

NOVEMBER 10, 2017

**RULES COMMITTEE PRINT 115–39**  
**TEXT OF H. R. 1, TAX CUTS AND JOBS ACT**

**[Showing the text of H. R. 1 as ordered reported by the  
Committee on Ways and Means]**

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

2 (a) **SHORT TITLE.**—This Act may be cited as the  
3 “Tax Cuts and Jobs Act”.

4 (b) **AMENDMENT OF 1986 CODE.**—Except as other-  
5 wise expressly provided, whenever in this Act an amend-  
6 ment or repeal is expressed in terms of an amendment  
7 to, or repeal of, a section or other provision, the reference  
8 shall be considered to be made to a section or other provi-  
9 sion of the Internal Revenue Code of 1986.

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

Sec. 1. Short title; etc.

**TITLE I—TAX REFORM FOR INDIVIDUALS**

**Subtitle A—Simplification and Reform of Rates, Standard Deduction, and  
Exemptions**

- Sec. 1001. Reduction and simplification of individual income tax rates.
- Sec. 1002. Enhancement of standard deduction.
- Sec. 1003. Repeal of deduction for personal exemptions.
- Sec. 1004. Maximum rate on business income of individuals.
- Sec. 1005. Conforming amendments related to simplification of individual in-  
come tax rates.

**Subtitle B—Simplification and Reform of Family and Individual Tax Credits**

- Sec. 1101. Enhancement of child tax credit and new family tax credit.
- Sec. 1102. Repeal of nonrefundable credits.

- Sec. 1103. Refundable credit program integrity.
- Sec. 1104. Procedures to reduce improper claims of earned income credit.
- Sec. 1105. Certain income disallowed for purposes of the earned income tax credit.

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

- Sec. 1201. American opportunity tax credit.
- Sec. 1202. Consolidation of education savings rules.
- Sec. 1203. Reforms to discharge of certain student loan indebtedness.
- Sec. 1204. Repeal of other provisions relating to education.
- Sec. 1205. Rollovers between qualified tuition programs and qualified ABLE programs.

#### Subtitle D—Simplification and Reform of Deductions

- Sec. 1301. Repeal of overall limitation on itemized deductions.
- Sec. 1302. Mortgage interest.
- Sec. 1303. Repeal of deduction for certain taxes not paid or accrued in a trade or business.
- Sec. 1304. Repeal of deduction for personal casualty losses.
- Sec. 1305. Limitation on wagering losses.
- Sec. 1306. Charitable contributions.
- Sec. 1307. Repeal of deduction for tax preparation expenses.
- Sec. 1308. Repeal of medical expense deduction.
- Sec. 1309. Repeal of deduction for alimony payments.
- Sec. 1310. Repeal of deduction for moving expenses.
- Sec. 1311. Termination of deduction and exclusions for contributions to medical savings accounts.
- Sec. 1312. Denial of deduction for expenses attributable to the trade or business of being an employee.

#### Subtitle E—Simplification and Reform of Exclusions and Taxable Compensation

- Sec. 1401. Limitation on exclusion for employer-provided housing.
- Sec. 1402. Exclusion of gain from sale of a principal residence.
- Sec. 1403. Repeal of exclusion, etc., for employee achievement awards.
- Sec. 1404. Sunset of exclusion for dependent care assistance programs.
- Sec. 1405. Repeal of exclusion for qualified moving expense reimbursement.
- Sec. 1406. Repeal of exclusion for adoption assistance programs.

#### Subtitle F—Simplification and Reform of Savings, Pensions, Retirement

- Sec. 1501. Repeal of special rule permitting recharacterization of Roth IRA contributions as traditional IRA contributions.
- Sec. 1502. Reduction in minimum age for allowable in-service distributions.
- Sec. 1503. Modification of rules governing hardship distributions.
- Sec. 1504. Modification of rules relating to hardship withdrawals from cash or deferred arrangements.
- Sec. 1505. Extended rollover period for the rollover of plan loan offset amounts in certain cases.
- Sec. 1506. Modification of nondiscrimination rules to protect older, longer service participants.

#### Subtitle G—Estate, Gift, and Generation-skipping Transfer Taxes

- Sec. 1601. Increase in credit against estate, gift, and generation-skipping transfer tax.
- Sec. 1602. Repeal of estate and generation-skipping transfer taxes.

TITLE II—ALTERNATIVE MINIMUM TAX REPEAL

- Sec. 2001. Repeal of alternative minimum tax.

TITLE III—BUSINESS TAX REFORM

Subtitle A—Tax Rates

- Sec. 3001. Reduction in corporate tax rate.

Subtitle B—Cost Recovery

- Sec. 3101. Increased expensing.

Subtitle C—Small Business Reforms

- Sec. 3201. Expansion of section 179 expensing.
- Sec. 3202. Small business accounting method reform and simplification.
- Sec. 3203. Small business exception from limitation on deduction of business interest.
- Sec. 3204. Modification of treatment of S corporation conversions to C corporations.

Subtitle D—Reform of Business-related Exclusions, Deductions, etc.

- Sec. 3301. Interest.
- Sec. 3302. Modification of net operating loss deduction.
- Sec. 3303. Like-kind exchanges of real property.
- Sec. 3304. Revision of treatment of contributions to capital.
- Sec. 3305. Repeal of deduction for local lobbying expenses.
- Sec. 3306. Repeal of deduction for income attributable to domestic production activities.
- Sec. 3307. Entertainment, etc. expenses.
- Sec. 3308. Unrelated business taxable income increased by amount of certain fringe benefit expenses for which deduction is disallowed.
- Sec. 3309. Limitation on deduction for FDIC premiums.
- Sec. 3310. Repeal of rollover of publicly traded securities gain into specialized small business investment companies.
- Sec. 3311. Certain self-created property not treated as a capital asset.
- Sec. 3312. Repeal of special rule for sale or exchange of patents.
- Sec. 3313. Repeal of technical termination of partnerships.
- Sec. 3314. Recharacterization of certain gains in the case of partnership profits interests held in connection with performance of investment services.
- Sec. 3315. Amortization of research and experimental expenditures.
- Sec. 3316. Uniform treatment of expenses in contingency fee cases.

Subtitle E—Reform of Business Credits

- Sec. 3401. Repeal of credit for clinical testing expenses for certain drugs for rare diseases or conditions.
- Sec. 3402. Repeal of employer-provided child care credit.
- Sec. 3403. Repeal of rehabilitation credit.
- Sec. 3404. Repeal of work opportunity tax credit.

- Sec. 3405. Repeal of deduction for certain unused business credits.
- Sec. 3406. Termination of new markets tax credit.
- Sec. 3407. Repeal of credit for expenditures to provide access to disabled individuals.
- Sec. 3408. Modification of credit for portion of employer social security taxes paid with respect to employee tips.

Subtitle F—Energy Credits

- Sec. 3501. Modifications to credit for electricity produced from certain renewable resources.
- Sec. 3502. Modification of the energy investment tax credit.
- Sec. 3503. Extension and phaseout of residential energy efficient property.
- Sec. 3504. Repeal of enhanced oil recovery credit.
- Sec. 3505. Repeal of credit for producing oil and gas from marginal wells.
- Sec. 3506. Modifications of credit for production from advanced nuclear power facilities.

Subtitle G—Bond Reforms

- Sec. 3601. Termination of private activity bonds.
- Sec. 3602. Repeal of advance refunding bonds.
- Sec. 3603. Repeal of tax credit bonds.
- Sec. 3604. No tax exempt bonds for professional stadiums.

Subtitle H—Insurance

- Sec. 3701. Net operating losses of life insurance companies.
- Sec. 3702. Repeal of small life insurance company deduction.
- Sec. 3703. Surtax on life insurance company taxable income.
- Sec. 3704. Adjustment for change in computing reserves.
- Sec. 3705. Repeal of special rule for distributions to shareholders from pre-1984 policyholders surplus account.
- Sec. 3706. Modification of proration rules for property and casualty insurance companies.
- Sec. 3707. Modification of discounting rules for property and casualty insurance companies.
- Sec. 3708. Repeal of special estimated tax payments.

Subtitle I—Compensation

- Sec. 3801. Modification of limitation on excessive employee remuneration.
- Sec. 3802. Excise tax on excess tax-exempt organization executive compensation.
- Sec. 3803. Treatment of qualified equity grants.

TITLE IV—TAXATION OF FOREIGN INCOME AND FOREIGN PERSONS

Subtitle A—Establishment of Participation Exemption System for Taxation of Foreign Income

- Sec. 4001. Deduction for foreign-source portion of dividends received by domestic corporations from specified 10-percent owned foreign corporations.
- Sec. 4002. Application of participation exemption to investments in United States property.

- Sec. 4003. Limitation on losses with respect to specified 10-percent owned foreign corporations.
- Sec. 4004. Treatment of deferred foreign income upon transition to participation exemption system of taxation.

Subtitle B—Modifications Related to Foreign Tax Credit System

- Sec. 4101. Repeal of section 902 indirect foreign tax credits; determination of section 960 credit on current year basis.
- Sec. 4102. Source of income from sales of inventory determined solely on basis of production activities.

Subtitle C—Modification of Subpart F Provisions

- Sec. 4201. Repeal of inclusion based on withdrawal of previously excluded subpart F income from qualified investment.
- Sec. 4202. Repeal of treatment of foreign base company oil related income as subpart F income.
- Sec. 4203. Inflation adjustment of de minimis exception for foreign base company income.
- Sec. 4204. Look-thru rule for related controlled foreign corporations made permanent.
- Sec. 4205. Modification of stock attribution rules for determining status as a controlled foreign corporation.
- Sec. 4206. Elimination of requirement that corporation must be controlled for 30 days before subpart F inclusions apply.

Subtitle D—Prevention of Base Erosion

- Sec. 4301. Current year inclusion by United States shareholders with foreign high returns.
- Sec. 4302. Limitation on deduction of interest by domestic corporations which are members of an international financial reporting group.
- Sec. 4303. Excise tax on certain payments from domestic corporations to related foreign corporations; election to treat such payments as effectively connected income.

Subtitle E—Provisions Related to Possessions of the United States

- Sec. 4401. Extension of deduction allowable with respect to income attributable to domestic production activities in Puerto Rico.
- Sec. 4402. Extension of temporary increase in limit on cover over of rum excise taxes to Puerto Rico and the Virgin Islands.
- Sec. 4403. Extension of American Samoa economic development credit.

Subtitle F—Other International Reforms

- Sec. 4501. Restriction on insurance business exception to passive foreign investment company rules.

TITLE V—EXEMPT ORGANIZATIONS

Subtitle A—Unrelated Business Income Tax

- Sec. 5001. Clarification of unrelated business income tax treatment of entities treated as exempt from taxation under section 501(a).
- Sec. 5002. Exclusion of research income limited to publicly available research.

## Subtitle B—Excise Taxes

- Sec. 5101. Simplification of excise tax on private foundation investment income.
- Sec. 5102. Private operating foundation requirements relating to operation of art museum.
- Sec. 5103. Excise tax based on investment income of private colleges and universities.
- Sec. 5104. Exception from private foundation excess business holding tax for independently-operated philanthropic business holdings.

## Subtitle C—Requirements for Organizations Exempt From Tax

- Sec. 5201. 501(c)(3) organizations permitted to make statements relating to political campaign in ordinary course of activities.
- Sec. 5202. Additional reporting requirements for donor advised fund sponsoring organizations.

1           **TITLE I—TAX REFORM FOR**  
2                           **INDIVIDUALS**  
3       **Subtitle A—Simplification and Re-**  
4       **form of Rates, Standard Deduc-**  
5       **tion, and Exemptions**

6       **SEC. 1001. REDUCTION AND SIMPLIFICATION OF INDI-**  
7                           **VIDUAL INCOME TAX RATES.**

8           (a) IN GENERAL.—Section 1 is amended by striking  
9 subsection (i) and by striking all that precedes subsection  
10 (h) and inserting the following:

11       ~~“SEC. 1. TAX IMPOSED.~~

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

14                   “(1) 12 PERCENT BRACKET.—12 percent of so  
15                   much of the taxable income as does not exceed the  
16                   25-percent bracket threshold amount,

17                   “(2) 25 PERCENT BRACKET.—25 percent of so  
18                   much of the taxable income as exceeds the 25-per-

1 cent bracket threshold amount but does not exceed  
2 the 35-percent bracket threshold amount, plus

3 “(3) 35 PERCENT BRACKET.—35 percent of so  
4 much of taxable income as exceeds the 35-percent  
5 bracket threshold amount but does not exceed the  
6 39.6 percent bracket threshold amount.

7 “(4) 39.6 PERCENT BRACKET.—39.6 percent of  
8 so much of taxable income as exceeds the 39.6-per-  
9 cent bracket threshold amount.

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

12 “(1) 25-PERCENT BRACKET THRESHOLD  
13 AMOUNT.—The term ‘25-percent bracket threshold  
14 amount’ means—

15 “(A) in the case of a joint return or sur-  
16 viving spouse, \$90,000,

17 “(B) in the case of an individual who is  
18 the head of a household (as defined in section  
19 2(b)), \$67,500,

20 “(C) in the case of any other individual  
21 (other than an estate or trust), an amount  
22 equal to  $\frac{1}{2}$  of the amount in effect for the tax-  
23 able year under subparagraph (A), and

24 “(D) in the case of an estate or trust,  
25 \$2,550.

1           “(2) 35-PERCENT BRACKET THRESHOLD  
2 AMOUNT.—The term ‘35-percent bracket threshold  
3 amount’ means—

4           “(A) in the case of a joint return or sur-  
5 viving spouse, \$260,000,

6           “(B) in the case of a married individual fil-  
7 ing a separate return, an amount equal to  $\frac{1}{2}$   
8 of the amount in effect for the taxable year  
9 under subparagraph (A), and

10           “(C) in the case of any other individual  
11 (other than an estate or trust), \$200,000, and

12           “(D) in the case of an estate or trust,  
13 \$9,150.

14           “(3) 39.6-PERCENT BRACKET THRESHOLD  
15 AMOUNT.—The term ‘39.6-percent bracket threshold  
16 amount’ means—

17           “(A) in the case of a joint return or sur-  
18 viving spouse, \$1,000,000,

19           “(B) in the case of any other individual  
20 (other than an estate or trust), an amount  
21 equal to  $\frac{1}{2}$  of the amount in effect for the tax-  
22 able year under subparagraph (A), and

23           “(C) in the case of an estate or trust,  
24 \$12,500.

25           “(c) INFLATION ADJUSTMENT.—



1           “(1) IN GENERAL.—In the case of any taxable  
2 year beginning after 2018, each dollar amount in  
3 subsections (b) and (e)(3) (other than any amount  
4 determined by reference to such a dollar amount)  
5 shall be increased by an amount equal to—

6                   “(A) such dollar amount, multiplied by

7                   “(B) the cost-of-living adjustment deter-  
8 mined under this subsection for the calendar  
9 year in which the taxable year begins by sub-  
10 stituting ‘2017’ for ‘2016’ in paragraph  
11 (2)(A)(ii).

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

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

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

20                           “(i) the C-CPI-U for the preceding  
21 calendar year, exceeds

22                           “(ii) the normalized CPI for calendar  
23 year 2016.

24                   “(B) SPECIAL RULE FOR ADJUSTMENTS  
25 WITH A BASE YEAR AFTER 2016.—For purposes

1 of any provision which provides for the substi-  
2 tution of a year after 2016 for ‘2016’ in sub-  
3 paragraph (A)(ii), subparagraph (A) shall be  
4 applied by substituting ‘C-CPI-U’ for ‘normal-  
5 ized CPI’ in clause (ii).

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

9 “(A) the CPI for such calendar year, mul-  
10 tiplied by

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

12 “(4) C-CPI-U TRANSITION MULTIPLE.—For  
13 purposes of this subsection, the term ‘C-CPI-U tran-  
14 sition multiple’ means the amount obtained by divid-  
15 ing—

16 “(A) the C-CPI-U for calendar year 2016,  
17 by

18 “(B) the CPI for calendar year 2016.

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

21 “(A) IN GENERAL.—The term ‘C-CPI-U’  
22 means the Chained Consumer Price Index for  
23 All Urban Consumers (as published by the Bu-  
24 reau of Labor Statistics of the Department of  
25 Labor). The values of the Chained Consumer

1 Price Index for All Urban Consumers taken  
2 into account for purposes of determining the  
3 cost-of-living adjustment for any calendar year  
4 under this subsection shall be the latest values  
5 so published as of the date on which such Bu-  
6 reau publishes the initial value of the Chained  
7 Consumer Price Index for All Urban Con-  
8 sumers for the month of August for the pre-  
9 ceeding calendar year.

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

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

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

24 “(B) DETERMINATION FOR CALENDAR  
25 YEAR.—The CPI for any calendar year is the

1 average of the Consumer Price Index as of the  
2 close of the 12-month period ending on August  
3 31 of such calendar year.

4 “(d) SPECIAL RULES FOR CERTAIN CHILDREN WITH  
5 UNEARNED INCOME.—

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

8 “(A) the 25-percent bracket threshold  
9 amount shall not be more than the taxable in-  
10 come of such child for the taxable year reduced  
11 by the net unearned income of such child, and

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

14 “(i) the taxable income of such child  
15 for the taxable year reduced by the net un-  
16 earned income of such child, plus

17 “(ii) the dollar amount in effect under  
18 subsection (b)(2)(D) for the taxable year.

19 “(C) the 39.6-percent bracket threshold  
20 amount shall not be more than the sum of—

21 “(i) the taxable income of such child  
22 for the taxable year reduced by the net un-  
23 earned income of such child, plus

24 “(ii) the dollar amount in effect under  
25 subsection (b)(3)(C).

1           “(2) CHILD TO WHOM SUBSECTION APPLIES.—

2           This subsection shall apply to any child for any tax-  
3           able year if—

4                   “(A) such child—

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

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

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

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

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

18                   “(A) such child—

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

21                           “(ii) is a student (within the meaning  
22                           of section 7706(f)(2)) who has not attained  
23                           age 24 before the close of the taxable year,  
24                           and

1           “(B) such child’s earned income (as de-  
2           fined in section 911(d)(2)) for such taxable  
3           year does not exceed one-half of the amount of  
4           the individual’s support (within the meaning of  
5           section 7706(c)(1)(D) after the application of  
6           section 7706(f)(5) (without regard to subpara-  
7           graph (A) thereof)) for such taxable year.

8           “(4) NET UNEARNED INCOME.—For purposes  
9           of this subsection—

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

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

16           “(ii) the sum of—

17           “(I) the amount in effect for the  
18           taxable year under section 63(c)(2)(A)  
19           (relating to limitation on standard de-  
20           duction in the case of certain depend-  
21           ents), plus

22           “(II) The greater of the amount  
23           described in subclause (I) or, if the  
24           child itemizes his deductions for the  
25           taxable year, the amount of the

1 itemized deductions allowed by this  
2 chapter for the taxable year which are  
3 directly connected with the production  
4 of the portion of adjusted gross in-  
5 come referred to in clause (i).

6 “(B) LIMITATION BASED ON TAXABLE IN-  
7 COME.—The amount of the net unearned in-  
8 come for any taxable year shall not exceed the  
9 individual’s taxable income for such taxable  
10 year.

11 “(e) PHASEOUT OF 12-PERCENT RATE.—

12 “(1) IN GENERAL.—The amount of tax imposed  
13 by this section (determined without regard to this  
14 subsection) shall be increased by 6 percent of the ex-  
15 cess (if any) of—

16 “(A) adjusted gross income, over

17 “(B) the applicable dollar amount.

18 “(2) LIMITATION.—The increase determined  
19 under paragraph (1) with respect to any taxpayer  
20 for any taxable year shall not exceed 27.6 percent of  
21 the lesser of—

22 “(A) the taxpayer’s taxable income for  
23 such taxable year, or

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

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

7                   “(A) in the case of a joint return or a sur-  
8                   viving spouse, \$1,200,000,

9                   “(B) in the case of a married individual fil-  
10                  ing a separate return, an amount equal to  $\frac{1}{2}$   
11                  of the amount in effect for the taxable year  
12                  under subparagraph (A), and

13                  “(C) in the case of any other individual,  
14                  \$1,000,000.

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

17           (b) APPLICATION OF CURRENT INCOME TAX BRACK-  
18           ETS TO CAPITAL GAINS BRACKETS.—

19                   (1) IN GENERAL.—

20                           (A) 0-PERCENT CAPITAL GAINS BRACK-  
21                           ET.—Section 1(h)(1) is amended by striking  
22                           “which would (without regard to this para-  
23                           graph) be taxed at a rate below 25 percent” in  
24                           subparagraph (B)(i) and inserting “below the  
25                           15-percent rate threshold”.



1 (B) 15-PERCENT CAPITAL GAINS BRACK-  
2 ET.—Section 1(h)(1)(C)(ii)(I) is amended by  
3 striking “which would (without regard to this  
4 paragraph) be taxed at a rate below 39.6 per-  
5 cent” and inserting “below the 20-percent rate  
6 threshold”.

7 (2) RATE THRESHOLDS DEFINED.—Section  
8 1(h) is amended by adding at the end the following  
9 new paragraph:

10 “(12) RATE THRESHOLDS DEFINED.—For pur-  
11 poses of this subsection—

12 “(A) 15-PERCENT RATE THRESHOLD.—  
13 The 15-percent rate threshold shall be—

14 “(i) in the case of a joint return or  
15 surviving spouse, \$77,200 ( $\frac{1}{2}$  such amount  
16 in the case of a married individual filing a  
17 separate return),

18 “(ii) in the case of an individual who  
19 is the head of a household (as defined in  
20 section 2(b)), \$51,700,

21 “(iii) in the case of any other indi-  
22 vidual (other than an estate or trust), an  
23 amount equal to  $\frac{1}{2}$  of the amount in effect  
24 for the taxable year under clause (i), and

1 “(iv) in the case of an estate or trust,  
2 \$2,600.

3 “(B) 20-PERCENT RATE THRESHOLD.—

4 The 20-percent rate threshold shall be—

5 “(i) in the case of a joint return or  
6 surviving spouse, \$479,000 ( $\frac{1}{2}$  such  
7 amount in the case of a married individual  
8 filing a separate return),

9 “(ii) in the case of an individual who  
10 is the head of a household (as defined in  
11 section 2(b)), \$452,400,

12 “(iii) in the case of any other indi-  
13 vidual (other than an estate or trust),  
14 \$425,800, and

15 “(iv) in the case of an estate or trust,  
16 \$12,700.

17 “(C) INFLATION ADJUSTMENT.—In the  
18 case of any taxable year beginning after 2018,  
19 each of the dollar amounts in subparagraphs  
20 (A) and (B) shall be increased by an amount  
21 equal to—

22 “(i) such dollar amount, multiplied by

23 “(ii) the cost-of-living adjustment de-  
24 termined under subsection (c)(2)(A) for  
25 the calendar year in which the taxable year

1 begins, determined by substituting ‘cal-  
2 endar year 2017’ for ‘calendar year 2016’  
3 in clause (ii) thereof.”.

4 (c) APPLICATION OF SECTION 15.—

5 (1) IN GENERAL.—Subsection (a) of section 15  
6 is amended by striking “by this chapter” and insert-  
7 ing “by section 11 (or by reference to any such  
8 rates)”.

9 (2) CONFORMING AMENDMENTS.—

10 (A) Section 15 is amended by striking sub-  
11 sections (d) and (f) and by redesignating sub-  
12 section (e) as subsection (d).

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

16 (C) Section 6013(c) is amended by striking  
17 “sections 15, 443, and 7851(a)(1)(A)” and in-  
18 serting “sections 443 and 7851(a)(1)(A)”.

19 (3) APPLICATION TO THIS ACT.—Section 15 of  
20 the Internal Revenue Code of 1986 shall not apply  
21 to any change in a rate of tax imposed by chapter  
22 1 of such Code which occurs by reason of any  
23 amendment made by this Act (other than the  
24 amendments made by section 3001).

25 (d) EFFECTIVE DATE.—

1           (1) IN GENERAL.—The amendments made by  
2 this section shall apply to taxable years beginning  
3 after December 31, 2017.

4           (2) SUBSECTION (c).—The amendments made  
5 by subsection (c) shall take effect on the date of the  
6 enactment of this Act.

7 **SEC. 1002. ENHANCEMENT OF STANDARD DEDUCTION.**

8           (a) INCREASE IN STANDARD DEDUCTION.—Section  
9 63(c) is amended to read as follows:

10          “(c) STANDARD DEDUCTION.—For purposes of this  
11 subtitle—

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

15                   “(A) \$24,400, in the case of a joint return  
16                   (or a surviving spouse (as defined in section  
17                   2(a)),

18                   “(B) three-quarters of the amount in effect  
19                   under subparagraph (A) for the taxable year, in  
20                   the case of the head of a household (as defined  
21                   in section 2(b)), and

22                   “(C) one-half of the amount in effect  
23                   under subparagraph (A) for the taxable year, in  
24                   any other case.

1           “(2) LIMITATION ON STANDARD DEDUCTION IN  
2           THE CASE OF CERTAIN DEPENDENTS.—In the case  
3           of an individual who is a dependent of another tax-  
4           payer for a taxable year beginning in the calendar  
5           year in which the individual’s taxable year begins,  
6           the standard deduction applicable to such individual  
7           for such individual’s taxable year shall not exceed  
8           the greater of—

9                   “(A) \$500, or

10                   “(B) the sum of \$250 and such individ-  
11                   ual’s earned income (within the means of sec-  
12                   tion 32).

13           “(3) CERTAIN INDIVIDUALS, ETC., NOT ELIGI-  
14           BLE FOR STANDARD DEDUCTION.—In the case of—

15                   “(A) a married individual filing a separate  
16                   return where either spouse itemizes deductions,

17                   “(B) a nonresident alien individual,

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

22                   “(D) an estate or trust, common trust  
23                   fund, or partnership,

24           the standard deduction shall be zero.

1           “(4) UNMARRIED INDIVIDUAL.—For purposes  
2 of this section, the term ‘unmarried individual’  
3 means any individual who—

4           “(A) is not married as of the close of the  
5 taxable year (as determined by applying section  
6 7703),

7           “(B) is not a surviving spouse (as defined  
8 in section 2(a)) for the taxable year, and

9           “(C) is not a dependent of another tax-  
10 payer for a taxable year beginning in the cal-  
11 endar year in which the individual’s taxable  
12 year begins.

13           “(5) INFLATION ADJUSTMENTS.—

14           “(A) STANDARD DEDUCTION AMOUNT.—In  
15 the case of any taxable year beginning after  
16 2019, the dollar amount in paragraph (1)(A)  
17 shall be increased by an amount equal to—

18           “(i) such dollar amount, multiplied by

19           “(ii) the cost-of-living adjustment de-  
20 termined under section 1(c)(2)(A) for the  
21 calendar year in which the taxable year be-  
22 gins, determined by substituting ‘calendar  
23 year 2018’ for ‘calendar year 2016’ in  
24 clause (ii) thereof.

1           “(B) LIMITATION AMOUNT IN CASE OF  
2 CERTAIN DEPENDENTS.—In the case of any  
3 taxable year beginning after 2017, each of the  
4 dollar amounts in paragraph (2) shall be in-  
5 creased by an amount equal to—

6                   “(i) such dollar amount, multiplied by

7                   “(ii)(I) in the case of the dollar  
8 amount in paragraph (2)(A), under section  
9 1(c)(2)(A) for the calendar year in which  
10 the taxable year begins determined by sub-  
11 stituting ‘calendar year 1987’ for ‘calendar  
12 year 2016’ in clause (ii) thereof, and

13                   “(II) in the case of the dollar amount  
14 in paragraph (2)(B), under section  
15 1(c)(2)(A) for the calendar year in which  
16 the taxable year begins determined by sub-  
17 stituting ‘calendar year 1997’ for ‘calendar  
18 year 2016’ in clause (ii) thereof.

19 If any increase determined under this paragraph is  
20 not a multiple of \$100, such increase shall be round-  
21 ed to the next lowest multiple of \$100.”.

22 (b) CONFORMING AMENDMENTS.—

23           (1) Section 63(b) is amended by striking “,  
24 minus—” and all that follows and inserting “minus  
25 the standard deduction”.

1           (2) Section 63 is amended by striking sub-  
2 sections (f) and (g).

3           (3) Section 1398(c) is amended—

4                 (A) by striking “BASIC” in the heading  
5 thereof,

6                 (B) by striking “BASIC STANDARD” in the  
7 heading of paragraph (3) and inserting  
8 “STANDARD”, and

9                 (C) by striking “basic” in paragraph (3).

10           (4) Section 3402(m)(3) is amended by striking  
11 “(including the additional standard deduction under  
12 section 63(c)(3) for the aged and blind)”.

13           (5) Section 6014(b)(4) is amended by striking  
14 “section 63(c)(5)” and inserting “section 63(c)(2)”.

15           (c) EFFECTIVE DATE.—The amendment made by  
16 this section shall apply to taxable years beginning after  
17 December 31, 2017.

18 **SEC. 1003. REPEAL OF DEDUCTION FOR PERSONAL EXEMP-**  
19 **TIONS.**

20           (a) IN GENERAL.—Part V of subchapter B of chapter  
21 1 is hereby repealed.

22           (b) DEFINITION OF DEPENDENT RETAINED.—Sec-  
23 tion 152, prior to repeal by subsection (a), is hereby reded-  
24 icated as section 7706 and moved to the end of chapter  
25 79.



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

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

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

5 (3) by striking “DEDUCTION FOR PERSONAL  
6 EXEMPTION” in the heading thereof and inserting  
7 “BASIC DEDUCTION”.

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

10 (e) MODIFICATION OF WAGE WITHHOLDING  
11 RULES.—

12 (1) IN GENERAL.—Section 3402(a) is amended  
13 by striking paragraph (2).

14 (2) CONFORMING AMENDMENT.—Section  
15 3402(a) is amended—

16 (A) by redesignating subparagraphs (A)  
17 and (B) of paragraph (1) as paragraphs (1)  
18 and (2) and moving such redesignated para-  
19 graphs 2 ems to the left, and

20 (B) by striking all that precedes “other-  
21 wise provided in this section” and inserting the  
22 following:

23 “(a) REQUIREMENT OF WITHHOLDING.—Except as”.

24 (3) NUMBER OF EXEMPTIONS.—Section  
25 3402(f)(1) is amended—

1 (A) in subparagraph (A), by striking “an  
2 individual described in section 151(d)(2)” and  
3 inserting “a dependent of any other taxpayer”,  
4 and

5 (B) in subparagraph (C), by striking “with  
6 respect to whom, on the basis of facts existing  
7 at the beginning of such day, there may reason-  
8 ably be expected to be allowable an exemption  
9 under section 151(c)” and inserting “who, on  
10 the basis of facts existing at the beginning of  
11 such day, is reasonably expected to be a de-  
12 pendent of the employee”.

13 (f) MODIFICATION OF RETURN REQUIREMENT.—

14 (1) IN GENERAL.—Paragraph (1) of section  
15 6012(a) is amended to read as follows:

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

19 “(A) an individual who is not married (de-  
20 termined by applying section 7703) and who  
21 has gross income for the taxable year which  
22 does not exceed the standard deduction applica-  
23 ble to such individual for such taxable year  
24 under section 63, or

1           “(B) an individual entitled to make a joint  
2           return if—

3                   “(i) the gross income of such indi-  
4                   vidual, when combined with the gross in-  
5                   come of such individual’s spouse, for the  
6                   taxable year does not exceed the standard  
7                   deduction which would be applicable to the  
8                   taxpayer for such taxable year under sec-  
9                   tion 63 if such individual and such individ-  
10                  ual’s spouse made a joint return,

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

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

16                   “(iv) neither such individual nor such  
17                   individual’s spouse is an individual de-  
18                   scribed in section 63(c)(2) who has income  
19                   (other than earned income) in excess of the  
20                   amount in effect under section  
21                   63(c)(2)(A).”.

22           (2) BANKRUPTCY ESTATES.—Paragraph (8) of  
23           section 6012(a) is amended by striking “the sum of  
24           the exemption amount plus the basic standard de-  
25           duction under section 63(c)(2)(D)” and inserting

1 “the standard deduction in effect under section  
2 63(c)(1)(B)”.

3 (g) CONFORMING AMENDMENTS.—

4 (1) Section 2(a)(1)(B) is amended by striking  
5 “a dependent” and all that follows through “section  
6 151” and inserting “a dependent who (within the  
7 meaning of section 7706, determined without regard  
8 to subsections (b)(1), (b)(2) and (d)(1)(B) thereof)  
9 is a son, stepson, daughter, or stepdaughter of the  
10 taxpayer”.

11 (2) Section 36B(b)(2)(A) is amended by strik-  
12 ing “section 152” and inserting “section 7706”.

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

18 (4) Section 36B(c)(1)(D) is amended by strik-  
19 ing “with respect to whom a deduction under section  
20 151 is allowable to another taxpayer” and inserting  
21 “who is a dependent of another taxpayer”.

22 (5) Section 36B(d)(1) is amended by striking  
23 “equal to the number of individuals for whom the  
24 taxpayer is allowed a deduction under section 151  
25 (relating to allowance of deduction for personal ex-

1       emptions) for the taxable year” and inserting “the  
2       sum of 1 (2 in the case of a joint return) plus the  
3       number of the taxpayer’s dependents for the taxable  
4       year”.

5           (6) Section 36B(e)(1) is amended by striking  
6       “1 or more individuals for whom a taxpayer is al-  
7       lowed a deduction under section 151 (relating to al-  
8       lowance of deduction for personal exemptions) for  
9       the taxable year (including the taxpayer or his  
10      spouse)” and inserting “1 or more of the taxpayer,  
11      the taxpayer’s spouse, or any dependent of the tax-  
12      payer”.

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

14           (A) by striking “section 152” and insert-  
15           ing “section 7706”, and

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

18          (8) Section 72(t)(2)(D)(i)(III) is amended by  
19      striking “section 152” and inserting “section 7706”.

20          (9) Section 72(t)(7)(A)(iii) is amended by strik-  
21      ing “section 152(f)(1)” and inserting “section  
22      7706(f)(1)”.

23          (10) Section 105(b) is amended—

24           (A) by striking “as defined in section 152”  
25           and inserting “as defined in section 7706”,

1 (B) by striking “section 152(f)(1)” and in-  
2 serting “section 7706(f)(1)” and

3 (C) by striking “section 152(e)” and in-  
4 serting “section 7706(e)”.

5 (11) Section 105(c)(1) is amended by striking  
6 “section 152” and inserting “section 7706”.

7 (12) Section 125(e)(1)(D) is amended by strik-  
8 ing “section 152” and inserting “section 7706”.

9 (13) Section 132(h)(2)(B) is amended—

10 (A) by striking “section 152(f)(1)” and in-  
11 serting “section 7706(f)(1)”, and

12 (B) by striking “section 152(e)” and in-  
13 serting “section 7706(e)”.

14 (14) Section 139D(e)(5) is amended by striking  
15 “section 152” and inserting “section 7706”.

16 (15) Section 162(l)(1)(D) is amended by strik-  
17 ing “section 152(f)(1)” and inserting “section  
18 7706(f)(1)”.

19 (16) Section 170(g)(1) is amended by striking  
20 “section 152” and inserting “section 7706”.

21 (17) Section 170(g)(3) is amended by striking  
22 “section 152(d)(2)” and inserting “section  
23 7706(d)(2)”.

24 (18) Section 172(d) is amended by striking  
25 paragraph (3).

1           (19) Section 220(b)(6) is amended by striking  
2           “with respect to whom a deduction under section  
3           151 is allowable to” and inserting “who is a depend-  
4           ent of”.

5           (20) Section 220(d)(2)(A) is amended by strik-  
6           ing “section 152” and inserting “section 7706”.

7           (21) Section 223(b)(6) is amended by striking  
8           “with respect to whom a deduction under section  
9           151 is allowable to” and inserting “who is a depend-  
10          ent of”.

11          (22) Section 223(d)(2)(A) is amended by strik-  
12          ing “section 152” and inserting “section 7706”.

13          (23) Section 401(h) is amended by striking  
14          “section 152(f)(1)” in the last sentence and insert-  
15          ing “section 7706(f)(1)”.

16          (24) Section 402(l)(4)(D) is amended by strik-  
17          ing “section 152” and inserting “section 7706”.

18          (25) Section 409A(a)(2)(B)(ii)(I) is amended  
19          by striking “section 152(a)” and inserting “section  
20          7706(a)”.

21          (26) Section 501(c)(9) is amended by striking  
22          “section 152(f)(1)” and inserting “section  
23          7706(f)(1)”.

1           (27) Section 529(e)(2)(B) is amended by strik-  
2           ing “section 152(d)(2)” and inserting “section  
3           7706(d)(2)”.

4           (28) Section 703(a)(2) is amended by striking  
5           subparagraph (A) and by redesignating subpara-  
6           graphs (B) through (F) as subparagraphs (A)  
7           through (E), respectively.

8           (29) Section 874 is amended by striking sub-  
9           section (b) and by redesignating subsection (c) as  
10          subsection (b).

11          (30) Section 891 is amended by striking “under  
12          section 151 and”.

13          (31) Section 904(b) is amended by striking  
14          paragraph (1).

15          (32) Section 931(b)(1) is amended by striking  
16          “(other than the deduction under section 151, relat-  
17          ing to personal exemptions)”.

18          (33) Section 933 is amended—

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

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



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

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

6           (35) Section 1361(c)(1)(C) is amended by strik-  
7 ing “section 152(f)(1)(C)” and inserting “section  
8 7706(f)(1)(C)”.

9           (36) Section 1402(a) is amended by striking  
10 paragraph (7).

11           (37) Section 2032A(c)(7)(D) is amended by  
12 striking “section 152(f)(2)” and inserting “section  
13 7706(f)(2)”.

14           (38) Section 3402(m)(1) is amended by striking  
15 “other than the deductions referred to in section  
16 151 and”.

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

21           (40) Section 5000A(b)(3)(A) is amended by  
22 striking “section 152” and inserting “section 7706”.

23           (41) Section 5000A(c)(4)(A) is amended by  
24 striking “the number of individuals for whom the  
25 taxpayer is allowed a deduction under section 151

1 (relating to allowance of deduction for personal ex-  
2 emptions) for the taxable year” and inserting “the  
3 sum of 1 (2 in the case of a joint return) plus the  
4 number of the taxpayer’s dependents for the taxable  
5 year”.

6 (42) Section 6013(b)(3)(A) is amended—

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

10 (B) by striking “had gross income of the  
11 exemption amount or more” in clause (iii) and  
12 inserting “had any gross income”, and

13 (C) by striking the flush language fol-  
14 lowing clause (iii).

15 (43) Section 6103(l)(21)(A)(iii) is amended to  
16 read as follows:

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

19 (44) Section 6213(g)(2) is amended by striking  
20 subparagraph (H).

21 (45) Section 6334(d)(2) is amended to read as  
22 follows:

23 “(2) EXEMPT AMOUNT.—

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

4                   “(i) the standard deduction, divided  
5 by

6                   “(ii) 52.

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

15           (46) Section 7702B(f)(2)(C)(iii) is amended by  
16 striking “section 152(d)(2)” and inserting “section  
17 7706(d)(2)”.

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

20           (48) Section 7703(b)(1) is amended by striking  
21 “section 152(f)(1)” and all that follows and insert-  
22 ing “section 7706(f)(1),”.

23           (49) Section 7706(a), as redesignated by this  
24 section, is amended by striking “this subtitle” and  
25 inserting “subtitle A”.

1           (50)(A) Section 7706(d)(1)(B), as redesignated  
2           by this section, is amended by striking “the exemp-  
3           tion amount (as defined in section 151(d))” and in-  
4           serting “\$4,150”.

5           (B) Section 7706(d), as redesignated by this  
6           section, is amended by adding at the end the fol-  
7           lowing new paragraph:

8           “(6) INFLATION ADJUSTMENT.—In the case of  
9           any calendar year beginning after 2018, the \$4,150  
10          amount in paragraph (1)(B) shall be increased by an  
11          amount equal to—

12                   “(A) such dollar amount, multiplied by

13                   “(B) the cost-of-living adjustment deter-  
14                   mined under section 1(c)(2)(A) for such cal-  
15                   endar year, determined by substituting ‘cal-  
16                   endar year 2017’ for ‘calendar year 2016’ in  
17                   clause (ii) thereof.

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

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

“Sec. 7706. Dependent defined.”.

1 (h) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2017.

4 **SEC. 1004. MAXIMUM RATE ON BUSINESS INCOME OF INDIVIDUALS.**  
5

6 (a) IN GENERAL.—Part I of subchapter A of chapter  
7 1 is amended by inserting after section 3 the following  
8 new section:

9 **“SEC. 4. 25 PERCENT MAXIMUM RATE ON BUSINESS IN-**  
10 **COME OF INDIVIDUALS.**

11 **“(a) REDUCTION IN TAX TO ACHIEVE 25 PERCENT**  
12 **MAXIMUM RATE.**—The tax imposed by section 1 shall be  
13 reduced by the sum of—

14 **“(1) 10 percent of the lesser of—**

15 **“(A) qualified business income, or**

16 **“(B) the excess (if any) of—**

17 **“(i) taxable income reduced by net**  
18 **capital gain (as defined in section**  
19 **1(h)(11)(A)), over**

20 **“(ii) the maximum dollar amount for**  
21 **the 25-percent rate bracket which applies**  
22 **to the taxpayer under section 1 for the**  
23 **taxable year, and**

24 **“(2) 4.6 percent of the excess (if any) of—**

25 **“(A) the lesser of—**

1 “(i) qualified business income, or

2 “(ii) the excess (if any) determined  
3 under paragraph (1)(B), over

4 “(B) the excess of—

5 “(i) the maximum dollar amount for  
6 the 35-percent rate bracket which applies  
7 to the taxpayer under section 1 for the  
8 taxable year, over

9 “(ii) the maximum dollar amount for  
10 the 25-percent rate bracket which applies  
11 to the taxpayer under section 1 for the  
12 taxable year.

13 “(b) QUALIFIED BUSINESS INCOME.—For purposes  
14 of this section, the term ‘qualified business income’ means  
15 the excess (if any) of—

16 “(1) the sum of—

17 “(A) 100 percent of any net business in-  
18 come derived from any passive business activity,  
19 plus

20 “(B) the capital percentage of any net  
21 business income derived from any active busi-  
22 ness activity, over

23 “(2) the sum of—

24 “(A) 100 percent of any net business loss  
25 derived from any passive business activity,

1           “(B) except as provided in subsection  
2           (e)(3)(A), 30 percent of any net business loss  
3           derived from any active business activity, plus

4           “(C) any carryover business loss deter-  
5           mined for the preceding taxable year.

6           “(c) DETERMINATION OF NET BUSINESS INCOME OR  
7           LOSS.—For purposes of this section—

8           “(1) IN GENERAL.—Net business income or loss  
9           shall be determined with respect to any business ac-  
10          tivity by appropriately netting items of income, gain,  
11          deduction, and loss with respect to such business ac-  
12          tivity.

13          “(2) WAGES, ETC.—Any wages (as defined in  
14          section 3401), payments described in subsection (a)  
15          or (c) of section 707, or directors’ fees received by  
16          the taxpayer which are properly attributable to any  
17          business activity shall be taken into account under  
18          paragraph (1) as an item of income with respect to  
19          such business activity.

20          “(3) EXCEPTION FOR CERTAIN INVESTMENT-  
21          RELATED ITEMS.—There shall not be taken into ac-  
22          count under paragraph (1)—

23                 “(A) any item of short-term capital gain,  
24                 short-term capital loss, long-term capital gain,  
25                 or long-term capital loss,

1           “(B) any dividend, income equivalent to a  
2           dividend, or payment in lieu of dividends de-  
3           scribed in section 954(c)(1)(G),

4           “(C) any interest income other than inter-  
5           est income which is properly allocable to a trade  
6           or business,

7           “(D) any item of gain or loss described in  
8           subparagraph (C) or (D) of section 954(c)(1)  
9           (applied by substituting ‘business activity’ for  
10          ‘controlled foreign corporation’),

11          “(E) any item of income, gain, deduction,  
12          or loss taken into account under section  
13          954(c)(1)(F) (determined without regard to  
14          clause (ii) thereof and other than items attrib-  
15          utable to notional principal contracts entered  
16          into in transactions qualifying under section  
17          1221(a)(7)),

18          “(F) any amount received from an annuity  
19          which is not received in connection with the  
20          trade or business of the business activity, and

21          “(G) any item of deduction or loss properly  
22          allocable to an amount described in any of the  
23          preceding subparagraphs.

24          “(4) APPLICATION OF RESTRICTIONS APPLICA-  
25          BLE TO DETERMINING TAXABLE INCOME.—Net busi-



1       ness income or loss shall be appropriately adjusted  
2       so as only to take into account any amount of in-  
3       come, gain, deduction, or loss to the extent such  
4       amount affects the determination of taxable income  
5       for the taxable year.

6               “(5) CARRYOVER BUSINESS LOSS.—For pur-  
7       poses of subsection (b)(2)(C), the carryover business  
8       loss determined for any taxable year is the excess (if  
9       any) of the sum described in subsection (b)(2) over  
10       the sum described in subsection (b)(1) for such tax-  
11       able year.

12              “(d) PASSIVE AND ACTIVE BUSINESS ACTIVITY.—  
13       For purposes of this section—

14              “(1) PASSIVE BUSINESS ACTIVITY.—The term  
15       ‘passive business activity’ means any passive activity  
16       as defined in section 469(c) determined without re-  
17       gard to paragraphs (3) and (6)(B) thereof.

18              “(2) ACTIVE BUSINESS ACTIVITY.—The term  
19       ‘active business activity’ means any business activity  
20       which is not a passive business activity.

21              “(3) BUSINESS ACTIVITY.—The term ‘business  
22       activity’ means any activity (within the meaning of  
23       section 469) which involves the conduct of any trade  
24       or business.

1       “(e) CAPITAL PERCENTAGE.—For purposes of this  
2 section—

3           “(1) IN GENERAL.—Except as otherwise pro-  
4 vided in this section, the term ‘capital percentage’  
5 means 30 percent.

6           “(2) INCREASED PERCENTAGE FOR CAPITAL-IN-  
7 TENSIVE BUSINESS ACTIVITIES.—In the case of a  
8 taxpayer who elects the application of this paragraph  
9 with respect to any active business activity (other  
10 than a specified service activity), the capital percent-  
11 age shall be equal to the applicable percentage (as  
12 defined in subsection (f)) for each taxable year with  
13 respect to which such election applies. Any election  
14 made under this paragraph shall apply to the tax-  
15 able year for which such election is made and each  
16 of the 4 subsequent taxable years. Such election  
17 shall be made not later than the due date (including  
18 extensions) for the return of tax for the taxable year  
19 for which such election is made, and, once made,  
20 may not be revoked.

21           “(3) TREATMENT OF SPECIFIED SERVICE AC-  
22 TIVITIES.—

23           “(A) IN GENERAL.—In the case of any ac-  
24 tive business activity which is a specified service  
25 activity—

1 “(i) the capital percentage shall be 0  
2 percent, and

3 “(ii) subsection (b)(2)(B) shall be ap-  
4 plied by substituting ‘0 percent’ for ‘30  
5 percent’.

6 “(B) EXCEPTION FOR CAPITAL-INTENSIVE  
7 SPECIFIED SERVICE ACTIVITIES.—If—

8 “(i) the taxpayer elects the application  
9 of this subparagraph with respect to such  
10 activity for any taxable year, and

11 “(ii) the applicable percentage (as de-  
12 fined in subsection (f)) with respect to  
13 such activity for such taxable year is at  
14 least 10 percent,

15 then subparagraph (A) shall not apply and the  
16 capital percentage with respect to such activity  
17 shall be equal to such applicable percentage.

18 “(C) SPECIFIED SERVICE ACTIVITY.—The  
19 term ‘specified service activity’ means any activ-  
20 ity involving the performance of services de-  
21 scribed in section 1202(e)(3)(A), including in-  
22 vesting, trading, or dealing in securities (as de-  
23 fined in section 475(c)(2)), partnership inter-  
24 ests, or commodities (as defined in section  
25 475(e)(2)).

1           “(4) REDUCTION IN CAPITAL PERCENTAGE IN  
2           CERTAIN CASES.—The capital percentage (deter-  
3           mined after the application of paragraphs (2) and  
4           (3)) with respect to any active business activity shall  
5           not exceed 1 minus the quotient (not greater than  
6           1) of—

7                   “(A) any amounts described in subsection  
8                   (c)(2) which are taken into account in deter-  
9                   mining the net business income derived from  
10                  such activity, divided by

11                   “(B) such net business income.

12           “(f) APPLICABLE PERCENTAGE.—For purposes of  
13           this section—

14                   “(1) IN GENERAL.—The term ‘applicable per-  
15                   centage’ means, with respect to any active business  
16                   activity for any taxable year, the quotient (not great-  
17                   er than 1) of—

18                   “(A) the specified return on capital with  
19                   respect to such activity for such taxable year,  
20                   divided by

21                   “(B) the taxpayer’s net business income  
22                   derived from such activity for such taxable year.

23                   “(2) SPECIFIED RETURN ON CAPITAL.—The  
24                   term ‘specified return on capital’ means, with re-

1       spect to any active business activity referred to in  
2       paragraph (1), the excess of—

3               “(A) the product of—

4                       “(i) the deemed rate of return for the  
5                       taxable year, multiplied by

6                       “(ii) the asset balance with respect to  
7                       such activity for such taxable year, over

8               “(B) an amount equal to the interest  
9               which is paid or accrued, and for which a de-  
10              duction is allowed under this chapter, with re-  
11              spect to such activity for such taxable year.

12              “(3) DEEMED RATE OF RETURN.—The term  
13              ‘deemed rate of return’ means, with respect to any  
14              taxable year, the Federal short-term rate (deter-  
15              mined under section 1274(d) for the month in which  
16              or with which such taxable year ends) plus 7 per-  
17              centage points.

18              “(4) ASSET BALANCE.—

19                       “(A) IN GENERAL.—The asset balance  
20                       with respect to any active business activity re-  
21                       ferred to in paragraph (1) for any taxable year  
22                       equals the taxpayer’s adjusted basis of any  
23                       property described in section 1221(a)(2) which  
24                       is used in connection with such activity as of

1 the end of the taxable year (determined without  
2 regard to sections 168(k) and 179).

3 “(B) APPLICATION TO ACTIVITIES CAR-  
4 RIED ON THROUGH PARTNERSHIPS AND S COR-  
5 PORATIONS.—In the case of any active business  
6 activity carried on through a partnership or S  
7 corporation, the taxpayer shall take into ac-  
8 count such taxpayer’s distributive or pro rata  
9 share (as the case may be) of the asset balance  
10 with respect to such activity as determined with  
11 respect to such partnership or S corporation  
12 under subparagraph (A) (applied by sub-  
13 stituting ‘the partnership’s or S corporation’s  
14 adjusted basis’ for ‘the taxpayer’s adjusted  
15 basis’).

16 “(g) REDUCED RATE FOR SMALL BUSINESSES WITH  
17 NET ACTIVE BUSINESS INCOME.—

18 “(1) IN GENERAL.—The tax imposed by section  
19 1 shall be reduced by 3 percent of the excess (if any)  
20 of—

21 “(A) the least of—

22 “(i) qualified active business income,

23 “(ii) taxable income reduced by net  
24 capital gain (as defined in section  
25 1(h)(11)(A)), or

1 “(iii) the 9-percent bracket threshold  
2 amount, over

3 “(B) the excess (if any) of taxable income  
4 over the applicable threshold amount.

5 “(2) PHASE-IN OF RATE REDUCTION.—In the  
6 case of any taxable year beginning before January 1,  
7 2022, paragraph (1) shall be applied by substituting  
8 for ‘3 percent’—

9 “(A) in the case of any taxable year begin-  
10 ning after December 31, 2017, and before Jan-  
11 uary 1, 2020, ‘1 percent’, and

12 “(B) in the case of any taxable year begin-  
13 ning after December 31, 2019, and before Jan-  
14 uary 1, 2022, ‘2 percent’.

15 “(3) QUALIFIED ACTIVE BUSINESS INCOME.—  
16 For purposes of this subsection, the term ‘qualified  
17 active business income’ means the excess (if any)  
18 of—

19 “(A) any net business income derived from  
20 any active business activity, over

21 “(B) any net business loss derived from  
22 any active business activity.

23 “(4) 9-PERCENT BRACKET THRESHOLD  
24 AMOUNT.—For purposes of this subsection, the term  
25 ‘9-percent bracket threshold amount’ means—

1           “(A) in the case of a joint return or sur-  
2           viving spouse, \$75,000,

3           “(B) in the case of an individual who is  
4           the head of a household (as defined in section  
5           2(b)),  $\frac{3}{4}$  of the amount in effect for the taxable  
6           year under subparagraph (A), and

7           “(C) in the case of any other individual,  $\frac{1}{2}$   
8           of the amount in effect for the taxable year  
9           under subparagraph (A).

10          “(5) APPLICABLE THRESHOLD AMOUNT.—For  
11          purposes of this subsection, the term ‘applicable  
12          threshold amount’ means—

13               “(A) in the case of a joint return or sur-  
14               viving spouse, \$150,000,

15               “(B) in the case of an individual who is  
16               the head of a household (as defined in section  
17               2(b)),  $\frac{3}{4}$  of the amount in effect for the taxable  
18               year under subparagraph (A), and

19               “(C) in the case of any other individual,  $\frac{1}{2}$   
20               of the amount in effect for the taxable year  
21               under subparagraph (A).

22          “(6) ESTATES AND TRUSTS.—Paragraph (1)  
23          shall not apply to any estate or trust.

24          “(7) INFLATION ADJUSTMENT.—In the case of  
25          any taxable year beginning after 2018, the dollar



1 amounts in paragraphs (4)(A) and (5)(A) shall each  
2 be increased by an amount equal to—

3 “(A) such dollar amount, multiplied by

4 “(B) the cost-of-living adjustment deter-  
5 mined under subsection (c)(2)(A) for the cal-  
6 endar year in which the taxable year begins, de-  
7 termined by substituting ‘calendar year 2017’  
8 for ‘calendar year 2016’ in clause (ii) thereof.

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

12 “(h) REGULATIONS.—The Secretary may issue such  
13 regulations or other guidance as may be necessary or ap-  
14 propriate to carry out the purposes of this section, includ-  
15 ing regulations or other guidance—

16 “(1) which ensures that no amount is taken  
17 into account under subsection (f)(4) with respect to  
18 more than one activity, and

19 “(2) which treats all specified service activities  
20 of the taxpayer as a single business activity for pur-  
21 poses of this section to the extent that such activi-  
22 ties would be treated as a single employer under  
23 subsection (a) or (b) of section 52 or subsection (m)  
24 or (o) of section 414.

1           “(i) REFERENCES.—Any reference in this title to sec-  
2 tion 1 shall be treated as including a reference to this sec-  
3 tion unless the context of such reference clearly indicates  
4 otherwise.”.

5           (b) 25 PERCENT RATE FOR CERTAIN DIVIDENDS OF  
6 REAL ESTATE INVESTMENT TRUSTS AND COOPERA-  
7 TIVES.—Section 1(h), as amended by the preceding provi-  
8 sions of this Act, is amended by adding at the end the  
9 following new paragraph:

10           “(13) 25 PERCENT RATE FOR CERTAIN DIVI-  
11 DENDS OF REAL ESTATE INVESTMENT TRUSTS AND  
12 COOPERATIVES.—

13           “(A) IN GENERAL.—For purposes of this  
14 subsection, net capital gain (as defined in para-  
15 graph (11)) and unrecaptured section 1250  
16 gain (as defined in paragraph (6)) shall each be  
17 increased by specified dividend income.

18           “(B) SPECIFIED DIVIDEND INCOME.—For  
19 purposes of this paragraph, the term ‘specified  
20 dividend income’ means—

21           “(i) in the case of any dividend re-  
22 ceived from a real estate investment trust,  
23 the portion of such dividend which is nei-  
24 ther—

1                   “(I) a capital gain dividend (as  
2                   defined in section 852(b)(3)), nor

3                   “(II) taken into account in deter-  
4                   mining qualified dividend income (as  
5                   defined in paragraph (11)), and

6                   “(ii) any dividend which is includible  
7                   in gross income and which is received from  
8                   an organization or corporation described in  
9                   section 501(c)(12) or 1381(a).”.

10           (c) CLERICAL AMENDMENT.—The table of sections  
11 for part I of subchapter A of chapter 1 is amended by  
12 inserting after the item relating to section 3 the following  
13 new item:

          “Sec. 4. 25 percent maximum rate on business income of individuals.”.

14           (d) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 2017.

17           (e) TRANSITION RULE.—In the case of any taxable  
18 year which includes December 31, 2017, the amendment  
19 made by subsection (a) shall apply with respect to such  
20 taxable year adjusted—

21                   (1) so as to apply with respect to the rates of  
22                   tax in effect under section 1 of the Internal Revenue  
23                   Code of 1986 with respect to such taxable year (and  
24                   so as to achieve a 25 percent effective rate of tax  
25                   on the business income (determined without regard

1 to paragraph (2)) in the same manner as such  
2 amendment applies to taxable years beginning after  
3 such date with respect to the rates of tax in effect  
4 for such years), and

5 (2) by reducing the amount of the reduction in  
6 tax (as otherwise determined under paragraph (1))  
7 by the amount which bears the same proportion to  
8 the amount of such reduction as the number of days  
9 in the taxable year which are before January 1,  
10 2018, bears to the number of days in the entire tax-  
11 able year.

12 **SEC. 1005. CONFORMING AMENDMENTS RELATED TO SIM-**  
13 **PLIFICATION OF INDIVIDUAL INCOME TAX**  
14 **RATES.**

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

17 (1) Section 32(b)(2)(B)(ii)(II) is amended by  
18 striking “section 1(f)(3) for the calendar year in  
19 which the taxable year begins determined by sub-  
20 stituting ‘calendar year 2008’ for ‘calendar year  
21 1992’ in subparagraph (B) thereof” and inserting  
22 “section 1(c)(2)(A) for the calendar year in which  
23 the taxable year begins determined by substituting  
24 ‘calendar year 2008’ for ‘calendar year 2016’ in  
25 clause (ii) thereof”.

1 (2) Section 32(j)(1)(B) is amended—

2 (A) in the matter preceding clause (i), by  
3 striking “section 1(f)(3)” and inserting “section  
4 1(e)(2)(A)”,

5 (B) in clause (i), by striking “for ‘calendar  
6 year 1992’ in subparagraph (B) thereof” and  
7 inserting “for ‘calendar year 2016’ in clause (ii)  
8 thereof”, and

9 (C) in clause (ii), by striking “for ‘calendar  
10 year 1992’ in subparagraph (B) of such section  
11 1” and inserting “for ‘calendar year 2016’ in  
12 clause (ii) thereof”.

13 (3) Section 36B(b)(3)(A)(ii)(II) is amended by  
14 striking “consumer price index” and inserting “C-  
15 CPI-U (as defined in section 1(c))”.

16 (4) Section 41(e)(5)(C) is amended to read as  
17 follows:

18 “(C) COST-OF-LIVING ADJUSTMENT DE-  
19 FINED.—

20 “(i) IN GENERAL.—The cost-of-living  
21 adjustment for any calendar year is the  
22 cost-of-living adjustment for such calendar  
23 year determined under section 1(e)(2)(A),  
24 by substituting ‘calendar year 1987’ for  
25 ‘calendar year 2016’ in clause (ii) thereof.

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

8                   (5) Section 42(e)(3)(D)(ii) is amended by strik-  
9                   ing “section 1(f)(3) for such calendar year by sub-  
10                  stituting ‘calendar year 2008’ for ‘calendar year  
11                  1992’ in subparagraph (B) thereof” and inserting  
12                  “section 1(c)(2)(A) for such calendar year by sub-  
13                  stituting ‘calendar year 2008’ for ‘calendar year  
14                  2016’ in clause (ii) thereof”.

15                  (6) Section 42(h)(3)(H)(i)(II) is amended by  
16                  striking “section 1(f)(3) for such calendar year by  
17                  substituting ‘calendar year 2001’ for ‘calendar year  
18                  1992’ in subparagraph (B) thereof” and inserting  
19                  “section 1(c)(2)(A) for such calendar year by sub-  
20                  stituting ‘calendar year 2001’ for ‘calendar year  
21                  2016’ in clause (ii) thereof”.

22                  (7) Section 45R(d)(3)(B)(ii) is amended by  
23                  striking “section 1(f)(3) for the calendar year, deter-  
24                  mined by substituting ‘calendar year 2012’ for ‘cal-  
25                  endar year 1992’ in subparagraph (B) thereof” and

1 inserting “section 1(c)(2)(A) for such calendar  
2 year, determined by substituting “calendar year  
3 2012” for “calendar year 2016” in clause (ii) there-  
4 of” ”.

5 (8) Section 125(i)(2) is amended—

6 (A) by striking “section 1(f)(3) for the cal-  
7 endar year in which the taxable year begins by  
8 substituting ‘calendar year 2012’ for ‘calendar  
9 year 1992’ in subparagraph (B) thereof” in  
10 subparagraph (B) and inserting “section  
11 1(c)(2)(A) for the calendar year in which the  
12 taxable year begins”, and

13 (B) by striking “\$50” both places it ap-  
14 pears in the last sentence and inserting  
15 “\$100”.

16 (9) Section 162(o)(3) is amended by inserting  
17 “as in effect before enactment of the Tax Cuts and  
18 Jobs Act” after “section 1(f)(5)”.

19 (10) Section 220(g)(2) is amended by striking  
20 “section 1(f)(3) for the calendar year in which the  
21 taxable year begins by substituting ‘calendar year  
22 1997’ for ‘calendar year 1992’ in subparagraph (B)  
23 thereof” and inserting “section 1(c)(2)(A) for the  
24 calendar year in which the taxable year begins, de-

1       terminated by substituting ‘calendar year 1997’ for  
2       ‘calendar year 2016’ in clause (ii) thereof”.

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

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

10           “(i) by substituting for ‘calendar year  
11       2016’ in clause (ii) thereof—

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

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

17           “(ii) by substituting ‘March 31’ for  
18       ‘August 31’ in paragraphs (5)(B) and  
19       (6)(B) of section 1(c).

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

24           (12) Section 430(c)(7)(D)(vii)(II) is amended  
25       by striking “section 1(f)(3) for the calendar year,



1 determined by substituting ‘calendar year 2009’ for  
2 ‘calendar year 1992’ in subparagraph (B) thereof”  
3 and inserting “section 1(c)(2)(A) for the calendar  
4 year, determined by substituting ‘calendar year  
5 2009’ for ‘calendar year 2016’ in clause (ii) there-  
6 of”.

7 (13) Section 512(d)(2)(B) is amended by strik-  
8 ing “section 1(f)(3) for the calendar year in which  
9 the taxable year begins, by substituting ‘calendar  
10 year 1994’ for ‘calendar year 1992’ in subparagraph  
11 (B) thereof” and inserting “section 1(c)(2)(A) for the  
12 calendar year in which the taxable year begins, de-  
13 termined by substituting ‘calendar year 1994’ for  
14 ‘calendar year 2016’ in clause (ii) thereof”.

