adjustments under subsection (a) properly allocable to such partners (and for any other taxable year with respect to which any tax attribute is affected by reason of such adjustments), and

"(C) payment of any tax due is included with such return,

then the imputed underpayment amount shall be determined without regard to the portion of the adjustments so taken into account.

"(3) REALLOCATION OF DISTRIBUTIVE SHARE.—In the case of any adjustment which reallocates the distributive share of any item from one partner to another, paragraph (2) shall apply only if returns are filed by all partners affected by such adjustment.

"(4) YEAR AND DAY FOR SUBMISSION TO SECRETARY.—Anything required to be submitted pursuant to paragraph (1) shall be submitted to the Secretary not later than the close the 180-day period beginning on the date on which the notice of a proposed partnership adjustment is mailed under section 6231 unless such period is extended with the consent of the Secretary.

"(5) DECISION OF SECRETARY.—Any modification of the imputed underpayment amount under this subsection shall be made only upon approval of such modification by the Secretary.

"(d) DEFINITIONS AND SPECIAL RULE.—For purposes of this subchapter—

"(1) REVIEWED YEAR.—The term 'reviewed year' means the partnership taxable year to which the item being adjusted relates.

"(2) ADJUSTMENT YEAR.—The term 'adjustment year' means the partnership taxable year in which—

"(A) in the case of an adjustment pursuant to the decision of a court in a proceeding brought under section 6234, such decision becomes final,

"(B) in the case of an administrative adjustment request under section 6226, such administrative adjustment request is made, or

"(C) in any other case, notice of the final partnership adjustment is mailed under section 6231.

"SEC. 6226. ADMINISTRATIVE ADJUSTMENT REQUEST BY PARTNERSHIP.

"(a) IN GENERAL.—A partnership may file a request for an administrative adjustment in the amount of any item of income, gain, loss, deduction, or credit of the partnership for any partnership taxable year, but only to the extent such adjustment results in an imputed underpayment.

"(b) ADJUSTMENT.—Any adjustment under subsection (a) shall be determined and taken into account by the partnership under rules similar to the rules of section 6225 (other than subsection (c) thereof) for the partnership taxable year in which the administrative adjustment request is made.

"(c) PERIOD OF LIMITATIONS.—A partnership may not file such a request—

"(1) more than 3 years after the later of—

"(A) the date on which the partnership return for such year is filed, or

"(B) the last day for filing the partnership return for such year (determined without regard to extensions), and

"(2) after any notice of an administrative proceeding with respect to the taxable year is mailed under section 6231.

"PART III—PROCEDURE

"SEC. 6231. NOTICE OF PROCEEDINGS AND ADJUSTMENT.

"(a) IN GENERAL.—The Secretary shall mail to the partnership and the partnership representative—

"(1) notice of any administrative proceeding initiated at the partnership level with respect to an adjustment of any item of income, gain, loss, deduction, or credit of a partnership for a partnership taxable year, or any partner's distributive share thereof,

"(2) notice of any proposed partnership adjustment resulting from such proceeding, and

"(3) notice of any final partnership adjustment resulting from such proceeding.

Any notice of a final partnership adjustment shall not be mailed earlier than 180 days after the date on which the notice of the proposed partnership adjustment is mailed. Such notices shall be sufficient if mailed to the last known address of the partnership representative or the partnership (even if the partnership has terminated its existence). The first sentence shall apply to any proceeding with respect to an administrative adjustment request filed by a partnership under section 6226.

''(b) FURTHER NOTICES RESTRICTED.—If the Secretary mails a notice of a final partnership adjustment to any partnership for any partnership taxable year and the partnership files a petition under section 6234 with respect to such notice, in the absence of a showing of fraud, malfeasance, or misrepresentation of a material fact, the Secretary shall not mail another such notice to such partnership with respect to such taxable year.

''(c) AUTHORITY TO RESCIND NOTICE WITH PARTNERSHIP CONSENT.—The Secretary may, with the consent of the partnership, rescind any notice of a partnership adjustment mailed to such partnership. Any notice so rescinded shall not be treated as a notice of a partnership adjustment for purposes of this subchapter, and the taxpayer shall have no right to bring a proceeding under section 6234 with respect to such notice.

''SEC. 6232. ASSESSMENT, COLLECTION, AND PAYMENT.

''(a) IN GENERAL.—Any imputed underpayment—

''(1) shall be assessed and collected in the same manner as if it were a tax imposed for the adjustment year by subtitle A, and

''(2) shall be paid on or before the return due date for the adjustment year.

''(b) LIMITATION ON ASSESSMENT.—Except as otherwise provided in this chapter, no assessment of a deficiency may be made (and no levy or proceeding in any court for the collection of any amount resulting from such adjustment may be made, begun or prosecuted) before—

"(1) the close of the 90th day after the day on which a notice of a final partnership adjustment was mailed, and

"(2) if a petition is filed under section 6234 with respect to such notice, the decision of the court has become final.

"(c) PREMATURE ACTION MAY BE ENJOINED.—Notwithstanding section 7421(a), any action which violates subsection (b) may be enjoined in the proper court, including the Tax Court. The Tax Court shall have no jurisdiction to enjoin any action under this subsection unless a timely petition has been filed under section 6234 and then only in respect of the adjustments that are the subject of such petition.

"(d) EXCEPTIONS TO RESTRICTIONS ON ADJUSTMENTS.—

"(1) ADJUSTMENTS ARISING OUT OF MATH OR CLERICAL ERRORS.—

"(A) IN GENERAL.— If the partnership is notified that, on account of a mathematical or clerical error appearing on the partnership return, an adjustment to a partnership item is required, rules similar to the rules of paragraphs (1) and (2) of section 6213(b) shall apply to such adjustment.

"(B) SPECIAL RULE.—If a partnership is a partner in another partnership, any adjustment on account of such partnership's failure to comply with the requirements of section 6222(a) with respect to its interest in such other partnership shall be treated as an adjustment referred to in subparagraph (A), except that paragraph (2) of section 6213(b) shall not apply to such adjustment.

"(2) PARTNERSHIP MAY WAIVE RESTRICTIONS.—The partnership may at any time (whether or not any notice of partnership adjustment has been issued), by a signed notice in writing filed with the Secretary, waive the restrictions provided in subsection (b) on the making of any partnership adjustment.

"(e) LIMIT WHERE NO PROCEEDING BEGUN.—If no proceeding under section 6234 is begun with respect to any notice of a final partnership adjustment during the 90-day period described in subsection (b) thereof, the amount for which the partnership is liable under section

6225 shall not exceed the amount determined in accordance with such notice.

"SEC. 6233. PENALTIES AND INTEREST.

"(a) PENALTIES AND INTEREST DETERMINED FROM REVIEWED YEAR.—

"(1) IN GENERAL.—In the case of an imputed underpayment with respect to a partnership adjustment for a reviewed year, the partnership—

"(A) shall pay to the Secretary interest computed under paragraph (2), and

"(B) shall be liable for any penalty, addition to tax, or additional amount as provided in paragraph (3).

"(2) DETERMINATION OF AMOUNT OF INTEREST.—The interest computed under this paragraph with respect to any partnership adjustment is the interest which would be determined under chapter 67—

"(A) on the imputed underpayment determined with respect to such adjustment,

"(B) for the period beginning on the day after the return due date for the reviewed year and ending on the return due date for the adjustment year (or, if earlier, the date payment of the imputed underpayment is made).

Proper adjustments in the amount determined under the preceding sentence shall be made for adjustments required for partnership taxable years after the reviewed year and before the adjustment year by reason of such partnership adjustment.

''(3) PENALTIES.—A partnership shall be liable for any penalty, addition to tax, or additional amount for which it would have been liable if such partnership had been an individual subject to tax under chapter 1 for the reviewed year and the imputed underpayment were an actual underpayment (or understatement) for such year.

''(b) INTEREST AND PENALTIES WITH RESPECT TO ADJUSTMENT YEAR RETURN.—

''(1) IN GENERAL.—In the case of any failure to pay an imputed underpayment on the date prescribed therefor, the partnership shall be liable—

''(A) for interest as determined under paragraph (2), and

''(B) for any penalty, addition to tax, or additional amount as determined under paragraph (3).

''(2) INTEREST.—Interest determined under this paragraph is the interest that would be determined by treating the imputed underpayment as an underpayment of tax imposed in the adjustment year.

"(3) PENALTIES.—Penalties, additions to tax, or additional amounts determined under this paragraph are the penalties, additions to tax, or additional amounts that would be determined—

"(A) by applying section 6651(a)(2) to such failure to pay.

"(B) by treating the imputed underpayment as an underpayment of tax for purposes of part II of subchapter A of chapter 68.

"SEC. 6234. JUDICIAL REVIEW OF PARTNERSHIP ADJUSTMENT.

"(a) IN GENERAL.—Within 90 days after the date on which a notice of a final partnership adjustment is mailed under section 6231 with respect to any partnership taxable year, the partnership may file a petition for a readjustment for such taxable year with—

"(1) the Tax Court,

"(2) the district court of the United States for the district in which the partnership's principal place of business is located, or

"(3) the Claims Court.

"(b) JURISDICTIONAL REQUIREMENT FOR BRINGING ACTION IN DISTRICT COURT OR CLAIMS COURT.—

"(1) IN GENERAL.—A readjustment petition under this section may be filed in a district court of the United States or the Claims Court only if the partnership filing the petition deposits with the Secretary, on or before the date the petition is filed, the amount of the imputed underpayment (as of the date of the filing of the petition) if the partnership adjustment was made as provided by the notice of final partnership adjustment. The court may by order provide that the jurisdictional requirements of this paragraph are satisfied where there has been a good faith attempt to satisfy such requirement and any shortfall of the amount required to be deposited is timely corrected.

"(2) INTEREST PAYABLE.—Any amount deposited under paragraph (1), while deposited, shall not be treated as a payment of tax for purposes of this title (other than chapter 67).

"(c) SCOPE OF JUDICIAL REVIEW.—A court with which a petition is filed in accordance with this section shall have jurisdiction to determine all items of income, gain, loss, deduction, or credit of the partnership for the partnership taxable year to which the notice of final partnership adjustment relates, the proper allocation of such items among the partners, and the applicability of any penalty, addition to tax, or additional amount for which the partnership may be liable under this subchapter.

"(d) DETERMINATION OF COURT REVIEWABLE.—Any determination by a court under this section shall have the force and effect of a decision of the Tax Court or a final judgment or decree of the district court or the Claims Court, as the case may be, and shall be reviewable as such. The date of any such determination shall be treated as being the date of the court's order entering the decision.

"(e) EFFECT OF DECISION DISMISSING ACTION.—If an action brought under this section is dismissed other than by reason of a rescission under section 6231(c), the decision of the court dismissing the action shall be considered as its decision that the notice of final partnership adjustment is correct, and an appropriate order shall be entered in the records of the court.

"SEC. 6235. PERIOD OF LIMITATIONS ON MAKING ADJUSTMENTS.

"(a) IN GENERAL.—Except as otherwise provided in this section, no adjustment under this subpart for any partnership taxable year may be made after the date which is 3 years after the latest of—

"(1) the date on which the partnership return for such taxable year was filed, "(2) the return due date for the taxable year, or

"(3) the date on which the partnership filed an administrative adjustment request with respect to such year under section 6226.

"(b) EXTENSION BY AGREEMENT.— The period described in subsection (a) (including an extension period under this subsection) may be extended by an agreement entered into by the Secretary and the partnership before the expiration of such period.

"(c) SPECIAL RULE IN CASE OF FRAUD, ETC.—

"(1) FALSE RETURN.— In the case of a false or fraudulent partnership return with intent to evade tax, the adjustment may be made at any time.

"(2) SUBSTANTIAL OMISSION OF INCOME.—If any partnership omits from gross income an amount properly includible therein and such amount is described in section 6501(e)(1)(A), subsection (a) shall be applied by substituting '6 years' for '3 years'.

"(3) NO RETURN.—In the case of a failure by a partnership to file a return for any taxable year, the adjustment may be made at any time.

"(4) RETURN FILED BY SECRETARY.—For purposes of this section, a return executed by the Secretary under subsection (b) of section 6020 on behalf of the partnership shall not be treated as a return of the partnership.

"(d) SUSPENSION WHEN SECRETARY MAILS NOTICE OF ADJUSTMENT.—If notice of a final partnership adjustment with respect to any taxable year is mailed under section 6231, the running of the period specified in subsection (a) (as modified by the other provisions of this section) shall be suspended—

"(1) for the period during which an action may be brought under section 6234 (and, if a petition is filed under such section with respect to such notice, until the decision of the court becomes final), and

"(2) for 1 year thereafter.

"PART IV—DEFINITIONS AND SPECIAL RULES

"SEC. 6241. DEFINITIONS AND SPECIAL RULES.

"(a) DEFINITIONS AND SPECIAL RULES.—For purposes of this subchapter—

"(1) PARTNERSHIP.—The term 'partnership' means any partnership required to file a return under section 6031(a).

"(2) PARTNER.—The term 'partner' means—

"(A) a partner in the partnership, and

"(B) any other person whose income tax liability under subtitle A is determined in whole or in part by taking into account directly or indirectly income, gain, deduction, or loss of the partnership.

"(b) PARTNERSHIP ADJUSTMENT.—The term 'partnership adjustment' means any adjustment in the amount of any item of income, gain, loss, deduction, or credit of a partnership, or any partner's distributive share thereof.

"(c) RETURN DUE DATE.—The term 'return due date' means, with respect to the taxable year, the date prescribed for filing the partnership return for such taxable year (determined without regard to extensions).

"(d) JOINT AND SEVERAL LIABILITY.—

"(1) IN GENERAL.—The partnership and any partner of the partnership shall be jointly and severally liable for any imputed underpayment and any penalty, addition to tax, or additional amount attributable thereto.

"(2) PERIOD FOR ASSESSMENT OF PARTNERS.—The period for assessment of an imputed underpayment with respect to a partner of a partnership shall not expire earlier than 3 years after the date on which an assessment of such imputed underpayment was made with respect to the partnership.

"(3) DETERMINING PARTNERS.—A person shall be treated as partner of the partnership if such person is a partner of such partnership at any time during the reviewed or adjustment year.

"(e) PAYMENTS NONDEDUCTIBLE.—No deduction shall be allowed under subtitle A for any payment required to be made by a partnership under this subchapter.

"(f) SPECIAL RULE FOR DEDUCTIONS, LOSSES, AND CREDITS OF FOREIGN PARTNERSHIPS.—Except to the extent otherwise provided in regulations, in the case of any partnership the partnership representative of which resides outside the United States or the books of which are maintained outside the United States, no deduction, loss, or credit shall be allowable to any partner unless section 6031 is complied with for the partnership's taxable year in which such deduction, loss, or credit arose at such time as the Secretary prescribes by regulations.

"(g) PARTNERSHIPS HAVING PRINCIPAL PLACE OF BUSINESS OUTSIDE UNITED STATES.—For purposes of sections 6234, a principal place of business located outside the United States shall be treated as located in the District of Columbia.

"(h) PARTNERSHIPS IN CASES UNDER TITLE 11 OF UNITED STATES CODE.—

"(1) SUSPENSION OF PERIOD OF LIMITATIONS ON MAKING ADJUSTMENT, ASSESSMENT, OR COLLECTION.—The running of any period of limitations provided in this subchapter on making a partnership adjustment (or provided by section 6501 or 6502 on the assessment or collection of any imputed underpayment determined under this subchapter) shall, in a case under title 11 of the United States Code, be suspended during the period during which the Secretary is prohibited by reason of such case from making the adjustment (or assessment or collection) and—

"(A) for adjustment or assessment, 60 days thereafter, and

"(B) for collection, 6 months thereafter.

A rule similar to the rule of section 6213(f)(2) shall apply for purposes of section 6232(b).

"(2) SUSPENSION OF PERIOD OF LIMITATION FOR FILING FOR JUDICIAL REVIEW.—The running of the period specified in section 6234 shall, in a case under title 11 of the United States Code, be suspended during the period during which the partnership is prohibited by reason of such case from filing a petition under section 6234 and for 60 days thereafter.".

(2) CLERICAL AMENDMENT.—The table of subchapters for chapter 63 is amended by inserting after the item relating to subchapter B the following new items:

"SUBCHAPTER C. TREATMENT OF PARTNERSHIPS.".

(d) CONFORMING AMENDMENTS.—

(1) Section 6422 is amended by striking paragraph (12).

(2) Section 6501(n) is amended by striking paragraphs (2) and (3) and by striking "CROSS REFERENCES" and all that follows through "For period of limitations" and inserting "CROSS REFERENCE.—For period of limitations".

(3) Section 6503(a)(1) is amended by striking "(or section 6229" and all that follows through "of section 6230(a))".

(4) Section 6504 is amended by striking paragraph (11).

(5) Section 6511 is amended by striking subsection (g).

(6) Section 6512(b)(3) is amended by striking the second sentence.

(7) Section 6515 is amended by striking paragraph (6).

(8) Section 6601(c) is amended by striking the last sentence.

(9) Section 7421(a) is amended by striking ''6225(b), 6246(b)'' and inserting ''6232(c)''.

(10) Section 7422 is amended by striking subsection (h).

(11) Section 7459(c) is amended by striking ''section 6226'' and all that follows through ''or 6252'' and inserting ''section 6234''.

(12) Section 7482(b)(1) is amended—

(A) in subparagraph (E), by striking ''section 6226, 6228, 6247, or 6252'' and inserting ''section 6234'',

(B) by striking subparagraph (F), by striking ''or'' at the end of subparagraph (E) and inserting a period, and by inserting ''or'' at the end of subparagraph (D), and

(C) in the last sentence, by striking ''section 6226, 6228(a), or 6234(c)'' and inserting ''section 6234''.

(13) Section 7485(b) is amended by striking ''section 6226, 6228(a), 6247, or 6252'' and inserting ''section 6234''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to returns filed for partnership taxable years ending after December 31, 2014, except that a partnership may elect (at such time and in such form and manner as the Secretary of the Treasury may prescribe) for such amendments to apply to any return of the partnership filed for partnership taxable years ending after the date of the enactment of this Act and before January 1, 2015.

PART 3—REITS AND RICS

SEC. 3631. PREVENTION OF TAX-FREE SPINOFFS INVOLVING REITS.

(a) IN GENERAL.—Section 355 is amended by adding at the end the following new subsection:

"(h) SECTION NOT TO APPLY TO DISTRIBUTIONS INVOLVING REAL ESTATE INVESTMENT TRUSTS.—This section (and so much of section 356 as relates to this section) shall not apply to any distribution if either the distributing corporation or controlled corporation is a real estate investment trust.".

(b) PREVENTION OF REIT ELECTION FOLLOWING TAX-FREE SPIN OFF.—Section 856(c) is amended by redesignating paragraph (8) as paragraph (9) and by inserting after paragraph (7) the following new paragraph:

"(8) ELECTION AFTER TAX-FREE REORGANIZATION.—If a corporation was a distributing corporation or a controlled corporation with respect to any distribution to which section 355 applied, such corporation (and any successor corporation) shall not be eligible to make any election under subsection (c)(1) for any taxable year prior to the 10th taxable year which begins after the taxable year in which such distribution was made.''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to distributions on or after February 26, 2014.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution made pursuant to an agreement which was binding on February 26, 2014, and at all times thereafter.

SEC. 3632. EXTENSION OF PERIOD FOR PREVENTION OF REIT ELECTION FOLLOWING REVOCATION OR TERMINATION.

(a) IN GENERAL.—Section 856(g)(3) is amended by striking ''fifth'' and inserting ''10th''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to terminations and revocations after December 31, 2014.

SEC. 3633. CERTAIN SHORT-LIFE PROPERTY NOT TREATED AS REAL PROPERTY FOR PURPOSES OF REIT PROVISIONS.

(a) IN GENERAL.—Section 856(c)(5) is amended by adding at the end the following new subparagraph:

"(L) REAL PROPERTY.—The term 'real property' shall not include any tangible property with a class life of less than 27.5 years. For purposes of the preceding sentence, class life of tangible property for any taxable year shall be the greater of—

"(i) the class life of such property in the hands of the real estate investment trust, or

"(ii) the class life which would be applicable to such property if such property was placed in service in the taxable year.".

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

SEC. 3634. REPEAL OF SPECIAL RULES FOR TIMBER HELD BY REITS.

(a) IN GENERAL.—Section 856(c)(5)(L), as added by this Act, is amended by inserting "timber or" after "shall not include".

(b) CONFORMING AMENDMENTS.—

(1) Section 856(c)(2) is amended by inserting ''and'' at the end of subparagraph (G), by striking ''and'' at the end of subparagraph (H), and by striking subparagraph (I).

(2) Section 856(c)(5), as amended by the preceding provisions of this Act, is amended by striking subparagraphs (H) and (I) and by redesignating subparagraphs (J), (K), and (L) as subparagraphs (H), (I) and (J), respectively.

(3) Section 856(c), as amended by the preceding provisions of this Act, is amended by striking paragraph (9).

(4) Section 857(b)(6) is amended by striking subparagraphs (D), (G), and (H), and by redesignating subparagraphs (E) and (F) as subparagraphs (D) and (E), respectively.

(5) Section 857(b)(6)(D), as redesignated by paragraph (4), is amended by striking ''subparagraphs (C) and (D)'' and inserting ''subparagraph (C)''.

(6) Section 857(b)(6)(E), as redesignated by paragraph (4), is amended—

(A) by striking ''subparagraph (C) or (D)'' and inserting ''subparagraph (C)'', and

(B) by striking "subparagraphs (C), (D), and (E)" and inserting "subparagraphs (C) and (D)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2016.

SEC. 3635. LIMITATION ON FIXED PERCENTAGE RENT AND INTEREST EXCEPTIONS FOR REIT INCOME TESTS.

(a) IN GENERAL.—Section 856 is amended by adding at the end the following new subsection:

"(o) LIMITATION ON FIXED PERCENTAGE RENT AND INTEREST EXCEPTIONS.—

"(1) IN GENERAL.—If the fixed percentage rent and interest income received or accrued by a real estate investment trust from a single C corporation (other than a taxable REIT subsidiary of such real estate investment trust) for any taxable year exceeds either—

"(A) 25 percent of the fixed percentage rent income received or accrued by such real estate investment trust for such taxable year, or

"(B) 25 percent of the fixed percentage interest income received or accrued by such real estate investment trust for such taxable year, then, notwithstanding subsection (d)(2), none of the fixed percentage rent income received or accrued from such corporation which is attributable to leases entered into after December 31, 2014, shall be treated as rents from real property and, notwithstanding subsection (f), none of the fixed percentage interest income received or accrued from such corporation which is attributable to debt instruments acquired after December 31, 2014, shall be treated as interest.

"(2) FIXED PERCENTAGE RENT AND INTEREST INCOME.—For purposes of this subsection—

"(A) FIXED PERCENTAGE RENT AND INTEREST INCOME.—The term 'fixed percentage rent and interest income' means the sum of the fixed percentage rent income plus the fixed percentage interest income.

"(B) FIXED PERCENTAGE RENT INCOME.—The term 'fixed percentage rent income' means amounts described in subsection (d)(2)(A) which are based on a fixed percentage or percentages of receipts or sales.

"(C) FIXED PERCENTAGE INTEREST INCOME.—The term 'fixed percentage interest income' means amounts described in subsection (f)(1) which are based on a fixed percentage or percentages of receipts or sales.

"(3) AGGREGATION RULE.—Members of the same affiliated group (as defined in section 1504, applied by substituting '50 percent' for '80 percent' each place it appears therein) shall be treated as 1 corporation for purposes of paragraph (1).

"(4) TREATMENT OF MODIFICATIONS.—For purposes of paragraph (1), any material modification (including any extension of the term) of a lease or debt instrument shall be treated as a new lease or debt instrument, as the case may be, entered into on the date of such modification.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years ending after December 31, 2014.

SEC. 3636. REPEAL OF PREFERENTIAL DIVIDEND RULE FOR PUBLICLY OFFERED REITS.

(a) IN GENERAL.—Paragraph (1) of section 562(c), as amended by the preceding provisions of this Act, is amended by inserting "or a publicly offered REIT" after "a publicly offered regulated investment company".

(b) PUBLICLY OFFERED REIT.—Subsection (c) of section 562, as so amended, is amended by adding at the end the following new paragraph:

"(3) PUBLICLY OFFERED REIT.—For purposes of this subsection, the term 'publicly offered REIT' means a real estate investment trust which is required to file annual and periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934.".

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to distributions in taxable years beginning after December 31, 2014.

SEC. 3637. AUTHORITY FOR ALTERNATIVE REMEDIES TO ADDRESS CERTAIN REIT DISTRIBUTION FAILURES.

(a) IN GENERAL.—Subsection (e) of section 562 is amended—

(1) by striking "In the case of a real estate investment trust" and inserting the following:

"(1) DETERMINATION OF EARNINGS AND PROFITS FOR PURPOSES OF DIVIDENDS PAID DEDUCTION.—In the case of a real estate investment trust", and

(2) by adding at the end the following new paragraph:

"(2) AUTHORITY TO PROVIDE ALTERNATIVE REMEDIES FOR CERTAIN FAILURES.—In the case of a failure of a distribution by a real estate investment trust to comply with the requirements of subsection (c), the Secretary may provide an appropriate remedy to cure such failure in lieu of not considering the distribution to be a dividend for purposes of computing the dividends paid deduction if—

"(A) the Secretary determines that such failure is inadvertent or is due to reasonable cause and not due to willful neglect, or

"(B) such failure is of a type of failure which the Secretary has identified for purposes of this paragraph as being described in subparagraph (A).".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions in taxable years beginning after December 31, 2014.

SEC. 3638. LIMITATIONS ON DESIGNATION OF DIVIDENDS BY REITS.

(a) IN GENERAL.—Section 857 is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

"(g) LIMITATIONS ON DESIGNATION OF DIVIDENDS.—

"(1) OVERALL LIMITATION.—The aggregate amount of dividends designated by a real estate investment trust under subsections (b)(3)(C) and (c)(2)(A) with respect to any taxable year may not exceed the dividends paid by such trust with respect to such year. For purposes of the preceding sentence, dividends paid after the close of the taxable year described in section 858 shall be treated as paid with respect to such year.

"(2) PROPORTIONALITY.—The Secretary may prescribe regulations or other guidance requiring the proportionality of the designation of particular types of dividends among shares or beneficial interests of a real estate investment trust.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions in taxable years beginning after December 31, 2014.

SEC. 3639. NON-REIT EARNINGS AND PROFITS REQUIRED TO BE DISTRIBUTED BY REIT IN CASH.

(a) IN GENERAL.—Section 857, as amended by the preceding provisions of this Act, is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

"(h) DETERMINATION OF EARNINGS AND PROFITS ACCUMULATED IN NON-REIT YEARS.—

"(1) IN GENERAL.—For purposes of subsection (a)(2)(B), distributions during the transition period shall be taken into account in determining accumulated earning and profits only if such distributions are made in cash.

"(2) TRANSITION PERIOD.—For purposes of this subsection, the term 'transition period' means the period of taxable years beginning with the last taxable year (other than a short taxable year) which was a non-REIT year (as defined in subsection (a)) and ending with the first taxable year to which the provisions of this part apply.".

(b) CONFORMING AMENDMENT.—Section 857(a)(2)(B) is amended by inserting "(determined as provided in subsection (h))" before the period at the end.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made on or after February 26, 2014.

SEC. 3640. DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS AND MORTGAGES TREATED AS REAL ESTATE ASSETS.

(a) DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS TREATED AS REAL ESTATE ASSETS.—

(1) IN GENERAL.—Subparagraph (B) of section 856(c)(5) is amended—

(A) by striking "and shares" and inserting ", shares", and

(B) by inserting ‘‘, and debt instruments issued by publicly offered REITs’’ before the period at the end of the first sentence.

(2) INCOME FROM NONQUALIFIED DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS NOT QUALIFIED FOR PURPOSES OF SATISFYING THE 75 PERCENT GROSS INCOME TEST.—Subparagraph (H) of section 856(c)(3) is amended by inserting ‘‘(other than a nonqualified publicly offered REIT debt instrument)’’ after ‘‘real estate asset’’.

(3) 25 PERCENT ASSET LIMITATION ON HOLDING OF NONQUALIFIED DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS.—Subparagraph (B) of section 856(c)(4) is amended by redesignating clause (iii) as clause (iv) and by inserting after clause (ii) the following new clause:

‘‘(iii) not more than 25 percent of the value of its total assets is represented by nonqualified publicly offered REIT debt instruments, and’’.

(4) DEFINITIONS RELATED TO DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS.—Paragraph (5) of section 856(c), as amended by the preceding provisions of this Act, is amended by adding at the end the following new subparagraph:

"(K) DEFINITIONS RELATED TO DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS.—

"(i) PUBLICLY OFFERED REIT.—The term 'publicly offered REIT' has the meaning given such term by section 562(c)(3).

"(ii) NONQUALIFIED PUBLICLY OFFERED REIT DEBT INSTRUMENT.—The term 'nonqualified publicly offered REIT debt instrument' means any real estate asset which would cease to be a real estate asset if subparagraph (B) were applied without regard to the reference to 'debt instruments issued by publicly offered REITs'.".

(b) INTERESTS IN MORTGAGES ON INTERESTS IN REAL PROPERTY TREATED AS REAL ESTATE ASSETS.—Subparagraph (B) of section 856(c)(5) is amended by inserting "or on interests in real property" after "interests in mortgages on real property".

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

SEC. 3641. ASSET AND INCOME TEST CLARIFICATION REGARDING ANCILLARY PERSONAL PROPERTY.

(a) IN GENERAL.—Subsection (c) of section 856 is amended by adding at the end the following new paragraph:

"(9) SPECIAL RULES FOR CERTAIN PERSONAL PROPERTY WHICH IS ANCILLARY TO REAL PROPERTY.—

"(A) CERTAIN PERSONAL PROPERTY LEASED IN CONNECTION WITH REAL PROPERTY.—Personal property shall be treated as a real estate asset for purposes of paragraph (4)(A) to the extent that rents attributable to such personal property are treated as rents from real property under subsection (d)(1)(C).

"(B) CERTAIN PERSONAL PROPERTY MORTGAGED IN CONNECTION WITH REAL PROPERTY.—In the case of an obligation secured by a mortgage on both real property and personal property, if the fair market value of such personal property does not exceed 15 percent of the total fair market value of all such property, such personal property shall be treated as real property for purposes of applying paragraphs (3)(B) and (4)(A). For purposes of the preceding sentence, the fair market value of all such property shall be determined in the same manner as the fair market value of real property is determined for purposes of apportioning interest income between real property and personal property under paragraph (3)(B).''.

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

SEC. 3642. HEDGING PROVISIONS.

(a) MODIFICATION TO PERMIT THE TERMINATION OF A HEDGING TRANSACTION USING AN ADDITIONAL HEDGING INSTRUMENT.—Subparagraph (G) of section 856(c)(5) is amended by striking ''and'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting '', and'', and by adding at the end the following new clause:

''(iii) if—

''(I) a real estate investment trust enters into one or more positions described in clause (i) with respect to indebtedness described in clause (i) or one or more positions described in clause (ii) with respect to property which generates income or gain described in paragraph (2) or (3), "(II) any portion of such indebtedness is extinguished or any portion of such property is disposed of, and

"(III) in connection with such extinguishment or disposition, such trust enters into one or more transactions which would be hedging transactions described in subparagraph (B) or (C) of section 1221(b)(2) with respect to any position referred to in subclause (I) if such position were ordinary property,

any income of such trust from any position referred to in subclause (I) and from any transaction referred to in subclause (III) (including gain from the termination of any such position or transaction) shall not constitute gross income under paragraphs (2) and (3) to the extent that such transaction hedges such position.".

(b) IDENTIFICATION REQUIREMENTS.—

(1) IN GENERAL.—Subparagraph (G) of section 856(c)(5), as amended by subsection (a), is amended by striking "and" at the end of clause (ii), by striking the period at the end of clause (iii) and inserting

", and", and by adding at the end the following new clause:

"(iv) clauses (i), (ii), and (iii) shall not apply with respect to any transaction unless such transaction satisfies the identification requirement described in section 1221(b)(3)(A) (determined after taking into account any curative provisions provided under the regulations referred to therein).".

(2) CONFORMING AMENDMENTS.—Subparagraph (G) of section 856(c)(5) is amended—

(A) by striking "which is clearly identified pursuant to section 1221(a)(7)" in clause (i), and

(B) by striking ", but only if such transaction is clearly identified as such before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may prescribe)" in clause (ii).

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

SEC. 3643. MODIFICATION OF REIT EARNINGS AND PROFITS CALCULATION TO AVOID DUPLICATE TAXATION.

(a) EARNINGS AND PROFITS NOT INCREASED BY AMOUNTS ALLOWED IN COMPUTING TAXABLE INCOME IN PRIOR YEARS.—

(1) IN GENERAL.—Paragraph (1) of section 857(d) is amended to read as follows:

''(1) IN GENERAL.—The earnings and profits of a real estate investment trust for any taxable year (but not its accumulated earnings) shall not be reduced by any amount which—

''(A) is not allowable in computing its taxable income for such taxable year, and

''(B) was not allowable in computing its taxable income for any prior taxable year.''.

(2) EXCEPTION FOR PURPOSES OF DETERMINING DIVIDENDS PAID DEDUCTION.—Paragraph (1) of section 562(e), as amended by the preceding provisions of this Act, is amended—

(A) by striking ''deduction, the earnings'' and inserting the following: ''deduction—

''(A) the earnings'',

(B) by striking the period at the end and inserting '', and'', and

(C) by adding at the end the following new subparagraph:

"(B) section 857(d)(1) shall be applied without regard to subparagraph (B) thereof.".

(3) CONFORMING AMENDMENTS.—Subsection (d) of section 857 is amended by adding at the end the following new paragraphs:

"(4) REAL ESTATE INVESTMENT TRUST.—For purposes of this subsection, the term 'real estate investment trust' includes a domestic corporation, trust, or association which is a real estate investment trust determined without regard to the requirements of subsection (a).

"(5) SPECIAL RULES FOR DETERMINING EARNINGS AND PROFITS FOR PURPOSES OF THE DEDUCTION FOR DIVIDENDS PAID.—For special rules for determining the earnings and profits of a real estate investment trust for purposes of the deduction for dividends paid, see section 562(e)(1).".

(b) TREATMENT OF GAIN ON SALES OF REAL PROPERTY.—Subparagraph (A) of section 562(e)(1), as amended by the preceding provisions of this Act, is amended to read as follows:

"(A) the earnings and profits of such trust for any taxable year (but not its accumulated earnings) shall be increased by the amount of gain (if any) on the sale or exchange of real property which is taken into account in determining the taxable income of such trust for such taxable year (and not otherwise taken into account in determining such earnings and profits), and''.

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

SEC. 3644. REDUCTION IN PERCENTAGE LIMITATION ON ASSETS OF REIT WHICH MAY BE TAXABLE REIT SUBSIDIARIES.

(a) IN GENERAL.—Section 856(c)(4)(B)(ii) is amended by striking ''25 percent'' and inserting ''20 percent''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2016.

SEC. 3645. TREATMENT OF CERTAIN SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES.

(a) TAXABLE REIT SUBSIDIARIES TREATED IN SAME MANNER AS INDEPENDENT CONTRACTORS FOR CERTAIN PURPOSES.—

(1) MARKETING AND DEVELOPMENT EXPENSES UNDER RENTAL PROPERTY SAFE HARBOR.—Clause (v) of section 857(b)(6)(C) is amended by inserting ''or by a taxable REIT subsidiary'' before the period at the end.

(2) FORECLOSURE PROPERTY GRACE PERIOD.—Subparagraph (C) of section 856(e)(4) is amended by inserting ''or through a taxable REIT subsidiary'' after ''receive any income''.

(b) TAX ON REDETERMINED TRS SERVICE INCOME.—

(1) IN GENERAL.—Subparagraph (A) of section 857(b)(7) is amended by striking ''and excess interest'' and inserting ''excess interest, and redetermined TRS service income''.

(2) REDETERMINED TRS SERVICE INCOME.—Paragraph (7) of section 857(b) is amended by redesignating subparagraphs (E) and (F) as subparagraphs (F) and (G), respectively, and inserting after subparagraph (D) the following new subparagraph:

''(E) REDETERMINED TRS SERVICE INCOME.—

''(i) IN GENERAL.—The term 'redetermined TRS service income' means gross income of a taxable REIT subsidiary of a real estate investment trust attributable to services provided to, or on behalf of, such trust (less deductions properly allocable thereto) to the extent the amount of such income (less such deductions) would (but for subparagraph (F)) be increased on distribution, apportionment, or allocation under section 482.

"(ii) COORDINATION WITH REDETERMINED RENTS.—Clause (i) shall not apply with respect to gross income attributable to services furnished or rendered to a tenant of the real estate investment trust (or to deductions properly allocable thereto).".

(3) CONFORMING AMENDMENTS.—Subparagraphs (B)(i) and (C) of section 857(b)(7) are each amended by striking "subparagraph (E)" and inserting "subparagraph (F)".

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

SEC. 3646. STUDY RELATING TO TAXABLE REIT SUBSIDIARIES.

The Secretary of the Treasury (or the Secretary's designee) shall, biannually—

(1) conduct a study to determine—

(A) how many taxable REIT subsidiaries are in existence and the aggregate amount of taxes paid by such subsidiaries, and

(B) the amount by which transactions between a REIT and a taxable REIT subsidiary reduce taxable income of the taxable REIT subsidiary (whether or not such transactions are conducted at arms length), and

(2) submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate describing the results of such study.

SEC. 3647. C CORPORATION ELECTION TO BECOME, OR TRANSFER ASSETS TO, A RIC OR REIT.

(a) IN GENERAL.—Part IV of subchapter O of chapter 1, as amended by the preceding provisions of this Act, is amended by redesignating section 1062 as section 1063 and by inserting after section 1061 the following new section:

"SEC. 1062. RECOGNITION OF GAIN OR LOSS UPON C CORPORATION ELECTION TO BECOME, OR TRANSFER ASSETS TO, A REGULATED INVESTMENT COMPANY OR A REAL ESTATE INVESTMENT TRUST.

"(a) IN GENERAL.—If a C corporation elects to become a regulated investment company or a real estate investment trust for a taxable year, such corporation shall recognize gain or loss as if all its assets were sold by such corporation at their fair market value immediately before the close of the last taxable year before such corporation becomes a regulated investment company or real estate investment trust (as the case may be).

"(b) APPLICATION TO TRANSFERS OF ASSETS.—In the case of a C corporation which transfers to a regulated investment company or a real estate investment trust one or more assets the basis of which is determined (in whole or in part) by reference to the basis of such asset or assets in the hands of the C corporation, such corporation shall recognize gain or loss as if such assets were sold by such corporation at their fair market value as of the end of the day before the day of the transfer.

"(c) NONAPPLICATION TO NET LOSS.—Subsections (a) and (b) shall not apply if their application would result in the recognition of a net loss. For purposes of the preceding sentence, the term 'net loss' means the excess of aggregate losses over aggregate gains (including items of income) without regard to character.

"(d) BASIS ADJUSTMENT.—If any asset is treated as sold under subsection (a) or (b), the basis of such asset immediately after such deemed sale shall be equal to the fair market value of such asset as determined under such subsection.

"(e) C CORPORATION.—For purposes of this section, the term 'C corporation' does not include a regulated investment company or a real estate investment trust.".

(b) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter O of chapter 1 is amended by redesignating the item relating to section 1062 as an item relating to section 1063 and by inserting after the item relating to section 1061 the following new item:

"Sec. 1062. Recognition of gain or loss upon C corporation election to become, or transfer assets to, a regulated investment company or a real estate investment trust.".

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to elections and transfers on or after February 26, 2014.

SEC. 3648. INTERESTS IN RICS AND REITS NOT EXCLUDED FROM DEFINITION OF UNITED STATES REAL PROPERTY INTERESTS.

(a) IN GENERAL.—Section 897(c)(1)(B) is amended by striking "and" at the end of clause (i), by striking the period at the end of clause (ii)(II) and inserting ", and", and by adding at the end the following new clause:

"(iii) neither such corporation nor any predecessor of such corporation was a regulated investment company or a real estate investment company at any time during the period described in subparagraph (A)(ii).".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to dispositions after December 31, 2014.

SEC. 3649. DIVIDENDS DERIVED FROM RICS AND REITS INELIGIBLE FOR DEDUCTION FOR UNITED STATES SOURCE PORTION OF DIVIDENDS FROM CERTAIN FOREIGN CORPORATIONS.

(a) IN GENERAL.—Section 245(a) is amended by adding at the end the following new paragraph:

"(12) DIVIDENDS DERIVED FROM RICS AND REITS INELIGIBLE FOR DEDUCTION.—Regulated investment companies and real estate investment trusts shall not be treated as domestic corporations for purposes of paragraph (5)(B).".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to dividends received from regulated investment companies and real estate investment trusts on or after February 26, 2014.

PART 4—PERSONAL HOLDING COMPANIES

SEC. 3661. EXCLUSION OF DIVIDENDS FROM CONTROLLED FOREIGN CORPORATIONS FROM THE DEFINITION OF PERSONAL HOLDING COMPANY INCOME FOR PURPOSES OF THE PERSONAL HOLDING COMPANY RULES.

(a) IN GENERAL.—Paragraph (1) of section 543(a) is amended—

(1) by redesignating subparagraphs (C) and (D) as subparagraphs (D) and (E), respectively, and

(2) by inserting after subparagraph (B) the following:

''(C) dividends received by a United States shareholder (as defined in section 951(b)) from a controlled foreign corporation (as defined in section 957(a)),''.

(b) EFFECTIVE DATE.—The amendments made by this Act shall apply to taxable years beginning after December 31, 2014.

Subtitle H—Taxation of Foreign Persons

SEC. 3701. PREVENTION OF AVOIDANCE OF TAX THROUGH REINSURANCE WITH NON-TAXED AFFILIATES.

(a) IN GENERAL.—Part III of subchapter L of chapter 1 is amended by adding at the end the following new section:

"SEC. 849. SPECIAL RULES FOR REINSURANCE OF NON-LIFE CONTRACTS WITH NON-TAXED AFFILIATES.

"(a) IN GENERAL.—The taxable income under section 831(a) or the life insurance company taxable income under section 801(b) (as the case may be) of an insurance company shall be determined by not taking into account—

"(1) any non-taxed reinsurance premium,

"(2) any additional amount paid by such insurance company with respect to the reinsurance for which such non-taxed reinsurance premium is paid, to the extent such additional amount is properly allocable to such non-taxed reinsurance premium, and

"(3) any return premium, ceding commission, reinsurance recovered, or other amount received by such insurance company with respect to the reinsurance for which such non-taxed reinsurance premium is paid, to the extent such return premium, ceding commission, reinsurance recovered, or other amount is properly allocable to such non-taxed reinsurance premium.

"(b) NON-TAXED REINSURANCE PREMIUMS.—For purposes of this section—

"(1) IN GENERAL.—The term 'non-taxed reinsurance premium' means any reinsurance premium paid directly or indirectly to an affiliated corporation with respect to reinsurance of risks (other than excepted risks), to the extent that the income attributable to the premium is not subject to tax under this subtitle (either as the income of the affiliated corporation or as amounts included in gross income by a United States shareholder under section 951).

"(2) EXCEPTED RISKS.—The term 'excepted risks' means any risk with respect to which reserves described in section 816(b)(1) are established.

"(c) AFFILIATED CORPORATIONS.—For purposes of this section, a corporation shall be treated as affiliated with an insurance company if both corporations would be members of the same controlled group of corporations (as defined in section 1563(a)) if section 1563 were applied—

"(1) by substituting 'at least 50 percent' for 'at least 80 percent' each place it appears in subsection (a)(1), and

"(2) without regard to subsections (a)(4), (b)(2)(C), (b)(2)(D), and (e)(3)(C).

"(d) ELECTION TO TREAT REINSURANCE INCOME AS EFFECTIVELY CONNECTED.—

"(1) IN GENERAL.—A specified affiliated corporation may elect for any taxable year to treat specified reinsurance income as—

"(A) income effectively connected with the conduct of a trade or business in the United States, and

"(B) for purposes of any treaty between the United States and any foreign country, income attributable to a permanent establishment in the United States.

"(2) EFFECT OF ELECTION.—In the case of any specified reinsurance income with respect to which the election under this subsection applies—

"(A) DEDUCTION ALLOWED FOR REINSURANCE PREMIUMS.—For exemption from subsection (a), see definition of non-taxed reinsurance premiums in subsection (b).

"(B) EXCEPTION FROM EXCISE TAX.—The tax imposed by section 4371 shall not apply with respect to any income treated as effectively connected with the conduct of a trade or business in the United States under paragraph (1).

"(C) TAXATION UNDER THIS SUBCHAPTER.—Such income shall be subject to tax under this subchapter to the same extent and in the same manner as if such income were the income of a domestic insurance company.

"(D) COORDINATION WITH FOREIGN TAX CREDIT PROVISIONS.—For purposes of subpart A of part III of subchapter N and sections 78 and 960—

"(i) such specified reinsurance income shall be treated as derived from sources without the United States, and

"(ii) subsections (a), (b), and (c) of section 904 ,and section 960, shall be applied separately with respect to each item of such income.

The Secretary may issue regulations or other guidance which provide that related items of specified reinsurance income may be aggregated for purposes of applying clause (ii).

"(3) SPECIFIED AFFILIATED CORPORATION.—For purposes of this subsection, the term 'specified affiliated corporation' means any affiliated corporation which is a foreign corporation and which meets such requirements as the Secretary shall prescribe to ensure that tax on the specified reinsurance income of such corporation is properly determined and paid.

"(4) SPECIFIED REINSURANCE INCOME.—For purposes of this paragraph, the term 'specified reinsurance income' means all income of a specified affiliated corporation which is attributable to reinsurance with respect to which subsection (a) would (but for the election under this subsection) apply.

"(5) RULES RELATED TO ELECTION.—Any election under paragraph (1) shall—

"(A) be made at such time and in such form and manner as the Secretary may provide, and

"(B) apply for the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.

"(e) EXCEPTION FOR AMOUNTS SUBJECT TO FOREIGN TAX.—An amount shall not be treated as described in paragraph (1), (2), or (3) of subsection (a) if the taxpayer demonstrates to the satisfaction of the Secretary that such amount was subject to an effective rate of income tax imposed by a foreign country which is not less than 100 percent of the maximum rate of tax specified in section 11.

"(f) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be appropriate to carry out, or to prevent the avoidance of the purposes of, this section, including regulations or other guidance which provide for the application of this section to alternative reinsurance transactions, fronting transactions, conduit and reciprocal transactions, and any economically equivalent transactions.".

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter L of chapter 1 is amended by adding at the end the following new item:

"Sec. 849. Special rules for reinsurance of non-life contracts with non-taxed affiliates.".

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

SEC. 3702. TAXATION OF PASSENGER CRUISE GROSS INCOME OF FOREIGN CORPORATIONS AND NONRESIDENT ALIEN INDIVIDUALS.

(a) IN GENERAL.—Section 882 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) TREATMENT OF PASSENGER CRUISE GROSS INCOME.—

"(1) IN GENERAL.—For purposes of this title, the effectively connected passenger cruise gross income of a foreign corporation shall be treated as gross income which is effectively connected with the conduct of a trade or business in the United States.

"(2) EFFECTIVELY CONNECTED PASSENGER CRUISE GROSS INCOME.—For purposes of this subsection, the term 'effectively connected passenger cruise gross income' means, with respect to the operation of any ship in a covered voyage, the United States territorial waters percentage of the gross income (determined without regard to section 883(a)(1)) derived from such operation, including any amount received with respect to the provision of any on- or off-board activities, services, or sales, with respect to passengers incidental to such operation (or with respect to any agreement with any person with respect to the provision of any such activities, services, or sales).

"(3) UNITED STATES TERRITORIAL WATERS PERCENTAGE.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'United States territorial waters percentage' means, with respect to the operation of any ship in any covered voyage, the ratio (expressed as a percentage) of—

"(i) the number of days during such voyage such ship was operated in the territorial waters of the United States, divided by

"(ii) the total number of days of such voyage.

"(B) CALENDAR DAY RULE.—If a ship—

"(i) is operated in a covered voyage, or

"(ii) is operated in the territorial waters of the United States during a covered voyage,

for any portion of a calendar day, such ship shall be treated as having operated in a covered voyage, or as having operated in such territorial waters, respectively, for the entirety of such day.

"(C) TERRITORIAL WATERS.—The territorial waters of the United States shall be treated as consisting of those waters which are—

"(i) within the international boundary line between the United States and any contiguous foreign country, or

"(ii) within 12 nautical miles from low tide on the coastline of the United States.

"(4) COVERED VOYAGE.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'covered voyage' has the meaning given such term by section 4472(1).

"(B) ANTI-ABUSE RULE.—Except as otherwise provided by the Secretary, if passengers embark a ship in the United States and more than 10 percent of such passengers disembark in the United States, the operation of such ship at all times between such events shall be treated as a covered voyage. Nothing in the preceding sentence shall preclude any operation of a ship (including any operation of a ship before or after such events) which would otherwise be treated as part of a covered voyage from being so treated.

"(5) TREATMENT OF OTHERWISE EFFECTIVELY CONNECTED INCOME.—Gross income which would, without regard to this subsection, be gross income which is effectively connected with the conduct of a trade or business in the United States—

"(A) shall be so treated, and

"(B) shall not be taken into account as gross income under paragraph (2).".

(b) APPLICATION TO NONRESIDENT ALIEN INDIVIDUALS.—Section 871 is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

"(n) TREATMENT OF PASSENGER CRUISE GROSS INCOME.—

"(1) IN GENERAL.—For purposes of this title, the effectively connected passenger cruise gross income of a nonresident alien individual shall be treated as gross income which is effectively connected with the conduct of a trade or business in the United States.

"(2) DEFINITIONS AND SPECIAL RULES.—For purposes of this subsection—

"(A) DEFINITIONS.—Terms used in this subsection which are also used in section 882(f) shall have the same meaning as when used in such section, except that section 882(f)(2) shall be applied by substituting 'section 872(b)(1)' for 'section 883(a)(1)'.

"(B) TREATMENT OF OTHERWISE EFFECTIVELY CONNECTED INCOME.—Rules similar to the rules of section 882(f)(5) shall apply for purposes of this subsection.".

(c) COORDINATION WITH RECIPROCAL EXEMPTIONS FOR SHIPPING INCOME.—

(1) IN GENERAL.—Section 883(a)(1) is amended by striking "Gross income" and inserting "Except as provided in section 882(f), gross income".

(2) NONRESIDENT ALIEN INDIVIDUALS.—Section 872(b)(1) is amended by striking "Gross income" and inserting "Except as provided in section 871(n), gross income".

(d) COORDINATION WITH TAX ON GROSS TRANSPORTATION INCOME.—Section 887(b)(4) is amended by adding at the end the following new flush text:

"The preceding sentence shall not apply to any United States source gross transportation income which is effectively connected passenger cruise gross income (within the meaning of section 871(n) or 882(f)).".

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

SEC. 3703. RESTRICTION ON INSURANCE BUSINESS EXCEPTION TO PASSIVE FOREIGN INVESTMENT COMPANY RULES.

(a) IN GENERAL.—Section 1297(b)(2)(B) is amended to read as follows:

"(B) derived in the active conduct of an insurance business by a corporation if—

"(i) such corporation would be subject to tax under subchapter L if such corporation were a domestic corporation,

"(ii) more than 50 percent of such corporation's gross receipts for the taxable year consist of premiums, and

"(iii) the applicable insurance liabilities of such corporation constitute more than 35 percent of its total assets as reported on the corporation's applicable financial statement for the year with which or in which the taxable year ends,".

(b) APPLICABLE INSURANCE LIABILITIES; APPLICABLE FINANCIAL STATEMENT.—

(1) IN GENERAL.—Section 1297(b) is amended by adding at the end the following new paragraph:

"(3) DEFINITIONS.—For purposes of this subsection—

"(A) APPLICABLE INSURANCE LIABILITIES.—The term 'applicable insurance liabilities' means, with respect to any life or property and casualty insurance business—

"(i) loss and loss adjustment expenses,

"(ii) unearned premiums, and

"(iii) reserves (other than deficiency or contingency reserves) for life and health insurance risks and life and health insurance claims with respect to contracts providing coverage for mortality or morbidity risks (not to exceed the amount of such reserve that is required to be reported to the home country insurance regulatory body).

"(B) APPLICABLE FINANCIAL STATEMENT.—The term 'applicable financial statement' means a statement for financial reporting purposes which—

"(i) is made on the basis of generally accepted accounting principles,

"(ii) is made on the basis of international financial reporting standards, but only if there is no statement that meets the requirement of clause (i), or "(iii) except as otherwise provided by the Secretary in regulations, is the annual statement which is required to be filed with the home country insurance regulatory body, but only if there is no statement which meets the requirements of clause (i) or (ii).".

(2) CONFORMING AMENDMENT.—Section 1297(b) is amended—

(A) by striking the last sentence in paragraph (2) thereof, and

(B) by adding at the end of paragraph (3) thereof (as added by paragraph (1)), the following new subparagraph:

"(C) RELATED PERSON.—The term 'related person' has the meaning given such term by section 954(d)(3) determined by substituting 'foreign corporation' for 'controlled foreign corporation' each place it appears therein.".

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

SEC. 3704. MODIFICATION OF LIMITATION ON EARNINGS STRIPPING.

(a) IN GENERAL.—Section 163(j)(2)(B)(i)(II) is amended by striking ''50 percent'' and inserting ''40 percent''.

(b) NO NEW EXCESS LIMITATION CARRYFORWARDS.—Section 163(j)(2)(B)(ii) is amended by striking ''for any taxable year'' and inserting ''for any taxable year beginning before January 1, 2015''.

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

SEC. 3705. LIMITATION ON TREATY BENEFITS FOR CERTAIN DEDUCTIBLE PAYMENTS.

(a) IN GENERAL.—Section 894 of the Internal Revenue Code of 1986 (relating to income affected by treaty) is amended by adding at the end the following new subsection:

''(d) LIMITATION ON TREATY BENEFITS FOR CERTAIN DEDUCTIBLE PAYMENTS.—

''(1) IN GENERAL.—In the case of any deductible related-party payment, any withholding tax imposed under chapter 3 (and any tax imposed under subpart A or B of this part) with respect to such payment may not be reduced under any treaty of the United States unless any such withholding tax would be reduced under a treaty of the United States if such payment were made directly to the foreign parent corporation.

"(2) DEDUCTIBLE RELATED-PARTY PAYMENT.—For purposes of this subsection, the term 'deductible related-party payment' means any payment made, directly or indirectly, by any person to any other person if the payment is allowable as a deduction under this chapter and both persons are members of the same foreign controlled group of entities.

"(3) FOREIGN CONTROLLED GROUP OF ENTITIES.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'foreign controlled group of entities' means a controlled group of entities the common parent of which is a foreign corporation.

"(B) CONTROLLED GROUP OF ENTITIES.—The term 'controlled group of entities' means a controlled group of corporations as defined in section 1563(a)(1), except that—

"(i) 'more than 50 percent' shall be substituted for 'at least 80 percent' each place it appears therein, and "(ii) the determination shall be made without regard to subsections (a)(4) and (b)(2) of section 1563.

A partnership or any other entity (other than a corporation) shall be treated as a member of a controlled group of entities if such entity is controlled (within the meaning of section 954(d)(3)) by members of such group (including any entity treated as a member of such group by reason of this sentence).

"(4) FOREIGN PARENT CORPORATION.—For purposes of this subsection, the term 'foreign parent corporation' means, with respect to any deductible related-party payment, the common parent of the foreign controlled group of entities referred to in paragraph (3)(A).

"(5) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as are necessary or appropriate to carry out the purposes of this subsection, including regulations or other guidance which provide for—

"(A) the treatment of two or more persons as members of a foreign controlled group of entities if such persons would be the common parent of such group if treated as one corporation, and

"(B) the treatment of any member of a foreign controlled group of entities as the common parent of such group if such treatment is appropriate taking into account the economic relationships among such entities.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to payments made after the date of the enactment of this Act.

Subtitle I—Provisions Related to Compensation

PART 1—EXECUTIVE COMPENSATION

SEC. 3801. NONQUALIFIED DEFERRED COMPENSATION.

(a) IN GENERAL.—Subpart A of part I of subchapter D of chapter 1 is amended by adding at the end the following new section:

"SEC. 409B. NONQUALIFIED DEFERRED COMPENSATION.

"(a) IN GENERAL.—Any compensation which is deferred under a nonqualified deferred compensation plan shall be includible in gross income when there is no substantial risk of forfeiture of the rights to such compensation.

"(b) DEFINITIONS.—For purposes of this section—

"(1) SUBSTANTIAL RISK OF FORFEITURE.—The rights of a person to compensation shall be treated as subject to a substantial risk of forfeiture only if such person's rights to such compensation are conditioned upon the future performance of substantial services by any individual.

"(2) NONQUALIFIED DEFERRED COMPENSATION PLAN.—For purposes of this section:

"(A) NONQUALIFIED DEFERRED COMPENSATION PLAN.—The term 'nonqualified deferred compensation plan' means any plan that provides for the deferral of compensation, other than—

"(i) a qualified employer plan,

"(ii) any bona fide vacation leave, sick leave, compensatory time, disability pay, or death benefit plan, and

"(iii) any other plan or arrangement designated by the Secretary consistent with the purposes of this section.

"(B) EQUITY-BASED COMPENSATION.—The term 'nonqualified deferred compensation plan' shall include any plan that provides a right to compensation based on the appreciation in value of a specified number of equity units of the service recipient or stock options.

"(3) QUALIFIED EMPLOYER PLAN.—The term 'qualified employer plan' means any plan, contract, pension, account, or trust described in 408(p)(2)(D)(ii).

"(4) PLAN INCLUDES ARRANGEMENTS, ETC.—The term 'plan' includes any agreement or arrangement, including an agreement or arrangement that includes one person.

"(5) EXCEPTION.—Compensation shall not be treated as deferred for purposes of this section if the service provider receives payment of such compensation not later than 6 months after the end of the taxable year of the service recipient during which the right to the payment of such compensation is no longer subject to a substantial risk of forfeiture.

"(6) TREATMENT OF EARNINGS.—References to deferred compensation shall be treated as including references to income (whether actual or notional) attributable to such compensation or such income.

"(7) AGGREGATION RULES.—Except as provided by the Secretary, rules similar to the rules of subsections (b) and (c) of section 414 shall apply.

''(c) NO INFERENCE ON EARLIER INCOME INCLUSION OR REQUIREMENT OF LATER INCLUSION.—Nothing in this section shall be construed to prevent the inclusion of amounts in gross income under any other provision of this chapter or any other rule of law earlier than the time provided in this section. Any amount included in gross income under this section shall not be required to be included in gross income under any other provision of this chapter or any other rule of law later than the time provided in this section.

''(d) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations disregarding a substantial risk of forfeiture in cases where necessary to carry out the purposes of this section.''.

(b) TERMINATION OF CERTAIN OTHER NONQUALIFIED DEFERRED COMPENSATION RULES.—

(1) NONQUALIFIED DEFERRED COMPENSATION.—

(A) IN GENERAL.—Subpart A of part I of subchapter D of chapter 1 is amended by striking section 409A (and by striking the item relating to such section in the table of sections for such subpart).

(B) CONFORMING AMENDMENTS.—

(i) Section 26(b)(2) is amended by striking subparagraph (V).

(ii) Section 3401(a) is amended by striking the flush sentence at the end.

(iii) Section 6041 is amended by striking subsection (g).

(iv) Section 6051(a), as amended by the preceding provisions of this Act, is amended by striking paragraph (12), by inserting ''and'' at the end of paragraph (11), and by redesignating paragraph (13) as paragraph (12).

(2) 457(b) PLANS OF TAX EXEMPT ORGANIZATIONS.—Section 457 is amended by adding at the end the following new subsection:

''(h) TERMINATION OF CERTAIN PLANS.—

''(1) TAX-EXEMPT ORGANIZATION PLANS.—This section shall not apply to amounts deferred which are attributable to services performed after December 31, 2014, under a plan maintained by an employer described in subsection (e)(1)(B).

''(2) INELIGIBLE DEFERRED COMPENSATION PLANS.—Subsection (f) shall not apply to amounts deferred which are attributable to services performed after December 31, 2014.''.

(3) NONQUALIFIED DEFERRED COMPENSATION FROM CERTAIN TAX INDIFFERENT PARTIES.—

(A) IN GENERAL.—Subpart B of part II of subchapter E of chapter 1 is amended by striking section 457A (and by striking the item relating to such section in the table of sections for such subpart).

(B) CONFORMING AMENDMENT.—Section 26(b)(2) is amended by striking subparagraph (X).

(c) CLERICAL AMENDMENT.—The table of sections for part I of subchapter D of chapter 1 is amended by adding at the end the following new item:

''Sec. 409B. Nonqualified deferred compensation.''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to amounts which are attributable to services performed after December 31, 2014.

(2) APPLICATION TO EXISTING DEFERRALS.— In the case of any amount deferred to which the amendments made by this section do no apply solely by reason of the fact that the amount is attributable

to services performed before January 1, 2015, to the extent such amount is not includible in gross income in a taxable year beginning before 2023, such amounts shall be includible in gross income in the later of—

(A) the last taxable year beginning before 2023, or

(B) the taxable year in which there is no substantial risk of forfeiture of the rights to such compensation (determined in the same manner as determined for purposes of section 409B of the Internal Revenue Code of 1986, as added by this section).

(3) ACCELERATED PAYMENTS.—No later than 120 days after the date of the enactment of this Act, the Secretary shall issue guidance providing a limited period of time during which a nonqualified deferred compensation arrangement attributable to services performed on or before December 31, 2014, may, without violating the requirements of section 409A of the Internal Revenue Code of 1986, be amended to conform the date of distribution to the date the amounts are required to be included in income.

(4) CERTAIN BACK-TO-BACK ARRANGEMENTS.—If the taxpayer is also a service recipient and maintains one or more nonqualified deferred compensation arrangements for its service providers under which any amount is attributable to services performed on or before December 31, 2014, the guidance issued under paragraph (3) shall permit such arrangements to be amended to conform the dates of distribution under such arrangement to the date amounts are required to be included in the income of such taxpayer under this subsection.

(5) ACCELERATED PAYMENT NOT TREATED AS MATERIAL MODIFICATION.—Any amendment to a nonqualified deferred compensation arrangement made pursuant to paragraph (3) or (4) shall not be treated as a material modification of the arrangement for purposes of section 409A of the Internal Revenue Code of 1986.

SEC. 3802. MODIFICATION OF LIMITATION ON EXCESSIVE EMPLOYEE REMUNERATION.

(a) REPEAL OF PERFORMANCE-BASED COMPENSATION AND COMMISSION EXCEPTIONS FOR LIMITATION ON EXCESSIVE EMPLOYEE REMUNERATION.—

(1) IN GENERAL.—Paragraph (4) of section 162(m) is amended by striking subparagraphs (B)

and (C) and by redesignating subparagraphs (D), (E), (F), and (G) as subparagraphs (B), (C), (D), and (E), respectively.

(2) CONFORMING AMENDMENTS.—

(A) Paragraphs (5)(E) and (6)(D) of section 162(m) are each amended by striking ''subparagraphs (B), (C), and (D)'' and inserting ''subparagraph (B)''.

(B) Paragraphs (5)(G) and (6)(G) of section 162(m) are each amended by striking ''(F) and (G)'' and inserting ''(D) and (E)''.

(b) MODIFICATION OF DEFINITION OF COVERED EMPLOYEES.—Paragraph (3) of section 162(m) is amended—

(1) in subparagraph (A), by striking ''as of the close of the taxable year, such employee is the chief executive officer of the taxpayer or is'' and inserting ''such employee is the chief executive officer or the chief financial officer of the taxpayer at any time during the taxable year, or was'',

(2) in subparagraph (B)—

(A) by striking ''4'' and inserting ''3'', and

(B) by striking ''(other than the chief executive officer)'' and inserting ''(other than any individual described in subparagraph (A))'', and

(3) by striking "or" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting ", or", and by adding at the end the following:

"(C) was a covered employee of the taxpayer (or any predecessor) for any preceding taxable year beginning after December 31, 2013.".

(c) SPECIAL RULE FOR REMUNERATION PAID TO BENEFICIARIES, ETC.—Paragraph (4) of section 162(m), as amended by subsection (a), is amended by adding at the end the following new subparagraph:

"(F) SPECIAL RULE FOR REMUNERATION PAID TO BENEFICIARIES, ETC.—Remuneration shall not fail to be applicable employee remuneration merely because it is includible in the income of, or paid to, a person other than the covered employee, including after the death of the covered employee.".

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

SEC. 3803. EXCISE TAX ON EXCESS TAX-EXEMPT ORGANIZATION EXECUTIVE COMPENSATION.

(a) IN GENERAL.—Subchapter D of chapter 42 is amended by adding at the end the following new section:

"SEC. 4960. TAX ON EXCESS TAX-EXEMPT ORGANIZATION EXECUTIVE COMPENSATION.

"(a) TAX IMPOSED.—There is hereby imposed a tax equal to 25 percent of the sum of—

"(1) so much of the remuneration paid (other than any excess parachute payment) by an applicable tax-exempt organization for the taxable year with respect to employment of any covered employee in excess of $1,000,000, plus

"(2) any excess parachute payment paid by such an organization to any covered employee.

"(b) LIABILITY FOR TAX.—The employer shall be liable for the tax imposed under subsection (a).

"(c) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) APPLICABLE TAX-EXEMPT ORGANIZATION.—The term 'applicable tax-exempt organization' means any organization that for the taxable year—

"(A) is exempt from taxation under section 501(a), "(B) is a farmers' cooperative organization described in section 521(b)(1), or

"(C) has income excluded from taxation under section 115(1).

"(2) COVERED EMPLOYEE.—For purposes of this section, the term 'covered employee' means any employee (including any former employee) of an applicable tax-exempt organization if the employee—

"(A) is one of the 5 highest compensated employees of the organization for the taxable year, or

"(B) was a covered employee of the organization (or any predecessor) for any preceding taxable year beginning after December 31, 2013.

"(3) REMUNERATION.—For purposes of this section, the term 'remuneration' means wages (as defined in section 3401(a)), except that such term shall not include any designated Roth contribution (as defined in section 402A(c)).

"(4) REMUNERATION FROM RELATED ORGANIZATIONS.—

"(A) IN GENERAL.—Remuneration of a covered employee by an applicable tax-exempt organization shall include any remuneration paid with respect to employment of such employee by any related person or governmental entity.

"(B) RELATED ORGANIZATIONS.—A person or governmental entity shall be treated as related to an applicable tax-exempt organization if such person or governmental entity—

"(i) controls, or is controlled by, the organization,

"(ii) is controlled by one or more persons that control the organization,

"(iii) is a supported organization (as defined in section 509(f)(2)) during the taxable year with respect to the organization,

"(iv) is a supporting organization described in section 509(a)(3) during the taxable year with respect to the organization, or

"(v) in the case of an organization that is a voluntary employees' beneficiary association described in section 501(a)(9), establishes, maintains, or makes contributions to such voluntary employees' beneficiary association.

"(C) LIABILITY FOR TAX.—In any case in which remuneration from more than one employer is taken into account under this paragraph in determining the tax imposed by subsection (a), each such employer shall be liable for such tax in an amount which bears the same ratio to the total tax determined under subsection (a) with respect to such remuneration as—

"(i) the amount of remuneration paid by such employer with respect to such employee, bears to

"(ii) the amount of remuneration paid by all such employers to such employee.

"(5) EXCESS PARACHUTE PAYMENT.—For purposes determining the tax imposed by subsection (a)(2)—

"(A) IN GENERAL.—The term 'excess parachute payment' means an amount equal to the excess of any parachute payment over the portion of the base amount allocated to such payment.

"(B) PARACHUTE PAYMENT.—The term 'parachute payment' means any payment in the nature of compensation to (or for the benefit of) a covered employee if—

"(i) such payment is contingent on such employee's separation from employment with the employer, and

"(ii) the aggregate present value of the payments in the nature of compensation to (or for the benefit of) such individual which are contingent on such separation equals or exceeds an amount equal to 3 times the base amount.

Such term does not include any payment described in section 280G(b)(6) (relating to exemption for payments under qualified plans) or any payment made under or to an annuity contract described in section 403(b) or a plan described in section 457(b).

"(C) BASE AMOUNT.—Rules similar to the rules of 280G(b)(3) shall apply for purposes of determining the base amount.

"(D) PROPERTY TRANSFERS; PRESENT VALUE.—Rules similar to the rules of paragraphs (3) and (4) of section 280G(d) shall apply.

"(6) COORDINATION WITH DEDUCTION LIMITATION.—Remuneration the deduction for which is not allowed by reason of section 162(m) shall not be taken into account for purposes of this section.".

(b) CLERICAL AMENDMENT.—The table of sections for subchapter D of chapter 42 is amended by adding at the end the following new item:

"Sec. 4960. Tax on excess exempt organization executive compensation.".

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

SEC. 3804. DENIAL OF DEDUCTION AS RESEARCH EXPENDITURE FOR STOCK TRANSFERRED PURSUANT TO AN INCENTIVE STOCK OPTION.

(a) IN GENERAL.—Paragraph (2) of section 421(a) is amended by striking "under section 162 (relating to trade or business expenses)".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to stock transferred on or after February 26, 2014.

PART 2—WORKER CLASSIFICATION

SEC. 3811. DETERMINATION OF WORKER CLASSIFICATION.

(a) IN GENERAL.—Chapter 79, as amended by the preceding provisions of this Act, is amended by adding at the end the following new section:

"SEC. 7707. DETERMINATION OF WORKER CLASSIFICATION.

''(a) IN GENERAL.—For purposes of this title (and notwithstanding any provision of this title not contained in this section to the contrary), if the requirements of subsections (b), (c), and (d) are met with respect to any service performed by a service provider, then with respect to such service—

''(1) the service provider shall not be treated as an employee,

''(2) the service recipient shall not be treated as an employer,

''(3) any payor shall not be treated as an employer, and

''(4) the compensation paid or received for such service shall not be treated as paid or received with respect to employment.

''(b) GENERAL SERVICE PROVIDER REQUIREMENTS.—

''(1) IN GENERAL.—The requirements of this subsection are met with respect to any service if the service provider either—

''(A) meets the requirements of paragraph (2) with respect to such service, or

''(B) in the case a service provider engaged in the trade or business of selling (or soliciting the sale of) goods or services, meets the requirements of paragraph (3) with respect to such service.

"(2) GENERAL REQUIREMENTS.—The requirements of this paragraph are met with respect to any service if the service provider, in connection with performing the service—

"(A) incurs significant unreimbursed expenses,

"(B) agrees to perform the service for a particular amount of time, to achieve a specific result, or to complete a specific task,

"(C) is primarily compensated on a basis not tied to the number of hours worked, and

"(D) at least one of the following:

"(i) has a significant investment in assets or training,

"(ii) is not required to perform services exclusively for the service recipient, or

"(iii) has not performed services for the service recipient as an employee during the 1-year period ending with the date of the commencement of services under the contract described in subsection (d).

"(3) ALTERNATIVE REQUIREMENTS WITH RESPECT TO SALES PERSONS.—In the case of a service provider engaged in the trade or business of selling (or soliciting the sale of) goods or services, the requirements of this paragraph are met with respect to any service provided in the ordinary course of such trade or business if—

"(A) the service provider is compensated primarily on a commission basis, and

"(B) substantially all the compensation for such service is directly related to sales of goods or services rather than to the number of hours worked.

"(c) PLACE OF BUSINESS OR OWN EQUIPMENT REQUIREMENT.—The requirement of this subsection is met with respect to any service if the service provider—

"(1) has a principal place of business,

"(2) does not primarily provide the service in the service recipient's place of business,

"(3) pays a fair market rent for use of the service recipient's place of business, or

"(4) provides the service primarily using equipment supplied by the service provider.

"(d) WRITTEN CONTRACT REQUIREMENT.—The requirements of this subsection are met with respect to any service if such service is performed pursuant to a written contract between the service provider and the service recipient (or payor) which meets the following requirements:

"(1) The contract includes each of the following:

"(A) The service provider's name, taxpayer identification number, and address.

"(B) A statement that the service provider will not be treated as an employee with respect to the services provided pursuant to the contract for purposes of this title.

"(C) A statement that the service recipient (or the payor) will withhold upon and report to the Internal Revenue Service the compensation payable pursuant to the contract consistent with the requirements of this title.

"(D) A statement that the service provider is responsible for payment of Federal, State, and local taxes, including self-employment taxes, on compensation payable pursuant to the contract.

"(E) A statement that the contract is intended to be considered a contract described in this subsection.

"(2) The term of the contract does not exceed 1 year. The preceding sentence shall not prevent one or more subsequent written renewals of the contract from satisfying the requirements of this subsection if the term of each such renewal does not exceed 1 year and if the information required under paragraph (1)(A) is updated in connection with each such renewal.

"(3) The contract (or renewal) is signed by both the service recipient (or payor) and the service provider not later than the date on which the aggregate payments made by the service recipient to the service provider exceeds $600 for the year covered by the contract (or renewal).

"(e) REPORTING REQUIREMENTS.—If any service recipient or payor fails to meet the applicable reporting requirements of section 6041(a) or 6041A(a) for any taxable year with respect to any service provider, this section shall not apply for purposes of making any determination with respect to the liability of such service recipient or payor for any tax with respect to such service provider for such period. For purposes of the preceding sentence, such reporting requirements shall be treated as met if the failure to satisfy such requirements is due to reasonable cause and not willful neglect.

"(f) EXCEPTION FOR SERVICES PROVIDED BY OWNER.—This section shall not apply with respect to any service provided by a service provider to a service recipient if the service provider owns any interest in the service recipient or any payor with respect to the service provided. The preceding sentence shall not apply in the case of a service recipient the stock of which is regularly traded on an established securities market.

''(g) EXCEPTION FOR SERVICES NOT RECEIVED IN COURSE OF A TRADE OR BUSINESS.—This section shall not apply with respect to any service unless such service is performed in the ordinary course of a trade or business of the service recipient.

''(h) LIMITATION ON RECLASSIFICATION BY SECRETARY.—For purposes of this title—

''(1) EFFECT OF RECLASSIFICATION ON RECIPIENTS AND PAYORS.—A determination by the Secretary that a service recipient or a payor should have treated a service provider as an employee shall be effective with respect to the service recipient or payor no earlier than the notice date if—

''(A) the service recipient or the payor entered into a written contract with the service provider which meets the requirements of subsection (d),

''(B) the service recipient or the payor satisfied the applicable reporting requirements of section 6041(a) or 6041A(a) for all relevant taxable years with respect to the service provider,

"(C) the service recipient or the payor collected and paid over all applicable taxes imposed under subtitle C for all relevant taxable years with respect to the service provider,

"(D) the service recipient or the payor demonstrates a reasonable basis for having determined that the service provider should not be treated as an employee under this section and that such determination was made in good faith.

"(2) EFFECT OF RECLASSIFICATION ON SERVICE PROVIDERS.—A determination by the Secretary that a service provider should have been treated as an employee shall be effective with respect to the service provider no earlier than the notice date if—

"(A) the service provider entered into a written contract with the service recipient or payor which meets the requirements of subsection (d),

"(B) the service provider satisfied the applicable reporting requirements of sections 6012(a) and 6017 for all relevant taxable years with respect to the service recipient or payor, and

"(C) the service provider demonstrates a reasonable basis for determining that the service provider is not an employee under this section and that such determination was made in good faith.

"(3) NOTICE DATE.—For purposes of this subsection, the term 'notice date' means the 30th day after the earliest of—

"(A) the date on which the first letter of proposed deficiency which allows the service provider, the service recipient, or the payor an opportunity for administrative review in the Internal Revenue Service Office of Appeals is sent,

"(B) the date on which a deficiency notice under section 6212 is sent, or

"(C) the date on which a notice of determination under section 7436(b)(2) is sent.

"(4) REASONABLE CAUSE EXCEPTION.—The requirements of paragraphs (1)(B) and (2)(B) shall be treated as met if the failure to satisfy such requirements is due to reasonable cause and not willful neglect.

"(5) NO RESTRICTION ON ADMINISTRATIVE OR JUDICIAL REVIEW.—Nothing in this subsection shall be construed as limiting any provision of law which provides an opportunity for administrative or judicial review of a determination by the Secretary.

"(i) DEFINITIONS.—For purposes of this section—

"(1) SERVICE PROVIDER.—

"(A) IN GENERAL.—The term 'service provider' means any qualified person who performs service for another person.

"(B) QUALIFIED PERSON.—The term 'qualified person' means—

"(i) any natural person, and

"(ii) any entity if any of the services referred to in subparagraph (A) are performed by one or more natural persons who directly own interests in such entity.

"(2) SERVICE RECIPIENT.—The term 'service recipient' means the person for whom the service provider performs such service.

"(3) PAYOR.—The term 'payor' means any person who pays the service provider for performing such service.

"(j) REGULATIONS.—Notwithstanding section 530(d) of the Revenue Act of 1978, the Secretary shall issue such regulations as the Secretary determines are necessary to carry out the purposes of this section.''.

(b) WITHHOLDING BY PAYOR IN CASE OF CERTAIN PERSONS CLASSIFIED AS NOT EMPLOYEES.—Section 3402 is amended by redesignating subsection (s) as subsection (t) and inserting after subsection (r) the following new subsection:

''(s) EXTENSION OF WITHHOLDING TO PAYMENTS TO CERTAIN PERSONS CLASSIFIED AS NOT EMPLOYEES.—

''(1) IN GENERAL.—For purposes of this chapter and so much of subtitle F as relates to this chapter, compensation paid pursuant to a contract described in section 7707(d) shall be treated as if it were a payment of wages by an employer to an employee.

''(2) AMOUNT WITHHELD.—Except as otherwise provided under subsection (i), the amount to be deducted and withheld pursuant to paragraph (1) with respect to compensation paid pursuant to any such contract during any calendar year shall be an amount equal to 5 percent of so much of the amount of such compensation as does not exceed $10,000.''.

