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REPORT
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# SMALL BUSINESS TAX RELIEF ACT OF 2007

FEBRUARY 15, 2007.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. RANGEL, from the Committee on Ways and Means, submitted the following

# R E P O R T

[To accompany H.R. 976]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 976) to amend the Internal Revenue Code of 1986 to provide tax relief for small businesses, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike all after the enacting clause and insert the following:

**SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE; TABLE OF CONTENTS.**

(a) SHORT TITLE.—This Act may be cited as the "Small Business Tax Relief Act of 2007".

(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:

Sec. 1. Short title; amendment of 1986 Code; table of contents.
Sec. 2. Extension and modification of work opportunity tax credit.
Sec. 3. Extension and increase of expensing for small business.
Sec. 4. Determination of credit for certain taxes paid with respect to employee cash tips.
Sec. 5. Waiver of individual and corporate alternative minimum tax limits on work opportunity credit and credit for taxes paid with respect to employee cash tips.
Sec. 6. Family business tax simplification.
Sec. 7. Denial of lowest capital gains rate for certain dependents.
Sec. 8. Suspension of certain penalties and interest.
Sec. 9. Time for payment of corporate estimated taxes.

**SEC. 2. EXTENSION AND MODIFICATION OF WORK OPPORTUNITY TAX CREDIT.**

(a) EXTENSION.—Section 51(c)(4)(B) (relating to termination) is amended by striking "2007" and inserting "2008".

(b) INCREASE IN MAXIMUM AGE FOR DESIGNATED COMMUNITY RESIDENTS.—

(1) IN GENERAL.—Paragraph (5) of section 51(d) is amended to read as follows:

"(5) DESIGNATED COMMUNITY RESIDENTS.—

"(A) IN GENERAL.—The term 'designated community resident' means any individual who is certified by the designated local agency—

"(i) as having attained age 18 but not age 40 on the hiring date, and

"(ii) as having his principal place of abode within an empowerment zone, enterprise community, or renewal community.

"(B) INDIVIDUAL MUST CONTINUE TO RESIDE IN ZONE OR COMMUNITY.—In the case of a designated community resident, the term 'qualified wages' shall not include wages paid or incurred for services performed while the individual's principal place of abode is outside an empowerment zone, enterprise community, or renewal community.".

(2) CONFORMING AMENDMENT.—Subparagraph (D) of section 51(d)(1) is amended to read as follows:

"(D) a designated community resident,".

(c) CLARIFICATION OF TREATMENT OF INDIVIDUALS UNDER INDIVIDUAL WORK PLANS.—Subparagraph (B) of section 51(d)(6) (relating to vocational rehabilitation referral) is amended by striking "or" at the end of clause (i), by striking the period at the end of clause (ii) and inserting ", or", and by adding at the end the following new clause:

"(iii) an individual work plan developed and implemented by an employment network pursuant to subsection (g) of section 1148 of the Social Security Act with respect to which the requirements of such subsection are met.".

(d) TREATMENT OF DISABLED VETERANS UNDER THE WORK OPPORTUNITY TAX CREDIT.—

(1) DISABLED VETERANS TREATED AS MEMBERS OF TARGETED GROUP.—

(A) IN GENERAL.—Subparagraph (A) of section 51(d)(3) (relating to qualified veteran) is amended by striking "agency as being a member of a family" and all that follows and inserting "agency as—

"(i) being a member of a family receiving assistance under a food stamp program under the Food Stamp Act of 1977 for at least a 3-month period ending during the 12-month period ending on the hiring date, or

"(ii) entitled to compensation for a service-connected disability, and—

"(I) having a hiring date which is not more that 1 year after having been discharged or released from active duty in the Armed Forces of the United States, or

"(II) having aggregate periods of unemployment during the 1-year period ending on the hiring date which equal or exceed 6 months.".

(B) DEFINITIONS.—Paragraph (3) of section 51(d) is amended by adding at the end the following new subparagraph:

"(C) OTHER DEFINITIONS.—For purposes of subparagraph (A), the terms 'compensation' and 'service-connected' have the meanings given such terms under section 101 of title 38, United States Code.".

(2) INCREASE IN AMOUNT OF WAGES TAKEN INTO ACCOUNT FOR DISABLED VETERANS.—Paragraph (3) of section 51(b) is amended—

(A) by inserting "($12,000 per year in the case of any individual who is a qualified veteran by reason of subsection (d)(3)(A)(ii))" before the period at the end, and

(B) by striking "ONLY FIRST $6,000 OF" in the heading and inserting "LIMITATION ON".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals who begin work for the employer after the date of the enactment of this Act.

**SEC. 3. EXTENSION AND INCREASE OF EXPENSING FOR SMALL BUSINESS.**

(a) EXTENSION.—Subsections (b)(1), (b)(2), (b)(5), (c)(2), and (d)(1)(A)(ii) of section 179 (relating to election to expense certain depreciable business assets) are each amended by striking "2010" and inserting "2011".

(b) INCREASE IN LIMITATIONS.—Subsection (b) of section 179 is amended—

(1) by striking "$100,000 in the case of taxable years beginning after 2002" in paragraph (1) and inserting "$125,000 in the case of taxable years beginning after 2006", and

(2) by striking "$400,000 in the case of taxable years beginning after 2002" in paragraph (2) and inserting "$500,000 in the case of taxable years beginning after 2006".

(c) INFLATION ADJUSTMENT.—Subparagraph (A) of section 179(b)(5) is amended—

(1) by striking "2003" and inserting "2007",

(2) by striking "$100,000 and $400,000" and inserting "$125,000 and $500,000", and

(3) by striking "2002" in clause (ii) and inserting "2006".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2006.

**SEC. 4. DETERMINATION OF CREDIT FOR CERTAIN TAXES PAID WITH RESPECT TO EMPLOYEE CASH TIPS.**

(a) IN GENERAL.—Subparagraph (B) of section 45B(b)(1) is amended by inserting "as in effect on January 1, 2007, and" before "determined without regard to".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to tips received for services performed after December 31, 2006.

**SEC. 5. WAIVER OF INDIVIDUAL AND CORPORATE ALTERNATIVE MINIMUM TAX LIMITS ON WORK OPPORTUNITY CREDIT AND CREDIT FOR TAXES PAID WITH RESPECT TO EMPLOYEE CASH TIPS.**

(a) ALLOWANCE AGAINST ALTERNATIVE MINIMUM TAX.—Subparagraph (B) of section 38(c)(4) is amended by striking "and" at the end of clause (i), by inserting a comma at the end of clause (ii), and by adding at the end the following new clauses:

"(iii) the credit determined under section 45B, and

"(iv) the credit determined under section 51.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to credits determined under sections 45B and 51 of the Internal Revenue Code of 1986 in taxable years beginning after December 31, 2006, and to carrybacks of such credits.

**SEC. 6. FAMILY BUSINESS TAX SIMPLIFICATION.**

(a) IN GENERAL.—Section 761 (defining terms for purposes of partnerships) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) QUALIFIED JOINT VENTURE.—

"(1) IN GENERAL.—In the case of a qualified joint venture conducted by a husband and wife who file a joint return for the taxable year, for purposes of this title—

"(A) such joint venture shall not be treated as a partnership,

"(B) all items of income, gain, loss, deduction, and credit shall be divided between the spouses in accordance with their respective interests in the venture, and

"(C) each spouse shall take into account such spouse's respective share of such items as if they were attributable to a trade or business conducted by such spouse as a sole proprietor.

"(2) QUALIFIED JOINT VENTURE.—For purposes of paragraph (1), the term 'qualified joint venture' means any joint venture involving the conduct of a trade or business if—

"(A) the only members of such joint venture are a husband and wife,

"(B) both spouses materially participate (within the meaning of section 469(h) without regard to paragraph (5) thereof) in such trade or business, and

"(C) both spouses elect the application of this subsection.".

(b) NET EARNINGS FROM SELF-EMPLOYMENT.—

(1) Subsection (a) of section 1402 (defining net earnings from self-employment) is amended by striking ", and" at the end of paragraph (15) and inserting a semicolon, by striking the period at the end of paragraph (16) and inserting "; and", and by inserting after paragraph (16) the following new paragraph:

"(17) notwithstanding the preceding provisions of this subsection, each spouse's share of income or loss from a qualified joint venture shall be taken into account as provided in section 761(f) in determining net earnings from self-employment of such spouse.".

(2) Subsection (a) of section 211 of the Social Security Act (defining net earnings from self-employment) is amended by striking "and" at the end of paragraph (14), by striking the period at the end of paragraph (15) and inserting "; and", and by inserting after paragraph (15) the following new paragraph:

"(16) Notwithstanding the preceding provisions of this subsection, each spouse's share of income or loss from a qualified joint venture shall be taken into account as provided in section 761(f) of the Internal Revenue Code of 1986 in determining net earnings from self-employment of such spouse.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2006.