15 (14) Section 513(h)(2)(C)(ii) is amended by  
16 striking “section 1(f)(3) for the calendar year in  
17 which the taxable year begins by substituting ‘cal-  
18 endar year 1987’ for ‘calendar year 1992’ in sub-  
19 paragraph (B) thereof” and inserting “section  
20 1(c)(2)(A) for the calendar year in which the taxable  
21 year begins, determined by substituting ‘calendar  
22 year 1987’ for ‘calendar year 2016’ in clause (ii)  
23 thereof”.

24 (15) Section 831(b)(2)(D)(ii) is amended by  
25 striking “section 1(f)(3) for such calendar year by

1 substituting ‘calendar year 2013’ for ‘calendar year  
2 1992’ in subparagraph (B) thereof” and inserting  
3 “section 1(c)(2)(A) for such calendar year by sub-  
4 stituting ‘calendar year 2013’ for ‘calendar year  
5 2016’ in clause (ii) thereof”.

6 (16) Section 877A(a)(3)(B)(i)(II) is amended  
7 by striking “section 1(f)(3) for the calendar year in  
8 which the taxable year begins, by substituting ‘cal-  
9 endar year 2007’ for ‘calendar year 1992’ in sub-  
10 paragraph (B) thereof” and inserting “section  
11 1(c)(2)(A) for the calendar year in which the taxable  
12 year begins, determined by substituting ‘calendar  
13 year 2007’ for ‘calendar year 2016’ in clause (ii)  
14 thereof”.

15 (17) Section 911(b)(2)(D)(ii)(II) is amended by  
16 striking “section 1(f)(3) for the calendar year in  
17 which the taxable year begins, determined by sub-  
18 stituting ‘2004’ for ‘1992’ in subparagraph (B)  
19 thereof” and inserting “section 1(c)(2)(A) for the  
20 calendar year in which the taxable year begins, de-  
21 termined by substituting ‘calendar year 2004’ for  
22 ‘calendar year 2016’ in clause (ii) thereof”.

23 (18) Section 1274A(d)(2) is amended to read  
24 as follows:

25 “(2) INFLATION ADJUSTMENT.—

1           “(A) IN GENERAL.—In the case of any  
2 debt instrument arising out of a sale or ex-  
3 change during any calendar year after 2018,  
4 each adjusted dollar amount shall be increased  
5 by an amount equal to—

6                   “(i) such adjusted dollar amount,  
7 multiplied by

8                   “(ii) the cost-of-living adjustment de-  
9 termined under section 1(c)(2)(A) for such  
10 calendar year, determined by substituting  
11 ‘calendar year 2017’ for ‘calendar year  
12 2016’ in clause (ii) thereof.

13           “(B) ADJUSTED DOLLAR AMOUNTS.—For  
14 purposes of this paragraph, the term ‘adjusted  
15 dollar amount’ means the dollar amounts in  
16 subsections (b) and (c), in each case as in effect  
17 for calendar year 2018.

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

21           (19) Section 2010(c)(3)(B)(ii) is amended by  
22 striking “section 1(f)(3) for such calendar year by  
23 substituting ‘calendar year 2010’ for ‘calendar year  
24 1992’ in subparagraph (B) thereof” and inserting  
25 “section 1(c)(2)(A) for such calendar year, deter-

1       mined by substituting ‘calendar year 2010’ for ‘cal-  
2       endar year 2016’ in clause (ii) thereof”.

3           (20) Section 2032A(a)(3)(B) is amended by  
4       striking “section 1(f)(3) for such calendar year by  
5       substituting ‘calendar year 1997’ for ‘calendar year  
6       1992’ in subparagraph (B) thereof” and inserting  
7       “section 1(c)(2)(A) for such calendar year, deter-  
8       mined by substituting ‘calendar year 1997’ for ‘cal-  
9       endar year 2016’ in clause (ii) thereof”.

10          (21) Section 2503(b)(2)(B) is amended by  
11       striking “section 1(f)(3) for such calendar year by  
12       substituting ‘calendar year 1997’ for ‘calendar year  
13       1992’ in subparagraph (B) thereof” and inserting  
14       “section 1(c)(2)(A) for the calendar year, deter-  
15       mined by substituting ‘calendar year 1997’ for ‘cal-  
16       endar year 2016’ in clause (ii) thereof”.

17          (22) Section 4161(b)(2)(C)(i)(II) is amended by  
18       striking “section 1(f)(3) for such calendar year, de-  
19       termined by substituting ‘2004’ for ‘1992’ in sub-  
20       paragraph (B) thereof” and inserting “section  
21       1(c)(2)(A) for such calendar year, determined by  
22       substituting ‘calendar year 2004’ for ‘calendar year  
23       2016’ in clause (ii) thereof”.

24          (23) Section 4261(e)(4)(A)(ii) is amended by  
25       striking “section 1(f)(3) for such calendar year by

1 substituting the year before the last nonindexed year  
2 for ‘calendar year 1992’ in subparagraph (B) there-  
3 of” and inserting “section 1(c)(2)(A) for such cal-  
4 endar year, determined by substituting the year be-  
5 fore the last nonindexed year for ‘calendar year  
6 2016’ in clause (ii) thereof”.

7 (24) Section 4980I(b)(3)(C)(v)(II) is amend-  
8 ed—

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

11 (B) by striking “subparagraph (B)” and  
12 inserting “clause (ii)”, and

13 (C) by striking “1992” and inserting  
14 “2016”.

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

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

18 (B) by striking “subparagraph (B)” and  
19 inserting “clause (ii)”, and

20 (C) by striking “1992” and inserting  
21 “2016”.

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

1           (27) Section 6323(i)(4)(B) is amended by strik-  
2           ing “section 1(f)(3) for the calendar year, deter-  
3           mined by substituting ‘calendar year 1996’ for ‘cal-  
4           endar year 1992’ in subparagraph (B) thereof” and  
5           inserting “section 1(c)(2)(A) for the calendar year,  
6           determined by substituting ‘calendar year 1996’ for  
7           ‘calendar year 2016’ in clause (ii) thereof”.

8           (28) Section 6334(g)(1)(B) is amended by  
9           striking “section 1(f)(3) for such calendar year, by  
10          substituting ‘calendar year 1998’ for ‘calendar year  
11          1992’ in subparagraph (B) thereof” and inserting  
12          “section 1(c)(2)(A) for such calendar year, deter-  
13          mined by substituting ‘calendar year 1999’ for ‘cal-  
14          endar year 2016’ in clause (ii) thereof”.

15          (29) Section 6601(j)(3)(B) is amended by strik-  
16          ing “section 1(f)(3) for such calendar year by sub-  
17          stituting ‘calendar year 1997’ for ‘calendar year  
18          1992’ in subparagraph (B) thereof” and inserting  
19          “section 1(c)(2)(A) for such calendar year by sub-  
20          stituting ‘calendar year 1997’ for ‘calendar year  
21          2016’ in clause (ii) thereof”.

22          (30) Section 6651(i)(1) is amended by striking  
23          “section 1(f)(3) determined by substituting ‘calendar  
24          year 2013’ for ‘calendar year 1992’ in subparagraph  
25          (B) thereof” and inserting “section 1(c)(2)(A) deter-

1       mined by substituting ‘calendar year 2013’ for ‘cal-  
2       endar year 2016’ in clause (ii) thereof”.

3           (31) Section 6721(f)(1) is amended—

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

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

8               (C) by striking “1992” and inserting  
9               “2016”.

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

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

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

15               (C) by striking “1992” and inserting  
16               “2016”.

17          (33) Section 6652(c)(7)(A) is amended by strik-  
18       ing “section 1(f)(3) determined by substituting ‘cal-  
19       endar year 2013’ for ‘calendar year 1992’ in sub-  
20       paragraph (B) thereof” and inserting “section  
21       1(c)(2)(A) determined by substituting ‘calendar year  
22       2013’ for ‘calendar year 2016’ in clause (ii) there-  
23       of”.

24          (34) Section 6695(h)(1) is amended by striking  
25       “section 1(f)(3) determined by substituting ‘calendar

1 year 2013’ for ‘calendar year 1992’ in subparagraph  
2 (B) thereof” and inserting “section 1(c)(2)(A) deter-  
3 mined by substituting ‘calendar year 2013’ for ‘cal-  
4 endar year 2016’ in clause (ii) thereof”.

5 (35) Section 6698(e)(1) is amended by striking  
6 “section 1(f)(3) determined by substituting ‘calendar  
7 year 2013’ for ‘calendar year 1992’ in subparagraph  
8 (B) thereof” and inserting “section 1(c)(2)(A) deter-  
9 mined by substituting ‘calendar year 2013’ for ‘cal-  
10 endar year 2016’ in clause (ii) thereof”.

11 (36) Section 6699(e)(1) is amended by striking  
12 “section 1(f)(3) determined by substituting ‘calendar  
13 year 2013’ for ‘calendar year 1992’ in subparagraph  
14 (B) thereof” and inserting “section 1(c)(2)(A) deter-  
15 mined by substituting ‘calendar year 2013’ for ‘cal-  
16 endar year 2016’ in clause (ii) thereof”.

17 (37) Section 7345(f)(2) is amended by striking  
18 “section 1(f)(3) for the calendar year, determined by  
19 substituting ‘calendar year 2015’ for ‘calendar year  
20 1992’ in subparagraph (B) thereof” and inserting  
21 “section 1(c)(2)(A) for the calendar year, deter-  
22 mined by substituting ‘calendar year 2015’ for ‘cal-  
23 endar year 2016’ in clause (ii) thereof”.

24 (38) Section 7430(c)(1) is amended by striking  
25 “section 1(f)(3) for such calendar year, by sub-



1       stituting ‘calendar year 1995’ for ‘calendar year  
2       1992’ in subparagraph (B) thereof” in the flush text  
3       at the end and inserting “section 1(c)(2)(A) for such  
4       calendar year, determined by substituting ‘calendar  
5       year 1995’ for ‘calendar year 2016’ in clause (ii)  
6       thereof”.

7           (39) Section 7872(g)(5) is amended to read as  
8       follows:

9           “(5) INFLATION ADJUSTMENT.—

10           “(A) IN GENERAL.—In the case of any  
11       loan made during any calendar year after 2018  
12       to which paragraph (1) applies, the adjusted  
13       dollar amount shall be increased by an amount  
14       equal to—

15           “(i) such adjusted dollar amount,  
16       multiplied by

17           “(ii) the cost-of-living adjustment de-  
18       termined under section 1(c)(2)(A) for such  
19       calendar year, determined by substituting  
20       ‘calendar year 2017’ for ‘calendar year  
21       2016’ in clause (ii) thereof.

22           “(B) ADJUSTED DOLLAR AMOUNT.—For  
23       purposes of this paragraph, the term ‘adjusted  
24       dollar amount’ means the dollar amount in

1 paragraph (2) as in effect for calendar year  
2 2018.

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

6 (40) Section 219(b)(5)(C)(i)(II) is amended by  
7 striking “section 1(f)(3) for the calendar year in  
8 which the taxable year begins, determined by sub-  
9 stituting ‘calendar year 2007’ for ‘calendar year  
10 1992’ in subparagraph (B) thereof” and inserting  
11 “section 1(c)(2)(A) for the calendar year in which  
12 the taxable year begins, determined by substituting  
13 ‘calendar year 2007’ for ‘calendar year 2016’ in  
14 clause (ii) thereof”.

15 (41) Section 219(g)(8)(B) is amended by strik-  
16 ing “section 1(f)(3) for the calendar year in which  
17 the taxable year begins, determined by substituting  
18 ‘calendar year 2005’ for ‘calendar year 1992’ in sub-  
19 paragraph (B) thereof” and inserting “section  
20 1(c)(2)(A) for the calendar year in which the taxable  
21 year begins, determined by substituting ‘calendar  
22 year 2005’ for ‘calendar year 2016’ in clause (ii)  
23 thereof”.

24 (b) OTHER CONFORMING AMENDMENTS.—

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

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

7           (2) Section 486B(b)(1) is amended—

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

10                   (B) by striking “section 1(e)” and insert-  
11 ing “section 1”.

12           (3) Section 511(b)(1) is amended by striking  
13 “section 1(e)” and inserting “section 1”.

14           (4) Section 641(a) is amended by striking “sec-  
15 tion 1(e) shall apply to the taxable income” and in-  
16 serting “section 1 shall apply to the taxable in-  
17 come”.

18           (5) Section 641(c)(2)(A) is amended to read as  
19 follows:

20                           “(A) Except to the extent provided in sec-  
21 tion 1(h), the rate of tax shall be treated as  
22 being the highest rate of tax set forth in section  
23 1(a).”.

24           (6) Section 646(b) is amended to read as fol-  
25 lows:

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

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

9           (8) Section 904(b)(3)(E)(ii)(I) is amended by  
10 striking “set forth in subsection (a), (b), (c), (d), or  
11 (e) of section 1 (whichever applies)” and inserting  
12 “the highest rate of tax specified in section 1”.

13          (9) Section 1398(c)(2) is amended by striking  
14 “subsection (d) of”.

15          (10) Section 3402(p)(1)(B) is amended by  
16 striking “any percentage applicable to any of the 3  
17 lowest income brackets in the table under section  
18 1(c),” and inserting “12 percent, 25 percent,”.

19          (11) Section 3402(q)(1) is amended by striking  
20 “the product of third lowest rate of tax applicable  
21 under section 1(c) and” and inserting “25 percent  
22 of”.

23          (12) Section 3402(r)(3) is amended by striking  
24 “the amount of tax which would be imposed by sec-  
25 tion 1(c) (determined without regard to any rate of

1 tax in excess of the fourth lowest rate of tax applica-  
2 ble under section 1(c)) on an amount of taxable in-  
3 come equal to” and inserting “an amount equal to  
4 the product of 25 percent multiplied by”.

5 (13) Section 3406(a)(1) is amended by striking  
6 “the product of the fourth lowest rate of tax applica-  
7 ble under section 1(c) and” and inserting “25 per-  
8 cent of”.

9 (14) Section 6103(e)(1)(A)(iii) is amended by  
10 inserting “(as in effect on the day before the date  
11 of the enactment of the Tax Cuts and Jobs Act)”  
12 after “section 1(g)”.

13 (c) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to taxable years beginning after  
15 December 31, 2017.

16 **Subtitle B—Simplification and Re-**  
17 **form of Family and Individual**  
18 **Tax Credits**

19 **SEC. 1101. ENHANCEMENT OF CHILD TAX CREDIT AND NEW**  
20 **FAMILY TAX CREDIT.**

21 (a) INCREASE IN CREDIT AMOUNT AND ADDITION OF  
22 OTHER DEPENDENTS.—

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

1       “(a) ALLOWANCE OF CREDIT.—There shall be al-  
2       lowed as a credit against the tax imposed by this chapter  
3       for the taxable year an amount equal to the sum of—

4               “(1) with respect to each qualifying child of the  
5       taxpayer, \$1,600, and

6               “(2) for taxable years beginning before January  
7       1, 2023, with respect to the taxpayer (each spouse  
8       in the case of a joint return) and each dependent of  
9       the taxpayer to whom paragraph (1) does not apply,  
10       \$300.”.

11       (2) CONFORMING AMENDMENTS.—

12               (A) Section 24(c) is amended—

13                       (i) by redesignating paragraphs (1) and  
14                       (2) as paragraphs (2) and (3), respectively,

15                       (ii) by striking “152(c)” in paragraph (2)  
16                       (as so redesignated) and inserting “7706(c)”,

17                       (iii) by inserting before paragraph (2) (as  
18                       so redesignated) the following new paragraph:

19                       “(1) DEPENDENT.—

20                               “(A) IN GENERAL.—The term ‘dependent’  
21                               shall have the meaning given such term by sec-  
22                               tion 7706.

23                               “(B) CERTAIN INDIVIDUALS NOT TREATED  
24                               AS DEPENDENTS.—In the case of an individual  
25                               with respect to whom a credit under this section

1 is allowable to another taxpayer for a taxable  
2 year beginning in the calendar year in which  
3 the individual's taxable year begins, the amount  
4 applicable to such individual under subsection  
5 (a) for such individual's taxable year shall be  
6 zero.”,

7 (iv) in paragraph (3) (as so redesign-  
8 nated)—

9 (I) by striking “term ‘qualifying  
10 child’” and inserting “terms ‘qualifying  
11 child’ and ‘dependent’”, and

12 (II) by striking “152(b)(3)” and in-  
13 serting “7706(b)(3)”, and

14 (v) in the heading by striking “QUALI-  
15 FYING” and inserting “DEPENDENT; QUALI-  
16 FYING”.

17 (B) The heading for section 24 is amended by  
18 inserting “**AND FAMILY**” after “**CHILD**”.

19 (C) The table of sections for subpart A of part  
20 IV of subchapter A of chapter 1 is amended by  
21 striking the item relating to section 24 and inserting  
22 the following new item:

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

23 (b) **ELIMINATION OF MARRIAGE PENALTY.**—Section  
24 24(b)(2) is amended—

1 (1) by striking “\$110,000” in subparagraph (A) and  
2 inserting “\$230,000”,

3 (2) by inserting “and” at the end of subparagraph  
4 (A),

5 (3) by striking “\$75,000 in the case of an individual  
6 who is not married” and all that follows through the pe-  
7 riod at the end and inserting “one-half of the amount in  
8 effect under subparagraph (A) for the taxable year in the  
9 case of any other individual.”.

10 (c) CREDIT REFUNDABLE UP TO \$1,000 PER  
11 CHILD.—

12 (1) IN GENERAL.—Section 24(d)(1)(A) is amended  
13 by striking all that follows “under this section” and insert-  
14 ing the following: “determined—

15 (i) without regard to this subsection  
16 and the limitation under section 26(a),

17 (ii) without regard to subsection  
18 (a)(2), and

19 (iii) by substituting ‘\$1,000’ for  
20 ‘\$1,600’ in subsection (a)(1), or”.

21 (2) INFLATION ADJUSTMENT.—Section 24(d) is  
22 amended by inserting after paragraph (2) the following  
23 new paragraph:

24 (3) INFLATION ADJUSTMENT.—In the case of  
25 any taxable year beginning in a calendar year after



1       2017, the \$1,000 amount in paragraph (1)(A)(iii)  
2       shall be increased by an amount equal to—

3               “(A) such dollar amount, multiplied by

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

6       Any increase determined under the preceding sen-  
7       tence shall be rounded to the next highest multiple  
8       of \$100 and shall not exceed the amount in effect  
9       under subsection (a)(2).”.

10       (d) EFFECTIVE DATE.—The amendments made by  
11       this section shall apply to taxable years beginning after  
12       December 31, 2017.

13       **SEC. 1102. REPEAL OF NONREFUNDABLE CREDITS.**

14       (a) REPEAL OF SECTION 22.—

15               (1) IN GENERAL.—Subpart A of part IV of sub-  
16       chapter A of chapter 1 is amended by striking sec-  
17       tion 22 (and by striking the item relating to such  
18       section in the table of sections for such subpart).

19               (2) CONFORMING AMENDMENT.—

20               (A) Section 86(f) is amended by striking  
21       paragraph (1) and by redesignating paragraphs  
22       (2), (3), and (4) as paragraphs (1), (2), and  
23       (3), respectively.

24               (B)(i) Subsections (c)(3)(B) and (d)(4)(A)  
25       of section 7706, as redesignated by this Act,

1 are each amended by striking “(as defined in  
2 section 22(e)(3)”.

3 (ii) Section 7706(f), as redesignated by  
4 this Act, is amended by redesignating para-  
5 graph (7) as paragraph (8) and by inserting  
6 after paragraph (6) the following new para-  
7 graph:

8 “(7) PERMANENT AND TOTAL DISABILITY DE-  
9 FINED.—An individual is permanently and totally  
10 disabled if he is unable to engage in any substantial  
11 gainful activity by reason of any medically deter-  
12 minable physical or mental impairment which can be  
13 expected to result in death or which has lasted or  
14 can be expected to last for a continuous period of  
15 not less than 12 months. An individual shall not be  
16 considered to be permanently and totally disabled  
17 unless he furnishes proof of the existence thereof in  
18 such form and manner, and at such times, as the  
19 Secretary may require.”.

20 (iii) Section 415(c)(3)(C)(i) is amended by  
21 striking “22(e)(3)” and inserting “7706(f)(7)”.

22 (iv) Section 422(c)(6) is amended by strik-  
23 ing “22(e)(3)” and inserting “7706(f)(7)”.

1 (b) TERMINATION OF SECTION 25.—Section 25, as  
2 amended by section 3601, is amended by adding at the  
3 end the following new subsection:

4 “(k) TERMINATION.—No credit shall be allowed  
5 under this section with respect to any mortgage credit cer-  
6 tificate issued after December 31, 2017.”.

7 (c) REPEAL OF SECTION 30D.—

8 (1) IN GENERAL.—Subpart B of part IV of  
9 subchapter A of chapter 1 is amended by striking  
10 section 30D (and by striking the item relating to  
11 such section in the table of sections for such sub-  
12 part).

13 (2) CONFORMING AMENDMENTS.—

14 (A) Section 38(b) is amended by striking  
15 paragraph (35).

16 (B) Section 1016(a) is amended by strik-  
17 ing paragraph (37).

18 (C) Section 6501(m) is amended by strik-  
19 ing “30D(e)(4),”.

20 (d) EFFECTIVE DATE.—

21 (1) IN GENERAL.—Except as provided in para-  
22 graphs (2) and (3), the amendments made by this  
23 section shall apply to taxable years beginning after  
24 December 31, 2017.

1           (2) SUBSECTION (b).—The amendment made  
2           by subsection (c) shall apply to taxable years ending  
3           after December 31, 2017.

4           (3) SUBSECTION (c).—The amendments made  
5           by subsection (d) shall apply to vehicles placed in  
6           service in taxable years beginning after December  
7           31, 2017.

8 **SEC. 1103. REFUNDABLE CREDIT PROGRAM INTEGRITY.**

9           (a) IDENTIFICATION REQUIREMENTS FOR CHILD  
10 AND FAMILY TAX CREDIT.—

11           (1) IN GENERAL.—Section 24(e) is amended to  
12           read as follows:

13           “(e) IDENTIFICATION REQUIREMENTS.—

14           “(1) REQUIREMENTS FOR QUALIFYING  
15 CHILD.—No credit shall be allowed under this sec-  
16 tion to a taxpayer with respect to any qualifying  
17 child unless the taxpayer includes the name and so-  
18 cial security number of such qualifying child on the  
19 return of tax for the taxable year. The preceding  
20 sentence shall not prevent a qualifying child from  
21 being treated as a dependent described in subsection  
22 (a)(2).

23           “(2) OTHER IDENTIFICATION REQUIRE-  
24 MENTS.—No credit shall be allowed under this sec-  
25 tion with respect to any individual unless the tax-

1 payer identification number of such individual is in-  
2 cluded on the return of tax for the taxable year and  
3 such identifying number was issued before the due  
4 date for filing the return for the taxable year.

5 “(3) SOCIAL SECURITY NUMBER.—For pur-  
6 poses of this subsection, the term ‘social security  
7 number’ means a social security number issued by  
8 the Social Security Administration (but only if the  
9 social security number is issued to a citizen of the  
10 United States or pursuant to subclause (I) (or that  
11 portion of subclause (III) that relates to subclause  
12 (I)) of section 205(c)(2)(B)(i) of the Social Security  
13 Act).”.

14 (2) OMISSIONS TREATED AS MATHEMATICAL OR  
15 CLERICAL ERROR.—

16 (A) IN GENERAL.—Section 6213(g)(2)(I)  
17 is amended to read as follows:

18 “(I) an omission of a correct social secu-  
19 rity number, or a correct TIN, required under  
20 section 24(e) (relating to child tax credit), to be  
21 included on a return,”.

22 (b) SOCIAL SECURITY NUMBER MUST BE PRO-  
23 VIDED.—

24 (1) IN GENERAL.—Section 25A(f)(1)(A), as  
25 amended by section 1201 of this Act, is amended by

1 striking “taxpayer identification number” each place  
2 it appears and inserting “social security number”.

3 (2) OMISSION TREATED AS MATHEMATICAL OR  
4 CLERICAL ERROR.—Section 6213(g)(2)(J) is amend-  
5 ed by striking “TIN” and inserting “social security  
6 number and employer identification number”.

7 (c) INDIVIDUALS PROHIBITED FROM ENGAGING IN  
8 EMPLOYMENT IN UNITED STATES NOT ELIGIBLE FOR  
9 EARNED INCOME TAX CREDIT.—Section 32(m) is amend-  
10 ed—

11 (1) by striking “(other than:” and all that fol-  
12 lows through “of the Social Security Act)”, and

13 (2) by inserting before the period at the end the  
14 following: “, but only if, in the case of subsection  
15 (c)(1)(E), the social security number is issued to a  
16 citizen of the United States or pursuant to subclause  
17 (I) (or that portion of subclause (III) that relates to  
18 subclause (I)) of section 205(c)(2)(B)(i) of the So-  
19 cial Security Act”.

20 (d) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2017.

1 **SEC. 1104. PROCEDURES TO REDUCE IMPROPER CLAIMS**  
2 **OF EARNED INCOME CREDIT.**

3 (a) CLARIFICATION REGARDING DETERMINATION OF  
4 SELF-EMPLOYMENT INCOME WHICH IS TREATED AS  
5 EARNED INCOME.—Section 32(c)(2)(B) is amended by  
6 striking “and” at the end of clause (v), by striking the  
7 period at the end of clause (vi) and inserting “, and”, and  
8 by adding at the end the following new clause:

9 “(vii) in determining the taxpayer’s  
10 net earnings from self-employment under  
11 subparagraph (A)(ii) there shall not fail to  
12 be taken into account any deduction which  
13 is allowable to the taxpayer under this sub-  
14 title.”.

15 (b) REQUIRED QUARTERLY REPORTING OF WAGES  
16 OF EMPLOYEES.—Section 6011 is amended by adding at  
17 the end the following new subsection:

18 “(i) EMPLOYER REPORTING OF WAGES.—Every per-  
19 son required to deduct and withhold from an employee a  
20 tax under section 3101 or 3402 shall include on each re-  
21 turn or statement submitted with respect to such tax, the  
22 name and address of such employee and the amount of  
23 wages for such employee on which such tax was with-  
24 held.”.

25 (c) EFFECTIVE DATE.—

1           (1) IN GENERAL.—Except as provided in para-  
2           graph (2), the amendments made by this section  
3           shall apply to taxable years ending after the date of  
4           the enactment of this Act.

5           (2) REPORTING.—The Secretary of the Treas-  
6           ury, or his designee, may delay the application of the  
7           amendment made by subsection (b) for such period  
8           as such Secretary (or designee) determines to be  
9           reasonable to allow persons adequate time to modify  
10          electronic (or other) systems to permit such person  
11          to comply with the requirements of such amend-  
12          ment.

13 **SEC. 1105. CERTAIN INCOME DISALLOWED FOR PURPOSES**  
14 **OF THE EARNED INCOME TAX CREDIT.**

15          (a) SUBSTANTIATION REQUIREMENT.—Section 32 is  
16 amended by adding at the end the following new sub-  
17 section:

18          “(n) INCONSISTENT INCOME REPORTING.—If the  
19 earned income of a taxpayer claimed on a return for pur-  
20 poses of this section is not substantiated by statements  
21 or returns under sections 6051, 6052, 6041(a), or 6050W  
22 with respect to such taxpayer, the Secretary may require  
23 such taxpayer to provide books and records to substantiate  
24 such income, including for the purpose of preventing  
25 fraud.”.



1 (b) EXCLUSION OF UNSUBSTANTIATED AMOUNT  
2 FROM EARNED INCOME.—Section 32(c)(2) is amended by  
3 adding at the end the following new subparagraph:

4 “(C) EXCLUSION.—In the case of a tax-  
5 payer with respect to which there is an incon-  
6 sistency described in subsection (n) who fails to  
7 substantiate such inconsistency to the satisfac-  
8 tion of the Secretary, the term ‘earned income’  
9 shall not include amounts to the extent of such  
10 inconsistency.”.

11 (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years ending after the  
13 date of the enactment of this Act.

## 14 **Subtitle C—Simplification and** 15 **Reform of Education Incentives**

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

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

#### 19 **“SEC. 25A. AMERICAN OPPORTUNITY TAX CREDIT.**

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

24 “(1) 100 percent of so much of the qualified  
25 tuition and related expenses paid by the taxpayer

1 during the taxable year (for education furnished to  
2 any eligible student for whom an election is in effect  
3 under this section for such taxable year during any  
4 academic period beginning in such taxable year) as  
5 does not exceed \$2,000, plus

6 “(2) 25 percent of so much of such expenses so  
7 paid as exceeds the dollar amount in effect under  
8 paragraph (1) but does not exceed twice such dollar  
9 amount.

10 “(b) PORTION OF CREDIT REFUNDABLE.—40 per-  
11 cent of the credit allowable under subsection (a)(1) (deter-  
12 mined without regard to this subsection and section 26(a)  
13 and after application of all other provisions of this section)  
14 shall be treated as a credit allowable under subpart C (and  
15 not under this part). The preceding sentence shall not  
16 apply to any taxpayer for any taxable year if such tax-  
17 payer is a child to whom section 1(d) applies for such tax-  
18 able year.

19 “(c) LIMITATION BASED ON MODIFIED ADJUSTED  
20 GROSS INCOME.—

21 “(1) IN GENERAL.—The amount allowable as a  
22 credit under subsection (a) for any taxable year shall  
23 be reduced (but not below zero) by an amount which  
24 bears the same ratio to the amount so allowable (de-  
25 termined without regard to this subsection and sub-

1 section (b) but after application of all other provi-  
2 sions of this section) as—

3 “(A) the excess of—

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

6 “(ii) \$80,000 (twice such amount in  
7 the case of a joint return), bears to

8 “(B) \$10,000 (twice such amount in the  
9 case of a joint return).

10 “(2) MODIFIED ADJUSTED GROSS INCOME.—

11 For purposes of this subsection, the term ‘modified  
12 adjusted gross income’ means the adjusted gross in-  
13 come of the taxpayer for the taxable year increased  
14 by any amount excluded from gross income under  
15 section 911, 931, or 933.

16 “(d) OTHER LIMITATIONS.—

17 “(1) CREDIT ALLOWED ONLY FOR 5 TAXABLE  
18 YEARS.—An election to have this section apply may  
19 not be made for any taxable year if such an election  
20 (by the taxpayer or any other individual) is in effect  
21 with respect to such student for any 5 prior taxable  
22 years.

23 “(2) CREDIT ALLOWED ONLY FOR FIRST 5  
24 YEARS OF POSTSECONDARY EDUCATION.—

1           “(A) IN GENERAL.—No credit shall be al-  
2           lowed under subsection (a) for a taxable year  
3           with respect to the qualified tuition and related  
4           expenses of an eligible student if the student  
5           has completed (before the beginning of such  
6           taxable year) the first 5 years of postsecondary  
7           education at an eligible educational institution.

8           “(B) FIFTH YEAR LIMITATIONS.—In the  
9           case of an eligible student with respect to whom  
10          an election has been in effect for 4 preceding  
11          taxable years for purposes of the fifth taxable  
12          year—

13                 “(i) the amount of the credit allowed  
14                 under this section for the taxable year  
15                 shall not exceed an amount equal to 50  
16                 percent of the credit otherwise determined  
17                 with respect to such student under this  
18                 section (without regard to this subpara-  
19                 graph), and

20                 “(ii) the amount of the credit deter-  
21                 mined under subsection (b) and allowable  
22                 under subpart C shall not exceed an  
23                 amount equal to 40 percent of the amount  
24                 determined with respect to such student  
25                 under clause (i).

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

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

5 “(A) meets the requirements of section  
6 484(a)(1) of the Higher Education Act of 1965  
7 (20 U.S.C. 1091(a)(1)), as in effect on August  
8 5, 1997, and

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

12 “(2) QUALIFIED TUITION AND RELATED EX-  
13 PENSES.—

14 “(A) IN GENERAL.—The term ‘qualified  
15 tuition and related expenses’ means tuition,  
16 fees, and course materials, required for enroll-  
17 ment or attendance of—

18 “(i) the taxpayer,

19 “(ii) the taxpayer’s spouse, or

20 “(iii) any dependent of the taxpayer,

21 at an eligible educational institution for courses  
22 of instruction of such individual at such institu-  
23 tion.

24 “(B) EXCEPTION FOR EDUCATION INVOLV-  
25 ING SPORTS, ETC.—Such term does not include

1 expenses with respect to any course or other  
2 education involving sports, games, or hobbies,  
3 unless such course or other education is part of  
4 the individual's degree program.

5 “(C) EXCEPTION FOR NONACADEMIC  
6 FEES.—Such term does not include student ac-  
7 tivity fees, athletic fees, insurance expenses, or  
8 other expenses unrelated to an individual's aca-  
9 demic course of instruction.

10 “(3) ELIGIBLE EDUCATIONAL INSTITUTION.—  
11 The term ‘eligible educational institution’ means an  
12 institution—

13 “(A) which is described in section 481 of  
14 the Higher Education Act of 1965 (20 U.S.C.  
15 1088), as in effect on August 5, 1997, and

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

18 “(f) SPECIAL RULES.—

19 “(1) IDENTIFICATION REQUIREMENTS.—

20 “(A) STUDENT.—No credit shall be al-  
21 lowed under subsection (a) to a taxpayer with  
22 respect to the qualified tuition and related ex-  
23 penses of an individual unless the taxpayer in-  
24 cludes the name and taxpayer identification  
25 number of such individual on the return of tax

1 for the taxable year, and such taxpayer identi-  
2 fication number was issued on or before the due  
3 date for filing such return.

4 “(B) TAXPAYER.—No credit shall be al-  
5 lowed under this section if the identifying num-  
6 ber of the taxpayer was issued after the due  
7 date for filing the return for the taxable year.

8 “(C) INSTITUTION.—No credit shall be al-  
9 lowed under this section unless the taxpayer in-  
10 cludes the employer identification number of  
11 any institution to which qualified tuition and  
12 related expenses were paid with respect to the  
13 individual.

14 “(2) ADJUSTMENT FOR CERTAIN SCHOLAR-  
15 SHIPS, ETC.—The amount of qualified tuition and  
16 related expenses otherwise taken into account under  
17 subsection (a) with respect to an individual for an  
18 academic period shall be reduced (before the applica-  
19 tion of subsection (c)) by the sum of any amounts  
20 paid for the benefit of such individual which are allo-  
21 cable to such period as—

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

24 “(B) an educational assistance allowance  
25 under chapter 30, 31, 32, 34, or 35 of title 38,

1 United States Code, or under chapter 1606 of  
2 title 10, United States Code, and

3 “(C) a payment (other than a gift, be-  
4 quest, devise, or inheritance within the meaning  
5 of section 102(a)) for such individual’s edu-  
6 cational expenses, or attributable to such indi-  
7 vidual’s enrollment at an eligible educational in-  
8 stitution, which is excludable from gross income  
9 under any law of the United States.

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

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

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

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



1 months following such taxable year, such academic  
2 period shall be treated for purposes of this section  
3 as beginning during such taxable year.

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

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

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

20 “(8) RESTRICTIONS ON TAXPAYERS WHO IM-  
21 PROPERLY CLAIMED CREDIT IN PRIOR YEAR.—

22 “(A) TAXPAYERS MAKING PRIOR FRAUDU-  
23 LENT OR RECKLESS CLAIMS.—

1           “(i) IN GENERAL.—No credit shall be  
2           allowed under this section for any taxable  
3           year in the disallowance period.

4           “(ii) DISALLOWANCE PERIOD.—For  
5           purposes of clause (i), the disallowance pe-  
6           riod is—

7                   “(I) the period of 10 taxable  
8                   years after the most recent taxable  
9                   year for which there was a final deter-  
10                  mination that the taxpayer’s claim of  
11                  credit under this section was due to  
12                  fraud, and

13                   “(II) the period of 2 taxable  
14                   years after the most recent taxable  
15                   year for which there was a final deter-  
16                   mination that the taxpayer’s claim of  
17                   credit under this section was due to  
18                   reckless or intentional disregard of  
19                   rules and regulations (but not due to  
20                   fraud).

21           “(B) TAXPAYERS MAKING IMPROPER  
22           PRIOR CLAIMS.—In the case of a taxpayer who  
23           is denied credit under this section for any tax-  
24           able year as a result of the deficiency proce-  
25           dures under subchapter B of chapter 63, no

1 credit shall be allowed under this section for  
2 any subsequent taxable year unless the taxpayer  
3 provides such information as the Secretary may  
4 require to demonstrate eligibility for such cred-  
5 it.

6 “(g) INFLATION ADJUSTMENT.—

7 “(1) IN GENERAL.—In the case of a taxable  
8 year beginning after 2018, the \$80,000 amount in  
9 subsection (c)(1)(A)(ii) shall each be increased by an  
10 amount equal to—

11 “(A) such dollar amount, multiplied by

12 “(B) the cost-of-living adjustment deter-  
13 mined under section 1(c)(2)(A) for the calendar  
14 year in which the taxable year begins, deter-  
15 mined by substituting ‘calendar year 2017’ for  
16 ‘calendar year 2016’ in clause (ii) thereof.

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

21 “(h) REGULATIONS.—The Secretary may prescribe  
22 such regulations or other guidance as may be necessary  
23 or appropriate to carry out this section, including regula-  
24 tions providing for a recapture of the credit allowed under  
25 this section in cases where there is a refund in a subse-

1 quent taxable year of any amount which was taken into  
2 account in determining the amount of such credit.”.

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 72(t)(7)(B) is amended by striking  
5 “section 25A(g)(2)” and inserting “section  
6 25A(f)(2)”.

7 (2) Section 529(e)(3)(B)(v)(I) is amended by  
8 striking “section 25A(g)(2)” and inserting “section  
9 25A(f)(2)”.

10 (3) Section 529(e)(3)(B)(i) is amended by strik-  
11 ing “section 25A(b)(3)” and inserting “section  
12 25A(d)”.

13 (4) Section 530(d)(2)(C) is amended—

14 (A) by striking “section 25A(g)(2)” in  
15 clause (i)(I) and inserting “section 25A(f)(2)”,  
16 and

17 (B) by striking “HOPE AND LIFETIME  
18 LEARNING CREDITS” in the heading and insert-  
19 ing “AMERICAN OPPORTUNITY TAX CREDIT”.

20 (5) Section 530(d)(4)(B)(iii) is amended by  
21 striking “section 25A(g)(2)” and inserting “section  
22 25A(d)(4)(B)”.

23 (6) Section 6050S(e) is amended by striking  
24 “subsection (g)(2)” and inserting “subsection  
25 (f)(2)”.

1           (7) Section 6211(b)(4)(A) is amended by strik-  
2           ing “subsection (i)(6)” and inserting “subsection  
3           (b)”.

4           (8) Section 6213(g)(2)(J) is amended by strik-  
5           ing “TIN required under section 25A(g)(1)” and in-  
6           serting “TIN, and employer identification number,  
7           required under section 25A(f)(1)”.

8           (9) Section 6213(g)(2)(Q) is amended to read  
9           as follows:

10                   “(Q) an omission of information required  
11                   by section 25A(f)(8)(B) or an entry on the re-  
12                   turn claiming the credit determined under sec-  
13                   tion 25A(a) for a taxable year for which the  
14                   credit is disallowed under section  
15                   25A(f)(8)(A).”.

16           (10) Section 1004(c) of division B of the Amer-  
17           ican Recovery and Reinvestment Tax Act of 2009 is  
18           amended—

19                   (A) in paragraph (1)—

20                           (i) by striking “section 25A(i)(6)”  
21                           each place it appears and inserting “sec-  
22                           tion 25A(b)”, and

23                           (ii) by striking “with respect to tax-  
24                           able years beginning after 2008 and before

1                   2018” each place it appears and inserting  
2                   “with respect to each taxable year”,  
3                   (B) in paragraph (2), by striking “Section  
4                   25A(i)(6)” and inserting “Section 25A(b)”, and  
5                   (C) in paragraph (3)(C), by striking “sub-  
6                   section (i)(6)” and inserting “subsection (b)”.

7                   (11) The table of sections for subpart A of part  
8                   IV of subchapter A of chapter 1 is amended by  
9                   striking the item relating to section 25A and insert-  
10                  ing the following new item:

                  “Sec. 25A. American opportunity tax credit.”.

11                  (c) **EFFECTIVE DATE.**—The amendments made by  
12                  this section shall apply to taxable years beginning after  
13                  December 31, 2017.

14                  **SEC. 1202. CONSOLIDATION OF EDUCATION SAVINGS**  
15                  **RULES.**

16                  (a) **NO NEW CONTRIBUTIONS TO COVERDELL EDU-**  
17                  **CATION SAVINGS ACCOUNT.**—Section 530(b)(1)(A) is  
18                  amended to read as follows:

19                               “(A) Except in the case of rollover con-  
20                               tributions, no contribution will be accepted after  
21                               December 31, 2017.”.

22                  (b) **LIMITED DISTRIBUTION ALLOWED FOR ELEMEN-**  
23                  **TARY AND SECONDARY TUITION.**—

24                               (1) **IN GENERAL.**—Section 529(c) is amended  
25                  by adding at the end the following new paragraph:

1           “(7) TREATMENT OF ELEMENTARY AND SEC-  
2           ONDARY TUITION.—Any reference in this subsection  
3           to the term ‘qualified higher education expense’ shall  
4           include a reference to expenses for tuition in connec-  
5           tion with enrollment at an elementary or secondary  
6           school.”.

7           (2) LIMITATION.—Section 529(e)(3)(A) is  
8           amended by adding at the end the following: “The  
9           amount of cash distributions from all qualified tui-  
10          tion programs described in subsection (b)(1)(A)(ii)  
11          with respect to a beneficiary during any taxable  
12          year, shall, in the aggregate, include not more than  
13          \$10,000 in expenses for tuition incurred during the  
14          taxable year in connection with the enrollment or at-  
15          tendance of the beneficiary as an elementary or sec-  
16          ondary school student at a public, private, or reli-  
17          gious school.”.

18          (c) ROLLOVERS TO QUALIFIED TUITION PROGRAMS  
19          PERMITTED.—Section 530(d)(5) is amended by inserting  
20          “, or into (by purchase or contribution) a qualified tuition  
21          program (as defined in section 529),” after “into another  
22          Coverdell education savings account”.

23          (d) DISTRIBUTIONS FROM QUALIFIED TUITION PRO-  
24          GRAMS FOR CERTAIN EXPENSES ASSOCIATED WITH REG-  
25          ISTERED APPRENTICESHIP PROGRAMS.—Section

1 529(e)(3) is amended by adding at the end the following  
2 new subparagraph:

3           “(C) CERTAIN EXPENSES ASSOCIATED  
4 WITH REGISTERED APPRENTICESHIP PRO-  
5 GRAMS.—The term ‘qualified higher education  
6 expenses’ shall include books, supplies, and  
7 equipment required for the enrollment or at-  
8 tendance of a designated beneficiary in an ap-  
9 prenticeship program registered and certified  
10 with the Secretary of Labor under section 1 of  
11 the National Apprenticeship Act (29 U.S.C.  
12 50).”.

13       (e) UNBORN CHILDREN ALLOWED AS ACCOUNT  
14 BENEFICIARIES.—Section 529(e) is amended by adding at  
15 the end the following new paragraph:

16           “(6) TREATMENT OF UNBORN CHILDREN.—  
17           “(A) IN GENERAL.—Nothing shall prevent  
18 an unborn child from being treated as a des-  
19 ignated beneficiary or an individual under this  
20 section.

21           “(B) UNBORN CHILD.—For purposes of  
22 this paragraph—

23           “(i) IN GENERAL.—The term ‘unborn  
24 child’ means a child in utero.



1                   “(ii) CHILD IN UTERO.—The term  
2                   ‘child in utero’ means a member of the  
3                   species homo sapiens, at any stage of de-  
4                   velopment, who is carried in the womb.”.

5           (f) EFFECTIVE DATES.—

6                   (1) IN GENERAL.—Except as otherwise pro-  
7                   vided in this subsection, the amendments made by  
8                   this section shall apply to contributions made after  
9                   December 31, 2017.

10                   (2) ROLLOVERS TO QUALIFIED TUITION PRO-  
11                   GRAMS.—The amendments made by subsection (b)  
12                   shall apply to distributions after December 31,  
13                   2017.

14   **SEC. 1203. REFORMS TO DISCHARGE OF CERTAIN STUDENT**  
15                   **LOAN INDEBTEDNESS.**

16                   (a) TREATMENT OF STUDENT LOANS DISCHARGED  
17                   ON ACCOUNT OF DEATH OR DISABILITY.—Section 108(f)  
18                   is amended by adding at the end the following new para-  
19                   graph:

20                   “(5) DISCHARGES ON ACCOUNT OF DEATH OR  
21                   DISABILITY.—

22                   “(A) IN GENERAL.—In the case of an indi-  
23                   vidual, gross income does not include any  
24                   amount which (but for this subsection) would  
25                   be includible in gross income by reasons of the

1 discharge (in whole or in part) of any loan de-  
2 scribed in subparagraph (B) if such discharge  
3 was—

4 “(i) pursuant to subsection (a) or (d)  
5 of section 437 of the Higher Education  
6 Act of 1965 or the parallel benefit under  
7 part D of title IV of such Act (relating to  
8 the repayment of loan liability),

9 “(ii) pursuant to section 464(c)(1)(F)  
10 of such Act, or

11 “(iii) otherwise discharged on account  
12 of the death or total and permanent dis-  
13 ability of the student.

14 “(B) LOANS DESCRIBED.—A loan is de-  
15 scribed in this subparagraph if such loan is—

16 “(i) a student loan (as defined in  
17 paragraph (2)), or

18 “(ii) a private education loan (as de-  
19 fined in section 140(7) of the Consumer  
20 Credit Protection Act (15 U.S.C.  
21 1650(7))).”.

22 (b) EXCLUSION FROM GROSS INCOME FOR PAY-  
23 MENTS MADE UNDER INDIAN HEALTH SERVICE LOAN  
24 REPAYMENT PROGRAM.—

1 (1) IN GENERAL.—Section 108(f)(4) is amend-  
2 ed by inserting “under section 108 of the Indian  
3 Health Care Improvement Act,” after “338I of such  
4 Act,”.

5 (2) CLERICAL AMENDMENT.—The heading for  
6 section 108(f)(4) is amended by striking “AND CER-  
7 TAIN” and inserting “, INDIAN HEALTH SERVICE  
8 LOAN REPAYMENT PROGRAM, AND CERTAIN”.

9 (c) EFFECTIVE DATES.—

10 (1) SUBSECTION (a).—The amendment made  
11 by subsection (a)(1) shall apply to discharges of in-  
12 debtedness after December 31, 2017.

13 (2) SUBSECTION (b).—The amendments made  
14 by subsection (b) shall apply to amounts received in  
15 taxable years beginning after December 31, 2017.

16 **SEC. 1204. REPEAL OF OTHER PROVISIONS RELATING TO**  
17 **EDUCATION.**

18 (a) IN GENERAL.—Subchapter B of chapter 1 is  
19 amended—

20 (1) in part VII by striking sections 221 and  
21 222 (and by striking the items relating to such sec-  
22 tions in the table of sections for such part),

23 (2) in part VII by striking sections 135 and  
24 127 (and by striking the items relating to such sec-  
25 tions in the table of sections for such part), and

1 (3) by striking subsection (d) of section 117.

2 (b) CONFORMING AMENDMENT RELATING TO SEC-  
3 TION 221.—

4 (1) Section 62(a) is amended by striking para-  
5 graph (17).

6 (2) Section 74(d) is amended by striking  
7 “221,”.

8 (3) Section 86(b)(2)(A) is amended by striking  
9 “221,”.

10 (4) Section 219(g)(3)(A)(ii) is amended by  
11 striking “221,”.

12 (5) Section 163(h)(2) is amended by striking  
13 subparagraph (F).

14 (6) Section 6050S(a) is amended—

15 (A) by inserting “or” at the end of para-  
16 graph (1),

17 (B) by striking “or” at the end of para-  
18 graph (2), and

19 (C) by striking paragraph (3).

20 (7) Section 6050S(e) is amended by striking all  
21 that follows “thereof” and inserting a period.

22 (c) CONFORMING AMENDMENTS RELATED TO SEC-  
23 TION 222.—

24 (1) Section 62(a) is amended by striking para-  
25 graph (18).

1           (2) Section 74(d)(2)(B) is amended by striking  
2           “222,”.

3           (3) Section 86(b)(2)(A) is amended by striking  
4           “222,”.

5           (4) Section 219(g)(3)(A)(ii) is amended by  
6           striking “222,”.

7           (d) CONFORMING AMENDMENTS RELATING TO SEC-  
8           TION 127.—

9           (1) Section 125(f)(1) is amended by striking  
10           “127,”.

11           (2) Section 132(j)(8) is amended by striking  
12           “which are not excludable from gross income under  
13           section 127”.

14           (3) Section 414(n)(3)(C) is amended by strik-  
15           ing “127,”.

16           (4) Section 414(t)(2) is amended by striking  
17           “127,”.

18           (5) Section 3121(a)(18) is amended by striking  
19           “127,”.

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

22           (7) Section 3306(b)(13) is amended by “127,”.

23           (8) Section 3401(a)(18) is amended by striking  
24           “127,”.

1           (9) Section 6039D(d)(1) is amended by striking  
2           “, 127”.

3           (e) CONFORMING AMENDMENTS RELATING TO SEC-  
4           TION 117(d).—

5           (1) Section 117(c)(1) is amended—

6                   (A) by striking “subsections (a) and (d)”  
7                   and inserting “subsection (a)”, and

8                   (B) by striking “or qualified tuition reduc-  
9                   tion”.

10           (2) Section 414(n)(3)(C) is amended by strik-  
11           ing “117(d),”.

12           (3) Section 414(t)(2) is amended by striking  
13           “117(d),”.

14           (f) CONFORMING AMENDMENTS RELATED TO SEC-  
15           TION 135.—

16           (1) Section 74(d)(2)(B) is amended by striking  
17           “135,”.

18           (2) Section 86(b)(2)(A) is amended by striking  
19           “135,”.

20           (3) Section 219(g)(3)(A)(ii) is amended by  
21           striking “135,”.

22           (g) EFFECTIVE DATES.—

23           (1) IN GENERAL.—Except as otherwise pro-  
24           vided in this subsection, the amendments made by

1 this section shall apply to taxable years beginning  
2 after December 31, 2017.

3 (2) AMENDMENTS RELATING TO SECTION  
4 117(d).—The amendments made by subsections  
5 (a)(3) and (e) shall apply to amounts paid or in-  
6 curred after December 31, 2017.

7 **SEC. 1205. ROLLOVERS BETWEEN QUALIFIED TUITION PRO-**  
8 **GRAMS AND QUALIFIED ABLE PROGRAMS.**

9 (a) ROLLOVERS FROM QUALIFIED TUITION PRO-  
10 GRAMS TO QUALIFIED ABLE PROGRAMS.—Section  
11 529(e)(3)(C)(i) is amended by striking “or” at the end  
12 of subclause (I), by striking the period at the end of sub-  
13 clause (II) and inserting “, or”, and by adding at the end  
14 the following new subclause:

15 “(III) to an ABLE account (as  
16 defined in section 529A(e)(6)) of the  
17 designated beneficiary or a member of  
18 the family of the designated bene-  
19 ficiary.

20 Subclause (III) shall not apply to so much  
21 of a distribution which, when added to all  
22 other contributions made to the ABLE ac-  
23 count for the taxable year, exceeds the lim-  
24 itation under section 529A(b)(2)(B).”.

1 (b) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to distributions after December 31,  
3 2017.

## 4 **Subtitle D—Simplification and** 5 **Reform of Deductions**

### 6 **SEC. 1301. REPEAL OF OVERALL LIMITATION ON ITEMIZED** 7 **DEDUCTIONS.**

8 (a) IN GENERAL.—Part 1 of subchapter B of chapter  
9 1 is amended by striking section 68 (and the item relating  
10 to such section in the table of sections for such part).

11 (b) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 2017.

### 14 **SEC. 1302. MORTGAGE INTEREST.**

15 (a) MODIFICATION OF LIMITATIONS.—

16 (1) IN GENERAL.—Section 163(h)(3) is amend-  
17 ed to read as follows:

18 “(3) QUALIFIED RESIDENCE INTEREST.—For  
19 purposes of this subsection—

20 “(A) IN GENERAL.—The term ‘qualified  
21 residence interest’ means any interest which is  
22 paid or accrued during the taxable year on in-  
23 debtedness which—

24 “(i) is incurred in acquiring, con-  
25 structing, or substantially improving any



1 qualified residence (determined as of the  
2 time the interest is accrued) of the tax-  
3 payer, and

4 “(ii) is secured by such residence.

5 Such term also includes interest on any indebt-  
6 edness secured by such residence resulting from  
7 the refinancing of indebtedness meeting the re-  
8 quirements of the preceding sentence (or this  
9 sentence); but only to the extent the amount of  
10 the indebtedness resulting from such refi-  
11 nancing does not exceed the amount of the refi-  
12 nanced indebtedness.

13 “(B) LIMITATION.—The aggregate amount  
14 of indebtedness taken into account under sub-  
15 paragraph (A) for any period shall not exceed  
16 \$500,000 (half of such amount in the case of  
17 a married individual filing a separate return).

18 “(C) TREATMENT OF INDEBTEDNESS IN-  
19 CURRED ON OR BEFORE NOVEMBER 2, 2017.—

20 “(i) IN GENERAL.—In the case of any  
21 pre-November 2, 2017, indebtedness, this  
22 paragraph shall apply as in effect imme-  
23 diately before the enactment of the Tax  
24 Cuts and Jobs Act.

1           “(ii) PRE-NOVEMBER 2, 2017, INDEBT-  
2           EDNESS.—For purposes of this subpara-  
3           graph, the term ‘pre-November 2, 2017,  
4           indebtedness’ means—

5                   “(I) any principal residence ac-  
6                   quisition indebtedness which was in-  
7                   curred on or before November 2,  
8                   2017, or

9                   “(II) any principal residence ac-  
10                  quisition indebtedness which is in-  
11                  curred after November 2, 2017, to re-  
12                  finance indebtedness described in  
13                  clause (i) (or refinanced indebtedness  
14                  meeting the requirements of this  
15                  clause) to the extent (immediately  
16                  after the refinancing) the principal  
17                  amount of the indebtedness resulting  
18                  from the refinancing does not exceed  
19                  the principal amount of the refinanced  
20                  indebtedness (immediately before the  
21                  refinancing).

22                  “(iii) LIMITATION ON PERIOD OF RE-  
23                  FINANCING.—clause (ii)(II) shall not apply  
24                  to any indebtedness after—

1 “(I) the expiration of the term of  
2 the original indebtedness, or

3 “(II) if the principal of such  
4 original indebtedness is not amortized  
5 over its term, the expiration of the  
6 term of the 1st refinancing of such in-  
7 debtedness (or if earlier, the date  
8 which is 30 years after the date of  
9 such 1st refinancing).

10 “(iv) BINDING CONTRACT EXCEP-  
11 TION.—In the case of a taxpayer who en-  
12 ters into a written binding contract before  
13 November 2, 2017, to close on the pur-  
14 chase of a principal residence before Janu-  
15 ary 1, 2018, and who purchases such resi-  
16 dence before April 1, 2018, subparagraphs  
17 (A) and (B) shall be applied by sub-  
18 stituting ‘April 1, 2018’ for ‘November 2,  
19 2017’.”.

20 (2) CONFORMING AMENDMENTS.—

21 (A) Section 108(h)(2) is by striking “for  
22 ‘\$1,000,000 (\$500,000’ in clause (ii) thereof”  
23 and inserting “for ‘\$500,000 (\$250,000’ in  
24 paragraph (2)(A), and ‘\$1,000,000’ for  
25 ‘\$500,000’ in paragraph (2)(B), thereof”.

1 (B) Section 163(h) is amended by striking  
2 subparagraphs (E) and (F) in paragraph (4).

3 (b) TAXPAYERS LIMITED TO 1 QUALIFIED RESI-  
4 DENCE.—Section 163(h)(4)(A)(i) is amended to read as  
5 follows:

6 “(i) IN GENERAL.—The term ‘quali-  
7 fied residence’ means the principal resi-  
8 dence (within the meaning of section 121)  
9 of the taxpayer.”.

10 (c) EFFECTIVE DATES.—

11 (1) IN GENERAL.—The amendments made by  
12 this section shall apply to interest paid or accrued  
13 in taxable years beginning after December 31, 2017,  
14 with respect to indebtedness incurred before, on, or  
15 after such date.

16 (2) TREATMENT OF GRANDFATHERED INDEBT-  
17 EDNESS.—For application of the amendments made  
18 by this section to grandfathered indebtedness, see  
19 paragraph (3)(C) of section 163(h) of the Internal  
20 Revenue Code of 1986, as amended by this section.

21 **SEC. 1303. REPEAL OF DEDUCTION FOR CERTAIN TAXES**  
22 **NOT PAID OR ACCRUED IN A TRADE OR BUSI-**  
23 **NESS.**

24 (a) IN GENERAL.—Section 164(b)(5) is amended to  
25 read as follows:

1           “(5) LIMITATION IN CASE OF INDIVIDUALS.—In  
2           the case of a taxpayer other than a corporation—

3                   “(A) foreign real property taxes (other  
4                   than taxes which are paid or accrued in car-  
5                   rying on a trade or business or an activity de-  
6                   scribed in section 212) shall not be taken into  
7                   account under subsection (a)(1),

8                   “(B) the aggregate amount of taxes (other  
9                   than taxes which are paid or accrued in car-  
10                  rying on a trade or business or an activity de-  
11                  scribed in section 212) taken into account  
12                  under subsection (a)(1) for any taxable year  
13                  shall not exceed \$10,000 (\$5,000 in the case of  
14                  a married individual filing a separate return),

15                  “(C) subsection (a)(2) shall only apply to  
16                  taxes which are paid or accrued in carrying on  
17                  a trade or business or an activity described in  
18                  section 212, and

19                  “(D) subsection (a)(3) shall not apply to  
20                  State and local taxes.”.

21           (b) EFFECTIVE DATE.—The amendments made by  
22           this section shall apply to taxable years beginning after  
23           December 31, 2017.

1 **SEC. 1304. REPEAL OF DEDUCTION FOR PERSONAL CAS-**  
2 **UALTY LOSSES.**

3 (a) IN GENERAL.—Section 165(c) is amended by in-  
4 serting “and” at the end of paragraph (1), by striking  
5 “; and” at the end of paragraph (2) and inserting a pe-  
6 riod, and by striking paragraph (3).

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 165(h) is amended to read as fol-  
9 lows:

10 “(h) SPECIAL RULE WHERE PERSONAL CASUALTY  
11 GAINS EXCEED PERSONAL CASUALTY LOSSES.—

12 “(1) IN GENERAL.—If the personal casualty  
13 gains for any taxable year exceed the personal cas-  
14 ualty losses for such taxable year—

15 “(A) all such gains shall be treated as  
16 gains from sales or exchanges of capital assets,  
17 and

18 “(B) all such losses shall be treated as  
19 losses from sales or exchanges of capital assets.

20 “(2) DEFINITIONS OF PERSONAL CASUALTY  
21 GAIN AND PERSONAL CASUALTY LOSS.—For pur-  
22 poses of this subsection—

23 “(A) PERSONAL CASUALTY LOSS.—The  
24 term ‘personal casualty loss’ means any loss of  
25 property not connected with a trade or business  
26 or a transaction entered into for profit, if such

1           loss arises from fire, storm, shipwreck, or other  
2           casualty, or from theft.

3           “(B) PERSONAL CASUALTY GAIN.—The  
4           term ‘personal casualty gain’ means the recog-  
5           nized gain from any involuntary conversion of  
6           property which is described in subparagraph  
7           (A) arising from fire, storm, shipwreck, or other  
8           casualty, or from theft.”.

9           (2) Section 165 is amended by striking sub-  
10          section (k).

11          (3)(A) Section 165(l)(1) is amended by striking  
12          “a loss described in subsection (c)(3)” and inserting  
13          “an ordinary loss described in subsection (c)(2)”.

14          (B) Section 165(l) is amended—

15                 (i) by striking paragraph (5),

16                 (ii) by redesignating paragraphs (2), (3),  
17                 and (4) as paragraphs (3), (4), and (5), respec-  
18                 tively, and

19                 (iii) by inserting after paragraph (1) the  
20                 following new paragraph:

21                 “(2) LIMITATIONS.—

22                         “(A) DEPOSIT MAY NOT BE FEDERALLY  
23                         INSURED.—No election may be made under  
24                         paragraph (1) with respect to any loss on a de-  
25                         posit in a qualified financial institution if part

1 or all of such deposit is insured under Federal  
2 law.

3 “(B) DOLLAR LIMITATION.—With respect  
4 to each financial institution, the aggregate  
5 amount of losses attributable to deposits in  
6 such financial institution to which an election  
7 under paragraph (1) may be made by the tax-  
8 payer for any taxable year shall not exceed  
9 \$20,000 (\$10,000 in the case of a separate re-  
10 turn by a married individual). The limitation of  
11 the preceding sentence shall be reduced by the  
12 amount of any insurance proceeds under any  
13 State law which can reasonably be expected to  
14 be received with respect to losses on deposits in  
15 such institution.”.

16 (4) Section 172(b)(1)(E)(ii), prior to amend-  
17 ment under title III, is amended by striking sub-  
18 clause (I) and by redesignating subclauses (II) and  
19 (III) as subclauses (I) and (II), respectively.

20 (5) Section 172(d)(4)(C) is amended by strik-  
21 ing “paragraph (2) or (3) of section 165(c)” and in-  
22 serting “section 165(c)(2)”.

23 (6) Section 274(f) is amended by striking  
24 “CASUALTY LOSSES,” in the heading thereof.



1           (7) Section 280A(b) is amended by striking  
2           “CASUALTY LOSSES,” in the heading thereof.

3           (8) Section 873(b), as amended by the pre-  
4           ceding provisions of this Act, is amended by striking  
5           paragraph (1) and by redesignating paragraphs (2)  
6           and (3) as paragraphs (1) and (2), respectively.

7           (9) Section 504(b) of the Disaster Tax Relief  
8           and Airport and Airway Extension Act of 2017 is  
9           amended by adding at the end the following new  
10          paragraph:

11           “(4) COORDINATION WITH TAX REFORM.—This  
12          subsection shall be applied without regard to the  
13          amendments made by section 1304 of the Tax Cuts  
14          and Jobs Act.”.

15          (c) EFFECTIVE DATE.—The amendments made by  
16          this section shall apply to taxable years beginning after  
17          December 31, 2017.

18   **SEC. 1305. LIMITATION ON WAGERING LOSSES.**

19          (a) IN GENERAL.—Section 165(d) is amended by  
20          adding at the end the following: “For purposes of the pre-  
21          ceding sentence, the term ‘losses from wagering trans-  
22          actions’ includes any deduction otherwise allowable under  
23          this chapter incurred in carrying on any wagering trans-  
24          action.”.

