

Union Calendar No.

115TH CONGRESS
1ST SESSION

H. R. 1

[Report No. 115-]

To provide for reconciliation pursuant to title II of the concurrent resolution
on the budget for fiscal year 2018.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 2, 2017

Mr. BRADY of Texas (for himself, Mr. RYAN of Wisconsin, Mr. SAM JOHNSON of Texas, Mr. NUNES, Mr. TIBERI, Mr. REICHERT, Mr. ROSKAM, Mr. BUCHANAN, Mr. SMITH of Nebraska, Ms. JENKINS of Kansas, Mr. PAULSEN, Mr. MARCHANT, Mrs. BLACK, Mr. REED, Mr. KELLY of Pennsylvania, Mr. RENACCI, Mr. MEEHAN, Mrs. NOEM, Mr. HOLDING, Mr. SMITH of Missouri, Mr. RICE of South Carolina, Mr. SCHWEIKERT, Mrs. WALORSKI, Mr. CURBELO of Florida, and Mr. BISHOP of Michigan) introduced the following bill; which was referred to the Committee on Ways and Means

NOVEMBER --, 2017

Reported with amendments, committed to the Committee of the Whole House
on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in *italic*]

[For text of introduced bill, see copy of bill as introduced on November 2, 2017]

A BILL

To provide for reconciliation pursuant to title II of the
concurrent resolution on the budget for fiscal year 2018.

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

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

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

6 (b) *AMENDMENT OF 1986 CODE.*—*Except as otherwise*
7 *expressly provided, whenever in this Act an amendment or*
8 *repeal is expressed in terms of an amendment to, or repeal*
9 *of, a section or other provision, the reference shall be consid-*
10 *ered to be made to a section or other provision of the Inter-*
11 *nal Revenue Code of 1986.*

12 (c) *TABLE OF CONTENTS.*—*The table of contents for*
13 *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 income
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 cred-
it.

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.

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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.

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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 in-***
13 ***come 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 25-***
16 ***percent bracket threshold amount,***

17 ***“(2) 25 PERCENT BRACKET.—25 percent of so***
18 ***much of the taxable income as exceeds the 25-percent***
19 ***bracket threshold amount but does not exceed the 35-***
20 ***percent bracket threshold amount, plus***

21 ***“(3) 35 PERCENT BRACKET.—35 percent of so***
22 ***much of taxable income as exceeds the 35-percent***

1 *bracket threshold amount but does not exceed the 39.6*
2 *percent bracket threshold amount.*

3 “(4) 39.6 PERCENT BRACKET.—39.6 percent of so
4 *much of taxable income as exceeds the 39.6-percent*
5 *bracket threshold amount.*

6 “(b) BRACKET THRESHOLD AMOUNTS.—For purposes
7 *of this section—*

8 “(1) 25-PERCENT BRACKET THRESHOLD
9 AMOUNT.—The term ‘25-percent bracket threshold
10 amount’ means—

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

13 “(B) in the case of an individual who is the
14 head of a household (as defined in section 2(b)),
15 \$67,500,

16 “(C) in the case of any other individual
17 (other than an estate or trust), an amount equal
18 to $\frac{1}{2}$ of the amount in effect for the taxable year
19 under subparagraph (A), and

20 “(D) in the case of an estate or trust,
21 \$2,550.

22 “(2) 35-PERCENT BRACKET THRESHOLD
23 AMOUNT.—The term ‘35-percent bracket threshold
24 amount’ means—

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

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

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

9 “(D) in the case of an estate or trust,
10 \$9,150.

11 “(3) 39.6-PERCENT BRACKET THRESHOLD
12 AMOUNT.—The term ‘39.6-percent bracket threshold
13 amount’ means—

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

16 “(B) in the case of any other individual
17 (other than an estate or trust), an amount equal
18 to $\frac{1}{2}$ of the amount in effect for the taxable year
19 under subparagraph (A), and

20 “(C) in the case of an estate or trust,
21 \$12,500.

22 “(c) INFLATION ADJUSTMENT.—

23 “(1) IN GENERAL.—In the case of any taxable
24 year beginning after 2018, each dollar amount in sub-
25 sections (b) and (e)(3) (other than any amount deter-

1 mined by reference to such a dollar amount) shall be
2 increased by an amount equal to—

3 “(A) such dollar amount, multiplied by

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

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

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

14 “(A) IN GENERAL.—The cost-of-living ad-
15 justment for any calendar year is the percentage
16 (if any) by which—

17 “(i) the C-CPI-U for the preceding cal-
18 endar year, exceeds

19 “(ii) the normalized CPI for calendar
20 year 2016.

21 “(B) SPECIAL RULE FOR ADJUSTMENTS
22 WITH A BASE YEAR AFTER 2016.—For purposes
23 of any provision which provides for the substi-
24 tution of a year after 2016 for ‘2016’ in sub-
25 paragraph (A)(ii), subparagraph (A) shall be

1 *applied by substituting ‘C-CPI-U’ for ‘normal-*
2 *ized CPI’ in clause (ii).*

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

6 *“(A) the CPI for such calendar year, multi-*
7 *plied by*

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

9 “(4) *C-CPI-U TRANSITION MULTIPLE.—For pur-*
10 *poses of this subsection, the term ‘C-CPI-U transition*
11 *multiple’ means the amount obtained by dividing—*

12 *“(A) the C-CPI-U for calendar year 2016,*
13 *by*

14 *“(B) the CPI for calendar year 2016.*

15 “(5) *C-CPI-U.—For purposes of this sub-*
16 *section—*

17 *“(A) IN GENERAL.—The term ‘C-CPI-U’*
18 *means the Chained Consumer Price Index for All*
19 *Urban Consumers (as published by the Bureau of*
20 *Labor Statistics of the Department of Labor).*
21 *The values of the Chained Consumer Price Index*
22 *for All Urban Consumers taken into account for*
23 *purposes of determining the cost-of-living adjust-*
24 *ment for any calendar year under this subsection*
25 *shall be the latest values so published as of the*

1 *date on which such Bureau publishes the initial*
2 *value of the Chained Consumer Price Index for*
3 *All Urban Consumers for the month of August*
4 *for the preceding calendar year.*

5 “(B) DETERMINATION FOR CALENDAR
6 YEAR.—*The C-CPI-U for any calendar year is*
7 *the average of the C-CPI-U as of the close of the*
8 *12-month period ending on August 31 of such*
9 *calendar year.*

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

11 “(A) IN GENERAL.—*The term ‘Consumer*
12 *Price Index’ means the last Consumer Price*
13 *Index for All Urban Consumers published by the*
14 *Department of Labor. For purposes of the pre-*
15 *ceding sentence, the revision of the Consumer*
16 *Price Index which is most consistent with the*
17 *Consumer Price Index for calendar year 1986*
18 *shall be used.*

19 “(B) DETERMINATION FOR CALENDAR
20 YEAR.—*The CPI for any calendar year is the av-*
21 *erage of the Consumer Price Index as of the close*
22 *of the 12-month period ending on August 31 of*
23 *such calendar year.*

24 “(d) SPECIAL RULES FOR CERTAIN CHILDREN WITH
25 UNEARNED INCOME.—

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

3 “(A) *the 25-percent bracket threshold*
4 *amount shall not be more than the taxable in-*
5 *come of such child for the taxable year reduced*
6 *by the net unearned income of such child, and*

7 “(B) *the 35-percent bracket threshold*
8 *amount shall not be more than the sum of—*

9 “(i) *the taxable income of such child*
10 *for the taxable year reduced by the net un-*
11 *earned income of such child, plus*

12 “(ii) *the dollar amount in effect under*
13 *subsection (b)(2)(D) for the taxable year.*

14 “(C) *the 39.6-percent bracket threshold*
15 *amount shall not be more than the sum of—*

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

19 “(ii) *the dollar amount in effect under*
20 *subsection (b)(3)(C).*

21 “(2) *CHILD TO WHOM SUBSECTION APPLIES.*—
22 *This subsection shall apply to any child for any tax-*
23 *able year if—*

24 “(A) *such child—*

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

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

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

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

10 “(3) CERTAIN CHILDREN WHOSE EARNED IN-
11 COME DOES NOT EXCEED ONE-HALF OF INDIVIDUAL’S
12 SUPPORT.—A child is described in this paragraph
13 if—

14 “(A) such child—

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

17 “(ii) is a student (within the meaning
18 of section 7706(f)(2)) who has not attained
19 age 24 before the close of the taxable year,
20 and

21 “(B) such child’s earned income (as defined
22 in section 911(d)(2)) for such taxable year does
23 not exceed one-half of the amount of the individ-
24 ual’s support (within the meaning of section
25 7706(c)(1)(D) after the application of section

1 7706(f)(5) (without regard to subparagraph (A)
2 thereof)) for such taxable year.

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

5 “(A) IN GENERAL.—The term ‘net unearned
6 income’ means the excess of—

7 “(i) the portion of the adjusted gross
8 income for the taxable year which is not at-
9 tributable to earned income (as defined in
10 section 911(d)(2)), over

11 “(ii) the sum of—

12 “(I) the amount in effect for the
13 taxable year under section 63(c)(2)(A)
14 (relating to limitation on standard de-
15 duction in the case of certain depend-
16 ents), plus

17 “(II) The greater of the amount
18 described in subclause (I) or, if the
19 child itemizes his deductions for the
20 taxable year, the amount of the
21 itemized deductions allowed by this
22 chapter for the taxable year which are
23 directly connected with the production
24 of the portion of adjusted gross income
25 referred to in clause (i).

1 “(B) *LIMITATION BASED ON TAXABLE IN-*
2 *COME.—The amount of the net unearned income*
3 *for any taxable year shall not exceed the individ-*
4 *ual’s taxable income for such taxable year.*

5 “(e) *PHASEOUT OF 12-PERCENT RATE.—*

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

10 “(A) *adjusted gross income, over*

11 “(B) *the applicable dollar amount.*

12 “(2) *LIMITATION.—The increase determined*
13 *under paragraph (1) with respect to any taxpayer for*
14 *any taxable year shall not exceed 27.6 percent of the*
15 *lesser of—*

16 “(A) *the taxpayer’s taxable income for such*
17 *taxable year, or*

18 “(B) *the 25-percent bracket threshold*
19 *amount in effect with respect to the taxpayer for*
20 *such taxable year.*

21 “(3) *APPLICABLE DOLLAR AMOUNT.—For pur-*
22 *poses of this subsection, the term ‘applicable dollar*
23 *amount’ means—*

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

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

5 “(C) in the case of any other individual,
6 \$1,000,000.

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

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

11 (1) IN GENERAL.—

12 (A) 0-PERCENT CAPITAL GAINS BRACKET.—
13 Section 1(h)(1) is amended by striking “which
14 would (without regard to this paragraph) be
15 taxed at a rate below 25 percent” in subpara-
16 graph (B)(i) and inserting “below the 15-percent
17 rate threshold”.

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

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

4 “(12) *RATE THRESHOLDS DEFINED.*—For pur-
5 poses of this subsection—

6 “(A) *15-PERCENT RATE THRESHOLD.*—The
7 15-percent rate threshold shall be—

8 “(i) in the case of a joint return or
9 surviving spouse, \$77,200 ($\frac{1}{2}$ such amount
10 in the case of a married individual filing a
11 separate return),

12 “(ii) in the case of an individual who
13 is the head of a household (as defined in sec-
14 tion 2(b)), \$51,700,

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

19 “(iv) in the case of an estate or trust,
20 \$2,600.

21 “(B) *20-PERCENT RATE THRESHOLD.*—The
22 20-percent rate threshold shall be—

23 “(i) in the case of a joint return or
24 surviving spouse, \$479,000 ($\frac{1}{2}$ such amount

1 *in the case of a married individual filing a*
2 *separate return),*

3 “(ii) *in the case of an individual who*
4 *is the head of a household (as defined in sec-*
5 *tion 2(b)), \$452,400,*

6 “(iii) *in the case of any other indi-*
7 *vidual (other than an estate or trust),*
8 *\$425,800, and*

9 “(iv) *in the case of an estate or trust,*
10 *\$12,700.*

11 “(C) *INFLATION ADJUSTMENT.—In the case*
12 *of any taxable year beginning after 2018, each of*
13 *the dollar amounts in subparagraphs (A) and*
14 *(B) shall be increased by an amount equal to—*

15 “(i) *such dollar amount, multiplied by*

16 “(ii) *the cost-of-living adjustment de-*
17 *termined under subsection (c)(2)(A) for the*
18 *calendar year in which the taxable year be-*
19 *gins, determined by substituting ‘calendar*
20 *year 2017’ for ‘calendar year 2016’ in*
21 *clause (ii) thereof.’.*

22 “(c) *APPLICATION OF SECTION 15.—*

23 “(1) *IN GENERAL.—Subsection (a) of section 15 is*
24 *amended by striking ‘by this chapter’ and inserting*
25 *‘by section 11 (or by reference to any such rates)’.*

1 (2) *CONFORMING AMENDMENTS.*—

2 (A) *Section 15 is amended by striking sub-*
3 *sections (d) and (f) and by redesignating sub-*
4 *section (e) as subsection (d).*

5 (B) *Section 15(d), as redesignated by sub-*
6 *paragraph (A), is amended by striking “section*
7 *1 or 11(b)” and inserting “section 11(b)”.*

8 (C) *Section 6013(c) is amended by striking*
9 *“sections 15, 443, and 7851(a)(1)(A)” and in-*
10 *serting “sections 443 and 7851(a)(1)(A)”.*

11 (3) *APPLICATION TO THIS ACT.*—*Section 15 of*
12 *the Internal Revenue Code of 1986 shall not apply to*
13 *any change in a rate of tax imposed by chapter 1 of*
14 *such Code which occurs by reason of any amendment*
15 *made by this Act (other than the amendments made*
16 *by section 3001).*

17 (d) *EFFECTIVE DATE.*—

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

21 (2) *SUBSECTION (c).*—*The amendments made by*
22 *subsection (c) shall take effect on the date of the enact-*
23 *ment of this Act.*

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

2 (a) *INCREASE IN STANDARD DEDUCTION.*—Section
3 63(c) is amended to read as follows:

4 “(c) *STANDARD DEDUCTION.*—For purposes of this
5 subtitle—

6 “(1) *IN GENERAL.*—Except as otherwise provided
7 in this subsection, the term ‘standard deduction’
8 means—

9 “(A) \$24,400, in the case of a joint return
10 (or a surviving spouse (as defined in section
11 2(a)),

12 “(B) three-quarters of the amount in effect
13 under subparagraph (A) for the taxable year, in
14 the case of the head of a household (as defined in
15 section 2(b)), and

16 “(C) one-half of the amount in effect under
17 subparagraph (A) for the taxable year, in any
18 other case.

19 “(2) *LIMITATION ON STANDARD DEDUCTION IN*
20 *THE CASE OF CERTAIN DEPENDENTS.*—In the case of
21 an individual who is a dependent of another taxpayer
22 for a taxable year beginning in the calendar year in
23 which the individual’s taxable year begins, the stand-
24 ard deduction applicable to such individual for such
25 individual’s taxable year shall not exceed the greater
26 of—

1 “(A) \$500, or

2 “(B) *the sum of \$250 and such individual’s*
3 *earned income (within the means of section 32).*

4 “(3) *CERTAIN INDIVIDUALS, ETC., NOT ELIGIBLE*
5 *FOR STANDARD DEDUCTION.—In the case of—*

6 “(A) *a married individual filing a separate*
7 *return where either spouse itemizes deductions,*

8 “(B) *a nonresident alien individual,*

9 “(C) *an individual making a return under*
10 *section 443(a)(1) for a period of less than 12*
11 *months on account of a change in his annual ac-*
12 *counting period, or*

13 “(D) *an estate or trust, common trust fund,*
14 *or partnership,*

15 *the standard deduction shall be zero.*

16 “(4) *UNMARRIED INDIVIDUAL.—For purposes of*
17 *this section, the term ‘unmarried individual’ means*
18 *any individual who—*

19 “(A) *is not married as of the close of the*
20 *taxable year (as determined by applying section*
21 *7703),*

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

24 “(C) *is not a dependent of another taxpayer*
25 *for a taxable year beginning in the calendar*

1 *year in which the individual's taxable year be-*
2 *gins.*

3 “(5) *INFLATION ADJUSTMENTS.*—

4 “(A) *STANDARD DEDUCTION AMOUNT.*—*In*
5 *the case of any taxable year beginning after*
6 *2019, the dollar amount in paragraph (1)(A)*
7 *shall be increased by an amount equal to—*

8 “(i) *such dollar amount, multiplied by*

9 “(ii) *the cost-of-living adjustment de-*
10 *termined under section 1(c)(2)(A) for the*
11 *calendar year in which the taxable year be-*
12 *gins, determined by substituting ‘calendar*
13 *year 2018’ for ‘calendar year 2016’ in*
14 *clause (ii) thereof.*

15 “(B) *LIMITATION AMOUNT IN CASE OF CER-*
16 *TAIN DEPENDENTS.*—*In the case of any taxable*
17 *year beginning after 2017, each of the dollar*
18 *amounts in paragraph (2) shall be increased by*
19 *an amount equal to—*

20 “(i) *such dollar amount, multiplied by*

21 “(ii)(I) *in the case of the dollar*
22 *amount in paragraph (2)(A), under section*
23 *1(c)(2)(A) for the calendar year in which*
24 *the taxable year begins determined by sub-*

1 *stituting ‘calendar year 1987’ for ‘calendar*
2 *year 2016’ in clause (ii) thereof, and*
3 *“(II) in the case of the dollar amount*
4 *in paragraph (2)(B), under section*
5 *1(c)(2)(A) for the calendar year in which*
6 *the taxable year begins determined by sub-*
7 *stituting ‘calendar year 1997’ for ‘calendar*
8 *year 2016’ in clause (ii) thereof.*

9 *If any increase determined under this paragraph is*
10 *not a multiple of \$100, such increase shall be rounded*
11 *to the next lowest multiple of \$100.”.*

12 *(b) CONFORMING AMENDMENTS.—*

13 *(1) Section 63(b) is amended by striking “,*
14 *minus—” and all that follows and inserting “minus*
15 *the standard deduction”.*

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

18 *(3) Section 1398(c) is amended—*

19 *(A) by striking “BASIC” in the heading*
20 *thereof,*

21 *(B) by striking “BASIC STANDARD” in the*
22 *heading of paragraph (3) and inserting “STAND-*
23 *ARD”, and*

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

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

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

6 (c) *EFFECTIVE DATE.*—*The amendment made by this*
7 *section shall apply to taxable years beginning after Decem-*
8 *ber 31, 2017.*

9 **SEC. 1003. REPEAL OF DEDUCTION FOR PERSONAL EXEMP-**
10 **TIONS.**

11 (a) *IN GENERAL.*—*Part V of subchapter B of chapter*
12 *1 is hereby repealed.*

13 (b) *DEFINITION OF DEPENDENT RETAINED.*—*Section*
14 *152, prior to repeal by subsection (a), is hereby redesignated*
15 *as section 7706 and moved to the end of chapter 79.*

16 (c) *APPLICATION TO ESTATES AND TRUSTS.*—*Sub-*
17 *section (b) of section 642 is amended—*

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

19 (2) *by striking paragraph (3), and*

20 (3) *by striking “DEDUCTION FOR PERSONAL EX-*
21 *EMPTION” in the heading thereof and inserting*
22 *“BASIC DEDUCTION”.*

23 (d) *APPLICATION TO NONRESIDENT ALIENS.*—*Section*
24 *873(b) is amended by striking paragraph (3).*

25 (e) *MODIFICATION OF WAGE WITHHOLDING RULES.*—

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

3 (2) *CONFORMING AMENDMENT.*—Section 3402(a)
4 is amended—

5 (A) by redesignating subparagraphs (A)
6 and (B) of paragraph (1) as paragraphs (1) and
7 (2) and moving such redesignated paragraphs 2
8 ems to the left, and

9 (B) by striking all that precedes “otherwise
10 provided in this section” and inserting the fol-
11 lowing:

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

13 (3) *NUMBER OF EXEMPTIONS.*—Section
14 3402(f)(1) is amended—

15 (A) in subparagraph (A), by striking “an
16 individual described in section 151(d)(2)” and
17 inserting “a dependent of any other taxpayer”,
18 and

19 (B) in subparagraph (C), by striking “with
20 respect to whom, on the basis of facts existing at
21 the beginning of such day, there may reasonably
22 be expected to be allowable an exemption under
23 section 151(c)” and inserting “who, on the basis
24 of facts existing at the beginning of such day, is

1 *reasonably expected to be a dependent of the em-*
2 *ployee”.*

3 (f) *MODIFICATION OF RETURN REQUIREMENT.—*

4 (1) *IN GENERAL.—Paragraph (1) of section*
5 *6012(a) is amended to read as follows:*

6 “(1) *Every individual who has gross income for*
7 *the taxable year, except that a return shall not be re-*
8 *quired of—*

9 “(A) *an individual who is not married (de-*
10 *termined by applying section 7703) and who has*
11 *gross income for the taxable year which does not*
12 *exceed the standard deduction applicable to such*
13 *individual for such taxable year under section*
14 *63, or*

15 “(B) *an individual entitled to make a joint*
16 *return if—*

17 “(i) *the gross income of such indi-*
18 *vidual, when combined with the gross in-*
19 *come of such individual’s spouse, for the*
20 *taxable year does not exceed the standard*
21 *deduction which would be applicable to the*
22 *taxpayer for such taxable year under section*
23 *63 if such individual and such individual’s*
24 *spouse made a joint return,*

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

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

6 “(iv) neither such individual nor such
7 individual’s spouse is an individual de-
8 scribed in section 63(c)(2) who has income
9 (other than earned income) in excess of the
10 amount in effect under section
11 63(c)(2)(A).”.

12 (2) *BANKRUPTCY ESTATES.*—Paragraph (8) of
13 section 6012(a) is amended by striking “the sum of
14 the exemption amount plus the basic standard deduc-
15 tion under section 63(c)(2)(D)” and inserting “the
16 standard deduction in effect under section
17 63(c)(1)(B)”.

18 (g) *CONFORMING AMENDMENTS.*—

19 (1) Section 2(a)(1)(B) is amended by striking “a
20 dependent” and all that follows through “section 151”
21 and inserting “a dependent who (within the meaning
22 of section 7706, determined without regard to sub-
23 sections (b)(1), (b)(2) and (d)(1)(B) thereof) is a son,
24 stepson, daughter, or stepdaughter of the taxpayer”.

1 (2) *Section 36B(b)(2)(A) is amended by striking*
2 *“section 152” and inserting “section 7706”.*

3 (3) *Section 36B(b)(3)(B) is amended by striking*
4 *“unless a deduction is allowed under section 151 for*
5 *the taxable year with respect to a dependent” in the*
6 *flush matter at the end and inserting “unless the tax-*
7 *payer has a dependent for the taxable year”.*

8 (4) *Section 36B(c)(1)(D) is amended by striking*
9 *“with respect to whom a deduction under section 151*
10 *is allowable to another taxpayer” and inserting “who*
11 *is a dependent of another taxpayer”.*

12 (5) *Section 36B(d)(1) is amended by striking*
13 *“equal to the number of individuals for whom the tax-*
14 *payer is allowed a deduction under section 151 (relat-*
15 *ing to allowance of deduction for personal exemp-*
16 *tions) for the taxable year” and inserting “the sum*
17 *of 1 (2 in the case of a joint return) plus the number*
18 *of the taxpayer’s dependents for the taxable year”.*

19 (6) *Section 36B(e)(1) is amended by striking “1*
20 *or more individuals for whom a taxpayer is allowed*
21 *a deduction under section 151 (relating to allowance*
22 *of deduction for personal exemptions) for the taxable*
23 *year (including the taxpayer or his spouse)” and in-*
24 *serting “1 or more of the taxpayer, the taxpayer’s*
25 *spouse, or any dependent of the taxpayer”.*

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

2 (A) *by striking “section 152” and inserting*
3 *“section 7706”, and*

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

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

8 (9) *Section 72(t)(7)(A)(iii) is amended by strik-*
9 *ing “section 152(f)(1)” and inserting “section*
10 *7706(f)(1)”.*

11 (10) *Section 105(b) is amended—*

12 (A) *by striking “as defined in section 152”*
13 *and inserting “as defined in section 7706”,*

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

16 (C) *by striking “section 152(e)” and insert-*
17 *ing “section 7706(e)”.*

18 (11) *Section 105(c)(1) is amended by striking*
19 *“section 152” and inserting “section 7706”.*

20 (12) *Section 125(e)(1)(D) is amended by striking*
21 *“section 152” and inserting “section 7706”.*

22 (13) *Section 132(h)(2)(B) is amended—*

23 (A) *by striking “section 152(f)(1)” and in-*
24 *serting “section 7706(f)(1)”, and*

1 (B) by striking “section 152(e)” and insert-
2 ing “section 7706(e)”.

3 (14) Section 139D(c)(5) is amended by striking
4 “section 152” and inserting “section 7706”.

5 (15) Section 162(l)(1)(D) is amended by striking
6 “section 152(f)(1)” and inserting “section
7 7706(f)(1)”.

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

10 (17) Section 170(g)(3) is amended by striking
11 “section 152(d)(2)” and inserting “section
12 7706(d)(2)”.

13 (18) Section 172(d) is amended by striking
14 paragraph (3).

15 (19) Section 220(b)(6) is amended by striking
16 “with respect to whom a deduction under section 151
17 is allowable to” and inserting “who is a dependent
18 of”.

19 (20) Section 220(d)(2)(A) is amended by striking
20 “section 152” and inserting “section 7706”.

21 (21) Section 223(b)(6) is amended by striking
22 “with respect to whom a deduction under section 151
23 is allowable to” and inserting “who is a dependent
24 of”.