**SEC. 7. DENIAL OF LOWEST CAPITAL GAINS RATE FOR CERTAIN DEPENDENTS.**

(a) IN GENERAL.—Subsection (h) of section 1 is amended by adding at the end the following new paragraph:

"(12) CERTAIN INDIVIDUALS NOT ELIGIBLE FOR LOWEST RATE.—

"(A) IN GENERAL.—In the case of an individual described in subparagraph (B)—

"(i) the amount determined under paragraph (1)(A)(ii)(II) shall not be less than the amount of taxable income which would (without regard to this subsection) be taxed at a rate below 15 percent, and

"(ii) the sum of the amounts determined under subparagraphs (B) and (C) of paragraph (1) shall be an amount equal to the rate of tax specified in paragraph (1)(C) multiplied by so much of the adjusted net capital gain (or, if less, taxable income) as exceeds the excess (if any) of—

"(I) the amount of taxable income which would (without regard to this subsection) be taxed at a rate below 15 percent, over

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

"(B) INDIVIDUALS TO WHOM PARAGRAPH APPLIES.—

"(i) IN GENERAL.—For purposes of this paragraph, an individual is described in this subparagraph if—

"(I) such individual meets the age requirements of section 152(c)(3) (determined without regard to subparagraph (B) thereof), and

"(II) such individual's earned income (as defined in section 911(d)(2)) for the taxable year does not exceed one-half of such individual's support (within the meaning of section 152) for such taxable year.

"(ii) SPECIAL RULES FOR JOINT RETURNS.—In the case of a joint return—

"(I) the taxpayer and the taxpayer's spouse shall be treated as a single individual for purposes of applying subclause (II) of clause (i), and

"(II) the taxpayer shall be treated as an individual described in this subparagraph only if the taxpayer and the taxpayer's spouse are described in clause (i) (determined after application of subclause (I)).".

(b) ALTERNATIVE MINIMUM TAX.—Section 55 is amended by adding at the end the following new subsection:

"(f) CERTAIN INDIVIDUALS NOT ELIGIBLE FOR LOWEST RATE.—In the case of an individual described in section 1(h)(12)(B), no amount shall be determined under subsection (b)(3)(B).".

(c) COORDINATION WITH SUNSET OF PROVISIONS OF THE JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT OF 2003.—Subparagraph (A) of section 1(h)(12), as added by this section, 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) no amount of qualified 5-year gain shall be taken into account under subparagraph (A) of paragraph (2) (as in effect after the application of section 303 of the Jobs and Growth Tax Relief Reconciliation Act of 2003).".

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2006.

(2) SUNSET OF JGTRRA.—The amendment made by subsection (c) shall apply to taxable years beginning after the date specified in section 303 of the Jobs and Growth Tax Relief Reconciliation Act of 2003.

**SEC. 8. SUSPENSION OF CERTAIN PENALTIES AND INTEREST.**

(a) IN GENERAL.—Paragraphs (1)(A) and (3)(A) of section 6404(g) are each amended by striking "18-month period" and inserting "22-month period".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to notices provided by the Secretary of the Treasury, or his delegate, after the date which is 6 months after the date of the enactment of this Act.

**SEC. 9. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES.**

Subparagraph (B) of section 401(1) of the Tax Increase Prevention and Reconciliation Act of 2005 is amended by striking "106.25 percent" and inserting "112.75 percent".

# I. SUMMARY AND BACKGROUND

## A. Purpose and Summary

### PURPOSE

The bill, H.R. 976, as amended, includes provisions for providing small business tax relief.

### SUMMARY

Effective for wages paid after December 31, 2007, the bill extends the work opportunity tax credit ("WOTC") for one year, and, effective for persons hired after the date of enactment, the bill expands three of the targeted groups (qualified veterans, designated community residents, and vocational rehabilitation referrals). For taxable years beginning after December 31, 2006, the bill extends and increases the present-law section 179 expensing provision. With respect to tips received for services performed after December 31, 2006, the bill provides that the amount of the FICA tip credit will not be reduced if the amount of the minimum wage is increased. Effective for credits determined in taxable years beginning after December 31, 2006, the WOTC and FICA tip credits may offset alternative minimum tax liability. Effective for taxable years beginning after December 31, 2006, the bill provides for certain family business simplification. The bill also denies the lowest maximum tax rate of adjusted net capital gain income to any individual who meets certain age requirements and whose earned income does not exceed one-half of such individual's support. This provision is effective for taxable years beginning after December 31, 2006. The bill amends the suspension of interest and dividends provision effective for IRS notices issued after the date which is six months after the date of enactment. Finally, the bill modifies the 2012 estimated tax payments requirements for corporations with assets of at least $1 billion.

## B. Background and Need for Legislation

The enactment of an increased Federal minimum wage may have the effect of raising employment costs for the nation's small businesses. The bill provides small business tax relief to offset these additional employment costs.

## C. Legislative History

*Background*

H.R. 976 was introduced in the House of Representatives on February 9, 2007, and was referred to the Committee on Ways and Means.

*Committee action*

The Committee on Ways and Means marked up the bill on February 12, 2007, and ordered the bill, as amended, favorably reported.

## II. EXPLANATION OF THE BILL

### A. Extension and Modification of Work Opportunity Tax Credit

(Sec. 2 of the bill and sec. 51 of the Code)

PRESENT LAW

*In general*

The work opportunity tax credit is available on an elective basis for employers hiring individuals from one or more of nine targeted groups. The amount of the credit available to an employer is determined by the amount of qualified wages paid by the employer. Generally, qualified wages consist of wages attributable to service rendered by a member of a targeted group during the one-year period beginning with the day the individual begins work for the employer (two years in the case of an individual in the long-term family assistance recipient category).

*Targeted groups eligible for the credit*

Generally an employer is eligible for the credit only for qualified wages paid to members of a targeted group.

*(1) Families receiving TANF*

An eligible recipient is an individual certified by a designated local employment agency (e.g., a State employment agency) as being a member of a family eligible to receive benefits under the Temporary Assistance for Needy Families Program ("TANF") for a period of at least nine months part of which is during the 18-month period ending on the hiring date. For these purposes, members of the family are defined to include only those individuals taken into account for purposes of determining eligibility for the TANF.

*(2) Qualified veteran*

A qualified veteran is a veteran who is certified by the designated local agency as a member of a family certified as receiving assistance under a food stamp program under the Food Stamp Act of 1977 for a period of at least three months part of which is during the 12-month period ending on the hiring date. For these purposes, members of a family are defined to include only those individuals taken into account for purposes of determining eligibility for a food stamp program under the Food Stamp Act of 1977.

For these purposes, a veteran is an individual who has served on active duty (other than for training) in the Armed Forces for more than 180 days or who has been discharged or released from active duty in the Armed Forces for a service-connected disability. However, any individual who has served for a period of more than 90 days during which the individual was on active duty (other than for training) is not a qualified veteran if any of this active duty occurred during the 60-day period ending on the date the individual was hired by the employer. This latter rule is intended to prevent employers who hire current members of the armed services (or those departed from service within the last 60 days) from receiving the credit.

*(3) Qualified ex-felon*

A qualified ex-felon is an individual certified as: (1) having been convicted of a felony under any State or Federal law, and (2) having a hiring date within one year of release from prison or date of conviction.

*(4) High-risk youth*

A high-risk youth is an individual certified as being at least age 18 but not yet age 25 on the hiring date and as having a principal place of abode within an empowerment zone, enterprise community, or renewal community (as defined under Subchapter U of Subtitle A, Chapter 1 of the Internal Revenue Code (the ("Code")). Qualified wages do not include wages paid or incurred for services performed after the individual moves outside an empowerment zone, enterprise community, or renewal community.

*(5) Vocational rehabilitation referral*

A vocational rehabilitation referral is an individual who is certified by a designated local agency as an individual who has a physical or mental disability that constitutes a substantial handicap to employment and who has been referred to the employer while receiving, or after completing: (a) vocational rehabilitation services under an individualized, written plan for employment under a State plan approved under the Rehabilitation Act of 1973; or (b) under a rehabilitation plan for veterans carried out under Chapter 31 of Title 38, U.S. Code. Certification will be provided by the designated local employment agency upon assurances from the vocational rehabilitation agency that the employee has met the above conditions.

*(6) Qualified summer youth employee*

A qualified summer youth employee is an individual: (1) who performs services during any 90-day period between May 1 and September 15, (2) who is certified by the designated local agency as being 16 or 17 years of age on the hiring date, (3) who has not been an employee of that employer before, and (4) who is certified by the designated local agency as having a principal place of abode within an empowerment zone, enterprise community, or renewal community (as defined under Subchapter U of Subtitle A, Chapter 1 of the Internal Revenue Code). As with high-risk youths, no credit is available on wages paid or incurred for service performed after the qualified summer youth moves outside of an empowerment zone, enterprise community, or renewal community. If, after the end of the 90-day period, the employer continues to employ a youth who was certified during the 90-day period as a member of another targeted group, the limit on qualified first year wages will take into account wages paid to the youth while a qualified summer youth employee.

*(7) Qualified food stamp recipient*

A qualified food stamp recipient is an individual aged 18 but not yet 40 certified by a designated local employment agency as being a member of a family receiving assistance under a food stamp program under the Food Stamp Act of 1977 for a period of at least six months ending on the hiring date. In the case of families that cease

to be eligible for food stamps under section 6(o) of the Food Stamp Act of 1977, the six-month requirement is replaced with a requirement that the family has been receiving food stamps for at least three of the five months ending on the date of hire. For these purposes, members of the family are defined to include only those individuals taken into account for purposes of determining eligibility for a food stamp program under the Food Stamp Act of 1977.