1 (b) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2017.

4 **SEC. 1306. CHARITABLE CONTRIBUTIONS.**

5 (a) INCREASED LIMITATION FOR CASH CONTRIBU-  
6 TIONS.—Section 170(b)(1) is amended by redesignating  
7 subparagraph (G) as subparagraph (H) and by inserting  
8 after subparagraph (F) the following new subparagraph:

9 “(G) INCREASED LIMITATION FOR CASH  
10 CONTRIBUTIONS.—

11 “(i) IN GENERAL.—In the case of any  
12 contribution of cash to an organization de-  
13 scribed in subparagraph (A), the total  
14 amount of such contributions which may  
15 be taken into account under subsection (a)  
16 for any taxable year shall not exceed 60  
17 percent of the taxpayer’s contribution base  
18 for such year.

19 “(ii) CARRYOVER.—If the aggregate  
20 amount of contributions described in clause  
21 (i) exceeds the applicable limitation under  
22 clause (i), such excess shall be treated (in  
23 a manner consistent with the rules of sub-  
24 section (d)(1)) as a charitable contribution

1 to which clause (i) applies in each of the  
2 5 succeeding years in order of time.

3 “(iii) COORDINATION WITH SUBPARA-  
4 GRAPHS (A) AND (B).—

5 “(I) IN GENERAL.—Contribu-  
6 tions taken into account under this  
7 subparagraph shall not be taken into  
8 account under subparagraph (A).

9 “(II) LIMITATION REDUCTION.—  
10 Subparagraphs (A) and (B) shall be  
11 applied by reducing (but not below  
12 zero) the aggregate contribution limi-  
13 tation allowed for the taxable year  
14 under each such subparagraph by the  
15 aggregate contributions allowed under  
16 this subparagraph for such taxable  
17 year.”.

18 (b) DENIAL OF DEDUCTION FOR COLLEGE ATH-  
19 LETIC EVENT SEATING RIGHTS.—Section 170(l)(1) is  
20 amended to read as follows:

21 “(1) IN GENERAL.—No deduction shall be al-  
22 lowed under this section for any amount described in  
23 paragraph (2).”.

24 (c) CHARITABLE MILEAGE RATE ADJUSTED FOR IN-  
25 FLATION.—Section 170(i) is amended by striking “shall

1 be 14 cents per mile” and inserting “shall be a rate which  
2 takes into account the variable cost of operating an auto-  
3 mobile”.

4 (d) REPEAL OF SUBSTANTIATION EXCEPTION IN  
5 CASE OF CONTRIBUTIONS REPORTED BY DONEE.—Sec-  
6 tion 170(f)(8) is amended by striking subparagraph (D)  
7 and by redesignating subparagraph (E) as subparagraph  
8 (D).

9 (e) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to contributions made in taxable  
11 years beginning after December 31, 2017.

12 **SEC. 1307. REPEAL OF DEDUCTION FOR TAX PREPARATION**  
13 **EXPENSES.**

14 (a) IN GENERAL.—Section 212 is amended by adding  
15 “or” at the end of paragraph (1), by striking “; or” at  
16 the end of paragraph (2) and inserting a period, and by  
17 striking paragraph (3).

18 (b) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply to taxable years beginning after  
20 December 31, 2017.

21 **SEC. 1308. REPEAL OF MEDICAL EXPENSE DEDUCTION.**

22 (a) IN GENERAL.—Part VII of subchapter B is  
23 amended by striking by striking section 213 (and by strik-  
24 ing the item relating to such section in the table of sec-  
25 tions for such subpart).

1 (b) CONFORMING AMENDMENTS.—

2 (1)(A) Section 105(f) is amended to read as fol-  
3 lows:

4 “(f) MEDICAL CARE.—For purposes of this section—

5 “(1) IN GENERAL.—The term ‘medical care’  
6 means amounts paid—

7 “(A) for the diagnosis, cure, mitigation,  
8 treatment, or prevention of disease, or for the  
9 purpose of affecting any structure or function  
10 of the body,

11 “(B) for transportation primarily for and  
12 essential to medical care referred to in subpara-  
13 graph (A),

14 “(C) for qualified long-term care services  
15 (as defined in section 7702B(c)), or

16 “(D) for insurance (including amounts  
17 paid as premiums under part B of title XVIII  
18 of the Social Security Act, relating to supple-  
19 mentary medical insurance for the aged) cov-  
20 ering medical care referred to in subparagraphs  
21 (A) and (B) or for any qualified long-term care  
22 insurance contract (as defined in section  
23 7702B(b)).

24 In the case of a qualified long-term care insurance  
25 contract (as defined in section 7702B(b)), only eligi-

1       ble long-term care premiums (as defined in para-  
2       graph (7)) shall be taken into account under sub-  
3       paragraph (D).

4               “(2) AMOUNTS PAID FOR CERTAIN LODGING  
5       AWAY FROM HOME TREATED AS PAID FOR MEDICAL  
6       CARE.—Amounts paid for lodging (not lavish or ex-  
7       travagant under the circumstances) while away from  
8       home primarily for and essential to medical care re-  
9       ferred to in paragraph (1)(A) shall be treated as  
10      amounts paid for medical care if—

11               “(A) the medical care referred to in para-  
12              graph (1)(A) is provided by a physician in a li-  
13              censed hospital (or in a medical care facility  
14              which is related to, or the equivalent of, a li-  
15              censed hospital), and

16               “(B) there is no significant element of per-  
17              sonal pleasure, recreation, or vacation in the  
18              travel away from home.

19      The amount taken into account under the preceding  
20      sentence shall not exceed \$50 for each night for each  
21      individual.

22               “(3) PHYSICIAN.—The term ‘physician’ has the  
23              meaning given to such term by section 1861(r) of  
24              the Social Security Act (42 U.S.C. 1395x(r)).

1           “(4) CONTRACTS COVERING OTHER THAN MED-  
2           ICAL CARE.—In the case of an insurance contract  
3           under which amounts are payable for other than  
4           medical care referred to in subparagraphs (A), (B)  
5           and (C) of paragraph (1)—

6                   “(A) no amount shall be treated as paid  
7                   for insurance to which paragraph (1)(D) applies  
8                   unless the charge for such insurance is either  
9                   separately stated in the contract, or furnished  
10                  to the policyholder by the insurance company in  
11                  a separate statement,

12                  “(B) the amount taken into account as the  
13                  amount paid for such insurance shall not exceed  
14                  such charge, and

15                  “(C) no amount shall be treated as paid  
16                  for such insurance if the amount specified in  
17                  the contract (or furnished to the policyholder by  
18                  the insurance company in a separate statement)  
19                  as the charge for such insurance is unreason-  
20                  ably large in relation to the total charges under  
21                  the contract.

22           “(5) CERTAIN PRE-PAID CONTRACTS.—Subject  
23           to the limitations of paragraph (4), premiums paid  
24           during the taxable year by a taxpayer before he at-  
25           tains the age of 65 for insurance covering medical

1 care (within the meaning of subparagraphs (A), (B),  
2 and (C) of paragraph (1)) for the taxpayer, his  
3 spouse, or a dependent after the taxpayer attains the  
4 age of 65 shall be treated as expenses paid during  
5 the taxable year for insurance which constitutes  
6 medical care if premiums for such insurance are  
7 payable (on a level payment basis) under the con-  
8 tract for a period of 10 years or more or until the  
9 year in which the taxpayer attains the age of 65  
10 (but in no case for a period of less than 5 years).

11 “(6) COSMETIC SURGERY.—

12 “(A) IN GENERAL.—The term ‘medical  
13 care’ does not include cosmetic surgery or other  
14 similar procedures, unless the surgery or proce-  
15 dure is necessary to ameliorate a deformity  
16 arising from, or directly related to, a congenital  
17 abnormality, a personal injury resulting from  
18 an accident or trauma, or disfiguring disease.

19 “(B) COSMETIC SURGERY DEFINED.—For  
20 purposes of this paragraph, the term ‘cosmetic  
21 surgery’ means any procedure which is directed  
22 at improving the patient’s appearance and does  
23 not meaningfully promote the proper function  
24 of the body or prevent or treat illness or dis-  
25 ease.



1 “(7) ELIGIBLE LONG-TERM CARE PREMIUMS.—

2 “(A) IN GENERAL.—For purposes of this  
 3 section, the term ‘eligible long-term care pre-  
 4 miums’ means the amount paid during a tax-  
 5 able year for any qualified long-term care insur-  
 6 ance contract (as defined in section 7702B(b))  
 7 covering an individual, to the extent such  
 8 amount does not exceed the limitation deter-  
 9 mined under the following table:

| “In the case of an individual with an attained age before the close of the taxable year of: | The limitation is: |
|---|--------------------|
| 40 or less  | \$200              |
| More than 40 but not more than 50   | \$375              |
| More than 50 but not more than 60   | \$750              |
| More than 60 but not more than 70   | \$2,000            |
| More than 70  | \$2,500            |

10 “(B) INDEXING.—

11 “(i) IN GENERAL.—In the case of any  
 12 taxable year beginning after 1997, each  
 13 dollar amount in subparagraph (A) shall  
 14 be increased by the medical care cost ad-  
 15 justment of such amount for such calendar  
 16 year. Any increase determined under the  
 17 preceding sentence shall be rounded to the  
 18 nearest multiple of \$10.

19 “(ii) MEDICAL CARE COST ADJUST-  
 20 MENT.—For purposes of clause (i), the  
 21 medical care cost adjustment for any cal-

1           endar year is the adjustment prescribed by  
2           the Secretary, in consultation with the Sec-  
3           retary of Health and Human Services, for  
4           purposes of such clause. To the extent that  
5           CPI (as defined section 1(c)), or any com-  
6           ponent thereof, is taken into account in de-  
7           termining such adjustment, such adjust-  
8           ment shall be determined by taking into  
9           account C-CPI-U (as so defined), or the  
10          corresponding component thereof, in lieu of  
11          such CPI (or component thereof), but only  
12          with respect to the portion of such adjust-  
13          ment which relates to periods after Decem-  
14          ber 31, 2017.

15               “(8) CERTAIN PAYMENTS TO RELATIVES  
16          TREATED AS NOT PAID FOR MEDICAL CARE.—An  
17          amount paid for a qualified long-term care service  
18          (as defined in section 7702B(e)) provided to an indi-  
19          vidual shall be treated as not paid for medical care  
20          if such service is provided—

21                       “(A) by the spouse of the individual or by  
22                       a relative (directly or through a partnership,  
23                       corporation, or other entity) unless the service  
24                       is provided by a licensed professional with re-  
25                       spect to such service, or

1           “(B) by a corporation or partnership which  
2           is related (within the meaning of section 267(b)  
3           or 707(b)) to the individual.

4           For purposes of this paragraph, the term ‘relative’  
5           means an individual bearing a relationship to the in-  
6           dividual which is described in any of subparagraphs  
7           (A) through (G) of section 7706(d)(2). This para-  
8           graph shall not apply for purposes of subsection (b)  
9           with respect to reimbursements through insurance.”.

10           (B) Section 72(t)(2)(D)(i)(III) is amended by  
11           striking “section 213(d)(1)(D)” and inserting “sec-  
12           tion 105(f)(1)(D)”.

13           (C) Section 104(a) is amended by striking “sec-  
14           tion 213(d)(1)” in the last sentence and inserting  
15           “section 105(f)(1)”.

16           (D) Section 105(b) is amended by striking  
17           “section 213(d)” and inserting “section 105(f)”.

18           (E) Section 139D is amended by striking “sec-  
19           tion 213” and inserting “section 223”.

20           (F) Section 162(l)(2) is amended by striking  
21           “section 213(d)(10)” and inserting “section  
22           105(f)(7)”.

23           (G) Section 220(d)(2)(A) is amended by strik-  
24           ing “section 213(d)” and inserting “section 105(f)”.

1 (H) Section 223(d)(2)(A) is amended by strik-  
2 ing “section 213(d)” and inserting “section 105(f)”.

3 (I) Section 419A(f)(2) is amended by striking  
4 “section 213(d)” and inserting “section 105(f)”.

5 (J) Section 501(c)(26)(A) is amended by strik-  
6 ing “section 213(d)” and inserting “section 105(f)”.

7 (K) Section 2503(e) is amended by striking  
8 “section 213(d)” and inserting “section 105(f)”.

9 (L) Section 4980B(c)(4)(B)(i)(I) is amended by  
10 striking “section 213(d)” and inserting “section  
11 105(f)”.

12 (M) Section 6041(f) is amended by striking  
13 “section 213(d)” and inserting “section 105(f)”.

14 (N) Section 7702B(a)(2) is amended by strik-  
15 ing “section 213(d)” and inserting “section 105(f)”.

16 (O) Section 7702B(a)(4) is amended by strik-  
17 ing “section 213(d)(1)(D)” and inserting “section  
18 105(f)(1)(D)”.

19 (P) Section 7702B(d)(5) is amended by striking  
20 “section 213(d)(10)” and inserting “section  
21 105(f)(7)”.

22 (Q) Section 9832(d)(3) is amended by striking  
23 “section 213(d)” and inserting “section 105(f)”.

24 (2) Section 72(t)(2)(B) is amended to read as  
25 follows:

1           “(B) MEDICAL EXPENSES.—Distributions  
2           made to an individual (other than distributions  
3           described in subparagraph (A), (C), or (D) to  
4           the extent such distributions do not exceed the  
5           excess of—

6                   “(i) the expenses paid by the taxpayer  
7                   during the taxable year, not compensated  
8                   for by insurance or otherwise, for medical  
9                   care (as defined in 105(f)) of the taxpayer,  
10                  his spouse, or a dependent (as defined in  
11                  section 7706, determined without regard to  
12                  subsections (b)(1), (b)(2), and (d)(1)(B)  
13                  thereof), over

14                   “(ii) 10 percent of the taxpayer’s ad-  
15                  justed gross income.”.

16           (3) Section 162(l) is amended by striking para-  
17           graph (3).

18           (4) Section 402(l) is amended by striking para-  
19           graph (7) and redesignating paragraph (8) as para-  
20           graph (7).

21           (5) Section 220(f) is amended by striking para-  
22           graph (6).

23           (6) Section 223(f) is amended by striking para-  
24           graph (6).

1           (7) Section 7702B(e) is amended by striking  
2 paragraph (2).

3           (8) Section 7706(f)(7), as redesignated by this  
4 Act, is amended by striking “sections 105(b),  
5 132(h)(2)(B), and 213(d)(5)” and inserting “sec-  
6 tions 105(b) and 132(h)(2)(B)”.

7           (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 2017.

10 **SEC. 1309. REPEAL OF DEDUCTION FOR ALIMONY PAY-**  
11 **MENTS.**

12           (a) IN GENERAL.—Part VII of subchapter B is  
13 amended by striking by striking section 215 (and by strik-  
14 ing the item relating to such section in the table of sec-  
15 tions for such subpart).

16           (b) CONFORMING AMENDMENTS.—

17           (1) CORRESPONDING REPEAL OF PROVISIONS  
18 PROVIDING FOR INCLUSION OF ALIMONY IN GROSS  
19 INCOME.—

20           (A) Subsection (a) of section 61 is amend-  
21 ed by striking paragraph (8) and by redesign-  
22 ating paragraphs (9) through (15) as para-  
23 graphs (8) through (14), respectively.

24           (B) Part II of subchapter B of chapter 1  
25 is amended by striking section 71 (and by strik-

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

3 (C) Subpart F of part I of subchapter J  
4 of chapter 1 is amended by striking section 682  
5 (and by striking the item relating to such sec-  
6 tion in the table of sections for such subpart).

7 (2) RELATED TO REPEAL OF SECTION 215.—

8 (A) Section 62(a) is amended by striking  
9 paragraph (10).

10 (B) Section 3402(m)(1) is amended by  
11 striking “(other than paragraph (10) thereof)”.

12 (3) RELATED TO REPEAL OF SECTION 71.—

13 (A) Section 121(d)(3) is amended—

14 (i) by striking “(as defined in section  
15 71(b)(2))” in subparagraph (B), and

16 (ii) by adding at the end the following  
17 new subparagraph:

18 “(C) DIVORCE OR SEPARATION INSTRU-  
19 MENT.—For purposes of this paragraph, the  
20 term ‘divorce or separation instrument’  
21 means—

22 “(i) a decree of divorce or separate  
23 maintenance or a written instrument inci-  
24 dent to such a decree,

1                   “(ii) a written separation agreement,  
2                   or

3                   “(iii) a decree (not described in clause  
4                   (i)) requiring a spouse to make payments  
5                   for the support or maintenance of the  
6                   other spouse.”.

7                   (B) Section 220(f)(7) is amended by strik-  
8                   ing “subparagraph (A) of section 71(b)(2)” and  
9                   inserting “clause (i) of section 121(d)(3)(C)”.

10                  (C) Section 223(f)(7) is amended by strik-  
11                  ing “subparagraph (A) of section 71(b)(2)” and  
12                  inserting “clause (i) of section 121(d)(3)(C)”.

13                  (D) Section 382(l)(3)(B)(iii) is amended  
14                  by striking “section 71(b)(2)” and inserting  
15                  “section 121(d)(3)(C)”.

16                  (E) Section 408(d)(6) is amended by strik-  
17                  ing “subparagraph (A) of section 71(b)(2)” and  
18                  inserting “clause (i) of section 121(d)(3)(C)”.

19                  (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to—

21                   (1) any divorce or separation instrument (as de-  
22                   fined in section 71(b)(2) of the Internal Revenue  
23                   Code of 1986 as in effect before the date of the en-  
24                   actment of this Act) executed after December 31,  
25                   2017, and



1           (2) any divorce or separation instrument (as so  
2           defined) executed on or before such date and modi-  
3           fied after such date if the modification expressly  
4           provides that the amendments made by this section  
5           apply to such modification.

6 **SEC. 1310. REPEAL OF DEDUCTION FOR MOVING EX-**  
7 **PENSES.**

8           (a) IN GENERAL.—Part VII of subchapter B is  
9           amended by striking by striking section 217 (and by strik-  
10           ing the item relating to such section in the table of sec-  
11           tions for such subpart).

12           (b) RETENTION OF MOVING EXPENSES FOR MEM-  
13           BERS OF ARMED FORCES.—Section 134(b) is amended by  
14           adding at the end the following new paragraph:

15                   “(7) MOVING EXPENSES.—The term ‘qualified  
16           military benefit’ includes any benefit described in  
17           section 217(g) (as in effect before the enactment of  
18           the Tax Cuts And Jobs Act).”.

19           (c) CONFORMING AMENDMENTS.—

20                   (1) Section 62(a) is amended by striking para-  
21           graph (15).

22                   (2) Section 274(m)(3) is amended by striking  
23           “(other than section 217)”.

24                   (3) Section 3121(a) is amended by striking  
25           paragraph (11).

1           (4) Section 3306(b) is amended by striking  
2 paragraph (9).

3           (5) Section 3401(a) is amended by striking  
4 paragraph (15).

5           (6) Section 7872(f) is amended by striking  
6 paragraph (11).

7           (d) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 2017.

10 **SEC. 1311. TERMINATION OF DEDUCTION AND EXCLUSIONS**

11 **FOR CONTRIBUTIONS TO MEDICAL SAVINGS**

12 **ACCOUNTS.**

13           (a) TERMINATION OF INCOME TAX DEDUCTION.—  
14 Section 220 is amended by adding at the end the following  
15 new subsection:

16           “(k) TERMINATION.—No deduction shall be allowed  
17 under subsection (a) with respect to any taxable year be-  
18 ginning after December 31, 2017.”.

19           (b) TERMINATION OF EXCLUSION FOR EMPLOYER-  
20 PROVIDED CONTRIBUTIONS.—Section 106 is amended by  
21 striking subsection (b).

22           (c) CONFORMING AMENDMENTS.—

23           (1) Section 62(a) is amended by striking para-  
24 graph (16).

1           (2) Section 106(d) is amended by striking para-  
2           graph (2), by redesignating paragraph (3) as para-  
3           graph (6), and by inserting after paragraph (1) the  
4           following new paragraphs:

5           “(2) NO CONSTRUCTIVE RECEIPT.—No amount  
6           shall be included in the gross income of any em-  
7           ployee solely because the employee may choose be-  
8           tween the contributions referred to in paragraph (1)  
9           and employer contributions to another health plan of  
10          the employer.

11          “(3) SPECIAL RULE FOR DEDUCTION OF EM-  
12          PLOYER CONTRIBUTIONS.—Any employer contribu-  
13          tion to a health savings account (as so defined), if  
14          otherwise allowable as a deduction under this chap-  
15          ter, shall be allowed only for the taxable year in  
16          which paid.

17          “(4) EMPLOYER HEALTH SAVINGS ACCOUNT  
18          CONTRIBUTION REQUIRED TO BE SHOWN ON RE-  
19          TURN.—Every individual required to file a return  
20          under section 6012 for the taxable year shall include  
21          on such return the aggregate amount contributed by  
22          employers to the health savings accounts (as so de-  
23          fined) of such individual or such individual’s spouse  
24          for such taxable year.

1           “(5) HEALTH SAVINGS ACCOUNT CONTRIBU-  
2           TIONS NOT PART OF COBRA COVERAGE.—Paragraph  
3           (1) shall not apply for purposes of section 4980B.”.

4           (3) Section 223(b)(4) is amended by striking  
5           subparagraph (A), by redesignating subparagraphs  
6           (B) and (C) as subparagraphs (A) and (B), respec-  
7           tively, and by striking the second sentence thereof.

8           (4) Section 223(b)(5) is amended by striking  
9           “under paragraph (3))” and all that follows through  
10          “shall be divided equally between them” and insert-  
11          ing the following: “under paragraph (3)) shall be di-  
12          vided equally between the spouses”.

13          (5) Section 223(e) is amended by striking para-  
14          graph (5).

15          (6) Section 3231(e) is amended by striking  
16          paragraph (10).

17          (7) Section 3306(b) is amended by striking  
18          paragraph (17).

19          (8) Section 3401(a) is amended by striking  
20          paragraph (21).

21          (9) Chapter 43 is amended by striking section  
22          4980E (and by striking the item relating to such  
23          section in the table of sections for such chapter).

24          (10) Section 4980G is amended to read as fol-  
25          lows:

1 **“SEC. 4980G. FAILURE OF EMPLOYER TO MAKE COM-**  
2 **PARABLE HEALTH SAVINGS ACCOUNT CON-**  
3 **TRIBUTIONS.**

4 “(a) IN GENERAL.—In the case of an employer who  
5 makes a contribution to the health savings account of any  
6 employee during a calendar year, there is hereby imposed  
7 a tax on the failure of such employer to meet the require-  
8 ments of subsection (d) for such calendar year.

9 “(b) AMOUNT OF TAX.—The amount of the tax im-  
10 posed by subsection (a) on any failure for any calendar  
11 year is the amount equal to 35 percent of the aggregate  
12 amount contributed by the employer to health savings ac-  
13 counts of employees for taxable years of such employees  
14 ending with or within such calendar year.

15 “(c) WAIVER BY SECRETARY.—In the case of a fail-  
16 ure which is due to reasonable cause and not to willful  
17 neglect, the Secretary may waive part or all of the tax  
18 imposed by subsection (a) to the extent that the payment  
19 of such tax would be excessive relative to the failure in-  
20 volved.

21 “(d) EMPLOYER REQUIRED TO MAKE COMPARABLE  
22 HEALTH SAVINGS ACCOUNT CONTRIBUTIONS FOR ALL  
23 PARTICIPATING EMPLOYEES.—

24 “(1) IN GENERAL.—An employer meets the re-  
25 quirements of this subsection for any calendar year  
26 if the employer makes available comparable con-

1       tributions to the health savings accounts of all com-  
2       parable participating employees for each coverage  
3       period during such calendar year.

4               “(2) COMPARABLE CONTRIBUTIONS.—

5                       “(A) IN GENERAL.—For purposes of para-  
6                       graph (1), the term ‘comparable contributions’  
7                       means contributions—

8                               “(i) which are the same amount, or

9                               “(ii) which are the same percentage of  
10                              the annual deductible limit under the high  
11                              deductible health plan covering the employ-  
12                              ees.

13                       “(B) PART-YEAR EMPLOYEES.—In the  
14                       case of an employee who is employed by the em-  
15                       ployer for only a portion of the calendar year,  
16                       a contribution to the health savings account of  
17                       such employee shall be treated as comparable if  
18                       it is an amount which bears the same ratio to  
19                       the comparable amount (determined without re-  
20                       gard to this subparagraph) as such portion  
21                       bears to the entire calendar year.

22               “(3) COMPARABLE PARTICIPATING EMPLOY-  
23       EES.—

1           “(A) IN GENERAL.—For purposes of para-  
2 graph (1), the term ‘comparable participating  
3 employees’ means all employees—

4           “(i) who are eligible individuals cov-  
5 ered under any high deductible health plan  
6 of the employer, and

7           “(ii) who have the same category of  
8 coverage.

9           “(B) CATEGORIES OF COVERAGE.—For  
10 purposes of subparagraph (B), the categories of  
11 coverage are self-only and family coverage.

12           “(4) PART-TIME EMPLOYEES.—

13           “(A) IN GENERAL .—Paragraph (3) shall  
14 be applied separately with respect to part-time  
15 employees and other employees.

16           “(B) PART-TIME EMPLOYEE.—For pur-  
17 poses of subparagraph (A), the term ‘part-time  
18 employee’ means any employee who is custom-  
19 arily employed for fewer than 30 hours per  
20 week.

21           “(5) SPECIAL RULE FOR NON-HIGHLY COM-  
22 PENSATED EMPLOYEES.—For purposes of applying  
23 this section to a contribution to a health savings ac-  
24 count of an employee who is not a highly com-  
25 pensated employee (as defined in section 414(q)),

1 highly compensated employees shall not be treated  
2 as comparable participating employees.

3 “(e) CONTROLLED GROUPS.—For purposes of this  
4 section, all persons treated as a single employer under sub-  
5 section (b), (c), (m), or (o) of section 414 shall be treated  
6 as 1 employer.

7 “(f) DEFINITIONS.—Terms used in this section which  
8 are also used in section 223 have the respective meanings  
9 given such terms in section 223.

10 “(g) REGULATIONS.—The Secretary shall issue regu-  
11 lations to carry out the purposes of this section.”.

12 (11) Section 6051(a) is amended by striking  
13 paragraph (11).

14 (12) Section 6051(a)(14)(A) is amended by  
15 striking “paragraphs (11) and (12)” and inserting  
16 “paragraph (12)”.

17 (d) EFFECTIVE DATE.—The amendment made by  
18 this section shall apply to taxable years beginning after  
19 December 31, 2017.

20 **SEC. 1312. DENIAL OF DEDUCTION FOR EXPENSES ATTRIB-**  
21 **UTABLE TO THE TRADE OR BUSINESS OF**  
22 **BEING AN EMPLOYEE.**

23 (a) IN GENERAL.—Part IX of subchapter B of chap-  
24 ter 1 is amended by inserting after the item relating to  
25 section 262 the following new item:



1 **“SEC. 262A. EXPENSES ATTRIBUTABLE TO BEING AN EM-**  
2 **EMPLOYEE.**

3       “(a) IN GENERAL.—Except as otherwise provided in  
4 this section, no deduction shall be allowed with respect to  
5 any trade or business of the taxpayer which consists of  
6 the performance of services by the taxpayer as an em-  
7 ployee.

8       “(b) EXCEPTION FOR ABOVE-THE-LINE DEDUC-  
9 TIONS.—Subsection (a) shall not apply to any deduction  
10 allowable (determined without regard to subsection (a)) in  
11 determining adjusted gross income.”.

12       (b) REPEAL OF CERTAIN ABOVE-THE-LINE TRADE  
13 AND BUSINESS DEDUCTIONS OF EMPLOYEES.—

14           (1) IN GENERAL.—Section 62(a)(2) is amend-  
15 ed—

16                   (A) by striking subparagraphs (B), (C),  
17 and (D), and

18                   (B) by redesignating subparagraph (E) as  
19 subparagraph (B).

20           (2) CONFORMING AMENDMENTS.—

21                   (A) Section 62 is amended by striking sub-  
22 sections (b) and (d) and by redesignating sub-  
23 sections (c) and (e) as subsections (b) and (c),  
24 respectively.

1 (B) Section 62(a)(20) is amended by strik-  
2 ing “subsection (e)” and inserting “subsection  
3 (e)”.

4 (c) CONTINUED EXCLUSION OF WORKING CONDI-  
5 TION FRINGE BENEFITS.—Section 132(d) is amended by  
6 inserting “(determined without regard to section 262A)”  
7 after “section 162”.

8 (d) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 2017.

11 **Subtitle E—Simplification and Re-**  
12 **form of Exclusions and Taxable**  
13 **Compensation**

14 **SEC. 1401. LIMITATION ON EXCLUSION FOR EMPLOYER-**  
15 **PROVIDED HOUSING.**

16 (a) IN GENERAL.—Section 119 is amended by adding  
17 at the end the following new subsection:

18 “(e) LIMITATION ON EXCLUSION OF LODGING.—

19 “(1) IN GENERAL.—The aggregate amount ex-  
20 cluded from gross income of the taxpayer under sub-  
21 sections (a) and (d) with respect to lodging for any  
22 taxable year shall not exceed \$50,000 (half such  
23 amount in the case of a married individual filing a  
24 separate return).

1           “(2) LIMITATION TO 1 HOME.—Subsections (a)  
2           and (d) (separately and in combination) shall not  
3           apply with respect to more than 1 residence of the  
4           taxpayer at any given time. In the case of a joint re-  
5           turn, the preceding sentence shall apply separately  
6           to each spouse for any period during which each  
7           spouse resides separate from the other spouse in a  
8           residence which is provided in connection with the  
9           employment of each spouse, respectively.

10           “(3) LIMITATION FOR HIGHLY COMPENSATED  
11           EMPLOYEES.—

12           “(A) REDUCED FOR EXCESS COMPENSA-  
13           TION.—In the case of an individual whose com-  
14           pensation for the taxable year exceeds the  
15           amount in effect under section 414(q)(1)(B)(i)  
16           for the calendar in which such taxable year be-  
17           gins, the \$50,000 amount under paragraph (1)  
18           shall be reduced (but not below zero) by an  
19           amount equal to 50 percent of such excess. For  
20           purposes of the preceding sentence, the term  
21           ‘compensation’ means wages (as defined in sec-  
22           tion 3121(a) (without regard to the contribu-  
23           tion and benefit base limitation in section  
24           3121(a)(1)).

1           “(B) EXCLUSION DENIED FOR 5-PERCENT  
2 OWNERS.—In the case of an individual who is  
3 a 5-percent owner (as defined in section  
4 416(i)(1)(B)(i)) of the employer at any time  
5 during the taxable year, the amount under  
6 paragraph (1) shall be zero.”.

7           (b) EFFECTIVE DATE.—The amendment made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 2017.

10 **SEC. 1402. EXCLUSION OF GAIN FROM SALE OF A PRIN-**  
11 **CIPAL RESIDENCE.**

12           (a) REQUIREMENT THAT RESIDENCE BE PRINCIPAL  
13 RESIDENCE FOR 5 YEARS DURING 8-YEAR PERIOD.—  
14 Subsection (a) of section 121 is amended—

15           (1) by striking “5-year period” and inserting  
16 “8-year period”, and

17           (2) by striking “2 years” and inserting “5  
18 years”.

19           (b) APPLICATION TO ONLY 1 SALE OR EXCHANGE  
20 EVERY 5 YEARS.—Paragraph (3) of section 121(b) is  
21 amended to read as follows:

22           “(3) APPLICATION TO ONLY 1 SALE OR EX-  
23 CHANGE EVERY 5 YEARS.—Subsection (a) shall not  
24 apply to any sale or exchange by the taxpayer if,  
25 during the 5-year period ending on the date of such

1 sale or exchange, there was any other sale or ex-  
2 change by the taxpayer to which subsection (a) ap-  
3 plied.”.

4 (c) PHASEOUT BASED ON MODIFIED ADJUSTED  
5 GROSS INCOME.—Section 121 is amended by adding at  
6 the end the following new subsection:

7 “(h) PHASEOUT BASED ON MODIFIED ADJUSTED  
8 GROSS INCOME.—

9 “(1) IN GENERAL.—If the average modified ad-  
10 justed gross income of the taxpayer for the taxable  
11 year and the 2 preceding taxable years exceeds  
12 \$250,000 (twice such amount in the case of a joint  
13 return), the amount which would (but for this sub-  
14 section) be excluded from gross income under sub-  
15 section (a) for such taxable year shall be reduced  
16 (but not below zero) by the amount of such excess.

17 “(2) MODIFIED ADJUSTED GROSS INCOME.—  
18 For purposes of this subsection, the term ‘modified  
19 adjusted gross income’ means, with respect to any  
20 taxable year, adjusted gross income determined after  
21 application of this section (but without regard to  
22 subsection (b)(1) and this subsection).

23 “(3) SPECIAL RULE FOR JOINT RETURNS.—In  
24 the case of a joint return, the average modified ad-  
25 justed gross income of the taxpayer shall be deter-

1       mined without regard to any taxable year with re-  
2       spect to which the taxpayer did not file a joint re-  
3       turn.”.

4       (d) CONFORMING AMENDMENTS.—

5             (1) The following provisions of section 121 are  
6       each amended by striking “5-year period” each place  
7       it appears therein and inserting “8-year period”:

8             (A) Subsection (b)(5)(C)(ii)(I).

9             (B) Subsection (c)(1)(B)(i)(I).

10            (C) Subsection (d)(7)(B).

11            (D) Subparagraphs (A) and (B) of sub-  
12       section (d)(9).

13            (E) Subsection (d)(10).

14            (F) Subsection (d)(12)(A).

15            (2) Section 121(c)(1)(B)(ii) is amended by  
16       striking “2 years” and inserting “5 years”:

17       (e) EFFECTIVE DATE.—The amendments made by  
18       this section shall apply to sales and exchanges after De-  
19       cember 31, 2017.

20       **SEC. 1403. REPEAL OF EXCLUSION, ETC., FOR EMPLOYEE**  
21       **ACHIEVEMENT AWARDS.**

22       (a) IN GENERAL.—Section 74 is amended by striking  
23       subsection (e).

24       (b) REPEAL OF LIMITATION ON DEDUCTION.—Sec-  
25       tion 274 is amended by striking subsection (j).

1 (c) CONFORMING AMENDMENTS.—

2 (1) Section 102(e)(2) is amended by striking  
3 the first sentence.

4 (2) Section 414(n)(3)(C) is amended by strik-  
5 ing “274(j),”.

6 (3) Section 414(t)(2) is amended by striking  
7 “274(j),”.

8 (4) Section 3121(a)(20) is amended by striking  
9 “74(c)”.

10 (5) Section 3231(e)(5) is amended by striking  
11 “74(c),”.

12 (6) Section 3306(b)(16) is amended by striking  
13 “74(c),”.

14 (7) Section 3401(a)(19) is amended by striking  
15 “74(c),”.

16 (d) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 2017.

19 **SEC. 1404. SUNSET OF EXCLUSION FOR DEPENDENT CARE**  
20 **ASSISTANCE PROGRAMS.**

21 (a) IN GENERAL.—Section 129 is amended by adding  
22 at the end the following new subsection:

23 “(f) TERMINATION.—Subsection (a) shall not apply  
24 to taxable years beginning after December 31, 2022.”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall take effect on the date of the enactment  
3 of this Act.

4 **SEC. 1405. REPEAL OF EXCLUSION FOR QUALIFIED MOVING**  
5 **EXPENSE REIMBURSEMENT.**

6 (a) IN GENERAL.—Section 132(a) is amended by  
7 striking paragraph (6).

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 82 is amended by striking “Except  
10 as provided in section 132(a)(6), there” and insert-  
11 ing “There”.

12 (2) Section 132 is amended by striking sub-  
13 section (g).

14 (3) Section 132(l) is amended by striking by  
15 striking “subsections (e) and (g)” and inserting  
16 “subsection (e)”.

17 (c) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to taxable years beginning after  
19 December 31, 2017.

20 **SEC. 1406. REPEAL OF EXCLUSION FOR ADOPTION ASSIST-**  
21 **ANCE PROGRAMS.**

22 (a) IN GENERAL.—Part III of subchapter B of chap-  
23 ter 1 is amended by striking section 137 (and by striking  
24 the item relating to such section in the table of sections  
25 for such part).



1 (b) CONFORMING AMENDMENTS.—

2 (1) Sections 414(n)(3)(C), 414(t)(2),  
3 74(d)(2)(B), 86(b)(2)(A), 219(g)(3)(A)(ii) are each  
4 amended by striking “, 137”.

5 (2) Section 1016(a), as amended by the pre-  
6 ceding provision of this Act, is amended by striking  
7 paragraph (26).

8 (3) Section 6039D(d)(1), as amended by the  
9 preceding provisions of this Act, is amended—

10 (A) by striking “, or 137”, and

11 (B) by inserting “or” before “125”.

12 (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to taxable years beginning after  
14 December 31, 2017.

15 **Subtitle F—Simplification and Re-**  
16 **form of Savings, Pensions, Re-**  
17 **tirement**

18 **SEC. 1501. REPEAL OF SPECIAL RULE PERMITTING RE-**  
19 **CHARACTERIZATION OF ROTH IRA CON-**  
20 **TRIBUTIONS AS TRADITIONAL IRA CON-**  
21 **TRIBUTIONS.**

22 (a) IN GENERAL.—Section 408A(d) is amended by  
23 striking paragraph (6) and by redesignating paragraph  
24 (7) as paragraph (6).

1 (b) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2017.

4 **SEC. 1502. REDUCTION IN MINIMUM AGE FOR ALLOWABLE**  
5 **IN-SERVICE DISTRIBUTIONS.**

6 (a) IN GENERAL.—Section 401(a)(36) is amended by  
7 striking “age 62” and inserting “age 59 1/2”.

8 (b) APPLICATION TO GOVERNMENTAL SECTION  
9 457(b) PLANS.—Clause (i) of section 457(d)(1)(A) is  
10 amended by inserting “(in the case of a plan maintained  
11 by an employer described in subsection (e)(1)(A), age 59  
12 1/2)” before the comma at the end.

13 (c) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to plan years beginning after De-  
15 cember 31, 2017.

16 **SEC. 1503. MODIFICATION OF RULES GOVERNING HARD-**  
17 **SHIP DISTRIBUTIONS.**

18 (a) IN GENERAL.—Not later than 1 year after the  
19 date of the enactment of this Act, the Secretary of the  
20 Treasury shall modify Treasury Regulation section  
21 1.401(k)-1(d)(3)(iv)(E) to—

22 (1) delete the 6-month prohibition on contribu-  
23 tions imposed by paragraph (2) thereof, and

24 (2) make any other modifications necessary to  
25 carry out the purposes of section

1 401(k)(2)(B)(i)(IV) of the Internal Revenue Code of  
2 1986.

3 (b) EFFECTIVE DATE.—The revised regulations  
4 under this section shall apply to plan years beginning after  
5 December 31, 2017.

6 **SEC. 1504. MODIFICATION OF RULES RELATING TO HARD-**  
7 **SHIP WITHDRAWALS FROM CASH OR DE-**  
8 **FERRED ARRANGEMENTS.**

9 (a) IN GENERAL.—Section 401(k) is amended by  
10 adding at the end the following:

11 “(14) SPECIAL RULES RELATING TO HARDSHIP  
12 WITHDRAWALS.—For purposes of paragraph  
13 (2)(B)(i)(IV)—

14 “(A) AMOUNTS WHICH MAY BE WITH-  
15 DRAWN.—The following amounts may be dis-  
16 tributed upon hardship of the employee:

17 “(i) Contributions to a profit-sharing  
18 or stock bonus plan to which section  
19 402(e)(3) applies.

20 “(ii) Qualified nonelective contribu-  
21 tions (as defined in subsection (m)(4)(C)).

22 “(iii) Qualified matching contributions  
23 described in paragraph (3)(D)(ii)(I).

24 “(iv) Earnings on any contributions  
25 described in clause (i), (ii), or (iii).

1           “(B) NO REQUIREMENT TO TAKE AVAIL-  
2           ABLE LOAN.—A distribution shall not be treat-  
3           ed as failing to be made upon the hardship of  
4           an employee solely because the employee does  
5           not take any available loan under the plan.”.”.

6           (b)       CONFORMING        AMENDMENT.—Section  
7   401(k)(2)(B)(i)(IV) is amended to read as follows:

8                       “(IV) subject to the provisions of  
9                       paragraph (14), upon hardship of the  
10                      employee, or”.”.

11       (c) EFFECTIVE DATE.—The amendments made by  
12   this section shall apply to plan years beginning after De-  
13   cember 31, 2017.

14   **SEC. 1505. EXTENDED ROLLOVER PERIOD FOR THE ROLL-**  
15                      **OVER OF PLAN LOAN OFFSET AMOUNTS IN**  
16                      **CERTAIN CASES.**

17       (a) IN GENERAL.—Paragraph (3) of section 402(c)  
18   is amended by adding at the end the following new sub-  
19   paragraph:

20                      “(C) ROLLOVER OF CERTAIN PLAN LOAN  
21                      OFFSET AMOUNTS.—

22                      “(i) IN GENERAL.—In the case of a  
23                      qualified plan loan offset amount, para-  
24                      graph (1) shall not apply to any transfer  
25                      of such amount made after the due date

1 (including extensions) for filing the return  
2 of tax for the taxable year in which such  
3 amount is treated as distributed from a  
4 qualified employer plan.

5 “(ii) QUALIFIED PLAN LOAN OFFSET  
6 AMOUNT.—For purposes of this subpara-  
7 graph, the term ‘qualified plan loan offset  
8 amount’ means a plan loan offset amount  
9 which is treated as distributed from a  
10 qualified employer plan to a participant or  
11 beneficiary solely by reason of—

12 “(I) the termination of the quali-  
13 fied employer plan, or

14 “(II) the failure to meet the re-  
15 payment terms of the loan from such  
16 plan because of the separation from  
17 service of the participant (whether  
18 due to layoff, cessation of business,  
19 termination of employment, or other-  
20 wise).

21 “(iii) PLAN LOAN OFFSET AMOUNT.—  
22 For purposes of clause (ii), the term ‘plan  
23 loan offset amount’ means the amount by  
24 which the participant’s accrued benefit

1 under the plan is reduced in order to repay  
2 a loan from the plan.

3 “(iv) LIMITATION.—This subpara-  
4 graph shall not apply to any plan loan off-  
5 set amount unless such plan loan offset  
6 amount relates to a loan to which section  
7 72(p)(1) does not apply by reason of sec-  
8 tion 72(p)(2).

9 “(v) QUALIFIED EMPLOYER PLAN.—  
10 For purposes of this subsection, the term  
11 ‘qualified employer plan’ has the meaning  
12 given such term by section 72(p)(4).”.

13 (b) CONFORMING AMENDMENT.—Subparagraph (A)  
14 of section 402(c)(3) is amended by striking “subpara-  
15 graph (B)” and inserting “subparagraphs (B) and (C)”.

16 (c) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 2017.

19 **SEC. 1506. MODIFICATION OF NONDISCRIMINATION RULES**  
20 **TO PROTECT OLDER, LONGER SERVICE PAR-**  
21 **TICIPANTS.**

22 (a) IN GENERAL.—Section 401 is amended—

23 (1) by redesignating subsection (o) as sub-  
24 section (p), and

1           (2) by inserting after subsection (n) the fol-  
2           lowing new subsection:

3           “(o) SPECIAL RULES FOR APPLYING NON-  
4 DISCRIMINATION RULES TO PROTECT OLDER, LONGER  
5 SERVICE AND GRANDFATHERED PARTICIPANTS.—

6           “(1) TESTING OF DEFINED BENEFIT PLANS  
7 WITH CLOSED CLASSES OF PARTICIPANTS.—

8           “(A) BENEFITS, RIGHTS, OR FEATURES  
9 PROVIDED TO CLOSED CLASSES.—A defined  
10 benefit plan which provides benefits, rights, or  
11 features to a closed class of participants shall  
12 not fail to satisfy the requirements of sub-  
13 section (a)(4) by reason of the composition of  
14 such closed class or the benefits, rights, or fea-  
15 tures provided to such closed class, if—

16           “(i) for the plan year as of which the  
17 class closes and the 2 succeeding plan  
18 years, such benefits, rights, and features  
19 satisfy the requirements of subsection  
20 (a)(4) (without regard to this subpara-  
21 graph but taking into account the rules of  
22 subparagraph (I)),

23           “(ii) after the date as of which the  
24 class was closed, any plan amendment  
25 which modifies the closed class or the ben-

1           efits, rights, and features provided to such  
2           closed class does not discriminate signifi-  
3           cantly in favor of highly compensated em-  
4           ployees, and

5                   “(iii) the class was closed before April  
6           5, 2017, or the plan is described in sub-  
7           paragraph (C).

8                   “(B) AGGREGATE TESTING WITH DEFINED  
9           CONTRIBUTION PLANS PERMITTED ON A BENE-  
10          FITS BASIS.—

11                   “(i) IN GENERAL.—For purposes of  
12          determining compliance with subsection  
13          (a)(4) and section 410(b), a defined benefit  
14          plan described in clause (iii) may be aggre-  
15          gated and tested on a benefits basis with  
16          1 or more defined contribution plans, in-  
17          cluding with the portion of 1 or more de-  
18          fined contribution plans which—

19                   “(I) provides matching contribu-  
20          tions (as defined in subsection  
21          (m)(4)(A)),

22                   “(II) provides annuity contracts  
23          described in section 403(b) which are  
24          purchased with matching contribu-  
25          tions or nonelective contributions, or



1           “(III) consists of an employee  
2           stock ownership plan (within the  
3           meaning of section 4975(e)(7)) or a  
4           tax credit employee stock ownership  
5           plan (within the meaning of section  
6           409(a)).

7           “(ii) SPECIAL RULES FOR MATCHING  
8           CONTRIBUTIONS.—For purposes of clause  
9           (i), if a defined benefit plan is aggregated  
10          with a portion of a defined contribution  
11          plan providing matching contributions—

12           “(I) such defined benefit plan  
13           must also be aggregated with any por-  
14           tion of such defined contribution plan  
15           which provides elective deferrals de-  
16           scribed in subparagraph (A) or (C) of  
17           section 402(g)(3), and

18           “(II) such matching contribu-  
19           tions shall be treated in the same  
20           manner as nonelective contributions,  
21           including for purposes of applying the  
22           rules of subsection (l).

23           “(iii) PLANS DESCRIBED.—A defined  
24          benefit plan is described in this clause if—

1           “(I) the plan provides benefits to  
2 a closed class of participants,

3           “(II) for the plan year as of  
4 which the class closes and the 2 suc-  
5 ceeding plan years, the plan satisfies  
6 the requirements of section 410(b)  
7 and subsection (a)(4) (without regard  
8 to this subparagraph but taking into  
9 account the rules of subparagraph  
10 (I)),

11           “(III) after the date as of which  
12 the class was closed, any plan amend-  
13 ment which modifies the closed class  
14 or the benefits provided to such closed  
15 class does not discriminate signifi-  
16 cantly in favor of highly compensated  
17 employees, and

18           “(IV) the class was closed before  
19 April 5, 2017, or the plan is described  
20 in subparagraph (C).

21           “(C) PLANS DESCRIBED.—A plan is de-  
22 scribed in this subparagraph if, taking into ac-  
23 count any predecessor plan—

1 “(i) such plan has been in effect for  
2 at least 5 years as of the date the class is  
3 closed, and

4 “(ii) during the 5-year period pre-  
5 ceding the date the class is closed, there  
6 has not been a substantial increase in the  
7 coverage or value of the benefits, rights, or  
8 features described in subparagraph (A) or  
9 in the coverage or benefits under the plan  
10 described in subparagraph (B)(iii) (which-  
11 ever is applicable).

12 “(D) DETERMINATION OF SUBSTANTIAL  
13 INCREASE FOR BENEFITS, RIGHTS, AND FEA-  
14 TURES.—In applying subparagraph (C)(ii) for  
15 purposes of subparagraph (A)(iii), a plan shall  
16 be treated as having had a substantial increase  
17 in coverage or value of the benefits, rights, or  
18 features described in subparagraph (A) during  
19 the applicable 5-year period only if, during such  
20 period—

21 “(i) the number of participants cov-  
22 ered by such benefits, rights, or features  
23 on the date such period ends is more than  
24 50 percent greater than the number of

1 such participants on the first day of the  
2 plan year in which such period began, or  
3 “(ii) such benefits, rights, and fea-  
4 tures have been modified by 1 or more  
5 plan amendments in such a way that, as of  
6 the date the class is closed, the value of  
7 such benefits, rights, and features to the  
8 closed class as a whole is substantially  
9 greater than the value as of the first day  
10 of such 5-year period, solely as a result of  
11 such amendments.

12 “(E) DETERMINATION OF SUBSTANTIAL  
13 INCREASE FOR AGGREGATE TESTING ON BENE-  
14 FITS BASIS.—In applying subparagraph (C)(ii)  
15 for purposes of subparagraph (B)(iii)(IV), a  
16 plan shall be treated as having had a substan-  
17 tial increase in coverage or benefits during the  
18 applicable 5-year period only if, during such pe-  
19 riod—

20 “(i) the number of participants bene-  
21 fitting under the plan on the date such pe-  
22 riod ends is more than 50 percent greater  
23 than the number of such participants on  
24 the first day of the plan year in which such  
25 period began, or

1           “(ii) the average benefit provided to  
2           such participants on the date such period  
3           ends is more than 50 percent greater than  
4           the average benefit provided on the first  
5           day of the plan year in which such period  
6           began.

7           “(F) CERTAIN EMPLOYEES DIS-  
8           REGARDED.—For purposes of subparagraphs  
9           (D) and (E), any increase in coverage or value  
10          or in coverage or benefits, whichever is applica-  
11          ble, which is attributable to such coverage and  
12          value or coverage and benefits provided to em-  
13          ployees—

14                 “(i) who became participants as a re-  
15                 sult of a merger, acquisition, or similar  
16                 event which occurred during the 7-year pe-  
17                 riod preceding the date the class is closed,  
18                 or

19                 “(ii) who became participants by rea-  
20                 son of a merger of the plan with another  
21                 plan which had been in effect for at least  
22                 5 years as of the date of the merger,  
23                 shall be disregarded, except that clause (ii)  
24                 shall apply for purposes of subparagraph (D)  
25                 only if, under the merger, the benefits, rights,

1 or features under 1 plan are conformed to the  
2 benefits, rights, or features of the other plan  
3 prospectively.

4 “(G) RULES RELATING TO AVERAGE BEN-  
5 EFIT.—For purposes of subparagraph (E)—

6 “(i) the average benefit provided to  
7 participants under the plan will be treated  
8 as having remained the same between the  
9 2 dates described in subparagraph (E)(ii)  
10 if the benefit formula applicable to such  
11 participants has not changed between such  
12 dates, and

13 “(ii) if the benefit formula applicable  
14 to 1 or more participants under the plan  
15 has changed between such 2 dates, then  
16 the average benefit under the plan shall be  
17 considered to have increased by more than  
18 50 percent only if—

19 “(I) the total amount determined  
20 under section 430(b)(1)(A)(i) for all  
21 participants benefitting under the  
22 plan for the plan year in which the 5-  
23 year period described in subparagraph  
24 (E) ends, exceeds

1                   “(II) the total amount deter-  
2                   mined under section 430(b)(1)(A)(i)  
3                   for all such participants for such plan  
4                   year, by using the benefit formula in  
5                   effect for each such participant for  
6                   the first plan year in such 5-year pe-  
7                   riod, by more than 50 percent.

8                   In the case of a CSEC plan (as defined in  
9                   section 414(y)), the normal cost of the  
10                  plan (as determined under section  
11                  433(j)(1)(B)) shall be used in lieu of the  
12                  amount determined under section  
13                  430(b)(1)(A)(i).

14                  “(H) TREATMENT AS SINGLE PLAN.—For  
15                  purposes of subparagraphs (E) and (G), a plan  
16                  described in section 413(c) shall be treated as  
17                  a single plan rather than as separate plans  
18                  maintained by each participating employer.

19                  “(I) SPECIAL RULES.—For purposes of  
20                  subparagraphs (A)(i) and (B)(iii)(II), the fol-  
21                  lowing rules shall apply:

22                         “(i) In applying section 410(b)(6)(C),  
23                         the closing of the class of participants shall  
24                         not be treated as a significant change in  
25                         coverage under section 410(b)(6)(C)(i)(II).

1           “(ii) 2 or more plans shall not fail to  
2           be eligible to be aggregated and treated as  
3           a single plan solely by reason of having dif-  
4           ferent plan years.

5           “(iii) Changes in the employee popu-  
6           lation shall be disregarded to the extent at-  
7           tributable to individuals who become em-  
8           ployees or cease to be employees, after the  
9           date the class is closed, by reason of a  
10          merger, acquisition, divestiture, or similar  
11          event.

12          “(iv) Aggregation and all other testing  
13          methodologies otherwise applicable under  
14          subsection (a)(4) and section 410(b) may  
15          be taken into account.

16          The rule of clause (ii) shall also apply for pur-  
17          poses of determining whether plans to which  
18          subparagraph (B)(i) applies may be aggregated  
19          and treated as 1 plan for purposes of deter-  
20          mining whether such plans meet the require-  
21          ments of subsection (a)(4) and section 410(b).

22          “(J) SPUN-OFF PLANS.—For purposes of  
23          this paragraph, if a portion of a defined benefit  
24          plan described in subparagraph (A) or (B)(iii)  
25          is spun off to another employer and the spun-



1 off plan continues to satisfy the requirements  
2 of—

3 “(i) subparagraph (A)(i) or  
4 (B)(iii)(II), whichever is applicable, if the  
5 original plan was still within the 3-year pe-  
6 riod described in such subparagraph at the  
7 time of the spin off, and

8 “(ii) subparagraph (A)(ii) or  
9 (B)(iii)(III), whichever is applicable,  
10 the treatment under subparagraph (A) or (B)  
11 of the spun-off plan shall continue with respect  
12 to such other employer.

13 “(2) TESTING OF DEFINED CONTRIBUTION  
14 PLANS.—

15 “(A) TESTING ON A BENEFITS BASIS.—A  
16 defined contribution plan shall be permitted to  
17 be tested on a benefits basis if—

18 “(i) such defined contribution plan  
19 provides make-whole contributions to a  
20 closed class of participants whose accruals  
21 under a defined benefit plan have been re-  
22 duced or eliminated,

23 “(ii) for the plan year of the defined  
24 contribution plan as of which the class eli-  
25 gible to receive such make-whole contribu-

1 tions closes and the 2 succeeding plan  
2 years, such closed class of participants sat-  
3 isfies the requirements of section  
4 410(b)(2)(A)(i) (determined by applying  
5 the rules of paragraph (1)(I)),

6 “(iii) after the date as of which the  
7 class was closed, any plan amendment to  
8 the defined contribution plan which modi-  
9 fies the closed class or the allocations, ben-  
10 efits, rights, and features provided to such  
11 closed class does not discriminate signifi-  
12 cantly in favor of highly compensated em-  
13 ployees, and

14 “(iv) the class was closed before April  
15 5, 2017, or the defined benefit plan under  
16 clause (i) is described in paragraph (1)(C)  
17 (as applied for purposes of paragraph  
18 (1)(B)(iii)(IV)).

19 “(B) AGGREGATION WITH PLANS INCLUD-  
20 ING MATCHING CONTRIBUTIONS.—

21 “(i) IN GENERAL.—With respect to 1  
22 or more defined contribution plans de-  
23 scribed in subparagraph (A), for purposes  
24 of determining compliance with subsection  
25 (a)(4) and section 410(b), the portion of

1 such plans which provides make-whole con-  
2 tributions or other nonelective contribu-  
3 tions may be aggregated and tested on a  
4 benefits basis with the portion of 1 or  
5 more other defined contribution plans  
6 which—

7 “(I) provides matching contribu-  
8 tions (as defined in subsection  
9 (m)(4)(A)),

10 “(II) provides annuity contracts  
11 described in section 403(b) which are  
12 purchased with matching contribu-  
13 tions or nonelective contributions, or

14 “(III) consists of an employee  
15 stock ownership plan (within the  
16 meaning of section 4975(e)(7)) or a  
17 tax credit employee stock ownership  
18 plan (within the meaning of section  
19 409(a)).

20 “(ii) SPECIAL RULES FOR MATCHING  
21 CONTRIBUTIONS.—Rules similar to the  
22 rules of paragraph (1)(B)(ii) shall apply  
23 for purposes of clause (i).

24 “(C) SPECIAL RULES FOR TESTING DE-  
25 FINED CONTRIBUTION PLAN FEATURES PRO-

1 VIDING MATCHING CONTRIBUTIONS TO CERTAIN  
2 OLDER, LONGER SERVICE PARTICIPANTS.—In  
3 the case of a defined contribution plan which  
4 provides benefits, rights, or features to a closed  
5 class of participants whose accruals under a de-  
6 fined benefit plan have been reduced or elimi-  
7 nated, the plan shall not fail to satisfy the re-  
8 quirements of subsection (a)(4) solely by reason  
9 of the composition of the closed class or the  
10 benefits, rights, or features provided to such  
11 closed class if the defined contribution plan and  
12 defined benefit plan otherwise meet the require-  
13 ments of subparagraph (A) but for the fact that  
14 the make-whole contributions under the defined  
15 contribution plan are made in whole or in part  
16 through matching contributions.

17 “(D) SPUN-OFF PLANS.—For purposes of  
18 this paragraph, if a portion of a defined con-  
19 tribution plan described in subparagraph (A) or  
20 (C) is spun off to another employer, the treat-  
21 ment under subparagraph (A) or (C) of the  
22 spun-off plan shall continue with respect to the  
23 other employer if such plan continues to comply  
24 with the requirements of clauses (ii) (if the  
25 original plan was still within the 3-year period

1 described in such clause at the time of the spin  
2 off) and (iii) of subparagraph (A), as deter-  
3 mined for purposes of subparagraph (A) or (C),  
4 whichever is applicable.

5 “(3) DEFINITIONS.—For purposes of this sub-  
6 section—

7 “(A) MAKE-WHOLE CONTRIBUTIONS.—Ex-  
8 cept as otherwise provided in paragraph (2)(C),  
9 the term ‘make-whole contributions’ means non-  
10 elective allocations for each employee in the  
11 class which are reasonably calculated, in a con-  
12 sistent manner, to replace some or all of the re-  
13 tirement benefits which the employee would  
14 have received under the defined benefit plan  
15 and any other plan or qualified cash or deferred  
16 arrangement under subsection (k)(2) if no  
17 change had been made to such defined benefit  
18 plan and such other plan or arrangement. For  
19 purposes of the preceding sentence, consistency  
20 shall not be required with respect to employees  
21 who were subject to different benefit formulas  
22 under the defined benefit plan.

23 “(B) REFERENCES TO CLOSED CLASS OF  
24 PARTICIPANTS.—References to a closed class of  
25 participants and similar references to a closed

1 class shall include arrangements under which 1  
2 or more classes of participants are closed, ex-  
3 cept that 1 or more classes of participants  
4 closed on different dates shall not be aggre-  
5 gated for purposes of determining the date any  
6 such class was closed.

7 “(C) HIGHLY COMPENSATED EMPLOYEE.—  
8 The term ‘highly compensated employee’ has  
9 the meaning given such term in section  
10 414(q).”.

11 (b) PARTICIPATION REQUIREMENTS.—Paragraph  
12 (26) of section 401(a) is amended by adding at the end  
13 the following new subparagraph:

14 “(I) PROTECTED PARTICIPANTS.—

15 “(i) IN GENERAL.—A plan shall be  
16 deemed to satisfy the requirements of sub-  
17 paragraph (A) if—

18 “(I) the plan is amended—

19 “(aa) to cease all benefit ac-  
20 cruals, or

21 “(bb) to provide future ben-  
22 efit accruals only to a closed  
23 class of participants,

24 “(II) the plan satisfies subpara-  
25 graph (A) (without regard to this sub-

1 paragraph) as of the effective date of  
2 the amendment, and

3 “(III) the amendment was adopt-  
4 ed before April 5, 2017, or the plan is  
5 described in clause (ii).

6 “(ii) PLANS DESCRIBED.—A plan is  
7 described in this clause if the plan would  
8 be described in subsection (o)(1)(C), as ap-  
9 plied for purposes of subsection  
10 (o)(1)(B)(iii)(IV) and by treating the effec-  
11 tive date of the amendment as the date the  
12 class was closed for purposes of subsection  
13 (o)(1)(C).

14 “(iii) SPECIAL RULES.—For purposes  
15 of clause (i)(II), in applying section  
16 410(b)(6)(C), the amendments described in  
17 clause (i) shall not be treated as a signifi-  
18 cant change in coverage under section  
19 410(b)(6)(C)(i)(II).

20 “(iv) SPUN-OFF PLANS.—For pur-  
21 poses of this subparagraph, if a portion of  
22 a plan described in clause (i) is spun off to  
23 another employer, the treatment under  
24 clause (i) of the spun-off plan shall con-  
25 tinue with respect to the other employer.”.

1 (c) EFFECTIVE DATE.—

2 (1) IN GENERAL.—Except as provided in para-  
3 graph (2), the amendments made by this section  
4 shall take effect on the date of the enactment of this  
5 Act, without regard to whether any plan modifica-  
6 tions referred to in such amendments are adopted or  
7 effective before, on, or after such date of enactment.

8 (2) SPECIAL RULES.—

9 (A) ELECTION OF EARLIER APPLICA-  
10 TION.—At the election of the plan sponsor, the  
11 amendments made by this section shall apply to  
12 plan years beginning after December 31, 2013.

13 (B) CLOSED CLASSES OF PARTICIPANTS.—  
14 For purposes of paragraphs (1)(A)(iii),  
15 (1)(B)(iii)(IV), and (2)(A)(iv) of section 401(o)  
16 of the Internal Revenue Code of 1986 (as added  
17 by this section), a closed class of participants  
18 shall be treated as being closed before April 5,  
19 2017, if the plan sponsor's intention to create  
20 such closed class is reflected in formal written  
21 documents and communicated to participants  
22 before such date.

23 (C) CERTAIN POST-ENACTMENT PLAN  
24 AMENDMENTS.—A plan shall not be treated as  
25 failing to be eligible for the application of sec-



1           tion 401(o)(1)(A), 401(o)(1)(B)(iii), or  
2           401(a)(26) of such Code (as added by this sec-  
3           tion) to such plan solely because in the case  
4           of—

5                   (i) such section 401(o)(1)(A), the plan  
6                   was amended before the date of the enact-  
7                   ment of this Act to eliminate 1 or more  
8                   benefits, rights, or features, and is further  
9                   amended after such date of enactment to  
10                  provide such previously eliminated benefits,  
11                  rights, or features to a closed class of par-  
12                  ticipants, or

13                   (ii) such section 401(o)(1)(B)(iii) or  
14                   section 401(a)(26), the plan was amended  
15                   before the date of the enactment of this  
16                   Act to cease all benefit accruals, and is  
17                   further amended after such date of enact-  
18                   ment to provide benefit accruals to a closed  
19                   class of participants. Any such section  
20                   shall only apply if the plan otherwise meets  
21                   the requirements of such section and in ap-  
22                   plying such section, the date the class of  
23                   participants is closed shall be the effective  
24                   date of the later amendment.