(c) REPORTING.—Section 6041A is amended by adding at the end the following new subsection:

"(g) SPECIAL RULES FOR CERTAIN PERSONS CLASSIFIED AS NOT EMPLOYEES.—In the case of any service recipient required to make a return under subsection (a) with respect to compensation to which section 7707(a) applies—

"(1) such return shall include—

"(A) the aggregate amount of such compensation paid to each person whose name is required to be included on such return,

"(B) the aggregate amount deducted and withheld under section 3402(s) with respect to such compensation, and

"(C) an indication of whether a copy of the contract described in section 7707(d) is on file with the service recipient or payor, and

"(2) the statement required to be furnished under subsection (e) shall include the information described in paragraph (1) with respect to the service provider to whom such statement is furnished.

Terms used in this subsection which are also used in section 7707 shall have the same meaning as when used in such section.".

(d) CLERICAL AMENDMENT.—The table of sections for chapter 79, as amended by the preceding provisions of this Act, is amended by adding at the end the following new item:

"Sec. 7707. Determination of worker classification.".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to services performed after December 31, 2014 (and to payments made for such services after such date).

Subtitle J—Zones and Short-Term Regional Benefits

SEC. 3821. REPEAL OF PROVISIONS RELATING TO EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.

(a) IN GENERAL.—Chapter 1 is amended by striking subchapter U (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 38(b) is amended by striking paragraph (9).

(B) Section 280C(a) is amended by striking "1396(a),".

(2) Section 179(e) is amended by striking paragraph (3) and by redesignating paragraph (4) as paragraph (3).

(3) Section 1202(a)(2)(A) is amended by inserting "(as in effect before its repeal by the Tax Reform Act of 2014)" after "section 1397C(b)".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendment made by this section shall take effect on the date of the enactment of this Act.

(2) ROLLOVERS.—So much of subsection (a) as relates to the repeal of section 1397B of the Internal Revenue Code of 1986 shall apply to sales after the date of the enactment of this Act.

(3) SAVINGS PROVISION.—The amendments made by this section shall not apply to obligations described in section 1394 of the Internal Revenue Code of 1986 (as in effect before its repeal) which were issued before January 1, 2014.

SEC. 3822. REPEAL OF DC ZONE PROVISIONS.

(a) IN GENERAL.—Chapter 1 is amended by striking subchapter W (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 1202(a)(2)(B) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''1400B(b)''.

(2) Section 25(e)(1)(C) is amended by striking ''sections 23, 25D, and 1400C'' and inserting ''section 23''.

(3) Section 1016(a) is amended by striking paragraph (27).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SAVINGS PROVISION.—The amendments made by this section shall not apply to—

(A) in the case of the repeal of section 1400A of the Internal Revenue Code of 1986, obligations described in section 1394 of such Code (as in effect before its repeal) which were issued before January 1, 2012,

(B) in the case of the repeal of section 1400B of such Code, DC Zone assets (as defined in such section, as in effect before its repeal) which were acquired by the taxpayer before January 1, 2012, and

(C) in the case of the repeal of section 1400C of such Code, principal residences acquired before January 1, 2012.

SEC. 3823. REPEAL OF PROVISIONS RELATING TO RENEWAL COMMUNITIES.

(a) IN GENERAL.—Chapter 1 is amended by striking subchapter X (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 469(i)(3), as amended by the preceding provisions of this Act, is amended by striking subparagraph (C) and by redesignating subparagraphs (D), (E), and (F) as subparagraphs (B), (C), and (D).

(B) Section 469(i)(3)(C), as so redesignated, is amended to read as follows:

"(C) ORDERING RULE.—If subparagraph (B) applies for a taxable year, paragraph (1) shall be applied—

"(i) first to the portion of the passive activity loss to which such subparagraph does not apply, and

"(ii) then to the portion of such loss to which such subparagraph does apply.".

(C) Section 469(i)(6)(B), as amended by the preceding provisions of this Act, is amended—

(i) by striking "COMMERCIAL REVITALIZATION DEDUCTION" in the heading,

(ii) by striking "in the case of—" and all that follows through "any credit" in clause (i),

(iii) by striking "year, or" in clause (i) and inserting "year.", and

(iv) by striking clause (iii).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SAVINGS PROVISION.—The amendments made by this section shall not apply to—

(A) in the case of the repeal of section 1400F of the Internal Revenue Code of 1986, qualified community assets (as defined in such section, as in effect before its repeal) which were acquired by the taxpayer before January 1, 2010,

(B) in the case of the repeal section 1400H of such Code, wages paid or incurred before January 1, 2010,

(C) in the case of the repeal of section 1400I of such Code, qualified revitalization buildings (as defined in such section, as in effect before its repeal) which were placed in service before January 1, 2010, and

(D) in the case of the repeal of section 1400J of such Code, property acquired before January 1, 2010.

SEC. 3824. REPEAL OF VARIOUS SHORT-TERM REGIONAL BENEFITS.

(a) IN GENERAL.—Chapter 1 is amended by striking subchapter Y (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(b) CONFORMING AMENDMENTS.—Section 38(b) is amended by striking paragraphs (27), (28), (29) and (30).

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SAVINGS PROVISION.—The amendments made by this section shall not apply to—

(A) in the case of the repeal of section 1400L(a) of the Internal Revenue Code of 1986, qualified wages (as defined in such section, as in effect before its repeal) which were paid or incurred before January 1, 2004,

(B) in the case of the repeal of subsections (b) and (f) of section 1400L of such Code, qualified New York Liberty Zone property (as defined in section 1400L(b) of such Code, as in effect before its repeal) placed in service before January 1, 2010,

(C) in the case of the repeal of section 1400L(c) of such Code, qualified New York Liberty Zone leasehold improvement property (as defined in such section, as in effect before its repeal) placed in service before January 1, 2007,

(D) in the case of the repeal of section 1400L(d) of such Code, qualified New York Liberty bonds (as defined in such section, as in effect before its repeal) issued before January 1, 2014,

(E) in the case of the repeal of section 1400L(e) of such Code, advanced refundings before January 1, 2006,

(F) in the case of the repeal of section 1400L(g) of such Code, property which is compulsorily or involuntarily converted as a result of the terrorist attacks on September 11, 2001,

(G) in the case of the repeal of section 1400N(a) of such Code, obligations issued before January 1, 2012,

(H) in the case of the repeal of section 1400N(b) of such Code, advanced refundings before January 1, 2011,

(I) in the case of the repeal of section 1400N(d) of such Code, property placed in service before January 1, 2012,

(J) in the case of the repeal of section 1400N(e) of such Code, property placed in service before January 1, 2009,

(K) in the case of the repeal of subsections (f) and (g) of section 1400N of such Code, amounts paid or incurred before January 1, 2008,

(L) in the case of the repeal of section 1400N(h) of such Code, amounts paid or incurred before January 1, 2012,

(M) in the case of the repeal of section 1400N(l) of such Code, bonds issued before January 1, 2007,

(N) in the case of the repeal of section 1400Q(a) of such Code, distributions before January 1, 2007,

(O) in the case of the repeal of section 1400Q(b) of such Code, contributions before March 1, 2006,

(P) in the case of the repeal of section 1400Q(c) of such Code, loans made before January 1, 2007,

(Q) in the case of the repeal of section 1400R of such Code, wages paid or incurred before January 1, 2006,

(R) in the case of the repeal of section 1400S(a) of such Code, contributions paid before January 1, 2006,

(S) in the case of the repeal of section 1400T of such Code, financing provided before January 1, 2011, and

(T) in the case of the repeal of part III of subchapter Y of chapter 1 of such Code, obligations issued before January 1, 2011.

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

Subtitle A—Establishment of Exemption System

SEC. 4001. DEDUCTION FOR DIVIDENDS RECEIVED BY DOMESTIC CORPORATIONS FROM CERTAIN FOREIGN CORPORATIONS.

(a) IN GENERAL.—Part VIII of subchapter B of chapter 1 is amended by inserting after section 245 the following new section:

"SEC. 245A. DIVIDENDS RECEIVED BY DOMESTIC CORPORATIONS FROM CERTAIN FOREIGN CORPORATIONS.

"(a) IN GENERAL.—In the case of any dividend received from a specified 10-percent owned foreign corporation by a domestic corporation which is a United States shareholder with respect to such foreign corporation, there shall be allowed as a deduction an amount equal to 95 percent of the foreign-source portion of such dividend.

"(b) SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATION.—For purposes of this section, the term 'specified 10-percent owned foreign corporation' means any foreign corporation if any domestic corporation owns directly, or indirectly through a chain of ownership described under section 958(a), 10 percent or more of the voting stock of such foreign corporation.

"(c) FOREIGN-SOURCE PORTION.—For purposes of this section—

"(1) IN GENERAL.—The foreign-source portion of any dividend is an amount which bears the same ratio to such dividends as—

"(A) the post-1986 undistributed foreign earnings, bears to

"(B) the total post-1986 undistributed earnings.

"(2) POST-1986 UNDISTRIBUTED EARNINGS.—The term 'post-1986 undistributed earnings' means the amount of the earnings and profits of the specified 10-percent owned foreign corporation (computed in accordance with sections 964(a) and 986) accumulated in taxable years beginning after December 31, 1986—

"(A) as of the close of the taxable year of the specified 10-percent owned foreign corporation in which the dividend is distributed, and

"(B) without diminution by reason of dividends distributed during such taxable year.

"(3) POST-1986 UNDISTRIBUTED FOREIGN EARNINGS.—The term 'post-1986 undistributed foreign earnings' means the portion of the post-1986 undistributed earnings which is attributable to neither—

"(A) income described in subparagraph (A) of section 245(a)(5), nor

"(B) dividends described in subparagraph (B) of such section (determined without regard to section 245(a)(12)).

"(4) TREATMENT OF DISTRIBUTIONS FROM EARNINGS BEFORE 1987.—

"(A) IN GENERAL.—In the case of any dividend paid out of earnings and profits of the specified 10-percent owned foreign corporation (computed in accordance with sections 964(a) and 986) accumulated in taxable years beginning before January 1, 1987—

"(i) paragraphs (1), (2), and (3) shall be applied without regard to the phrase 'post-1986' each place it appears, and

"(ii) paragraph (2) shall be applied without regard to the phrase 'in taxable years beginning after December 31, 1986'.

"(B) DIVIDENDS PAID FIRST OUT OF POST-1986 EARNINGS.—Dividends shall be treated as paid out of post-1986 undistributed earnings to the extent thereof.

"(d) DISALLOWANCE OF FOREIGN TAX CREDIT, ETC.—

"(1) IN GENERAL.—No credit shall be allowed under section 901 for any taxes paid or accrued (or treated as paid or accrued) with respect to any dividend for which a deduction is allowed under this section.

"(2) DENIAL OF DEDUCTION.—No deduction shall be allowed under this chapter for any tax for which credit is not allowable under section 901 by reason of paragraph (1) (determined by treating the taxpayer as having elected the benefits of subpart A of part III of subchapter N).

"(e) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as may be necessary or appropriate to carry out the provisions of this section.".

(b) APPLICATION OF HOLDING PERIOD REQUIREMENT.—Subsection (c) of section 246 is amended—

(1) by striking "or 245" in paragraph (1) and inserting "245, or 245A", and

(2) by adding at the end the following new paragraph:

"(5) SPECIAL RULES FOR FOREIGN SOURCE PORTION OF DIVIDENDS RECEIVED FROM SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.—

"(A) 6-MONTH HOLDING PERIOD REQUIREMENT.—For purposes of section 245A—

"(i) paragraph (1)(A) shall be applied—

"(I) by substituting '180 days' for '45 days'each place it appears, and

"(II) by substituting '361-day period' for '91-day period', and

"(ii) paragraph (2) shall not apply.

"(B) STATUS MUST BE MAINTAINED DURING HOLDING PERIOD.—For purposes of section 245A, the holding period requirement of this subsection shall be treated as met only if—

"(i) the specified 10-percent owned corporation referred to in section 245A(a) is a specified 10-percent owned corporation at all times during such period, and

"(ii) the taxpayer is a United States shareholder with respect to such specified

10-percent owned corporation at all times during such period.''.

(c) APPLICATION OF RULES GENERALLY APPLICABLE TO DEDUCTIONS FOR DIVIDENDS RECEIVED.—

(1) TREATMENT OF DIVIDENDS FROM CERTAIN CORPORATIONS.—Paragraph (1) of section 246(a) is amended by striking ''and 245'' and inserting ''245, and 245A''.

(2) ASSETS GENERATING TAX-EXEMPT PORTION OF DIVIDEND NOT TAKEN INTO ACCOUNT IN ALLOCATING AND APPORTIONING DEDUCTIBLE EXPENSES.—Paragraph (3) of section 864(e) is amended by striking ''or 245(a)'' and inserting '', 245(a), or 245A''.

(3) COORDINATION WITH SECTION 1059.—Subparagraph (B) of section 1059(b)(2) is amended by striking ''or 245'' and inserting ''245, or 245A''.

(d) COORDINATION WITH FOREIGN TAX CREDIT LIMITATION.—Subsection (b) of section 904, as amended by the preceding provisions of this Act, is amended by redesignating paragraph (2) as paragraph (1) and by adding at the end the following new paragraph:

''(2) TREATMENT OF DIVIDENDS FOR WHICH DEDUCTION IS ALLOWED UNDER SECTION 245A.—For purposes of subsection (a), in the case of a domestic corporation which is a United States shareholder with respect to a specified 10-percent owned foreign corporation, such domestic corporation's taxable income from sources without the United States shall be determined without regard to—

"(A) the foreign-source portion of any dividend received from such foreign corporation, and

"(B) any deductions properly allocable to such portion.

Any term which is used in section 245A and in this paragraph shall have the same meaning for purposes of this paragraph as when used in such section.".

(e) CONFORMING AMENDMENTS.—

(1) Paragraph (4) of section 245(a) is amended by striking "section 902(c)(1)" and inserting "section 245A(c)(2)".

(2) Subsection (b) of section 951 is amended by striking "subpart" and inserting "title".

(3) Subsection (a) of section 957 is amended by striking "subpart" in the matter preceding paragraph (1) and inserting "title".

(4) The table of sections for part VIII of subchapter B of chapter 1 is amended by inserting after

the item relating to section 245 the following new item:

"Sec. 245A. Dividends received by domestic corporations from certain foreign corporations.".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4002. LIMITATION ON LOSSES WITH RESPECT TO SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.

(a) BASIS IN SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATION REDUCED BY NONTAXED PORTION OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—

(1) IN GENERAL.—Section 961 is amended by adding at the end the following new subsection:

"(d) BASIS IN SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATION REDUCED BY NONTAXED PORTION OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—If a domestic corporation received a dividend from a specified 10-percent owned foreign corporation (as defined in section 245A) in any taxable year, solely for purposes of determining loss on any disposition in such taxable year or any subsequent taxable year, the basis of such domestic corporation in the stock of such foreign corporation shall be reduced by the amount of any deduction allowable to such domestic corporation under section 245A with respect to such stock.''.

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to dividends received in taxable years beginning after December 31, 2014.

(b) TREATMENT OF FOREIGN BRANCH LOSSES TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.—

(1) IN GENERAL.—Part II of subchapter B of chapter 1, as amended by the preceding provisions of this Act, is amended by adding at the end the following new section:

"SEC. 92. CERTAIN FOREIGN BRANCH LOSSES TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.

''(a) IN GENERAL.—If a domestic corporation transfers substantially all of the assets of a foreign branch (within the meaning of section 367(a)(3)(C)) to a specified 10-percent owned foreign corporation (as defined in section 245A) with respect to which it is a United States shareholder after such transfer, such domestic corporation shall include in gross income for the taxable year which includes such transfer an amount equal to the transferred loss amount with respect to such transfer.

"(b) LIMITATION AND CARRYFORWARD BASED ON FOREIGN-SOURCE DIVIDENDS RECEIVED.—

"(1) IN GENERAL.—The amount included in the gross income of the taxpayer under subsection (a) for any taxable year shall not exceed the amount allowed as a deduction under section 245A for such taxable year (taking into account dividends received from all specified 10-percent owned foreign corporations with respect to which the taxpayer is a United States shareholder).

"(2) AMOUNTS NOT INCLUDED CARRIED FORWARD.—Any amount not included in gross income for any taxable year by reason of paragraph (1) shall, subject to the application of paragraph (1) to the succeeding taxable year, be included in gross income for the succeeding taxable year.

"(c) TRANSFERRED LOSS AMOUNT.—For purposes of this section, the term 'transferred loss amount' means, with respect to any transfer of substantially all of the assets of a foreign branch, the excess (if any) of—

"(1) the sum of losses—

"(A) which were incurred by the foreign branch after December 31, 2014, and before the transfer, and

"(B) with respect to which a deduction was allowed to the taxpayer, over

"(2) the sum of—

"(A) any taxable income of such branch for a taxable year after the taxable year in which the loss was incurred and through the close of the taxable year of the transfer, and

"(B) any amount which is recognized under section 904(f)(3) on account of the transfer.

"(d) REDUCTION FOR RECOGNIZED GAINS.—

"(1) IN GENERAL.—In the case of a transfer not described in section 367(a)(3)(C), the transferred loss amount shall be reduced (but not below zero) by the amount of gain recognized by the taxpayer on account of the transfer (other than amounts taken into account under subsection (c)(2)(B)).

"(2) COORDINATION WITH RECOGNITION UNDER SECTION 367.—In the case of a transfer described in section 367(a)(3)(C), the transferred loss amount shall not exceed the excess (if any) of—

"(A) the excess of the amount described in section 367(a)(3)(C)(i) over the amount described in section 367(a)(3)(C)(ii) with respect to such transfer, over

"(B) the amount of gain recognized under section 367(a)(3)(C) with respect to such transfer.

"(e) SOURCE OF INCOME.—Amounts included in gross income under this section shall be treated as derived from sources within the United States.

"(f) BASIS ADJUSTMENTS.—Consistent with such regulations or other guidance as the Secretary may prescribe, proper adjustments shall be made in the adjusted basis of the taxpayer's stock in the specified 10-percent owned foreign corporation to which the transfer is made, and in the transferee's adjusted basis in the property transferred, to reflect amounts included in gross income under this section.".

(2) AMOUNTS RECOGNIZED UNDER SECTION 367 ON TRANSFER OF FOREIGN BRANCH WITH PREVIOUSLY DEDUCTED LOSSES TREATED AS UNITED STATES SOURCE.—Subparagraph (C) of section 367(a)(3) is amended by striking "outside" in the last sentence and inserting "within".

(3) CLERICAL AMENDMENT.—The table of subparts for such part, as amended by the preceding

provisions of this Act, is amended by adding at the end the following new item:

"Sec. 92. Certain foreign branch losses transferred to specified 10-percent owned foreign corporations.".

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply to transfers after December 31, 2014.

SEC. 4003. TREATMENT OF DEFERRED FOREIGN INCOME UPON TRANSITION TO PARTICIPATION EXEMPTION SYSTEM OF TAXATION.

(a) IN GENERAL.—Section 965 is amended to read as follows:

"SEC. 965. TREATMENT OF DEFERRED FOREIGN INCOME UPON TRANSITION TO PARTICIPATION EXEMPTION SYSTEM OF TAXATION.

"(a) TREATMENT OF DEFERRED FOREIGN INCOME AS SUBPART F INCOME.—In the case of the last taxable year of a deferred foreign income corporation which begins before January 1, 2015, the subpart F income of such foreign corporation (as otherwise determined for such taxable year under section 952) shall be increased by the accumulated post-1986 deferred foreign income of such corporation determined as of the close of such taxable year.

"(b) REDUCTION IN AMOUNTS INCLUDED IN GROSS INCOME OF UNITED STATES SHAREHOLDERS OF SPECI-

FIED FOREIGN CORPORATIONS WITH DEFICITS IN EARNINGS AND PROFITS.—

"(1) IN GENERAL.—In the case of a taxpayer which is a United States shareholder with respect to at least one deferred foreign income corporation and at least one E&P deficit foreign corporation, the amount which would (but for this subsection) be taken into account under section 951(a)(1) by reason of subsection (a) as such United States shareholder's pro rata share of the subpart F income of each deferred foreign income corporation shall be reduced (but not below zero) by the amount of such United States shareholder's aggregate foreign E&P deficit which is allocated under paragraph (2) to such deferred foreign income corporation.

"(2) ALLOCATION OF AGGREGATE FOREIGN E&P DEFICIT.—The aggregate foreign E&P deficit of any United States shareholder shall be allocated among the deferred foreign income corporations of such United States shareholder in an amount which bears the same proportion to such aggregate as—

"(A) such United States shareholder's pro rata share of the accumulated post-1986 deferred foreign income of each such deferred foreign income corporation, bears to

"(B) the aggregate of such United States shareholder's pro rata share of the accumulated post-1986 deferred foreign income of all deferred foreign income corporations of such United States shareholder.

"(3) DEFINITIONS RELATED TO E&P DEFICITS.—For purposes of this subsection—

"(A) AGGREGATE FOREIGN E&P DEFICIT.—The term 'aggregate foreign E&P deficit' means, with respect to any United States shareholder, the aggregate of such shareholder's pro rata shares of the specified E&P deficits of the E&P deficit foreign corporations of such shareholder.

"(B) E&P DEFICIT FOREIGN CORPORATION.—The term 'E&P deficit foreign corporation' means, with respect to any taxpayer, any specified foreign corporation with respect to which such taxpayer is a United States shareholder, if—

"(i) such specified foreign corporation has a deficit in post-1986 earnings and profits, and

"(ii) as of February 26, 2014—

"(I) such corporation was a specified foreign corporation, and

"(II) such taxpayer was a United States shareholder of such corporation.

"(C) SPECIFIED E&P DEFICIT.—The term 'specified E&P deficit' means, with respect to any E&P deficit foreign corporation, the amount of the deficit referred to in subparagraph (B).

"(c) APPLICATION OF PARTICIPATION EXEMPTION TO INCLUDED INCOME.—

"(1) IN GENERAL.—In the case of a United States shareholder of a deferred foreign income corporation, there shall be allowed as a deduction for the taxable year in which an amount is included in the gross income of such United States shareholder under section 951(a)(1) by reason of this section an amount equal to the sum of—

"(A) 90 percent of the excess (if any) of—

"(i) the amount so included as gross income, over

"(ii) the amount of such United States shareholder's aggregate foreign cash position, plus

"(B) 75 percent of so much of the amount described in subparagraph (A)(ii) as does not exceed the amount described in subparagraph (A)(i).

"(2) AGGREGATE FOREIGN CASH POSITION.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'aggregate foreign cash position' means, with respect to any United States shareholder, the greater of—

"(i) the aggregate of such United States shareholder's pro rata share of the cash position of each specified foreign corporation of such United States shareholder determined as of the close of the last taxable year of such specified foreign corporation which begins before January 1, 2015, or

"(ii) one half of the sum of—

"(I) the aggregate described in clause (i) determined as of the close of the last taxable year of each such specified foreign corporation which ends before February 26, 2014, plus

"(II) the aggregate described in clause (i) determined as of the close of the taxable year of each such specified foreign corporation which precedes the taxable year referred to in subclause (I).

"(B) CASH POSITION.—For purposes of this paragraph, the cash position of any specified foreign corporation is the sum of—

"(i) cash and foreign currency held by such foreign corporation,

"(ii) the net accounts receivable of such foreign corporation, plus

"(iii) the fair market value of the following assets held by such corporation:

"(I) Actively traded personal property for which there is an established financial market.

"(II) Commercial paper, certificates of deposit, the securities of the Federal government and of any State or foreign government

"(III) Any obligation with a term of less than one year.

"(IV) Any asset which the Secretary identifies as being economically equivalent to any asset described in this subparagraph.

"(C) NET ACCOUNTS RECEIVABLE.—For purposes of this paragraph, the term 'net accounts receivable' means, with respect to any specified foreign corporation, the excess (if any) of—

"(i) such corporation's accounts receivable, over

"(ii) such corporation's accounts payable (determined consistent with the rules of section 461).

"(D) PREVENTION OF DOUBLE COUNTING.—Cash positions of a specified foreign corporation described in clause (ii) or (iii)(III) of subparagraph (B) shall not be taken into account by a United States shareholder under subparagraph (A) to the extent that such United States shareholder demonstrates to the satisfaction of the Secretary that such amount is so taken into account by such United States shareholder with respect to another specified foreign corporation.

"(E) CASH POSITIONS OF FOREIGN PASS-THRU ENTITIES TAKEN INTO ACCOUNT.—Any foreign entity which would be a specified foreign corporation of a United States shareholder if such entity were a corporation shall be treated as a specified foreign corporation of such United States shareholder for purposes of determining such United States shareholder's aggregate foreign cash position.

"(F) ANTI-ABUSE.—If the Secretary determines that the principal purpose of any transaction was to reduce the aggregate foreign cash position taken into account under this subsection, such transaction shall be disregarded for purposes of this subsection.

"(d) DEFERRED FOREIGN INCOME CORPORATION; ACCUMULATED POST-1986 DEFERRED FOREIGN INCOME.—For purposes of this section—

"(1) DEFERRED FOREIGN INCOME CORPORATION.—The term 'deferred foreign income corporation' means, with respect to any United States shareholder, any specified foreign corporation of such United States shareholder which has accumulated post-1986 deferred foreign income (as of the close of the taxable year referred to in subsection (a)) greater than zero.

"(2) ACCUMULATED POST-1986 DEFERRED FOREIGN INCOME.—The term 'accumulated post-1986 deferred foreign income' means the post-1986 earnings and profits except to the extent such earnings—

"(A) are attributable to income of the specified foreign corporation which is effectively connected with the conduct of a trade or business within the United States and subject to tax under this chapter,

"(B) if distributed, would—

"(i) in the case of a controlled foreign corporation, be excluded from the gross income of a United States shareholder under section 959, or

"(ii) in the case of any passive foreign investment company (as defined in section 1297) other than a controlled foreign corporation, be treated as a distribution which is not a dividend, or

"(C) in the case of any passive foreign investment company (as so defined), is properly attributable to an unreversed inclusion of a United States person under section 1296.

To the extent provided in regulations or other guidance prescribed by the Secretary, in the case of any controlled foreign corporation which has shareholders which are not United States shareholders, accumulated post-1986 deferred foreign income shall be appropriately reduced by amounts which would be described in subparagraph (B)(i) is such shareholders were United States shareholders. Such regulations or other guidance may provide a similar rule for purposes of subparagraph (B)(ii) and (C).

''(3) POST-1986 EARNINGS AND PROFITS.—The term 'post-1986 earnings and profits' means the earnings and profits of the foreign corporation (computed in accordance with sections 964(a) and 986) accumulated in taxable years beginning after December 31, 1986, and determined—

''(A) as of the close the taxable year referred to in subsection (a), and

''(B) without diminution by reason of dividends distributed during such taxable year.

''(e) SPECIFIED FOREIGN CORPORATION.—

''(1) IN GENERAL.—For purposes of this section, the term 'specified foreign corporation' means—

''(A) any controlled foreign corporation, and

"(B) any section 902 corporation (as defined in section 909(d)(5) as in effect before the date of the enactment of the Tax Reform Act of 2014).

"(2) APPLICATION TO SECTION 902 CORPORATIONS.—For purposes of section 951, a section 902 corporation (as so defined) shall be treated as a controlled foreign corporation solely for purposes of taking into account the subpart F income of such corporation under subsection (a) (and for purposes of applying subsection (f)).

"(f) DETERMINATIONS OF PRO RATA SHARE.—For purposes of this section, the determination of any United States shareholder's pro rata share of any amount with respect to any specified foreign corporation shall be determined under rules similar to the rules of section 951(a)(2) by treating such amount in the same manner as subpart F income (and by treating such specified foreign corporation as a controlled foreign corporation).

"(g) DISALLOWANCE OF FOREIGN TAX CREDIT, ETC.—

"(1) IN GENERAL.—No credit shall be allowed under section 901 for the applicable percentage of any taxes paid or accrued (or treated as paid or accrued) with respect to any amount for which a deduction is allowed under this section.

"(2) APPLICABLE PERCENTAGE.—For purposes of this subsection, the term 'applicable percentage' means the amount (expressed as a percentage) equal to the sum of—

"(A) 0.9 multiplied by the ratio of—

"(i) the excess to which subsection (c)(1)(A) applies, divided by

"(ii) the sum of such excess plus the amount to which subsection (c)(1)(B) applies, plus

"(B) 0.75 multiplied by the ratio of—

"(i) the amount to which subsection (c)(1)(B) applies, divided by

"(ii) the sum described in subparagraph (A)(ii).

"(3) DENIAL OF DEDUCTION.—No deduction shall be allowed under this chapter for any tax for which credit is not allowable under section 901 by reason of paragraph (1) (determined by treating the taxpayer as having elected the benefits of subpart A of part III of subchapter N).

"(4) COORDINATION WITH SECTION 78.—Section 78 shall not apply to any tax for which credit is not allowable under section 901 by reason of paragraph (1).

"(h) ELECTION TO PAY LIABILITY IN INSTALLMENTS.—

"(1) IN GENERAL.—In the case of a United States shareholder of a deferred foreign income corporation, such United States shareholder may elect to pay the net tax liability under this section in 8 installments of the following amounts:

"(A) 8 percent of the net tax liability in the case of each of the first 5 of such installments,

"(B) 15 percent of the net tax liability in the case of the 6th such installment,

"(C) 20 percent of the net tax liability in the case of the 7th such installment, and

"(D) 25 percent of the net tax liability in the case of the 8th such installment.

"(2) DATE FOR PAYMENT OF INSTALLMENTS.—If an election is made under paragraph (1), the first installment shall be paid on the due date (determined without regard to any extension of time for filing the return) for the return of tax for the taxable year described in subsection (b) and each succeeding installment shall be paid on the due date (as so determined) for the return of tax for the taxable year following the taxable year with respect to which the preceding installment was made.

"(3) ACCELERATION OF PAYMENT.—If there is an addition to tax for failure to pay timely assessed with respect to any installment required under this subsection, a liquidation or sale of substantially all the assets of the taxpayer (including in a title 11 or similar case), a cessation of business by the taxpayer, or any similar circumstance, then the unpaid portion of all remaining installments shall be due on the date of such event (or in the case of a title 11 or similar case, the day before the petition is filed). The preceding sentence shall not apply to the sale of substantially all the assets of a taxpayer to a buyer if such buyer enters into an agreement with the Secretary under which such buyer is liable for the remaining installments due under this subsection in the same manner as if such buyer were the taxpayer.

"(4) PRORATION OF DEFICIENCY TO INSTALLMENTS.—If an election is made under paragraph (1) to pay the net tax liability under this section in installments and a deficiency has been assessed with respect to such net tax liability, the deficiency shall be prorated to the installments payable under paragraph (1). The part of the deficiency so prorated to any installment the date for payment of which has not arrived shall be collected at the same time as, and as a part of, such installment. The part of the deficiency so prorated to any installment the date for payment of which has arrived shall be paid upon notice and demand from the Secretary. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

"(5) ELECTION.—Any election under paragraph (1) shall be made not later than the due date for the return of tax for the taxable year described in subsection (a) and shall be made in such manner as the Secretary may provide.

"(6) NET TAX LIABILITY UNDER THIS SECTION.—For purposes of this subsection—

"(A) IN GENERAL.—The net tax liability under this section with respect to any United States shareholder is the excess (if any) of—

"(i) such taxpayer's net income tax for the taxable year described in subsection (a), over "(ii) such taxpayer's net income tax for such taxable year determined without regard to this section.

"(B) NET INCOME TAX.—The term 'net income tax' means the regular tax liability reduced by the credits allowed under subparts A, B, and D of part IV of subchapter A.

"(i) SPECIAL RULES FOR S CORPORATION SHAREHOLDERS.—

"(1) IN GENERAL.—In the case of any S corporation which is a United States shareholder of a deferred foreign income corporation, each shareholder of such S corporation may elect to defer payment of such shareholder's net tax liability under this section with respect to such S corporation until the shareholder's taxable year which includes the triggering event with respect to such liability.

"(2) TRIGGERING EVENT.—

"(A) IN GENERAL.—In the case of any shareholder's net tax liability under this section with respect to any S corporation, the triggering event with respect to such liability is whichever of the following occurs first:

"(i) Such corporation ceases to be an S corporation (determined as of the first day of the first taxable year that such corporation is not an S corporation).

"(ii) A liquidation or sale of substantially all the assets of such S corporation (including in a title 11 or similar case), a cessation of business by such S corporation, such S corporation ceases to exist, or any similar circumstance.

"(iii) A transfer of any share of stock in such S corporation by the taxpayer (including by reason of death, or otherwise).

"(B) PARTIAL TRANSFERS OF STOCK.—In the case of a transfer of less than all of the taxpayer's shares of stock in the S corporation, such transfer shall only be a triggering event with respect to so much of the taxpayer's net tax liability under this section with respect to such S corporation as is properly allocable to such stock.

"(C) TRANSFER OF LIABILITY.—A transfer described in clause (iii) shall not be treated as a triggering event if the transferee enters into an agreement with the Secretary under which such transferee is liable for net tax liability with respect to such stock in the same manner as if such transferee were the taxpayer.

"(3) NET TAX LIABILITY.—A shareholder's net tax liability under this section with respect to any S corporation is the net tax liability under this section which would be determined under subsection (h)(6) if the only subpart F income taken into account by such shareholder by reason of this section were allocations from such S corporation.

"(4) ELECTION TO PAY DEFERRED LIABILITY IN INSTALLMENTS.—In the case of a taxpayer which elects to defer payment under paragraph (1), subsection (h) shall be applied—

"(A) separately with respect to the liability to which such election applies,

"(B) an election under subsection (h) with respect to such liability shall be treated as timely made if made not later than the due date for the return of tax for the taxable year in which the triggering event with respect to such liability occurs,

"(C) the first installment under subsection (h) with respect to such liability shall be paid not later than such due date (but determined without regard to any extension of time for filing the return), and

"(D) if the triggering event with respect to any net tax liability is described in paragraph (2)(A)(ii), an election under subsection (h) with respect to such liability may be made only with the consent of the Secretary.

"(5) JOINT AND SEVERAL LIABILITY OF S CORPORATION.—If any shareholder of an S corporation elects to defer payment under paragraph (1), such S corporation shall be jointly and severally liable for such payment and any penalty, addition to tax, or additional amount attributable thereto.

"(6) EXTENSION OF LIMITATION ON COLLECTION.—Notwithstanding any other provision of law, any limitation on the time period for the collection of a liability deferred under this subsection shall not be treated as beginning before the date of the triggering event with respect to such liability.

"(7) ELECTION.—Any election under paragraph (1) shall be made not later than the due date for the return of tax for the taxable year described in subsection (a) and shall be made in such manner as the Secretary may provide.

"(j) INCLUSION OF DEFERRED FOREIGN INCOME UNDER THIS SECTION NOT TO TRIGGER RECAPTURE OF OVERALL FOREIGN LOSS.—For purposes of section 904(f)(1), in the case of a United States shareholder of a deferred foreign income corporation, such United States shareholder's taxable income from sources without the United States shall be determined without regard to this section.

"(k) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as may be necessary or appropriate to carry out the provisions of this section.".

(b) DEDICATION OF REVENUES TO HIGHWAY TRUST FUND.—

(1) IN GENERAL.—Section 9503(f) is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

"(5) APPROPRIATION TO TRUST FUND OF NET TAX LIABILITIES RECEIVED UNDER SECTION 965.—

"(A) IN GENERAL.—Out of money in the Treasury not otherwise appropriated, there are hereby appropriated to the Highway Trust Fund amounts equivalent to the aggregate net tax liabilities under section 965 (as defined in such section) received in the Treasury.

"(B) MONTHLY TRANSFERS BASED ON ESTIMATES.—For rule providing for the monthly transfer of amounts appropriated under subparagraph (A) based on estimates of the Secretary, see section 9601.".

(2) TRANSFERS TO MASS TRANSIT ACCOUNT.—Section 9503(e)(2) is amended by striking "the mass transit portion" and inserting ", 20 percent of the amounts appropriated to the Highway Trust Fund under subsection (f)(5), and the mass transit portion".

(c) CLERICAL AMENDMENT.—The table of section for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 965 and inserting the following:

"Sec. 965. Treatment of deferred foreign income upon transition to participation exemption system of taxation.".

SEC. 4004. LOOK-THRU RULE FOR RELATED CONTROLLED FOREIGN CORPORATIONS MADE PERMANENT.

(a) IN GENERAL.—Paragraph (6) of section 954(c) is amended by striking subparagraph (C).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2013, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

Subtitle B—Modifications Related to Foreign Tax Credit System

SEC. 4101. REPEAL OF SECTION 902 INDIRECT FOREIGN TAX CREDITS; DETERMINATION OF SECTION 960 CREDIT ON CURRENT YEAR BASIS.

(a) REPEAL OF SECTION 902 INDIRECT FOREIGN TAX CREDITS.—Subpart A of part III of subchapter N of chapter 1 is amended by striking section 902.

(b) DETERMINATION OF SECTION 960 CREDIT ON CURRENT YEAR BASIS.—Section 960 is amended—

(1) by striking subsection (c), by redesignating subsection (b) as subsection (c), by striking all that precedes subsection (c) (as so redesignated) and inserting the following:

"SEC. 960. DEEMED PAID CREDIT FOR SUBPART F INCLUSIONS.

''(a) IN GENERAL.—For purposes of this subpart, if there is included in the gross income of a domestic corporation any item of income under section 951(a)(1) with respect to any controlled foreign corporation with respect to which such domestic corporation is a United States shareholder, such domestic corporation shall be deemed to have paid so much of such foreign corporation's foreign income taxes as are properly attributable to the item of income so included.

"(b) SPECIAL RULES FOR DISTRIBUTIONS FROM PREVIOUSLY TAXED EARNINGS AND PROFITS.—For purposes of this subpart—

"(1) IN GENERAL.—If any portion of a distribution from a controlled foreign corporation to a domestic corporation which is a United States shareholder with respect to such controlled foreign corporation is excluded from gross income under section 959(a), such domestic corporation shall be deemed to have paid so much of such foreign corporation's foreign income taxes as—

"(A) are properly attributable to such portion, and

"(B) have not been deemed to have to been paid by such domestic corporation under this section for any prior taxable year.

"(2) TIERED CONTROLLED FOREIGN CORPORATIONS.—If section 959(b) applies to any portion of a distribution from a controlled foreign corporation to another controlled foreign corporation, such controlled foreign corporation shall be deemed to have paid so much of such other controlled foreign corporation's foreign income taxes as—

"(A) are properly attributable to such portion, and

"(B) have not been deemed to have been paid by a domestic corporation under this section for any prior taxable year.",

(2) and by adding after subsection (c) (as so redesignated) the following new subsections:

"(d) FOREIGN INCOME TAXES.—The term 'foreign income taxes' means any income, war profits, or excess profits taxes paid or accrued to any foreign country or possession of the United States.

"(e) REGULATIONS.—The Secretary shall provide such regulations as may be necessary or appropriate to carry out the provisions of this section.".

(c) CONFORMING AMENDMENTS.—

(1) Section 78 is amended to read as follows:

"SEC. 78. GROSS UP FOR DEEMED PAID FOREIGN TAX CREDIT.

"If a domestic corporation chooses to have the benefits of subpart A of part III of subchapter N (relating to foreign tax credit) for any taxable year, an amount equal to the taxes deemed to be paid by such corporation under section 960 (relating to deemed paid credit for subpart F inclusions) for such taxable year shall be treated for purposes of this title (other than section 960) as an item of income required to be included in the gross income of such domestic corporation under section 951(a).''.

(2) Section 245(a)(10) is amended by striking ''902,''.

(3) Sections 535(b)(1) and 545(b)(1) are each amended by striking ''section 902(a) or 960(a)(1)'' and inserting ''section 960''.

(4) Paragraph (1) of section 814(f) is amended—

(A) by striking subparagraph (B), and

(B) by striking all that precedes ''No income'' and inserting the following:

''(1) TREATMENT OF FOREIGN TAXES.—''.

(5) Subparagraph (B) of section 864(h)(1) is amended by striking ''902,''.

(6) Subsection (a) of section 901 is amended by striking ''sections 902 and 960'' and inserting ''section 960''.

(7) Paragraph (2) of section 901(e) is amended by striking ''but is not limited to—'' and all that follows through ''that portion'' and inserting ''but is not limited to that portion''.

(8) Subsection (f) of section 901 is amended by striking ''sections 902 and 960'' and inserting ''section 960''.

(9) Subparagraph (A) of section 901(j)(1) is amended by striking ''902 or''.

(10) Subparagraph (B) of section 901(j)(1) is amended by striking ''sections 902 and 960'' and inserting ''section 960''.

(11) Paragraph (2) of section 901(k) is amended by striking ''902,''.

(12) Paragraph (6) of section 901(k) is amended by striking ''902 or''.

(13) Subparagraph (A) of section 904(h)(10) is amended by striking ''sections 902, 907, and 960'' and inserting ''sections 907 and 960''.

(14) Section 904 is amended by striking subsection (k).

(15) Paragraph (1) of section 905(c) is amended by striking the last sentence.

(16) Subclause (I) of section 905(c)(2)(B)(i) is amended by striking ''section 902 or''.

(17) Subsection (a) of section 906 is amended by striking ''(or deemed, under section 902, paid or accrued during the taxable year)''.

(18) Subsection (b) of section 906 is amended by striking paragraphs (4) and (5).

(19) Subparagraph (B) of section 907(b)(2) is amended by striking ''902 or''.

(20) Paragraph (3) of section 907(c) is amended—

(A) by striking subparagraph (A) and redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively, and

(B) by striking ''section 960(a)'' in subparagraph (A) (as so redesignated) and inserting ''section 960''.

(21) Paragraph (5) of section 907(c) is amended by striking ''902 or''.

(22) Clause (i) of section 907(f)(2)(B) is amended by striking ''902 or''.

(23) Subsection (a) of section 908 is amended by striking ''902 or''.

(24) Subsection (b) of section 909 is amended—

(A) by striking ''section 902 corporation'' in the matter preceding paragraph (1) and inserting ''specified 10-percent owned foreign corporation'',

(B) by striking ''902 or'' in paragraph (1),

(C) by striking ''by such section 902 corporation'' and all that follows in the matter following paragraph (2) and inserting ''by such specified 10-percent owned foreign corporation or a domestic corporation which is a United States shareholder with respect to such specified 10-percent owned foreign corporation.'', and

(D) by striking ''SECTION 902 CORPORATIONS'' in the heading thereof and inserting ''SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS''.

(25) Subsection (d) of section 909 is amended by striking paragraph (5).

(26) Paragraph (1) of section 958(a) is amended by striking ''960(a)(1)'' and inserting ''960''.

(27) Subsection (d) of section 959 is amended by striking ''Except as provided in section 960(a)(3), any'' and inserting ''Any''.

(28) Subsection (e) of section 959 is amended by striking ''and section 960(b)''.

(29) Subparagraph (A) of section 1291(g)(2) is amended by striking ''any distribution—'' and all that follows through ''but only if'' and inserting ''any distribution, any withholding tax imposed with respect to such distribution, but only if''.

(30) Section 1293 is amended by striking subsection (f).

(31) Subparagraph (B) of section 6038(c)(1) is amended by striking "sections 902 (relating to foreign tax credit for corporate stockholder in foreign corporation) and 960 (relating to special rules for foreign tax credit)" and inserting "section 960".

(32) Paragraph (4) of section 6038(c) is amended by striking subparagraph (C).

(33) The table of sections for subpart A of part III of subchapter N of chapter 1 is amended by striking the item relating to section 902.

(34) The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 960 and inserting the following:

"Sec. 960. Deemed paid credit for subpart F inclusions.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4102. FOREIGN TAX CREDIT LIMITATION APPLIED BY ALLOCATING ONLY DIRECTLY ALLOCABLE DEDUCTIONS TO FOREIGN SOURCE INCOME.

(a) IN GENERAL.—Subsection (b) of section 904, as amended by the preceding provisions of this Act, is amended by adding at the end the following new paragraph:

"(3) DEDUCTIONS ALLOCABLE TO FOREIGN SOURCE INCOME ONLY IF DIRECTLY ALLOCABLE.—For purposes of subsection (a), the taxpayer's taxable income from sources without the United States shall be determined by allocating deductions to such income only if such deductions are directly allocable to such income.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4103. PASSIVE CATEGORY INCOME EXPANDED TO INCLUDE OTHER MOBILE INCOME.

(a) TREATMENT OF FOREIGN BASE COMPANY INTANGIBLE INCOME AND FOREIGN BASE COMPANY SALES INCOME AS MOBILE CATEGORY INCOME.—Clause (i) of section 904(d)(2)(A) is amended by striking "and specified passive category income" and inserting "specified passive category income, foreign base company sales income (as defined in section 954(d)), and foreign base company intangible income (as defined in section 954(f))".

(b) REPEAL OF SPECIAL RULES TREATING FINANCIAL SERVICES INCOME AS GENERAL CATEGORY INCOME.—Paragraph (2) of section 904(d) is amended by striking subparagraphs (C) and (D) and by redesignating subparagraphs (E) through (K) as subparagraphs (C) through (I), respectively.

(c) CONFORMING AMENDMENTS.—

(1) RELATING TO REFERENCES TO PASSIVE INCOME.—

(A) Section 904(d)(1)(A) is amended by striking ''passive category income'' and inserting ''mobile category income''.

(B) Section 904(d)(2)(A)(i), as amended by subsection (a), is amended—

(i) by striking ''PASSIVE CATEGORY INCOME'' in the heading thereof and inserting ''MOBILE CATEGORY INCOME'',

(ii) by striking ''passive category income'' and inserting ''mobile category income'',

(iii) by striking ''passive income'' and inserting ''mobile income'', and

(iv) by striking ''specified passive category income'' and inserting ''specified mobile category income''.

(C) Section 904(d)(2)(A)(ii) is amended by striking ''passive category income'' and inserting ''mobile category income''.

(D) Section 904(d)(2)(B) is amended—

(i) by striking "PASSIVE INCOME" in the heading thereof and inserting "MOBILE INCOME",

(ii) by striking "passive income" in clauses (i), (ii), and (iii) and inserting "mobile income",

(iii) by striking "SPECIFIED PASSIVE CATEGORY INCOME" in the heading of clause (iv) and inserting "SPECIFIED MOBILE CATEGORY INCOME", and

(iv) by striking "specified passive category income" in clause (iv) and inserting "specified mobile category income".

(E) Section 904(d)(2)(D), as redesignated by subsection (b), is amended by striking "passive income" and inserting "mobile income".

(F) Section 904(d)(3)(A) is amended by striking "passive category income" and inserting "mobile category income".

(G) Section 904(d)(3)(B) is amended by striking "passive category income" both places it appears and inserting "mobile category income".

(H) Section 904(d)(3)(C) is amended by striking ‘‘passive category income’’ both places it appears and inserting ‘‘mobile category income’’.

(I) Section 904(d)(3)(D) is amended by striking ‘‘passive category income’’ both places it appears and inserting ‘‘mobile category income’’.

(J) Section 904(d)(3)(E) is amended—

(i) by striking ‘‘passive category income’’ both places it appears and inserting ‘‘mobile category income’’, and

(ii) by striking ‘‘passive income’’ and inserting ‘‘mobile income’’.

(K) Section 904(d)(3)(F) is amended by striking ‘‘passive category income’’ both places it appears and inserting ‘‘mobile category income’’.

(2) OTHER CONFORMING AMENDMENTS.—

(A) Subparagraph (B) of section 864(f)(5) is amended by inserting ‘‘(as in effect before its repeal)’’ after ‘‘section 904(d)(2)(D)(ii)’’.

(B) Subparagraph (B) of section 954(c)(2) is amended by striking ‘‘section 904(d)(2)(G)’’ and inserting ‘‘section 904(d)(2)(E)’’.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

(2) TREATMENT OF CARRYFORWARDS AND CARRYBACKS.—For purposes of section 904 of the Internal Revenue Code of 1986—

(A) the amendments made by this section shall apply to any taxes carried from any taxable year beginning before January 1, 2015, to any taxable year beginning on or after such date, and

(B) the Secretary of the Treasury, or his designee, may by regulations provide for the allocation of any carryback of taxes with respect to income from a taxable year beginning on or after January 1, 2015, to a taxable year beginning before such date for purposes of allocating such income among the separate categories in effect under section 904(d) for the taxable year to which carried.

SEC. 4104. SOURCE OF INCOME FROM SALES OF INVENTORY DETERMINED SOLELY ON BASIS OF PRODUCTION ACTIVITIES.

(a) IN GENERAL.—Subsection (b) of section 863 is amended by adding at the end the following: ''Gains, profits, and income from the sale or exchange of inventory property described in paragraph (2) shall be allocated and apportioned between sources within and without the United States solely on the basis of the production activities with respect to the property.''.

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

Subtitle C—Rules Related to Passive and Mobile Income

PART 1—MODIFICATION OF SUBPART F PROVISIONS

SEC. 4201. SUBPART F INCOME TO ONLY INCLUDE LOW-TAXED FOREIGN INCOME.

(a) IN GENERAL.—Subsection (a) of section 954 is amended—

(1) by redesignating paragraphs (1), (2), (3), and (5) as subparagraphs (A) through (D), respectively,

(2) by striking ''For purposes of'' and inserting the following:

"(1) IN GENERAL.—For purposes of", and

(3) by adding at the end the following new paragraph:

"(2) APPLICATION ONLY TO FOREIGN BASE COMPANY INCOME SUBJECT TO A LOW FOREIGN EFFECTIVE RATE OF TAX.—

"(A) IN GENERAL.—Foreign base company income shall only include items of income received by a controlled foreign corporation which are subject to an effective rate of income tax imposed by a foreign country which is less than 100 percent of the maximum rate of tax specified in section 11.

"(B) APPLICATION TO FOREIGN BASE COMPANY INCOME SUBJECT TO REDUCED DOMESTIC RATE OF TAX.—

"(i) FOREIGN BASE COMPANY SALES INCOME.—In the case of foreign base company sales income, subparagraph (A) shall be applied by substituting '50 percent' for '100 percent'.

"(ii) FOREIGN BASE COMPANY INTANGIBLE INCOME.—In the case of foreign base company intangible income, subparagraph (A) shall be applied—

"(I) by substituting 'the applicable percentage of the foreign percentage (determined under section 250(c) with respect to the controlled foreign corporation)' for '100 percent', and

"(II) by treating the foreign base company intangible income as a single item of income.

"(iii) APPLICABLE PERCENTAGE.—For purposes of clause (ii)(I), the term 'applicable percentage' means, with respect to any taxable year of a controlled foreign corporation, the percentage determined in accordance with the following table:

"In the case of any taxable year beginning in:	The applicable percentage is:
2015	45 percent
2016	48 percent
2017	52 percent
2018	56 percent
2019 or thereafter	60 percent.".

(b) INSURANCE INCOME.—Subsection (a) of section 953 is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following new paragraph:

"(2) APPLICATION ONLY TO INSURANCE INCOME SUBJECT TO A LOW FOREIGN EFFECTIVE RATE OF TAX.—Insurance income shall only include items of income received by a controlled foreign corporation which are subject to an effective rate of income tax imposed by a foreign country which is less than the maximum rate of tax specified in section 11.''.

(c) CONFORMING AMENDMENTS.—

(1) Section 954(b)(3)(B) is amended by striking ''paragraphs (4) and (5)'' and inserting ''subsection (a)(2), section 953(a)(2), and paragraph (5)''

(2) Section 954(b) is amended by striking paragraph (4).

(3) Section 954(c)(1) is amended by striking ''subsection (a)(1)'' and inserting ''this section''.

(4) Section 954(d)(1) is amended by striking ''subsection (a)(2)'' and inserting ''this section''.

(5) Section 954(e)(1) is amended by striking ''subsection (a)(3)'' and inserting ''this section''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4202. FOREIGN BASE COMPANY SALES INCOME.

(a) 50 PERCENT EXCLUSION FOR LOW-TAXED FOREIGN BASE COMPANY SALES INCOME.—

(1) IN GENERAL.—Subparagraph (B) of section 954(a)(1), as amended by the preceding provisions of this Act, is amended by inserting ''50 percent of'' before ''the foreign base company sales income''.

(2) PRESERVATION OF DEEMED PAID FOREIGN TAX CREDIT ON LOW-TAXED FOREIGN BASE COMPANY INCOME.—Section 960, as amended by this Act, is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

''(c) DEEMED PAID CREDIT DETERMINED WITHOUT REGARD TO CERTAIN EXCLUSIONS FROM SUBPART F INCOME.—Solely for purposes of subsection (a), section 954(a)(1)(B) shall be applied by substituting '100 percent' for '50 percent' in determining amounts included under section 951(a)(1).''.

(b) EXCEPTION FROM FOREIGN BASE COMPANY SALES INCOME FOR FOREIGN CORPORATIONS ELIGIBLE FOR BENEFITS UNDER COMPREHENSIVE INCOME TAX TREATIES.—Section 954(d) is amended by adding at the end the following new paragraph:

''(5) EXCEPTION FOR FOREIGN CORPORATIONS ELIGIBLE FOR BENEFITS UNDER COMPREHENSIVE

INCOME TAX TREATIES.—No portion of the gross income of a controlled foreign corporation shall be treated as foreign base company sales income if such controlled foreign corporation is eligible as a qualified resident for all of the benefits provided under a comprehensive income tax treaty with the United States.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4203. INFLATION ADJUSTMENT OF DE MINIMIS EXCEPTION FOR FOREIGN BASE COMPANY INCOME.

(a) IN GENERAL.—Paragraph (3) of section 954(b) is amended by adding at the end the following new subparagraph:

``(D) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2015, the dollar amount in subparagraph (A)(ii) shall be increased by an amount equal to—

``(i) such dollar amount, multiplied by

``(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2014' for 'calendar year 2012' in clause (ii) thereof.

Any increase determined under the preceding sentence shall be rounded to the nearest multiple of $50,000.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4204. ACTIVE FINANCING EXCEPTION EXTENDED WITH LIMITATION FOR LOW-TAXED FOREIGN INCOME.

(a) EXTENSION OF ACTIVE FINANCING EXCEPTION.—

(1) IN GENERAL.—Paragraph (9) of section 954(h) is amended by striking ''January 1, 2014'' and inserting ''January 1, 2019''.

(2) EXEMPT INSURANCE INCOME.—Paragraph (10) of section 953(e) is amended—

(A) by striking ''January 1, 2014'' and inserting ''January 1, 2019'', and

(B) by striking ''December 31, 2013'' and inserting ''December 31, 2018''.

(b) LIMITATION FOR LOW-TAXED FOREIGN INCOME.—

(1) IN GENERAL.—Paragraph (1) of section 954(h) is amended to read as follows:

"(1) IN GENERAL.—For purposes of subsection (c)(1), in the case of an eligible controlled foreign corporation, foreign personal holding company income shall not include—

"(A) qualified banking or financing income which is subject to an effective rate of income tax imposed by a foreign country which is at least 50 percent of the maximum rate of tax specified in section 11, and

"(B) 50 percent of any other qualified banking or financing income of such eligible controlled foreign corporation.".

(2) INSURANCE BUSINESS INCOME.—Paragraph (1) of section 954(i) is amended to read as follows:

"(1) IN GENERAL.—For purposes of subsection (c)(1), in the case of a qualifying insurance company, foreign personal holding company income shall not include—

"(A) any qualified insurance income which is subject to an effective rate of income tax imposed by a foreign country which is at least 50 percent of the maximum rate of tax specified in section 11, and

"(B) 50 percent of any other qualified insurance income of such qualifying insurance company.".

(3) PRESERVATION OF DEEMED PAID FOREIGN TAX CREDIT ON HIGH-TAXED FOREIGN INCOME.—Subsection (c) of section 960, as amended by the preceding provisions of this Act, is amended by striking "Solely for purposes of subsection (a)" and all that following and inserting the following: "Solely for purposes of subsection (a)—

"(1) section 954(a)(1)(B) shall be applied by substituting '100 percent' for '50 percent', and

"(2) the exclusions under subsections (h)(1)(B) and (i)(1)(B) of section 954 shall not apply,

in determining amounts included under section 951(a)(1).".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2013, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4205. REPEAL OF INCLUSION BASED ON WITHDRAWAL OF PREVIOUSLY EXCLUDED SUBPART F INCOME FROM QUALIFIED INVESTMENT.

(a) IN GENERAL.—Subpart F of part III of subchapter N of chapter 1 is amended by striking section 955.

(b) CONFORMING AMENDMENTS.—

(1)(A) Subparagraph (A) of section 951(a)(1), as amended by this Act, is amended to read as follows:

''(A) his pro rata share (determined under paragraph (2)) of the corporation's subpart F income for such year, and''.

(B) Paragraph (3) of section 851(b) is amended by striking ''section 951(a)(1)(A)(i)'' in the flush language at the end and inserting ''section 951(a)(1)(A)''.

(C) Clause (i) of section 952(c)(1)(B) is amended by striking ''section 951(a)(1)(A)(i)'' and inserting ''section 951(a)(1)(A)''.

(D) Subparagraph (C) of section 953(c)(1) is amended by striking ''section 951(a)(1)(A)(i)'' and inserting ''section 951(a)(1)(A)''.

(2) Subsection (a) of section 951 is amended by striking paragraph (3).

(3) Subclause (II) of section 953(d)(4)(B)(iv) is amended by striking "or amounts referred to in clause (ii) or (iii) of section 951(a)(1)(A)".

(4) Subsection (b) of section 964 is amended by striking ", 955,".

(5) Section 970 is amended by striking subsection (b).

(6) The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 955.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

PART 2—PREVENTION OF BASE EROSION

SEC. 4211. FOREIGN INTANGIBLE INCOME SUBJECT TO TAXATION AT REDUCED RATE; INTANGIBLE INCOME TREATED AS SUBPART F INCOME.

(a) FOREIGN BASE COMPANY INTANGIBLE INCOME TREATED AS SUBPART F INCOME.—

(1) TREATMENT AS SUBPART F INCOME.—Paragraph (1) of section 954(a), as amended by the preceding provisions of this Act, is amended by redesignating subparagraph (D) as subparagraph (E)

and by inserting after subparagraph (C) the following new subparagraph:

"(D) the foreign base company intangible income for the taxable year (determined under subsection (f) and reduced as provided in subsection (b)(5)), and".

(2) FOREIGN BASE COMPANY INTANGIBLE INCOME DEFINED.—Section 954 of such Code is amended by inserting after subsection (e) the following new subsection:

"(f) FOREIGN BASE COMPANY INTANGIBLE INCOME.—For purposes of this section—

"(1) IN GENERAL.—The term 'foreign base company intangible income' means, with respect to any corporation for any taxable year, the excess of—

"(A) so much of the adjusted gross income of the corporation as exceeds 10 percent of the corporation's qualified business asset investment, over

"(B) the applicable percentage of such corporation's foreign personal holding company income, foreign base company sales income, foreign base company services income, and foreign base company oil related income.

“(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the term ‘applicable percentage’ means, with respect to any corporation for any taxable year, the ratio (expressed as a percentage) of—

“(A) the excess described in paragraph (1)(A), divided by

“(B) the adjusted gross income of the corporation.

“(3) QUALIFIED BUSINESS ASSET INVESTMENT.—

“(A) IN GENERAL.—The term ‘qualified business asset investment’ means, with respect to any corporation for any taxable year, the aggregate of the corporation’s adjusted bases (determined as of the close of such taxable year and after any adjustments with respect to such taxable year) in specified tangible property—

“(i) used in a trade or business of the corporation, and

“(ii) of a type with respect to which a deduction is allowable under section 168.

“(B) DETERMINATION OF ADJUSTED BASIS.—For purposes of subparagraph (A), the adjusted basis in any property shall be determined without regard to any provision of this title (or any other provision of law) which is enacted after the date of the enactment of this section.

"(C) REGULATIONS.—The Secretary shall issue such regulations or other guidance as the Secretary determines appropriate to prevent the avoidance of the purposes of this paragraph, including regulations or other guidance which provide for the treatment of property if—

"(i) such property is transferred, or held, temporarily, or

"(ii) the avoidance of the purposes of this paragraph is a factor in the transfer or holding of such property.

"(4) ADJUSTED GROSS INCOME; SPECIFIED TANGIBLE PROPERTY.—For purposes of this subsection—

"(A) ADJUSTED GROSS INCOME.—

"(i) IN GENERAL.—The term 'adjusted gross income' means, with respect to any corporation, the gross income of such corporation reduced by such corporation's commodities gross income.

"(ii) COMMODITIES GROSS INCOME.—The term 'commodities gross income' means, with respect to any corporation, the gross income of such corporation which is derived from commodities which are produced or extracted by such corporation.

"(B) SPECIFIED TANGIBLE PROPERTY.—The term 'specified tangible property' means any tangible property unless such property is used in the production of commodities gross income. In the case of property which is used in the production of commodities gross income and other gross income, such property shall be treated as specified tangible property in the same proportion that the adjusted gross income produced with respect to such property bears to the total gross income produced with respect to such property.

"(C) COMMODITY.—The term 'commodity' means any commodity described in section 475(e)(2).".

(3) APPLICATION ONLY TO FOREIGN BASE COMPANY INTANGIBLE INCOME SUBJECT TO A LOW FOREIGN EFFECTIVE RATE OF TAX.—Paragraph (2) of section 954(a), as amended by preceding provisions of this Act, is amended by inserting "or foreign base

company intangible income'' after ''foreign base company sales income''.

(4) CONFORMING AMENDMENT.—Paragraph (5) of section 954(b) is amended by inserting ''the foreign base company intangible income,'' before ''and the foreign base company oil related income''.

(b) DEDUCTION FOR FOREIGN INTANGIBLE INCOME.—

(1) IN GENERAL.—Part VIII of subchapter B of chapter 1 is amended by adding at the end the following new section:

''SEC. 250. FOREIGN INTANGIBLE INCOME.

''(a) IN GENERAL.—In the case of a domestic corporation for any taxable year, there shall be allowed as a deduction an amount equal to the applicable percentage of the lesser of—

''(1) the sum of—

''(A) the foreign percentage multiplied by the net imputed intangible income of such domestic corporation for such taxable year, plus

''(B) in the case of a domestic corporation which is a United States shareholder with respect to any controlled foreign corporation, the foreign percentage (determined with respect to such controlled foreign corporation) multiplied by any foreign base company intangible income (as defined in section 954(f)) of such controlled foreign corporation which is included in the gross income of such domestic corporation under section 951 for such taxable year, or

"(2) taxable income of such domestic corporation (determined without regard to this section) for the taxable year.

"(b) NET IMPUTED INTANGIBLE INCOME.—For purposes of this subsection, the term 'net imputed intangible income' means the excess of—

"(1) the excess described in section 954(f)(1)(A), over

"(2) the deductions properly allocable to the amount described in paragraph (1).

"(c) FOREIGN PERCENTAGE.—For purposes of this section—

"(1) IN GENERAL.—The term 'foreign percentage' means, with respect to any corporation for any taxable year, the ratio (expressed as a percentage) of—

"(A) the foreign-derived adjusted gross income of such corporation for such taxable year, over

"(B) the adjusted gross income of such corporation for such taxable year.

"(2) FOREIGN-DERIVED ADJUSTED GROSS INCOME.—

"(A) IN GENERAL.—The term 'foreign-derived adjusted gross income' means, with respect to any corporation for any taxable year, any adjusted gross income of such corporation which is derived in connection with—

"(i) property which is sold for use, consumption, or disposition outside the United States, or

"(ii) services provided with respect to persons or property located outside the United States.

"(B) SPECIAL RULES.—

"(i) ULTIMATE DISPOSITION.—Property shall not be treated as sold for use, consumption, or disposition outside the United States if the taxpayer knew, or had reason to know, that such property would be ultimately sold for use, consumption, or disposition in the United States.

"(ii) SALES TO RELATED PARTIES.—If property is sold to a related party, such sale shall not be treated as for use, consumption or disposition outside the United States unless—

"(I) such property is ultimately sold for use, consumption or disposition outside the United States, or

"(II) such property is resold to an unrelated party outside the United States and no related party knew or had reason to know that such property would be ultimately sold for use, consumption, or disposition in the United States.

"(iii) APPLICATION TO SERVICES.—Rules similar to the rules of clauses (i) and (ii) shall apply with respect to services described in subparagraph (A)(ii).

"(C) RELATED PARTY.—For purposes of this paragraph, the term 'related party' means any member of an affiliated group as defined in section 1504(a), determined—

"(i) by substituting 'more than 50 percent' for 'at least 80 percent' each place it appears, and "(ii) without regard to paragraphs (2) and (3) of section 1504(b).

Any person (other than a corporation) shall be treated as a member of such group if such person is controlled by members of such group (including any entity treated as a member of such group by reason of this sentence) or controls any such member. For purposes of the preceding sentence, control shall be determined under the rules of section 954(d)(3).

"(3) ADJUSTED GROSS INCOME.—The term 'adjusted gross income' has the meaning given such term by section 954(f)(4).

"(d) APPLICABLE PERCENTAGE.—For purposes of this section, the term 'applicable percentage' means, with respect to any taxable year of the domestic corporation referred to in subsection (a), the percentage determined in accordance with the following table:

"In the case of any taxable year beginning in:	The applicable percentage is:
2015	55 percent
2016	52 percent
2017	48 percent
2018	44 percent
2019 or thereafter	40 percent.

"(e) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as may be necessary or appropriate to carry out the provisions of this section.".

(2) CONFORMING AMENDMENTS.—

(A) Clause (i) of section 163(j)(6)(A), as amended by the preceding provisions of this Act, is amended by striking "and" at the end of subclause (II) and by adding at the end the following new subclause:

"(IV) any deduction allowable under section 250, and".

(B) Subparagraph (C) of section 170(b)(2) is amended by striking "and" at the end of clause (iv), by redesignating clause (v) as clause (vi), and by inserting after clause (iv) the following new clause:

"(v) section 250, and".

(C) Subsection (d) of section 172, as amended by the preceding provisions of this Act, is amended by adding at the end the following new paragraph:

"(7) DEDUCTION FOR FOREIGN INTANGIBLE INCOME.—The deduction under section 250 shall not be allowed.".

(D) Paragraph (1) of section 246(b) is amended by striking "and 247" and inserting "247, and 250".

(E) Clause (iii) of section 469(i)(3)(D), as amended by the preceding provisions of this Act, is amended by striking "and 222" and inserting "222, and 250".

(c) EFFECTIVE DATE.—

(1) TREATMENT AS SUBPART F INCOME.—The amendments made by subsection (a) shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

(2) DEDUCTION FOR FOREIGN INTANGIBLE INCOME.—The amendments made by subsection (b) shall apply to taxable years beginning after December 31, 2014.

SEC. 4212. DENIAL OF DEDUCTION FOR INTEREST EXPENSE OF UNITED STATES SHAREHOLDERS WHICH ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS WITH EXCESS DOMESTIC INDEBTEDNESS.

(a) IN GENERAL.—Section 163 is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

"(n) DISALLOWANCE OF DEDUCTION FOR INTEREST EXPENSE OF UNITED STATES SHAREHOLDERS WHICH

ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS WITH EXCESS DOMESTIC INDEBTEDNESS.—

"(1) IN GENERAL.—In the case of any domestic corporation which is a United States shareholder (as defined in section 951(b)) with respect to any foreign corporation both of which are members of the same worldwide affiliated group, the deduction allowed under this chapter for interest paid or accrued by such domestic corporation during the taxable year shall be reduced by the lesser of—

"(A) the product of—

"(i) the net interest expense of such domestic corporation, multiplied by

"(ii) the debt-to-equity differential percentage of such worldwide affiliated group, or

"(B) the excess (if any) of—

"(i) such net interest expense, over

"(ii) 40 percent of the adjusted taxable income (as defined in subsection (j)(6)(A)) of such domestic corporation.

"(2) CARRYFORWARD.—Any amount disallowed under paragraph (1) for any taxable year shall be treated as interest paid or accrued in the succeeding taxable year (and shall not be treated as disqualified interest for purposes of applying subsection (j)).

"(3) DEBT-TO-EQUITY DIFFERENTIAL PERCENTAGE.—

"(A) IN GENERAL.—For purposes of this subsection, the term 'debt-to-equity differential percentage' means, with respect to any worldwide affiliated group, the percentage which the excess domestic indebtedness of such group bears to the total indebtedness of the domestic corporations which are members of such group.

"(B) EXCESS DOMESTIC INDEBTEDNESS.—For purposes of subparagraph (A), the term 'excess domestic indebtedness' means, with respect to any worldwide affiliated group, the excess (if any) of—

"(i) the total indebtedness of the domestic corporations which are members of such group, over

"(ii) 110 percent of the amount which the total indebtedness of such domestic corporations would be if the ratio of such indebtedness to the total equity of such domestic corporations equaled the ratio which—

"(I) the total indebtedness of such group, bears to

"(II) the total equity of such group.

"(C) TOTAL EQUITY.—For purposes of subparagraph (B), the term 'total equity' means, with respect to one or more corporations, the excess (if any) of—

"(i) the money and all other assets of such corporations, over

"(ii) the total indebtedness of such corporations.

"(D) SPECIAL RULES FOR DETERMINING DEBT AND EQUITY.—For purposes of this paragraph—

"(i) APPLICATION OF CERTAIN GENERAL RULES.—Rules similar to the rules of clauses (i), (ii), and (iii) of subsection (j)(2)(C) shall apply.

"(ii) INTRAGROUP DEBT AND EQUITY INTERESTS DISREGARDED.—The total indebtedness, and the assets, of any group of corporations shall be determined by treating all members of such group as one corporation.

"(iii) DETERMINATION OF ASSETS OF DOMESTIC GROUP.—The assets of the domestic corporations which are members of any worldwide affiliated group shall be determined by disregarding any interest held by any such domestic corporation in any foreign corporation which is a member of such group.

"(4) OTHER DEFINITIONS.—For purposes of this subsection—

"(A) WORLDWIDE AFFILIATED GROUP.—The term 'worldwide affiliated group' has the meaning which would be given such term by section 864(f)(1)(C) if section 1504(a) were applied by substituting 'more than 50 percent' for 'at least 80 percent' each place it appears.

"(B) NET INTEREST EXPENSE.—The term 'net interest expense' has the meaning given such term by subsection (j)(6)(B).

"(5) TREATMENT OF AFFILIATED GROUP.—For purposes of this subsection, all members of the same affiliated group (within the meaning of section 1504(a) applied by substituting 'more than 50 percent' for 'at least 80 percent' each place it appears) shall be treated as 1 taxpayer.

"(6) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be appropriate to carry out the purposes of this subsection, including regulations or other guidance—

"(A) to prevent the avoidance of the purposes of this subsection,

"(B) providing such adjustments in the case of corporations which are members of an affiliated group as may be appropriate to carry out the purposes of this subsection,

"(C) providing for the coordination of this subsection with section 884, and

"(D) providing for the reallocation of shares of partnership indebtedness, or distributive shares of the partnership's interest income or interest expense.".

(b) COORDINATION WITH LIMITATION ON RELATED PARTY INDEBTEDNESS.—Paragraph (1) of section 163(j) is amended by adding at the end the following new subparagraph:

"(C) COORDINATION WITH LIMITATION ON EXCESS DOMESTIC INDEBTEDNESS.—The amount disallowed under subparagraph (A) with respect to any corporation for any taxable year shall be reduced by any amount disallowed under subsection (n)(1) with respect to such corporation for such taxable year.''.

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

TITLE V—TAX EXEMPT ENTITIES

Subtitle A—Unrelated Business Income Tax

SEC. 5001. CLARIFICATION OF UNRELATED BUSINESS INCOME TAX TREATMENT OF ENTITIES TREATED AS EXEMPT FROM TAXATION UNDER SECTION 501(a).

(a) IN GENERAL.—Subparagraph (A) of section 511(a)(2) is amended by adding at the end the following: ''For purposes of the preceding sentence, an organization shall not fail to be treated as exempt from taxation under this subtitle by reason of section 501(a) solely because such organization is also so exempt, or excludes amounts from gross income, by reason of any other provision of this title.''.

(b) CLERICAL AMENDMENT.—The heading for subparagraph (A) of section 511(a)(2) is amended to read as follows: ''ORGANIZATIONS EXEMPT FROM TAXATION BY REASON OF SECTION 501(a).''

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

SEC. 5002. NAME AND LOGO ROYALTIES TREATED AS UNRELATED BUSINESS TAXABLE INCOME.

(a) IN GENERAL.—Section 513 is amended by adding at the end the following new subsection:

"(k) NAME AND LOGO ROYALTIES.—Any sale or licensing by an organization of any name or logo of the organization (including any trademark or copyright relating to such name or logo) shall be treated as an unrelated trade or business regularly carried on by such organization.".

(b) CALCULATION OF UNRELATED BUSINESS TAXABLE INCOME.—Subsection (b) of section 512 is amended by adding at the end the following new paragraph:

"(20) SPECIAL RULE FOR NAME AND LOGO ROYALTIES.—Notwithstanding paragraph (1), (2), (3), or (5), any income derived from any sale or licensing described in section 513(k) shall be included as an item of gross income derived from an unrelated trade or business.".

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

SEC. 5003. UNRELATED BUSINESS TAXABLE INCOME SEPARATELY COMPUTED FOR EACH TRADE OR BUSINESS ACTIVITY.

(a) IN GENERAL.—Subsection (a) of section 512 is amended by adding at the end the following new paragraph:

"(6) SPECIAL RULE FOR ORGANIZATION WITH MORE THAN 1 UNRELATED TRADE OR BUSINESS.—In the case of any organization with more than 1 unrelated trade or business—

"(A) unrelated business taxable income shall be computed separately with respect to each such trade or business and without regard to subsection (b)(12),

"(B) the unrelated business taxable income of such organization shall be the sum of the unrelated business taxable income so computed with respect to each such trade or business, less a specific deduction under subsection (b)(12), and

"(C) for purposes of subparagraph (B), unrelated business taxable income with respect to any such trade or business shall not be less than zero, and

"(D) the net operating loss deduction shall only be allowed with respect to the trade or business from which the net operating loss arose.''.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except to the extent provided in paragraph (2), the amendment made by this section shall apply to taxable years beginning after December 31, 2014.

(2) NET OPERATING LOSSES.—

(A) CERTAIN CARRYOVERS.—In the case of any net operating loss arising in a taxable year beginning before January 1, 2015, that is carried over to a taxable year beginning on or after such date, section 512(a)(6)(D) of the Internal Revenue Code of 1986, as added by this Act, shall not apply.

(B) CERTAIN CARRYBACKS.—In the case of any net operating loss arising in a taxable year beginning after December 31, 2014, and carried back to any taxable year beginning on or before such date, in computing unrelated business taxable income of an organization under section 512(a) of such Code for the taxable year, the net operating loss deduction shall be allowed only with respect to the trade or business from which the net operating loss arose.

SEC. 5004. EXCLUSION OF RESEARCH INCOME LIMITED TO PUBLICLY AVAILABLE RESEARCH.

(a) IN GENERAL.—Paragraph (9) of section 512(b) is amended by striking ‘‘from research’’ and inserting ‘‘from such research’’.

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

SEC. 5005. PARITY OF CHARITABLE CONTRIBUTION LIMITATION BETWEEN TRUSTS AND CORPORATIONS.

(a) IN GENERAL.—Paragraph (11) of section 512(b) is amended by striking the second sentence and inserting the following: ‘‘The deduction allowed by this paragraph shall not exceed 10 percent of the unrelated business taxable income computed without the benefit of this paragraph.’’

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

SEC. 5006. INCREASED SPECIFIC DEDUCTION.

(a) IN GENERAL.—Paragraph (12) of section 512(b) is amended by striking ‘‘$1,000’’ each place it appears and inserting ‘‘$10,000’’.

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

SEC. 5007. REPEAL OF EXCLUSION OF GAIN OR LOSS FROM DISPOSITION OF DISTRESSED PROPERTY.

(a) IN GENERAL.—Subsection (b) of section 512 is amended by striking paragraph (16).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to property acquired after December 31, 2014.

SEC. 5008. QUALIFIED SPONSORSHIP PAYMENTS.

(a) REPEAL OF USE OR ACKNOWLEDGMENT OF PRODUCT LINES FOR QUALIFIED SPONSORSHIP PAYMENTS.—Subparagraphs (A) and (B)(ii)(I) of section 513(i)(2) are each amended by striking ‘‘(or product lines)’’.

(b) USE OR ACKNOWLEDGMENT LIMITED IN CASE OF CERTAIN EVENTS.—Subparagraph (B) of section 513(i)(2) is amended by adding at the end the following new clause:

‘‘(iii) USE OR ACKNOWLEDGMENT LIMITED IN CASE OF CERTAIN EVENTS.—In the case of an event with respect to which an organization receives an aggregate amount of qualified sponsorship payments greater than $25,000, a payment shall not be treated as a qualified sponsorship payment for purposes of paragraph (1) unless the use or acknowledgment of the sponsor's name or logo appears with, and in substantially the same manner as, the names of a significant portion of other donors to the organization. For purposes of the preceding sentence, whether a number of donors is a significant portion shall be determined based on the total number of donors and the total contributed with respect to the event, but in no event shall fewer than 2 other donors be treated as a significant portion of other donors.''.

(c) CLERICAL AMENDMENT.—The heading for clause (ii) of section 513(i)(2)(B) is amended to read as follows: ''PERIODICALS AND QUALIFIED CONVENTION AND TRADE SHOW ACTIVITIES.''.

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

Subtitle B—Penalties

SEC. 5101. INCREASE IN INFORMATION RETURN PENALTIES.

(a) FAILURE TO FILE RETURN.—

(1) ORGANIZATION.—Subparagraph (A) of section 6652(c)(1) is amended—

(A) by striking ‘‘$20’’ each place it appears and inserting ‘‘$40’’,

(B) by striking ‘‘$100’’ and inserting ‘‘$200’’.

(2) MANAGERS.—Clause (ii) of section 6652(c)(1)(B) is amended by striking ‘‘$10’’ and inserting ‘‘$20’’.

(b) FAILURE TO MAKE RETURNS, REPORTS, AND APPLICATIONS AVAILABLE FOR PUBLIC INSPECTION.—Subparagraphs (C) and (D) of section 6652(c)(1) are each amended by striking ‘‘$20’’ and inserting ‘‘$40’’.

(c) FAILURE TO FILE RETURNS UNDER SECTION 6034 OR 6043.—Paragraph (2) of section 6652(c) is amended—

(1) by striking ‘‘$10’’ each place it appears in subparagraphs (A) and (B) and inserting ‘‘$20’’, and

(2) by striking ''substituting '$100' for '$20','' in subparagraph (C)(ii) and inserting ''substituting '$200' for '$40',''.