*(8) Qualified SSI recipient*

A qualified SSI recipient is an individual designated by a local agency as receiving supplemental security income ("SSI") benefits under Title XVI of the Social Security Act for any month ending within the 60-day period ending on the hiring date.

*(9) Long-term family assistance recipients*

A qualified long-term family assistance recipient is an individual certified by a designated local agency as being: (1) a member of a family that has received family assistance for at least 18 consecutive months ending on the hiring date; (2) a member of a family that has received such family assistance for a total of at least 18 months (whether or not consecutive) after August 5, 1997 (the date of enactment of the welfare-to-work tax credit)[1] if the individual is hired within two years after the date that the 18-month total is reached; or (3) a member of a family who is no longer eligible for family assistance because of either Federal or State time limits, if the individual is hired within two years after the Federal or State time limits made the family ineligible for family assistance.

*Qualified wages*

Generally, qualified wages are defined as cash wages paid by the employer to a member of a targeted group. The employer's deduction for wages is reduced by the amount of the credit.

For purposes of the credit, generally, wages are defined by reference to the FUTA definition of wages contained in sec. 3306(b) (without regard to the dollar limitation therein contained). Special rules apply in the case of certain agricultural labor and certain railroad labor.

*Calculation of the credit*

The credit available to an employer for qualified wages paid to members of all targeted groups except for long-term family assistance recipients equals 40 percent (25 percent for employment of 400 hours or less) of qualified first-year wages. Generally, qualified first-year wages are qualified wages (not in excess of $6,000) attributable to service rendered by a member of a targeted group during the one-year period beginning with the day the individual began work for the employer. Therefore, the maximum credit per employee is $2,400 (40 percent of the first $6,000 of qualified first-year wages). With respect to qualified summer youth employees, the maximum credit is $1,200 (40 percent of the first $3,000 of qualified first-year wages). Except for long-term family assistance recipients, no credit is allowed for second-year wages.

[1] The welfare-to-work tax credit was consolidated into the work opportunity tax credit in the Tax Relief and Health Care Act of 2006, for qualified individuals who begin to work for an employer after December 31, 2006.

In the case of long-term family assistance recipients, the credit equals 40 percent (25 percent for employment of 400 hours or less) of $10,000 for qualified first-year wages and 50 percent of the first $10,000 of qualified second-year wages. Generally, qualified second-year wages are qualified wages (not in excess of $10,000) attributable to service rendered by a member of the long-term family assistance category during the one-year period beginning on the day after the one-year period beginning with the day the individual began work for the employer. Therefore, the maximum credit per employee is $9,000 (40 percent of the first $10,000 of qualified first-year wages plus 50 percent of the first $10,000 of qualified second-year wages).

*Certification rules*

An individual is not treated as a member of a targeted group unless: (1) on or before the day on which an individual begins work for an employer, the employer has received a certification from a designated local agency that such individual is a member of a targeted group; or (2) on or before the day an individual is offered employment with the employer, a pre-screening notice is completed by the employer with respect to such individual, and not later than the 28th day after the individual begins work for the employer, the employer submits such notice, signed by the employer and the individual under penalties of perjury, to the designated local agency as part of a written request for certification. For these purposes, a pre-screening notice is a document (in such form as the Secretary may prescribe) which contains information provided by the individual on the basis of which the employer believes that the individual is a member of a targeted group.

*Minimum employment period*

No credit is allowed for qualified wages paid to employees who work less than 120 hours in the first year of employment.

*Other rules*

The work opportunity tax credit is not allowed for wages paid to a relative or dependent of the taxpayer. No credit is allowed for wages paid to an individual who is a more than fifty-percent owner of the entity. Similarly, wages paid to replacement workers during a strike or lockout are not eligible for the work opportunity tax credit. Wages paid to any employee during any period for which the employer received on-the-job training program payments with respect to that employee are not eligible for the work opportunity tax credit. The work opportunity tax credit generally is not allowed for wages paid to individuals who had previously been employed by the employer. In addition, many other technical rules apply.

*Expiration*

The work opportunity tax credit is not available for individuals who begin work for an employer after December 31, 2007.

REASONS FOR CHANGE

The Committee believes that the experience with the credit has been positive and wishes to extend and expand the credit. In particular, the Committee believes that the credit can be used to im-

prove employment opportunities for broader classes of qualified veterans and designated community residents. Also, the Committee believes that the expansion of the vocational rehabilitation referral group appropriately conforms availability of the credit to a previous expansion of the vocational rehabilitation referral program.

EXPLANATION OF PROVISION

*Extension*

The provision extends the work opportunity tax credit for one year (for qualified individuals who begin work for an employer after December 31, 2007, and before January 1, 2009).

*Qualified veterans targeted group*

The provision expands the qualified veterans' targeted group to include an individual who is certified as entitled to compensation for a service-connected disability and having a hiring date which is not more than one year after having been discharged or released from active duty in the Armed Forces of the United States, or having been unemployed for six months or more (whether or not consecutive) during the one-year period ending on the date of hiring. Being entitled to compensation for a service-connected disability is defined with reference to section 101 of Title 38, U.S.C., which means having a disability rating of 10-percent or higher for service connected injuries.

*Qualified first-year wages*

The provision expands the definition of qualified first-year wages from $6,000 to $12,000 in the case of individuals who qualify under either of the new expansions of the qualified veteran group, above. The expanded definition of qualified first-year wages does not apply to the veterans qualified with reference to a food stamp program, as defined under present law.

*High-risk youth targeted group*

The provision expands the definition of high-risk youths to include otherwise qualifying individuals age 18 but not yet age 40 on the hiring date. The provision also changes the name of the category to the "designated community residents" targeted group.

*Vocational rehabilitation referral targeted group*

The provision expands the definition of vocational rehabilitation referral to include any individual who is certified by a designated local agency as an individual who has a physical or mental disability that constitutes a substantial handicap to employment and who has been referred to the employer while receiving, or after completing, an individual work plan developed and implemented by an employment network pursuant to subsection (g) of section 1148 of the Social Security Act.

*Certification*

Under present law, designated local employment agencies may enter into information sharing agreements to facilitate certification for purposes of WOTC eligibility. Such agreements are subject to confidentiality requirements. The Committee expects that the De-

partment of Defense, the Department of Veterans Affairs, and the Social Security Administration will work with the designated local agencies to facilitate certification of the expansions of the qualified veteran category and the SSI recipient category. Finally, the Committee expects that the Internal Revenue Service will develop procedures to allow (in addition to original documents) paper versions of electronically completed pre-screening notices and photographic copies of hand signed original pre-screening notices for purposes of the credit. This allowance of pre-screening notices which are not original documents should be allowed only to the extent it does not foster incorrect or fraudulent filings.

EFFECTIVE DATE

Generally, the extension of the credit is effective for wages paid or incurred to a qualified individual who begins work for an employer after December 31, 2007. The other provisions are effective for individuals who begin work for an employer after the date of enactment in taxable years ending after such date.

## B. Increase and Extension of Expensing for Small Business

(Sec. 3 of the bill and sec. 179 of the Code)

PRESENT LAW

In lieu of depreciation, a taxpayer with a sufficiently small amount of annual investment may elect to deduct (or "expense") such costs under section 179. Present law provides that the maximum amount a taxpayer may expense, for taxable years beginning in 2003 through 2009, is $100,000 of the cost of qualifying property placed in service for the taxable year.[2] In general, qualifying property is defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. Off-the-shelf computer software placed in service in taxable years beginning before 2010 is treated as qualifying property. The $100,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds $400,000. The $100,000 and $400,000 amounts are indexed for inflation for taxable years beginning after 2003 and before 2010. For taxable years beginning in 2007, the inflation-adjusted amounts are $112,000 and $450,000, respectively.[3]

The amount eligible to be expensed for a taxable year may not exceed the taxable income for a taxable year that is derived from the active conduct of a trade or business (determined without regard to this provision). Any amount that is not allowed as a deduction because of the taxable income limitation may be carried forward to succeeding taxable years (subject to similar limitations). No general business credit under section 38 is allowed with respect to any amount for which a deduction is allowed under section 179.

[2] Additional section 179 incentives are provided with respect to qualified property meeting applicable requirements that is used by a business in an empowerment zone (sec. 1397A), a renewal community (sec. 1400J), or the Gulf Opportunity Zone (sec. 1400N(e)).

[3] Rev. Proc. 2006–53, sec. 2.19, 2006–48 I.R.B. 996 (Nov. 27, 2006).

An expensing election is made under rules prescribed by the Secretary.[4]

For taxable years beginning in 2010 and thereafter (or before 2003), the following rules apply. A taxpayer with a sufficiently small amount of annual investment may elect to deduct up to $25,000 of the cost of qualifying property placed in service for the taxable year. The $25,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds $200,000. The $25,000 and $200,000 amounts are not indexed. In general, qualifying property is defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business (not including off-the-shelf computer software). An expensing election may be revoked only with consent of the Commissioner.[5]

REASONS FOR CHANGE

The Committee believes that section 179 expensing provides two important benefits for small businesses. First, it lowers the cost of capital for property used in a trade or business. With a lower cost of capital, the Committee believes small businesses will invest in more equipment and employ more workers. Second, it eliminates depreciation recordkeeping requirements with respect to expensed property. In 2006, Congress acted to extend the increased value of these benefits and the increased number of taxpayers eligible for these benefits for taxable years through 2009. The Committee believes that the changes to section 179 expensing will continue to provide important benefits if extended, and the bill therefore extends these changes for an additional year. Furthermore, the Committee believes that the dollar limits on expensing should be increased in order to further lower the cost of capital for small businesses, and to make this benefit available for a greater number of small businesses.