1 (22) *Section 223(d)(2)(A) is amended by striking*
2 *“section 152” and inserting “section 7706”.*

3 (23) *Section 401(h) is amended by striking “sec-*
4 *tion 152(f)(1)” in the last sentence and inserting*
5 *“section 7706(f)(1)”.*

6 (24) *Section 402(l)(4)(D) is amended by striking*
7 *“section 152” and inserting “section 7706”.*

8 (25) *Section 409A(a)(2)(B)(ii)(I) is amended by*
9 *striking “section 152(a)” and inserting “section*
10 *7706(a)”.*

11 (26) *Section 501(c)(9) is amended by striking*
12 *“section 152(f)(1)” and inserting “section*
13 *7706(f)(1)”.*

14 (27) *Section 529(e)(2)(B) is amended by striking*
15 *“section 152(d)(2)” and inserting “section*
16 *7706(d)(2)”.*

17 (28) *Section 703(a)(2) is amended by striking*
18 *subparagraph (A) and by redesignating subpara-*
19 *graphs (B) through (F) as subparagraphs (A) through*
20 *(E), respectively.*

21 (29) *Section 874 is amended by striking sub-*
22 *section (b) and by redesignating subsection (c) as sub-*
23 *section (b).*

24 (30) *Section 891 is amended by striking “under*
25 *section 151 and”.*

1 (31) *Section 904(b) is amended by striking para-*
2 *graph (1).*

3 (32) *Section 931(b)(1) is amended by striking*
4 *“(other than the deduction under section 151, relating*
5 *to personal exemptions)”.*

6 (33) *Section 933 is amended—*

7 (A) *by striking “(other than the deduction*
8 *under section 151, relating to personal exemp-*
9 *tions)” in paragraph (1), and*

10 (B) *by striking “(other than the deduction*
11 *for personal exemptions under section 151)” in*
12 *paragraph (2).*

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

15 *“(ii) in the case of an estate or trust,*
16 *the deduction allowed for such year under*
17 *section 642(b).”.*

18 (35) *Section 1361(c)(1)(C) is amended by strik-*
19 *ing “section 152(f)(1)(C)” and inserting “section*
20 *7706(f)(1)(C)”.*

21 (36) *Section 1402(a) is amended by striking*
22 *paragraph (7).*

23 (37) *Section 2032A(c)(7)(D) is amended by*
24 *striking “section 152(f)(2)” and inserting “section*
25 *7706(f)(2)”.*

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

4 (39) *Section 3402(r)(2) is amended by striking*
5 *“the sum of—” and all that follows and inserting*
6 *“the standard deduction in effect under section*
7 *63(c)(1)(B).”.*

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

10 (41) *Section 5000A(c)(4)(A) is amended by strik-*
11 *ing “the number of individuals for whom the tax-*
12 *payer is allowed a deduction under section 151 (relat-*
13 *ing to allowance of deduction for personal exemp-*
14 *tions) for the taxable year” and inserting “the sum*
15 *of 1 (2 in the case of a joint return) plus the number*
16 *of the taxpayer’s dependents for the taxable year”.*

17 (42) *Section 6013(b)(3)(A) is amended—*

18 (A) *by striking “had less than the exemp-*
19 *tion amount of gross income” in clause (ii) and*
20 *inserting “had no gross income”,*

21 (B) *by striking “had gross income of the ex-*
22 *emption amount or more” in clause (iii) and in-*
23 *serting “had any gross income”, and*

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

1 (43) *Section 6103(l)(21)(A)(iii) is amended to*
2 *read as follows:*

3 *“(iii) the number of the taxpayer’s de-*
4 *pendents,”.*

5 (44) *Section 6213(g)(2) is amended by striking*
6 *subparagraph (H).*

7 (45) *Section 6334(d)(2) is amended to read as*
8 *follows:*

9 *“(2) EXEMPT AMOUNT.—*

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

13 *“(i) the standard deduction, divided by*

14 *“(ii) 52.*

15 *“(B) VERIFIED STATEMENT.—Unless the*
16 *taxpayer submits to the Secretary a written and*
17 *properly verified statement specifying the facts*
18 *necessary to determine the proper amount under*
19 *subparagraph (A), subparagraph (A) shall be ap-*
20 *plied as if the taxpayer were a married indi-*
21 *vidual filing a separate return with no depend-*
22 *ents.”.*

23 (46) *Section 7702B(f)(2)(C)(iii) is amended by*
24 *striking “section 152(d)(2)” and inserting “section*
25 *7706(d)(2)”.*

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

3 (48) *Section 7703(b)(1) is amended by striking*
4 *“section 152(f)(1)” and all that follows and inserting*
5 *“section 7706(f)(1),”.*

6 (49) *Section 7706(a), as redesignated by this sec-*
7 *tion, is amended by striking “this subtitle” and in-*
8 *serting “subtitle A”.*

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

13 (B) *Section 7706(d), as redesignated by this sec-*
14 *tion, is amended by adding at the end the following*
15 *new paragraph:*

16 “(6) *INFLATION ADJUSTMENT.—In the case of*
17 *any calendar year beginning after 2018, the \$4,150*
18 *amount in paragraph (1)(B) shall be increased by an*
19 *amount equal to—*

20 “(A) *such dollar amount, multiplied by*

21 “(B) *the cost-of-living adjustment deter-*
22 *mined under section 1(c)(2)(A) for such calendar*
23 *year, determined by substituting ‘calendar year*
24 *2017’ for ‘calendar year 2016’ in clause (ii)*
25 *thereof.*

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

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

“Sec. 7706. Dependent defined.”.

6 (h) *EFFECTIVE DATE.—The amendments made by this*
7 *section shall apply to taxable years beginning after Decem-*
8 *ber 31, 2017.*

9 **SEC. 1004. MAXIMUM RATE ON BUSINESS INCOME OF INDIV-**
10 **VIDUALS.**

11 (a) *IN GENERAL.—Part I of subchapter A of chapter*
12 *1 is amended by inserting after section 3 the following new*
13 *section:*

14 **“SEC. 4. 25 PERCENT MAXIMUM RATE ON BUSINESS INCOME**
15 **OF INDIVIDUALS.**

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

19 “(1) *10 percent of the lesser of—*

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

21 “(B) *the excess (if any) of—*

22 “(i) *taxable income reduced by net*
23 *capital gain (as defined in section*
24 *1(h)(11)(A)), over*

1 “(ii) the maximum dollar amount for
2 the 25-percent rate bracket which applies to
3 the taxpayer under section 1 for the taxable
4 year, and

5 “(2) 4.6 percent of the excess (if any) of—

6 “(A) the lesser of—

7 “(i) qualified business income, or

8 “(ii) the excess (if any) determined
9 under paragraph (1)(B), over

10 “(B) the excess of—

11 “(i) the maximum dollar amount for
12 the 35-percent rate bracket which applies to
13 the taxpayer under section 1 for the taxable
14 year, over

15 “(ii) the maximum dollar amount for
16 the 25-percent rate bracket which applies to
17 the taxpayer under section 1 for the taxable
18 year.

19 “(b) *QUALIFIED BUSINESS INCOME*.—For purposes of
20 this section, the term ‘qualified business income’ means the
21 excess (if any) of—

22 “(1) the sum of—

23 “(A) 100 percent of any net business income
24 derived from any passive business activity, plus

1 “(B) the capital percentage of any net busi-
2 ness income derived from any active business ac-
3 tivity, over

4 “(2) the sum of—

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

7 “(B) except as provided in subsection
8 (e)(3)(A), 30 percent of any net business loss de-
9 rived from any active business activity, plus

10 “(C) any carryover business loss determined
11 for the preceding taxable year.

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

14 “(1) IN GENERAL.—Net business income or loss
15 shall be determined with respect to any business ac-
16 tivity by appropriately netting items of income, gain,
17 deduction, and loss with respect to such business ac-
18 tivity.

19 “(2) WAGES, ETC.—Any wages (as defined in
20 section 3401), payments described in subsection (a) or
21 (c) of section 707, or directors’ fees received by the
22 taxpayer which are properly attributable to any busi-
23 ness activity shall be taken into account under para-
24 graph (1) as an item of income with respect to such
25 business activity.

1 “(3) *EXCEPTION FOR CERTAIN INVESTMENT-RE-*
2 *LATED ITEMS.—There shall not be taken into account*
3 *under paragraph (1)—*

4 “(A) *any item of short-term capital gain,*
5 *short-term capital loss, long-term capital gain,*
6 *or long-term capital loss,*

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

10 “(C) *any interest income other than interest*
11 *income which is properly allocable to a trade or*
12 *business,*

13 “(D) *any item of gain or loss described in*
14 *subparagraph (C) or (D) of section 954(c)(1)*
15 *(applied by substituting ‘business activity’ for*
16 *‘controlled foreign corporation’),*

17 “(E) *any item of income, gain, deduction,*
18 *or loss taken into account under section*
19 *954(c)(1)(F) (determined without regard to*
20 *clause (ii) thereof and other than items attrib-*
21 *utable to notional principal contracts entered*
22 *into in transactions qualifying under section*
23 *1221(a)(7)),*

1 “(F) *any amount received from an annuity*
2 *which is not received in connection with the*
3 *trade or business of the business activity, and*

4 “(G) *any item of deduction or loss properly*
5 *allocable to an amount described in any of the*
6 *preceding subparagraphs.*

7 “(4) *APPLICATION OF RESTRICTIONS APPLICABLE*
8 *TO DETERMINING TAXABLE INCOME.—Net business in-*
9 *come or loss shall be appropriately adjusted so as*
10 *only to take into account any amount of income,*
11 *gain, deduction, or loss to the extent such amount af-*
12 *fects the determination of taxable income for the tax-*
13 *able year.*

14 “(5) *CARRYOVER BUSINESS LOSS.—For purposes*
15 *of subsection (b)(2)(C), the carryover business loss de-*
16 *termined for any taxable year is the excess (if any)*
17 *of the sum described in subsection (b)(2) over the sum*
18 *described in subsection (b)(1) for such taxable year.*

19 “(d) *PASSIVE AND ACTIVE BUSINESS ACTIVITY.—For*
20 *purposes of this section—*

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

1 “(2) *ACTIVE BUSINESS ACTIVITY*.—The term ‘ac-
2 *tive business activity*’ means any business activity
3 *which is not a passive business activity*.

4 “(3) *BUSINESS ACTIVITY*.—The term ‘business
5 *activity*’ means any activity (within the meaning of
6 *section 469*) which involves the conduct of any trade
7 *or business*.

8 “(e) *CAPITAL PERCENTAGE*.—For purposes of this sec-
9 *tion*—

10 “(1) *IN GENERAL*.—Except as otherwise provided
11 *in this section*, the term ‘capital percentage’ means 30
12 *percent*.

13 “(2) *INCREASED PERCENTAGE FOR CAPITAL-IN-*
14 *TENSIVE BUSINESS ACTIVITIES*.—In the case of a tax-
15 *payer who elects the application of this paragraph*
16 *with respect to any active business activity (other*
17 *than a specified service activity), the capital percent-*
18 *age shall be equal to the applicable percentage (as de-*
19 *finied in subsection (f)) for each taxable year with re-*
20 *spect to which such election applies. Any election*
21 *made under this paragraph shall apply to the taxable*
22 *year for which such election is made and each of the*
23 *4 subsequent taxable years. Such election shall be*
24 *made not later than the due date (including exten-*
25 *sions) for the return of tax for the taxable year for*

1 *which such election is made, and, once made, may not*
2 *be revoked.*

3 “(3) *TREATMENT OF SPECIFIED SERVICE ACTIVI-*
4 *TIES.—*

5 “(A) *IN GENERAL.—In the case of any ac-*
6 *tive business activity which is a specified service*
7 *activity—*

8 “(i) *the capital percentage shall be 0*
9 *percent, and*

10 “(ii) *subsection (b)(2)(B) shall be ap-*
11 *plied by substituting ‘0 percent’ for ‘30 per-*
12 *cent’.*

13 “(B) *EXCEPTION FOR CAPITAL-INTENSIVE*
14 *SPECIFIED SERVICE ACTIVITIES.—If—*

15 “(i) *the taxpayer elects the application*
16 *of this subparagraph with respect to such*
17 *activity for any taxable year, and*

18 “(ii) *the applicable percentage (as de-*
19 *finied in subsection (f)) with respect to such*
20 *activity for such taxable year is at least 10*
21 *percent,*

22 *then subparagraph (A) shall not apply and the*
23 *capital percentage with respect to such activity*
24 *shall be equal to such applicable percentage.*

1 “(C) *SPECIFIED SERVICE ACTIVITY.*—The
2 term ‘specified service activity’ means any activ-
3 ity involving the performance of services de-
4 scribed in section 1202(e)(3)(A), including in-
5 vesting, trading, or dealing in securities (as de-
6 fined in section 475(c)(2)), partnership interests,
7 or commodities (as defined in section 475(e)(2)).

8 “(4) *REDUCTION IN CAPITAL PERCENTAGE IN*
9 *CERTAIN CASES.*—The capital percentage (determined
10 after the application of paragraphs (2) and (3)) with
11 respect to any active business activity shall not exceed
12 1 minus the quotient (not greater than 1) of—

13 “(A) any amounts described in subsection
14 (c)(2) which are taken into account in deter-
15 mining the net business income derived from
16 such activity, divided by

17 “(B) such net business income.

18 “(f) *APPLICABLE PERCENTAGE.*—For purposes of this
19 section—

20 “(1) *IN GENERAL.*—The term ‘applicable per-
21 centage’ means, with respect to any active business
22 activity for any taxable year, the quotient (not great-
23 er than 1) of—

1 “(A) *the specified return on capital with re-*
2 *spect to such activity for such taxable year, di-*
3 *vided by*

4 “(B) *the taxpayer’s net business income de-*
5 *rived from such activity for such taxable year.*

6 “(2) *SPECIFIED RETURN ON CAPITAL.—The term*
7 *‘specified return on capital’ means, with respect to*
8 *any active business activity referred to in paragraph*
9 *(1), the excess of—*

10 “(A) *the product of—*

11 “(i) *the deemed rate of return for the*
12 *taxable year, multiplied by*

13 “(ii) *the asset balance with respect to*
14 *such activity for such taxable year, over*

15 “(B) *an amount equal to the interest which*
16 *is paid or accrued, and for which a deduction is*
17 *allowed under this chapter, with respect to such*
18 *activity for such taxable year.*

19 “(3) *DEEMED RATE OF RETURN.—The term*
20 *‘deemed rate of return’ means, with respect to any*
21 *taxable year, the Federal short-term rate (determined*
22 *under section 1274(d) for the month in which or with*
23 *which such taxable year ends) plus 7 percentage*
24 *points.*

25 “(4) *ASSET BALANCE.—*

1 “(A) *IN GENERAL.*—*The asset balance with*
2 *respect to any active business activity referred to*
3 *in paragraph (1) for any taxable year equals the*
4 *taxpayer’s adjusted basis of any property de-*
5 *scribed in section 1221(a)(2) which is used in*
6 *connection with such activity as of the end of the*
7 *taxable year (determined without regard to sec-*
8 *tions 168(k) and 179).*

9 “(B) *APPLICATION TO ACTIVITIES CARRIED*
10 *ON THROUGH PARTNERSHIPS AND S CORPORA-*
11 *TIONS.*—*In the case of any active business activ-*
12 *ity carried on through a partnership or S cor-*
13 *poration, the taxpayer shall take into account*
14 *such taxpayer’s distributive or pro rata share (as*
15 *the case may be) of the asset balance with respect*
16 *to such activity as determined with respect to*
17 *such partnership or S corporation under sub-*
18 *paragraph (A) (applied by substituting ‘the*
19 *partnership’s or S corporation’s adjusted basis’*
20 *for ‘the taxpayer’s adjusted basis’).*

21 “(g) *REDUCED RATE FOR SMALL BUSINESSES WITH*
22 *NET ACTIVE BUSINESS INCOME.*—

23 “(1) *IN GENERAL.*—*The tax imposed by section*
24 *1 shall be reduced by 3 percent of the excess (if any)*
25 *of—*

1 “(A) the least of—

2 “(i) qualified active business income,

3 “(ii) taxable income reduced by net
4 capital gain (as defined in section
5 1(h)(11)(A)), or

6 “(iii) the 9-percent bracket threshold
7 amount, over

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

10 “(2) PHASE-IN OF RATE REDUCTION.—In the
11 case of any taxable year beginning before January 1,
12 2022, paragraph (1) shall be applied by substituting
13 for ‘3 percent’—

14 “(A) in the case of any taxable year begin-
15 ning after December 31, 2017, and before Janu-
16 ary 1, 2020, ‘1 percent’, and

17 “(B) in the case of any taxable year begin-
18 ning after December 31, 2019, and before Janu-
19 ary 1, 2022, ‘2 percent’.

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

23 “(A) any net business income derived from
24 any active business activity, over

1 “(B) *any net business loss derived from any*
2 *active business activity.*

3 “(4) 9-PERCENT BRACKET THRESHOLD
4 AMOUNT.—*For purposes of this subsection, the term*
5 ‘9-percent bracket threshold amount’ means—

6 “(A) *in the case of a joint return or sur-*
7 *living spouse, \$75,000,*

8 “(B) *in the case of an individual who is the*
9 *head of a household (as defined in section 2(b)),*
10 $\frac{3}{4}$ *of the amount in effect for the taxable year*
11 *under subparagraph (A), and*

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

15 “(5) APPLICABLE THRESHOLD AMOUNT.—*For*
16 *purposes of this subsection, the term ‘applicable*
17 *threshold amount’ means—*

18 “(A) *in the case of a joint return or sur-*
19 *living spouse, \$150,000,*

20 “(B) *in the case of an individual who is the*
21 *head of a household (as defined in section 2(b)),*
22 $\frac{3}{4}$ *of the amount in effect for the taxable year*
23 *under subparagraph (A), and*

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

4 “(6) *ESTATES AND TRUSTS.—Paragraph (1)*
5 *shall not apply to any estate or trust.*

6 “(7) *INFLATION ADJUSTMENT.—In the case of*
7 *any taxable year beginning after 2018, the dollar*
8 *amounts in paragraphs (4)(A) and (5)(A) shall each*
9 *be increased by an amount equal to—*

10 “(A) *such dollar amount, multiplied by*

11 “(B) *the cost-of-living adjustment deter-*
12 *mined under subsection (c)(2)(A) for the cal-*
13 *endar year in which the taxable year begins, de-*
14 *termined by substituting ‘calendar year 2017’ for*
15 *‘calendar year 2016’ in clause (ii) thereof.*

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

19 “(h) *REGULATIONS.—The Secretary may issue such*
20 *regulations or other guidance as may be necessary or appro-*
21 *priate to carry out the purposes of this section, including*
22 *regulations or other guidance—*

23 “(1) *which ensures that no amount is taken into*
24 *account under subsection (f)(4) with respect to more*
25 *than one activity, and*

1 “(2) *which treats all specified service activities of*
2 *the taxpayer as a single business activity for purposes*
3 *of this section to the extent that such activities would*
4 *be treated as a single employer under subsection (a)*
5 *or (b) of section 52 or subsection (m) or (o) of section*
6 *414.*

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

11 (b) *25 PERCENT RATE FOR CERTAIN DIVIDENDS OF*
12 *REAL ESTATE INVESTMENT TRUSTS AND COOPERATIVES.—*
13 *Section 1(h), as amended by the preceding provisions of this*
14 *Act, is amended by adding at the end the following new*
15 *paragraph:*

16 “(13) *25 PERCENT RATE FOR CERTAIN DIVI-*
17 *DENDS OF REAL ESTATE INVESTMENT TRUSTS AND*
18 *COOPERATIVES.—*

19 “(A) *IN GENERAL.—For purposes of this*
20 *subsection, net capital gain (as defined in para-*
21 *graph (11)) and unrecaptured section 1250 gain*
22 *(as defined in paragraph (6)) shall each be in-*
23 *creased by specified dividend income.*

1 “(B) *SPECIFIED DIVIDEND INCOME.*—For
2 purposes of this paragraph, the term ‘specified
3 dividend income’ means—

4 “(i) in the case of any dividend re-
5 ceived from a real estate investment trust,
6 the portion of such dividend which is nei-
7 ther—

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

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

13 “(ii) any dividend which is includible
14 in gross income and which is received from
15 an organization or corporation described in
16 section 501(c)(12) or 1381(a).”.

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

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

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

23 (e) *TRANSITION RULE.*—In the case of any taxable
24 year which includes December 31, 2017, the amendment

1 *made by subsection (a) shall apply with respect to such tax-*
2 *able year adjusted—*

3 *(1) so as to apply with respect to the rates of tax*
4 *in effect under section 1 of the Internal Revenue Code*
5 *of 1986 with respect to such taxable year (and so as*
6 *to achieve a 25 percent effective rate of tax on the*
7 *business income (determined without regard to para-*
8 *graph (2)) in the same manner as such amendment*
9 *applies to taxable years beginning after such date*
10 *with respect to the rates of tax in effect for such*
11 *years), and*

12 *(2) by reducing the amount of the reduction in*
13 *tax (as otherwise determined under paragraph (1)) by*
14 *the amount which bears the same proportion to the*
15 *amount of such reduction as the number of days in*
16 *the taxable year which are before January 1, 2018,*
17 *bears to the number of days in the entire taxable*
18 *year.*

19 **SEC. 1005. CONFORMING AMENDMENTS RELATED TO SIM-**
20 **PLIFICATION OF INDIVIDUAL INCOME TAX**
21 **RATES.**

22 *(a) AMENDMENTS RELATED TO MODIFICATION OF IN-*
23 *FLATION ADJUSTMENT.—*

24 *(1) Section 32(b)(2)(B)(ii)(II) is amended by*
25 *striking “section 1(f)(3) for the calendar year in*

1 *which the taxable year begins determined by sub-*
2 *stituting ‘calendar year 2008’ for ‘calendar year*
3 *1992’ in subparagraph (B) thereof” and inserting*
4 *“section 1(c)(2)(A) for the calendar year in which the*
5 *taxable year begins determined by substituting ‘cal-*
6 *endar year 2008’ for ‘calendar year 2016’ in clause*
7 *(ii) thereof”.*

8 *(2) Section 32(j)(1)(B) is amended—*

9 *(A) in the matter preceding clause (i), by*
10 *striking “section 1(f)(3)” and inserting “section*
11 *1(c)(2)(A)”,*

12 *(B) in clause (i), by striking “for ‘calendar*
13 *year 1992’ in subparagraph (B) thereof” and in-*
14 *serting “for ‘calendar year 2016’ in clause (ii)*
15 *thereof”, and*

16 *(C) in clause (ii), by striking “for ‘calendar*
17 *year 1992’ in subparagraph (B) of such section*
18 *1” and inserting “for ‘calendar year 2016’ in*
19 *clause (ii) thereof”.*

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

23 *(4) Section 41(e)(5)(C) is amended to read as*
24 *follows:*

1 “(C) *COST-OF-LIVING ADJUSTMENT DE-*
2 *FINED.*—

3 “(i) *IN GENERAL.*—*The cost-of-living*
4 *adjustment for any calendar year is the*
5 *cost-of-living adjustment for such calendar*
6 *year determined under section 1(c)(2)(A),*
7 *by substituting ‘calendar year 1987’ for*
8 *‘calendar year 2016’ in clause (ii) thereof.*

9 “(ii) *SPECIAL RULE WHERE BASE PE-*
10 *RIOD ENDS IN A CALENDAR YEAR OTHER*
11 *THAN 1983 OR 1984.*—*If the base period of*
12 *any taxpayer does not end in 1983 or 1984,*
13 *clause (i) shall be applied by substituting*
14 *the calendar year in which such base period*
15 *ends for 1987.”.*

16 (5) *Section 42(e)(3)(D)(ii) is amended by strik-*
17 *ing “section 1(f)(3) for such calendar year by sub-*
18 *stituting ‘calendar year 2008’ for ‘calendar year*
19 *1992’ in subparagraph (B) thereof” and inserting*
20 *“section 1(c)(2)(A) for such calendar year by sub-*
21 *stituting ‘calendar year 2008’ for ‘calendar year*
22 *2016’ in clause (ii) thereof”.*

23 (6) *Section 42(h)(3)(H)(i)(II) is amended by*
24 *striking “section 1(f)(3) for such calendar year by*
25 *substituting ‘calendar year 2001’ for ‘calendar year*

1 1992’ in subparagraph (B) thereof” and inserting
2 “section 1(c)(2)(A) for such calendar year by sub-
3 stituting ‘calendar year 2001’ for ‘calendar year
4 2016’ in clause (ii) thereof”.

5 (7) Section 45R(d)(3)(B)(ii) is amended by
6 striking “section 1(f)(3) for the calendar year, deter-
7 mined by substituting ‘calendar year 2012’ for ‘cal-
8 endar year 1992’ in subparagraph (B) thereof” and
9 inserting “‘section 1(c)(2)(A) for such calendar year,
10 determined by substituting “calendar year 2012” for
11 “calendar year 2016” in clause (ii) thereof”.

12 (8) Section 125(i)(2) is amended—

13 (A) by striking “section 1(f)(3) for the cal-
14 endar year in which the taxable year begins by
15 substituting ‘calendar year 2012’ for ‘calendar
16 year 1992’ in subparagraph (B) thereof” in sub-
17 paragraph (B) and inserting “section 1(c)(2)(A)
18 for the calendar year in which the taxable year
19 begins”, and

20 (B) by striking “\$50” both places it appears
21 in the last sentence and inserting “\$100”.

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

1 (10) Section 220(g)(2) is amended by striking
2 “section 1(f)(3) for the calendar year in which the
3 taxable year begins by substituting ‘calendar year
4 1997’ for ‘calendar year 1992’ in subparagraph (B)
5 thereof” and inserting “section 1(c)(2)(A) for the cal-
6 endar year in which the taxable year begins, deter-
7 mined by substituting ‘calendar year 1997’ for ‘cal-
8 endar year 2016’ in clause (ii) thereof”.

9 (11) Section 223(g)(1) is amended by striking all
10 that follows subparagraph (A) and inserting the fol-
11 lowing:

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—

16 “(i) by substituting for ‘calendar year
17 2016’ in clause (ii) thereof—

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

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

23 “(ii) by substituting ‘March 31’ for
24 ‘August 31’ in paragraphs (5)(B) and
25 (6)(B) of section 1(c).