(d) FAILURE TO FILE DISCLOSURE UNDER SECTION 6033(a)(2).—

(1) ORGANIZATION.—Subparagraph (A) of section 6652(c)(3) is amended by striking ''$100'' and inserting ''$200''.

(2) MANAGERS.—Subparagraph (B) of section 6652(c)(3) is amended by striking ''$100'' and inserting ''$200''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to information returns required to be filed on or after January 1, 2015.

SEC. 5102. MANAGER-LEVEL ACCURACY-RELATED PENALTY ON UNDERPAYMENT OF UNRELATED BUSINESS INCOME TAX.

(a) IN GENERAL.—Section 6662 is amended by adding at the end the following new subsection:

''(k) MANAGER-LEVEL PENALTY FOR SUBSTANTIAL UNDERPAYMENT OF UNRELATED BUSINESS INCOME TAX.—

''(1) IN GENERAL.—In the case of any substantial underpayment of income tax which is attributable to the tax imposed by section 511 on the unrelated business taxable income of an organization for the taxable year, there is hereby imposed a tax with respect to such organization an amount equal to 5 percent of such underpayment to which the underpayment relates. Such tax shall be paid by any manager of the organization.

"(2) MANAGER.—For purposes of this subsection, the term 'manager' means any officer, director, trustee, employee, or other individual who is under a duty to perform an act in respect of which the underpayment relates.

"(3) JOINT AND SEVERAL LIABILITY.—If more than one person is liable under paragraph (1) with respect to an underpayment, all such persons shall be jointly and severally liable under such paragraph with respect to such underpayment

"(4) LIMIT.—With respect to any substantial underpayment of income tax for a taxable year, the maximum amount of the tax added by paragraph (1) shall not exceed $20,000.".

(b) REPORTABLE TRANSACTIONS.—Section 6662A is amended by adding at the end the following new subsection:

"(f) MANAGER-LEVEL PENALTY IN CASE OF UNRELATED BUSINESS INCOME TAX.—

"(1) IN GENERAL.—In the case of any portion of a reportable transaction understatement of the tax imposed by section 511 to which this section applies, there is hereby imposed a tax in an amount equal to 10 percent of such portion of the underpayment to which the reportable transaction understatement occurs. Such tax shall be paid by any manager of the organization.

"(2) MANAGER.—For purposes of this subsection, the term 'manager' means any officer, director, trustee, employee, or other individual who is under a duty to perform an act in respect of which such understatement occurs.

"(3) JOINT AND SEVERAL LIABILITY.—If more than one person is liable under paragraph (1) with respect to an understatement, all such persons shall be jointly and severally liable under such paragraph with respect to such understatement.

"(4) LIMIT.—With respect to any understatement of tax to which this section applies, the maximum amount of the tax added by paragraph (1) shall not exceed $40,000".

(c) COORDINATION.—Section 6662 is amended—

(1) by striking the flush matter at the end of subsection (b), and

(2) by adding at the end the following new subsection:

"(l) COORDINATION WITH OTHER PENALTIES.—This section shall not apply to any portion of an underpayment on which a penalty is imposed under section 6663. Except as provided in paragraph (1) or (2)(B) of section 6662A(e), this section shall not apply to the portion of any underpayment which is attributable to a reportable transaction understatement on which a penalty is imposed under section 6662A.".

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

Subtitle C—Excise Taxes

SEC. 5201. MODIFICATION OF INTERMEDIATE SANCTIONS.

(a) ORGANIZATION LEVEL TAX.—Subsection (a) of section 4958 is amended by adding at the end the following new paragraph:

"(3) ON THE ORGANIZATION.—In any case in which a tax is imposed by paragraph (1), there is hereby imposed on the organization a tax equal to 10 percent of the excess benefit.".

(b) MINIMUM STANDARDS OF ORGANIZATION DUE DILIGENCE.—Subsection (d) of section 4958 is amended by adding at the end the following new paragraph:

"(3) MINIMUM STANDARDS OF ORGANIZATION DUE DILIGENCE.—

"(A) IN GENERAL.—Subsection (a)(3) shall not apply to a transaction, if—

"(i) the organization establishes that the minimum standards of due diligence described in subparagraph (B) were met with respect to the transaction, or

"(ii) the organization establishes to the satisfaction of the Secretary that such other reasonable procedures were used to ensure that no excess benefit was provided.

"(B) MINIMUM STANDARDS.—An organization shall be treated as satisfying the minimum standards of due diligence described in this subparagraph with respect to any transaction, if—

"(i) the transaction was approved in advance by an authorized body of the organization composed entirely of individuals who did not have a conflict of interest with respect to the transaction,

"(ii) the authorized body obtained and relied upon appropriate data as to comparability prior to approval of the transaction, and "(iii) the authorizing body adequately and concurrently documented the basis for approving the transaction.

"(C) NO PRESUMPTION AS TO REASONABLENESS.—Meeting the requirements of clause (i) or (ii) of subparagraph (A) with respect to a transaction shall not give rise to a presumption of reasonableness for purposes of the taxes imposed by paragraphs (1) or (2) of subsection (a) and shall not, by itself, support a conclusion that a manager did not act knowingly for purposes of subsection (a)(2).".

(c) REPEAL OF EXCEPTION FOR MANAGER RELIANCE ON PROFESSIONAL ADVICE.—Section 4958 is amended by adding at the end the following new subsection:

"(g) NO SAFE HARBOR FOR RELIANCE ON PROFESSIONAL ADVICE.—An organization manager's reliance on a written opinion of a professional with respect to elements of a transaction within the professional's expertise shall not, by itself, preclude the manager from being treated as participating in the transaction knowingly.".

(d) ATHLETIC COACHES AND INVESTMENT MANAGERS TREATED AS DISQUALIFIED PERSONS.—

(1) ATHLETIC COACHES.—

(A) IN GENERAL.—Paragraph (1) of section 4958(f) is amended by striking "and" at the end of subparagraph (E), by striking the period at the end of subparagraph (F) and inserting ", and", and by adding at the end the following new subparagraph:

"(G) any person who performs services as an athletic coach for the organization.".

(B) FAMILY MEMBERS.—Subparagraph (B) of section 4958(f)(1) is amended by inserting "or (G)" after "subparagraph (A)".

(2) INVESTMENT ADVISORS.—

(A) IN GENERAL.—Subparagraph (F) of section 4958(f)(1) is amended—

(i) by striking "which involves a sponsoring organization (as defined in section 4966(d)(1)),", and

(ii) by striking "such sponsoring organization (as so defined)" and inserting "the organization".

(B) INVESTMENT ADVISOR DEFINITION.—Subparagraph (B) of section 4958(f)(8) is amended to read as follows:

"(B) INVESTMENT ADVISOR DEFINED.—For purposes of subparagraph (A), the term 'investment advisor' means—

"(i) with respect to any organization, any person who is compensated by such organization and is primarily responsible for managing the investment of, or providing investment advice with respect to, assets of such organization, and

"(ii) with respect to any sponsoring organization (as defined in section 4966(d)(1)), any person (other than an employee of such organization) compensated by such organization for managing the investment of, or providing investment advice with respect to, assets maintained in donor advised funds (as defined in section 4966(d)(2)) owned by such organization.".

(e) APPLICATION TO UNIONS AND TRADE ASSOCIATIONS.—Paragraph (1) of section 4958(e) is amended by inserting "(5), (6)," after "(4),".

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

SEC. 5202. MODIFICATION OF TAXES ON SELF-DEALING.

(a) ORGANIZATION LEVEL TAX.—Subsection (a) of section 4941 is amended by adding at the end the following new paragraph:

"(3) ON THE FOUNDATION.—In any case in which a tax is imposed by paragraph (1), there is hereby imposed on the foundation a tax equal to 2.5 percent (10 percent in the case payment of compensation) of the amount involved with respect to the act of self-dealing for each year (or part thereof) in the taxable period.".

(b) REPEAL OF EXCEPTION FOR MANAGER RELIANCE ON ADVICE FROM COUNSEL.—Section 4941 is amended by adding at the end the following new subsection:

"(f) NO SAFE HARBOR FOR RELIANCE ON ADVICE OF COUNSEL.—A foundation manager's reliance on a written legal opinion by legal counsel that an act is not an act of self-dealing shall not, by itself, preclude the manager from being treated as participating in the act knowingly.".

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

SEC. 5203. EXCISE TAX ON FAILURE TO DISTRIBUTE WITHIN 5 YEARS CONTRIBUTION TO DONOR ADVISED FUND.

(a) IN GENERAL.—Subchapter G of chapter 42 is amended by adding at the end the following new section:

"SEC. 4968. FAILURE TO DISTRIBUTE CONTRIBUTIONS WITHIN 5 YEARS.

''(a) IN GENERAL.—In the case of a contribution which is held in a donor advised fund, there is hereby imposed a tax equal to 20 percent of so much of the portion of such contribution as has not been distributed by the sponsoring organization in an eligible distribution before the beginning of the 6th (or succeeding) taxable year beginning after the taxable year during which such contribution was made. The tax imposed by this subsection shall be paid by such sponsoring organization.

''(b) TREATMENT OF DISTRIBUTIONS.—For purposes of this section—

''(1) ELIGIBLE DISTRIBUTION.—The term 'eligible distribution' means any distribution to an organization described in section 170(b)(1)(A) (other than an organization described in section 509(a)(3) or any fund or account described in section 4966(d)(2).

''(2) ACCOUNTING.—Distributions shall be treated as made from contributions (and any earnings attributable thereto) on a first-in, first-out basis.''.

(b) CONFORMING AMENDMENT.—The table of sections for subchapter G of chapter 42 is amended by adding at the end the following new item:

''Sec. 4968. Failure to distribute contributions within 5 years.''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to contributions made after December 31, 2014.

(2) TRANSITION RULE.—In the case of any contribution—

(A) which was made before January 1, 2015, and

(B) any portion of which (including any earnings attributable thereto) is held in a donor advised fund on such date,

such portion shall be treated as contributed on such date.

SEC. 5204. SIMPLIFICATION OF EXCISE TAX ON PRIVATE FOUNDATION INVESTMENT INCOME.

(a) RATE REDUCTION.—Subsection (a) of section 4940 is amended by striking ''2 percent'' and inserting ''1 percent''.

(b) REPEAL OF SPECIAL RULES FOR CERTAIN PRIVATE FOUNDATIONS.—Section 4940 is amended by striking subsections (d) and (e).

(c) CONFORMING AMENDMENT.—Section 4945(d)(4)(A) is amended by striking clause (iii) and by inserting ''or'' at the end of clause (i).

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

SEC. 5205. REPEAL OF EXCEPTION FOR PRIVATE OPERATING FOUNDATION FAILURE TO DISTRIBUTE INCOME.

(a) IN GENERAL.—Subsection (a) of section 4942 is amended—

(1) by striking ''a private foundation—'' and all that follows through ''(2) to the extent'' and inserting ''a private foundation to the extent'', and

(2) by redesignating subparagraphs (A), (B), (C), and (D) as paragraphs (1), (2), (3), and (4), respectively, and by moving such paragraphs, as so redesignated, two ems to the left.

(b) CONFORMING AMENDMENTS.—

(1) Section 4942(j) is amended by striking paragraphs (3), (4), and (5).

(2) Section 170(b)(1)(F)(i) is amended by striking ''(as defined in section 4942(j)(3))'',

(3) Section 170(b)(1) is amended by adding at the end the following new subparagraphs:

''(H) PRIVATE OPERATING FOUNDATION.—For purposes of this paragraph, the term 'private operating foundation' means any organization—

''(i) which makes qualifying distributions (within the meaning of paragraph (1) or (2) of section 4942(g)) directly for the active conduct of the activities constituting the purpose or function for which it is organized and operated equal to substantially all of the lesser of—

''(I) its adjusted net income (as defined in subsection section 4942(f)), or

''(II) its minimum investment return, and

''(ii)(I) substantially more than half of the assets of which are devoted directly to such activities or to functionally related businesses, or to both, or are stock of a corporation which is controlled by the foundation and substantially all of the assets of which are so devoted,

"(II) which normally makes qualifying distributions (within the meaning of paragraph (1) or (2) of section 4942(g)) directly for the active conduct of the activities constituting the purpose or function for which it is organized and operated in an amount not less than two-thirds of its minimum investment return (as defined in section 4942(e)), or

"(III) substantially all of the support (other than gross investment income as defined in section 509(e)) of which is normally received from the general public and from 5 or more exempt organizations which are not described in section 4946(a)(1)(H) with respect to each other or the recipient foundation; not more than 25 percent of the support (other than gross investment income) of which is normally received from any one such exempt organization; and not more than half of the support of which is normally received from gross investment income.

Notwithstanding the provisions of clause (i), if the qualifying distributions (within the meaning of paragraph (1) or (2) of section 4942(g)) of an organization for the taxable year exceed the minimum investment return for the taxable year, subclause (II) of clause (i) shall not apply unless substantially all of such qualifying distributions are made directly for the active conduct of the activities constituting the purpose or function for which it is organized and operated.

''(I) FUNCTIONALLY RELATED BUSINESS.—For purposes of subparagraph (H), the term 'functionally related business' means—

''(i) a trade or business which is not an unrelated trade or business (as defined in section 513), or

''(ii) an activity which is carried on within a larger aggregate of similar activities or within a larger complex of other endeavors which is related (aside from the need of the organization for income or funds or the use it makes of the profits derived) to the exempt purposes of the organization.''.

(4) Section 170(e)(3)(A) is amended by striking ''as defined in section 4942(j)(3)'' and inserting ''as defined in subsection (b)(1)(H)''.

(5) Section 150(b)(3)(F), as redesignated by this Act, is amended—

(A) by striking ''4942 (relating to the excise tax on a failure to distribute income) and'',

(B) by striking ''section 4942(j)(4)'' and inserting ''section 170(b)(1)(I)''.

(6) Section 2055(e)(4)(D) is amended by striking ''section 4942(j)(3)'' and inserting ''section 170(b)(1)(H)''.

(7) Section 2503(g)(2)(B) is amended by striking ''section 4942(j)(3)'' and inserting ''section 170(b)(1)(H)''.

(8) Section 4942(g)(1)(A) is amended by striking ''which is not an operating foundation (as defined in subsection (j)(3))''.

(9) Section 4942(g)(3)(A) is amended by striking ''which is not an operating foundation''.

(10) Section 4942(g)(4)(A) is amended by striking ''which is not an operating foundation''.

(11) Section 4943(d)(3)(A) is amended by striking ''section 4942(j)(4)'' and inserting ''section 170(b)(1)(I)''.

(12) Section 6110(l)(2)(A) is amended by striking "section 4942(j)(3)" and inserting "section 170(b)(1)(H)".

(13) Section 7428(a)(1)(C) is amended by striking "section 4942(j)(3)" and inserting "section 170(b)(1)(H)".

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

SEC. 5206. EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE COLLEGES AND UNIVERSITIES.

(a) IN GENERAL.—Chapter 42 is amended by adding at the end the following new subchapter:

"Subchapter H—Excise Tax Based on Investment Income of Private Colleges and Universities

"SEC. 4969. EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE COLLEGES AND UNIVERSITIES.

"(a) TAX IMPOSED.—There is hereby imposed on each applicable educational institution for the taxable year a tax equal to 1 percent of the net investment income of such institution for the taxable year.

"(b) APPLICABLE EDUCATIONAL INSTITUTION.—For purposes of this subchapter—

"(1) IN GENERAL.—The term 'applicable educational institution' means an eligible educational institution (as defined in section 25A(e)(3))—

"(A) which is not described in the first sentence of section 511(a)(2)(B) (relating to State colleges and universities), and

"(B) the aggregate fair market value of the assets of which at the end of the preceding taxable year (other than those assets which are used (or held for use) directly in carrying out the institution's exempt purpose) is at least $100,000 per student of the institution.

"(2) STUDENTS.—For purposes of paragraph (1)(B), the number of students of an institution shall be based on the daily average number of full-time students attending such institution (with part-time students taken into account on a full-time student equivalent basis).

"(c) NET INVESTMENT INCOME.—For purposes of this section, net investment income shall be determined under rules similar to the rules of section 4940(c).".

(b) CLERICAL AMENDMENT.—The table of subchapters for chapter 42 is amended by adding at the end the following new item:

"SUBCHAPTER H—EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE COLLEGES AND UNIVERSITIES".

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

Subtitle D—Requirements For Organizations Exempt From Tax

SEC. 5301. REPEAL OF TAX-EXEMPT STATUS FOR PROFESSIONAL SPORTS LEAGUES.

(a) IN GENERAL.—Paragraph (6) of section 501(c) is amended—

(1) by striking '', boards of trade, or professional'' and all that follows through ''players)'' and inserting '', or boards of trade'' , and

(2) by adding at the end the following: ''This paragraph shall not apply to any professional sports league (whether or not administering a pension fund for players).''.

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

SEC. 5302. REPEAL OF EXEMPTION FROM TAX FOR CERTAIN INSURANCE COMPANIES AND CO-OP HEALTH INSURANCE ISSUERS.

(a) IN GENERAL.—Section 501(c) is amended by striking paragraphs (15) and (29).

(b) CONFORMING AMENDMENTS.—

(1) Section 831(d), as amended by the preceding provisions of this Act, is amended to read as follows:

"(d) CROSS REFERENCE.—For taxation of foreign corporations carrying on an insurance business within the United States, see section 842.".

(2) Section 4958(e)(1) is amended by striking "(4), or (29)" and inserting "or (4)".

(3) Section 6033 is amended by striking subsection (m) and redesignating subsection (n) as subsection (m).

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

(d) TRANSITION RULES.—In the case of any organization described in paragraph (15) or (29) of section 501(c) of the Internal Revenue Code of 1986 (as in effect immediately before the enactment of this Act)—

(1) no adjustment shall be made under section 481 (or any other provision) of the Internal Revenue Code of 1986 on account of a change in its method of accounting for its 1st taxable year beginning after December 31, 2014, and

(2) for purposes of determining gain or loss, the adjusted basis of any asset held on the 1st day of

such taxable year shall be treated as equal to its fair market value as of such day.

SEC. 5303. IN-STATE REQUIREMENT FOR WORKMEN'S COMPENSATION INSURANCE ORGANIZATION.

(a) IN GENERAL.—Clause (ii) of section 501(c)(27)(B) is amended by inserting before the comma at the end the following: '', and must not offer any other insurance''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to insurance policies issued, and renewals, after December, 31, 2014.

SEC. 5304. REPEAL OF TYPE II AND TYPE III SUPPORTING ORGANIZATIONS.

(a) IN GENERAL.—Subparagraph (B) of section 509(a)(3) is amended—

(1) by inserting ''and'' at the end of clause (i),

(2) by striking clauses (ii) and (iii), and

(3) by striking ''is—'' and all that follows through ''operated, supervised, or controlled'' and inserting ''is operated, supervised, or controlled''.

(b) CONFORMING AMENDMENTS.—

(1) Section 170(f)(18)(A) is amended by striking ''is not—'' and all that follows through '', and'' and inserting the following: ''is not described in paragraph (3), (4), or (5) of subsection (c), and''.

(2)(A)(i) Section 509(f) is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(ii) Section 4942(g)(4)(A)(ii)(I) is amended by striking ''section 509(f)(3)'' and inserting ''section 509(f)(2)''.

(iii) Section 4958(c)(3)(C)(ii)(II) is amended by striking ''section 509(f)(3)'' and inserting ''section 509(f)(2)''.

(iv) Section 4966(d)(4)(A)(ii)(I) is amended by striking ''section 509(f)(3)'' and inserting ''section 509(f)(2)''.

(B) Section 509(f)(1)(A), as so redesignated, is amended by striking ''shall not be considered to be—'' and all that follows through ''if such organization'' and inserting the following: ''shall not be considered to be operated, supervised, or controlled by any organization described in paragraph (1) or (2) of subsection (a), if such organization''.

(3) Section 2055(e)(5)(A) is amended by striking ''is not—'' and all that follows through '', and'' and inserting the following: ''is not described in paragraph (3) or (4) of subsection (a), and''.

(4) Section 2522(c)(5)(A) is amended by striking ''is not—'' and all that follows through '', and''

and inserting the following: ''is not described in paragraph (3) or (4) of subsection (a), and''.

(5)(A) Section 4942(g)(4)(A), as amended by the preceding provision of this Act, is amended—

(i) by redesignating subclauses (I) and (II) of clause (ii) as clauses (i) and (ii), respectively, and moving such redesignated clauses 2 ems to the left,

(ii) by striking ''paid by a private foundation to—'' and all that follows through ''any organization which'' and inserting the following: ''paid by a private foundation to any organization which'', and

(iii) by striking ''subparagraph (B) or (C)'' and inserting ''subparagraph (B)''.

(B) Section 4942(g)(4)(B) is amended—

(i) by striking clause (ii),

(ii) by striking ''section 509(a), or'' and inserting ''section 509(a).'',

(iii) by striking ''and is—'' and all that follows through ''operated, supervised, or controlled by'' and inserting the following: ''and is operated, supervised, or controlled by'', and

(iv) by striking "TYPE I AND TYPE II" in the heading thereof.

(C) Section 4942(g)(4) is amended by striking subparagraph (C).

(D) Section 4945(d)(4)(A)(ii) is amended by striking "clause (i) or (ii) of section 4942(g)(4)(A)" and inserting "section 4942(g)(4)(A)".

(6) Section 4943 is amended by striking subsection (f).

(7)(A) Section 4966(d)(4)(A), as amended by this Act, is amended—

(i) by redesignating subclauses (I) and (II) of clause (ii) as clauses (i) and (ii), respectively, and moving such redesignated clauses 2 ems to the left,

(ii) by striking "with respect to any distribution—" and all that follows through "any organization which" and inserting the following: "with respect to any distribution, any organization which", and

(iii) by striking "subparagraph (B) or (C)" and inserting "subparagraph (B)".

(B) Section 4966(d)(4)(B) is amended—

(i) by striking clause (ii),

(ii) by striking "section 509(a), or" and inserting "section 509(a).",

(iii) by striking "and is—" and all that follows through "operated, supervised, or controlled by" and inserting the following: "and is operated, supervised, or controlled by", and

(iv) by striking "TYPE I AND TYPE II" in the heading thereof.

(C) Section 4966(d)(4) is amended by striking subparagraph (C).

(8) Section 6033(l) is amended by inserting "and" at the end of paragraph (1), by striking paragraph (2), and by redesignating paragraph (3) as paragraph (2).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) DELAY FOR CURRENT SUPPORTING ORGANIZATIONS.—In the case of an organization which, as of the date of the enactment of this Act, meets the requirements of subparagraphs (A) and (C) of section 509(a)(3) of the Internal Revenue Code of 1986 and is—

(A) supervised or controlled in connection with one or more organizations described in paragraph (1) or (2) of section 509(a) of such Code, or

(B) is operated in connection with one or more such organizations,

the amendments made by this section shall apply to taxable years beginning after December 31, 2015.

TITLE VI—TAX ADMINISTRATION AND COMPLIANCE

Subtitle A—IRS Investigation-Related Reforms

SEC. 6001. ORGANIZATIONS REQUIRED TO NOTIFY SECRETARY OF INTENT TO OPERATE AS 501(c)(4).

(a) IN GENERAL.—Part I of subchapter F of chapter 1 is amended by adding at the end the following new section:

"SEC. 506. ORGANIZATIONS REQUIRED TO NOTIFY SECRETARY OF INTENT TO OPERATE AS 501(c)(4).

"(a) IN GENERAL.—An organization described in section 501(c)(4) shall, not later than 60 days after the organization is established, notify the Secretary (in such manner as the Secretary shall by regulation prescribe) that it is operating as such.

"(b) CONTENTS OF NOTICE.—The notice required under subsection (a) shall include the following information:

"(1) The name, address, and taxpayer identification number of the organization.

"(2) The date on which, and the State under the laws of which, the organization was organized.

"(3) A statement of the purpose of the organization.

"(c) ACKNOWLEDGMENT OF RECEIPT.—Not later than 60 days after receipt of such a notice, the Secretary shall send to the organization an acknowledgment of such receipt.

"(d) EXTENSION FOR REASONABLE CAUSE.—The Secretary may, for reasonable cause, extend the 60-day period described in subsection (a).

"(e) USER FEE.—The Secretary shall impose a reasonable user fee for submission of the notice under subsection (a).

"(f) REQUEST FOR DETERMINATION.—Upon request by an organization to be treated as an organization described in section 501(c)(4), the Secretary may issue a determination with respect to such treatment. Such request shall be treated for purposes of section 6104 as an application for exemption from taxation under section 501(a).".

(b) SUPPORTING INFORMATION WITH FIRST RETURN.—Paragraph (1) of section 6033(f) is amended—

(1) by striking the period at the end and inserting ", and",

(2) by striking "include on the return required under subsection (a) the information" and inserting the following: "include on the return required under subsection (a)—

"(1) the information", and

(3) by adding at the end the following new paragraph:

"(2) in the case of the first such return filed by such an organization after submitting a notice to the Secretary under section 506(a), such information as the Secretary shall by regulation require in support of the organization's treatment as an organization described in section 501(c)(4).".

(c) FAILURE TO FILE INITIAL NOTIFICATION.—Subsection (c) of section 6652 is amended by redesignating paragraphs (4) and (5) as paragraphs (5) and (6), respectively, and by inserting after paragraph (3) the following new paragraph:

"(4) NOTICES UNDER SECTION 506.—

"(A) PENALTY ON ORGANIZATION.—In the case of a failure to submit a notice required under section 506(a) (relating to organizations required to notify Secretary of intent to operate as 501(c)(4)) on the date and in the manner prescribed therefor, there shall be paid by the organization failing to so submit $20 for each day during which such failure continues, but the total amount imposed under this subparagraph on any organization for failure to submit any one notice shall not exceed $5,000.

"(B) MANAGERS.—The Secretary may make written demand on an organization subject to penalty under subparagraph (A) specifying in such demand a reasonable future date by which the notice shall be submitted for purposes of this subparagraph. If such notice is not submitted on or before such date, there shall be paid by the person failing to so submit $20 for each day after the expiration of the time specified in the written demand during which such failure continues, but the total amount imposed under this subparagraph on all persons for failure to submit any one notice shall not exceed $5,000.".

(d) CLERICAL AMENDMENT.—The table of sections for part I of subchapter F of chapter 1 is amended by adding at the end the following new item:

"Sec. 506. Organizations required to notify Secretary of intent to operate as 501(c)(4).".

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to organizations which are described in section 501(c)(4) of the Internal Revenue Code of 1986 and organized after December 31, 2014.

(2) CERTAIN EXISTING ORGANIZATIONS.—In the case of any other organization described in section 501(c)(4) of such Code, the amendments made by this section shall apply to such organization only if, on or before the date of the enactment of this Act—

(A) such organization has not applied for a written determination of recognition as an organization described in section 501(c)(4) of such Code, and

(B) such organization has not filed at least one annual return or notice required under subsection (a)(1) or (i) (as the case may be) of section 6033 of such Code.

In the case of any organization to which the amendments made by this section apply by reason of the preceding sentence, such organization shall submit the notice required by section 506(a) of such Code, as added by this Act, not later than 180 days after the date of the enactment of this Act.

SEC. 6002. DECLARATORY JUDGMENTS FOR 501(c)(4) ORGANIZATIONS.

(a) IN GENERAL.—Paragraph (1) of section 7428(a) is amended by striking ''or'' at the end of subparagraph (C) and by inserting after subparagraph (D) the following new subparagraph:

''(E) with respect to the initial classification or continuing classification of an organization described in section 501(c)(4) which is exempt from tax under section 501(a), or''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to pleadings filed after the date of the enactment of this Act.

SEC. 6003. RESTRICTION ON DONATION REPORTING FOR CERTAIN 501(c)(4) ORGANIZATIONS.

(a) IN GENERAL.—Subsection (f) of section 6033, as amended by this Act, is amended—

(1) by redesignating paragraphs (1) and (2) as subparagraphs (A) and (B), respectively, and by moving such subparagraphs 2 ems to the right,

(2) by striking "IN SECTION 501(c)(4).—Every organization" and inserting the following: "IN SECTION 501(c)(4).—

"(1) IN GENERAL.—Every organization", and

(3) by adding at the end the following new paragraph:

"(2) RESTRICTION ON DONATION REPORTING.—In the case of any such organization, information relating to contributions and gifts may only be required to be included on a return required under subsection (a) if the contribution or gift is made by an officer or director of the organization (or an individual having powers or responsibilities similar to those of officers or directors) or any covered employee (as defined in section 4960(c)(2)) of the organization.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to returns for taxable years beginning after December 31, 2013.

SEC. 6004. MANDATORY ELECTRONIC FILING FOR ANNUAL RETURNS OF EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Section 6033, as amended by the preceding provisions of this Act, is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

"(m) MANDATORY ELECTRONIC FILING.—Any organization required to file a return under this section shall file such return in electronic form.".

(b) INSPECTION OF ELECTRONICALLY FILED ANNUAL RETURNS.—Subsection (b) of section 6104 is amended by adding at the end the following: "Any annual return required to be filed electronically under section 6033(m) shall be made available by the Secretary to the public in machine readable format as soon as practicable.".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) TRANSITIONAL RELIEF.—

(A) SMALL ORGANIZATIONS.—

(i) IN GENERAL.—In the case of any small organizations, or any other organizations for which the Secretary determines the application of the amendments made by subsection (a) would cause undue burden without a delay, the Secretary may delay the application of such amendments, but not later than taxable years beginning 2 years after the date of the enactment of this Act.

(ii) SMALL ORGANIZATION.—For purposes of clause (i), the term ''small organization'' means any organization—

(I) the gross receipts of which for the taxable year are less than $200,000, and

(II) the aggregate gross assets of which at the end of the taxable year are less than $500,000.

(B) ORGANIZATIONS FILING FORM 990-T.—In the case of any organization described in section 511(a)(2) of the Internal Revenue Code of 1986 which is subject to the tax imposed by section 511(a)(1) of such Code on its unrelated business taxable income, or any organization required to file a return under section 6033 of such Code and include information under subsection (e) thereof, the Secretary may delay the application of the amendments made by this section, but not later than taxable years beginning 2 years after the date of the enactment of this Act.

SEC. 6005. DUTY TO ENSURE THAT IRS EMPLOYEES ARE FAMILIAR WITH AND ACT IN ACCORD WITH CERTAIN TAXPAYER RIGHTS.

Section 7803(a) is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

"(3) EXECUTION OF DUTIES IN ACCORD WITH TAXPAYER RIGHTS.—In discharging his duties, the Commissioner shall ensure that employees of the Internal Revenue Service are familiar with and act in accord with taxpayer rights as afforded by other provisions of this title, including—

"(A) the right to be informed,

"(B) the right to be assisted,

"(C) the right to be heard,

"(D) the right to pay no more than the correct amount of tax,

"(E) the right of appeal,

"(F) the right to certainty,

"(G) the right to privacy,

"(H) the right to confidentiality,

"(I) the right to representation, and

"(J) the right to a fair and just tax system.".

SEC. 6006. TERMINATION OF EMPLOYMENT OF IRS EMPLOYEES FOR TAKING OFFICIAL ACTIONS FOR POLITICAL PURPOSES.

Paragraph (10) of section 1203(b) of the Internal Revenue Service Restructuring and Reform Act of 1998 is amended to read as follows:

"(10) performing, delaying, or failing to perform (or threatening to perform, delay, or fail to perform) any official action (including any audit) with respect to a taxpayer for purpose of extracting personal gain or benefit or for a political purpose.".

SEC. 6007. RELEASE OF INFORMATION REGARDING THE STATUS OF CERTAIN INVESTIGATIONS.

(a) IN GENERAL.—Subsection (e) of section 6103 is amended by adding at the end the following new paragraph:

"(11) DISCLOSURE OF INFORMATION REGARDING STATUS OF INVESTIGATION OF VIOLATION OF THIS SECTION.—In the case of a person who provides to the Secretary information indicating a violation of section 7213, 7213A, or 7214 with respect to any return or return information of such person, the Secretary may disclose to such person (or such person's designee)—

"(A) whether an investigation based on the person's provision of such information has been initiated and whether it is open or closed,

"(B) whether any such investigation substantiated such a violation by any individual, and

"(C) whether any action has been taken with respect to such individual (including whether a referral has been made for prosecution of such individual).".

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

SEC. 6008. REVIEW OF IRS EXAMINATION SELECTION PROCEDURES.

(a) IN GENERAL.—The Comptroller General of the United States shall conduct a study of each Internal Revenue Service operating division to assess the process used for determining how enforcement cases are selected and processed. Such study shall include a review of the following:

(1) The standards each such operating division has established for enforcement case selection (in-

cluding any automated or discretionary selection processes) and case work, and whether such standards meet the objectives of impartiality, objectivity, compliance, and minimizing taxpayer burden.

(2) The extent to which any cases are initiated by referrals or complaints from inside or outside of the operating division (including from outside of the Internal Revenue Service).

(3) The Internal Revenue Service controls (including management reviews and regular updates) for assuring that its standards for enforcement cases (and handling of referrals and complaints) in each operating division are sufficient for achieving the objectives described in paragraph (1).

(4) The Internal Revenue Service controls (including training, monitoring, and quality assessments) for assuring that its standards are adhered to by all division personnel and the effectiveness of such controls.

(5) Whether the existing standards and controls provide reasonable assurance that each division's enforcement processes meet the Internal Revenue Service objectives of impartiality, objectivity, compliance, and minimizing taxpayer burden.

(b) Initial Report.—Not later than 1 year after the date of the enactment of this section, the Comptroller General shall submit to the Committee on Ways and Means of the House of Representatives, the Committee on Finance of the Senate, and the Secretary of the Treasury a report on the results of such study. Such report shall include such recommendations as the Comptroller General may deem advisable.

(c) Follow-up on Recommendations.—Not later than 180 days after a report is submitted with respect to an operating division under subsection (b), the Comptroller General shall conduct a follow-up study, and submit to the Committee on Ways and Means of the House of Representatives, the Committee on Finance of the Senate, and the Secretary of the Treasury a report, on whether any recommendations to improve case selection and case work processes have been implemented and are working as intended.

(d) Continuing Case Management Studies and Reports.—

(1) In general.—After a report is submitted under subsection (b), the Comptroller General shall conduct follow-up studies and reports in the same manner as provided in subsections (a) and (b) with respect to each operating division of the Internal

Revenue Service and shall include in such study and report a review of whether any previous recommendations to improve case selection and case work processes have been implemented and are working as intended.

(2) FREQUENCY.—Each such report with respect to an operating division shall be submitted not later than 4 years after the date the most recent report was submitted with respect to such operating division under subsection (b) or this subsection. The Comptroller General shall submit no fewer than 1 such report each year.

SEC. 6009. IRS EMPLOYEES PROHIBITED FROM USING PERSONAL EMAIL ACCOUNTS FOR OFFICIAL BUSINESS.

No officer or employee of the Internal Revenue Service may use a personal email account to conduct any official business of the Government.

SEC. 6010. MORATORIUM ON IRS CONFERENCES.

The Internal Revenue Service shall not hold any conference until the Treasury Inspector General for Tax Administration submits a report to Congress—

(1) certifying that the Internal Revenue Service has implemented all of the recommendations set out in such Inspector General's report titled ''Review of

the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California'', and

(2) describing such implementation.

SEC. 6011. APPLICABLE STANDARD FOR DETERMINATIONS OF WHETHER AN ORGANIZATION IS OPERATED EXCLUSIVELY FOR THE PROMOTION OF SOCIAL WELFARE.

(a) IN GENERAL.—The standard and definitions as in effect on January 1, 2010, which are used to determine whether an organization is operated exclusively for the promotion of social welfare for purposes of section 501(c)(4) of the Internal Revenue Code of 1986 shall apply for purposes of determining the status of organizations under section 501(c)(4) of the Internal Revenue Code of 1986 after the date of the enactment of this Act.

(b) PROHIBITION ON MODIFICATION OF STANDARD.—The Secretary of the Treasury may not (nor may any delegate of such Secretary) issue, revise, or finalize any regulation (including the proposed regulations published at 78 Fed. Reg. 71535 (November 29, 2013)), revenue ruling, or other guidance not limited to a particular taxpayer relating to the standard and definitions specified in subsection (a).

(c) APPLICATION TO ORGANIZATIONS.—Except as provided in subsection (d), this section shall apply with respect to any organization claiming tax exempt status under section 501(c)(4) of the Internal Revenue Code of 1986 which was created on, before, or after the date of the enactment of this Act.

(d) SUNSET.—This section shall not apply after the one-year period beginning on the date of the enactment of this Act.

Subtitle B—Taxpayer Protection and Service Reforms

SEC. 6101. EXTENSION OF IRS AUTHORITY TO REQUIRE TRUNCATED SOCIAL SECURITY NUMBERS ON FORM W-2.

(a) IN GENERAL.—Paragraph (2) of section 6051(a) is amended by striking ''his social security number'' and inserting ''an identifying number for the employee''.

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

SEC. 6102. FREE ELECTRONIC FILING.

(a) IN GENERAL.—The Secretary of the Treasury shall, in cooperation with the private sector technology industry, maintain a program that provides free individual income tax preparation and electronic filing services to low-income taxpayers and elderly taxpayers.

(b) REQUIREMENTS OF PROGRAM.—The Secretary shall by regulation or other guidance prescribe with respect to the program—

(1) the qualifications, selection process, and contract term for businesses participating in the program,

(2) a process for periodic review of businesses participating in the program,

(3) procedures for terminating business participation in the program for failure to comply with any program requirements, and

(4) such other procedures as the Secretary determines are necessary or appropriate to carry out the purposes of the program.

(c) FREE FILE PROGRAM.—The Internal Revenue Service Free File program, as set forth in the notice published in the Federal Register on November 4, 2002 (67 Fed. Reg. 67247), shall be treated as meeting the requirements of subsection (a).

SEC. 6103. PRE-POPULATED RETURNS PROHIBITED.

Except to the extent provided in section 6014, 6020, or 6201(d) of the Internal Revenue Code of 1986, the Secretary of the Treasury shall not provide to any person a proposed final return or statement for use by such person to satisfy a filing or reporting requirement under such Code.

SEC. 6104. FORM 1040SR FOR SENIORS.

(a) IN GENERAL.—The Secretary of the Treasury (or the Secretary's delegate) shall make available a form, to be known as "Form 1040SR", for use by individuals to file the return of tax imposed by chapter 1 of the Internal Revenue Code of 1986. Such form shall be as similar as practicable to Form 1040EZ, except that—

(1) the form shall be available to individuals who have attained age 65 as of the close of the taxable year,

(2) the form may be used even if income for the taxable year includes—

(A) social security benefits (as defined in section 86(d) of the Internal Revenue Code of 1986),

(B) distributions from qualified retirement plans (as defined in section 4974(c) of such Code), annuities or other such deferred payment arrangements,

(C) interest and dividends, or

(D) capital gains and losses taken into account in determining the deduction for adjusted net capital gain under section 169 of such Code, and

(3) the form shall be available without regard to the amount of any item of taxable income or the total amount of taxable income for the taxable year.

(b) EFFECTIVE DATE.—The form required by subsection (a) shall be made available for taxable years beginning after December 31, 2014.

SEC. 6105. INCREASED REFUND AND CREDIT THRESHOLD FOR JOINT COMMITTEE ON TAXATION REVIEW OF C CORPORATION RETURN.

(a) IN GENERAL.—Subsections (a) and (b) of section 6405 are each amended by inserting "($5,000,000 in the case of a C corporation)" after "$2,000,000".

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act, except that such amendment shall not apply with respect to any refund or credit with respect to a report that has been made before such date under section 6405 of the Internal Revenue Code of 1986.

Subtitle C—Tax Return Due Date Simplification

SEC. 6201. DUE DATES FOR RETURNS OF PARTNERSHIPS, S CORPORATIONS, AND C CORPORATIONS.

(a) PARTNERSHIPS AND S CORPORATIONS.—

(1) IN GENERAL.—So much of subsection (b) of 6072 as precedes the second sentence thereof is amended to read as follows:

"(b) RETURNS OF PARTNERSHIPS AND S CORPORATIONS.—Returns of partnerships under section 6031 and returns of S corporations under sections 6012 and 6037 made on the basis of the calendar year shall be filed on or before the 15th day of March following the close of the calendar year, and such returns made on the basis of a fiscal year shall be filed on or before the 15th day of the third month following the close of the fiscal year.".

(2) CONFORMING AMENDMENT.—Section 6072(a) is amended by striking "6017, or 6031" and inserting "or 6017".

(b) CONFORMING AMENDMENTS RELATING TO C CORPORATION DUE DATE OF 15TH DAY OF FOURTH MONTH FOLLOWING TAXABLE YEAR.—

(1) Section 170(a)(3)(B), as redesignated by the preceding provisions of this Act, is amended by striking "third month" and inserting "fourth month".

(2) Section 563 is amended by striking "third month" each place it appears and inserting "fourth month".

(3) Section 1354(d)(1)(B)(i) is amended by striking ‘‘3d month’’ and inserting ‘‘4th month’’.

(4) Subsection (a) and (c) of section 6167 are each amended by striking ‘‘third month’’ and inserting ‘‘fourth month’’.

(5) Section 6425(a)(1) is amended by striking ‘‘third month’’ and inserting ‘‘fourth month’’.

(6) Subsections (b)(2)(A), (g)(3), and (h)(1) of section 6655 are each amended by striking ‘‘3rd month’’ and inserting ‘‘4th month’’.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to returns for taxable years beginning after December 31, 2014.

(2) SPECIAL RULE FOR C CORPORATIONS WITH FISCAL YEARS ENDING ON JUNE 30.—In the case of any C corporation with a fiscal year ending on June 30, the amendments made by this section shall not apply to any taxable year beginning in 2022.

SEC. 6202. MODIFICATION OF DUE DATES BY REGULATION.

In the case of returns for taxable years beginning after December 31, 2014, the Secretary of the Treasury, or the Secretary's designee, shall modify appropriate regulations to provide as follows:

(1) The maximum extension for the returns of partnerships filing Form 1065 shall be a 6-month period ending on September 15 for calendar year taxpayers.

(2) The maximum extension for the returns of trusts filing Form 1041 shall be a 5½-month period ending on September 30 for calendar year taxpayers.

(3) The maximum extension for the returns of employee benefit plans filing Form 5500 shall be an automatic 3½-month period ending on November 15 for calendar year plans.

(4) The maximum extension for the returns of organizations exempt from income tax filing Form 990 shall be an automatic 6-month period ending on November 15 for calendar year filers.

(5) The due date of Form 3520–A (relating to the Annual Information Return of Foreign Trust with a United States Owner) for calendar year filers shall be April 15 with a maximum extension for a 6-month period ending on October 15.

(6) The due date of Form TD F 90–22.1 (relating to Report of Foreign Bank and Financial Accounts) shall be April 15 with a maximum extension for a 6-month period ending on October 15 and with provision for an extension under rules similar to the

rules in Treas. Reg. section 1.6081–5. For any taxpayer required to file such Form for the first time, any penalty for failure to timely request for, or file, an extension, may be waived by the Secretary.

SEC. 6203. CORPORATIONS PERMITTED STATUTORY AUTOMATIC 6-MONTH EXTENSION OF INCOME TAX RETURNS.

(a) IN GENERAL.—Section 6081(b) is amended by striking ‘‘3 months’’ and inserting ‘‘6 months’’.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to returns for taxable years beginning after December 31, 2014.

Subtitle D—Compliance Reforms

SEC. 6301. PENALTY FOR FAILURE TO FILE.

(a) IN GENERAL.—Section 6651(a) is amended by striking ‘‘$135’’ in the flush material at the end and inserting ‘‘$400’’.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to returns the due date for the filing of which (including extension) is after December 31, 2014.

SEC. 6302. PENALTY FOR FAILURE TO FILE CORRECT INFORMATION RETURNS AND PROVIDE PAYEE STATEMENTS.

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

(1) by striking ''$100'' and inserting ''$250'', and

(2) by striking ''$1,500,000'' and inserting ''$3,000,000''.

(b) REDUCTION WHERE CORRECTION IN SPECIFIED PERIOD.—

(1) CORRECTION WITHIN 30 DAYS.—Section 6721(b)(1) is amended—

(A) by striking ''$30'' and inserting ''$50'',

(B) by striking ''$100'' and inserting ''$250'', and

(C) by striking ''$250,000'' and inserting ''$500,000''.

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

(A) by striking ''$60'' and inserting ''$100'',

(B) by striking ''$100'' (prior to amendment by subparagraph (A)) and inserting ''$250'', and

(C) by striking ''$500,000'' and inserting ''$1,500,000''.

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

(1) in subparagraph (A)—

(A) by striking ''$500,000'' and inserting ''$1,000,000'', and

(B) by striking ''$1,500,000'' and inserting ''$3,000,000'',

(2) in subparagraph (B)—

(A) by striking ''$75,000'' and inserting ''$175,000'', and

(B) by striking ''$250,000'' and inserting ''$500,000'', and

(3) in subparagraph (C)—

(A) by striking ''$200,000'' and inserting ''$500,000'', and

(B) by striking ''$500,000'' (prior to amendment by subparagraph (A)) and inserting ''$1,500,000''.

(d) PENALTY IN CASE OF INTENTIONAL DISREGARD.—Section 6721(e) is amended—

(1) by striking ''$250'' in paragraph (2) and inserting ''$500'', and

(2) by striking ''$1,500,000'' in paragraph (3)(A) and inserting ''$3,000,000''.

(e) FAILURE TO FURNISH CORRECT PAYEE STATEMENTS.—

(1) IN GENERAL.—Section 6722(a)(1) is amended—

(A) by striking "$100" and inserting "$250", and

(B) by striking "$1,500,000" and inserting "$3,000,000".

(2) REDUCTION WHERE CORRECTION IN SPECIFIED PERIOD.—

(A) CORRECTION WITHIN 30 DAYS.—Section 6722(b)(1) is amended—

(i) by striking "$30" and inserting "$50",

(ii) by striking "$100" and inserting "$250", and

(iii) by striking "$250,000" and inserting "$500,000".

(B) FAILURES CORRECTED ON OR BEFORE AUGUST 1.—Section 6722(b)(2) is amended—

(i) by striking "$60" and inserting "$100",

(ii) by striking "$100" (prior to amendment by clause (i)) and inserting "$250", and

(iii) by striking ''$500,000'' and inserting ''$1,500,000''.

(3) LOWER LIMITATION FOR PERSONS WITH GROSS RECEIPTS OF NOT MORE THAN $5,000,000.—Section 6722(d)(1) is amended—

(A) in subparagraph (A)—

(i) by striking ''$500,000'' and inserting ''$1,000,000'', and

(ii) by striking ''$1,500,000'' and inserting ''$3,000,000'',

(B) in subparagraph (B)—

(i) by striking ''$75,000'' and inserting ''$175,000'', and

(ii) by striking ''$250,000'' and inserting ''$500,000'', and

(C) in subparagraph (C)—

(i) by striking ''$200,000'' and inserting ''$500,000'', and

(ii) by striking ''$500,000'' (prior to amendment by subparagraph (A)) and inserting ''$1,500,000''.

(4) PENALTY IN CASE OF INTENTIONAL DISREGARD.—Section 6722(e) is amended—

(A) by striking ''$250'' in paragraph (2) and inserting ''$500'', and

(B) by striking "$1,500,000" in paragraph (3)(A) and inserting "$3,000,000".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to returns and statements required to be filed after December 31, 2014.

SEC. 6303. CLARIFICATION OF 6-YEAR STATUTE OF LIMITATIONS IN CASE OF OVERSTATEMENT OF BASIS.

(a) IN GENERAL.—Subparagraph (B) of section 6501(e)(1) is amended—

(1) by striking "and" at the end of clause (i), by redesignating clause (ii) as clause (iii), and by inserting after clause (i) the following new clause:

"(ii) An understatement of gross income by reason of an overstatement of unrecovered cost or other basis is an omission from gross income; and", and

(2) by inserting "(other than in the case of an overstatement of unrecovered cost or other basis)" in clause (iii) (as so redesignated) after "In determining the amount omitted from gross income".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to—

(1) returns filed after the date of the enactment of this Act, and

(2) returns filed on or before such date if the period specified in section 6501 of the Internal Revenue Code of 1986 (determined without regard to such amendments) for assessment of the taxes with respect to which such return relates has not expired as of such date.

SEC. 6304. REFORM OF RULES RELATED TO QUALIFIED TAX COLLECTION CONTRACTS.

(a) REQUIREMENT TO COLLECT CERTAIN INACTIVE TAX RECEIVABLES UNDER QUALIFIED TAX COLLECTION CONTRACTS.—Section 6306 is amended by redesignating subsections (c) through (f) as subsections (d) through (g), respectively, and by inserting after subsection (b) the following new subsection:

"(c) COLLECTION OF INACTIVE TAX RECEIVABLES.—

"(1) IN GENERAL.—Notwithstanding any other provision of law, the Secretary shall enter into one or more qualified tax collection contracts for the collection of all outstanding inactive tax receivables.

"(2) INACTIVE TAX RECEIVABLES.—For purposes of this section—

"(A) IN GENERAL.—The term 'inactive tax receivable' means any tax receivable if—

"(i) at any time after assessment, the Internal Revenue Service removes such receivable from the active inventory for lack of resources or inability to locate the taxpayer,

"(ii) more than ⅓ of the period of the applicable statute of limitation has lapsed and no employee of the Internal Revenue Service has been assigned such receivable for collection, or

"(iii) in the case of a receivable which has been assigned for collection, more than 365 days have passed without interaction with the taxpayer or a third party for purposes of furthering the collection of such receivable.

"(B) TAX RECEIVABLE.—The term 'tax receivable' means any outstanding assessment which the Internal Revenue Service includes in potentially collectible inventory.".

(b) CERTAIN TAX RECEIVABLES NOT ELIGIBLE FOR COLLECTION UNDER QUALIFIED TAX COLLECTION CONTRACTS.—Section 6306, as amended by subsection (a), is amended by redesignating subsections (d) through (g) as subsections (e) through (h), respectively, and by inserting after subsection (c) the following new subsection:

"(d) CERTAIN TAX RECEIVABLES NOT ELIGIBLE FOR COLLECTION UNDER QUALIFIED TAX COLLECTIONS CONTRACTS.—A tax receivable shall not be eligible for collection pursuant to a qualified tax collection contract if such receivable—

"(1) is subject to a pending or active offer-in-compromise or installment agreement,

"(2) is classified as an innocent spouse case,

"(3) involves a taxpayer identified by the Secretary as being—

"(A) deceased,

"(B) under the age of 18,

"(C) in a designated combat zone, or

"(D) a victim of identity theft,

"(4) is currently under examination, litigation, criminal investigation, or levy, or

"(5) is currently subject to a proper exercise of a right of appeal under this title.".

(c) CONTRACTING PRIORITY.—Section 6306, as amended by the preceding provisions of this section, is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

"(h) CONTRACTING PRIORITY.—In contracting for the services of any person under this section, the Secretary shall give priority to private collection contractors and debt collection centers on the schedule required under section 3711(g) of title 31, United States Code, to the extent such private collection contractors and debt collection centers are appropriate to carry out the purposes of this section.".

(d) DISCLOSURE OF RETURN INFORMATION.—Section 6103(k) is amended by adding at the end the following new paragraph:

"(11) QUALIFIED TAX COLLECTION CONTRACTORS.—Persons providing services pursuant to a qualified tax collection contract under section 6306 may, if speaking to a person who has identified himself or herself as having the name of the taxpayer to which a tax receivable (within the meaning of such section) relates, identify themselves as contractors of the Internal Revenue Service and disclose the business name of the contractor, and the nature, subject, and reason for the contact. Disclosures under this paragraph shall be made only in such situations and under such conditions as have been approved by the Secretary.".

(e) TAXPAYERS AFFECTED BY FEDERALLY DECLARED DISASTERS.—Section 6306, as amended by the preceding provisions of this section, is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

"(i) TAXPAYERS IN PRESIDENTIALLY DECLARED DISASTER AREAS.—The Secretary may prescribe procedures under which a taxpayer determined to be affected by a federally declared disaster (as defined by section 165(i)(5)) may request—

"(1) relief from immediate collection measures by contractors under this section, and

"(2) a return of the inactive tax receivable to the Internal Revenue Service for collection.".

(f) REPORT TO CONGRESS.—

(1) IN GENERAL.—Section 6306, as amended by the preceding provisions of this section, is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

"(j) REPORT TO CONGRESS.—Not later than 90 days after each fiscal year ending on September 30, the Secretary shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a report with respect to qualified tax collection contracts under this section which shall include—

"(1) annually (with respect to each such fiscal year beginning with the first such fiscal year ending after the date of the enactment of this subsection)—

"(A) the total number and amount of tax receivables provided to each contractor for collection under this section,

"(B) the total amounts collected (and amounts of installment agreements entered into under subsection (b)(1)(B)) with respect to each contractor and the collection costs incurred (directly and indirectly) by the Internal Revenue Service with respect to such amounts,

"(C) the impact of such contracts on the total number and amount of unpaid assessments, and on the number and amount of assessments collected by Internal Revenue Service personnel after initial contact by a contractor,

"(D) the amount of fees retained by the Secretary under subsection (e) and a description of the use of such funds, and

"(E) a disclosure safeguard report in a form similar to that required under section 6103(p)(5), and

"(2) biannually (beginning with the second report submitted under this subsection)—

"(A) an independent evaluation of contractor performance; and

"(B) a measurement plan that includes a comparison of the best practices used by the private collectors to the collection techniques used by the Internal Revenue Service and mechanisms to identify and capture information on successful collection techniques used by the contractors that could be adopted by the Internal Revenue Service.".

(2) REPEAL OF EXISTING REPORTING REQUIREMENTS WITH RESPECT TO QUALIFIED TAX COLLECTION CONTRACTS.—Section 881 of the American Jobs Creation Act of 2004 is amended by striking subsection (e).

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by subsections (a) and (b) shall apply to tax receivables identified by the Secretary after the date of the enactment of this Act.

(2) CONTRACTING PRIORITY.—The amendments made by subsection (c) shall apply to contracts and

agreements entered into after the date of the enactment of this Act.

(3) DISCLOSURES.—The amendments made by subsection (d) shall apply to disclosures made after the date of the enactment of this Act.

(4) PROCEDURES; REPORT TO CONGRESS.—The amendments made by subsections (e) and (f) shall take effect on the date of the enactment of this Act.

SEC. 6305. 100 PERCENT CONTINUOUS LEVY ON PAYMENTS TO MEDICARE PROVIDERS AND SUPPLIERS.

(a) IN GENERAL.—Paragraph (3) of section 6331(h) is amended by striking the period at the end and inserting ", or to a Medicare provider or supplier under title XVIII of the Social Security Act.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to levies issued after the date of the enactment of this Act.

SEC. 6306. TREATMENT OF REFUNDABLE CREDITS FOR PURPOSES OF CERTAIN PENALTIES.

(a) APPLICATION OF UNDERPAYMENT PENALTIES.—Section 6664(a) is amended by adding at the end the following: "A rule similar to the rule of section 6211(b)(4) shall apply for purposes of this subsection.".

(b) PENALTY FOR ERRONEOUS CLAIM OF CREDIT MADE APPLICABLE TO EARNED INCOME CREDIT.—Section 6676(a) is amended by striking "(other than a claim for a refund or credit relating to the earned income credit under section 32)".

(c) EFFECTIVE DATES.—

(1) UNDERPAYMENT PENALTIES.—The amendment made by subsection (a) shall apply to—

(A) returns filed after February 26, 2014, and

(B) returns filed on or before such date if the period specified in section 6501 of the Internal Revenue Code of 1986 for assessment of the taxes with respect to which such return relates has not expired as of such date.

(2) PENALTY FOR ERRONEOUS CLAIM OF CREDIT.—The amendment made by subsection (b) shall apply to claims filed after February 26, 2014.

TITLE VII—EXCISE TAXES

SEC. 7001. REPEAL OF MEDICAL DEVICE EXCISE TAX.

(a) IN GENERAL.—Chapter 32 is amended by striking subchapter E.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 4221 is amended by striking the last sentence.

(2) Paragraph (2) of section 6416(b) is amended by striking the last sentence.

(c) CLERICAL AMENDMENT.—The table of subchapters for chapter 32 is amended by striking the item relating to subchapter E.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after the date of the enactment of this Act.

SEC. 7002. MODIFICATIONS RELATING TO OIL SPILL LIABILITY TRUST FUND.

(a) EXTENSION OF OIL SPILL LIABILITY TRUST FUND FINANCING RATE.—Paragraph (2) of section 4611(f) is amended by striking ''December 31, 2017'' and inserting ''December 31, 2023''.

(b) APPLICATION WITH RESPECT TO BITUMEN AND BITUMINOUS MIXTURES AND SHALE OIL.—Paragraph (1) of section 4612(a) is amended to read as follows:

''(1) CRUDE OIL.—The term 'crude oil' includes crude oil condensates, natural gasoline, any bitumen or bituminous mixture, any oil derived from a bitumen or bituminous mixture, shale oil, and any oil derived from kerogen-bearing sources.''.

(c) CONFORMING AMENDMENT.—Paragraph (2) of section 4612(a) is amended by striking ''from a well located''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to oil and petroleum products received or entered during calendar quarters beginning more than 60 days after the date of the enactment of this Act.

SEC. 7003. MODIFICATION RELATING TO INLAND WATERWAYS TRUST FUND FINANCING RATE.

(a) IN GENERAL.—Section 4042(b)(2)(A) is amended to read as follows:

"(A) The Inland Waterways Trust Fund financing rate is 26 cents per gallon.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to fuel used after December 31, 2014.

SEC. 7004. EXCISE TAX ON SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS.

(a) IN GENERAL.—Chapter 36 is amended by adding at the end the following new subchapter:

"Subchapter E—Tax on Systemically Important Financial Institutions

"SEC. 4491. TAX ON SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS.

"(a) IN GENERAL.—There is hereby imposed a tax on the excess total consolidated assets of any systemically important financial institution on the close of each calendar quarter.

"(b) AMOUNT OF TAX.—The rate of tax imposed by subsection (a) is 0.035 percent of such excess total consolidated assets.

"(c) BY WHOM PAID.—The tax imposed by subsection (a) shall be paid by the systemically important financial institution.

"(d) DUE DATE.—The tax imposed by subsection (a) for a calendar quarter shall be due on the first day of the third month beginning after the close of such quarter.

"(e) SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTION.—For purposes of this section, the term 'systemically important financial institution' means any person subject to section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

"(f) EXCESS TOTAL CONSOLIDATED ASSETS.—For purposes of this section, the term 'excess total consolidated assets' means the excess of—

"(1) total consolidated assets (within the meaning of section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act), over

"(2) $500,000,000,000.

"(g) ADJUSTMENT OF DOLLAR AMOUNT.—

"(1) IN GENERAL.—In the case of any calendar year beginning after 2015, there shall be substituted for the dollar amount in subsection (f)(2) a dollar amount which bears the same ratio to such amount (determined without regard to this subsection) as—

"(A) the GDP for the preceding calendar year, bears to

"(B) the GDP for 2014.

Any dollar amount determined under this paragraph for substitution in subsection (f)(2) which is not a multiple of $1,000,000,000 shall be rounded to the nearest multiple of $1,000,000,000.

"(2) GDP.—For purposes of this subsection, the GDP for any calendar year means the latest estimate of the gross domestic product published by the Department of Commerce for the preceding calendar year.

"(h) TREATMENT OF CERTAIN REFERENCES.—Any reference in this section to any provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act shall be treated as a reference to such provision as in effect on the date of the enactment of this section.".

(b) CLERICAL AMENDMENT.—The table of subchapters for chapter 36 is amended by adding at the end the following new item:

"SUBCHAPTER E. TAX ON SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar quarters beginning after December 31, 2014.

SEC. 7005. CLARIFICATION OF ORPHAN DRUG EXCEPTION TO ANNUAL FEE ON BRANDED PRESCRIPTION PHARMACEUTICAL MANUFACTURERS AND IMPORTERS.

(a) IN GENERAL.—Paragraph (3) of section 9008(e) of the Patient Protection and Affordable Care Act (Public Law 111–148) is amended to read as follows:

"(3) EXCLUSION OF ORPHAN DRUG SALES.—

"(A) IN GENERAL.—The term 'branded prescription drug sales' shall not include sales of any drug or biological product—

"(i) with respect to which a credit was allowed for any taxable year under section 45C of the Internal Revenue Code of 1986 (as in effect before its repeal by the Tax Reform Act of 2014); or

"(ii) which is approved or licensed by the Food and Drug Administration for marketing solely for one or more rare diseases or conditions.

"(B) LIMITATION.—Subparagraph (A) shall not apply with respect to any drug or biological product after the date on which the drug or biological product is approved or licensed by the Food and Drug Administration for marketing for any indication other than the treatment of a rare disease or condition.

"(C) RARE DISEASE OR CONDITION.—

"(i) IN GENERAL.—For purposes of this paragraph, the term 'rare disease or condition' means any disease or condition which—

"(I) affects less than 200,000 persons in the United States, or

"(II) affects more than 200,000 persons in the United States but for which there is no reasonable expectation that the cost of developing and making available in the United States a drug or biological product for such disease or condition will be recovered from sales in the United States of such drug or biological product.

"(ii) TIME OF DETERMINATION.—Determinations under the preceding sentence with respect to any drug or biological product shall be made on the basis of the facts and circumstances as of—

"(I) in the case a drug or biological product that has been designated under section 526 of the Federal Food, Drug, and Cosmetic Act for a particular indication, the date of such designation, and

"(II) in any other case, the date such drug or biological product is approved or licensed by the Food and Drug Administration for marketing for the treatment of the disease or condition referred to in clause (i).".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to fees imposed under section 9008(a)(1) of the Patient Protection and Affordable Care Act with annual payment dates after 2013.

TITLE VIII—DEADWOOD AND TECHNICAL PROVISIONS

Subtitle A—Repeal of Deadwood

SEC. 8001. REPEAL OF PUERTO RICO ECONOMIC ACTIVITY CREDIT.

Subpart B of part IV of subchapter A of chapter 1 is amended by striking section 30A (and by striking the item relating to such section in the table of sections of such subpart).

SEC. 8002. REPEAL OF MAKING WORK PAY CREDIT.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 is amended by striking section 36A (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 6211(b)(4)(A) is amended by striking "36A,".

(2) Section 6213(g)(2) is amended by striking subparagraph (N).

SEC. 8003. GENERAL BUSINESS CREDIT.

Subsection (d) of section 38 is amended by striking paragraph (3).

SEC. 8004. ENVIRONMENTAL TAX.

(a) IN GENERAL.—Subchapter A of chapter 1 is amended by striking part VII (and the table of parts for such chapter is amended by striking the item relating to part VII).

(b) CONFORMING AMENDMENTS.—

(1) Section 26(b)(2) is amended by striking subparagraph (B).

(2) Section 164(a) is amended by striking paragraph (5).

(3) Section 275(a) is amended by striking the last sentence.

(4) Section 882(a)(1) is amended by striking "59A,".

(5) Section 6425(c)(1)(A), as amended by the preceding provisions of this Act, is amended to read as follows:

"(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over".

(6) Section 6655(g)(1)(A), as amended by the preceding provisions of this Act, is amended by adding "plus" at the end of clause (i) and by striking clause (ii).

SEC. 8005. ANNUITIES; CERTAIN PROCEEDS OF ENDOWMENT AND LIFE INSURANCE CONTRACTS.

Section 72 is amended—

(1) in subsection (c)(4) by striking "; except that if such date was before January 1, 1954, then the annuity starting date is January 1, 1954", and

(2) in subsection (g)(3) by striking "January 1, 1954, or" and ", whichever is later".

SEC. 8006. UNEMPLOYMENT COMPENSATION.

Section 85 is amended by striking subsection (c).

SEC. 8007. FLEXIBLE SPENDING ARRANGEMENTS.

Section 106(c)(1) is amended by striking ''Effective on and after January 1, 1997, gross'' and inserting ''Gross''.

SEC. 8008. CERTAIN COMBAT ZONE COMPENSATION OF MEMBERS OF THE ARMED FORCES.

Subsection (c) of section 112 is amended—

(1) by striking ''(after June 24, 1950)'' in paragraph (2), and

(2) striking ''such zone;'' and all that follows in paragraph (3) and inserting ''such zone.''.

SEC. 8009. QUALIFIED GROUP LEGAL SERVICES PLANS.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by striking section 120 (and by striking the item relating to such section in the table of sections for such part).

(b) TAX-EXEMPTION OF GROUP LEGAL SERVICES PLANS.—Section 501(c) is amended by striking paragraph (20).

(c) CONFORMING AMENDMENTS.—

(1) Section 414(n)(3)(C) is amended by striking ''120,''.

(2) Section 414(t)(2) is amended by striking ''120,''.

(3) Section 3121(a) is amended by striking paragraph (17).

(4) Section 3231(e) is amended by striking paragraph (7).

(5) Section 3306(b) is amended by striking paragraph (12).

(6) Section 6039D(d)(1) is amended by striking ''120,''.

(7) Section 209(a)(14) of the Social Security Act is amended—

(A) by striking subparagraph (B), and

(B) by striking ''(14)(A)'' and inserting ''(14)''.

SEC. 8010. CERTAIN REDUCED UNIFORMED SERVICES RETIREMENT PAY.

Section 122(b)(1) is amended by striking ''after December 31, 1965,''.

SEC. 8011. GREAT PLAINS CONSERVATION PROGRAM.

Section 126(a) is amended by striking paragraph (6) and by redesignating paragraphs (7),(8), (9), and (10) as paragraphs (6), (7), (8), and (9), respectively.

SEC. 8012. STATE LEGISLATORS' TRAVEL EXPENSES AWAY FROM HOME.

Paragraph (4) of section 162(h) is amended by striking ''For taxable years beginning after December 31, 1980, this'' and inserting ''This''.

SEC. 8013. TREBLE DAMAGE PAYMENTS UNDER THE ANTITRUST LAW.

Section 162(g) is amended by striking the last sentence.

SEC. 8014. PHASE-IN OF LIMITATION ON INVESTMENT INTEREST.

Section 163(d) is amended by striking paragraph (6).

SEC. 8015. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.

Section 170 is amended by striking subsection (k).

SEC. 8016. AMORTIZABLE BOND PREMIUM.

(a) IN GENERAL.—Subparagraph (B) of section 171(b)(1) is amended to read as follows:

"(B)(i) with reference to the amount payable on maturity (or if it results in a smaller amortizable bond premium attributable to the period before the call date, with reference to the amount payable on the earlier call date), in the case of a bond described in subsection (a)(1), and

"(ii) with reference to the amount payable on maturity or on an earlier call date, in the case of a bond described in subsection (a)(2).".

(b) CONFORMING AMENDMENTS.—Paragraphs (2)(B) and (3)(B) of section 171(b) are each amended by striking "paragraph (1)(B)(ii)" and inserting "paragraph (1)(B)(i)".

SEC. 8017. REPEAL OF DEDUCTION FOR CLEAN-FUEL VEHICLES AND CERTAIN REFUELING PROPERTY.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 179A (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—

(1) Section 62(a) is amended by striking paragraph (14).

(2) Section 280F(a)(1) is amended by striking subparagraph (C).

(3) Section 312(k)(3), as amended by this Act, is amended by striking ", 179A" each place it appears.

(4) Section 1016(a) is amended by striking paragraph (24).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2005.

SEC. 8018. REPEAL OF DEDUCTION FOR CAPITAL COSTS INCURRED IN COMPLYING WITH ENVIRONMENTAL PROTECTION AGENCY SULFUR REGULATIONS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 179B (and by striking

the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 312(k)(3), as amended by this Act, is amended by striking ", 179B" each place it appears.

(2) Section 1016(a) is amended by striking paragraph (30).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2009.

SEC. 8019. ACTIVITIES NOT ENGAGED IN FOR PROFIT.

Section 183(e)(1) is amended by striking the last sentence.

SEC. 8020. DIVIDENDS RECEIVED ON CERTAIN PREFERRED STOCK; AND DIVIDENDS PAID ON CERTAIN PREFERRED STOCK OF PUBLIC UTILITIES.

(a) IN GENERAL.—Sections 244 and 247 are hereby repealed, and the table of sections for part VIII of subchapter B of chapter 1 is amended by striking the items relating to sections 244 and 247.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (5) of section 172(d) is amended to read as follows:

"(5) COMPUTATION OF DEDUCTION FOR DIVIDENDS RECEIVED.—The deductions allowed by section 243 (relating to dividends received by corporations) and 245 (relating to dividends received from certain foreign corporations) shall be computed without regard to section 246(b) (relating to limitation on aggregate amount of deductions).".

(2) Paragraph (1) of section 243(c) is amended to read as follows:

"(1) IN GENERAL.—In the case of any dividend received from a 20-percent owned corporation, subsection (a)(1) shall be applied by substituting '80 percent' for '70 percent' ".".

(3) Section 243(d) is amended by striking paragraph (4).

(4) Section 246 is amended—

(A) by striking ", 244," in subsection (a)(1),

(B) in subsection (b)(1)—

(i) by striking "sections 243(a)(1), 244(a)," the first place it appears and inserting "section 243(a)(1)",

(ii) by striking "244(a)," the second place it appears, and

(iii) by striking "subsection (a) or (b) of section 245, and 247," and inserting "and subsection (a) or (b) of section 245,", and

(C) by striking ", 244," in subsection (c)(1).

(5) Section 246A is amended by striking ", 244," both places it appears in subsections (a) and (e).

(6) Sections 263(g)(2)(B)(iii), 277(a), 301(e)(2), 469(e)(4), 512(a)(3)(A), 805(a)(4)(A), (C), and (D), 805(b)(4) (as redesignated by this Act), 832(b)(5)(B)(ii), (D)(i), and (D)(ii)(I), 833(b)(3)(E), and 1059(b)(2)(B) are each amended by striking ", 244," each place it appears.

(7) Section 805(a)(4)(B) is amended by striking ", 244(a)," each place it appears.

(8) Section 810(c)(2)(B) is amended by striking "244 (relating to dividends on certain preferred stock of public utilities),".

(9) Section 1244(c)(2)(C) is amended by striking "244,".

SEC. 8021. ACQUISITIONS MADE TO EVADE OR AVOID INCOME TAX.

Paragraphs (1) and (2) of section 269(a) are each amended by striking ‘‘or acquired on or after October 8, 1940,’’.

SEC. 8022. DISTRIBUTIONS OF PROPERTY.

Paragraph (3) of section 301(c) is amended to read as follows:

‘‘(3) AMOUNTS IN EXCESS OF BASIS.—That portion of the distribution which is not a dividend, to the extent that it exceeds the adjusted basis of the stock, shall be treated as gain from the sale or exchange of property.’’.

SEC. 8023. EFFECT ON EARNINGS AND PROFITS.

Subsection (d) of section 312 is amended by striking paragraph (2) and redesignating paragraph (3) as paragraph (2).

SEC. 8024. BASIS TO CORPORATIONS.

Section 362(a) is amended by striking ‘‘on or after June 22, 1954,’’.

SEC. 8025. TAX CREDIT EMPLOYEE STOCK OWNERSHIP PLANS.

Section 409 is amended by striking subsection (q).

SEC. 8026. EMPLOYEE STOCK PURCHASE PLANS.

Section 423(a) is amended by striking ‘‘after December 31, 1963’’.

SEC. 8027. TRANSITION RULES.

(a) Paragraph (5) of section 430(c) is amended by striking subparagraph (B) and by striking ''(A) IN GENERAL.—''.

(b) Paragraph (2) of section 430(h) is amended by striking subparagraph (G).

(c) Paragraph (3) of section 436(j) is amended by striking subparagraphs (B) and (C) and by striking ''(A) IN GENERAL.—''

(d) Section 436 is amended by striking subsection (m).

SEC. 8028. LIMITATION ON DEDUCTIONS FOR CERTAIN FARMING.

(a) IN GENERAL.—Section 464 is amended by striking ''any farming syndicate (as defined in subsection (c))'' both places it appears in subsections (a) and (b) and inserting ''any taxpayer to whom subsection (d) applies''.

(b) FARMING SYNDICATE.—

(1) Subsection (c) of section 464 is hereby moved to the end of section 461 and redesignated as subsection (j).

(2) Such subsection (j) is amended—

(A) by striking ''For purposes of this section'' in paragraph (1) and inserting ''For purposes of subsection (i)(4)'', and

(B) by adding at the end the following new paragraphs:

"(3) FARMING.—For purposes of this subsection, the term 'farming' has the meaning given to such term by section 464(e).

"(4) LIMITED ENTREPRENEUR.—For purposes of this subsection, the term 'limited entrepreneur' means a person who—

"(A) has an interest in an enterprise other than as a limited partner, and

"(B) does not actively participate in the management of such enterprise.".

(C) Paragraph (4) of section 461(i) is amended by striking "section 464(c)" and inserting "subsection (j)".

(c) Section 464 is amended—

(1) by striking subsections (e) and (g) and redesignating subsections (d) and (f) as subsections (c) and (d), respectively, and

(2) by inserting after subsection (d) the following new subsection:

"(e) FARMING.—For purposes of this section, the term 'farming' means the cultivation of land or the raising or harvesting of any agricultural or horticultural commodity including the raising, shearing, feeding, caring for, training, and management of animals. For purposes of the preceding sentence, trees (other than trees bearing fruit or nuts) shall not be treated as an agricultural or horticultural commodity.''.

(d) Subsection (d) of section 464 of such Code, as redesignated by subsection (c), is amended—

(1) by striking paragraph (1) and redesignating paragraphs (2), (3), and (4) as paragraphs (1), (2), and (3), respectively, and

(2) by striking ''SUBSECTIONS (A) AND (B) TO APPLY TO'' in the subsection heading.

(e) Subparagraph (A) of section 58(a)(2) is amended by striking ''section 464(c)'' and inserting ''section 461(j)''.

SEC. 8029. DEDUCTIONS LIMITED TO AMOUNT AT RISK.

Paragraph (3) of section 465(c) is amended by striking ''In the case of taxable years beginning after December 31, 1978, this'' and inserting ''This''.

SEC. 8030. PASSIVE ACTIVITY LOSSES AND CREDITS LIMITED.

Section 469 is amended by striking subsection (m).

SEC. 8031. ADJUSTMENTS REQUIRED BY CHANGES IN METHOD OF ACCOUNTING.

Section 481(b)(3) is amended by striking subparagraph (C).

SEC. 8032. EXEMPTION FROM TAX ON CORPORATIONS, CERTAIN TRUSTS, ETC.

Section 501 is amended by striking subsection (s).

SEC. 8033. REQUIREMENTS FOR EXEMPTION.

(a) Section 503(a)(1) is amended to read as follows:

"(1) GENERAL RULE.—An organization described in paragraph (17) or (18) of section 501(c) or described in section 401(a) and referred to in section 4975(g)(2) or (3) shall not be exempt from taxation under section 501(a) if it has engaged in a prohibited transaction.".

(b) Paragraph (2) of section 503(a) is amended by striking "described in section 501(c)(17) or (18) or paragraph (a)(1)(B)" and inserting "described in paragraph (1)".

(c) Subsection (c) of section 503 is amended by striking "described in section 501(c)(17) or (18) or subsection (a)(1)(B)" and inserting "described in subsection (a)(1)".

SEC. 8034. REPEAL OF SPECIAL TREATMENT FOR RELIGIOUS BROADCASTING COMPANY.

(a) IN GENERAL.—Subsection (b) of section 512 is amended by striking paragraph (15).

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

SEC. 8035. REPEAL OF EXCLUSION OF GAIN OR LOSS FROM DISPOSITION OF BROWNFIELD PROPERTY.

(a) IN GENERAL.—Subsection (b) of section 512 is amended by striking paragraph (19).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to property acquired after December 31, 2009.

SEC. 8036. ACCUMULATED TAXABLE INCOME.

Paragraph (1) of section 535(b) and paragraph (1) of section 545(b) are each amended by striking ''section 531'' and all that follows and inserting ''section 531 or the personal holding company tax imposed by section 541.''.

SEC. 8037. CERTAIN PROVISIONS RELATED TO DEPLETION.

(a) Section 614(b)(3) (before being redesignated by title III) is amended by striking subparagraph (C).

(b) Section 614(b)(4) (before being redesignated by title III) is amended by striking ''whichever of the following taxable years is the later: The first taxable year beginning after December 31, 1963, or''.

(c) Section 614(b) (before being redesignated by title III) is amended by striking paragraph (5).

SEC. 8038. AMOUNTS RECEIVED BY SURVIVING ANNUITANT UNDER JOINT AND SURVIVOR ANNUITY CONTRACT.

Subparagraph (A) of section 691(d)(1) is amended by striking ''after December 31, 1953, and''.

SEC. 8039. INCOME TAXES OF MEMBERS OF ARMED FORCES ON DEATH.

Section 692(a)(1) is amended by striking ''after June 24, 1950''.

SEC. 8040. SPECIAL RULES FOR COMPUTING RESERVES.

Paragraph (7) of section 807(e) is amended by striking subparagraph (B) and redesignating subparagraph (C) as subparagraph (B).

SEC. 8041. INSURANCE COMPANY TAXABLE INCOME.

(a) Section 832(e) is amended by striking ''of taxable years beginning after December 31, 1966,''.

(b) Section 832(e)(6) is amended by striking ''In the case of any taxable year beginning after December 31, 1970, the'' and inserting ''The''.

SEC. 8042. CAPITALIZATION OF CERTAIN POLICY ACQUISITION EXPENSES.

Section 848 (as amended by title II) is amended by striking subsection (i).

SEC. 8043. REPEAL OF PROVISION ON EXPATRIATION TO AVOID TAX.

(a) IN GENERAL.—Subpart A of part II of subchapter N of chapter 1 is amended by striking section 877 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 2(d) is amended by striking "or 877".

(2) Section 121 is amended by striking subsection (e).

(3) Section 865(j)(3) is amended by inserting "as in effect before its repeal" after "section 877".

(4) Paragraph (2) of section 871(o) (as amended by this Act) is amended to read as follows:

"(2) For taxation of covered expatriates, see section 877A.".

(5)(A) Section 877A(g)(1)(A) is amended to read as follows:

"(A) IN GENERAL.—The term 'covered expatriate' means any expatriate if—

"(i) the average annual net income tax of such individual for the period of 5 taxable years ending before the date of the loss of United States citizenship is greater than $124,000, "(ii) the net worth of the individual as of such date is $2,000,000 or more, or

"(iii) such individual fails to certify under penalty of perjury that he has met the requirements of this title for the 5 preceding taxable years or fails to submit such evidence of such compliance as the Secretary may require.".