1 **Subtitle G—Estate, Gift, and Gen-**  
2 **eration-skipping Transfer Taxes**

3 **SEC. 1601. INCREASE IN CREDIT AGAINST ESTATE, GIFT,**  
4 **AND GENERATION-SKIPPING TRANSFER TAX.**

5 (a) IN GENERAL.—Section 2010(c)(3) is amended by  
6 striking “\$5,000,000” and inserting “\$10,000,000”.

7 (b) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to estates of decedents dying, gen-  
9 eration-skipping transfers, and gifts made, after Decem-  
10 ber 31, 2017.

11 **SEC. 1602. REPEAL OF ESTATE AND GENERATION-SKIPPING**  
12 **TRANSFER TAXES.**

13 (a) ESTATE TAX REPEAL.—

14 (1) IN GENERAL.—Subchapter C of chapter 11  
15 is amended by adding at the end the following new  
16 section:

17 **“SEC. 2210. TERMINATION.**

18 “(a) IN GENERAL.—Except as provided in subsection  
19 (b), this chapter shall not apply to the estates of decedents  
20 dying after December 31, 2024.

21 “(b) CERTAIN DISTRIBUTIONS FROM QUALIFIED  
22 DOMESTIC TRUSTS.—In applying section 2056A with re-  
23 spect to the surviving spouse of a decedent dying on or  
24 before December 31, 2024—

1           “(1) section 2056A(b)(1)(A) shall not apply to  
2           distributions made after the 10-year period begin-  
3           ning on such date, and

4           “(2) section 2056A(b)(1)(B) shall not apply  
5           after such date.”.

6           (2)    CONFORMING    AMENDMENTS.—Section  
7           1014(b) is amended—

8                   (A) in paragraph (6), by striking “was in-  
9                   cludible in determining” and all that follows  
10                   through the end and inserting “was includible  
11                   (or would have been includible without regard  
12                   to section 2210) in determining the value of the  
13                   decedent’s gross estate under chapter 11 of  
14                   subtitle B” ,

15                   (B) in paragraph (9), by striking “required  
16                   to be included” through “Code of 1939” and  
17                   inserting “required to be included (or would  
18                   have been required to be included without re-  
19                   gard to section 2210) in determining the value  
20                   of the decedent’s gross estate under chapter 11  
21                   of subtitle B”, and

22                   (C) in paragraph (10), by striking “Prop-  
23                   erty includible in the gross estate” and insert-  
24                   ing “Property includible (or which would have

1           been includible without regard to section 2210)  
2           in the gross estate”.

3           (3) CLERICAL AMENDMENT.—The table of sec-  
4           tions for subchapter C of chapter 11 is amended by  
5           adding at the end the following new item:

“Sec. 2210. Termination.”.

6           (b) GENERATION-SKIPPING TRANSFER TAX RE-  
7           PEAL.—

8           (1) IN GENERAL.—Subchapter G of chapter 13  
9           of subtitle B of such Code is amended by adding at  
10          the end the following new section:

11       **“SEC. 2664. TERMINATION.**

12       “‘This chapter shall not apply to generation-skipping  
13       transfers after December 31, 2024.’”.

14           (2) CLERICAL AMENDMENT.—The table of sec-  
15           tions for subchapter G of chapter 13 of such Code  
16           is amended by adding at the end the following new  
17           item:

“Sec. 2664. Termination.”.

18           (c) CONFORMING AMENDMENTS RELATED TO GIFT  
19           TAX.—

20           (1) COMPUTATION OF GIFT TAX.—Section 2502  
21           is amended by adding at the end the following new  
22           subsection:

23       “(d) GIFTS MADE AFTER 2024.—

1           “(1) IN GENERAL.—In the case of a gift made  
2           after December 31, 2024, subsection (a) shall be ap-  
3           plied by substituting ‘subsection (d)(2)’ for ‘section  
4           2001(e)’ and ‘such subsection’ for ‘such section’.

5           “(2) RATE SCHEDULE.—

| <b>“If the amount with respect to which the tentative tax to be computed is:</b> | <b>The tentative tax is:</b>                      |
|--|---|
| Not over \$10,000 .....  | 18% of such amount.                               |
| Over \$10,000 but not over \$20,000 .....  | \$1,800, plus 20% of the excess over \$10,000.    |
| Over \$20,000 but not over \$40,000 .....  | \$3,800, plus 22% of the excess over \$20,000.    |
| Over \$40,000 but not over \$60,000 .....  | \$8,200, plus 24% of the excess over \$40,000.    |
| Over \$60,000 but not over \$80,000 .....  | \$13,000, plus 26% of the excess over \$60,000.   |
| Over \$80,000 but not over \$100,000 .....                                       | \$18,200, plus 28% of the excess over \$80,000.   |
| Over \$100,000 but not over \$150,000 .....                                      | \$23,800, plus 30% of the excess over \$100,000.  |
| Over \$150,000 but not over \$250,000 .....                                      | \$38,800, plus 32% of the excess of \$150,000.    |
| Over \$250,000 but not over \$500,000 .....                                      | \$70,800, plus 34% of the excess over \$250,000.  |
| Over \$500,000 .....   | \$155,800, plus 35% of the excess of \$500,000.”. |

6           (2) LIFETIME GIFT EXEMPTION.—Section 2505  
7           is amended by adding at the end the following new  
8           subsection:

9           “(d) GIFTS MADE AFTER 2024.—

10           “(1) IN GENERAL.—In the case of a gift made  
11           after December 31, 2024, subsection (a)(1) shall be

1 applied by substituting ‘the amount of the tentative  
2 tax which would be determined under the rate sched-  
3 ule set forth in section 2502(a)(2) if the amount  
4 with respect to which such tentative tax is to be  
5 computed were \$10,000,000’ for ‘the applicable  
6 credit amount in effect under section 2010(c) which  
7 would apply if the donor died as of the end of the  
8 calendar year’.

9 “(2) INFLATION ADJUSTMENT.—

10 “(A) IN GENERAL.—In the case of any cal-  
11 endar year after 2024, the dollar amount in  
12 subsection (a)(1) (after application of this sub-  
13 section) shall be increased by an amount equal  
14 to—

15 “(i) such dollar amount, multiplied by  
16 “(ii) the cost-of-living adjustment de-  
17 termined under section 1(c)(2)(A) of such  
18 calendar year by substituting ‘calendar  
19 year 2011’ for ‘calendar year 2016’ in  
20 clause (ii) thereof.

21 “(B) ROUNDING.—If any amount as ad-  
22 justed under paragraph (1) is not a multiple of  
23 \$10,000, such amount shall be rounded to the  
24 nearest multiple of \$10,000.”.

1           (3) OTHER CONFORMING AMENDMENTS RE-  
2           LATED TO GIFT TAX.—Section 2801 is amended by  
3           adding at the end the following new subsection:

4           “(g) GIFTS RECEIVED AFTER 2024.—In the case of  
5           a gift received after December 31, 2024, subsection (a)(1)  
6           shall be applied by substituting ‘section 2502(a)(2)’ for  
7           ‘section 2001(c) as in effect on the date of such receipt’.”.

8           (d) EFFECTIVE DATE.—The amendments made by  
9           this section shall apply to estates of decedents dying, gen-  
10          eration-skipping transfers, and gifts made, after Decem-  
11          ber 31, 2024.

## 12                   **TITLE II—ALTERNATIVE** 13                   **MINIMUM TAX REPEAL**

### 14          **SEC. 2001. REPEAL OF ALTERNATIVE MINIMUM TAX.**

15          (a) IN GENERAL.—Subchapter A of chapter 1 is  
16          amended by striking part VI (and by striking the item  
17          relating to such part in the table of parts for subchapter  
18          A).

19          (b) CREDIT FOR PRIOR YEAR MINIMUM TAX LIABIL-  
20          ITY.—

21                  (1) LIMITATION.—Subsection (c) of section 53  
22          is amended to read as follows:

23                  “(c) LIMITATION.—The credit allowable under sub-  
24          section (a) shall not exceed the regular tax liability of the

1 taxpayer reduced by the sum of the credits allowed under  
2 subparts A, B, and D.”.

3 (2) CREDITS TREATED AS REFUNDABLE.—Sec-  
4 tion 53 is amended by adding at the end the fol-  
5 lowing new subsection:

6 “(e) PORTION OF CREDIT TREATED AS REFUND-  
7 ABLE.—

8 “(1) IN GENERAL.—In the case of any taxable  
9 year beginning in 2019, 2020, 2021, or 2022, the  
10 limitation under subsection (c) shall be increased by  
11 the AMT refundable credit amount for such year.

12 “(2) AMT REFUNDABLE CREDIT AMOUNT.—  
13 For purposes of paragraph (1), the AMT refundable  
14 credit amount is an amount equal to 50 percent  
15 (100 percent in the case of a taxable year beginning  
16 in 2022) of the excess (if any) of—

17 “(A) the minimum tax credit determined  
18 under subsection (b) for the taxable year, over

19 “(B) the minimum tax credit allowed  
20 under subsection (a) for such year (before the  
21 application of this subsection for such year).

22 “(3) CREDIT REFUNDABLE.—For purposes of  
23 this title (other than this section), the credit allowed  
24 by reason of this subsection shall be treated as a



1 credit allowed under subpart C (and not this sub-  
2 part).

3 “(4) SHORT TAXABLE YEARS.—In the case of  
4 any taxable year of less than 365 days, the AMT re-  
5 fundable credit amount determined under paragraph  
6 (2) with respect to such taxable year shall be the  
7 amount which bears the same ratio to such amount  
8 determined without regard to this paragraph as the  
9 number of days in such taxable year bears to 365.”.

10 (3) TREATMENT OF REFERENCES.—Section  
11 53(d) is amended by adding at the end the following  
12 new paragraph:

13 “(3) AMT TERM REFERENCES.—Any references  
14 in this subsection to section 55, 56, or 57 shall be  
15 treated as a reference to such section as in effect be-  
16 fore its repeal by the Tax Cuts and Jobs Act.”.

17 (c) CONFORMING AMENDMENTS RELATED TO AMT  
18 REPEAL.—

19 (1) Section 2(d) is amended by striking “sec-  
20 tions 1 and 55” and inserting “section 1”.

21 (2) Section 5(a) is amended by striking para-  
22 graph (4).

23 (3) Section 11(d) is amended by striking “the  
24 taxes imposed by subsection (a) and section 55” and  
25 inserting “the tax imposed by subsection (a)”.

1           (4) Section 12 is amended by striking para-  
2           graph (7).

3           (5) Section 26(a) is amended to read as follows:

4           “(a) LIMITATION BASED ON AMOUNT OF TAX.—The  
5           aggregate amount of credits allowed by this subpart for  
6           the taxable year shall not exceed the taxpayer’s regular  
7           tax liability for the taxable year.”.

8           (6) Section 26(b)(2) is amended by striking  
9           subparagraph (A).

10          (7) Section 26 is amended by striking sub-  
11          section (c).

12          (8) Section 38(c) is amended—

13                 (A) by striking paragraphs (1) through  
14                 (5),

15                 (B) by redesignating paragraph (6) as  
16                 paragraph (2),

17                 (C) by inserting before paragraph (2) (as  
18                 so redesignated) the following new paragraph:

19                 “(1) IN GENERAL.—The credit allowed under  
20                 subsection (a) for any taxable year shall not exceed  
21                 the excess (if any) of—

22                         “(A) the sum of—

23                                 “(i) so much of the regular tax liabil-  
24                                 ity as does not exceed \$25,000, plus

1                   “(ii) 75 percent of so much of the reg-  
2                   ular tax liability as exceeds \$25,000, over

3                   “(B) the sum of the credits allowable  
4                   under subparts A and B of this part.”, and

5                   (D) by striking “subparagraph (B) of  
6                   paragraph (1)” each place it appears in para-  
7                   graph (2) (as so redesignated) and inserting  
8                   “clauses (i) and (ii) of paragraph (1)(A)”.

9                   (9) Section 39(a) is amended—

10                   (A) by striking “or the eligible small busi-  
11                   ness credits” in paragraph (3)(A), and

12                   (B) by striking paragraph (4).

13                   (10) Section 45D(g)(4)(B) is amended by strik-  
14                   ing “or for purposes of section 55”.

15                   (11) Section 54(c)(1) is amended to read as fol-  
16                   lows:

17                   “(1) regular tax liability (as defined in section  
18                   26(b)), over”.

19                   (12) Section 54A(c)(1)(A) is amended to read  
20                   as follows:

21                   “(A) regular tax liability (as defined in  
22                   section 26(b)), over”.

23                   (13) Section 148(b)(3) is amended to read as  
24                   follows:

1           “(3) TAX-EXEMPT BONDS NOT TREATED AS IN-  
2           VESTMENT PROPERTY.—The term ‘investment prop-  
3           erty’ does not include any tax-exempt bond.”.

4           (14) Section 168(k)(2) is amended by striking  
5           subparagraph (G).

6           (15) Section 168(k) is amended by striking  
7           paragraph (4).

8           (16) Section 168(k)(5) is amended by striking  
9           subparagraph (E).

10          (17) Section 168(m)(2)(B)(i) is amended by  
11          striking “(determined without regard to paragraph  
12          (4) thereof)”.

13          (18) Section 168(m)(2) is amended by striking  
14          subparagraph (D).

15          (19) Section 173 is amended by striking sub-  
16          section (b).

17          (20) Section 263(c) is amended by striking  
18          “section 59(e) or 291” and inserting “section 291”.

19          (21) Section 263A(c) is amended by striking  
20          paragraph (6) and by redesignating paragraph (7)  
21          (as amended) as paragraph (6).

22          (22) Section 382(l) is amended by striking  
23          paragraph (7) and by redesignating paragraph (8)  
24          as paragraph (7).

1           (23) Section 443 is amended by striking sub-  
2           section (d) and by redesignating subsection (e) as  
3           subsection (d).

4           (24) Section 616 is amended by striking sub-  
5           section (e).

6           (25) Section 617 is amended by striking sub-  
7           section (i).

8           (26) Section 641(c) is amended—

9                   (A) in paragraph (2) by striking subpara-  
10                  graph (B) and by redesignating subparagraphs  
11                  (C) and (D) as subparagraphs (B) and (C), re-  
12                  spectively, and

13                   (B) in paragraph (3), by striking “para-  
14                  graph (2)(C)” and inserting “paragraph  
15                  (2)(B)”.

16           (27) Subsections (b) and (c) of section 666 are  
17           each amended by striking “(other than the tax im-  
18           posed by section 55)”.

19           (28) Section 848 is amended by striking sub-  
20           section (i).

21           (29) Section 860E(a) is amended by striking  
22           paragraph (4).

23           (30) Section 871(b)(1) is amended by striking  
24           “or 55”.

1           (31) Section 882(a)(1) is amended by striking  
2           “55,”.

3           (32) Section 897(a) is amended to read as fol-  
4           lows:

5           “(a) TREATMENT AS EFFECTIVELY CONNECTED  
6 WITH UNITED STATES TRADE OR BUSINESS.—For pur-  
7 poses of this title, gain or loss of a nonresident alien indi-  
8 vidual or a foreign corporation from the disposition of a  
9 United States real property interest shall be taken into  
10 account—

11           “(1) in the case of a nonresident alien indi-  
12 vidual, under section 871(b)(1), or

13           “(2) in the case of a foreign corporation, under  
14 section 882(a)(1),

15 as if the taxpayer were engaged in a trade or business  
16 within the United States during the taxable year and as  
17 if such gain or loss were effectively connected with such  
18 trade or business.”.

19           (33) Section 904(k) is amended to read as fol-  
20 lows:

21           “(k) CROSS REFERENCE.—For increase of limitation  
22 under subsection (a) for taxes paid with respect to  
23 amounts received which were included in the gross income  
24 of the taxpayer for a prior taxable year as a United States

1 shareholder with respect to a controlled foreign corpora-  
2 tion, see section 960(b).”.

3 (34) Section 911(f) is amended to read as fol-  
4 lows:

5 “(f) DETERMINATION OF TAX LIABILITY.—

6 “(1) IN GENERAL.—If, for any taxable year,  
7 any amount is excluded from gross income of a tax-  
8 payer under subsection (a), then, notwithstanding  
9 section 1, if such taxpayer has taxable income for  
10 such taxable year, the tax imposed by section 1 for  
11 such taxable year shall be equal to the excess (if  
12 any) of—

13 “(A) the tax which would be imposed by  
14 section 1 for such taxable year if the taxpayer’s  
15 taxable income were increased by the amount  
16 excluded under subsection (a) for such taxable  
17 year, over

18 “(B) the tax which would be imposed by  
19 section 1 for such taxable year if the taxpayer’s  
20 taxable income were equal to the amount ex-  
21 cluded under subsection (a) for such taxable  
22 year.

23 For purposes of this paragraph, the amount ex-  
24 cluded under subsection (a) shall be reduced by the  
25 aggregate amount of any deductions or exclusions

1 disallowed under subsection (d)(6) with respect to  
2 such excluded amount.

3 “(2) TREATMENT OF CAPITAL GAIN EXCESS.—

4 “(A) IN GENERAL.—In applying section  
5 1(h) for purposes of determining the tax under  
6 paragraph (1)(A) for any taxable year in which,  
7 without regard to this subsection, the tax-  
8 payer’s net capital gain exceeds taxable income  
9 (hereafter in this subparagraph referred to as  
10 the capital gain excess)—

11 “(i) the taxpayer’s net capital gain  
12 (determined without regard to section  
13 1(h)(11)) shall be reduced (but not below  
14 zero) by such capital gain excess,

15 “(ii) the taxpayer’s qualified dividend  
16 income shall be reduced by so much of  
17 such capital gain excess as exceeds the tax-  
18 payer’s net capital gain (determined with-  
19 out regard to section 1(h)(11) and the re-  
20 duction under clause (i)), and

21 “(iii) adjusted net capital gain,  
22 unrecaptured section 1250 gain, and 28-  
23 percent rate gain shall each be determined  
24 after increasing the amount described in



1 section 1(h)(4)(B) by such capital gain ex-  
2 cess.

3 “(B) DEFINITIONS.—Terms used in this  
4 paragraph which are also used in section 1(h)  
5 shall have the respective meanings given such  
6 terms by section 1(h).”.

7 (35) Section 962(a)(1) is amended—

8 (A) by striking “sections 1 and 55” and  
9 inserting “section 1”, and

10 (B) by striking “sections 11 and 55” and  
11 inserting “section 11”.

12 (36) Section 1016(a) is amended by striking  
13 paragraph (20).

14 (37) Section 1202(a)(4) is amended by insert-  
15 ing “and” at the end of subparagraph (A), by strik-  
16 ing “, and” and inserting a period at the end of sub-  
17 paragraph (B), and by striking subparagraph (C).

18 (38) Section 1374(b)(3)(B) is amended by  
19 striking the last sentence thereof.

20 (39) Section 1561(a) is amended—

21 (A) by inserting “and” at the end of para-  
22 graph (1), by striking “, and” at the end of  
23 paragraph (2) and inserting a period, and by  
24 striking paragraph (3), and

25 (B) by striking the last sentence.

1           (40) Section 6015(d)(2)(B) is amended by  
2 striking “or 55”.

3           (41) Section 6211(b)(4)(A) is amended by  
4 striking “, 168(k)(4)”.

5           (42) Section 6425(c)(1)(A) is amended to read  
6 as follows:

7                   “(A) the tax imposed under section 11 or  
8 subchapter L of chapter 1, whichever is applica-  
9 ble, over”.

10          (43) Section 6654(d)(2) is amended—

11                   (A) in clause (i) of subparagraph (B), by  
12 striking “, alternative minimum taxable in-  
13 come,”, and

14                   (B) in clause (i) of subparagraph (C), by  
15 striking “, alternative minimum taxable in-  
16 come,”.

17          (44) Section 6655(e)(2)(B)(i) is amended by  
18 striking “The taxable income and alternative min-  
19 imum taxable income shall” and inserting “Taxable  
20 income shall”.

21          (45) Section 6655(g)(1)(A) is amended by add-  
22 ing “plus” at the end of clause (i), by striking clause  
23 (ii), and by redesignating clause (iii) as clause (ii).

24          (46) Section 6662(e)(3)(C) is amended by strik-  
25 ing “the regular tax (as defined in section 55(c))”

1 and inserting “the regular tax liability (as defined in  
2 section 26(b))”.

3 (d) EFFECTIVE DATES.—

4 (1) IN GENERAL.—Except as otherwise pro-  
5 vided in this subsection, the amendments made by  
6 this section shall apply to taxable years beginning  
7 after December 31, 2017.

8 (2) PRIOR ELECTIONS WITH RESPECT TO CER-  
9 TAIN TAX PREFERENCES.—So much of the amend-  
10 ment made by subsection (a) as relates to the repeal  
11 of section 59(e) of the Internal Revenue Code of  
12 1986 shall apply to amounts paid or incurred after  
13 December 31, 2017.

14 (3) TREATMENT OF NET OPERATING LOSS  
15 CARRYBACKS.—For purposes of section 56(d) of the  
16 Internal Revenue Code of 1986 (as in effect before  
17 its repeal), the amount of any net operating loss  
18 which may be carried back from a taxable year be-  
19 ginning after December 31, 2017, to taxable years  
20 beginning before January 1, 2018, shall be deter-  
21 mined without regard to any adjustments under sec-  
22 tion 56(d)(2)(A) of such Code (as so in effect).

1           **TITLE III—BUSINESS TAX**  
2                           **REFORM**  
3                           **Subtitle A—Tax Rates**

4   **SEC. 3001. REDUCTION IN CORPORATE TAX RATE.**

5           (a) IN GENERAL.—Section 11(b) is amended to read  
6 as follows:

7           “(b) AMOUNT OF TAX.—

8                       “(1) IN GENERAL.—Except as otherwise pro-  
9                       vided in this subsection, the amount of the tax im-  
10                      posed by subsection (a) shall be 20 percent of tax-  
11                      able income.

12                     “(2) SPECIAL RULE FOR PERSONAL SERVICE  
13                     CORPORATIONS.—

14                     “(A) IN GENERAL.—In the case of a per-  
15                     sonal service corporation (as defined in section  
16                     448(d)(2)), the amount of the tax imposed by  
17                     subsection (a) shall be 25 percent of taxable in-  
18                     come.

19                     “(B) REFERENCES TO CORPORATE  
20                     RATE.—Any reference to the rate imposed  
21                     under this section or to the highest rate in ef-  
22                     fect under this section (or any similar ref-  
23                     erence) shall be determined without regard to  
24                     the rate imposed with respect to personal serv-  
25                     ice corporations (as so defined).”.

1 (b) CONFORMING AMENDMENTS.—

2 (1)(A) Part I of subchapter P of chapter 1 is  
3 amended by striking section 1201 (and by striking  
4 the item relating to such section in the table of sec-  
5 tions for such part).

6 (B) Section 12 is amended by striking para-  
7 graph (4).

8 (C) Section 527(b) is amended—

9 (i) by striking paragraph (2), and

10 (ii) by striking all that precedes “is hereby  
11 imposed” and inserting:

12 “(b) TAX IMPOSED.—A tax”.

13 (D) Section 594(a) is amended by striking  
14 “taxes imposed by section 11 or 1201(a)” and in-  
15 serting “tax imposed by section 11”.

16 (E) Section 691(c)(4) is amended by striking  
17 “1201,”.

18 (F) Section 801(a) is amended—

19 (i) by striking paragraph (2), and

20 (ii) by striking all that precedes “is hereby  
21 imposed” and inserting:

22 “(a) TAX IMPOSED.—A tax”.

23 (G) Section 831(e) is amended by striking para-  
24 graph (1) and by redesignating paragraphs (2) and  
25 (3) as paragraphs (1) and (2), respectively.

1           (H) Sections 832(c)(5) and 834(b)(1)(D) are  
2 each amended by striking “sec. 1201 and fol-  
3 lowing,”.

4           (I) Section 852(b)(3)(A) is amended by striking  
5 “section 1201(a)” and inserting “section 11(b)(1)”.

6           (J) Section 857(b)(3) is amended—

7                 (i) by striking subparagraph (A) and re-  
8 designating subparagraphs (B) through (F) as  
9 subparagraphs (A) through (E), respectively,

10                (ii) in subparagraph (C), as so redesign-  
11 nated—

12                         (I) by striking “subparagraph (A)(ii)”  
13 in clause (i) thereof and inserting “para-  
14 graph (1)”,

15                         (II) by striking “the tax imposed by  
16 subparagraph (A)(ii)” in clauses (ii) and  
17 (iv) thereof and inserting “the tax imposed  
18 by paragraph (1) on undistributed capital  
19 gain”,

20                 (iii) in subparagraph (E), as so redesign-  
21 nated, by striking “subparagraph (B) or (D)”  
22 and inserting “subparagraph (A) or (C)”, and

23                 (iv) by adding at the end the following new  
24 subparagraph:

1           “(F) **UNDISTRIBUTED CAPITAL GAIN.**—  
2           For purposes of this paragraph, the term ‘un-  
3           distributed capital gain’ means the excess of the  
4           net capital gain over the deduction for divi-  
5           dends paid (as defined in section 561) deter-  
6           mined with reference to capital gain dividends  
7           only.”.

8           (K) Section 882(a)(1) is amended by striking “,  
9           or 1201(a)”.

10          (L) Section 1374(b) is amended by striking  
11          paragraph (4).

12          (M) Section 1381(b) is amended by striking  
13          “taxes imposed by section 11 or 1201” and inserting  
14          “tax imposed by section 11”.

15          (N) Section 6655(g)(1)(A)(i) is amended by  
16          striking “or 1201(a),”.

17          (O) Section 7518(g)(6)(A) is amended by strik-  
18          ing “or 1201(a)”.

19          (2) Section 1445(e)(1) is amended by striking  
20          “35 percent (or, to the extent provided in regula-  
21          tions, 20 percent)” and inserting “20 percent”.

22          (3) Section 1445(e)(2) is amended by striking  
23          “35 percent” and inserting “20 percent”.

1 (4) Section 1445(e)(6) is amended by striking  
2 “35 percent (or, to the extent provided in regula-  
3 tions, 20 percent)” and inserting “20 percent”.

4 (5)(A) Part I of subchapter B of chapter 5 is  
5 amended by striking section 1551 (and by striking  
6 the item relating to such section in the table of sec-  
7 tions for such part).

8 (B) Section 12 is amended by striking para-  
9 graph (6).

10 (C) Section 535(c)(5) is amended to read as  
11 follows:

12 “(5) CROSS REFERENCE.—For limitation on  
13 credit provided in paragraph (2) or (3) in the case  
14 of certain controlled corporations, see section  
15 1561.”.

16 (6)(A) Section 1561, as amended by the pre-  
17 ceding provisions of this Act, is amended to read as  
18 follows:

19 **“SEC. 1561. LIMITATION ON ACCUMULATED EARNINGS**  
20 **CREDIT IN THE CASE OF CERTAIN CON-**  
21 **TROLLED CORPORATIONS.**

22 “(a) IN GENERAL.—The component members of a  
23 controlled group of corporations on a December 31 shall,  
24 for their taxable years which include such December 31,  
25 be limited for purposes of this subtitle to one \$250,000



1 (\$150,000 if any component member is a corporation de-  
2 scribed in section 535(c)(2)(B)) amount for purposes of  
3 computing the accumulated earnings credit under section  
4 535(c)(2) and (3). Such amount shall be divided equally  
5 among the component members of such group on such De-  
6 cember 31 unless the Secretary prescribes regulations per-  
7 mitting an unequal allocation of such amount.

8       “(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-  
9 poration has a short taxable year which does not include  
10 a December 31 and is a component member of a controlled  
11 group of corporations with respect to such taxable year,  
12 then for purposes of this subtitle, the amount to be used  
13 in computing the accumulated earnings credit under sec-  
14 tion 535(c)(2) and (3) of such corporation for such taxable  
15 year shall be the amount specified in subsection (a) with  
16 respect to such group, divided by the number of corpora-  
17 tions which are component members of such group on the  
18 last day of such taxable year. For purposes of the pre-  
19 ceding sentence, section 1563(b) shall be applied as if such  
20 last day were substituted for December 31.”.

21           (B) The table of sections for part II of sub-  
22 chapter B of chapter 5 is amended by striking the  
23 item relating to section 1561 and inserting the fol-  
24 lowing new item:

“Sec. 1561. Limitation on accumulated earnings credit in the case of certain  
controlled corporations.”.

1 (7) Section 7518(g)(6)(A) is amended—

2 (A) by striking “With respect to the por-  
3 tion” and inserting “In the case of a taxpayer  
4 other than a corporation, with respect to the  
5 portion”, and

6 (B) by striking “(34 percent in the case of  
7 a corporation)”.

8 (c) REDUCTION IN DIVIDEND RECEIVED DEDUC-  
9 TIONS TO REFLECT LOWER CORPORATE INCOME TAX  
10 RATES.—

11 (1) DIVIDENDS RECEIVED BY CORPORATIONS.—

12 (A) IN GENERAL.—Section 243(a)(1) is  
13 amended by striking “70 percent” and inserting  
14 “50 percent”.

15 (B) DIVIDENDS FROM 20-PERCENT OWNED  
16 CORPORATIONS.—Section 243(c)(1) is amend-  
17 ed—

18 (i) by striking “80 percent” and in-  
19 serting “65 percent”, and

20 (ii) by striking “70 percent” and in-  
21 serting “50 percent”.

22 (C) CONFORMING AMENDMENT.—The  
23 heading for section 243(c) is amended by strik-  
24 ing “RETENTION OF 80-PERCENT DIVIDEND

1 RECEIVED DEDUCTION” and inserting “IN-  
2 CREASED PERCENTAGE”.

3 (2) DIVIDENDS RECEIVED FROM FSC.—Section  
4 245(c)(1)(B) is amended—

5 (A) by striking “70 percent” and inserting  
6 “50 percent”, and

7 (B) by striking “80 percent” and inserting  
8 “65 percent”.

9 (3) LIMITATION ON AGGREGATE AMOUNT OF  
10 DEDUCTIONS.—Section 246(b)(3) is amended—

11 (A) by striking “80 percent” in subpara-  
12 graph (A) and inserting “65 percent”, and

13 (B) by striking “70 percent” in subpara-  
14 graph (B) and inserting “50 percent”.

15 (4) REDUCTION IN DEDUCTION WHERE PORT-  
16 FOLIO STOCK IS DEBT-FINANCED.—Section  
17 246A(a)(1) is amended—

18 (A) by striking “70 percent” and inserting  
19 “50 percent”, and

20 (B) by striking “80 percent” and inserting  
21 “65 percent”.

22 (5) INCOME FROM SOURCES WITHIN THE  
23 UNITED STATES.—Section 861(a)(2) is amended—

24 (A) by striking “100/70th” and inserting  
25 “100/50th” in subparagraph (B), and

1 (B) in the flush sentence at the end—

2 (i) by striking “100/80th” and insert-  
3 ing “100/65th”, and

4 (ii) by striking “100/70th” and insert-  
5 ing “100/50th”.

6 (d) EFFECTIVE DATE.—

7 (1) IN GENERAL.—Except as otherwise pro-  
8 vided in this subsection, the amendments made by  
9 this section shall apply to taxable years beginning  
10 after December 31, 2017.

11 (2) CERTAIN CONFORMING AMENDMENTS.—The  
12 amendments made by paragraphs (2), (3), and (4)  
13 of subsection (b) shall apply to distributions after  
14 December 31, 2017.

15 (e) NORMALIZATION REQUIREMENTS.—

16 (1) IN GENERAL.—A normalization method of  
17 accounting shall not be treated as being used with  
18 respect to any public utility property for purposes of  
19 section 167 or 168 of the Internal Revenue Code of  
20 1986 if the taxpayer, in computing its cost of service  
21 for ratemaking purposes and reflecting operating re-  
22 sults in its regulated books of account, reduces the  
23 excess tax reserve more rapidly or to a greater ex-  
24 tent than such reserve would be reduced under the  
25 average rate assumption method.

1           (2) ALTERNATIVE METHOD FOR CERTAIN TAX-  
2 PAYERS.—If, as of the first day of the taxable year  
3 that includes the date of enactment of this Act—

4           (A) the taxpayer was required by a regu-  
5 latory agency to compute depreciation for public  
6 utility property on the basis of an average life  
7 or composite rate method, and

8           (B) the taxpayer’s books and underlying  
9 records did not contain the vintage account  
10 data necessary to apply the average rate as-  
11 sumption method,

12 the taxpayer will be treated as using a normalization  
13 method of accounting if, with respect to such juris-  
14 diction, the taxpayer uses the alternative method for  
15 public utility property that is subject to the regu-  
16 latory authority of that jurisdiction.

17           (3) DEFINITIONS.—For purposes of this sub-  
18 section—

19           (A) EXCESS TAX RESERVE.—The term  
20 “excess tax reserve” means the excess of—

21           (i) the reserve for deferred taxes (as  
22 described in section 168(i)(9)(A)(ii) of the  
23 Internal Revenue Code of 1986 as in effect  
24 on the day before the date of the enact-  
25 ment of this Act), over

1                   (ii) the amount which would be the  
2                   balance in such reserve if the amount of  
3                   such reserve were determined by assuming  
4                   that the corporate rate reductions provided  
5                   in this Act were in effect for all prior peri-  
6                   ods.

7                   (B) AVERAGE RATE ASSUMPTION METH-  
8                   OD.—The average rate assumption method is  
9                   the method under which the excess in the re-  
10                  serve for deferred taxes is reduced over the re-  
11                  maining lives of the property as used in its reg-  
12                  ulated books of account which gave rise to the  
13                  reserve for deferred taxes. Under such method,  
14                  if timing differences for the property reverse,  
15                  the amount of the adjustment to the reserve for  
16                  the deferred taxes is calculated by multi-  
17                  plying—

18                         (i) the ratio of the aggregate deferred  
19                         taxes for the property to the aggregate  
20                         timing differences for the property as of  
21                         the beginning of the period in question, by

22                                 (ii) the amount of the timing dif-  
23                                 ferences which reverse during such period.

1 (C) ALTERNATIVE METHOD.—The “alter-  
2 native method” is the method in which the tax-  
3 payer—

4 (i) computes the excess tax reserve on  
5 all public utility property included in the  
6 plant account on the basis of the weighted  
7 average life or composite rate used to com-  
8 pute depreciation for regulatory purposes,  
9 and

10 (ii) reduces the excess tax reserve rat-  
11 ably over the remaining regulatory life of  
12 the property.

13 (4) TAX INCREASED FOR NORMALIZATION VIO-  
14 LATION.—If, for any taxable year ending after the  
15 date of the enactment of this Act, the taxpayer does  
16 not use a normalization method of accounting, the  
17 taxpayer’s tax for the taxable year shall be increased  
18 by the amount by which it reduces its excess tax re-  
19 serve more rapidly than permitted under a normal-  
20 ization method of accounting.

## 21 **Subtitle B—Cost Recovery**

### 22 **SEC. 3101. INCREASED EXPENSING.**

23 (a) 100 PERCENT EXPENSING.—Section  
24 168(k)(1)(A) is amended by striking “50 percent” and in-  
25 serting “100 percent”.

1 (b) EXTENSION THROUGH JANUARY 1, 2023.—Sec-  
2 tion 168(k)(2) is amended—

3 (1) in subparagraph (A)(iii), by striking “Janu-  
4 ary 1, 2020” and inserting “January 1, 2023”,

5 (2) in subparagraph (B)(i)(II), by striking  
6 “January 1, 2021” and inserting “January 1,  
7 2024”,

8 (3) in subparagraph (B)(i)(III), by striking  
9 “January 1, 2020” and inserting “January 1,  
10 2023”,

11 (4) in subparagraph (B)(ii), by striking “Janu-  
12 ary 1, 2020” in each place it appears and inserting  
13 “January 1, 2023”, and

14 (5) in subparagraph (E)(i), by striking “Janu-  
15 ary 1, 2020” and replacing it with “January 1,  
16 2023”.

17 (c) APPLICATION TO USED PROPERTY.—

18 (1) IN GENERAL.—Section 168(k)(2)(A)(ii) is  
19 amended to read as follows:

20 “(ii) the original use of which begins  
21 with the taxpayer or the acquisition of  
22 which by the taxpayer meets the require-  
23 ments of clause (ii) of subparagraph (E),  
24 and”.



1           (2) ACQUISITION REQUIREMENTS.—Section  
2           168(k)(2)(E)(ii) is amended to read as follows:

3                   “(ii) ACQUISITION REQUIREMENTS.—

4                   An acquisition of property meets the re-  
5                   quirements of this clause if—

6                           “(I) such property was not used  
7                           by the taxpayer at any time prior to  
8                           such acquisition, and

9                           “(II) the acquisition of such  
10                          property meets the requirements of  
11                          paragraphs (2)(A), (2)(B), (2)(C),  
12                          and (3) of section 179(d).”,

13           (3) ANTI-ABUSE RULES.—Section 168(k)(2)(E)  
14           is further amended by amending clause (iii)(I) to  
15           read as follows:

16                          “(I) property is used by a lessor  
17                          of such property and such use is the  
18                          lessor’s first use of such property.”.

19           (d) EXCEPTION FOR CERTAIN TRADES AND BUSI-  
20           NESSES NOT SUBJECT TO LIMITATION ON INTEREST EX-  
21           PENSE.—Section 168(k)(2), as amended by section 2001,  
22           is amended by inserting after subparagraph (F) the fol-  
23           lowing new subparagraph:

24                          “(G) EXCEPTION FOR PROPERTY OF CER-  
25                          TAIN BUSINESSES NOT SUBJECT TO LIMITATION

1           ON INTEREST EXPENSE.—The term ‘qualified  
2           property’ shall not include any property used  
3           in—

4                   “(i) a trade or business described in  
5                   subparagraph (B) or (C) of section  
6                   163(j)(7), or

7                   “(ii) a trade or business that has had  
8                   floor plan financing indebtedness (as de-  
9                   fined in paragraph (9) of section 163(j)),  
10                  if the floor plan financing interest related  
11                  to such indebtedness was taken into ac-  
12                  count under paragraph (1)(C) of such sec-  
13                  tion.”.

14           (e) COORDINATION WITH SECTION 280F.—Section  
15   168(k)(2)(F) is amended—

16                   (1) by striking “\$8,000” in clauses (i) and (iii)  
17                   and inserting “\$16,000”, and

18                   (2) in clause (iii)—

19                           (A) by striking “placed in service by the  
20                           taxpayer after December 31, 2017” and insert-  
21                           ing “acquired by the taxpayer before September  
22                           28, 2017, and placed in service by the taxpayer  
23                           after September 27, 2017”, and

24                           (B) by redesignating subclauses (I) and  
25                           (II) as subclauses (II) and (III) respectively,

1 and inserting before clause (II), as so redesign-  
2 nated, the following new subclause:

3 “(I) in the case of a passenger  
4 automobile placed in service before  
5 January 1, 2018, ‘\$8,000’.”

6 (f) CONFORMING AMENDMENTS.—

7 (1) Section 168(k)(2)(B)(i)(III), as amended, is  
8 amended by inserting “binding” before “contract”.

9 (2) Section 168(k)(5) is amended by—

10 (A) by striking “January 1, 2020” in sub-  
11 paragraph (A) and inserting “January 1,  
12 2023”,

13 (B) by striking “50 percent” in subpara-  
14 graph (A)(i) and inserting “100 percent”, and

15 (C) by striking subparagraph (F).

16 (3) Section 168(k)(6) is amended to read as fol-  
17 lows:

18 “(6) PHASE DOWN.—In the case of qualified  
19 property acquired by the taxpayer before September  
20 28, 2017, and placed in service by the taxpayer after  
21 September 27, 2017, paragraph (1)(A) shall be ap-  
22 plied by substituting for ‘100 percent’—

23 “(A) ‘50 percent’ in the case of—

24 “(i) property placed in service before  
25 January 1, 2018, and

1 “(ii) property described in subpara-  
2 graph (B) or (C) of paragraph (2) which  
3 is placed in service in 2018,

4 “(B) ‘40 percent’ in the case of—

5 “(i) property placed in service in 2018  
6 (other than property described in subpara-  
7 graph (B) or (C) of paragraph (2)), and

8 “(ii) property described in subpara-  
9 graph (B) or (C) of paragraph (2) which  
10 is placed in service in 2019, and

11 “(C) ‘30 percent’ in the case of—

12 “(i) property placed in service in 2019  
13 (other than property described in subpara-  
14 graph (B) or (C) of paragraph (2)), and

15 “(ii) property described in subpara-  
16 graph (B) or (C) of paragraph (2) which  
17 is placed in service in 2020.”.

18 (4) The heading of section 168(k) is amended  
19 by striking “SPECIAL ALLOWANCE FOR CERTAIN  
20 PROPERTY ACQUIRED AFTER DECEMBER 31, 2007,  
21 AND BEFORE JANUARY 1, 2020” and inserting  
22 “FULL EXPENSING OF CERTAIN PROPERTY”.

23 (5) Section 460(e)(6)(B)(ii) is amended by  
24 striking “January 1, 2020 (January 1, 2021 in the  
25 case of property described in section 168(k)(2)(B))”

1 and inserting “January 1, 2023 (January 1, 2024 in  
2 the case of property described in section  
3 168(k)(2)(B))”.

4 (g) EFFECTIVE DATE.—

5 (1) IN GENERAL.—Except as provided by para-  
6 graph (2), the amendments made by this section  
7 shall apply to property which—

8 (A) is acquired after September 27, 2017,  
9 and

10 (B) is placed in service after such date.

11 For purposes of the preceding sentence, property  
12 shall not be treated as acquired after the date on  
13 which a written binding contract is entered into for  
14 such acquisition.

15 (2) SPECIFIED PLANTS.—The amendments  
16 made by subsection (f)(2) shall apply to specified  
17 plants planted or grafted after September 27, 2017.

18 (3) TRANSITION RULE.—In the case of any tax-  
19 payer’s first taxable year ending after September 27,  
20 2017, the taxpayer may elect (at such time and in  
21 such form and manner as the Secretary of the  
22 Treasury, or his designee, may provide) to apply sec-  
23 tion 168 of the Internal Revenue Code of 1986 with-  
24 out regard to the amendments made by this section.

1           (4) LIMITATION ON NET OPERATING LOSS  
2           CARRYBACKS ATTRIBUTABLE TO FULL EXPENS-  
3           ING.—In the case of any taxable year which includes  
4           any portion of the period beginning on September  
5           28, 2017, and ending on December 31, 2017, the  
6           amount of any net operating loss for such taxable  
7           year which may be treated as a net operating loss  
8           carryback (including any such carryback attributable  
9           to any specified liability loss under section  
10          172(b)(1)(C), any corporate equity reduction inter-  
11          est loss under section 172(b)(1)(D), any eligible loss  
12          under section 172(b)(1)(E), and any farming loss  
13          under section 172(b)(1)(F)) shall be determined  
14          without regard to the amendments made by this sec-  
15          tion. For purposes of this paragraph, terms which  
16          are used in section 172 of the Internal Revenue  
17          Code of 1986 (determined without regard to the  
18          amendments made by section 3302) shall have the  
19          same meaning as when used in such section.

20                   **Subtitle C—Small Business**  
21                           **Reforms**

22   **SEC. 3201. EXPANSION OF SECTION 179 EXPENSING.**

23           (a) INCREASED DOLLAR LIMITATIONS.—

24                   (1) IN GENERAL.—Section 179(b) is amend-  
25           ed—

1 (A) by inserting “(\$5,000,000, in the case  
2 of taxable years beginning before January 1,  
3 2023)” after “\$500,000” in paragraph (1), and

4 (B) by inserting “(\$20,000,000, in the  
5 case of taxable years beginning before January  
6 1, 2023)” after “\$2,000,000” in paragraph (2).

7 (2) INFLATION ADJUSTMENT.—Section  
8 179(b)(6) is amended to read as follows:

9 “(6) INFLATION ADJUSTMENT.—

10 “(A) IN GENERAL.—In the case of a tax-  
11 able year beginning after 2015 (2018 in the  
12 case of the \$5,000,000 and \$20,000,000  
13 amounts in subsection (b)), each dollar amount  
14 in subsection (b) shall be increased by an  
15 amount equal to such dollar amount multiplied  
16 by—

17 “(i) in the case of the \$500,000 and  
18 \$2,000,000 amounts in subsection (b), the  
19 cost-of-living adjustment determined under  
20 section 1(c)(2) for the calendar year in  
21 which the taxable year begins, determined  
22 by substituting ‘calendar year 2014’ for  
23 ‘calendar year 2016’ in subparagraph  
24 (A)(ii) thereof, and

1                   “(ii) in the case of the \$5,000,000  
2                   and \$20,000,000 amounts in subsection  
3                   (b), the cost-of-living adjustment deter-  
4                   mined under section 1(c)(2) for the cal-  
5                   endar year in which the taxable year be-  
6                   gins, determined by substituting ‘calendar  
7                   year 2017’ for ‘calendar year 2016’ in sub-  
8                   paragraph (A)(ii) thereof.

9                   “(B) ROUNDING.—The amount of any in-  
10                  crease under subparagraph (A) shall be round-  
11                  ed to the nearest multiple of \$10,000  
12                  (\$100,000 in the case of the \$5,000,000 and  
13                  \$20,000,000 amounts in subsection (b)).”.

14                  (b) APPLICATION TO QUALIFIED ENERGY EFFICIENT  
15 HEATING AND AIR-CONDITIONING PROPERTY.—

16                  (1) IN GENERAL.—Section 179(f)(2) is amend-  
17                  ed by striking “and” at the end of subparagraph  
18                  (B), by striking the period at the end of subpara-  
19                  graph (C) and inserting “, and”, and by adding at  
20                  the end the following new subparagraph:

21                         “(D) qualified energy efficient heating and  
22                         air-conditioning property.”.

23                  (2) QUALIFIED ENERGY EFFICIENT HEATING  
24                  AND AIR-CONDITIONING PROPERTY.—Section 179(f)



1 is amended by adding at the end the following new  
2 paragraph:

3 “(3) QUALIFIED ENERGY EFFICIENT HEATING  
4 AND AIR-CONDITIONING PROPERTY.—For purposes  
5 of this subsection—

6 “(A) IN GENERAL.—The term ‘qualified  
7 energy efficient heating and air-conditioning  
8 property’ means any section 1250 property—

9 “(i) with respect to which depreciation  
10 (or amortization in lieu of depreciation) is  
11 allowable,

12 “(ii) which is installed as part of a  
13 building’s heating, cooling, ventilation, or  
14 hot water system, and

15 “(iii) which is within the scope of  
16 Standard 90.1–2007 or any successor  
17 standard.

18 “(B) STANDARD 90.1–2007.—The term  
19 ‘Standard 90.1–2007’ means Standard 90.1–  
20 2007 of the American Society of Heating, Re-  
21 frigerating and Air-Conditioning Engineers and  
22 the Illuminating Engineering Society of North  
23 America (as in effect on the day before the date  
24 of the adoption of Standard 90.1–2010 of such  
25 Societies).”.

1 (c) EFFECTIVE DATE.—

2 (1) INCREASED DOLLAR LIMITATIONS.—The  
3 amendments made by subsection (a) shall apply to  
4 taxable years beginning after December 31, 2017.

5 (2) APPLICATION TO QUALIFIED ENERGY EFFI-  
6 CIENT HEATING AND AIR-CONDITIONING PROP-  
7 erty.—The amendments made by subsection (b)  
8 shall apply to property acquired and placed in serv-  
9 ice after November 2, 2017. For purposes of the  
10 preceding sentence, property shall not be treated as  
11 acquired after the date on which a written binding  
12 contract is entered into for such acquisition.

13 **SEC. 3202. SMALL BUSINESS ACCOUNTING METHOD RE-**  
14 **FORM AND SIMPLIFICATION.**

15 (a) MODIFICATION OF LIMITATION ON CASH METH-  
16 OD OF ACCOUNTING.—

17 (1) INCREASED LIMITATION.—So much of sec-  
18 tion 448(c) as precedes paragraph (2) is amended to  
19 read as follows:

20 “(c) GROSS RECEIPTS TEST.—For purposes of this  
21 section—

22 “(1) IN GENERAL.—A corporation or partner-  
23 ship meets the gross receipts test of this subsection  
24 for any taxable year if the average annual gross re-  
25 ceipts of such entity for the 3-taxable-year period

1 ending with the taxable year which precedes such  
2 taxable year does not exceed \$25,000,000.”.

3 (2) APPLICATION OF EXCEPTION ON ANNUAL  
4 BASIS.—Section 448(b)(3) is amended to read as fol-  
5 lows:

6 “(3) ENTITIES WHICH MEET GROSS RECEIPTS  
7 TEST.—Paragraphs (1) and (2) of subsection (a)  
8 shall not apply to any corporation or partnership for  
9 any taxable year if such entity (or any predecessor)  
10 meets the gross receipts test of subsection (c) for  
11 such taxable year.”.

12 (3) INFLATION ADJUSTMENT.—Section 448(c)  
13 is amended by adding at the end the following new  
14 paragraph:

15 “(4) ADJUSTMENT FOR INFLATION.—In the  
16 case of any taxable year beginning after December  
17 31, 2018, the dollar amount in paragraph (1) shall  
18 be increased by an amount equal to—

19 “(A) such dollar amount, multiplied by

20 “(B) the cost-of-living adjustment deter-  
21 mined under section 1(c)(2) for the calendar  
22 year in which the taxable year begins, by sub-  
23 stituting ‘calendar year 2017’ for ‘calendar year  
24 2016’ in subparagraph (A)(ii) thereof.

1 If any amount as increased under the preceding sen-  
2 tence is not a multiple of \$1,000,000, such amount  
3 shall be rounded to the nearest multiple of  
4 \$1,000,000.”.

5 (4) COORDINATION WITH SECTION 481.—Sec-  
6 tion 448(d)(7) is amended to read as follows:

7 “(7) COORDINATION WITH SECTION 481.—Any  
8 change in method of accounting made pursuant to  
9 this section shall be treated for purposes of section  
10 481 as initiated by the taxpayer and made with the  
11 consent of the Secretary.”.

12 (5) APPLICATION OF EXCEPTION TO CORPORA-  
13 TIONS ENGAGED IN FARMING.—

14 (A) IN GENERAL.—Section 447(c) is  
15 amended—

16 (i) by inserting “for any taxable year”  
17 after “not being a corporation” in the mat-  
18 ter preceding paragraph (1), and

19 (ii) by amending paragraph (2) to  
20 read as follows:

21 “(2) a corporation which meets the gross re-  
22 ceipts test of section 448(c) for such taxable year.”.

23 (B) COORDINATION WITH SECTION 481.—  
24 Section 447(f) is amended to read as follows:

1 “(f) COORDINATION WITH SECTION 481.—Any  
2 change in method of accounting made pursuant to this  
3 section shall be treated for purposes of section 481 as ini-  
4 tiated by the taxpayer and made with the consent of the  
5 Secretary.”.

6 (C) CONFORMING AMENDMENTS.—Section  
7 447 is amended—

8 (i) by striking subsections (d), (e),  
9 (h), and (i), and

10 (ii) by redesignating subsections (f)  
11 and (g) (as amended by subparagraph (B))  
12 as subsections (d) and (e), respectively.

13 (b) EXEMPTION FROM UNICAP REQUIREMENTS.—

14 (1) IN GENERAL.—Section 263A is amended by  
15 redesignating subsection (i) as subsection (j) and by  
16 inserting after subsection (h) the following new sub-  
17 section:

18 “(i) EXEMPTION FOR CERTAIN SMALL BUSI-  
19 NESSES.—

20 “(1) IN GENERAL.—In the case of any taxpayer  
21 (other than a tax shelter prohibited from using the  
22 cash receipts and disbursements method of account-  
23 ing under section 448(a)(3)) which meets the gross  
24 receipts test of section 448(c) for any taxable year,

1       this section shall not apply with respect to such tax-  
2       payer for such taxable year.

3           “(2) APPLICATION OF GROSS RECEIPTS TEST  
4       TO INDIVIDUALS, ETC.— In the case of any taxpayer  
5       which is not a corporation or a partnership, the  
6       gross receipts test of section 448(c) shall be applied  
7       in the same manner as if each trade or business of  
8       such taxpayer were a corporation or partnership.

9           “(3) COORDINATION WITH SECTION 481.—Any  
10       change in method of accounting made pursuant to  
11       this subsection shall be treated for purposes of sec-  
12       tion 481 as initiated by the taxpayer and made with  
13       the consent of the Secretary.”.

14           (2) CONFORMING AMENDMENT.—Section  
15       263A(b)(2) is amended to read as follows:

16           “(2) PROPERTY ACQUIRED FOR RESALE.—Real  
17       or personal property described in section 1221(a)(1)  
18       which is acquired by the taxpayer for resale.”.

19           (c) EXEMPTION FROM INVENTORIES.—Section 471  
20       is amended by redesignating subsection (c) as subsection  
21       (d) and by inserting after subsection (b) the following new  
22       subsection:

23           “(c) EXEMPTION FOR CERTAIN SMALL BUSI-  
24       NESSES.—

1           “(1) IN GENERAL.—In the case of any taxpayer  
2           (other than a tax shelter prohibited from using the  
3           cash receipts and disbursements method of account-  
4           ing under section 448(a)(3)) which meets the gross  
5           receipts test of section 448(c) for any taxable year—

6                   “(A) subsection (a) shall not apply with re-  
7                   spect to such taxpayer for such taxable year,  
8                   and

9                   “(B) the taxpayer’s method of accounting  
10                  for inventory for such taxable year shall not be  
11                  treated as failing to clearly reflect income if  
12                  such method either—

13                          “(i) treats inventory as non-incidental  
14                          materials and supplies, or

15                          “(ii) conforms to such taxpayer’s  
16                          method of accounting reflected in an appli-  
17                          cable financial statement of the taxpayer  
18                          with respect to such taxable year or, if the  
19                          taxpayer does not have any applicable fi-  
20                          nancial statement with respect to such tax-  
21                          able year, the books and records of the  
22                          taxpayer prepared in accordance with the  
23                          taxpayer’s accounting procedures.

1           “(2) APPLICABLE FINANCIAL STATEMENT.—

2           For purposes of this subsection, the term ‘applicable  
3           financial statement’ means—

4                   “(A) a financial statement which is cer-  
5                   tified as being prepared in accordance with gen-  
6                   erally accepted accounting principles and which  
7                   is—

8                           “(i) a 10-K (or successor form), or  
9                           annual statement to shareholders, required  
10                          to be filed by the taxpayer with the United  
11                          States Securities and Exchange Commis-  
12                          sion,

13                          “(ii) an audited financial statement of  
14                          the taxpayer which is used for—

15                                   “(I) credit purposes,

16                                   “(II) reporting to shareholders,  
17                                  partners, or other proprietors, or to  
18                                  beneficiaries, or

19                                   “(III) any other substantial  
20                                  nontax purpose,

21                          but only if there is no statement of the  
22                          taxpayer described in clause (i), or

23                                   “(iii) filed by the taxpayer with any  
24                                  other Federal or State agency for nontax  
25                                  purposes, but only if there is no statement



1 of the taxpayer described in clause (i) or  
2 (ii), or

3 “(B) a financial statement of the taxpayer  
4 which—

5 “(i) is used for a purpose described in  
6 subclause (I), (II), or (III) of subpara-  
7 graph (A)(ii), or

8 “(ii) filed by the taxpayer with any  
9 regulatory or governmental body (whether  
10 domestic or foreign) specified by the Sec-  
11 retary,

12 but only if there is no statement of the taxpayer  
13 described in subparagraph (A).

14 “(3) APPLICATION OF GROSS RECEIPTS TEST  
15 TO INDIVIDUALS, ETC.—In the case of any taxpayer  
16 which is not a corporation or a partnership, the  
17 gross receipts test of section 448(c) shall be applied  
18 in the same manner as if each trade or business of  
19 such taxpayer were a corporation or partnership.

20 “(4) COORDINATION WITH SECTION 481.—Any  
21 change in method of accounting made pursuant to  
22 this subsection shall be treated for purposes of sec-  
23 tion 481 as initiated by the taxpayer and made with  
24 the consent of the Secretary.”

1 (d) EXEMPTION FROM PERCENTAGE COMPLETION  
2 FOR LONG-TERM CONTRACTS.—

3 (1) IN GENERAL.—Section 460(e)(1)(B) is  
4 amended—

5 (A) by inserting “(other than a tax shelter  
6 prohibited from using the cash receipts and dis-  
7 bursements method of accounting under section  
8 448(a)(3))” after “taxpayer” in the matter pre-  
9 ceding clause (i), and

10 (B) by amending clause (ii) to read as fol-  
11 lows:

12 “(ii) who meets the gross receipts test  
13 of section 448(e) for the taxable year in  
14 which such contract is entered into.”.

15 (2) CONFORMING AMENDMENTS.—Section  
16 460(e) is amended by striking paragraphs (2) and  
17 (3), by redesignating paragraphs (4), (5), and (6) as  
18 paragraphs (3), (4), and (5), respectively, and by in-  
19 sserting after paragraph (1) the following new para-  
20 graph:

21 “(2) RULES RELATED TO GROSS RECEIPTS  
22 TEST.—

23 “(A) APPLICATION OF GROSS RECEIPTS  
24 TEST TO INDIVIDUALS, ETC.— For purposes of  
25 paragraph (1)(B)(ii), in the case of any tax-

1 payer which is not a corporation or a partner-  
2 ship, the gross receipts test of section 448(c)  
3 shall be applied in the same manner as if each  
4 trade or business of such taxpayer were a cor-  
5 poration or partnership.

6 “(B) COORDINATION WITH SECTION 481.—  
7 Any change in method of accounting made pur-  
8 suant to paragraph (1)(B)(ii) shall be treated  
9 as initiated by the taxpayer and made with the  
10 consent of the Secretary. Such change shall be  
11 effected on a cut-off basis for all similarly clas-  
12 sified contracts entered into on or after the  
13 year of change.”.

14 (e) EFFECTIVE DATE.—

15 (1) IN GENERAL.—Except as otherwise pro-  
16 vided in this subsection, the amendments made by  
17 this section shall apply to taxable years beginning  
18 after December 31, 2017.

19 (2) PRESERVATION OF SUSPENSE ACCOUNT  
20 RULES WITH RESPECT TO ANY EXISTING SUSPENSE  
21 ACCOUNTS.—So much of the amendments made by  
22 subsection (a)(5)(C) as relate to section 447(i) of  
23 the Internal Revenue Code of 1986 shall not apply  
24 with respect to any suspense account established

1 under such section before the date of the enactment  
2 of this Act.

3 (3) EXEMPTION FROM PERCENTAGE COMPLE-  
4 TION FOR LONG-TERM CONTRACTS.—The amend-  
5 ments made by subsection (d) shall apply to con-  
6 tracts entered into after December 31, 2017, in tax-  
7 able years ending after such date.

8 **SEC. 3203. SMALL BUSINESS EXCEPTION FROM LIMITATION**  
9 **ON DEDUCTION OF BUSINESS INTEREST.**

10 (a) IN GENERAL.—Section 163(j)(2), as amended by  
11 section 3301, is amended to read as follows:

12 “(2) EXEMPTION FOR CERTAIN SMALL BUSI-  
13 NESSES.—In the case of any taxpayer (other than a  
14 tax shelter prohibited from using the cash receipts  
15 and disbursements method of accounting under sec-  
16 tion 448(a)(3)) which meets the gross receipts test  
17 of section 448(c) for any taxable year, paragraph (1)  
18 shall not apply to such taxpayer for such taxable  
19 year. In the case of any taxpayer which is not a cor-  
20 poration or a partnership, the gross receipts test of  
21 section 448(c) shall be applied in the same manner  
22 as if such taxpayer were a corporation or partner-  
23 ship.”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2017.

4 **SEC. 3204. MODIFICATION OF TREATMENT OF S CORPORA-**  
5 **TION CONVERSIONS TO C CORPORATIONS.**

6 (a) ADJUSTMENTS ATTRIBUTABLE TO CONVERSION  
7 FROM S CORPORATION TO C CORPORATION.—Section 481  
8 is amended by adding at the end the following new sub-  
9 section:

10 “(d) ADJUSTMENTS ATTRIBUTABLE TO CONVERSION  
11 FROM S CORPORATION TO C CORPORATION.—

12 “(1) IN GENERAL.—In the case of an eligible  
13 terminated S corporation, any adjustment required  
14 by subsection (a)(2) which is attributable to such  
15 corporation’s revocation described in paragraph  
16 (2)(A)(ii) shall be taken into account ratably during  
17 the 6-taxable year period beginning with the year of  
18 change.

19 “(2) ELIGIBLE TERMINATED S CORPORA-  
20 TION.—For purposes of this subsection, the term ‘el-  
21 igible terminated S corporation’ means any C cor-  
22 poration—

23 “(A) which—

1 “(i) was an S corporation on the day  
2 before the date of the enactment of the  
3 Tax Cuts and Jobs Act, and

4 “(ii) during the 2-year period begin-  
5 ning on the date of such enactment makes  
6 a revocation of its election under section  
7 1362(a), and

8 “(B) the owners of the stock of which, de-  
9 termined on the date such revocation is made,  
10 are the same owners (and in identical propor-  
11 tions) as on the date of such enactment.”.

12 (b) CASH DISTRIBUTIONS FOLLOWING POST-TERMI-  
13 NATION TRANSITION PERIOD FROM S CORPORATION STA-  
14 TUS.—Section 1371 is amended by adding at the end the  
15 following new subsection:

16 “(f) CASH DISTRIBUTIONS FOLLOWING POST-TERMI-  
17 NATION TRANSITION PERIOD.—In the case of a distribu-  
18 tion of money by an eligible terminated S corporation (as  
19 defined in section 481(d)) after the post-termination tran-  
20 sition period, the accumulated adjustments account shall  
21 be allocated to such distribution, and the distribution shall  
22 be chargeable to accumulated earnings and profits, in the  
23 same ratio as the amount of such accumulated adjust-  
24 ments account bears to the amount of such accumulated  
25 earnings and profits.”.

1     **Subtitle D—Reform of Business-**  
2     **related Exclusions, Deductions, etc.**

3     **SEC. 3301. INTEREST.**

4         (a) IN GENERAL.—Section 163(j) is amended to read  
5 as follows:

6         “(j) LIMITATION ON BUSINESS INTEREST.—

7             “(1) IN GENERAL.—In the case of any taxpayer  
8 for any taxable year, the amount allowed as a deduc-  
9 tion under this chapter for business interest shall  
10 not exceed the sum of—

11                 “(A) the business interest income of such  
12 taxpayer for such taxable year,

13                 “(B) 30 percent of the adjusted taxable in-  
14 come of such taxpayer for such taxable year,  
15 plus

16                 “(C) the floor plan financing interest of  
17 such taxpayer for such taxable year.