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

5 *(12) Section 430(c)(7)(D)(vii)(II) is amended by*
6 *striking “section 1(f)(3) for the calendar year, deter-*
7 *mined by substituting ‘calendar year 2009’ for ‘cal-*
8 *endar year 1992’ in subparagraph (B) thereof” and*
9 *inserting “section 1(c)(2)(A) for the calendar year,*
10 *determined by substituting ‘calendar year 2009’ for*
11 *‘calendar year 2016’ in clause (ii) thereof”.*

12 *(13) Section 512(d)(2)(B) is amended by strik-*
13 *ing “section 1(f)(3) for the calendar year in which the*
14 *taxable year begins, by substituting ‘calendar year*
15 *1994’ for ‘calendar year 1992’ in subparagraph (B)*
16 *thereof”and inserting “section 1(c)(2)(A) for the cal-*
17 *endar year in which the taxable year begins, deter-*
18 *mined by substituting ‘calendar year 1994’ for ‘cal-*
19 *endar year 2016’ in clause (ii) thereof”.*

20 *(14) Section 513(h)(2)(C)(ii) is amended by*
21 *striking “section 1(f)(3) for the calendar year in*
22 *which the taxable year begins by substituting ‘cal-*
23 *endar year 1987’ for ‘calendar year 1992’ in subpara-*
24 *graph (B) thereof” and inserting “section 1(c)(2)(A)*
25 *for the calendar year in which the taxable year be-*

1 *gins, determined by substituting ‘calendar year 1987’*
2 *for ‘calendar year 2016’ in clause (ii) thereof’.*

3 (15) *Section 831(b)(2)(D)(ii) is amended by*
4 *striking “section 1(f)(3) for such calendar year by*
5 *substituting ‘calendar year 2013’ for ‘calendar year*
6 *1992’ in subparagraph (B) thereof” and inserting*
7 *“section 1(c)(2)(A) for such calendar year by sub-*
8 *stituting ‘calendar year 2013’ for ‘calendar year*
9 *2016’ in clause (ii) thereof’.*

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

18 (17) *Section 911(b)(2)(D)(ii)(II) is amended by*
19 *striking “section 1(f)(3) for the calendar year in*
20 *which the taxable year begins, determined by sub-*
21 *stituting ‘2004’ for ‘1992’ in subparagraph (B) there-*
22 *of” and inserting “section 1(c)(2)(A) for the calendar*
23 *year in which the taxable year begins, determined by*
24 *substituting ‘calendar year 2004’ for ‘calendar year*
25 *2016’ in clause (ii) thereof’.*

1 (18) *Section 1274A(d)(2) is amended to read as*
2 *follows:*

3 “(2) *INFLATION ADJUSTMENT.*—

4 “(A) *IN GENERAL.*—*In the case of any debt*
5 *instrument arising out of a sale or exchange dur-*
6 *ing any calendar year after 2018, each adjusted*
7 *dollar amount shall be increased by an amount*
8 *equal to—*

9 “(i) *such adjusted dollar amount, mul-*
10 *tiplied by*

11 “(ii) *the cost-of-living adjustment de-*
12 *termined under section 1(c)(2)(A) for such*
13 *calendar year, determined by substituting*
14 *‘calendar year 2017’ for ‘calendar year*
15 *2016’ in clause (ii) thereof.*

16 “(B) *ADJUSTED DOLLAR AMOUNTS.*—*For*
17 *purposes of this paragraph, the term ‘adjusted*
18 *dollar amount’ means the dollar amounts in sub-*
19 *sections (b) and (c), in each case as in effect for*
20 *calendar year 2018.*

21 “(C) *ROUNDING.*—*Any increase under sub-*
22 *paragraph (A) shall be rounded to the nearest*
23 *multiple of \$100.”.*

24 (19) *Section 2010(c)(3)(B)(ii) is amended by*
25 *striking “section 1(f)(3) for such calendar year by*

1 *substituting ‘calendar year 2010’ for ‘calendar year*
2 *1992’ in subparagraph (B) thereof” and inserting*
3 *“section 1(c)(2)(A) for such calendar year, determined*
4 *by substituting ‘calendar year 2010’ for ‘calendar*
5 *year 2016’ in clause (ii) thereof”.*

6 (20) *Section 2032A(a)(3)(B) is amended by*
7 *striking “section 1(f)(3) for such calendar year by*
8 *substituting ‘calendar year 1997’ for ‘calendar year*
9 *1992’ in subparagraph (B) thereof” and inserting*
10 *“section 1(c)(2)(A) for such calendar year, determined*
11 *by substituting ‘calendar year 1997’ for ‘calendar*
12 *year 2016’ in clause (ii) thereof”.*

13 (21) *Section 2503(b)(2)(B) is amended by strik-*
14 *ing “section 1(f)(3) for such calendar year by sub-*
15 *stituting ‘calendar year 1997’ for ‘calendar year*
16 *1992’ in subparagraph (B) thereof” and inserting*
17 *“section 1(c)(2)(A) for the calendar year, determined*
18 *by substituting ‘calendar year 1997’ for ‘calendar*
19 *year 2016’ in clause (ii) thereof”.*

20 (22) *Section 4161(b)(2)(C)(i)(II) is amended by*
21 *striking “section 1(f)(3) for such calendar year, deter-*
22 *mined by substituting ‘2004’ for ‘1992’ in subpara-*
23 *graph (B) thereof” and inserting “section 1(c)(2)(A)*
24 *for such calendar year, determined by substituting*

1 *‘calendar year 2004’ for ‘calendar year 2016’ in*
2 *clause (ii) thereof’.*

3 (23) *Section 4261(e)(4)(A)(ii) is amended by*
4 *striking “section 1(f)(3) for such calendar year by*
5 *substituting the year before the last nonindexed year*
6 *for ‘calendar year 1992’ in subparagraph (B) thereof”*
7 *and inserting “section 1(c)(2)(A) for such calendar*
8 *year, determined by substituting the year before the*
9 *last nonindexed year for ‘calendar year 2016’ in*
10 *clause (ii) thereof’.*

11 (24) *Section 4980I(b)(3)(C)(v)(II) is amended—*
12 (A) *by striking “section 1(f)(3)” and insert-*
13 *ing “section 1(c)(2)(A)”,*

14 (B) *by striking “subparagraph (B)” and in-*
15 *serting “clause (ii)”,* and

16 (C) *by striking “1992” and inserting*
17 *“2016”.*

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

19 (A) *by striking “section 1(f)(3)” and insert-*
20 *ing “section 1(c)(2)(A)”,*

21 (B) *by striking “subparagraph (B)” and in-*
22 *serting “clause (ii)”,* and

23 (C) *by striking “1992” and inserting*
24 *“2016”.*

1 (26) *Section 6039F(d) is amended by striking*
2 *“section 1(f)(3), except that subparagraph (B) there-*
3 *of” and inserting “section 1(c)(2)(A), except that*
4 *clause (ii) thereof”.*

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

12 (28) *Section 6334(g)(1)(B) is amended by strik-*
13 *ing “section 1(f)(3) for such calendar year, by sub-*
14 *stituting ‘calendar year 1998’ for ‘calendar year*
15 *1992’ in subparagraph (B) thereof” and inserting*
16 *“section 1(c)(2)(A) for such calendar year, determined*
17 *by substituting ‘calendar year 1999’ for ‘calendar*
18 *year 2016’ in clause (ii) thereof”.*

19 (29) *Section 6601(j)(3)(B) is amended by strik-*
20 *ing “section 1(f)(3) for such calendar year by sub-*
21 *stituting ‘calendar year 1997’ for ‘calendar year*
22 *1992’ in subparagraph (B) thereof” and inserting*
23 *“section 1(c)(2)(A) for such calendar year by sub-*
24 *stituting ‘calendar year 1997’ for ‘calendar year*
25 *2016’ in clause (ii) thereof”.*

1 (30) *Section 6651(i)(1) is amended by striking*
2 *“section 1(f)(3) determined by substituting ‘calendar*
3 *year 2013’ for ‘calendar year 1992’ in subparagraph*
4 *(B) thereof” and inserting “section 1(c)(2)(A) deter-*
5 *mined by substituting ‘calendar year 2013’ for ‘cal-*
6 *endar year 2016’ in clause (ii) thereof”.*

7 (31) *Section 6721(f)(1) is amended—*

8 (A) *by striking “section 1(f)(3)” and insert-*
9 *ing “section 1(c)(2)(A)”,*

10 (B) *by striking “subparagraph (B)” and in-*
11 *serting “clause (ii)”,* and

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

14 (32) *Section 6722(f)(1) is amended—*

15 (A) *by striking “section 1(f)(3)” and insert-*
16 *ing “section 1(c)(2)(A)”,*

17 (B) *by striking “subparagraph (B)” and in-*
18 *serting “clause (ii)”,* and

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

21 (33) *Section 6652(c)(7)(A) is amended by strik-*
22 *ing “section 1(f)(3) determined by substituting ‘cal-*
23 *endar year 2013’ for ‘calendar year 1992’ in subpara-*
24 *graph (B) thereof” and inserting “section 1(c)(2)(A)*

1 *determined by substituting ‘calendar year 2013’ for*
2 *‘calendar year 2016’ in clause (ii) thereof”.*

3 (34) *Section 6695(h)(1) is amended by striking*
4 *“section 1(f)(3) determined by substituting ‘calendar*
5 *year 2013’ for ‘calendar year 1992’ in subparagraph*
6 *(B) thereof” and inserting “section 1(c)(2)(A) deter-*
7 *mined by substituting ‘calendar year 2013’ for ‘cal-*
8 *endar year 2016’ in clause (ii) thereof”.*

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

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

21 (37) *Section 7345(f)(2) is amended by striking*
22 *“section 1(f)(3) for the calendar year, determined by*
23 *substituting ‘calendar year 2015’ for ‘calendar year*
24 *1992’ in subparagraph (B) thereof” and inserting*
25 *“section 1(c)(2)(A) for the calendar year, determined*

1 *by substituting ‘calendar year 2015’ for ‘calendar*
2 *year 2016’ in clause (ii) thereof’.*

3 (38) *Section 7430(c)(1) is amended by striking*
4 *“section 1(f)(3) for such calendar year, by sub-*
5 *stituting ‘calendar year 1995’ for ‘calendar year*
6 *1992’ in subparagraph (B) thereof” in the flush text*
7 *at the end and inserting “section 1(c)(2)(A) for such*
8 *calendar year, determined by substituting ‘calendar*
9 *year 1995’ for ‘calendar year 2016’ in clause (ii)*
10 *thereof’.*

11 (39) *Section 7872(g)(5) is amended to read as*
12 *follows:*

13 “(5) *INFLATION ADJUSTMENT.—*

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

19 “(i) *such adjusted dollar amount, mul-*
20 *tiplied by*

21 “(ii) *the cost-of-living adjustment de-*
22 *termined under section 1(c)(2)(A) for such*
23 *calendar year, determined by substituting*
24 *‘calendar year 2017’ for ‘calendar year*
25 *2016’ in clause (ii) thereof.*

1 “(B) *ADJUSTED DOLLAR AMOUNT.*—*For*
2 *purposes of this paragraph, the term ‘adjusted*
3 *dollar amount’ means the dollar amount in*
4 *paragraph (2) as in effect for calendar year*
5 *2018.*

6 “(C) *ROUNDING.*—*Any increase under sub-*
7 *paragraph (A) shall be rounded to the nearest*
8 *multiple of \$100.”.*

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

18 (41) *Section 219(g)(8)(B) is amended by striking*
19 *“section 1(f)(3) for the calendar year in which the*
20 *taxable year begins, determined by substituting ‘cal-*
21 *endar year 2005’ for ‘calendar year 1992’ in subpara-*
22 *graph (B) thereof” and inserting “section 1(c)(2)(A)*
23 *for the calendar year in which the taxable year be-*
24 *gins, determined by substituting ‘calendar year 2005’*
25 *for ‘calendar year 2016’ in clause (ii) thereof”.*

1 ***(b) OTHER CONFORMING AMENDMENTS.—***

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

4 ***“(aa) who is described in sec-***
5 ***tion 1(b)(1)(B) and who does not***
6 ***have any dependents for the tax-***
7 ***able year.”.***

8 ***(2) Section 486B(b)(1) is amended—***

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

11 ***(B) by striking “section 1(e)” and inserting***
12 ***“section 1”.***

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

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

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 being***
22 ***the highest rate of tax set forth in section 1(a).”.***

23 ***(6) Section 646(b) is amended to read as follows:***

24 ***“(b) TAXATION OF INCOME OF TRUST.—Except as pro-***
25 ***vided in subsection (f)(1)(B)(ii), there is hereby imposed on***

1 *the taxable income of an electing Settlement Trust a tax*
2 *at the rate specified in section 1(a)(1). Such tax shall be*
3 *in lieu of the income tax otherwise imposed by this chapter*
4 *on such income.”.*

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

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

11 (9) *Section 1398(c)(2) is amended by striking*
12 *“subsection (d) of”.*

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

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

21 (12) *Section 3402(r)(3) is amended by striking*
22 *“the amount of tax which would be imposed by sec-*
23 *tion 1(c) (determined without regard to any rate of*
24 *tax in excess of the fourth lowest rate of tax applica-*
25 *ble under section 1(c)) on an amount of taxable in-*

1 *come equal to” and inserting “an amount equal to the*
2 *product of 25 percent multiplied by”.*

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

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

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

14 ***Subtitle B—Simplification and Re-***
15 ***form of Family and Individual***
16 ***Tax Credits***

17 ***SEC. 1101. ENHANCEMENT OF CHILD TAX CREDIT AND NEW***
18 ***FAMILY TAX CREDIT.***

19 *(a) INCREASE IN CREDIT AMOUNT AND ADDITION OF*
20 *OTHER DEPENDENTS.—*

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

23 *“(a) ALLOWANCE OF CREDIT.—There shall be allowed*
24 *as a credit against the tax imposed by this chapter for the*
25 *taxable year an amount equal to the sum of—*

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

3 “(2) for taxable years beginning before January
4 1, 2023, with respect to the taxpayer (each spouse in
5 the case of a joint return) and each dependent of the
6 taxpayer to whom paragraph (1) does not apply,
7 \$300.”.

8 (2) *CONFORMING AMENDMENTS.*—

9 (A) Section 24(c) is amended—

10 (i) by redesignating paragraphs (1) and (2)
11 as paragraphs (2) and (3), respectively,

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

14 (iii) by inserting before paragraph (2) (as
15 so redesignated) the following new paragraph:

16 “(1) *DEPENDENT.*—

17 “(A) *IN GENERAL.*—The term ‘dependent’
18 shall have the meaning given such term by sec-
19 tion 7706.

20 “(B) *CERTAIN INDIVIDUALS NOT TREATED*
21 *AS DEPENDENTS.*—In the case of an individual
22 with respect to whom a credit under this section
23 is allowable to another taxpayer for a taxable
24 year beginning in the calendar year in which the
25 individual’s taxable year begins, the amount ap-

1 *plicable to such individual under subsection (a)*
2 *for such individual's taxable year shall be zero.”,*

3 *(iv) in paragraph (3) (as so redesignated)—*

4 *(I) by striking “term ‘qualifying*
5 *child’” and inserting “terms ‘qualifying*
6 *child’ and ‘dependent’”, and*

7 *(II) by striking “152(b)(3)” and in-*
8 *serting “7706(b)(3)”, and*

9 *(v) in the heading by striking “QUALI-*
10 *FYING” and inserting “DEPENDENT; QUALI-*
11 *FYING”.*

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

14 *(C) The table of sections for subpart A of part*
15 *IV of subchapter A of chapter 1 is amended by strik-*
16 *ing the item relating to section 24 and inserting the*
17 *following new item:*

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

18 *(b) ELIMINATION OF MARRIAGE PENALTY.—Section*
19 *24(b)(2) is amended—*

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

22 *(2) by inserting “and” at the end of subparagraph (A),*

23 *(3) by striking “\$75,000 in the case of an individual*
24 *who is not married” and all that follows through the period*
25 *at the end and inserting “one-half of the amount in effect*

1 *under subparagraph (A) for the taxable year in the case*
2 *of any other individual.”.*

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

4 *(1) IN GENERAL.—Section 24(d)(1)(A) is amended by*
5 *striking all that follows “under this section” and inserting*
6 *the following: “determined—*

7 *“(i) without regard to this subsection*
8 *and the limitation under section 26(a),*

9 *“(ii) without regard to subsection*
10 *(a)(2), and*

11 *“(iii) by substituting ‘\$1,000’ for*
12 *‘\$1,600’ in subsection (a)(1), or”.*

13 *(2) INFLATION ADJUSTMENT.—Section 24(d) is*
14 *amended by inserting after paragraph (2) the following new*
15 *paragraph:*

16 *“(3) INFLATION ADJUSTMENT.—In the case of*
17 *any taxable year beginning in a calendar year after*
18 *2017, the \$1,000 amount in paragraph (1)(A)(iii)*
19 *shall be increased by an amount equal to—*

20 *“(A) such dollar amount, multiplied by*

21 *“(B) the cost-of-living adjustment under sec-*
22 *tion 1(c)(2)(A) for such calendar year.*

23 *Any increase determined under the preceding sentence*
24 *shall be rounded to the next highest multiple of \$100*

1 *and shall not exceed the amount in effect under sub-*
2 *section (a)(2).”.*

3 *(d) EFFECTIVE DATE.—The amendments made by this*
4 *section shall apply to taxable years beginning after Decem-*
5 *ber 31, 2017.*

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

7 *(a) REPEAL OF SECTION 22.—*

8 *(1) IN GENERAL.—Subpart A of part IV of sub-*
9 *chapter A of chapter 1 is amended by striking section*
10 *22 (and by striking the item relating to such section*
11 *in the table of sections for such subpart).*

12 *(2) CONFORMING AMENDMENT.—*

13 *(A) Section 86(f) is amended by striking*
14 *paragraph (1) and by redesignating paragraphs*
15 *(2), (3), and (4) as paragraphs (1), (2), and (3),*
16 *respectively.*

17 *(B)(i) Subsections (c)(3)(B) and (d)(4)(A)*
18 *of section 7706, as redesignated by this Act, are*
19 *each amended by striking “(as defined in section*
20 *22(e)(3).”.*

21 *(ii) Section 7706(f), as redesignated by this*
22 *Act, is amended by redesignating paragraph (7)*
23 *as paragraph (8) and by inserting after para-*
24 *graph (6) the following new paragraph:*

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

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

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

17 (b) *TERMINATION OF SECTION 25.*—Section 25, as
18 amended by section 3601, is amended by adding at the end
19 the following new subsection:

20 “(k) *TERMINATION.*—No credit shall be allowed under
21 this section with respect to any mortgage credit certificate
22 issued after December 31, 2017.”.

23 (c) *REPEAL OF SECTION 30D.*—

24 (1) *IN GENERAL.*—Subpart B of part IV of sub-
25 chapter A of chapter 1 is amended by striking section

1 *30D (and by striking the item relating to such section*
2 *in the table of sections for such subpart).*

3 (2) *CONFORMING AMENDMENTS.—*

4 (A) *Section 38(b) is amended by striking*
5 *paragraph (35).*

6 (B) *Section 1016(a) is amended by striking*
7 *paragraph (37).*

8 (C) *Section 6501(m) is amended by striking*
9 *“30D(e)(4),”.*

10 (d) *EFFECTIVE DATE.—*

11 (1) *IN GENERAL.—Except as provided in para-*
12 *graphs (2) and (3), the amendments made by this sec-*
13 *tion shall apply to taxable years beginning after De-*
14 *cember 31, 2017.*

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

18 (3) *SUBSECTION (c).—The amendments made by*
19 *subsection (d) shall apply to vehicles placed in service*
20 *in taxable years beginning after December 31, 2017.*

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

22 (a) *IDENTIFICATION REQUIREMENTS FOR CHILD AND*
23 *FAMILY TAX CREDIT.—*

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

1 “(e) *IDENTIFICATION REQUIREMENTS.*—

2 “(1) *REQUIREMENTS FOR QUALIFYING CHILD.*—

3 *No credit shall be allowed under this section to a tax-*
4 *payer with respect to any qualifying child unless the*
5 *taxpayer includes the name and social security num-*
6 *ber of such qualifying child on the return of tax for*
7 *the taxable year. The preceding sentence shall not pre-*
8 *vent a qualifying child from being treated as a de-*
9 *pendent described in subsection (a)(2).*

10 “(2) *OTHER IDENTIFICATION REQUIREMENTS.*—

11 *No credit shall be allowed under this section with re-*
12 *spect to any individual unless the taxpayer identi-*
13 *fication number of such individual is included on the*
14 *return of tax for the taxable year and such identi-*
15 *fying number was issued before the due date for filing*
16 *the return for the taxable year.*

17 “(3) *SOCIAL SECURITY NUMBER.*—*For purposes*
18 *of this subsection, the term ‘social security number’*
19 *means a social security number issued by the Social*
20 *Security Administration (but only if the social secu-*
21 *urity number is issued to a citizen of the United States*
22 *or pursuant to subclause (I) (or that portion of sub-*
23 *clause (III) that relates to subclause (I)) of section*
24 *205(c)(2)(B)(i) of the Social Security Act)).”.*

1 (2) *OMISSIONS TREATED AS MATHEMATICAL OR*
2 *CLERICAL ERROR.*—

3 (A) *IN GENERAL.*—Section 6213(g)(2)(I) is
4 amended to read as follows:

5 “(I) an omission of a correct social security
6 number, or a correct TIN, required under section
7 24(e) (relating to child tax credit), to be included
8 on a return,”.

9 (b) *SOCIAL SECURITY NUMBER MUST BE PRO-*
10 *VIDED.*—

11 (1) *IN GENERAL.*—Section 25A(f)(1)(A), as
12 amended by section 1201 of this Act, is amended by
13 striking “taxpayer identification number” each place
14 it appears and inserting “social security number”.

15 (2) *OMISSION TREATED AS MATHEMATICAL OR*
16 *CLERICAL ERROR.*—Section 6213(g)(2)(J) is amended
17 by striking “TIN” and inserting “social security
18 number and employer identification number”.

19 (c) *INDIVIDUALS PROHIBITED FROM ENGAGING IN*
20 *EMPLOYMENT IN UNITED STATES NOT ELIGIBLE FOR*
21 *EARNED INCOME TAX CREDIT.*—Section 32(m) is amend-
22 ed—

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

1 (2) by inserting before the period at the end the
2 following: “, but only if, in the case of subsection
3 (c)(1)(E), the social security number is issued to a
4 citizen of the United States or pursuant to subclause
5 (I) (or that portion of subclause (III) that relates to
6 subclause (I)) of section 205(c)(2)(B)(i) of the Social
7 Security Act”.

8 (d) *EFFECTIVE DATE.*—The amendments made by this
9 section shall apply to taxable years beginning after Decem-
10 ber 31, 2017.

11 **SEC. 1104. PROCEDURES TO REDUCE IMPROPER CLAIMS OF**
12 **EARNED INCOME CREDIT.**

13 (a) *CLARIFICATION REGARDING DETERMINATION OF*
14 *SELF-EMPLOYMENT INCOME WHICH IS TREATED AS*
15 *EARNED INCOME.*—Section 32(c)(2)(B) is amended by
16 striking “and” at the end of clause (v), by striking the pe-
17 riod at the end of clause (vi) and inserting “, and”, and
18 by adding at the end the following new clause:

19 “(vii) in determining the taxpayer’s
20 net earnings from self-employment under
21 subparagraph (A)(ii) there shall not fail to
22 be taken into account any deduction which
23 is allowable to the taxpayer under this sub-
24 title.”.

1 (b) *REQUIRED QUARTERLY REPORTING OF WAGES OF*
2 *EMPLOYEES.*—Section 6011 is amended by adding at the
3 end the following new subsection:

4 “(i) *EMPLOYER REPORTING OF WAGES.*—Every per-
5 son required to deduct and withhold from an employee a
6 tax under section 3101 or 3402 shall include on each return
7 or statement submitted with respect to such tax, the name
8 and address of such employee and the amount of wages for
9 such employee on which such tax was withheld.”.

10 (c) *EFFECTIVE DATE.*—

11 (1) *IN GENERAL.*—Except as provided in para-
12 graph (2), the amendments made by this section shall
13 apply to taxable years ending after the date of the en-
14 actment of this Act.

15 (2) *REPORTING.*—The Secretary of the Treasury,
16 or his designee, may delay the application of the
17 amendment made by subsection (b) for such period as
18 such Secretary (or designee) determines to be reason-
19 able to allow persons adequate time to modify elec-
20 tronic (or other) systems to permit such person to
21 comply with the requirements of such amendment.

22 **SEC. 1105. CERTAIN INCOME DISALLOWED FOR PURPOSES**
23 **OF THE EARNED INCOME TAX CREDIT.**

24 (a) *SUBSTANTIATION REQUIREMENT.*—Section 32 is
25 amended by adding at the end the following new subsection:

1 “(n) *INCONSISTENT INCOME REPORTING.*—If the
2 earned income of a taxpayer claimed on a return for pur-
3 poses of this section is not substantiated by statements or
4 returns under sections 6051, 6052, 6041(a), or 6050W with
5 respect to such taxpayer, the Secretary may require such
6 taxpayer to provide books and records to substantiate such
7 income, including for the purpose of preventing fraud.”.

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

11 “(C) *EXCLUSION.*—In the case of a tax-
12 payer with respect to which there is an inconsis-
13 tency described in subsection (n) who fails to sub-
14 stantiate such inconsistency to the satisfaction of
15 the Secretary, the term ‘earned income’ shall not
16 include amounts to the extent of such inconsis-
17 tency.”.

18 (c) *EFFECTIVE DATE.*—The amendments made by this
19 section shall apply to taxable years ending after the date
20 of the enactment of this Act.

21 ***Subtitle C—Simplification and***
22 ***Reform of Education Incentives***

23 ***SEC. 1201. AMERICAN OPPORTUNITY TAX CREDIT.***

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

1 **“SEC. 25A. AMERICAN OPPORTUNITY TAX CREDIT.**

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

6 “(1) *100 percent of so much of the qualified tui-*
7 *tion and related expenses paid by the taxpayer dur-*
8 *ing the taxable year (for education furnished to any*
9 *eligible student for whom an election is in effect under*
10 *this section for such taxable year during any aca-*
11 *demic period beginning in such taxable year) as does*
12 *not exceed \$2,000, plus*

13 “(2) *25 percent of so much of such expenses so*
14 *paid as exceeds the dollar amount in effect under*
15 *paragraph (1) but does not exceed twice such dollar*
16 *amount.*

17 “(b) *PORTION OF CREDIT REFUNDABLE.*—*40 percent*
18 *of the credit allowable under subsection (a)(1) (determined*
19 *without regard to this subsection and section 26(a) and*
20 *after application of all other provisions of this section) shall*
21 *be treated as a credit allowable under subpart C (and not*
22 *under this part). The preceding sentence shall not apply*
23 *to any taxpayer for any taxable year if such taxpayer is*
24 *a child to whom section 1(d) applies for such taxable year.*

25 “(c) *LIMITATION BASED ON MODIFIED ADJUSTED*
26 *GROSS INCOME.*—

1 “(1) *IN GENERAL.*—*The amount allowable as a*
2 *credit under subsection (a) for any taxable year shall*
3 *be reduced (but not below zero) by an amount which*
4 *bears the same ratio to the amount so allowable (de-*
5 *termined without regard to this subsection and sub-*
6 *section (b) but after application of all other provi-*
7 *sions of this section) as—*

8 “(A) *the excess of—*

9 “(i) *the taxpayer’s modified adjusted*
10 *gross income for such taxable year, over*

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

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

15 “(2) *MODIFIED ADJUSTED GROSS INCOME.*—*For*
16 *purposes of this subsection, the term ‘modified ad-*
17 *justed gross income’ means the adjusted gross income*
18 *of the taxpayer for the taxable year increased by any*
19 *amount excluded from gross income under section*
20 *911, 931, or 933.*

21 “(d) *OTHER LIMITATIONS.*—

22 “(1) *CREDIT ALLOWED ONLY FOR 5 TAXABLE*
23 *YEARS.*—*An election to have this section apply may*
24 *not be made for any taxable year if such an election*
25 *(by the taxpayer or any other individual) is in effect*

1 *with respect to such student for any 5 prior taxable*
2 *years.*

3 “(2) *CREDIT ALLOWED ONLY FOR FIRST 5 YEARS*
4 *OF POSTSECONDARY EDUCATION.—*

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

12 “(B) *FIFTH YEAR LIMITATIONS.—In the*
13 *case of an eligible student with respect to whom*
14 *an election has been in effect for 4 preceding tax-*
15 *able years for purposes of the fifth taxable*
16 *year—*

17 “(i) *the amount of the credit allowed*
18 *under this section for the taxable year shall*
19 *not exceed an amount equal to 50 percent of*
20 *the credit otherwise determined with respect*
21 *to such student under this section (without*
22 *regard to this subparagraph), and*

23 “(ii) *the amount of the credit deter-*
24 *mined under subsection (b) and allowable*
25 *under subpart C shall not exceed an amount*

1 *equal to 40 percent of the amount deter-*
2 *mined with respect to such student under*
3 *clause (i).*

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

5 “(1) *ELIGIBLE STUDENT.— The term ‘eligible*
6 *student’ means, with respect to any academic period,*
7 *a student who—*

8 “(A) *meets the requirements of section*
9 *484(a)(1) of the Higher Education Act of 1965*
10 *(20 U.S.C. 1091(a)(1)), as in effect on August 5,*
11 *1997, and*

12 “(B) *is carrying at least 1/2 the normal full-*
13 *time work load for the course of study the stu-*
14 *dent is pursuing.*

15 “(2) *QUALIFIED TUITION AND RELATED EX-*
16 *PENSES.—*

17 “(A) *IN GENERAL.—The term ‘qualified tui-*
18 *tion and related expenses’ means tuition, fees,*
19 *and course materials, required for enrollment or*
20 *attendance of—*

21 “(i) *the taxpayer,*

22 “(ii) *the taxpayer’s spouse, or*

23 “(iii) *any dependent of the taxpayer,*

1 *at an eligible educational institution for courses*
2 *of instruction of such individual at such institu-*
3 *tion.*

4 “(B) *EXCEPTION FOR EDUCATION INVOLV-*
5 *ING SPORTS, ETC.—Such term does not include*
6 *expenses with respect to any course or other edu-*
7 *cation involving sports, games, or hobbies, unless*
8 *such course or other education is part of the in-*
9 *dividual’s degree program.*

10 “(C) *EXCEPTION FOR NONACADEMIC*
11 *FEES.—Such term does not include student ac-*
12 *tivity fees, athletic fees, insurance expenses, or*
13 *other expenses unrelated to an individual’s aca-*
14 *demic course of instruction.*

15 “(3) *ELIGIBLE EDUCATIONAL INSTITUTION.—The*
16 *term ‘eligible educational institution’ means an insti-*
17 *tution—*

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

21 “(B) *which is eligible to participate in a*
22 *program under title IV of such Act.*

23 “(f) *SPECIAL RULES.—*

24 “(1) *IDENTIFICATION REQUIREMENTS.—*

1 “(A) *STUDENT*.—No credit shall be allowed
2 under subsection (a) to a taxpayer with respect
3 to the qualified tuition and related expenses of
4 an individual unless the taxpayer includes the
5 name and taxpayer identification number of
6 such individual on the return of tax for the tax-
7 able year, and such taxpayer identification num-
8 ber was issued on or before the due date for filing
9 such return.