(B) Section 877A(g)(1)(B) is amended by striking "shall not be treated as meeting the requirements of subparagraph (A) or (B) of section 877(a)(2)" and inserting "shall not be treated as described in clause (i) or (ii) of subparagraph (A)".

(C) Section 877A(g)(1) is amended by redesignating subparagraph (C) as subparagraph (D) and inserting after subparagraph (B) the following new subparagraph:

"(C) NET INCOME TAX.—For purposes of subparagraph (A), the term 'net income tax' means the regular tax liability reduced by the credits allowed under subparts A, B, and D of part IV of subchapter A.".

(D) Section 877A(g)(1), as amended by subparagraph (C), is amended by adding at the end the following new subparagraph:

"(E) INFLATION ADJUSTMENT.—In the case of the loss of United States citizenship in any calendar year after 2007, the dollar amount in subparagraph (A)(i) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which such loss of United States citizenship occurs determined by substituting 'calendar year 2003' for 'calendar year 2012' in clause (ii) thereof.

Any increase determined under the preceding sentence shall be rounded to the nearest multiple of $1,000.".

(E) Section 877A(g)(5) is amended to read as follows:

"(5) LONG-TERM RESIDENT.—The term 'long-term resident' means any individual (other than a citizen of the United States) who is a lawful permanent resident of the United States in at least 8 taxable years during the period of 15 taxable years ending with the taxable year during which the event described in subparagraph (A) or (B) of paragraph (2) occurs. For purposes of the preceding sentence, an individual shall not be treated as a lawful permanent resident for any taxable year if such individual is treated as a resident of a foreign country for the taxable year under the provisions of a tax treaty between the United States and the foreign country and does not waive the benefits of such treaty applicable to residents of the foreign country.''.

(6) Section 894(b) is amended by striking the last sentence.

(7) Section 2107 is amended by striking subsection (e).

(8) Section 2501(a) is amended by striking paragraphs (3) and (5) and by redesignating paragraph (4) as paragraph (3).

(9) Section 3405(e)(13)(B) is amended by striking ''that such person is not—'' and all that follows and inserting ''that such person is not a United States citizen or a resident alien of the United States.''.

(10) Section 6039G(a) is amended by striking ''section 877(b) or 877A'' and inserting ''section 877A''.

(11) Section 6039G(d) is amended by striking ''section 877(a) or 877A'' and inserting ''section 877A''.

(12) Section 7701(b) is amended by striking paragraph (10) and by redesignating paragraph (11) as paragraph (10).

(c) EFFECTIVE DATE.—The amendments made by this subsection shall apply to individuals whose expatriation date (as defined in section 877A(g)(3) of the Internal Revenue Code of 1986) is on or after June 17, 2008.

SEC. 8044. REPEAL OF CERTAIN TRANSITION RULES ON INCOME FROM SOURCES WITHOUT UNITED STATES.

(a) LIMITATION ON CREDIT.—Paragraph (2) of section 904(d) is amended by striking subparagraph (J).

(b) FOREIGN EARNED INCOME.—Clause (i) of section 911(b)(2)(D) is amended to read as follows:

"(i) IN GENERAL.—The exclusion amount for any calendar year is $80,000.".

SEC. 8045. REPEAL OF PUERTO RICO AND POSSESSION TAX CREDIT.

(a) IN GENERAL.—Subpart D of part III of subchapter N of chapter 1 is amended by striking section 936 (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 27 is amended to read as follows:

"SEC. 27. TAXES OF FOREIGN COUNTRIES AND POSSESSIONS OF THE UNITED STATES.

"The amount of taxes imposed by foreign countries and possessions of the United States shall be allowed as a credit against the tax imposed by this chapter to the extent provided in section 901.".

(B) The item relating to section 27 in the table of sections for subpart B of part IV of subchapter A of chapter 1 is amended to read as follows:

"Sec. 27. Taxes of foreign countries and possessions of the United States.".

(2) Section 243(b)(1)(B) is amended to read as follows:

"(B) if such dividend is distributed out of the earnings and profits of a taxable year of the distributing corporation which ends after December 31, 1963, and on each day of which the distributing corporation and the corporation receiving the dividend were members of such affiliated group.".

(3) Section 246 is amended by striking subsection (e).

(4) Section 338(h)(6)(B)(i) is amended by striking ", a DISC, or a corporation to which an election under section 936 applies" and inserting "or a DISC".

(5) Section 861(a)(2) is amended—

(A) by striking subparagraph (A) and by redesignating subparagraphs (B), (C), and (D) as subparagraphs (A), (B), and (C), respectively, and

(B) by striking ''subparagraph (B)'' each place it appears and inserting ''subparagraph (A)''.

(6) Section 864(d)(5) is amended to read as follows:

''(5) CERTAIN PROVISIONS NOT TO APPLY.—The following provisions shall not apply to any amount treated as interest under paragraph (1) or (6):

''(A) Section 904(d)(2)(B)(iii)(I) (relating to exceptions for export financing interest).

''(B) Subparagraph (A) of section 954(b)(3) (relating to exception where foreign base company income is less than 5 percent or $1,000,000).

''(C) Subparagraph (B) of section 954(c)(2) (relating to certain export financing).

''(D) Clause (i) of section 954(c)(3)(A) (relating to certain income received from related persons).''.

(7) Section 865(j)(3) is amended by striking ", 933, and 936" and inserting "and 933".

(8) Section 901(g)(2) is amended by inserting "(as in effect before its repeal)" after "936".

(9) Section 904(b) is amended by striking paragraph (4).

(10) Section 1202(e)(4) is amended by striking subparagraph (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively.

(11) Section 1361(b)(2) is amended by adding "or" at the end of subparagraph (B), by striking subparagraph (C), and by redesignating subparagraph (D) as subparagraph (C).

(12) Section 1504(b) is amended by striking paragraph (4).

(13) Section 6091(b)(2)(B) is amended by striking clause (ii) and by redesignating clauses (iii) and (iv) as clauses (ii) and (iii), respectively.

(14) Section 6654(d)(2)(D) is amended—

(A) by striking "936(h) or" in clause (i), and

(B) by striking "AND SECTION 936" in the heading.

(15) Section 6655(e)(4) is amended—

(A) by striking "936(h) or" in subparagraph (A), and

(B) by striking "AND SECTION 936" in the heading.

(16)(A) Section 367(d) is amended by adding at the end the following new paragraph:

"(4) INTANGIBLE PROPERTY.—For purposes of this subsection, the term 'intangible property' means any—

"(A) patent, invention, formula, process, design, pattern, or know-how,

"(B) copyright, literary, musical, or artistic composition,

"(C) trademark, trade name, or brand name,

"(D) franchise, license, or contract,

"(E) method, program, system, procedure, campaign, survey, study, forecast, estimate, customer list, or technical data, or

"(F) any similar item,

which has substantial value independent of the services of any individual.".

(B) Section 367(a)(3)(B)(iv) is amended by striking "section 936(h)(3)(B)" and inserting "subsection (d)(4)".

(C) Sections 482 and 1298(e)(2)(A) are each amended by striking ‘‘section 936(h)(4)(B)’’ and inserting ‘‘section 367(d)(4)’’.

SEC. 8046. BASIS OF PROPERTY ACQUIRED FROM DECEDENT.

Section 1014 is amended—

(1) by striking ‘‘either’’ and by striking ‘‘or section 811(j) of the Internal Revenue Code of 1939 where the decedent died after October 21, 1942’’ in subsection (a)(2), and

(2) by striking paragraphs (7) and (8) of subsection (b).

SEC. 8047. PROPERTY ON WHICH LESSEE HAS MADE IMPROVEMENTS.

Section 1019 is amended by striking the last sentence.

SEC. 8048. INVOLUNTARY CONVERSION.

Section 1033 is amended by striking subsection (j) and by redesignating subsection (k) as subsection (j).

SEC. 8049. PROPERTY ACQUIRED DURING AFFILIATION.

Section 1051 is hereby repealed, and the table of sections for part IV of subchapter O of chapter 1 is amended by striking the item relating to section 1051.

SEC. 8050. REPEAL OF SPECIAL HOLDING PERIOD RULES FOR CERTAIN COMMODITY FUTURES TRANSACTIONS.

Section 1222 is amended by striking the last sentence.

SEC. 8051. HOLDING PERIOD OF PROPERTY.

(a) Paragraph (1) of section 1223 is amended by striking '', in the case of such exchanges after March 1, 1954,''.

(b) Paragraph (4) of section 1223 is amended by striking ''(or under so much of section 1052(c) as refers to section 113(a)(23) of the Internal Revenue Code of 1939)''.

(c) Paragraph (6) of section 1223 is repealed.

(d) Paragraph (8) of section 1223 is repealed.

SEC. 8052. PROPERTY USED IN THE TRADE OR BUSINESS AND INVOLUNTARY CONVERSIONS.

Subparagraph (A) of section 1231(c)(2) is amended by striking ''beginning after December 31, 1981''.

SEC. 8053. SALE OF PATENTS.

Subsection (a) of section 1249 is amended by striking ''after December 31, 1962,''.

SEC. 8054. GAIN FROM DISPOSITION OF FARMLAND.

(a) Paragraph (1) of section 1252(a), as amended by the preceding provisions of this Act, is amended—

(1) by striking "beginning after December 31, 1969" in the matter preceding subparagraph (A), and

(2) by amending subparagraph (A) to read as follows:

"(A) the applicable percentage of the aggregate deductions allowed under section 175 (as in effect before its repeal by the Tax Reform Act of 2014) with respect to the farmland, or".

(b) Paragraph (2) of section 1252(a) is amended by striking "sections 175" and all that follows and inserting "section 175 (as in effect before its repeal by the Tax Reform Act of 2014).".

SEC. 8055. TRANSITION RULES RELATED TO THE TREATMENT OF AMOUNTS RECEIVED ON RETIREMENT OR SALE OR EXCHANGE OF DEBT INSTRUMENTS.

(a) Section 1271 is amended by striking subsection (c).

(b) Section 1271(a)(2)(B) is amended by striking "(and paragraph (2) of subsection (c))".

SEC. 8056. CERTAIN RULES WITH RESPECT TO DEBT INSTRUMENTS ISSUED BEFORE JULY 2, 1982.

(a) Section 1272 is amended by striking subsection (b).

(b) Section 163(j)(2)(C)(ii) is amended by striking "or (b)(4)".

(c) Section 1271(a)(2)(A)(ii) is amended by striking "subsection (a)(7) or (b)(4) of section 1272" and inserting "section 1272(a)(7)".

(d) Section 1271(b)(1) is amended to read as follows:

"(1) IN GENERAL.—This section shall not apply to any obligation issued by a natural person before June 9, 1997.".

(e) Section 1279(a)(4)(A)(ii), as amended by the preceding provisions of this Act, is amended by striking "or (b)(4)".

(f) The amendments made by this section shall apply to debt instruments issued after July 1, 1982.

SEC. 8057. CERTAIN RULES WITH RESPECT TO STRIPPED BONDS PURCHASED BEFORE JULY 2, 1982.

(a) Section 1286 is amended by striking subsection (c).

(b) Section 1286(e)(5) is amended by striking the last sentence.

(c) Subsections (a) and (b) of section 1286 are each amended by striking "after July 1, 1982,".

(d) The amendments made by this section shall apply to bonds and coupons purchased after July 1, 1982.

SEC. 8058. AMOUNT AND METHOD OF ADJUSTMENT.

Section 1314 is amended by striking subsection (d) and by redesignating subsection (e) as subsection (d).

SEC. 8059. OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.

Subsection (a) of section 1401 is amended by striking ''the following percent'' and all that follows and inserting ''12.4 percent of the amount of the self-employment income for such taxable year.''.

SEC. 8060. HOSPITAL INSURANCE.

Paragraph (1) of section 1401(b) is amended by striking ''the following percent''and all that follows and inserting ''2.9 percent of the amount of the self-employment income for such taxable year.''.

SEC. 8061. MINISTERS, MEMBERS OF RELIGIOUS ORDERS, AND CHRISTIAN SCIENCE PRACTITIONERS.

Paragraph (3) of section 1402(e) is amended by striking ''whichever of the following dates is later: (A)'' and by striking ''; or (B)'' and all that follows and inserting a period.

SEC. 8062. AFFILIATED GROUP DEFINED.

Subparagraph (A) of section 1504(a)(3) is amended by striking ''for a taxable year which includes any period after December 31, 1984'' in clause (i) and by striking ''in a taxable year beginning after December 31, 1984'' in clause (ii).

SEC. 8063. CREDIT FOR STATE DEATH TAXES.

(a) Part II of subchapter A of chapter 11 is amended by striking section 2011 (and by striking the item relating to such section in the table of sections for such subpart).

(b) Subchapter A of chapter 13 is amended by striking section 2604 (and by striking the item relating to such section in the table of sections for such subpart).

SEC. 8064. FAMILY-OWNED BUSINESS INTEREST.

Part IV of subchapter A of chapter 11 is amended by striking section 2057 (and by striking the item relating to such section in the table of sections for such part).

SEC. 8065. PROPERTY WITHIN THE UNITED STATES.

Subsection (c) of section 2104 is amended by striking ''With respect to estates of decedents dying after December 31, 1969, deposits'' and inserting ''Deposits''.

SEC. 8066. REPEAL OF DEADWOOD PROVISIONS RELATING TO EMPLOYMENT TAXES.

(a) TAX ON EMPLOYEES.—Subsection (a) of section 3101 is amended by striking ''the following percentages'' and all that follows and inserting ''6.2 percent of the wages (as defined in section 3121(a)) received by him with respect to employment (as defined in section 3121(b)).''.

(b) TAX ON EMPLOYERS.—

(1) Subsection (a) of section 3111 is amended by striking "the following percentages" and all that follows and inserting "6.2 percent of the wages (as defined in section 3121(a)) paid by him with respect to employment (as defined in section 3121(b))."

(2) Subsection (b) of section 3111 is amended by striking "the following percentages" and all that follows and inserting "1.45 percent of the wages (as defined in section 3121(a)) paid by him with respect to employment (as defined in section 3121(b))."

(3) Section 3111 is amended by striking subsection (d) and redesignating subsection (e) as subsection (d).

(c) TIER 2 TAX ON EMPLOYEES.—Subsection (b) of section 3201 is amended to read as follows:

"(b) TIER 2 TAX.—In addition to other taxes, there is hereby imposed on the income of each employee a tax equal to the percentage determined under section 3241 for any calendar year of the compensation received during such calendar year by such employee for services rendered by such employee.".

(d) RATE OF TIER 2 TAX ON EMPLOYEE REPRESENTATIVES.—Subsection (b) of section 3211 is amended to read as follows:

"(b) TIER 2 TAX.—In addition to other taxes, there is hereby imposed on the income of each employee representative a tax equal to the percentage determined under section 3241 for any calendar year of the compensation received during such calendar year by such employee representative for services rendered by such employee representative.".

(e) TIER 2 TAX ON EMPLOYERS.—

(1) Subsection (b) of section 3221 is amended to read as follows:

"(b) TIER 2 TAX.—In addition to other taxes, there is hereby imposed on the income of each employer a tax equal to the percentage determined under section 3241 for any calendar year of the compensation paid during such calendar year by such employer for services rendered for such employer.".

(2) Section 3221 is amended by striking subsection (d) and redesignating subsection (e) as subsection (d).

(f) EMPLOYEE UNDER RAILROAD RETIREMENT SYSTEM.—Subsection (b) of section 3231 is amended by is amended by striking "; except" and all that follows and inserting a period.

(g) DEFINITION OF WAGES.—

(1) Section 3121(b) is amended by striking paragraph (17).

(2) Section 210(a) of the Social Security Act is amended by striking paragraph (17).

(h) CREDITS AGAINST UNEMPLOYMENT TAX.—

(1) Paragraph (4) of section 3302(f) is amended—

(A) by striking ''subsection—'' and all that follows through '' (A) in general—The'' and inserting ''subsection, the'',

(B) by striking subparagraph (B),

(C) by redesignating clauses (i) and(ii) as subparagraphs (A) and (B), respectively, and

(D) by moving the text of such subparagraphs (as so redesignated) 2 ems to the left.

(2) Paragraph (5) of section 3302(f) is amended by striking subparagraph (D) and by redesignating subparagraph (E) as subparagraph (D).

(i) DOMESTIC SERVICE EMPLOYMENT TAXES.—Section 3510(b) is amended by striking paragraph (4).

SEC. 8067. LUXURY PASSENGER AUTOMOBILES.

(a) IN GENERAL.—Chapter 31 is amended by striking subchapter A (and by striking the item relating to such subchapter in the table of sections for such chapter).

(b) CONFORMING AMENDMENTS.—

(1) Section 4293 is amended by striking "subchapter A of chapter 31,".

(2) Section 4221 is amended—

(A) in subsections (a) and (d)(1), by striking "subchapter A or" and inserting "subchapter",

(B) in subsection (a), by striking "In the case of taxes imposed by subchapter A of chapter 31, paragraphs (1), (3), (4), and (5) shall not apply.", and

(C) in subsection (c), by striking "4001(c), 4001(d)".

(3) Section 4222 is amended by striking "4001(c), 4001(d),".

SEC. 8068. TRANSPORTATION BY AIR.

Section 4261(e) is amended—

(1) in paragraph (1) by striking subparagraph (C), and

(2) by striking paragraph (5).

SEC. 8069. TAXES ON FAILURE TO DISTRIBUTE INCOME.

(a) Paragraph (2) of section 4942(f) is amended by striking the semicolon at the end of subparagraph (B) and inserting ", and", by striking "; and" at the end of subparagraph (C) and inserting a period, and by striking subparagraph (D).

(b) Subsection (g) of section 4942 (as amended by this Act) is amended—

(1) by striking ‘‘For all taxable years beginning on or after January 1, 1975, subject’’ in paragraph (2)(A) and inserting ‘‘Subject’’, and

(2) by striking paragraph (4).

(c) Section 4942(i)(2) is amended by striking ‘‘beginning after December 31, 1969, and’’.

SEC. 8070. TAXES ON TAXABLE EXPENDITURES.

Section 4945(f) is amended by striking ‘‘(excluding therefrom any preceding taxable year which begins before January 1, 1970)’’.

SEC. 8071. DEFINITIONS AND SPECIAL RULES.

Section 4682 is amended by striking subsection (h).

SEC. 8072. RETURNS.

Subsection (a) of section 6039D is amended by striking ‘‘beginning after December 31, 1984,’’.

SEC. 8073. INFORMATION RETURNS.

Subsection (c) of section 6060 is amended by striking ‘‘year’’ and all that follows and inserting ‘‘year.’’.

SEC. 8074. ABATEMENTS.

Section 6404(f) is amended by striking paragraph (3).

SEC. 8075. FAILURE BY CORPORATION TO PAY ESTIMATED INCOME TAX.

Clause (i) of section 6655(g)(4)(A) is amended by striking "(or the corresponding provisions of prior law)".

SEC. 8076. REPEAL OF 2008 RECOVERY REBATES.

(a) IN GENERAL.—Subchapter B of chapter 65 is amended by striking section 6428 (and by striking the item relating to such section in the table of sections for such subchapter).

(b) CONFORMING AMENDMENTS.—

(1) Section 6211(b)(4)(A) is amended by striking "6428,".

(2) Section 6213(g)(2)(L) is amended by striking "32, or 6428" and inserting "or 32".

(3) Paragraph (2) of section 1324(b) of title 31, United States Code, is amended by striking "or 6428".

SEC. 8077. REPEAL OF ADVANCE PAYMENT OF PORTION OF INCREASED CHILD CREDIT FOR 2003.

Subchapter B of chapter 65 is amended by striking section 6429 (and by striking the item relating to such section in the table of sections for such subchapter).

SEC. 8078. REPEAL OF PROVISIONS RELATED TO COBRA PREMIUM ASSISTANCE.

(a) IN GENERAL.—Subchapter B of chapter 65 is amended by striking section 6432 (and by striking the item relating to such section in the table of sections for such subchapter).

(b) NOTIFICATION REQUIREMENT.—Part I of subchapter B of chapter 68 is amended by striking section 6720C (and by striking the item relating to such section in the table of sections for such part).

(c) EXCLUSION FROM GROSS INCOME.—Part III of subchapter B of chapter 1 is amended by striking section 139C (and by striking the item relating to such section in the table of sections for such part).

SEC. 8079. RETIREMENT.

Section 7447(i)(3)(B)(ii) is amended by striking ''at 4 percent per annum to December 31, 1947, and at 3 percent per annum thereafter'', and inserting ''at 3 percent per annum''.

SEC. 8080. ANNUITIES TO SURVIVING SPOUSES AND DEPENDENT CHILDREN OF JUDGES.

(a) Paragraph (2) of section 7448(a) is amended by striking ''or under section 1106 of the Internal Revenue Code of 1939'' and by striking ''or pursuant to section 1106(d) of the Internal Revenue Code of 1939''.

(b) Subsection (g) of section 7448 is amended by striking ''or other than pursuant to section 1106 of the Internal Revenue Code of 1939''.

(c) Subsections (g), (j)(1), and (j)(2) of section 7448 are each amended by striking ‘‘at 4 percent per annum to December 31, 1947, and at 3 percent per annum thereafter’’ and inserting ‘‘at 3 percent per annum’’.

SEC. 8081. MERCHANT MARINE CAPITAL CONSTRUCTION FUNDS.

Paragraph (4) of section 7518(g) is amended by striking ‘‘any nonqualified withdrawal’’ and all that follows through ‘‘shall be determined’’ and inserting ‘‘any nonqualified withdrawal shall be determined’’.

SEC. 8082. VALUATION TABLES.

(a) Subsection (c) of section 7520 is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(b) Paragraph (2) of section 7520(c) of such Code, as so redesignated, is amended—

(1) by striking ‘‘Not later than December 31, 1989, the’’ and inserting ‘‘The’’, and

(2) by striking ‘‘thereafter’’ in the last sentence thereof.

SEC. 8083. DEFINITION OF EMPLOYEE.

Section 7701(a)(20) is amended by striking ‘‘chapter 21’’ and all that follows and inserting ‘‘chapter 21.’’.

SEC. 8084. EFFECTIVE DATE.

(a) GENERAL RULE.—Except as otherwise provided in subsection (b) of this section and the preceding sections of this subtitle, the amendments made by this subtitle shall take effect on the date of enactment of this Act.

(b) SAVINGS PROVISION.—If—

(1) any provision amended or repealed by the amendments made by this subtitle applied to—

(A) any transaction occurring before the date of the enactment of this Act,

(B) any property acquired before such date of enactment, or

(C) any item of income, loss, deduction, or credit taken into account before such date of enactment, and

(2) the treatment of such transaction, property, or item under such provision would (without regard to the amendments or repeals made by this subtitle) affect the liability for tax for periods ending after such date of enactment,

nothing in the amendments or repeals made by this subtitle shall be construed to affect the treatment of such transaction, property, or item for purposes of determining liability for tax for periods ending after such date of enactment.

Subtitle B—Conforming Amendments Related to Multiple Sections

SEC. 8101. CONFORMING AMENDMENTS RELATED TO MULTIPLE SECTIONS.

(a) GENERAL BUSINESS CREDIT.—Section 38(b), as amended by the preceding provisions of this Act, is amended—

(1) by redesignating paragraphs (4), (5), (7), (8), (13), (20), and (33) as paragraphs (3), (4), (5), (6), (7), (8), and (9), respectively,

(2) by adding ''plus'' at the end of paragraph (8) (as so redesignated), and

(3) by striking the comma at the end of paragraph (9) (as so redesignated) and inserting a period.

(b) ADJUSTMENTS TO BASIS.—Section 1016(a), as amended by the preceding provisions of this Act, is amended—

(1) by striking the last two sentences of paragraph (2),

(2) in paragraph (4) by striking ''(not including'' and all that follows through ''1921)'',

(3) by striking paragraph (12),

(4) by redesignating paragraphs (11), (14), (16), (17), (18), (21), (23), (26), (38), and (39) as paragraphs (9), (10), (11), (12), (13), (14), (15), (16), (17), and (18), respectively, and

(5) by adding ''and'' at the end of paragraph (17) (as so redesignated).

(c) HOLDING PERIOD OF PROPERTY.—Section 1223, as amended by the preceding provisions of this Act, is amended by redesignating paragraphs (9), (10), (11), (12), and (15) as paragraphs (6), (7), (8), (9) and (10), respectively.

(d) CORPORATE PREFERENCE ITEMS.—

(1) IN GENERAL.—Subchapter B of chapter 1, as amended by this Act, is amended by striking part XI (and by striking the item relating to such part from the table of parts for such subchapter).

(2) PRESERVATION OF SPECIAL RULE FOR TREATMENT OF INTANGIBLE DRILLING COSTS.—Section 263(c) is amended—

(A) by striking all that precedes ''and except as provided in subsection (i)'' and inserting the following:

''(c) INTANGIBLE DRILLING AND DEVELOPMENT COSTS IN THE CASE OF OIL AND GAS WELLS AND GEOTHERMAL WELLS.—

"(1) IN GENERAL.—Notwithstanding subsection (a),", and

(B) by adding at the end the following new paragraph:

"(2) REDUCTION FOR INTEGRATED OIL COMPANIES.—

"(A) IN GENERAL.—In the case of a corporation which is an integrated oil company, the amount allowable as a deduction for any taxable year (determined without regard to this paragraph) under paragraph (1) shall be reduced by 30 percent.

"(B) AMORTIZATION OF DISALLOWED AMOUNTS.—The amount not allowable as a deduction under paragraph (1) for any taxable year by reason of subparagraph (A) shall be allowable as a deduction ratably over the 60-month period beginning with the month in which the costs are paid or incurred.

"(C) DISPOSITIONS.—For purposes of section 1254, any deduction under subparagraph (B) shall be treated as a deduction allowable under paragraph (1).

"(D) INTEGRATED OIL COMPANY.—For purposes of this paragraph, the term 'integrated oil company' means, with respect to any taxable year, any producer of crude oil to whom subsection (c) of section 613A does not apply by reason of paragraph (2) or (4) of section 613A(d) (as such provisions were in effect before their repeal by the Tax Reform Act of 2014).

"(E) COORDINATION WITH COST DEPLETION.—The portion of the adjusted basis of any property which is attributable to amounts to which subparagraph (A) applied shall not be taken into account for purposes of determining depletion under section 611.".

(3) PRESERVATION OF LIMITATION ON CERTAIN INTEREST ON INDEBTEDNESS OF FINANCIAL INSTITUTIONS.—

(A) IN GENERAL.—Section 163 is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

"(n) LIMITATION ON CERTAIN INTEREST ON INDEBTEDNESS OF FINANCIAL INSTITUTIONS.—

"(1) IN GENERAL.—For purposes of this subtitle, in the case of a corporation, the amount allowable as a deduction under this chapter (determined without regard to this subsection) with respect to the amount described in paragraph (2) shall be reduced by 20 percent.

"(2) INTEREST ON DEBT TO CARRY TAX-EXEMPT OBLIGATIONS ACQUIRED AFTER DECEMBER 31, 1982, AND BEFORE AUGUST 8, 1986.—

"(A) IN GENERAL.—In the case of a financial institution which is a bank (as defined in section 585(a)(2)), the amount described in this paragraph is the amount of interest on indebtedness incurred or continued to purchase or carry obligations acquired after December 31, 1982, and before August 8, 1986, the interest on which is exempt from taxes for the taxable year, to the extent that a deduction would (but for this paragraph or section 265(b)) be allowable with respect to such interest for such taxable year.

"(B) DETERMINATION OF INTEREST ALLOCABLE TO INDEBTEDNESS ON TAX-EXEMPT OBLIGATIONS.—Unless the taxpayer (under regulations prescribed by the Secretary) establishes otherwise, the amount determined under subparagraph (A) shall be an amount which bears the same ratio to the aggregate amount allowable (determined without regard to this section and section 265(b)) to the taxpayer as a deduction for interest for the taxable year as—

"(i) the taxpayer's average adjusted basis (within the meaning of section 1016) of obligations described in subparagraph (A), bears to

"(ii) such average adjusted basis for all assets of the taxpayer.

"(C) INTEREST.—For purposes of this paragraph, the term 'interest' includes amounts (whether or not designated as interest) paid in respect of deposits, investment certificates, or withdrawable or repurchasable shares.

"(D) APPLICATION OF SUBPARAGRAPH TO CERTAIN OBLIGATIONS ISSUED AFTER AUGUST 7, 1986.—For application of this subparagraph to certain obligations issued after August 7, 1986, see section 265(b)(3) (as in effect before the enactment of the Tax Reform Act of 2014). That portion of any obligation not taken into account under paragraph (2)(A) of section 265(b) (as so in effect) by reason of paragraph (7) of such section shall be treated for purposes of this section as having been acquired on August 7, 1986.''.

(B) CONFORMING AMENDMENTS.—

(i) Section 1277(c) is amended by striking ''section 291(e)(1)(B)(ii)'' and inserting ''section 163(n)(2)(B)''.

(ii) Section 1363(b)(3), as amended by the preceding provisions of this Act, is amended by striking ''section 291'' and inserting ''section 163(n)''.

(4) EFFECTIVE DATE.—Except as otherwise provided in this Act with respect to amendments made to section 291 of the Internal Revenue Code of 1986, the amendments made this subsection shall apply to taxable years beginning after December 31, 2014.

TAX REFORM ACT OF 2014 DISCUSSION DRAFT

AS RELEASED ON FEBRUARY 26, 2014

Section-by-Section Summary

COMMITTEE ON WAYS AND MEANS
CHAIRMAN DAVE CAMP

Tax Reform Act of 2014
Discussion Draft
Section-by-Section Summary

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Section 1. Short Title; Etc.

This section provides: (1) a short title for the discussion draft, the "Tax Reform Act of 2014"; (2) that when the discussion draft amends or repeals a particular section or other provision, such amendment or repeal generally should be considered as referring to sections or provisions of the Internal Revenue Code of 1986; and (3) a table of contents.

Title I – Tax Reform for Individuals

Subtitle A – Individual Income Tax Rate Reform

Secs. 1001-1003. Simplification of individual income tax rates; Deduction for adjusted net capital gain; Conforming amendments related to simplification of individual income tax rates.

Current law: Under current law, a taxpayer generally determines his regular tax liability by applying the tax rate schedules (or the tax tables) to his regular taxable income. The rate schedules are broken into several ranges of income, known as income brackets, and the marginal tax rate increases as a taxpayer's income increases. Separate rate schedules apply based on an individual's filing status. For 2014, there are seven regular individual income tax brackets of 10 percent, 15 percent, 25 percent, 28 percent, 33 percent, 35 percent, and 39.6 percent. In addition, there are five categories of filing status: single, head of household, married filing jointly (and surviving spouses), married filing separately, and estates and trusts. For married individuals filing jointly, the upper bounds of the 10- and 15-percent brackets are exactly double the upper bounds that apply to single individuals, to prevent a marriage penalty from applying at these income levels. The income levels for each bracket threshold are indexed annually based on increases in the Consumer Price Index (CPI).

A separate rate schedule applies to adjusted net capital gain and qualified dividends, with rates of 0 percent, 15 percent, and 20 percent. Additional rates of 25 percent and 28 percent apply to unrecaptured section 1250 gain and 28-percent rate gain (collectibles gain and section 1202 gain), respectively. Special rules (i.e., the so-called "kiddie tax") apply to certain unearned income of children, taxing a portion of such income at the parents' tax bracket.

Provision: Under the provision, the current seven tax brackets would be consolidated and simplified into three brackets: 10 percent, 25 percent, and 35 percent. Generally, the new 10-percent bracket would replace the current 10- and 15-percent brackets; the new 25-percent bracket would replace the current 25-, 28-, 33-, and 35-percent brackets; and the new 35-percent bracket would replace the current 39.6-percent bracket. While the current 25-percent bracket begins at $72,500 (2013 dollars) for joint filers (half that amount for single filers), the new 25-percent bracket would begin at $71,200 (2013 dollars) for joint filers (half that amount for single filers). The new 35-percent bracket would begin at the same income levels as the current 39.6-percent bracket (e.g., $400,000 for single filers and $450,000 for joint filers in 2013). Beginning in tax year 2015, these income levels would be indexed for chained CPI instead of CPI, a slightly different measure of inflation.

The 35-percent bracket would not apply to qualified domestic manufacturing income (QDMI), meaning that such income would be subject to a maximum statutory rate of 25 percent. QDMI generally would be net income attributable to domestic manufacturing gross receipts. Domestic manufacturing gross receipts would include gross receipts derived from (1) any lease, rental, license, sale, exchange, or other disposition of tangible personal property that is manufactured, produced, grown, or extracted by the taxpayer in whole or in significant part within the United States, or (2) construction of real property in the United States as part of the active conduct of a construction trade or business. Income that either is net earnings from self-employment or results from an adjustment under Code section 481 (for changes in accounting methods) would not qualify as QDMI. Puerto Rico would be considered "domestic" for these purposes, and other rules similar to those under current-law Code section 199 would apply. Finally, the exemption of QDMI from the 35-percent bracket would be phased in over three years, with only one-third of QDMI being excluded from the top bracket in tax year 2015, and two-thirds being excluded in 2016.

In addition, certain tax preferences could only be taken against the 25-percent bracket, but not the 35-percent bracket. These tax preferences would include: the standard deduction; all itemized deductions except the deduction for charitable contributions; the foreign earned income exclusion (including the exclusions for income from Puerto Rico and U.S. possessions); tax-exempt interest; employer contributions to health, accident, and defined contribution retirement plans to the extent excluded from gross income; the deduction for health premiums of the self-employed; the deduction for contributions to Health Savings Accounts; and the portion of Social Security benefits excluded from gross income.

The 25-percent cap that would apply to both the maximum rate imposed on QDMI and the rate against which certain tax preferences may be taken would be administered by imposing the difference between the 25-percent bracket and the 35-percent bracket (i.e., 10 percentage points) on modified adjusted gross income (MAGI) rather than taxable income. MAGI would equal adjusted gross income, plus the above-the-line deductions and exclusions listed above, minus QDMI and charitable contributions.

For high-income taxpayers, the provision would phase out the tax benefit of the 10-percent bracket, measured as the difference between what the taxpayer pays and what the taxpayer would have paid had the first dollar of taxable income been subject to the 25-percent bracket. This tax benefit is phased out at a rate of $5 of tax savings for every $100 of modified adjusted gross income in excess of $250,000 (single filers) or $300,000 (joint filers). These thresholds are adjusted for chained CPI in tax years after 2013.

The special rate structure for net capital gain would be repealed. Instead, non-corporate taxpayers could claim an above-the-line deduction equal to 40 percent of adjusted net capital gain. Adjusted net capital gain would equal the sum of net capital gain and qualified dividends, reduced by net collectibles gain.

The provision would be effective for tax years beginning after 2014.

Considerations:

- Overall, the changes to the individual rate structure would create a simpler, fairer, and flatter Federal income tax.
- Most economists consider chained CPI to represent a more accurate measure of inflation than CPI.
- Qualifying for head of household filing status requires a taxpayer to comply with a complicated set of rules, and comparable relief for single individuals with dependents could be provided through simpler changes to certain deductions and credits.
- The modified tax preference for long-term capital gains and dividends would result in such income being taxed at 60 percent of the taxpayer's marginal rate. Thus, for example, taxpayers in the 35-percent bracket would pay an effective rate of 21 percent on adjusted net capital gain. Combining this with the additional 3.8 percent tax imposed on such income by Code section 1411 yields a top effective rate of 24.8 percent, slightly lower than the top effective rate under current law, which is 25 percent.
- The 40-percent deduction for adjusted net capital gain would greatly simplify the calculation of the tax preference for such income relative to current law, and is similar to how the tax preference was structured prior to enactment of the Tax Reform Act of 1986.
- Excluding qualified domestic manufacturing income from the 35-percent bracket would ensure that small businesses and pass-through entities (such as S corporations and partnerships) engaged in such activity are taxed at a rate no higher than 25 percent, achieving parity with C corporations under the discussion draft.

JCT estimate: According to JCT, the provisions, along with sections 3132 and 3139 of the discussion draft, would reduce revenues by $498.7 billion over 2014-2023, and increase outlays by $0.4 billion over 2014-2023.

Subtitle B – Simplification of Tax Benefits for Families

Considerations for Subtitle B:

- The Code currently includes six basic family tax benefits, each with its own rules, eligibility criteria, and calculations.
- Three – the basic standard deduction, additional standard deduction, and personal exemption for taxpayer and spouse – are intended to shield a minimum level of income from Federal income taxation, with the level depending on whether the taxpayer is single or married.
- The other three – personal exemptions for children and dependents, the child tax credit, and head of household filing status – are intended to deliver additional tax benefits to households with children and dependents.

- Consolidating these six benefits into three simpler benefits – a larger standard deduction, an additional deduction for single parents, and an enhanced child and dependent tax credit – would achieve the same policy and distributional goals as current law while making the Code much simpler for low- and middle-income families.

Sec. 1101. Standard deduction.

Current law: Under current law, an individual reduces adjusted gross income (AGI) by any personal exemption deductions and either (1) the applicable standard deduction or (2) his itemized deductions to determine taxable income. The basic standard deduction varies depending upon a taxpayer's filing status. For 2013, the amount of the standard deduction was $6,100 for single individuals and married individuals filing separate returns, $8,950 for heads of households, and $12,200 for married individuals filing a joint return (and surviving spouses). An additional standard deduction is allowed with respect to any individual who is elderly or blind. The amounts of the basic and additional standard deductions are indexed annually for inflation (CPI). In lieu of taking the applicable standard deductions, an individual may elect to itemize deductions.

Provision: Under the provision, the basic and additional standard deductions would be consolidated into a single standard deduction of $22,000 for joint filers (and surviving spouses) and $11,000 for other individual filers. Single filers with at least one qualifying child could claim an additional deduction of $5,500, regardless of whether or not they itemize deductions. These amounts would be adjusted annually from tax year 2013 based on changes in the chained CPI.

The standard deduction – or in the case of itemizers, an equivalent amount of itemized deductions – would phase out by $20 for every $100 by which modified adjusted gross income (MAGI) exceeds $517,500 for joint filers and $358,750 for single filers. The additional deduction for single filers with a qualifying child would phase out by one dollar for every dollar by which AGI exceeds $30,000. The phase-out threshold amounts also are adjusted for inflation based on 2013 dollars.

The provision would be effective for tax years beginning after 2014.

Considerations:

- The increase in the standard deduction would achieve substantial simplification by reducing the number of taxpayers who choose to itemize their deductions – from roughly one-third under current law to only 5 percent under the discussion draft (in 2015).
- While the provision eliminates the additional standard deduction for the elderly and blind, the increase in the standard deduction more than compensates these taxpayers for this simplification.

JCT estimate: According to JCT, the provision would reduce revenues by $578.3 billion over 2014-2023, and increase outlays by $87.9 billion over 2014-2023.

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

Current law: Under current law, an individual may claim a tax credit for each qualifying child under the age of 17. The amount of the credit per child is $1,000. The aggregate amount of child credits that may be claimed is phased out by $50 for each $1,000 of MAGI over $75,000 for single filers and $110,000 for joint filers. Neither the $1,000 credit amount nor the MAGI thresholds are indexed for inflation. The taxpayer must submit a valid taxpayer identification number (TIN) for each child for whom the credit is claimed.

To the extent the child credit exceeds the taxpayer's tax liability, the taxpayer is eligible for a refundable credit (the additional child tax credit, or ACTC) equal to 15 percent of earned income in excess of $3,000 for tax years beginning before 2018, or $10,000 thereafter, indexed for changes in the CPI since calendar year 2000. The taxpayer is not required to have a Social Security number (SSN) to claim the refundable portion of the credit, and (unlike with the EITC) taxpayers claiming the foreign earned income exclusion may qualify for the refundable portion of the credit.

Provision: Under the provision, the child credit would be increased to $1,500 and would be allowed for qualifying children under the age of 18. A reduced credit of $500 would be allowed for non-child dependents. Both the $1,500 and $500 credit amounts would be indexed annually for changes in the chained CPI. The credit would be refundable to the extent of 25 percent of the taxpayer's earned income (earned income in excess of $3,000 before 2018). The credit would not begin to phase out until MAGI exceeds $413,750 for single filers and $627,500 for joint filers (indexed for inflation, using 2013 dollars).

To reduce waste, fraud, and abuse, a taxpayer would be required to provide his SSN, but not an SSN for the child or dependent, to claim the refundable portion of the credit. The IRS would be granted math error authority to adjust the returns of taxpayers failing to satisfy the identification requirements. The refundable portion of the credit would be disallowed for taxpayers claiming the foreign earned income exclusion.

The provision would be effective for tax years beginning after 2014.

Considerations:
- The cost of raising children increases every year, but the current law child tax credit fails to recognize this because it is not indexed for inflation.
- Consolidating the personal exemption for children and dependents and the child tax credit into a single tax credit achieves simplification while better targeting relief to low- and middle-income families.
- Increasing the phase-out level dramatically would reward more families with children and would simplify the Code for middle class families currently forced to perform a phase-out computation.

JCT estimate: According to JCT, the provision would reduce revenues by $277.9 billion over 2014-2023, and increase outlays by $276.1 billion over 2014-2023.

Sec. 1103. Modification of earned income tax credit.

Current law: Under current law, a refundable earned income tax credit (EITC) is available to low-income workers who satisfy certain requirements. The amount of the EITC varies depending upon the taxpayer's earned income and whether the taxpayer has zero, one, two, or more than two qualifying children. In 2013, the maximum EITC (regardless of filing status) was $6,044 for taxpayers with more than two qualifying children, $5,372 for taxpayers with two qualifying children, $3,250 for taxpayers with one qualifying child, and $487 for taxpayers with no qualifying children. For tax year 2013, the credit amount begins to phase out at an income level of $17,530 ($7,970 for taxpayers with no qualifying children). The phase-out percentages are 15.98 percent for taxpayers with one qualifying child, 17.68 percent for two or more qualifying children, and 7.65 percent for no qualifying children.

Provision: Under the provision, the EITC would be modified so that it would refund employment-related taxes (i.e., payroll taxes and self-employment taxes) paid by or with respect to the individual. The employee's share of payroll taxes would be offset by a credit against such taxes, while the employer's share would be rebated through a refundable income tax credit. Only taxpayers with at least one qualifying child could qualify for the credit against the employer's share of payroll taxes. For taxpayers without a qualifying child, the maximum credit amount would be $200 for joint filers ($100 for other filers). For taxpayers with one qualifying child, the maximum credit would be $2,400. For taxpayers with more than one qualifying child, the maximum credit would be $4,000 in the case of a joint return and $3,000 in other cases. These credit amounts would be indexed for chained CPI based on 2013 dollars.

A special rule would apply to tax years 2015, 2016, and 2017 that would make the credit equal to 200 percent of the taxpayer's payroll taxes (both employee and employer shares). In addition, taxpayers with one qualifying child could claim a maximum credit of $3,000 (rather than $2,400), and taxpayers with two or more qualifying children could claim a maximum credit of $4,000, regardless of filing status.

The credit would phase out as AGI exceeds certain levels. For taxpayers with qualifying children, the credit would begin phasing out at $20,000 for single filers and $27,000 for joint filers. For taxpayers without qualifying children, the credit would begin phasing out at $8,000 for single filers and $13,000 for joint filers. These thresholds would be indexed to chained CPI, based on 2013 dollars. The phase-out percentages would be 19 percent for filers with one or more qualifying children and 7.65 percent for no qualifying children.

Finally, the provision would require the Treasury Department to report to Congress, within 180 days of the date of enactment, recommendations for providing advance payments of the EITC (1) as promptly as feasible, and (2) with minimal administrative burden imposed on employers and the IRS.

The provision would be effective for tax years beginning after 2014.

Considerations:

- Exempting a portion of wages from payroll tax would represent a tax cut, whereas the current EITC constitutes government spending.
- The Treasury Inspector General for Tax Administration (TIGTA) recently estimated that up to 25 percent of EITC payments are improper (including fraudulent claims), costing the Federal government up to $132 billion over the last 10 years.
- The EITC calculation is highly complex, and TIGTA has estimated that as many as 22 percent of eligible taxpayers fail to claim it.
- Simply allowing low-income taxpayers a rebate of their payroll taxes is both much simpler and more transparent than current law, with the potential for fraud reduced by the direct link to payroll taxes withheld on a taxpayer's Form W-2.
- Allowing a larger maximum credit for joint filers than for other filers helps to reduce the marriage penalty embedded in the current EITC.

JCT estimate: According to JCT, the provision would reduce revenues by $160.8 billion over 2014-2023, and reduce outlays by $378.0 billion over 2014-2023.

<u>Sec. 1104. Repeal of deduction for personal exemptions.</u>

Current law: Under current law, a taxpayer generally may claim personal exemptions for the taxpayer, the taxpayer's spouse, and any dependents. For 2013, taxpayers may deduct $3,900 for each personal exemption. This amount is indexed annually for inflation (CPI). Additionally, the personal exemption phase-out (PEP) reduces a taxpayer's personal exemptions by 2 percent for each $2,500 ($1,250 for married filing separately) by which the taxpayer's AGI exceeds $250,000 (single), $275,000 (head-of-household), $300,000 (married filing jointly), and $150,000 (married filing separately). These threshold amounts apply to tax year 2013 and also are indexed for inflation.

Provision: Under the provision, the deduction for personal exemptions would be repealed. The provision would be effective for tax years beginning after 2014.

Considerations:

- The personal exemption for the taxpayer and taxpayer's spouse would be consolidated into a larger standard deduction.
- The personal exemption for children and dependents would be consolidated into an expanded child and dependent tax credit.

JCT estimate: According to JCT, the provision would increase revenues by $859.1 billion over 2014-2023, and reduce outlays by $128.1 billion over 2014-2023.

Subtitle C – Simplification of Education Incentives

Considerations for Subtitle C:

- Under current law, there are 15 different tax benefits relating to education that often overlap with one another.
- The current-law education tax benefits are so complicated that they are ineffective because many taxpayers cannot determine the tax benefits for which they are eligible.
- The IRS publication on tax benefits for education is almost 90 pages long.
- Streamlining education tax benefits would enable taxpayers to understand better the tax benefits for which they qualify.
- The provisions would help to simplify considerably the tax benefits relating to education.

Sec. 1201. American opportunity tax credit.

Current law: Under current law, the American Opportunity Tax Credit (AOTC) replaces the pre-existing Hope Scholarship Credit (HSC) through the end of 2017. The AOTC provides a 100-percent tax credit for the first $2,000 of certain higher education expenses and a 25-percent tax credit for the next $2,000 of such expenses, for a maximum credit of $2,500. The expenses that are eligible for the AOTC include tuition, fees and course materials. Up to 40 percent of the AOTC is refundable. The AOTC is available for up to four years of post-secondary education in a degree or certificate program, and generally phases out between modified adjusted gross income (MAGI) of $160,000 and $180,000 for joint filers and $80,000 and $90,000 for other filers.

After 2017, the AOTC expires and taxpayers may claim the HSC instead. Generally, the HSC is less generous than the AOTC in that it: (1) provides a credit of 100 percent of the first $1,000 in expenses and 50 percent of the next $1,000 in expenses; (2) applies only to tuition and fees; (3) is available only for two years of post-secondary education; (4) phases out at MAGI of $80,000 to $100,000 (joint filers) and $40,000 to $50,000 (other filers); and (5) is not refundable. (Under the HSC, all dollar amounts are indexed for inflation using 2000 as the base year.) As an alternative to the AOTC or the HSC, taxpayers may instead elect the Lifetime Learning Credit (LLC) for 20 percent of up to $10,000 of qualified education expenses for post-secondary education. There is no limit on the number of years the LLC may be claimed for each student. For 2014, the LLC generally phases out for taxpayers with MAGI between $54,000 and $64,000 ($108,000 and $128,000 for joint filers). These income phase-outs are adjusted for inflation.

Prior to 2014, an individual also could claim an above-the-line deduction for qualified tuition and related expenses incurred. The maximum amount of the deduction was $4,000 for taxpayers whose adjusted gross income (AGI) did not exceed $65,000 ($130,000 in the case of a joint return), and $2,000 for taxpayers whose AGI did not exceed $80,000 ($160,000 in the case of a joint return).

Pell Grants generally may be used for a wider array of expenses than the AOTC or the HSC. However, Pell Grants must be first used against the expenses that are also covered by the AOTC or the HSC. These ordering rules have led to taxpayer confusion.

Certain educational institutions are also subject to Federal tax reporting requirements regarding tuition and related expenses that may be satisfied by providing either the amounts billed or the amounts paid.

Provision: Under the provision, the four existing higher education tax benefits described above – AOTC, HSC, LLC, and the tuition deduction – would be consolidated into a permanent, reformed AOTC. The new AOTC, like the current, temporary AOTC, would provide a 100-percent tax credit for the first $2,000 of certain higher education expenses and a 25-percent tax credit for the next $2,000 of such expenses. Also like the current AOTC, it would be available for up to four years of higher education, and eligible expenses would include tuition, fees and course materials. The provision would provide greater refundability, with the first $1,500 of the credit being refundable. The credit would generally phase out for MAGI between $86,000 and $126,000 for joint filers and $43,000 and $63,000 for other filers. The credit amounts and phase-out ranges would be indexed for inflation starting in 2018. The HSC, LLC, and tuition deduction would be repealed.

The provision would deem Pell Grants to be applied first against expenses not covered by the AOTC. Thus, qualified tuition and related expenses that may be used for calculating the AOTC would be reduced by Pell Grants only to the extent the Pell Grants exceed the non-AOTC covered costs of college attendance.

To reduce credit overpayments, educational institutions subject to current reporting requirements would be required to report amounts paid rather than amounts billed.

The provision would be effective for tax years beginning after 2014.

Consideration: The provision would help to simplify the tax benefits relating to education by consolidating four similar, but not identical, tax benefits – AOTC, HSC, and LLC, and the deduction for qualified tuition and related expenses – into a single, easy-to-understand tax credit.

JCT estimate: According to JCT, the provision, along with section 1202 of the discussion draft, would increase revenues by $29.4 billion over 2014-2023 and would increase outlays by $38.1 billion over 2014-2023.

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

Current law: Under current law, qualified scholarship amounts, such as Pell Grants, received by a degree candidate at a qualifying educational organization are generally excluded from gross income. However, such scholarship amounts are only excluded if used for qualified tuition and related expenses, a category that does not include room and board.

Provision: Under the provision, all Pell Grants would be excluded from income regardless of how they are used. The provision would be effective for tax years beginning after 2014.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for section 1201 of the discussion draft.

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

Current law: Under current law, interest on United States savings bonds is excluded from income if used to pay qualified higher education expenses. Only taxpayers with MAGI below certain (inflation-adjusted) levels qualify for the exclusion. For 2014, the exclusion phases out between $113,950 and $143,950 for joint returns and between $76,700 and $91,000 for other returns.

Provision: The provision would repeal the exclusion for interest on United States savings bonds used to pay qualified higher education expenses. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

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

Current law: Under current law, an individual may claim an above-the-line deduction for interest payments on qualified education loans for qualified higher education expenses of the taxpayer, the taxpayer's spouse, or dependents. The maximum amount of the deduction is $2,500. Only taxpayers with MAGI below certain inflation-adjusted amounts qualify for the exclusion. For 2014, the exclusion phases out between $130,000 and $160,000 for joint returns and between $65,000 and $80,000 for other returns.

Provision: The provision would repeal the deduction for interest on education loans. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $13.0 billion over 2014-2023.

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

Current law: Under current law, an individual could claim an above-the-line deduction for qualified tuition and related expenses incurred in tax years beginning before 2014. The maximum amount of the deduction was $4,000 for taxpayers whose adjusted gross income (AGI) did not exceed $65,000 ($130,000 in the case of a joint return), and $2,000 for taxpayers whose AGI did not exceed $80,000 ($160,000 in the case of a joint return).

Provision: The provision would repeal the deduction for qualified tuition and related expenses. The provision would be effective for tax years beginning after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

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

Current law: Under current law, Coverdell education savings accounts, which are established for the purpose of paying qualified education expenses of a named beneficiary, are exempt from tax. Contributions are not deductible and may not exceed $2,000 per beneficiary annually, and may not be made after the designated beneficiary reaches age 18 (except in the case of a special needs beneficiary). The contribution limit is phased out for contributors with modified adjusted gross income between $95,000 and $110,000 ($190,000 and $220,000 for married taxpayers filing a joint return). Distributions from a Coverdell account are excludable from the gross income of the beneficiary if used to pay for qualified education expenses. Qualified education expenses include qualified higher education expenses and qualified elementary and secondary school expenses for attendance in kindergarten through grade 12.

Provision: The provision would prohibit new contributions to Coverdell education savings accounts after 2014 (except rollover contributions), but would allow tax-free rollovers from Coverdell accounts into section 529 plans. The provision would be effective for contributions made and distributions after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.2 billion over 2014-2023.

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

Current law: Under current law, discharge of indebtedness generally constitutes taxable income. However, an exception applies to student loans that are forgiven because the former students work for a period of time in certain professions or for certain classes of employers. The exception also applies to loan repayments as part of the National Health Services Corps Loan Repayment Program and loan repayments or forgiveness under certain State loan repayment programs intended to provide for increased health care services in certain areas.

Provision: Under the provision, the exclusion for discharge of student loan indebtedness would be repealed. The provision would be effective for amounts discharged after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $1.1 billion over 2014-2023.

<u>Sec. 1208. Repeal of exclusion for qualified tuition reductions.</u>

Current law: Under current law, qualified tuition reductions provided by educational institutions to their employees, spouses, or dependents are excluded from income. The exclusion may be provided in the form of either reduced tuition or cash. The reduction must be part of a program that does not discriminate in favor of highly compensated employees and may not apply to graduate programs (except for a graduate student who is teaching or a research assistant).

Provision: Under the provision, the exclusion for qualified tuition reduction programs would be repealed. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $2.5 billion over 2014-2023.

<u>Sec. 1209. Repeal of exclusion for education assistance programs.</u>

Current law: Under current law, employer-provided education assistance is excluded from income. The exclusion is limited to $5,250 per year and applies to both graduate and undergraduate courses. The education assistance must be part of a written plan of the employer that does not discriminate in favor of highly compensated employees.

Provision: Under the provision, the exclusion for education assistance programs would be repealed. Employer-provided education assistance may still be excluded as a working condition fringe benefit, however, if it is related to the employee's performance of his job duties for the employer. The provision would be effective for amounts paid or incurred after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $10.5 billion over 2014-2023.

<u>Sec. 1210. Repeal of exception to 10-percent penalty for higher education expenses.</u>

Current law: Under current law, an additional 10-percent tax generally is imposed on distributions from retirement plans and Individual Retirement Accounts (IRAs) occurring before the account holder reaches age 59½. This 10-percent tax is in addition to any income tax that may be due on the distribution. There are several exceptions to the early withdrawal penalty, including early distributions to pay for higher education expenses.

Provision: Under the provision, the exception to the additional 10-percent tax for early distributions used to pay for higher education expenses would be repealed. The provision would be effective for distributions after 2014.

Consideration: This provision would help Americans achieve greater retirement security by encouraging taxpayers not to make withdrawals from their accounts before retirement.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for section 1605 of the discussion draft.

Subtitle D – Repeal of Certain Credits for Individuals

Sec. 1301. Repeal of dependent care credit.

Current law: Under current law, a taxpayer may claim a non-refundable credit for a portion of the taxpayer's employment-related expenses for household services and the care of qualifying individuals. The credit takes into account up to $3,000 of such expenses for households with one qualifying individual, and $6,000 for two qualifying individuals. Taxpayers whose adjusted gross income is $15,000 or less may claim a credit of 35 percent of expenses. The credit rate phases down to 20 percent as adjusted gross income increases from $15,000 to $43,000 (meaning that taxpayers with incomes exceeding $43,000 may claim a maximum credit of $600).

Provision: Under the provision, the dependent care credit would be repealed. The provision would be effective for tax years beginning after 2014.

Considerations:

- The dependent care credit is complex and overlaps with other tax provisions that provide tax benefits for families.
- Consolidating redundant and complex family tax benefits, such as the dependent care credit, into an increased child credit and standard deduction would result in significant simplification.

JCT estimate: According to JCT, the provision would increase revenues by $20.0 billion over 2014-2023, and would reduce outlays by $6.0 billion over 2014-2023.

Sec. 1302. Repeal of credit for adoption expenses.

Current law: Under current law, a taxpayer may claim an adoption tax credit of $13,190 per eligible child for 2014 (both special needs and non-special needs adoptions). These benefits are phased-out for taxpayers with modified adjusted gross income (MAGI) between $197,880 and $237,880 for 2014. The amount of the credit and the income phase-outs are indexed for inflation. For a non-special needs adoption, the credit amount is limited to actual adoption expenses. The credit is not refundable, but unused amounts may be carried forward for five years.

Provision: Under the provision, the adoption credit would be repealed. The provision would be effective for amounts paid or incurred after 2014 for non-special needs adoptions. For special needs adoptions, amounts deemed to have been paid for purposes of the credit shall be treated as paid on the date the adoption was finalized.

Considerations:

- The adoption credit can be complex and overlaps with other tax provisions that provide tax benefits for families.
- Consolidating redundant and complex family tax benefits, such as the adoption credit, into an increased child credit and standard deduction would result in significant simplification.

JCT estimate: According to JCT, the provision would increase revenues by $4.7 billion over 2014-2023.

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

Current law: Under current law, a taxpayer could claim a credit of 10 percent of expenditures for energy-efficient improvements to the building envelope (e.g., windows, doors, skylights, and roofs) of principal residences and credits of fixed dollar amounts ranging from $50 to $300 for energy-efficient property including furnaces, boilers, biomass stoves, heat pumps, water heaters, central air conditioners and circulating fans, for property placed in service before 2014. The credit was subject to a lifetime cap of $500. The credit expired at the end of 2013.

Provision: Under the provision, the credit for nonbusiness energy property would be repealed. The provision would be effective for property placed in service after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

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

Current law: Under current law, a taxpayer may claim a credit for the purchase of qualified solar electric property and qualified solar water heating property that is used exclusively for purposes other than heating swimming pools and hot tubs. The credit is equal to 30 percent of qualifying expenditures. There also is a 30-percent credit for the purchase of qualified geothermal heat pump property, qualified small wind energy property, and qualified fuel cell power plants. The credit applies to property placed in service prior to 2017.

Provision: Under the provision, the credit for residential energy efficient property would be repealed. The provision would be effective for property placed in service after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $2.3 billion over 2014-2023.

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

Current law: Under current law, a taxpayer could claim a 10-percent credit for the cost of a qualified plug-in electric-drive motor vehicle that is either a low-speed vehicle, motorcycle, or three-wheeled vehicle prior to 2012. Two- or three-wheeled vehicles must have a battery capacity of at least 2.5 kilowatt-hours. Other vehicles must have a battery capacity of at least 4 kilowatt-hours. The maximum credit for such vehicles was $2,500. The credit was available for vehicles acquired after February 17, 2009, and before January 1, 2012.

Provision: Under the provision, the credit for qualified electric vehicles would be repealed. The provision would be effective for vehicles acquired after 2011.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2013.

Sec. 1306. Repeal of alternative motor vehicle credit.

Current law: Under current law, a taxpayer may claim a credit for each new qualified fuel cell vehicle, hybrid vehicle, advanced lean burn technology vehicle, and alternative fuel vehicle placed in service by the taxpayer during the tax year. The credit amount varies depending upon the type of technology used, the weight class of the vehicle, the amount by which the vehicle exceeds certain fuel economy standards, and, for some vehicles, the estimated lifetime fuel savings. The credit generally is available for vehicles purchased after 2005, but terminates after 2009, 2010, or 2014, depending on the type of vehicle.

Provision: Under the provision, the credit for qualified fuel cell motor vehicles would be repealed. The provision would be effective for property purchased after 2014.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

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

Current law: Under current law, a taxpayer may claim a 30-percent credit for the cost of installing qualified clean-fuel vehicle refueling property to be used in a trade or business of the taxpayer or installed at the principal residence of the taxpayer. The credit may not exceed $30,000 per tax year per location in the case of a trade or business, and $1,000 per tax year per location in the case of a principal residence.

Provision: Under the provision, the alternative motor vehicle credit would be repealed. The provision would be effective for property placed in service after 2014.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

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

Current law: Under current law, a taxpayer may claim a credit for each qualified plug-in electric-drive motor vehicle placed in service. A qualified plug-in electric-drive motor vehicle is a motor vehicle that has at least four wheels, is manufactured for use on public roads, meets certain emissions standards (except for certain heavy vehicles), draws propulsion using a traction battery with at least four kilowatt hours of capacity, and is capable of being recharged from an external source of electricity.

For plug-in electric drive vehicles acquired after 2009, the maximum credit is capped at $7,500 regardless of vehicle weight. In addition, after that date, no credit is available for low speed plug-in vehicles or for plug-in vehicles weighing 14,000 pounds or more.
After 2009, the 250,000 total plug-in vehicle limitation is replaced with a 200,000 plug-in vehicles per manufacturer limitation. Under the new limitation, the credit phases out over four calendar quarters beginning in the second calendar quarter following the quarter in which the manufacturer limit is reached. A limited $2,500 credit was available for certain 2- and 3-wheel vehicles through the end of 2013.

Provision: Under the provision, the credit for new qualified plug-in drive vehicles would be repealed. The provision would be effective for vehicles acquired after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $5.0 billion over 2014-2023.

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

Current law: Under current law, certain individuals could claim a refundable health coverage tax credit (HCTC) equal to 72.5 percent of the cost of certain types of health coverage purchased prior to 2014. In general, the HCTC was available to individuals who received certain unemployment assistance due to trade-related events (i.e., Trade Adjustment Assistance), as well as individuals over age 55 who received pension benefits from the Pension Benefit Guaranty Corporation. The credit was available for certain employer-based insurance, State-based insurance and, in some cases, insurance purchased in the individual market. The credit expired for coverage months beginning after 2013.

Provision: Under the provision, the HCTC would be repealed. The provision would be effective for months beginning after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

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

Current law: Under current law, a first-time homebuyer could claim a refundable tax credit of up to 10 percent of the purchase price of a principal residence in the United States for residences purchased on or after April 9, 2008, and before May 1, 2010 (or June 30, 2011, for taxpayers on qualified official extended duty outside of the United States). The credit amount was limited to $8,000 ($4,000 for married individuals filing a separate return). The credit phased out for taxpayers with MAGI of $125,000 ($225,000 for married taxpayers filing a joint return).

Provision: Under the provision, the first-time homebuyer credit would be repealed. The provision would be effective for residences purchased after June 30, 2011.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Subtitle E – Deductions, Exclusions, and Certain Other Provisions

Note: The JCT revenue estimate for the discussion draft reports only the combined, aggregate revenue effect of a number of separate provisions making changes to certain itemized deductions. The specific provisions for which JCT reports only this aggregate revenue effect are as follows:

- Sec. 1402. Mortgage interest;
- Sec. 1403. Charitable contributions;
- Sec. 1404. Denial of deduction for expenses attributable to the trade or business of being an employee;
- Sec. 1405. Repeal of deduction for taxes not paid or accrued in a trade or business;
- Sec. 1406. Repeal of deduction for personal casualty losses;
- Sec. 1408. Repeal of deduction for tax preparation expenses;
- Sec. 1409. Repeal of deduction for medical expenses;
- Sec. 1414. Repeal of 2-percent floor on miscellaneous itemized deductions; and
- Sec. 1415. Repeal of overall limitation on itemized deductions.

According to JCT, these provisions, taken together, would increase revenues by $853.7 billion over 2014-2023, and reduce outlays by $4.7 billion over 2014-2023.

<u>Sec. 1401. Exclusion of gain from sale of a principal residence.</u>

Current law: Under current law, a taxpayer may exclude from gross income up to $500,000 for joint filers ($250,000 for other filers) of gain on the sale of a principal residence. The property generally must have been owned and used as the taxpayer's principal residence for two out of the previous five years. A taxpayer may only use this exclusion once every two years.

Provision: Under the provision, a taxpayer would have to own and use a home as the taxpayer's principal residence for five out of the previous eight years to qualify for the exclusion. In addition, the taxpayer would only be able to use the exclusion once every five years. The exclusion would be phased out by one dollar for every dollar by which a taxpayer's modified adjusted gross income (MAGI) exceeds $500,000 ($250,000 for single filers). The provision would be effective for sales and exchanges after 2014.

Considerations:

- The provision would continue to protect middle-class homeowners who either do not have the documentation to establish basis in their home or who have experienced gains as a result of inflation over a long period of ownership. Meanwhile, speculators and so-

called "flippers" in the housing market would not be rewarded for their activity with tax-exempt income.
- The provision's "five-out-of-eight year" rule existed prior to 1978, when Congress decided to reduce the necessary holding period. This provision would merely restore the holding period requirement to what it was prior to 1978.

JCT estimate: According to JCT, the provision would increase revenues by $15.8 billion over 2014-2023.

Sec. 1402. Mortgage interest.

Current law: Under current law, a taxpayer may claim an itemized deduction for mortgage interest paid with respect to a principal residence and one other residence of the taxpayer. Itemizers may deduct interest payments on up to $1 million in acquisition indebtedness (for acquiring, constructing, or substantially improving a residence), and up to $100,000 in home equity indebtedness. Under the alternative minimum tax (AMT), however, the deduction for home equity indebtedness is disallowed.

Premiums paid before 2014 on a private mortgage insurance contract issued after 2006 for acquisition indebtedness are generally deductible as qualified residence interest, but this deduction phases out for taxpayers with adjusted gross income exceeding $100,000.

In addition, the discharge of up to $2 million in mortgage debt with respect to a principal residence was not subject to tax if the discharge occurred before 2014 and was on account of a decline in the value of the residence or the financial condition of the borrower.

Provision: Under the provision, a taxpayer may continue to claim an itemized deduction for interest on acquisition indebtedness, but the $1 million limitation would be reduced to $500,000 in four annual increments, so that the limitation would be $875,000 for debt incurred in 2015, $750,000 for debt incurred in 2016, $625,000 for debt incurred in 2017, and $500,000 for debt incurred thereafter. Similar to the current-law AMT rule, interest on home equity indebtedness incurred after the effective date would not be deductible. The provision would generally be effective for interest paid on debt incurred after 2014. In the case of refinancings of debt incurred prior to 2018, the refinanced debt generally would be treated as incurred on the same date that the original debt was incurred for purposes of determining the limitation amount applicable to the refinanced debt.

The provision also would require that information reporting for mortgage interest also include the mortgage origination date and the amount of the outstanding principal on the mortgage as of the beginning of the calendar year. The information reporting provision would be effective for returns and statements for calendar years after 2014.

Considerations:

- The provision would preserve a substantial tax benefit for homeownership without affecting most taxpayers, who either do not itemize their deductions or who live in moderately priced housing markets.
- Because of other changes in the discussion draft, far fewer taxpayers would choose to itemize overall, with the remaining 95 percent of taxpayers finding they are better off by taxing advantage of the larger, simpler standard deduction instead. And, for those taxpayers who would continue to itemize, no existing mortgage would be affected by this provision, and 95 percent of future mortgages are also expected to be unaffected.
- By reducing the current-law $1 million limitation, the provision would more effectively promote homeownership, rather than also promoting leveraged purchases of larger homes than taxpayers otherwise would acquire without the tax benefit.
- The provision would phase in the reduced limitation and only apply to new debt to avoid disrupting the housing market, which more broadly will benefit from comprehensive, pro-growth tax reform. Indeed, historical data show that the strength of the nation's housing market is tied more closely to the health of the overall economy than to any specific tax policies that may be in place. The best way to promote a thriving housing market is to improve the overall economy, which is precisely what comprehensive tax reform is designed to achieve.
- By creating a stronger economy, the discussion draft as a whole is estimated – based on calculations using data provided by the independent, non-partisan Joint Committee on Taxation – to increase the rate of growth in home values by up to 40 percent.

JCT estimate: For information about JCT's revenue estimate for this provision, see the note immediately following the heading for Subtitle E of Title I in this document.

Sec. 1403. Charitable contributions.

Current law: Under current law, a taxpayer may claim an itemized deduction for charitable contributions. To be eligible, a contribution must be made by the last day of the tax year for which a return is filed. Thus, for a calendar year taxpayer, a contribution must be made on or before December 31 to be included on a tax return for that tax year, which must be filed by April 15 of the following year.

A charitable contribution deduction is limited to a certain percentage of the individual's adjusted gross income (AGI). The AGI limitation varies depending on the type of property contributed and the type of exempt organization receiving the property. In general, cash contributed to public charities, private operating foundations, and certain non-operating private foundations may be deducted up to 50 percent of the donor's AGI. Contributions that do not qualify for the 50-percent limitation (e.g., contributions to private foundations) may be deducted up to the lesser of (1) 30 percent of AGI, or (2) the excess of the 50-percent-of-AGI limitation for the tax year over the amount of charitable contributions subject to the 30-percent limitation.

Capital gain (i.e., appreciated) property contributed to public charities, private operating foundations, and certain non-operating private foundations may be deducted up to 30 percent of

AGI. Capital gain property contributed to non-operating private foundations may be deducted up to the lesser of (1) 20 percent of AGI, or (2) the excess of the 30-percent-of-AGI limitation over the amount of property subject to the 30-percent limitation for contributions of capital gain property. In general, qualified conservation contributions (e.g., conservation easements) are subject to the 30-percent limitation. Under a temporary provision, however, qualified conservation contributions made in tax years beginning before 2014 may be deducted up to 50 percent of AGI, or up to 100 percent of AGI in the case of property used in agriculture or livestock production.

If an individual contributes more than the applicable AGI limits, the excess contribution generally may be carried over and deducted in the following five tax years, or 15 years in the case of qualified conservation contributions.

In general, taxpayers may deduct the fair market value of a charitable contribution. A variety of complex rules under current law, however, limit the amount of a charitable deduction to less than fair market value (e.g., the taxpayer's adjusted basis) based on the type of property and charitable organization receiving the contribution.

In general, a charitable deduction is disallowed to the extent a taxpayer receives a benefit in return. A special rule, however, permits taxpayers to deduct as a charitable contribution 80 percent of the value of a contribution made to an educational institution to secure the right to purchase tickets for seating at an athletic event in a stadium at that institution.

In general, the value of a deduction for intellectual property is limited to the property's adjusted basis. Under current law, however, the donor is allowed an additional deduction equal to a percentage of the income generated by the intellectual property over the 12 years following the contribution, even though that income is likely earned by a tax-exempt entity.

Provision: Under the provision, numerous changes would be made to the rules applicable to charitable contributions, all of which, unless otherwise indicated, would be effective for tax years after 2014.

Extension of time to file: Under the provision, individual taxpayers would be permitted to deduct charitable contributions made after the close of the tax year but before the due date of the return (April 15 for calendar year taxpayers) for the tax year covered by the return.

AGI limitations: Under the provision, the AGI limitations on deductible contributions would be substantially simplified. First, the 50-percent limitation for cash contributions and the 30-percent limitation for contributions of capital gain property to public charities and certain private foundations would be harmonized at a single limit of 40 percent. Second, the 30-percent contribution limit for cash contributions and the 20-percent limitation for contributions of capital gain property that apply to organizations not covered by the current 50-percent limitation rule would be harmonized at a single limit of 25 percent. Thus, contributions to this latter group of organizations would be allowed to the extent they do not exceed the lesser of (1) 25 percent of AGI or (2) the excess of 40 percent of AGI for the tax year over the amount of charitable contributions subject to the 25-percent limitation.

Two-percent floor: Under the provision, an individual's charitable contributions could be deducted only to the extent they exceed 2 percent of the individual's AGI. The reduction would apply to charitable contributions in the following order: first, to contributions subject to the 25-percent of AGI limitation; second, to qualified conservation contributions; and third, to contributions subject to the 40-percent limitation.

Value of deduction generally limited to adjusted basis: Under the provision, the rules for determining the value of the deduction for contributions of property (e.g., fair market value or adjusted basis) would be substantially simplified. The amount of any charitable deduction generally would be equal to the adjusted basis of the contributed property. For the following types of property, however, the deduction would be based on the fair market value of the property less any ordinary gain that would have been realized if the property had been sold by the taxpayer at its fair market value:

(1) tangible property related to the purpose of the donee exempt organization;
(2) any qualified conservation contribution;
(3) any qualified inventory contribution;
(4) any qualified research property; and
(5) publicly traded stock.

In addition, in the case of inventory contributed solely for the care of the ill, needy, or infants, the provision would preserve the current law rule that provides a higher valuation for the charitable deduction.

Qualified conservation contributions: Under the provision, the special, temporary rules for conservation easements, including the rules for farmers or ranchers, would be made permanent. The general rule would provide that deductions for conservation easements would be limited to 40 percent of AGI. Farmers and ranchers would still be allowed a charitable deduction up to 100 percent of AGI for property used in agricultural or livestock production. The provision also would clarify that no deduction is permitted for land reasonably expected to be used as a golf course. This portion of the provision would be effective for tax years after 2013.

College athletic event seating rights: Under the provision, the special rule that provides a charitable deduction of 80 percent of the amount paid for the right to purchase tickets for athletic events would be repealed.

Income from intellectual property: Under the provision, income from intellectual property contributed to a charitable organization would no longer be allowed as an additional contribution by the donor. The deduction for the contribution of the intellectual property would be retained.

Considerations:

- Because a taxpayer must itemize to claim a charitable deduction, only about 25 percent of Americans benefit from the current charitable contribution rules. While other changes in the discussion draft would result in fewer taxpayers choosing to itemize overall – as the remaining 95 percent would take advantage of the larger, simpler standard deduction instead – the changes to the charitable contribution rules would continue to provide significant tax incentives for those who would continue to itemize.

- The provision recognizes that Americans typically contribute to churches, community organizations and other public charities out of generosity, not for a tax benefit, which only higher income individuals generally claim under current law. The provision would continue to provide a tax incentive for individuals who want to make large contributions to public charities.
- Moreover, historical data show that the total amount of charitable giving is tied more closely to the health of the overall economy than to any specific tax policies that may be in place. The best way to promote charitable giving to the organizations doing so much good in communities across the country is to improve the overall economy, which is precisely what comprehensive tax reform is designed to achieve.
- As noted below, several aspects of the provision would encourage charitable giving in important ways, and by creating a stronger economy, the discussion draft as a whole is estimated – based on calculations using data provided by the independent, non-partisan Joint Committee on Taxation – to increase charitable giving by up to $2.2 billion per year.
- Enabling individuals to take charitable deductions in a particular tax year through the due date for that return (typically April 15 of the following year) is expected to increase charitable giving, since many taxpayers will decide to give more generously at the time they are actually preparing and finalizing their returns.
- The provision also would continue to provide an incentive for contributions of conservation easements for the benefit of our communities and the environment.
- The provision would simplify the complex rules and limitations with respect to charitable contributions to make the tax law easier to understand and to help taxpayers better comply with the rules.

JCT estimate: For information about JCT's revenue estimate for this provision, see the note immediately following the heading for Subtitle E of Title I in this document.

Sec. 1404. Denial of deduction for expenses attributable to the trade or business of being an employee.

Current law: Under current law, a taxpayer generally may claim a deduction for trade and business expenses, regardless of whether the taxpayer itemizes deductions or take the standard deduction. Taxpayers generally may claim expenses relating to the trade or business of being an employee only if they itemize deductions. Certain expenses attributable to the trade or business of being an employee, however, are allowed as above-the-line deductions, including reimbursed expenses included in the employee's income, certain expenses of performing artists, certain expenses of State and local government officials, certain expenses of elementary and secondary school teachers (for tax years beginning after 2001 and before 2014), and certain expenses of members of reserve components of the United States military.

Provision: Under the provision, a taxpayer would not be allowed an itemized deduction for expenses attributable to the trade or business of performing services as an employee. In addition, the only above-the-line deductions allowed for expenses attributable to the trade or business of being an employee would be those for reimbursed expenses and certain expenses of members of reserve components of the United States military. The provision would be effective for tax years beginning after 2014.

Considerations:

- In conjunction with an increased standard deduction and lower overall tax rates, the provision would simplify the tax laws for taxpayers who currently claim deductions for employee business expenses.
- Keeping records of these expenses is often very burdensome for taxpayers, and this current-law deduction also poses administrative and enforcement challenges for the IRS.

JCT estimate: For information about JCT's revenue estimate for this provision, see the note immediately following the heading for Subtitle E of Title I in this document.

<u>Sec. 1405. Repeal of deduction for taxes not paid or accrued in a trade or business.</u>

Current law: Under current law, an individual may claim an itemized deduction for State and local government income and property taxes paid. In lieu of the itemized deduction for State and local income taxes, individuals may claim, for tax years beginning before 2014, an itemized deduction for State and local government sales taxes.

Provision: Under the provision, individuals would only be allowed a deduction for State and local taxes paid or accrued in carrying on a trade or business or producing income. The provision would be effective for tax years beginning after December 31, 2014.

Considerations:

- In conjunction with an increased standard deduction and lower overall tax rates, the provision would simplify the tax laws for taxpayers who currently claim itemized deductions for non-business State and local taxes.
- The provision would eliminate a tax benefit that effectively subsidizes higher State and local taxes and increased spending at the State and local level.

JCT estimate: For information about JCT's revenue estimate for this provision, see the note immediately following the heading for Subtitle E of Title I in this document.

<u>Sec. 1406. Repeal of deduction for personal casualty losses.</u>

Current law: Under current law, an individual may claim an itemized deduction for personal casualty losses (i.e., losses not connected with a trade or business or entered into for profit), including property losses arising from fire, storm, shipwreck, or other casualty, or from theft.

Provision: Under the provision, the deduction for personal casualty losses would be repealed. The provision would be effective for tax years beginning after 2014.

JCT estimate: For information about JCT's revenue estimate for this provision, see the note immediately following the heading for Subtitle E of Title I in this document.

Sec. 1407. Limitation on wagering losses.

Current law: Under current law, a taxpayer may claim an itemized deduction for losses from gambling, but only to the extent of gambling winnings. However, taxpayers may claim other deductions connected to gambling that are deductible regardless of gambling winnings.

Provision: Under the provision, all deductions for expenses incurred in carrying out wagering transactions (not just gambling losses) would be limited to the extent of wagering winnings. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 1408. Repeal of deduction for tax preparation expenses.

Current law: Under current law, an individual may claim an itemized deduction for tax preparation expenses.