EXPLANATION OF PROVISION

The provision increases the $100,000 and $400,000 amounts to $125,000 and $500,000, respectively, for taxable years beginning in 2007 through 2010. These amounts are indexed for inflation in taxable years beginning after 2007 and before 2011.

In addition, the provision extends for one year the increased amount that a taxpayer may deduct and the other section 179 rules applicable in taxable years beginning before 2010. Thus, under the provision, these rules continue in effect for taxable years beginning after 2009 and before 2011.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2006.

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[4] Sec. 179(c)(1). Under Treas. Reg. sec. 1.179–5, applicable to property placed in service in taxable years beginning after 2002 and before 2008, a taxpayer is permitted to make or revoke an election under section 179 without the consent of the Commissioner on an amended Federal tax return for that taxable year. This amended return must be filed within the time prescribed by law for filing an amended return for the taxable year. T.D. 9209, July 12, 2005.

[5] Sec. 179(c)(2).

## C. Tax Credit for Social Security Taxes Paid With Respect to Employee Cash Tips

(Sec. 4 of the bill and sec. 45B of the Code)

### PRESENT LAW

The Federal minimum wage under the Fair Labor Standards Act (the "FLSA") is $5.15 per hour. In the case of tipped employees, the FLSA provides that the minimum wage may be reduced to $2.13 per hour (that is, the employer is only required to pay cash equal to $2.13 per hour) if the combination of tips and cash income equals the Federal minimum wage.[6]

Under present law, employee tip income is treated as employer-provided wages for purposes of the Federal Insurance Contributions Act ("FICA"). Employees are required to report the amount of tips received.

A business tax credit is provided equal to an employer's FICA taxes paid on tips in excess of those treated as wages for purposes of meeting the minimum wage requirements of the FLSA. The credit applies only with respect to FICA taxes paid on tips received from customers in connection with the providing, delivering, or serving of food or beverages for consumption if the tipping of employees delivering or serving food or beverages by customers is customary. The credit is available whether or not the employee reports the tips on which the employer FICA taxes were paid. No deduction is allowed for any amount taken into account in determining the tip credit. A taxpayer may elect not to have the credit apply for a taxable year.

### REASONS FOR CHANGE

Under present law, because the amount of tips eligible for the FICA tip credit is tied to the minimum wage under the FLSA, if the minimum wage increases above $5.15 per hour as provided under H.R. 2, the Fair Minimum Wage Act of 2007, as passed by the House and the Senate, the amount of the FICA tip credit will automatically be reduced. The Committee believes that the increase in the minimum wage should not result in an increase in taxes for employers in the restaurant industry. Thus, the Committee bill freezes the tip credit based on the current minimum wage so that, when the minimum wage is increased, the tip credit will not be affected.

### EXPLANATION OF PROVISION

The provision provides that the amount of the tip credit is based on the amount of tips in excess of those treated as wages for purposes of the FLSA as in effect on January 1, 2007. That is, under the provision, the tip credit is determined based on a minimum wage of $5.15 per hour. Therefore, if the amount of the minimum wage increases, the amount of the FICA tip credit will not be reduced.

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[6] Some States require the payment of cash wages to tipped employees in excess of the Federal minimum of $2.13 per hour. For a history of the tip provisions under the FLSA and a description of relevant State laws, see William G. Whittaker, Congressional Research Service, The Tip Credit Provisions of the Fair Labor Standards Act (Order Code RL33348), March 24, 2006.

EFFECTIVE DATE

The provision applies With respect to tips received for services performed after December 31, 2006.

## D. Allow Work Opportunity Credit and Credit for Taxes Paid With Respect to Employee Cash Tips Against the Alternative Minimum Tax

(Sec. 5 of the bill and sec. 38 of the Code)

PRESENT LAW

Under present law, business tax credits generally may not exceed the excess of the taxpayer's income tax liability over the tentative minimum tax (or, if greater, 25 percent of the regular tax liability in excess of $25,000). Credits in excess of the limitation may be carried back one year and carried over for up to 20 years.

The tentative minimum tax is an amount equal to specified rates of tax imposed on the excess of the alternative minimum taxable income over an exemption amount. To the extent the tentative minimum tax exceeds the regular tax, a taxpayer is subject to the alternative minimum tax.

Thus, business tax credits generally cannot offset the alternative minimum tax liability.

REASONS FOR CHANGE

The alternative minimum tax limits the intended effects of the work opportunity tax credit and the credit for taxes paid with respect to cash tips for some taxpayers. The Committee believes that the incentive effects of work opportunity credit and credit for taxes paid with respect to employee cash tips should be available to taxpayers regardless of their alternative minimum tax status. Accordingly, the bill provides that these credits can be utilized by offsetting both the regular tax and the alternative minimum tax.

EXPLANATION OF PROVISION

The provision treats the tentative minimum tax as being zero for purposes of determining the tax liability limitation with respect to the work opportunity credit and the credit for taxes paid with respect to employee cash tips.

Thus, the work opportunity tax credit and the credit for taxes paid with respect to cash tips may offset the alternative minimum tax liability.

EFFECTIVE DATE

The provision applies to credits determined in taxable years beginning after December 31, 2006.

## E. Family Business Tax Simplification

(Sec. 6 of the bill and sec. 761 of the Code)

PRESENT LAW

Under present law, a partnership is defined to include a syndicate, group, pool, joint venture, or other unincorporated organization through or by means of which any business, financial oper-

ation or venture is carried on, and which is not a trust or estate or a corporation (sec. 7701(a)(2)). A partnership is treated as a pass-through entity, and income earned by the partnership, whether distributed or not, is taxed to the partners. The income of a partnership and its partners is determined under subchapter K of the Code. An election not to be subject to the rules of subchapter K is provided for certain partnerships that meet specified criteria (e.g., the partnership is for investment purposes only, is for the joint production, extraction or use of property but not for selling services or property produced or extracted, or is used by securities dealers for short periods to underwrite, sell or distribute securities). Otherwise, the rules of subchapter K apply to a venture that is treated as a partnership for Federal tax purposes.

In the case of an individual with self-employment income, the income subject to self-employment tax is the net earnings from self-employment (sec. 1402(a)). Net earnings from self-employment is the gross income derived by an individual from any trade or business carried on by the individual, less the deductions attributable to the trade or business that are allowed under the self-employment tax rules. If the individual is a partner in a partnership, the net earnings from self-employment generally include his or her distributive share (whether or not distributed) of income or loss from any trade or business carried on by the partnership.

### REASONS FOR CHANGE

The Committee is concerned that certain business ventures whose sole members are a husband and wife filing a joint return may be subject to unnecessary complexity under present law.[7] In the situation in which the spouses share all items of income, gain, loss, deduction and credit from the venture, the venture should not be required to file a partnership return if each of the two spouses' income can be accurately recorded on Schedule C (or F, in the case of a farm) filed with the joint return. The reported income would be the same on the joint return, whether or not a partnership return is filed. Further, the Committee is concerned that if only one spouse is treated as having net earnings from self-employment from the venture, when in fact both spouses materially participate in it, only the spouse that is treated as having net earnings from self-employment from the venture will receive credit for purposes of Social Security benefits. The Committee believes that, therefore in this situation, both spouses, not just one, should be treated as having net earnings from self-employment from the venture in accordance with their respective interests, and should receive credit for the appropriate net earnings from self-employment for purposes of Social Security benefits.

### EXPLANATION OF PROVISION

The provision generally permits a qualified joint venture whose only members are a husband and wife filing a joint return not to be treated as a partnership for Federal tax purposes. A qualified joint venture is a joint venture involving the conduct of a trade or

[7] See National Taxpayer Advocate FY 2002 Annual Report to Congress, "Married Couples as Business Co-owners," at 172, recommending a similar change for this reason as well as other reasons. This recommendation was also included in the National Taxpayer Advocate FY 2004 Annual Report to Congress.

business, if (1) the only members of the joint venture are a husband and wife, (2) both spouses materially participate in the trade or business, and (3) both spouses elect to have the provision apply.

Under the provision, a qualified joint venture conducted by a husband and wife who file a joint return is not treated as a partnership for Federal tax purposes. All items of income, gain, loss, deduction and credit are divided between the spouses in accordance with their respective interests in the venture. Each spouse takes into account his or her respective share of these items as a sole proprietor. Thus, it is anticipated that each spouse would account for his or her respective share on the appropriate form, such as Schedule C. The provision is not intended to change the determination under present law of whether an entity is a partnership for Federal tax purposes (without regard to the election provided by the provision).

For purposes of determining net earnings from self-employment, each spouse's share of income or loss from a qualified joint venture is taken into account just as it is for Federal income tax purposes under the provision (i.e., in accordance with their respective interests in the venture). A corresponding change is made to the definition of net earnings from self-employment under the Social Security Act. The provision is not intended to prevent allocations or reallocations, to the extent permitted under present law, by courts or by the Social Security Administration of net earnings from self-employment for purposes of determining Social Security benefits of an individual.