18     The amount determined under subparagraph (B)  
19 (after any increases in such amount under para-  
20 graph (3)(A)(iii)) shall not be less than zero.

21             “(2) EXEMPTION FOR CERTAIN SMALL BUSI-  
22 NESSES.—For exemption for certain small busi-  
23 nesses, see the amendment made by section 3203 of  
24 the Tax Cuts and Jobs Act.

25             “(3) APPLICATION TO PARTNERSHIPS, ETC.—

1           “(A) IN GENERAL.—In the case of any  
2 partnership—

3           “(i) this subsection shall be applied at  
4 the partnership level and any deduction for  
5 business interest shall be taken into ac-  
6 count in determining the non-separately  
7 stated taxable income or loss of the part-  
8 nership,

9           “(ii) the adjusted taxable income of  
10 each partner of such partnership shall be  
11 determined without regard to such part-  
12 ner’s distributive share of the non-sepa-  
13 rately stated taxable income or loss of such  
14 partnership, and

15           “(iii) the amount determined under  
16 paragraph (1)(B) with respect to each  
17 partner of such partnership shall be in-  
18 creased by such partner’s distributive  
19 share of such partnership’s excess amount.

20           “(B) EXCESS AMOUNT.—The term ‘excess  
21 amount’ means, with respect to any partner-  
22 ship, the excess (if any) of—

23           “(i) 30 percent of the adjusted taxable  
24 income of the partnership, over



1                   “(ii) the amount (if any) by which the  
2                   business interest of the partnership, re-  
3                   duced by floor plan financing interest, ex-  
4                   ceeds the business interest income of the  
5                   partnership.

6                   “(C) APPLICATION TO S CORPORATIONS.—  
7                   Rules similar to the rules of subparagraphs (A)  
8                   and (B) shall apply with respect to any S cor-  
9                   poration and its shareholders.

10                  “(4) BUSINESS INTEREST.—For purposes of  
11                  this subsection, the term ‘business interest’ means  
12                  any interest paid or accrued on indebtedness prop-  
13                  erly allocable to a trade or business. Such term shall  
14                  not include investment interest (within the meaning  
15                  of subsection (d)).

16                  “(5) BUSINESS INTEREST INCOME.—For pur-  
17                  poses of this subsection, the term ‘business interest  
18                  income’ means the amount of interest includible in  
19                  the gross income of the taxpayer for the taxable year  
20                  which is properly allocable to a trade or business.  
21                  Such term shall not include investment income  
22                  (within the meaning of subsection (d)).

23                  “(6) ADJUSTED TAXABLE INCOME.—For pur-  
24                  poses of this subsection, the term ‘adjusted taxable  
25                  income’ means the taxable income of the taxpayer—

1 “(A) computed without regard to—

2 “(i) any item of income, gain, deduc-  
3 tion, or loss which is not properly allocable  
4 to a trade or business,

5 “(ii) any business interest or business  
6 interest income,

7 “(iii) the amount of any net operating  
8 loss deduction under section 172, and

9 “(iv) any deduction allowable for de-  
10 preciation, amortization, or depletion, and

11 “(B) computed with such other adjust-  
12 ments as the Secretary may provide.

13 “(7) TRADE OR BUSINESS.—For purposes of  
14 this subsection, the term ‘trade or business’ shall not  
15 include—

16 “(A) the trade or business of performing  
17 services as an employee,

18 “(B) a real property trade or business (as  
19 such term is defined in section 469(c)(7)(C)),  
20 or

21 “(C) the trade or business of the fur-  
22 nishing or sale of—

23 “(i) electrical energy, water, or sewage  
24 disposal services,

1                   “(ii) gas or steam through a local dis-  
2                   tribution system, or

3                   “(iii) transportation of gas or steam  
4                   by pipeline,

5                   if the rates for such furnishing or sale, as the  
6                   case may be, have been established or approved  
7                   by a State or political subdivision thereof, by  
8                   any agency or instrumentality of the United  
9                   States, or by a public service or public utility  
10                  commission or other similar body of any State  
11                  or political subdivision thereof.

12                  “(8) CARRYFORWARD OF DISALLOWED INTER-  
13                  EST.—For carryforward of interest disallowed under  
14                  paragraph (1), see subsection (o).

15                  “(9) FLOOR PLAN FINANCING INTEREST DE-  
16                  FINED.—For purposes of this subsection—

17                         “(A) IN GENERAL.—The term ‘floor plan  
18                         financing interest’ means interest paid or ac-  
19                         crued on floor plan financing indebtedness.

20                         “(B) FLOOR PLAN FINANCING INDEBTED-  
21                         NESS.—The term ‘floor plan financing indebt-  
22                         edness’ means indebtedness—

23                                 “(i) used to finance the acquisition of  
24                                 motor vehicles held for sale to retail cus-  
25                                 tomers, and

1                   “(ii) secured by the inventory so ac-  
2                   quired.

3                   “(C) MOTOR VEHICLE.—The term ‘motor  
4                   vehicle’ means a motor vehicle that is any of  
5                   the following:

6                   “(i) An automobile.

7                   “(ii) A truck.

8                   “(iii) A recreational vehicle.

9                   “(iv) A motorcycle.

10                  “(v) A boat.

11                  “(vi) Farm machinery or equipment.

12                  “(vii) Construction machinery or  
13                  equipment.”.

14                  (b) CARRYFORWARD OF DISALLOWED BUSINESS IN-  
15                  TEREST.—Section 163, after amendment by section  
16                  4302(a) and before amendment by section 4302(b), is  
17                  amended by inserting after subsection (n) the following  
18                  new subsection:

19                  “(o) CARRYFORWARD OF DISALLOWED BUSINESS IN-  
20                  TEREST.—The amount of any business interest not al-  
21                  lowed as a deduction for any taxable year by reason of  
22                  subsection (j) shall be treated as business interest paid  
23                  or accrued in the succeeding taxable year. Business inter-  
24                  est paid or accrued in any taxable year (determined with-  
25                  out regard to the preceding sentence) shall not be carried

1 past the 5th taxable year following such taxable year, de-  
2 termined by treating business interest as allowed as a de-  
3 duction on a first-in, first-out basis.”.

4 (c) TREATMENT OF CARRYFORWARD OF DIS-  
5 ALLOWED BUSINESS INTEREST IN CERTAIN CORPORATE  
6 ACQUISITIONS.—

7 (1) IN GENERAL.—Section 381(c) is amended  
8 by inserting after paragraph (19) the following new  
9 paragraph:

10 “(20) CARRYFORWARD OF DISALLOWED INTER-  
11 EST.—The carryover of disallowed interest described  
12 in section 163(o) to taxable years ending after the  
13 date of distribution or transfer.”.

14 (2) APPLICATION OF LIMITATION.—Section  
15 382(d) is amended by adding at the end the fol-  
16 lowing new paragraph:

17 “(3) APPLICATION TO CARRYFORWARD OF DIS-  
18 ALLOWED INTEREST.—The term ‘pre-change loss’  
19 shall include any carryover of disallowed interest de-  
20 scribed in section 163(o) under rules similar to the  
21 rules of paragraph (1).”.

22 (3) CONFORMING AMENDMENT.—Section  
23 382(k)(1) is amended by inserting after the first  
24 sentence the following: “Such term shall include any

1 corporation entitled to use a carryforward of dis-  
2 allowed interest described in section 381(c)(20).”

3 (d) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2017.

6 **SEC. 3302. MODIFICATION OF NET OPERATING LOSS DE-**  
7 **DUCTION.**

8 (a) INDEFINITE CARRYFORWARD OF NET OPER-  
9 ATING LOSSES.—Section 172(b)(1)(A)(ii) is amended by  
10 striking “to each of the 20 taxable years” and inserting  
11 “to each taxable year”.

12 (b) REPEAL OF NET OPERATING LOSS CARRYBACKS  
13 OTHER THAN 1-YEAR CARRYBACK OF ELIGIBLE DIS-  
14 ASTER LOSSES.—

15 (1) IN GENERAL.—Section 172(b)(1)(A)(i) is  
16 amended to read as follows:

17 “(i) in the case of any portion of a net  
18 operating loss for the taxable year which is  
19 an eligible disaster loss with respect to the  
20 taxpayer, shall be a net operating loss  
21 carryback to the taxable year preceding the  
22 taxable year of such loss, and”.

23 (2) CONFORMING AMENDMENTS.—

1 (A) Section 172(b)(1) is amended by strik-  
2 ing subparagraphs (B) through (F) and insert-  
3 ing the following:

4 “(B) ELIGIBLE DISASTER LOSS.—

5 “(i) IN GENERAL.—For purposes of  
6 subparagraph (A)(i), the term ‘eligible dis-  
7 aster loss’ means—

8 “(I) in the case of a taxpayer  
9 which is a small business, net oper-  
10 ating losses attributable to federally  
11 declared disasters (as defined by sec-  
12 tion 165(i)(5)), and

13 “(II) in the case of a taxpayer  
14 engaged in the trade or business of  
15 farming, net operating losses attrib-  
16 utable to such federally declared dis-  
17 asters.

18 “(ii) SMALL BUSINESS.—For purposes  
19 of this subparagraph, the term ‘small busi-  
20 ness’ means a corporation or partnership  
21 which meets the gross receipts test of sec-  
22 tion 448(c) (determined by substituting  
23 ‘\$5,000,000’ for ‘\$25,000,000’ each place  
24 it appears therein) for the taxable year in  
25 which the loss arose (or, in the case of a

1 sole proprietorship, which would meet such  
2 test if such proprietorship were a corpora-  
3 tion).

4 “(iii) TRADE OR BUSINESS OF FARM-  
5 ING.—For purposes of this subparagraph,  
6 the trade or business of farming shall in-  
7 clude the trade or business of—

8 “(I) operating a nursery or sod  
9 farm, or

10 “(II) the raising or harvesting of  
11 trees bearing fruit, nuts, or other  
12 crops, or ornamental trees.

13 For purposes of subclause (II), an ever-  
14 green tree which is more than 6 years old  
15 at the time severed from the roots shall  
16 not be treated as an ornamental tree.”.

17 (B) Section 172 is amended by striking  
18 subsections (f), (g), and (h).

19 (c) LIMITATION OF NET OPERATING LOSS TO 90  
20 PERCENT OF TAXABLE INCOME.—

21 (1) IN GENERAL.—Section 172(a) is amended  
22 to read as follows:

23 “(a) DEDUCTION ALLOWED.—There shall be allowed  
24 as a deduction for the taxable year an amount equal to  
25 the lesser of—



1           “(1) the aggregate of the net operating loss  
2 carryovers to such year, plus the net operating loss  
3 carrybacks to such year, or

4           “(2) 90 percent of taxable income computed  
5 without regard to the deduction allowable under this  
6 section.

7 For purposes of this subtitle, the term ‘net operating loss  
8 deduction’ means the deduction allowed by this sub-  
9 section.”.

10           (2) COORDINATION OF LIMITATION WITH  
11 CARRYBACKS AND CARRYOVERS.—Section 172(b)(2)  
12 is amended by striking “shall be computed—” and  
13 all that follows and inserting “shall—

14           “(A) be computed with the modifications  
15 specified in subsection (d) other than para-  
16 graphs (1), (4), and (5) thereof, and by deter-  
17 mining the amount of the net operating loss de-  
18 duction without regard to the net operating loss  
19 for the loss year or for any taxable year there-  
20 after,

21           “(B) not be considered to be less than  
22 zero, and

23           “(C) not exceed the amount determined  
24 under subsection (a)(2) for such prior taxable  
25 year.”.

1           (3) CONFORMING AMENDMENT.—Section  
2       172(d)(6) is amended by striking “and” at the end  
3       of subparagraph (A), by striking the period at the  
4       end of subparagraph (B) and inserting “; and”, and  
5       by adding at the end the following new subpara-  
6       graph:

7           “(C) subsection (a)(2) shall be applied by  
8       substituting ‘real estate investment trust tax-  
9       able income (as defined in section 857(b)(2) but  
10      without regard to the deduction for dividends  
11      paid (as defined in section 561))’ for ‘taxable  
12      income’.”.

13       (d) ANNUAL INCREASE OF INDEFINITE CARRYOVER  
14    AMOUNTS.—Section 172(b) is amended by redesignating  
15    paragraph (3) as paragraph (4) and by inserting after  
16    paragraph (2) the following new paragraph:

17           “(3) ANNUAL INCREASE OF INDEFINITE CARRY-  
18    OVER AMOUNTS.—For purposes of paragraph (2)—

19           “(A) the amount of any indefinite net op-  
20    erating loss which is carried to the next suc-  
21    ceeding taxable year after the loss year (within  
22    the meaning of paragraph (2)) shall be in-  
23    creased by an amount equal to—

24           “(i) the amount of the loss which may  
25    be so carried over to such succeeding tax-

1           able year (determined without regard to  
2           this paragraph), multiplied by  
3           “(ii) the sum of—  
4                 “(I) the annual Federal short-  
5                 term rate (determined under section  
6                 1274(d)) for the last month ending  
7                 before the beginning of such taxable  
8                 year, plus  
9                 “(II) 4 percentage points, and  
10           “(B) the amount of any indefinite net op-  
11           erating loss which is carried to any succeeding  
12           taxable year (after such next succeeding taxable  
13           year) shall be an amount equal to—  
14                 “(i) the excess of—  
15                 “(I) the amount of the loss car-  
16                 ried to the prior taxable year (after  
17                 any increase under this paragraph  
18                 with respect to such amount), over  
19                 “(II) the amount by which such  
20                 loss was reduced under paragraph (2)  
21                 by reason of the taxable income for  
22                 such prior taxable year, multiplied by  
23                 “(ii) a percentage equal to 100 per-  
24                 cent plus the percentage determined under

1           subparagraph (A)(ii) with respect to such  
2           succeeding taxable year.

3           For purposes of the preceding sentence, the  
4           term ‘indefinite net operating loss’ means any  
5           net operating loss arising in a taxable year be-  
6           ginning after December 31, 2017.’’.

7           (e) EFFECTIVE DATE.—

8           (1) CARRYFORWARDS AND CARRYBACKS.—The  
9           amendments made by subsections (a) and (b) shall  
10          apply to net operating losses arising in taxable years  
11          beginning after December 31, 2017.

12          (2) NET OPERATING LOSS LIMITED TO 90 PER-  
13          CENT OF TAXABLE INCOME.—The amendments  
14          made by subsection (c) shall apply to taxable years  
15          beginning after December 31, 2017.

16          (3) ANNUAL INCREASE IN CARRYOVER  
17          AMOUNTS.—The amendments made by subsection  
18          (d) shall apply to amounts carried to taxable years  
19          beginning after December 31, 2017.

20          (4) SPECIAL RULE FOR NET DISASTER  
21          LOSSES.—Notwithstanding paragraph (1), the  
22          amendments made by subsection (b) shall not apply  
23          to the portion of the net operating loss for any tax-  
24          able year which is a net disaster loss to which sec-

1           tion 504(b) of the Disaster Tax Relief and Airport  
2           and Airway Extension Act of 2017 applies.

3 **SEC. 3303. LIKE-KIND EXCHANGES OF REAL PROPERTY.**

4           (a) IN GENERAL.—Section 1031(a)(1) is amended by  
5 striking “property” each place it appears and inserting  
6 “real property”.

7           (b) CONFORMING AMENDMENTS.—

8                 (1) Paragraph (2) of section 1031(a) is amend-  
9           ed to read as follows:

10                   “(2) EXCEPTION FOR REAL PROPERTY HELD  
11           FOR SALE.—This subsection shall not apply to any  
12           exchange of real property held primarily for sale.”.

13                 (2) Section 1031 is amended by striking sub-  
14           sections (e) and (i).

15                 (3) Section 1031, as amended by paragraph  
16           (2), is amended by inserting after subsection (d) the  
17           following new subsection:

18                   “(e) APPLICATION TO CERTAIN PARTNERSHIPS.—  
19           For purposes of this section, an interest in a partnership  
20           which has in effect a valid election under section 761(a)  
21           to be excluded from the application of all of subchapter  
22           K shall be treated as an interest in each of the assets of  
23           such partnership and not as an interest in a partnership.”.

24                 (4) Section 1031(h) is amended to read as fol-  
25           lows:

1       “(h) SPECIAL RULES FOR FOREIGN REAL PROP-  
2 ERTY.—Real property located in the United States and  
3 real property located outside the United States are not  
4 property of a like kind.”.

5           (5) The heading of section 1031 is amended by  
6 striking “**PROPERTY**” and inserting “**REAL PROP-**  
7 **ERTY**”.

8           (6) The table of sections for part III of sub-  
9 chapter O of chapter 1 is amended by striking the  
10 item relating to section 1031 and inserting the fol-  
11 lowing new item:

“Sec. 1031. Exchange of real property held for productive use or investment.”.

12       (c) EFFECTIVE DATE.—

13           (1) IN GENERAL.—Except as otherwise pro-  
14 vided in this subsection, the amendments made by  
15 this section shall apply to exchanges completed after  
16 December 31, 2017.

17           (2) TRANSITION RULE.—The amendments  
18 made by this section shall not apply to any exchange  
19 if—

20           (A) the property disposed of by the tax-  
21 payer in the exchange is disposed of on or be-  
22 fore December 31 2017, or

23           (B) the property received by the taxpayer  
24 in the exchange is received on or before Decem-  
25 ber 31, 2017.

1 **SEC. 3304. REVISION OF TREATMENT OF CONTRIBUTIONS**  
2 **TO CAPITAL.**

3 (a) INCLUSION OF CONTRIBUTIONS TO CAPITAL.—  
4 Part II of subchapter B of chapter 1 is amended by insert-  
5 ing after section 75 the following new section:

6 **“SEC. 76. CONTRIBUTIONS TO CAPITAL.**

7 “(a) IN GENERAL.—Gross income includes any con-  
8 tribution to the capital of any entity.

9 “(b) TREATMENT OF CONTRIBUTIONS IN EXCHANGE  
10 FOR STOCK, ETC.—

11 “(1) IN GENERAL.—In the case of any con-  
12 tribution of money or other property to a corpora-  
13 tion in exchange for stock of such corporation—

14 “(A) such contribution shall not be treated  
15 for purposes of subsection (a) as a contribution  
16 to the capital of such corporation (and shall not  
17 be includible in the gross income of such cor-  
18 poration), and

19 “(B) no gain or loss shall be recognized to  
20 such corporation upon the issuance of such  
21 stock.

22 “(2) TREATMENT LIMITED TO VALUE OF  
23 STOCK.—For purposes of this subsection, a contribu-  
24 tion of money or other property to a corporation  
25 shall be treated as being in exchange for stock of  
26 such corporation only to the extent that the fair

1 market value of such money and other property does  
2 not exceed the fair market value of such stock.

3 “(3) APPLICATION TO ENTITIES OTHER THAN  
4 CORPORATIONS.—In the case of any entity other  
5 than a corporation, rules similar to the rules of  
6 paragraphs (1) and (2) shall apply in the case of  
7 any contribution of money or other property to such  
8 entity in exchange for any interest in such entity.

9 “(c) TREASURY STOCK TREATED AS STOCK.—Any  
10 reference in this section to stock shall be treated as includ-  
11 ing a reference to treasury stock.”.

12 (b) BASIS OF CORPORATION IN CONTRIBUTED PROP-  
13 erty.—

14 (1) CONTRIBUTIONS TO CAPITAL.—Subsection  
15 (c) of section 362 is amended to read as follows:

16 “(c) CONTRIBUTIONS TO CAPITAL.—If property  
17 other than money is transferred to a corporation as a con-  
18 tribution to the capital of such corporation (within the  
19 meaning of section 76) then the basis of such property  
20 shall be the greater of—

21 “(1) the basis determined in the hands of the  
22 transferor, increased by the amount of gain recog-  
23 nized to the transferor on such transfer, or



1           “(2) the amount included in gross income by  
2 such corporation under section 76 with respect to  
3 such contribution.”.

4           (2) CONTRIBUTIONS IN EXCHANGE FOR  
5 STOCK.—Paragraph (2) of section 362(a) is amend-  
6 ed by striking “contribution to capital” and insert-  
7 ing “contribution in exchange for stock of such cor-  
8 poration (determined under rules similar to the rules  
9 of paragraphs (2) and (3) of section 76(b))”.

10          (c) CONFORMING AMENDMENTS.—

11           (1) Section 108(e) is amended by striking para-  
12 graph (6).

13           (2) Part III of subchapter B of chapter 1 is  
14 amended by striking section 118 (and by striking  
15 the item relating to such section in the table of sec-  
16 tions for such part).

17           (3) The table of sections for part II of sub-  
18 chapter B of chapter 1 is amended by inserting after  
19 the item relating to section 75 the following new  
20 item:

“Sec. 76. Contributions to capital.”.

21          (d) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to contributions made, and trans-  
23 actions entered into, after the date of the enactment of  
24 this Act.

1 **SEC. 3305. REPEAL OF DEDUCTION FOR LOCAL LOBBYING**  
2 **EXPENSES.**

3 (a) IN GENERAL.—Section 162(e) is amended by  
4 striking paragraphs (2) and (7) and by redesignating  
5 paragraphs (3), (4), (5), (6), and (8) as paragraphs (2),  
6 (3), (4), (5), and (6), respectively.

7 (b) CONFORMING AMENDMENT.—Section  
8 6033(e)(1)(B)(ii) is amended by striking “section  
9 162(e)(5)(B)(ii)” and inserting “section  
10 162(e)(4)(B)(ii)”.

11 (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to amounts paid or incurred after  
13 December 31, 2017.

14 **SEC. 3306. REPEAL OF DEDUCTION FOR INCOME ATTRIB-**  
15 **UTABLE TO DOMESTIC PRODUCTION ACTIVI-**  
16 **TIES.**

17 (a) IN GENERAL.—Part VI of subchapter B of chap-  
18 ter 1 is amended by striking section 199 (and by striking  
19 the item relating to such section in the table of sections  
20 for such part).

21 (b) CONFORMING AMENDMENTS.—

22 (1) Sections 74(d)(2)(B), 86(b)(2)(A),  
23 137(b)(3)(A), 219(g)(3)(A)(ii), and 246(b)(1) are  
24 each amended by striking “199.”

25 (2) Section 170(b)(2)(D), as amended by the  
26 preceding provisions of this Act, is amended by

1 striking clause (iv), by redesignating clause (v) as  
2 clause (iv), and by inserting “and” at the end of  
3 clause (iii).

4 (3) Section 172(d) is amended by striking para-  
5 graph (7).

6 (4) Section 613(a) is amended by striking “and  
7 without the deduction under section 199”.

8 (5) Section 613A(d)(1) is amended by striking  
9 subparagraph (B) and by redesignating subpara-  
10 graphs (C), (D), and (E) as subparagraphs (B), (C),  
11 and (D), respectively.

12 (6) Section 1402(a) is amended by adding  
13 “and” at the end of paragraph (15) and by striking  
14 paragraph (16).

15 (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to taxable years beginning after  
17 December 31, 2017.

18 **SEC. 3307. ENTERTAINMENT, ETC. EXPENSES.**

19 (a) DENIAL OF DEDUCTION.—Subsection (a) of sec-  
20 tion 274 is amended to read as follows:

21 “(a) ENTERTAINMENT, AMUSEMENT, RECREATION,  
22 AND OTHER FRINGE BENEFITS .—

23 “(1) IN GENERAL.—No deduction otherwise al-  
24 lowable under this chapter shall be allowed for

1 amounts paid or incurred for any of the following  
2 items:

3 “(A) ACTIVITY.—With respect to an activ-  
4 ity which is of a type generally considered to  
5 constitute entertainment, amusement, or recre-  
6 ation.

7 “(B) MEMBERSHIP DUES.—With respect  
8 to membership in any club organized for busi-  
9 ness, pleasure, recreation or other social pur-  
10 poses.

11 “(C) AMENITY.—With respect to a de-  
12 minimis fringe (as defined in section 132(e)(1))  
13 that is primarily personal in nature and involv-  
14 ing property or services that are not directly re-  
15 lated to the taxpayer’s trade or business.

16 “(D) FACILITY.—With respect to a facility  
17 or portion thereof used in connection with an  
18 activity referred to in subparagraph (A), mem-  
19 bership dues or similar amounts referred to in  
20 subparagraph (B), or an amenity referred to in  
21 subparagraph (C).

22 “(E) QUALIFIED TRANSPORTATION  
23 FRINGE AND PARKING FACILITY.—Which is a  
24 qualified transportation fringe (as defined in  
25 section 132(f)) or which is a parking facility

1 used in connection with qualified parking (as  
2 defined in section 132(f)(5)(C)).

3 “(F) ON-PREMISES ATHLETIC FACILITY.—

4 Which is an on-premises athletic facility as de-  
5 fined in section 132(j)(4)(B).

6 “(2) SPECIAL RULES.—For purposes of apply-  
7 ing paragraph (1), an activity described in section  
8 212 shall be treated as a trade or business.

9 “(3) REGULATIONS.—Under the regulations  
10 prescribed to carry out this section, the Secretary  
11 shall include regulations—

12 “(A) defining entertainment, amenities,  
13 recreation, amusement, and facilities for pur-  
14 poses of this subsection,

15 “(B) providing for the appropriate alloca-  
16 tion of depreciation and other costs with respect  
17 to facilities used for parking or for on-premises  
18 athletic facilities, and

19 “(C) specifying arrangements a primary  
20 purpose of which is the avoidance of this sub-  
21 section.”.

22 (b) EXCEPTION FOR CERTAIN EXPENSES INCLUD-  
23 IBLE IN INCOME OF RECIPIENT.—

1           (1) EXPENSES TREATED AS COMPENSATION.—  
2           Paragraph (2) of section 274(e) is amended to read  
3           as follows:

4           “(2) EXPENSES TREATED AS COMPENSATION.—  
5           Expenses for goods, services, and facilities, to the  
6           extent that the expenses do not exceed the amount  
7           of the expenses which are treated by the taxpayer,  
8           with respect to the recipient of the entertainment,  
9           amusement, or recreation, as compensation to an  
10          employee on the taxpayer’s return of tax under this  
11          chapter and as wages to such employee for purposes  
12          of chapter 24 (relating to withholding of income tax  
13          at source on wages).”.

14          (2) EXPENSES INCLUDIBLE IN INCOME OF PER-  
15          SONS WHO ARE NOT EMPLOYEES.—Paragraph (9) of  
16          section 274(e) is amended by striking “to the extent  
17          that the expenses” and inserting “to the extent that  
18          the expenses do not exceed the amount of the ex-  
19          penses that”.

20          (c) EXCEPTIONS FOR REIMBURSED EXPENSES.—  
21          Paragraph (3) of section 274(e) is amended to read as  
22          follows:

23                 “(3) REIMBURSED EXPENSES.—

24                         “(A) IN GENERAL.—Expenses paid or in-  
25                         curred by the taxpayer, in connection with the

1 performance by him of services for another per-  
2 son (whether or not such other person is the  
3 taxpayer's employer), under a reimbursement or  
4 other expense allowance arrangement with such  
5 other person, but this paragraph shall apply—

6 “(i) where the services are performed  
7 for an employer, only if the employer has  
8 not treated such expenses in the manner  
9 provided in paragraph (2), or

10 “(ii) where the services are performed  
11 for a person other than an employer, only  
12 if the taxpayer accounts (to the extent pro-  
13 vided by subsection (d)) to such person.

14 “(B) EXCEPTION.—Except as provided by  
15 the Secretary, subparagraph (A) shall not  
16 apply—

17 “(i) in the case of an arrangement in  
18 which the person other than the employer  
19 is an entity described in section  
20 168(h)(2)(A), or

21 “(ii) to any other arrangement des-  
22 ignated by the Secretary as having the ef-  
23 fect of avoiding the limitation under sub-  
24 paragraph (A).”.

1 (d) 50 PERCENT LIMITATION ON MEALS AND EN-  
2 TERTAINMENT EXPENSES.—Subsection (n) of section 274  
3 is amended to read as follows:

4 “(n) LIMITATION ON CERTAIN EXPENSES.—

5 “(1) IN GENERAL.—The amount allowable as a  
6 deduction under this chapter for any expense for  
7 food or beverages (pursuant to subsection (e)(1)) or  
8 business meals (pursuant to subsection (k)(1)) shall  
9 not exceed 50 percent of the amount of such expense  
10 or item which would (but for this paragraph) be al-  
11 lowable as a deduction under this chapter.

12 “(2) EXCEPTIONS.—Paragraph (1) shall not  
13 apply to any expense if—

14 “(A) such expense is described in para-  
15 graph (2), (3), (6), (7), or (8) of subsection (e),

16 “(B) in the case of an expense for food or  
17 beverages, such expense is excludable from the  
18 gross income of the recipient under section 132  
19 by reason of subsection (e) thereof (relating to  
20 de minimis fringes) or under section 119 (relat-  
21 ing to meals and lodging furnished for conven-  
22 ience of employer), or

23 “(C) in the case of an employer who pays  
24 or reimburses moving expenses of an employee,



1           such expenses are includible in the income of  
2           the employee under section 82.

3           “(3) SPECIAL RULE FOR INDIVIDUALS SUBJECT  
4           TO FEDERAL HOURS OF SERVICE.—In the case of  
5           any expenses for food or beverages consumed while  
6           away from home (within the meaning of section  
7           162(a)(2)) by an individual during, or incident to,  
8           the period of duty subject to the hours of service  
9           limitations of the Department of Transportation,  
10          paragraph (1) shall be applied by substituting ‘80  
11          percent’ for ‘50 percent.’”.

12          (e) CONFORMING AMENDMENTS.—

13           (1) Section 274(d) is amended—

14           (A) by striking paragraph (2) and redesignig-  
15           nating paragraphs (3) and (4) as paragraphs  
16           (2) and (3), respectively, and

17           (B) in the flush material following para-  
18           graph (3) (as so redesignated)—

19           (i) by striking “, entertainment,  
20           amusement, recreation, or” in item (B),  
21           and

22           (ii) by striking “(D) the business rela-  
23           tionship to the taxpayer of persons enter-  
24           tained, using the facility or property, or re-  
25           ceiving the gift” and inserting “(D) the

1 business relationship to the taxpayer of the  
2 person receiving the benefit”.

3 (2) Section 274(e) is amended by striking para-  
4 graph (4) and redesignating paragraphs (5), (6),  
5 (7), (8), and (9) as paragraphs (4), (5), (6), (7),  
6 and (8), respectively.

7 (3) Section 274(k)(2)(A) is amended by strik-  
8 ing “(4), (7), (8), or (9)” and inserting “(6), (7), or  
9 (8)”.

10 (4) Section 274 is amended by striking sub-  
11 section (l).

12 (5) Section 274(m)(1)(B)(ii) is amended by  
13 striking “(4), (7), (8), or (9)” and inserting “(6),  
14 (7), or (8)”.

15 (f) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to amounts paid or incurred after  
17 December 31, 2017.

18 **SEC. 3308. UNRELATED BUSINESS TAXABLE INCOME IN-**  
19 **CREASED BY AMOUNT OF CERTAIN FRINGE**  
20 **BENEFIT EXPENSES FOR WHICH DEDUCTION**  
21 **IS DISALLOWED.**

22 (a) IN GENERAL.—Section 512(a) is amended by  
23 adding at the end the following new paragraph:

24 “(6) INCREASE IN UNRELATED BUSINESS TAX-  
25 ABLE INCOME BY DISALLOWED FRINGE.—Unrelated

1 business taxable income of an organization shall be  
2 increased by any amount for which a deduction is  
3 not allowable under this chapter by reason of section  
4 274 and which is paid or incurred by such organiza-  
5 tion for any qualified transportation fringe (as de-  
6 fined in section 132(f)), any parking facility used in  
7 connection with qualified parking (as defined in sec-  
8 tion 132(f)(5)(C)), or any on-premises athletic facil-  
9 ity (as defined in section 132(j)(4)(B)). The pre-  
10 ceding sentence shall not apply to the extent the  
11 amount paid or incurred is directly connected with  
12 an unrelated trade or business which is regularly  
13 carried on by the organization. The Secretary may  
14 issue such regulations or other guidance as may be  
15 necessary or appropriate to carry out the purposes  
16 of this paragraph, including regulations or other  
17 guidance providing for the appropriate allocation of  
18 depreciation and other costs with respect to facilities  
19 used for parking or for on-premises athletic facili-  
20 ties.  
21 ”.

22 (b) EFFECTIVE DATE.—The amendment made by  
23 this section shall apply to amounts paid or incurred after  
24 December 31, 2017.

1 **SEC. 3309. LIMITATION ON DEDUCTION FOR FDIC PRE-**  
2 **MIUMS.**

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

6 “(q) DISALLOWANCE OF FDIC PREMIUMS PAID BY  
7 CERTAIN LARGE FINANCIAL INSTITUTIONS.—

8 “(1) IN GENERAL.—No deduction shall be al-  
9 lowed for the applicable percentage of any FDIC  
10 premium paid or incurred by the taxpayer.

11 “(2) EXCEPTION FOR SMALL INSTITUTIONS.—  
12 Paragraph (1) shall not apply to any taxpayer for  
13 any taxable year if the total consolidated assets of  
14 such taxpayer (determined as of the close of such  
15 taxable year) do not exceed \$10,000,000,000.

16 “(3) APPLICABLE PERCENTAGE.—For purposes  
17 of this subsection, the term ‘applicable percentage’  
18 means, with respect to any taxpayer for any taxable  
19 year, the ratio (expressed as a percentage but not  
20 greater than 100 percent) which—

21 “(A) the excess of—

22 “(i) the total consolidated assets of  
23 such taxpayer (determined as of the close  
24 of such taxable year), over

25 “(ii) \$10,000,000,000, bears to

26 “(B) \$40,000,000,000.

1           “(4) FDIC PREMIUMS.—For purposes of this  
2           subsection, the term ‘FDIC premium’ means any as-  
3           sessment imposed under section 7(b) of the Federal  
4           Deposit Insurance Act (12 U.S.C. 1817(b)).

5           “(5) TOTAL CONSOLIDATED ASSETS.—For pur-  
6           poses of this subsection, the term ‘total consolidated  
7           assets’ has the meaning given such term under sec-  
8           tion 165 of the Dodd-Frank Wall Street Reform and  
9           Consumer Protection Act (12 U.S.C. 5365).

10          “(6) AGGREGATION RULE.—

11                 “(A) IN GENERAL.—Members of an ex-  
12                 panded affiliated group shall be treated as a  
13                 single taxpayer for purposes of applying this  
14                 subsection.

15                 “(B) EXPANDED AFFILIATED GROUP.—  
16                 For purposes of this paragraph, the term ‘ex-  
17                 panded affiliated group’ means an affiliated  
18                 group as defined in section 1504(a), deter-  
19                 mined—

20                         “(i) by substituting ‘more than 50  
21                         percent’ for ‘at least 80 percent’ each place  
22                         it appears, and

23                         “(ii) without regard to paragraphs (2)  
24                         and (3) of section 1504(b).

1 A partnership or any other entity (other than a  
2 corporation) shall be treated as a member of an  
3 expanded affiliated group if such entity is con-  
4 trolled (within the meaning of section  
5 954(d)(3)) by members of such group (includ-  
6 ing any entity treated as a member of such  
7 group by reason of this sentence).”.

8 (b) **EFFECTIVE DATE.**—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 2017.

11 **SEC. 3310. REPEAL OF ROLLOVER OF PUBLICLY TRADED**  
12 **SECURITIES GAIN INTO SPECIALIZED SMALL**  
13 **BUSINESS INVESTMENT COMPANIES.**

14 (a) **IN GENERAL.**—Part III of subchapter O of chap-  
15 ter 1 is amended by striking section 1044 (and by striking  
16 the item relating to such section in the table of sections  
17 of such part).

18 (b) **CONFORMING AMENDMENTS.**—Section  
19 1016(a)(23) is amended—

20 (1) by striking “1044,”, and

21 (2) by striking “1044(d),”.

22 (c) **EFFECTIVE DATE.**—The amendments made by  
23 this section shall apply to sales after December 31, 2017.

1 **SEC. 3311. CERTAIN SELF-CREATED PROPERTY NOT TREAT-**  
2 **ED AS A CAPITAL ASSET.**

3 (a) PATENTS, ETC.—Section 1221(a)(3) is amended  
4 by inserting “a patent, invention, model or design (wheth-  
5 er or not patented), a secret formula or process,” before  
6 “a copyright”.

7 (b) CONFORMING AMENDMENT.—Section  
8 1231(b)(1)(C) is amended by inserting “a patent, inven-  
9 tion, model or design (whether or not patented), a secret  
10 formula or process,” before “a copyright”.

11 (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to dispositions after December 31,  
13 2017.

14 **SEC. 3312. REPEAL OF SPECIAL RULE FOR SALE OR EX-**  
15 **CHANGE OF PATENTS.**

16 (a) IN GENERAL.—Part IV of subchapter P of chap-  
17 ter 1 is amended by striking section 1235 (and by striking  
18 the item relating to such section in the table of sections  
19 of such part).

20 (b) CONFORMING AMENDMENTS.—

21 (1) Section 483(d) is amended by striking para-  
22 graph (4).

23 (2) Section 901(l)(5) is amended by striking  
24 “without regard to section 1235 or any similar rule”  
25 and inserting “without regard to any provision  
26 which treats a disposition as a sale or exchange of

1 a capital asset held for more than 1 year or any  
2 similar provision”.

3 (3) Section 1274(c)(3) is amended by striking  
4 subparagraph (E) and redesignating subparagraph  
5 (F) as subparagraph (E).

6 (c) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to dispositions after December 31,  
8 2017.

9 **SEC. 3313. REPEAL OF TECHNICAL TERMINATION OF PART-**  
10 **NERSHIPS.**

11 (a) IN GENERAL.—Paragraph (1) of section 708(b)  
12 is amended—

13 (1) by striking “, or” at the end of subpara-  
14 graph (A) and all that follows and inserting a pe-  
15 riod, and

16 (2) by striking “only if—” and all that follows  
17 through “no part of any business” and inserting the  
18 following: “only if no part of any business”.

19 (b) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to partnership taxable years begin-  
21 ning after December 31, 2017.



1 **SEC. 3314. RECHARACTERIZATION OF CERTAIN GAINS IN**  
2 **THE CASE OF PARTNERSHIP PROFITS INTER-**  
3 **ESTS HELD IN CONNECTION WITH PERFORM-**  
4 **ANCE OF INVESTMENT SERVICES.**

5 (a) IN GENERAL.—Part IV of subchapter O of chap-  
6 ter 1 is amended—

7 (1) by redesignating section 1061 as section  
8 1062, and

9 (2) by inserting after section 1060 the following  
10 new section:

11 **“SEC. 1061. PARTNERSHIP INTERESTS HELD IN CONNEC-**  
12 **TION WITH PERFORMANCE OF SERVICES.**

13 “(a) IN GENERAL.—If one or more applicable part-  
14 nership interests are held by a taxpayer at any time during  
15 the taxable year, the excess (if any) of—

16 “(1) the taxpayer’s net long-term capital gain  
17 with respect to such interests for such taxable year,  
18 over

19 “(2) the taxpayer’s net long-term capital gain  
20 with respect to such interests for such taxable year  
21 computed by applying paragraphs (3) and (4) of sec-  
22 tions 1222 by substituting ‘3 years’ for ‘1 year’,  
23 shall be treated as short-term capital gain.

24 “(b) SPECIAL RULE.—To the extent provided by the  
25 Secretary, subsection (a) shall not apply to income or gain

1 attributable to any asset not held for portfolio investment  
2 on behalf of third party investors.

3 “(c) APPLICABLE PARTNERSHIP INTEREST.—For  
4 purposes of this section—

5 “(1) IN GENERAL.—Except as provided in this  
6 paragraph or paragraph (4), the term ‘applicable  
7 partnership interest’ means any interest in a part-  
8 nership which, directly or indirectly, is transferred to  
9 (or is held by) the taxpayer in connection with the  
10 performance of substantial services by the taxpayer,  
11 or any other related person, in any applicable trade  
12 or business. The previous sentence shall not apply to  
13 an interest held by a person who is employed by an-  
14 other entity that is conducting a trade or business  
15 (other than an applicable trade or business) and  
16 only provides services to such other entity.

17 “(2) APPLICABLE TRADE OR BUSINESS.—The  
18 term ‘applicable trade or business’ means any activ-  
19 ity conducted on a regular, continuous, and substan-  
20 tial basis which, regardless of whether the activity is  
21 conducted in one or more entities, consists, in whole  
22 or in part, of—

23 “(A) raising or returning capital, and

24 “(B) either—

1                   “(i) investing in (or disposing of)  
2                   specified assets (or identifying specified as-  
3                   sets for such investing or disposition), or

4                   “(ii) developing specified assets.

5                   “(3) SPECIFIED ASSET.—The term ‘specified  
6                   asset’ means securities (as defined in section  
7                   475(c)(2) without regard to the last sentence there-  
8                   of), commodities (as defined in section 475(e)(2)),  
9                   real estate held for rental or investment, cash or  
10                  cash equivalents, options or derivative contracts with  
11                  respect to any of the foregoing, and an interest in  
12                  a partnership to the extent of the partnership’s pro-  
13                  portionate interest in any of the foregoing.

14                  “(4) EXCEPTIONS.—The term ‘applicable part-  
15                  nership interest’ shall not include—

16                         “(A) any interest in a partnership directly  
17                         or indirectly held by a corporation, or

18                         “(B) any capital interest in the partner-  
19                         ship which provides the taxpayer with a right to  
20                         share in partnership capital commensurate  
21                         with—

22                                 “(i) the amount of capital contributed  
23                                 (determined at the time of receipt of such  
24                                 partnership interest), or

1                   “(ii) the value of such interest subject  
2                   to tax under section 83 upon the receipt or  
3                   vesting of such interest.

4                   “(5) THIRD PARTY INVESTOR.—The term ‘third  
5                   party investor’ means a person who—

6                   “(A) holds an interest in the partnership  
7                   which does not constitute property held in con-  
8                   nection with an applicable trade or business;  
9                   and

10                  “(B) is not (and has not been) actively en-  
11                  gaged, and is (and was) not related to a person  
12                  so engaged, in (directly or indirectly) providing  
13                  substantial services described in paragraph (1)  
14                  for such partnership or any applicable trade or  
15                  business.

16                  “(d) TRANSFER OF APPLICABLE PARTNERSHIP IN-  
17                  TEREST TO RELATED PERSON.—

18                  “(1) IN GENERAL.—If a taxpayer transfers any  
19                  applicable partnership interest, directly or indirectly,  
20                  to a person related to the taxpayer, the taxpayer  
21                  shall include in gross income (as short term capital  
22                  gain) the excess (if any) of—

23                  “(A) so much of the taxpayer’s long-term  
24                  capital gains with respect to such interest for  
25                  such taxable year attributable to the sale or ex-

1 change of any asset held for not more than 3  
2 years as is allocable to such interest, over

3 “(B) any amount treated as short term  
4 capital gain under subsection (a) with respect  
5 to the transfer of such interest.

6 “(2) RELATED PERSON.—For purposes of this  
7 paragraph, a person is related to the taxpayer if—

8 “(A) the person is a member of the tax-  
9 payer’s family within the meaning of section  
10 318(a)(1), or

11 “(B) the person performed a service within  
12 the current calendar year or the preceding three  
13 calendar years in any applicable trade or busi-  
14 ness in which or for which the taxpayer per-  
15 formed a service.

16 “(e) REPORTING.—The Secretary shall require such  
17 reporting (at the time and in the manner prescribed by  
18 the Secretary) as is necessary to carry out the purposes  
19 of this section.

20 “(f) REGULATIONS.—The Secretary shall issue such  
21 regulations or other guidance as is necessary or appro-  
22 priate to carry out the purposes of this section”.

23 (b) COORDINATION WITH SECTION 83.—Subsection  
24 (e) of section 83 is amended by striking “or” at the end  
25 of paragraph (4), by striking the period at the end of para-

1 graph (5) and inserting “, or”, and by adding at the end  
2 the following new paragraph:

3 “(6) a transfer of an applicable partnership in-  
4 terest to which section 1061 applies.”.

5 (c) CLERICAL AMENDMENT.—The table of sections  
6 for part IV of subchapter O of chapter 1 is amended by  
7 striking the item relating to 1061 and inserting the fol-  
8 lowing new items:

“Sec. 1061. Partnership interests held in connection with performance of serv-  
ices.

“Sec. 1062. Cross references.”.

9 (d) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to taxable years beginning after  
11 December 31, 2017.

12 **SEC. 3315. AMORTIZATION OF RESEARCH AND EXPERI-**  
13 **MENTAL EXPENDITURES.**

14 (a) IN GENERAL.—Section 174 is amended to read  
15 as follows:

16 **“SEC. 174. AMORTIZATION OF RESEARCH AND EXPERI-**  
17 **MENTAL EXPENDITURES.**

18 “(a) IN GENERAL.—In the case of a taxpayer’s speci-  
19 fied research or experimental expenditures for any taxable  
20 year—

21 “(1) except as provided in paragraph (2), no  
22 deduction shall be allowed for such expenditures,  
23 and

24 “(2) the taxpayer shall—

1           “(A) charge such expenditures to capital  
2           account, and

3           “(B) be allowed an amortization deduction  
4           of such expenditures ratably over the 5-year pe-  
5           riod (15-year period in the case of any specified  
6           research or experimental expenditures which are  
7           attributable to foreign research (within the  
8           meaning of section 41(d)(4)(F))) beginning  
9           with the midpoint of the taxable year in which  
10          such expenditures are paid or incurred.

11          “(b) SPECIFIED RESEARCH OR EXPERIMENTAL EX-  
12          PENDITURES.—For purposes of this section, the term  
13          ‘specified research or experimental expenditures’ means,  
14          with respect to any taxable year, research or experimental  
15          expenditures which are paid or incurred by the taxpayer  
16          during such taxable year in connection with the taxpayer’s  
17          trade or business.

18          “(c) SPECIAL RULES.—

19                  “(1) LAND AND OTHER PROPERTY.—This sec-  
20                  tion shall not apply to any expenditure for the acqui-  
21                  sition or improvement of land, or for the acquisition  
22                  or improvement of property to be used in connection  
23                  with the research or experimentation and of a char-  
24                  acter which is subject to the allowance under section  
25                  167 (relating to allowance for depreciation, etc.) or

1 section 611 (relating to allowance for depletion); but  
2 for purposes of this section allowances under section  
3 167, and allowances under section 611, shall be con-  
4 sidered as expenditures.

5 “(2) EXPLORATION EXPENDITURES.—This sec-  
6 tion shall not apply to any expenditure paid or in-  
7 curred for the purpose of ascertaining the existence,  
8 location, extent, or quality of any deposit of ore or  
9 other mineral (including oil and gas).

10 “(3) SOFTWARE DEVELOPMENT.—For purposes  
11 of this section, any amount paid or incurred in con-  
12 nection with the development of any software shall  
13 be treated as a research or experimental expendi-  
14 ture.

15 “(d) TREATMENT UPON DISPOSITION, RETIREMENT,  
16 OR ABANDONMENT.—If any property with respect to  
17 which specified research or experimental expenditures are  
18 paid or incurred is disposed, retired, or abandoned during  
19 the period during which such expenditures are allowed as  
20 an amortization deduction under this section, no deduction  
21 shall be allowed with respect to such expenditures on ac-  
22 count of such disposition, retirement, or abandonment and  
23 such amortization deduction shall continue with respect to  
24 such expenditures.”.



1 (b) CLERICAL AMENDMENT.—The table of sections  
2 for part VI of subchapter B of chapter 1 is amended by  
3 striking the item relating to section 174 and inserting the  
4 following new item:

“Sec. 174. Amortization of research and experimental expenditures.”.

5 (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to amounts paid or incurred in tax-  
7 able years beginning after December 31, 2022.

8 **SEC. 3316. UNIFORM TREATMENT OF EXPENSES IN CONTIN-**  
9 **GENCY FEE CASES.**

10 (a) IN GENERAL.—Section 162, as amended by the  
11 preceding provisions of this Act, is amended by redesi-  
12 gnating subsection (r) as subsection (s) and by inserting  
13 after subsection (q) the following new subsection:

14 “(r) EXPENSES IN CONTINGENCY FEE CASES.—No  
15 deduction shall be allowed under subsection (a) to a tax-  
16 payer for any expense—

17 “(1) paid or incurred in the course of the trade  
18 or business of practicing law, and

19 “(2) resulting from a case for which the tax-  
20 payer is compensated primarily on a contingent  
21 basis,

22 until such time as such contingency is resolved.”.

23 (b) EFFECTIVE DATE.—The amendment made by  
24 this section shall apply to expenses and costs paid or in-

1 curred in taxable years beginning after the date of the en-  
2 actment of this Act.

3 **Subtitle E—Reform of Business**  
4 **Credits**

5 **SEC. 3401. REPEAL OF CREDIT FOR CLINICAL TESTING EX-**  
6 **PENSES FOR CERTAIN DRUGS FOR RARE DIS-**  
7 **EASES OR CONDITIONS.**

8 (a) IN GENERAL.—Subpart D of part IV of sub-  
9 chapter A of chapter 1 is amended by striking section 45C  
10 (and by striking the item relating to such section in the  
11 table of sections for such subpart).

12 (b) CONFORMING AMENDMENTS.—

13 (1) Section 38(b) is amended by striking para-  
14 graph (12).

15 (2) Section 280C is amended by striking sub-  
16 section (b).

17 (3) Section 6501(m) is amended by striking  
18 “45C(d)(4),”.

19 (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to amounts paid or incurred in tax-  
21 able years beginning after December 31, 2017.

22 **SEC. 3402. REPEAL OF EMPLOYER-PROVIDED CHILD CARE**  
23 **CREDIT.**

24 (a) IN GENERAL.—Subpart D of part IV of sub-  
25 chapter A of chapter 1 is amended by striking section 45F

1 (and by striking the item relating to such section in the  
2 table of sections for such subpart).

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 38(b) is amended by striking para-  
5 graph (15).

6 (2) Section 1016(a) is amended by striking  
7 paragraph (28).

8 (c) EFFECTIVE DATE.—

9 (1) IN GENERAL.—Except as otherwise pro-  
10 vided in this subsection, the amendments made by  
11 this section shall apply to taxable years beginning  
12 after December 31, 2017.

13 (2) BASIS ADJUSTMENTS.—The amendment  
14 made by subsection (b)(2) shall apply to credits de-  
15 termined for taxable years beginning after December  
16 31, 2017.

17 **SEC. 3403. REPEAL OF REHABILITATION CREDIT.**

18 (a) IN GENERAL.—Subpart E of part IV of sub-  
19 chapter A of chapter 1 is amended by striking section 47  
20 (and by striking the item relating to such section in the  
21 table of sections for such subpart).

22 (b) CONFORMING AMENDMENTS.—

23 (1) Section 170(f)(14)(A) is amended by insert-  
24 ing “(as in effect before its repeal by the Tax Cuts  
25 and Jobs Act)” after “section 47”.

1 (2) Section 170(h)(4) is amended—

2 (A) by striking “(as defined in section  
3 47(e)(3)(B))” in subparagraph (C)(ii), and

4 (B) by adding at the end the following new  
5 subparagraph:

6 “(D) REGISTERED HISTORIC DISTRICT.—

7 The term ‘registered historic district’ means—

8 “(i) any district listed in the National  
9 Register, and

10 “(ii) any district—

11 “(I) which is designated under a  
12 statute of the appropriate State or  
13 local government, if such statute is  
14 certified by the Secretary of the Inte-  
15 rior to the Secretary as containing cri-  
16 teria which will substantially achieve  
17 the purpose of preserving and reha-  
18 bilitating buildings of historic signifi-  
19 cance to the district, and

20 “(II) which is certified by the  
21 Secretary of the Interior to the Sec-  
22 retary as meeting substantially all of  
23 the requirements for the listing of dis-  
24 tricts in the National Register.”.

1           (3) Section 469(i)(3) is amended by striking  
2           subparagraph (B).

3           (4) Section 469(i)(6)(B) is amended—

4                 (A) by striking “in the case of—” and all  
5                 that follows and inserting “in the case of any  
6                 credit determined under section 42 for any tax-  
7                 able year.”, and

8                 (B) by striking “, REHABILITATION CRED-  
9                 IT,” in the heading thereof.

10           (5) Section 469(k)(1) is amended by striking “,  
11           or any rehabilitation credit determined under section  
12           47,”.

13           (c) EFFECTIVE DATE.—

14                 (1) IN GENERAL.—Except as provided in para-  
15                 graph (2), the amendments made by this section  
16                 shall apply to amounts paid or incurred after De-  
17                 cember 31, 2017.

18                 (2) TRANSITION RULE.—In the case of quali-  
19                 fied rehabilitation expenditures (within the meaning  
20                 of section 47 of the Internal Revenue Code of 1986  
21                 as in effect before its repeal) with respect to any  
22                 building—

23                         (A) owned or leased (as permitted by sec-  
24                         tion 47 of the Internal Revenue Code of 1986

1 as in effect before its repeal) by the taxpayer at  
2 all times after December 31, 2017, and

3 (B) with respect to which the 24-month  
4 period selected by the taxpayer under section  
5 47(c)(1)(C) of such Code begins not later than  
6 the end of the 180-day period beginning on the  
7 date of the enactment of this Act,

8 the amendments made by this section shall apply to  
9 such expenditures paid or incurred after the end of  
10 the taxable year in which the 24-month period re-  
11 ferred to in subparagraph (B) ends.

12 **SEC. 3404. REPEAL OF WORK OPPORTUNITY TAX CREDIT.**

13 (a) **IN GENERAL.**—Subpart F of part IV of sub-  
14 chapter A of chapter 1 is amended by striking section 51  
15 (and by striking the item relating to such section in the  
16 table of sections for such subpart).

17 (b) **CLERICAL AMENDMENT.**—The heading of such  
18 subpart F (and the item relating to such subpart in the  
19 table of subparts for part IV of subchapter A of chapter  
20 1) are each amended by striking “Rules for Computing  
21 Work Opportunity Credit” and inserting “Special Rules”.

22 (c) **EFFECTIVE DATE.**—The amendments made by  
23 this section shall apply to amounts paid or incurred to  
24 individuals who begin work for the employer after Decem-  
25 ber 31, 2017.

1 **SEC. 3405. REPEAL OF DEDUCTION FOR CERTAIN UNUSED**  
2 **BUSINESS CREDITS.**

3 (a) IN GENERAL.—Part VI of subchapter B of chap-  
4 ter 1 is amended by striking section 196 (and by striking  
5 the item relating to such section in the table of sections  
6 for such part).

7 (b) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to taxable years beginning after  
9 December 31, 2017.

10 **SEC. 3406. TERMINATION OF NEW MARKETS TAX CREDIT.**

11 (a) IN GENERAL.—Section 45D(f) is amended—

12 (1) by striking “2019” in paragraph (1)(G) and  
13 inserting “2017”, and

14 (2) by striking “2024” in paragraph (3) and in-  
15 serting “2022”.

16 (b) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to calendar years beginning after  
18 December 31, 2017.

19 **SEC. 3407. REPEAL OF CREDIT FOR EXPENDITURES TO**  
20 **PROVIDE ACCESS TO DISABLED INDIVID-**  
21 **UALS.**

22 (a) IN GENERAL.—Subpart D of part IV of sub-  
23 chapter A of chapter 1 is amended by striking section 44  
24 (and by striking the item relating to such section in the  
25 table of sections for such subpart).

1 (b) CONFORMING AMENDMENT.—Section 38(b) is  
2 amended by striking paragraph (7).

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2017.

6 **SEC. 3408. MODIFICATION OF CREDIT FOR PORTION OF EM-**  
7 **PLOYER SOCIAL SECURITY TAXES PAID WITH**  
8 **RESPECT TO EMPLOYEE TIPS.**

9 (a) CREDIT DETERMINED WITH RESPECT TO MIN-  
10 IMUM WAGE AS IN EFFECT.—Section 45B(b)(1)(B) is  
11 amended by striking “as in effect on January 1, 2007,  
12 and”.

13 (b) INFORMATION RETURN REQUIREMENT.—Section  
14 45B is amended by redesignating subsections (c) and (d)  
15 as subsections (d) and (e), respectively, and by inserting  
16 after subsection (b) the following new subsection:

17 “(c) INFORMATION RETURN REQUIREMENT.—

18 “(1) IN GENERAL.—No credit shall be deter-  
19 mined under subsection (a) with respect to any food  
20 or beverage establishment of any taxpayer for any  
21 taxable year unless such taxpayer has, with respect  
22 to the calendar year which ends in or with such tax-  
23 able year—

24 “(A) made a report to the Secretary show-  
25 ing the information described in section



1           6053(c)(1) with respect to such food or bev-  
2           erage establishment, and

3           “(B) furnished written statements to each  
4           employee of such food or beverage establish-  
5           ment showing the information described in sec-  
6           tion 6053(c)(2).

7           “(2) ALLOCATION OF 10 PERCENT OF GROSS  
8           RECEIPTS.—For purposes of determining the infor-  
9           mation referred to in subparagraphs (A) and (B),  
10          section 6053(c)(3)(A)(i) shall be applied by sub-  
11          stituting ‘10 percent’ for ‘8 percent’. For purposes  
12          of section 6053(c)(5), any reference to section  
13          6053(c)(3)(B) contained therein shall be treated as  
14          including a reference to this paragraph.

15          “(3) FOOD OR BEVERAGE ESTABLISHMENT.—  
16          For purposes of this subsection, the term ‘food or  
17          beverage establishment’ means any trade or business  
18          (or portion thereof) which would be a large food or  
19          beverage establishment (as defined in section  
20          6053(c)(4)) if such section were applied without re-  
21          gard to subparagraph (C) thereof.”.

22          (c) EFFECTIVE DATE.—The amendments made by  
23          this section shall apply to taxable years beginning after  
24          December 31, 2017.

## 1                   **Subtitle F—Energy Credits**

### 2   **SEC. 3501. MODIFICATIONS TO CREDIT FOR ELECTRICITY**

#### 3                   **PRODUCED FROM CERTAIN RENEWABLE RE-**

#### 4                   **SOURCES.**

##### 5           (a) **TERMINATION OF INFLATION ADJUSTMENT.—**

6   Section 45(b)(2) is amended—

7           (1) by striking “The 1.5 cent amount” and in-  
8   serting the following:

9                   “(A)   **IN GENERAL.—**The 1.5 cent  
10                   amount”, and

11           (2) by adding at the end the following new sub-  
12   paragraph:

13                   “(B)   **TERMINATION.—**Subparagraph (A)  
14                   shall not apply with respect to any electricity or  
15                   refined coal produced at a facility the construc-  
16                   tion of which begins after the date of the enact-  
17                   ment of this subparagraph.”.

18           (b) **SPECIAL RULE FOR DETERMINATION OF BEGIN-**  
19   **NING OF CONSTRUCTION.—**Section 45(e) is amended by  
20   adding at the end the following new paragraph:

21                   “(12) **SPECIAL RULE FOR DETERMINING BE-**  
22                   **GINNING OF CONSTRUCTION.—**For purposes of sub-  
23                   section (d), the construction of any facility, modi-  
24                   fication, improvement, addition, or other property  
25                   shall not be treated as beginning before any date un-

1 less there is a continuous program of construction  
2 which begins before such date and ends on the date  
3 that such property is placed in service.”.

4 (c) EFFECTIVE DATES.—

5 (1) TERMINATION OF INFLATION ADJUST-  
6 MENT.—The amendments made by subsection (a)  
7 shall apply to taxable years ending after the date of  
8 the enactment of this Act.

9 (2) SPECIAL RULE FOR DETERMINATION OF  
10 BEGINNING OF CONSTRUCTION.—The amendment  
11 made by subsection (b) shall apply to taxable years  
12 beginning before, on, or after the date of the enact-  
13 ment of this Act.

14 **SEC. 3502. MODIFICATION OF THE ENERGY INVESTMENT**  
15 **TAX CREDIT.**

16 (a) EXTENSION OF SOLAR ENERGY PROPERTY.—  
17 Section 48(a)(3)(A)(ii) is amended by striking “periods  
18 ending before January 1, 2017” and inserting “property  
19 the construction of which begins before January 1, 2022”.

20 (b) EXTENSION OF QUALIFIED FUEL CELL PROP-  
21 erty.—Section 48(c)(1)(D) is amended by striking “for  
22 any period after December 31, 2016” and inserting “the  
23 construction of which does not begin before January 1,  
24 2022”.

1 (c) EXTENSION OF QUALIFIED MICROTURBINE  
2 PROPERTY.—Section 48(c)(2)(D) is amended by striking  
3 “for any period after December 31, 2016” and inserting  
4 “the construction of which does not begin before January  
5 1, 2022”.

6 (d) EXTENSION OF COMBINED HEAT AND POWER  
7 SYSTEM PROPERTY.—Section 48(c)(3)(A)(iv) is amended  
8 by striking “which is placed in service before January 1,  
9 2017” and inserting “the construction of which begins be-  
10 fore January 1, 2022”.

11 (e) EXTENSION OF QUALIFIED SMALL WIND EN-  
12 ERGY PROPERTY.—Section 48(c)(4)(C) is amended by  
13 striking “for any period after December 31, 2016” and  
14 inserting “the construction of which does not begin before  
15 January 1, 2022”.

16 (f) EXTENSION OF THERMAL ENERGY PROPERTY.—  
17 Section 48(a)(3)(A)(vii) is amended by striking “periods  
18 ending before January 1, 2017” and inserting “property  
19 the construction of which begins before January 1, 2022”.

20 (g) PHASEOUT OF 30 PERCENT CREDIT RATE FOR  
21 FUEL CELL AND SMALL WIND ENERGY PROPERTY.—  
22 Section 48(a) is amended by adding at the end the fol-  
23 lowing new paragraph:

1           “(7) PHASEOUT FOR QUALIFIED FUEL CELL  
2           PROPERTY AND QUALIFIED SMALL WIND ENERGY  
3           PROPERTY.—

4           “(A) IN GENERAL.—In the case of quali-  
5           fied fuel cell property or qualified small wind  
6           energy property, the construction of which be-  
7           gins before January 1, 2022, the energy per-  
8           centage determined under paragraph (2) shall  
9           be equal to—

10           “(i) in the case of any property the  
11           construction of which begins after Decem-  
12           ber 31, 2019, and before January 1, 2021,  
13           26 percent, and

14           “(ii) in the case of any property the  
15           construction of which begins after Decem-  
16           ber 31, 2020, and before January 1, 2022,  
17           22 percent.

18           “(B) PLACED IN SERVICE DEADLINE.—In  
19           the case of any qualified fuel cell property or  
20           qualified small wind energy property, the con-  
21           struction of which begins before January 1,  
22           2022, and which is not placed in service before  
23           January 1, 2024, the energy percentage deter-  
24           mined under paragraph (2) shall be equal to 10  
25           percent.”.

1 (h) PHASEOUT FOR FIBER-OPTIC SOLAR ENERGY  
2 PROPERTY.—Subparagraphs (A) and (B) of section  
3 48(a)(6) are each amended by inserting “or (3)(A)(ii)”  
4 after “paragraph (3)(A)(i)”.