Provision: Under the provision, an individual would not be allowed an itemized deduction for tax preparation expenses. The provision would be effective for tax years beginning after 2014

JCT estimate: For information about JCT's revenue estimate for this provision, see the note immediately following the heading for Subtitle E of Title I in this document.

Sec. 1409. Repeal of deduction for medical expenses.

Current law: Under current law, a taxpayer may claim an itemized deduction for out-of-pocket medical expenses of the taxpayer, a spouse, or a dependent. This deduction is allowed only to the extent the expenses exceed 10 percent of the taxpayer's adjusted gross income.

Provision: Under the provision, the itemized deduction for medical expenses would be repealed. The provision would be effective for tax years beginning after 2014.

JCT estimate: For information about JCT's revenue estimate for this provision, see the note immediately following the heading for Subtitle E of Title I in this document.

Sec. 1410. Repeal of disqualification of expenses for over-the-counter drugs under certain accounts and arrangements.

Current law: Under prior law, expenses incurred for over-the-counter medicine could constitute qualified medical expenses for purposes of receiving tax-favored reimbursements from Health Savings Accounts, Archer MSAs, and Health Flexible Spending Arrangements ("health accounts"). Pursuant to section 9003 of the Patient Protection and Affordable Care Act, however, taxpayers now may not receive tax-free disbursements from health accounts to pay for medicine other than prescription medication and insulin.

Provision: Under the provision, the prohibition on using tax-free funds from health accounts to pay for over-the-counter drugs would be repealed, and expenses for such medication could again constitute qualified medical expenses. The provision would be effective for expenses incurred after 2014.

Considerations:

- The provision would reinstate the prior-law treatment of over-the-counter drugs as qualified expenses for purposes of health accounts, repealing the prohibition on the use of tax-free funds from such accounts enacted in the Affordable Care Act (ACA).
- The provision recognizes that diseases and other physical ailments often can be cured, mitigated, treated, or prevented through the use of over-the-counter drugs, rather than prescription drugs. Moreover, because over-the-counter medicines are often less expensive treatment options, repealing the ACA prohibition could help reduce overall health care spending.

JCT estimate: According to JCT, the provision would reduce revenues by $3.3 billion over 2014-2023.

Sec. 1411. Repeal of deduction for alimony payments and corresponding inclusion in gross income.

Current law: Under current law, alimony payments generally are an-above-the line deduction for the payor and included in the income of the payee. However, alimony payments are not deductible by the payor or includible in the income of the payee if designated as such by the divorce decree or separation agreement.

Provision: Under the provision, alimony payments would not be deductible by the payor or includible in the income of the payee. The provision would be effective for any divorce decree or separation agreement executed after 2014 and to any modification after 2014 of any such instrument executed before such date if expressly provided for by such modification.

Considerations:

- The provision would eliminate what is effectively a "divorce subsidy" under current law, in that a divorced couple can often achieve a better tax result for payments between them than a married couple can.

- The provision recognizes that the provision of spousal support as a consequence of a divorce or separation should have the same tax treatment as the provision of spousal support within the context of a married couple, as well as the provision of child support.

JCT estimate: According to JCT, the provision would increase revenues by $5.5 billion over 2014-2023.

Sec. 1412. Repeal of deduction for moving expenses.

Current law: Under current law, a taxpayer may claim a deduction for moving expenses incurred in connection with starting a new job, regardless of whether or not the taxpayer itemizes his deductions. To qualify, the new workplace generally must be at least 50 miles farther from the former residence than the former place of work or, if the taxpayer had no former workplace, at least 50 miles from the former residence.

Provision: Under the provision, the deduction for moving expenses would be repealed. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $8.0 billion over 2014-2023.

Sec. 1413. Termination of deduction and exclusions for contributions to medical savings accounts.

Current law: Under current law, an individual may claim an above-the-line deduction for contributions to an Archer Medical Savings Account (MSA) and exclude from income employer contributions to an MSA. In general, Archer MSAs may be set up by an individual working for a small employer and who participates in the employer's high-deductible health plan. The total amount of monthly contributions to an Archer MSA may not exceed one-twelfth of 65 percent of the annual deductible for an individual with a self-only plan and one-twelfth of 75 percent of the annual deductible for an individual with family coverage. Distributions from the accounts used to pay qualified medical expenses are not taxable. Archer MSAs may not be established after 2005. Archer MSA balances may be rolled over on a tax-free basis to another Archer MSA or to a Health Savings Account (HSA).

Provision: Under the provision, no deduction would be allowed for contributions to an Archer MSA, and employer contributions to an Archer MSA would not be excluded from income. Existing Archer MSA balances, however, could continue to be rolled over on a tax-free basis to an HSA. The provision would be effective for tax years beginning after 2014.

Considerations:
- There is no manner in which Archer MSAs are more favorable than HSAs; thus, no taxpayer would see his ability to save for future health costs restricted.

- As a result, the provision merely simplifies the Code by consolidating two similar tax-favored accounts into a single account with more taxpayer-friendly rules (i.e., HSAs).

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 1414. Repeal of 2-percent floor on miscellaneous itemized deductions.

Current law: Under current law, "miscellaneous" itemized deductions may only be claimed to the extent such deductions in the aggregate exceed 2 percent of adjusted gross income. The floor applies to all itemized deductions except for those relating to interest, taxes, casualty or theft losses, wagering losses, charitable contributions, medical expenses, impairment-related work expenses, the estate tax for income in respect of a decedent, personal property used in a short sale, computation of tax where the taxpayer restores a substantial amount held under claim of right, annuity payments that cease before the investment is recovered, amortizable bond premium, and cooperative housing corporations. The floor applies after the application of any other limits on such deductions.

Provision: Under the provision, the 2-percent floor on miscellaneous itemized deductions would be repealed. The provision would be effective for tax years after 2014.

JCT estimate: For information about JCT's revenue estimate for this provision, see the note immediately following the heading for Subtitle E of Title I in this document.

Sec. 1415. Repeal of overall limitation on itemized deductions.

Current law: Under current law, the total amount of otherwise allowable itemized deductions (other than medical expenses, investment interest, and casualty, theft, or wagering losses) is limited for certain upper-income taxpayers (sometimes referred to as the "Pease limitation"). This limitation applies on top of any other limitations applicable to such deductions. Under the Pease limitation, the otherwise allowable total amount of itemized deductions is reduced by 3 percent of the amount by which the taxpayer's adjusted gross income exceeds a threshold amount. For 2013, the threshold amount is (1) $250,000 for single individuals, (2) $300,000 for married couples filing joint returns and surviving spouses, (3) $275,000 for heads of households, and (4) $150,000 for married individuals filing a separate return. These amounts are indexed for inflation for tax years beginning after 2013. The Pease limitation does not reduce itemized deductions by more than 80 percent.

Provision: Under the provision, the overall limitation on itemized deductions would be repealed. The provision would be effective for tax years after 2014.

Consideration: The Pease limitation functions as a hidden increase in the top marginal rate for individuals – about 1.2 percent – and adds significant complexity.

JCT estimate: For information about JCT's revenue estimate for this provision, see the note immediately following the heading for Subtitle E of Title I in this document.

Sec. 1416. Deduction for amortizable bond premium allowed in determining adjusted gross income.

Current law: Under current law, the holder of a taxable debt instrument purchased at a premium (i.e., on which the holder paid more for the instrument than the principal payable at maturity) may amortize and deduct the premium over the term of the bond. However, bond premium amortization deductions may only be claimed as itemized deductions (although the deductions are not subject to the 2-percent floor generally applicable to itemized deductions).

Provision: Under the provision, bond premium amortization deductions would be allowed as above-the-line deductions (i.e., without regard to whether a taxpayer itemizes deductions). The provision would apply for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

Sec. 1417. Repeal of exclusion, etc., for employee achievement awards.

Current law: Under current law, employee achievement awards are excluded from employees' income. To qualify for the tax exclusion, an employee achievement award must be given in recognition of the employee's length of service or safety achievement at a ceremony that is a meaningful presentation. Furthermore, the conditions and circumstances cannot suggest a significant likelihood of the payment of disguised compensation. The employee is taxed to the extent that the cost (or value, if greater) of the award exceeds the employer's deduction for the award. The employer's deduction for employee achievement awards for any employee in any year cannot exceed $1,600 for qualified plan awards, and $400 otherwise. A qualified plan award is an employee achievement award that is part of an established written program of the employer, which does not discriminate in favor of highly compensated employees. In addition, the average award (not counting those of nominal value) may not exceed $400.

Provision: The provision would repeal the exclusion for employee achievement awards, so that such awards would constitute taxable compensation to the recipient. The provision also would repeal the restrictions on employer deductions for such awards. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $3.4 billion over 2014-2023.

Sec. 1418. Clarification of special rule for certain governmental plans.

Current law: Under current law, amounts received as reimbursement of medical expenses under an employer-provided accident or health insurance plan generally are excluded from an employee's gross income. An accident or health insurance plan, however, is disqualified if the plan permits amounts to be paid as medical benefits to a designated beneficiary, other than the employee's spouse or dependents. In such a case, all amounts paid as medical expense reimbursement are includible in the employee's gross income.

Similar rules apply to a governmental accident or health plan that is funded by a medical trust established in connection with a public retirement system and that either has been authorized by a State legislature or received a favorable IRS ruling providing that the trust's income is tax-exempt under Code section 115, which generally exempts States and municipalities from Federal income tax. A special rule provides that such a governmental accident or health plan will not be disqualified (and amounts paid as medical benefits will be excluded from the employee's gross income) if the plan permitted the payment of medical benefits to a deceased participant's beneficiaries (including non-spousal and non-dependent beneficiaries) on or before January 1, 2008. This special rule does not affect the tax treatment of amounts received by the beneficiary, which continue to be taxable. The special rule does not apply to accident or health plans of certain State or political subdivisions, including plans organized as voluntary employees' beneficiary associations (VEBAs) that are exempt from tax under Code section 501(c)(9).

Provision: Under the provision, the special rule would be extended to accident or health plans established in connection with a public retirement system or established by or on behalf of a State or political subdivision that either has been authorized by a State legislature or received a favorable ruling from the IRS that the trust's income is not includible in gross income under either Code section 115 or section 501(c)(9), and that on or before January 1, 2008, provided for payment of medical benefits to a deceased participant's beneficiary. The provision would be effective for payments after the date of enactment.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

Sec. 1419. Limitation on exclusion for employer-provided housing.

Current law: Under current law, housing and meals provided to an employee and the employee's spouse or dependents for the convenience of the employer are excluded from income if the meals are on the business premises of the employer and the employee is required to accept lodging on the premises of the employer as a condition of employment. In the case of educational institutions, the value of housing provided to their employees also is excluded to the extent the rent paid by the employee is at least the lesser of 5 percent of the lodging's appraised value or the average of the rent paid by individuals (other than employees or students of the educational institution) for comparable lodging provided by the educational institution.

Provision: Under the provision, the exclusion for housing provided for the convenience of the employer and for employees of educational institutions would be limited to $50,000 ($25,000 for a married individual filing a joint return). The exclusion also would be limited to one residence. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Sec. 1420. Fringe benefits.

Current law: Under current law, various fringe benefits provided by employers to employees are not included in employee income, including no-additional cost services and qualified transportation fringes. No-additional cost services include free air transportation to an employee, retired employee, or dependent, spouse or parent of an employee or retired employee, or widowed spouse of a deceased employee.

A qualified transportation fringe includes, for 2014, up to $250 per month for qualified parking and up to $130 for any transit pass provided by an employer to employees (with these amounts adjusted for inflation). The qualified transportation fringe also includes qualified bicycle commuting reimbursement of up to $20 per month.

Provision: The provision would repeal the exclusion from income for air transportation provided as a no-additional cost service to the parent of an employee. For the qualified transportation fringe benefit, the provision would set the qualified transportation fringe excludable qualified parking amount at $250 per month, and the excludable transit pass amount at $130 per month. These amounts would no longer be adjusted for inflation. The provision would repeal the qualified bicycle commuting reimbursement. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $39.0 billion over 2014-2023.

Sec. 1421. Repeal of exclusion of net unrealized appreciation in employer securities.

Current law: Under current law, distributions from tax-deferred retirement plans generally are subject to tax, including the value of any securities distributed. In the case of a lump-sum distribution of employer securities, however, any net unrealized appreciation in the securities is excluded from income, unless the individual elects to forgo the exclusion. A distributee's basis in distributed employer securities is the securities' fair market value, less the unrealized appreciation excluded from gross income, thus preserving any capital gain if the securities are later sold.

Employer securities include the securities issued by the employer or a parent or subsidiary of the employer. The "net unrealized appreciation" is the excess of the fair market value of the employer securities over the retirement plan's cost of acquiring them.

Provision: Under the provision, the exclusion for net unrealized appreciation in distributed employer securities would be repealed. The distributee generally would have income in the amount of the value of the distributed securities. The provision would be effective for distributions after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.9 billion over 2014-2023.

Sec. 1422. Consistent basis reporting between estate and person acquiring property from decedent.

Current law: Under current law, the basis of property acquired by a beneficiary from a decedent generally is the fair market value of the property on the date of the decedent's death. Similarly, property included in a decedent's gross estate for estate tax purposes generally also must be the fair market value on the date of death. However, while both provisions generally require that fair market value on the date of death be used, there is no requirement that the valuations be the same.

Provision: Under the provision, the basis of property acquired from a decedent may not exceed the fair market value of property as reported for estate for tax purposes. This provision would apply to property if inclusion of the property in the decedent's estate results in additional estate tax liability or if an executor is required to file an estate tax return. The estate would be required to report the value of the property to the IRS and to the beneficiary receiving the property, and the estate would be subject to a penalty for failure to file such an information return. Any underpayment of tax due to the understatement of basis under this provision would be subject to a 20-percent accuracy-related penalty. The provision would be effective for transfers for which an estate tax return is filed after the date of enactment.

JCT estimate: According to JCT, the provision would increase revenues by $1.6 billion over 2014-2023.

Subtitle F – Employment Tax Modifications

Sec. 1501. Modifications of deduction for Social Security taxes in computing net earnings from self-employment.

Current law: Under current law, a tax is imposed under the Self-Employment Contributions Act (SECA) on the self-employment income of an individual to help finance the Social Security and Medicare trust funds. Under the Social Security component, the rate of tax is 12.4 percent of the first $117,000 (for 2014) of self-employment income, which is indexed for inflation. Under the Medicare component, the rate is 2.9 percent, and the amount of self-employment income subject to the Medicare component is not capped. An additional 0.9-percent tax applies for individuals with self-employment income in excess of $200,000 (single filers) or $250,000 (married couples).

Under current law, self-employed individuals may deduct one-half of self-employment taxes for income tax purposes. This deduction reflects the fact that under the Federal Insurance Contributions Act (FICA), a similar tax is imposed on an employee's wages, with the liability to pay the tax divided evenly between employer and employee. The deduction is intended to provide parity between FICA and SECA taxes because an employer may deduct, as a business expense, its share of FICA taxes paid. The SECA deduction, however, is larger than the amount needed to make SECA taxes the economic equivalent of FICA taxes because the calculation does not properly reflect the fact that net earnings from self-employment are inclusive of SECA taxes. In addition, the calculation does not take into account the fact that wages above the Social Security wage base (i.e., $117,000 for 2014) are subject to tax only at the hospital insurance rate of 2.9 percent.

Provision: Under the provision, the deduction with respect to net earnings from self-employment would be modified to make SECA taxes economically equivalent to FICA taxes. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $5.1 billion over 2014-2023.

Sec. 1502. Determination of net earnings from self-employment.

Current law: Under current law, for SECA tax purposes, net earnings from self-employment – upon which the calculation of self-employment income and the SECA tax are based – means the gross income derived by an individual from any trade or business carried on by the individual, less the allowable deductions. Specified types of income or loss are excluded, such as rentals from real estate in certain circumstances, dividends and interest, and gains or losses from the sale or exchange of a capital asset, and certain other property.

Application of the SECA tax can depend on the form of business entity through which the taxpayer operates. For an individual who is a general partner in a partnership, net earnings from self-employment generally include the partner's distributive share of income or loss from any trade or business carried on by the partnership (excluding specified types of income described above). A limited partner's distributive share of partnership income or loss, however, is excluded from SECA. This exclusion does not apply to guaranteed payments for services actually rendered by the limited partner. The IRS takes the position that owners of a limited liability company, which is taxed as a partnership, are treated as general partners for SECA tax purposes.

In contrast, an S corporation shareholder who is an employee of the S corporation is subject to FICA taxes on wages, but is not subject to SECA on S corporation distributions. The question of how much of the shareholder's distributive share should constitute wages turns on the definition of reasonable compensation, which has been the subject of much controversy and case law.

Provision: Under the provision, the SECA tax would be clarified to apply to general and limited partners of a partnership (including limited liability companies) as well as to shareholders of an S corporation to the extent of their distributive share of the entity's income or loss (subject to the exclusions for certain types of income described above under current law). In determining net earnings from self-employment, partners and S corporation shareholders would be allowed a new deduction designed to approximate the return on invested capital. The effect of the deduction would be that partners and S corporation shareholders who materially participate in the trade or business of the partnership or S corporation would treat 70 percent of their combined compensation and distributive share of the entity's income as net earnings from self-employment (and thus subject to FICA or SECA, as applicable) and the remaining 30 percent as earnings on invested capital not subject to SECA. For partners and S corporation shareholders who do not materially participate in the trade or business (i.e., passive investors), the effect of the deduction would be that no amount would be treated as net earnings from self-employment. The provision would be effective for tax years beginning after 2014.

Considerations:

- Under current law, self-employment taxes are not applied consistently to owners of different types of business entities. An S corporation shareholder, a general partner, and a limited partner are all subject to different rules. Additionally, many LLC owners take the position that they are limited partners and exempted from SECA when they are more properly treated as general partners who are subject to SECA. The disparate application of SECA leads to confusion, poor compliance, and significant opportunities for abuse of the rules, all of which result in similarly situated business owners being treated in substantially different ways. The provision creates a straightforward rule that treats all owners of pass-through businesses equally.
- The provision's distinction between net earnings from self-employment and other income not subject to SECA reflects the fact that over the last several decades, the portion of Gross Domestic Product (GDP) attributable to labor has remained remarkably constant at approximately 70 percent, while the portion of GDP attributable to capital has held steady at roughly 30 percent. The 30-percent deduction recognizes that a portion of the distributive share of a partnership, LLC or S corporation represents earnings on invested capital.
- The material participation standard is a familiar standard that has been used to enforce the passive loss rules since their enactment in 1986.

JCT estimate: According to JCT, the provision would increase revenues by $15.3 billion over 2014-2023.

<u>Sec. 1503. Repeal of exemption from FICA taxes for certain foreign workers.</u>

Current law: Under current law, certain foreign workers from the Bahamas, Jamaica, and the other British West Indies (or any possession of such country) are exempt from the FICA tax provided they are lawfully admitted to the United States on a temporary basis to perform agricultural services. A similar exemption applies to certain foreign students and their families present in the United States on a temporary basis for educational purposes and to foreign participants in international cultural exchange programs in the United States.

Provision: Under the provision, the exceptions for foreign agricultural workers, foreign students, and foreign participants in international cultural exchange programs would be repealed. Thus, earnings by such foreign individuals while in the United States would be subject to FICA on the same basis as other employees in the United States. The provision would be effective for remuneration received for services performed after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $7.7 billion over 2014-2023.

<u>Sec. 1504. Repeal of exemption from FICA taxes for certain students.</u>

Current law: Under current law, an exemption from FICA is provided in the case of certain services performed by a student employed by a school, college, or university, provided that the student is enrolled and regularly attending classes at the school, college, or university. The exception also applies to students who perform certain domestic services in a college club, fraternity or sorority.

Provision: Under the provision, the FICA exception for students would be limited to the student's earnings that are less than the amount needed to receive a quarter of Social Security coverage for the year ($1,200 for 2014). The provision would be effective for remuneration received for services performed after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $13.0 billion over 2014-2023.

<u>Sec. 1505. Override of Treasury guidance providing that certain employer-provided supplemental unemployment benefits are not subject to employment taxes.</u>

Current law: Under current law, certain supplemental unemployment benefit payments (e.g., severance pay) are treated as wages for purposes of income tax withholding. The IRS has issued administrative guidance concluding that severance pay meeting certain requirements is exempt from payroll tax withholding under the Federal Insurance Contribution Act (FICA), Federal Unemployment Tax Act (FUTA), and the Railroad Retirement Tax Act (RRTA). The courts have issued conflicting rulings concerning the extent to which severance benefit payments not covered by the IRS administrative guidance are similarly exempt from withholding under FICA, FUTA, and RRTA.

Provision: Under the provision, the IRS guidance exempting certain supplemental unemployment benefit payments from payroll tax withholding would be overridden and the general tax treatment of severance benefit payments would be clarified, so that all such payments would be subject to income and payroll taxes (i.e., FICA, FUTA and RRTA). The provision would be effective for amounts paid after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.9 billion over 2014-2023.

Sec. 1506. Certified professional employer organizations.

Current law: Under current law, employers are responsible for withholding and payment of certain employment taxes with respect to their employees. In some cases, employers contract with professional employer organizations (PEOs) for human-resource services, such as managing employee payroll and employment taxes. Despite such arrangements, the contractual agreement between the employer and the PEO does not release the employer from responsibility for all taxes due with respect to its employees if the PEO fails to withhold or remit the taxes or otherwise comply with related reporting requirements.

Provision: Under the provision, if an employer becomes a customer of a certified PEO under a contract for employment-tax services with respect to the customer's work site employees, the certified PEO, and not the customer, would be treated as the employer of such work site employees for Federal employment tax purposes. Thus, the customer would be released from liability for employment taxes. To qualify, at least 85 percent of individuals performing services for the customer at the work site (subject to exceptions for certain workers, such as temporary or part-time workers) would have to be covered by a PEO services contract. The services contract would be required to provide that the certified PEO is responsible for wages, employee benefits (if any), and employment taxes regardless of whether the customer pays the certified PEO for such services.

For a PEO to be certified by the IRS, the business must satisfy various requirements intended to ensure that the PEO properly remits wages and employment taxes. Under these requirements, the PEO must satisfy applicable reporting obligations, submit audited financial statements and quarterly auditing reports, and post a bond against the PEO's failure to satisfy its employment tax withholding and payment obligations. The bond would be posted on April 1 and be equal to the greater of 5 percent of employment taxes for the previous calendar year (but not to exceed $1 million) or $50,000. A special rule would reduce the bond to $50,000 during the first three years of a PEO's operations, provided the PEO's employment tax liability for the calendar year does not exceed $5 million. The provision would apply only for purposes of employment taxes under Chapter 25 of the Code and would not create any inference with respect to who is an employee or employer for any other provision of law.

The provision would be effective for wages for services performed on or after January 1 of the first calendar year beginning more than 12 months after date of enactment (e.g., January 1, 2016, assuming the date of enactment is during calendar year 2014), and the IRS would be required to establish the PEO certification program no later than six months prior to such date.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Subtitle G – Pensions and Retirement

Part 1 – Individual Retirement Plans

Secs. 1601-1603. Elimination of income limits on contributions to Roth IRAs; No new contributions to traditional IRAs; Inflation adjustment for Roth IRA contributions.

Current law: Under current law, taxpayers may contribute to traditional Individual Retirement Accounts (IRAs) up to $5,500 for 2014, with an additional $1,000 catch-up contribution permitted for those at least 50 years old. These contribution limits are indexed for inflation. Contributions to a traditional IRA are deductible, earnings are not taxed currently, and distributions are included in income. Taxpayers may also make non-deductible IRA contributions with after-tax dollars, and earnings on amounts invested in the IRA are not currently taxed, but distributions (less previously taxed contributions) are subject to tax. Additionally, taxpayers may contribute up to the same limits to Roth IRAs but with after-tax contributions. Earnings and distributions from Roth IRAs are excluded from income. The $5,500 and $1,000 annual limits apply in the aggregate to the three types of IRAs.

Taxpayers covered by employer-sponsored retirement plans may not contribute to a traditional IRA if they are married filing separately, or if they exceed certain income levels. In 2014, the phase-out range for participation in a traditional IRA is $60,000 to $70,000 for singles and heads of households, $96,000 to $116,000 for joint returns for a spouse who is covered by an employer-sponsored plan, and $181,000 to $191,000 for the spouse who is not covered. Taxpayers not covered by an employer-sponsored plan may contribute to a traditional IRA regardless of income. There are no income limits on eligibility to contribute to non-deductible traditional IRAs. For Roth IRAs, eligibility does not depend on participation in an employer plan, but the contribution limit phases out over a range of $114,000 to $129,000 for singles and $181,000 to $191,000 for joint returns.) These amounts are indexed for inflation.

Provision: Under the provisions, the income eligibility limits for contributing to Roth IRAs would be eliminated and new contributions to traditional IRAs and non-deductible traditional IRAs would be prohibited. The inflation adjustment of the annual limit on Roth IRA contributions also would be suspended until tax year 2024, at which time inflation indexing would recommence based off of the frozen level. The provisions would be effective for tax years beginning after 2014.

Considerations:

- These provisions would help Americans achieve greater retirement security by effectively increasing the amounts they have available at retirement. Most people saving in traditional IRAs do not consider the taxes that will be due upon distribution, and mistakenly assume that their entire account balance will be available to them upon retirement. In contrast, the entire balance in a Roth account is distributed free of tax and is available for retirement needs.

- These provisions would help Americans save for retirement by simplifying their options. The multitude of types of IRAs, with their different income limits and other varying requirements (such as minimum distribution rules), results in many Americans simply not saving because of the complexity. Streamlining the choices would encourage more Americans to save.
- When interest rates are relatively low, as they have been for the last several years, freezing the inflation adjustment would have little or no effect on the annual Roth IRA contribution limitations. For example, the maximum Roth IRA contribution of $5,500 is the same for 2013 and 2014.

JCT estimate: According to JCT, the provisions would increase revenues by $14.8 billion over 2014-2023, and would reduce outlays by $1.9 billion over 2014-2023.

Sec. 1604. Repeal of special rule permitting recharacterization of Roth IRA contributions as traditional IRA contributions.

Current law: Under current law, an individual may re-characterize a contribution to a traditional IRA as a contribution to a Roth IRA (and vice versa). An individual may also re-characterize a conversion of a traditional IRA to a Roth IRA. The deadline for re-characterization generally is October 15 of the year following the contribution or conversion. When a re-characterization occurs, the individual is treated for tax purposes as having made the original contribution to the second account or not having made the conversion. The re-characterization must include any net earnings related to the contribution.

Provision: Under the provision, the rule allowing re-characterization of Roth IRA contributions or conversions would be repealed. Note that under other provisions of the discussion draft, no new contributions to traditional IRAs would be permitted. The provision would be effective for tax years beginning after 2014.

Consideration: This provision would prevent a taxpayer from gaming the system by converting to a Roth IRA, investing in an extremely aggressive fashion and benefiting from any gains (which are never subject to tax), but retroactively reversing the conversion if the taxpayer suffers a loss to avoid taxes on some or all of the converted amount.

JCT estimate: According to JCT, the provision would increase revenues by $0.4 billion over 2014-2023.

Sec. 1605. Repeal of exception to 10-percent penalty for first home purchases.

Current law: Under current law, an additional 10-percent tax generally is imposed on distributions from retirement plans and Individual Retirement Accounts (IRAs) occurring before the account holder reaches age 59½. This 10-percent tax is in addition to any income tax that may be due on the distribution. There are several exceptions to the early withdrawal penalty, including early distributions of up to $10,000 to pay for first-time homebuyer expenses.

Provision: Under the provision, the exception to the additional 10-percent tax for early distributions used to pay for first-time homebuyer expenses would be repealed. The provision would be effective for distributions after 2014.

Consideration: The provision would help Americans achieve greater retirement security by encouraging taxpayers not to make withdrawals from their accounts before retirement.

JCT estimate: According to JCT, the provision, along with section 1210 of the discussion draft, would increase revenues by $0.3 billion over 2014-2023.

Part 2 – Employer-Provided Plans

Secs. 1611-1612. Termination for new SEPs; Termination for new SIMPLE 401(k)s.

Current law: Under current law, certain employers may offer a Simplified Employee Pension (SEP) IRA, which generally may only accept employer contributions. (Certain grandfathered SEPs, called SARSEPs, also may accept employee contributions.) The maximum contribution to a SEP is the lesser of the overall limit for contributions to a defined-contribution plan ($52,000 for 2014, indexed for inflation) or 25 percent of the employee's compensation. Employers must make contributions on behalf of all employees, which generally must be the same percentage of compensation for all employees.

For employers with no more than 100 employees, the Savings Incentive Match Plan for Employees (SIMPLE) option allows sponsoring employers to set up a SIMPLE 401(k) plan or a SIMPLE IRA. Under the SIMPLE 401(k) plan, the employer generally may satisfy the nondiscrimination rules by matching contributions up to 2 percent of compensation or non-elective contributions equal to 3 percent of compensation. A SIMPLE 401(k) must allow each eligible employee to participate through salary reduction contributions equal to a specified percentage of compensation up to $12,000 for 2014 (indexed for inflation). Individuals who are at least 50 years old may contribute annually up to another $2,500 (indexed for inflation). Under the SIMPLE IRA, sponsoring employers generally must follow similar contribution requirements, and the employee contribution annual limits are the same, but with individual IRA accounts established for the participating employees.

Provision: Under the provisions, employers would not be permitted to establish new SEPs or SIMPLE 401(k) plans after 2014. Employers would be permitted to continue making contributions to existing SEPs and SIMPLE 401(k) plans. SIMPLE IRAs would continue to be available. The SEP provision would be effective for tax years beginning after 2014, and the SIMPLE 401(k) provision would be effective for plan years beginning after 2014.

Considerations:

- The multitude of confusing plans and accounts from which employers must choose if they want to set up a tax-qualified plan to help employees save for retirement serves to dissuade many employers from establishing any workplace retirement plan.
- Today, SIMPLE IRAs and 401(k) plans are the most popular defined-contribution options selected by businesses starting new retirement plans. SEPs and SIMPLE 401(k) plans lack many of the flexibilities of these other plan options and are not as commonly selected.
- The provision reduces the complexity of choices facing employers looking to start a retirement plan, encouraging employers to make a workplace retirement plan available to more Americans.

JCT estimate: According to JCT, the provisions would increase revenues by $0.6 billion over 2014-2023.

<u>Sec. 1613. Rules related to designated Roth contributions.</u>

Current law: Under current law, 401(k) plans may offer either traditional accounts alone or both traditional and Roth accounts. Contributions to a traditional 401(k) account are not included in the employee's income and earnings are not currently taxed, while distributions are treated as taxable income. Contributions to a 401(k) Roth account are made out of the employee's after-tax income. Earnings in a Roth account are not taxable currently, and distributions generally are not taxable if the employee meets certain holding period and age requirements. If a 401(k) plan has a Roth option, the employee (but not the employer) may contribute to the Roth account, the traditional account, or both. Employer contributions to a 401(k) plan for employees with Roth accounts must be made into separate traditional accounts for the employee for whom the contribution is made. For these purposes, 403(b) plans and 457(b) plans are treated like 401(k) plans.

Provision: Under the provision, employees would generally be able to contribute up to half the maximum annual elective deferral amount (including catch-up contributions for employees at least 50 years old, if applicable) into a traditional account. (For 2014, the maximum annual elective deferral amount is $17,500, and the maximum catch-up amount is $5,500 (for a total of $23,000 for such employees)). Any contributions in excess of half of these limits – $8,750 and $11,500, respectively – would be to a Roth account. Employees could contribute up to the entire annual elective deferral amount into a Roth account if they wish. Plans would generally be required to offer Roth accounts. Employer contributions would continue to be made to traditional accounts.

The provision would not apply to employers with 100 or fewer employees. In addition, employers may choose to have Roth accounts in a SIMPLE IRA, and if an employer with a SIMPLE IRA elects to limit traditional employee contributions to half the annual contribution limits, the employee contribution limits to such SIMPLE IRA would be increased to the contribution limits for a 401(k) plan. For purposes of this provision, 403(b) plans and 457(b) plans would be treated like 401(k) plans. The provision would generally be effective for plan years and tax years beginning after 2014. The SIMPLE IRA portion of the provision would be effective for tax years and calendar years beginning after 2014.

Considerations:

- The provision would help Americans achieve greater retirement security by effectively increasing the amounts they have available at retirement. Many people saving in traditional 401(k) plans do not consider the taxes that will be due upon distribution, and assume that their entire account balance will be available to them upon retirement. In contrast, the entire balance in a Roth account is distributed free of tax, and is available for retirement needs.
- Only approximately 17 percent of those making contributions to 401(k) plans in a given year contribute more than 50 percent of the maximum amount and thus would be affected by the provision. This amounts to only approximately 5 percent of the civilian workforce.

JCT estimate: According to JCT, the provision would increase revenues by $143.7 billion over 2014-2023.

<u>Sec. 1614. Modifications of required distribution rules for pension plans.</u>

Current law: Under current law, owners of traditional IRAs and employees in employer-sponsored retirement plans (both defined contribution and defined benefit plans) are subject to required minimum distribution (RMD) rules, which generally require the IRA owner (other than Roth IRAs) or employee (if he has retired, except for a 5-percent owner) to take minimum distributions beginning at age 70½ or pay a 50-percent excise tax on the amount of such distributions. Special rules apply when the IRA owner (including a Roth IRA owner) or employee dies before the entire account balance has been withdrawn. If the death occurs on or after the required beginning date for RMDs, the remaining amount must be distributed to the beneficiaries at least as rapidly as distributed to the decedent as of the date of death (but over the life expectancy of any designated beneficiary, if longer). Absent a designated beneficiary, the distribution period is the remaining life expectancy of the IRA owner or employee at the time of death. If an IRA owner or employee dies before the required beginning date and any part of the benefit is payable to a designated beneficiary, distributions generally must begin within one year of death and are spread over the life expectancy of the designated beneficiary. If the IRA owner or employee dies before the required beginning date and there is no designated beneficiary, the entire remaining account balance generally must be distributed to the estate by the end of the fifth year following the death.

Provision: Under the provision, if an employee becomes a 5-percent owner after age 70½ but before retiring, the required beginning date for RMDs would be April 1 of the following year. With respect to IRAs and employer-sponsored retirement plans that exist when the IRA owner or employee dies distributions would be required within five years (regardless of whether the IRA owner or employee dies before or after RMDs have begun). An exception would apply if the beneficiary is a spouse, is disabled, chronically ill, not more than 10 years younger than the deceased, or is a child, and would permits distributions to begin within one year of death and be spread over the life expectancy of the beneficiary. However, if that beneficiary dies or a child beneficiary turns 21, the general five-year-distribution rule would apply upon such occurrence.

The provision regarding RMDs after the death of an IRA owner or employee generally would be effective for distributions with respect to IRA owners or employees who die after 2014. The provisions would not apply to certain qualified annuities that are binding annuity contracts in effect on the date of enactment and at all times thereafter. The provision changing RMDs for 5-percent owners generally would become effective for employees becoming 5-percent owners with respect to plan years ending in calendar years beginning before, on, or after the date of enactment – except that the provision would not result in a required beginning date earlier than April 1, 2015.

Considerations:

- The provision would simplify the current complex required minimum distribution rules and reduce the compliance burdens on seniors and beneficiaries of IRAs and other retirement plans.
- The provision would also address the issue in current law that permits deferral of tax on retirement savings not only until the account owner's retirement, but also well past the owner's life if the beneficiary choses to spread the RMDs over his life expectancy.
- The provision also safeguards the ability of individuals to provide resources for spouses, minor children, and others with special needs through beneficiary designations on retirement accounts.
- The modifications in the provision would not affect the ability or incentive for Americans to save for retirement.

JCT estimate: According to JCT, the provision would increase revenues by $3.5 billion over 2014-2023.

Sec. 1615. Reduction in minimum age for allowable in-service distributions.

Current law: Under current law, defined-contribution plans generally are not permitted to allow in-service distributions (i.e., distributions while an employee is still working for the employer) attributable to tax-deferred contributions if the employee is less than 59½ years old. For State and local government defined-contribution plans, and for all defined-benefit plans, the restriction on in-service distributions applies if the employee is less than age 62.

Provision: Under the provision, all defined-benefit plans as well as State and local government defined-contribution plans would be permitted to make in-service distributions beginning at age 59½. The provision would be effective for distributions made after 2014.

Considerations:

- The provision would encourage Americans to continue working or working part-time instead of retiring early in order to access retirement savings at age 59½. Under current law, many employees choose to retire instead of continuing to work because they cannot otherwise access their retirement accounts.

- The provision would provide uniformity across various plan types, allowing all plans to offer in-service distributions at age 59½ instead of having different ages for different types of plans. The varying rules under current law have no apparent justification.

JCT estimate: According to JCT, the provision would increase revenues by $0.2 billion over 2014-2023.

Sec. 1616. Modification of rules governing hardship distributions.

Current law: Under current law, defined-contribution plans are generally not permitted to allow in-service distributions (distributions while an employee is still working for the employer) attributable to elective deferrals if the employee is less than 59½ years old. One exception is for hardship distributions, which plans have the option of offering participants, but only if the plan follows guidelines such as that any distribution be necessary for an immediate and heavy financial need of the employee. Treasury regulations require that plans not allow employees taking hardship distributions to make contributions to the plan for six months after the distribution.

Provision: Under the provision, the IRS would be required within one year of the date of enactment to change its guidance to allow employees taking hardship distributions to continue making contributions to the plan. The provision would be effective for plan years beginning after 2014.

Considerations:
- The provision would help Americans save for retirement by making common-sense reforms to remove harsh rules that often trap individuals and families going through difficult financial circumstances.
- The provision would overturn Treasury regulations requiring individuals to stop making contributions to their retirement plans in order to take hardship distributions, which often results in such individuals failing to resume retirement savings in the future.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 1617. Extended rollover period for the rollover of plan loan offset amounts in certain cases.

Current law: Under current law, defined-contribution plans are permitted (but not required) to allow plan loans. If the employee fails to abide by the applicable rules, the loan is treated as a taxable distribution that may also be subject to the 10-percent penalty for early withdrawals. If a plan terminates or an employee's employment terminates while a plan loan is outstanding, the employee has 60 days to contribute the loan balance to an individual retirement account (IRA), or the loan is treated as a distribution.

Provision: Under the provision, employees whose plan terminates or who separate from employment while they have plan loans outstanding would have until the due date for filing their tax return for that year to contribute the loan balance to an IRA in order to avoid the loan being taxed as a distribution. The provision would apply to tax years beginning after 2014.

Considerations:

- The provision would help Americans save for retirement by making common-sense reforms to remove harsh rules that often trap individuals and families going through difficult financial circumstances.
- The provision would overturn the current rule requiring individuals who lose their jobs to roll over any outstanding retirement plan loans to an IRA within 60 days or be subject to taxes and penalties on the loan amount.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 1618. Coordination of contribution limitations for 403(b) plans and governmental 457(b) plans.

Current law: Under current law, 401(k) plans generally may allow employees to make elective deferrals of up to $17,500 for 2014 and an additional $5,500 catch-up contribution for those who are at least 50 years old. Total employer and employee contributions may not exceed $52,000 for 2014. Contributions generally may not exceed employee compensation and may only be made by active employees. These amounts are indexed for inflation.

Certain employees with more than 15 years of service who are participants in 403(b) plans may make an additional contribution of up to $3,000 per year. Entities sponsoring 403(b) plans (typically tax-exempt organizations) also may make non-elective employer contributions of up to $52,000 in 2014 (indexed for inflation) for up to five years after the employee has separated from service. Similarly, a church may contribute a maximum of $10,000 per year, even if the participant has no taxable compensation, up to a lifetime limit of $40,000 per participant. For foreign missionaries with $17,000 or less in adjusted gross income, a church may contribute up to $3,000 per year (even in the absence of U.S. taxable compensation).

Participants in 457 plans sponsored by State and local governments are allowed to make additional contributions of up to $35,000 for 2014 (indexed for inflation) for the three years prior to normal retirement age. State and local government employees may participate in both a 457 plan and either a 403(b) plan or a 401(k) plan in which case the employee may make the maximum allowable annual contributions to each of the plans.

Provision: Under the provision, all defined-contribution plans would be subject to the annual contribution limits currently applicable to 401(k) plans and would not have additional limits for different classes of employees at certain types of employers. The provision would apply to plan years and tax years beginning after 2014.

Consideration: The provision would simplify the Code by treating employees the same regardless of whether they work for private, non-profit or public employers.

JCT estimate: According to JCT, the provisions would increase revenues by $0.9 billion over 2014-2023.

Sec. 1619. Application of 10-percent early distribution tax to governmental 457 plans.

Current law: Under current law, early distributions from employer-sponsored retirement plans and IRAs are generally subject to an additional tax of 10 percent. This additional tax does not apply to early distributions from 457 plans sponsored by State and local governments.

Provision: Under the provision, participants in governmental 457 plans would be subject to the 10-percent additional tax on early distributions. The provision would be effective for withdrawals after February 26, 2014.

Consideration: The provision would simplify the Code by treating employees the same regardless of whether they work for private, non-profit or public employers.

JCT estimate: According to JCT, the provision would increase revenues by $0.6 billion over 2014-2023.

Secs. 1620-1624. Inflation adjustments for qualified plan benefit and contribution limitations; Inflation adjustments for qualified plan elective deferral limitations; Inflation adjustments for SIMPLE retirement accounts; Inflation adjustments for catch-up contributions for certain employer plans; Inflation adjustments for governmental and tax-exempt organization plans.

Current law: Under current law, the myriad retirement plan alternatives generally have contributions limits that are indexed for inflation. For 2014, the maximum benefit under a tax-qualified defined benefit plan is an annual payment equal to the lesser of an employee's average compensation for the three highest compensation years or $210,000. For 401(k), 403(b), and 457 plans (as well as grandfathered SARSEPs), the maximum annual elective deferral by employees is $17,500 (not counting catch-up contributions for employees at least 50 years old). The maximum combined contribution by employer and employee to a defined contribution plan (as well as SEPs) in 2014 is $52,000. SIMPLE IRA and SIMPLE 401(k) plans sponsored by small businesses are subject to a maximum annual contribution of $12,000 (not counting catch-up contributions for employees at least 50 years old) for 2014.

Employees in certain retirement plans who are at least 50 years old may make additional catch-up contributions beyond the otherwise applicable annual contribution limits. For 401(k), 403(b), and 457 plans, the maximum annual catch-up contribution is $5,500 for 2014. For SIMPLE IRAs and SIMPLE 401(k) plans, the maximum annual catch-up contribution is $2,500 for 2014.

Provision: Under the provisions, the inflation adjustments for the maximum benefit under a defined benefit plan, the maximum combined contribution by an employer and employee to a defined contribution plan, the maximum elective deferrals with respect to each type of SEP, SIMPLE IRA, and defined contribution plan (i.e., 401(k), 403(b), and 457(b)), and catch-up contributions would be suspended until 2024, at which time inflation indexing would recommence based off of the frozen level. The provisions generally would be effective after 2014. More specifically, the inflation adjustments for qualified plan benefit and contribution limitations would be effective for years ending with or within a calendar year beginning after 2014; the inflation adjustments for qualified plan elective deferral limitations would be effective for plan years and tax years beginning after 2014; the inflation adjustments for SIMPLE retirement accounts would be effective for calendar years beginning after 2014; and the inflation adjustments for catch-up contributions for certain employer plans and for governmental and tax-exempt organization plans would be effective for tax years beginning after 2014.

Consideration: When interest rates are relatively low, as they have been for the last several years, these provisions would have little or no effect on the annual contribution limitations. For example, the maximum employee contribution levels of $12,000 for SIMPLE IRAs and $17,500 for 401(k) plans were the same in 2013 and 2014.

JCT estimate: According to JCT, the provisions would increase revenues by $63.4 billion over 2014-2023.

Subtitle H – Certain Provisions Related to Members of Indian Tribes

Secs. 1701-1703. Indian general welfare benefits; Tribal Advisory Committee; Other relief for Indian tribes.

Current law: Under current law, taxpayers must generally include all items of income in computing gross income. IRS guidance has established a general welfare exclusion under which payments made to individuals by governmental entities pursuant to legislatively provided social benefit programs for the promotion of the general welfare are not included in the recipient's gross income. To qualify under the general welfare exclusion, payments must not be lavish or extravagant, they must be made under a government program based on need, and such payments may not constitute compensation. Under proposed IRS guidance, the IRS will conclusively presume that payments from Indian tribes to tribal members and their spouses and dependents will qualify under the general welfare exclusion if certain requirements are met. Specifically, the payments must be made pursuant to a specific Indian tribal government program with written guidelines, be available to any tribal member meeting those guidelines, not discriminate in favor of the tribe's governing body members, not be compensation for services, and not be extravagant. Taxpayers may rely on the proposed rule until additional guidance is published. Additionally, taxpayers may rely on the proposed rules retroactively to file for refunds for any open tax years.

Provision: Under the provisions, the proposed IRS guidance specifically applying the general welfare exclusion to Indian tribes and payments received by tribal members, their spouses and children generally would be codified. The provisions also would require the IRS to establish a Tribal Advisory Committee to advise the IRS on matters relating to taxation of tribal members including training and education for IRS agents dealing with tribal members. Additionally, the provisions would provide the IRS with discretion to waive any interest and penalties under the Code for any tribe or tribal member with regard to the general welfare exclusion. The provision codifying the IRS guidance concerning the general welfare exclusion would be effective for tax years for which the period of limitations is open as of the date of enactment, and taxpayers would have one additional year from the date of enactment to file for a refund with respect to any such open tax year.

JCT estimate: According to JCT, the provisions would have negligible revenue effect over 2014-2023.

Title II – Alternative Minimum Tax Repeal

Sec. 2001. Repeal of alternative minimum tax.

Current law: Under current law, taxpayers must compute their income for purposes of both the regular income tax and the alternative minimum tax (AMT), and their tax liability is equal to the greater of their regular income tax liability or AMT liability. In computing the AMT, only alternative minimum taxable income (AMTI) above an AMT exemption amount is taken into account, but AMTI represents a broader base of income than regular taxable income. For example, personal exemptions, the standard deduction, and certain itemized deductions (such as the deduction for State and local taxes) are not allowed in calculating AMTI. In addition, many business tax preferences that are allowed for regular taxable income are not allowed in determining AMTI, including accelerated depreciation. Corporations and, in some cases, non-corporate taxpayers receive a credit for AMT paid, which they may carry forward and claim against regular tax liability in future tax years (to the extent such liability exceeds AMT in a particular year), and which never expire.

For individuals, estates, and trusts, the AMT has a 26-percent bracket and a 28-percent bracket, but capital gains and dividends are taxed under the AMT at the highest rate that such items are taxed under the regular income tax. The 26-percent tax rate applies to the first $182,500 of AMTI (half that amount for married couples filing separately), and the 28-percent rate applies to AMTI in excess of that amount. For 2014, the AMT exemption amounts for non-corporate taxpayers are $52,800 for single filers, $82,100 for joint filers, $41,050 for married individuals filing separately, and $23,500 for estates and trusts. The AMT exemption amounts begin phasing out at a 25-percent rate at $156,500 for joint returns, $117,300 for singles, and $78,250 for married individuals filing separately and trusts and estates. These amounts are indexed for inflation.

The corporate AMT rate is 20 percent, and the exemption amount is $40,000, though corporations with average gross receipts of less than $7.5 million for the preceding three tax years are exempt from the AMT. The exemption amount for corporations phases out at a 25-percent rate starting at $150,000.

Provision: Under the provision, the AMT would be repealed. If a taxpayer has AMT credit carryforwards, the taxpayer would be able to claim a refund of 50 percent of the remaining credits (to the extent the credits exceed regular tax for the year) in tax years beginning in 2016, 2017, and 2018. Taxpayers would be able to claim a refund of all remaining credits in the tax year beginning in 2019. The provision would generally be effective for tax years beginning after 2014.

Considerations:

- The requirement that taxpayers compute their income for purposes of both the regular income tax and the AMT is one of the most far-reaching complexities of the current Code.
- According to JCT, the AMT affected about 4 million American families in 2013, and that this number will rise to more than 6 million American families in 2023 under current law.

- Families subject to the AMT face an average tax increase of approximately $7,300, based on recent IRS Statistics of Income (SOI) data.
- The AMT is particularly burdensome for small businesses, which often do not know whether they will be affected until they file their taxes and therefore must maintain a reserve that cannot be used to hire, expand, and give raises to workers.
- In its 2001 tax simplification report, JCT concluded that the AMT "no longer serves the purposes for which it was intended," and recommended its repeal.

JCT estimate: According to JCT, the repeal of the individual AMT would reduce revenues by $1,331.8 billion over 2014-2023, and the repeal of the corporate AMT would reduce revenues by $110.2 billion over 2014-2023.

Title III – Business Tax Reform

Subtitle A – Tax Rates

Sec. 3001. 25-percent corporate tax rate.

Current law: Under current law, a corporation's regular income tax liability generally is determined by applying the following tax rate schedule to its taxable income:

Taxable income:	Tax rate:
$0-$50,000	15 percent
$50,001-$75,000	25 percent
$75,001-$10,000,000	34 percent
Over $10,000,000	35 percent

The 15- and 25-percent rates are phased out for corporations with taxable income between $100,000 and $335,000. As a result, a corporation with taxable income between $335,000 and $10,000,000 effectively is subject to a flat tax rate of 34 percent. Similarly, the 34-percent rate is gradually phased out for corporations with taxable income between $15,000,000 and $18,333,333, such that a corporation with taxable income of $18,333,333 or more effectively is subject to a flat rate of 35 percent.

Personal service corporations are not entitled to use the graduated corporate rates below the 35-percent rate. A personal service corporation is a corporation the principal activity of which is the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and such services are substantially performed by the employee-owners.

Provision: Under the provision, the corporate tax rate would be a flat 25-percent rate beginning in 2019. A transition rule would set the rate for taxable income up to $75,000 to 25 percent beginning in 2015, with the rate on income above that level phased down to 25 percent as follows:

For tax years beginning during calendar year:	Tax rate:
2015	33 percent
2016	31 percent
2017	29 percent
2018	27 percent
2019 and later	25 percent

The special rule applicable to personal services corporations would be repealed. The provision would be effective for tax years beginning after 2014.

Considerations:

- Today, U.S. corporations are subject to the highest combined Federal-State tax rate in the industrialized world, which puts American multinational companies at a significant competitive disadvantage against their global competitors.
- Lowering the corporate rate from 35 percent to 25 percent not only would increase America's ability to compete internationally, but also would ensure that American corporations have more resources here in the United States to invest, hire and grow their businesses.
- According to information compiled by the RATE Coalition, reducing the corporate rate to 25 percent would add 581,000 jobs annually and increase GDP growth by 1-2 percent.

JCT estimate: According to JCT, the provision would reduce revenues by $680.3 billion over 2014-2023.

Subtitle B – Reform of Business-related Exclusions and Deductions

Sec. 3101. Revision of treatment of contributions to capital.

Current law: Under current law, the gross income of a corporation generally does not include contributions to its capital (i.e., transfers of money or property to the corporation by a non-shareholder such as a government entity). In addition, a corporation does not recognize gain or loss on the receipt of money or property in exchange for stock of the corporation, nor does it recognize gain or loss with respect to any lapse or acquisition of an option to buy or sell its stock.

Provision: Under the provision, the gross income of a corporation would include contributions to its capital (including any premiums received by the corporation with respect to an option written by the corporation to sell its stock), to the extent the amount of money and fair market value of property contributed to the corporation exceeds the fair market value of any stock that is issued in exchange for such money or property. Similar rules would apply to contributions to the capital of any non-corporate entity, such as a partnership. Under section 3423 of the discussion draft, however, the tax liability of a corporation would not take into account income, gains, losses, or deductions with regard to a derivative that relates to the corporation's stock, except for income received with regard to certain forward contracts that relate to the corporation's stock. The provision would be effective for contributions made, and transactions entered into, after the date of enactment.

Consideration: This provision would remove a Federal tax subsidy for State and local governments to offer incentives and concessions to business that locate operations within their jurisdiction (usually in lieu of locating operations in a different State or locality). In conjunction with section 3423 of the discussion draft, the provision also would eliminate current-law loopholes for corporations that engage in transactions involving their own stock.

JCT estimate: According to JCT, the provision would increase revenues by $8.8 billion over 2014-2023.

Sec. 3102. Repeal of deduction for local lobbying expenses.

Current law: Under current law, businesses generally may deduct ordinary and necessary expenses paid or incurred in connection with carrying on any trade or business. An exception to the general rule, however, disallows deductions for lobbying and political expenditures with respect to legislation and candidates for office, except for lobbying expenses with respect to legislation before local or Indian tribal government bodies.

Provision: Under the provision, deductions for lobbying expenses with respect to legislation before local government bodies (including Indian tribal governments) would be disallowed. The provision would be effective for amounts paid or incurred after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.6 billion over 2014-2023.

Sec. 3103. Expenditures for repairs in connection with casualty losses.

Current law: Under current law, a taxpayer that is engaged in a trade or business generally may deduct any property loss sustained during the tax year (e.g., as a result of a natural disaster) that is not compensated by insurance or otherwise. A taxpayer's loss is limited to the adjusted basis of the property, and adjusted basis is reduced if a casualty loss is deducted. Taxpayers engaged in a trade or business also may deduct amounts paid or incurred to maintain property, including repairs for damage as a result of a natural disaster. If the repairs rise to the level of a permanent improvement or betterment made to increase the value of the property (rather than just to maintain the property), the costs must be capitalized in the basis and recovered over the depreciable life of the property. Some taxpayers have taken the position that both the casualty-loss deduction and the deduction for amounts paid or incurred for repairs may be claimed with respect to the same property damaged in a natural disaster.

Provision: Under the provision, taxpayers could elect either to claim a casualty loss for damaged property (with a corresponding decrease to the property's basis) or to deduct the repair of such property, but not both. The provision would be effective for losses sustained after 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 3104. Reform of accelerated cost recovery system.

Current law: Under current law, a taxpayer may recover, through annual depreciation deductions, the cost of certain property used in a trade or business or for the production of income. The amount of the depreciation deduction with respect to tangible property for a tax year is determined under the modified accelerated cost recovery system (MACRS). Under MACRS, different types of property generally are assigned applicable recovery periods and depreciation methods.

The MACRS recovery periods applicable to most tangible personal property range from three to 25 years. In general, the recovery periods for real property are 39 years for non-residential real property and 27.5 years for residential rental property. The depreciation methods generally applicable to tangible personal property are the 200-percent and 150-percent declining balance methods, switching to the straight-line method for the tax year in which the straight-line method would provide a larger deduction. However, in certain circumstances – such as with respect to corporate taxpayers subject to the alternative minimum tax (AMT) – property must be depreciated under the alternative depreciation system (ADS), which requires longer recovery periods and the use of the straight-line depreciation method. The primary source of IRS guidance for class lives is Revenue Procedure 87-56, 1987-2 C.B. 674, which has not been updated since its release in 1987 (as the result of a statutory prohibition enacted by Congress).

Special depreciation provisions enacted in recent years have also accelerated cost recovery for certain assets. For example, in general, property with a recovery period of less than 20 years placed in service from 2008 through 2013 is eligible for bonus depreciation of either 50 percent or 100 percent, depending on the year. In addition, qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property placed in service before 2014 were eligible for an accelerated recovery period of 15 years.

Provision: Under the provision, MACRS recovery periods and methods would be repealed and rules substantially similar to the ADS rules would apply to depreciable property. Thus, in general, class lives would match more closely the true economic useful life of assets, and depreciation deductions would be determined under the straight-line method. In addition, a taxpayer could elect to take an additional depreciation deduction to account for the effects of inflation on depreciable personal property, calculated by multiplying the year-end adjusted basis in the property (determined without regard to inflation deductions) by the chained CPI rate for the year.

The provision also would repeal the following special depreciation provisions: bonus depreciation, the special recovery periods for Indian reservation property, the special allowance for second generation biofuel plant property, the special allowance for certain reuse and recycling property, and the special allowance for qualified disaster assistance property. In addition, the special depreciation provisions for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property would be repealed. The provision would require the Treasury Department, in consultation with the Bureau of Economic Analysis, to develop a new schedule of economic depreciation, and submit a report to Congress containing the new schedule and other recommendations by December 31, 2017. The provision would be effective for property placed in service after 2016. Thus, current law would apply to property placed in service during 2014, 2015 and 2016.

Considerations:

- Public companies already must use the straight-line method for purposes of financial statements, and switching to this slower depreciation method does not affect the earnings statements they provide to investors and the Securities and Exchange Commission (SEC). Thus, because most public companies prioritize financial statement earnings, they generally support trading accelerated depreciation for a lower tax rate.

- The provision eliminates numerous special depreciation provisions, simplifying the Code and providing uniform rules for all businesses.
- The longer ADS class lives more accurately reflect the actual economic life of assets.
- In addition, the provision requires the Treasury Department to reexamine the class lives of depreciable assets, focusing on the economic life of the assets, and revise IRS guidance. Such an update has not been published since 1987, and the nature of asset classes has changed dramatically in the last 26 years.

JCT estimate: According to JCT, the provision would increase revenues by $269.5 billion over 2014-2023.

<u>Sec. 3105. Repeal of amortization of pollution control facilities.</u>

Current law: Under current law, a taxpayer may elect to recover the cost of a certified pollution control facility over a period of 60 months (84 months in the case of certain atmospheric pollution control facilities used in connection with a power plant or other property that is primarily coal-fired) rather than through annual depreciation deductions based on the useful life of the property. A corporate taxpayer must reduce the amount of basis otherwise eligible for the 60-month recovery by 20 percent.

Provision: Under the provision, the special election for amortization of pollution control facilities would be repealed. Accordingly, such facilities would be subject to the general depreciation rules, with the cost recovery of pollution control facilities generally based on the class life of the underlying property (e.g., the building to which the pollution control facility is attached would have a 40-year life). The provision would be effective for facilities placed in service after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $7.9 billion over 2014-2023.

<u>Sec. 3106. Net operating loss deduction.</u>

Current law: Under current law, a net operating loss (NOL) generally is the amount by which a taxpayer's current-year business deductions exceed its current-year gross income. NOLs may not be deducted in the year generated, but may be carried back two years and carried forward 20 years to offset taxable income in such years. The AMT rules provide that a taxpayer's NOL deduction may not reduce the taxpayer's alternative minimum taxable income by more than 90 percent.

Different rules apply with respect to NOLs arising in certain circumstances. A special five-year carryback applies to NOLs arising from a farming loss, losses arising from certain bad debts of commercial banks, and certain amounts related to the Hurricane Katrina and the Gulf Opportunity Zone before 2010. Special rules also apply to specified liability losses (ten-year carryback) and excess interest losses (no carryback to any year preceding a corporate equity reduction transaction). Additionally, a special rule applied to losses incurred in 2008 and 2009 (up to a five-year carryback) and a special rule applied to certain electric utility companies with respect to NOLs arising in 2003 through 2005 (five-year carryback).

Provision: Under the provision, C corporations could deduct an NOL carryover or carryback only to the extent of 90 percent of the corporation's taxable income (determined without regard to the NOL deduction) – conforming to the current-law AMT rule. The provision also would repeal the special carryback rules for specified liability losses, bad debts losses of commercial banks, excess interest losses relating to corporate equity reduction transactions, and certain farming losses. Additionally, the provision would repeal the expired special rules regarding losses incurred in 2008 and 2009, losses of certain electric utility companies, and losses related to the Hurricane Katrina and the Gulf Opportunity Zone. The provision generally would be effective for tax years beginning after 2014 and losses incurred after 2014 and carried back to prior years.

JCT estimate: According to JCT, the provision would increase revenues by $70.5 billion over 2014-2023.

Sec. 3107. Circulation expenditures.

Current law: Under current law, expenditures that produce benefits in future tax years to a taxpayer's business or income-producing activities generally are capitalized and recovered over time through depreciation, amortization, or depletion deductions. A special rule, however, allows taxpayers to deduct immediately expenditures to establish, maintain, or increase the circulation of a newspaper, magazine, or other periodical. Under the AMT, however, circulation expenditures must be capitalized and amortized over 36 months.

Provision: Under the provision, taxpayers would recover the cost of circulation expenditures by capitalizing and amortizing such costs over 36 months – conforming to the current-law AMT rule. The provision would be effective for amounts paid or incurred in tax years beginning after 2015, with a three-year phase-in period in which 75 percent of circulation expenditures would be deductible in 2016 (25 percent amortized), 50 percent would be deductible in 2017 (50 percent amortized), and 25 percent deductible in 2018 (75 percent amortized).

JCT estimate: According to JCT, the provision would increase revenues by $0.6 billion over 2014-2023.

Sec. 3108. Amortization of research and experimental expenditures.

Current law: Under current law, business expenditures associated with the development and creation of an asset having a useful life extending beyond the current year generally must be capitalized and depreciated over such useful life. As an exception to this general rule, taxpayers may elect to deduct currently certain research or experimentation (R&E) expenditures paid or incurred in connection with a trade or business. Such deductions must be reduced by the amount of the taxpayer's research tax credit.

Provision: Under the provision, all R&E expenditures would be amortized over a five-year period beginning with the midpoint of the tax year in which the expenditure is paid or incurred. The five-year period would continue even in the event any property with respect to which amortization deductions were made is retired or abandoned. Expenditures incurred for the development of software would be treated as R&E expenditures.

The provision would be effective for amounts paid or incurred in tax years beginning after 2014, but would be phased in slowly over several years. For tax years beginning in 2015, a taxpayer could expense 60 percent and amortize 40 percent over two years; for tax years beginning in 2016 and 2017, a taxpayer could expense 40 percent and amortize 60 percent over three years; and for tax years beginning in 2018, 2019, and 2020, a taxpayer could expense 20 percent and amortize 80 percent over four years. When adding together, the percentage that is permitted to be expensed in any particular year and the amortized percentages from prior years that are also available as a deduction in that particular year, the effect of this formula is to permit a deduction of at least 80 percent of the amount that is deductible under current law (assuming constant levels of annual investment). Alternatively, a taxpayer may elect to apply the five-year amortization rule to all R&E expenditures immediately.

Considerations:

- In general, the cost of assets that have a useful life beyond the tax year must be recovered over the useful life of the asset. The provision recognizes that research and experimentation has a useful life beyond the tax year in which the expenses are incurred.
- In particular, the tangible and intangible property created through research and experimentation provide value to a business beyond a single tax year.

JCT estimate: According to JCT, the provision would increase revenues by $192.6 billion over 2014-2023.

<u>Sec. 3109. Repeal of deductions for soil and water conservation expenditures and endangered species recovery expenditures.</u>

Current law: Under current law, a taxpayer engaged in the business of farming may deduct immediately, rather than recover over time through annual depreciation deductions, costs paid or incurred during the tax year for the purpose of soil or water conservation in respect of land used in farming, for the prevention of erosion of land used in farming, or for endangered species recovery. Such expenditures are allowed as a deduction, not to exceed 25 percent of the gross income derived from farming during the tax year, with any excess amount carried over to a succeeding year subject to the same percentage limitations.

Provision: Under the provision, the special deduction for soil and water conservation and for the prevention of erosion in land used in farming and endangered species recovery would be repealed. Accordingly, such costs would be capitalized in the basis of the underlying property. The provision would be effective for amounts paid or incurred after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.8 billion over 2014-2023.

Sec. 3110. Amortization of certain advertising expenses.

Current law: Under current law, a deduction is allowed for ordinary and necessary expenses paid or incurred in carrying on any trade or business. However, expenditures that create a long-term benefit generally must be capitalized and recovered through depreciation or amortization, rather than deducted currently. Although advertising expenditures are not addressed specifically in the Code, the IRS generally allows taxpayers to treat advertising expenditures as an ordinary and necessary business expense. In addition, a special regulatory exception applies to amounts paid to develop a package design. This includes the design of shapes, colors, words, pictures, lettering, and other elements on a given product package or the design of a container to hold a given product. Even though such design cost may have a useful life beyond the current tax year, current regulations permit taxpayers to deduct such costs in the year incurred.

Provision: Under the provision, 50 percent of certain advertising expenses would be currently deductible and 50 percent would be amortized ratably over a ten-year period. This rule would phase in for tax years beginning before 2018 as follows: for tax years beginning in 2015, 80 percent of advertising costs would be deductible and 20 percent amortized; in 2016, 70 percent of advertising costs would be deductible and 30 percent amortized; and in 2017, 60 percent of advertising costs would be deductible and 40 percent amortized. The provision would also permit taxpayers to expense the first $1,000,000 of advertising expenditures. However, the $1,000,000 would be reduced to the extent a taxpayer's advertising costs exceed $1,500,000, and completely phased out once advertising costs exceed $2,000,000. All of these thresholds would be adjusted for inflation.

Advertising expenses would include any amount paid or incurred for development, production, or placement (including any form of transmission, broadcast, publication, display, or distribution) of any communication to the general public intended to promote the taxpayer's trade or business (including any service, facility, or product provided pursuant to such trade or business). In addition, advertising expenses would include wages paid to employees primarily engaged in activities related to advertising and the direct supervision of employees engaged in such activities. Advertising expenses, however, would not include: depreciable property, amortizable section 197 intangibles, discounts, certain communications on the taxpayer's property, the creation of logos (and trade names), marketing research, business meals, and qualified sponsorship payments.

Under the provision, no deduction of unamortized expenses would be allowed if any property with respect to which amortizable advertising expenses are paid or incurred is retired or abandoned during the 10-year amortization period.

Under the provision, the regulatory exception permitting the immediate deduction of packaging-design costs would be repealed, and such costs would be capitalized into the cost of producing the packaging and recovered as the packaging (and products the packaging contains) are sold.

The provision would be effective for amounts paid or incurred in tax years beginning after 2014.

Considerations:

- In general, the cost of assets that have a useful life beyond the tax year must be recovered over the useful life of the asset. The provision recognizes that a portion of advertising has a useful life beyond the tax year in which the expenses are incurred because a portion of advertising creates long-lived intangible assets such as brand awareness and customer loyalty, the benefits of which inure to the company for many years after the taxpayer incurs the expense.
- The Supreme Court has noted that "a taxpayer's realization of benefits beyond the year in which [an] expenditure is incurred is undeniably important in determining whether the appropriate tax treatment is immediate deduction or capitalization."

JCT estimate: According to JCT, the provision would increase revenues by $169.0 billion over 2014-2023.

Sec. 3111. Expensing certain depreciable business assets for small business.

Current law: Under current law, a taxpayer is allowed to recover, through annual depreciation deductions, the cost of certain property used in a trade or business or for the production of income. Under Code section 179, a taxpayer may deduct immediately ("expense") the cost of investments in property, equipment, and computer software rather than depreciating such costs over the recovery period of such property under the Code. For 2008 and 2009, taxpayers could expense up to $250,000 of qualifying property, reduced proportionately to the extent that the taxpayer placed in service more than $800,000 of qualifying property. From 2010 through 2013, the expensing limitation was $500,000 and phase-out threshold was $2 million. For tax years after 2013, the expensing limitation under Code section 179 drops to $25,000, and the phase-out begins once investments exceed $200,000. Computer software and certain types of real property (qualifying leasehold improvements, investments in restaurant property, and improvements to retail property) were eligible for expensing if placed in service before 2014. However, the amount of real property that could be expensed was limited to $250,000. Investments in air conditioning and heating units do not qualify for expensing.

Provision: Under the provision, Code section 179 expensing would be made permanent at the 2008-2009 levels. Taxpayers would be able to expense up to $250,000 of investments in new equipment and property per year, with the deduction phased out for investments exceeding $800,000 (with both amounts indexed for inflation). The provision would also would also restore and make permanent rules allowing computer software and certain investments in real property to qualify for section 179 expensing. In addition, the provision would allow investments in air conditioning and heating units to qualify for section 179 expensing. The provision would be effective for tax years beginning after 2013.

Considerations:

- Starting in 2014, the expensing levels are now $25,000 and $200,000, respectively, a significant reduction from the 2013 levels for small businesses and farms that have struggled through the economic challenges of the past six years to build their businesses and hire new employees.
- By making permanent the current-law provisions allowing computer software and certain investments in real property to qualify for section 179 expensing, this provision would significantly expand the pool of eligible assets.

JCT estimate: According to JCT, the provision would reduce revenues by $54.9 billion over 2014-2023.

Sec. 3112. Repeal of election to expense certain refineries.

Current law: Under current law, a taxpayer could elect to expense 50 percent of the cost of any qualified property used for processing liquid fuel from crude oil or qualified fuels prior to 2014. The remaining 50 percent was recovered under normal depreciation rules. Qualified refinery property included assets located in the United States and used in the refining of liquid fuels. The expensing election expired for property placed in service after 2013.

Provision: Under the provision, the deduction would be repealed. The provision would be effective for property placed in service after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3113. Repeal of deduction for energy efficient commercial buildings.

Current law: Under current law, a taxpayer could claim a deduction with respect to certain energy-efficient commercial building property expenditures incurred prior to 2014. The deduction was limited to an amount equal to $1.80 per square foot of the property for which such expenditures were made. The deduction was allowed in the year in which the property was placed in service. The deduction expired at the end of 2013.

Provision: Under the provision, the deduction would be repealed. The provision would be effective for property placed in service after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3114. Repeal of election to expense advanced mine safety equipment.

Current law: Under current law, a taxpayer could deduct immediately, rather than recover through annual depreciation deductions, 50 percent of the cost of any qualified advanced mine safety equipment property that was placed in service before 2014. The deduction expired at the end of 2013.

Provision: Under the provision, the special rule for immediately deducting 50 percent of the cost of advanced mine safety equipment would be repealed. The provision would be effective for property placed in service after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3115. Repeal of deduction for expenditures by farmers for fertilizer, etc.

Current law: Under current law, a taxpayer engaged in the business of farming may elect to deduct immediately expenditures for fertilizer, lime, ground limestone, marl, or other materials to enrich, neutralize, or condition land used in farming.

Provision: Under the provision, the special rule for deducting expenditures for fertilizer and other farming-related materials would be repealed. The provision would be effective for expenses paid or incurred in tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $3.4 billion over 2014-2023.

Sec. 3116. Repeal of special treatment of certain qualified film and television productions.

Current law: Under current law, a taxpayer could elect to deduct immediately the cost of a qualifying film and television production (up to a maximum deduction of $15 million), commencing prior to 2014, rather than capitalizing and recovering the costs through depreciation deductions generally in relation to the forecasted income from the production. The threshold was increased to $20 million if a significant amount of the production expenditures were incurred in certain low-income, distressed or isolated areas in the United States.

Provision: Under the provision, the special rule allowing an immediate deduction of qualifying film and television production costs would be repealed. The provision would be effective for productions commencing after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3117. Repeal of special rules for recoveries of damages of antitrust violations, etc.

Current law: Under current law, a taxpayer who recovers damages from certain antitrust violations, patent infringements, or breaches of contract or fiduciary duty and includes the damages in income, may claim a special deduction intended to offset any losses relating to such antitrust violation, etc. that did not result in a tax benefit to the taxpayer. This rule, enacted in

1969, addressed cases in which a taxpayer did not have sufficient income to offset the losses resulting from the antitrust violation in the year the loss occurred or could not carryover such losses to the year in which the litigation damages were recovered due to the limitations on net operating loss carryovers (NOLs), which varied between five and seven years until 1981. Under current law, NOLs may be carried forward for 20 years.

Provision: Under the provision, the special deduction for antitrust violations would be repealed. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Sec. 3118. Treatment of reforestation expenditures.

Current law: Under current law, costs incurred to improve property used in a trade or business generally must be capitalized and recovered through depreciation deductions over the useful life of the property. A taxpayer, however, may elect to amortize reforestation expenditures over 84 months (i.e., seven years). In addition, a taxpayer may also elect to deduct up to $10,000 of certain reforestation expenditures that otherwise would be capitalized. To the extent that reforestation expenditures exceed the $10,000 limit, a taxpayer may elect to amortize the remaining expenditures over 84 months. The special rule applies to property in the United States that generally contains any type of trees in significant commercial quantities and that is held by the taxpayer for planting, cultivating, caring for and cutting of trees for sale or use in the commercial production of timber products.

Provision: Under the provision, the election to deduct up to $10,000 for reforestation expenditures would be repealed. For purposes of the 84-month amortization election, the provision would limit the definition of qualifying timber property to U.S. property that (1) contains evergreen trees in commercial quantities that are reasonably expected to be cut down after they are more than six years old, and (2) is held for the planting, cultivating, caring for, and cutting of such trees for ornamental purposes. The provision would be effective for expenditures paid or incurred in tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $1.4 billion over 2014-2023.

Sec. 3119. 20-year amortization of goodwill and certain other intangibles.

Current law: Under current law, when a taxpayer acquires intangible assets held in connection with a trade or business, any value properly attributable to such intangible assets is amortizable on a straight-line basis over 15 years. For these purposes, intangible assets generally include: goodwill; going-concern value; workforce in place; business books and records; any patent, copyright, formula, process, design, pattern, know-how, or similar item; any franchise, trademark or trade name; customer- and supplier-based intangibles; any license, permit, or other rights granted by governmental units; and any other similar item. Certain assets are excluded from the rule, such as mortgage servicing rights, which are amortizable over nine years.

Provision: Under the provision, the amortization period for acquired intangible assets would be extended to 20 years. The provision also would treat mortgage servicing rights as intangible assets subject to amortization over 20 years. The provision would be effective for property acquired after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $13.0 billion over 2014-2023.

<u>Sec. 3120. Treatment of environmental remediation costs.</u>

Current law: Under current law, taxpayers generally must capitalize amounts paid or incurred for permanent improvements or betterments made to increase the value of any property used in carrying on any trade or business. Thus, environmental remediation costs relating to the abatement or control of hazardous substances at a qualified contaminated site are capitalized into the cost of the land and recovered only when the land is sold. Prior to 2012, taxpayers could elect to treat environmental expenditures as deductible in the year paid.

Provision: Under the provision, environmental remediation costs would be recovered ratably over 40 years beginning with the midpoint of the tax year in which the expenditures are paid or incurred. The provision would be effective for expenditures paid or incurred after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

<u>Sec. 3121. Repeal of expensing of qualified disaster expenses.</u>

Current law: Under current law, taxpayers generally must capitalize amounts paid or incurred to acquire property or for permanent improvements or betterments made to increase the value of any property used in carrying on any trade or business. A special rule permitted taxpayers to deduct qualified disaster expenses in 2008 and 2009 relating to Hurricane Katrina and the Gulf Opportunity Zone.

Provision: Under the provision, the special rule for expensing certain disaster expenses would be repealed as obsolete. The provision would be effective for amounts paid or incurred after 2014.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

<u>Sec. 3122. Phaseout and repeal of deduction for income attributable to domestic production activities.</u>

Current law: Under current law, taxpayers may claim a deduction equal to 9 percent (6 percent in the case of certain oil and gas activities) of the lesser of the taxpayer's qualified production activities income or the taxpayer's taxable income for the tax year. The deduction is limited to 50 percent of the W-2 wages paid by the taxpayer during the calendar year. Qualified production activities income is equal to domestic production gross receipts less the cost of goods sold and expenses properly allocable to such receipts. Qualifying receipts are derived from property that was manufactured, produced, grown, or extracted within the United States; qualified film productions; production of electricity, natural gas, or potable water; construction activities performed in the United States; and certain engineering or architectural services. Qualifying receipts do not include gross receipts derived from the sale of food or beverages prepared at a retail establishment; the transmission or distribution of electricity, gas, and potable water; or the disposition of land.

Provision: Under the provision, the deduction for domestic production activities would be phased out, with the deduction reduced to 6 percent for tax years beginning in 2015 and 3 percent for tax years beginning in 2016. The deduction would be repealed for tax years beginning after 2016.

JCT estimate: According to JCT, the provision would increase revenues by $115.8 billion over 2014-2023.

<u>Sec. 3123. Unification of deduction for organizational expenditures.</u>

Current law: Under current law, new businesses may deduct up to $5,000 of start-up expenses (i.e., costs incurred prior to the commencement of the business' operation). The deduction phases out to the extent that start-up expenses exceed $50,000. Start-up expenses that do not qualify for the deduction may be amortized over 15 years. Partnerships and C corporations also may deduct up to $5,000 of organizational expenses (i.e., expenses relating to the commencement of the business). The additional deduction phases out to the extent organizational expenses exceed $50,000, with excess expenses amortized over a 15-year period.

Provision: Under the provision, the various existing provisions for start-up and organizational expenses would be combined into a single provision applicable to all businesses. The provision would allow a taxpayer to deduct up to $10,000 in start-up and organizational costs, with a phase-out beginning at $60,000. The additional deduction for organizational expenses incurred by a partnership or C corporation would be repealed. Expenses above the new increased limit would continue to be deductible over the 15-year period following the start of the business. The provision would be effective for expenses paid or incurred in tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by $0.6 billion over 2014-2023.

Sec. 3124. Prevention of arbitrage of deductible interest expense and tax-exempt interest income.

Current law: Under current law, taxpayers may not deduct interest on indebtedness incurred to purchase or carry obligations if the interest income from the obligations is exempt from tax (tax-exempt obligations). The rule is intended to prevent taxpayers from engaging in tax arbitrage by deducting interest on indebtedness used to purchase tax-exempt obligations. There are two methods for determining the amount of the disallowance: The first method, which applies to all taxpayers other than financial institutions or dealers in tax-exempt obligations, asks whether a taxpayer's borrowing can be traced to its holding of tax-exempt obligations and disallows an interest deduction for that portion used to purchase the tax-exempt obligations. The second method, which applies to financial institutions and dealers in exempt obligations, disallows interest deductions based on the percentage of the taxpayer's assets comprised of tax-exempt obligations. Under the second method, a special rule excludes certain qualified small issuer tax-exempt obligations from the pro rata disallowance rule; instead, 20 percent of the interest allocable to such obligations is disallowed.

Under current law, individuals may not deduct investment interest in excess of net investment income. Investment interest generally is the interest paid or accrued on indebtedness with respect to property held for investment, excluding home-mortgage interest. Property considered held for investment currently does not include property that generates tax-exempt interest. Disallowed investment interest deductions may be carried over to the succeeding tax year.

Provision: Under the provision, C corporations, including financial institutions and dealers in tax-exempt obligations, would be required to use the same interest-disallowance method. Thus, the interest deduction of any taxpayer would be disallowed based on the percentage of the taxpayer's assets comprised of tax-exempt obligations. The special rule under present law for qualified small issuer tax-exempt obligations also would be repealed.