EFFECTIVE DATE

The provision is effective for taxable years beginning after December 31, 2006.

## F. Denial of Lowest Capital Gain Rate for Certain Dependents

(Sec. 7 of the bill and secs. 1(h) and 55 of the Code)

PRESENT LAW

*In general*

In general, gain or loss reflected in the value of an asset is not recognized for income tax purposes until a taxpayer disposes of the asset. On the sale or exchange of a capital asset, any gain generally is included in income. Any net capital gain of an individual generally is taxed at maximum rates lower than the rates applicable to ordinary income. Net capital gain is the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for the year. Gain or loss is treated as long-term if the asset is held for more than one year.

In the case of a gift of an appreciated capital asset, when the asset is sold by the donee, the gain is taxed to the donee and not the donor. The tax rate of the donee (and not the donor) applies. The holding period of the donee includes the period the asset is held by the donor.

*Tax rates before 2011*

Under present law, for taxable years beginning before January 1, 2011, the maximum rate of tax on the adjusted net capital gain of an individual is 15 percent. Any adjusted net capital gain which otherwise would be taxed at a 10- or 15-percent rate is taxed at a five-percent rate (zero for taxable years beginning after 2007). These rates apply for purposes of both the regular tax and the alternative minimum tax.

Under present law, the "adjusted net capital gain" of an individual generally is the net capital gain reduced (but not below zero) by the sum of the 28-percent rate gain and the unrecaptured section 1250 gain.

In addition, for taxable years beginning before January 1, 2011, dividend income generally is treated as adjusted net capital gain for purposes of applying the maximum tax rates.

The term "28-percent rate gain" means the excess of the sum of the amount of net gain attributable to long-term capital gains and losses from the sale or exchange of collectibles (as defined in section 408(m) without regard to paragraph (3) thereof) and the amount of gain equal to the additional amount of gain that would be excluded from gross income under section 1202 (relating to certain small business stock) if the percentage limitations of section 1202(a) did not apply, over the sum of the net short-term capital loss for the taxable year and any long-term capital loss carryover to the taxable year.

"Unrecaptured section 1250 gain" generally means any long-term capital gain from the sale or exchange of section 1250 property (i.e., depreciable real estate) held more than one year to the extent of the gain that would have been treated as ordinary income if section 1250 applied to all depreciation, reduced by the net loss (if any) attributable to the items taken into account in computing 28-percent rate gain.

An individual's unrecaptured section 1250 gain is taxed at a maximum rate of 25 percent, and the 28-percent rate gain is taxed at a maximum rate of 28 percent. Any amount of unrecaptured section 1250 gain or 28-percent rate gain otherwise taxed at a 10- or 15-percent rate is taxed at the otherwise applicable rate.

*Tax rates after 2010*

For taxable years beginning after December 31, 2010, the maximum rate of tax on the adjusted net capital gain of an individual is 20 percent. Any adjusted net capital gain which otherwise would be taxed at a 10- or 15-percent rate is taxed at a 10-percent rate.

In addition, any gain from the sale or exchange of property held more than five years that would otherwise have been taxed at the 10-percent rate is taxed at an 8-percent rate. Any gain from the sale or exchange of property held more than five years and the holding period for which began after December 31, 2000, that would otherwise have been taxed at a 20-percent rate is taxed at an 18-percent rate.

The tax rates on 28-percent gain and unrecaptured section 1250 gain are the same as for taxable years beginning before 2011.

After 2010, dividend income is taxed as ordinary income.

*Taxation of certain minor children*

Generally, children under the age of 19 are taxed on their net unearned income in excess of specified amounts as if the income was their parent's income. Thus, their parent's tax rates apply to the net unearned income, including the net capital gain.

REASONS FOR CHANGE

Under present law, each individual taxpayer is allowed the benefit of the lowest capital gain rate on a certain amount of adjusted net capital gain. Also, before 2011, dividends are taxed at capital gains rates. This may allow a family unit the benefit of the lowest rates on multiple amounts of capital gain and dividends. For example, if a high-income parent gives a child in college appreciated property which the child then sells, much or all of the appreciation may be taxed at the lower capital gain rate of the child.

In order to deny the multiple use of these lower rates by a single family, the bill denies the benefits of the lowest rates to a person whose age could allow his or her parents to claim the person for a dependency exemption as a qualifying child. In cases where the person's earned income is greater than half of his or her support, the benefit of the lowest rate is allowed.

EXPLANATION OF PROVISION

The provision denies the lowest maximum tax rate on adjusted net capital gain (5 percent in 2007, zero percent in 2008, 2009, and 2010, and 8 percent or 10 percent thereafter) to any individual (i) who meets the age requirements of section 152(c)(3) (i.e., is under the age of 19 (age of 24, in the case of a full-time student)), and (ii) whose earned income (as defined in section 911(d)(2)) does not exceed one-half of the amount of the individual's support (within the meaning of section 152(c)(1)(D)). In the case of a joint return, the provision applies if both spouses meet the age requirement and their combined earned income does not exceed one-half of their combined support.

An individual subject to this provision computes his or her tax on adjusted net capital gain using a tax rate of 15 percent before 2011 and 18 percent or 20 percent thereafter. This applies both to the regular tax and the alternative minimum tax. To the extent the adjusted net capital gain would otherwise be taxed at the 10-percent rate under the regular tax rate schedule, the 10-percent rate applies in computing the maximum rate on adjusted net capital gain for purposes of the regular tax.

EFFECTIVE DATE

The provision applies to taxable years beginning after December 31, 2006.

## G. Modification of Provision Regarding Suspension of Interest and Penalties Where Internal Revenue Service Fails To Contact Taxpayer

(Sec. 8 of the bill and sec. 6404(g) of the Code)

### PRESENT LAW

In general, interest and penalties accrue during periods for which taxes were unpaid without regard to whether the taxpayer was aware that there was tax due. The Code suspends the accrual of certain penalties and interest starting 18 months after the filing of the tax return if the IRS has not sent the taxpayer a notice specifically stating the taxpayer's liability and the basis for the liability within the specified period. If the return is filed before the due date, for this purpose it is considered to have been filed on the due date. Interest and penalties resume 21 days after the IRS sends the required notice to the taxpayer. The provision is applied separately with respect to each item or adjustment. The provision does not apply where a taxpayer has self-assessed the tax. The suspension applies only to taxpayers who are individuals and who file a timely tax return. In addition, the provision does not apply to the failure-to-pay penalty, in the case of fraud, or with respect to criminal penalties. Generally, the provision also does not apply to interest accruing with respect to underpayments resulting from listed transactions or undisclosed reportable transactions.

### REASONS FOR CHANGE

The Committee believes it is appropriate to provide the IRS with additional time to provide taxpayers with notice that they failed to comply with their tax obligations before the IRS is required to suspend the imposition of interest and penalties on underpayments. The Committee believes this change is appropriate for effective administration of the tax system.

### EXPLANATION OF PROVISION

The provision extends the period before which accrual of interest and certain penalties are suspended. Under the provision, the accrual of certain penalties and interest is suspended starting 22 months after the later of the filing of the tax return or the due date of the return, without regard to extensions, if the IRS has not sent the taxpayer a notice specifically stating the taxpayer's liability and the basis for the liability.

### EFFECTIVE DATE

The provision is effective for IRS notices issued after the date that is six months after the date of enactment.

## H. Modification to Corporate Estimated Tax Payments

(Sec. 9 of the bill)

### PRESENT LAW

In general, corporations are required to make quarterly estimated tax payments of their income tax liability. For a corporation whose taxable year is a calendar year, these estimated tax pay-

ments must be made by April 15, June 15, September 15, and December 15. Fiscal year taxpayers make quarterly payments on corresponding dates.

The Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA") provided that in the case of a corporation with assets of at least $1 billion, the payments due in July, August, and September, 2012 (for fiscal and calendar year taxpayers, respectively) are increased to 106.25 percent of the payment otherwise due and the next required payment is reduced accordingly.

REASONS FOR CHANGE

The Committee believes it is appropriate to adjust the corporate estimated tax payments.

EXPLANATION OF PROVISION

The provision increases the corporate estimated tax payments due in July, August, and September, 2012, from 106.25 percent to 112.75 percent of the payment otherwise due. As under present law, the next payment is reduced accordingly.

EFFECTIVE DATE

The provision is effective on the date of enactment.

## III. VOTES OF THE COMMITTEE

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the votes of the Committee on Ways and Means in its consideration of the bill, H.R. 976, the "Small Business Tax Relief Act of 2007."

The bill, H.R. 976, as amended, was ordered favorably reported by voice vote (with a quorum being present).

## IV. BUDGET EFFECTS OF THE BILL

### A. Committee Estimate of Budgetary Effects

In compliance with clause 3(d)(2) of the rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H.R. 976 as reported.