10 “(B) *TAXPAYER*.—No credit shall be allowed
11 under this section if the identifying number of
12 the taxpayer was issued after the due date for fil-
13 ing the return for the taxable year.

14 “(C) *INSTITUTION*.—No credit shall be al-
15 lowed under this section unless the taxpayer in-
16 cludes the employer identification number of any
17 institution to which qualified tuition and related
18 expenses were paid with respect to the indi-
19 vidual.

20 “(2) *ADJUSTMENT FOR CERTAIN SCHOLARSHIPS,*
21 *ETC.*—The amount of qualified tuition and related ex-
22 penses otherwise taken into account under subsection
23 (a) with respect to an individual for an academic pe-
24 riod shall be reduced (before the application of sub-
25 section (c)) by the sum of any amounts paid for the

1 *benefit of such individual which are allocable to such*
2 *period as—*

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

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

9 “(C) a payment (other than a gift, bequest,
10 devise, or inheritance within the meaning of sec-
11 tion 102(a)) for such individual’s educational ex-
12 penses, or attributable to such individual’s en-
13 rollment at an eligible educational institution,
14 which is excludable from gross income under any
15 law of the United States.

16 “(3) *TREATMENT OF EXPENSES PAID BY DE-*
17 *PENDENT.—If an individual is a dependent of an-*
18 *other taxpayer for a taxable year beginning in the*
19 *calendar year in which such individuals taxable year*
20 *begins—*

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

24 “(B) qualified tuition and related expenses
25 paid by such individual during such individ-

1 *ual's taxable year shall be treated for purposes of*
2 *this section as paid by such other taxpayer.*

3 *“(4) TREATMENT OF CERTAIN PREPAYMENTS.—If*
4 *qualified tuition and related expenses are paid by the*
5 *taxpayer during a taxable year for an academic pe-*
6 *riod which begins during the first 3 months following*
7 *such taxable year, such academic period shall be*
8 *treated for purposes of this section as beginning dur-*
9 *ing such taxable year.*

10 *“(5) DENIAL OF DOUBLE BENEFIT.—No credit*
11 *shall be allowed under this section for any amount for*
12 *which a deduction is allowed under any other provi-*
13 *sion of this chapter.*

14 *“(6) NO CREDIT FOR MARRIED INDIVIDUALS FIL-*
15 *ING SEPARATE RETURNS.—If the taxpayer is a mar-*
16 *ried individual (within the meaning of section 7703),*
17 *this section shall apply only if the taxpayer and the*
18 *taxpayer's spouse file a joint return for the taxable*
19 *year.*

20 *“(7) NONRESIDENT ALIENS.—If the taxpayer is*
21 *a nonresident alien individual for any portion of the*
22 *taxable year, this section shall apply only if such in-*
23 *dividual is treated as a resident alien of the United*
24 *States for purposes of this chapter by reason of an*
25 *election under subsection (g) or (h) of section 6013.*

1 “(8) *RESTRICTIONS ON TAXPAYERS WHO IMPROP-*
2 *ERLY CLAIMED CREDIT IN PRIOR YEAR.—*

3 “(A) *TAXPAYERS MAKING PRIOR FRAUDU-*
4 *LENT OR RECKLESS CLAIMS.—*

5 “(i) *IN GENERAL.—No credit shall be*
6 *allowed under this section for any taxable*
7 *year in the disallowance period.*

8 “(ii) *DISALLOWANCE PERIOD.—For*
9 *purposes of clause (i), the disallowance pe-*
10 *riod is—*

11 “(I) *the period of 10 taxable years*
12 *after the most recent taxable year for*
13 *which there was a final determination*
14 *that the taxpayer’s claim of credit*
15 *under this section was due to fraud,*
16 *and*

17 “(II) *the period of 2 taxable years*
18 *after the most recent taxable year for*
19 *which there was a final determination*
20 *that the taxpayer’s claim of credit*
21 *under this section was due to reckless*
22 *or intentional disregard of rules and*
23 *regulations (but not due to fraud).*

24 “(B) *TAXPAYERS MAKING IMPROPER PRIOR*
25 *CLAIMS.—In the case of a taxpayer who is de-*

1 nied credit under this section for any taxable
2 year as a result of the deficiency procedures
3 under subchapter B of chapter 63, no credit shall
4 be allowed under this section for any subsequent
5 taxable year unless the taxpayer provides such
6 information as the Secretary may require to
7 demonstrate eligibility for such credit.

8 “(g) *INFLATION ADJUSTMENT.*—

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

13 “(A) such dollar amount, multiplied by

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

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

23 “(h) *REGULATIONS.*—The Secretary may prescribe
24 such regulations or other guidance as may be necessary or
25 appropriate to carry out this section, including regulations

1 *providing for a recapture of the credit allowed under this*
2 *section in cases where there is a refund in a subsequent*
3 *taxable year of any amount which was taken into account*
4 *in determining the amount of such credit.”.*

5 *(b) CONFORMING AMENDMENTS.—*

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

8 *(2) Section 529(c)(3)(B)(v)(I) is amended by*
9 *striking “section 25A(g)(2)” and inserting “section*
10 *25A(f)(2)”.*

11 *(3) Section 529(e)(3)(B)(i) is amended by strik-*
12 *ing “section 25A(b)(3)” and inserting “section*
13 *25A(d)”.*

14 *(4) Section 530(d)(2)(C) is amended—*

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

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

21 *(5) Section 530(d)(4)(B)(iii) is amended by*
22 *striking “section 25A(g)(2)” and inserting “section*
23 *25A(d)(4)(B)”.*

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

1 (7) *Section 6211(b)(4)(A) is amended by striking*
2 *“subsection (i)(6)” and inserting “subsection (b)”.*

3 (8) *Section 6213(g)(2)(J) is amended by striking*
4 *“TIN required under section 25A(g)(1)” and inserting*
5 *“TIN, and employer identification number, required*
6 *under section 25A(f)(1)”.*

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

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

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

17 *(A) in paragraph (1)—*

18 *(i) by striking “section 25A(i)(6)” each*
19 *place it appears and inserting “section*
20 *25A(b)”, and*

21 *(ii) by striking “with respect to taxable*
22 *years beginning after 2008 and before*
23 *2018” each place it appears and inserting*
24 *“with respect to each taxable year”,*

1 (B) in paragraph (2), by striking “Section
2 25A(i)(6)” and inserting “Section 25A(b)”, and
3 (C) in paragraph (3)(C), by striking “sub-
4 section (i)(6)” and inserting “subsection (b)”.

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

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

9 (c) *EFFECTIVE DATE.*—The amendments made by this
10 section shall apply to taxable years beginning after Decem-
11 ber 31, 2017.

12 **SEC. 1202. CONSOLIDATION OF EDUCATION SAVINGS**
13 **RULES.**

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

17 “(A) Except in the case of rollover contribu-
18 tions, no contribution will be accepted after De-
19 cember 31, 2017.”.

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

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

24 “(7) *TREATMENT OF ELEMENTARY AND SEC-*
25 *ONDARY TUITION.*—Any reference in this subsection to

1 *the term ‘qualified higher education expense’ shall in-*
2 *clude a reference to expenses for tuition in connection*
3 *with enrollment at an elementary or secondary*
4 *school.’’.*

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

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

21 (d) *DISTRIBUTIONS FROM QUALIFIED TUITION PRO-*
22 *GRAMS FOR CERTAIN EXPENSES ASSOCIATED WITH REG-*
23 *ISTERED APPRENTICESHIP PROGRAMS.—Section 529(e)(3)*
24 *is amended by adding at the end the following new subpara-*
25 *graph:*

1 “(C) *CERTAIN EXPENSES ASSOCIATED WITH*
2 *REGISTERED APPRENTICESHIP PROGRAMS.*—*The*
3 *term ‘qualified higher education expenses’ shall*
4 *include books, supplies, and equipment required*
5 *for the enrollment or attendance of a designated*
6 *beneficiary in an apprenticeship program reg-*
7 *istered and certified with the Secretary of Labor*
8 *under section 1 of the National Apprenticeship*
9 *Act (29 U.S.C. 50).’.*”

10 (e) *UNBORN CHILDREN ALLOWED AS ACCOUNT BENE-*
11 *FICIARIES.*—*Section 529(e) is amended by adding at the*
12 *end the following new paragraph:*

13 “(6) *TREATMENT OF UNBORN CHILDREN.*—

14 “(A) *IN GENERAL.*—*Nothing shall prevent*
15 *an unborn child from being treated as a des-*
16 *ignated beneficiary or an individual under this*
17 *section.*

18 “(B) *UNBORN CHILD.*—*For purposes of this*
19 *paragraph—*

20 “(i) *IN GENERAL.*—*The term ‘unborn*
21 *child’ means a child in utero.*

22 “(ii) *CHILD IN UTERO.*—*The term*
23 *‘child in utero’ means a member of the spe-*
24 *cies homo sapiens, at any stage of develop-*
25 *ment, who is carried in the womb.’.*”

1 (f) *EFFECTIVE DATES.*—

2 (1) *IN GENERAL.*—*Except as otherwise provided*
3 *in this subsection, the amendments made by this sec-*
4 *tion shall apply to contributions made after December*
5 *31, 2017.*

6 (2) *ROLLOVERS TO QUALIFIED TUITION PRO-*
7 *GRAMS.*—*The amendments made by subsection (b)*
8 *shall apply to distributions after December 31, 2017.*

9 **SEC. 1203. REFORMS TO DISCHARGE OF CERTAIN STUDENT**
10 **LOAN INDEBTEDNESS.**

11 (a) *TREATMENT OF STUDENT LOANS DISCHARGED ON*
12 *ACCOUNT OF DEATH OR DISABILITY.*—*Section 108(f) is*
13 *amended by adding at the end the following new paragraph:*

14 “(5) *DISCHARGES ON ACCOUNT OF DEATH OR*
15 *DISABILITY.*—

16 “(A) *IN GENERAL.*—*In the case of an indi-*
17 *vidual, gross income does not include any*
18 *amount which (but for this subsection) would be*
19 *includible in gross income by reasons of the dis-*
20 *charge (in whole or in part) of any loan de-*
21 *scribed in subparagraph (B) if such discharge*
22 *was—*

23 “(i) *pursuant to subsection (a) or (d)*
24 *of section 437 of the Higher Education Act*
25 *of 1965 or the parallel benefit under part D*

1 *of title IV of such Act (relating to the re-*
2 *payment of loan liability),*

3 *“(ii) pursuant to section 464(c)(1)(F)*
4 *of such Act, or*

5 *“(iii) otherwise discharged on account*
6 *of the death or total and permanent dis-*
7 *ability of the student.*

8 *“(B) LOANS DESCRIBED.—A loan is de-*
9 *scribed in this subparagraph if such loan is—*

10 *“(i) a student loan (as defined in*
11 *paragraph (2)), or*

12 *“(ii) a private education loan (as de-*
13 *fined in section 140(7) of the Consumer*
14 *Credit Protection Act (15 U.S.C.*
15 *1650(7))).”.*

16 *(b) EXCLUSION FROM GROSS INCOME FOR PAYMENTS*
17 *MADE UNDER INDIAN HEALTH SERVICE LOAN REPAYMENT*
18 *PROGRAM.—*

19 *(1) IN GENERAL.—Section 108(f)(4) is amended*
20 *by inserting “under section 108 of the Indian Health*
21 *Care Improvement Act,” after “338I of such Act,”.*

22 *(2) CLERICAL AMENDMENT.—The heading for*
23 *section 108(f)(4) is amended by striking “AND CER-*
24 *TAIN” and inserting “, INDIAN HEALTH SERVICE*
25 *LOAN REPAYMENT PROGRAM, AND CERTAIN”.*

1 (c) *EFFECTIVE DATES.*—

2 (1) *SUBSECTION (a).*—*The amendment made by*
3 *subsection (a)(1) shall apply to discharges of indebt-*
4 *edness after December 31, 2017.*

5 (2) *SUBSECTION (b).*—*The amendments made by*
6 *subsection (b) shall apply to amounts received in tax-*
7 *able years beginning after December 31, 2017.*

8 **SEC. 1204. REPEAL OF OTHER PROVISIONS RELATING TO**
9 **EDUCATION.**

10 (a) *IN GENERAL.*—*Subchapter B of chapter 1 is*
11 *amended—*

12 (1) *in part VII by striking sections 221 and 222*
13 *(and by striking the items relating to such sections in*
14 *the table of sections for such part),*

15 (2) *in part VII by striking sections 135 and 127*
16 *(and by striking the items relating to such sections in*
17 *the table of sections for such part), and*

18 (3) *by striking subsection (d) of section 117.*

19 (b) *CONFORMING AMENDMENT RELATING TO SECTION*
20 *221.*—

21 (1) *Section 62(a) is amended by striking para-*
22 *graph (17).*

23 (2) *Section 74(d) is amended by striking “221,”.*

24 (3) *Section 86(b)(2)(A) is amended by striking*
25 *“221,”.*

1 (4) *Section 219(g)(3)(A)(ii) is amended by strik-*
2 *ing “221,”.*

3 (5) *Section 163(h)(2) is amended by striking*
4 *subparagraph (F).*

5 (6) *Section 6050S(a) is amended—*

6 *(A) by inserting “or” at the end of para-*
7 *graph (1),*

8 *(B) by striking “or” at the end of para-*
9 *graph (2), and*

10 *(C) by striking paragraph (3).*

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

13 (c) *CONFORMING AMENDMENTS RELATED TO SECTION*
14 *222.—*

15 (1) *Section 62(a) is amended by striking para-*
16 *graph (18).*

17 (2) *Section 74(d)(2)(B) is amended by striking*
18 *“222,”.*

19 (3) *Section 86(b)(2)(A) is amended by striking*
20 *“222,”.*

21 (4) *Section 219(g)(3)(A)(ii) is amended by strik-*
22 *ing “222,”.*

23 (d) *CONFORMING AMENDMENTS RELATING TO SEC-*
24 *TION 127.—*

1 (1) *Section 125(f)(1) is amended by striking*
2 *“127,”.*

3 (2) *Section 132(j)(8) is amended by striking*
4 *“which are not excludable from gross income under*
5 *section 127”.*

6 (3) *Section 414(n)(3)(C) is amended by striking*
7 *“127,”.*

8 (4) *Section 414(t)(2) is amended by striking*
9 *“127,”.*

10 (5) *Section 3121(a)(18) is amended by striking*
11 *“127,”.*

12 (6) *Section 3231(e) is amended by striking para-*
13 *graph (6).*

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

15 (8) *Section 3401(a)(18) is amended by striking*
16 *“127,”.*

17 (9) *Section 6039D(d)(1) is amended by striking*
18 *“, 127”.*

19 (e) *CONFORMING AMENDMENTS RELATING TO SECTION*
20 *117(d).—*

21 (1) *Section 117(c)(1) is amended—*

22 (A) *by striking “subsections (a) and (d)”*
23 *and inserting “subsection (a)”, and*

24 (B) *by striking “or qualified tuition reduc-*
25 *tion”.*

1 (2) *Section 414(n)(3)(C) is amended by striking*
2 *“117(d),”.*

3 (3) *Section 414(t)(2) is amended by striking*
4 *“117(d),”.*

5 (f) *CONFORMING AMENDMENTS RELATED TO SECTION*
6 *135.—*

7 (1) *Section 74(d)(2)(B) is amended by striking*
8 *“135,”.*

9 (2) *Section 86(b)(2)(A) is amended by striking*
10 *“135,”.*

11 (3) *Section 219(g)(3)(A)(ii) is amended by strik-*
12 *ing “135,”.*

13 (g) *EFFECTIVE DATES.—*

14 (1) *IN GENERAL.—Except as otherwise provided*
15 *in this subsection, the amendments made by this sec-*
16 *tion shall apply to taxable years beginning after De-*
17 *cember 31, 2017.*

18 (2) *AMENDMENTS RELATING TO SECTION*
19 *117(d).—The amendments made by subsections (a)(3)*
20 *and (e) shall apply to amounts paid or incurred after*
21 *December 31, 2017.*

22 **SEC. 1205. ROLLOVERS BETWEEN QUALIFIED TUITION PRO-**
23 **GRAMS AND QUALIFIED ABLE PROGRAMS.**

24 (a) *ROLLOVERS FROM QUALIFIED TUITION PROGRAMS*
25 *TO QUALIFIED ABLE PROGRAMS.—Section 529(c)(3)(C)(i)*

1 *is amended by striking “or” at the end of subclause (I),*
2 *by striking the period at the end of subclause (II) and in-*
3 *serting “, or”, and by adding at the end the following new*
4 *subclause:*

5 *“(III) to an ABLE account (as*
6 *defined in section 529A(e)(6)) of the*
7 *designated beneficiary or a member of*
8 *the family of the designated bene-*
9 *ficiary.*

10 *Subclause (III) shall not apply to so much*
11 *of a distribution which, when added to all*
12 *other contributions made to the ABLE ac-*
13 *count for the taxable year, exceeds the limi-*
14 *tation under section 529A(b)(2)(B).”.*

15 *(b) EFFECTIVE DATE.—The amendments made by this*
16 *section shall apply to distributions after December 31, 2017.*

17 ***Subtitle D—Simplification and***
18 ***Reform of Deductions***

19 ***SEC. 1301. REPEAL OF OVERALL LIMITATION ON ITEMIZED***
20 ***DEDUCTIONS.***

21 *(a) IN GENERAL.—Part 1 of subchapter B of chapter*
22 *1 is amended by striking section 68 (and the item relating*
23 *to such section in the table of sections for such part).*

1 (b) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to taxable years beginning after Decem-*
3 *ber 31, 2017.*

4 **SEC. 1302. MORTGAGE INTEREST.**

5 (a) *MODIFICATION OF LIMITATIONS.*—

6 (1) *IN GENERAL.*—*Section 163(h)(3) is amended*
7 *to read as follows:*

8 “(3) *QUALIFIED RESIDENCE INTEREST.*—*For*
9 *purposes of this subsection—*

10 “(A) *IN GENERAL.*—*The term ‘qualified res-*
11 *idence interest’ means any interest which is paid*
12 *or accrued during the taxable year on indebted-*
13 *ness which—*

14 “(i) *is incurred in acquiring, con-*
15 *structing, or substantially improving any*
16 *qualified residence (determined as of the*
17 *time the interest is accrued) of the taxpayer,*
18 *and*

19 “(ii) *is secured by such residence.*

20 *Such term also includes interest on any indebt-*
21 *edness secured by such residence resulting from*
22 *the refinancing of indebtedness meeting the re-*
23 *quirements of the preceding sentence (or this sen-*
24 *tence); but only to the extent the amount of the*
25 *indebtedness resulting from such refinancing does*

1 *not exceed the amount of the refinanced indebted-*
2 *ness.*

3 “(B) *LIMITATION.*—*The aggregate amount*
4 *of indebtedness taken into account under sub-*
5 *paragraph (A) for any period shall not exceed*
6 *\$500,000 (half of such amount in the case of a*
7 *married individual filing a separate return).*

8 “(C) *TREATMENT OF INDEBTEDNESS IN-*
9 *CURRED ON OR BEFORE NOVEMBER 2, 2017.*—

10 “(i) *IN GENERAL.*—*In the case of any*
11 *pre-November 2, 2017, indebtedness, this*
12 *paragraph shall apply as in effect imme-*
13 *diately before the enactment of the Tax Cuts*
14 *and Jobs Act.*

15 “(ii) *PRE-NOVEMBER 2, 2017, INDEBT-*
16 *EDNESS.*—*For purposes of this subpara-*
17 *graph, the term ‘pre-November 2, 2017, in-*
18 *debtedness’ means—*

19 “(I) *any principal residence ac-*
20 *quisition indebtedness which was in-*
21 *curred on or before November 2, 2017,*
22 *or*

23 “(II) *any principal residence ac-*
24 *quisition indebtedness which is in-*
25 *curred after November 2, 2017, to refi-*

1 *nance indebtedness described in clause*
2 *(i) (or refinanced indebtedness meeting*
3 *the requirements of this clause) to the*
4 *extent (immediately after the refi-*
5 *nancing) the principal amount of the*
6 *indebtedness resulting from the refi-*
7 *nancing does not exceed the principal*
8 *amount of the refinanced indebtedness*
9 *(immediately before the refinancing).*

10 “(iii) *LIMITATION ON PERIOD OF REFI-*
11 *NANCING.—clause (ii)(II) shall not apply to*
12 *any indebtedness after—*

13 *“(I) the expiration of the term of*
14 *the original indebtedness, or*

15 *“(II) if the principal of such*
16 *original indebtedness is not amortized*
17 *over its term, the expiration of the*
18 *term of the 1st refinancing of such in-*
19 *debtedness (or if earlier, the date which*
20 *is 30 years after the date of such 1st*
21 *refinancing).*

22 “(iv) *BINDING CONTRACT EXCEP-*
23 *TION.—In the case of a taxpayer who enters*
24 *into a written binding contract before No-*
25 *vember 2, 2017, to close on the purchase of*

1 *a principal residence before January 1,*
2 *2018, and who purchases such residence be-*
3 *fore April 1, 2018, subparagraphs (A) and*
4 *(B) shall be applied by substituting ‘April*
5 *1, 2018’ for ‘November 2, 2017’.”.*

6 (2) *CONFORMING AMENDMENTS.—*

7 (A) *Section 108(h)(2) is by striking “for*
8 *‘\$1,000,000 (\$500,000’ in clause (ii) thereof” and*
9 *inserting “for ‘\$500,000 (\$250,000’ in paragraph*
10 *(2)(A), and ‘\$1,000,000’ for ‘\$500,000’ in para-*
11 *graph (2)(B), thereof”.*

12 (B) *Section 163(h) is amended by striking*
13 *subparagraphs (E) and (F) in paragraph (4).*

14 (b) *TAXPAYERS LIMITED TO 1 QUALIFIED RESI-*
15 *DENCE.—Section 163(h)(4)(A)(i) is amended to read as fol-*
16 *lows:*

17 “(i) *IN GENERAL.—The term ‘qualified*
18 *residence’ means the principal residence*
19 *(within the meaning of section 121) of the*
20 *taxpayer.”.*

21 (c) *EFFECTIVE DATES.—*

22 (1) *IN GENERAL.—The amendments made by*
23 *this section shall apply to interest paid or accrued in*
24 *taxable years beginning after December 31, 2017,*

1 *with respect to indebtedness incurred before, on, or*
2 *after such date.*

3 (2) *TREATMENT OF GRANDFATHERED INDEBTED-*
4 *NESS.—For application of the amendments made by*
5 *this section to grandfathered indebtedness, see para-*
6 *graph (3)(C) of section 163(h) of the Internal Revenue*
7 *Code of 1986, as amended by this section.*

8 **SEC. 1303. REPEAL OF DEDUCTION FOR CERTAIN TAXES**
9 **NOT PAID OR ACCRUED IN A TRADE OR BUSI-**
10 **NESS.**

11 (a) *IN GENERAL.—Section 164(b)(5) is amended to*
12 *read as follows:*

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

15 “(A) *foreign real property taxes (other than*
16 *taxes which are paid or accrued in carrying on*
17 *a trade or business or an activity described in*
18 *section 212) shall not be taken into account*
19 *under subsection (a)(1),*

20 “(B) *the aggregate amount of taxes (other*
21 *than taxes which are paid or accrued in car-*
22 *rying on a trade or business or an activity de-*
23 *scribed in section 212) taken into account under*
24 *subsection (a)(1) for any taxable year shall not*

1 *exceed \$10,000 (\$5,000 in the case of a married*
2 *individual filing a separate return),*

3 “(C) subsection (a)(2) shall only apply to
4 *taxes which are paid or accrued in carrying on*
5 *a trade or business or an activity described in*
6 *section 212, and*

7 “(D) subsection (a)(3) shall not apply to
8 *State and local taxes.”.*

9 (b) *EFFECTIVE DATE.*—*The amendments made by this*
10 *section shall apply to taxable years beginning after Decem-*
11 *ber 31, 2017.*

12 **SEC. 1304. REPEAL OF DEDUCTION FOR PERSONAL CAS-**
13 **UALTY LOSSES.**

14 (a) *IN GENERAL.*—*Section 165(c) is amended by in-*
15 *serting “and” at the end of paragraph (1), by striking “;*
16 *and” at the end of paragraph (2) and inserting a period,*
17 *and by striking paragraph (3).*

18 (b) *CONFORMING AMENDMENTS.*—

19 (1) *Section 165(h) is amended to read as follows:*

20 “(h) *SPECIAL RULE WHERE PERSONAL CASUALTY*
21 *GAINS EXCEED PERSONAL CASUALTY LOSSES.*—

22 “(1) *IN GENERAL.*—*If the personal casualty*
23 *gains for any taxable year exceed the personal cas-*
24 *ualty losses for such taxable year—*

1 “(A) *all such gains shall be treated as gains*
2 *from sales or exchanges of capital assets, and*

3 “(B) *all such losses shall be treated as losses*
4 *from sales or exchanges of capital assets.*

5 “(2) *DEFINITIONS OF PERSONAL CASUALTY GAIN*
6 *AND PERSONAL CASUALTY LOSS.—For purposes of*
7 *this subsection—*

8 “(A) *PERSONAL CASUALTY LOSS.—The term*
9 *‘personal casualty loss’ means any loss of prop-*
10 *erty not connected with a trade or business or a*
11 *transaction entered into for profit, if such loss*
12 *arises from fire, storm, shipwreck, or other cas-*
13 *ualty, or from theft.*

14 “(B) *PERSONAL CASUALTY GAIN.—The term*
15 *‘personal casualty gain’ means the recognized*
16 *gain from any involuntary conversion of prop-*
17 *erty which is described in subparagraph (A)*
18 *arising from fire, storm, shipwreck, or other cas-*
19 *ualty, or from theft.”.*

20 “(2) *Section 165 is amended by striking sub-*
21 *section (k).*

22 “(3)(A) *Section 165(l)(1) is amended by striking*
23 *“a loss described in subsection (c)(3)” and inserting*
24 *“an ordinary loss described in subsection (c)(2)”.*

25 “(B) *Section 165(l) is amended—*

1 (i) by striking paragraph (5),

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

5 (iii) by inserting after paragraph (1) the
6 following new paragraph:

7 “(2) *LIMITATIONS.*—

8 “(A) *DEPOSIT MAY NOT BE FEDERALLY IN-*
9 *SURED.*—No election may be made under para-
10 graph (1) with respect to any loss on a deposit
11 in a qualified financial institution if part or all
12 of such deposit is insured under Federal law.

13 “(B) *DOLLAR LIMITATION.*—With respect to
14 each financial institution, the aggregate amount
15 of losses attributable to deposits in such financial
16 institution to which an election under paragraph
17 (1) may be made by the taxpayer for any taxable
18 year shall not exceed \$20,000 (\$10,000 in the
19 case of a separate return by a married indi-
20 vidual). The limitation of the preceding sentence
21 shall be reduced by the amount of any insurance
22 proceeds under any State law which can reason-
23 ably be expected to be received with respect to
24 losses on deposits in such institution.”.

1 (4) *Section 172(b)(1)(E)(ii), prior to amendment*
2 *under title III, is amended by striking subclause (I)*
3 *and by redesignating subclauses (II) and (III) as sub-*
4 *clauses (I) and (II), respectively.*

5 (5) *Section 172(d)(4)(C) is amended by striking*
6 *“paragraph (2) or (3) of section 165(c)” and insert-*
7 *ing “section 165(c)(2)”.*

8 (6) *Section 274(f) is amended by striking “CAS-*
9 *UALTY LOSSES,” in the heading thereof.*

10 (7) *Section 280A(b) is amended by striking*
11 *“CASUALTY LOSSES,” in the heading thereof.*

12 (8) *Section 873(b), as amended by the preceding*
13 *provisions of this Act, is amended by striking para-*
14 *graph (1) and by redesignating paragraphs (2) and*
15 *(3) as paragraphs (1) and (2), respectively.*

16 (9) *Section 504(b) of the Disaster Tax Relief and*
17 *Airport and Airway Extension Act of 2017 is amend-*
18 *ed by adding at the end the following new paragraph:*

19 “(4) *COORDINATION WITH TAX REFORM.—This*
20 *subsection shall be applied without regard to the*
21 *amendments made by section 1304 of the Tax Cuts*
22 *and Jobs Act.”.*

23 (c) *EFFECTIVE DATE.—The amendments made by this*
24 *section shall apply to taxable years beginning after Decem-*
25 *ber 31, 2017.*

1 **SEC. 1305. LIMITATION ON WAGERING LOSSES.**

2 (a) *IN GENERAL.*—Section 165(d) is amended by add-
3 ing at the end the following: “For purposes of the preceding
4 sentence, the term ‘losses from wagering transactions’ in-
5 cludes any deduction otherwise allowable under this chapter
6 incurred in carrying on any wagering transaction.”.