The provision also would permanently disallow the investment-interest deduction of a taxpayer (other than a corporation or financial institution) by the amount of tax-exempt interest received. Any remaining interest deduction would still be limited to the taxpayer's net investment income.

The provision relating to the interest-disallowance method would be effective for tax years ending after and obligations issued after February 26, 2014. The provision relating to the investment-interest deduction would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $1.6 billion over 2014-2023.

Sec. 3125. Prevention of transfer of certain losses from tax indifferent parties.

Current law: Under current law, a deduction is generally disallowed for a loss on the sale or exchange of property to certain related parties or controlled partnerships. If a loss has been disallowed in such a case, the transferee generally may reduce any gain later recognized on a disposition of the asset by the amount of loss disallowed to the transferor. In effect, this rule has the effect of shifting the benefit of the loss from the transferor to the transferee. Special rules apply in the case of transfers of property within a controlled group of businesses.

Provision: Under the provision, the related-party loss rules would be modified to prevent losses from being shifted from a tax-indifferent party (e.g., a foreign person not subject to U.S. tax) to another party in whose hands any gain or loss with respect to the property would be subject to U.S. tax. The provision would be effective for sales and exchanges after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.7 billion over 2014-2023.

Sec. 3126. Entertainment, etc. expenses.

Current law: Under current law, no deduction is allowed for expenses relating to entertainment, amusement or recreation activities, or facilities (including membership dues with respect to such activities or facilities), unless the taxpayer establishes that the item was directly related to the active conduct of the taxpayer's trade or business, in which case the taxpayer may deduct up to 50 percent of expenses relating to meals and entertainment. An item is considered directly related if it is associated with a substantial and bona fide business discussion.

A taxpayer also may deduct the cost of certain fringe benefits provided to employees (e.g., employee discounts, working condition and transportation fringe benefits), even though such benefits are excluded from the employee's income under Code section 132. Additionally, a taxpayer may deduct expenses for goods, services, and facilities to the extent that the expenses are reported by the taxpayer as compensation and wages to an employee (or includible in gross income of a recipient who is not an employee).

A taxpayer may deduct certain reimbursed expenses, including reimbursement arrangements in which an employer reimburses the expenses incurred by employees of a subcontractor, provided such expenses are properly substantiated and not treated as income to the employee.

Provision: Under the provision, no deduction would be allowed for entertainment, amusement or recreation activities, facilities or membership dues relating to such activities or other social purposes. In addition, no deduction would be allowed for transportation fringe benefits or for amenities provided to an employee that are primarily personal in nature and that involve property or services not directly related to the employer's trade or business, except to the extent that such benefits are treated as taxable compensation to an employee (or includible in gross income of a recipient who is not an employee). The 50-percent limitation under current law also would apply only to expenses for food or beverages and to qualifying business meals under the provision, with no deduction allowed for other entertainment expenses. Furthermore, no deduction would be allowed for reimbursed entertainment expenses paid as part of a reimbursement arrangement that involves a tax-indifferent party such as a foreign person or an entity exempt from tax. The provision would be effective for amounts paid or incurred after 2014.

Considerations:

- It is difficult for the IRS to determine whether entertainment expenses are directly related to a trade or business, creating uncertainty for taxpayers as well as the potential for significant abuse.
- The provision aligns the treatment of transportation fringe benefits and amenities provided to an employee that are primarily personal in nature and not directly related to a trade or business with other similar tax items.

JCT estimate: According to JCT, the provision would increase revenues by $14.7 billion over 2014-2023.

Sec. 3127. Repeal of limitation on corporate acquisition indebtedness.

Current law: Under current law, a corporation's interest deduction may be limited if it issues debt as consideration for the acquisition of stock in another corporation or for the acquisition of assets of another corporation. However, there are several exceptions to this general rule.

Provision: Under the provision, the interest-limitation rule for debt issued with respect to corporate acquisitions would be repealed. The provision would be effective for interest paid or incurred with respect to indebtedness incurred after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by $0.1 billion over 2014-2023.

Sec. 3128. Denial of deductions and credits for expenditures in illegal businesses.

Current law: Under current law, no deduction or credit is allowed for an amount paid or incurred in carrying on a trade or business if the activities of the business consist of trafficking in controlled substances that are prohibited by Federal law or the State law in which the business is conducted. Current law, however, does not generally deny deductions or credits to illegal businesses, generally, however.

Provision: Under the provision, the rule denying deductions and credits would be expanded to include any trade or business if carrying out such business is a felony under Federal law or the law of any State in which the business is conducted. The provision would be effective for amounts paid or incurred after the date of enactment in tax years ending after the date of enactment.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Sec. 3129. Limitation on deduction for FDIC premiums.

Current law: Under current law, amounts paid by insured depository institutions pursuant to an assessment by the Federal Deposit Insurance Corporation (FDIC) to support the Deposit Insurance Fund (DIF) are currently deductible as a trade or business expense.

Provision: Under the provision, a percentage of such assessments would be non-deductible for institutions with total consolidated assets in excess of $10 billion. The percentage of non-deductible assessments would be equal to the ratio that total consolidated assets in excess of $10 billion bears to $40 billion, so that assessments would be completely non-deductible for institutions with total consolidated assets in excess of $50 billion. The provision would be effective for tax years beginning after 2014.

Consideration: The provision corrects for the fact that, when the FDIC determines the amount of assessments that are necessary to maintain an adequate balance in the DIF, it does so on a pre-tax basis and does not take into account the deductibility of the premium payments. These deductions diminish the General Fund and effectively result in a General Fund transfer to the DIF.

JCT estimate: According to JCT, the provision would increase revenues by $12.2 billion over 2014-2023.

Sec. 3130. Repeal of percentage depletion.

Current law: Under current law, depletion, like depreciation, is a form of capital cost recovery. In both cases, the taxpayer is allowed a deduction in recognition of the fact that an asset is being expended to produce income. Under the percentage-depletion method, a percentage, varying from 5 percent to 22 percent (generally 15 percent for certain oil and gas properties), of the taxpayer's gross income from a producing property is allowed as a deduction in each tax year. The deduction generally may not exceed 50 percent (100 percent in the case of certain oil and gas properties) of the net income from the property in any year (the "net-income limitation"). Additionally, the percentage depletion deduction for all oil and gas properties may not exceed 65 percent of the taxpayer's overall taxable income for the year. Because percentage depletion, unlike cost depletion, is computed without regard to the taxpayer's basis in the property, cumulative depletion deductions may be greater than the amount expended by the taxpayer to acquire or develop the property.

Provision: Under the provision, the percentage-depletion method would be repealed. The provision would be effective for tax years beginning after 2014.

Consideration: All taxpayers are allowed a depreciation deduction for their assets that are being used to produce income. However, only extractive industries are allowed to recover more than their investment. The provision would create parity among all businesses with respect to recovering costs.

JCT estimate: According to JCT, the provision would increase revenues by $5.3 billion over 2014-2023.

Sec. 3131. Repeal of passive activity exception for working interests in oil and gas property.

Current law: Under current law, the passive loss rules limit deductions and credits from passive trade or business activities. Deductions attributable to passive activities, to the extent they exceed income from passive activities, generally may not be deducted against other income. Deductions and credits that are suspended under these rules are carried forward and treated as deductions and credits from passive activities in subsequent years. The suspended losses from a passive activity are allowed in full when a taxpayer disposes of his entire interest in the passive activity to an unrelated person. Pursuant to a special rule, a passive activity does not include a working interest in any oil or gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to the interest. Thus, losses and credits from such interests may be used to offset other income of the taxpayer without limitation under the passive loss rule. This special rule applies without regard to whether the taxpayer materially participates in the activity.

Provision: Under the provision, the passive activity exception for working interests in oil and gas property would be repealed. The provision would be effective for tax years beginning after 2014.

Consideration: Generally, individual taxpayers are not allowed to deduct passive losses against their active or wage income under current law. However, a special rule exists for taxpayers that have an interest in oil and gas property. The provision creates parity among all taxpayers by removing this special exception.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 3132. Repeal of special rules for gain or loss on timber, coal, or domestic iron ore.

Current law: Under current law, a taxpayer may elect to treat the cutting of timber for sale or use in the taxpayer's business as a sale or exchange of such timber cut during the year. A taxpayer that makes the election converts part of the ordinary gain resulting from the sale of the timber into capital gain. To elect this treatment, a taxpayer must have owned the timber or held a contract right to cut the timber for more than a year. Under the election, gain equal to the difference between the adjusted basis of the timber and the fair market value as of the first day of the tax year in which it was cut is treated as capital gain. Any additional gain attributable to the difference between the fair market value of the timber on the first day of the tax year and the proceeds from the sale of products produced from the timber cut (less ordinary and necessary business expenses) is ordinary. A similar election is permitted for the disposal of timber or coal or iron ore mined in the United States held for more than one year before the disposal.

Provision: Under the provision, gain from timber cut by an owner and used in its trade or business, and from the disposal of timber or coal or domestic iron ore held for more than one year before the disposal, would no longer be treated as capital gain. Thus, all gain in these circumstances would be treated as ordinary income. This provision generally would be effective for tax years beginning after 2014.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for sections 1001-1003 of the discussion draft.

Sec. 3133. Repeal of like-kind exchanges.

Current law: Under current law, an exchange of property, like a sale, generally is a taxable transaction. A special rule provides that no gain or loss is recognized to the extent that property held for productive use in the taxpayer's trade or business, or property held for investment purposes, is exchanged for property of a like-kind that also is held for productive use in a trade or business or for investment. The taxpayer receives a basis in the new property equal to the taxpayer's adjusted basis in the exchanged property. The like-kind exchange rule applies to a wide range of property from real estate to tangible personal property. It does not apply, however, to exchanges of stock in trade or other property held primarily for sale, stocks, bonds, partnership interests, certificates of trust or beneficial interest, other securities or evidences of indebtedness or interest, or to certain exchanges involving livestock or involving foreign property. A like-kind exchange does not require that the properties be exchanged simultaneously – as long as the property to be received in the exchange is identified within 45 days and ultimately received within 180 days of the sale of the originally property, gain is deferred.

Provision: Under the provision, the special rule allowing deferral of gain on like-kind exchanges would be repealed. The provision would be effective for transfers after 2014. However, a like-kind exchange would be permitted if a written binding contract is entered into on or before December 31, 2014, and the exchange under the contract is completed before January 1, 2017.

Considerations:

- The like-kind exchange rules currently allow taxpayers to defer tax on the built-in gains in property by exchanging it for similar property. With multiple exchanges, gains essentially may be deferred for decades, and ultimately escape taxation entirely if the property's basis is stepped up to its fair market value upon the death of the owner.
- The current rules have no precise definition of "like-kind," which often leads to controversy with the IRS and provides significant opportunities for abuse.

JCT estimate: According to JCT, the provision would increase revenues by $40.9 billion over 2014-2023.

Sec. 3134. Restriction on trade or business property treated as similar or related in service to involuntarily converted property in disaster areas.

Current law: Under current law, gain or loss realized from the sale or other disposition of property generally must be recognized at the time of the sale or other disposition. However, a special exception applies to certain involuntary or compulsory conversions of property (e.g., the property's destruction is due to a natural disaster, theft, seizure, requisition or condemnation) and generally permits such property to be replaced within two years with property that is similar or related in service or use to the property converted without recognizing taxable gain. If the trade or business is located in a Federally declared disaster area, any tangible property held for productive use in the trade or business is treated as similar or related in service or use. Thus, a taxpayer could replace lost inventory with a building, and no gain would be recognized.

Provision: Under the provision, tangible business property that is involuntarily converted in a Federally declared disaster area would qualify for deferral of gain recognition only if the depreciation class life of replacement property does not exceed that of the converted property. The provision would be effective for disasters declared after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 3135. Repeal of rollover of publicly traded securities gain into specialized small business investment companies.

Current law: Under current law, gain or loss generally is recognized on any sale, exchange, or other disposition of property. A special rule permits an individual or corporation to roll over without recognition of income any capital gain realized on the sale of publicly traded securities when the proceeds are used to purchase common stock or a partnership interest in a specialized small business investment corporation (SSBIC) within 60 days of the sale of the securities. SSBICs are a special type of investment fund licensed by the U.S. Small Business Administration until 1996 when the program was repealed (though certain existing SSBICs were grandfathered). The amount of gain that a taxpayer may roll over in a tax year is limited to the lesser of (1) $50,000 ($250,000 for corporations) or (2) $500,000 ($1,000,000 for corporations) reduced by the gain previously excluded under the provision.

Provision: Under the provision, the special rule permitting gains on publicly traded securities to be rolled over to an SSBIC would be repealed. The provision would be effective for sales after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $1.3 billion over 2014-2023.

<u>Sec. 3136. Termination of special rules for gain from certain small business stock.</u>

Current law: Under current law, a taxpayer (other than a corporation) may exclude 50 percent of the gain from the sale of certain small business stock acquired at original issue and held for at least five years. For stock acquired in 2009 through 2013, the exclusion is 75 percent or 100 percent, depending on the timing of the acquisition. The amount of gain eligible for the exclusion with respect to the stock of any qualifying domestic C corporation is the greater of ten times the taxpayer's basis in the stock or $10 million (reduced by the amount of gain eligible for exclusion in prior years). To qualify, the small business must have aggregate gross assets of $50 million or less when the stock is issued and meet certain active trade or business requirements. A taxpayer may elect to roll over gain from the sale of qualified small business stock held more than six months when other qualified small business stock is purchased during the 60-day period beginning on the date of sale.

Provision: Under the provision, the exclusion of gain from the sale of certain small business stock would be repealed. The provision would be effective for gains with respect to stock issued after the date of enactment. For rollover of gains, the provision would not apply to sales of qualifying small business stock acquired before the date of enactment.

Considerations:

- Current law provides this narrow benefit only to investors in small businesses organized as C corporations with tradable stock, thereby favoring investors in those types of businesses over investors in small businesses organized as S corporations, partnerships, or LLCs. Accordingly, the provision repealing this narrow tax benefit would not apply to small businesses organized as pass-through entities.
- The current-law benefit would be repealed in favor of broad-based tax rate reductions, which will help all types of small businesses as well as the individuals who invest in them.

JCT estimate: According to JCT, the provision would increase revenues by $4.8 billion over 2014-2023.

<u>Sec. 3137. Certain self-created property not treated as a capital asset.</u>

Current law: Under current law, a self-created patent, invention, model or design (whether or not patented), or secret formula or process is treated as a capital asset. However, the following self-created property is not treated as a capital asset: copyrights; literary, musical or artistic compositions; and letters or memoranda. Any gain or loss recognized as a result of the sale, exchange, or other disposition of such property is generally ordinary in character. The creator of musical compositions or copyrights in musical works, however, may elect to treat such property as a capital asset.

Provision: Under the provision, gain or loss from the disposition of a self-created patent, invention, model or design (whether or not patented), or secret formula or process would be ordinary in character. This would be consistent with the treatment of copyrights under current law. In addition, the election to treat musical works as a capital asset would be repealed. The provision would be effective for sales, exchanges, and other dispositions of such property after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.6 billion over 2014-2023.

Sec. 3138. Repeal of special rule for sale or exchange of patents.

Current law: Under current law, an individual who creates a patent and an unrelated individual who acquires a patent from its creator prior to the actual commercial use of the patent may treat any gains on the transfer of the patent as long-term capital gains. To qualify, a transfer must be of substantially all the rights to the patent (or an undivided interest therein) and cannot be by gift, inheritance or devise.

Provision: Under the provision, the special rule treating the transfer of a patent prior to its commercial exploitation as long-term capital gain would be repealed. The provision would be effective for transfers after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.2 billion over 2014-2023.

Sec. 3139. Depreciation recapture on gain from disposition of certain depreciable realty.

Current law: Under current law, the disposition of most property used in a business on which depreciation deductions were taken results in gain or loss that is treated as ordinary or capital depending on whether there is a net gain or a net loss. A net loss may be deducted fully against ordinary income. A net gain generally results in long-term capital gain treatment, subject to the depreciation recapture rules. The depreciation recapture rules require taxpayers to recognize ordinary income in an amount equal to all or a portion of the gain realized as a result of the basis reduction attributable to accumulated depreciation deductions. For depreciable real property (e.g., buildings or structural components of buildings) held for more than one year, gain is treated as ordinary income, rather than capital gain to the extent that the accelerated depreciation taken with respect to the property exceeds the amount of depreciation that would have been taken had the straight-line method been used. For depreciable real property held for one year or less, all of the depreciation is recaptured. For corporations, the recaptured amount treated as ordinary income generally is increased by an amount equal to 20 percent of all of the depreciation deductions taken with respect to the asset.

Provision: Under the provision, the recapture rules with respect to depreciable real property are revised to limit the amount treated as ordinary income to the lesser of: (1) the difference between the accelerated depreciation and straight-line depreciation attributable to periods before 2015, plus the total amount of depreciation attributable to periods after 2014, or (2) the excess of the amount realized over the adjusted basis. The provision would be effective for dispositions after 2014.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for sections 1001-1003 of the discussion draft.

Sec. 3140. Common deduction conforming amendments.

Current law: Not applicable.

Provision: Under the provision, a number of conforming changes that are common to various sections in Subtitle B of Title III of the discussion draft would be made. These sections revise or repeal business-related exclusions and deductions. The provision generally would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Subtitle C – Reform of Business Credits

Sec. 3201. Repeal of credit for alcohol, etc., used as fuel.

Current law: Under current law, a taxpayer could claim per-gallon incentives relating to alcohol (including ethanol) and cellulosic biofuels. The ethanol credit expired at the end of 2011. For alcohol other than ethanol, the amount of the credit was 60 cents per gallon, and for ethanol, the credit was 45 cents per gallon, with an extra 10 cents per gallon available for small ethanol producers.

The cellulosic biofuel producer credit was a nonrefundable income tax credit for each gallon of qualified cellulosic fuel produced during the tax year. The amount of the credit per gallon is $1.01. The credit expired at the end of 2013.

Provision: Under the provision, these fuel tax credits would be repealed. The provision would be effective for fuels sold or used after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3202. Repeal of credit for biodiesel and renewable diesel used as fuel.

Current law: Under current law, the biodiesel fuels credit was the sum of three credits: (1) the biodiesel fuel-mixture credit, (2) the biodiesel credit, and (3) the small agri-biodiesel producer credit. Prior to 2014, a taxpayer could claim a credit of $1.00 per gallon for producing a biodiesel fuel mixture, biodiesel and renewable diesel. The agri-biodiesel credit was a 10-cents-per-gallon credit for up to 15 million gallons of agri-biodiesel produced by small producers, defined generally as persons whose agri-biodiesel production capacity did not exceed 60 million gallons per year. The credits expired at the end of 2013.

Provision: Under the provision, these fuel tax credits would be repealed. The provision would be effective for fuels sold or used after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3203. Research credit modified and made permanent.

Current law: Under current law, a taxpayer could claim a credit for qualified, U.S.-based research expenses prior to 2014. The research credit had three components, and in general, the credit was available for incremental increases in qualified research. First, a taxpayer could claim a credit equal to 20 percent of the amount by which the taxpayer's qualified research expenses for a tax year exceeded its base amount for that year. An alternative simplified research credit (ASC) could be claimed in lieu of the basic credit. The ASC was equal to 14 percent of the qualified research expenses for the tax year that exceeded 50 percent of the average qualified research expenses for the three tax years preceding the tax year for which the credit was being determined. Under the ASC, if a taxpayer did not have any qualified research expenses in any of the three preceding tax years, the taxpayer could claim a research credit equal to 6 percent of qualified expenses incurred in the current year.

Second, a taxpayer also could claim a 20-percent credit for amounts paid (including grants or contributions) over a base amount to universities and certain non-profit scientific research organizations for basic research. Third, a 20-percent credit could be claimed for all expenses (without regard to a base amount) paid to an energy-research consortium for research conducted for the taxpayer. The research credit is not available for qualified expenses paid or incurred after 2013.

A taxpayer's qualified research expenses included: (1) in-house expenses for wages and supplies attributable to qualified research; (2) certain time-sharing costs for computer use in qualified research; and (3) 65 percent (higher in certain cases) of amounts paid or incurred to certain other entities for qualified research conducted on the taxpayer's behalf (contract research expenses).

To be eligible for the credit, qualified research must have been: (1) undertaken for the purpose of discovering information that was technological in nature; (2) the application of which was intended to be useful in the development of a new or improved business component; and (3) substantially all the activities of which constituted elements of a process of experimentation for the functional aspects, performance, reliability, or quality of a business component. In general, computer software developed by a taxpayer primarily for internal use was not qualified research. However, computer software was qualified research if for use in an activity that constituted qualified research, or in a production process that met the requirements for qualified research.

In addition, deductions otherwise allowed a taxpayer (for example for research and development expenses under Code section 174) were reduced by the amount of the taxpayer's research credit for the tax year. Alternatively, a taxpayer could elect to claim a reduced research credit in lieu of reducing deductions otherwise allowed.

Provision: Under the provision, a modified research credit would be made permanent. The research credit would equal: (1) 15 percent of the qualified research expenses for the tax year that exceed 50 percent of the average qualified research expenses for the three tax years preceding the tax year for which the credit is determined (thus making the ASC permanent), plus (2) 15 percent of the basic research payments for the tax year that exceed 50 percent of the average basic research payments for the three tax years preceding the tax year for which the credit is determined. The provision would retain the rule under the ASC that allows a taxpayer to claim a reduced research credit if the taxpayer has no qualified research expenses in any one of the three preceding tax years. The general 20-percent credit would be repealed, as well as the 20-percent credit for amounts paid for basic research and the 20-percent credit for amounts paid to an energy research consortium.

Under the provision, amounts paid for supplies or with respect to computer software would no longer qualify as qualified research expenses. In addition, the special rule allowing 75 percent of amounts paid to a qualified research consortium and 100 percent of amounts paid to eligible small businesses, universities, and Federal laboratories to qualify as contract research expenses would be repealed (though such amounts still would qualify as contract research expenses subject to the 65-percent inclusion rule).

In addition, the provision would repeal the election to claim a reduced research credit in lieu of reducing deductions otherwise allowed.

The provision would be effective for tax years beginning after 2013, and for amounts paid and incurred after 2013.

Considerations:

- For too long, the research credit has been a temporary measure, even expiring in some years, resulting in significant uncertainty for innovators and reducing the effectiveness of the credit as an incentive. With a permanent research credit, business would have greater certainty when committing to investments in research and development.
- Making the ASC the only method for calculating the credit would ease administrative burdens for taxpayers and the IRS. Doing so would eliminate substantial amounts of recordkeeping, documentation issues, and controversy connected with the historical base-period credit. For example, using only the ASC would eliminate the need to document gross receipts, a key component to the historic base-period credit, and a source of controversy with the IRS.
- Other changes, such as removing the cost of supplies from the credit calculation, would reduce controversy with the IRS.

JCT estimate: According to JCT, the provision would reduce revenues by $34.1 billion over 2014-2023.

Sec. 3204. Low-income housing tax credit.

Current law: Under current law, owners of certain residential rental property may claim a low-income housing tax credit (LIHTC) over a ten-year period for the cost of rental housing occupied by qualifying low-income tenants. However, rental housing must remain qualified low-income housing for a 15-year compliance period, beginning with the first year of the credit period (even though the credit period is only ten years). The amount of the credit for any tax year in the credit period is the applicable percentage of the qualified basis of each qualified low-income building. The applicable percentage is adjusted monthly by the IRS so that the ten annual installments of the credit have a present value of either 70 percent or 30 percent of the total qualified basis. With certain exceptions, the qualified basis for any tax year equals the eligible basis of the building dedicated to low-income housing, based generally on the number of units or floor space of such units in the building.

In general, buildings subject to the 70-percent rule should yield a 9-percent credit, and buildings subject to the 30-percent rule should yield a 4-percent credit, although the credit amounts depend on the applicable interest rate used for discounting the building's basis for the particular tax year. A temporary provision under current law provided an applicable percentage of 9 percent with respect to the 70-percent rule for newly constructed non-Federally subsidized buildings placed in service before 2014.

Housing that qualifies for the 9-percent credit must be either newly constructed or substantially rehabilitated, and may not be Federally subsidized (including through tax-exempt bond financing). A new building generally is considered Federally subsidized if it also receives tax-exempt bond financing. The 4-percent credit is available, in general, for Federally subsidized buildings and existing housing.

To claim the credit, the owner of a qualified building must receive a housing credit allocation from the State or local housing credit agency. A State's available credit allocation has four components: (1) the State's unused housing amount, if any, from the prior calendar year; (2) the credit amount for the current year; (3) any credits returned to the State during the calendar year from previous allocations; and (4) the State's share, if any, of the national pool of unused credits from other States that failed to use them. Only States that allocated their entire credit authority for the preceding calendar year are eligible for a share of the national pool. For calendar year 2013, each State's credit authority was $2.25 per resident, with a minimum annual cap of $2,590,000 for certain small population States. These amounts are indexed for inflation. Certain buildings that also receive financing with proceeds of tax-exempt bonds do not require an allocation to qualify for the LIHTC.

Generally, buildings located in two types of high-cost areas – qualified census tracts and difficult development areas – are eligible for an enhanced credit, under which the applicable basis of the property is increased from 100 percent to 130 percent. In addition, a building designated by a State housing credit agency may qualify if the enhanced credit is required for such building to be financially feasible.

Property subject to the credit generally must continue to be a low-income housing project for a compliance period of 15 years, beginning on the first day of the first tax year in which the credit is claimed. The penalty for any building failing to remain qualified is the recapture of the accelerated portion of the credit, with interest, for all prior years. Generally, a change in ownership of a building is a recapture event, subject to an exception if it can reasonably be expected that the building will continue to be operated as qualified low-income housing for the remainder of the compliance period.

Current law includes a number of other eligibility criteria for the LIHTC. While the residential units in a qualified low-income housing project must be available for use by the general public (e.g., the owner complies with certain housing non-discrimination policies and does not restrict occupancy based on membership in a social organization or employment by specific employers), a project may impose occupancy restrictions or preferences that favor tenants: (1) with special needs; (2) who are members of specified group under a Federal program or State program or policy that supports housing for such a specified group; or (3) who are involved in artistic and literary activities. Additionally, each State must develop a plan for allocating credits, and certain selection criteria must be considered when evaluating projects for credit allocations. The criteria are: (1) project location; (2) housing needs characteristics; (3) project characteristics (including whether the project uses existing housing as part of a community revitalization plan); (4) sponsor characteristics; (5) tenant populations with special needs; (6) tenant populations of individuals with children; (7) projects intended for eventual tenant ownership; (8) the energy efficiency of the project; and (9) the historic nature of the project. The State allocation plan must give preference to housing projects that serve the lowest-income tenants, that are obligated to serve qualified tenants for the longest periods, and that are located in qualified census tracts and the development of which contributes to a concerted community revitalization plan.

Provision: Under the provision, the LIHTC would be modified in several ways.

Allocation of basis: Under the provision, State and local housing authorities would allocate qualified basis, rather than credit amounts. The annual amount of allocable basis for each State would be equal to $31.20 multiplied by the State's population, with a minimum annual amount of $36,300,000. The annual amount would continue to include unused basis allocations from the prior year plus basis allocations returned to the State during the calendar year from previous allocations. The national pool of unused credits, however, would be eliminated.

Credit period: Under the provision, the credit period would be extended from 10 years to 15 years to match the current 15-year compliance period. Because the credit period would be aligned with the compliance period, the recapture rules also would be repealed as no longer necessary to ensure that the building continues to be a low-income housing project for the duration of the tax benefit.

Credit amount: Under the provision, the 4-percent credit would be repealed. The 9-percent credit for newly constructed property and substantial rehabilitations would be retained. In addition, Federally funded grants would not be taken into account in determining the eligible basis of a building for purposes of the credit. As a result, the credit would apply to private funding of low-income housing and not provide an additional subsidy for Federal funding of such projects. The amount of the credit would continue to equal the qualified basis in the qualified low-income building multiplied by the applicable percentage. Under the provision, the IRS would determine the applicable percentage generally for the month that the building is placed in service, which would be equal to the percentage that would yield over a 15-year period a credit amount that would have a present value equal to 70 percent of the qualified basis of the building.

Other changes: Under the provision, several other rules would be modified. First, the increased basis rule for high-cost and difficult development areas would be repealed. Second, the general-public-use requirement would be revised to eliminate the special occupancy preference for members of specific groups under certain Federal or State programs and the special preference for individuals involved in artistic and literary activities. Instead, occupancy preferences would only be permitted for individuals with special needs and for veterans. Third, the provision would repeal the requirement that States include in their low-income-housing selection criteria the energy efficiency of the project and the historic nature of the project.

The provision would be effective for State basis amounts and allocations of such amounts determined for calendar years after 2014. A transition rule would translate credit allocations prior to 2015 into equivalent amounts of eligible basis for purposes of determining new allocations of basis after 2014.

Considerations:

- The LIHTC provides an important private-sector alternative to Federally financed and operated housing for low-income individuals (e.g., Section 8 housing).
- According to the non-partisan Joint Committee on Taxation (JCT), the provision would increase the amount of LIHTC-financed projects by more than 5 percent in 2015 (from $9.3 billion to $9.8 billion), while reducing the cost to taxpayers.
- By modernizing the credit, the provision would provide a more transparent benefit by permitting States to allocate the basis that supports low-income housing units.
- The provision also would align the credit period with the current 15-year compliance period to ensure that the housing project continues to meet its low-income purpose for the duration of the tax benefit.
- The provision would simplify the current credit, which is the longest section of the Code today, by streamlining many complex provisions and eliminating several special rules.

JCT estimate: According to JCT, the provision would increase revenues by $10.7 billion over 2014-2023.

<u>Sec. 3205. Repeal of enhanced oil recovery credit.</u>

Current law: Under current law, taxpayers may claim a credit equal to 15 percent of enhanced oil recovery (EOR) costs. The EOR credit is ratably reduced over a $6 phase-out range when the reference price for domestic crude oil exceeds $28 per barrel (adjusted for inflation after 1991). The EOR credit currently is phased-out based on the current price of a barrel of oil.

Provision: Under the provision, the enhanced oil recovery credit would be repealed. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3206. Phaseout and repeal of credit for electricity produced from certain renewable resources.

Current law: Under current law, a taxpayer may claim a credit a credit (the production tax credit or PTC) is allowed for the production of electricity from qualified energy resources. Qualified energy resources are comprised of wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy. To be eligible for the PTC, electricity produced from qualified energy resources at qualified facilities must be sold by the taxpayer to an unrelated person. The base amount of the PTC is 1.5 cents (indexed annually for inflation) per kilowatt-hour of electricity produced. The amount of the credit is generally 2.3 cents per kilowatt-hour for 2013. A taxpayer generally may claim a credit every year during a 10-year period for projects that begin construction before 2014.

Provision: Under the provision, the inflation adjustment would be repealed, effective for electricity and refined coal produced or sold after 2014. Therefore, taxpayers' credit amount would revert to 1.5 cents per kilowatt-hour for the remaining portion of the 10-year period. The entire production tax credit would be repealed, effective for electricity and refined coal produced and sold after 2024.

Consideration: Businesses in the wind industry have represented to the Committee that that the industry could survive with a credit worth 60 percent of the current credit, implying that the credit provides a windfall that does not serve the intended policy.

JCT estimate: According to JCT, the provision would increase revenues by $9.6 billion over 2014-2023.

Sec. 3207. Repeal of Indian employment credit.

Current law: Under current law, a taxpayer could claim a credit equal to 20 percent of qualifying wages and health insurance costs (up to $20,000, for a maximum credit amount of $4,000) paid prior to 2014 to enrolled members of an Indian tribe (or spouses) living on or near an Indian reservation for services performed on a reservation. The credit was limited to employees earning wages of $45,000 or less. The credit expired for tax years beginning after 2013.

Provision: Under the provision, the Indian employment credit would be repealed. The provision would be effective for tax years beginning after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3208. Repeal of credit for portion of employer Social Security taxes paid with respect to employee cash tips.

Current law: Under current law, an employer may claim an income tax credit equal to its share of FICA taxes attributable to tips received from customers in connection with the provision of food or beverages if tipping is customary. The credit is available only to the extent such tips exceed the amount of tips that the employer uses to meet the minimum wage requirements for the employee under the Fair Labor Standards Act. An employer may not claim a deduction for any amount taken into account in determining the credit.

Provision: Under the provision, the tip credit would be repealed. The provision would be effective for tips received for services performed after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $10.1 billion over 2014-2023.

Sec. 3209. Repeal of credit for clinical testing expenses for certain drugs for rare diseases or conditions.

Current law: Under current law, a taxpayer may claim a credit equal to 50 percent of qualified clinical testing expenses incurred in testing certain drugs for rare diseases or conditions, often referred to as "orphan drugs." Expenses taking into account for purposes of the orphan drug credit do not qualify for the general research credit.

Provision: Under the provision, the tax credit for orphan drugs would be repealed. The provision would be effective for amounts paid or incurred in tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $9.1 billion over 2014-2023.

Sec. 3210. Repeal of credit for small employer pension plan startup costs.

Current law: Under current law, a taxpayer may claim a credit to help offset the start-up costs associated with a small employer pension plan. The credit is only available for the first three years of the plan and is limited to the lesser of $500 per year or 50 percent of the start-up costs for a qualified plan under Code section 401(a), an annuity plan under Code section 403(a), a Simplified Employee Pension (SEP) plan, or a SIMPLE retirement plan.

Provision: Under the provision, the credit for small employer pension plan start-up costs would be repealed. The provision would be effective for costs paid or incurred after 2014 with respect to qualified employer plans first effective after such date.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Sec. 3211. Repeal of employer-provided child care credit.

Current law: Under current law, an employer may claim a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child-care resource and referral services. The credit is limited to $150,000 per tax year.

Provision: Under the provision, the credit for employer-provided child care would be repealed. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.2 billion over 2014-2023.

Sec. 3212. Repeal of railroad track maintenance credit.

Current law: Under current law, an eligible taxpayer could claim a credit equal to 50 percent of qualified railroad track maintenance expenditures paid or incurred in a tax year prior to 2014. The credit generally was limited to $3,500 multiplied by the number of miles of railroad track owned or leased by the eligible taxpayer as of the close of its tax year. The credit expired at the end of 2013.

Provision: Under the provision, the railroad track maintenance credit would be repealed. The provision would be effective for tax years beginning after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3213. Repeal of credit for production of low sulfur diesel fuel.

Current law: Under current law, a small business refiner may claim, with respect to expenses paid or incurred before 2010, a credit of 5 cents per gallon for each gallon of low sulfur diesel fuel produced during the tax year. The total production credit claimed by the taxpayer was limited to 25 percent of the qualified costs incurred to come into compliance with the EPA diesel fuel requirements. The credit for low sulfur diesel fuel expired at the end of 2009.

Provision: Under the provision, the credit would be repealed. The provision would be effective for expenses paid or incurred in tax years after 2014.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3214. Repeal of credit for producing oil and gas from marginal wells.

Current law: Under current law, producers may claim a $3-per-barrel credit (adjusted for inflation) for the production of crude oil and a 50-cents-per-1,000-cubic-feet credit (also adjusted for inflation) for the production of qualified natural gas. In both cases, the credit is available only for domestic production. The credit is not available for production if the reference price of oil exceeds $18 ($2 for natural gas). The credit is reduced proportionately for reference prices between $15 and $18 ($1.67 and $2 for natural gas). Currently, the credit is phased out completely based on the current price of a barrel of oil.

Provision: Under the provision, the credit would be repealed. The provision would be effective for tax years after 2014.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3215. Repeal of credit for production from advanced nuclear power facilities.

Current law: Under current law, a taxpayer producing electricity at a qualifying advanced nuclear power facility may claim a credit equal to 1.8 cents per kilowatt-hour of electricity produced for the eight-year period starting when the facility is placed in service.

Provision: Under the provision, the credit would be repealed. The provision would be effective for electricity produced and sold after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.6 billion over 2014-2023.

Sec. 3216. Repeal of credit for producing fuel from a nonconventional source.

Current law: Under current law, a taxpayer producing coke and coke gas in the United States at qualified facilities and sold to unrelated parties could claim a credit equal to $3 (generally adjusted for inflation) per Btu oil barrel equivalent. The credit for fuel from a non-conventional source expired at the end of 2009.

Provision: Under the provision, the credit would be repealed. The provision would be effective for fuel produced and sold after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3217. Repeal of new energy efficient home credit.

Current law: Under current law, an eligible contractor could claim the new energy-efficient home credit for the construction of a qualified new energy-efficient home prior to 2014. The credit was equal to either $1,000 or $2,000, depending on whether it met the 30-percent or 50-percent standard as prescribed by the IRS to achieve either a 30-percent or 50-percent reduction in heating and cooling energy consumption compared to a comparable dwelling constructed in accordance with the standards of chapter 4 of the 2006 International Energy Conservation Code. The credit expired at the end of 2013.

Provision: Under the provision, the credit would be repealed. The provision would be effective for homes acquired after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3218. Repeal of energy efficient appliance credit.

Current law: Under current law, a taxpayer could claim a credit for the production of certain energy-efficient dishwashers, clothes washers, and refrigerators prior to 2014. The amount of the credit varied for each appliance depending on when the appliance was manufactured and how much energy or water it saved. The credit expired at the end of 2013.

Provision: Under the provision, the credit would be repealed. The provision would be effective for appliances produced after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3219. Repeal of mine rescue team training credit.

Current law: Under current law, a taxpayer could claim a credit with respect to employees serving on a mine-rescue team prior to 2014. The credit was equal to the lesser of 20 percent of the taxpayer's mine-rescue training program costs (including the wages of the employee while attending the program) or $10,000. The credit expired at the end of 2013.

Provision: Under the provision, the mine rescue team training credit would be repealed. The provision would be effective for tax years beginning after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3220. Repeal of agricultural chemicals security credit.

Current law: Under current law, a taxpayer could claim a credit equal to 30 percent of certain chemical security expenditures incurred by qualifying agricultural businesses prior to 2013. The credit was limited to $100,000 per facility, reduced by the amount of credits claimed in the prior five years, and a taxpayer's annual credit amount was limited to $2 million. The credit is not available for expenses incurred after 2012.

Provision: Under the provision, the agricultural chemicals security credit would be repealed. The provision would be effective for amounts paid or incurred after 2012.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3221. Repeal of credit for carbon dioxide sequestration.

Current law: Under current law, a taxpayer may claim a credit of $20 per metric ton for qualified carbon dioxide captured by the taxpayer at a qualified facility and disposed of by such taxpayer in secure geological storage ($10 per metric ton if used by such taxpayer as a tertiary injectant in a qualified enhanced oil or natural gas recovery project). Both credit amounts are adjusted for inflation after 2009.

Provision: Under the provision, the carbon dioxide sequestration credit would be repealed. The provision would be effective for credits determined for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $1.1 billion over 2014-2023.

Sec. 3222. Repeal of credit for employee health insurance expenses of small employers.

Current law: Under current law, a qualified small business employer may claim a credit for up to two years if the small business pays at least half of its employees' health insurance premiums. For tax years 2010 to 2013, the maximum credit is 35 percent of premiums paid by eligible small businesses and 25 percent of premiums paid by eligible tax-exempt organizations. Beginning in 2014, the maximum tax credit will increase to 50 percent of premiums paid by eligible small business employers and 35 percent of premiums paid by eligible tax-exempt organizations, but the credit will only be available for health insurance coverage purchased through a State exchange. A qualified small business employer generally is an employer with no more than 25 full-time equivalent employees (FTEs) during the tax year, with annual full-time equivalent wages averaging no more than $50,000 (indexed for inflation beginning in 2014). The full amount of the credit is available only to an employer with 10 or fewer FTEs and whose employees have average annual full-time equivalent wages of less than $25,000 (indexed for inflation beginning in 2014). Tax-exempt organizations generally may apply the credit against the organization's payroll tax liability.

Provision: Under the provision, the credit for employee health insurance expenses of small employers would be repealed. The provision would be effective for amounts paid or incurred for tax years beginning after 2014.

Considerations:

- Enacted as part of the Affordable Care Act (ACA), this credit is overly complex, narrow in its application, and short-lived – in contrast to the permanent insurance expenses that employers are required to incur under the ACA.
- As a result, very few small businesses have opted to claim the benefit and a number of small business advocacy groups have expressed concern over its complexity and narrow application.

JCT estimate: According to JCT, the provision would increase revenues by $11.1 billion over 2014-2023 and would reduce outlays by $1.1 billion over 2014-2023.

Sec. 3223. Repeal of rehabilitation credit.

Current law: Under current law, a taxpayer may claim a credit for expenses incurred to rehabilitate old and/or historic buildings. A 20-percent credit is allowed for qualified rehabilitation expenditures with respect to a certified historic structure, while a 10-percent credit is allowed for qualified rehabilitation expenditures with respect to a qualified rehabilitated building. To qualify for the 10-percent credit, the rehabilitation expenditures during the 24-month period selected by the taxpayer and ending within the tax year must exceed the greater of the adjusted basis of the building (and its structural components) or $5,000.

Provision: Under the provision, the rehabilitation credit would be repealed. The provision would be effective for amounts paid after 2014. Under a transition rule, the credit would continue to apply to expenditures incurred through the end of 2016, to rehabilitate a qualified rehabilitated building or a certified historic structure acquired before 2015. However, for a qualified rehabilitated building, the 24-month rehabilitation period for claiming the credit must also begin on or before January 1, 2015.

JCT estimate: According to JCT, the provision would increase revenues by $10.5 billion over 2014-2023.

Sec. 3224. Repeal of energy credit.

Current law: Under current law, taxpayers may claim up to a 30-percent nonrefundable, business energy credit for the cost of certain new equipment that either (1) uses solar energy to generate electricity, to heat or cool a structure, or to provide solar process heat, or (2) is used to produce, distribute, or use energy derived from a geothermal deposit (but only, in the case of electricity generated by geothermal power, up to the electric transmission stage). Property used to generate energy for the purposes of heating a swimming pool is not eligible solar energy property. The credit expires at the end of 2016.

Provision: Under the provision, the credit would be repealed. The provision is effective for property placed in service after 2016.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3225. Repeal of qualifying advanced coal project credit.

Current law: Under current law, a taxpayer may claim an investment tax credit for power generation projects that use integrated gasification combined cycle (IGCC) or other advanced coal-based electricity generation technologies. Credits are available only for projects certified by the Secretary of Treasury, in consultation with the Secretary of Energy.

Provision: Under the provision, the credit would be repealed. The provision would be effective for allocations and reallocations after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.9 billion over 2014-2023.

Sec. 3226. Repeal of qualifying gasification project credit.

Current law: Under current law, a taxpayer may claim an investment credit for certain qualifying gasification projects. Only property that is part of a qualifying gasification project and necessary for the gasification technology of such project is eligible for the gasification credit. The maximum amount of credits allocated under the program may not exceed $600 million.

Provision: Under the provision, the credit would be repealed. The provision would be effective for allocations and reallocations after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.3 billion over 2014-2023.

Sec. 3227. Repeal of qualifying advanced energy project credit.

Current law: Under current law, a 30-percent credit is available for investments in certain property used in a qualified advanced energy manufacturing project. A qualified advanced energy project is a project that re-equips, expands, or establishes a manufacturing facility for certain specified green energy uses. Credits are available only for projects certified by the Secretary of Treasury, in consultation with the Secretary of Energy. The maximum amount of credit allocated under the program may not exceed $2.3 billion.

Provision: Under the provision, the credit would be repealed. The provision would be effective for allocations and reallocations after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.3 billion over 2014-2023.

<u>Sec. 3228. Repeal of qualifying therapeutic discovery project credit.</u>

Current law: Under current law, a taxpayer could claim a credit equal to 50 percent of its investments in qualifying therapeutic discovery projects in 2009 and 2010. Under the program, the IRS, in consultation with the Secretary of HHS, awarded certifications for qualified investments.

Provision: Under the provision, the credit for therapeutic discovery projects would be repealed. The provision would be effective for allocations and reallocations after 2014.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

<u>Sec. 3229. Repeal of work opportunity tax credit.</u>

Current law: Under current law, an employer could claim the work opportunity tax credit if it hired individuals from one or more of nine targeted groups prior to 2014. An employer calculated the credit based on the amount of qualified wages paid to the employee. Generally, qualified wages consisted of wages attributable to services rendered by a member of a targeted group during the one-year period beginning with the day the individual began work for the employer. The credit is not available for wages paid or incurred after 2013.

Provision: Under the provision, the work opportunity tax credit would be repealed. The provision would be effective for wages paid or incurred to individuals who begin work after 2013.

Consideration: Under the now-expired WOTC, it often has not been possible for an employer to determine whether an individual is eligible for the credit until well after that individual has been hired and certified by the appropriate State agencies. This fact calls into serious question whether the WOTC encourages the hiring of individuals from the favored groups. Nevertheless, the WOTC has been shown to result in significant compliance costs for employers.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

<u>Sec. 3230. Repeal of deduction for certain unused business credits.</u>

Current law: Under current law, a taxpayer may carry unused business credits may be carried back one year and carried forward 20 years. However, a taxpayer generally may deduct unused credits after the end of the carryforward period or when a business ceases to exist.

Provision: Under the provision, the deduction for general business credits unused after 20 years would be repealed. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Subtitle D – Accounting Methods

Sec. 3301. Limitation on use of cash method of accounting.

Current law: Under current law, taxpayers using the cash method of accounting ("cash method") generally recognize income when actually or constructively received and expenses when paid. Taxpayers using an accrual method of accounting ("accrual method") generally accrue income when all the events have occurred that fix the right to receive the income and the amount of the income can be determined with reasonable accuracy. Taxpayers using an accrual method generally may not deduct expenses before all events have occurred that fix the obligation to pay the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance has occurred.

Current law includes an array of rules for determining whether a taxpayer may use the cash method, with different kinds of businesses subject to different sets of rules. For example, a C corporation or a partnership that has a C corporation as a partner generally may use the cash method only if its average annual gross receipts are $5 million or less. A corporation or a partnership with a corporate partner engaged in farming generally may only use a cash method of accounting if its average annual gross receipts are $1 million or less ($25 million or less for family farm corporations). Sole proprietors and qualified personal service corporations (i.e., corporations that primarily perform services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, and that are owned by individuals performing such services) are allowed to use the cash method without regard to their average annual gross receipts. Additionally, a business generally must use an accrual method of accounting if it has inventory.

Provision: Under the provision, businesses with average annual gross receipts of $10 million or less may use the cash method of accounting; whereas businesses with more than $10 million would be required to use accrual accounting. The provision would not apply to farming businesses, which would continue to be subject to current-law accounting rules. Sole proprietors also would continue to be able to use the cash method regardless of the level of gross receipts. The provision would be effective for tax years beginning after 2014. A taxpayer generally would be permitted to include any positive adjustments to income resulting from the provision over a four-year period beginning with its first tax year beginning after 2018 in the following amounts: 10 percent included in the first year (2019); 15 percent in the second year (2020); 25 percent in the third year (2021); and 50 percent in the fourth year (2022). At the election of the taxpayer, the four-year inclusion of the adjustment could begin prior to 2019.

Considerations:

- Current law contains an array of complicated tax accounting rules and disjointed thresholds for small businesses to determine which method of accounting – the cash method or accrual method – they may use for tax purposes. The provision simplifies and harmonizes this area of law for many businesses.
- For many small businesses, the cash method is simpler and follows more closely the cash flows of their income and expenses. On the other hand, the accrual method provides a

more accurate reflection of income. The provision strikes a balance between these two objectives that respects small businesses' need for simplicity.

JCT estimate: According to JCT, the provisions would increase revenues by $23.6 billion over 2014-2023.

Sec. 3302. Rules for determining whether taxpayer has adopted a method of accounting.

Current law: Under current law, a taxpayer's method of accounting used to compute taxable income must clearly reflect income. A taxpayer generally must secure the consent of the IRS Commissioner before changing a method of accounting for Federal income tax purposes. Current law does not provide rules for determining whether a taxpayer has adopted a method of accounting. The IRS takes the position that if a taxpayer treats an item properly in the first return that reflects the item, the taxpayer has adopted a method of accounting. Similarly, under IRS guidance, when a taxpayer treats an item in the same erroneous manner on two consecutive returns, a taxpayer also has adopted a method of accounting (and any change would require the consent of the Commissioner).

Provision: Under the provision, the IRS guidance with respect to determining whether a taxpayer has adopted a method of accounting would be codified. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 3303. Certain special rules for taxable year of inclusion.

Current law: Under current law, a taxpayer is required to include any item of income in the taxpayer's gross income in the year in which the income is received, unless the taxpayer's method of accounting used to compute taxable income permits inclusion in a different period. There are, however, numerous exceptions to this rule. For example, cash and accrual method taxpayers that receive advance payments for certain goods or services may elect to defer inclusion of the income for up to two years. Cash method taxpayers who receive insurance proceeds or Federal disaster payments as a result of destruction or damage to crops may elect to defer inclusion of such proceeds in income until the following tax year. Similarly, a cash method taxpayer may defer until the following tax year income resulting from the sale or exchange of livestock if the taxpayer demonstrates that such sales would not have occurred under his normal business practices if it were not for drought, flood, or other weather-related conditions occurring in a Federally declared disaster area. Another special exception applies to utility companies required to sell electric transmission property to an independent transmission company prior to January 1, 2008 (January 1, 2014, in the case of a qualified electric utility) to implement certain Federal and State electric-restructuring policy. Under the exception, the utility companies that use the accrual method of accounting could elect to recognize gain from the sale or exchange of qualifying transmission property ratably over an eight-year period if the proceeds are used to purchase approved reinvestment property.

Provision: Under the provision, a taxpayer on the accrual method of accounting for tax purposes would be required to include an item of income no later than the tax year in which such item is included for financial statement purposes. The provision also would provide that cash and accrual method taxpayers may defer the inclusion of advance payments for certain goods and services in income for tax purposes up to one year (but not longer than any deferral for financial statement purposes). Additionally, the provision would repeal (1) the exceptions for crop insurance proceeds and disaster payments (for destruction and damage to crops and natural disasters occurring after 2014), (2) the special exception for livestock sales (for sales and exchanges after 2014), and (3) the special exception for utility-restructuring transactions (for sales and dispositions after 2013). Except as noted, the provision would be effective for tax years beginning after 2014, with any adjustments resulting from accounting-method changes taken into account over the four years following the effective date.

JCT estimate: According to JCT, the provision would increase revenues by $10.4 billion over 2014-2023.

Sec. 3304. Installment sales.

Current law: Under current law, a taxpayer generally may use the installment method to defer inclusion of amounts that are to be received from the disposition of certain types of property until payment in cash is received, with the gain from the disposition spread over the series of payments. Dealers in property may not use the installment method, except for sales of farm property, timeshares, and residential lots. Taxpayers with large installment sales are subject to an interest charge on the tax deferral to the extent that the taxpayer's aggregate installment sales exceed $5 million. In determining the $5 million limitation, the taxpayer includes only installment sales of more than $150,000 arising during and remaining outstanding at the close of any tax year. The interest charge rules do not apply to sales by dealers of farm property, and special interest charges apply to sales by dealers of timeshares and residential lots.

Provision: Under the provision, the interest charge rules would apply to any installment sale in excess of $150,000, provided the obligation remains outstanding at the end of the tax year, eliminating the aggregate $5 million limitation. The provision also would repeal the exceptions and special rules for sales of farm property, timeshares, and residential lots. The provision would be effective for sales and other dispositions after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $1.1 billion over 2014-2023.

Secs. 3305-3306. Repeal of special rule for prepaid subscription income; Repeal of special rule for prepaid dues income of certain membership organizations.

Current law: Under current law, a special rule permits prepaid income from a newspaper, magazine or other periodical subscription to be deferred until the year in which the taxpayer provides the periodical even if such time is more than a year in the future. A similar rule permits a membership organization to defer prepaid dues income until the year in which the organization provides the services or other membership privileges for which the dues were prepaid.

Provision: Under the provision, the special rules for prepaid subscription income and prepaid membership dues would be repealed. Taxpayers would still be able to defer the inclusion of advanced payments until the following tax year (as provided in section 3303 of the discussion draft). The provision would be effective for payments received after 2014.

JCT estimate: According to JCT, the provisions would increase revenues by $0.4 billion over 2014-2023.

Sec. 3307. Repeal of special rule for magazines, paperbacks, and records returned after close of the taxable year.

Current law: Under current law, sales of merchandise by a taxpayer on the accrual method of accounting generally must be included in income in the tax year when all events have occurred that fix the right to receive the income and the amount can be determined with reasonable accuracy. In cases where merchandise is returned for a credit or refund, the reduction in income generally must be recognized in the tax year in which the merchandise return occurs. A special rule permits taxpayers to elect to exclude from gross income sales of any magazine or other periodical, paperback book, or record (including discs, tapes, etc.) that is returned within two-and-a-half months (for magazines) or four-and-a-half months (in the case of paperbacks and records) after the close of the tax year in which the item was sold.

Provision: Under the provision, the special rule for magazines, paperbacks, and records returned after close of the tax year would be repealed. The provision would be effective for tax years beginning after 2014, with any adjustments resulting from accounting-method changes taken into account over the four years following the effective date.

JCT estimate: According to JCT, the provision would increase revenues by $0.2 billion over 2014-2023.

Sec. 3308. Modification of rules for long-term contracts.

Current law: Under current law, a taxpayer that produces property pursuant to a long-term contract must determine the taxable income from the contract under the percentage-of-completion method (PCM), which generally requires the taxpayer to include in gross income the portion of the contract price equal to the percentage of the contract completed during the year.

There is an exception for certain home construction contracts and for other contracts estimated to be completed within two years by taxpayers with average gross receipts of $10 million or less over a three-year period. Taxpayers qualifying for either exception may use the completed-contract method, under which income is generally not included until the contract is completed. Special rules apply to certain construction contracts for multi-unit housing (i.e., more than four dwelling units) under which taxpayers generally may treat 70 percent of the construction contract under PCM and 30 percent under the completed-contract method. Similarly, taxpayers with certain ship-building contracts may elect a blended approach, with 40 percent of the contract treated under PCM and 60 percent under the completed-contract method.

Provision: Under the provision, the completed-contract method would be limited to contracts estimated to be completed within two years for taxpayers with average gross receipts of $10 million or less over a three-year period. The provision also would repeal the special exceptions to the PCM rules for multi-unit housing contracts and ship-building contracts. The provision would be effective for contracts entered into after 2014.

Considerations:

- Current law generally requires large construction companies with long-term contracts to use the PCM, under which revenues and expenses are matched in the applicable accounting period based on the extent to which the contract has been completed.
- The completed-contract method was intended to be a simplified method for small contractors and home builders. The exception, however, is not limited to small businesses in the case of home builders, which enables some very large construction companies to avoid the more appropriate matching principles under the PCM.
- The provision would modify the completed-contract method to apply simply to small business construction contractors.

JCT estimate: According to JCT, the provision would increase revenues by $6.5 billion over 2014-2023.

Sec. 3309. Nuclear decommissioning reserve funds.

Current law: Under current law, a taxpayer responsible for decommissioning a nuclear power plant may establish a nuclear decommissioning reserve fund to resolve certain tort liabilities. The income of a nuclear decommissioning reserve fund is taxed at a reduced rate of 20 percent. Contributions to nuclear decommissioning reserve funds are generally deductible by an accrual method taxpayer in the tax year such contributions are made, even though the fund will not perform its obligation to pay the beneficiaries or fund the costs of decommissioning the nuclear plant until a subsequent tax year. Contributions to a nuclear decommissioning reserve fund may be returned to the contributing company provided such returned funds are included in income.

Provision: Under the provision, the special 20-percent tax rate for nuclear decommissioning reserve funds would be repealed, and the tax rate generally applicable to corporations would apply. For distributions by a nuclear decommissioning reserve fund that are used for non-qualified purposes (e.g., return of funds to the contributing company), the provision would require the contributing taxpayer to include the balance of the fund in income in the tax year of the distribution. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $1.2 billion over 2014-2023.

Sec. 3310. Repeal of last-in, first-out method of inventory.

Current law: Under current law, a taxpayer must account for inventories if the production, purchase, or sale of merchandise is a material income-producing factor in the taxpayer's trade or business. There are two primary inventory accounting methods: last-in, first-out (LIFO) and first-in, first-out (FIFO). Under the LIFO inventory accounting method, it is assumed that the last item entered into the inventory is the first item sold. Accordingly, the taxpayer's cost of goods sold is valued at the most recent costs, and any effects of cost fluctuations are reflected in the ending inventory, which is valued at historical costs rather than the most recent costs. A taxpayer may only use the LIFO method for tax purposes, however, if it reports income for financial statement purposes using the LIFO method. Under the FIFO inventory accounting method, it is assumed that the first item entered into inventory is the first item sold. Thus, ending inventory is valued at its most recent costs rather than at historical costs. Taxpayers that use LIFO are required to calculate and track their LIFO reserves, which is the difference between the accounting cost of inventory calculated using the FIFO method and the same inventory using the LIFO method. The LIFO reserve is the deferred taxable income that results from using the most recent inventory costs to calculate cost of goods sold, rather than the lower cost associated with historic inventory, and under certain circumstances (e.g., sales exceed purchases, dissolution or sale of the business), the deferred income is realized by the taxpayer and is thus subject to tax.

Provision: Under the provision, the LIFO inventory accounting method would no longer be permitted. Thus, taxpayers could use FIFO or any other method that conforms to the best accounting practice in a particular trade or business and clearly reflects income. A taxpayer would include its LIFO reserve in income over a four-year period beginning with its first tax year beginning after 2018 in the following amounts: 10 percent included in the first year (2019); 15 percent in the second year (2020); 25 percent in the third year (2021); and 50 percent in the fourth year (2022). Taxpayers could elect to begin the four-year inclusion period in an earlier tax year. Closely held entities – generally defined as having no more than 100 owners as of February 26, 2014 (using rules similar to those used for S corporations and taking indirect ownership into account) – would be subject to a reduced 7-percent tax rate on their LIFO reserves. The provision would apply to tax years beginning after 2014.

Considerations:

- The LIFO reserve is an integral component of the LIFO method of accounting. When a taxpayer chooses the LIFO method of accounting, they accept that the deferred tax liability will have to be recognized at some point. This provision is not a retroactive tax increase, but merely triggers the deferred tax liability inherent to the LIFO inventory accounting method.

- The provision provides a significant transition rule for all taxpayers, large and small, to permit them to delay the inclusion of any LIFO reserves until 2019 and then slowly take such reserves into account over a four-year period.
- Additionally, because the repeal of the LIFO method and the inclusion of the LIFO reserve in income could have a substantial effect on cash flow for small and family-owned businesses, the provision provides that LIFO reserves of closely held businesses would be subject to a reduced tax rate of 7 percent. This transition rule should provide critical relief to small businesses in numerous industries across the country.

JCT estimate: According to JCT, the provision would increase revenues by $79.1 billion over 2014-2023.

Sec. 3311. Repeal of lower of cost or market method of inventory.

Current law: Under current law, for Federal income tax purposes, taxpayers generally must account for inventories if the production, purchase, or sale of merchandise is a material income-producing factor to the taxpayer. Because of the difficulty of accounting for inventory on an item-by-item basis, taxpayers often use conventions that assume certain item or cost flows. Among these conventions are the "first-in, first-out" (FIFO) method, which assumes that the items in ending inventory are those most recently acquired by the taxpayer. Taxpayers that maintain inventories under the FIFO method may determine the value of ending inventory under the "lower of cost or market" (LCM) method. Under the LCM method, the taxpayer may write down the value of ending inventory (and thus take a deduction for the amount of the write-down) if its market value is less than its cost. Additionally, under the LCM method, subnormal goods (e.g., goods that are unsalable at normal prices or in the normal way because of damage, imperfections, shop wear, changes of style, odd or broken lots, or similar causes) may be written down to the net selling price.

Provision: Under the provision, the lower-of-cost-or-market method would be repealed. The provision would be effective for tax years beginning after 2014. A taxpayer generally would include any positive adjustments to income resulting from the provision over a four-year period beginning with its first tax year beginning after 2018 in the following amounts: 10 percent included in the first year (2019); 15 percent in the second year (2020); 25 percent in the third year (2021); and 50 percent in the fourth year (2022). At the election of the taxpayer, the four-year inclusion of the adjustment could begin prior to 2019.

Considerations:
- The LCM rule is a special accounting rule that allows qualifying businesses to write down certain inventory to a value that is less than what the business paid. This special rule allows the business to reduce its taxable income by the write-down amount, even though no realization event has occurred (i.e., the item remains in inventory).
- If inventory is written down under LCM, there is no symmetrical requirement that it be written up should its value increase before it is sold. In that sense, LCM is a one-sided bet: "heads the taxpayer wins; tails the taxpayer ties."

JCT estimate: According to JCT, the provision would increase revenues by $3.8 billion over 2014-2023.

Sec. 3312. Modification of rules for capitalization and inclusion in inventory costs of certain expenses.

Current law: Under current law, the uniform capitalization (UNICAP) rules require certain direct costs (e.g., materials and labor) and indirect costs (e.g., overhead and administrative expenses) allocable to real or tangible personal property produced by the taxpayer to be capitalized into the basis of such property or included in inventory, as applicable. For real or personal property acquired by the taxpayer for resale, the UNICAP rules generally require direct and indirect costs allocable to such property to be included in inventory. However, the UNICAP rules do not apply to timber and certain trees; free-lance authors, photographers and artists; and businesses with $10 million or less of average annual gross receipts that acquire property for resale.

Provision: Under the provision, the exception to the UNICAP rules for businesses with average annual gross receipts of $10 million or less that acquire property for resale would be expanded to include all types of property (e.g., real property and tangible personal property), whether produced or acquired by the taxpayer. The provision would repeal the special exceptions for timber and certain trees, and for free-lance authors, photographers and artists. The provision's expanded exemption from the UNICAP rules for qualifying businesses, however, would apply in these cases. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by $4.5 billion over 2014-2023.

Sec. 3313. Modification of income forecast method.

Current law: Under current law, the cost of motion picture films, sound recordings, copyrights, books, and patents may be recovered using the income-forecast method (IFM). The property's depreciation deduction for a tax year is determined by multiplying the adjusted basis of the property by a fraction equal to the gross income generated by the property during the year over the total estimated gross income anticipated by the close of the tenth tax year after the property is placed in service. A look-back rule requires a recomputation of the forecast based on actual income earned in connection with the property before the end of the third and tenth years, with interest applicable to any adjustment. Any costs that are not recovered by the end of the tenth tax year may be deducted in that year.

In determining the adjusted basis of property under the IFM, taxpayers may only include amounts when economic performance has occurred (e.g., the property is delivered or service is performed). A special exception under the IFM applies to participations and residuals (e.g., amounts under a film or recording contract that vary according the earnings), which may be included in the basis if they are paid with respect to income to be derived from the property before the close of the tenth year. Alternatively, a taxpayer may deduct those payments as they are paid.

Under Treasury regulations, the cost of intangible assets may be recovered over the useful life of the asset, if such life can be determined with reasonable accuracy. If the useful life cannot be estimated with reasonable accuracy or a specific recovery period is not assigned to the property, a taxpayer may elect to treat the intangible as having a useful life of 15 years.

Provision: Under the provision, the forecast period under the IFM would be extended to 20 years, with required computations based on the income earned before the close of the fifth, tenth, fifteenth and twentieth years. The provision also would modify the rule for participations and residuals by excluding such costs from the adjusted basis of the property under the IFM and require that such costs be deducted in the year paid. As an alternative to the IFM, the provision would permit taxpayers to depreciate property otherwise qualifying for the IFM under the straight-line method over a 20-year period. Finally, the provision would direct the IRS to revise the election under the regulations concerning intangible assets with an unknown useful life to conform to the new 20-year period for the IFM. The provision generally would be effective for property placed in service after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.5 billion over 2014-2023.

Sec. 3314. Repeal of averaging for farm income.

Current law: Under current law, an individual engaged in certain farming or fishing businesses may elect to compute his current year tax liability by averaging, over the prior three-year period, all or a portion of his taxable income from the trade or business of farming or fishing.

Provision: Under the provision, the farm income-averaging method would be repealed. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.3 billion over 2014-2023.

Sec. 3315. Treatment of patent or trademark infringement awards.

Current law: Under current law, the Code does not provide rules regarding the treatment of patent or trademark infringement awards. The courts have held that such infringement awards constitute ordinary income as damages relating to lost profits unless the taxpayer can demonstrate that such payments reflect damages relating to impairment of capital (e.g., goodwill), in which case the payments are treated as a return of capital to the extent of the taxpayer's basis in the patent or trademark.

Provision: Under the provision, the judicial standard for determining the treatment of patent or trademark infringement awards would be codified. The provision would be effective for payments pursuant to judgments and settlements after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 3316. Repeal of redundant rules with respect to carrying charges.

Current law: Under current law, a taxpayer may elect to capitalize certain taxes and carrying charges (e.g., interest) with respect to certain property, and in such a case no deduction is permitted for the capitalized costs. This provision is redundant because other provisions of the Code permit taxes and carrying charges to be capitalized, even though such costs are otherwise deductible.

Provision: Under the provision, the redundant rules with respect to capitalization of certain taxes and carrying charges would be repealed. The provision would be effective for amounts paid or incurred after 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 3317. Repeal of recurring item exception for spudding of oil or gas wells.

Current law: Under current law, an accrual-method taxpayer generally may deduct an expense only when all events have occurred that fix the fact of the liability, the amount of the liability is determinable with reasonable accuracy, and economic performance has occurred. An exception applies to certain expenses that are recurring in nature (e.g., State and local income taxes that are fixed at year-end but generally not paid until the tax return is filed in the following year), which is commonly referred to as the “recurring item” exception. To qualify, the expense must be paid no later than eight and a half months after the close of the tax year to which it relates. The recurring-item exception is not available for a tax shelter, unless the tax shelter involves drilling oil or gas wells and the drilling commences within 90 days of the close of the tax year to which the expense relate.

Provision: Under the provision, the special exception for oil or gas well tax shelters would be repealed, and the recurring item exception would not apply to any associated drilling expenses. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.2 billion over 2014-2023.

Subtitle E – Financial Instruments

Part 1 – Derivatives and Hedges

Sec. 3401. Treatment of certain derivatives.

Current law: Under current law, the tax treatment of gains and losses from entering into derivative financial transactions (e.g., futures, forward contracts, swaps, and options) is highly dependent upon the type of derivative, the profile of the taxpayer (e.g., dealers vs. non-dealers), and other factors. For example, gain or loss from entering into an option generally is not recognized until the option is exercised or lapses, and the character of the gain or loss generally is determined based upon the character of the optioned property in the hands of the taxpayer. However, certain options that are traded on exchanges – non-equity options (i.e., options on property other than stock or on an index) and dealer equity options – are marked to market (meaning that changes in the value of such options that are outstanding at the end of the tax year result in taxable gain or loss), and gain or loss on such options are treated as 60-percent long-term capital gain or loss and 40-percent short-term capital gain or loss.

Provision: Under the provision, derivative financial transactions generally would be marked to market at the end of each tax year, and any gains or losses from marking a derivative to market would be treated as ordinary income or loss. The provision would not apply to transactions that are properly identified as hedging transactions for tax purposes. The provision also would not apply to transactions that require the physical delivery of commodities or to certain specified transactions that are commercial (as opposed to financial) or non-speculative in nature. For offsetting financial positions that include at least one derivative position, all positions in the straddle would be marked to market. The provision would be effective for tax years ending after 2014, in the case of property acquired and positions established after 2014, and for tax years ending after 2019, in the case of any other property or position.

Considerations:

- The current-law tax treatment of gains and losses from entering into derivative transactions (e.g., futures, forward contracts, swaps, and options) is highly dependent upon the type of derivative, the profile of the taxpayer, and other factors, which can result in very different tax consequences for economically similar transactions.
- The provision would level the playing field by updating antiquated tax rules that have not kept pace with innovation in the financial products market, and by creating a more uniform and transparent tax treatment of financial products, so that all taxpayers are playing by the same rules.

JCT estimate: According to JCT, the provision would increase revenues by $15.7 billion over 2014-2023.

<u>Sec. 3402. Modification of certain rules related to hedges.</u>

Current law: Under current law, taxpayers are permitted to match the timing and character of taxable gains and losses on certain hedging transactions with the gains and losses associated with the price, currency or interest rate risk being hedged. Taxpayers are only allowed such hedging tax treatment, however, if they properly identify the transaction as a hedge on the day they enter into the transaction, regardless of whether the taxpayer is properly treating the transaction as a hedge for financial accounting purposes. In addition, hedging tax treatment is available only if the risk being hedged relates to ordinary property held (or to be held) by the taxpayer or obligations incurred (or to be incurred) by the taxpayer. In practice, insurance companies typically acquire debt instruments of varying durations to hedge risks associated with holding assets that are used to honor future claims arising from insurance policies that they have written. The tax treatment of these transactions under the current-law hedging rules is unclear, however, because the assets held by the insurance companies are capital assets, rather than ordinary property.

Provision: Under the provision, taxpayers could rely upon – for tax purposes – an identification of a transaction as a hedge that they have made for financial accounting purposes. The provision also would modify the hedging tax rules so that the rules would apply when an insurance company acquires a debt instrument to hedge risks relating to assets that support the company's ability to honor future insurance claims. The provision would be effective for hedging transactions entered into after 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Part 2 – Treatment of Debt Instruments

<u>Sec. 3411. Current inclusion in income of market discount.</u>

Current law: Under current law, when a borrower issues debt at a discount (i.e., the loan proceeds are less than the principal amount to be repaid), the borrower and the lender are required to deduct and include in income, respectively, the discount as additional interest over the life of the loan. When a bond that already has been issued by the borrower is subsequently purchased on the secondary market at a discount, the purchaser is required to include the discount in taxable income as additional interest but, unlike discount when a loan is initially made, this discount does not have to be included by the purchaser of the bond until the bond is retired or the purchaser resells the bond. The amount of secondary market discount that holders must include in taxable income appears to include discount associated with deterioration in the creditworthiness of the borrower, even though it may have been intended that current law should only apply to discount associated with increases in interest rates.

Provision: Under the provision, purchasers of bonds at a discount on the secondary market would be required to include the discount in taxable income over the post-purchase life of the bond, rather than only upon retirement of the bond or resale of the bond by the purchaser. Any loss that results from the retirement or resale of such a bond would be treated as an ordinary (rather than capital) loss to the extent of previously accrued market discount.

The provision also would limit taxable secondary market discount to an amount that approximates increases in interest rates since the loan was originally made. Specifically, the provision would limit this amount to the greater of (1) the original yield on the bond plus 5 percentage points, or (2) the applicable Federal rate plus 10 percentage points.

The provision would be effective for bonds acquired after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.9 billion over 2014-2023.

Sec. 3412. Treatment of certain exchanges of debt instruments.

Current law: Under current law, when the terms of an outstanding debt instrument are significantly modified, the issue price of the modified debt instrument (i.e., the principal amount of the debt instrument for tax purposes) does not necessarily equal the issue price of the debt instrument prior to modification. In particular, the issue price of the modified debt instrument can be substantially lower than the issue price of the debt instrument prior to modification if the debt instrument has lost significant value since the loan was originally made (e.g., the value of real estate or other collateral supporting the loan has declined) – even if the lender has not forgiven any actual principal owed by the borrower. The reduction in the issue price resulting from the modification of the debt instrument constitutes taxable cancellation of indebtedness income to the borrower, although the borrower still owes the same actual principal amount as was owed prior to the modification. Conversely, the holder of a modified debt instrument may be required to recognize taxable gain as a result of modifying the debt instrument – even when the actual principal owed by the borrower has not increased – if the holder purchased the debt instrument at a discount.

Provision: Under the provision, the issue price of a modified debt instrument generally would be equal to the lesser of (1) the issue price of the debt instrument before it was modified, or (2) the stated principal amount of the modified debt instrument (assuming the modified debt instrument has an adequate rate of stated interest). In addition, the holder of a debt instrument generally would not recognize taxable gain or loss as a result of modifying a debt instrument. The provision would be effective for debt modifications that occur after 2014.

Considerations:

- The current law tax treatment of gains can impose prohibitive tax burdens on taxpayers who try to maintain or sell distressed assets by restructuring the debt that is secured by the assets – a process necessary to economic recovery.
- The provision would reform the tax rules as they apply to debt restructurings that do not involve a forgiveness of principal, and would reduce the prevalence of "phantom" cancellation-of-indebtedness income when debt is restructured – a common practice during economic downturns.

JCT estimate: According to JCT, the provision would reduce revenues by $0.8 billion over 2014-2023.

Sec. 3413. Coordination with rules for inclusion not later than for financial accounting purposes.

Current law: Under current law, the holder of a debt instrument that is issued with original issue discount (OID) generally accrues and includes in income (as interest) the OID over the life of the obligation, regardless of when the OID income actually is received. In the case of prepaid interest, OID treatment results in a deferral of taxable income. Certain fees earned by credit card issuers and other financial institutions have been treated as OID income, which allows these institutions to postpone the imposition of tax on this income to later tax years.

Provision: Under the provision, fees and other amounts received by a taxpayer would not be treated as OID income to the extent they are subject to section 3303 of the discussion draft, which would require taxpayers on the accrual method of accounting to include an item of income no later than the tax year in which such item is included for financial statement purposes. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $9.5 billion over 2014-2023.

Sec. 3414. Rules regarding certain government debt.

Current law: Under current law, individuals and other taxpayers who use a cash basis method of accounting and who purchase non-interest bearing obligations at a discount may elect to include in current income the increase in the value of the obligations as the discount accretes. (Absent such an election, the increase in value is not taken into income until maturity or disposition of the obligation.) In addition, discount on certain short-term obligations (e.g., Treasury bills) does not accrue until the obligation is paid at maturity or otherwise disposed but, in the case of taxpayers using an accrual method of accounting and certain other taxpayers, discount on short-term obligations is required to be included currently in taxable income. Also, any increase in the redemption value of a U.S. savings bond generally is includible in gross income in the tax year the bond is redeemed or the tax year of final maturity, whichever is earlier. Finally, U.S. obligations may be exchanged without recognition of gain or loss.

Provision: Under the provision, certain clerical amendments to the current-law rules would be made to reflect that some of the rules have been superseded by subsequently enacted tax rules relating to the accrual of original issue discount. Similarly, the current-law rule that permits U.S. obligations to be exchanged without recognition of gain or loss would be repealed because the rule has become obsolete as a result of the Treasury Department no longer issuing Series H or HH savings bonds (which were exchangeable for Series E or EE savings bonds). The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Part 3 – Certain Rules for Determining Gain and Loss

Sec. 3421. Cost basis of specified securities determined without regard to identification.

Current law: Under current law, when a taxpayer purchases shares of a particular company (or other substantially identical securities) at multiple times and at different prices, and later sells some (but not all) of these shares, the shares generally are deemed to have been sold on a first-in, first-out (FIFO) basis. In other words, the earliest acquired shares are treated as having been sold for purposes of determining the taxpayer's basis in the sold shares (and resulting gain or loss from the sale). Taxpayers, however, may specifically identify which shares have been sold, and such shares could have a basis that is different from the basis in the earliest acquired shares (and thus result in a different amount of gain or loss from the sale).

Provision: Under the provision, taxpayers who sell a portion of their holdings in substantially identical stock generally would be required to determine their taxable gain or loss on a FIFO basis. The provision generally would be coordinated with the recently enacted basis reporting requirements so that taxpayers could continue to determine basis in their stock on an account-by-account basis, except that multiple accounts with the same broker would be aggregated and treated as a single account. The provision would be effective for sales of stock occurring after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $3.8 billion over 2014-2023.

Sec. 3422. Wash sales by related parties.

Current law: Under current law, a taxpayer may not deduct losses from the disposition of stock or securities if the taxpayer acquires substantially identical stock or securities during the period beginning 30 days before, and ending 30 days after, the date of sale. If a loss is disallowed, the basis of the acquired stock or securities is increased to reflect the disallowed loss.

Provision: Under the provision, losses from the disposition of stock or securities also would be disallowed if certain parties that are closely related to the taxpayer acquire substantially identical stock or securities within 30 days before or after the disposition. If a loss has been disallowed under the provision and the taxpayer reacquires substantially identical stock or securities during the period that begins 30 days before the disposition and ends with the close of the first tax year that begins after the disposition, then the basis of the reacquired stock or securities would be increased to reflect the disallowed loss. The provision would be effective for sales of stock or securities occurring after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 3423. Nonrecognition for derivative transactions by a corporation with respect to its stock.

Current law: Under current law, a corporation does not recognize gain or loss on the receipt of money or other property in exchange for its own stock. Likewise, a corporation does not recognize gain or loss when it redeems its stock with cash for more or less than it received when the stock was issued. In addition, a corporation does not recognize gain or loss on any lapse or acquisition of an option to buy or sell its stock.

Provision: Under the provision, a corporation generally would not recognize income, gains, losses, or deductions with respect to derivatives that relate to the corporation's own stock, except for certain transactions that involve the corporation acquiring its own stock and entering into a forward contract with respect to its own stock. In conjunction with section 3101 of the discussion draft, the provision would require a corporation to recognize income to the extent that the receipt of a contribution of money or property exceeds the value of stock issued in exchange for such money or property, and also would require a corporation to recognize income from the receipt of any premium received with respect to an option on its own stock. The provision would be effective for transactions entered into after the date of enactment.

JCT estimate: According to JCT, the provision would increase revenues by $0.2 billion over 2014-2023.

Part 4 – Tax Favored Bonds

Secs. 3431-3432. Termination of private activity bonds; Termination of credit for interest on certain home mortgages.

Current law: Under current law, interest on both governmental bonds and private activity bonds (PABs) is excluded from gross income (and thus exempt from tax). Governmental bonds typically are issued to finance projects that constitute public goods (e.g., roads, schools, and parks). By contrast, the proceeds of PABs finance the activities of, or loans to, private parties, with indirect benefits accruing to the State or locality that issues the bond. The exclusion of interest on PABs generally is disallowed under the alternative minimum tax (AMT), meaning that AMT payers pay tax on such interest. Only specific categories of PABs qualify for the tax preference. Those categories include exempt facility bonds, qualified mortgage bonds, qualified veterans' mortgage bonds, qualified small issue bonds, qualified student loan bonds, qualified redevelopment bonds, and qualified 501(c)(3) bonds. Most PABs are subject to a single, aggregate national volume cap that is allocated annually among States by population, while other PABs have separate volume caps. For calendar year 2014, the per-State volume cap is the greater of (1) $100 multiplied by the State population, or (2) $296,825,000. These amounts are indexed for inflation.