The bill is estimated to have the following effects on Federal budget receipts for fiscal years 2007–2017:

**ESTIMATED REVENUE EFFECTS OF H.R. 976,**
**THE "SMALL BUSINESS TAX RELIEF ACT OF 2007,"**
**AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS**

**Fiscal Years 2007 - 2017**

*[Millions of Dollars]*

| Provision | Effective | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2007-12 | 2007-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **I. Small Business Provisions** | | | | | | | | | | | | | | |
| 1. Extension and modification of the work opportunity tax credit ("WOTC") - extend present law WOTC and expand targeted groups relating to veterans, high-risk youth, and vocational rehabilitation referrals (sunset 12/31/08) | wpoifibwa DOE | [1] | -148 | -253 | -140 | -63 | -38 | -24 | -12 | -7 | -6 | -4 | -641 | -695 |
| 2. Increase and extension of expensing for small business - increase section 179 expensing to $125,000 and increase the phaseout threshold amount to $500,000; include software in section 179 property; and index both the deduction limit and the phaseout threshold (sunset 12/31/10) | tyba 12/31/06 | -140 | -229 | -157 | -3,100 | -1,832 | 1,955 | 1,242 | 896 | 680 | 410 | 207 | -3,503 | -68 |
| 3. Tax credit for Social Security taxes paid with respect to employee cash tips - set applicable minimum wage for purposes of calculating the FICA tip credit at $5.15 [2] | trfspa 12/31/06 | *No Revenue Effect* | | | | | | | | | | | | |
| 4. Allow work opportunity credit and credit for taxes paid with respect to employee cash tips against the alternative minimum tax ("AMT"): | | | | | | | | | | | | | | |
| a. Permit individual and corporate taxpayers to claim the WOTC against the AMT | cdi tyba 12/31/06 | -11 | -53 | -40 | 8 | 19 | 16 | 12 | 10 | 7 | 6 | 5 | -61 | -20 |
| b. Permit individual and corporate taxpayers to claim the FICA tip credit against the AMT | cdi tyba 12/31/06 | -19 | -111 | -78 | -64 | -53 | -46 | -42 | -38 | -36 | -34 | -34 | -370 | -552 |
| 5. Family business tax simplification | tyba 12/31/06 | *Negligible Revenue Effect* | | | | | | | | | | | | |
| **Total of Small Business Provisions** | | **-170** | **-541** | **-528** | **-3,296** | **-1,929** | **1,887** | **1,188** | **856** | **644** | **376** | **174** | **-4,575** | **-1,335** |
| **II. Provisions That Raise Revenue** | | | | | | | | | | | | | | |
| 1. Denial of the lower capital gains and dividend rate for dependents under the age of 24 who do not provide more than half of their own support with earned income | tyba 12/31/06 | 8 | 70 | 127 | 133 | 130 | 56 | 62 | 66 | 70 | 74 | 77 | 525 | 874 |
| 2. Modify interest suspension under section 6404(g) from 18 to 22 months | [3] | --- | 49 | 49 | 50 | 50 | 51 | 51 | 51 | 51 | 52 | 52 | 249 | 506 |
| 3. Increase corporate estimated tax payments due July through September for corporations with assets in excess of $1 billion in 2012 | DOE | --- | --- | --- | --- | --- | 4,026 | -4,026 | --- | --- | --- | --- | 4,026 | --- |
| **Total of Provisions That Raise Revenue** | | **8** | **119** | **176** | **183** | **180** | **4,133** | **-3,913** | **117** | **121** | **126** | **129** | **4,800** | **1,380** |
| **NET TOTAL** | | **-162** | **-422** | **-352** | **-3,113** | **-1,749** | **6,020** | **-2,725** | **973** | **765** | **502** | **303** | **225** | **45** |

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding. Date of enactment is assumed to be April 1, 2007.

*[Legend and Footnotes for the Table appear on the following page]*

**Legend and Footnotes for the Table:**

Legend for "Effective" column:

cdi = credits determined in
DOE = date of enactment
trfspa = tips received for services performed after
tyba = taxable years beginning after
wpoifibwa = wages paid or incurred for individuals beginning work after

[1] Loss of less than $500,000.
[2] This provision would have no effect on Federal fiscal year budget receipts because the present-law minimum wage is $5.15. If this provision were enacted after, or concurrent with, the enactment of the increase in the minimum wage contained in H.R. 2, as passed by the House of Representatives, this provision would reduce Federal fiscal year budget receipts by $457 million over the fiscal year period 2007 through 2017.
[3] Effective for IRS notices issued after the date which is six months after the date of enactment.

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

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no new or increased budget authority. The Committee further states that the revenue-reducing tax provisions involve increased tax expenditures. (See amounts in table in Part IV.A., above.)

## C. Cost Estimate Prepared by the Congressional Budget Office

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the CBO, the following statement by CBO is provided.

*H.R. 976—Small Business Tax Relief Act*

Summary: H.R. 976 would make several changes to tax law. Some would reduce revenue and others would raise revenue. The legislation would reduce revenue by extending existing tax incentives for certain businesses and making other changes to business taxation. It would increase revenue by denying low tax rates on capital gains and dividends to certain dependents and making other tax-related changes.

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 976 would decrease revenues by $162 million in 2007 and increase revenues by $225 million over the 2007–2012 period and by $45 million over the 2007–2017 period. The Congressional Budget Office estimates that H.R. 976 would not affect direct spending.

JCT has determined that the bill contains one private-sector mandate as defined in the Unfunded Mandates Reform Act (UMRA): The denial of lower capital gains and dividend rate for dependents under the age of 24 who do not provide more than one-half of their own support with earned income. JCT has also determined that the bill contains no intergovernmental mandates as defined in UMRA.

Estimated cost to the Federal Government: The estimated budgetary impact of the bill over the 2007–2017 period is shown in the following table.

| | By fiscal year, in millions of dollars— | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2007–2012 | 2007–2017 |
| CHANGES IN REVENUES | | | | | | | | | | | | | |
| Total Changes in Revenues | −162 | −422 | −352 | −3,113 | −1,749 | 6,020 | −2,725 | 973 | 765 | 502 | 303 | 225 | 45 |

NOTE.—Numbers may not add to totals due to rounding.

Basis of estimate: JCT assumes that the bill will be enacted by April 1, 2007.

*Revenues*

The legislation would reduce revenues through multiple tax relief provisions related to small businesses, and it would also raise revenues by denying lower tax rates on capital gains and dividends for certain dependents and making other changes. All in all, CBO and JCT estimate that the bill would increase revenues by $225 million over the 2007–2012 period and by $45 million over the 2007–2017 period.

Revenue Reductions. Several provisions would reduce revenues over the 2007–2012 and 2007–2017 periods. First, the bill would extend the work opportunity tax credit. Currently, employers who hire workers from among certain targeted groups may claim a work opportunity tax credit. This bill would extend (through December 31, 2008) and expand certain criteria for eligibility for the credit. JCT estimates that this provision would reduce revenues by $641 million over the 2007–2012 period and by $695 million over the 2007–2017 period.

Second, the bill would increase the amounts of investment between 2007 and 2010 that qualify for immediate deductibility ("expensing") under section 179 of the Internal Revenue Code. In addition, it would extend for one year through 2010 the expansion in the types of investments that qualify. JCT estimates that these changes would reduce revenues by $3.5 billion over the 2007–2012 period and by $68 million over the 2007–2017 period.

Third, the bill would allow individual and corporate taxpayers to claim both the work opportunity tax credit and the FICA tip credit against the alternative minimum tax. This would reduce revenues by $431 million over the 2007–2012 period and by $572 million over the 2007–2017 period, JCT estimates.

Revenue Increases. Two other provisions would increase revenues over the budget period. First, the bill would not allow certain dependents under the age of 24 (those who do not provide more than half of their own support with earned income) to use the lowest capital gains and dividend tax rates. JCT estimates that this would increase revenues by $525 million over the 2007–2012 period and by $874 million over the 2007–2017 period.

Second, the bill would increase the amount of time before a suspension of interest and penalties begins from 18 months to 22 months if the Internal Revenue Service has not notified taxpayers of a tax deficiency. JCT estimates that this would increase revenues by $249 million over the 2007–2012 period and by $506 million over the 2007–2017 period.

Other Revenue Effects. One provision would shift revenues between 2012 and 2013. For corporations with at least $1 billion in assets in 2012, the bill would increase the portion of corporate estimated tax payments due in July through September of that year. This change would increase revenues by $4.0 billion in 2012 and decrease revenues by $4.0 billion in 2013.

Additionally, a provision in section 4 of the bill would have no effect on revenues relative to current law. The provision would change the calculation of the business income tax credit for employer-paid Social Security and Medicare taxes on tip income of

certain restaurant employees. The credit is currently based on the amount of tips earned that boost an employee's combined tip and cash hourly income above a threshold amount equal to the minimum wage specified in statute, currently $5.15 per hour. As a result, increases in the minimum wage above $5.15 per hour automatically result in reductions in tax credits, because the threshold for the credit would automatically increase. H.R. 976 would set the threshold amount at $5.15 per hour. Because the bill would maintain the threshold at the current law level, it would have no effect on revenues relative to current law, regardless of whether the minimum wage were increased above $5.15 per hour.

Intergovernmental and private-sector impact: JCT has determined that the bill contains one private-sector mandate as defined in the Unfunded Mandates Reform Act (UMRA): The denial of lower capital gains and dividend rate for dependents under the age of 24 who do not provide more than one-half of their own support with earned income. JCT estimates that the cost of this mandate would not exceed the threshold established in UMRA ($131 million in 2007, adjusted for inflation in subsequent years) in any of the first five years it would be in effect. JCT has also determined that the bill contains no intergovernmental mandates as defined in UMRA.