7 (b) *EFFECTIVE DATE.*—The amendments made by this
8 section shall apply to taxable years beginning after Decem-
9 ber 31, 2017.

10 **SEC. 1306. CHARITABLE CONTRIBUTIONS.**

11 (a) *INCREASED LIMITATION FOR CASH CONTRIBU-*
12 *TIONS.*—Section 170(b)(1) is amended by redesignating
13 subparagraph (G) as subparagraph (H) and by inserting
14 after subparagraph (F) the following new subparagraph:

15 “(G) *INCREASED LIMITATION FOR CASH*
16 *CONTRIBUTIONS.*—

17 “(i) *IN GENERAL.*—In the case of any
18 contribution of cash to an organization de-
19 scribed in subparagraph (A), the total
20 amount of such contributions which may be
21 taken into account under subsection (a) for
22 any taxable year shall not exceed 60 percent
23 of the taxpayer’s contribution base for such
24 year.

25 “(ii) *CARRYOVER.*—If the aggregate
26 amount of contributions described in clause

1 *(i) exceeds the applicable limitation under*
2 *clause (i), such excess shall be treated (in a*
3 *manner consistent with the rules of sub-*
4 *section (d)(1)) as a charitable contribution*
5 *to which clause (i) applies in each of the 5*
6 *succeeding years in order of time.*

7 “(iii) COORDINATION WITH SUBPARA-
8 *GRAPHS (A) AND (B).—*

9 “(I) IN GENERAL.—Contributions
10 *taken into account under this subpara-*
11 *graph shall not be taken into account*
12 *under subparagraph (A).*

13 “(II) LIMITATION REDUCTION.—
14 *Subparagraphs (A) and (B) shall be*
15 *applied by reducing (but not below*
16 *zero) the aggregate contribution limita-*
17 *tion allowed for the taxable year under*
18 *each such subparagraph by the aggre-*
19 *gate contributions allowed under this*
20 *subparagraph for such taxable year.”.*

21 *(b) DENIAL OF DEDUCTION FOR COLLEGE ATHLETIC*
22 *EVENT SEATING RIGHTS.—Section 170(l)(1) is amended to*
23 *read as follows:*

1 “(1) *IN GENERAL.*—No deduction shall be al-
2 lowed under this section for any amount described in
3 paragraph (2).”.

4 (c) *CHARITABLE MILEAGE RATE ADJUSTED FOR IN-*
5 *FLATION.*—Section 170(i) is amended by striking “shall be
6 14 cents per mile” and inserting “shall be a rate which
7 takes into account the variable cost of operating an auto-
8 mobile”.

9 (d) *REPEAL OF SUBSTANTIATION EXCEPTION IN CASE*
10 *OF CONTRIBUTIONS REPORTED BY DONEE.*—Section
11 170(f)(8) is amended by striking subparagraph (D) and by
12 redesignating subparagraph (E) as subparagraph (D).

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

16 **SEC. 1307. REPEAL OF DEDUCTION FOR TAX PREPARATION**
17 **EXPENSES.**

18 (a) *IN GENERAL.*—Section 212 is amended by adding
19 “or” at the end of paragraph (1), by striking “; or” at the
20 end of paragraph (2) and inserting a period, and by strik-
21 ing paragraph (3).

22 (b) *EFFECTIVE DATE.*—The amendments made by this
23 section shall apply to taxable years beginning after Decem-
24 ber 31, 2017.

1 **SEC. 1308. REPEAL OF MEDICAL EXPENSE DEDUCTION.**

2 (a) *IN GENERAL.*—Part VII of subchapter B is amend-
3 ed by striking by striking section 213 (and by striking the
4 item relating to such section in the table of sections for such
5 subpart).

6 (b) *CONFORMING AMENDMENTS.*—

7 (1)(A) Section 105(f) is amended to read as fol-
8 lows:

9 “(f) *MEDICAL CARE.*—For purposes of this section—

10 “(1) *IN GENERAL.*—The term ‘medical care’
11 means amounts paid—

12 “(A) for the diagnosis, cure, mitigation,
13 treatment, or prevention of disease, or for the
14 purpose of affecting any structure or function of
15 the body,

16 “(B) for transportation primarily for and
17 essential to medical care referred to in subpara-
18 graph (A),

19 “(C) for qualified long-term care services
20 (as defined in section 7702B(c)), or

21 “(D) for insurance (including amounts paid
22 as premiums under part B of title XVIII of the
23 Social Security Act, relating to supplementary
24 medical insurance for the aged) covering medical
25 care referred to in subparagraphs (A) and (B) or

1 *for any qualified long-term care insurance con-*
2 *tract (as defined in section 7702B(b)).*

3 *In the case of a qualified long-term care insurance*
4 *contract (as defined in section 7702B(b)), only eligi-*
5 *ble long-term care premiums (as defined in para-*
6 *graph (7)) shall be taken into account under subpara-*
7 *graph (D).*

8 “(2) AMOUNTS PAID FOR CERTAIN LODGING
9 AWAY FROM HOME TREATED AS PAID FOR MEDICAL
10 CARE.—Amounts paid for lodging (not lavish or ex-
11 travagant under the circumstances) while away from
12 home primarily for and essential to medical care re-
13 ferred to in paragraph (1)(A) shall be treated as
14 amounts paid for medical care if—

15 “(A) the medical care referred to in para-
16 graph (1)(A) is provided by a physician in a li-
17 censed hospital (or in a medical care facility
18 which is related to, or the equivalent of, a li-
19 censed hospital), and

20 “(B) there is no significant element of per-
21 sonal pleasure, recreation, or vacation in the
22 travel away from home.

23 *The amount taken into account under the preceding*
24 *sentence shall not exceed \$50 for each night for each*
25 *individual.*

1 “(3) *PHYSICIAN.*—*The term ‘physician’ has the*
2 *meaning given to such term by section 1861(r) of the*
3 *Social Security Act (42 U.S.C. 1395x(r)).*

4 “(4) *CONTRACTS COVERING OTHER THAN MED-*
5 *ICAL CARE.*—*In the case of an insurance contract*
6 *under which amounts are payable for other than med-*
7 *ical care referred to in subparagraphs (A), (B) and*
8 *(C) of paragraph (1)—*

9 “(A) *no amount shall be treated as paid for*
10 *insurance to which paragraph (1)(D) applies*
11 *unless the charge for such insurance is either sep-*
12 *arately stated in the contract, or furnished to the*
13 *policyholder by the insurance company in a sep-*
14 *arate statement,*

15 “(B) *the amount taken into account as the*
16 *amount paid for such insurance shall not exceed*
17 *such charge, and*

18 “(C) *no amount shall be treated as paid for*
19 *such insurance if the amount specified in the*
20 *contract (or furnished to the policyholder by the*
21 *insurance company in a separate statement) as*
22 *the charge for such insurance is unreasonably*
23 *large in relation to the total charges under the*
24 *contract.*

1 “(5) *CERTAIN PRE-PAID CONTRACTS.*—*Subject to*
2 *the limitations of paragraph (4), premiums paid dur-*
3 *ing the taxable year by a taxpayer before he attains*
4 *the age of 65 for insurance covering medical care*
5 *(within the meaning of subparagraphs (A), (B), and*
6 *(C) of paragraph (1)) for the taxpayer, his spouse, or*
7 *a dependent after the taxpayer attains the age of 65*
8 *shall be treated as expenses paid during the taxable*
9 *year for insurance which constitutes medical care if*
10 *premiums for such insurance are payable (on a level*
11 *payment basis) under the contract for a period of 10*
12 *years or more or until the year in which the taxpayer*
13 *attains the age of 65 (but in no case for a period of*
14 *less than 5 years).*

15 “(6) *COSMETIC SURGERY.*—

16 “(A) *IN GENERAL.*—*The term ‘medical care’*
17 *does not include cosmetic surgery or other simi-*
18 *lar procedures, unless the surgery or procedure is*
19 *necessary to ameliorate a deformity arising*
20 *from, or directly related to, a congenital abnor-*
21 *mality, a personal injury resulting from an acci-*
22 *dent or trauma, or disfiguring disease.*

23 “(B) *COSMETIC SURGERY DEFINED .*—*For*
24 *purposes of this paragraph, the term ‘cosmetic*
25 *surgery’ means any procedure which is directed*

1 *at improving the patient's appearance and does*
 2 *not meaningfully promote the proper function of*
 3 *the body or prevent or treat illness or disease.*

4 “(7) *ELIGIBLE LONG-TERM CARE PREMIUMS.*—

5 “(A) *IN GENERAL.*—*For purposes of this*
 6 *section, the term ‘eligible long-term care pre-*
 7 *miums’ means the amount paid during a taxable*
 8 *year for any qualified long-term care insurance*
 9 *contract (as defined in section 7702B(b)) cov-*
 10 *ering an individual, to the extent such amount*
 11 *does not exceed the limitation determined under*
 12 *the following table:*

<i>“In the case of an individual with an attained age before the close of the taxable year of:</i>	<i>The limitation is:</i>
<i>40 or less</i>	<i>\$200</i>
<i>More than 40 but not more than 50</i>	<i>\$375</i>
<i>More than 50 but not more than 60</i>	<i>\$750</i>
<i>More than 60 but not more than 70</i>	<i>\$2,000</i>
<i>More than 70</i>	<i>\$2,500</i>

13 “(B) *INDEXING.*—

14 “(i) *IN GENERAL.*—*In the case of any*
 15 *taxable year beginning after 1997, each dol-*
 16 *lar amount in subparagraph (A) shall be*
 17 *increased by the medical care cost adjust-*
 18 *ment of such amount for such calendar*
 19 *year. Any increase determined under the*
 20 *preceding sentence shall be rounded to the*
 21 *nearest multiple of \$10.*

1 “(i) *MEDICAL CARE COST ADJUST-*
2 *MENT.—For purposes of clause (i), the med-*
3 *ical care cost adjustment for any calendar*
4 *year is the adjustment prescribed by the*
5 *Secretary, in consultation with the Sec-*
6 *retary of Health and Human Services, for*
7 *purposes of such clause. To the extent that*
8 *CPI (as defined section 1(c)), or any com-*
9 *ponent thereof, is taken into account in de-*
10 *termining such adjustment, such adjustment*
11 *shall be determined by taking into account*
12 *C-CPI-U (as so defined), or the cor-*
13 *responding component thereof, in lieu of*
14 *such CPI (or component thereof), but only*
15 *with respect to the portion of such adjust-*
16 *ment which relates to periods after Decem-*
17 *ber 31, 2017.*

18 “(8) *CERTAIN PAYMENTS TO RELATIVES TREAT-*
19 *ED AS NOT PAID FOR MEDICAL CARE.—An amount*
20 *paid for a qualified long-term care service (as defined*
21 *in section 7702B(c)) provided to an individual shall*
22 *be treated as not paid for medical care if such service*
23 *is provided—*

24 “(A) *by the spouse of the individual or by*
25 *a relative (directly or through a partnership,*

1 *corporation, or other entity) unless the service is*
2 *provided by a licensed professional with respect*
3 *to such service, or*

4 *“(B) by a corporation or partnership which*
5 *is related (within the meaning of section 267(b)*
6 *or 707(b)) to the individual.*

7 *For purposes of this paragraph, the term ‘relative’*
8 *means an individual bearing a relationship to the in-*
9 *dividual which is described in any of subparagraphs*
10 *(A) through (G) of section 7706(d)(2). This para-*
11 *graph shall not apply for purposes of subsection (b)*
12 *with respect to reimbursements through insurance.”.*

13 *(B) Section 72(t)(2)(D)(i)(III) is amended by*
14 *striking “section 213(d)(1)(D)” and inserting “section*
15 *105(f)(1)(D)”.*

16 *(C) Section 104(a) is amended by striking “sec-*
17 *tion 213(d)(1)” in the last sentence and inserting*
18 *“section 105(f)(1)”.*

19 *(D) Section 105(b) is amended by striking “sec-*
20 *tion 213(d)” and inserting “section 105(f)”.*

21 *(E) Section 139D is amended by striking “sec-*
22 *tion 213” and inserting “section 223”.*

23 *(F) Section 162(l)(2) is amended by striking*
24 *“section 213(d)(10)” and inserting “section*
25 *105(f)(7)”.*

1 (G) Section 220(d)(2)(A) is amended by striking
2 “section 213(d)” and inserting “section 105(f)”.

3 (H) Section 223(d)(2)(A) is amended by striking
4 “section 213(d)” and inserting “section 105(f)”.

5 (I) Section 419A(f)(2) is amended by striking
6 “section 213(d)” and inserting “section 105(f)”.

7 (J) Section 501(c)(26)(A) is amended by striking
8 “section 213(d)” and inserting “section 105(f)”.

9 (K) Section 2503(e) is amended by striking “sec-
10 tion 213(d)” and inserting “section 105(f)”.

11 (L) Section 4980B(c)(4)(B)(i)(I) is amended by
12 striking “section 213(d)” and inserting “section
13 105(f)”.

14 (M) Section 6041(f) is amended by striking “sec-
15 tion 213(d)” and inserting “section 105(f)”.

16 (N) Section 7702B(a)(2) is amended by striking
17 “section 213(d)” and inserting “section 105(f)”.

18 (O) Section 7702B(a)(4) is amended by striking
19 “section 213(d)(1)(D)” and inserting “section
20 105(f)(1)(D)”.

21 (P) Section 7702B(d)(5) is amended by striking
22 “section 213(d)(10)” and inserting “section
23 105(f)(7)”.

24 (Q) Section 9832(d)(3) is amended by striking
25 “section 213(d)” and inserting “section 105(f)”.

1 (2) *Section 72(t)(2)(B) is amended to read as*
2 *follows:*

3 “(B) *MEDICAL EXPENSES.—Distributions*
4 *made to an individual (other than distributions*
5 *described in subparagraph (A), (C), or (D) to the*
6 *extent such distributions do not exceed the excess*
7 *of—*

8 “(i) *the expenses paid by the taxpayer*
9 *during the taxable year, not compensated*
10 *for by insurance or otherwise, for medical*
11 *care (as defined in 105(f)) of the taxpayer,*
12 *his spouse, or a dependent (as defined in*
13 *section 7706, determined without regard to*
14 *subsections (b)(1), (b)(2), and (d)(1)(B)*
15 *thereof), over*

16 “(ii) *10 percent of the taxpayer’s ad-*
17 *justed gross income.”.*

18 (3) *Section 162(l) is amended by striking para-*
19 *graph (3).*

20 (4) *Section 402(l) is amended by striking para-*
21 *graph (7) and redesignating paragraph (8) as para-*
22 *graph (7).*

23 (5) *Section 220(f) is amended by striking para-*
24 *graph (6).*

1 (6) Section 223(f) is amended by striking para-
2 graph (6).

3 (7) Section 7702B(e) is amended by striking
4 paragraph (2).

5 (8) Section 7706(f)(7), as redesignated by this
6 Act, is amended by striking “sections 105(b),
7 132(h)(2)(B), and 213(d)(5)” and inserting “sections
8 105(b) and 132(h)(2)(B)”.

9 (c) *EFFECTIVE DATE.*—The amendments made by this
10 section shall apply to taxable years beginning after Decem-
11 ber 31, 2017.

12 *SEC. 1309. REPEAL OF DEDUCTION FOR ALIMONY PAY-*
13 *MENTS.*

14 (a) *IN GENERAL.*—Part VII of subchapter B is amend-
15 ed by striking by striking section 215 (and by striking the
16 item relating to such section in the table of sections for such
17 subpart).

18 *(b) CONFORMING AMENDMENTS.*—

19 (1) CORRESPONDING REPEAL OF PROVISIONS
20 PROVIDING FOR INCLUSION OF ALIMONY IN GROSS IN-
21 COME.—

(A) Subsection (a) of section 61 is amended
by striking paragraph (8) and by redesignating
paragraphs (9) through (15) as paragraphs (8)
through (14), respectively.

1 (B) *Part II of subchapter B of chapter 1 is*
2 *amended by striking section 71 (and by striking*
3 *the item relating to such section in the table of*
4 *sections for such part).*

5 (C) *Subpart F of part I of subchapter J of*
6 *chapter 1 is amended by striking section 682*
7 *(and by striking the item relating to such section*
8 *in the table of sections for such subpart).*

9 (2) *RELATED TO REPEAL OF SECTION 215.—*

10 (A) *Section 62(a) is amended by striking*
11 *paragraph (10).*

12 (B) *Section 3402(m)(1) is amended by*
13 *striking “(other than paragraph (10) thereof)”.*

14 (3) *RELATED TO REPEAL OF SECTION 71.—*

15 (A) *Section 121(d)(3) is amended—*

16 (i) *by striking “(as defined in section*
17 *71(b)(2))” in subparagraph (B), and*

18 (ii) *by adding at the end the following*
19 *new subparagraph:*

20 “(C) *DIVORCE OR SEPARATION INSTRU-*
21 *MENT.—For purposes of this paragraph, the*
22 *term ‘divorce or separation instrument’ means—*

23 “(i) *a decree of divorce or separate*
24 *maintenance or a written instrument inci-*
25 *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 other
6 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 by
14 striking “section 71(b)(2)” and inserting “sec-
15 tion 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 this
20 section shall apply to—

21 (1) any divorce or separation instrument (as de-
22 fined in section 71(b)(2) of the Internal Revenue Code
23 of 1986 as in effect before the date of the enactment
24 of this Act) executed after December 31, 2017, and

1 (2) *any divorce or separation instrument (as so*
2 *defined) executed on or before such date and modified*
3 *after such date if the modification expressly provides*
4 *that the amendments made by this section apply to*
5 *such modification.*

6 **SEC. 1310. REPEAL OF DEDUCTION FOR MOVING EXPENSES.**

7 (a) *IN GENERAL.*—*Part VII of subchapter B is amend-*
8 *ed by striking by striking section 217 (and by striking the*
9 *item relating to such section in the table of sections for such*
10 *subpart).*

11 (b) *RETENTION OF MOVING EXPENSES FOR MEMBERS*
12 *OF ARMED FORCES.*—*Section 134(b) is amended by adding*
13 *at the end the following new paragraph:*

14 “(7) *MOVING EXPENSES.*—*The term ‘qualified*
15 *military benefit’ includes any benefit described in sec-*
16 *tion 217(g) (as in effect before the enactment of the*
17 *Tax Cuts And Jobs Act).”.*

18 (c) *CONFORMING AMENDMENTS.*—

19 (1) *Section 62(a) is amended by striking para-*
20 *graph (15).*

21 (2) *Section 274(m)(3) is amended by striking*
22 *“(other than section 217)”.*

23 (3) *Section 3121(a) is amended by striking*
24 *paragraph (11).*

1 (4) *Section 3306(b) is amended by striking para-*
2 *graph (9).*

3 (5) *Section 3401(a) is amended by striking*
4 *paragraph (15).*

5 (6) *Section 7872(f) is amended by striking para-*
6 *graph (11).*

7 (d) *EFFECTIVE DATE.—The amendments made by this*
8 *section shall apply to taxable years beginning after Decem-*
9 *ber 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.—Sec-*
14 *tion 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 begin-*
18 *ning 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 employee*
7 *solely because the employee may choose between the*
8 *contributions referred to in paragraph (1) and em-*
9 *ployer contributions to another health plan of the em-*
10 *ployer.*

11 “(3) *SPECIAL RULE FOR DEDUCTION OF EM-*
12 *PLOYER CONTRIBUTIONS.—Any employer contribution*
13 *to a health savings account (as so defined), if other-*
14 *wise allowable as a deduction under this chapter,*
15 *shall be allowed only for the taxable year in which*
16 *paid.*

17 “(4) *EMPLOYER HEALTH SAVINGS ACCOUNT CON-*
18 *TRIBUTION REQUIRED TO BE SHOWN ON RETURN.—*
19 *Every individual required to file a return under sec-*
20 *tion 6012 for the taxable year shall include on such*
21 *return the aggregate amount contributed by employers*
22 *to the health savings accounts (as so defined) of such*
23 *individual or such individual’s spouse for such tax-*
24 *able year.*

1 “(5) *HEALTH SAVINGS ACCOUNT CONTRIBUTIONS*
2 *NOT PART OF COBRA COVERAGE.*—Paragraph (1)
3 *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 inserting*
11 *the following: “under paragraph (3)) shall be divided*
12 *equally between the spouses”.*

13 (5) *Section 223(c) is amended by striking para-*
14 *graph (5).*

15 (6) *Section 3231(e) is amended by striking para-*
16 *graph (10).*

17 (7) *Section 3306(b) is amended by striking para-*
18 *graph (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 sec-*
23 *tion 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 end-*
14 *ing with or within such calendar year.*

15 “(c) *WAIVER BY SECRETARY.*—*In the case of a failure*
16 *which is due to reasonable cause and not to willful neglect,*
17 *the Secretary may waive part or all of the tax imposed by*
18 *subsection (a) to the extent that the payment of such tax*
19 *would be excessive relative to the failure involved.*

20 “(d) *EMPLOYER REQUIRED TO MAKE COMPARABLE*
21 *HEALTH SAVINGS ACCOUNT CONTRIBUTIONS FOR ALL PAR-*
22 *TICIPATING EMPLOYEES.*—

23 “(1) *IN GENERAL.*—*An employer meets the re-*
24 *quirements of this subsection for any calendar year if*
25 *the employer makes available comparable contribu-*
26 *tions to the health savings accounts of all comparable*

1 *participating employees for each coverage period dur-*
2 *ing such calendar year.*

3 “(2) *COMPARABLE CONTRIBUTIONS.—*

4 “(A) *IN GENERAL.—For purposes of para-*
5 *graph (1), the term ‘comparable contributions’*
6 *means contributions—*

7 “(i) *which are the same amount, or*

8 “(ii) *which are the same percentage of*
9 *the annual deductible limit under the high*
10 *deductible health plan covering the employ-*
11 *ees.*

12 “(B) *PART-YEAR EMPLOYEES.—In the case*
13 *of an employee who is employed by the employer*
14 *for only a portion of the calendar year, a con-*
15 *tribution to the health savings account of such*
16 *employee shall be treated as comparable if it is*
17 *an amount which bears the same ratio to the*
18 *comparable amount (determined without regard*
19 *to this subparagraph) as such portion bears to*
20 *the entire calendar year.*

21 “(3) *COMPARABLE PARTICIPATING EMPLOY-*
22 *EES.—*

23 “(A) *IN GENERAL.—For purposes of para-*
24 *graph (1), the term ‘comparable participating*
25 *employees’ means all employees—*

1 “(i) *who are eligible individuals cov-*
2 *ered under any high deductible health plan*
3 *of the employer, and*

4 “(ii) *who have the same category of*
5 *coverage.*

6 “(B) *CATEGORIES OF COVERAGE.—For pur-*
7 *poses of subparagraph (B), the categories of cov-*
8 *erage are self-only and family coverage.*

9 “(4) *PART-TIME EMPLOYEES.—*

10 “(A) *IN GENERAL .—Paragraph (3) shall be*
11 *applied separately with respect to part-time em-*
12 *ployees and other employees.*

13 “(B) *PART-TIME EMPLOYEE.—For purposes*
14 *of subparagraph (A), the term ‘part-time em-*
15 *ployee’ means any employee who is customarily*
16 *employed for fewer than 30 hours per week.*

17 “(5) *SPECIAL RULE FOR NON-HIGHLY COM-*
18 *PENSATED EMPLOYEES.—For purposes of applying*
19 *this section to a contribution to a health savings ac-*
20 *count of an employee who is not a highly com-*
21 *pensated employee (as defined in section 414(q)),*
22 *highly compensated employees shall not be treated as*
23 *comparable participating employees.*

24 “(e) *CONTROLLED GROUPS.—For purposes of this sec-*
25 *tion, all persons treated as a single employer under sub-*

1 *section (b), (c), (m), or (o) of section 414 shall be treated*
2 *as 1 employer.*

3 “(f) *DEFINITIONS.*—*Terms used in this section which*
4 *are also used in section 223 have the respective meanings*
5 *given such terms in section 223.*

6 “(g) *REGULATIONS.*—*The Secretary shall issue regula-*
7 *tions to carry out the purposes of this section.”.*

8 (11) *Section 6051(a) is amended by striking*
9 *paragraph (11).*

10 (12) *Section 6051(a)(14)(A) is amended by strik-*
11 *ing “paragraphs (11) and (12)” and inserting “para-*
12 *graph (12)”.*

13 (d) *EFFECTIVE DATE.*—*The amendment made by this*
14 *section shall apply to taxable years beginning after Decem-*
15 *ber 31, 2017.*

16 **SEC. 1312. DENIAL OF DEDUCTION FOR EXPENSES ATTRIB-**
17 **UTABLE TO THE TRADE OR BUSINESS OF**
18 **BEING AN EMPLOYEE.**

19 (a) *IN GENERAL.*—*Part IX of subchapter B of chapter*
20 *1 is amended by inserting after the item relating to section*
21 *262 the following new item:*

22 **“SEC. 262A. EXPENSES ATTRIBUTABLE TO BEING AN EM-**
23 **PLOYEE.**

24 “(a) *IN GENERAL.*—*Except as otherwise provided in*
25 *this section, no deduction shall be allowed with respect to*

1 *any trade or business of the taxpayer which consists of the*
2 *performance of services by the taxpayer as an employee.*

3 “(b) *EXCEPTION FOR ABOVE-THE-LINE DEDUC-*
4 *TIONS.—Subsection (a) shall not apply to any deduction*
5 *allowable (determined without regard to subsection (a)) in*
6 *determining adjusted gross income.”.*

7 (b) *REPEAL OF CERTAIN ABOVE-THE-LINE TRADE AND*
8 *BUSINESS DEDUCTIONS OF EMPLOYEES.—*

9 (1) *IN GENERAL.—Section 62(a)(2) is amend-*
10 *ed—*

11 (A) *by striking subparagraphs (B), (C), and*
12 *(D), and*

13 (B) *by redesignating subparagraph (E) as*
14 *subparagraph (B).*

15 (2) *CONFORMING AMENDMENTS.—*

16 (A) *Section 62 is amended by striking sub-*
17 *sections (b) and (d) and by redesignating sub-*
18 *sections (c) and (e) as subsections (b) and (c), re-*
19 *spectively.*

20 (B) *Section 62(a)(20) is amended by strik-*
21 *ing “subsection (e)” and inserting “subsection*
22 *(c)”.*

23 (c) *CONTINUED EXCLUSION OF WORKING CONDITION*
24 *FRINGE BENEFITS.—Section 132(d) is amended by insert-*

1 ing “(determined without regard to section 262A)” after
2 “section 162”.

3 (d) *EFFECTIVE DATE.*—The amendments made by this
4 section shall apply to taxable years beginning after Decem-
5 ber 31, 2017.

6 ***Subtitle E—Simplification and Re-***
7 ***form of Exclusions and Taxable***
8 ***Compensation***

9 ***SEC. 1401. LIMITATION ON EXCLUSION FOR EMPLOYER-***
10 ***PROVIDED HOUSING.***

11 (a) *IN GENERAL.*—Section 119 is amended by adding
12 at the end the following new subsection:

13 “(e) *LIMITATION ON EXCLUSION OF LODGING.*—

14 “(1) *IN GENERAL.*—The aggregate amount ex-
15 cluded from gross income of the taxpayer under sub-
16 sections (a) and (d) with respect to lodging for any
17 taxable year shall not exceed \$50,000 (half such
18 amount in the case of a married individual filing a
19 separate return).