Some State and local governments issue PABs to finance owner-occupied residences. In lieu of issuing such bonds, State and local governments may provide homebuyers a Federal tax credit for interest on certain home mortgages by providing them with mortgage credit certificates.

Provision: Under the provisions, interest on newly issued PABs would be included in income and thus subject to tax. Additionally, no Federal tax credits would be allowed for mortgage credit certificates issued after 2014. The provisions would be effective for bonds issued after 2014 with regard to PABs and tax years ending after 2014 with regard to mortgage credit certificates.

Considerations:

- The Federal government should not subsidize the borrowing costs of private businesses, allowing them to pay lower interest rates, while competitors with similar creditworthiness but that are unable to avail themselves of PABs must pay a higher interest rate on the debt they issue.
- The provisions would not apply to any previously issued bond, nor would the provisions prevent State and local governments from issuing PABs in the future; the provisions would merely remove the Federal tax subsidy for newly issued bonds.

JCT estimate: According to JCT, the provisions would increase revenues by $23.9 billion over 2014-2023.

Sec. 3433. Repeal of advance refunding bonds.

Current law: Under current law, a refunding bond is any bond used to pay principal, interest, or redemption price on a prior bond issue (the refunded bond). A current refunding occurs when the refunded bond is redeemed within 90 days of issuance of the refunding bonds. An advance refunding is issued more than 90 days before the redemption of the refunded bond. Interest on current refunding bonds is generally not taxable. Interest on advanced refunding bonds is generally not taxable for governmental bonds but is taxable for PABs.

Provision: Under the provision, interest on advanced refunding bonds (i.e., refunding bonds issued more than 90 days before the redemption of the refunded bonds) would be taxable. Interest on current refunding bonds would continue to be tax-exempt. The provision would be effective for advance refunding bonds issued after 2014.

Considerations:

- Current-law advanced refunding bonds provide State and local governments with incentives to issue two sets of Federally subsidized debt to finance the same activity.
- The provision would not affect the taxation of interest on refunding bonds issued within 90 days of the redemption of the refunded bond.

JCT estimate: According to JCT, the provision would increase revenues by $8.3 billion over 2014-2023.

Sec. 3434. Repeal of tax credit bond rules.

Current law: Under current law, State and local governments and other entities may issue various categories of tax credit bonds to finance specific types of projects. Each category of tax credit bond has its own set of rules regarding volume cap, if any, and allocation. Holders of tax credit bonds receive Federal tax credits fully or partially in lieu of interest payments from the issuer, depending on the level of Federal subsidy. For some of these bonds, during 2009 and 2010, issuers had the option of instead issuing taxable bonds and receiving direct payments from the Federal government.

The authority to issue some types of tax credit bonds has expired, and the volume cap to issue some of these bonds has been fully used. There are some types of tax credit bonds for which there is still outstanding volume cap and issuing authority has not expired.

Provision: Under the provision, the rules relating to tax credit bonds generally would be repealed. Holders and issuers would continue receiving tax credits and payments for tax credit bonds already issued, but no new bonds could be issued. The provision would be effective for bonds issued after the date of enactment.

JCT estimate: According to JCT, the provisions would reduce revenues by $0.4 billion over 2014-2023, and reduce outlays by $2.6 billion over 2014-2023.

Subtitle F – Insurance Reforms

Sec. 3501. Exception to pro rata interest expense disallowance for corporate-owned life insurance restricted to 20-percent owners.

Current law: Under current law, business interest deductions are reduced to the extent the interest is allocable to insurance policy cash values based on a pro rata formula, unless the insurance policy insures the lives of officers, directors, employees, or 20-percent owners of the business. A similar rule applies in the case of businesses that are insurance companies.

Provision: Under the provision, the exception to the pro rata interest expense disallowance rule would not apply to officers, directors, or employees, and thus only would apply to 20-percent owners of the business that holds the insurance contract. The provision would be effective for insurance contracts issued after 2014 with any material increase in the death benefit or other material changes to existing contracts being treated as new contracts.

Considerations:
- The provision was included in the Obama Administration's fiscal year 2014 budget proposal.
- The provision would further limit the ability of leveraged businesses to fund deductible interest expenses with tax-exempt or tax-deferred income credited under life insurance, endowment, or annuity contracts insuring certain types of individuals.

- Specifically, the provision would more narrowly target the current-law exception to arrangements that are more likely to reflect business succession planning strategies.

JCT estimate: According to JCT, the provision would increase revenues by $7.3 billion over 2014-2023.

Sec. 3502. Net operating losses of life insurance companies.

Current law: Under current law, net operating losses of a trade or business generally may be carried back up to two tax years or carried forward up to 20 tax years. In the case of life insurance companies, however, net operating losses may be carried back up to three tax years or carried forward up to 15 tax years.

Provision: Under the provision, life insurance companies would be allowed to carry net operating losses back up to two tax years or forward up to 20 tax years, in conformity with the general net operating loss carryover rules. The provision would be effective for losses arising in tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.3 billion over 2014-2023.

Sec. 3503. Repeal of small life insurance company deduction.

Current law: Under current law, life insurance companies may deduct 60 percent of their first $3 million of life insurance-related income. The deduction is phased out for companies with income between $3 million and $15 million. In addition, the deduction is not available to life insurance companies with assets of at least $500 million.

Provision: Under the provision, the special deduction for small life insurance companies would be repealed. The provision would be effective for tax years beginning after 2014.

Consideration:
- The provision would eliminate a tax subsidy for businesses in a particular industry that is not available to similar businesses in other industries.
- Eliminating this subsidy also would remove a tax preference that is provided to the segment of the insurance industry in which the risk distribution benefits of pooling are the weakest.

JCT estimate: According to JCT, the provision would increase revenues by $0.3 billion over 2014-2023.

Sec. 3504. Computation of life insurance tax reserves.

Current law: Under current law, life insurance companies may deduct net increases in life insurance company reserves, while net decreases in such reserves are included in gross income. In computing changes in reserves, the life insurance reserve for a contract generally is the greater of the net surrender value of the contract or the reserve determined under rules provided in the Code, which for discounting purposes employ a prescribed interest rate that is equal to the greater of the applicable Federal rate or the prevailing State assumed interest rate. The "prevailing State assumed interest rate" is equal to the highest assumed interest rate permitted to be used in at least 26 States in computing regulatory life insurance reserves. The discount rate used by property and casualty (P&C) insurance companies for reserves is the average applicable Federal mid-term rate over the 60 months ending before the beginning of the calendar year for which the determination is made.

Provision: Under the provision, the current-law prescribed discount rate for life insurance reserves would be replaced with the average applicable Federal mid-term rate over the 60 months ending before the beginning of the calendar year for which the determination is made, plus 3.5 percentage points. The provision would be effective for tax years beginning after 2014. The effect of the provision on computing reserves for contracts issued before the effective date would be taken into account ratably over the succeeding eight tax years.

Consideration: Replacing the current-law prescribed interest rate with an interest rate based on an enhanced mid-term applicable Federal rate that generally tracks corporate bond rates over the long run would better reflect economic reality. The current-law rule that uses a regulatory-based measurement generally understates income.

JCT estimate: According to JCT, the provision would increase revenues by $24.5 billion over 2014-2023.

Sec. 3505. Adjustment for change in computing reserves.

Current law: Under current law, taxpayers are required to make adjustments to taxable income when they change a tax accounting method, so that the accounting method change does not result in an omission or duplication of income or expense. For taxpayers other than life insurance companies, an adjustment that reduces taxable income generally is taken into account in the tax year during which the accounting method change occurs, while an adjustment that increases taxable income generally may be taken into account over the course of four tax years, beginning with the tax year during which the accounting method change occurs. For life insurance companies, an adjustment in computing reserves (which is similar to a change in tax accounting method for other businesses) may be taken into account over ten years (regardless of whether the adjustment reduces or increases taxable income).

Provision: Under the provision, the special 10-year period for adjustments to take into account changes in computing reserves by life insurance companies would be repealed. As a result, the general rule for making tax accounting method adjustments would apply to changes in computing reserves by life insurance companies. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $2.5 billion over 2014-2023.

Sec. 3506. Modification of rules for life insurance proration for purposes of determining the dividends received deduction.

Current law: Under current law, for insurance companies, deductions are limited or disallowed in certain circumstances if they are related to the receipt of exempt income. Under so-called "proration" rules, life insurance companies are required to reduce deductions, including dividends-received deductions and reserve deductions to account for the fact that a portion of dividends and tax-exempt interest received is used to fund tax-deductible reserves for the companies' obligations to policyholders. This portion is determined by a formula that computes the respective shares of net investment income that belong to the company and to the policyholders. Current law is unclear as to what methods companies may use to compute the company share.

Provision: Under the provision, the portion of dividends and tax-exempt interest received that is set aside for obligations to policyholders would be determined separately for the company's general account (which supports non-variable insurance products) and for each separate account (which supports variable life insurance and annuity contracts). In addition, the formula for determining this portion would be modified so that it compares mean reserves to mean assets of each account (rather than computing the respective shares of net investment income that belong to the company and to the policyholders). The provision would be effective for tax years beginning after 2014.

Consideration: The current-law rules for computing net investment income are essentially based on a previous system of life insurance company taxation that was changed over 30 years ago, and the provision would provide an updated measure of the company and policyholder shares of net investment income that is simpler and more accurate.

JCT estimate: According to JCT, the provision would increase revenues by $4.5 billion over 2014-2023.

Sec. 3507. Repeal of special rule for distributions to shareholders from pre-1984 policyholders surplus account.

Current law: Tax rules for insurance companies that were enacted in 1959 included a rule that half of a life insurer's operating income was taxed only when the company distributed it, and a "policyholders surplus account" kept track of the untaxed income. In 1984, this deferral of taxable income was repealed, although existing policyholders' surplus account balances remained untaxed until they were distributed. Legislation enacted in 2004 provided a two-year holiday that permitted tax-free distributions of these balances during 2005 and 2006. During this period, most companies eliminated or significantly reduced their balances.

Provision: Under the provision, the rules for policyholders' surplus accounts would be repealed. The provision would generally be effective for tax years beginning after 2014, and any remaining balances would be subject to tax, payable in eight annual installments.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Sec. 3508. Modification of proration rules for property and casualty insurance companies.

Current law: Under current law, deductions are limited or disallowed in certain circumstances if they are related to the receipt of exempt income. Under so-called "proration" rules that reflect the fact that reserves generally are funded in part by certain untaxed income, property and casualty (P&C) insurance companies are required to reduce reserve deductions for losses incurred by 15 percent of (1) the company's tax-exempt interest, (2) the deductible portion of dividends received, and (3) the increase for the tax year in the cash value of life insurance, endowment, or annuity contracts the company owns.

Provision: Under the provision, the fixed 15-percent reduction in the reserve deduction for P&C insurance companies would be replaced with a formula whereby the reserve deduction is reduced by a percentage that is equal to the ratio of the tax-exempt assets of the company to all assets of the company. The provision would be effective for tax years beginning after 2014.

Consideration: The provision would replace an arbitrary fixed-percentage reduction in reserve deductions with a formula that would result in P&C insurance companies more accurately measuring the reserve deduction.

JCT estimate: According to JCT, the provision would increase revenues by $2.9 billion over 2014-2023.

Sec. 3509. Repeal of special treatment of Blue Cross and Blue Shield organizations, etc.

Current law: Under current law, charitable and social welfare organizations are eligible for tax-exempt status only if no substantial part of their activities consists of providing commercial-type insurance. When this rule was enacted in 1986, special rules were provided for existing, tax-exempt Blue Cross and Blue Shield (BCBS) organizations that stood to lose their tax-exempt status. These rules also apply to other health insurance organizations that satisfy certain requirements.

The special rules provide a deduction equal to 25 percent of claims incurred and expenses incurred in administering such claims, to the extent the amount of claims and expenses incurred exceeds the adjusted surplus of the organization at the beginning of the tax year. In addition, these rules provide an exception from the application of a 20-percent reduction in the deduction for increases in unearned premiums that applies generally to P&C companies. The special rules also provide that these organizations are treated as stock insurance companies for purposes of the Code.

Provision: Under the provision, the special rules for BCBS and certain other health insurance organizations would be repealed. With regard to the 25-percent deduction and the exception from the application of the 20-percent reduction in the deduction for increases in unearned premiums, the provision would be effective for tax years beginning after 2014. With regard to the treatment of these organizations as stock insurance companies, the provision would be effective for tax years beginning after 2016.

Consideration: Special transition rules enacted in 1986 when the BCBS organizations initially became subject to tax are no longer necessary and provide preferential tax treatment to some health insurance providers over other providers in a market in which health insurance premiums are now regulated.

JCT estimate: According to JCT, the provision would increase revenues by $4.0 billion over 2014-2023.

Sec. 3510. Modification of discounting rules for property and casualty insurance companies.

Current law: Under current law, a P&C insurance company may deduct unpaid losses that are discounted using mid-term applicable Federal rates and based on a loss payment pattern. The loss payment pattern for each line of insurance business is determined by reference to the industry-wide historical loss payment pattern applicable to such line of business, although companies may elect to use their own particular historical loss payment patterns.

The loss payment pattern is computed based upon the assumption that all losses are paid (1) in general, during the accident year and the three calendar years following the accident year, or (2) in the case of lines of business relating to auto or other liability, medical malpractice, workers' compensation, multiple peril lines, international coverage, and reinsurance, during the accident year and the ten calendar years following the accident year. In the case of long-tail lines of business, a special rule extends the loss payment pattern period, so that the amount of losses which would have been treated as paid in the tenth year after the accident year is treated as paid in the tenth year and in each subsequent year (up to five years) in an amount equal to the amount of the losses treated as paid in the ninth year after the accident year.

Provision: Under the provision, P&C insurance companies would use the corporate bond yield curve (as specified by Treasury) to discount the amount of unpaid losses. In addition, the special rule that extends the loss payment pattern period for long-tail lines of business would be applied similarly to all lines of business (but without the 5-year limitation on the extended period), so that (1) in general, the amount of losses that would have been treated as paid in the third year after the accident year would be treated as paid in the third year and in each subsequent year in an amount equal to the amount of the losses treated as paid in the second year after the accident year, and (2) in the case of lines of business relating to auto or other liability, medical malpractice, workers' compensation, multiple peril lines, international coverage, and reinsurance, the amount of losses which would have been treated as paid in the tenth year after the accident year would be treated as paid in the tenth year and in each subsequent year in an amount equal to the amount of the losses treated as paid in the ninth year after the accident year. The provision also would repeal the election to use company-specific, rather than industry-wide, historical loss payment patterns. The provision generally would be effective for tax years beginning after 2014, with a transition rule that would spread adjustments relating to pre-effective date losses and expenses over such tax year and the succeeding seven tax years.

Considerations:

- Replacing the mid-term applicable Federal rate with the corporate bond yield would result in a more accurate measurement of income for P&C insurance companies.
- In addition, generally applying the rules for determining the loss payment pattern period that currently only apply to long-tail lines of business would provide consistent treatment for all lines of insurance business.

JCT estimate: According to JCT, the provision would increase revenues by $17.9 billion over 2014-2023.

Sec. 3511. Repeal of special estimated tax payments.

Current law: Under current law, insurance companies may elect to claim a deduction equal to the difference between the amount of reserves computed on a discounted basis and the amount computed on an undiscounted basis. Companies that make this election are required to make a special estimated tax payment equal to the tax benefit attributable to the deduction. In addition, the deductions are added to a special loss discount account and, as losses are paid in future years, amounts are subtracted from the account and made subject to tax (net of prior special estimated tax payments). Amounts added to the special loss discount account are automatically subtracted from the account and made subject to tax if they have not already been subtracted after 15 years.

Provision: Under the provision, the elective deduction and related special estimated tax payment rules would be repealed. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Sec. 3512. Capitalization of certain policy acquisition expenses.

Current law: Under current law, the expenses of a life insurance company that are associated with earning a stream of premium income generally are required to be spread over ten years rather than deducted immediately, to reflect the fact that such income ordinarily is collected over a period of years. The expenses that are spread are calculated using a simplified method that reflects expense ratios for three broad categories of insurance contracts. The expenses that must be spread are the lesser of: (1) a specified percentage of the net premiums received on each of a company's three categories of insurance contracts; or (2) the company's general deductions. For annuity contracts, the specified percentage is 1.75 percent; for group life insurance contracts, it is 2.05 percent; and for all other specified insurance contracts, it is 7.7 percent.

Provision: Under the provision, the categories of insurance contracts and the percentages of expenses to be spread would be updated to reflect current expense ratios for insurance products. The three categories of insurance contracts would be replaced with two categories: (1) group contracts; and (2) all other specified contracts. The percentage of net premiums that would be spread over ten years would be 5 percent for group insurance contracts and 12 percent for all other specified contracts. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $11.7 billion over 2014-2023.

Secs. 3513-3514. Tax reporting for life settlement transactions; Clarification of tax basis of life insurance contracts.

Current law: Under current law, the seller of a life insurance contract (including a sale back to the issuer, or "settlement") generally must report as taxable income the difference between the amount received from the buyer and the adjusted basis in the contract. The IRS has taken the position that a taxpayer's basis in a life insurance contract generally is equal to all premiums paid by the taxpayer if the taxpayer settles the contract, but that the taxpayer's basis must be reduced by the cost of insurance (i.e., the non-investment component of the premiums paid) if the taxpayer sells the contract to a third party.

The buyer of a previously issued life insurance contract who subsequently receives a death benefit generally is subject to tax on the difference between the death benefit received and the sum of the amount paid for the contract and premiums subsequently paid by the buyer.

Provision: Under the provision, a taxpayer that purchases an interest in an existing life insurance contract with a death benefit equal to or exceeding $500,000 would be required to report (1) the purchase price, the identity of the buyer and seller, and the issuer and policy number to both the IRS and the seller, and (2) the identity of the buyer and seller, and the issuer and policy number to the issuing insurance company. Upon the payment of any policy benefits to the buyer of a previously issued life insurance contract, the insurance company would be required to report the gross benefit payment, the identity of the buyer, and the insurance company's estimate of the buyer's basis to the IRS and to the payee. This aspect of the provision would be effective for reportable sales of life insurance contracts and payments of death benefits occurring after 2014.

In addition, a taxpayer's basis in a life insurance contract would not be reduced by the cost of insurance, regardless of whether the taxpayer settles or sells the contract. This aspect of the provision would be effective for transactions entered into after August 25, 2009.

JCT estimate: According to JCT, the provisions, along with section 3515 of the discussion draft, would increase revenues by $0.2 billion over 2014-2023.

Sec. 3515. Exception to transfer for valuable consideration rules.

Current law: Under current law, a payment received under a life insurance contract upon the death of the insured is excluded from income. If the life insurance contract was transferred for valuable consideration, however, the recipient must include the payment less the recipient's basis in the contract, unless (1) the contract has a carryover basis, or (2) the contract was transferred to the person whose life is insured under the contract or to a partner of the insured, or a partnership or corporation in which the insured is a partner or shareholder.

Provision: Under the provision, the exception for carryover basis transfers and transfers to the person whose life is insured (or to a partner of the insured, or a partnership or corporation in which the insured is a partner or shareholder) would not apply if the acquirer of the life insurance contract has no substantial relationship with the insured apart from the acquirer's interest in the contract (i.e., the acquirer must include the amount of the payment on the death of the insured, reduced by the acquirer's basis in the contract). The provision would be effective for transfers after 2014.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for sections 3513-3514 of the discussion draft.

Subtitle G – Pass-Thru and Certain Other Entities

Part 1 – S Corporations

Considerations for Subtitle G, Part 1:

- The S corporation provisions in the discussion draft are intended to encourage C corporations to elect S status and provide greater flexibility to current S corporations in their day-to-day operations.
- The provisions are drawn from Option 1 of the Committee's March 12, 2013, discussion draft, and reflect the more incremental approach to passthrough reform.
- The S corporation provisions address a number of complexities for S corporations under current law, simplifying the rules, eliminating penalties for inadvertent errors, and reducing the tax burden on S corporations generally.

Sec. 3601. Reduced recognition period for built-in gains made permanent.

Current law: Under current law, an S corporation is subject to an entity-level tax at the highest corporate rate on certain built-in gains of property that it held while operating as a C corporation. The tax applies to gain recognized within ten years from the date that the C corporation elected to be an S corporation. Through 2013, a temporary provision reduced this period to five years.

Provision: Under the provision, the temporary five-year period would be made permanent. The provision would be effective for tax years beginning after 2013.

JCT estimate: According to JCT, the provision would reduce revenues by $3.0 billion over 2014-2023.

Sec. 3602. Modifications to S corporation passive investment income rules.

Current law: Under current law, an S corporation that previously operated as a C corporation may be subject to tax at the highest corporate rate on certain passive income if more than 25 percent of its gross receipts are derived from passive investment income. In addition, if the S corporation exceeds the 25-percent passive income threshold for three consecutive years, the corporation's election to be treated as an S corporation is terminated automatically.

Provision: Under the provision, the passive-income threshold would be increased from 25 percent to 60 percent. The provision also would repeal the current-law provision terminating the S corporation election for excessive passive income. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by $3.6 billion over 2014-2023.

Sec. 3603. Expansion of qualifying beneficiaries of an electing small business trust.

Current law: Under current law, an S corporation is limited to 100 or fewer shareholders, which generally must be individuals who are U.S. citizens or residents or certain exempt organizations and trusts. Current law also permits special trusts, known as electing small business trusts (ESBTs), to be S corporation shareholders. Generally, the eligible beneficiaries of an ESBT include individuals, estates, and certain charitable organizations eligible to hold S corporation stock directly. A nonresident alien individual may not be a shareholder of an S corporation and may not be a potential current beneficiary of an ESBT. The portion of an ESBT that consists of the stock of an S corporation is treated as a separate trust. In general, this trust is taxed on its share of the S corporation's income at the highest rate of tax imposed on individual taxpayers. Such income (whether or not distributed by the ESBT) is not taxed to the beneficiaries of the ESBT.

Provision: Under the provision, a nonresident alien individual could be a potential current beneficiary of an ESBT. Accordingly, a nonresident alien individual would be permitted to own shares in an S corporation, provided such ownership is indirect through an ESBT. The provision would be effective on January 1, 2015.

JCT estimate: According to JCT, the provision would reduce revenues by $0.1 billion over 2014-2023.

Sec. 3604. Charitable contribution deduction for electing small business trusts.

Current law: Under current law, an electing small business trust (ESBT) may be a shareholder of an S corporation. Because an ESBT is a trust, it must follow the rules for deducting charitable contributions that are applicable to trusts, rather than those applicable to individuals. Generally, a trust is allowed a deduction for charitable contributions without any limitation on the amount of the deduction relative to the trust's gross income. If a trust makes contributions in excess of its gross income, no carryover of the excess is allowed as a deduction in a future year. In contrast, an individual may deduct charitable contributions up to certain percentages of adjusted gross income and is generally permitted to carry forward excess contributions for five years.

Provision: Under the provision, the charitable contribution rules applicable to individuals, rather than to trusts, would apply to ESBTs. Thus, the percentage limitations and carryforward provisions applicable to individuals would apply to contributions made by the portion of an ESBT holding S corporation stock. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by $0.1 billion over 2014-2023.

Sec. 3605. Permanent rule regarding basis adjustment to stock of S corporations making charitable contributions of property.

Current law: Under current law, if an S corporation contributes money or other property to a charity, each shareholder takes into account his pro rata share of the contribution in determining his own income tax liability. A shareholder reduces the basis in his S corporation stock by the amount of the S corporation's charitable contribution that flows through to the shareholder. For contributions made in tax years beginning before 2014, the basis reduction in the S corporation stock is equal to the shareholder's pro rata share of the adjusted basis of the contributed property. For contributions made in tax years beginning after 2013, the amount of the reduction is the shareholder's pro rata share of the fair market value of the contributed property.

Provision: Under the provision, the pre-2014 basis-adjustment rule would be made permanent. Thus, an S corporation shareholder would reduce the basis in his S corporation stock by his pro rata share of the adjusted basis of the contributed property. This rule would provide consistent treatment of charitable contributions between S corporation shareholders and partners in a partnership. The provision would be effective for tax years beginning after 2013.

JCT estimate: According to JCT, the provision would reduce revenues by $1.1 billion over 2014-2023.

Sec. 3606. Extension of time for making S corporation elections.

Current law: Under current law, a small business corporation may elect to be treated as an S corporation for any tax year at any time during the preceding tax year or by the 15th day of the third month of the tax year for which the election is made. An election to be an S corporation made by the 15th day of the third month of a corporation's tax year is effective for that tax year if the corporation meets all eligibility requirements for the portion of the tax year prior to filing the election and all the required shareholders consent to the election. If these requirements are not met, the election becomes effective for the following tax year. An election continues in effect for subsequent tax years until it is terminated (including revocation by the taxpayer).

Similar rules apply to an election to treat an S corporation subsidiary as a qualified S corporation subsidiary (QSub) – which allows the S corporation to treat the subsidiary as a division of the S corporation and file a single return. In addition, Qualified Subchapter S Trusts (QSST) and Electing Small Business Trusts (ESBT) may elect to qualify as S corporation shareholders if the election is made by the 15th day of the third month after the transfer of stock to the trust.

Provision: Under the provision, the election process would be simplified by permitting a small business corporation to elect on its income tax return to be treated as an S corporation for the tax year to which the return relates, provided that the return is filed not later than the applicable due date (with extensions). The provision also would provide that the IRS may accept as timely a late filed revocation if there is reasonable cause shown. In addition, the provision would apply election procedures to QSubs that are similar to the rules for electing S corporation status. Lastly, the provision would permit the IRS to coordinate the election rules for a QSST and ESBT with the new election rules for S corporations and QSubs. The provision would apply to elections for tax years beginning after 2014. In the case of revocation, the provision would apply to revocations after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

Sec. 3607. Relocation of C corporation definition.

Current law: Under current law, the definition of a C corporation as being a corporation other than an S corporation is located in Subchapter S of the Code.

Provision: Under the provision, the definition would be moved to Code section 7701, which provides generally applicable definitions. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Part 2 – Partnerships

Considerations for Subtitle G, Part 2:

- The partnership provisions are generally drawn from Option 1 of the Committee's March 12, 2013, discussion draft, and reflect a more incremental approach to passthrough reform.
- The partnership provisions establish additional limits on the use of partnerships as tax avoidance structures without interfering with the legitimate business operations of partnerships, clarify confusing areas of partnership law, and better align partnership rules with the relevant S corporation rules.

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

Current law: Under current law, guaranteed payments made by a partnership to a partner generally are payments made without regard to the income of the partnership and are for services or for the use of capital (e.g., loans) provided by the partner. Guaranteed payments are distinct from a partnership distribution of income or capital, and from payments by the partnership to a partner not acting in his capacity as a partner. Guaranteed payments generally are deductible by the partnership and includible in the partner's taxable income.

Current law also provides rules for treating payments made in the liquidation of a retiring or deceased partner's partnership interest. Such payments are treated either as (1) a distributive share or guaranteed payment or (2) payments in exchange for the partner's interest in partnership property. For a deceased partner, income earned prior to death (i.e., income in respect of a decedent) is includible in the deceased partner's gross income in the year of death, and special rules apply for determining the basis of the partnership interest in the hands of the successor partner.

Provision: Under the provision, the rules relating to guaranteed payments to partners would be repealed. Thus, payments received by partners would constitute either payments in their capacity as partners (i.e., part of their distributive shares of partnership income or loss) or in their capacity as non-partners (i.e., as an independent third party). In addition, the provision would repeal the special rule for deceased or retiring partners that treats certain payments in liquidation as guaranteed payments, subjecting such payments to the general rules applicable to the transaction (e.g., the provisions relating to payments of deferred compensation) or the applicable rules governing income in respect of a decedent. The provision would be effective for tax years beginning after 2014 and transfers to decedents made after 2014. In addition, the provision would apply to payments made in liquidation to partners retiring or dying after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.3 billion over 2014-2023.

Sec. 3612-3614. Mandatory adjustments to basis of partnership property in case of transfer of partnership interests; Mandatory adjustments to basis of undistributed partnership property; Corresponding adjustments to basis of properties held by partnership where partnership basis adjusted.

Current law: Under current law, if a partnership makes a one-time election, or if the partnership has a substantial built-in loss (i.e., the partnership's adjusted basis in its property exceeds the fair market value by more than $250,000) immediately after a transfer of a partnership interest by a partner, the partnership must make adjustments to the basis of partnership property. Similar rules apply in the case of a partnership distribution of property to a partner. The adjustments are intended to account for (1) the difference that can arise between a partner's adjusted basis in the partnership property and the partner's basis in his partnership interest and (2) the difference in the partnership's adjusted basis in its property with respect to partners who do not receive distributions of property. Certain securitization partnerships and electing investment partnerships are exempt from the basis-adjustment requirement with respect to substantial built-in losses in certain instances. When basis adjustments are required under current law, no corresponding adjustments are required by upper- or lower-tier partnerships owning an interest in the partnership making the basis adjustment.

Provision: Under the provision, mandatory adjustment of a partnership's basis in partnership property would be required when a partner transfers his interest in a partnership or a partnership distributes property to a partner. These rules would also apply to securitization and electing investment partnerships. In addition, corresponding adjustments would be required in cases involving tiered partnerships. The provision would be effective for transfers and distributions after 2014.

JCT estimate: According to JCT, the provisions would increase revenues by $1.1 billion over 2014-2023.

Sec. 3615. Charitable contributions and foreign taxes taken into account in determining limitation on allowance of partner's share of loss.

Current law: Under current law, a partner generally may only deduct certain expenditures and losses (including capital losses) of a partnership to the extent of the partner's adjusted basis in his partnership interest. Charitable contributions and foreign taxes paid by a partnership are not subject to this limitation and, as a result, can be deducted even if they exceed the partner's basis.

Provision: Under the provision, a partner would be required to take into account charitable contributions and foreign taxes paid by a partnership in calculating the limitation on the partner's share of losses, conforming the partnership rules to the S corporation rules and thus preventing a partner from deducting losses in excess of basis. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.9 billion over 2014-2023.

Sec. 3616. Revisions related to unrealized receivables and inventory items.

Current law: Under current law, gain or loss from the sale or exchange of a partnership interest generally is treated as gain or loss from a capital asset. Gain is treated as ordinary income, however, on the sale or exchange of a partnership interest when the partnership holds unrealized receivables (i.e., uncollected payments for goods or services) or appreciated inventory (i.e., appreciated more than 120 percent). Certain distributions by a partnership to a partner are also treated as sales or exchanges when a partnership holds unrealized receivables or substantially appreciated inventory.

Provision: Under the provision, any distribution of an inventory item would be treated as a sale or exchange between the partner and the partnership, eliminating the requirement that inventory be substantially appreciated in value to trigger gain recognition. The provision also would simplify the definition of an unrealized receivable by providing that the term include any property other than an inventory item, but only to the extent of the amount that would be treated as ordinary income if the property were sold for its fair market value. The provision would be effective for distributions and partnership tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.8 billion over 2014-2023.

Sec. 3617. Repeal of time limitation on taxing precontribution gain.

Current law: Under current law, if a partner contributes appreciated property to a partnership, the partner does not recognize gain or loss at the time of the contribution, but the pre-contribution built-in gain or loss is preserved in the contributing partner's capital account. If the partnership subsequently distributes the property to another partner within seven years of the contribution, the contributing partner generally recognizes the pre-contribution gain or loss. Similar rules apply if the contributing partner receives other property of the partnership within seven years in what amounts to a disguised sale of the originally contributed property.

Provision: Under the provision, a partner who contributes property with pre-contribution built-in gains or losses to a partnership would be required to recognize the pre-contribution gain or loss when the partnership distributes such property. No limitation period would apply. The provision would be effective for property contributed to a partnership after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.4 billion over 2014-2023.

Sec. 3618. Partnership interests created by gift.

Current law: Under current law, a person is treated as a partner if he owns a capital interest in a partnership in which capital is a material income-producing factor, whether such interest was obtained by purchase or gift from another person. In the case of a partnership interest purchased by one family member from another, the interest is treated as created by gift and the fair market value of the interest is treated as donated capital to the partnership. Current law also provides special rules to prevent donors of partnership interests from assigning income with respect to services that the donor performs for the partnership or with respect to the donor's contributed capital.

Provision: Under the provision, the rule would be clarified to provide that a person is treated as a partner in a partnership in which capital is a material income-producing factor whether such interest was obtained by purchase or gift and regardless of whether such interest was acquired from a family member. The rules preventing assignment of income would continue to apply to transfers of partnership interests by gift. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.8 billion over 2014-2023.

Sec. 3619. Repeal of technical termination.

Current law: Under current law, a partnership terminates only if: (1) no part of any business, financial operations, or venture of the partnership continues to be carried on by any of its partners, or (2) within a 12-month period there is a sale or exchange of 50 percent or more of the total interests in partnership capital and profits. The second type of termination is commonly referred to as a technical termination. When a technical termination occurs, the business of the partnership continues in the same legal form, but the partnership must make new elections for various accounting methods, depreciation lives, and other purposes.

Provision: Under the provision, the technical termination rule would be repealed. Thus, the partnership would be treated as continuing even if more than 50 percent of the total capital and profits interests of the partnership are sold or exchanged, and new elections would not be required or permitted. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.5 billion over 2014-2023.

Sec. 3620. Publicly traded partnership exception restricted to mining and natural resources partnerships.

Current law: Under current law, a publicly traded partnership is a partnership the interests in which are traded on an established securities market or are readily tradable on a secondary market. A publicly traded partnership generally is treated as a C corporation for Federal tax purposes. An exception from such treatment applies to a publicly traded partnership (other than a regulated investment company, management company or unit investment trust) if 90 percent or more of the partnership's gross income is qualifying income. Qualifying income includes: interest, dividends, capital gains, and rents from real property; income and gains from certain activities relating to minerals or natural resources (e.g., mining, production, refining, and transporting); and income and gains from certain commodities and derivatives.

Provision: Under the provision, the special exceptions for publicly traded partnerships would be repealed other than for partnerships with 90 percent of their income from activities relating to mining and natural resources (e.g., mining, production, refining, and transporting). Thus, publicly traded partnerships would generally be treated as C corporations. The provision would be effective for tax years beginning after 2016.

JCT estimate: According to JCT, the provision would increase revenues by $4.3 billion over 2014-2023.

Sec. 3621. Ordinary income treatment in the case of partnership interests held in connection with performance of services.

Current law: Under current law, a partner holding a partnership interest includes in income his distributive share of partnership income and gain (whether or not actually distributed). The character of partnership items passes through to the partners as if the items were realized directly by the partners. A partner's basis in the partnership interest is increased by any amount of gain included in the partner's income and is decreased by any losses. Money distributed to the partner by the partnership is taxed to the extent the amount exceeds the partner's basis in the partnership interest. Similarly, when a partner sells his partnership interest, gain generally is recognized to the extent the amount received exceeds the partner's basis in the partnership interest. The extent to which such gain is capital in character depends on the holding period and special partnership rules that recharacterize capital gains as ordinary income in certain cases.

It is common for partnerships to be used for investment purposes. In particular, private equity funds are organized as partnerships. In a typical private equity fund, the general partner contributes a small amount of capital and manages the assets, typically stock of companies, in exchange for a profits interest (or "carried interest") in the partnership (generally a 20-percent profits interest). Limited partners provide the additional capital needed to acquire assets. In addition, the general partner is paid regular fees for managing the assets, which generally consists of improving the operations, governance, capital structure and strategic position of companies. In general, gain from the sale of stock of the companies owned by the fund results in capital gain. Thus, the general partner that manages the partnership will receive a distribution of capital gain based on his profits interest when the partnership sells the stock of any company owned by the partnership.

Provision: Under the provision, certain partnership interests held in connection with the performance of services would be subject to a rule that characterizes a portion of any capital gains as ordinary income. This rule would apply to partnership distributions and dispositions of partnership interests. An applicable partnership interest would include any interest transferred, directly or indirectly, to a partner in connection with the performance of services by the partner, provided that the partnership is engaged in a trade or business conducted on a regular, continuous and substantial basis consisting of: (1) raising or returning capital, (2) identifying, investing in, or disposing of other trades or businesses, and (3) developing such trades or businesses. The provision would not apply to a partnership engaged in a real property trade or business.

The recharacterization formula generally would treat the service partner's applicable share of the invested capital of the partnership as generating ordinary income by multiplying that share by a specified rate of return (the Federal long-term rate plus 10 percentage points), intended to approximate the compensation earned by the service partner for managing the capital of the partnership. The recharacterization amount would be determined (but not realized) on an annual basis and tracked over time. To the extent a service partner contributes capital to the partnership, the result would be less capital gain being characterized as ordinary income. Any distribution or gain from the sale of a partnership interest (i.e., a realization event) then would be treated as ordinary to the extent of the partner's recharacterization account balance for the tax year. Amounts in excess of the recharacterization account balance would be capital gain. The invested capital of a partnership is, as of any day, the total cumulative value, determined at the time of contribution, of all money and other property contributed to the partnership on or before such day. Partner loans to the partnership and indebtedness entitled to share in the equity of the partnership would qualify as invested capital.

If a taxpayer, at any time during a tax year, holds directly or indirectly more than one applicable partnership interest in a single partnership interest, all interests in a partnership would be aggregated and treated as a single interest.

The provision would be effective for tax years beginning after 2014.

Considerations:

- Current law generally taxes the profits derived from the development and sale of property in the ordinary course of a trade or business as ordinary income, not capital gain. In contrast, the inherent enterprise value of a successful business, which is recognized by the owners only when the business is sold or liquidated, generally is treated as capital gain.
- A partnership (e.g., private equity fund) that is in the business of raising capital, investing in other businesses, developing such businesses, and ultimately selling them, is in the trade or business of selling businesses. The businesses bought and sold by the partnership are its inventory.
- For the tax law to be applied consistently, the profits derived by such an investment partnership and paid to its managing partners through management fees and a profits interest in the partnership (generally referred to as a carried interest), should be treated as ordinary income.
- The provision is intended to provide such consistent treatment by treating a portion of the annual earnings of a qualifying partnership as ordinary income. To the extent a

managing partner invests capital in the partnership or extraordinary gains are realized, the earnings would still be taxed as capital gains.

- The provision is designed to clarify a murky area of the tax law to provide consistent outcomes for similarly situated taxpayers through rules that are administrable and avoid the unintended adverse consequences of previous proposals to address this issue.

JCT estimate: According to JCT, the provision would increase revenues by $3.1 billion over 2014-2023.

Sec. 3622. Partnership audits and adjustments.

Current law: Under current law, three different regimes exist for auditing partnerships. For partnerships with 10 or fewer partners, the IRS generally applies the audit procedures for individual taxpayers, auditing the partnership and each partner separately. For most large partnerships with more than 10 partners, the IRS conducts a single administrative proceeding (under the so-called TEFRA rules, which were adopted as part of the Tax Equity and Fiscal Responsibility Act of 1982) to resolve audit issues regarding partnership items that are more appropriately determined at the partnership level than at the partner level. Under the TEFRA rules, once the audit is completed and the resulting adjustments are determined, the IRS must recalculate the tax liability of each partner in the partnership for the particular audit year.

A third audit regime applies to partnerships with 100 or more partners that elect to be treated as Electing Large Partnerships (ELPs) for reporting and audit purposes. A distinguishing feature of the ELP audit rules is that unlike the TEFRA partnership audit rules, partnership adjustments generally flow through to the partners for the year in which the adjustment takes effect, rather than the audit year. As a result, the current-year partners' share of current-year partnership items of income, gains, losses, deductions, or credits are adjusted to reflect partnership adjustments relating to a prior year audit that take effect in the current year. The adjustments generally do not affect prior-year returns of any partners (except in the case of changes to any partner's distributive share).

Provision: Under the provision, the current TEFRA and ELP rules would be repealed, and the partnership audit rules would be streamlined into a single set of rules for auditing partnerships and their partners at the partnership level. Similar to the current TEFRA rule excluding partnerships with fewer than 10 partners, the provision would permit smaller partnerships with 100 or fewer partners (other than partners that generally are passthrough entities themselves) to opt out of the new rules, in which case the partnership and partners would be audited under the general rules applicable to individual taxpayers.

Under the streamlined audit approach, the IRS would examine the partnership's items of income, gains, losses, deductions, credits and partners' distributive shares for a particular year of the partnership (the "reviewed year"). Any adjustments would be taken into account by the partnership (not the individual partners) in the year that the audit or any judicial review is completed (the "adjustment year"). Partnerships would have the option of demonstrating that the adjustment would be lower if the adjustment included partner-level information from the reviewed year rather than imputed amounts based solely on the partnership's information in such year. A partnership would also have the option of initiating an adjustment for a reviewed year, such as when it believes additional payment is due, with the adjustment taken into account in the adjustment year. In cases in which the partnership believes a refund is due, the partnership would continue to file an amended return and provided amended information returns to each partner. The provision would be effective for partnership tax years ending after 2014, with partnerships permitted to elect to apply the new rules for any partnership tax year beginning after the date of enactment.

JCT estimate: According to JCT, the provision would increase revenues by $13.4 billion over 2014-2023.

Part 3 – REITs and RICs

Considerations for Subtitle G, Part 3:

- Since 1960, real estate investment trusts (REITs) have provided a tax-efficient vehicle for average investors to acquire diversified and passive interests in real estate.
- Recently, several companies that operate as taxable C corporations have explored converting into REITs for the purpose of avoiding corporate income tax.
- The REIT rules were not intended to facilitate erosion of the corporate tax base by allowing operating companies to convert from taxable C corporations into REITs.
- Some of these provisions would discourage erosion of the corporate tax base by making it more difficult for operating companies to convert into REITs, and by limiting REIT-eligible assets to those assets that are more closely related to real estate.
- At the same time, other provisions would improve the REIT rules as they apply to traditional REITs, making the REIT structure a more attractive investment vehicle.

Sec. 3631. Prevention of tax-free spinoffs involving REITs.

Current law: Under current law, a corporation is permitted to distribute (or spin off) to shareholders the stock of a controlled corporation on a tax-free basis if the transaction satisfies certain requirements. One such requirement is that both the distributing corporation and the controlled corporation must be engaged immediately after the distribution in the active conduct of a trade or business that has been conducted for at least five years. In 2001, the IRS ruled that a REIT could satisfy the active trade or business requirement for tax-free spin-off transactions, even though gain on the sale of property that is stock in trade of a REIT, or property that is includible in inventory of a REIT, does not satisfy the REIT income tests.

Provision: Under the provision, the 2001 IRS ruling would be overturned, so that REITs could not satisfy the active trade or business requirement for tax-free spin-off transactions. In addition, neither a distributing corporation nor a controlled corporation would be permitted to elect to be treated as a REIT for ten years following a tax-free spin-off transaction. The provision generally would be effective for distributions after February 26, 2014.

JCT estimate: According to JCT, the provision, along with section 3647 of the discussion draft, would increase revenues by $5.9 billion over 2014-2023.

Sec. 3632. Extension of period for prevention of REIT election following revocation or termination.

Current law: Under current law, a taxpayer generally may not elect to be treated as a REIT within five years after the termination or revocation of a prior REIT election.

Provision: Under the provision, the five-year waiting period for electing to be treated as a REIT following the termination or revocation of a prior REIT election would be extended to ten years. The provision would be effective for terminations and revocations after 2014.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Sec. 3633. Certain short-life property not treated as real property for purposes of REIT provisions.

Current law: Under current law, a REIT must derive at least 95 percent of its income from certain specified real-estate-related and other investment income, and 75 percent of its income from such specified real-estate-related investment income. Gains from the sale or disposition of real property satisfy the 95-percent and 75-percent REIT income tests. In addition, at least 75 percent of the assets of a REIT must be comprised of real estate assets, cash and cash items, and government securities. The term "real estate assets" is defined to include real property and interests in real property.

Provision: Under the provision, the term "real property" would not include tangible property with a class life of less than 27.5 years (as defined under the depreciation rules) for purposes of the REIT income and asset tests. The provision would be effective for tax years beginning after 2016.

JCT estimate: According to JCT, the provision would increase revenues by $0.6 billion over 2014-2023.

Sec. 3634. Repeal of special rules for timber held by REITs.

Current law: Under current law, the IRS has ruled that gains from the sale or disposition of real property that satisfy the REIT income tests (described above) include capital gains from the sale of standing timber. Such gains also include capital gains from the cutting and sale of timber during tax years that ended after May 22, 2008 and began on or before May 22, 2009.

In addition, certain gain from the sale of property held by a REIT in connection with the trade or business of producing timber qualifies under a safe harbor that protects such gain from being classified as prohibited transaction income that otherwise would be subject to a 100-percent prohibited transaction excise tax. The excise tax generally is imposed on REIT income derived from the sale of property that constitutes stock in trade, inventory, or property held by the REIT primarily for sale to customers in the ordinary course of the REIT's trade or business. Certain aspects of the special safe harbor for timber property sales only apply to the first tax year that began after May 22, 2008 and before May 22, 2009.

For certain "timber REITs," mineral royalty income from real property held in connection with the trade or business of producing timber is treated as satisfying the REIT income tests, and up to 25 percent of the value of a timber REIT's assets may consist of stock in a taxable REIT subsidiary. (This special limitation was enacted at a time when the general limitation on the value of such stock was 20 percent, which later was also increased to 25 percent for all REITs.) These special rules for timber REITs apply to the first tax year that began after May 22, 2008 and before May 22, 2009.

Provision: Under the provision, the term "real property" for purposes of the REIT rules would not include timber, consistent with the repeal of capital gains treatment for sales of standing and cut timber elsewhere in the discussion draft. In addition, the other temporary special rules for timber sales and timber REITs that have expired would be repealed. The provision would be effective for tax years beginning after 2016.

JCT estimate: According to JCT, the provision would increase revenues by $0.2 billion over 2014-2023.

Sec. 3635. Limitation on fixed percentage rent and interest exceptions for REIT income tests.

Current law: Under current law, rents from real property and interest generally satisfy the 95-percent and 75-percent REIT income tests. In general, rents from real property and interest do not include amounts that are contingent on the income or profits of the tenant or debtor, but do include amounts that are based on a fixed percentage of receipts or sales of the tenant or debtor.

Provision: Under the provision, rents from real property and interest would not include amounts that are based on a fixed percentage of receipts or sales to the extent that such amounts are received or accrued from a single tenant that is a C corporation and the amounts received or accrued from such tenant constitute more than 25 percent of the total amount received or accrued by the REIT that is based on a fixed percentage of receipts or sales. The provision would be effective for tax years ending after 2014.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

<u>Secs. 3636-3637. Repeal of preferential dividend rule for publicly offered REITs; Authority for alternative remedies to address certain REIT distribution failures.</u>

Current law: Under current law, REITs may deduct dividend distributions to their shareholders, but they are required to distribute annually as a dividend at least 90 percent of their income (other than net capital gain and certain other items). A preferential dividend does not qualify for the REIT dividend deduction and does not count toward satisfying the requirement that REITs distribute 90 percent of their income every year. A dividend is "preferential" unless it is distributed pro rata to all shareholders, with no preference to any share of stock over others within the same class of stock, and no preference to one class of stock over other classes of stock (except to the extent the class is entitled to a preference).

Provisions: Under the provisions, the preferential dividend rule would be repealed for publicly offered REITs. In addition, the IRS would have authority to provide an appropriate remedy for a preferential dividend distribution by non-publicly offered REITs in lieu of treating the dividend as not qualifying for the REIT dividend deduction and not counting toward satisfying the requirement that REITs distribute 90 percent of their income every year. Such authority would apply if the preferential distribution is inadvertent or due to reasonable cause and not due to willful neglect.

The provisions would be effective for distributions in tax years beginning after 2014.

JCT estimate: According to JCT, the provisions would reduce revenues by less than $50 million over 2014-2023.

<u>Sec. 3638. Limitations on designation of dividends by REITs.</u>

Current law: Under current law, a REIT dividend is ordinary income to the REIT shareholder rather than a qualified dividend subject to a reduced rate of tax, unless the REIT designates such dividends as being attributable to income that is taxed to the REIT at regular corporate tax rates because it was not previously distributed, or to qualified dividends received by the REIT from other corporations. A REIT also may identify certain dividends as capital gain dividends to the extent of the REIT's net capital gain, which would be subject to tax in the hands of the REIT shareholders at the capital gains rate.

Provision: Under the provision, the aggregate amount of dividends that could be designated by a REIT as qualified dividends or capital gain dividends would not be permitted to exceed the dividends actually paid by the REIT. The provision would be effective for distributions in tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Sec. 3639. Non-REIT earnings and profits required to be distributed by REIT in cash.

Current law: Under current law, REITs that accumulated earnings and profits prior to becoming a REIT (e.g., an entity that operated as a taxable C corporation prior to making an election to become a REIT) are required to distribute such earnings and profits (e.g., in cash, property, or stock) by the end of the first tax year after electing to become a REIT.

Provision: Under the provision, REITs would be required to distribute their pre-REIT earnings and profits in cash. The provision would be effective for distributions after February 26, 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 3640. Debt instruments of publicly offered REITs and mortgages treated as real estate assets.

Current law: Under current law, a REIT must derive at least 95 percent of its income from certain specified real estate-related and other investment income, and 75 percent of its income from such specified real estate-related investment income. In addition, at least 75 percent of the assets of a REIT must be comprised of real estate assets, cash and cash items, and government securities. The term "real estate assets" is defined to include real property and interests in real property.

Provision: Under the provision, debt instruments issued by publicly offered REITs, as well as interests in mortgages on interests in real property, would be treated as real estate assets for purposes of the 75-percent asset test. Income from debt instruments issued by publicly offered REITs would be treated as qualified income for purposes of the 95-percent income test, but not the 75-percent income test (unless they already are treated as qualified income under current law). In addition, not more than 25 percent of the value of a REIT's assets would be permitted to consist of such debt instruments. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

Sec. 3641. Asset and income test clarification regarding ancillary personal property.

Current law: Under current law, a REIT must derive at least 95 percent of its income from certain specified real estate-related and other investment income, and 75 percent of its income from such specified real estate-related investment income. In addition, at least 75 percent of the assets of a REIT must be comprised of real estate assets, cash and cash items, and government securities. The term "real estate assets" is defined to include real property and interests in real property.

Provision: Under the provision, certain ancillary personal property that is leased with real property would be treated as real property for purposes of the 75-percent asset test (similar to the current-law treatment of rents from such property for purposes of the REIT income tests). In addition, an obligation secured by a mortgage on such property would be treated as real property for purposes of the 75-percent income and asset tests, provided the fair market value of the personal property does not exceed 15 percent of the total fair market value of the combined real and personal property. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

Sec. 3642. Hedging provisions.

Current law: Under current law, a REIT must derive at least 95 percent of its income from certain specified real-estate-related and other investment income, and 75 percent of its income from such specified real-estate-related investment income. Income from certain REIT hedging transactions generally is not included as gross income under either the 95-percent or 75-percent income tests.

Provision: Under the provision, the current-law treatment of REIT hedges would be extended to include income from hedges of previously acquired hedges that a REIT entered to manage risk associated with liabilities or property that have been extinguished or disposed. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

Sec. 3643. Modification of REIT earnings and profits calculation to avoid duplicate taxation.

Current law: Under current law, REIT shareholders who receive distributions are treated as having received a dividend to the extent of the REIT's current and accumulated earnings and profits. Distributions in excess of earnings and profits are treated as a return of shareholders' capital (reducing the shareholders' basis on their REIT stock) and as capital gain of the shareholders to the extent the distributions exceed shareholders' stock basis in the REIT. A REIT may deduct a distribution to shareholders from its taxable income, and can satisfy the requirement that REITs distribute as dividends at least 90 percent of their taxable income, only to the extent of distributions that are made out of its earnings and profits. REIT earnings and profits are computed in the same manner as earnings and profits of other corporations and can differ from taxable income. However, a special rule for REITs provides that current earnings and profits are not reduced by any amount that does not reduce REIT taxable income.

Provision: Under the provision, current (but not accumulated) REIT earnings and profits for any tax year would not be reduced by any amount that is not allowable in computing taxable income for the tax year and was not allowable in computing its taxable income for any prior tax year (e.g., certain amounts resulting from differences in the applicable depreciation rules). The provision would apply only for purposes of determining whether REIT shareholders are taxed as receiving a REIT dividend or as receiving a return of capital (or capital gain if a distribution exceeds a shareholder's stock basis). The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

Sec. 3644. Reduction in percentage limitation on assets of REIT which may be taxable REIT subsidiaries.

Current law: Under current law, a REIT generally may not own more than 10 percent of the vote or value of a single entity. However, there is an exception for ownership of taxable REIT subsidiaries (TRSs) that are taxed as corporations, provided the securities of one or more TRSs do not represent more than 25 percent of the value of the REIT's assets. The 25-percent limitation was increased from 20 percent in legislation enacted in 2008.

Provision: Under the provision, the 25-percent TRS stock limitation would be reduced back to 20 percent. The provision would be effective for tax years beginning after 2016.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 3645. Treatment of certain services provided by taxable REIT subsidiaries.

Current law: Under current law, certain income from foreclosed real property satisfies the 95-percent and 75-percent REIT income tests. In addition, REITs are subject to a 100-percent prohibited transactions tax that prohibits REITs from being dealers in real property and limits the number of real property sales that a REIT may conduct.

A TRS generally may engage in any kind of business activity, except that it is not permitted to operate either a lodging or health care facility, although a TRS is permitted to rent certain lodging or health care facilities from its parent REIT and is permitted to hire an independent contractor to operate such facilities. A 100-percent excise tax applies to certain non-arm's length transactions between a TRS and its parent REIT.

Provision: Under the provision, TRSs would be permitted to operate foreclosed real property without causing income from the property to fail to satisfy the REIT income tests. In addition, TRSs would be permitted to develop and market REIT real property without subjecting the REIT to the 100-percent prohibited transactions tax. The provision also would expand the 100-percent excise tax on non-arm's length transactions to include services provided by the TRS to its parent REIT. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

Sec. 3646. Study relating to taxable REIT subsidiaries.

Current law: Under current law, rents from real property include amounts received or accrued from TRSs, provided both the REIT and the TRS satisfy certain requirements. A TRS generally is permitted to engage in any kind of business activity, but is subject to corporate tax on its taxable income. Legislation enacted in 1999 creating TRSs required the Treasury Department to conduct a study and submit a report to Congress regarding the number of TRSs in existence and the aggregate amount of taxes paid by TRSs.

Provision: Under the provision, the Treasury Department would be required to conduct a biannual study, and submit a report to the Ways and Means Committee and Senate Finance Committee, regarding the number of TRSs in existence, the aggregate amount of taxes paid by TRSs, and the amount by which transactions between TRSs and their parent REITs reduce the taxable income of the TRSs. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3647. C corporation election to become, or transfer assets to, a RIC or REIT.

Current law: Under current law, a REIT or regulated investment company (RIC) that previously operated as a C corporation is subject to an entity-level tax at the highest corporate tax rate on certain built-in gains of property that it held while operating as a C corporation. The tax applies to gain recognized within ten years from the date that the C corporation elected to be a REIT or RIC. For 2013, the period was reduced to five years.

Provision: Under the provision, the current-law entity-level tax on built-in gains would be imposed at the time the C corporation elects to become a REIT or RIC or transfers assets to the REIT or RIC in a carryover basis transaction, without regard to when the gain otherwise would be recognized by the REIT or RIC. The provision would be effective for elections and transfers after February 26, 2014.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for section 3631 of the discussion draft.

Sec. 3648. Interests in RICs and REITs not excluded from definition of United States real property interests.

Current law: Under current law, the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA) imposes tax on dispositions by foreign persons of interests in real property that is located in the United States. Specifically, FIRPTA treats the gain or loss from such dispositions as effectively connected with a U.S. trade or business. In addition, FIRPTA imposes a 10-percent withholding tax on the gross proceeds from such dispositions. An interest in U.S. real property includes an interest in a U.S. corporation the assets of which, at any time during the five-year period preceding the disposition, have consisted predominantly of U.S. real property. However, an interest in U.S. real property does not include an interest in a U.S. corporation that does not hold any interests in U.S. real property at the time of disposition and, during the five-year period preceding the disposition of an interest in the U.S. corporation by a foreign person, disposed of its interests in U.S. real property in transactions in which the full amount of any gain was recognized for tax purposes.

Provision: Under the provision, the FIRPTA exception for interests in U.S. corporations that have disposed of all of their interests in U.S. real property in taxable transactions during the five-year period preceding disposition of an interest in the U.S. corporation by a foreign person would not apply to interests in REITs or RICs that disposed of their interests in U.S. real property with respect to which the REIT or RIC claimed a dividends paid deduction. The provision would be effective for dispositions after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 3649. Dividends derived from RICs and REITs ineligible for deduction for United States source portion of dividends from certain foreign corporations.

Current law: Under current law, U.S. corporations generally may claim a deduction for dividends received from a 10-percent owned foreign corporation to the extent the dividend is attributable to either (1) income of the foreign subsidiary that is effectively connected with the conduct of a U.S. trade or business, or (2) dividends received by the foreign subsidiary from a U.S. corporation that is at least 80-percent owned by the foreign subsidiary. In addition, RICs and REITs may deduct dividend distributions to their shareholders, although shareholders that are U.S. corporations generally may not claim a deduction for such dividends.

Provision: Under the provision, the deduction for dividends received from a foreign subsidiary would not apply to dividends that are attributable to dividends received by the foreign subsidiary from a RIC or REIT.

The provision would be effective for distributions after February 26, 2014.

JCT estimate: According to JCT, the provisions would increase revenues by $0.5 billion over 2014-2023.

Part 4 – Personal Holding Companies

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

Current law: Under current law, a tax of 20 percent is imposed on the passive income of certain corporations (in addition to the regular corporate income tax) to prevent the retention of corporate earnings in avoidance of the individual income tax. Corporations are subject to the additional tax if five or fewer individuals own more than 50 percent of the corporation's stock and more than 60 percent of the corporation's income consists of certain types of passive income such as dividends, interest, and royalties. The tax is imposed on such passive income only to the extent the income has not been distributed as a dividend by the corporation. The passive income that is subject to the tax includes dividends that are received by the corporation from any foreign subsidiaries, even if such dividends are derived from an active trade or business of the foreign subsidiary.

Provision: Under the provision, dividends received from a foreign subsidiary would not be subject to the additional 20-percent tax (although they would continue to be subject to the regular corporate income tax). The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Subtitle H – Taxation of Foreign Persons

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

Current law: Under current law, insurance companies generally may deduct premiums paid for reinsurance. If the reinsurance transaction results in a transfer of reserves and reserve assets to the reinsurer, potential tax liability for earnings on those assets is generally shifted to the reinsurer as well. While insurance income of a foreign subsidiary of a U.S. insurance company generally is subject to current U.S. taxation (absent the temporary exception for active financing income), insurance income of a foreign-owned foreign company that is not engaged in a U.S. trade or business generally is not subject to U.S. income tax. Instead, insurance and reinsurance policies issued by foreign insurers and reinsurers with respect to U.S. risks generally are subject to an excise tax, unless waived by treaty. In the case of reinsurance policies, this excise tax is equal to 1 percent of the premium paid.

Provision: Under the provision, U.S. insurance companies would not be permitted to deduct reinsurance premiums paid to a related company that is not subject to U.S. taxation on the premiums, unless the related company elects to treat the premium income as effectively connected to a U.S. trade or business (and thus subject to U.S. tax). However, if the taxpayer demonstrates to the IRS that a foreign jurisdiction taxes the reinsurance premiums at a rate as high as or higher than the U.S. corporate rate, the deduction for the reinsurance premiums would be allowed. Additionally, to match income and deductions, any income from reinsurance recovered by the U.S. insurance company, as well as any ceding commissions received in connection with a premium deduction that has been disallowed, would not be subject to U.S. tax. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $8.7 billion over 2014-2023.

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

Current law: Under current law, a foreign individual or corporation generally is subject to U.S. tax on income that is effectively connected with the conduct of a U.S. trade or business. However, income derived by a foreign individual or corporation from the international operation of a ship is exempt from U.S. tax if the country in which the individual or corporation is a resident grants an equivalent exemption to U.S. taxpayers. Otherwise, a 4-percent U.S. tax is imposed on U.S.-source gross income from regularly scheduled shipping if the foreign individual or corporation has a fixed place of business in the United States that is involved in earning such income.

Provision: Under the provision, the income of foreign taxpayers that is derived from the operation of passenger cruise ships within U.S. territorial waters would be subject to U.S. tax, without regard to whether the country in which the taxpayer is a resident grants an equivalent exemption to U.S. taxpayers. In addition, the 4-percent U.S. tax on U.S.-source shipping income would apply without regard to whether the shipping is regularly scheduled or the foreign individual or corporation has a fixed place of business in the United States. The provision would be effective for tax years beginning after 2014.

Considerations:

- Over 70 percent of travelers on passenger cruise ships are from the United States, and cruise line companies rely heavily on taxpayer-funded U.S. maritime infrastructure and Coast Guard resources during both normal operations and in the event of emergencies. By flagging their ships in other countries, however, these companies pay little or no U.S. Federal income tax under a long-standing exemption that originally was intended to apply to the transport of cargo and passengers between the United States and other countries.
- According to the U.S. Department of Transportation Maritime Administration, the overall utilization rate for passenger cruise vessels in 2011 exceeded 100 percent, which is primarily a function of cruise lines setting fares to fill ships, so it is unlikely that cruise ship passengers would be affected by this provision through price increases.

JCT estimate: According to JCT, the provision would increase revenues by $0.9 billion over 2014-2023.

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

Current law: Under current law, U.S. shareholders of a passive foreign investment company (PFIC) are taxed currently on the PFIC's earnings. A PFIC is defined as any foreign corporation (1) 75 percent or more of the gross income of which is passive, and (2) at least 50 percent of the assets of which produce passive income. Among other exceptions, passive income does not include any income that is derived in the active conduct of an insurance business if the PFIC is predominantly engaged in an insurance business and would be taxed as an insurance company were it a U.S. corporation.

Provision: Under the provision, the PFIC exception for insurance companies would be amended to apply only if (1) the PFIC would be taxed as an insurance company were it a U.S. corporation, (2) more than 50 percent of the PFIC's gross receipts for the tax year consist of premiums, and (3) loss and loss adjustment expenses, unearned premiums, and certain reserves constitute more than 35 percent of the PFIC's total assets. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.4 billion over 2014-2023.

Sec. 3704. Modification of limitation on earnings stripping.

Current law: Under current law, a U.S. corporation generally may deduct interest payments, including payments to a related party. However, if the taxpayer's debt-to-equity ratio exceeds 1.5 to 1, interest payments to certain related parties that are not subject to U.S. tax (e.g., foreign corporations) are disallowed to the extent the taxpayer has "excess interest expense," – i.e., net interest expense (interest expense less interest income) in excess of 50 percent of the taxpayer's adjusted taxable income (defined as taxable income without regard to deductions for net interest expense, net operating losses, certain cost recovery, and domestic production activities). Any disallowed interest deductions may be carried forward indefinitely, while any "excess limitation" (the excess of 50 percent of the corporation's adjusted taxable income over the corporation's net interest expense) may be carried forward three years.

Provision: Under the provision, the threshold for excess interest expense would be reduced to 40 percent of adjusted taxable income. In addition, corporations would no longer be permitted to carry forward any excess limitation. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $2.9 billion over 2014-2023.

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

Current law: Under current law, certain payments of fixed or determinable, annual or periodical (FDAP) income – such as interest, dividends, rents, and annuities – to foreign recipients are subject to a statutory 30-percent withholding tax. Income tax treaties between the United States and other countries, however, often reduce or eliminate this withholding tax for payments from one treaty country to residents of the other treaty country.

Provision: Under the provision, if a payment of FDAP income is deductible in the United States and the payment is made by an entity that is controlled by a foreign parent to another entity in a tax treaty jurisdiction that is controlled by the same foreign parent, then the statutory 30-percent withholding tax on such income would not be reduced by any treaty unless the withholding tax would be reduced by a treaty if the payment were made directly to the foreign parent. The provision would be effective for payments made after the date of enactment.

JCT estimate: According to JCT, the provision would increase revenues by $6.9 billion over 2014-2023.

Subtitle I – Provisions Related to Compensation

Part 1 – Executive Compensation

Sec. 3801. Nonqualified deferred compensation.

Current law: Under current law, compensation generally is taxable to an employee and deductible by an employer in the year earned, with two significant exceptions. First, for compensation provided as part of a qualified defined benefit or defined contribution pension plan, the employee does not take such compensation into income until the year in which a distribution from the plan occurs, while the employer generally may take the deduction in the year the compensation is earned. Second, for non-qualified deferred compensation, the employee does not take such compensation into income until the year received, but the employer's deduction is postponed until that time. The employee generally must take non-qualified deferred compensation into income, however, if the compensation is put into a trust protected from the employer's creditors in bankruptcy as soon as there is no substantial risk of forfeiture with regard to the compensation. In addition, if the employer is located in a jurisdiction in which the employer is not effectively subject to income tax (i.e., certain foreign jurisdictions), the compensation is immediately taxable as soon as it is not subject to a substantial risk of forfeiture. Other rules apply to deferred compensation paid by a State or local government or tax-exempt organization, in which case an employee may defer tax so long as the deferred compensation is less than the limit on employee contributions for 401(k) plans (i.e., $17,500 for 2014).

Provision: Under the provision, an employee would be taxed on compensation as soon as there is no substantial risk of forfeiture with regard to that compensation (i.e., receipt of the compensation is not subject to future performance of substantial services). The provision would be effective for amounts attributable to services performed after 2014. The current-law rules would continue to apply to existing non-qualified deferred compensation arrangements until the last tax year beginning before 2023, when such arrangements would become subject to the provision.

Considerations:
- The provision repeals a current-law tax benefit for which only highly compensated employees are generally eligible.
- The provision creates simplicity in an area of taxation that is extremely complex under current law.

JCT estimate: According to JCT, the provision would increase revenues by $9.2 billion over 2014-2023.

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

Current law: Under current law, a corporation generally may deduct compensation expenses as an ordinary and necessary business expense. The deduction for compensation paid or accrued with respect to a covered employee of a publicly traded corporation, however, is limited to no more than $1 million per year. The deduction limitation applies to all remuneration paid to a covered employee for services, including cash and the cash value of all remuneration (including benefits) paid in a medium other than cash, subject to several significant exceptions: (1) commissions; (2) performance-based remuneration, including stock options; (3) payments to a tax-qualified retirement plan; and (4) amounts that are excludable from the executive's gross income.

A covered employee is the chief executive officer (CEO) and the next four highest compensated officers based on the Securities and Exchange Commission (SEC) disclosure rules. Due to changes in the applicable SEC disclosure rules, IRS guidance has interpreted "covered employee" to mean the principal executive officer and the three highest compensated officers as of the close of the tax year.

Provision: Under the provision, the exceptions to the $1 million deduction limitation for commissions and performance-based compensation would be repealed. The provision also would revise the definition of "covered employee" to include the CEO, the chief financial officer, and the three other highest paid employees, realigning the definition with current SEC disclosure rules. Under the modified definition, once an employee qualifies as a covered person, the deduction limitation would apply for Federal tax purposes to that person so long as the corporation pays remuneration to such person (or to any beneficiaries). The provision would be effective for tax years beginning after 2014.

Considerations:
- The significant exceptions to the current limit on the deductible executive compensation by publicly traded corporations have resulted in a shift away from cash compensation paid to senior executives in favor of stock options and other forms of performance pay.

- This shift has led to perverse consequences as some executives focus on – and could, in rare cases, manipulate – quarterly results (off of which their compensation is determined), rather than on the long-term success of the company.

JCT estimate: According to JCT, the provision would increase revenues by $12.1 billion over 2014-2023.

<u>Sec. 3803. Excise tax on excess tax-exempt organization executive compensation.</u>

Current law: Under current law, the deduction allowed to publicly traded C corporations for compensation paid with respect to chief executive officers and certain highly paid officers is limited to no more than $1 million per year. Similarly, current law limits the deductibility of certain severance-pay arrangements ("parachute payments"). No parallel limitation applies to tax-exempt organizations with respect to executive compensation and severance payments.

Provision: Under the provision, a tax-exempt organization would be subject to a 25-percent excise tax on compensation in excess of $1 million paid to any of its five highest paid employees for the tax year. The excise tax would apply to all remuneration paid to a covered person for services, including cash and the cash value of all remuneration (including benefits) paid in a medium other than cash, except for payments to a tax-qualified retirement plan, and amounts that are excludable from the executive's gross income.

Once an employee qualifies as a covered person, the excise tax would apply to compensation in excess of $1 million paid to that person so long as the organization pays him remuneration. The excise tax also would apply to excess parachute payments paid by the organization to such individuals. Under the provision, an excess parachute payment generally would be a payment contingent on the employee's separation from employment with an aggregate present value of three times the employee's base compensation or more. The provision would be effective for tax years beginning after 2014.

Considerations:
- Current law generally has no limit on excessive compensation paid by a tax-exempt organization to its senior management other than the limitation on private inurement, the consequence of which can be revocation of the organization's exemption.
- Tax-exempt organizations enjoy a tax subsidy from the Federal government as a result of the requirement that they use their resources for specific purposes. Some may question whether excessive executive compensation diverts resources from those particular purposes.
- The provision is consistent with the limitation on the deductibility of executive compensation by taxable publicly traded corporations.
- Given that exemption from Federal income tax constitutes a significant benefit conferred upon tax-exempt organizations, the case for discouraging excess compensation paid out to such organizations' executives may be even stronger than it is for publicly traded companies.

JCT estimate: According to JCT, the provision would increase revenues by $4.0 billion over 2014-2023.

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

Current law: Under current law, an employer that transfers a share of stock to an individual pursuant to an incentive stock option plan or employee stock purchase plan may not claim a deduction as an ordinary and necessary business expense under Code section 162 for the value of such stock. Some taxpayers have taken the position that notwithstanding the foregoing prohibition, a deduction is permitted as wages paid with respect to research expenditures under Code section 174.

Provision: Under the provision, the rules with respect to incentive stock option plans and employee stock purchase plans would be clarified to deny a deduction under any provision of the Code for a transfer of stock to an individual under such plans. The provision would be effective for stock transferred after February 26, 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Part 2 – Worker Classification

Sec. 3811. Determination of worker classification.

Current law: Under current law, the determination of whether a worker is an employee or an independent contractor is generally made under a common-law facts and circumstances test that seeks to determine whether the worker is subject to the control of the service recipient, not only as to the nature of the work performed, but also as to the circumstances under which it is performed. Various provisions under current law, however, specifically classify a worker as an employee or an independent contractor. For example, certain real estate agents and direct sellers are treated for all tax purposes as independent contractors, while full-time life insurance salesmen are treated as employees only for employment tax and employee benefit purposes. In some cases, salesmen are treated as employees just for employment tax purposes. Under a special safe harbor rule (section 530 of the Revenue Act of 1978), a service recipient may treat a worker as an independent contractor for employment tax purposes, even though the worker may be an employee, if the service recipient has a reasonable basis for treating the worker as an independent contractor and certain other requirements are met.

Provision: Under the provision, workers qualifying for a safe harbor would not be treated as an employee and the service recipient would not be treated as the employer for any Federal tax purpose. The safe harbor also would apply to three-party arrangements in which a payor other than the service recipient pays the worker. To qualify for the safe harbor, the worker would have to satisfy certain sales or service criteria and the worker and service recipient would be required to have a written agreement meeting specified requirements. In addition, the service recipient would withhold tax on the first $10,000 of payments made to the worker in a year at a rate of 5 percent. Amounts withheld under the safe harbor would be creditable by the worker against quarterly estimated-tax requirements.

In any case in which the IRS determines that the requirements of the safe harbor were not satisfied, the provision generally would limit the IRS to reclassification of the worker as an employee and service provider as an employer on a prospective basis. To avoid retroactive reclassification, the worker or service provider would have to have satisfied the written agreement and the reporting and withholding requirements of the safe harbor and have had a reasonable basis for claiming that the safe harbor applied.

The provision would be effective for services performed and payments made after 2014.

Considerations:

- Under current law, the IRS uses a subjective 20-factor common law test to determine a worker's status. As a result, businesses – especially small businesses – that hire, and individuals who want to work as, independent contractors, face considerable uncertainty as to whether the IRS will respect that classification.
- In cases where the IRS reclassifies an independent contractor as an employee, often years after the contractor and service recipient entered into their business arrangement, the result can be significant liability for back taxes, interest, and penalties.
- The provision would provide much-needed certainty by providing a safe harbor under which a worker would be classified as an independent contractor if certain objective criteria are met, and the IRS generally would be barred from retroactively reclassifying the independent contractor if a good faith effort were made to qualify for the safe harbor.

JCT estimate: According to JCT, the provision would reduce revenues by $2.6 billion over 2014-2023.

Subtitle J – Zones and Short-Term Regional Benefits

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

Current law: Under current law, the Secretary of Housing and Urban Development and the Secretary of Agriculture were authorized to designate certain urban and rural areas as Enterprise Communities and Empowerment Zones. Since 1996, Empowerment Zones have replaced Enterprise Communities. The tax benefits available to designated zones included: (1) a 20-percent wage credit available to employers for the first $15,000 of qualified wages paid to an employee who was a resident and performs substantially all employment services within the Empowerment Zone; (2) expanded tax-exempt financing by State and local governments for certain zone facilities as well as zone academy bonds for certain public schools located in an Empowerment Zone; and (3) deferred recognition of gain on the sale of qualified Empowerment Zone assets held for more than one year and replaced within 60 days by another qualified asset in the same zone. The Enterprise Community designations generally expired at the end of 2004. The Empowerment Zones designation expired after 2013.

Provision: Under the provision, Enterprise Communities and Empowerment Zones and the associated special tax benefits would be repealed. The provision generally would be effective on the date of enactment, except for sales of qualified Empowerment Zone assets before the date of enactment, and bonds issued before 2014.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 3822. Repeal of DC Zone provisions.

Current law: Under current law, certain economically depressed census tracts within the District of Columbia were designated as the District of Columbia Enterprise Zone (DC Zone). Businesses and individual residents within the DC Zone were eligible for special tax incentives generally through the end of 2011. The tax benefits included: (1) a zero-percent capital gains rate with respect to the sale of certain qualified DC Zone assets, provided that the property was held for more than five years; and (2) expanded tax-exempt bond financing for certain zone facilities as well as zone academy bonds for certain public schools located in the zone.

Provision: Under the provision, the DC Zone and the associated special tax incentives would be repealed. The provision generally would be effective on the date of enactment, except for qualifying capital assets and residences acquired, and bonds issued, before 2012.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

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

Current law: Under current law, the Community Renewal Tax Relief Act of 2000 authorized the designation of 40 "Renewal Communities" within which special tax incentives were available generally through the end of 2009. The tax benefits included: (1) up to $12 million to be allocated by a State to each Renewal Community for commercial revitalization expenditures (i.e., the cost of a new building, or the cost of substantially rehabilitating an existing building, used for commercial purposes and located in a Renewal Community), for which the taxpayer may elect either to deduct one-half of the commercial revitalization expenditures for the tax year the building is placed in service or amortize all the expenditures ratably over a 120-month period; (2) a zero-percent capital gains rate with respect to gain from the sale of certain Renewal Community assets for gains attributable to the period between 2002 and 2014 (inclusive), provided that the property was held for more than five years; and (3) access to zone academy bonds for certain public schools located in an Empowerment Zone.

Provision: Under the provision, the Renewal Communities and the associated special tax incentives would be repealed. The provision generally would be effective on the date of enactment, except for qualifying assets and property acquired and placed in service, and wages paid or incurred, before 2010.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

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

Current law: Under current law, special tax benefits applied to certain designated areas for recovery from specific disasters. In 2002, the New York Liberty Zone was designated to assist with the recovery from the terrorist attacks on September 11, 2001. The tax benefits for the Liberty Zone included: (1) additional 30-percent first-year depreciation for qualified Liberty Zone property placed in service before 2006 (2009 for certain real property); (2) enhanced tax-exempt bond financing for New York Liberty Bonds issued before 2014; and (3) five-year replacement period for compulsory or involuntarily converted Liberty Zone assets as a result of the terrorist attacks.

In 2005, the Gulf Opportunity Zone (GO Zone) was designated to provide relief for areas damaged by Hurricanes Katrina, Rita, and Wilma. The primary tax benefits for these areas included: (1) enhanced tax-exempt bond financing for Gulf Opportunity Zone Bonds issued before 2012; (2) five-year carryback of certain losses resulting from GO Zone damages; (3) increased rehabilitation credit for qualifying expenditures before 2012; (4) special education tax benefits for individuals attending educational institutions in the GO Zone in 2005 and 2006; and (5) certain housing tax benefits for residents of the GO Zone in 2005 and 2006.

Provision: Under the provision, the Liberty Zone and GO Zone designations and the associated special tax benefits would be repealed. The provision generally would be effective on the date of enactment or, if earlier, the date on which the particular tax benefit expires or the date by which the bonds must be issued under current law.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Title IV – Participation Exemption System for the Taxation of Foreign Income

Subtitle A – Establishment of Exemption System

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

Current law: Under current law, U.S. citizens, resident individuals, and domestic corporations generally are taxed on all income, whether earned in the United States or abroad. Foreign income earned by a foreign subsidiary of a U.S. corporation generally is not subject to U.S. tax until the income is distributed as a dividend to the U.S. corporation. To mitigate the double taxation on earnings of the foreign corporation, the United States allows a credit for foreign income taxes paid. The foreign tax credit generally is available to offset, in whole or in part, the U.S. tax owed on foreign income. When foreign tax credits are insufficient to offset the U.S. tax liability on the repatriated earnings, the additional U.S. tax the U.S. corporation must pay is referred to as the "U.S. residual tax." A U.S. taxpayer may elect to deduct foreign income taxes paid rather than claim the credit.

Provision: Under the provision, the current-law system of taxing U.S. corporations on the foreign earnings of their foreign subsidiaries when these earnings are distributed would be replaced with a dividend-exemption system. Under the exemption system, 95 percent of dividends paid by a foreign corporation to a U.S. corporate shareholder that owns 10 percent or more of the foreign corporation would be exempt from U.S. taxation. No foreign tax credit or deduction would be allowed for any foreign taxes (including withholding taxes) paid or accrued with respect to any exempt dividend. The provision would be effective for tax years of foreign corporations beginning after 2014, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

Considerations:

- The provision would allow U.S. companies to compete on a more level playing field against foreign multinationals when selling products and services abroad.
- The provision would eliminate the "lock-out" effect that results from the U.S. residual tax under current law, which discourages U.S. companies from bringing their foreign earnings back into the United States.