Estimate prepared by: Emily Schlect.

Estimate approved by: G. Thomas Woodward, Assistant Director for Tax Analysis.

### D. Macroeconomic Impact Analysis

In compliance with clause 3(h)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made by the Joint Committee on Taxation with respect to the provisions of the bill amending the Internal Revenue Code of 1986: the effects of the bill on economic activity are so small as to be incalculable within the context of a model of the aggregate economy.

### E. PAY-GO Rule

In compliance with clause 10 of the rule XXI of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H.R. 976, as reported: the provisions of the bill affecting revenues have the net effect of not increasing the deficit or reducing the surplus for either: (1) the period comprising the current fiscal year and the five fiscal years beginning with the fiscal year that ends in the following calendar year; and (2) the period comprising the current fiscal year and the ten fiscal years beginning with the fiscal year that ends in the following calendar year.

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

### A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it is appropriate and timely to enact the revenue provisions included in the bill as reported.

## B. Statement of General Performance Goals and Objectives

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance goals and objectives for which any measure authorizes funding is required.

## C. Constitutional Authority Statement

With respect to clause 3(d)(1) of the rule XIII of the Rules of the House of Representatives (relating to Constitutional Authority), the Committee states that the Committee's action in reporting this bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises . . ."), and from the 16th Amendment to the Constitution.

## D. Information Relating to Unfunded Mandates

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

The Committee has determined that the revenue provisions of the bill contain one Federal mandate on the private sector. That provision is the denial of the lower capital gains and dividend rate for any dependent under the age of 24 who does not provide more than one-half of their support with their earned income. The Committee has determined that the revenue provisions of the bill do not impose a Federal intergovernmental mandate on State, local, or tribal governments.

## E. Applicability of House Rule XXI 5(b)

Clause 5 of rule XXI of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increases within the meaning of the rule.

## F. Tax Complexity Analysis

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

The staff of the Joint Committee on Taxation has determined that a complexity analysis is not required under section 4022(b) of the IRS Reform Act because the bill contains no provisions that

amend the Code and that have "widespread applicability" to individuals or small businesses.

G. LIMITED TAX BENEFITS

Pursuant to clause 9 of rule XXI of the Rules of the House of Representatives, the Ways and Means Committee has determined that the bill as reported contains no congressional earmarks, limited tax benefits, or limited tariff benefits within the meaning of that Rule.

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

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

### INTERNAL REVENUE CODE OF 1986

* * * * * * *

# Subtitle A—Income Taxes

* * * * * * *

## CHAPTER 1—NORMAL TAXES AND SURTAXES

* * * * * * *

## Subchapter A—Determination of Tax Liability

* * * * * * *

### PART I—TAX ON INDIVIDUALS

* * * * * * *

**SEC. 1. TAX IMPOSED.**

(a) * * *

* * * * * * *

(h) MAXIMUM CAPITAL GAINS RATE.—

(1) * * *

* * * * * * *

*(12) CERTAIN INDIVIDUALS NOT ELIGIBLE FOR LOWEST RATE.—*

*(A) IN GENERAL.—In the case of an individual described in subparagraph (B)—*

*(i) the amount determined under paragraph (1)(A)(ii)(II) shall not be less than the amount of taxable income which would (without regard to this subsection) be taxed at a rate below 15 percent,*

*(ii) the sum of the amounts determined under subparagraphs (B) and (C) of paragraph (1) shall be an amount equal to the rate of tax specified in paragraph*

*(1)(C) multiplied by so much of the adjusted net capital gain (or, if less, taxable income) as exceeds the excess (if any) of—*

*(I) the amount of taxable income which would (without regard to this subsection) be taxed at a rate below 15 percent, over*

*(II) the taxable income reduced by the adjusted net capital gain, and*

*(iii) no amount of qualified 5-year gain shall be taken into account under subparagraph (A) of paragraph (2) (as in effect after the application of section 303 of the Jobs and Growth Tax Relief Reconciliation Act of 2003).*

*(B) INDIVIDUALS TO WHOM PARAGRAPH APPLIES.—*

*(i) IN GENERAL.—For purposes of this paragraph, an individual is described in this subparagraph if—*

*(I) such individual meets the age requirements of section 152(c)(3) (determined without regard to subparagraph (B) thereof), and*

*(II) such individual's earned income (as defined in section 911(d)(2)) for the taxable year does not exceed one-half of such individual's support (within the meaning of section 152) for such taxable year.*

*(ii) SPECIAL RULES FOR JOINT RETURNS.—In the case of a joint return—*

*(I) the taxpayer and the taxpayer's spouse shall be treated as a single individual for purposes of applying subclause (II) of clause (i), and*

*(II) the taxpayer shall be treated as an individual described in this subparagraph only if the taxpayer and the taxpayer's spouse are described in clause (i) (determined after application of subclause (I)).*

* * * * * * *

## PART IV—CREDIT AGAINST TAX

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### Subpart D— Business Related Creditss

* * * * * * *

**SEC. 38. GENERAL BUSINESS CREDIT.**

(a) * * *

* * * * * * *

(c) LIMITATION BASED ON AMOUNT OF TAX.—

(1) * * *

* * * * * * *

(4) SPECIAL RULES FOR SPECIFIED CREDITS.—

(A) * * *

(B) SPECIFIED CREDITS.—For purposes of this subsection, the term "specified credits" means—

(i) for taxable years beginning after December 31, 2004, the credit determined under section 40, [and]

(ii) the credit determined under section 45 to the extent that such credit is attributable to electricity or refined coal produced—

(I) at a facility which is originally placed in service after the date of the enactment of this paragraph, and

(II) during the 4-year period beginning on the date that such facility was originally placed in service,

*(iii) the credit determined under section 45B, and*

*(iv) the credit determined under section 51.*

* * * * * * *

**SEC. 45B. CREDIT FOR PORTION OF EMPLOYER SOCIAL SECURITY TAXES PAID WITH RESPECT TO EMPLOYEE CASH TIPS.**

(a) * * *

(b) EXCESS EMPLOYER SOCIAL SECURITY TAX.—For purposes of this section—

(1) IN GENERAL.—The term "excess employer social security tax" means any tax paid by an employer under section 3111 with respect to tips received by an employee during any month, to the extent such tips—

(A) * * *

(B) exceed the amount by which the wages (excluding tips) paid by the employer to the employee during such month are less than the total amount which would be payable (with respect to such employment) at the minimum wage rate applicable to such individual under section 6(a)(1) of the Fair Labor Standards Act of 1938 (*as in effect on January 1, 2007, and* determined without regard to section 3(m) of such Act).

* * * * * * *

## Subpart F—Rules for Computing Work Oppportunity Credit

* * * * * * *

**SEC. 51. AMOUNT OF CREDIT.**

(a) * * *

(b) QUALIFIED WAGES DEFINED.—For purposes of this subpart—

(1) * * *

* * * * * * *

(3) [ONLY FIRST $6,000 OF] *LIMITATION ON* WAGES PER YEAR TAKEN INTO ACCOUNT.—The amount of the qualified first-year wages which may be taken into account with respect to any individual shall not exceed $6,000 per year *($12,000 per year in the case of any individual who is a qualified veteran by reason of subsection (d)(3)(A)(ii))*.

(c) WAGES DEFINED.—For purposes of this subpart—

(1) * * *

* * * * * * *

(4) TERMINATION.—The term "wages" shall not include any amount paid or incurred to an individual who begins work for the employer—

(A) * * *

(B) after December 31, [2007] *2008*.

(d) MEMBERS OF TARGETED GROUPS.—For purposes of this subpart—

(1) IN GENERAL.—An individual is a member of a targeted group if such individual is—

(A) * * *

* * * * * * *

[(D) a high-risk youth,]

*(D) a designated community resident,*

* * * * * * *

(3) QUALIFIED VETERAN.—

(A) The term "qualified veteran" means any veteran who is certified by the designated local [agency as being a member of a family receiving assistance under a food stamp program under the Food Stamp Act of 1977 for at least a 3-month period ending during the 12-month period ending on the hiring date.] *agency as—*

*(i) being a member of a family receiving assistance under a food stamp program under the Food Stamp Act of 1977 for at least a 3-month period ending during the 12-month period ending on the hiring date, or*

*(ii) entitled to compensation for a service-connected disability, and—*

*(I) having a hiring date which is not more that 1 year after having been discharged or released from active duty in the Armed Forces of the United States, or*

*(II) having aggregate periods of unemployment during the 1-year period ending on the hiring date which equal or exceed 6 months.*

* * * * * * *

*(C) OTHER DEFINITIONS.—For purposes of subparagraph (A), the terms "compensation" and "service-connected" have the meanings given such terms under section 101 of title 38, United States Code.*

* * * * * * *

[(5) HIGH-RISK YOUTH.—

[(A) IN GENERAL.—The term "high-risk youth" means any individual who is certified by the designated local agency—

[(i) as having attained age 18 but not age 25 on the hiring date, and

[(ii) as having his principal place of abode within an empowerment zone, enterprise community, or renewal community.