20 “(2) *LIMITATION TO 1 HOME.*—Subsections (a)
21 and (d) (separately and in combination) shall not
22 apply with respect to more than 1 residence of the
23 taxpayer at any given time. In the case of a joint re-
24 turn, the preceding sentence shall apply separately to
25 each spouse for any period during which each spouse

1 *resides separate from the other spouse in a residence*
2 *which is provided in connection with the employment*
3 *of each spouse, respectively.*

4 “(3) *LIMITATION FOR HIGHLY COMPENSATED*
5 *EMPLOYEES.—*

6 “(A) *REDUCED FOR EXCESS COMPENSA-*
7 *TION.—In the case of an individual whose com-*
8 *pensation for the taxable year exceeds the*
9 *amount in effect under section 414(q)(1)(B)(i)*
10 *for the calendar in which such taxable year be-*
11 *gins, the \$50,000 amount under paragraph (1)*
12 *shall be reduced (but not below zero) by an*
13 *amount equal to 50 percent of such excess. For*
14 *purposes of the preceding sentence, the term*
15 *‘compensation’ means wages (as defined in sec-*
16 *tion 3121(a) (without regard to the contribution*
17 *and benefit base limitation in section*
18 *3121(a)(1)).*

19 “(B) *EXCLUSION DENIED FOR 5-PERCENT*
20 *OWNERS.—In the case of an individual who is a*
21 *5-percent owner (as defined in section*
22 *416(i)(1)(B)(i)) of the employer at any time*
23 *during the taxable year, the amount under para-*
24 *graph (1) shall be zero.”.*

1 (b) *EFFECTIVE DATE.*—*The amendment made by this*
2 *section shall apply to taxable years beginning after Decem-*
3 *ber 31, 2017.*

4 **SEC. 1402. EXCLUSION OF GAIN FROM SALE OF A PRIN-**
5 **CIPAL RESIDENCE.**

6 (a) *REQUIREMENT THAT RESIDENCE BE PRINCIPAL*
7 *RESIDENCE FOR 5 YEARS DURING 8-YEAR PERIOD.*—*Sub-*
8 *section (a) of section 121 is amended—*

9 (1) *by striking “5-year period” and inserting*
10 *“8-year period”, and*

11 (2) *by striking “2 years” and inserting “5*
12 *years”.*

13 (b) *APPLICATION TO ONLY 1 SALE OR EXCHANGE*
14 *EVERY 5 YEARS.*—*Paragraph (3) of section 121(b) is*
15 *amended to read as follows:*

16 “(3) *APPLICATION TO ONLY 1 SALE OR EX-*
17 *CHANGE EVERY 5 YEARS.*—*Subsection (a) shall not*
18 *apply to any sale or exchange by the taxpayer if, dur-*
19 *ing the 5-year period ending on the date of such sale*
20 *or exchange, there was any other sale or exchange by*
21 *the taxpayer to which subsection (a) applied.”.*

22 (c) *PHASEOUT BASED ON MODIFIED ADJUSTED*
23 *GROSS INCOME.*—*Section 121 is amended by adding at the*
24 *end the following new subsection:*

1 “(h) *PHASEOUT BASED ON MODIFIED ADJUSTED*
2 *GROSS INCOME.*—

3 “(1) *IN GENERAL.*—*If the average modified ad-*
4 *justed gross income of the taxpayer for the taxable*
5 *year and the 2 preceding taxable years exceeds*
6 *\$250,000 (twice such amount in the case of a joint re-*
7 *turn), the amount which would (but for this sub-*
8 *section) be excluded from gross income under sub-*
9 *section (a) for such taxable year shall be reduced (but*
10 *not below zero) by the amount of such excess.*

11 “(2) *MODIFIED ADJUSTED GROSS INCOME.*—*For*
12 *purposes of this subsection, the term ‘modified ad-*
13 *justed gross income’ means, with respect to any tax-*
14 *able year, adjusted gross income determined after ap-*
15 *plication of this section (but without regard to sub-*
16 *section (b)(1) and this subsection).*

17 “(3) *SPECIAL RULE FOR JOINT RETURNS.*—*In*
18 *the case of a joint return, the average modified ad-*
19 *justed gross income of the taxpayer shall be deter-*
20 *mined without regard to any taxable year with re-*
21 *spect to which the taxpayer did not file a joint re-*
22 *turn.’.*

23 “(d) *CONFORMING AMENDMENTS.*—

1 (1) *The following provisions of section 121 are*
2 *each amended by striking “5-year period” each place*
3 *it appears therein and inserting “8-year period”:*

4 (A) *Subsection (b)(5)(C)(ii)(I).*

5 (B) *Subsection (c)(1)(B)(i)(I).*

6 (C) *Subsection (d)(7)(B).*

7 (D) *Subparagraphs (A) and (B) of sub-*
8 *section (d)(9).*

9 (E) *Subsection (d)(10).*

10 (F) *Subsection (d)(12)(A).*

11 (2) *Section 121(c)(1)(B)(ii) is amended by strik-*
12 *ing “2 years” and inserting “5 years”:*

13 (e) *EFFECTIVE DATE.—The amendments made by this*
14 *section shall apply to sales and exchanges after December*
15 *31, 2017.*

16 **SEC. 1403. REPEAL OF EXCLUSION, ETC., FOR EMPLOYEE**
17 **ACHIEVEMENT AWARDS.**

18 (a) *IN GENERAL.—Section 74 is amended by striking*
19 *subsection (c).*

20 (b) *REPEAL OF LIMITATION ON DEDUCTION.—Section*
21 *274 is amended by striking subsection (j).*

22 (c) *CONFORMING AMENDMENTS.—*

23 (1) *Section 102(c)(2) is amended by striking the*
24 *first sentence.*

1 (2) Section 414(n)(3)(C) is amended by striking
2 “274(j),”.

3 (3) Section 414(t)(2) is amended by striking
4 “274(j),”.

5 (4) *Section 3121(a)(20) is amended by striking*
6 “74(c)”.

7 (5) Section 3231(e)(5) is amended by striking
8 “74(c),”.

9 (6) Section 3306(b)(16) is amended by striking
10 “74(c),”.

11 (7) Section 3401(a)(19) is amended by striking
12 “74(c),”.

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

16 *SEC. 1404. SUNSET OF EXCLUSION FOR DEPENDENT CARE*
17 *ASSISTANCE PROGRAMS.*

18 (a) *IN GENERAL.*—Section 129 is amended by adding
19 at the end the following new subsection:

20 “(f) *TERMINATION.*—Subsection (a) shall not apply to
21 taxable years beginning after December 31, 2022.”.

22 (b) *EFFECTIVE DATE.*—*The amendment made by this*
23 *section shall take effect on the date of the enactment of this*
24 *Act.*

1 **SEC. 1405. REPEAL OF EXCLUSION FOR QUALIFIED MOVING**
2 **EXPENSE REIMBURSEMENT.**

3 (a) *IN GENERAL.*—Section 132(a) is amended by strik-
4 ing paragraph (6).

5 (b) *CONFORMING AMENDMENTS.*—

6 (1) Section 82 is amended by striking “Except
7 as provided in section 132(a)(6), there” and inserting
8 “There”.

9 (2) Section 132 is amended by striking sub-
10 section (g).

11 (3) Section 132(l) is amended by striking by
12 striking “subsections (e) and (g)” and inserting “sub-
13 section (e)”.

14 (c) *EFFECTIVE DATE.*—The amendments made by this
15 section shall apply to taxable years beginning after Decem-
16 ber 31, 2017.

17 **SEC. 1406. REPEAL OF EXCLUSION FOR ADOPTION ASSIST-**
18 **ANCE PROGRAMS.**

19 (a) *IN GENERAL.*—Part III of subchapter B of chapter
20 1 is amended by striking section 137 (and by striking the
21 item relating to such section in the table of sections for such
22 part).

23 (b) *CONFORMING AMENDMENTS.*—

24 (1) Sections 414(n)(3)(C), 414(t)(2), 74(d)(2)(B),
25 86(b)(2)(A), 219(g)(3)(A)(ii) are each amended by
26 striking “, 137”.

1 (2) *Section 1016(a), as amended by the pre-*
2 *ceding provision of this Act, is amended by striking*
3 *paragraph (26).*

4 (3) *Section 6039D(d)(1), as amended by the pre-*
5 *ceding provisions of this Act, is amended—*

6 (A) *by striking “, or 137”, and*

7 (B) *by inserting “or” before “125”.*

8 (c) *EFFECTIVE DATE.—The amendments made by this*
9 *section shall apply to taxable years beginning after Decem-*
10 *ber 31, 2017.*

11 ***Subtitle F—Simplification and Re-***
12 ***form of Savings, Pensions, Re-***
13 ***tirement***

14 ***SEC. 1501. REPEAL OF SPECIAL RULE PERMITTING RE-***
15 ***CHARACTERIZATION OF ROTH IRA CON-***
16 ***TRIBUTIONS AS TRADITIONAL IRA CONTRIBU-***
17 ***TIONS.***

18 (a) *IN GENERAL.—Section 408A(d) is amended by*
19 *striking paragraph (6) and by redesignating paragraph (7)*
20 *as paragraph (6).*

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

1 **SEC. 1502. REDUCTION IN MINIMUM AGE FOR ALLOWABLE**
2 **IN-SERVICE DISTRIBUTIONS.**

3 (a) *IN GENERAL.*—Section 401(a)(36) is amended by
4 striking “age 62” and inserting “age 59 $\frac{1}{2}$ ”.

5 (b) *APPLICATION TO GOVERNMENTAL SECTION 457(b)*
6 *PLANS.*—Clause (i) of section 457(d)(1)(A) is amended by
7 inserting “(in the case of a plan maintained by an em-
8 ployer described in subsection (e)(1)(A), age 59 $\frac{1}{2}$)” before
9 the comma at the end.

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

13 **SEC. 1503. MODIFICATION OF RULES GOVERNING HARD-**
14 **SHIP DISTRIBUTIONS.**

15 (a) *IN GENERAL.*—Not later than 1 year after the date
16 of the enactment of this Act, the Secretary of the Treasury
17 shall modify Treasury Regulation section 1.401(k)–
18 1(d)(3)(iv)(E) to—

19 (1) delete the 6-month prohibition on contribu-
20 tions imposed by paragraph (2) thereof, and

21 (2) make any other modifications necessary to
22 carry out the purposes of section 401(k)(2)(B)(i)(IV)
23 of the Internal Revenue Code of 1986.

24 (b) *EFFECTIVE DATE.*—The revised regulations under
25 this section shall apply to plan years beginning after De-
26 cember 31, 2017.

1 **SEC. 1504. MODIFICATION OF RULES RELATING TO HARD-**
2 **SHIP WITHDRAWALS FROM CASH OR DE-**
3 **FERRED ARRANGEMENTS.**

4 (a) *IN GENERAL.*—Section 401(k) is amended by add-
5 ing at the end the following:

6 “(14) *SPECIAL RULES RELATING TO HARDSHIP*
7 *WITHDRAWALS.*—For purposes of paragraph
8 (2)(B)(i)(IV)—

9 “(A) *AMOUNTS WHICH MAY BE WITH-*
10 *DRAWN.*—The following amounts may be distrib-
11 uted upon hardship of the employee:

12 “(i) *Contributions to a profit-sharing*
13 *or stock bonus plan to which section*
14 *402(e)(3) applies.*

15 “(ii) *Qualified nonelective contribu-*
16 *tions (as defined in subsection (m)(4)(C)).*

17 “(iii) *Qualified matching contributions*
18 *described in paragraph (3)(D)(ii)(I).*

19 “(iv) *Earnings on any contributions*
20 *described in clause (i), (ii), or (iii).*

21 “(B) *NO REQUIREMENT TO TAKE AVAIL-*
22 *ABLE LOAN.*—A distribution shall not be treated
23 as failing to be made upon the hardship of an
24 employee solely because the employee does not
25 take any available loan under the plan.”.”.

1 (b) *CONFORMING AMENDMENT.—Section*
2 *401(k)(2)(B)(i)(IV) is amended to read as follows:*

3 *“(IV) subject to the provisions of*
4 *paragraph (14), upon hardship of the*
5 *employee, or”.*”.

6 (c) *EFFECTIVE DATE.—The amendments made by this*
7 *section shall apply to plan years beginning after December*
8 *31, 2017.*

9 ***SEC. 1505. EXTENDED ROLLOVER PERIOD FOR THE ROLL-***
10 ***OVER OF PLAN LOAN OFFSET AMOUNTS IN***
11 ***CERTAIN CASES.***

12 (a) *IN GENERAL.—Paragraph (3) of section 402(c) is*
13 *amended by adding at the end the following new subpara-*
14 *graph:*

15 *“(C) ROLLOVER OF CERTAIN PLAN LOAN*
16 *OFFSET AMOUNTS.—*

17 *“(i) IN GENERAL.—In the case of a*
18 *qualified plan loan offset amount, para-*
19 *graph (1) shall not apply to any transfer of*
20 *such amount made after the due date (in-*
21 *cluding extensions) for filing the return of*
22 *tax for the taxable year in which such*
23 *amount is treated as distributed from a*
24 *qualified employer plan.*

1 “(ii) *QUALIFIED PLAN LOAN OFFSET*
2 *AMOUNT.*—For purposes of this subpara-
3 graph, the term ‘qualified plan loan offset
4 amount’ means a plan loan offset amount
5 which is treated as distributed from a
6 qualified employer plan to a participant or
7 beneficiary solely by reason of—

8 “(I) the termination of the quali-
9 fied employer plan, or

10 “(II) the failure to meet the re-
11 payment terms of the loan from such
12 plan because of the separation from
13 service of the participant (whether due
14 to layoff, cessation of business, termi-
15 nation of employment, or otherwise).

16 “(iii) *PLAN LOAN OFFSET AMOUNT.*—
17 For purposes of clause (ii), the term ‘plan
18 loan offset amount’ means the amount by
19 which the participant’s accrued benefit
20 under the plan is reduced in order to repay
21 a loan from the plan.

22 “(iv) *LIMITATION.*—This subparagraph
23 shall not apply to any plan loan offset
24 amount unless such plan loan offset amount
25 relates to a loan to which section 72(p)(1)

1 *does not apply by reason of section*
2 *72(p)(2).*

3 “(v) *QUALIFIED EMPLOYER PLAN.*—
4 *For purposes of this subsection, the term*
5 *‘qualified employer plan’ has the meaning*
6 *given such term by section 72(p)(4).”.*

7 (b) *CONFORMING AMENDMENT.*—*Subparagraph (A) of*
8 *section 402(c)(3) is amended by striking “subparagraph*
9 *(B)” and inserting “subparagraphs (B) and (C)”.*

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

13 **SEC. 1506. MODIFICATION OF NONDISCRIMINATION RULES**
14 **TO PROTECT OLDER, LONGER SERVICE PAR-**
15 **TICIPANTS.**

16 (a) *IN GENERAL.*—*Section 401 is amended—*
17 (1) *by redesignating subsection (o) as subsection*
18 *(p), and*
19 (2) *by inserting after subsection (n) the following*
20 *new subsection:*

21 “(o) *SPECIAL RULES FOR APPLYING NONDISCRIMINA-*
22 *TION RULES TO PROTECT OLDER, LONGER SERVICE AND*
23 *GRANDFATHERED PARTICIPANTS.*—

24 “(1) *TESTING OF DEFINED BENEFIT PLANS WITH*
25 *CLOSED CLASSES OF PARTICIPANTS.*—

1 “(A) *BENEFITS, RIGHTS, OR FEATURES*
2 *PROVIDED TO CLOSED CLASSES.*—A defined ben-
3 *efit plan which provides benefits, rights, or fea-*
4 *tures to a closed class of participants shall not*
5 *fail to satisfy the requirements of subsection*
6 *(a)(4) by reason of the composition of such closed*
7 *class or the benefits, rights, or features provided*
8 *to such closed class, if—*

9 “(i) *for the plan year as of which the*
10 *class closes and the 2 succeeding plan years,*
11 *such benefits, rights, and features satisfy the*
12 *requirements of subsection (a)(4) (without*
13 *regard to this subparagraph but taking into*
14 *account the rules of subparagraph (I)),*

15 “(ii) *after the date as of which the*
16 *class was closed, any plan amendment*
17 *which modifies the closed class or the bene-*
18 *fits, rights, and features provided to such*
19 *closed class does not discriminate signifi-*
20 *cantly in favor of highly compensated em-*
21 *ployees, and*

22 “(iii) *the class was closed before April*
23 *5, 2017, or the plan is described in sub-*
24 *paragraph (C).*

1 “(B) *AGGREGATE TESTING WITH DEFINED*
2 *CONTRIBUTION PLANS PERMITTED ON A BENE-*
3 *FITS BASIS.*—

4 “(i) *IN GENERAL.*—For purposes of de-
5 *termining compliance with subsection (a)(4)*
6 *and section 410(b), a defined benefit plan*
7 *described in clause (iii) may be aggregated*
8 *and tested on a benefits basis with 1 or*
9 *more defined contribution plans, including*
10 *with the portion of 1 or more defined con-*
11 *tribution plans which—*

12 “(I) *provides matching contribu-*
13 *tions (as defined in subsection*
14 *(m)(4)(A)),*

15 “(II) *provides annuity contracts*
16 *described in section 403(b) which are*
17 *purchased with matching contributions*
18 *or nonelective contributions, or*

19 “(III) *consists of an employee*
20 *stock ownership plan (within the*
21 *meaning of section 4975(e)(7)) or a tax*
22 *credit employee stock ownership plan*
23 *(within the meaning of section 409(a)).*

24 “(ii) *SPECIAL RULES FOR MATCHING*
25 *CONTRIBUTIONS.*—For purposes of clause

1 *(i), if a defined benefit plan is aggregated*
2 *with a portion of a defined contribution*
3 *plan providing matching contributions—*

4 *“(I) such defined benefit plan*
5 *must also be aggregated with any por-*
6 *tion of such defined contribution plan*
7 *which provides elective deferrals de-*
8 *scribed in subparagraph (A) or (C) of*
9 *section 402(g)(3), and*

10 *“(II) such matching contributions*
11 *shall be treated in the same manner as*
12 *nonelective contributions, including for*
13 *purposes of applying the rules of sub-*
14 *section (l).*

15 *“(iii) PLANS DESCRIBED.—A defined*
16 *benefit plan is described in this clause if—*

17 *“(I) the plan provides benefits to*
18 *a closed class of participants,*

19 *“(II) for the plan year as of which*
20 *the class closes and the 2 succeeding*
21 *plan years, the plan satisfies the re-*
22 *quirements of section 410(b) and sub-*
23 *section (a)(4) (without regard to this*
24 *subparagraph but taking into account*
25 *the rules of subparagraph (I)),*

1 “(III) after the date as of which
2 the class was closed, any plan amend-
3 ment which modifies the closed class or
4 the benefits provided to such closed
5 class does not discriminate signifi-
6 cantly in favor of highly compensated
7 employees, and

8 “(IV) the class was closed before
9 April 5, 2017, or the plan is described
10 in subparagraph (C).

11 “(C) *PLANS DESCRIBED.*—A plan is de-
12 scribed in this subparagraph if, taking into ac-
13 count any predecessor plan—

14 “(i) such plan has been in effect for at
15 least 5 years as of the date the class is
16 closed, and

17 “(ii) during the 5-year period pre-
18 ceding the date the class is closed, there has
19 not been a substantial increase in the cov-
20 erage or value of the benefits, rights, or fea-
21 tures described in subparagraph (A) or in
22 the coverage or benefits under the plan de-
23 scribed in subparagraph (B)(iii) (whichever
24 is applicable).

1 “(D) *DETERMINATION OF SUBSTANTIAL IN-*
2 *CREASE FOR BENEFITS, RIGHTS, AND FEA-*
3 *TURES.—In applying subparagraph (C)(ii) for*
4 *purposes of subparagraph (A)(iii), a plan shall*
5 *be treated as having had a substantial increase*
6 *in coverage or value of the benefits, rights, or fea-*
7 *tures described in subparagraph (A) during the*
8 *applicable 5-year period only if, during such pe-*
9 *riod—*

10 “(i) *the number of participants covered*
11 *by such benefits, rights, or features on the*
12 *date such period ends is more than 50 per-*
13 *cent greater than the number of such par-*
14 *ticipants on the first day of the plan year*
15 *in which such period began, or*

16 “(ii) *such benefits, rights, and features*
17 *have been modified by 1 or more plan*
18 *amendments in such a way that, as of the*
19 *date the class is closed, the value of such*
20 *benefits, rights, and features to the closed*
21 *class as a whole is substantially greater*
22 *than the value as of the first day of such 5-*
23 *year period, solely as a result of such*
24 *amendments.*

1 “(E) *DETERMINATION OF SUBSTANTIAL IN-*
2 *CREASE FOR AGGREGATE TESTING ON BENEFITS*
3 *BASIS.—In applying subparagraph (C)(ii) for*
4 *purposes of subparagraph (B)(iii)(IV), a plan*
5 *shall be treated as having had a substantial in-*
6 *crease in coverage or benefits during the applica-*
7 *ble 5-year period only if, during such period—*

8 “(i) *the number of participants benefit-*
9 *ting under the plan on the date such period*
10 *ends is more than 50 percent greater than*
11 *the number of such participants on the first*
12 *day of the plan year in which such period*
13 *began, or*

14 “(ii) *the average benefit provided to*
15 *such participants on the date such period*
16 *ends is more than 50 percent greater than*
17 *the average benefit provided on the first day*
18 *of the plan year in which such period*
19 *began.*

20 “(F) *CERTAIN EMPLOYEES DIS-*
21 *REGARDED.—For purposes of subparagraphs (D)*
22 *and (E), any increase in coverage or value or in*
23 *coverage or benefits, whichever is applicable,*
24 *which is attributable to such coverage and value*
25 *or coverage and benefits provided to employees—*

1 “(i) *who became participants as a re-*
2 *sult of a merger, acquisition, or similar*
3 *event which occurred during the 7-year pe-*
4 *riod preceding the date the class is closed, or*

5 “(ii) *who became participants by rea-*
6 *son of a merger of the plan with another*
7 *plan which had been in effect for at least 5*
8 *years as of the date of the merger,*

9 *shall be disregarded, except that clause (ii) shall*
10 *apply for purposes of subparagraph (D) only if,*
11 *under the merger, the benefits, rights, or features*
12 *under 1 plan are conformed to the benefits,*
13 *rights, or features of the other plan prospectively.*

14 “(G) *RULES RELATING TO AVERAGE BEN-*
15 *EFIT.—For purposes of subparagraph (E)—*

16 “(i) *the average benefit provided to*
17 *participants under the plan will be treated*
18 *as having remained the same between the 2*
19 *dates described in subparagraph (E)(ii) if*
20 *the benefit formula applicable to such par-*
21 *ticipants has not changed between such*
22 *dates, and*

23 “(ii) *if the benefit formula applicable*
24 *to 1 or more participants under the plan*
25 *has changed between such 2 dates, then the*

1 *average benefit under the plan shall be con-*
2 *sidered to have increased by more than 50*
3 *percent only if—*

4 “(I) *the total amount determined*
5 *under section 430(b)(1)(A)(i) for all*
6 *participants benefitting under the plan*
7 *for the plan year in which the 5-year*
8 *period described in subparagraph (E)*
9 *ends, exceeds*

10 “(II) *the total amount determined*
11 *under section 430(b)(1)(A)(i) for all*
12 *such participants for such plan year,*
13 *by using the benefit formula in effect*
14 *for each such participant for the first*
15 *plan year in such 5-year period, by*
16 *more than 50 percent.*

17 *In the case of a CSEC plan (as defined in*
18 *section 414(y)), the normal cost of the plan*
19 *(as determined under section 433(j)(1)(B))*
20 *shall be used in lieu of the amount deter-*
21 *mined under section 430(b)(1)(A)(i).*

22 “(H) *TREATMENT AS SINGLE PLAN.—For*
23 *purposes of subparagraphs (E) and (G), a plan*
24 *described in section 413(c) shall be treated as a*

1 *single plan rather than as separate plans main-*
2 *tained by each participating employer.*

3 “(I) *SPECIAL RULES.—For purposes of sub-*
4 *paragraphs (A)(i) and (B)(iii)(II), the following*
5 *rules shall apply:*

6 “(i) *In applying section 410(b)(6)(C),*
7 *the closing of the class of participants shall*
8 *not be treated as a significant change in*
9 *coverage under section 410(b)(6)(C)(i)(II).*

10 “(ii) *2 or more plans shall not fail to*
11 *be eligible to be aggregated and treated as*
12 *a single plan solely by reason of having dif-*
13 *ferent plan years.*

14 “(iii) *Changes in the employee popu-*
15 *lation shall be disregarded to the extent at-*
16 *tributable to individuals who become em-*
17 *ployees or cease to be employees, after the*
18 *date the class is closed, by reason of a merg-*
19 *er, acquisition, divestiture, or similar event.*

20 “(iv) *Aggregation and all other testing*
21 *methodologies otherwise applicable under*
22 *subsection (a)(4) and section 410(b) may be*
23 *taken into account.*

24 *The rule of clause (ii) shall also apply for pur-*
25 *poses of determining whether plans to which sub-*

1 *paragraph (B)(i) applies may be aggregated and*
2 *treated as 1 plan for purposes of determining*
3 *whether such plans meet the requirements of sub-*
4 *section (a)(4) and section 410(b).*

5 *“(J) SPUN-OFF PLANS.—For purposes of*
6 *this paragraph, if a portion of a defined benefit*
7 *plan described in subparagraph (A) or (B)(iii)*
8 *is spun off to another employer and the spun-off*
9 *plan continues to satisfy the requirements of—*

10 *“(i) subparagraph (A)(i) or*
11 *(B)(iii)(II), whichever is applicable, if the*
12 *original plan was still within the 3-year pe-*
13 *riod described in such subparagraph at the*
14 *time of the spin off, and*

15 *“(ii) subparagraph (A)(ii) or*
16 *(B)(iii)(III), whichever is applicable,*
17 *the treatment under subparagraph (A) or (B) of*
18 *the spun-off plan shall continue with respect to*
19 *such other employer.*

20 *“(2) TESTING OF DEFINED CONTRIBUTION*
21 *PLANS.—*

22 *“(A) TESTING ON A BENEFITS BASIS.—A*
23 *defined contribution plan shall be permitted to*
24 *be tested on a benefits basis if—*

1 “(i) such defined contribution plan
2 provides make-whole contributions to a
3 closed class of participants whose accruals
4 under a defined benefit plan have been re-
5 duced or eliminated,

6 “(ii) for the plan year of the defined
7 contribution plan as of which the class eli-
8 gible to receive such make-whole contribu-
9 tions closes and the 2 succeeding plan years,
10 such closed class of participants satisfies the
11 requirements of section 410(b)(2)(A)(i) (de-
12 termined by applying the rules of para-
13 graph (1)(I)),

14 “(iii) after the date as of which the
15 class was closed, any plan amendment to
16 the defined contribution plan which modi-
17 fies the closed class or the allocations, bene-
18 fits, rights, and features provided to such
19 closed class does not discriminate signifi-
20 cantly in favor of highly compensated em-
21 ployees, and

22 “(iv) the class was closed before April
23 5, 2017, or the defined benefit plan under
24 clause (i) is described in paragraph (1)(C)

1 *(as applied for purposes of paragraph*
2 *(1)(B)(iii)(IV)).*

3 *“(B) AGGREGATION WITH PLANS INCLUDING*
4 *MATCHING CONTRIBUTIONS.—*

5 *“(i) IN GENERAL.—With respect to 1*
6 *or more defined contribution plans de-*
7 *scribed in subparagraph (A), for purposes of*
8 *determining compliance with subsection*
9 *(a)(4) and section 410(b), the portion of*
10 *such plans which provides make-whole con-*
11 *tributions or other nonelective contributions*
12 *may be aggregated and tested on a benefits*
13 *basis with the portion of 1 or more other de-*
14 *defined contribution plans which—*

15 *“(I) provides matching contribu-*
16 *tions (as defined in subsection*
17 *(m)(4)(A)),*

18 *“(II) provides annuity contracts*
19 *described in section 403(b) which are*
20 *purchased with matching contributions*
21 *or nonelective contributions, or*

22 *“(III) consists of an employee*
23 *stock ownership plan (within the*
24 *meaning of section 4975(e)(7)) or a tax*

1 *credit employee stock ownership plan*
2 *(within the meaning of section 409(a)).*

3 “(ii) *SPECIAL RULES FOR MATCHING*
4 *CONTRIBUTIONS.—Rules similar to the rules*
5 *of paragraph (1)(B)(ii) shall apply for pur-*
6 *poses of clause (i).*

7 “(C) *SPECIAL RULES FOR TESTING DE-*
8 *FINED CONTRIBUTION PLAN FEATURES PRO-*
9 *VIDING MATCHING CONTRIBUTIONS TO CERTAIN*
10 *OLDER, LONGER SERVICE PARTICIPANTS.—In the*
11 *case of a defined contribution plan which pro-*
12 *vides benefits, rights, or features to a closed class*
13 *of participants whose accruals under a defined*
14 *benefit plan have been reduced or eliminated, the*
15 *plan shall not fail to satisfy the requirements of*
16 *subsection (a)(4) solely by reason of the composi-*
17 *tion of the closed class or the benefits, rights, or*
18 *features provided to such closed class if the de-*
19 *defined contribution plan and defined benefit plan*
20 *otherwise meet the requirements of subparagraph*
21 *(A) but for the fact that the make-whole con-*
22 *tributions under the defined contribution plan*
23 *are made in whole or in part through matching*
24 *contributions.*

1 “(D) *SPUN-OFF PLANS.*—For purposes of
2 this paragraph, if a portion of a defined con-
3 tribution plan described in subparagraph (A) or
4 (C) is spun off to another employer, the treat-
5 ment under subparagraph (A) or (C) of the
6 spun-off plan shall continue with respect to the
7 other employer if such plan continues to comply
8 with the requirements of clauses (ii) (if the origi-
9 nal plan was still within the 3-year period de-
10 scribed in such clause at the time of the spin off)
11 and (iii) of subparagraph (A), as determined for
12 purposes of subparagraph (A) or (C), whichever
13 is applicable.