5 (i) TERMINATION OF SOLAR ENERGY PROPERTY.—  
6 Section 48(a)(3)(A)(i) is amended by inserting “, the con-  
7 struction of which begins before January 1, 2028, and”  
8 after “equipment”.

9 (j) TERMINATION OF GEOTHERMAL ENERGY PROP-  
10 ERTY.—Section 48(a)(3)(A)(iii) is amended by inserting  
11 “, the construction of which begins before January 1,  
12 2028, and” after “equipment”.

13 (k) SPECIAL RULE FOR DETERMINATION OF BEGIN-  
14 NING OF CONSTRUCTION.—Section 48(c) is amended by  
15 adding at the end the following new paragraph:

16 “(5) SPECIAL RULE FOR DETERMINING BEGIN-  
17 NING OF CONSTRUCTION.—The construction of any  
18 facility, modification, improvement, addition, or  
19 other property shall not be treated as beginning be-  
20 fore any date unless there is a continuous program  
21 of construction which begins before such date and  
22 ends on the date that such property is placed in  
23 service.”.

24 (l) EFFECTIVE DATE.—

1           (1) IN GENERAL.—Except as otherwise pro-  
2           vided in this subsection, the amendments made by  
3           this section shall apply to periods after December  
4           31, 2016, under rules similar to the rules of section  
5           48(m) of the Internal Revenue Code of 1986 (as in  
6           effect on the day before the date of the enactment  
7           of the Revenue Reconciliation Act of 1990).

8           (2) EXTENSION OF COMBINED HEAT AND  
9           POWER SYSTEM PROPERTY.—The amendment made  
10          by subsection (d) shall apply to property placed in  
11          service after December 31, 2016.

12          (3) PHASEOUTS AND TERMINATIONS.—The  
13          amendments made by subsections (g), (h), (i), and  
14          (j) shall take effect on the date of the enactment of  
15          this Act.

16          (4) SPECIAL RULE FOR DETERMINATION OF  
17          BEGINNING OF CONSTRUCTION.—The amendment  
18          made by subsection (k) shall apply to taxable years  
19          beginning before, on, or after the date of the enact-  
20          ment of this Act.

21 **SEC. 3503. EXTENSION AND PHASEOUT OF RESIDENTIAL**  
22 **ENERGY EFFICIENT PROPERTY.**

23          (a) EXTENSION.—Section 25D(h) is amended by  
24          striking “December 31, 2016 (December 31, 2021, in the  
25          case of any qualified solar electric property expenditures

1 and qualified solar water heating property expenditures)”  
2 and inserting “December 31, 2021”.

3 (b) PHASEOUT.—

4 (1) IN GENERAL.—Paragraphs (3), (4), and (5)  
5 of section 25D(a) are amended by striking “30 per-  
6 cent” each place it appears and inserting “the appli-  
7 cable percentage”.

8 (2) CONFORMING AMENDMENT.—Section  
9 25D(g) of such Code is amended by striking “para-  
10 graphs (1) and (2) of”.

11 (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to property placed in service after  
13 December 31, 2016.

14 **SEC. 3504. REPEAL OF ENHANCED OIL RECOVERY CREDIT.**

15 (a) IN GENERAL.—Subpart D of part IV of sub-  
16 chapter A of chapter 1 is amended by striking section 43  
17 (and by striking the item relating to such section in the  
18 table of sections for such subpart).

19 (b) CONFORMING AMENDMENTS.—

20 (1) Section 38(b) is amended by striking para-  
21 graph (6).

22 (2) Section 6501(m) is amended by striking  
23 “43,”.



1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2017.

4 **SEC. 3505. REPEAL OF CREDIT FOR PRODUCING OIL AND**  
5 **GAS FROM MARGINAL WELLS.**

6 (a) IN GENERAL.—Subpart D of part IV of sub-  
7 chapter A of chapter 1 is amended by striking section 45I  
8 (and by striking the item relating to such section in the  
9 table of sections for such subpart).

10 (b) CONFORMING AMENDMENT.—Section 38(b) is  
11 amended by striking paragraph (19).

12 (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to taxable years beginning after  
14 December 31, 2017.

15 **SEC. 3506. MODIFICATIONS OF CREDIT FOR PRODUCTION**  
16 **FROM ADVANCED NUCLEAR POWER FACILI-**  
17 **TIES.**

18 (a) TREATMENT OF UNUTILIZED LIMITATION  
19 AMOUNTS.—Section 45J(b) is amended—

20 (1) in paragraph (4), by inserting “or any  
21 amendment to” after “enactment of”; and

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

24 “(5) ALLOCATION OF UNUTILIZED LIMITA-  
25 TION.—

1           “(A) IN GENERAL.—Any unutilized na-  
2           tional megawatt capacity limitation shall be al-  
3           located by the Secretary under paragraph (3)  
4           as rapidly as is practicable after December 31,  
5           2020—

6                   “(i) first to facilities placed in service  
7                   on or before such date to the extent that  
8                   such facilities did not receive an allocation  
9                   equal to their full nameplate capacity; and

10                   “(ii) then to facilities placed in service  
11                   after such date in the order in which such  
12                   facilities are placed in service.

13           “(B) UNUTILIZED NATIONAL MEGAWATT  
14           CAPACITY LIMITATION.—The term ‘unutilized  
15           national megawatt capacity limitation’ means  
16           the excess (if any) of—

17                   “(i) 6,000 megawatts, over

18                   “(ii) the aggregate amount of national  
19                   megawatt capacity limitation allocated by  
20                   the Secretary before January 1, 2021, re-  
21                   duced by any amount of such limitation  
22                   which was allocated to a facility which was  
23                   not placed in service before such date.

24           “(C) COORDINATION WITH OTHER PROVI-  
25           SIONS.—In the case of any unutilized national

1 megawatt capacity limitation allocated by the  
2 Secretary pursuant to this paragraph—

3 “(i) such allocation shall be treated  
4 for purposes of this section in the same  
5 manner as an allocation of national mega-  
6 watt capacity limitation; and

7 “(ii) subsection (d)(1)(B) shall not  
8 apply to any facility which receives such al-  
9 location.”.

10 (b) TRANSFER OF CREDIT BY CERTAIN PUBLIC EN-  
11 TITIES.—

12 (1) IN GENERAL.—Section 45J is amended—

13 (A) by redesignating subsection (e) as sub-  
14 section (f); and

15 (B) by inserting after subsection (d) the  
16 following new subsection:

17 “(e) TRANSFER OF CREDIT BY CERTAIN PUBLIC EN-  
18 TITIES.—

19 “(1) IN GENERAL.—If, with respect to a credit  
20 under subsection (a) for any taxable year—

21 “(A) the taxpayer would be a qualified  
22 public entity; and

23 “(B) such entity elects the application of  
24 this paragraph for such taxable year with re-

1           spect to all (or any portion specified in such  
2           election) of such credit,  
3           the eligible project partner specified in such election  
4           (and not the qualified public entity) shall be treated  
5           as the taxpayer for purposes of this title with re-  
6           spect to such credit (or such portion thereof).

7           “(2) DEFINITIONS.—For purposes of this sub-  
8           section—

9           “(A) QUALIFIED PUBLIC ENTITY.—The  
10          term ‘qualified public entity’ means—

11           “(i) a Federal, State, or local govern-  
12          ment entity, or any political subdivision,  
13          agency, or instrumentality thereof;

14           “(ii) a mutual or cooperative electric  
15          company described in section 501(c)(12) or  
16          section 1381(a)(2); or

17           “(iii) a not-for-profit electric utility  
18          which has or had received a loan or loan  
19          guarantee under the Rural Electrification  
20          Act of 1936.

21          “(B) ELIGIBLE PROJECT PARTNER.—The  
22          term ‘eligible project partner’ means—

23           “(i) any person responsible for, or  
24          participating in, the design or construction  
25          of the advanced nuclear power facility to

1 which the credit under subsection (a) re-  
2 lates;

3 “(ii) any person who participates in  
4 the provision of the nuclear steam supply  
5 system to the advanced nuclear power fa-  
6 cility to which the credit under subsection  
7 (a) relates;

8 “(iii) any person who participates in  
9 the provision of nuclear fuel to the ad-  
10 vanced nuclear power facility to which the  
11 credit under subsection (a) relates; or

12 “(iv) any person who has an owner-  
13 ship interest in such facility.

14 “(3) SPECIAL RULES.—

15 “(A) APPLICATION TO PARTNERSHIPS.—In  
16 the case of a credit under subsection (a) which  
17 is determined at the partnership level—

18 “(i) for purposes of paragraph (1)(A),  
19 a qualified public entity shall be treated as  
20 the taxpayer with respect to such entity’s  
21 distributive share of such credit; and

22 “(ii) the term ‘eligible project partner’  
23 shall include any partner of the partner-  
24 ship.

1           “(B) TAXABLE YEAR IN WHICH CREDIT  
2           TAKEN INTO ACCOUNT.—In the case of any  
3           credit (or portion thereof) with respect to which  
4           an election is made under paragraph (1), such  
5           credit shall be taken into account in the first  
6           taxable year of the eligible project partner end-  
7           ing with, or after, the qualified public entity’s  
8           taxable year with respect to which the credit  
9           was determined.

10           “(C) TREATMENT OF TRANSFER UNDER  
11           PRIVATE USE RULES.—For purposes of section  
12           141(b)(1), any benefit derived by an eligible  
13           project partner in connection with an election  
14           under this subsection shall not be taken into ac-  
15           count as a private business use.”.

16           (2) SPECIAL RULE FOR PROCEEDS OF TRANS-  
17           FERS FOR MUTUAL OR COOPERATIVE ELECTRIC  
18           COMPANIES.—Section 501(c)(12) of such Code is  
19           amended by adding at the end the following new  
20           subparagraph:

21           “(I) In the case of a mutual or cooperative  
22           electric company described in this paragraph or  
23           an organization described in section 1381(a)(2),  
24           income received or accrued in connection with  
25           an election under section 45J(e)(1) shall be

1 treated as an amount collected from members  
2 for the sole purpose of meeting losses and ex-  
3 penses.”.

4 (c) EFFECTIVE DATES.—

5 (1) TREATMENT OF UNUTILIZED LIMITATION  
6 AMOUNTS.—The amendment made by subsection (a)  
7 shall take effect on the date of the enactment of this  
8 Act.

9 (2) TRANSFER OF CREDIT BY CERTAIN PUBLIC  
10 ENTITIES.—The amendments made by subsection  
11 (b) shall apply to taxable years beginning after the  
12 date of the enactment of this Act.

## 13 **Subtitle G—Bond Reforms**

### 14 **SEC. 3601. TERMINATION OF PRIVATE ACTIVITY BONDS.**

15 (a) IN GENERAL.—Paragraph (1) of section 103(b)  
16 is amended—

17 (1) by striking “which is not a qualified bond  
18 (within the meaning of section 141)”, and

19 (2) by striking “WHICH IS NOT A QUALIFIED  
20 BOND” in the heading thereof.

21 (b) CONFORMING AMENDMENTS.—

22 (1) Subpart A of part IV of subchapter B of  
23 chapter 1 is amended by striking sections 142, 143,  
24 144, 145, 146, and 147 (and by striking each of the

1 items relating to such sections in the table of sec-  
2 tions for such subpart).

3 (2) Section 25 is amended by adding at the end  
4 the following new subsection:

5 “(j) COORDINATION WITH REPEAL OF PRIVATE AC-  
6 TIVITY BONDS.—Any reference to section 143, 144, or  
7 146 shall be treated as a reference to such section as in  
8 effect before its repeal by the Tax Cuts and Jobs Act.”.

9 (3) Section 26(b)(2) is amended by striking  
10 subparagraph (D).

11 (4) Section 141(b) is amended by striking para-  
12 graphs (5) and (9).

13 (5) Section 141(d) is amended by striking para-  
14 graph (5).

15 (6) Section 141 is amended by striking sub-  
16 section (e).

17 (7) Section 148(f)(4) is amended—

18 (A) by striking “(determined in accordance  
19 with section 147(b)(2)(A))” in the flush matter  
20 following subparagraph (A)(ii) and inserting  
21 “(determined by taking into account the respec-  
22 tive issue prices of the bonds issued as part of  
23 the issue)”, and

24 (B) by striking the last sentence of sub-  
25 paragraph (D)(v).



1           (8) Clause (iv) of section 148(f)(4)(C) is  
2 amended to read as follows:

3                   “(iv) CONSTRUCTION ISSUE.—For  
4 purposes of this subparagraph—

5                           “(I) IN GENERAL.—The term  
6 ‘construction issue’ means any issue if  
7 at least 75 percent of the available  
8 construction proceeds of such issue  
9 are to be used for construction ex-  
10 penditures.

11                           “(II) CONSTRUCTION.—The term  
12 ‘construction’ includes reconstruction  
13 and rehabilitation.”.

14           (9) Section 149(b)(3) is amended by striking  
15 subparagraph (C).

16           (10) Section 149(e)(2) is amended—

17                   (A) by striking subparagraphs (C), (D),  
18 and (F) and by redesignating subparagraphs  
19 (E) and (G) as subparagraphs (C) and (D), re-  
20 spectively, and

21                   (B) by striking the second sentence.

22           (11) Section 149(f)(6) is amended—

23                   (A) by striking subparagraph (B), and

24                   (B) by striking “For purposes of this sub-  
25 section” and all that follows through “The

1 term” and inserting the following: “For pur-  
2 poses of this subsection, the term”.

3 (12) Section 150(e)(3) is amended to read as  
4 follows:

5 “(3) PUBLIC APPROVAL REQUIREMENT.—A  
6 bond shall not be treated as part of an issue which  
7 meets the requirements of paragraph (1) unless such  
8 bond satisfies the requirements of section 147(f)(2)  
9 (as in effect before its repeal by the Tax Cuts and  
10 Jobs Act).”.

11 (13) Section 269A(b)(3) is amended by striking  
12 “144(a)(3)” and inserting “414(n)(6)(A)”.

13 (14) Section 414(m)(5) is amended by striking  
14 “section 144(a)(3)” and inserting “subsection  
15 (n)(6)(A)”.

16 (15) Section 414(n)(6)(A) is amended to read  
17 as follows:

18 “(A) RELATED PERSONS.—A person is a  
19 related person to another person if—

20 “(i) the relationship between such per-  
21 sons would result in a disallowance of  
22 losses under section 267 or 707(b), or

23 “(ii) such persons are members of the  
24 same controlled group of corporations (as  
25 defined in section 1563(a), except that

1           ‘more than 50 percent’ shall be substituted  
2           for ‘at least 80 percent’ each place it ap-  
3           pears therein.”.

4           (16) Section 6045(e)(4)(B) is amended by in-  
5           serting “(as in effect before its repeal by the Tax  
6           Cuts and Jobs Act)” after “section 143(m)(3)”.

7           (17) Section 6654(f)(1) is amended by inserting  
8           “(as in effect before its repeal by the Tax Cuts and  
9           Jobs Act)” after “section 143(m)”.

10          (18) Section 7871(c) is amended—

11           (A) by striking paragraphs (2) and (3),  
12           and

13           (B) by striking “TAX-EXEMPT BONDS.—”  
14           and all that follows through “Subsection (a) of  
15           section 103” and inserting the following: “TAX-  
16           EXEMPT BONDS.—Subsection (a) of section  
17           103”.

18          (c) EFFECTIVE DATE.—The amendments made by  
19          this section shall apply to bonds issued after December  
20          31, 2017.

21          **SEC. 3602. REPEAL OF ADVANCE REFUNDING BONDS.**

22          (a) IN GENERAL.—Paragraph (1) of section 149(d)  
23          is amended by striking “as part of an issue described in  
24          paragraph (2), (3), or (4).” and inserting “to advance re-  
25          fund another bond.”.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Section 149(d) is amended by striking para-  
3 graphs (2), (3), (4), and (6) and by redesignating  
4 paragraphs (5) and (7) as paragraphs (2) and (3).

5 (2) Section 148(f)(4)(C) is amended by striking  
6 clause (xiv) and by redesignating clauses (xv) to  
7 (xvii) as clauses (xiv) to (xvi).

8 (c) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to advance refunding bonds issued  
10 after December 31, 2017.

11 **SEC. 3603. REPEAL OF TAX CREDIT BONDS.**

12 (a) IN GENERAL.—Part IV of subchapter A of chap-  
13 ter 1 is amended by striking subparts H, I, and J (and  
14 by striking the items relating to such subparts in the table  
15 of subparts for such part).

16 (b) PAYMENTS TO ISSUERS.—Subchapter B of chap-  
17 ter 65 is amended by striking section 6431 (and by strik-  
18 ing the item relating to such section in the table of sec-  
19 tions for such subchapter).

20 (c) CONFORMING AMENDMENTS.—

21 (1) Part IV of subchapter U of chapter 1 is  
22 amended by striking section 1397E (and by striking  
23 the item relating to such section in the table of sec-  
24 tions for such part).

1 (2) Section 54(l)(3)(B) is amended by inserting  
2 “(as in effect before its repeal by the Tax Cuts and  
3 Jobs Act)” after “section 1397E(I)”.

4 (3) Section 6211(b)(4)(A) is amended by strik-  
5 ing “, and 6431” and inserting “and” before  
6 “36B”.

7 (4) Section 6401(b)(1) is amended by striking  
8 “G, H, I, and J” and inserting “and G”.

9 (d) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to bonds issued after December  
11 31, 2017.

12 **SEC. 3604. NO TAX EXEMPT BONDS FOR PROFESSIONAL**  
13 **STADIUMS.**

14 (a) IN GENERAL.—Section 103(b), as amended by  
15 this Act, is further amended by adding at the end the fol-  
16 lowing new paragraph:

17 “(4) PROFESSIONAL STADIUM BOND.—Any pro-  
18 fessional stadium bond.”.

19 (b) PROFESSIONAL STADIUM BOND DEFINED.—Sub-  
20 section (c) of section 103 is amended by adding at the  
21 end the following new paragraph:

22 “(3) PROFESSIONAL STADIUM BOND.—The  
23 term ‘professional stadium bond’ means any bond  
24 issued as part of an issue any proceeds of which are  
25 used to finance or refinance capital expenditures al-

1 locable to a facility (or appurtenant real property)  
2 which, during at least 5 days during any calendar  
3 year, is used as a stadium or arena for professional  
4 sports exhibitions, games, or training.”.

5 (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to bonds issued after November  
7 2, 2017.

## 8 **Subtitle H—Insurance**

### 9 **SEC. 3701. NET OPERATING LOSSES OF LIFE INSURANCE** 10 **COMPANIES.**

11 (a) IN GENERAL.—Section 805(b) is amended by  
12 striking paragraph (4) and by redesignating paragraph  
13 (5) as paragraph (4).

14 (b) CONFORMING AMENDMENTS.—

15 (1) Part I of subchapter L of chapter 1 is  
16 amended by striking section 810 (and by striking  
17 the item relating to such section in the table of sec-  
18 tions for such part).

19 (2) Part III of subchapter L of chapter 1 is  
20 amended by striking section 844 (and by striking  
21 the item relating to such section in the table of sec-  
22 tions for such part).

23 (3) Section 381 is amended by striking sub-  
24 section (d).

1           (4) Section 805(a)(4)(B)(ii) is amended to read  
2 as follows:

3                   “(ii) the deduction allowed under sec-  
4 tion 172.”.

5           (5) Section 805(a) is amended by striking para-  
6 graph (5).

7           (6) Section 953(b)(1)(B) is amended to read as  
8 follows:

9                   “(B) So much of section 805(a)(8) as re-  
10 lates to the deduction allowed under section  
11 172.”.

12       (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to losses arising in taxable years  
14 beginning after December 31, 2017.

15 **SEC. 3702. REPEAL OF SMALL LIFE INSURANCE COMPANY**  
16 **DEDUCTION.**

17       (a) IN GENERAL.—Part I of subchapter L of chapter  
18 1 is amended by striking section 806 (and by striking the  
19 item relating to such section in the table of sections for  
20 such part).

21       (b) CONFORMING AMENDMENTS.—

22           (1) Section 453B(e) is amended—

23                   (A) by striking “(as defined in section  
24 806(b)(3))” in paragraph (2)(B), and

1 (B) by adding at the end the following new  
2 paragraph:

3 “(3) NONINSURANCE BUSINESS.—

4 “(A) IN GENERAL.—For purposes of this  
5 subsection, the term ‘noninsurance business’  
6 means any activity which is not an insurance  
7 business.

8 “(B) CERTAIN ACTIVITIES TREATED AS IN-  
9 SURANCE BUSINESSES.—For purposes of sub-  
10 paragraph (A), any activity which is not an in-  
11 surance business shall be treated as an insur-  
12 ance business if—

13 “(i) it is of a type traditionally carried  
14 on by life insurance companies for invest-  
15 ment purposes, but only if the carrying on  
16 of such activity (other than in the case of  
17 real estate) does not constitute the active  
18 conduct of a trade or business, or

19 “(ii) it involves the performance of ad-  
20 ministrative services in connection with  
21 plans providing life insurance, pension, or  
22 accident and health benefits.”.

23 (2) Section 465(c)(7)(D)(v)(II) is amended by  
24 striking “section 806(b)(3)” and inserting “section  
25 453B(e)(3)”.



1           (3) Section 801(a)(2) is amended by striking  
2           subparagraph (C).

3           (4) Section 804 is amended by striking  
4           “means—” and all that follows and inserting  
5           “means the general deductions provided in section  
6           805.”.

7           (5) Section 805(a)(4)(B), as amended by sec-  
8           tion 3701, is amended by striking clause (i) and by  
9           redesignating clauses (ii), (iii), and (iv) as clauses  
10          (i), (ii), and (iii), respectively.

11          (6) Section 805(b)(2)(A) is amended by strik-  
12          ing clause (iii) and by redesignating clauses (iv) and  
13          (v) as clauses (iii) and (iv), respectively.

14          (7) Section 842(e) is amended by striking para-  
15          graph (1) and by redesignating paragraphs (2) and  
16          (3) as paragraphs (1) and (2), respectively.

17          (8) Section 953(b)(1), as amended by section  
18          3701, is amended by striking subparagraph (A) and  
19          by redesignating subparagraphs (B) and (C) as sub-  
20          paragraphs (A) and (B), respectively.

21          (c) EFFECTIVE DATE.—The amendments made by  
22          this section shall apply to taxable years beginning after  
23          December 31, 2017.

1 **SEC. 3703. SURTAX ON LIFE INSURANCE COMPANY TAX-**  
2 **ABLE INCOME.**

3 (a) IN GENERAL.—Section 801(a)(1) is amended—

4 (1) by striking “consist of a tax” and insert  
5 “consist of the sum of—

6 “(A) a tax”, and

7 (2) by striking the period at the end and insert-  
8 ing “, and”, and

9 (3) by adding at the end the following new sub-  
10 paragraph:

11 “(B) a tax equal to 8 percent of the life in-  
12 surance company taxable income.”.

13 **SEC. 3704. ADJUSTMENT FOR CHANGE IN COMPUTING RE-**  
14 **SERVES.**

15 (a) IN GENERAL.—Paragraph (1) of section 807(f)  
16 is amended to read as follows:

17 “(1) TREATMENT AS CHANGE IN METHOD OF  
18 ACCOUNTING.—If the basis for determining any item  
19 referred to in subsection (c) as of the close of any  
20 taxable year differs from the basis for such deter-  
21 mination as of the close of the preceding taxable  
22 year, then so much of the difference between—

23 “(A) the amount of the item at the close  
24 of the taxable year, computed on the new basis,  
25 and

1           “(B) the amount of the item at the close  
2           of the taxable year, computed on the old basis,  
3           as is attributable to contracts issued before the tax-  
4           able year shall be taken into account under section  
5           481 as adjustments attributable to a change in  
6           method of accounting initiated by the taxpayer and  
7           made with the consent of the Secretary.”.

8           (b) EFFECTIVE DATE.—The amendments made by  
9           this section shall apply to taxable years beginning after  
10          December 31, 2017.

11          **SEC. 3705. REPEAL OF SPECIAL RULE FOR DISTRIBUTIONS**  
12                               **TO SHAREHOLDERS FROM PRE-1984 POLICY-**  
13                               **HOLDERS SURPLUS ACCOUNT.**

14          (a) IN GENERAL.—Subpart D of part I of subchapter  
15          L is amended by striking section 815 (and by striking the  
16          item relating to such section in the table of sections for  
17          such subpart).

18          (b) CONFORMING AMENDMENT.—Section 801 is  
19          amended by striking subsection (c).

20          (c) EFFECTIVE DATE.—The amendments made by  
21          this section shall apply to taxable years beginning after  
22          December 31, 2017.

23          (d) PHASED INCLUSION OF REMAINING BALANCE OF  
24          POLICYHOLDERS SURPLUS ACCOUNTS.—In the case of  
25          any stock life insurance company which has a balance (de-

1 terminated as of the close of such company's last taxable  
2 year beginning before January 1, 2018) in an existing pol-  
3 icyholders surplus account (as defined in section 815 of  
4 the Internal Revenue Code of 1986, as in effect before  
5 its repeal), the tax imposed by section 801 of such Code  
6 for the first 8 taxable years beginning after December 31,  
7 2017, shall be the amount which would be imposed by  
8 such section for such year on the sum of—

9 (1) life insurance company taxable income for  
10 such year (within the meaning of such section 801  
11 but not less than zero), plus

12 (2)  $\frac{1}{8}$  of such balance.

13 **SEC. 3706. MODIFICATION OF PRORATION RULES FOR**  
14 **PROPERTY AND CASUALTY INSURANCE COM-**  
15 **PANIES.**

16 (a) **IN GENERAL.**—Section 832(b)(5)(B) is amended  
17 by striking “15 percent” and inserting “26.25 percent”.

18 (b) **EFFECTIVE DATE.**—The amendment made by  
19 this section shall apply to taxable years beginning after  
20 December 31, 2017.

1 **SEC. 3707. MODIFICATION OF DISCOUNTING RULES FOR**  
2 **PROPERTY AND CASUALTY INSURANCE COM-**  
3 **PANIES.**

4 (a) **MODIFICATION OF RATE OF INTEREST USED TO**  
5 **DISCOUNT UNPAID LOSSES.**—Paragraph (2) of section  
6 846(c) is amended to read as follows:

7 “(2) **DETERMINATION OF ANNUAL RATE.**—The  
8 annual rate determined by the Secretary under this  
9 paragraph for any calendar year shall be a rate de-  
10 termined on the basis of the corporate bond yield  
11 curve (as defined in section 430(h)(2)(D)(i)).”.

12 (b) **MODIFICATION OF COMPUTATIONAL RULES FOR**  
13 **LOSS PAYMENT PATTERNS.**—Section 846(d)(3) is amend-  
14 ed by striking subparagraphs (B) through (G) and insert-  
15 ing the following new subparagraphs:

16 “(B) **TREATMENT OF CERTAIN LOSSES.**—  
17 Losses which would have been treated as paid  
18 in the last year of the period applicable under  
19 subparagraph (A)(i) or (A)(ii) shall be treated  
20 as paid in the following manner:

21 “(i) **3-YEAR LOSS PAYMENT PAT-**  
22 **TERN.**—

23 “(I) **IN GENERAL.**—The period  
24 taken into account under subpara-  
25 graph (A)(i) shall be extended to the  
26 extent required under subclause (II).

1                   “(II) COMPUTATION OF EXTEN-  
2                   SION.—The amount of losses which  
3                   would have been treated as paid in the  
4                   3d year after the accident year shall  
5                   be treated as paid in such 3d year  
6                   and each subsequent year in an  
7                   amount equal to the average of the  
8                   losses treated as paid in the 1st and  
9                   2d years after the accident year (or, if  
10                  lesser, the portion of the unpaid losses  
11                  not theretofore taken into account).  
12                  To the extent such unpaid losses have  
13                  not been treated as paid before the  
14                  18th year after the accident year, they  
15                  shall be treated as paid in such 18th  
16                  year.

17                  “(ii) 10-YEAR LOSS PAYMENT PAT-  
18                  TERN.—

19                  “(I) IN GENERAL.—The period  
20                  taken into account under subpara-  
21                  graph (A)(ii) shall be extended to the  
22                  extent required under subclause (II).

23                  “(II) COMPUTATION OF EXTEN-  
24                  SION.—The amount of losses which  
25                  would have been treated as paid in the

1 10th year after the accident year shall  
2 be treated as paid in such 10th year  
3 and each subsequent year in an  
4 amount equal to the amount of the  
5 average of the losses treated as paid  
6 in the 7th, 8th, and 9th years after  
7 the accident year (or, if lesser, the  
8 portion of the unpaid losses not there-  
9 tofore taken into account). To the ex-  
10 tent such unpaid losses have not been  
11 treated as paid before the 25th year  
12 after the accident year, they shall be  
13 treated as paid in such 25th year.”.

14 (c) REPEAL OF HISTORICAL PAYMENT PATTERN  
15 ELECTION.—Section 846 is amended by striking sub-  
16 section (e) and by redesignating subsections (f) and (g)  
17 as subsections (e) and (f), respectively.

18 (d) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply to taxable years beginning after  
20 December 31, 2017.

21 (e) TRANSITIONAL RULE.—For the first taxable year  
22 beginning after December 31, 2017—

23 (1) the unpaid losses and the expenses unpaid  
24 (as defined in paragraphs (5)(B) and (6) of section

1 832(b) of the Internal Revenue Code of 1986) at the  
2 end of the preceding taxable year, and

3 (2) the unpaid losses as defined in sections  
4 807(c)(2) and 805(a)(1) of such Code at the end of  
5 the preceding taxable year,

6 shall be determined as if the amendments made by this  
7 section had applied to such unpaid losses and expenses  
8 unpaid in the preceding taxable year and by using the in-  
9 terest rate and loss payment patterns applicable to acci-  
10 dent years ending with calendar year 2018, and any ad-  
11 justment shall be taken into account ratably in such first  
12 taxable year and the 7 succeeding taxable years. For sub-  
13 sequent taxable years, such amendments shall be applied  
14 with respect to such unpaid losses and expenses unpaid  
15 by using the interest rate and loss payment patterns appli-  
16 cable to accident years ending with calendar year 2018.

17 **SEC. 3708. REPEAL OF SPECIAL ESTIMATED TAX PAY-**  
18 **MENTS.**

19 (a) **IN GENERAL.**—Part III of subchapter L of chap-  
20 ter 1 is amended by striking section 847 (and by striking  
21 the item relating to such section in the table of sections  
22 for such part).

23 (b) **EFFECTIVE DATE.**—The amendments made by  
24 this section shall apply to taxable years beginning after  
25 December 31, 2017.



1                   **Subtitle I—Compensation**

2   **SEC. 3801. MODIFICATION OF LIMITATION ON EXCESSIVE**  
3                   **EMPLOYEE REMUNERATION.**

4           (a) REPEAL OF PERFORMANCE-BASED COMPENSA-  
5   TION AND COMMISSION EXCEPTIONS FOR LIMITATION ON  
6   EXCESSIVE EMPLOYEE REMUNERATION.—

7           (1) IN GENERAL.—Section 162(m)(4) is amend-  
8   ed by striking subparagraphs (B) and (C) and by re-  
9   designating subparagraphs (D), (E), (F), and (G) as  
10   subparagraphs (B), (C), (D), and (E), respectively.

11           (2) CONFORMING AMENDMENTS.—

12           (A) Paragraphs (5)(E) and (6)(D) of sec-  
13   tion 162(m) are each amended by striking  
14   “subparagraphs (B), (C), and (D)” and insert-  
15   ing “subparagraph (B)”.

16           (B) Paragraphs (5)(G) and (6)(G) of sec-  
17   tion 162(m) are each amended by striking “(F)  
18   and (G)” and inserting “(D) and (E)”.

19           (b) EXPANSION OF APPLICABLE EMPLOYER.—Sec-  
20   tion 162(m)(2) is amended to read as follows:

21           “(2) PUBLICLY HELD CORPORATION.—For pur-  
22   poses of this subsection, the term ‘publicly held cor-  
23   poration’ means any corporation which is an issuer  
24   (as defined in section 3 of the Securities Exchange  
25   Act of 1934 (15 U.S.C. 78c))—

1           “(A) the securities of which are required to  
2           be registered under section 12 of such Act (15  
3           U.S.C. 78l), or

4           “(B) that is required to file reports under  
5           section 15(d) of such Act (15 U.S.C. 78o(d)).”.

6           (c) MODIFICATION OF DEFINITION OF COVERED EM-  
7           PLOYEES.—Section 162(m)(3) is amended—

8           (1) in subparagraph (A), by striking “as of the  
9           close of the taxable year, such employee is the chief  
10          executive officer of the taxpayer or is” and inserting  
11          “such employee is the principal executive officer or  
12          principal financial officer of the taxpayer at any  
13          time during the taxable year, or was”,

14          (2) in subparagraph (B)—

15                  (A) by striking “4” and inserting “3”, and

16                  (B) by striking “(other than the chief execu-  
17                  tive officer)” and inserting “(other than the  
18                  principal executive officer or principal financial  
19                  officer)”, and

20          (3) by striking “or” at the end of subparagraph  
21          (A), by striking the period at the end of subpara-  
22          graph (B) and inserting “, or”, and by adding at the  
23          end the following:

24                  “(C) was a covered employee of the tax-  
25                  payer (or any predecessor) for any preceding

1 taxable year beginning after December 31,  
2 2016.

3 Such term shall include any employee who would be  
4 described in subparagraph (B) if the reporting de-  
5 scribed in such subparagraph were required as so  
6 described.”.

7 (d) SPECIAL RULE FOR REMUNERATION PAID TO  
8 BENEFICIARIES, ETC.—Section 162(m)(4), as amended by  
9 subsection (a), is amended by adding at the end the fol-  
10 lowing new subparagraph:

11 “(F) SPECIAL RULE FOR REMUNERATION  
12 PAID TO BENEFICIARIES, ETC.—Remuneration  
13 shall not fail to be applicable employee remu-  
14 neration merely because it is includible in the  
15 income of, or paid to, a person other than the  
16 covered employee, including after the death of  
17 the covered employee.”.

18 (e) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply to taxable years beginning after  
20 December 31, 2017.

21 **SEC. 3802. EXCISE TAX ON EXCESS TAX-EXEMPT ORGANIZA-**  
22 **TION EXECUTIVE COMPENSATION.**

23 (a) IN GENERAL.—Subchapter D of chapter 42 is  
24 amended by adding at the end the following new section:

1 **“SEC. 4960. TAX ON EXCESS TAX-EXEMPT ORGANIZATION**  
2 **EXECUTIVE COMPENSATION.**

3 “(a) TAX IMPOSED.—There is hereby imposed a tax  
4 equal to 20 percent of the sum of—

5 “(1) so much of the remuneration paid (other  
6 than any excess parachute payment) by an applica-  
7 ble tax-exempt organization for the taxable year with  
8 respect to employment of any covered employee in  
9 excess of \$1,000,000, plus

10 “(2) any excess parachute payment paid by  
11 such an organization to any covered employee.

12 “(b) LIABILITY FOR TAX.—The employer shall be lia-  
13 ble for the tax imposed under subsection (a).

14 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-  
15 poses of this section—

16 “(1) APPLICABLE TAX-EXEMPT ORGANIZA-  
17 TION.—The term ‘applicable tax-exempt organiza-  
18 tion’ means any organization that for the taxable  
19 year—

20 “(A) is exempt from taxation under section  
21 501(a),

22 “(B) is a farmers’ cooperative organization  
23 described in section 521(b)(1),

24 “(C) has income excluded from taxation  
25 under section 115(1), or

1           “(D) is a political organization described in  
2           section 527(e)(1).

3           “(2) COVERED EMPLOYEE.—For purposes of  
4           this section, the term ‘covered employee’ means any  
5           employee (including any former employee) of an ap-  
6           plicable tax-exempt organization if the employee—

7           “(A) is one of the 5 highest compensated  
8           employees of the organization for the taxable  
9           year, or

10           “(B) was a covered employee of the organi-  
11           zation (or any predecessor) for any preceding  
12           taxable year beginning after December 31,  
13           2016.

14           “(3) REMUNERATION.—For purposes of this  
15           section, the term ‘remuneration’ means wages (as  
16           defined in section 3401(a)), except that such term  
17           shall not include any designated Roth contribution  
18           (as defined in section 402A(c)).

19           “(4) REMUNERATION FROM RELATED ORGANI-  
20           ZATIONS.—

21           “(A) IN GENERAL.—Remuneration of a  
22           covered employee paid by an applicable tax-ex-  
23           empt organization shall include any remunera-  
24           tion paid with respect to employment of such

1 employee by any related person or governmental  
2 entity.

3 “(B) RELATED ORGANIZATIONS.—A per-  
4 son or governmental entity shall be treated as  
5 related to an applicable tax-exempt organization  
6 if such person or governmental entity—

7 “(i) controls, or is controlled by, the  
8 organization,

9 “(ii) is controlled by one or more per-  
10 sons that control the organization,

11 “(iii) is a supported organization (as  
12 defined in section 509(f)(2)) during the  
13 taxable year with respect to the organiza-  
14 tion,

15 “(iv) is a supporting organization de-  
16 scribed in section 509(a)(3) during the  
17 taxable year with respect to the organiza-  
18 tion, or

19 “(v) in the case of an organization  
20 that is a voluntary employees’ beneficiary  
21 association described in section 501(a)(9),  
22 establishes, maintains, or makes contribu-  
23 tions to such voluntary employees’ bene-  
24 ficiary association.

1           “(C) LIABILITY FOR TAX.—In any case in  
2           which remuneration from more than one em-  
3           ployer is taken into account under this para-  
4           graph in determining the tax imposed by sub-  
5           section (a), each such employer shall be liable  
6           for such tax in an amount which bears the  
7           same ratio to the total tax determined under  
8           subsection (a) with respect to such remunera-  
9           tion as—

10                   “(i) the amount of remuneration paid  
11                   by such employer with respect to such em-  
12                   ployee, bears to

13                   “(ii) the amount of remuneration paid  
14                   by all such employers to such employee.

15           “(5) EXCESS PARACHUTE PAYMENT.—For pur-  
16           poses determining the tax imposed by subsection  
17           (a)(2)—

18                   “(A) IN GENERAL.—The term ‘excess  
19                   parachute payment’ means an amount equal to  
20                   the excess of any parachute payment over the  
21                   portion of the base amount allocated to such  
22                   payment.

23                   “(B) PARACHUTE PAYMENT.—The term  
24                   ‘parachute payment’ means any payment in the

1 nature of compensation to (or for the benefit  
2 of) a covered employee if—

3 “(i) such payment is contingent on  
4 such employee’s separation from employ-  
5 ment with the employer, and

6 “(ii) the aggregate present value of  
7 the payments in the nature of compensa-  
8 tion to (or for the benefit of) such indi-  
9 vidual which are contingent on such sepa-  
10 ration equals or exceeds an amount equal  
11 to 3 times the base amount.

12 Such term does not include any payment de-  
13 scribed in section 280G(b)(6) (relating to ex-  
14 emption for payments under qualified plans) or  
15 any payment made under or to an annuity con-  
16 tract described in section 403(b) or a plan de-  
17 scribed in section 457(b).

18 “(C) BASE AMOUNT.—Rules similar to the  
19 rules of 280G(b)(3) shall apply for purposes of  
20 determining the base amount.

21 “(D) PROPERTY TRANSFERS; PRESENT  
22 VALUE.—Rules similar to the rules of para-  
23 graphs (3) and (4) of section 280G(d) shall  
24 apply.



1           “(6) COORDINATION WITH DEDUCTION LIMITA-  
2           TION.—Remuneration the deduction for which is not  
3           allowed by reason of section 162(m) shall not be  
4           taken into account for purposes of this section.

5           “(d) REGULATIONS.—The Secretary shall prescribe  
6           such regulations as may be necessary to prevent avoidance  
7           of the purposes of this section through the performance  
8           of services other than as an employee.”.

9           (b) CLERICAL AMENDMENT.—The table of sections  
10          for subchapter D of chapter 42 is amended by adding at  
11          the end the following new item:

          “Sec. 4960. Tax on excess exempt organization executive compensation.”.

12          (c) EFFECTIVE DATE.—The amendments made by  
13          this section shall apply to taxable years beginning after  
14          December 31, 2017.

15          **SEC. 3803. TREATMENT OF QUALIFIED EQUITY GRANTS.**

16          (a) IN GENERAL.—

17                 (1) ELECTION TO DEFER INCOME.—Section 83  
18                 is amended by adding at the end the following new  
19                 subsection:

20                 “(i) QUALIFIED EQUITY GRANTS.—

21                         “(1) IN GENERAL.—For purposes of this sub-  
22                         title, if qualified stock is transferred to a qualified  
23                         employee who makes an election with respect to such  
24                         stock under this subsection—

1           “(A) except as provided in subparagraph  
2           (B), no amount shall be included in income  
3           under subsection (a) for the first taxable year  
4           in which the rights of the employee in such  
5           stock are transferable or are not subject to a  
6           substantial risk of forfeiture, whichever is appli-  
7           cable, and

8           “(B) an amount equal to the amount  
9           which would be included in income of the em-  
10          ployee under subsection (a) (determined without  
11          regard to this subsection) shall be included in  
12          income for the taxable year of the employee  
13          which includes the earliest of—

14                 “(i) the first date such qualified stock  
15                 becomes transferable (including transfer-  
16                 able to the employer),

17                 “(ii) the date the employee first be-  
18                 comes an excluded employee,

19                 “(iii) the first date on which any stock  
20                 of the corporation which issued the quali-  
21                 fied stock becomes readily tradable on an  
22                 established securities market (as deter-  
23                 mined by the Secretary, but not including  
24                 any market unless such market is recog-  
25                 nized as an established securities market

1 by the Secretary for purposes of a provi-  
2 sion of this title other than this sub-  
3 section),

4 “(iv) the date that is 5 years after the  
5 first date the rights of the employee in  
6 such stock are transferable or are not sub-  
7 ject to a substantial risk of forfeiture,  
8 whichever occurs earlier, or

9 “(v) the date on which the employee  
10 revokes (at such time and in such manner  
11 as the Secretary may provide) the election  
12 under this subsection with respect to such  
13 stock.

14 “(2) QUALIFIED STOCK.—

15 “(A) IN GENERAL.—For purposes of this  
16 subsection, the term ‘qualified stock’ means,  
17 with respect to any qualified employee, any  
18 stock in a corporation which is the employer of  
19 such employee, if—

20 “(i) such stock is received—

21 “(I) in connection with the exer-  
22 cise of an option, or

23 “(II) in settlement of a restricted  
24 stock unit, and

1                   “(ii) such option or restricted stock  
2                   unit was provided by the corporation—

3                   “(I) in connection with the per-  
4                   formance of services as an employee,  
5                   and

6                   “(II) during a calendar year in  
7                   which such corporation was an eligible  
8                   corporation.

9                   “(B) LIMITATION.—The term ‘qualified  
10                  stock’ shall not include any stock if the em-  
11                  ployee may sell such stock to, or otherwise re-  
12                  ceive cash in lieu of stock from, the corporation  
13                  at the time that the rights of the employee in  
14                  such stock first become transferable or not sub-  
15                  ject to a substantial risk of forfeiture.

16                  “(C) ELIGIBLE CORPORATION.—For pur-  
17                  poses of subparagraph (A)(ii)(II)—

18                  “(i) IN GENERAL.—The term ‘eligible  
19                  corporation’ means, with respect to any  
20                  calendar year, any corporation if—

21                  “(I) no stock of such corporation  
22                  (or any predecessor of such corpora-  
23                  tion) is readily tradable on an estab-  
24                  lished securities market (as deter-  
25                  mined under paragraph (1)(B)(iii))

1 during any preceding calendar year,  
2 and

3 “(II) such corporation has a writ-  
4 ten plan under which, in such cal-  
5 endar year, not less than 80 percent  
6 of all employees who provide services  
7 to such corporation in the United  
8 States (or any possession of the  
9 United States) are granted stock op-  
10 tions, or restricted stock units, with  
11 the same rights and privileges to re-  
12 ceive qualified stock.

13 “(ii) SAME RIGHTS AND PRIVI-  
14 LEGES.—For purposes of clause (i)(II)—

15 “(I) except as provided in sub-  
16 clauses (II) and (III), the determina-  
17 tion of rights and privileges with re-  
18 spect to stock shall be determined in  
19 a similar manner as provided under  
20 section 423(b)(5),

21 “(II) employees shall not fail to  
22 be treated as having the same rights  
23 and privileges to receive qualified  
24 stock solely because the number of  
25 shares available to all employees is not

1 equal in amount, so long as the num-  
2 ber of shares available to each em-  
3 ployee is more than a de minimis  
4 amount, and

5 “(III) rights and privileges with  
6 respect to the exercise of an option  
7 shall not be treated as the same as  
8 rights and privileges with respect to  
9 the settlement of a restricted stock  
10 unit.

11 “(iii) EMPLOYEE.—For purposes of  
12 clause (i)(II), the term ‘employee’ shall not  
13 include any employee described in section  
14 4980E(d)(4) or any excluded employee.

15 “(iv) SPECIAL RULE FOR CALENDAR  
16 YEARS BEFORE 2018.—In the case of any  
17 calendar year beginning before January 1,  
18 2018, clause (i)(II) shall be applied with-  
19 out regard to whether the rights and privi-  
20 leges with respect to the qualified stock are  
21 the same.

22 “(3) QUALIFIED EMPLOYEE; EXCLUDED EM-  
23 PLOYEE.—For purposes of this subsection—

24 “(A) IN GENERAL.—The term ‘qualified  
25 employee’ means any individual who—

1 “(i) is not an excluded employee, and

2 “(ii) agrees in the election made  
3 under this subsection to meet such require-  
4 ments as determined by the Secretary to  
5 be necessary to ensure that the with-  
6 holding requirements of the corporation  
7 under chapter 24 with respect to the quali-  
8 fied stock are met.

9 “(B) EXCLUDED EMPLOYEE.—The term  
10 ‘excluded employee’ means, with respect to any  
11 corporation, any individual—

12 “(i) who was a 1-percent owner (with-  
13 in the meaning of section 416(i)(1)(B)(ii))  
14 at any time during the 10 preceding cal-  
15 endar years,

16 “(ii) who is or has been at any prior  
17 time—

18 “(I) the chief executive officer of  
19 such corporation or an individual act-  
20 ing in such a capacity, or

21 “(II) the chief financial officer of  
22 such corporation or an individual act-  
23 ing in such a capacity,

24 “(iii) who bears a relationship de-  
25 scribed in section 318(a)(1) to any indi-

1           vidual described in subclause (I) or (II) of  
2           clause (ii), or

3                   “(iv) who has been for any of the 10  
4           preceding taxable years one of the 4 high-  
5           est compensated officers of such corpora-  
6           tion determined with respect to each such  
7           taxable year on the basis of the share-  
8           holder disclosure rules for compensation  
9           under the Securities Exchange Act of 1934  
10          (as if such rules applied to such corpora-  
11          tion).

12          “(4) ELECTION.—

13                   “(A) TIME FOR MAKING ELECTION.—An  
14          election with respect to qualified stock shall be  
15          made under this subsection no later than 30  
16          days after the first time the rights of the em-  
17          ployee in such stock are transferable or are not  
18          subject to a substantial risk of forfeiture,  
19          whichever occurs earlier, and shall be made in  
20          a manner similar to the manner in which an  
21          election is made under subsection (b).

22                   “(B) LIMITATIONS.—No election may be  
23          made under this section with respect to any  
24          qualified stock if—



1           “(i) the qualified employee has made  
2           an election under subsection (b) with re-  
3           spect to such qualified stock,

4           “(ii) any stock of the corporation  
5           which issued the qualified stock is readily  
6           tradable on an established securities mar-  
7           ket (as determined under paragraph  
8           (1)(B)(iii)) at any time before the election  
9           is made, or

10           “(iii) such corporation purchased any  
11           of its outstanding stock in the calendar  
12           year preceding the calendar year which in-  
13           cludes the first time the rights of the em-  
14           ployee in such stock are transferable or are  
15           not subject to a substantial risk of for-  
16           feiture, unless—

17                   “(I) not less than 25 percent of  
18                   the total dollar amount of the stock so  
19                   purchased is deferral stock, and

20                   “(II) the determination of which  
21                   individuals from whom deferral stock  
22                   is purchased is made on a reasonable  
23                   basis.

1                   “(C) DEFINITIONS AND SPECIAL RULES  
2 RELATED TO LIMITATION ON STOCK REDEMP-  
3 TIONS.—

4                   “(i) DEFERRAL STOCK.—For pur-  
5 poses of this paragraph, the term ‘deferral  
6 stock’ means stock with respect to which  
7 an election is in effect under this sub-  
8 section.

9                   “(ii) DEFERRAL STOCK WITH RE-  
10 SPECT TO ANY INDIVIDUAL NOT TAKEN  
11 INTO ACCOUNT IF INDIVIDUAL HOLDS DE-  
12 FERRAL STOCK WITH LONGER DEFERRAL  
13 PERIOD.—Stock purchased by a corpora-  
14 tion from any individual shall not be treat-  
15 ed as deferral stock for purposes of clause  
16 (iii) if such individual (immediately after  
17 such purchase) holds any deferral stock  
18 with respect to which an election has been  
19 in effect under this subsection for a longer  
20 period than the election with respect to the  
21 stock so purchased.

22                   “(iii) PURCHASE OF ALL OUT-  
23 STANDING DEFERRAL STOCK.—The re-  
24 quirements of subclauses (I) and (II) of  
25 subparagraph (B)(iii) shall be treated as

1 met if the stock so purchased includes all  
2 of the corporation's outstanding deferral  
3 stock.

4 “(iv) REPORTING.—Any corporation  
5 which has outstanding deferral stock as of  
6 the beginning of any calendar year and  
7 which purchases any of its outstanding  
8 stock during such calendar year shall in-  
9 clude on its return of tax for the taxable  
10 year in which, or with which, such calendar  
11 year ends the total dollar amount of its  
12 outstanding stock so purchased during  
13 such calendar year and such other infor-  
14 mation as the Secretary may require for  
15 purposes of administering this paragraph.

16 “(5) CONTROLLED GROUPS.—For purposes of  
17 this subsection, all corporations which are members  
18 of the same controlled group of corporations (as de-  
19 fined in section 1563(a)) shall be treated as one cor-  
20 poration.

21 “(6) NOTICE REQUIREMENT.—Any corporation  
22 that transfers qualified stock to a qualified employee  
23 shall, at the time that (or a reasonable period be-  
24 fore) an amount attributable to such stock would

1 (but for this subsection) first be includible in the  
2 gross income of such employee—

3 “(A) certify to such employee that such  
4 stock is qualified stock, and

5 “(B) notify such employee—

6 “(i) that the employee may elect to  
7 defer income on such stock under this sub-  
8 section, and

9 “(ii) that, if the employee makes such  
10 an election—

11 “(I) the amount of income recog-  
12 nized at the end of the deferral period  
13 will be based on the value of the stock  
14 at the time at which the rights of the  
15 employee in such stock first become  
16 transferable or not subject to substan-  
17 tial risk of forfeiture, notwithstanding  
18 whether the value of the stock has de-  
19 clined during the deferral period,

20 “(II) the amount of such income  
21 recognized at the end of the deferral  
22 period will be subject to withholding  
23 under section 3401(i) at the rate de-  
24 termined under section 3402(t), and

1                   “(III) the responsibilities of the  
2                   employee (as determined by the Sec-  
3                   retary under paragraph (3)(A)(ii))  
4                   with respect to such withholding.

5                   “(7) RESTRICTED STOCK UNITS.—This section  
6                   (other than this subsection), including any election  
7                   under subsection (b), shall not apply to restricted  
8                   stock units.”.

9                   (2) DEDUCTION BY EMPLOYER.—Subsection (h)  
10                  of section 83 is amended by striking “or (d)(2)” and  
11                  inserting “(d)(2), or (i)”.

12                  (b) WITHHOLDING.—

13                  (1) TIME OF WITHHOLDING.—Section 3401 is  
14                  amended by adding at the end the following new  
15                  subsection:

16                  “(i) QUALIFIED STOCK FOR WHICH AN ELECTION IS  
17                  IN EFFECT UNDER SECTION 83(i).—For purposes of sub-  
18                  section (a), qualified stock (as defined in section 83(i))  
19                  with respect to which an election is made under section  
20                  83(i) shall be treated as wages—

21                  “(1) received on the earliest date described in  
22                  section 83(i)(1)(B), and

23                  “(2) in an amount equal to the amount in-  
24                  cluded in income under section 83 for the taxable  
25                  year which includes such date.”.

1           (2) AMOUNT OF WITHHOLDING.—Section 3402  
2           is amended by adding at the end the following new  
3           subsection:

4           “(t) RATE OF WITHHOLDING FOR CERTAIN  
5 STOCK.—In the case of any qualified stock (as defined in  
6 section 83(i)) with respect to which an election is made  
7 under section 83(i)—

8           “(1) the rate of tax under subsection (a) shall  
9           not be less than the maximum rate of tax in effect  
10          under section 1, and

11          “(2) such stock shall be treated for purposes of  
12          section 3501(b) in the same manner as a non-cash  
13          fringe benefit.”.

14          (c) COORDINATION WITH OTHER DEFERRED COM-  
15 PENSATION RULES.—

16          (1) ELECTION TO APPLY DEFERRAL TO STATU-  
17 TORY OPTIONS.—

18               (A) INCENTIVE STOCK OPTIONS.—Section  
19               422(b) is amended by adding at the end the fol-  
20               lowing: “Such term shall not include any option  
21               if an election is made under section 83(i) with  
22               respect to the stock received in connection with  
23               the exercise of such option.”.

1 (B) EMPLOYEE STOCK PURCHASE  
2 PLANS.—Section 423(a) is amended by adding  
3 at the end the following flush sentence:

4 “The preceding sentence shall not apply to any share of  
5 stock with respect to which an election is made under sec-  
6 tion 83(i).”.

7 (2) EXCLUSION FROM DEFINITION OF NON-  
8 QUALIFIED DEFERRED COMPENSATION PLAN.—Sub-  
9 section (d) of section 409A is amended by adding at  
10 the end the following new paragraph:

11 “(7) TREATMENT OF QUALIFIED STOCK.—An  
12 arrangement under which an employee may receive  
13 qualified stock (as defined in section 83(i)(2)) shall  
14 not be treated as a nonqualified deferred compensa-  
15 tion plan solely because of an employee’s election, or  
16 ability to make an election, to defer recognition of  
17 income under section 83(i).”.

18 (d) INFORMATION REPORTING.—Section 6051(a) is  
19 amended by striking “and” at the end of paragraph (13),  
20 by striking the period at the end of paragraph (14) and  
21 inserting a comma, and by inserting after paragraph (14)  
22 the following new paragraphs:

23 “(15) the amount excludable from gross income  
24 under subparagraph (A) of section 83(i)(1),

1           “(16) the amount includible in gross income  
2           under subparagraph (B) of section 83(i)(1) with re-  
3           spect to an event described in such subparagraph  
4           which occurs in such calendar year, and

5           “(17) the aggregate amount of income which is  
6           being deferred pursuant to elections under section  
7           83(i), determined as of the close of the calendar  
8           year.”.

9           (e) PENALTY FOR FAILURE OF EMPLOYER TO PRO-  
10          VIDE NOTICE OF TAX CONSEQUENCES.—Section 6652 is  
11          amended by adding at the end the following new sub-  
12          section:

13          “(o) FAILURE TO PROVIDE NOTICE UNDER SECTION  
14          83(i).—In the case of each failure to provide a notice as  
15          required by section 83(i)(6), at the time prescribed there-  
16          for, unless it is shown that such failure is due to reason-  
17          able cause and not to willful neglect, there shall be paid,  
18          on notice and demand of the Secretary and in the same  
19          manner as tax, by the person failing to provide such no-  
20          tice, an amount equal to \$100 for each such failure, but  
21          the total amount imposed on such person for all such fail-  
22          ures during any calendar year shall not exceed \$50,000.”.

23          (f) EFFECTIVE DATES.—

24                  (1) IN GENERAL.—Except as provided in para-  
25          graph (2), the amendments made by this section



1 shall apply to stock attributable to options exercised,  
2 or restricted stock units settled, after December 31,  
3 2017.

4 (2) REQUIREMENT TO PROVIDE NOTICE.—The  
5 amendments made by subsection (e) shall apply to  
6 failures after December 31, 2017.

7 (g) TRANSITION RULE.—Until such time as the Sec-  
8 retary (or the Secretary’s delegate) issue regulations or  
9 other guidance for purposes of implementing the require-  
10 ments of paragraph (2)(C)(i)(II) of section 83(i) of the  
11 Internal Revenue Code of 1986 (as added by this section),  
12 or the requirements of paragraph (6) of such section, a  
13 corporation shall be treated as being in compliance with  
14 such requirements (respectively) if such corporation com-  
15 plies with a reasonable good faith interpretation of such  
16 requirements.

1 **TITLE IV—TAXATION OF FOR-**  
2 **EIGN INCOME AND FOREIGN**  
3 **PERSONS**

4 **Subtitle A—Establishment of Par-**  
5 **ticipation Exemption System for**  
6 **Taxation of Foreign Income**

7 **SEC. 4001. DEDUCTION FOR FOREIGN-SOURCE PORTION OF**  
8 **DIVIDENDS RECEIVED BY DOMESTIC COR-**  
9 **PORATIONS FROM SPECIFIED 10-PERCENT**  
10 **OWNED FOREIGN CORPORATIONS.**

11 (a) IN GENERAL.—Part VIII of subchapter B of  
12 chapter 1 is amended by inserting after section 245 the  
13 following new section:

14 **“SEC. 245A. DEDUCTION FOR FOREIGN-SOURCE PORTION**  
15 **OF DIVIDENDS RECEIVED BY DOMESTIC COR-**  
16 **PORATIONS FROM SPECIFIED 10-PERCENT**  
17 **OWNED FOREIGN CORPORATIONS.**

18 “(a) IN GENERAL.—In the case of any dividend re-  
19 ceived from a specified 10-percent owned foreign corpora-  
20 tion by a domestic corporation which is a United States  
21 shareholder with respect to such foreign corporation, there  
22 shall be allowed as a deduction an amount equal to the  
23 foreign-source portion of such dividend.

24 “(b) SPECIFIED 10-PERCENT OWNED FOREIGN COR-  
25 PORATION.—For purposes of this section, the term ‘speci-

1 fied 10-percent owned foreign corporation’ means any for-  
2 eign corporation with respect to which any domestic cor-  
3 poration is a United States shareholder. Such term shall  
4 not include any passive foreign investment company (with-  
5 in the meaning of subpart D of part VI of subchapter P)  
6 that is not a controlled foreign corporation.

7 “(c) FOREIGN-SOURCE PORTION.—For purposes of  
8 this section—

9 “(1) IN GENERAL.—The foreign-source portion  
10 of any dividend is an amount which bears the same  
11 ratio to such dividend as—

12 “(A) the post-1986 undistributed foreign  
13 earnings of the specified 10-percent owned for-  
14 eign corporation, bears to

15 “(B) the total post-1986 undistributed  
16 earnings of such foreign corporation.

17 “(2) POST-1986 UNDISTRIBUTED EARNINGS.—  
18 The term ‘post-1986 undistributed earnings’ means  
19 the amount of the earnings and profits of the speci-  
20 fied 10-percent owned foreign corporation (computed  
21 in accordance with sections 964(a) and 986) accu-  
22 mulated in taxable years beginning after December  
23 31, 1986—

1           “(A) as of the close of the taxable year of  
2           the specified 10-percent owned foreign corpora-  
3           tion in which the dividend is distributed, and

4           “(B) without diminution by reason of divi-  
5           dends distributed during such taxable year.

6           “(3) POST-1986 UNDISTRIBUTED FOREIGN  
7           EARNINGS.—The term ‘post-1986 undistributed for-  
8           eign earnings’ means the portion of the post-1986  
9           undistributed earnings which is attributable to nei-  
10          ther—

11           “(A) income described in subparagraph (A)  
12          of section 245(a)(5), nor

13           “(B) dividends described in subparagraph  
14          (B) of such section (determined without regard  
15          to section 245(a)(12)).

16           “(4) TREATMENT OF DISTRIBUTIONS FROM  
17          EARNINGS BEFORE 1987.—

18           “(A) IN GENERAL.—In the case of any divi-  
19          dend paid out of earnings and profits of the  
20          specified 10-percent owned foreign corporation  
21          (computed in accordance with sections 964(a)  
22          and 986) accumulated in taxable years begin-  
23          ning before January 1, 1987—

1                   “(i) paragraphs (1), (2), and (3) shall  
2                   be applied without regard to the phrase  
3                   ‘post-1986’ each place it appears, and

4                   “(ii) paragraph (2) shall be applied by  
5                   substituting ‘after the date specified in sec-  
6                   tion 316(a)(1)’ for ‘in taxable years begin-  
7                   ning after December 31, 1986’.

8                   “(B) DIVIDENDS PAID FIRST OUT OF  
9                   POST-1986 EARNINGS.—Dividends shall be treat-  
10                  ed as paid out of post-1986 undistributed earn-  
11                  ings to the extent thereof.

12                  “(5) TREATMENT OF CERTAIN DIVIDENDS IN  
13                  EXCESS OF UNDISTRIBUTED EARNINGS.—In the case  
14                  of any dividend from the specified 10-percent owned  
15                  foreign corporation which is in excess of undistrib-  
16                  uted earnings (as determined under paragraph (2)  
17                  after taking into account the modifications described  
18                  in clauses (i) and (ii) of paragraph (4)(A)), the for-  
19                  eign-source portion of such dividend is an amount  
20                  which bears the same ratio to such dividend as—

21                  “(A) the portion of the earnings and prof-  
22                  its described in subparagraph (B) which is at-  
23                  tributable to neither income described in para-  
24                  graph (3)(A) nor dividends described in para-  
25                  graph (3)(B), bears to

1           “(B) the earnings and profits of such cor-  
2           poration for the taxable year in which such dis-  
3           tribution is made (computed as of the close of  
4           the taxable year without diminution by reason  
5           of any distributions made during the taxable  
6           year).

7           “(d) DISALLOWANCE OF FOREIGN TAX CREDIT,  
8 ETC.—

9           “(1) IN GENERAL.—No credit shall be allowed  
10          under section 901 for any taxes paid or accrued (or  
11          treated as paid or accrued) with respect to any divi-  
12          dend for which a deduction is allowed under this sec-  
13          tion.

14          “(2) DENIAL OF DEDUCTION.—No deduction  
15          shall be allowed under this chapter for any tax for  
16          which credit is not allowable under section 901 by  
17          reason of paragraph (1) (determined by treating the  
18          taxpayer as having elected the benefits of subpart A  
19          of part III of subchapter N).

20          “(e) REGULATIONS.—The Secretary may prescribe  
21          such regulations or other guidance as may be necessary  
22          or appropriate to carry out the provisions of this section.”.