JCT estimate: According to JCT, the provision would reduce revenues by $212.0 billion over 2014-2023.

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

Current law: Under current law, any gain that is recognized by a U.S. parent corporation on the sale or exchange of its stock in a foreign subsidiary generally is treated as a dividend distribution by the foreign subsidiary to its U.S. parent to the extent of earnings and profits (E&P) that have been accumulated by the foreign subsidiary while it had been owned by the U.S. parent.

In some cases, U.S. companies may operate businesses in foreign countries directly through a branch rather than a separate foreign subsidiary. In these situations, U.S. companies pay U.S. taxes on the foreign earnings or deduct losses on a current basis, as if earned directly by the U.S. parent.

Provisions: Under the provision, a U.S. parent would reduce the basis of its stock in a foreign subsidiary by the amount of any exempt dividends received by the U.S. parent from its foreign subsidiary. Such basis reductions would apply only for purposes of determining the amount of a loss (but not the amount of any gain) on any sale or exchange of the foreign subsidiary stock by its U.S. parent. The provision would be effective for dividends received in tax years beginning after 2014.

In addition, if a U.S. corporation transfers substantially all of the assets of a foreign branch to a foreign subsidiary, the U.S. corporation would be required to include in income the amount of any post-2014 losses that previously were incurred by the branch to the extent the U.S. corporation receives exempt dividends from any of its foreign subsidiaries. The provision would be effective for transfers after 2014.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for section 4001 of the discussion draft.

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

Current law: Under current law, U.S. citizens, resident individuals, and domestic corporations generally are taxed on all income, whether earned in the United States or abroad. Foreign income earned by a foreign subsidiary that is owned by a U.S. corporation generally is not subject to U.S. tax until the income is distributed as a dividend to the U.S. corporation. To mitigate the double taxation on earnings of the foreign corporation, the United States allows a credit for foreign income taxes paid. The foreign tax credit generally is available to offset, in whole or in part, the U.S. tax owed on foreign income

Provision: Under the provision, U.S. shareholders owning at least 10 percent of a foreign subsidiary would include in income for their last tax year beginning before 2015 their pro rata share of the post-1986 historical E&P of the foreign subsidiary to the extent such E&P has not been previously subject to U.S. tax. The E&P would be bifurcated into E&P retained in the form of cash, cash equivalents, or certain other short-term assets, and E&P that has been reinvested in the foreign subsidiary's business (property, plant and equipment). The portion of the E&P that consists of cash or cash equivalents would be taxed at a special rate of 8.75 percent, while any remaining E&P would be taxed at a special rate of 3.5 percent. Foreign tax credits would be partially available to offset the U.S. tax.

At the election of the U.S. shareholder, the tax liability would be payable over a period of up to eight years, based on a schedule of 8 percent of the net tax liability in each of the first 5 years; 15 percent in the sixth year; 20 percent in the seventh year and 25 percent in the eighth year. The tax revenues generated directly by this one-time tax on accumulated E&P would be deposited into the Highway Trust Fund (HTF) as the revenues are received from taxpayers. Consistent with the current allocation of fuel excise tax revenues between the Highway Account and the Mass Transit Account in the HTF, 80 percent of the revenues raised by this provision would be allocated to the Highway Account, and 20 percent of the revenues would be allocated to the Mass Transit Account.

If the U.S. shareholder is an S corporation, the provision would not apply until the S corporation ceases to be an S corporation, substantially all of the assets of the S corporation are sold or liquidated, the S corporation ceases to exist or conduct business, or stock in the S corporation is transferred.

The provision would be effective for tax years of foreign corporations beginning after 2014, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

Considerations:

- The provision would provide $126.5 billion of revenue for the Highway Trust Fund to address the deep funding shortfall that currently exists for Federal transportation infrastructure projects, enough to eliminate the cumulative shortfall in the trust fund through 2021.
- The provision would eliminate the need for U.S. companies to separately track E&P that was accumulated by their foreign subsidiaries prior to adoption of the dividend-exemption system, so that all distributions from foreign subsidiaries would be treated in the same manner under the dividend-exemption system.
- The provision would moderate the tax burden on illiquid accumulated E&P that has been reinvested in the foreign subsidiary's business.

JCT estimate: According to JCT, the provision would increase revenues by $170.4 billion over 2014-2023, $126.5 billion of which would be attributable directly to the one-time tax on accumulated E&P, with the remainder attributable to indirect revenue effects.

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

Current law: Under current law, a U.S. parent of a foreign subsidiary generally is subject to current U.S. tax on dividends, interest, royalties, rents, and other types of passive income earned by the foreign subsidiary, regardless of whether the foreign subsidiary distributes such income to the U.S. parent. However, for tax years of foreign subsidiaries beginning before 2014, and tax years of U.S. shareholders in which or with which such tax years of the foreign subsidiary end, a special "look-through" rule provided that passive income received by one foreign subsidiary from a related foreign subsidiary generally was not includible in the taxable income of the U.S.

parent, provided such income was not subject to current U.S. tax or effectively connected with a U.S. trade or business.

Provision: Under the provision, the look-through rule would be made permanent. The provision would be effective for tax years of foreign corporations beginning after 2013, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

JCT estimate: According to JCT, the provision would reduce revenues by $13.1 billion over 2014-2023.

Subtitle B – Modifications Related to Foreign Tax Credit System

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

Current law: Under current law, foreign income earned by a foreign subsidiary of a U.S. corporation generally is not subject to U.S. tax until the income is distributed as a dividend to the U.S. corporation. To mitigate the double taxation on earnings of the foreign corporation, the United States allows a credit for foreign income taxes paid. The foreign tax credit generally is available to offset, in whole or in part, the U.S. tax owed on foreign-source income.

Under certain circumstances, the U.S. parent corporation is subject to U.S. tax on certain foreign income of its foreign subsidiaries ("subpart F income") even if the income is not repatriated. A U.S. parent corporation generally may claim a credit for foreign taxes paid on the subpart F income.

Provision: Under the provision, no foreign tax credit or deduction would be allowed for any taxes (including withholding taxes) paid or accrued with respect to any dividend to which the dividend exemption under section 4001 of the discussion draft would apply. A foreign tax credit would be allowed for any subpart F income that is included in the income of the U.S. shareholder on a current year basis, without regard to pools of foreign earnings kept abroad. The provision would be effective for tax years of foreign corporations beginning after 2014 and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for section 4001 of the discussion draft.

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

Current law: Under current law, a portion of expenses incurred in the United States by a U.S. parent of a foreign subsidiary that are not directly attributable to income earned by the foreign subsidiary must be allocated against foreign-source income for purposes of calculating the U.S. parent's foreign-source income. The allocation of these expenses to foreign-source income reduces the amount of foreign tax credits a U.S. parent may use to reduce its U.S. tax on foreign-source income. Some of the expenses that are allocated include stewardship expenses, general and administrative expenses, and interest expenses.

Provision: Under the provision, only expenses that are directly attributable to income earned by a foreign subsidiary would be allocated against foreign-source income for purposes of calculating the U.S. parent's foreign-source income and the amount of foreign tax credits the U.S. parent may use to reduce its U.S. tax on foreign-source income. Directly allocable deductions include items such as salaries of sales personnel, supplies, and shipping expenses directly related to the production of foreign-source income. The provision would be effective for tax years of foreign corporations beginning after 2014, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for section 4001 of the discussion draft.

Sec. 4103. Passive category income expanded to include other mobile income.

Current law: Under current law, income earned by foreign subsidiaries is categorized as either active or passive income. Passive income generally includes (but is not limited to) dividends, rents, royalties and capital gains. Additionally, the foreign taxes paid on the income are separated into active and passive baskets. Only foreign taxes paid on passive income may be taken into account in determining the amount of foreign tax credits that may be claimed against U.S. tax on passive income.

Provision: Under the provision, the use of foreign tax credits would be restricted to two baskets: mobile and active. The mobile basket would include certain related-party sales income, foreign intangible income, and current-law passive income. The active basket would include all other income. The provision would be effective for tax years of foreign corporations beginning after 2014, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for section 4211 of the discussion draft.

Sec. 4104. Source of income from sales of inventory determined solely on basis of production activities.

Current law: Under current law, in determining the source of income for foreign tax credit purposes, up to 50 percent of the income from the sale of inventory property that is produced within the United States and sold outside the United States (or vice versa) may be treated as foreign-source income, even though the production activity takes place entirely within the United States.

Provision: Under the provision, income from the sale of inventory property produced within and sold outside the United States (or vice versa) would be allocated and apportioned between sources within and outside the United States solely on the basis of the production activities with respect to the inventory. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $1.8 billion over 2014-2023.

Subtitle C – Rules Related to Passive and Mobile Income

Part 1 – Modification of Subpart F Provisions

Sec. 4201. Subpart F income to only include low-taxed foreign income.

Current law: Under current law, a U.S. parent of a foreign subsidiary is subject to current U.S. tax on certain income of the foreign subsidiary ("subpart F income"), regardless of whether or not the income is distributed to the U.S. parent. Subpart F income generally includes certain forms of passive and highly mobile income that are easily transferred to subsidiaries in low-tax countries. Examples of subpart F income include dividends, interest, rents, royalties, and certain related-party sales or services transactions. If, however, the subpart F income has been taxed at a rate that is at least 90 percent of the U.S. tax rate (i.e., 31.5 percent for C corporations), then the U.S. parent may elect to treat that income as non-subpart F income.

Provision: Under the provision, the 90-percent threshold for treating foreign income as subpart F income would be increased to 100 percent (i.e., 25 percent for C corporations) for foreign personal holding company income. For foreign base company sales income, however, the threshold would be reduced to 50 percent of the U.S. rate (i.e., 12.5 percent for C corporations) and to 60 percent of the U.S. rate (i.e., 15 percent) for foreign base company intangible income. In addition, such treatment would no longer be elective. The provision would be effective for tax years of foreign corporations beginning after 2014, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for section 4211 of the discussion draft.

Sec. 4202. Foreign base company sales income.

Current law: Under current law, a U.S. parent of a foreign subsidiary is subject to current U.S. tax under subpart F on income earned by the foreign subsidiary from certain related-party sales transactions ("foreign base company sales income" or FBCSI), regardless of whether the foreign subsidiary distributes such income to the U.S. parent. In general, FBCSI is income earned by a foreign subsidiary from buying or selling personal property from or to, or on behalf of, related persons if the property is (1) manufactured, produced, grown or extracted outside of the country in which the foreign subsidiary is organized, and (2) used, consumed, or disposed of outside of such country.

Provision: Under the provision, FBCSI no longer would include income earned by a foreign subsidiary that is incorporated in a country that has a comprehensive income tax treaty with the United States, or to income that has been taxed at an effective tax rate of 12.5 percent or greater. The provision would be effective for tax years of foreign corporations beginning after 2014, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for section 4211 of the discussion draft.

Sec. 4203. Inflation adjustment of de minimis exception for foreign base company income.

Current law: Under current law, a U.S. parent of a foreign subsidiary is subject to current U.S. tax under subpart F on FBCSI and foreign income from issuing (or reinsuring) insurance or annuity contracts, regardless of whether the foreign subsidiary distributes such income to the U.S. parent. However, a de minimis rule states that if the gross amount of such income is less than the lesser of 5 percent of the foreign subsidiary's gross income or $1 million, then the U.S. parent is not subject to current U.S. tax on any of the income. The $1 million threshold is not adjusted for inflation.

Provision: Under the provision, the $1 million threshold would be adjusted for inflation. The provision would be effective for tax years of foreign corporations beginning after 2014 and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

JCT estimate: The revenue effect of the provision over 2014-2023 is included in the JCT estimate provided for section 4211 of the discussion draft.

Sec. 4204. Active finance exception extended with limitation for low-taxed foreign income.

Current law: Under current law, a U.S. parent of a foreign subsidiary generally is subject to current U.S. tax under subpart F on dividends, interest, royalties, rents, and other types of passive income (collectively "foreign personal holding company income") earned by the foreign subsidiary, regardless of whether the foreign subsidiary distributes such income to the U.S. parent. However, for tax years of foreign subsidiaries beginning before 2014, and tax years of U.S. shareholders in which or with which such tax years of the foreign subsidiary end, there was a temporary exception for such income if it was derived in the active conduct of a banking, financing, or similar business, or in the conduct of an insurance business ("active financing income").

Provision: Under the provision, the exception would be extended for five years for active financing income that is subject to a foreign effective tax rate of 12.5 percent or higher. Active financing income that is subject to a lower foreign tax rate would not be exempt, but would be subject to a reduced U.S. tax rate of 12.5 percent, before the application of foreign tax credits. The provision would be effective for tax years of foreign corporations beginning after 2013 and before 2019, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

JCT estimate: According to JCT, the provision would reduce revenues by $18.4 billion over 2014-2023.

Sec. 4205. Repeal of inclusion based on withdrawal of previously excluded subpart F income from qualified investment.

Current law: Foreign shipping income earned between 1976 and 1986 was not subject to current U.S. tax under subpart F if the income was reinvested in certain qualified shipping investments. Such income becomes subject to current U.S. tax in a subsequent year to the extent that there is a net decrease in qualified shipping investments during that subsequent year.

Provision: Under the provision, the imposition of current U.S. tax on previously excluded foreign shipping income of a foreign subsidiary if there is a net decrease in qualified shipping investments would be repealed. The provision would be effective for tax years of foreign corporations beginning after 2014, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Part 2 – Prevention of Base Erosion

Sec. 4211. Foreign intangible income subject to taxation at reduced rate; intangible income treated as subpart F income.

Current law: Under current law, a U.S. parent of a foreign subsidiary is subject to current U.S. tax on its pro rata share of the subsidiary's subpart F income, regardless of whether the income is distributed to the U.S. parent. In addition, income earned by the U.S. parent directly for the use of its intangibles exploited abroad, usually in the form of royalties, is subject to U.S. tax upon receipt of the income. Under the transfer pricing rules, however, if a foreign subsidiary of the U.S. parent owns intangible property in a foreign jurisdiction, the U.S. parent generally may allocate substantial profits to the foreign subsidiary without violating the subpart F rules, thus deferring U.S. tax on those profits until they are distributed to the U.S. parent.

Provision: Under the provision, a U.S. parent of a foreign subsidiary would be subject to current U.S. tax on a new category of subpart F income, "foreign base company intangible income" (FBCII). FBCII would equal the excess of the foreign subsidiary's gross income over

10 percent of the foreign subsidiary's adjusted basis in depreciable tangible property (excluding income and property that are related to commodities).

The U.S. parent could claim a deduction equal to a percentage of the foreign subsidiary's FBCII that relates to property that is sold for use, consumption, or disposition outside the United States or to services that are provided outside the United States. The deduction also would be available to U.S. corporations that earn foreign intangible income directly (rather than through a foreign subsidiary). The deductible percentage of FBCII and foreign intangible income would be 55 percent for tax years beginning in 2015, and would phase down (in conjunction with the phase-in of the 25-percent corporate rate) to 52 percent in 2016, 48 percent in 2017, 44 percent in 2018, and 40 percent for tax years beginning in 2019 or later.

With regard to the treatment of FBCII as subject to current U.S. tax, the provision would be effective for tax years of foreign corporations beginning after 2014, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end. With regard to the deduction of a percentage of such income, the provision would be effective for tax years beginning after 2014.

Considerations:

- Under current law, the allocation of income by U.S. companies to intangible property that is located in low-tax or no-tax jurisdictions (through migration out of the United States or otherwise) is an acute source of erosion of the U.S. tax base.
- The adoption of a dividend exemption international tax system could, on its own and without appropriate safeguards, exacerbate this incentive by allowing profits that have been shifted to be repatriated with minimal U.S. tax consequences.
- The provision would remove tax incentives to locate intangible property in low-tax or no-tax jurisdictions by providing neutral tax treatment of income attributable to intangible property, regardless of whether such property is located within or outside the United States.
- At the same time, the provision would provide a reduced U.S. tax rate on such income to the extent derived from foreign customers in recognition that it is difficult to identify precisely when the allocation of income to intangible property in foreign jurisdictions results in erosion of the U.S. tax base.
- The provision includes a significant refinement to the international tax reform discussion draft released by the Committee on October 26, 2011 by providing a simplified approach to calculating income that is subject to the provision, in effect exempting normal returns on investments in tangible property.

JCT estimate: According to JCT, the provision, along with sections 4103, 4201, 4202, and 4203 of the discussion draft, would increase revenues by $115.6 billion over 2014-2023.

Sec. 4212. Denial of deduction for interest expense of United States shareholders which are members of worldwide affiliated groups with excess domestic indebtedness.

Current law: Under current law, corporations generally may deduct all of their interest expense even if the debt was acquired to capitalize foreign subsidiaries. Expense allocation rules, however, may require the interest expense to be allocated against foreign source income, which may limit the amount of foreign tax credits the U.S. parent may utilize.

Provision: Under the provision, the deductible net interest expense of a U.S. parent of one or more foreign subsidiaries would be reduced by the lesser of the extent to which (1) the indebtedness of the U.S. parent (including other members of the U.S. consolidated group) exceeds 110 percent of the combined indebtedness of the worldwide affiliated group (including both related domestic and related foreign entities), or (2) net interest expense exceeds 40 percent of the adjusted taxable income of the U.S. parent. Any disallowed interest expense could be carried forward to a subsequent tax year. The provision would be effective for tax years beginning after 2014.

Considerations:
- While reducing the corporate tax rate would reduce the incentive for U.S. companies to maintain excessive leverage, it is important to provide measures to discourage excessive leverage directly in conjunction with the adoption of a dividend-exemption system.
- The provision would prevent U.S. companies from generating excessive interest deductions in the United States on debt that is incurred to produce exempt foreign income in a dividend-exemption system.
- The provision recognizes standard non-tax business practices that involve parent corporations incurring debt to finance the acquisition or establishment of foreign subsidiaries by (1) allowing the U.S. group to have 10 percent more leverage than the worldwide group, and (2) providing an indefinite carryforward of disallowed interest expense.

JCT estimate: According to JCT, the provision would increase revenues by $24.0 billion over 2014-2023.

Title V – Tax Exempt Entities

Considerations for Title V:

- The Ways and Means Oversight Subcommittee, in numerous hearings in the 112th and 113th Congresses, has explored a variety of issues involving tax-exempt entities and public charities. In particular, the Subcommittee has learned that public charities are engaging in more commercial activities than ever before and are using more complex organizational structures to do so. Many organizations, such as AARP, are now earning significant profits licensing their own names to for-profit businesses (which is not taxable to an exempt organization) to avoid engaging in an active trade or business themselves. In addition, the IRS issued a report detailing how colleges and universities were abusing the unrelated business income tax (UBIT) rules by using loss-generating business activities to shelter gain from profitable businesses. The discussion draft would modify the UBIT rules to address these and similar loopholes.
- Another issue that has arisen in testimony is the potential for non-compliance within the tax-exempt sector. The discussion draft would address these issues by clarifying that a tax-exempt organization should, in general, either be a private foundation or a public charity. This would encourage greater transparency while still preserving diversity and innovation in the tax-exempt sector.
- The net investment excise tax on private foundations has long been a source of confusion and frustration for taxpayers. Private foundations, both large and small, recommended to the Committee's Tax Reform Working Group on Charitable/Exempt Organizations that the net investment tax be reduced to a flat 1 percent to ease compliance. The discussion draft would adopt this recommendation to ease the administrative burden on foundations and encourage more funding of charitable activities.

Subtitle A – Unrelated Business Income Tax

Sec. 5001. Clarification of unrelated business income tax treatment of entities treated as exempt from taxation under section 501(a).

Current law: Under current law, income derived from a trade or business regularly carried on by an organization exempt from tax under Code section 501(a) (including pension plans) that is not substantially related to the performance of the organization's tax-exempt functions is subject to the unrelated business income tax (UBIT). The highest corporate rate is applied to unrelated business income. A college or university that is an agency or instrumentality of a State government (or political subdivision) generally is subject to UBIT on any unrelated business taxable income. It is unclear, however, whether certain State and local entities (such as public pension plans) that are exempt under Code section 115(l) as government-sponsored entities as well as section 501(a) are subject to the UBIT rules.

Provision: Under the provision, all entities exempt from tax under section 501(a), notwithstanding the entity's exemption under any other provision of the Code, would be subject to the UBIT rules. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 5002. Name and logo royalties treated as unrelated business taxable income.

Current law: Current law designates certain activities as *per se* unrelated trades or businesses for UBIT purposes, including advertising activities and debt management plan services.

Provision: Under the provision, any sale or licensing by a tax-exempt organization of its name or logo (including any related trademark or copyright) would be treated as a *per se* unrelated trade or business, and royalties paid with respect to such licenses would be subject to UBIT. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $1.8 billion over 2014-2023.

Sec. 5003. Unrelated business taxable income separately computed for each trade or business activity.

Current law: Under current law, income subject to UBIT is based on the gross income of any unrelated trade or business less the deductions directly connected with carrying on such activity. In cases where a tax-exempt organization conducts two or more unrelated trades or businesses, the unrelated business taxable income is the aggregate gross income of all the unrelated trades or businesses less the aggregate deductions allowed with respect to all such unrelated trades or businesses. As a result, losses generated by one unrelated trade or business may be used to offset income derived from another unrelated trade or business.

Provision: Under the provision, a tax-exempt organization would be required to calculate separately the net unrelated taxable income of each unrelated trade or business. In addition, any loss derived from an unrelated trade or business could only be used to offset income from that unrelated trade or business, with any unused loss subject to the general rules for net operating losses – i.e., such losses may be carried back two years and carried forward 20 years. Thus, losses generated by one unrelated trade or business could not be used to offset income derived from another unrelated trade or business. The provision would generally be effective for tax years beginning after 2014. However, NOLs generated prior to 2015 may be carried forward to offset income from any unrelated trade or business, but NOLs generated after 2014 may only be carried back to offset income with respect to the unrelated trade or business from which the net operating loss arose.

JCT estimate: According to JCT, the provision would increase revenues by $3.2 billion over 2014-2023.

Sec. 5004. Exclusion of research income limited to publicly available research.

Current law: Under current law, income derived from a research trade or business is exempt from UBIT in the following cases: (1) research performed for the United States (including agencies and instrumentalities) or any State (or political subdivision); (2) research performed by a college, university or hospital for any person; and (3) research performed by an organization operated primarily for the purposes of carrying on fundamental research the results of which are freely available to the general public.

Provision: Under the provision, the exception from the UBIT rules for fundamental research would be limited to income derived from the research made available to the public. Thus, income from research not made publicly available would be treated as unrelated trade or business income and subject to the UBIT rules. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.7 billion over 2014-2023.

Sec. 5005. Parity of charitable contribution limitation between trusts and corporations.

Current law: Under current law, for purposes of determining unrelated business taxable income subject to UBIT, an organization may deduct contributions made to other organizations. If the contributing tax-exempt entity is organized as a corporation, the charitable contribution deduction is limited to 10 percent of the entity's unrelated business taxable income – the same limitation that applies to corporations. But, if the contributing tax-exempt entity is organized as a trust, the deduction is limited to 50 percent of the entity's unrelated business taxable income – the same limitation that applies to individuals.

Provision: Under the provision, charitable contributions for purposes of determining UBIT would be limited to 10 percent of the unrelated business taxable income whether the contributing entity is organized as a corporation or a trust. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 5006. Increased specific deduction.

Current law: Under current law, UBIT is based on the gross income of any unrelated trade or business less the deductions directly connected with carrying on such activity. However, all tax-exempt organizations may claim a $1,000 deduction against gross income subject to UBIT.

Provision: Under the provision, the deduction would be increased to $10,000. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by $0.3 billion over 2014-2023.

Sec. 5007. Repeal of exclusion of gain or loss from disposition of distressed property.

Current law: Under current law, UBIT is based on the gross income of any unrelated trade or business, including gains or losses from the sale, exchange, or other disposition of inventory. An exception to the inclusion of such gains or losses applies to certain real property acquired by the tax-exempt organization from a bank or savings and loan association that held the property in receivership or conservatorship or as a result of a foreclosure. To qualify, the tax-exempt organization generally may not expend substantial amounts to improve or develop the distressed property and must dispose of such property within 30 months of acquisition.

Provision: Under the provision, the UBIT exception for acquisitions of distressed property would be repealed. Accordingly, a tax-exempt organization would be required to include in its unrelated trade or business income gain or loss resulting from the sale of such property to customers. The provision would be effective for property acquired after 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 5008. Qualified sponsorship payments.

Current law: Under current law, for purposes of the UBIT rules, an unrelated trade or business does not include the activity of soliciting and receiving qualified sponsorship payments. A qualified sponsorship payment generally is any payment made by a business sponsor with respect to which the business receives no substantial return benefit other than the use or acknowledgment of the name or logo (or product lines) of the business in connection with the tax-exempt organization's activities. Such a use or acknowledgment does not include advertising of such sponsor's products or services (i.e., qualitative or comparative language, price information or other indications of savings or value, or an endorsement or other inducement to purchase, sell, or use such products or services).

Provision: Under the provision, the UBIT exception for qualified sponsorship payments would be modified in two respects. First, if the use or acknowledgement refers to any of the business sponsor's product lines, the payment would not be a qualified sponsorship payment, and, therefore, would be treated by the tax-exempt organization as income from an advertising trade or business – which is a *per se* unrelated trade or business. Second, if a tax-exempt organization receives more than $25,000 of qualified sponsorship payments for any one event, any use or acknowledgement of a sponsor's name or logo may only appear with, and, in substantially the same manner as, the names of a significant portion of the other donors to the event. Whether the number of donors is a significant portion is determined based on the total number of donors and the total contributions to the event, but in no event shall fewer than 2 other donors be treated as a significant portion of other donors. Thus, a single business could not be listed as an exclusive sponsor of an event that generates more the $25,000 in qualified sponsorship payments. Such a contribution would be treated as advertising income by the tax-exempt organization and subject to UBIT. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Subtitle B – Penalties

Sec. 5101. Increase in information return penalties.

Current law: Under current law, tax-exempt organizations are required to file certain information returns each year depending on their exempt status. If a tax-exempt organization does not timely and completely file a required information return (e.g., Form 990) or does not furnish the correct information, it must pay $20 for each day the failure continues ($100 a day for organizations with annual gross receipts exceeding $1 million). The maximum penalty for each return may not exceed the lesser of $10,000 ($50,000 for a large organization) or 5 percent of the gross receipts of the organization for the year. Penalties also apply to information required of tax-exempt trusts and in certain other cases, such as when a tax-exempt organization dissolves or liquidates all or part of its assets. Exceptions from these penalties apply where the organization can show the failure was due to reasonable cause. There also are penalties for willful failures and for filing fraudulent returns and statements. A manager of an organization subject to these penalties who fails to respond to a written demand from the IRS to file an information return by a date certain is required to pay a penalty of $10 for each day after the deadline has passed, limited to a maximum of $5,000.

A manager or other person who fails to allow for the public inspection of a tax-exempt organization's annual returns and other publicly available documents is subject to a penalty of $20 for each day the failure continues, limited to a maximum of $10,000. An identical penalty and overall limitation also applies to a section 527 organization that fails to make required disclosures or fails to show any information required to be shown by such disclosures or to show the correct information. In addition, a person who fails to allow the public inspection of an entity's exempt status application materials or notice materials is subject to a penalty of $20 for each day such failure continues, with no overall limitation.

In addition, a trust is subject a penalty of $10 a day for failure to file an information return. Any organization that was tax exempt in any of the five years preceding a liquidation, dissolution, termination, or substantial contraction is subject to a penalty of $10 a day for failure to file a final return. In both cases, the maximum penalty cannot exceed $5,000. However, a trust with gross income in excess of $250,000 is subject to a penalty of $100 a day and a maximum fine of $50,000. Furthermore, a manager of an organization subject to these penalties who fails to respond to a written demand from the IRS to file a required return by a date certain is subject to a fine of $10 for each day after the deadline has passed, limited to maximum of $5,000.

A tax-exempt organization also is subject to a penalty of $100 per day for each day the entity fails to file the required disclosure of its participation in any prohibited tax shelter transaction and the identity of any other known party to such transaction.

Provision: Under the provision, the penalties for failure to file various returns, disclosures, or public documents on organizations and managers would be increased. The penalty for a tax-exempt organization's failure to file an information return would be increased from $20 to $40 per day. For an organization with more than $1 million in gross receipts, the penalty would be increased from $100 to $200 per day. For a manager of such an organization, the penalty would be increased from $10 to $20 per day. In the case of a person who fails to allow for the public inspection of a tax-exempt organization's annual returns and other publicly available documents, the penalty would be increased from $20 to $40 per day. The penalty for failure to allow for the public inspection of an entity's exempt status application or notice materials would also be increased from $20 to $40 per day. In the case of trust or a terminating tax-exempt organization, the penalty would be increased from $10 to $20 per day. The penalty for a trust with gross income in excess of $250,000 would be increased from $100 to $200 per day, and the penalty for the manager of a trust or terminating exempt entity would also be increased from $10 to $20 per day. The penalty for failure to file a tax-shelter disclosure form would be increased from $100 to $200 per day. The provision would be effective for information returns required to be filed on or after January 1, 2015.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

<u>Sec. 5102. Manager-level accuracy-related penalty on underpayment of unrelated business income tax.</u>

Current law: Under current law, individuals and corporations are subject to a 20-percent accuracy-related penalty with respect to the portion of an underpayment that is attributable to any substantial understatement of income tax. The accuracy-related penalty may be reduced or abated in certain cases.

A separate accuracy-related penalty applies to a reportable transaction or a listed transaction. A reportable transaction is defined as one that the IRS determines must be disclosed because it has a potential for tax avoidance or evasion. A listed transaction is a reportable transaction that is specifically identified by the IRS as a tax avoidance transaction (or substantially similar to such a tax avoidance transaction). The penalty rate for reportable and listed transactions that are disclosed by the taxpayer is 20 percent, while the penalty rate for an undisclosed transaction is 30 percent. Defenses available to avoid the penalty vary depending on whether the transaction was adequately disclosed.

Tax-exempt organizations subject to UBIT must file a return each year (Form 990-T), reporting unrelated business taxable income. Under current law, the 20-percent accuracy-related penalty and the penalty for reportable transactions and listed transactions apply to tax-exempt organizations, but only at the entity level. No manager-level penalty applies in such cases, unlike other penalties under current law that impose a penalty on both the tax-exempt organization and its managers (e.g., penalties applicable to public charities with respect to excess-benefit transactions and penalties on private foundations relating to self-dealing).

Provision: Under the provision, a 5-percent penalty would apply to managers of a tax-exempt organization when an accuracy-related penalty is applied to the organization for any substantial understatement of UBIT. The manager-level penalty would be limited to $20,000. The provision also would apply a 10-percent penalty on managers of a tax-exempt organization for an understatement of UBIT relating to a reportable transaction or listed transaction. The manager-level penalty for reportable transactions and listed transactions would be limited to $40,000. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Subtitle C – Excise Taxes

Sec. 5201. Modification of intermediate sanctions.

Current law: Under current law, disqualified persons and managers who engage in excess benefit transactions with tax-exempt organizations (other than private foundations) are subject to an excise tax on the amount of the economic benefit that exceeds the value of the consideration (including the performance of services) received for providing the benefit. A disqualified person (other than a manager acting only in that capacity) is subject to a 25-percent excise tax, and, if such tax is imposed, a manager who knowingly participated in the transaction (unless such participation was not willful and due to reasonable cause) is subject to a 10-percent excise tax. However, under Treasury regulations, a manager may avoid the excise tax for knowingly participating in an excess-benefit transaction if the manager relies on advice provided by an appropriate professional, including legal counsel, certified public accountants, and independent valuation experts.

A disqualified person generally is any person in a position to exercise substantial influence over the affairs of the public charity (e.g., officers, directors, or trustees) at any time in the five-year period before the excess-benefit transaction occurred. In the case of donor advised funds, the donor and donor advisors are specifically designated as disqualified persons, and in the case of a supporting organization, its investment advisors are disqualified persons. A disqualified person also includes certain family members of such a person, and certain entities that satisfy a control test with respect to such persons.

Under Treasury regulations, a tax-exempt organization in certain cases may avail itself of a rebuttable presumption with respect to compensation arrangements and property transfers for purposes of determining if the excise tax applies. If the requirements of the rebuttable presumption are met, the IRS may overcome the presumption of reasonableness if it develops sufficient contrary evidence to rebut the comparability data relied upon by the authorized body.

Provision: Under the provision, the excise tax on excess-benefit transaction would be expanded to apply not only to public charities, but also to labor, agricultural, and horticultural organizations (under Code section 501(c)(5)) and business leagues, chambers of commerce, real-estate boards, and boards of trade (under Code section 501(c)(6)).

The provision would impose an excise tax of 10 percent on the tax-exempt organization when the excess-benefit excise tax is imposed on a disqualified person. The entity-level tax would be avoidable if the organization follows minimum standards of due diligence or other procedures to ensure that no excess benefit is provided by the organization to a disqualified person. The minimum standards of due diligence would be satisfied if the transaction was approved by an independent body of the organization that relied on comparability data prior to approval and documented the basis for approving the transaction. The provision would overrule the Treasury regulations by providing that no presumption of reasonableness is created by the organization satisfying the minimum standards of due diligence for purposes of imposing the excise tax on disqualified persons and managers.

Additionally, managers would no longer be able to rely on the professional advice safe harbor under Treasury regulations. Thus, a manager's reliance on professional advice, by itself, would not preclude the manager from being subject to the excise tax for participating in an excess-benefit transaction.

The provision also would expand the definition disqualified persons to include athletic coaches and investment advisors regardless of whether the investment advisor provides services to a supporting organization.

The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 5202. Modification of taxes on self-dealing.

Current law: Under current law, disqualified persons and managers who engage in self-dealing transactions with private foundations are subject to an excise tax. Self-dealing transactions between a private foundation and a disqualified person generally include: (1) a sale or exchange, or leasing, of property; (2) lending of money or other extension of credit; and (3) the transfer to, or use by or for the benefit of, a disqualified person of the income or assets of the private foundation. The excise tax is imposed on the very act of self-dealing, irrespective of whether fair market value is paid (except for the payment of compensation, which is permitted at fair market value). The tax is imposed on the entire amount involved in the transaction (except for the payment of compensation, with respect to which the tax is imposed on compensation in excess of fair market value).

A disqualified person is subject to an excise tax of 10 percent of the value of a self-dealing transaction. If such a tax is imposed on a disqualified person, a tax of 5 percent of the amount involved is imposed on a foundation manager who knowingly participated in the act of self-dealing (unless such participation was not willful and was due to reasonable cause) up to $10,000 per act. If the act of self-dealing is not corrected, a tax of 200 percent of the amount involved is imposed on the disqualified person and a tax of 50 percent of the amount involved (up to $10,000 per act) is imposed on a foundation manager who refused to agree to correct the act of self-dealing. However, under Treasury regulations, a private foundation manager may avoid the excise tax for knowingly participating in a self-dealing transaction if the manager relies on advice provided by an appropriate professional, including legal counsel, certified public accountants, and independent valuation experts.

A disqualified person generally is any person in a position to exercise substantial influence over the affairs of the private foundation (e.g., officers, directors, or trustees). A disqualified person also includes certain family members of such a person, and certain entities that satisfy a control test with respect to such persons.

Provision: Under the provision, an excise tax of 2.5 percent would be imposed on a private foundation when the self-dealing tax is imposed on a disqualified person. The tax rate would be 10 percent for cases in which the self-dealing involves the payment of compensation.

Additionally, foundation managers would no longer be able to rely on the professional advice safe harbor. Thus, a manager's reliance on professional advice, by itself, would not preclude the manager from being subject to the excise tax for participating in a self-dealing transaction.

The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 5203. Excise tax on failure to distribute within 5 years contribution to donor advised fund.

Current law: Under current law, public charities (including community foundations) exempt from tax under Code section 501(c)(3) are permitted to establish accounts to which donors may contribute and thereafter provide nonbinding advice or recommendations with regard to distributions from the fund or the investment of assets in the fund. Such accounts are commonly referred to as "donor advised funds." Donors who make contributions to charities sponsoring such funds generally may claim a charitable contribution deduction at the time of the contribution, even though the contributed funds may be held in the account without distribution for significant periods. While the sponsoring charities generally must have legal ownership and control over the funds held in a donor advised fund, there is no requirement that the funds be distributed to other charitable organizations within any period of time. Donor advised funds also are not subject to the private foundation net investment excise tax.

Provision: Under the provision, donor advised funds would be required to distribute contributions within five years of receipt. An eligible distribution is a distribution made to a public charity. Failure to make an eligible distribution would subject the sponsoring charitable organization to an annual excise tax equal to 20 percent of the undistributed funds. The provision would be effective for contributions made after 2014. For contributions made before, and remaining in the donor advised fund on, January 1, 2015, the five-year distribution period would begin on January 1, 2015.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Sec. 5204. Simplification of excise tax on private foundation investment income.

Current law: Under current law, private foundations and certain charitable trusts are subject to a 2-percent excise tax on their net investment income. However, an organization may reduce the excise tax rate to 1 percent by meeting certain requirements regarding distributions to qualifying tax-exempt organizations during a tax year.

A special rule excludes "exempt operating foundations" from the excise tax. To be an exempt operating foundation, an organization must: (1) be an operating foundation, which is an organization that spends at least 85 percent of its adjusted net income or its minimum investment return, whichever is less, directly for the active conduct of its exempt activities, (2) be publicly supported for at least ten tax years, (3) have a governing body no more than 25 percent of whom are disqualified persons and that is broadly representative of the general public, and (4) have no officers who are disqualified persons. A disqualified person generally is any person in a position to exercise substantial influence over the affairs of the organization (e.g., officers, directors, or trustees).

Provision: Under the provision, the excise tax rate on net investment income would be reduced to 1 percent. The rules providing for a reduction in the excise tax rate from 2 percent to 1 percent would be repealed. The provision also would repeal the exception from the excise tax for exempt operating foundations. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would reduce revenues by $1.6 billion over 2014-2023.

Sec. 5205. Repeal of exception for private operating foundation failure to distribute income.

Current law: Under current law, private foundations generally are required to pay out a minimum amount each year in distributions to accomplish one or more of the organization's exempt purposes, including reasonable and necessary administrative expenses. Failure to pay out the minimum amount results in an initial excise tax on the foundation of 30 percent of the undistributed amount. An additional tax of 100 percent of the undistributed amount applies if an initial tax is imposed and the required distributions generally have not been made within the following year. Private operating foundations are not subject to the payout requirements. To qualify as a private operating foundation, the organization must spend at least 85 percent of its adjusted net income or its minimum investment return, whichever is less, directly for the active conduct of its exempt activities.

Provision: Under the provision, the special exclusion for private operating foundations would be repealed. Thus, private operating foundations would be subject to the excise tax for failure to distribute income like private foundations generally. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

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

Current law: Under current law, private foundations and certain charitable trusts are subject to a 2-percent excise tax on their net investment income. The excise tax on net investment income does not apply to public charities, including colleges and universities, even though some such organizations may have substantial investment income similar to private foundations.

Provision: Under the provision, certain private colleges and universities would be subject to a 1-percent excise tax on net investment income. The provision would only apply to private colleges and universities with assets (other than those used directly in carrying out the institution's educational purposes) valued at the close of the preceding tax year of at least $100,000 per full-time student. State colleges and universities would not be subject to the provision. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $1.7 billion over 2014-2023.

Subtitle D – Requirements for Organizations Exempt from Tax

Sec. 5301. Repeal of tax-exempt status for professional sports leagues.

Current law: Under current law, a professional football league is specifically granted tax-exempt status as a 501(c)(6) organization, an exemption that generally applies to trade or professional associations. The IRS has interpreted the exemption for "professional football leagues" to include all professional sports leagues.

Provision: Under the provision, professional sports leagues would not be eligible for tax-exempt status as a trade or professional association under Code section 501(c)(6). The provision would not apply to amateur sports leagues, which would continue to qualify as tax-exempt entities. The provision would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 5302. Repeal of exemption from tax for certain insurance companies and co-op health insurance issuers.

Current law: Under current law, a property and casualty insurance company generally is exempt from tax if its gross receipts for the tax year do not exceed $600,000 and its premiums constitute more than 50 percent of gross receipts. A mutual property and casualty insurance company is exempt from tax if its gross receipts for the tax year do not exceed $150,000 and more than 35 percent of such gross receipts consist of premiums. A qualified nonprofit health insurance issuer under the Affordable Care Act (ACA), which has received a loan or grant under the ACA's co-op program, also is exempt from tax.

Provision: Under the provision, the exemption would be repealed for qualified property and casualty insurance companies and for qualified health insurance issuers. The provision would be effective for tax years beginning after 2014. Affected companies would not be required to make an adjustment for a change in accounting method for their first tax year beginning after December 31, 2014, and the basis of any asset held on the first day of such tax year would be equal to its fair market value on such day.

JCT estimate: According to JCT, the provision would increase revenues by $0.7 billion over 2014-2023.

Sec. 5303. In-State requirement for workmen's compensation insurance organizations.

Current law: Under current law, organizations created by, and organized and operated under, State law exclusively to provide workmen's compensation insurance required by State law (or if an employer faces significant disincentives for not purchasing such insurance), or coverage incidental to such insurance, and meeting other requirements related to such organizations having strong connections to State governments are exempt from tax. Current law does not preclude exempt workmen's compensation insurance organizations from providing benefits to employees outside of the State under the laws of which it is created, organized and operated.

Provision: Under the provision, an exempt workmen's compensation insurance organization would be exempt from tax only if it provides no insurance coverage other than workmen's compensation insurance required by State law (or if an employer faces significant disincentives for not purchasing such insurance), or coverage incidental to such insurance. The provision would apply to insurance policies issued, and renewals, after 2014.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

<u>Sec. 5304. Repeal of Type II and Type III supporting organizations.</u>

Current law: Under current law, organizations exempt from tax under Code section 501(c)(3) are classified either as public charities, if publicly supported, or private foundations. Certain organizations that provide support to another public charity may also be classified as public charities rather than private foundations, even if not publicly supported. To qualify as a supporting organization, an organization must meet all three of the following tests: (1) the organizational-and-operational test, (2) the lack-of-outside-control test, and (3) the relationship test. Under the relationship test, a supporting organization must hold one of three relationships with the supported public charity. The organization must be: (1) operated, supervised, or controlled by a publicly supported organization (commonly referred to as a Type I supporting organization); (2) supervised or controlled in connection with a publicly supported organization (a Type II supporting organization); or (3) operated in connection with a publicly supported organization (a Type III supporting organization). In effect, the classification of a supporting organization depends on how close its relationship is to the supported organization, with Type I supporting organizations having the closest relationship (akin to a parent-subsidiary relationship).

Provision: Under the provision, Type II and Type III supporting organizations would be repealed. Thus, organizations that support public charities would need to qualify as a supporting organization that is operated, supervised, or controlled by a publicly supported organization (i.e., a Type I supporting organization), or they would be treated as private foundations. The provision would generally be effective for entities organized after the date of enactment. Type II and III supporting organizations existing on the date of enactment would have until the end of 2015, to qualify as a public charity or a supporting organization (previously a Type I supporting organization) or be treated as a private foundation.

JCT estimate: According to JCT, the provision would increase revenues by $1.4 billion over 2014-2023.

Title VI – Tax Administration and Compliance

Subtitle A – IRS Investigation-Related Reforms

Considerations for Subtitle A:

- The IRS investigation-related reforms in the discussion draft would address problems identified thus far during the course of the Committee's ongoing IRS investigation. The provisions offer simple, commonsense administrative solutions to prevent the future abuse of taxpayers and to increase access to the courts for aggrieved organizations.
- The streamlined notification process to operate as a 501(c)(4) organization draws from the Committee's in-depth analysis of the internal IRS processes and its review of all 501(c)(4) applicants over a two-year period. The Committee has found that a significant percentage of the Exempt Organizations Division's time and budget is currently spent analyzing Form 1024, an expensive exemption application that many small organizations do not understand is optional.
- Moreover, the Committee has found that the IRS is allocating a significant amount of time attempting to predict future activities of 501(c)(4) organizations with miniscule operating budgets, while allocating virtually no resources to compliance audits based on actual activities that risk tax-revenue losses.
- The new streamlined notification process for 501(c)(4) organizations would save small groups unnecessary filing costs and would allow a risk-based approach for the IRS to monitor compliance in this area.
- The investigation-related provisions also respond to the Committee's ongoing investigatory work involving unauthorized disclosures of confidential donor information by the IRS. The provisions would reduce the opportunities for unlawful disclosures of certain taxpayer information by the IRS, limit reporting of donor information where no tax administration interest exists, and restrict IRS employee use of personal e-mail for official business.
- Based on the Committee's ongoing investigation, which has found significant instances where taxpayer rights had been violated by the IRS, the provisions would enhance taxpayer rights by requiring new IRS reporting and employee training.
- Stand-alone pieces of legislation making several of these proposed changes (including those in sections 6005, 6006, and 6010 of the discussion draft) have previously passed the House of Representatives but have not yet been taken up by the Senate.

Sec. 6001. Organizations required to notify Secretary of intent to operate as 501(c)(4).

Current law: Under current law, social welfare organizations described in Code section 501(c)(4) are not required to obtain a determination of their exempt status from the IRS before commencing operations. Rather, such organizations are exempt if they are not organized for profit but operated exclusively for the promotion of social welfare, and if no part of the net earnings of which inures to the benefit of any private shareholder or individual. However, such organizations may request a formal determination of exempt status by filing Form 1024, Application for Recognition of Exemption under Section 501(a). An organization typically files a Form 1024 to be recognized formally as a tax-exempt organization and to obtain certain benefits such as exemption from certain State taxes and nonprofit mailing privileges. Once a social welfare organization commences operations (whether or not it applies or is formally approved for exempt status), the organization is required to file an annual information return, Form 990, Return of Organization Exempt from Income Tax.

Recent investigations of the IRS' handling of applications for exemption by section 501(c)(4) organizations have raised concerns about the extent of human resources the IRS dedicates to processing elective Form 1024 applications for exemption and the vulnerabilities for abuse in the current approval process.

Provision: Under the provision, any organization seeking to be recognized as exempt under Code section 501(c)(4) would be required, within 60 days of formation, to notify the IRS that it has commenced operations as a social welfare organization. Within 60 days of receiving the notification, the IRS would be required to issue an acknowledgement of the organization's intent to operate as such an exempt organization. A social welfare organization that fails to file the required notification of commencement of operations by the deadline would be subject to a penalty of $20 per day up to $5,000 and a manager-level penalty if the organization fails to file after a request from the IRS. With its first Form 990 information return, the organization would be required to provide such information as the IRS may require supporting the organization's qualification for exempt status. It is anticipated that this information would be similar to the information provided currently on Form 1024. If an organization wishes to receive a formal determination of exempt status, it would be able to request a ruling from the IRS.

The provision would apply to section 501(c)(4) organizations that are organized after 2014. Current organizations that have not filed a Form 1024 or a Form 990 would be required within 180 days of the date of enactment to meet the new notification requirement and provide the required information supporting the organization's qualification for exempt status with the Form 990 for the tax year in which the notice is filed.

JCT estimate: According to JCT, the provision would increase revenues by less than $50 million over 2014-2023.

Sec. 6002. Declaratory judgments for 501(c)(4) organizations.

Current law: Under current law, an organization that has qualified for tax exemption under Code section 501(c)(3) or section 521, or has applied for such status, may seek judicial relief if the IRS challenges the organization's initial or continuing qualification for tax exemption. Such declaratory judgment relief may be granted by the U.S. Tax Court, U.S. Court of Federal Claims, or the U.S. District Court for the District of Columbia. However, similar relief is not available for a section 501(c)(4) social welfare organization.

Provision: Under the provision, declaratory judgment relief would be extended to controversies involving the initial or continuing qualification of section 501(c)(4) social-welfare organizations. The provision would be effective for pleadings filed after the date of enactment.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

Sec. 6003. Restriction on donation reporting for certain 501(c)(4) organizations.

Current law: Under current law, organizations exempt from tax under Code section 501(c) generally are required to file an annual information return, Form 990, Return of Organization Exempt from Income Tax, with the IRS reflecting contributions, income, expenses and other information. Certain organizations, including social welfare organizations exempt under Code section 501(c)(4), must include Schedule B, Schedule of Contributors, listing any donor who contributes $5,000 or more (in money or property) during the year. The IRS is required to make information returns filed by exempt organizations available to the public. However, Schedule B is excluded from disclosure to protect donor personal information required by the schedule. Recent investigations of the IRS' handling of applications for exemption by section 501(c)(4) organizations have raised concerns about improper disclosure of Schedule B donor information to the public.

Provision: Under the provision, a social welfare organization exempt under Code section 501(c)(4) would be required to include on Schedule B only information concerning a donor who both (1) contributes $5,000 or more (in money or property) during the current tax year and (2) is either an officer or director of the organization or one of the five highest compensated employees of the organization for the current or any preceding tax year. Schedule B would continue to be excluded from the public disclosure requirement for information returns filed by exempt organizations. The provision would be effective for returns for tax years beginning after 2013.

JCT estimate: According to JCT, the provision would reduce revenues by less than $50 million over 2014-2023.

Sec. 6004. Mandatory electronic filing for annual returns of exempt organizations.

Current law: Under current law, a tax-exempt organization generally must file its annual tax return (i.e., Form 990) electronically only if the organization files at least 250 returns (e.g., Form W-2 for employees, Form 1099 for certain service providers) during the calendar year. Organizations that are not required to file a Form 990 or Form 990-EZ, generally because their gross receipts are normally less than $50,000 annually, must file an annual notice (Form 990-N) in electronic format. Certain tax-exempt organizations with unrelated business taxable income must report such income and associated tax on Form 990-T, which currently cannot be filed electronically. Current law limits the authority of the Treasury Department to require electronic filing of returns. As a result, only very small and very large tax-exempt organizations are required to file electronically.

Current law also requires the IRS to make available to the public information from the annual returns filed by tax-exempt organizations. Certain information relating to donors to such organizations is excluded. The IRS currently makes the required data available only in a restricted format that limits the usefulness of the data to the public.

Provision: Under the provision, all tax-exempt organizations that file Form 990 series returns would be required to file electronically. The provision also would require the IRS to make the electronically filed Form 990 returns data publicly available in a machine readable format in a timely manner, after ensuring that any donor or other taxpayer information is redacted. The provision would be effective for tax years beginning after the date of enactment, with transition relief for smaller organizations that are not currently required to file electronically.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 6005. Duty to ensure that IRS employees are familiar with and act in accord with certain taxpayer rights.

Current law: Under current law, the Commissioner of Internal Revenue has such duties and powers as the Treasury Secretary prescribes, including the power to administer, manage, conduct, direct, and supervise the execution and application of the tax laws and related statutes.

Provision: Under the provision, the Commissioner's duties would be expanded to include ensuring that IRS employees are familiar with and act in accordance with taxpayer rights under the tax laws, including the right to be informed, the right to be assisted, the right to be heard, the right to pay no more than the correct amount of tax, the right of appeal, the right to certainty, the right to privacy, the right to confidentiality, the right to representation, and the right to a fair and just tax system. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 6006. Termination of employment of IRS employees for taking official actions for political purposes.

Current law: Under current law, there are ten enumerated acts or omissions that, if committed by an IRS employee, will result in mandatory termination of the employee (also known as the "ten deadly sins"). These acts or omissions include threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

Provision: Under the provision, the enumerated acts or omissions that result in mandatory termination of an IRS employee would be expanded to include performing, delaying, or failing to perform (or threatening to perform, delay, or fail to perform) any official action or audit with respect to a taxpayer for the purpose of extracting personal gain or benefit or for political purposes. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 6007. Release of information regarding the status of certain investigations.

Current law: Under current law, it is unlawful for Federal employees to disclose certain taxpayer information or inspect taxpayer returns or records without authorization. Current law also limits the lawful disclosure of taxpayer information by employees of the Treasury Department (including the IRS and the Treasury Inspector General for Tax Administration) to certain enumerated circumstances. Because of these restrictions, in cases in which a taxpayer makes a complaint regarding unlawful disclosure of information, current law does not permit the Treasury Department to provide the affected taxpayer with information concerning the status or resolution of the complaint.

Provision: Under the provision, the enumerated circumstances in which taxpayer information may be lawfully disclosed by the Treasury Department would be expanded to include disclosure to certain complainants (or their representatives) of information regarding the status and results of any investigation initiated by their complaint. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 6008. Review of IRS examination selection procedures.

Current law: Under current law, the IRS' four operating divisions (wage and investment, small business/self-employed, large business and international, and tax-exempt and government entities) have discretion to develop and implement criteria for selection of cases for enforcement action. Concerns have been raised regarding the impartiality and appropriateness of such enforcement actions, especially with respect to certain tax-exempt organizations.

Provision: Under the provision, the Comptroller General would be directed to undertake an initial review of each IRS operating division to assess the processes used to determine how enforcement cases are selected and worked, and would be directed to report to Congress and the Treasury Secretary the results of the initial review and any recommendations to improve the case selection and case work processes for each division. The Comptroller General also would be directed to conduct a follow-up review to determine whether the recommendations included in the initial report have been implemented. Following the initial and follow-up reviews, the Comptroller General would be directed to conduct further reviews of each IRS division every four years, and would be directed to report to Congress and the Treasury Secretary the results of these reviews. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 6009. IRS employees prohibited from using personal email accounts for official business.

Current law: Under current law, there is no statutory prohibition against the use of personal email accounts by IRS employees to conduct official agency business. The Internal Revenue Manual restricts IRS employees from sending emails that contain "sensitive but unclassified" data outside the IRS network, unless approved by senior agency management, but the manual does not specifically reference the use of personal email accounts.

Provision: Under the provision, IRS employees would be prohibited by statute from using any personal email account to conduct official agency business. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 6010. Moratorium on IRS conferences.

Current law: Under current law, the IRS has discretion to hold conferences relating to employee training and other management purposes, and to incur travel expenses relating to such conferences. On May 31, 2013, the Treasury Inspector General for Tax Administration (TIGTA) issued a report titled, "Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California," which identified excessive spending on IRS conferences and other deficiencies in management procedures.

Provision: Under the provision, the IRS would be precluded from holding any conference until TIGTA submits a report to Congress certifying that the IRS has implemented all of the recommendations included in TIGTA's May 31, 2013 report. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 6011. Applicable standard for determinations of whether an organization is operated exclusively for the promotion of social welfare.

Current law: Under current law, Code section 501(c)(4) provides a tax exemption for organizations not organized for profit but operated exclusively for the promotion of social welfare. Treasury regulations provide that an organization is operated exclusively for the promotion of social welfare if it is engaged primarily in promoting in some way the common good and general welfare of the people of a community. Social welfare organizations are permitted to engage in "direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office" ("political campaign intervention") so long as the organization is primarily engaged in activities that promote social welfare.

Under current Treasury regulations, whether an activity constitutes political campaign intervention (and thus does not promote social welfare), and the measurement of the organization's social welfare activities relative to its total activities, depends on all the facts and circumstances of the particular case. The rules concerning political campaign intervention apply only to activities involving candidates for elective public office; the rules do not apply to activities involving officials who are selected or appointed, such as executive branch officials and judges. The lobbying and advocacy activities of a section 501(c)(4) organization generally are not limited, provided the activities are in furtherance of the organization's exempt purpose.

On November 29, 2013, the Department of the Treasury and the IRS published proposed regulations regarding the political campaign activities of section 501(c)(4) organizations. The proposed regulations, once finalized, would replace the present-law facts-and-circumstances test used in determining whether a section 501(c)(4) organization has engaged in political campaign intervention with an enumerated list of activities that constitute political campaign activities (and which therefore do not promote social welfare).

Provision: The provision would require the IRS to apply the standards and definitions in effect on January 1, 2010, to determine whether an organization is operated exclusively for the promotion of social welfare for purposes of Code section 501(c)(4). The provision also would prohibit the Secretary or his delegate from issuing, revising, or finalizing any regulation (including the proposed regulations issued on November 29, 2013), revenue ruling, or other guidance that is not limited to a particular taxpayer relating to the standards or definitions used to determining whether an organization is operated exclusively for the promotion of social welfare for purposes of Code section 501(c)(4). The provision would be effective on the date of enactment and expire one year after such date.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Subtitle B – Taxpayer Protection and Service Reforms

Sec. 6101. Extension of IRS authority to require truncated Social Security numbers on Form W-2.

Current law: Under current law, employers are required to furnish annual written statements to their employees containing certain information regarding wages and benefits (i.e., Form W-2). Current law requires that the statement include the employee's Social Security number (SSN). Other statements provided to taxpayers (e.g., Forms 1099) are subject to more general rules that require the filer to include the taxpayer's "identifying number" on the form. For some statements, the Treasury Department and IRS have regulatory authority to require or permit filers to use a number other than the taxpayer's SSN. Concerns have been raised that a taxpayer's SSN could be stolen from a Form W-2 or other paper payee statement and used to file false or fraudulent tax returns.

Provision: Under the provision, employers would be required to include an "identifying number" for each employee, rather than an employee's SSN, on Form W-2. Thus, the Treasury Department and the IRS would have the regulatory authority to require or permit a truncated SSN on Form W-2 as well as Form 1099 to reduce the potential for identity theft and the filing of false or fraudulent tax returns. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 6102. Free electronic filing.

Current law: Under current law, the IRS has entered into arrangements with commercial return preparation service providers (known as the Free File Alliance) to provide free tax preparation and electronic filing services to eligible low-income or elderly taxpayers. This arrangement is commonly known as the Free File Program. Taxpayers generally must select a designated service provider through the IRS' website to access commercial online software provided by Free File Alliance companies to prepare and file their tax returns. To qualify, taxpayers must have adjusted gross income (AGI) of $58,000 or less (for 2013 returns). Each participating company sets its own eligibility requirements and not all taxpayers will qualify to use the software of all companies. There is no fee for taxpayers using the Free File Program, and Free File Alliance companies also do not pay any fee to the IRS to participate in the program.

Provision: Under the provision, the IRS would be directed to continue working cooperatively with the private-sector technology industry to maintain a program that provides free individual income tax preparation and individual income tax electronic filing services to lower-income and elderly taxpayers. (The current Free File Program would satisfy this requirement.) The IRS would be required to provide regulations or other guidance with respect to the program, including (1) the qualifications, selection process, terms of participation, and any other procedures with respect to businesses seeking to participate in the program; (2) a process for periodic review of participants approved for the program; and (3) a procedure for removal of any participant that no longer qualifies for the program or has failed to comply with the program's rules and procedures. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Sec. 6103. Pre-populated returns prohibited.

Current law: Under current law, a taxpayer generally has responsibility for preparing and filing a tax return if the taxpayer has taxable gross income for a tax year. Certain taxpayers may elect to have the IRS prepare the return based on information provided by the taxpayer. Similarly, under the substitute for return program, the IRS may make a return based on information available to or obtained by the IRS for a taxpayer who fails to prepare and file a return by the required due date or for a taxpayer who makes, willfully or otherwise, a false or fraudulent return. The IRS has an obligation under current law to make reasonable efforts to verify any third-party information upon which the agency relies under the substitute for return program or bear the burden of proof if such information is subject to judicial review. If the IRS ultimately determines that a non-filing taxpayer had no filing requirement, any tax, penalty, and interest assessed generally is abated.

Provision: Under the provision, the IRS would be prohibited from instituting any program under which it prepares or otherwise provides taxpayers with proposed or final returns or statements intended to be used by the taxpayer to satisfy his reporting obligation under the Code. Thus, the IRS would not have authority to implement a broad-based program under which it pre-populates a return with third-party information supplied to the agency (e.g., Form W-2 wage statements, Form 1099s for interest, dividends or capital gains) and provides such return to a taxpayer for filing. The provision would be effective on the date of enactment.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 6104. Form 1040SR for seniors.

Current law: Under current law, a taxpayer generally is responsible for preparing and filing a tax return if the taxpayer has taxable gross income for a tax year. The IRS has broad discretion under current law to provide all necessary forms to enable taxpayers to satisfy their return-filing obligations. Taxpayers with relatively uncomplicated financial circumstances and modest income are generally eligible to file their taxes using the simplest tax form – Form 1040EZ. However, individuals who are age 65 or older are expressly prohibited from using Form 1040EZ, thereby requiring them to use other more complicated forms.

Provision: Under the provision, the IRS would be required to develop a simple tax return to be known as Form 1040SR, which would be as similar as practicable to the current Form 1040EZ. The new form would be available for use by individuals over the age of 65 who receive common types of retirement income. The provision would be effective for tax years beginning after 2014.

Consideration: Under current IRS rules, taxpayers with relatively uncomplicated financial lives are generally eligible to file their taxes using the simplest tax return – Form 1040EZ. However, no matter how simple and straightforward their returns, seniors are expressly denied the opportunity to use the most convenient tax form simply because they are over the age of 65. As a result, seniors must use other more complicated forms, forcing them to struggle through the myriad pages of instructions, worksheets, and schedules to file their taxes or spend their retirement income on a professional tax preparer to do so. The provision would correct this inequity and require the IRS to make available a simple tax form specifically for seniors.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Sec. 6105. Increased refund and credit threshold for Joint Committee on Taxation review of C corporation return.

Current law: Under current law, the IRS may not issue a refund or credit of any income or certain other taxes in excess of $2 million until 30 days after the IRS provides a report regarding the refund or credit to the Joint Committee on Taxation (JCT). As a matter of administrative practice, JCT staff reviews the facts surrounding the proposed refund or credit and communicates any concerns back to the IRS, which can then modify the refund or credit at its discretion.

Provision: Under the provision, the threshold for JCT review of refunds or credits with respect to returns filed by C corporations would be increased to $5 million. The provision would be effective on the date of enactment, except with respect to pending refund or credit reports that have been transmitted by the IRS to JCT prior to such date.

JCT estimate: According to JCT, the provision would have negligible revenue effect over 2014-2023.

Subtitle C – Tax Return Due Date Simplification

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

Current law: Under current law, taxpayers required to file income tax returns must file such returns in the manner prescribed by the IRS and subject to the due dates established in the Code (if any) or by regulations. Accordingly, a C corporation or an S corporation is required to file its tax return by March 15 (or within two and a half months after the close of its tax year). A partnership is required to file its returns by April 15 (or within three and a half months after the close of its tax year), the same date that applies to individuals and sole proprietors.

Current law provides corporations with an automatic three-month extension of the filing due date, with corporations permitted to apply for an additional three-month extension (for a total of six months).

Provision: Under the provision, the schedule for filing tax returns would be modified as follows:

- A partnership or S corporation would be required to file by March 15 (or two and a half months after the close of its tax year).
- A C corporation would be required to file by April 15 (or three and a half months after the close of its tax year).

The provision also would provide C corporations with an automatic six-month extension of the applicable filing date. Similarly, the provision would codify certain extensions currently provided by regulations.

The provision generally would be effective for tax years beginning after 2014. For C corporations with fiscal years ending on June 30, the new filing date would not apply to any tax year beginning in 2022.

JCT estimate: According to JCT, the provisions would increase revenues by $0.1 billion over 2014-2023.

Subtitle D – Compliance Reforms

Sec. 6301. Penalty for failure to file.

Current law: Under current law, a taxpayer who fails to file a tax return within 60 days of the due date is subject to a minimum penalty equal to the lesser of $135 or 100 percent of the amount required to be shown on the return.

Provision: Under the provision, the minimum penalty for failure to file a tax return would be increased to $400. The provision would be effective for tax returns the due date for the filing of which (including extensions) is after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.3 billion over 2014-2023.

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

Current law: Under current law, a multi-tier penalty structure applies to a taxpayer that fails to file correct information returns (e.g., IRS Form 1099) with the IRS. The penalties are based on the duration of the delinquency, the size of the taxpayer, and the taxpayer's intent. A separate, but parallel, penalty regime applies to taxpayers that fail to provide the payee with a correct copy of the information return (e.g., IRS Form 1099) filed with the IRS. The current amount for both penalty regimes is $100 for each information return not corrected before August 1st following the filing due date, with a maximum for each penalty of $1.5 million for any taxpayer in a calendar year. If the failure is corrected within 30 days of the due date, the penalty is reduced to $30 per return, with a maximum of $250,000 for each penalty. If the failure is corrected after 30 days but before August 1st, the penalty is $60 per return with a maximum of $500,000 for each penalty. For taxpayers with gross receipts of not more than $5 million, the maximum amount of the general penalty is $500,000, the maximum for corrected returns within 30 days is $75,000, and the maximum for corrected returns after 30 days, but before August 1st, is $200,000. For taxpayers who intentionally disregard the filing requirements, the penalty is $250 per return with no maximum.

Provision: Under the provision, the penalty for failure to file correct information returns and the penalty for failure to furnish correct payee statements would be adjusted as follows:

Level of Culpability	Amount per Return	Maximum per Year	Maximum for Small Business
Corrected within 30 days of due date	Current: $30 Provision: $50	Current: $250,000 Provision: $500,000	Current: $75,000 Provision: $175,000
Corrected after 30 days but before August 1st	Current: $60 Provision: $100	Current: $500,000 Provision: $1,500,000	Current: $200,000 Provision: $500,000
Continuing delinquency on or after August 1st	Current: $100 Provision: $250	Current: $1,500,000 Provision: $3,000,000	Current: $500,000 Provision: $1,000,000
Intentional failure	Current: $250 Provision: $500	Current: No limit Provision: No limit	Current: No limit Provision: No limit

The provisions would be effective for information returns and payee statements required to be filed after 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Sec. 6303. Clarification of 6-year statute of limitations in case of overstatement of basis.

Current law: Under current law, taxes generally are required to be assessed within three years after the date on which the taxpayer filed the return. However, if a taxpayer omits substantial income on a return (i.e., in excess of 25 percent of the amount of gross income that was stated in the return), any tax with respect to that return generally may be assessed within six years of the date on which the return was filed. The Supreme Court has ruled that the six-year statute of limitations does not apply to a return on account of the taxpayer having substantially overstated the adjusted basis of property, the sale or exchange of which results in an understatement of gain.

Provision: Under the provision, the six-year statute of limitations would apply to a return on which the taxpayer claims an adjusted basis for any property that is more than 125 percent of the correct adjusted basis. The provision would be effective for returns filed after the date of enactment and for returns filed on or before the date of enactment if the general statute of limitations has not expired.

JCT estimate: According to JCT, the provision would increase revenues by $1.1 billion over 2014-2023.

Sec. 6304. Reform of rules related to qualified tax collection contracts.

Current law: Under current law, the IRS has authority to enter into qualified tax collection contracts with private debt collection companies to locate and contact taxpayers owing outstanding tax liabilities of any type, and to arrange payment of such taxes by the taxpayers. Qualified tax collection contracts are subject to a number of administrative safeguards: (1) provisions of the Fair Debt Collection Practices Act apply; (2) taxpayer protections that are statutorily applicable to the IRS and its employees are applicable to the private-sector debt collection companies and to their employees; and (3) subcontractors of the private debt collection companies are subject to a number of restrictions regarding their contact with taxpayers.

Provision: Under the provision, the IRS would be required to use qualified tax collection contracts to collect certain inactive tax receivables. These receivables would include accounts removed from active inventory due to lack of IRS resources, accounts for which more than a third of the statute of limitations has expired without being assigned to an IRS employee for collection, and assigned accounts that have gone more than 365 days without interaction between the IRS and the taxpayer. However, certain receivables would not be assigned to private debt collection companies, including accounts subject to a pending or active offer-in-compromise or installment agreement, accounts relating to innocent spouse cases and taxpayers in combat zones, accounts of minors, deceased taxpayers or victims of identity theft, and accounts under examination, litigation, criminal investigation, levy, or subject to a right of appeal. The provision also would permit taxpayers in a presidentially declared disaster area to request that the private debt collector suspend collections and return the account to the IRS. The provision would be effective for tax receivables identified by the IRS after the date of enactment.

Considerations:

- From 2006 to 2009, the IRS conducted a pilot private debt collection program to help the agency collect certain tax debts that the agency did not have the resources to pursue.
- Despite successfully collecting $98.2 million through the private debt collection program, the Obama Administration terminated the pilot program in 2009.
- The provision would require the IRS to restore the private debt collection program to collect specific types of inactive tax debts that the agency is never going to collect due to resource constraints.
- With the current fiscal constraints and personnel limitations facing the IRS, the provision would ensure that the IRS uses every tool at its disposal to collect delinquent tax debts that otherwise will go uncollected and eventually become uncollectable once the statute of limitations expires.
- At the same time, the private debt collection program would be subject to numerous critical safeguards to ensure that the rights of taxpayers from whom such tax debts would be collected are carefully protected.

JCT estimate: According to JCT, the provision would increase revenues by $4.4 billion over 2014-2023, and increase outlays by $2.2 billion over 2014-2023.

Sec. 6305. 100 percent continuous levy on payments to Medicare providers and suppliers.

Current law: Under current law, the Treasury Department is authorized to continuously levy up to 15 percent of a payment to a Medicare provider to collect delinquent tax debt. Through the Federal Payment Levy Program, the Treasury Department deducts (levies) a portion of a government payment to an individual or business to collect unpaid taxes.

Provision: Under the provision, the Treasury Department would be authorized to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes. The provision would be effective for levies issued after the date of enactment.

JCT estimate: According to JCT, the provision would increase revenues by $0.7 billion over 2014-2023.

Sec. 6306. Treatment of refundable credits for purposes of certain penalties.

Current law: Under current law, a 20-percent accuracy-related penalty applies to the underpayment of tax. There is uncertainty as to the extent to which refundable credits are taken into account when determining the amount of the underpayment subject to the penalty. The Tax Court recently held that refundable credits count toward the underpayment of tax but only to the extent that tax liability is reduced to zero, but not to the extent that the credits produce a tax refund.

A separate 20-percent penalty applies when taxpayers make erroneous claims for refunds or credits. This penalty does not apply under current law to the earned income tax credit (EITC). The IRS may only assert either the penalty for erroneous claims for refund or credit or the penalty for underpayment of tax described above, but not both.

Provision: Under the provision, the penalty for underpayment of tax would take into account the full amount of refundable credits. The provision would be effective for returns filed after February 26, 2014 and returns filed on or before such date if the general statute of limitations has not expired.

The provision also would amend the penalty for erroneous claims for refunds or credits to apply to taxpayers who erroneously claim the new credit for employment-related taxes (section 1103 of the discussion draft). The provision would be effective for claims filed after February 26, 2014.

JCT estimate: According to JCT, the provision would increase revenues by $0.1 billion over 2014-2023.

Title VII – Excise Taxes

<u>Sec. 7001. Repeal of medical device excise tax.</u>

Current law: Under current law, the manufacturer, producer, or importer of any taxable medical device must pay an excise tax equal to 2.3 percent of the sales price of such device. The excise tax does not apply to eyeglasses, contact lenses, hearing aids, and any other medical device determined by the Secretary to be of a type that is generally purchased by the general public at retail for individual use.

Provision: Under the provision, the medical device excise tax would be repealed. The provision would apply to sales after the date of enactment.

JCT estimate: According to JCT, the provision would reduce revenues by $29.5 billion over 2014-2023.

<u>Sec. 7002. Modifications relating to oil spill liability trust fund.</u>

Current law: Under current law, an excise tax is imposed on crude oil (including crude oil condensates and natural gasoline) that is received at a U.S. refinery and on petroleum products that are imported into the United States. These excise tax revenues are deposited into the Oil Spill Liability Trust Fund. The excise tax rate is 8 cents per barrel through 2016 and 9 cents per barrel for 2017, but the tax expires after 2017. In 2011, the IRS issued administrative guidance concluding that tar sands are not subject to the excise tax because tar sands are not included in the definition of "crude oil" or "petroleum products" for purposes of the excise tax.

Provision: Under the provision, the excise tax would continue to be imposed at a rate of 9 cents per barrel for 2018 through 2023. In addition, the definitions of "crude oil" and "petroleum products" to which the excise tax applies would be modified to include crude oil condensates, natural gasoline, any bitumen or bituminous mixture, any oil derived from a bitumen or bituminous mixture, shale oil, and any oil derived from kerogen-bearing sources. The provision would be effective for oil and petroleum products received at U.S. refineries or imported into the United States during calendar quarters beginning more than 60 days after the date of enactment.

JCT estimate: According to JCT, the provision would increase revenues by $1.2 billion over 2014-2023.

<u>Sec. 7003. Modification relating to inland waterways trust fund financing rate.</u>

Current law: Under current law, an excise tax of 20 cents per gallon is imposed on fuel used in powering commercial cargo vessels on inland or intra-coastal waterways. These excise tax revenues are deposited into the Inland Waterways Trust Fund.

Provision: Under the provision, the excise tax rate would be increased to 26 cents per gallon. The provision would be effective for fuel used after 2014.

Consideration: In a letter dated September 24, 2013, to the Ways and Means Committee, the Waterways Council and a coalition of nearly 40 stakeholders expressed support for increasing the excise tax that supports the Inland Waterways Trust Fund to at least 26 cents per gallon, in conjunction with spending reforms included in the Water Resources Reform and Development Act, which passed the House of Representatives on October 23, 2013.

JCT estimate: According to JCT, the provision would increase revenues by $0.2 billion over 2014-2023.

Sec. 7004. Excise tax on systemically important financial institutions.

Current law: Under current law, sections 113 and 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act define a systemically important financial institution (SIFI) as (1) any bank holding company with at least $50 billion in total consolidated assets, or (2) any non-bank financial institution designated for SIFI treatment by the Financial Stability Oversight Council and thus subject to oversight by the Federal Reserve. SIFI status subjects a financial institution to more stringent prudential standards than apply to non-SIFIs, and such status also requires regulators and the financial institution to agree on a resolution plan to ensure an orderly process in the event that the financial institution fails or suffers financial distress. The Federal Reserve and other agencies conduct annual stress tests on SIFIs to ensure that the SIFIs have adequate capital to absorb losses that result from economic downturns.

Currently, there is no excise tax that applies to the assets of SIFIs.

Provision: Under the provision, every SIFI would be required to pay a quarterly excise tax of 0.035 percent of the SIFI's total consolidated assets (as reported to the Federal Reserve) in excess of $500 billion. After calendar year 2015, the $500 billion threshold would be indexed for increases in the gross domestic product (GDP). The provision would apply to calendar quarters beginning after 2014.

Considerations:

- Many commentators and academic studies have suggested that policies such as Dodd-Frank's SIFI designation actually contribute to the financial markets' view that certain financial institutions are "too big to fail" and may, therefore, be deserving of additional taxpayer bailouts in the future.
- The provision would address the significant implicit subsidy bestowed on big Wall Street banks and other financial institutions under Dodd-Frank. By deeming SIFIs to be "too big to fail," Dodd-Frank effectively subsidizes these big banks and financial institutions, providing them lower borrowing costs than they would face without that special designation. While tax reform cannot undo Dodd-Frank, it can and should help recapture a portion of that implicit subsidy.

- The SIFI designation applies to financial institutions with over $50 billion in assets. To avoid affecting smaller, regional banks that were not at the center of the recent financial crisis, the provision would be carefully targeted to apply to the largest of Wall Street firms – those having more than $500 billion in worldwide consolidated assets.
- On March 22, 2013, the Senate approved, by a unanimous vote of 99-0, a bipartisan amendment to the Senate budget resolution endorsing legislation to end subsidies and funding advantages received by "too big to fail" banks with total assets over $500 billion. So this concept has strong bipartisan, bicameral support.

JCT estimate: According to JCT, the provision would increase revenues by $86.4 billion over 2014-2023.

Sec. 7005. Clarification of orphan drug exception to annual fee on branded prescription pharmaceutical manufacturers and importers.

Current law: Under current law, an annual tax is imposed on covered entities engaged in the business of manufacturing or importing branded prescription drugs for sale to any specified government program or pursuant to coverage under any such program. Taxes collected are credited to the Medicare Part B trust fund. The aggregate annual tax imposed on all covered entities is $2.5 billion for calendar year 2011, $2.8 billion for calendar years 2012 and 2013, $3 billion for calendar years 2014 through 2016, $4 billion for calendar year 2017, $4.1 billion for calendar year 2018, and $2.8 billion for calendar year 2019 and thereafter. The aggregate tax is apportioned among the covered entities each year based on their relative share of branded prescription drug sales taken into account during the previous calendar year.

Branded prescription drug sales do not include sales of any drug or biological product with respect to which an orphan drug tax credit was allowed for any tax year under Code section 45C. The exception for orphan drug sales does not apply to any drug or biological product after such drug or biological product is approved by the Food and Drug Administration (FDA) for marketing for any indication other than the rare disease or condition with respect to which the section 45C credit was allowed.

Provision: Under the provision, eligibility for the orphan drug exemption would be expanded to include any drug or biological product that is approved or licensed by the FDA for marketing solely for one or more rare diseases or conditions, regardless of whether the section 45C credit was ever allowed. A disease or condition would be considered "rare" if either it affects less than 200,000 U.S. persons, or there is no reasonable expectation that the cost of developing and making the drug available will be recovered from sales. The provision would be effective for calendar years after 2013.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.

Title VIII – Deadwood and Technical Provisions

Subtitle A – Repeal of Deadwood

Secs. 8001-8084. Repeal of Deadwood.

Current law: Under current law, there are numerous provisions that relate to past tax years (and generally are no longer applied in computing taxes for open tax years), involve situations that were narrowly defined and unlikely to recur, or otherwise have outlived their usefulness. These types of provisions are often referred to as "deadwood" provisions.

Provisions: Under these provisions, current-law provisions that are deadwood would be repealed. (Note that other provisions in other titles of the discussion draft would repeal other current-law provisions that would become deadwood as a result of those other provisions.) These provisions generally would be effective on the date of enactment, although the tax treatment of any transaction occurring before that date, of any property acquired before that date, or of any item taken into account before that date, would not be affected by these provisions.

JCT estimate: According to JCT, the provisions would have no revenue effect over 2014-2023.

Subtitle B – Conforming Amendments Related to Multiple Sections

Sec. 8101. Conforming amendments related to multiple sections.

Current law: Under current law, there are numerous provisions that would be affected by multiple provisions in the discussion draft and, therefore, require technical changes to conform these current-law provisions to the provisions in the discussion draft.

Provision: Under the provision, several conforming changes that are common to various provisions of the discussion draft would be made. The provision generally would be effective for tax years beginning after 2014.

JCT estimate: According to JCT, the provision would have no revenue effect over 2014-2023.