14 “(3) *DEFINITIONS.*—For purposes of this sub-
15 section—

16 “(A) *MAKE-WHOLE CONTRIBUTIONS.*—Ex-
17 cept as otherwise provided in paragraph (2)(C),
18 the term ‘make-whole contributions’ means non-
19 elective allocations for each employee in the class
20 which are reasonably calculated, in a consistent
21 manner, to replace some or all of the retirement
22 benefits which the employee would have received
23 under the defined benefit plan and any other
24 plan or qualified cash or deferred arrangement
25 under subsection (k)(2) if no change had been

1 *made to such defined benefit plan and such other*
2 *plan or arrangement. For purposes of the pre-*
3 *ceding sentence, consistency shall not be required*
4 *with respect to employees who were subject to dif-*
5 *ferent benefit formulas under the defined benefit*
6 *plan.*

7 “(B) *REFERENCES TO CLOSED CLASS OF*
8 *PARTICIPANTS.—References to a closed class of*
9 *participants and similar references to a closed*
10 *class shall include arrangements under which 1*
11 *or more classes of participants are closed, except*
12 *that 1 or more classes of participants closed on*
13 *different dates shall not be aggregated for pur-*
14 *poses of determining the date any such class was*
15 *closed.*

16 “(C) *HIGHLY COMPENSATED EMPLOYEE.—*
17 *The term ‘highly compensated employee’ has the*
18 *meaning given such term in section 414(q).”.*

19 (b) *PARTICIPATION REQUIREMENTS.—Paragraph (26)*
20 *of section 401(a) is amended by adding at the end the fol-*
21 *lowing new subparagraph:*

22 “(I) *PROTECTED PARTICIPANTS.—*

23 “(i) *IN GENERAL.—A plan shall be*
24 *deemed to satisfy the requirements of sub-*
25 *paragraph (A) if—*

1 “(I) the plan is amended—

2 “(aa) to cease all benefit ac-
3 cruals, or

4 “(bb) to provide future ben-
5 efit accruals only to a closed class
6 of participants,

7 “(II) the plan satisfies subpara-
8 graph (A) (without regard to this sub-
9 paragraph) as of the effective date of
10 the amendment, and

11 “(III) the amendment was adopt-
12 ed before April 5, 2017, or the plan is
13 described in clause (ii).

14 “(ii) *PLANS DESCRIBED.*—A plan is
15 described in this clause if the plan would be
16 described in subsection (o)(1)(C), as applied
17 for purposes of subsection (o)(1)(B)(iii)(IV)
18 and by treating the effective date of the
19 amendment as the date the class was closed
20 for purposes of subsection (o)(1)(C).

21 “(iii) *SPECIAL RULES.*—For purposes
22 of clause (i)(II), in applying section
23 410(b)(6)(C), the amendments described in
24 clause (i) shall not be treated as a signifi-

1 *cant change in coverage under section*
2 *410(b)(6)(C)(i)(II).*

3 “(iv) *SPUN-OFF PLANS.*—*For purposes*
4 *of this subparagraph, if a portion of a plan*
5 *described in clause (i) is spun off to another*
6 *employer, the treatment under clause (i) of*
7 *the spun-off plan shall continue with respect*
8 *to the other employer.”.*

9 (c) *EFFECTIVE DATE.*—

10 (1) *IN GENERAL.*—*Except as provided in para-*
11 *graph (2), the amendments made by this section shall*
12 *take effect on the date of the enactment of this Act,*
13 *without regard to whether any plan modifications re-*
14 *ferred to in such amendments are adopted or effective*
15 *before, on, or after such date of enactment.*

16 (2) *SPECIAL RULES.*—

17 (A) *ELECTION OF EARLIER APPLICATION.*—
18 *At the election of the plan sponsor, the amend-*
19 *ments made by this section shall apply to plan*
20 *years beginning after December 31, 2013.*

21 (B) *CLOSED CLASSES OF PARTICIPANTS.*—

22 *For purposes of paragraphs (1)(A)(iii),*
23 *(1)(B)(iii)(IV), and (2)(A)(iv) of section 401(o)*
24 *of the Internal Revenue Code of 1986 (as added*
25 *by this section), a closed class of participants*

1 *shall be treated as being closed before April 5,*
2 *2017, if the plan sponsor's intention to create*
3 *such closed class is reflected in formal written*
4 *documents and communicated to participants be-*
5 *fore such date.*

6 (C) CERTAIN POST-ENACTMENT PLAN
7 AMENDMENTS.—*A plan shall not be treated as*
8 *failing to be eligible for the application of section*
9 *401(o)(1)(A), 401(o)(1)(B)(iii), or 401(a)(26) of*
10 *such Code (as added by this section) to such plan*
11 *solely because in the case of—*

12 (i) *such section 401(o)(1)(A), the plan*
13 *was amended before the date of the enact-*
14 *ment of this Act to eliminate 1 or more ben-*
15 *efits, rights, or features, and is further*
16 *amended after such date of enactment to*
17 *provide such previously eliminated benefits,*
18 *rights, or features to a closed class of par-*
19 *ticipants, or*

20 (ii) *such section 401(o)(1)(B)(iii) or*
21 *section 401(a)(26), the plan was amended*
22 *before the date of the enactment of this Act*
23 *to cease all benefit accruals, and is further*
24 *amended after such date of enactment to*
25 *provide benefit accruals to a closed class of*

1 *participants. Any such section shall only*
2 *apply if the plan otherwise meets the re-*
3 *quirements of such section and in applying*
4 *such section, the date the class of partici-*
5 *pants is closed shall be the effective date of*
6 *the later amendment.*

7 ***Subtitle G—Estate, Gift, and Gen-***
8 ***eration-skipping Transfer Taxes***

9 ***SEC. 1601. INCREASE IN CREDIT AGAINST ESTATE, GIFT,***
10 ***AND GENERATION-SKIPPING TRANSFER TAX.***

11 *(a) IN GENERAL.—Section 2010(c)(3) is amended by*
12 *striking “\$5,000,000” and inserting “\$10,000,000”.*

13 *(b) EFFECTIVE DATE.—The amendments made by this*
14 *section shall apply to estates of decedents dying, generation-*
15 *skipping transfers, and gifts made, after December 31,*
16 *2017.*

17 ***SEC. 1602. REPEAL OF ESTATE AND GENERATION-SKIPPING***
18 ***TRANSFER TAXES.***

19 *(a) ESTATE TAX REPEAL.—*

20 *(1) IN GENERAL.—Subchapter C of chapter 11 is*
21 *amended by adding at the end the following new sec-*
22 *tion:*

1 **“SEC. 2210. TERMINATION.**

2 “(a) *IN GENERAL.*—*Except as provided in subsection*
3 *(b), this chapter shall not apply to the estates of decedents*
4 *dying after December 31, 2024.*

5 “(b) *CERTAIN DISTRIBUTIONS FROM QUALIFIED DO-*
6 *MESTIC TRUSTS.*—*In applying section 2056A with respect*
7 *to the surviving spouse of a decedent dying on or before*
8 *December 31, 2024—*

9 “(1) *section 2056A(b)(1)(A) shall not apply to*
10 *distributions made after the 10-year period beginning*
11 *on such date, and*

12 “(2) *section 2056A(b)(1)(B) shall not apply after*
13 *such date.”.*

14 (2) *CONFORMING AMENDMENTS.*—*Section*
15 *1014(b) is amended—*

16 (A) *in paragraph (6), by striking “was in-*
17 *cludible in determining” and all that follows*
18 *through the end and inserting “was includible*
19 *(or would have been includible without regard to*
20 *section 2210) in determining the value of the de-*
21 *cedent’s gross estate under chapter 11 of subtitle*
22 *B” ,*

23 (B) *in paragraph (9), by striking “required*
24 *to be included” through “Code of 1939” and in-*
25 *serting “required to be included (or would have*
26 *been required to be included without regard to*

1 *section 2210) in determining the value of the de-*
2 *cedent's gross estate under chapter 11 of subtitle*
3 *B", and*

4 *(C) in paragraph (10), by striking "Prop-*
5 *erty includible in the gross estate" and inserting*
6 *"Property includible (or which would have been*
7 *includible without regard to section 2210) in the*
8 *gross estate".*

9 *(3) CLERICAL AMENDMENT.—The table of sec-*
10 *tions for subchapter C of chapter 11 is amended by*
11 *adding at the end the following new item:*

"Sec. 2210. Termination."

12 *(b) GENERATION-SKIPPING TRANSFER TAX REPEAL.—*
13 *(1) IN GENERAL.—Subchapter G of chapter 13 of*
14 *subtitle B of such Code is amended by adding at the*
15 *end the following new section:*

16 **"SEC. 2664. TERMINATION.**

17 *"This chapter shall not apply to generation-skipping*
18 *transfers after December 31, 2024."*

19 *(2) CLERICAL AMENDMENT.—The table of sec-*
20 *tions for subchapter G of chapter 13 of such Code is*
21 *amended by adding at the end the following new item:*

"Sec. 2664. Termination."

22 *(c) CONFORMING AMENDMENTS RELATED TO GIFT*
23 *TAX.—*

1 (1) *COMPUTATION OF GIFT TAX.*—Section 2502
 2 is amended by adding at the end the following new
 3 subsection:

4 “(d) *GIFTS MADE AFTER 2024.*—

5 “(1) *IN GENERAL.*—In the case of a gift made
 6 after December 31, 2024, subsection (a) shall be ap-
 7 plied by substituting ‘subsection (d)(2)’ for ‘section
 8 2001(c)’ and ‘such subsection’ for ‘such section’.

9 “(2) *RATE SCHEDULE.*—

“If the amount with respect to which the tentative tax to be computed is: The tentative tax is:

<i>Not over \$10,000</i>	<i>18% of such amount.</i>
<i>Over \$10,000 but not over \$20,000</i>	<i>\$1,800, plus 20% of the excess over \$10,000.</i>
<i>Over \$20,000 but not over \$40,000</i>	<i>\$3,800, plus 22% of the excess over \$20,000.</i>
<i>Over \$40,000 but not over \$60,000</i>	<i>\$8,200, plus 24% of the excess over \$40,000.</i>
<i>Over \$60,000 but not over \$80,000</i>	<i>\$13,000, plus 26% of the excess over \$60,000.</i>
<i>Over \$80,000 but not over \$100,000</i>	<i>\$18,200, plus 28% of the excess over \$80,000.</i>
<i>Over \$100,000 but not over \$150,000</i>	<i>\$23,800, plus 30% of the excess over \$100,000.</i>
<i>Over \$150,000 but not over \$250,000</i>	<i>\$38,800, plus 32% of the excess of \$150,000.</i>
<i>Over \$250,000 but not over \$500,000</i>	<i>\$70,800, plus 34% of the excess over \$250,000.</i>
<i>Over \$500,000</i>	<i>\$155,800, plus 35% of the excess of \$500,000.”.</i>

1 (2) *LIFETIME GIFT EXEMPTION*.—Section 2505
2 *is amended by adding at the end the following new*
3 *subsection:*

4 “(d) *GIFTS MADE AFTER 2024*.—

5 “(1) *IN GENERAL*.—In the case of a gift made
6 *after December 31, 2024, subsection (a)(1) shall be*
7 *applied by substituting ‘the amount of the tentative*
8 *tax which would be determined under the rate sched-*
9 *ule set forth in section 2502(a)(2) if the amount with*
10 *respect to which such tentative tax is to be computed*
11 *were \$10,000,000’ for ‘the applicable credit amount in*
12 *effect under section 2010(c) which would apply if the*
13 *donor died as of the end of the calendar year’.*

14 “(2) *INFLATION ADJUSTMENT*.—

15 “(A) *IN GENERAL*.—In the case of any cal-
16 *endar year after 2024, the dollar amount in sub-*
17 *section (a)(1) (after application of this sub-*
18 *section) shall be increased by an amount equal*
19 *to—*

20 “(i) *such dollar amount, multiplied by*

21 “(ii) *the cost-of-living adjustment de-*
22 *termined under section 1(c)(2)(A) of such*
23 *calendar year by substituting ‘calendar year*
24 *2011’ for ‘calendar year 2016’ in clause (ii)*
25 *thereof.*

1 “(B) *ROUNDING*.—If any amount as ad-
2 justed under paragraph (1) is not a multiple of
3 \$10,000, such amount shall be rounded to the
4 nearest multiple of \$10,000.”.

5 (3) *OTHER CONFORMING AMENDMENTS RELATED*
6 *TO GIFT TAX*.—Section 2801 is amended by adding at
7 the end the following new subsection:

8 “(g) *GIFTS RECEIVED AFTER 2024*.—In the case of a
9 gift received after December 31, 2024, subsection (a)(1) shall
10 be applied by substituting ‘section 2502(a)(2)’ for ‘section
11 2001(c) as in effect on the date of such receipt’.”.

12 (d) *EFFECTIVE DATE*.—The amendments made by this
13 section shall apply to estates of decedents dying, generation-
14 skipping transfers, and gifts made, after December 31,
15 2024.

16 ***TITLE II—ALTERNATIVE*** 17 ***MINIMUM TAX REPEAL***

18 ***SEC. 2001. REPEAL OF ALTERNATIVE MINIMUM TAX.***

19 (a) *IN GENERAL*.—Subchapter A of chapter 1 is
20 amended by striking part VI (and by striking the item re-
21 lating to such part in the table of parts for subchapter A).

22 (b) *CREDIT FOR PRIOR YEAR MINIMUM TAX LIABIL-*
23 *ITY*.—

24 (1) *LIMITATION*.—Subsection (c) of section 53 is
25 amended to read as follows:

1 “(c) *LIMITATION.*—*The credit allowable under sub-*
2 *section (a) shall not exceed the regular tax liability of the*
3 *taxpayer reduced by the sum of the credits allowed under*
4 *subparts A, B, and D.*”.

5 (2) *CREDITS TREATED AS REFUNDABLE.*—*Sec-*
6 *tion 53 is amended by adding at the end the following*
7 *new subsection:*

8 “(e) *PORTION OF CREDIT TREATED AS REFUND-*
9 *ABLE.*—

10 “(1) *IN GENERAL.*—*In the case of any taxable*
11 *year beginning in 2019, 2020, 2021, or 2022, the lim-*
12 *itation under subsection (c) shall be increased by the*
13 *AMT refundable credit amount for such year.*

14 “(2) *AMT REFUNDABLE CREDIT AMOUNT.*—*For*
15 *purposes of paragraph (1), the AMT refundable credit*
16 *amount is an amount equal to 50 percent (100 per-*
17 *cent in the case of a taxable year beginning in 2022)*
18 *of the excess (if any) of—*

19 “(A) *the minimum tax credit determined*
20 *under subsection (b) for the taxable year, over*

21 “(B) *the minimum tax credit allowed under*
22 *subsection (a) for such year (before the applica-*
23 *tion of this subsection for such year).*

24 “(3) *CREDIT REFUNDABLE.*—*For purposes of*
25 *this title (other than this section), the credit allowed*

1 *by reason of this subsection shall be treated as a cred-*
2 *it allowed under subpart C (and not this subpart).*

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 “sections*
20 *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 paragraph*
2 (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 the*
6 *taxable year shall not exceed the taxpayer’s regular tax li-*
7 *ability for the taxable year.”.*

8 (6) *Section 26(b)(2) is amended by striking sub-*
9 *paragraph (A).*

10 (7) *Section 26 is amended by striking subsection*
11 *(c).*

12 (8) *Section 38(c) is amended—*

13 *(A) by striking paragraphs (1) through (5),*

14 *(B) by redesignating paragraph (6) as*
15 *paragraph (2),*

16 *(C) by inserting before paragraph (2) (as so*
17 *redesignated) the following new paragraph:*

18 “(1) *IN GENERAL.—The credit allowed under*
19 *subsection (a) for any taxable year shall not exceed*
20 *the excess (if any) of—*

21 *“(A) the sum of—*

22 *“(i) so much of the regular tax liabil-*
23 *ity as does not exceed \$25,000, plus*

24 *“(ii) 75 percent of so much of the reg-*
25 *ular tax liability as exceeds \$25,000, over*

1 “(B) the sum of the credits allowable under
2 subparts A and B of this part.”, and

3 (D) by striking “subparagraph (B) of para-
4 graph (1)” each place it appears in paragraph
5 (2) (as so redesignated) and inserting “clauses
6 (i) and (ii) of paragraph (1)(A)”.

7 (9) Section 39(a) is amended—

8 (A) by striking “or the eligible small busi-
9 ness credits” in paragraph (3)(A), and

10 (B) by striking paragraph (4).

11 (10) Section 45D(g)(4)(B) is amended by strik-
12 ing “or for purposes of section 55”.

13 (11) Section 54(c)(1) is amended to read as fol-
14 lows:

15 “(1) regular tax liability (as defined in section
16 26(b)), over”.

17 (12) Section 54A(c)(1)(A) is amended to read as
18 follows:

19 “(A) regular tax liability (as defined in sec-
20 tion 26(b)), over”.

21 (13) Section 148(b)(3) is amended to read as fol-
22 lows:

23 “(3) TAX-EXEMPT BONDS NOT TREATED AS IN-
24 VESTMENT PROPERTY.—The term ‘investment prop-
25 erty’ does not include any tax-exempt bond.”.

1 (14) *Section 168(k)(2) is amended by striking*
2 *subparagraph (G).*

3 (15) *Section 168(k) is amended by striking para-*
4 *graph (4).*

5 (16) *Section 168(k)(5) is amended by striking*
6 *subparagraph (E).*

7 (17) *Section 168(m)(2)(B)(i) is amended by*
8 *striking “(determined without regard to paragraph*
9 *(4) thereof)”.*

10 (18) *Section 168(m)(2) is amended by striking*
11 *subparagraph (D).*

12 (19) *Section 173 is amended by striking sub-*
13 *section (b).*

14 (20) *Section 263(c) is amended by striking “sec-*
15 *tion 59(e) or 291” and inserting “section 291”.*

16 (21) *Section 263A(c) is amended by striking*
17 *paragraph (6) and by redesignating paragraph (7)*
18 *(as amended) as paragraph (6).*

19 (22) *Section 382(l) is amended by striking para-*
20 *graph (7) and by redesignating paragraph (8) as*
21 *paragraph (7).*

22 (23) *Section 443 is amended by striking sub-*
23 *section (d) and by redesignating subsection (e) as sub-*
24 *section (d).*

1 (24) *Section 616 is amended by striking sub-*
2 *section (e).*

3 (25) *Section 617 is amended by striking sub-*
4 *section (i).*

5 (26) *Section 641(c) is amended—*

6 *(A) in paragraph (2) by striking subpara-*
7 *graph (B) and by redesignating subparagraphs*
8 *(C) and (D) as subparagraphs (B) and (C), re-*
9 *spectively, and*

10 *(B) in paragraph (3), by striking “para-*
11 *graph (2)(C)” and inserting “paragraph*
12 *(2)(B)”.*

13 (27) *Subsections (b) and (c) of section 666 are*
14 *each amended by striking “(other than the tax im-*
15 *posed by section 55)”.*

16 (28) *Section 848 is amended by striking sub-*
17 *section (i).*

18 (29) *Section 860E(a) is amended by striking*
19 *paragraph (4).*

20 (30) *Section 871(b)(1) is amended by striking*
21 *“or 55”.*

22 (31) *Section 882(a)(1) is amended by striking*
23 *“55,”.*

24 (32) *Section 897(a) is amended to read as fol-*
25 *lows:*

1 “(a) *TREATMENT AS EFFECTIVELY CONNECTED WITH*
2 *UNITED STATES TRADE OR BUSINESS.*—For purposes of
3 *this title, gain or loss of a nonresident alien individual or*
4 *a foreign corporation from the disposition of a United*
5 *States real property interest shall be taken into account—*

6 “(1) *in the case of a nonresident alien indi-*
7 *vidual, under section 871(b)(1), or*

8 “(2) *in the case of a foreign corporation, under*
9 *section 882(a)(1),*

10 *as if the taxpayer were engaged in a trade or business with-*
11 *in the United States during the taxable year and as if such*
12 *gain or loss were effectively connected with such trade or*
13 *business.”.*

14 “(3) *Section 904(k) is amended to read as fol-*
15 *lows:*

16 “(k) *CROSS REFERENCE.*—For increase of limitation
17 *under subsection (a) for taxes paid with respect to amounts*
18 *received which were included in the gross income of the tax-*
19 *payer for a prior taxable year as a United States share-*
20 *holder with respect to a controlled foreign corporation, see*
21 *section 960(b).”.*

22 “(34) *Section 911(f) is amended to read as fol-*
23 *lows:*

24 “(f) *DETERMINATION OF TAX LIABILITY.*—

1 “(1) *IN GENERAL.*—If, for any taxable year, any
2 amount is excluded from gross income of a taxpayer
3 under subsection (a), then, notwithstanding section 1,
4 if such taxpayer has taxable income for such taxable
5 year, the tax imposed by section 1 for such taxable
6 year shall be equal to the excess (if any) of—

7 “(A) the tax which would be imposed by
8 section 1 for such taxable year if the taxpayer’s
9 taxable income were increased by the amount ex-
10 cluded under subsection (a) for such taxable
11 year, over

12 “(B) the tax which would be imposed by
13 section 1 for such taxable year if the taxpayer’s
14 taxable income were equal to the amount ex-
15 cluded under subsection (a) for such taxable
16 year.

17 For purposes of this paragraph, the amount excluded
18 under subsection (a) shall be reduced by the aggregate
19 amount of any deductions or exclusions disallowed
20 under subsection (d)(6) with respect to such excluded
21 amount.

22 “(2) *TREATMENT OF CAPITAL GAIN EXCESS.*—

23 “(A) *IN GENERAL.*—In applying section
24 1(h) for purposes of determining the tax under
25 paragraph (1)(A) for any taxable year in which,

1 *without regard to this subsection, the taxpayer's*
2 *net capital gain exceeds taxable income (here-*
3 *after in this subparagraph referred to as the cap-*
4 *ital gain excess)—*

5 *“(i) the taxpayer's net capital gain*
6 *(determined without regard to section*
7 *1(h)(11)) shall be reduced (but not below*
8 *zero) by such capital gain excess,*

9 *“(ii) the taxpayer's qualified dividend*
10 *income shall be reduced by so much of such*
11 *capital gain excess as exceeds the taxpayer's*
12 *net capital gain (determined without regard*
13 *to section 1(h)(11) and the reduction under*
14 *clause (i)), and*

15 *“(iii) adjusted net capital gain,*
16 *unrecaptured section 1250 gain, and 28-*
17 *percent rate gain shall each be determined*
18 *after increasing the amount described in*
19 *section 1(h)(4)(B) by such capital gain ex-*
20 *cess.*

21 *“(B) DEFINITIONS.—Terms used in this*
22 *paragraph which are also used in section 1(h)*
23 *shall have the respective meanings given such*
24 *terms by section 1(h).”.*

25 *(35) Section 962(a)(1) is amended—*

1 (A) by striking “sections 1 and 55” and in-
2 serting “section 1”, and

3 (B) by striking “sections 11 and 55” and
4 inserting “section 11”.

5 (36) Section 1016(a) is amended by striking
6 paragraph (20).

7 (37) Section 1202(a)(4) is amended by inserting
8 “and” at the end of subparagraph (A), by striking “,
9 and” and inserting a period at the end of subpara-
10 graph (B), and by striking subparagraph (C).

11 (38) Section 1374(b)(3)(B) is amended by strik-
12 ing the last sentence thereof.

13 (39) Section 1561(a) is amended—

14 (A) by inserting “and” at the end of para-
15 graph (1), by striking “, and” at the end of
16 paragraph (2) and inserting a period, and by
17 striking paragraph (3), and

18 (B) by striking the last sentence.

19 (40) Section 6015(d)(2)(B) is amended by strik-
20 ing “or 55”.

21 (41) Section 6211(b)(4)(A) is amended by
22 striking “, 168(k)(4)”.

23 (42) Section 6425(c)(1)(A) is amended to read as
24 follows:

1 “(A) the tax imposed under section 11 or
2 subchapter L of chapter 1, whichever is applica-
3 ble, over”.

4 (43) Section 6654(d)(2) is amended—

5 (A) in clause (i) of subparagraph (B), by
6 striking “, alternative minimum taxable in-
7 come,” and

8 (B) in clause (i) of subparagraph (C), by
9 striking “, alternative minimum taxable in-
10 come,”.

11 (44) Section 6655(e)(2)(B)(i) is amended by
12 striking “The taxable income and alternative min-
13 imum taxable income shall” and inserting “Taxable
14 income shall”.

15 (45) Section 6655(g)(1)(A) is amended by add-
16 ing “plus” at the end of clause (i), by striking clause
17 (ii), and by redesignating clause (iii) as clause (ii).

18 (46) Section 6662(e)(3)(C) is amended by strik-
19 ing “the regular tax (as defined in section 55(c))”
20 and inserting “the regular tax liability (as defined in
21 section 26(b))”.