23          (b) APPLICATION OF HOLDING PERIOD REQUIRE-  
24          MENT.—Section 246(c) is amended—

1 (1) by striking “or 245” in paragraph (1) and  
2 inserting “245, or 245A”, and

3 (2) by adding at the end the following new  
4 paragraph:

5 “(5) SPECIAL RULES FOR FOREIGN SOURCE  
6 PORTION OF DIVIDENDS RECEIVED FROM SPECIFIED  
7 10-PERCENT OWNED FOREIGN CORPORATIONS.—

8 “(A) 6-MONTH HOLDING PERIOD REQUIRE-  
9 MENT.—For purposes of section 245A—

10 “(i) paragraph (1)(A) shall be ap-  
11 plied—

12 “(I) by substituting ‘180 days’  
13 for ‘45 days’ each place it appears, and

14 “(II) by substituting ‘361-day pe-  
15 riod’ for ‘91-day period’, and

16 “(ii) paragraph (2) shall not apply.

17 “(B) STATUS MUST BE MAINTAINED DUR-  
18 ING HOLDING PERIOD.—For purposes of apply-  
19 ing paragraph (1) with respect to section 245A,  
20 the taxpayer shall be treated as holding the  
21 stock referred to in paragraph (1) for any pe-  
22 riod only if—

23 “(i) the specified 10-percent owned  
24 foreign corporation referred to in section

1           245A(a) is a specified 10-percent owned  
2           foreign corporation for such period, and  
3           “(ii) the taxpayer is a United States  
4           shareholder with respect to such specified  
5           10-percent owned foreign corporation for  
6           such period.”.

7           (c) APPLICATION OF RULES GENERALLY APPLICA-  
8           BLE TO DEDUCTIONS FOR DIVIDENDS RECEIVED.—

9           (1) TREATMENT OF DIVIDENDS FROM CERTAIN  
10          CORPORATIONS.—Section 246(a)(1) is amended by  
11          striking “and 245” and inserting “245, and 245A”.

12          (2) COORDINATION WITH SECTION 1059.—Sec-  
13          tion 1059(b)(2)(B) is amended by striking “or 245”  
14          and inserting “245, or 245A”.

15          (d) COORDINATION WITH FOREIGN TAX CREDIT  
16          LIMITATION.—Section 904(b) is amended by adding at  
17          the end the following new paragraph:

18                 “(5) TREATMENT OF DIVIDENDS FOR WHICH  
19                 DEDUCTION IS ALLOWED UNDER SECTION 245A.—  
20                 For purposes of subsection (a), in the case of a  
21                 United States shareholder with respect to a specified  
22                 10-percent owned foreign corporation, such share-  
23                 holder’s taxable income from sources without the  
24                 United States (and entire taxable income) shall be  
25                 determined without regard to—



1           “(A) the foreign-source portion of any divi-  
2           dend received from such foreign corporation,  
3           and

4           “(B) any deductions properly allocable or  
5           apportioned to—

6                   “(i) income (other than subpart F in-  
7                   come (as defined in section 952) and for-  
8                   eign high return amounts (as defined in  
9                   section 951A(b)) with respect to stock of  
10                  such specified 10-percent owned foreign  
11                  corporation, or

12                   “(ii) such stock (to the extent income  
13                   with respect to such stock is other than  
14                   subpart F income (as so defined) or for-  
15                   eign high return amounts (as so defined)).

16           Any term which is used in section 245A and in this  
17           paragraph shall have the same meaning for purposes  
18           of this paragraph as when used in such section.”.

19           (e) CONFORMING AMENDMENTS.—

20                   (1) Section 245(a)(4) is amended by striking  
21                   “section 902(c)(1)” and inserting “section  
22                   245A(c)(2) applied by substituting ‘qualified 10-per-  
23                   cent owned foreign corporation’ for ‘specified 10-per-  
24                   cent owned foreign corporation’ each place it ap-  
25                   pears”.

1           (2) Section 951(b) is amended by striking “sub-  
2       part” and inserting “title”.

3           (3) Section 957(a) is amended by striking “sub-  
4       part” in the matter preceding paragraph (1) and in-  
5       serting “title”.

6           (4) The table of sections for part VIII of sub-  
7       chapter B of chapter 1 is amended by inserting after  
8       section 245 the following new item:

          “Sec. 245A. Deduction for foreign-source portion of dividends received by do-  
          mestic corporations from specified 10-percent owned foreign  
          corporations.”.

9           (f) **EFFECTIVE DATE.**—The amendments made by  
10       this section shall apply to distributions made after (and,  
11       in the case of the amendments made by subsection (d),  
12       deductions with respect to taxable years ending after) De-  
13       cember 31, 2017.

14       **SEC. 4002. APPLICATION OF PARTICIPATION EXEMPTION**  
15                                   **TO INVESTMENTS IN UNITED STATES PROP-**  
16                                   **ERTY.**

17       (a) **IN GENERAL.**—Section 956(a) is amended in the  
18       matter preceding paragraph (1) by inserting “(other than  
19       a corporation)” after “United States shareholder”.

20       (b) **REGULATORY AUTHORITY TO PREVENT**  
21       **ABUSE.**—Section 956(e) is amended by striking “includ-  
22       ing regulations to prevent” and inserting “including regu-  
23       lations—

1           “(1) to address United States shareholders that  
2           are partnerships with corporate partners, and

3           “(2) to prevent”.

4           (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to taxable years of foreign corpora-  
6 tions beginning after December 31, 2017.

7 **SEC. 4003. LIMITATION ON LOSSES WITH RESPECT TO**  
8           **SPECIFIED 10-PERCENT OWNED FOREIGN**  
9           **CORPORATIONS.**

10          (a) BASIS IN SPECIFIED 10-PERCENT OWNED FOR-  
11 EIGN CORPORATION REDUCED BY NONTAXED PORTION  
12 OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—

13           (1) IN GENERAL.—Section 961 is amended by  
14           adding at the end the following new subsection:

15          “(d) BASIS IN SPECIFIED 10-PERCENT OWNED FOR-  
16 EIGN CORPORATION REDUCED BY NONTAXED PORTION  
17 OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—

18 If a domestic corporation received a dividend from a speci-  
19 fied 10-percent owned foreign corporation (as defined in  
20 section 245A) in any taxable year, solely for purposes of  
21 determining loss on any disposition of stock of such for-  
22 eign corporation in such taxable year or any subsequent  
23 taxable year, the basis of such domestic corporation in  
24 such stock shall be reduced (but not below zero) by the  
25 amount of any deduction allowable to such domestic cor-

1 poration under section 245A with respect to such stock  
2 except to the extent such basis was reduced under section  
3 1059 by reason of a dividend for which such a deduction  
4 was allowable.”.

5 (2) EFFECTIVE DATE.—The amendments made  
6 by this subsection shall apply to distributions made  
7 after December 31, 2017.

8 (b) TREATMENT OF FOREIGN BRANCH LOSSES  
9 TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOR-  
10 EIGN CORPORATIONS.—

11 (1) IN GENERAL.—Part II of subchapter B of  
12 chapter 1 is amended by adding at the end the fol-  
13 lowing new section:

14 **“SEC. 91. CERTAIN FOREIGN BRANCH LOSSES TRANS-**  
15 **FERRED TO SPECIFIED 10-PERCENT OWNED**  
16 **FOREIGN CORPORATIONS.**

17 “(a) IN GENERAL.—If a domestic corporation trans-  
18 fers substantially all of the assets of a foreign branch  
19 (within the meaning of section 367(a)(3)(C)) to a specified  
20 10-percent owned foreign corporation (as defined in sec-  
21 tion 245A) with respect to which it is a United States  
22 shareholder after such transfer, such domestic corporation  
23 shall include in gross income for the taxable year which  
24 includes such transfer an amount equal to the transferred  
25 loss amount with respect to such transfer.

1       “(b) TRANSFERRED LOSS AMOUNT.—For purposes  
2 of this section, the term ‘transferred loss amount’ means,  
3 with respect to any transfer of substantially all of the as-  
4 sets of a foreign branch, the excess (if any) of—

5               “(1) the sum of losses—

6                       “(A) which were incurred by the foreign  
7 branch after December 31, 2017, and before  
8 the transfer, and

9                       “(B) with respect to which a deduction was  
10 allowed to the taxpayer, over

11               “(2) the sum of—

12                       “(A) any taxable income of such branch  
13 for a taxable year after the taxable year in  
14 which the loss was incurred and through the  
15 close of the taxable year of the transfer, and

16                       “(B) any amount which is recognized  
17 under section 904(f)(3) on account of the trans-  
18 fer.

19       “(c) REDUCTION FOR RECOGNIZED GAINS.—

20               “(1) IN GENERAL.—In the case of a transfer  
21 not described in section 367(a)(3)(C), the trans-  
22 ferred loss amount shall be reduced (but not below  
23 zero) by the amount of gain recognized by the tax-  
24 payer on account of the transfer (other than

1 amounts taken into account under subsection  
2 (e)(2)(B)).

3 “(2) COORDINATION WITH RECOGNITION  
4 UNDER SECTION 367.—In the case of a transfer de-  
5 scribed in section 367(a)(3)(C), the transferred loss  
6 amount shall not exceed the excess (if any) of—

7 “(A) the excess of the amount described in  
8 section 367(a)(3)(C)(i) over the amount de-  
9 scribed in section 367(a)(3)(C)(ii) with respect  
10 to such transfer, over

11 “(B) the amount of gain recognized under  
12 section 367(a)(3)(C) with respect to such trans-  
13 fer.

14 “(d) SOURCE OF INCOME.—Amounts included in  
15 gross income under this section shall be treated as derived  
16 from sources within the United States.

17 “(e) BASIS ADJUSTMENTS.—Consistent with such  
18 regulations or other guidance as the Secretary may pre-  
19 scribe, proper adjustments shall be made in the adjusted  
20 basis of the taxpayer’s stock in the specified 10-percent  
21 owned foreign corporation to which the transfer is made,  
22 and in the transferee’s adjusted basis in the property  
23 transferred, to reflect amounts included in gross income  
24 under this section.”.

1           (2) AMOUNTS RECOGNIZED UNDER SECTION 367  
2           ON TRANSFER OF FOREIGN BRANCH WITH PRE-  
3           VIOUSLY DEDUCTED LOSSES TREATED AS UNITED  
4           STATES SOURCE.—Section 367(a)(3)(C) is amended  
5           by striking “outside” in the last sentence and insert-  
6           ing “within”.

7           (3) CLERICAL AMENDMENT.—The table of sec-  
8           tions for part II of subchapter B of chapter 1 is  
9           amended by adding at the end the following new  
10          item:

        “Sec. 91. Certain foreign branch losses transferred to specified 10-percent  
        owned foreign corporations.”.

11          (4) EFFECTIVE DATE.—The amendments made  
12          by this subsection shall apply to transfers after De-  
13          cember 31, 2017.

14   **SEC. 4004. TREATMENT OF DEFERRED FOREIGN INCOME**  
15                   **UPON TRANSITION TO PARTICIPATION EX-**  
16                   **EMPTION SYSTEM OF TAXATION.**

17          (a) IN GENERAL.—Section 965 is amended to read  
18          as follows:

19   **“SEC. 965. TREATMENT OF DEFERRED FOREIGN INCOME**  
20                   **UPON TRANSITION TO PARTICIPATION EX-**  
21                   **EMPTION SYSTEM OF TAXATION.**

22          “(a) TREATMENT OF DEFERRED FOREIGN INCOME  
23          AS SUBPART F INCOME.—In the case of the last taxable  
24          year of a deferred foreign income corporation which begins

1 before January 1, 2018, the subpart F income of such  
2 foreign corporation (as otherwise determined for such tax-  
3 able year under section 952) shall be increased by the  
4 greater of—

5 “(1) the accumulated post-1986 deferred for-  
6 eign income of such corporation determined as of  
7 November 2, 2017, or

8 “(2) the accumulated post-1986 deferred for-  
9 eign income of such corporation determined as of  
10 December 31, 2017.

11 “(b) REDUCTION IN AMOUNTS INCLUDED IN GROSS  
12 INCOME OF UNITED STATES SHAREHOLDERS OF SPECI-  
13 FIED FOREIGN CORPORATIONS WITH DEFICITS IN EARN-  
14 INGS AND PROFITS.—

15 “(1) IN GENERAL.—In the case of a taxpayer  
16 which is a United States shareholder with respect to  
17 at least one deferred foreign income corporation and  
18 at least one E&P deficit foreign corporation, the  
19 amount which would (but for this subsection) be  
20 taken into account under section 951(a)(1) by rea-  
21 son of subsection (a) as such United States share-  
22 holder’s pro rata share of the subpart F income of  
23 each deferred foreign income corporation shall be re-  
24 duced (but not below zero) by the amount of such  
25 United States shareholder’s aggregate foreign E&P



1 deficit which is allocated under paragraph (2) to  
2 such deferred foreign income corporation.

3 “(2) ALLOCATION OF AGGREGATE FOREIGN E&P  
4 DEFICIT.—The aggregate foreign E&P deficit of any  
5 United States shareholder shall be allocated among  
6 the deferred foreign income corporations of such  
7 United States shareholder in an amount which bears  
8 the same proportion to such aggregate as—

9 “(A) such United States shareholder’s pro  
10 rata share of the accumulated post-1986 de-  
11 ferred foreign income of each such deferred for-  
12 eign income corporation, bears to

13 “(B) the aggregate of such United States  
14 shareholder’s pro rata share of the accumulated  
15 post-1986 deferred foreign income of all de-  
16 ferred foreign income corporations of such  
17 United States shareholder.

18 “(3) DEFINITIONS RELATED TO E&P DEFICI-  
19 TIES.—For purposes of this subsection—

20 “(A) AGGREGATE FOREIGN E&P DEF-  
21 ICIT.—The term ‘aggregate foreign E&P deficit’  
22 means, with respect to any United States share-  
23 holder, the aggregate of such shareholder’s pro  
24 rata shares of the specified E&P deficits of the

1 E&P deficit foreign corporations of such share-  
2 holder.

3 “(B) E&P DEFICIT FOREIGN CORPORA-  
4 TION.—The term ‘E&P deficit foreign corpora-  
5 tion’ means, with respect to any taxpayer, any  
6 specified foreign corporation with respect to  
7 which such taxpayer is a United States share-  
8 holder, if—

9 “(i) such specified foreign corporation  
10 has a deficit in post-1986 earnings and  
11 profits, and

12 “(ii) as of November 2, 2017—

13 “(I) such corporation was a spec-  
14 ified foreign corporation, and

15 “(II) such taxpayer was a United  
16 States shareholder of such corpora-  
17 tion.

18 “(C) SPECIFIED E&P DEFICIT.—The term  
19 ‘specified E&P deficit’ means, with respect to  
20 any E&P deficit foreign corporation, the  
21 amount of the deficit referred to in subpara-  
22 graph (B).

23 “(4) NETTING AMONG UNITED STATES SHARE-  
24 HOLDERS IN SAME AFFILIATED GROUP.—

1           “(A) IN GENERAL.—In the case of any af-  
2           filiated group which includes at least one E&P  
3           net surplus shareholder and one E&P net def-  
4           icit shareholder, the amount which would (but  
5           for this paragraph) be taken into account under  
6           section 951(a)(1) by reason of subsection (a) by  
7           each such E&P net surplus shareholder shall be  
8           reduced (but not below zero) by such share-  
9           holder’s applicable share of the affiliated  
10          group’s aggregate unused E&P deficit.

11          “(B) E&P NET SURPLUS SHARE-  
12          HOLDER.—For purposes of this paragraph, the  
13          term ‘E&P net surplus shareholder’ means any  
14          United States shareholder which would (deter-  
15          mined without regard to this paragraph) take  
16          into account an amount greater than zero  
17          under section 951(a)(1) by reason of subsection  
18          (a).

19          “(C) E&P NET DEFICIT SHAREHOLDER.—  
20          For purposes of this paragraph, the term ‘E&P  
21          net deficit shareholder’ means any United  
22          States shareholder if—

23                 “(i) the aggregate foreign E&P deficit  
24                 with respect to such shareholder (as de-  
25                 fined in paragraph (3)(A)), exceeds

1           “(ii) the amount which would (but for  
2           this subsection) be taken into account by  
3           such shareholder under section 951(a)(1)  
4           by reason of subsection (a).

5           “(D) AGGREGATE UNUSED E&P DEFICIT.—  
6           For purposes of this paragraph—

7           “(i) IN GENERAL.—The term ‘aggre-  
8           gate unused E&P deficit’ means, with re-  
9           spect to any affiliated group, the lesser  
10          of—

11          “(I) the sum of the excesses de-  
12          scribed in subparagraph (C), deter-  
13          mined with respect to each E&P net  
14          deficit shareholder in such group, or

15          “(II) the amount determined  
16          under subparagraph (E)(ii).

17          “(ii) REDUCTION WITH RESPECT TO  
18          E&P NET DEFICIT SHAREHOLDERS WHICH  
19          ARE NOT WHOLLY OWNED BY THE AFFILI-  
20          ATED GROUP.—If the group ownership per-  
21          centage of any E&P net deficit shareholder  
22          is less than 100 percent, the amount of the  
23          excess described in subparagraph (C)  
24          which is taken into account under clause  
25          (i)(I) with respect to such E&P net deficit

1           shareholder shall be such group ownership  
2           percentage of such amount.

3           “(E) APPLICABLE SHARE.—For purposes  
4           of this paragraph, the term ‘applicable share’  
5           means, with respect to any E&P net surplus  
6           shareholder in any affiliated group, the amount  
7           which bears the same proportion to such  
8           group’s aggregate unused E&P deficit as—

9                   “(i) the product of—

10                           “(I) such shareholder’s group  
11                           ownership percentage, multiplied by

12                                   “(II) the amount which would  
13                                   (but for this paragraph) be taken into  
14                                   account under section 951(a)(1) by  
15                                   reason of subsection (a) by such  
16                                   shareholder, bears to

17                                   “(ii) the aggregate amount deter-  
18                                   mined under clause (i) with respect to all  
19                                   E&P net surplus shareholders in such  
20                                   group.

21           “(F) GROUP OWNERSHIP PERCENTAGE.—  
22           For purposes of this paragraph, the term  
23           ‘group ownership percentage’ means, with re-  
24           spect to any United States shareholder in any  
25           affiliated group, the percentage of the value of

1 the stock of such United States shareholder  
2 which is held by other includible corporations in  
3 such affiliated group. Notwithstanding the pre-  
4 ceding sentence, the group ownership percent-  
5 age of the common parent of the affiliated  
6 group is 100 percent. Any term used in this  
7 subparagraph which is also used in section  
8 1504 shall have the same meaning as when  
9 used in such section.

10 “(c) APPLICATION OF PARTICIPATION EXEMPTION  
11 TO INCLUDED INCOME.—

12 “(1) IN GENERAL.—In the case of a United  
13 States shareholder of a deferred foreign income cor-  
14 poration, there shall be allowed as a deduction for  
15 the taxable year in which an amount is included in  
16 the gross income of such United States shareholder  
17 under section 951(a)(1) by reason of this section an  
18 amount equal to the sum of—

19 “(A) the United States shareholder’s 7  
20 percent rate equivalent percentage of the excess  
21 (if any) of—

22 “(i) the amount so included as gross  
23 income, over

1                   “(ii) the amount of such United  
2                   States shareholder’s aggregate foreign cash  
3                   position, plus

4                   “(B) the United States shareholder’s 14  
5                   percent rate equivalent percentage of so much  
6                   of the amount described in subparagraph (A)(ii)  
7                   as does not exceed the amount described in sub-  
8                   paragraph (A)(i).

9                   “(2) 7 AND 14 PERCENT RATE EQUIVALENT  
10                  PERCENTAGES.—For purposes of this subsection—

11                  “(A) 7 PERCENT RATE EQUIVALENT PER-  
12                  CENTAGE.—The term ‘7 percent rate equivalent  
13                  percentage’ means, with respect to any United  
14                  States shareholder for any taxable year, the  
15                  percentage which would result in the amount to  
16                  which such percentage applies being subject to  
17                  a 7 percent rate of tax determined by only tak-  
18                  ing into account a deduction equal to such per-  
19                  centage of such amount and the highest rate of  
20                  tax specified in section 11 for such taxable  
21                  year. In the case of any taxable year of a  
22                  United States shareholder to which section 15  
23                  applies, the highest rate of tax under section 11  
24                  before the effective date of the change in rates  
25                  and the highest rate of tax under section 11

1 after the effective date of such change shall  
2 each be taken into account under the preceding  
3 sentence in the same proportions as the portion  
4 of such taxable year which is before and after  
5 such effective date, respectively.

6 “(B) 14 PERCENT RATE EQUIVALENT PER-  
7 CENTAGE.—The term ‘14 percent rate equiva-  
8 lent percentage’ means, with respect to any  
9 United States shareholder for any taxable year,  
10 the percentage determined under subparagraph  
11 (A) applied by substituting ‘14 percent rate of  
12 tax’ for ‘7 percent rate of tax’.

13 “(3) AGGREGATE FOREIGN CASH POSITION.—  
14 For purposes of this subsection—

15 “(A) IN GENERAL.—The term ‘aggregate  
16 foreign cash position’ means, with respect to  
17 any United States shareholder, one-third of the  
18 sum of—

19 “(i) the aggregate of such United  
20 States shareholder’s pro rata share of the  
21 cash position of each specified foreign cor-  
22 poration of such United States shareholder  
23 determined as of November 2, 2017,

24 “(ii) the aggregate described in clause  
25 (i) determined as of the close of the last



1 taxable year of each such specified foreign  
2 corporation which ends before November 2,  
3 2017, and

4 “(iii) the aggregate described in  
5 clause (i) determined as of the close of the  
6 taxable year of each such specified foreign  
7 corporation which precedes the taxable  
8 year referred to in clause (ii).

9 In the case of any foreign corporation which did  
10 not exist as of the determination date described  
11 in clause (ii) or (iii), this subparagraph shall be  
12 applied separately to such foreign corporation  
13 by not taking into account such clause and by  
14 substituting ‘one-half (100 percent in the case  
15 that both clauses (ii) and (iii) are disregarded)’  
16 for ‘one-third’.

17 “(B) CASH POSITION.—For purposes of  
18 this paragraph, the cash position of any speci-  
19 fied foreign corporation is the sum of—

20 “(i) cash held by such foreign cor-  
21 poration,

22 “(ii) the net accounts receivable of  
23 such foreign corporation, plus

24 “(iii) the fair market value of the fol-  
25 lowing assets held by such corporation:

1                   “(I) Actively traded personal  
2                   property for which there is an estab-  
3                   lished financial market.

4                   “(II) Commercial paper, certifi-  
5                   cates of deposit, the securities of the  
6                   Federal government and of any State  
7                   or foreign government.

8                   “(III) Any foreign currency.

9                   “(IV) Any obligation with a term  
10                  of less than one year.

11                  “(V) Any asset which the Sec-  
12                  retary identifies as being economically  
13                  equivalent to any asset described in  
14                  this subparagraph.

15                  “(C) NET ACCOUNTS RECEIVABLE.—For  
16                  purposes of this paragraph, the term ‘net ac-  
17                  counts receivable’ means, with respect to any  
18                  specified foreign corporation, the excess (if any)  
19                  of—

20                         “(i) such corporation’s accounts re-  
21                         ceivable, over

22                         “(ii) such corporation’s accounts pay-  
23                         able (determined consistent with the rules  
24                         of section 461).

1                   “(D) PREVENTION OF DOUBLE COUNT-  
2                   ING.—

3                   “(i) IN GENERAL.—The applicable  
4                   percentage of each specified cash position  
5                   of a specified foreign corporation shall not  
6                   be taken into account by—

7                   “(I) the United States share-  
8                   holder referred to in clause (ii) with  
9                   respect to such position, or

10                   “(II) any United States share-  
11                   holder which is an includible corpora-  
12                   tion in the same affiliated group as  
13                   such United States shareholder re-  
14                   ferred to in clause (ii).

15                   “(ii) SPECIFIED CASH POSITION.—For  
16                   purposes of this subparagraph, the term  
17                   ‘specified cash position’ means—

18                   “(I) amounts described in sub-  
19                   paragraph (B)(ii) to the extent such  
20                   amounts are receivable from another  
21                   specified foreign corporation with re-  
22                   spect to any United States share-  
23                   holder,

24                   “(II) amounts described in sub-  
25                   paragraph (B)(iii)(I) to the extent

1 such amounts consist of an equity in-  
2 terest in another specified foreign cor-  
3 poration with respect to any United  
4 States shareholder, and

5 “(III) amounts described in sub-  
6 paragraph (B)(iii)(IV) to the extent  
7 that another specified foreign corpora-  
8 tion with respect to any United States  
9 shareholder is obligated to repay such  
10 amount.

11 “(iii) APPLICABLE PERCENTAGE.—  
12 For purposes of this subparagraph, the  
13 term ‘applicable percentage’ means—

14 “(I) with respect to each speci-  
15 fied cash position described in sub-  
16 clause (I) or (III) of clause (ii), the  
17 pro rata share of the United States  
18 shareholder referred to in clause (ii)  
19 with respect to the specified foreign  
20 corporation referred to in such clause,  
21 and

22 “(II) with respect to each speci-  
23 fied cash position described in clause  
24 (ii)(II), the ratio (expressed as a per-  
25 centage and not in excess of 100 per-

1 cent) of the United States share-  
2 holder's pro rata share of the cash po-  
3 sition of the specified foreign corpora-  
4 tion referred to in such clause divided  
5 by the amount of such specified cash  
6 position.

7 For purposes of this subparagraph, a sepa-  
8 rate applicable percentage shall be deter-  
9 mined under each of subclauses (I) and  
10 (II) with respect to each specified foreign  
11 corporation referred to in clause (ii) with  
12 respect to which a specified cash position  
13 is determined for the specified foreign cor-  
14 poration referred to in clause (i).

15 “(iv) REDUCTION WITH RESPECT TO  
16 AFFILIATED GROUP MEMBERS NOT WHOL-  
17 LY OWNED BY THE AFFILIATED GROUP.—  
18 For purposes of clause (i)(II), in the case  
19 of an includible corporation the group own-  
20 ership percentage of which is less than 100  
21 percent (as determined under subsection  
22 (b)(4)(F)), the amount not take into ac-  
23 count by reason of such clause shall be the  
24 group ownership percentage of such

1 amount (determined without regard to this  
2 clause).

3 “(E) CERTAIN BLOCKED ASSETS NOT  
4 TAKEN INTO ACCOUNT.—A cash position of a  
5 specified foreign corporation shall not be taken  
6 into account under subparagraph (A) if such  
7 position could not (as of the date that it would  
8 otherwise have been taken into account under  
9 clause (i), (ii), or (iii) of subparagraph (A))  
10 have been distributed by such specified foreign  
11 corporation to United States shareholders of  
12 such specified foreign corporation because of  
13 currency or other restrictions or limitations im-  
14 posed under the laws of any foreign country  
15 (within the meaning of section 964(b)).

16 “(F) CASH POSITIONS OF CERTAIN NON-  
17 CORPORATE ENTITIES TAKEN INTO ACCOUNT.—  
18 An entity (other than a domestic corporation)  
19 shall be treated as a specified foreign corpora-  
20 tion of a United States shareholder for pur-  
21 poses of determining such United States share-  
22 holder’s aggregate foreign cash position if any  
23 interest in such entity is held by a specified for-  
24 eign corporation of such United States share-  
25 holder (determined after application of this sub-

1 paragraph) and such entity would be a specified  
2 foreign corporation of such United States  
3 shareholder if such entity were a foreign cor-  
4 poration.

5 “(G) TIME OF CERTAIN DETERMINA-  
6 TIONS.—For purposes of this paragraph, the  
7 determination of whether a person is a United  
8 States shareholder, whether a person is a speci-  
9 fied foreign corporation, and the pro rata share  
10 of a United States shareholder with respect to  
11 a specified foreign corporation, shall be deter-  
12 mined as of the end of the taxable year de-  
13 scribed in subsection (a).

14 “(H) ANTI-ABUSE.—If the Secretary de-  
15 termines that the principal purpose of any  
16 transaction was to reduce the aggregate foreign  
17 cash position taken into account under this sub-  
18 section, such transaction shall be disregarded  
19 for purposes of this subsection.

20 “(d) DEFERRED FOREIGN INCOME CORPORATION;  
21 ACCUMULATED POST-1986 DEFERRED FOREIGN IN-  
22 COME.—For purposes of this section—

23 “(1) DEFERRED FOREIGN INCOME CORPORA-  
24 TION.—The term ‘deferred foreign income corpora-  
25 tion’ means, with respect to any United States

1 shareholder, any specified foreign corporation of  
2 such United States shareholder which has accumu-  
3 lated post-1986 deferred foreign income (as of the  
4 date referred to in paragraph (1) or (2) of sub-  
5 section (a), whichever is applicable with respect to  
6 such foreign corporation) greater than zero.

7 “(2) ACCUMULATED POST-1986 DEFERRED FOR-  
8 EIGN INCOME.—The term ‘accumulated post-1986  
9 deferred foreign income’ means the post-1986 earn-  
10 ings and profits except to the extent such earnings—

11 “(A) are attributable to income of the  
12 specified foreign corporation which is effectively  
13 connected with the conduct of a trade or busi-  
14 ness within the United States and subject to  
15 tax under this chapter, or

16 “(B) if distributed, would be excluded from  
17 the gross income of a United States shareholder  
18 under section 959.

19 To the extent provided in regulations or other guid-  
20 ance prescribed by the Secretary, in the case of any  
21 controlled foreign corporation which has share-  
22 holders which are not United States shareholders,  
23 accumulated post-1986 deferred foreign income shall  
24 be appropriately reduced by amounts which would be



1 described in subparagraph (B) if such shareholders  
2 were United States shareholders.

3 “(3) POST-1986 EARNINGS AND PROFITS.—The  
4 term ‘post-1986 earnings and profits’ means the  
5 earnings and profits of the foreign corporation (com-  
6 puted in accordance with sections 964(a) and 986)  
7 accumulated in taxable years beginning after Decem-  
8 ber 31, 1986, and determined—

9 “(A) as of the date referred to in para-  
10 graph (1) or (2) of subsection (a), whichever is  
11 applicable with respect to such foreign corpora-  
12 tion,

13 “(B) without diminution by reason of divi-  
14 dends distributed during the taxable year end-  
15 ing with or including such date, and

16 “(C) increased by the amount of any quali-  
17 fied deficit (within the meaning of section  
18 952(c)(1)(B)(ii)) arising before January 1,  
19 2018, which is treated as a qualified deficit  
20 (within the meaning of such section as amended  
21 by the Tax Cuts and Jobs Act) for purposes of  
22 such foreign corporation’s first taxable year be-  
23 ginning after December 31, 2017.

24 “(e) SPECIFIED FOREIGN CORPORATION.—

1           “(1) IN GENERAL.—For purposes of this sec-  
2           tion, the term ‘specified foreign corporation’  
3           means—

4                   “(A) any controlled foreign corporation,  
5                   and

6                   “(B) any foreign corporation with respect  
7                   to which one or more domestic corporations is  
8                   a United States shareholder (determined with-  
9                   out regard to section 958(b)(4)).

10           “(2) APPLICATION TO CERTAIN FOREIGN COR-  
11           PORATIONS.—For purposes of sections 951 and 961,  
12           a foreign corporation described in paragraph (1)(B)  
13           shall be treated as a controlled foreign corporation  
14           solely for purposes of taking into account the sub-  
15           part F income of such corporation under subsection  
16           (a) (and for purposes of applying subsection (f)).

17           “(3) EXCEPTION FOR PASSIVE FOREIGN IN-  
18           VESTMENT COMPANIES.—The term ‘specified foreign  
19           corporation’ shall not include any passive foreign in-  
20           vestment company (within the meaning of subpart D  
21           of part VI of subchapter P) that is not a controlled  
22           foreign corporation.

23           “(f) DETERMINATIONS OF PRO RATA SHARE.—For  
24           purposes of this section, the determination of any United  
25           States shareholder’s pro rata share of any amount with

1 respect to any specified foreign corporation shall be deter-  
2 mined under rules similar to the rules of section 951(a)(2)  
3 by treating such amount in the same manner as subpart  
4 F income (and by treating such specified foreign corpora-  
5 tion as a controlled foreign corporation).

6 “(g) DISALLOWANCE OF FOREIGN TAX CREDIT,  
7 ETC.—

8 “(1) IN GENERAL.—No credit shall be allowed  
9 under section 901 for the applicable percentage of  
10 any taxes paid or accrued (or treated as paid or ac-  
11 crued) with respect to any amount for which a de-  
12 duction is allowed under this section.

13 “(2) APPLICABLE PERCENTAGE.—For purposes  
14 of this subsection, the term ‘applicable percentage’  
15 means the amount (expressed as a percentage) equal  
16 to the sum of—

17 “(A) 80 percent of the ratio of—

18 “(i) the excess to which subsection  
19 (c)(1)(A) applies, divided by

20 “(ii) the sum of such excess plus the  
21 amount to which subsection (c)(1)(B) ap-  
22 plies, plus

23 “(B) 60 percent of the ratio of—

24 “(i) the amount to which subsection  
25 (c)(1)(B) applies, divided by

1                   “(ii) the sum described in subpara-  
2                   graph (A)(ii).

3                   “(3) DENIAL OF DEDUCTION.—No deduction  
4                   shall be allowed under this chapter for any tax for  
5                   which credit is not allowable under section 901 by  
6                   reason of paragraph (1) (determined by treating the  
7                   taxpayer as having elected the benefits of subpart A  
8                   of part III of subchapter N).

9                   “(4) COORDINATION WITH SECTION 78.—With  
10                  respect to the taxes treated as paid or accrued by a  
11                  domestic corporation with respect to amounts which  
12                  are includible in gross income of such domestic cor-  
13                  poration by reason of this section, section 78 shall  
14                  apply only to so much of such taxes as bears the  
15                  same proportion to the amount of such taxes as—

16                  “(A) the excess of—

17                         “(i) the amounts which are includible  
18                         in gross income of such domestic corpora-  
19                         tion by reason of this section, over

20                         “(ii) the deduction allowable under  
21                         subsection (c) with respect to such  
22                         amounts, bears to

23                  “(B) such amounts.

24                  “(5) EXTENSION OF FOREIGN TAX CREDIT CAR-  
25                  RYOVER PERIOD.—With respect to any taxes paid or

1 accrued (or treated as paid or accrued) with respect  
2 to any amount for which a deduction is allowed  
3 under this section, section 904(c) shall be applied by  
4 substituting ‘first 20 succeeding taxable years’ for  
5 ‘first 10 succeeding taxable years’.

6 “(h) ELECTION TO PAY LIABILITY IN INSTALL-  
7 MENTS.—

8 “(1) IN GENERAL.—In the case of a United  
9 States shareholder of a deferred foreign income cor-  
10 poration, such United States shareholder may elect  
11 to pay the net tax liability under this section in 8  
12 equal installments.

13 “(2) DATE FOR PAYMENT OF INSTALLMENTS.—  
14 If an election is made under paragraph (1), the first  
15 installment shall be paid on the due date (deter-  
16 mined without regard to any extension of time for  
17 filing the return) for the return of tax for the tax-  
18 able year described in subsection (a) and each suc-  
19 ceeding installment shall be paid on the due date (as  
20 so determined) for the return of tax for the taxable  
21 year following the taxable year with respect to which  
22 the preceding installment was made.

23 “(3) ACCELERATION OF PAYMENT.—If there is  
24 an addition to tax for failure to timely pay any in-  
25 stallment required under this subsection, a liquida-

1       tion or sale of substantially all the assets of the tax-  
2       payer (including in a title 11 or similar case), a ces-  
3       sation of business by the taxpayer, or any similar  
4       circumstance, then the unpaid portion of all remain-  
5       ing installments shall be due on the date of such  
6       event (or in the case of a title 11 or similar case,  
7       the day before the petition is filed). The preceding  
8       sentence shall not apply to the sale of substantially  
9       all the assets of a taxpayer to a buyer if such buyer  
10      enters into an agreement with the Secretary under  
11      which such buyer is liable for the remaining install-  
12      ments due under this subsection in the same manner  
13      as if such buyer were the taxpayer.

14           “(4) PRORATION OF DEFICIENCY TO INSTALL-  
15      MENTS.—If an election is made under paragraph (1)  
16      to pay the net tax liability under this section in in-  
17      stallments and a deficiency has been assessed with  
18      respect to such net tax liability, the deficiency shall  
19      be prorated to the installments payable under para-  
20      graph (1). The part of the deficiency so prorated to  
21      any installment the date for payment of which has  
22      not arrived shall be collected at the same time as,  
23      and as a part of, such installment. The part of the  
24      deficiency so prorated to any installment the date  
25      for payment of which has arrived shall be paid upon

1 notice and demand from the Secretary. This sub-  
2 section shall not apply if the deficiency is due to  
3 negligence, to intentional disregard of rules and reg-  
4 ulations, or to fraud with intent to evade tax.

5 “(5) ELECTION.—Any election under paragraph  
6 (1) shall be made not later than the due date for the  
7 return of tax for the taxable year described in sub-  
8 section (a) and shall be made in such manner as the  
9 Secretary may provide.

10 “(6) NET TAX LIABILITY UNDER THIS SEC-  
11 TION.—For purposes of this subsection—

12 “(A) IN GENERAL.—The net tax liability  
13 under this section with respect to any United  
14 States shareholder is the excess (if any) of—

15 “(i) such taxpayer’s net income tax  
16 for the taxable year in which an amount is  
17 included in the gross income of such  
18 United States shareholder under section  
19 951(a)(1) by reason of this section, over

20 “(ii) such taxpayer’s net income tax  
21 for such taxable year determined—

22 “(I) without regard to this sec-  
23 tion, and

24 “(II) without regard to any in-  
25 come, deduction, or credit, properly

1                   attributable to a dividend received by  
2                   such United States shareholder from  
3                   any deferred foreign income corpora-  
4                   tion.

5                   “(B) NET INCOME TAX.—The term ‘net  
6                   income tax’ means the regular tax liability re-  
7                   duced by the credits allowed under subparts A,  
8                   B, and D of part IV of subchapter A.

9                   “(i) SPECIAL RULES FOR S CORPORATION SHARE-  
10                  HOLDERS.—

11                  “(1) IN GENERAL.—In the case of any S cor-  
12                  poration which is a United States shareholder of a  
13                  deferred foreign income corporation, each share-  
14                  holder of such S corporation may elect to defer pay-  
15                  ment of such shareholder’s net tax liability under  
16                  this section with respect to such S corporation until  
17                  the shareholder’s taxable year which includes the  
18                  triggering event with respect to such liability. Any  
19                  net tax liability payment of which is deferred under  
20                  the preceding sentence shall be assessed on the re-  
21                  turn as an addition to tax in the shareholder’s tax-  
22                  able year which includes such triggering event.

23                  “(2) TRIGGERING EVENT.—

24                  “(A) IN GENERAL.—In the case of any  
25                  shareholder’s net tax liability under this section



1 with respect to any S corporation, the trig-  
2 gering event with respect to such liability is  
3 whichever of the following occurs first:

4 “(i) Such corporation ceases to be an  
5 S corporation (determined as of the first  
6 day of the first taxable year that such cor-  
7 poration is not an S corporation).

8 “(ii) A liquidation or sale of substan-  
9 tially all the assets of such S corporation  
10 (including in a title 11 or similar case), a  
11 cessation of business by such S corpora-  
12 tion, such S corporation ceases to exist, or  
13 any similar circumstance.

14 “(iii) A transfer of any share of stock  
15 in such S corporation by the taxpayer (in-  
16 cluding by reason of death, or otherwise).

17 “(B) PARTIAL TRANSFERS OF STOCK.—In  
18 the case of a transfer of less than all of the tax-  
19 payer’s shares of stock in the S corporation,  
20 such transfer shall only be a triggering event  
21 with respect to so much of the taxpayer’s net  
22 tax liability under this section with respect to  
23 such S corporation as is properly allocable to  
24 such stock.

1           “(C) TRANSFER OF LIABILITY.—A trans-  
2           fer described in clause (iii) shall not be treated  
3           as a triggering event if the transferee enters  
4           into an agreement with the Secretary under  
5           which such transferee is liable for net tax liabil-  
6           ity with respect to such stock in the same man-  
7           ner as if such transferee were the taxpayer.

8           “(3) NET TAX LIABILITY.—A shareholder’s net  
9           tax liability under this section with respect to any S  
10          corporation is the net tax liability under this section  
11          which would be determined under subsection (h)(6)  
12          if the only subpart F income taken into account by  
13          such shareholder by reason of this section were allo-  
14          cations from such S corporation.

15          “(4) ELECTION TO PAY DEFERRED LIABILITY  
16          IN INSTALLMENTS.—In the case of a taxpayer which  
17          elects to defer payment under paragraph (1)—

18                 “(A) subsection (h) shall be applied sepa-  
19                 rately with respect to the liability to which such  
20                 election applies,

21                 “(B) an election under subsection (h) with  
22                 respect to such liability shall be treated as time-  
23                 ly made if made not later than the due date for  
24                 the return of tax for the taxable year in which

1 the triggering event with respect to such liabil-  
2 ity occurs,

3 “(C) the first installment under subsection  
4 (h) with respect to such liability shall be paid  
5 not later than such due date (but determined  
6 without regard to any extension of time for fil-  
7 ing the return), and

8 “(D) if the triggering event with respect to  
9 any net tax liability is described in paragraph  
10 (2)(A)(ii), an election under subsection (h) with  
11 respect to such liability may be made only with  
12 the consent of the Secretary.

13 “(5) JOINT AND SEVERAL LIABILITY OF S COR-  
14 PORATION.—If any shareholder of an S corporation  
15 elects to defer payment under paragraph (1), such  
16 S corporation shall be jointly and severally liable for  
17 such payment and any penalty, addition to tax, or  
18 additional amount attributable thereto.

19 “(6) EXTENSION OF LIMITATION ON COLLEC-  
20 TION.—Notwithstanding any other provision of law,  
21 any limitation on the time period for the collection  
22 of a liability deferred under this subsection shall not  
23 be treated as beginning before the date of the trig-  
24 gering event with respect to such liability.

1           “(7) ANNUAL REPORTING OF NET TAX LIABIL-  
2           ITY.—

3           “(A) IN GENERAL.—Any shareholder of an  
4           S corporation which makes an election under  
5           paragraph (1) shall report the amount of such  
6           shareholder’s deferred net tax liability on such  
7           shareholder’s return of tax for the taxable year  
8           for which such election is made and on the re-  
9           turn of tax for each taxable year thereafter  
10          until such amount has been fully assessed on  
11          such returns.

12          “(B) DEFERRED NET TAX LIABILITY.—  
13          For purposes of this paragraph, the term ‘de-  
14          ferred net tax liability’ means, with respect to  
15          any taxable year, the amount of net tax liability  
16          payment of which has been deferred under  
17          paragraph (1) and which has not been assessed  
18          on a return of tax for any prior taxable year.

19          “(C) FAILURE TO REPORT.—In the case of  
20          any failure to report any amount required to be  
21          reported under subparagraph (A) with respect  
22          to any taxable year before the due date for the  
23          return of tax for such taxable year, there shall  
24          be assessed on such return as an addition to  
25          tax 5 percent of such amount.

1           “(8) ELECTION.—Any election under paragraph  
2           (1)—

3                   “(A) shall be made by the shareholder of  
4           the S corporation not later than the due date  
5           for such shareholder’s return of tax for the tax-  
6           able year which includes the close of the taxable  
7           year of such S corporation in which the amount  
8           described in subsection (a) is taken into ac-  
9           count, and

10                   “(B) shall be made in such manner as the  
11           Secretary may provide.

12           “(j) REPORTING BY S CORPORATION.—Each S cor-  
13           poration which is a United States shareholder of a de-  
14           ferred foreign income corporation shall report in its return  
15           of tax under section 6037(a) the amount includible in its  
16           gross income for such taxable year by reason of this sec-  
17           tion and the amount of the deduction allowable by sub-  
18           section (c). Any copy provided to a shareholder under sec-  
19           tion 6037(b) shall include a statement of such share-  
20           holder’s pro rata share of such amounts.

21           “(k) INCLUSION OF DEFERRED FOREIGN INCOME  
22           UNDER THIS SECTION NOT TO TRIGGER RECAPTURE OF  
23           OVERALL FOREIGN LOSS, ETC.—For purposes of sections  
24           904(f)(1) and 907(c)(4), in the case of a United States  
25           shareholder of a deferred foreign income corporation, such

1 United States shareholder's taxable income from sources  
2 without the United States and combined foreign oil and  
3 gas income shall be determined without regard to this sec-  
4 tion.

5 “(l) REGULATIONS.—The Secretary may prescribe  
6 such regulations or other guidance as may be necessary  
7 or appropriate to carry out the provisions of this section.”.

8 (b) CLERICAL AMENDMENT.—The table of sections  
9 for subpart F of part III of subchapter N of chapter 1  
10 is amended by striking the item relating to section 965  
11 and inserting the following:

“Sec. 965. Treatment of deferred foreign income upon transition to participa-  
tion exemption system of taxation.”.

12 **Subtitle B—Modifications Related**  
13 **to Foreign Tax Credit System**

14 **SEC. 4101. REPEAL OF SECTION 902 INDIRECT FOREIGN**  
15 **TAX CREDITS; DETERMINATION OF SECTION**  
16 **960 CREDIT ON CURRENT YEAR BASIS.**

17 (a) REPEAL OF SECTION 902 INDIRECT FOREIGN  
18 TAX CREDITS.—Subpart A of part III of subchapter N  
19 of chapter 1 is amended by striking section 902.

20 (b) DETERMINATION OF SECTION 960 CREDIT ON  
21 CURRENT YEAR BASIS.—Section 960 is amended—

22 (1) by striking subsection (c), by redesignating  
23 subsection (b) as subsection (c), by striking all that

1 precedes subsection (c) (as so redesignated) and in-  
2 serting the following:

3 **“SEC. 960. DEEMED PAID CREDIT FOR SUBPART F INCLU-**  
4 **SIONS.**

5 “(a) IN GENERAL.—For purposes of this subpart, if  
6 there is included in the gross income of a domestic cor-  
7 poration any item of income under section 951(a)(1) with  
8 respect to any controlled foreign corporation with respect  
9 to which such domestic corporation is a United States  
10 shareholder, such domestic corporation shall be deemed to  
11 have paid so much of such foreign corporation’s foreign  
12 income taxes as are properly attributable to such item of  
13 income.

14 “(b) SPECIAL RULES FOR DISTRIBUTIONS FROM  
15 PREVIOUSLY TAXED EARNINGS AND PROFITS.—For pur-  
16 poses of this subpart—

17 “(1) IN GENERAL.—If any portion of a dis-  
18 tribution from a controlled foreign corporation to a  
19 domestic corporation which is a United States share-  
20 holder with respect to such controlled foreign cor-  
21 poration is excluded from gross income under section  
22 959(a), such domestic corporation shall be deemed  
23 to have paid so much of such foreign corporation’s  
24 foreign income taxes as—

1           “(A) are properly attributable to such por-  
2           tion, and

3           “(B) have not been deemed to have to been  
4           paid by such domestic corporation under this  
5           section for the taxable year or any prior taxable  
6           year.

7           “(2) TIERED CONTROLLED FOREIGN CORPORA-  
8           TIONS.—If section 959(b) applies to any portion of  
9           a distribution from a controlled foreign corporation  
10          to another controlled foreign corporation, such con-  
11          trolled foreign corporation shall be deemed to have  
12          paid so much of such other controlled foreign cor-  
13          poration’s foreign income taxes as—

14                 “(A) are properly attributable to such por-  
15                 tion, and

16                 “(B) have not been deemed to have been  
17                 paid by a domestic corporation under this sec-  
18                 tion for the taxable year or any prior taxable  
19                 year.”,

20                 (2) and by adding after subsection (e) (as so re-  
21                 designated) the following new subsections:

22                 “(d) FOREIGN INCOME TAXES.—The term ‘foreign  
23                 income taxes’ means any income, war profits, or excess  
24                 profits taxes paid or accrued to any foreign country or  
25                 possession of the United States.



1 “(e) REGULATIONS.—The Secretary may prescribe  
2 such regulations or other guidance as may be necessary  
3 or appropriate to carry out the provisions of this section.”.

4 (c) CONFORMING AMENDMENTS.—

5 (1) Section 78 is amended to read as follows:

6 **“SEC. 78. GROSS UP FOR DEEMED PAID FOREIGN TAX**  
7 **CREDIT.**

8 “If a domestic corporation chooses to have the bene-  
9 fits of subpart A of part III of subchapter N (relating  
10 to foreign tax credit) for any taxable year, an amount  
11 equal to the taxes deemed to be paid by such corporation  
12 under subsections (a) and (b) of section 960 for such tax-  
13 able year shall be treated for purposes of this title (other  
14 than sections 959, 960, and 961) as an item of income  
15 required to be included in the gross income of such domes-  
16 tic corporation under section 951(a) for such taxable  
17 year.”.

18 (2) Section 245(a)(10)(C) is amended by strik-  
19 ing “sections 902, 907, and 960” and inserting  
20 “sections 907 and 960”.

21 (3) Sections 535(b)(1) and 545(b)(1) are each  
22 amended by striking “section 902(a) or 960(a)(1)”  
23 and inserting “section 960”.

24 (4) Section 814(f)(1) is amended—

25 (A) by striking subparagraph (B), and

1 (B) by striking all that precedes “No in-  
2 come” and inserting the following:

3 “(1) TREATMENT OF FOREIGN TAXES.—”.

4 (5) Section 865(h)(1)(B) is amended by strik-  
5 ing “sections 902, 907, and 960” and inserting  
6 “sections 907 and 960”.

7 (6) Section 901(a) is amended by striking “sec-  
8 tions 902 and 960” and inserting “section 960”.

9 (7) Section 901(e)(2) is amended by striking  
10 “but is not limited to—” and all that follows  
11 through “that portion” and inserting “but is not  
12 limited to, that portion”.

13 (8) Section 901(f) is amended by striking “sec-  
14 tions 902 and 960” and inserting “section 960”.

15 (9) Section 901(j)(1)(A) is amended by striking  
16 “902 or”.

17 (10) Section 901(j)(1)(B) is amended by strik-  
18 ing “sections 902 and 960” and inserting “section  
19 960”.

20 (11) Section 901(k)(2) is amended by striking  
21 “section 853, 902, or 960” and inserting “section  
22 853 or 960”.

23 (12) Section 901(k)(6) is amended by striking  
24 “902 or”.

1           (13) Section 901(m)(1) is amended by striking  
2           “relevant foreign assets—” and all that follows and  
3           inserting “relevant foreign assets shall not be taken  
4           into account in determining the credit allowed under  
5           subsection (a).”.

6           (14) Section 904(d)(1) is amended by striking  
7           “sections 902, 907, and 960” and inserting “sec-  
8           tions 907 and 960”.

9           (15) Section 904(d)(6)(A) is amended by strik-  
10          ing “sections 902, 907, and 960” and inserting  
11          “sections 907 and 960”.

12          (16) Section 904(h)(10)(A) is amended by  
13          striking “sections 902, 907, and 960” and inserting  
14          “sections 907 and 960”.

15          (17) Section 904 is amended by striking sub-  
16          section (k).

17          (18) Section 905(c)(1) is amended by striking  
18          the last sentence.

19          (19) Section 905(c)(2)(B)(i) is amended to read  
20          as follows:

21                         “(i) shall be taken into account for  
22                         the taxable year to which such taxes relate,  
23                         and”.

1           (20) Section 906(a) is amended by striking “(or  
2           deemed, under section 902, paid or accrued during  
3           the taxable year)”.

4           (21) Section 906(b) is amended by striking  
5           paragraphs (4) and (5).

6           (22) Section 907(b)(2)(B) is amended by strik-  
7           ing “902 or”.

8           (23) Section 907(c)(3) is amended—

9                   (A) by striking subparagraph (A) and re-  
10                   designating subparagraphs (B) and (C) as sub-  
11                   paragraphs (A) and (B), respectively, and

12                   (B) by striking “section 960(a)” in sub-  
13                   paragraph (A) (as so redesignated) and insert-  
14                   ing “section 960”.

15           (24) Section 907(c)(5) is amended by striking  
16           “902 or”.

17           (25) Section 907(f)(2)(B)(i) is amended by  
18           striking “902 or”.

19           (26) Section 908(a) is amended by striking  
20           “902 or”.

21           (27) Section 909(b) is amended—

22                   (A) by striking “section 902 corporation”  
23                   in the matter preceding paragraph (1) and in-  
24                   serting “10/50 corporation”,

25                   (B) by striking “902 or” in paragraph (1),

1 (C) by striking “by such section 902 cor-  
2 poration” and all that follows in the matter fol-  
3 lowing paragraph (2) and inserting “by such  
4 10/50 corporation or a domestic corporation  
5 which is a United States shareholder with re-  
6 spect to such 10/50 corporation.”, and

7 (D) by striking “SECTION 902 CORPORA-  
8 TIONS” in the heading thereof and inserting  
9 “10/50 CORPORATIONS”.

10 (28) Section 909(d)(5) is amended to read as  
11 follows:

12 “(5) 10/50 CORPORATION.—The term ‘10/50  
13 corporation’ means any foreign corporation with re-  
14 spect to which one or more domestic corporations is  
15 a United States shareholder.”.

16 (29) Section 958(a)(1) is amended by striking  
17 “960(a)(1)” and inserting “960”.

18 (30) Section 959(d) is amended by striking  
19 “Except as provided in section 960(a)(3), any” and  
20 inserting “Any”.

21 (31) Section 959(e) is amended by striking  
22 “section 960(b)” and inserting “section 960(c)”.

23 (32) Section 1291(g)(2)(A) is amended by  
24 striking “any distribution—” and all that follows  
25 through “but only if” and inserting “any distribu-

1       tion, any withholding tax imposed with respect to  
2       such distribution, but only if”.

3           (33) Section 6038(c)(1)(B) is amended by  
4       striking “sections 902 (relating to foreign tax credit  
5       for corporate stockholder in foreign corporation) and  
6       960 (relating to special rules for foreign tax credit)”  
7       and inserting “section 960”.

8           (34) Section 6038(c)(4) is amended by striking  
9       subparagraph (C).

10          (35) The table of sections for subpart A of part  
11       III of subchapter N of chapter 1 is amended by  
12       striking the item relating to section 902.

13          (36) The table of sections for subpart F of part  
14       III of subchapter N of chapter 1 is amended by  
15       striking the item relating to section 960 and insert-  
16       ing the following:

“Sec. 960. Deemed paid credit for subpart F inclusions.”.

17       (d) **EFFECTIVE DATE.**—The amendments made by  
18       this section shall apply to taxable years beginning after  
19       December 31, 2017.

20       **SEC. 4102. SOURCE OF INCOME FROM SALES OF INVEN-**  
21                               **TORY DETERMINED SOLELY ON BASIS OF**  
22                               **PRODUCTION ACTIVITIES.**

23       (a) **IN GENERAL.**—Section 863(b) is amended by  
24       adding at the end the following: “Gains, profits, and in-  
25       come from the sale or exchange of inventory property de-

1 scribed in paragraph (2) shall be allocated and appor-  
2 tioned between sources within and without the United  
3 States solely on the basis of the production activities with  
4 respect to the property.”.

5 (b) EFFECTIVE DATE.—The amendment made by  
6 this section shall apply to taxable years beginning after  
7 December 31, 2017.

## 8 **Subtitle C—Modification of** 9 **Subpart F Provisions**

### 10 **SEC. 4201. REPEAL OF INCLUSION BASED ON WITHDRAWAL** 11 **OF PREVIOUSLY EXCLUDED SUBPART F IN-** 12 **COME FROM QUALIFIED INVESTMENT.**

13 (a) IN GENERAL.—Subpart F of part III of sub-  
14 chapter N of chapter 1 is amended by striking section 955.

15 (b) CONFORMING AMENDMENTS.—

16 (1)(A) Section 951(a)(1)(A) is amended to read  
17 as follows:

18 “(A) his pro rata share (determined under  
19 paragraph (2)) of the corporation’s subpart F  
20 income for such year, and”.

21 (B) Section 851(b)(3) is amended by striking  
22 “section 951(a)(1)(A)(i)” in the flush language at  
23 the end and inserting “section 951(a)(1)(A)”.

1 (C) Section 952(c)(1)(B)(i) is amended by  
2 striking “section 951(a)(1)(A)(i)” and inserting  
3 “section 951(a)(1)(A)”.

4 (D) Section 953(c)(1)(C) is amended by strik-  
5 ing “section 951(a)(1)(A)(i)” and inserting “section  
6 951(a)(1)(A)”.

7 (2) Section 951(a) is amended by striking para-  
8 graph (3).

9 (3) Section 953(d)(4)(B)(iv)(II) is amended by  
10 striking “or amounts referred to in clause (ii) or (iii)  
11 of section 951(a)(1)(A)”.

12 (4) Section 964(b) is amended by striking “,  
13 955,”.

14 (5) Section 970 is amended by striking sub-  
15 section (b).

16 (6) The table of sections for subpart F of part  
17 III of subchapter N of chapter 1 is amended by  
18 striking the item relating to section 955.

19 (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to taxable years of foreign corpora-  
21 tions beginning after December 31, 2017, and to taxable  
22 years of United States shareholders in which or with which  
23 such taxable years of foreign corporations end.



1 **SEC. 4202. REPEAL OF TREATMENT OF FOREIGN BASE COM-**  
2 **PANY OIL RELATED INCOME AS SUBPART F**  
3 **INCOME.**

4 (a) IN GENERAL.—Section 954(a) is amended by  
5 striking paragraph (5), by striking the comma at the end  
6 of paragraph (3) and inserting a period, and by inserting  
7 “and” at the end of paragraph (2).

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 952(c)(1)(B)(iii) is amended by  
10 striking subclause (I) and by redesignating sub-  
11 clauses (II) through (V) as subclauses (I) through  
12 (IV), respectively.

13 (2) Section 954(b)(4) is amended by striking  
14 the last sentence.

15 (3) Section 954(b)(5) is amended by striking  
16 “the foreign base company services income, and the  
17 foreign base company oil related income” and insert-  
18 ing “and the foreign base company services income”.

19 (4) Section 954(b) is amended by striking para-  
20 graph (6).

21 (5) Section 954 is amended by striking sub-  
22 section (g).

23 (c) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply to taxable years of foreign corpora-  
25 tions beginning after December 31, 2017, and to taxable

1 years of United States shareholders in which or with which  
2 such taxable years of foreign corporations end.

3 **SEC. 4203. INFLATION ADJUSTMENT OF DE MINIMIS EXCEP-**  
4 **TION FOR FOREIGN BASE COMPANY INCOME.**

5 (a) IN GENERAL.—Section 954(b)(3) is amended by  
6 adding at the end the following new subparagraph:

7 “(D) INFLATION ADJUSTMENT.—In the  
8 case of any taxable year beginning after 2017,  
9 the dollar amount in subparagraph (A)(ii) shall  
10 be increased by an amount equal to—

11 “(i) such dollar amount, multiplied by

12 “(ii) the cost-of-living adjustment de-  
13 termined under section 1(c)(2)(A) for the  
14 calendar year in which the taxable year be-  
15 gins.

16 Any increase determined under the preceding  
17 sentence shall be rounded to the nearest mul-  
18 tiple of \$50,000.”.

19 (b) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to taxable years of foreign corpora-  
21 tions beginning after December 31, 2017, and to taxable  
22 years of United States shareholders in which or with which  
23 such taxable years of foreign corporations end.

1 **SEC. 4204. LOOK-THRU RULE FOR RELATED CONTROLLED**  
2 **FOREIGN CORPORATIONS MADE PERMA-**  
3 **NENT.**

4 (a) IN GENERAL.—Paragraph (6) of section 954(c)  
5 is amended by striking subparagraph (C).

6 (b) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to taxable years of foreign corpora-  
8 tions beginning after December 31, 2019, and to taxable  
9 years of United States shareholders in which or with which  
10 such taxable years of foreign corporations end.

11 **SEC. 4205. MODIFICATION OF STOCK ATTRIBUTION RULES**  
12 **FOR DETERMINING STATUS AS A CON-**  
13 **TROLLED FOREIGN CORPORATION.**

14 (a) IN GENERAL.—Section 958(b) is amended—

15 (1) by striking paragraph (4), and

16 (2) by striking “Paragraphs (1) and (4)” in the  
17 last sentence and inserting “Paragraph (1)”.

18 (b) APPLICATION OF CERTAIN REPORTING REQUIRE-  
19 MENTS.—Section 6038(e)(2) is amended by striking “ex-  
20 cept that—” and all that follows through “in applying  
21 subparagraph (C)” and inserting “except that in applying  
22 subparagraph (C)”.

23 (c) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply to taxable years of foreign corpora-  
25 tions beginning after December 31, 2017, and to taxable

1 years of United States shareholders in which or with which  
2 such taxable years of foreign corporations end.

3 **SEC. 4206. ELIMINATION OF REQUIREMENT THAT COR-**  
4 **PORATION MUST BE CONTROLLED FOR 30**  
5 **DAYS BEFORE SUBPART F INCLUSIONS**  
6 **APPLY.**

7 (a) IN GENERAL.—Section 951(a)(1) is amended by  
8 striking “for an uninterrupted period of 30 days or more”  
9 and inserting “at any time”.

10 (b) EFFECTIVE DATE.—The amendment made by  
11 this section shall apply to taxable years of foreign corpora-  
12 tions beginning after December 31, 2017, and to taxable  
13 years of United States shareholders with or within which  
14 such taxable years of foreign corporations end.

15 **Subtitle D—Prevention of Base**  
16 **Erosion**

17 **SEC. 4301. CURRENT YEAR INCLUSION BY UNITED STATES**  
18 **SHAREHOLDERS WITH FOREIGN HIGH RE-**  
19 **TURNS.**

20 (a) IN GENERAL.—Subpart F of part III of sub-  
21 chapter N of chapter 1 is amended by inserting after sec-  
22 tion 951 the following new section:

1 **“SEC. 951A. FOREIGN HIGH RETURN AMOUNT INCLUDED IN**  
2 **GROSS INCOME OF UNITED STATES SHARE-**  
3 **HOLDERS.**

4 “(a) IN GENERAL.—Each person who is a United  
5 States shareholder of any controlled foreign corporation  
6 for any taxable year of such United States shareholder  
7 shall include in gross income for such taxable year 50 per-  
8 cent of such shareholder’s foreign high return amount for  
9 such taxable year.

10 “(b) FOREIGN HIGH RETURN AMOUNT.—For pur-  
11 poses of this section—

12 “(1) IN GENERAL.—The term ‘foreign high re-  
13 turn amount’ means, with respect to any United  
14 States shareholder for any taxable year of such  
15 United States shareholder, the excess (if any) of—

16 “(A) such shareholder’s net CFC tested in-  
17 come for such taxable year, over

18 “(B) the excess (if any) of—

19 “(i) the applicable percentage of the  
20 aggregate of such shareholder’s pro rata  
21 share of the qualified business asset invest-  
22 ment of each controlled foreign corporation  
23 with respect to which such shareholder is  
24 a United States shareholder for such tax-  
25 able year (determined for each taxable year  
26 of each such controlled foreign corporation

1           which ends in or with such taxable year of  
2           such United States shareholder), over

3                   “(ii) the amount of interest expense  
4           taken into account under subsection  
5           (c)(2)(A)(ii) in determining the share-  
6           holder’s net CFC tested income for the  
7           taxable year.