[(B) YOUTH MUST CONTINUE TO RESIDE IN ZONE OR COMMUNITY.—In the case of a high-risk youth, the term "qualified wages" shall not include wages paid or incurred for services performed while such youth's principal place of

abode is outside an empowerment zone, enterprise community, or renewal community.]

*(5) DESIGNATED COMMUNITY RESIDENTS.—*

*(A) IN GENERAL.—The term "designated community resident" means any individual who is certified by the designated local agency—*

*(i) as having attained age 18 but not age 40 on the hiring date, and*

*(ii) as having his principal place of abode within an empowerment zone, enterprise community, or renewal community.*

*(B) INDIVIDUAL MUST CONTINUE TO RESIDE IN ZONE OR COMMUNITY.—In the case of a designated community resident, the term "qualified wages" shall not include wages paid or incurred for services performed while the individual's principal place of abode is outside an empowerment zone, enterprise community, or renewal community.*

(6) VOCATIONAL REHABILITATION REFERRAL.—The term "vocational rehabilitation referral" means any individual who is certified by the designated local agency as—

(A) * * *

(B) having been referred to the employer upon completion of (or while receiving) rehabilitative services pursuant to—

(i) an individualized written plan for employment under a State plan for vocational rehabilitation services approved under the Rehabilitation Act of 1973, [or]

(ii) a program of vocational rehabilitation carried out under chapter 31 of title 38, United States Code[.], *or*

*(iii) an individual work plan developed and implemented by an employment network pursuant to subsection (g) of section 1148 of the Social Security Act with respect to which the requirements of such subsection are met.*

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## PART VI—ALTERNATIVE MINIMUM TAX

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**SEC. 55. ALTERNATIVE MINIMUM TAX IMPOSED.**

(a) * * *

* * * * * * *

*(f) CERTAIN INDIVIDUALS NOT ELIGIBLE FOR LOWEST RATE.—In the case of an individual described in section 1(h)(12)(B), no amount shall be determined under subsection (b)(3)(B).*

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## Subchapter B—Computation of Taxable Income

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## PART VI—ITEMIZED DEDUCTIONS FOR INDIVIDUALS AND CORPORATIONS

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### SEC. 179. ELECTION TO EXPENSE CERTAIN DEPRECIABLE BUSINESS ASSETS.

(a) * * *

(b) LIMITATIONS.—

(1) DOLLAR LIMITATION.—The aggregate cost which may be taken into account under subsection (a) for any taxable year shall not exceed $25,000 (**[**$100,000 in the case of taxable years beginning after 2002**]** *$125,000 in the case of taxable years beginning after 2006* and before **[**2010**]** *2011*).

(2) REDUCTION IN LIMITATION.—The limitation under paragraph (1) for any taxable year shall be reduced (but not below zero) by the amount by which the cost of section 179 property placed in service during such taxable year exceeds $200,000 (**[**$400,000 in the case of taxable years beginning after 2002**]** *$500,000 in the case of taxable years beginning after 2006* and before **[**2010**]** *2011*).

* * * * * * *

(5) INFLATION ADJUSTMENTS.—

(A) IN GENERAL.—In the case of any taxable year beginning in a calendar year after **[**2003**]** *2007* and before **[**2010**]** *2011*, the **[**$100,000 and $400,000**]** *$125,000 and $500,000* 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(f)(3) for the calendar year in which the taxable year begins, by substituting "calendar year **[**2002**]** *2006*" for "calendar year 1992" in subparagraph (B) thereof.

* * * * * * *

(c) ELECTION.—

(1) * * *

(2) ELECTION IRREVOCABLE.—Any election made under this section, and any specification contained in any such election, may not be revoked except with the consent of the Secretary. Any such election or specification with respect to any taxable year beginning after 2002 and before **[**2010**]** *2011* may be revoked by the taxpayer with respect to any property, and such revocation, once made, shall be irrevocable.

(d) DEFINITIONS AND SPECIAL RULES.—

(1) SECTION 179 PROPERTY.—For purposes of this section, the term "section 179 property" means property—

(A) which is—

(i) tangible property (to which section 168 applies), or

(ii) computer software (as defined in section 197(e)(3)(B)) which is described in section 197(e)(3)(A)(i), to which section 167 applies, and which is placed in service in a taxable year beginning after 2002 and before **[**2010**]** *2011*,

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## Subchapter K—Partners and Parnerships

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### PART III—DEFINITIONS

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**SEC. 761. TERMS DEFINED.**

(a) * * *

* * * * * * *

*(f) QUALIFIED JOINT VENTURE.—*

*(1) IN GENERAL.—In the case of a qualified joint venture conducted by a husband and wife who file a joint return for the taxable year, for purposes of this title—*

*(A) such joint venture shall not be treated as a partnership,*

*(B) all items of income, gain, loss, deduction, and credit shall be divided between the spouses in accordance with their respective interests in the venture, and*

*(C) each spouse shall take into account such spouse's respective share of such items as if they were attributable to a trade or business conducted by such spouse as a sole proprietor.*

*(2) QUALIFIED JOINT VENTURE.—For purposes of paragraph (1), the term "qualified joint venture" means any joint venture involving the conduct of a trade or business if—*

*(A) the only members of such joint venture are a husband and wife,*

*(B) both spouses materially participate (within the meaning of section 469(h) without regard to paragraph (5) thereof) in such trade or business, and*

*(C) both spouses elect the application of this subsection.*

**[(f)]** *(g)* CROSS REFERENCE.**—For rules in the case of the sale, exchange, liquidation, or reduction of a partner's interest, see sections 704(b) and 706(c)(2).**

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## CHAPTER 2—TAX ON SELF-EMPLOYMENT INCOME

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**SEC. 1402. DEFINITIONS**

(a) NET EARNINGS FROM SELF-EMPLOYMENT.—The term "net earnings from self-employment" means the gross income derived by an individual from any trade or business carried on by such individual, less the deductions allowed by this subtitle which are attributable to such trade or business, plus his distributive share (whether or not distributed) of income or loss described in section 702(a)(8) from any trade or business carried on by a partnership of which he is a member; except that in computing such gross income and deductions and such distributive share of partnership ordinary income or loss—

(1) * * *

* * * * * * *

(15) in the case of a member of an Indian tribe, the special rules of section 7873 (relating to income derived by Indians from exercise of fishing rights) shall apply**[**, and**]***;*

(16) the deduction provided by section 199 shall not be allowed**[**.**]***; and*

*(17) notwithstanding the preceding provisions of this subsection, each spouse's share of income or loss from a qualified joint venture shall be taken into account as provided in section 761(f) in determining net earnings from self-employment of such spouse.*

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# Subtitle F—Procedure and Administration

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## CHAPTER 65—ABATEMENTS, CREDITS, AND REFUNDS

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### Subchapter A—Procedure in General

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**SEC. 6404. ABATEMENTS.**

(a) * * *

* * * * * * *

(g) SUSPENSION OF INTEREST AND CERTAIN PENALTIES WHERE SECRETARY FAILS TO CONTACT TAXPAYER.—

(1) SUSPENSION.—

(A) IN GENERAL.—In the case of an individual who files a return of tax imposed by subtitle A for a taxable year on or before the due date for the return (including extensions), if the Secretary does not provide a notice to the taxpayer specifically stating the taxpayer's liability and the basis for the liability before the close of the **[**18-month period**]** *22-month period* beginning on the later of—

(i) * * *

* * * * * * *

(3) SUSPENSION PERIOD.—For purposes of this subsection, the term "suspension period" means the period—

(A) beginning on the day after the close of the **[**18-month period**]** *22-month period* under paragraph (1); and

* * * * * * *

## SECTION 211 OF THE SOCIAL SECURITY ACT

SELF-EMPLOYMENT

SEC. 211. For the purposes of this title—

Net Earnings From Self-Employment

(a) The term "net earnings from self-employment" means the gross income, as computed under subtitle A of the Internal Revenue Code of 1986, derived by an individual from any trade or business carried on by such individual, less the deductions allowed under such subtitle which are attributable to such trade or business, plus his distributive share (whether or not distributed) of the ordinary net income or loss, as computed under section 702(a)(8) of such Code, from any trade or business carried on by a partnership of which he is a member; except that in computing such gross income and deductions and such distributive share of partnership ordinary net income or loss—

(1) * * *

* * * * * * *

(14) There shall be excluded income excluded from taxation under section 7873 of the Internal Revenue Code of 1986 (relating to income derived by Indians from exercise of fishing rights); **[**and**]**

(15) The deduction under section 162(l) (relating to health insurance costs of self-employed individuals) shall not be allowed**[**.**]***; and*

*(16) Notwithstanding the preceding provisions of this subsection, each spouse's share of income or loss from a qualified joint venture shall be taken into account as provided in section 761(f) of the Internal Revenue Code of 1986 in determining net earnings from self-employment of such spouse.*

* * * * * * *

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## SECTION 401 OF THE TAX INCREASE PREVENTION AND RECONCILIATION ACT OF 2005

**SEC. 401. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES.**

Notwithstanding section 6655 of the Internal Revenue Code of 1986—

(1) in the case of a corporation with assets of not less than $1,000,000,000 (determined as of the end of the preceding taxable year)—

(A) * * *

(B) the amount of any required installment of corporate estimated tax which is otherwise due in July, August, or September of 2012 shall be **[**106.25 percent**]** *112.75 percent* of such amount,

* * * * * * *

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