8           “(2) APPLICABLE PERCENTAGE.—The term  
9           ‘applicable percentage’ means, with respect to any  
10          taxable year, the Federal short-term rate (deter-  
11          mined under section 1274(d) for the month in which  
12          or with which such taxable year ends) plus 7 per-  
13          centage points.

14          “(c) NET CFC TESTED INCOME.—For purposes of  
15          this section—

16                  “(1) IN GENERAL.—The term ‘net CFC tested  
17          income’ means, with respect to any United States  
18          shareholder for any taxable year of such United  
19          States shareholder, the excess (if any) of—

20                          “(A) the aggregate of such shareholder’s  
21          pro rata share of the tested income of each con-  
22          trolled foreign corporation with respect to which  
23          such shareholder is a United States shareholder  
24          for such taxable year of such United States  
25          shareholder (determined for each taxable year

1 of such controlled foreign corporation which  
2 ends in or with such taxable year of such  
3 United States shareholder), over

4 “(B) the aggregate of such shareholder’s  
5 pro rata share of the tested loss of each con-  
6 trolled foreign corporation with respect to which  
7 such shareholder is a United States shareholder  
8 for such taxable year of such United States  
9 shareholder (determined for each taxable year  
10 of such controlled foreign corporation which  
11 ends in or with such taxable year of such  
12 United States shareholder).

13 “(2) TESTED INCOME; TESTED LOSS.—For pur-  
14 poses of this section—

15 “(A) TESTED INCOME.—The term ‘tested  
16 income’ means, with respect to any controlled  
17 foreign corporation for any taxable year of such  
18 controlled foreign corporation, the excess (if  
19 any) of—

20 “(i) the gross income of such corpora-  
21 tion determined without regard to—

22 “(I) any item of income which is  
23 effectively connected with the conduct  
24 by such corporation of a trade or

1 business within the United States if  
2 subject to tax under this chapter,

3 “(II) any gross income taken into  
4 account in determining the subpart F  
5 income of such corporation,

6 “(III) except as otherwise pro-  
7 vided by the Secretary, any amount  
8 excluded from the foreign personal  
9 holding company income (as defined  
10 in section 954) of such corporation by  
11 reason of section 954(c)(6) but only  
12 to the extent that any deduction al-  
13 lowable for the payment or accrual of  
14 such amount does not result in a re-  
15 duction in the foreign high return  
16 amount of any United States share-  
17 holder (determined without regard to  
18 this subclause),

19 “(IV) any gross income excluded  
20 from the foreign personal holding  
21 company income (as defined in section  
22 954) of such corporation by reason of  
23 subsection (c)(2)(C), (h), or (i) of sec-  
24 tion 954,



1                   “(V) any gross income excluded  
2                   from the insurance income (as defined  
3                   in section 953) of such corporation by  
4                   reason of section 953(a)(2),

5                   “(VI) any gross income excluded  
6                   from foreign base company income (as  
7                   defined in section 954) or insurance  
8                   income (as defined in section 953) of  
9                   such corporation by reason of section  
10                  954(b)(4),

11                  “(VII) any dividend received  
12                  from a related person (as defined in  
13                  section 954(d)(3)), and

14                  “(VIII) any commodities gross  
15                  income of such corporation, over

16                  “(ii) the deductions (including taxes)  
17                  properly allocable to such gross income  
18                  under rules similar to the rules of section  
19                  954(b)(5) (or which would be so properly  
20                  allocable if such corporation had such  
21                  gross income).

22                  “(B) TESTED LOSS.—The term ‘tested  
23                  loss’ means, with respect to any controlled for-  
24                  eign corporation for any taxable year of such  
25                  controlled foreign corporation, the excess (if

1 any) of the amount described in subparagraph  
2 (A)(ii) over the amount described in subpara-  
3 graph (A)(i).

4 “(d) QUALIFIED BUSINESS ASSET INVESTMENT.—  
5 For purposes of this section—

6 “(1) IN GENERAL.—The term ‘qualified busi-  
7 ness asset investment’ means, with respect to any  
8 controlled foreign corporation for any taxable year of  
9 such controlled foreign corporation, the aggregate of  
10 the corporation’s adjusted bases (determined as of  
11 the close of such taxable year and after any adjust-  
12 ments with respect to such taxable year) in specified  
13 tangible property—

14 “(A) used in a trade or business of the  
15 corporation, and

16 “(B) of a type with respect to which a de-  
17 duction is allowable under section 168.

18 “(2) SPECIFIED TANGIBLE PROPERTY.—The  
19 term ‘specified tangible property’ means any tangible  
20 property to the extent such property is used in the  
21 production of tested income or tested loss.

22 “(3) PARTNERSHIP PROPERTY.—For purposes  
23 of this subsection, if a controlled foreign corporation  
24 holds an interest in a partnership at the close of  
25 such taxable year of the controlled foreign corpora-

1       tion, such controlled foreign corporation shall take  
2       into account under paragraph (1) the controlled for-  
3       eign corporation's distributive share of the aggregate  
4       of the partnership's adjusted bases (determined as  
5       of such date in the hands of the partnership) in tan-  
6       gible property held by such partnership to the extent  
7       such property—

8               “(A) is used in the trade or business of the  
9               partnership,

10              “(B) is of a type with respect to which a  
11              deduction is allowable under section 168, and

12              “(C) is used in the production of tested in-  
13              come or tested loss (determined with respect to  
14              such controlled foreign corporation's distribu-  
15              tive share of income or loss with respect to such  
16              property).

17       For purposes of this paragraph, the controlled for-  
18       eign corporation's distributive share of the adjusted  
19       basis of any property shall be the controlled foreign  
20       corporation's distributive share of income and loss  
21       with respect to such property.

22              “(4) DETERMINATION OF ADJUSTED BASIS.—  
23       For purposes of this subsection, the adjusted basis  
24       in any property shall be determined without regard  
25       to any provision of this title (or any other provision

1 of law) which is enacted after the date of the enact-  
2 ment of this section.

3 “(5) REGULATIONS.—The Secretary shall issue  
4 such regulations or other guidance as the Secretary  
5 determines appropriate to prevent the avoidance of  
6 the purposes of this subsection, including regulations  
7 or other guidance which provide for the treatment of  
8 property if—

9 “(A) such property is transferred, or held,  
10 temporarily, or

11 “(B) the avoidance of the purposes of this  
12 paragraph is a factor in the transfer or holding  
13 of such property.

14 “(e) COMMODITIES GROSS INCOME.—For purposes  
15 of this section—

16 “(1) COMMODITIES GROSS INCOME.—The term  
17 ‘commodities gross income’ means, with respect to  
18 any corporation—

19 “(A) gross income of such corporation  
20 from the disposition of commodities which are  
21 produced or extracted by such corporation (or a  
22 partnership in which such corporation is a part-  
23 ner), and

1           “(B) gross income of such corporation  
2           from the disposition of property which gives rise  
3           to income described in subparagraph (A).

4           “(2) COMMODITY.—The term ‘commodity’  
5           means any commodity described in section  
6           475(e)(2)(A) or section 475(e)(2)(D) (determined  
7           without regard to clause (i) thereof and by sub-  
8           stituting ‘a commodity described in subparagraph  
9           (A)’ for ‘such a commodity’ in clause (ii) thereof).

10          “(f) TAXABLE YEARS FOR WHICH PERSONS ARE  
11          TREATED AS UNITED STATES SHAREHOLDERS OF CON-  
12          TROLLED FOREIGN CORPORATIONS.—For purposes of  
13          this section—

14                 “(1) IN GENERAL.—A United States share-  
15                 holder of a controlled foreign corporation shall be  
16                 treated as a United States shareholder of such con-  
17                 trolled foreign corporation for any taxable year of  
18                 such United States shareholder if—

19                         “(A) a taxable year of such controlled for-  
20                         eign corporation ends in or with such taxable  
21                         year of such person, and

22                         “(B) such person owns (within the mean-  
23                         ing of section 958(a)) stock in such controlled  
24                         foreign corporation on the last day, in such tax-  
25                         able year of such foreign corporation, on which

1           the foreign corporation is a controlled foreign  
2           corporation.

3           “(2) TREATMENT AS A CONTROLLED FOREIGN  
4           CORPORATION.—Except for purposes of paragraph  
5           (1)(B) and the application of section 951(a)(2) to  
6           this section pursuant to subsection (g), a foreign  
7           corporation shall be treated as a controlled foreign  
8           corporation for any taxable year of such foreign cor-  
9           poration if such foreign corporation is a controlled  
10          foreign corporation at any time during such taxable  
11          year.

12          “(g) DETERMINATION OF PRO RATA SHARE.—For  
13          purposes of this section, pro rata shares shall be deter-  
14          mined under the rules of section 951(a)(2) in the same  
15          manner as such section applies to subpart F income.

16          “(h) COORDINATION WITH SUBPART F.—

17                  “(1) TREATMENT AS SUBPART F INCOME FOR  
18                  CERTAIN PURPOSES.—Except as otherwise provided  
19                  by the Secretary any foreign high return amount in-  
20                  cluded in gross income under subsection (a) shall be  
21                  treated in the same manner as an amount included  
22                  under section 951(a)(1)(A) for purposes of applying  
23                  sections 168(h)(2)(B), 535(b)(10), 851(b),  
24                  904(h)(1), 959, 961, 962, 993(a)(1)(E), 996(f)(1),

1 1248(b)(1), 1248(d)(1), 6501(e)(1)(C),  
2 6654(d)(2)(D), and 6655(e)(4).

3 “(2) ENTIRE FOREIGN HIGH RETURN AMOUNT  
4 TAKEN INTO ACCOUNT FOR PURPOSES OF CERTAIN  
5 SECTIONS.—For purposes of applying paragraph (1)  
6 with respect to sections 168(h)(2)(B), 851(b), 959,  
7 961, 962, 1248(b)(1), and 1248(d)(1), the foreign  
8 high return amount included in gross income under  
9 subsection (a) shall be determined by substituting  
10 ‘100 percent’ for ‘50 percent’ in such subsection.

11 “(3) ALLOCATION OF FOREIGN HIGH RETURN  
12 AMOUNT TO CONTROLLED FOREIGN CORPORA-  
13 TIONS.—For purposes of the sections referred to in  
14 paragraph (1), with respect to any controlled foreign  
15 corporation any pro rata amount from which is  
16 taken into account in determining the foreign high  
17 return amount included in gross income of a United  
18 States shareholder under subsection (a), the portion  
19 of such foreign high return amount which is treated  
20 as being with respect to such controlled foreign cor-  
21 poration is—

22 “(A) in the case of a controlled foreign  
23 corporation with tested loss, zero, and

24 “(B) in the case of a controlled foreign  
25 corporation with tested income, the portion of

1 such foreign high return amount which bears  
2 the same ratio to such foreign high return  
3 amount as—

4 “(i) such United States shareholder’s  
5 pro rata amount of the tested income of  
6 such controlled foreign corporation, bears  
7 to

8 “(ii) the aggregate amount deter-  
9 mined under subsection (c)(1)(A) with re-  
10 spect to such United States shareholder.

11 “(4) COORDINATION WITH SUBPART F TO DENY  
12 DOUBLE BENEFIT OF LOSSES.—In the case of any  
13 United States shareholder of any controlled foreign  
14 corporation, the amount included in gross income  
15 under section 951(a)(1)(A) shall be determined by  
16 increasing the earnings and profits of such con-  
17 trolled foreign corporation (solely for purposes of de-  
18 termining such amount) by an amount that bears  
19 the same ratio (not greater than 1) to such share-  
20 holder’s pro rata share of the tested loss of such  
21 controlled foreign corporation as—

22 “(A) the aggregate amount determined  
23 under subsection (c)(1)(A) with respect to such  
24 shareholder, bears to



1           “(B) the aggregate amount determined  
2           under subsection (e)(1)(B) with respect to such  
3           shareholder.”.

4           (b) FOREIGN TAX CREDIT.—

5           (1) APPLICATION OF DEEMED PAID FOREIGN  
6           TAX CREDIT.—Section 960, as amended by the pre-  
7           ceding provisions of this Act, is amended by redesignig-  
8           nating subsections (d) and (e) as subsections (e) and  
9           (f), respectively, and by inserting after subsection (c)  
10          the following new subsection:

11          “(d) DEEMED PAID CREDIT FOR TAXES PROPERLY  
12          ATTRIBUTABLE TO TESTED INCOME.—

13           “(1) IN GENERAL.—For purposes of this sub-  
14           part, if any amount is includible in the gross income  
15           of a domestic corporation under section 951A, such  
16           domestic corporation shall be deemed to have paid  
17           foreign income taxes equal to 80 percent of—

18           “(A) such domestic corporation’s foreign  
19           high return percentage, multiplied by

20           “(B) the aggregate tested foreign income  
21           taxes paid or accrued by controlled foreign cor-  
22           porations with respect to which such domestic  
23           corporation is a United States shareholder.

24           “(2) FOREIGN HIGH RETURN PERCENTAGE.—

25          For purposes of paragraph (1), the term ‘foreign

1 high return percentage’ means, with respect to any  
2 domestic corporation, the ratio (expressed as a per-  
3 centage) of—

4 “(A) such corporation’s foreign high return  
5 amount (as defined in section 951A(b)), divided  
6 by

7 “(B) the aggregate amount determined  
8 under section 951A(c)(1)(A) with respect to  
9 such corporation.

10 “(3) TESTED FOREIGN INCOME TAXES.—For  
11 purposes of paragraph (1), the term ‘tested foreign  
12 income taxes’ means, with respect to any domestic  
13 corporation which is a United States shareholder of  
14 a controlled foreign corporation, the foreign income  
15 taxes paid or accrued by such foreign corporation  
16 which are properly attributable to gross income de-  
17 scribed in section 951A(c)(2)(A)(i).”.

18 (2) APPLICATION OF FOREIGN TAX CREDIT  
19 LIMITATION.—

20 (A) SEPARATE BASKET FOR FOREIGN  
21 HIGH RETURN AMOUNT.—Section 904(d)(1) is  
22 amended by redesignating subparagraphs (A)  
23 and (B) as subparagraphs (B) and (C), respec-  
24 tively, and by inserting before subparagraph

1 (B) (as so redesignated) the following new sub-  
2 paragraph:

3 “(A) any amount includible in gross in-  
4 come under section 951A.”

5 (B) NO CARRYOVER OF EXCESS TAXES.—  
6 Section 904(c) is amended by adding at the end  
7 the following: “This subsection shall not apply  
8 to taxes paid or accrued with respect to  
9 amounts described in subsection (d)(1)(A).”

10 (3) GROSS UP FOR DEEMED PAID FOREIGN TAX  
11 CREDIT.—Section 78, as amended by the preceding  
12 provisions of this Act, is amended—

13 (A) by striking “any taxable year, an  
14 amount” and inserting “any taxable year—  
15 “(1) an amount”, and

16 (B) by striking the period at the end and  
17 inserting “, and

18 “(2) an amount equal to the taxes deemed to  
19 be paid by such corporation under section 960(d) for  
20 such taxable year (determined by substituting ‘100  
21 percent’ for ‘80 percent’ in such section) shall be  
22 treated for purposes of this title (other than sections  
23 959, 960, and 961) as an increase in the foreign  
24 high return amount of such domestic corporation  
25 under section 951A for such taxable year.”

1 (c) CONFORMING AMENDMENTS.—

2 (1) Section 170(b)(2)(D) is amended by strik-  
3 ing “computed without regard to” and all that fol-  
4 lows and inserting “computed—

5 “(i) without regard to—

6 “(I) this section,

7 “(II) part VIII (except section  
8 248),

9 “(III) any net operating loss  
10 carryback to the taxable year under  
11 section 172,

12 “(IV) any capital loss carryback  
13 to the taxable year under section  
14 1212(a)(1), and

15 “(ii) by substituting ‘100 percent’ for  
16 ‘50 percent’ in section 951A(a).”.

17 (2) Section 246(b)(1) is amended by—

18 (A) striking “and without regard to” and  
19 inserting “without regard to”, and

20 (B) by striking the period at the end and  
21 inserting “, and by substituting ‘100 percent’  
22 for ‘50 percent’ in section 951A(a).”.

23 (3) Section 469(i)(3)(F) is amended by striking  
24 “determined without regard to” and all that follows  
25 and inserting “determined—

1 “(i) without regard to—  
2 “(I) any amount includible in  
3 gross income under section 86,  
4 “(II) the amounts allowable as a  
5 deduction under section 219, and  
6 “(III) any passive activity loss or  
7 any loss allowable by reason of sub-  
8 section (c)(7), and  
9 “(ii) by substituting ‘100 percent’ for  
10 ‘50 percent’ in section 951A(a).”.

11 (4) Section 856(c)(2) is amended by striking  
12 “and” at the end of subparagraph (H), by adding  
13 “and” at the end of subparagraph (I), and by insert-  
14 ing after subparagraph (I) the following new sub-  
15 paragraph:

16 “(J) amounts includible in gross income  
17 under section 951A(a);”.

18 (5) Section 856(c)(3)(D) is amended by strik-  
19 ing “dividends or other distributions on, and gain”  
20 and inserting “dividends, other distributions on,  
21 amounts includible in gross income under section  
22 951A(a) with respect to, and gain”.

23 (6) The table of sections for subpart F of part  
24 III of subchapter N of chapter 1 is amended by in-

1       serting after the item relating to section 951 the fol-  
2       lowing new item:

      “Sec. 951A. Foreign high return amount included in gross income of United  
      States shareholders.”.

3       (d) **EFFECTIVE DATE.**—The amendments made by  
4 this section shall apply to taxable years of foreign corpora-  
5 tions beginning after December 31, 2017, and to taxable  
6 years of United States shareholders in which or with which  
7 such taxable years of foreign corporations end.

8 **SEC. 4302. LIMITATION ON DEDUCTION OF INTEREST BY**  
9                   **DOMESTIC CORPORATIONS WHICH ARE MEM-**  
10                   **BERS OF AN INTERNATIONAL FINANCIAL RE-**  
11                   **PORTING GROUP.**

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

15       “(n) **LIMITATION ON DEDUCTION OF INTEREST BY**  
16 **DOMESTIC CORPORATIONS IN INTERNATIONAL FINAN-**  
17 **CIAL REPORTING GROUPS.**—

18               “(1) **IN GENERAL.**—In the case of any domestic  
19 corporation which is a member of any international  
20 financial reporting group, the deduction under this  
21 chapter for interest paid or accrued during the tax-  
22 able year shall not exceed the sum of—

23                   “(A) the allowable percentage of 110 per-  
24 cent of the excess (if any) of —

1 “(i) the amount of such interest so  
2 paid or accrued, over

3 “(ii) the amount described in subpara-  
4 graph (B), plus

5 “(B) the amount of interest includible in  
6 gross income of such corporation for such tax-  
7 able year.

8 “(2) INTERNATIONAL FINANCIAL REPORTING  
9 GROUP.—

10 “(A) For purposes of this subsection, the  
11 term ‘international financial reporting group’  
12 means, with respect to any reporting year, any  
13 group of entities which—

14 “(i) includes—

15 “(I) at least one foreign corpora-  
16 tion engaged in a trade or business  
17 within the United States, or

18 “(II) at least one domestic cor-  
19 poration and one foreign corporation,

20 “(ii) prepares consolidated financial  
21 statements with respect to such year, and

22 “(iii) reports in such statements aver-  
23 age annual gross receipts (determined in  
24 the aggregate with respect to all entities  
25 which are part of such group) for the 3-re-

1 reporting-year period ending with such re-  
2 porting year in excess of \$100,000,000.

3 “(B) RULES RELATING TO DETERMINA-  
4 TION OF AVERAGE GROSS RECEIPTS.—For pur-  
5 poses of subparagraph (A)(iii), rules similar to  
6 the rules of section 448(c)(3) shall apply.

7 “(3) ALLOWABLE PERCENTAGE.—For purposes  
8 of this subsection—

9 “(A) IN GENERAL.—The term ‘allowable  
10 percentage’ means, with respect to any domestic  
11 corporation for any taxable year, the ratio (ex-  
12 pressed as a percentage and not greater than  
13 100 percent) of—

14 “(i) such corporation’s allocable share  
15 of the international financial reporting  
16 group’s reported net interest expense for  
17 the reporting year of such group which  
18 ends in or with such taxable year of such  
19 corporation, over

20 “(ii) such corporation’s reported net  
21 interest expense for such reporting year of  
22 such group.

23 “(B) REPORTED NET INTEREST EX-  
24 PENSE.—The term ‘reported net interest ex-  
25 pense’ means—



1 “(i) with respect to any international  
2 financial reporting group for any reporting  
3 year, the excess of—

4 “(I) the aggregate amount of in-  
5 terest expense reported in such  
6 group’s consolidated financial state-  
7 ments for such taxable year, over

8 “(II) the aggregate amount of in-  
9 terest income reported in such group’s  
10 consolidated financial statements for  
11 such taxable year, and

12 “(ii) with respect to any domestic cor-  
13 poration for any reporting year, the excess  
14 of—

15 “(I) the amount of interest ex-  
16 pense of such corporation reported in  
17 the books and records of the inter-  
18 national financial reporting group  
19 which are used in preparing such  
20 group’s consolidated financial state-  
21 ments for such taxable year, over

22 “(II) the amount of interest in-  
23 come of such corporation reported in  
24 such books and records.

1           “(C) ALLOCABLE SHARE OF REPORTED  
2 NET INTEREST EXPENSE.—With respect to any  
3 domestic corporation which is a member of any  
4 international financial reporting group, such  
5 corporation’s allocable share of such group’s re-  
6 ported net interest expense for any reporting  
7 year is the portion of such expense which bears  
8 the same ratio to such expense as—

9           “(i) the EBITDA of such corporation  
10 for such reporting year, bears to

11           “(ii) the EBITDA of such group for  
12 such reporting year.

13           “(D) EBITDA.—

14           “(i) IN GENERAL.—The term  
15 ‘EBITDA’ means, with respect to any re-  
16 porting year, earnings before interest,  
17 taxes, depreciation, and amortization—

18           “(I) as determined in the inter-  
19 national financial reporting group’s  
20 consolidated financial statements for  
21 such year, or

22           “(II) for purposes of subpara-  
23 graph (A)(i), as determined in the  
24 books and records of the international  
25 financial reporting group which are

1 used in preparing such statements if  
2 not determined in such statements.

3 “(ii) TREATMENT OF DISREGARDED  
4 ENTITIES.—The EBITDA of any domestic  
5 corporation shall not fail to include the  
6 EBITDA of any entity which is dis-  
7 regarded for purposes of this chapter.

8 “(iii) TREATMENT OF INTRA-GROUP  
9 DISTRIBUTIONS.—The EBITDA of any do-  
10 mestic corporation shall be determined  
11 without regard to any distribution received  
12 by such corporation from any other mem-  
13 ber of the international financial reporting  
14 group.

15 “(E) SPECIAL RULES FOR NON-POSITIVE  
16 EBITDA.—

17 “(i) NON-POSITIVE GROUP EBITDA.—  
18 In the case of any international financial  
19 reporting group the EBITDA of which is  
20 zero or less, paragraph (1) shall not apply  
21 to any member of such group the EBITDA  
22 of which is above zero.

23 “(ii) NON-POSITIVE ENTITY  
24 EBITDA.—In the case of any group mem-  
25 ber the EBITDA of which is zero or less,

1 paragraph (1) shall be applied without re-  
2 gard to subparagraph (A) thereof.

3 “(4) CONSOLIDATED FINANCIAL STATEMENT.—

4 For purposes of this subsection, the term ‘consoli-  
5 dated financial statement’ means any consolidated  
6 financial statement described in paragraph (2)(A)(ii)  
7 if such statement is—

8 “(A) a financial statement which is cer-  
9 tified as being prepared in accordance with gen-  
10 erally accepted accounting principles, inter-  
11 national financial reporting standards, or any  
12 other comparable method of accounting identi-  
13 fied by the Secretary, and which is—

14 “(i) a 10-K (or successor form), or  
15 annual statement to shareholders, required  
16 to be filed with the United States Securi-  
17 ties and Exchange Commission,

18 “(ii) an audited financial statement  
19 which is used for—

20 “(I) credit purposes,

21 “(II) reporting to shareholders,  
22 partners, or other proprietors, or to  
23 beneficiaries, or

24 “(III) any other substantial  
25 nontax purpose,

1 but only if there is no statement described  
2 in clause (i), or

3 “(iii) filed with any other Federal or  
4 State agency for nontax purposes, but only  
5 if there is no statement described in clause  
6 (i) or (ii), or

7 “(B) a financial statement which—

8 “(i) is used for a purpose described in  
9 subclause (I), (II), or (III) of subpara-  
10 graph (A)(ii), or

11 “(ii) filed with any regulatory or gov-  
12 ernmental body (whether domestic or for-  
13 eign) specified by the Secretary,

14 but only if there is no statement described in  
15 subparagraph (A).

16 “(5) REPORTING YEAR.—For purposes of this  
17 subsection, the term ‘reporting year’ means, with re-  
18 spect to any international financial reporting group,  
19 the year with respect to which the consolidated fi-  
20 nancial statements are prepared.

21 “(6) APPLICATION TO CERTAIN ENTITIES.—

22 “(A) PARTNERSHIPS.—Except as other-  
23 wise provided by the Secretary in paragraph  
24 (7), this subsection shall apply to any partner-  
25 ship which is a member of any international fi-

1           nancial reporting group under rules similar to  
2           the rules of section 163(j)(3).

3           “(B) FOREIGN CORPORATIONS ENGAGED  
4           IN TRADE OR BUSINESS WITHIN THE UNITED  
5           STATES.—Except as otherwise provided by the  
6           Secretary in paragraph (8), any deduction for  
7           interest paid or accrued by a foreign corpora-  
8           tion engaged in a trade or business within the  
9           United States shall be limited in a manner con-  
10          sistent with the principles of this subsection.

11          “(C) CONSOLIDATED GROUPS.—For pur-  
12          poses of this subsection, the members of any  
13          group that file (or are required to file) a con-  
14          solidated return with respect to the tax imposed  
15          by chapter 1 for a taxable year shall be treated  
16          as a single corporation.

17          “(7) REGULATIONS.—The Secretary may issue  
18          such regulations or other guidance as are necessary  
19          or appropriate to carry out the purposes of this sub-  
20          section.”.

21          (b) CARRYFORWARD OF DISALLOWED INTEREST.—

22                 (1) IN GENERAL.—Section 163(o) is amended  
23                 to read as follows:

24                 “(o) CARRYFORWARD OF CERTAIN DISALLOWED IN-  
25                 TEREST.—The amount of any interest not allowed as a

1 deduction for any taxable year by reason of subsection  
2 (j)(1) or (n)(1) (whichever imposes the lower limitation  
3 with respect to such taxable year) shall be treated as inter-  
4 est (and as business interest for purposes of subsection  
5 (j)(1)) paid or accrued in the succeeding taxable year. In-  
6 terest paid or accrued in any taxable year (determined  
7 without regard to the preceding sentence) shall not be car-  
8 ried past the 5th taxable year following such taxable year,  
9 determined by treating interest as allowed as a deduction  
10 on a first-in, first-out basis.”.

11 (2) TREATMENT OF CARRYFORWARD OF DIS-  
12 ALLOWED INTEREST IN CERTAIN CORPORATE ACQUI-  
13 SITIONS.—For rules related to the carryforward of  
14 disallowed interest in certain corporate acquisitions,  
15 see the amendments made by section 3301(c).

16 (c) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 2017.

19 **SEC. 4303. EXCISE TAX ON CERTAIN PAYMENTS FROM DO-**  
20 **MESTIC CORPORATIONS TO RELATED FOR-**  
21 **EIGN CORPORATIONS; ELECTION TO TREAT**  
22 **SUCH PAYMENTS AS EFFECTIVELY CON-**  
23 **NECTED INCOME.**

24 (a) EXCISE TAX ON CERTAIN AMOUNTS FROM DO-  
25 MESTIC CORPORATIONS TO FOREIGN AFFILIATES.—

1 (1) IN GENERAL.—Chapter 36 is amended by  
2 adding at the end the following new subchapter:

3 **“Subchapter E—Tax on Certain Amounts to**  
4 **Foreign Affiliates**

“Sec. 4491. Imposition of tax on certain amounts from domestic corporations  
to foreign affiliates.

5 **“SEC. 4491. IMPOSITION OF TAX ON CERTAIN AMOUNTS**  
6 **FROM DOMESTIC CORPORATIONS TO FOR-**  
7 **EIGN AFFILIATES.**

8 “(a) IN GENERAL.—There is hereby imposed on each  
9 specified amount paid or incurred by a domestic corpora-  
10 tion to a foreign corporation which is a member of the  
11 same international financial reporting group as such do-  
12 mestic corporation a tax equal to the highest rate of tax  
13 in effect under section 11 multiplied by such amount.

14 “(b) BY WHOM PAID.—The tax imposed by sub-  
15 section (a) shall be paid by the domestic corporation de-  
16 scribed in such subsection.

17 “(c) EXCEPTION FOR EFFECTIVELY CONNECTED IN-  
18 COME.—Subsection (a) shall not apply to so much of any  
19 specified amount as is effectively connected with the con-  
20 duct of a trade or business within the United States if  
21 such amount is subject to tax under chapter 1. In the case  
22 of any amount which is treated as effectively connected  
23 with the conduct of a trade or business within the United  
24 States by reason of section 882(g), the preceding sentence



1 shall apply to such amount only if the domestic corpora-  
2 tion provides to the Secretary (at such time and in such  
3 form and manner as the Secretary may provide) a copy  
4 of the election made under section 882(g) by the foreign  
5 corporation referred to in subsection (a).

6 “(d) DEFINITIONS AND SPECIAL RULES.—Terms  
7 used in this section that are also used in section 882(g)  
8 shall have the same meaning as when used in such section  
9 and rules similar to the rules of paragraphs (5) and (6)  
10 of such section shall apply for purposes of this section.”.

11 (2) DENIAL OF DEDUCTION FOR TAX IM-  
12 POSED.—Section 275(a) is amended by inserting  
13 after paragraph (6) the following new paragraph:

14 “(7) Taxes imposed by section 4491.”.

15 (3) CLERICAL AMENDMENT.—The table of sub-  
16 chapters for chapter 36 is amended by adding at the  
17 end the following new item:

“SUBCHAPTER E. TAX ON CERTAIN AMOUNTS TO FOREIGN AFFILIATES.”.

18 (b) ELECTION TO TREAT CERTAIN PAYMENTS FROM  
19 DOMESTIC CORPORATIONS TO RELATED FOREIGN COR-  
20 PORATIONS AS EFFECTIVELY CONNECTED INCOME.—Sec-  
21 tion 882 is amended by adding at the end the following  
22 new subsection:

23 “(g) ELECTION TO TREAT CERTAIN PAYMENTS  
24 FROM DOMESTIC CORPORATIONS TO RELATED FOREIGN  
25 CORPORATIONS AS EFFECTIVELY CONNECTED INCOME.—

1           “(1) IN GENERAL.—In the case of any specified  
2           amount paid or incurred by a domestic corporation  
3           to a foreign corporation which is a member of the  
4           same international financial reporting group as such  
5           domestic corporation and which has elected to be  
6           subject to the provisions of this subsection—

7                   “(A) such amount shall be taken into ac-  
8                   count (other than for purposes of sections 245,  
9                   245A, and 881) in the taxable year of such for-  
10                  eign corporation during which such amount is  
11                  paid or incurred as if—

12                           “(i) such foreign corporation were en-  
13                           gaged in a trade or business within the  
14                           United States,

15                           “(ii) such foreign corporation had a  
16                           permanent establishment in the United  
17                           States during the taxable year, and

18                           “(iii) such payment were effectively  
19                           connected with the conduct of a trade or  
20                           business within the United States and were  
21                           attributable to such permanent establish-  
22                           ment,

23                           “(B) for purposes of subsection (c)(1)(A),  
24                  no deduction shall be allowed with respect to

1 such amount and such subsection shall be ap-  
2 plied without regard to such amount, and

3 “(C) the foreign corporation shall be al-  
4 lowed a deduction (for the taxable year referred  
5 to in subparagraph (A)) equal to the deemed  
6 expenses with respect to such amount.

7 “(2) SPECIFIED AMOUNT.—For purposes of  
8 this subsection—

9 “(A) IN GENERAL.—The term ‘specified  
10 amount’ means any amount which is, with re-  
11 spect to the payor, allowable as a deduction or  
12 includible in costs of goods sold, inventory, or  
13 the basis of a depreciable or amortizable asset.

14 “(B) EXCEPTIONS.—The term ‘specified  
15 amount’ shall not include—

16 “(i) interest,

17 “(ii) any amount paid or incurred for  
18 the acquisition of any security described in  
19 section 475(c)(2) (determined without re-  
20 gard to the last sentence thereof) or any  
21 commodity described in section 475(e)(2),

22 “(iii) except as provided in subpara-  
23 graph (C), any amount with respect to  
24 which tax is imposed under section 881(a),  
25 and

1           “(iv) in the case of a payor which has  
2           elected to use a services cost method for  
3           purposes of section 482, any amount paid  
4           or incurred for services if such amount is  
5           the total services cost with no markup.

6           “(C) AMOUNTS NOT TREATED AS EFFEC-  
7           TIVELY CONNECTED TO EXTENT OF GROSS-  
8           BASIS TAX.—Subparagraph (B)(iii) shall only  
9           apply to so much of any specified amount as  
10          bears the proportion to such amount as—

11           “(i) the rate of tax imposed under  
12           section 881(a) with respect to such  
13           amount, bears to

14           “(ii) 30 percent.

15          “(3) DEEMED EXPENSES.—

16           “(A) IN GENERAL.—The deemed expenses  
17           with respect to any specified amount received  
18           by a foreign corporation during any reporting  
19           year is the amount of expenses such that the  
20           net income ratio of such foreign corporation  
21           with respect to such amount (taking into ac-  
22           count only such specified amount and such  
23           deemed expenses) is equal to the net income  
24           ratio of the international financial reporting  
25           group determined for such reporting year with

1 respect to the product line to which the speci-  
2 fied amount relates.

3 “(B) NET INCOME RATIO.—For purposes  
4 of this paragraph, the term ‘net income ratio’  
5 means the ratio of—

6 “(i) net income determined without  
7 regard to interest income, interest expense,  
8 and income taxes, divided by

9 “(ii) revenues.

10 “(C) METHOD OF DETERMINATION.—  
11 Amounts described in subparagraph (B) shall  
12 be determined with respect to the international  
13 financial reporting group on the basis of the  
14 consolidated financial statements referred to in  
15 paragraph (4)(A)(i) and the books and records  
16 of the members of the international financial  
17 reporting group which are used in preparing  
18 such statements, taking into account only reve-  
19 nues and expenses of the members of such  
20 group (other than the members of such group  
21 which are (or are treated as) a domestic cor-  
22 poration for purposes of this subsection) derived  
23 from, or incurred with respect to—

24 “(i) persons who are not members of  
25 such group, and

1                   “(ii) members of such group which  
2                   are (or are treated as) a domestic corpora-  
3                   tion for purposes of this subsection.

4                   “(4) INTERNATIONAL FINANCIAL REPORTING  
5                   GROUP.—For purposes of this subsection—

6                   “(A) IN GENERAL.—The term ‘inter-  
7                   national financial reporting group’ means any  
8                   group of entities, with respect to any specified  
9                   amount, if such amount is paid or incurred dur-  
10                  ing a reporting year of such group with respect  
11                  to which—

12                  “(i) such group prepares consolidated  
13                  financial statements (within the meaning  
14                  of section 163(n)(4)) with respect to such  
15                  year, and

16                  “(ii) the average annual aggregate  
17                  payment amount of such group for the 3-  
18                  reporting-year period ending with such re-  
19                  porting year exceeds \$100,000,000.

20                  “(B) ANNUAL AGGREGATE PAYMENT  
21                  AMOUNT.—The term ‘annual aggregate pay-  
22                  ment amount’ means, with respect to any re-  
23                  porting year of the group referred to in sub-  
24                  paragraph (A)(i), the aggregate specified  
25                  amounts to which paragraph (1) applies (or

1           would apply if such group were an international  
2           financial reporting group).

3                   “(C) APPLICATION OF CERTAIN RULES.—  
4           Rules similar to the rules of subparagraphs (A),  
5           (B), and (D) of section 448(c)(3) shall apply  
6           for purposes of this paragraph.

7                   “(5) TREATMENT OF PARTNERSHIPS.—Any  
8           specified amount paid, incurred, or received by a  
9           partnership which is a member of any international  
10          financial reporting group (and any amount treated  
11          as paid, incurred, or received by a partnership under  
12          this paragraph) shall be treated for purposes of this  
13          subsection as amounts paid, incurred, or received,  
14          respectively, by each partner of such partnership in  
15          an amount equal to such partner’s distributive share  
16          of the items of income, gain, deduction, or loss to  
17          which such amounts relate.

18                   “(6) TREATMENT OF AMOUNTS IN CONNECTION  
19          WITH UNITED STATES TRADE OR BUSINESS.—Any  
20          specified amount paid, incurred, or received by a for-  
21          eign corporation in connection with the conduct of a  
22          trade or business within the United States (other  
23          than a trade or business it is deemed to conduct  
24          pursuant to this subsection) shall be treated for pur-  
25          poses of this subsection as an amount paid, in-

1       curred, or received, respectively, by a domestic cor-  
2       poration. For purposes of the preceding sentence, a  
3       foreign corporation shall be deemed to pay, incur,  
4       and receive amounts with respect to a trade or busi-  
5       ness it conducts within the United States (other  
6       than a trade or business it is deemed to conduct  
7       pursuant to this subsection) to the extent such for-  
8       eign corporation would be treated as paying, incur-  
9       ring, or receiving such amounts from such trade or  
10      business if such trade or business were a domestic  
11      corporation.

12           “(7) JOINT AND SEVERAL LIABILITY OF MEM-  
13      BERS OF INTERNAL FINANCIAL REPORTING  
14      GROUP.—In the case of any underpayment with re-  
15      spect to any taxable year of a foreign corporation  
16      which is a member of an international financial ac-  
17      counting group, each domestic corporation which is  
18      a member of such group at any time during such  
19      taxable year shall be jointly and severally liable  
20      for—

21           “(A) so much of such underpayment as  
22      does not exceed the excess (if any) of such un-  
23      derpayment over the amount of such under-  
24      payment determined without regard to this sub-  
25      section, and



1           “(B) any penalty, addition to tax, or addi-  
2           tional amount attributable to the amount de-  
3           scribed in subparagraph (A).

4           “(8) FOREIGN TAX CREDIT ALLOWED.—The  
5           credit allowed under section 906(a) with respect to  
6           amounts taken into account in income under para-  
7           graph (1)(A) shall be limited to 80 percent of the  
8           amount of taxes paid or accrued and determined  
9           without regard to section 906(b)(1).

10           “(9) ELECTION.—Any election under paragraph  
11           (1)—

12           “(A) shall be made at such time and in  
13           such form and manner as the Secretary may  
14           provide, and

15           “(B) shall apply for the taxable year for  
16           which made and all subsequent taxable years  
17           unless revoked with the consent of the Sec-  
18           retary.

19           “(10) REGULATIONS.—The Secretary may issue  
20           such regulations or other guidance as are necessary  
21           or appropriate to carry out the purposes of this sub-  
22           section, including regulations or other guidance—

23           “(A) to provide for the proper determina-  
24           tion of product lines, and

1           “(B) to prevent the avoidance of the pur-  
2           poses of this subsection through the use of con-  
3           duit transactions or by other means.”.

4           (c) REPORTING REQUIREMENTS.—

5           (1) REPORTING BY FOREIGN CORPORATION.—

6           Section 6038C(b) is amended to read as follows:

7           “(b) REQUIRED INFORMATION.—

8           “(1) IN GENERAL.—The information described  
9           in this subsection is—

10           “(A) the information described in section  
11           6038A(b), and

12           “(B) such other information as the Sec-  
13           retary may prescribe by regulations relating to  
14           any item not directly connected with a trans-  
15           action for which information is required under  
16           subparagraph (A).

17           “(2) CERTAIN PAYMENTS FROM RELATED DO-  
18           MESTIC CORPORATIONS.—

19           “(A) IN GENERAL.—In the case of any re-  
20           porting corporation that receives during the  
21           taxable year any amount to which section  
22           882(g)(1) applies, the information described in  
23           this subsection shall include, with respect to  
24           each member of the international financial re-

1           porting group from which any such amount is  
2           received—

3                   “(i) the name and taxpayer identifica-  
4                   tion number of such member,

5                   “(ii) the aggregate amounts received  
6                   from such member,

7                   “(iii) the product lines to which such  
8                   amounts relate, the aggregate amounts re-  
9                   lating to each such product line, and the  
10                  net income ratio for each such product line  
11                  (determined under section 882(g)(3)(B)  
12                  with respect to the international financial  
13                  reporting group), and

14                  “(iv) a summary of any changes in fi-  
15                  nancial accounting methods that affect the  
16                  computation of any net income ratio de-  
17                  scribed in clause (iii).

18                  “(B) DEFINITIONS AND SPECIAL RULES.—  
19                  Terms used in this paragraph that are also  
20                  used in section 882(g) shall have the same  
21                  meaning as when used in such section and rules  
22                  similar to the rules of paragraphs (5) and (6)  
23                  of such section shall apply for purposes of this  
24                  paragraph.”.

1           (2) REPORTING BY DOMESTIC GROUP MEM-  
2           BERS.—

3           (A) IN GENERAL.—Subpart A of part III  
4           of subchapter A of chapter 61 is amended by  
5           inserting after section 6038D the following new  
6           section:

7   **“SEC. 6038E. INFORMATION WITH RESPECT TO CERTAIN**  
8           **PAYMENTS FROM DOMESTIC CORPORATIONS**  
9           **TO RELATED FOREIGN CORPORATIONS.**

10          “(a) IN GENERAL.—In the case of any domestic cor-  
11          poration which pays or incurs any amount to which section  
12          882(g)(1) applies, such person shall—

13                 “(1) make a return according to the forms and  
14                 regulations prescribed the Secretary, setting forth  
15                 the information described in subsection (b), and

16                 “(2) maintain (at the location, in the manner,  
17                 and to the extent prescribed in regulations) such  
18                 records as may be appropriate to determine liability  
19                 for tax pursuant to paragraphs (1) and (7) of sec-  
20                 tion 882(g).

21          “(b) REQUIRED INFORMATION.—The information de-  
22          scribed in this subsection is—

23                 “(1) the name and taxpayer identification num-  
24                 ber of the common parent of the international finan-

1        cial reporting group in which such domestic corpora-  
2        tion is a member, and

3            “(2) with respect to any person who receives an  
4        amount described in subsection (a) from such do-  
5        mestic corporation—

6            “(A) the name and taxpayer identification  
7        number of such person,

8            “(B) the aggregate amounts received by  
9        such person,

10           “(C) the product lines to which such  
11        amounts relate, the aggregate amounts relating  
12        to each such product line, and the net income  
13        ratio for each such product line (determined  
14        under section 882(g)(3)(B) with respect to the  
15        international financial reporting group), and

16           “(D) a summary of any changes in finan-  
17        cial accounting methods that affect the com-  
18        putation of any net income ratios described in  
19        subparagraph (C).

20        “(c) DEFINITIONS AND SPECIAL RULES.—Terms  
21        used in this paragraph that are also used in section 882(g)  
22        shall have the same meaning as when used in such section  
23        and rules similar to the rules of paragraphs (5) and (6)  
24        of such section shall apply for purposes of this para-  
25        graph.”.

1 (B) CLERICAL AMENDMENT.—The table of  
2 sections for subpart A of part III of subchapter  
3 A of chapter 61 is amended by inserting after  
4 the item relating to section 6038D the following  
5 new item:

“Sec. 6038E. Information with respect to certain payments from domestic corporations to related foreign corporations.”.

6 (d) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to amounts paid or incurred after  
8 December 31, 2018.

9 **Subtitle E—Provisions Related to**  
10 **Possessions of the United States**

11 **SEC. 4401. EXTENSION OF DEDUCTION ALLOWABLE WITH**  
12 **RESPECT TO INCOME ATTRIBUTABLE TO DO-**  
13 **MESTIC PRODUCTION ACTIVITIES IN PUERTO**  
14 **RICO.**

15 (a) IN GENERAL.—Section 199(d)(8)(C), prior to its  
16 repeal by this Act, is amended—

17 (1) by striking “first 11 taxable years” and in-  
18 serting “first 12 taxable years”, and

19 (2) by striking “January 1, 2017” and insert-  
20 ing “January 1, 2018”.

21 (b) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to taxable years beginning after  
23 December 31, 2016.

1 **SEC. 4402. EXTENSION OF TEMPORARY INCREASE IN LIMIT**  
2 **ON COVER OVER OF RUM EXCISE TAXES TO**  
3 **PUERTO RICO AND THE VIRGIN ISLANDS.**

4 (a) IN GENERAL.—Section 7652(f)(1) is amended by  
5 striking “January 1, 2017” and inserting “January 1,  
6 2023”.

7 (b) EFFECTIVE DATE.—The amendment made by  
8 this section shall apply to distilled spirits brought into the  
9 United States after December 31, 2016.

10 **SEC. 4403. EXTENSION OF AMERICAN SAMOA ECONOMIC**  
11 **DEVELOPMENT CREDIT.**

12 (a) IN GENERAL.—Section 119(d) of division A of  
13 the Tax Relief and Health Care Act of 2006 is amended—

14 (1) by striking “January 1, 2017” each place  
15 it appears and inserting “January 1, 2023”,

16 (2) by striking “first 11 taxable years” in para-  
17 graph (1) and inserting “first 17 taxable years”,  
18 and

19 (3) by striking “first 5 taxable years” in para-  
20 graph (2) and inserting “first 11 taxable years”.

21 (b) TREATMENT OF CERTAIN REFERENCES.—Sec-  
22 tion 119(e) of division A of the Tax Relief and Health  
23 Care Act of 2006 is amended by adding at the end the  
24 following: “References in this subsection to section 199  
25 of the Internal Revenue Code of 1986 shall be treated as

1 references to such section as in effect before its repeal by  
2 the Tax Cuts and Jobs Act.”.

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2016.

## 6 **Subtitle F—Other International** 7 **Reforms**

### 8 **SEC. 4501. RESTRICTION ON INSURANCE BUSINESS EXCEP-** 9 **TION TO PASSIVE FOREIGN INVESTMENT** 10 **COMPANY RULES.**

11 (a) IN GENERAL.—Section 1297(b)(2)(B) is amend-  
12 ed to read as follows:

13 “(B) derived in the active conduct of an in-  
14 surance business by a qualifying insurance cor-  
15 poration (as defined in subsection (f)),”.

16 (b) QUALIFYING INSURANCE CORPORATION DE-  
17 FINED.—Section 1297 is amended by adding at the end  
18 the following new subsection:

19 “(f) QUALIFYING INSURANCE CORPORATION.—For  
20 purposes of subsection (b)(2)(B)—

21 “(1) IN GENERAL.—The term ‘qualifying insur-  
22 ance corporation’ means, with respect to any taxable  
23 year, a foreign corporation—



1           “(A) which would be subject to tax under  
2           subchapter L if such corporation were a domes-  
3           tic corporation, and

4           “(B) the applicable insurance liabilities of  
5           which constitute more than 25 percent of its  
6           total assets, determined on the basis of such li-  
7           abilities and assets as reported on the corpora-  
8           tion’s applicable financial statement for the last  
9           year ending with or within the taxable year.

10          “(2)   ALTERNATIVE   FACTS   AND   CIR-  
11          CUMSTANCES TEST FOR CERTAIN CORPORATIONS.—  
12          If a corporation fails to qualify as a qualified insur-  
13          ance corporation under paragraph (1) solely because  
14          the percentage determined under paragraph (1)(B)  
15          is 25 percent or less, a United States person that  
16          owns stock in such corporation may elect to treat  
17          such stock as stock of a qualifying insurance cor-  
18          poration if—

19                 “(A) the percentage so determined for the  
20                 corporation is at least 10 percent, and

21                 “(B) under regulations provided by the  
22                 Secretary, based on the applicable facts and cir-  
23                 cumstances—

24                         “(i) the corporation is predominantly  
25                         engaged in an insurance business, and

1                   “(ii) such failure is due solely to run-  
2                   off-related or rating-related circumstances  
3                   involving such insurance business.

4                   “(3) APPLICABLE INSURANCE LIABILITIES.—  
5                   For purposes of this subsection—

6                   “(A) IN GENERAL.—The term ‘applicable  
7                   insurance liabilities’ means, with respect to any  
8                   life or property and casualty insurance busi-  
9                   ness—

10                   “(i) loss and loss adjustment ex-  
11                   penses, and

12                   “(ii) reserves (other than deficiency,  
13                   contingency, or unearned premium re-  
14                   serves) for life and health insurance risks  
15                   and life and health insurance claims with  
16                   respect to contracts providing coverage for  
17                   mortality or morbidity risks.

18                   “(B) LIMITATIONS ON AMOUNT OF LIABIL-  
19                   ITIES.—Any amount determined under clause  
20                   (i) or (ii) of subparagraph (A) shall not exceed  
21                   the lesser of such amount—

22                   “(i) as reported to the applicable in-  
23                   surance regulatory body in the applicable  
24                   financial statement described in paragraph

1 (4)(A) (or, if less, the amount required by  
2 applicable law or regulation), or

3 “(ii) as determined under regulations  
4 prescribed by the Secretary.

5 “(4) OTHER DEFINITIONS AND RULES.—For  
6 purposes of this subsection—

7 “(A) APPLICABLE FINANCIAL STATE-  
8 MENT.—The term ‘applicable financial state-  
9 ment’ means a statement for financial reporting  
10 purposes which—

11 “(i) is made on the basis of generally  
12 accepted accounting principles,

13 “(ii) is made on the basis of inter-  
14 national financial reporting standards, but  
15 only if there is no statement that meets  
16 the requirement of clause (i), or

17 “(iii) except as otherwise provided by  
18 the Secretary in regulations, is the annual  
19 statement which is required to be filed  
20 with the applicable insurance regulatory  
21 body, but only if there is no statement  
22 which meets the requirements of clause (i)  
23 or (ii).

24 “(B) APPLICABLE INSURANCE REGU-  
25 LATORY BODY.—The term ‘applicable insurance

1 regulatory body’ means, with respect to any in-  
2 surance business, the entity established by law  
3 to license, authorize, or regulate such business  
4 and to which the statement described in sub-  
5 paragraph (A) is provided.”.

6 (c) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to taxable years beginning after  
8 December 31, 2017.

9 **TITLE V—EXEMPT**  
10 **ORGANIZATIONS**  
11 **Subtitle A—Unrelated Business**  
12 **Income Tax**

13 **SEC. 5001. CLARIFICATION OF UNRELATED BUSINESS IN-**  
14 **COME TAX TREATMENT OF ENTITIES TREAT-**  
15 **ED AS EXEMPT FROM TAXATION UNDER SEC-**  
16 **TION 501(a).**

17 (a) IN GENERAL.—Section 511 is amended by adding  
18 at the end the following new subsection:

19 “(d) ORGANIZATIONS AND TRUSTS EXEMPT FROM  
20 TAXATION NOT SOLELY BY REASON OF SECTION  
21 501(a).—For purposes of subsections (a)(2) and (b)(2),  
22 an organization or trust shall not fail to be treated as ex-  
23 empt from taxation under this subtitle by reason of section  
24 501(a) solely because such organization is also so exempt,

1 or excludes amounts from gross income, by reason of any  
2 other provision of this title.”.

3 (b) **EFFECTIVE DATE.**—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2017.

6 **SEC. 5002. EXCLUSION OF RESEARCH INCOME LIMITED TO**  
7 **PUBLICLY AVAILABLE RESEARCH.**

8 (a) **IN GENERAL.**—Section 512(b)(9) is amended by  
9 striking “from research” and inserting “from such re-  
10 search”.

11 (b) **EFFECTIVE DATE.**—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 2017.

14 **Subtitle B—Excise Taxes**

15 **SEC. 5101. SIMPLIFICATION OF EXCISE TAX ON PRIVATE**  
16 **FOUNDATION INVESTMENT INCOME.**

17 (a) **RATE REDUCTION.**—Section 4940(a) is amended  
18 by striking “2 percent” and inserting “1.4 percent”.

19 (b) **REPEAL OF SPECIAL RULES FOR CERTAIN PRI-**  
20 **VATE FOUNDATIONS.**—Section 4940 is amended by strik-  
21 ing subsection (e).

22 (c) **EFFECTIVE DATE.**—The amendments made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 2017.

1 **SEC. 5102. PRIVATE OPERATING FOUNDATION REQUIRE-**  
2 **MENTS RELATING TO OPERATION OF ART**  
3 **MUSEUM.**

4 (a) **IN GENERAL.**—Section 4942(j) is amended by  
5 adding at the end the following new paragraph:

6 “(6) **ORGANIZATION OPERATING ART MU-**  
7 **SEUM.**—For purposes of this section, the term ‘oper-

8 ating foundation’ shall not include an organization  
9 which operates an art museum as a substantial ac-

10 tivity unless such museum is open during normal  
11 business hours to the public for at least 1,000 hours  
12 during the taxable year.”.

13 (b) **EFFECTIVE DATE.**—The amendments made by  
14 this section shall apply to taxable years beginning after  
15 December 31, 2017.

16 **SEC. 5103. EXCISE TAX BASED ON INVESTMENT INCOME OF**  
17 **PRIVATE COLLEGES AND UNIVERSITIES.**

18 (a) **IN GENERAL.**—Chapter 42 is amended by adding  
19 at the end the following new subchapter:

20 **“Subchapter H—Excise Tax Based on Invest-**  
21 **ment Income of Private Colleges and Uni-**  
22 **versities**

“Sec. 4969. Excise tax based on investment income of private colleges and uni-  
versities.

1 **“SEC. 4969. EXCISE TAX BASED ON INVESTMENT INCOME**  
2 **OF PRIVATE COLLEGES AND UNIVERSITIES.**

3 “(a) TAX IMPOSED.—There is hereby imposed on  
4 each applicable educational institution for the taxable year  
5 a tax equal to 1.4 percent of the net investment income  
6 of such institution for the taxable year.

7 “(b) APPLICABLE EDUCATIONAL INSTITUTION.—For  
8 purposes of this subchapter—

9 “(1) IN GENERAL.—The term ‘applicable edu-  
10 cational institution’ means an eligible educational in-  
11 stitution (as defined in section 25A(e)(3))—

12 “(A) which has at least 500 students dur-  
13 ing the preceding taxable year,

14 “(B) which is not described in the first  
15 sentence of section 511(a)(2)(B), and

16 “(C) the aggregate fair market value of  
17 the assets of which at the end of the preceding  
18 taxable year (other than those assets which are  
19 used directly in carrying out the institution’s  
20 exempt purpose) is at least \$250,000 per stu-  
21 dent of the institution.

22 “(2) STUDENTS.—For purposes of paragraph  
23 (1), the number of students of an institution shall  
24 be based on the daily average number of full-time  
25 students attending such institution (with part-time

1 students taken into account on a full-time student  
2 equivalent basis).

3 “(c) NET INVESTMENT INCOME.—For purposes of  
4 this section, net investment income shall be determined  
5 under rules similar to the rules of section 4940(c).

6 “(d) ASSETS AND NET INVESTMENT INCOME OF RE-  
7 LATED ORGANIZATIONS.—

8 “(1) IN GENERAL.—For purposes of sub-  
9 sections (b)(1)(C) and (c), the assets and net invest-  
10 ment income of any related organization shall be  
11 treated as the assets and net investment income of  
12 the eligible educational institution.

13 “(2) RELATED ORGANIZATION.—For purposes  
14 of this subsection, the term ‘related organization’  
15 means, with respect to an eligible educational insti-  
16 tution, any organization which—

17 “(A) controls, or is controlled by, such in-  
18 stitution,

19 “(B) is controlled by one or more persons  
20 that control such institution, or

21 “(C) is a supported organization (as de-  
22 fined in section 509(f)(3)), or an organization  
23 described in section 509(a)(3), during the tax-  
24 able year with respect to such institution.”.



1 (b) CLERICAL AMENDMENT.—The table of sub-  
2 chapters for chapter 42 is amended by adding at the end  
3 the following new item:

“SUBCHAPTER H—EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE  
COLLEGES AND UNIVERSITIES”.

4 (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to taxable years beginning after  
6 December 31, 2017.

7 **SEC. 5104. EXCEPTION FROM PRIVATE FOUNDATION EX-**  
8 **CESS BUSINESS HOLDING TAX FOR INDE-**  
9 **PENDENTLY-OPERATED PHILANTHROPIC**  
10 **BUSINESS HOLDINGS.**

11 (a) IN GENERAL.—Section 4943 is amended by add-  
12 ing at the end the following new subsection:

13 “(g) EXCEPTION FOR CERTAIN HOLDINGS LIMITED  
14 TO INDEPENDENTLY-OPERATED PHILANTHROPIC BUSI-  
15 NESS.—

16 “(1) IN GENERAL.—Subsection (a) shall not  
17 apply with respect to the holdings of a private foun-  
18 dation in any business enterprise which for the tax-  
19 able year meets—

20 “(A) the ownership requirements of para-  
21 graph (2),

22 “(B) the all profits to charity distribution  
23 requirement of paragraph (3), and

1           “(C) the independent operation require-  
2           ments of paragraph (4).

3           “(2) OWNERSHIP.—The ownership require-  
4           ments of this paragraph are met if—

5           “(A) 100 percent of the voting stock in the  
6           business enterprise is held by the private foun-  
7           dation at all times during the taxable year, and

8           “(B) all the private foundation’s ownership  
9           interests in the business enterprise were ac-  
10          quired not by purchase.

11          “(3) ALL PROFITS TO CHARITY.—

12          “(A) IN GENERAL.—The all profits to  
13          charity distribution requirement of this para-  
14          graph is met if the business enterprise, not  
15          later than 120 days after the close of the tax-  
16          able year, distributes an amount equal to its net  
17          operating income for such taxable year to the  
18          private foundation.

19          “(B) NET OPERATING INCOME.—For pur-  
20          poses of this paragraph, the net operating in-  
21          come of any business enterprise for any taxable  
22          year is an amount equal to the gross income of  
23          the business enterprise for the taxable year, re-  
24          duced by the sum of—

1           “(i) the deductions allowed by chapter  
2           1 for the taxable year which are directly  
3           connected with the production of such in-  
4           come,

5           “(ii) the tax imposed by chapter 1 on  
6           the business enterprise for the taxable  
7           year, and

8           “(iii) an amount for a reasonable re-  
9           serve for working capital and other busi-  
10          ness needs of the business enterprise.

11          “(4) INDEPENDENT OPERATION.—The inde-  
12          pendent operation requirements of this paragraph  
13          are met if, at all times during the taxable year—

14               “(A) no substantial contributor (as defined  
15               in section 4958(c)(3)(C)) to the private founda-  
16               tion, or family member of such a contributor  
17               (determined under section 4958(f)(4)) is a di-  
18               rector, officer, trustee, manager, employee, or  
19               contractor of the business enterprise (or an in-  
20               dividual having powers or responsibilities simi-  
21               lar to any of the foregoing),

22               “(B) at least a majority of the board of di-  
23               rectors of the private foundation are not—

24                       “(i) also directors or officers of the  
25                       business enterprise, or

1           “(ii) members of the family (deter-  
2           mined under section 4958(f)(4)) of a sub-  
3           stantial contributor (as defined in section  
4           4958(c)(3)(C)) to the private foundation,  
5           and

6           “(C) there is no loan outstanding from the  
7           business enterprise to a substantial contributor  
8           (as so defined) to the private foundation or a  
9           family member of such contributor (as so deter-  
10          mined).

11          “(5) CERTAIN DEEMED PRIVATE FOUNDATIONS  
12          EXCLUDED.—This subsection shall not apply to—

13                 “(A) any fund or organization treated as a  
14                 private foundation for purposes of this section  
15                 by reason of subsection (e) or (f),

16                 “(B) any trust described in section  
17                 4947(a)(1) (relating to charitable trusts), and

18                 “(C) any trust described in section  
19                 4947(a)(2) (relating to split-interest trusts).”.

20          (b) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2017.

1           **Subtitle C—Requirements for**  
2           **Organizations Exempt From Tax**

3   **SEC. 5201. 501(c)(3) ORGANIZATIONS PERMITTED TO MAKE**  
4                           **STATEMENTS RELATING TO POLITICAL CAM-**  
5                           **PAIGN IN ORDINARY COURSE OF ACTIVITIES.**

6           (a) IN GENERAL.—Section 501 is amended by adding  
7 at the end the following new subsection:

8           “(s) SPECIAL RULE RELATING TO POLITICAL CAM-  
9 PAIGN STATEMENTS OF ORGANIZATIONS DESCRIBED IN  
10 SUBSECTION (c)(3).—

11                   “(1) IN GENERAL.—For purposes of subsection  
12 (c)(3) and sections 170(c)(2), 2055, 2106, 2522,  
13 and 4955, an organization shall not fail to be treat-  
14 ed as organized and operated exclusively for a pur-  
15 pose described in subsection (c)(3), nor shall it be  
16 deemed to have participated in, or intervened in any  
17 political campaign on behalf of (or in opposition to)  
18 any candidate for public office, solely because of the  
19 content of any statement which—

20                           “(A) is made in the ordinary course of the  
21 organization’s regular and customary activities  
22 in carrying out its exempt purpose, and

23                           “(B) results in the organization incurring  
24 not more than de minimis incremental expenses.

1           “(2) **TERMINATION.**—Paragraph (1) shall not  
2           apply to taxable years beginning after December 31,  
3           2023.”.

4           (b) **EFFECTIVE DATE.**—The amendments made by  
5           this section shall apply to taxable years beginning after  
6           December 31, 2018.

7           **SEC. 5202. ADDITIONAL REPORTING REQUIREMENTS FOR**  
8                           **DONOR ADVISED FUND SPONSORING ORGA-**  
9                           **NIZATIONS.**

10          (a) **IN GENERAL.**—Section 6033(k) is amended by  
11          striking “and” at the end of paragraph (2), by striking  
12          the period at the end of paragraph (3), and by adding  
13          at the end the following new paragraphs:

14                 “(4) indicate the average amount of grants  
15                 made from such funds during such taxable year (ex-  
16                 pressed as a percentage of the value of assets held  
17                 in such funds at the beginning of such taxable year),  
18                 and

19                 “(5) indicate whether the organization has a  
20                 policy with respect to donor advised funds (as so de-  
21                 fined) for frequency and minimum level of distribu-  
22                 tions.

23          Such organization shall include with such return a copy  
24          of any policy described in paragraph (5).”.

1           (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply for returns filed for taxable years  
3 beginning after December 31, 2017.