22 (d) *EFFECTIVE DATES.*—

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

1 *tion shall apply to taxable years beginning after De-*
2 *cember 31, 2017.*

3 (2) *PRIOR ELECTIONS WITH RESPECT TO CER-*
4 *TAIN TAX PREFERENCES.—So much of the amend-*
5 *ment made by subsection (a) as relates to the repeal*
6 *of section 59(e) of the Internal Revenue Code of 1986*
7 *shall apply to amounts paid or incurred after Decem-*
8 *ber 31, 2017.*

9 (3) *TREATMENT OF NET OPERATING LOSS*
10 *CARRYBACKS.—For purposes of section 56(d) of the*
11 *Internal Revenue Code of 1986 (as in effect before its*
12 *repeal), the amount of any net operating loss which*
13 *may be carried back from a taxable year beginning*
14 *after December 31, 2017, to taxable years beginning*
15 *before January 1, 2018, shall be determined without*
16 *regard to any adjustments under section 56(d)(2)(A)*
17 *of such Code (as so in effect).*

18 ***TITLE III—BUSINESS TAX***
19 ***REFORM***
20 ***Subtitle A—Tax Rates***

21 ***SEC. 3001. REDUCTION IN CORPORATE TAX RATE.***

22 (a) *IN GENERAL.—Section 11(b) is amended to read*
23 *as follows:*

24 “(b) *AMOUNT OF TAX.—*

1 “(1) *IN GENERAL.*—*Except as otherwise provided*
2 *in this subsection, the amount of the tax imposed by*
3 *subsection (a) shall be 20 percent of taxable income.*

4 “(2) *SPECIAL RULE FOR PERSONAL SERVICE*
5 *CORPORATIONS.*—

6 “(A) *IN GENERAL.*—*In the case of a per-*
7 *sonal service corporation (as defined in section*
8 *448(d)(2)), the amount of the tax imposed by*
9 *subsection (a) shall be 25 percent of taxable in-*
10 *come.*

11 “(B) *REFERENCES TO CORPORATE RATE.*—
12 *Any reference to the rate imposed under this sec-*
13 *tion or to the highest rate in effect under this*
14 *section (or any similar reference) shall be deter-*
15 *mined without regard to the rate imposed with*
16 *respect to personal service corporations (as so de-*
17 *fin ed).’’.*

18 (b) *CONFORMING AMENDMENTS.*—

19 (1)(A) *Part I of subchapter P of chapter 1 is*
20 *amended by striking section 1201 (and by striking the*
21 *item relating to such section in the table of sections*
22 *for such part).*

23 (B) *Section 12 is amended by striking para-*
24 *graph (4).*

25 (C) *Section 527(b) is amended—*

1 *(i) by striking paragraph (2), and*

2 *(ii) by striking all that precedes “is hereby*
3 *imposed” and inserting:*

4 *“(b) TAX IMPOSED.—A tax”.*

5 *(D) Section 594(a) is amended by striking*
6 *“taxes imposed by section 11 or 1201(a)” and insert-*
7 *ing “tax imposed by section 11”.*

8 *(E) Section 691(c)(4) is amended by striking*
9 *“1201,”.*

10 *(F) Section 801(a) is amended—*

11 *(i) by striking paragraph (2), and*

12 *(ii) by striking all that precedes “is hereby*
13 *imposed” and inserting:*

14 *“(a) TAX IMPOSED.—A tax”.*

15 *(G) Section 831(e) is amended by striking para-*
16 *graph (1) and by redesignating paragraphs (2) and*
17 *(3) as paragraphs (1) and (2), respectively.*

18 *(H) Sections 832(c)(5) and 834(b)(1)(D) are*
19 *each amended by striking “sec. 1201 and following,”.*

20 *(I) Section 852(b)(3)(A) is amended by striking*
21 *“section 1201(a)” and inserting “section 11(b)(1)”.*

22 *(J) Section 857(b)(3) is amended—*

23 *(i) by striking subparagraph (A) and redes-*
24 *ignating subparagraphs (B) through (F) as sub-*
25 *paragraphs (A) through (E), respectively,*

1 (ii) in subparagraph (C), as so redesign-
2 nated—

3 (I) by striking “subparagraph (A)(ii)”
4 in clause (i) thereof and inserting “para-
5 graph (1)”,

6 (II) by striking “the tax imposed by
7 subparagraph (A)(ii)” in clauses (ii) and
8 (iv) thereof and inserting “the tax imposed
9 by paragraph (1) on undistributed capital
10 gain”,

11 (iii) in subparagraph (E), as so redesign-
12 nated, by striking “subparagraph (B) or (D)”
13 and inserting “subparagraph (A) or (C)”, and

14 (iv) by adding at the end the following new
15 subparagraph:

16 “(F) *UNDISTRIBUTED CAPITAL GAIN.*—For
17 purposes of this paragraph, the term ‘undistrib-
18 uted capital gain’ means the excess of the net
19 capital gain over the deduction for dividends
20 paid (as defined in section 561) determined with
21 reference to capital gain dividends only.”.

22 (K) Section 882(a)(1) is amended by striking “,
23 or 1201(a)”.

24 (L) Section 1374(b) is amended by striking
25 paragraph (4).

1 (M) Section 1381(b) is amended by striking
2 “taxes imposed by section 11 or 1201” and inserting
3 “tax imposed by section 11”.

4 (N) Section 6655(g)(1)(A)(i) is amended by
5 striking “or 1201(a),”.

6 (O) Section 7518(g)(6)(A) is amended by strik-
7 ing “or 1201(a)”.

8 (2) Section 1445(e)(1) is amended by striking
9 “35 percent (or, to the extent provided in regulations,
10 20 percent)” and inserting “20 percent”.

11 (3) Section 1445(e)(2) is amended by striking
12 “35 percent” and inserting “20 percent”.

13 (4) Section 1445(e)(6) is amended by striking
14 “35 percent (or, to the extent provided in regulations,
15 20 percent)” and inserting “20 percent”.

16 (5)(A) Part I of subchapter B of chapter 5 is
17 amended by striking section 1551 (and by striking the
18 item relating to such section in the table of sections
19 for such part).

20 (B) Section 12 is amended by striking para-
21 graph (6).

22 (C) Section 535(c)(5) is amended to read as fol-
23 lows:

1 “(5) *CROSS REFERENCE.*—*For limitation on*
2 *credit provided in paragraph (2) or (3) in the case*
3 *of certain controlled corporations, see section 1561.*”.

4 (6)(A) *Section 1561, as amended by the pre-*
5 *ceding provisions of this Act, is amended to read as*
6 *follows:*

7 **“SEC. 1561. LIMITATION ON ACCUMULATED EARNINGS**
8 **CREDIT IN THE CASE OF CERTAIN CON-**
9 **TROLLED CORPORATIONS.**

10 “(a) *IN GENERAL.*—*The component members of a con-*
11 *trolled group of corporations on a December 31 shall, for*
12 *their taxable years which include such December 31, be lim-*
13 *ited for purposes of this subtitle to one \$250,000 (\$150,000*
14 *if any component member is a corporation described in sec-*
15 *tion 535(c)(2)(B)) amount for purposes of computing the*
16 *accumulated earnings credit under section 535(c)(2) and*
17 *(3). Such amount shall be divided equally among the com-*
18 *ponent members of such group on such December 31 unless*
19 *the Secretary prescribes regulations permitting an unequal*
20 *allocation of such amount.*

21 “(b) *CERTAIN SHORT TAXABLE YEARS.*—*If a corpora-*
22 *tion has a short taxable year which does not include a De-*
23 *cember 31 and is a component member of a controlled group*
24 *of corporations with respect to such taxable year, then for*
25 *purposes of this subtitle, the amount to be used in com-*

1 *puting the accumulated earnings credit under section*
2 *535(c)(2) and (3) of such corporation for such taxable year*
3 *shall be the amount specified in subsection (a) with respect*
4 *to such group, divided by the number of corporations which*
5 *are component members of such group on the last day of*
6 *such taxable year. For purposes of the preceding sentence,*
7 *section 1563(b) shall be applied as if such last day were*
8 *substituted for December 31.”.*

9 *(B) The table of sections for part II of sub-*
10 *chapter B of chapter 5 is amended by striking the*
11 *item relating to section 1561 and inserting the fol-*
12 *lowing new item:*

“Sec. 1561. Limitation on accumulated earnings credit in the case of certain con-
trolled corporations.”.

13 *(7) Section 7518(g)(6)(A) is amended—*

14 *(A) by striking “With respect to the por-*
15 *tion” and inserting “In the case of a taxpayer*
16 *other than a corporation, with respect to the por-*
17 *tion”, and*

18 *(B) by striking “(34 percent in the case of*
19 *a corporation)”.*

20 *(c) REDUCTION IN DIVIDEND RECEIVED DEDUCTIONS*
21 *TO REFLECT LOWER CORPORATE INCOME TAX RATES.—*

22 *(1) DIVIDENDS RECEIVED BY CORPORATIONS.—*

1 (A) *IN GENERAL*.—Section 243(a)(1) is
2 amended by striking “70 percent” and inserting
3 “50 percent”.

4 (B) *DIVIDENDS FROM 20-PERCENT OWNED*
5 *CORPORATIONS*.—Section 243(c)(1) is amend-
6 ed—

7 (i) by striking “80 percent” and in-
8 serting “65 percent”, and

9 (ii) by striking “70 percent” and in-
10 serting “50 percent”.

11 (C) *CONFORMING AMENDMENT*.—The head-
12 ing for section 243(c) is amended by striking
13 “*RETENTION OF 80-PERCENT DIVIDEND RE-*
14 *CEIVED DEDUCTION*” and inserting “*INCREASED*
15 *PERCENTAGE*”.

16 (2) *DIVIDENDS RECEIVED FROM FSC*.—Section
17 245(c)(1)(B) 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 (3) *LIMITATION ON AGGREGATE AMOUNT OF DE-*
23 *DUCTIONS*.—Section 246(b)(3) is amended—

24 (A) by striking “80 percent” in subpara-
25 graph (A) and inserting “65 percent”, and

1 (B) by striking “70 percent” in subpara-
2 graph (B) and inserting “50 percent”.

3 (4) *REDUCTION IN DEDUCTION WHERE PORT-*
4 *FOLIO STOCK IS DEBT-FINANCED.*—Section
5 246A(a)(1) is amended—

6 (A) by striking “70 percent” and inserting
7 “50 percent”, and

8 (B) by striking “80 percent” and inserting
9 “65 percent”.

10 (5) *INCOME FROM SOURCES WITHIN THE UNITED*
11 *STATES.*—Section 861(a)(2) is amended—

12 (A) by striking “100/70th” and inserting
13 “100/50th” in subparagraph (B), and

14 (B) in the flush sentence at the end—

15 (i) by striking “100/80th” and insert-
16 ing “100/65th”, and

17 (ii) by striking “100/70th” and insert-
18 ing “100/50th”.

19 (d) *EFFECTIVE DATE.*—

20 (1) *IN GENERAL.*—Except as otherwise provided
21 in this subsection, the amendments made by this sec-
22 tion shall apply to taxable years beginning after De-
23 cember 31, 2017.

24 (2) *CERTAIN CONFORMING AMENDMENTS.*—The
25 amendments made by paragraphs (2), (3), and (4) of

1 *subsection (b) shall apply to distributions after De-*
2 *cember 31, 2017.*

3 *(e) NORMALIZATION REQUIREMENTS.—*

4 *(1) IN GENERAL.—A normalization method of*
5 *accounting shall not be treated as being used with re-*
6 *spect to any public utility property for purposes of*
7 *section 167 or 168 of the Internal Revenue Code of*
8 *1986 if the taxpayer, in computing its cost of service*
9 *for ratemaking purposes and reflecting operating re-*
10 *sults in its regulated books of account, reduces the ex-*
11 *cess tax reserve more rapidly or to a greater extent*
12 *than such reserve would be reduced under the average*
13 *rate assumption method.*

14 *(2) ALTERNATIVE METHOD FOR CERTAIN TAX-*
15 *PAYERS.—If, as of the first day of the taxable year*
16 *that includes the date of enactment of this Act—*

17 *(A) the taxpayer was required by a regu-*
18 *latory agency to compute depreciation for public*
19 *utility property on the basis of an average life*
20 *or composite rate method, and*

21 *(B) the taxpayer's books and underlying*
22 *records did not contain the vintage account data*
23 *necessary to apply the average rate assumption*
24 *method,*

1 *the taxpayer will be treated as using a normalization*
2 *method of accounting if, with respect to such jurisdic-*
3 *tion, the taxpayer uses the alternative method for*
4 *public utility property that is subject to the regu-*
5 *latory authority of that jurisdiction.*

6 (3) *DEFINITIONS.—For purposes of this sub-*
7 *section—*

8 (A) *EXCESS TAX RESERVE.—The term “ex-*
9 *cess tax reserve” means the excess of—*

10 (i) *the reserve for deferred taxes (as de-*
11 *scribed in section 168(i)(9)(A)(ii) of the In-*
12 *ternal Revenue Code of 1986 as in effect on*
13 *the day before the date of the enactment of*
14 *this Act), over*

15 (ii) *the amount which would be the*
16 *balance in such reserve if the amount of*
17 *such reserve were determined by assuming*
18 *that the corporate rate reductions provided*
19 *in this Act were in effect for all prior peri-*
20 *ods.*

21 (B) *AVERAGE RATE ASSUMPTION METH-*
22 *OD.—The average rate assumption method is the*
23 *method under which the excess in the reserve for*
24 *deferred taxes is reduced over the remaining lives*
25 *of the property as used in its regulated books of*

1 *account which gave rise to the reserve for de-*
2 *ferred taxes. Under such method, if timing dif-*
3 *ferences for the property reverse, the amount of*
4 *the adjustment to the reserve for the deferred*
5 *taxes is calculated by multiplying—*

6 *(i) the ratio of the aggregate deferred*
7 *taxes for the property to the aggregate tim-*
8 *ing differences for the property as of the be-*
9 *ginning of the period in question, by*

10 *(ii) the amount of the timing dif-*
11 *ferences which reverse during such period.*

12 (C) *ALTERNATIVE METHOD.—The “alter-*
13 *native method” is the method in which the tax-*
14 *payer—*

15 *(i) computes the excess tax reserve on*
16 *all public utility property included in the*
17 *plant account on the basis of the weighted*
18 *average life or composite rate used to com-*
19 *pute depreciation for regulatory purposes,*
20 *and*

21 *(ii) reduces the excess tax reserve rat-*
22 *ably over the remaining regulatory life of*
23 *the property.*

24 (4) *TAX INCREASED FOR NORMALIZATION VIOLA-*
25 *TION.—If, for any taxable year ending after the date*

1 of the enactment of this Act, the taxpayer does not use
2 a normalization method of accounting, the taxpayer's
3 tax for the taxable year shall be increased by the
4 amount by which it reduces its excess tax reserve
5 more rapidly than permitted under a normalization
6 method of accounting.

7 ***Subtitle B—Cost Recovery***

8 ***SEC. 3101. INCREASED EXPENSING.***

9 (a) *100 PERCENT EXPENSING.*—Section 168(k)(1)(A)
10 is amended by striking “50 percent” and inserting “100
11 percent”.

12 (b) *EXTENSION THROUGH JANUARY 1, 2023.*—Section
13 168(k)(2) is amended—

14 (1) in subparagraph (A)(iii), by striking “Janu-
15 ary 1, 2020” and inserting “January 1, 2023”,

16 (2) in subparagraph (B)(i)(II), by striking
17 “January 1, 2021” and inserting “January 1, 2024”,

18 (3) in subparagraph (B)(i)(III), by striking
19 “January 1, 2020” and inserting “January 1, 2023”,

20 (4) in subparagraph (B)(ii), by striking “Janu-
21 ary 1, 2020” in each place it appears and inserting
22 “January 1, 2023”, and

23 (5) in subparagraph (E)(i), by striking “Janu-
24 ary 1, 2020” and replacing it with “January 1,
25 2023”.

1 (c) *APPLICATION TO USED PROPERTY.*—

2 (1) *IN GENERAL.*—Section 168(k)(2)(A)(ii) is
3 amended to read as follows:

4 “(ii) the original use of which begins
5 with the taxpayer or the acquisition of
6 which by the taxpayer meets the require-
7 ments of clause (ii) of subparagraph (E),
8 and”.

9 (2) *ACQUISITION REQUIREMENTS.*—Section
10 168(k)(2)(E)(ii) is amended to read as follows:

11 “(ii) *ACQUISITION REQUIREMENTS.*—
12 An acquisition of property meets the re-
13 quirements of this clause if—

14 “(I) such property was not used
15 by the taxpayer at any time prior to
16 such acquisition, and

17 “(II) the acquisition of such prop-
18 erty meets the requirements of para-
19 graphs (2)(A), (2)(B), (2)(C), and (3)
20 of section 179(d).”,

21 (3) *ANTI-ABUSE RULES.*—Section 168(k)(2)(E)
22 is further amended by amending clause (iii)(I) to
23 read as follows:

1 “(I) *property is used by a lessor*
2 *of such property and such use is the*
3 *lessor’s first use of such property,*”.

4 (d) *EXCEPTION FOR CERTAIN TRADES AND BUSI-*
5 *NESSES NOT SUBJECT TO LIMITATION ON INTEREST EX-*
6 *PENSE.*—Section 168(k)(2), as amended by section 2001, is
7 *amended by inserting after subparagraph (F) the following*
8 *new subparagraph:*

9 “(G) *EXCEPTION FOR PROPERTY OF CER-*
10 *TAIN BUSINESSES NOT SUBJECT TO LIMITATION*
11 *ON INTEREST EXPENSE.*—The term ‘*qualified*
12 *property*’ shall not include any property used
13 *in—*

14 “(i) *a trade or business described in*
15 *subparagraph (B) or (C) of section*
16 *163(j)(7), or*

17 “(ii) *a trade or business that has had*
18 *floor plan financing indebtedness (as de-*
19 *finied in paragraph (9) of section 163(j)), if*
20 *the floor plan financing interest related to*
21 *such indebtedness was taken into account*
22 *under paragraph (1)(C) of such section.*”.

23 (e) *COORDINATION WITH SECTION 280F.*—Section
24 *168(k)(2)(F) is amended—*

1 (1) by striking “\$8,000” in clauses (i) and (iii)
2 and inserting “\$16,000”, and

3 (2) in clause (iii)—

4 (A) by striking “placed in service by the
5 taxpayer after December 31, 2017” and inserting
6 “acquired by the taxpayer before September 28,
7 2017, and placed in service by the taxpayer after
8 September 27, 2017”, and

9 (B) by redesignating subclauses (I) and (II)
10 as subclauses (II) and (III) respectively, and in-
11 serting before clause (II), as so redesignated, the
12 following new subclause:

13 “(I) in the case of a passenger
14 automobile placed in service before
15 January 1, 2018, ‘\$8,000’.”.

16 (f) CONFORMING AMENDMENTS.—

17 (1) Section 168(k)(2)(B)(i)(III), as amended, is
18 amended by inserting “binding” before “contract”.

19 (2) Section 168(k)(5) is amended by—

20 (A) by striking “January 1, 2020” in sub-
21 paragraph (A) and inserting “January 1,
22 2023”,

23 (B) by striking “50 percent” in subpara-
24 graph (A)(i) and inserting “100 percent”, and

25 (C) by striking subparagraph (F).

1 (3) *Section 168(k)(6) is amended to read as fol-*
2 *lows:*

3 “(6) *PHASE DOWN.—In the case of qualified*
4 *property acquired by the taxpayer before September*
5 *28, 2017, and placed in service by the taxpayer after*
6 *September 27, 2017, paragraph (1)(A) shall be ap-*
7 *plied by substituting for ‘100 percent’—*

8 “(A) *‘50 percent’ in the case of—*

9 “(i) *property placed in service before*
10 *January 1, 2018, and*

11 “(ii) *property described in subpara-*
12 *graph (B) or (C) of paragraph (2) which is*
13 *placed in service in 2018,*

14 “(B) *‘40 percent’ in the case of—*

15 “(i) *property placed in service in 2018*
16 *(other than property described in subpara-*
17 *graph (B) or (C) of paragraph (2)), and*

18 “(ii) *property described in subpara-*
19 *graph (B) or (C) of paragraph (2) which is*
20 *placed in service in 2019, and*

21 “(C) *‘30 percent’ in the case of—*

22 “(i) *property placed in service in 2019*
23 *(other than property described in subpara-*
24 *graph (B) or (C) of paragraph (2)), and*

1 “(ii) property described in subpara-
2 graph (B) or (C) of paragraph (2) which is
3 placed in service in 2020.”.

4 (4) The heading of section 168(k) is amended by
5 striking “SPECIAL ALLOWANCE FOR CERTAIN PROP-
6 PERTY ACQUIRED AFTER DECEMBER 31, 2007, AND
7 BEFORE JANUARY 1, 2020” and inserting “FULL EX-
8 PENSING OF CERTAIN PROPERTY”.

9 (5) Section 460(c)(6)(B)(ii) is amended by strik-
10 ing “January 1, 2020 (January 1, 2021 in the case
11 of property described in section 168(k)(2)(B))” and
12 inserting “January 1, 2023 (January 1, 2024 in the
13 case of property described in section 168(k)(2)(B))”.

14 (g) EFFECTIVE DATE.—

15 (1) IN GENERAL.—Except as provided by para-
16 graph (2), the amendments made by this section shall
17 apply to property which—

18 (A) is acquired after September 27, 2017,

19 and

20 (B) is placed in service after such date.

21 For purposes of the preceding sentence, property shall
22 not be treated as acquired after the date on which a
23 written binding contract is entered into for such ac-
24 quisition.

1 (2) *SPECIFIED PLANTS.*—*The amendments made*
2 *by subsection (f)(2) shall apply to specified plants*
3 *planted or grafted after September 27, 2017.*

4 (3) *TRANSITION RULE.*—*In the case of any tax-*
5 *payer's first taxable year ending after September 27,*
6 *2017, the taxpayer may elect (at such time and in*
7 *such form and manner as the Secretary of the Treas-*
8 *ury, or his designee, may provide) to apply section*
9 *168 of the Internal Revenue Code of 1986 without re-*
10 *gard to the amendments made by this section.*

11 (4) *LIMITATION ON NET OPERATING LOSS*
12 *CARRYBACKS ATTRIBUTABLE TO FULL EXPENSING.*—
13 *In the case of any taxable year which includes any*
14 *portion of the period beginning on September 28,*
15 *2017, and ending on December 31, 2017, the amount*
16 *of any net operating loss for such taxable year which*
17 *may be treated as a net operating loss carryback (in-*
18 *cluding any such carryback attributable to any speci-*
19 *fied liability loss under section 172(b)(1)(C), any cor-*
20 *porate equity reduction interest loss under section*
21 *172(b)(1)(D), any eligible loss under section*
22 *172(b)(1)(E), and any farming loss under section*
23 *172(b)(1)(F)) shall be determined without regard to*
24 *the amendments made by this section. For purposes*
25 *of this paragraph, terms which are used in section*

1 172 of the Internal Revenue Code of 1986 (determined
2 without regard to the amendments made by section
3 3302) shall have the same meaning as when used in
4 such section.

5 ***Subtitle C—Small Business Reforms***

6 ***SEC. 3201. EXPANSION OF SECTION 179 EXPENSING.***

7 ***(a) INCREASED DOLLAR LIMITATIONS.—***

8 ***(1) IN GENERAL.—****Section 179(b) is amended—*

9 ***(A)*** *by inserting “(\$5,000,000, in the case of*
10 *taxable years beginning before January 1,*
11 *2023)” after “\$500,000” in paragraph (1), and*

12 ***(B)*** *by inserting “(\$20,000,000, in the case*
13 *of taxable years beginning before January 1,*
14 *2023)” after “\$2,000,000” in paragraph (2).*

15 ***(2) INFLATION ADJUSTMENT.—****Section 179(b)(6)*
16 *is amended to read as follows:*

17 ***“(6) INFLATION ADJUSTMENT.—***

18 ***“(A) IN GENERAL.—****In the case of a taxable*
19 *year beginning after 2015 (2018 in the case of*
20 *the \$5,000,000 and \$20,000,000 amounts in sub-*
21 *section (b)), each dollar amount in subsection (b)*
22 *shall be increased by an amount equal to such*
23 *dollar amount multiplied by—*

24 ***“(i)*** *in the case of the \$500,000 and*
25 *\$2,000,000 amounts in subsection (b), the*

1 *cost-of-living adjustment determined under*
2 *section 1(c)(2) for the calendar year in*
3 *which the taxable year begins, determined*
4 *by substituting ‘calendar year 2014’ for*
5 *‘calendar year 2016’ in subparagraph*
6 *(A)(ii) thereof, and*

7 *“(ii) in the case of the \$5,000,000 and*
8 *\$20,000,000 amounts in subsection (b), the*
9 *cost-of-living adjustment determined under*
10 *section 1(c)(2) for the calendar year in*
11 *which the taxable year begins, determined*
12 *by substituting ‘calendar year 2017’ for*
13 *‘calendar year 2016’ in subparagraph*
14 *(A)(ii) thereof.*

15 *“(B) ROUNDING.—The amount of any in-*
16 *crease under subparagraph (A) shall be rounded*
17 *to the nearest multiple of \$10,000 (\$100,000 in*
18 *the case of the \$5,000,000 and \$20,000,000*
19 *amounts in subsection (b)).”.*

20 *(b) APPLICATION TO QUALIFIED ENERGY EFFICIENT*
21 *HEATING AND AIR-CONDITIONING PROPERTY.—*

22 *(1) IN GENERAL.—Section 179(f)(2) is amended*
23 *by striking “and” at the end of subparagraph (B), by*
24 *striking the period at the end of subparagraph (C)*

1 *and inserting “, and”, and by adding at the end the*
2 *following new subparagraph:*

3 *“(D) qualified energy efficient heating and*
4 *air-conditioning property.”.*

5 *(2) QUALIFIED ENERGY EFFICIENT HEATING AND*
6 *AIR-CONDITIONING PROPERTY.—Section 179(f) is*
7 *amended by adding at the end the following new*
8 *paragraph:*

9 *“(3) QUALIFIED ENERGY EFFICIENT HEATING*
10 *AND AIR-CONDITIONING PROPERTY.—For purposes of*
11 *this subsection—*

12 *“(A) IN GENERAL.—The term ‘qualified en-*
13 *ergy efficient heating and air-conditioning prop-*
14 *erty’ means any section 1250 property—*

15 *“(i) with respect to which depreciation*
16 *(or amortization in lieu of depreciation) is*
17 *allowable,*

18 *“(ii) which is installed as part of a*
19 *building’s heating, cooling, ventilation, or*
20 *hot water system, and*

21 *“(iii) which is within the scope of*
22 *Standard 90.1–2007 or any successor stand-*
23 *ard.*

24 *“(B) STANDARD 90.1–2007.—The term*
25 *‘Standard 90.1–2007’ means Standard 90.1–*

1 *2007 of the American Society of Heating, Refriger-*
2 *ating and Air-Conditioning Engineers and the*
3 *Illuminating Engineering Society of North*
4 *America (as in effect on the day before the date*
5 *of the adoption of Standard 90.1–2010 of such*
6 *Societies).”.*

7 *(c) EFFECTIVE DATE.—*

8 *(1) INCREASED DOLLAR LIMITATIONS.—The*
9 *amendments made by subsection (a) shall apply to*
10 *taxable years beginning after December 31, 2017.*

11 *(2) APPLICATION TO QUALIFIED ENERGY EFFI-*
12 *CIENT HEATING AND AIR-CONDITIONING PROPERTY.—*
13 *The amendments made by subsection (b) shall apply*
14 *to property acquired and placed in service after No-*
15 *vember 2, 2017. For purposes of the preceding sen-*
16 *tence, property shall not be treated as acquired after*
17 *the date on which a written binding contract is en-*
18 *tered into for such acquisition.*

19 **SEC. 3202. SMALL BUSINESS ACCOUNTING METHOD RE-**
20 **FORM AND SIMPLIFICATION.**

21 *(a) MODIFICATION OF LIMITATION ON CASH METHOD*
22 *OF ACCOUNTING.—*

23 *(1) INCREASED LIMITATION.—So much of section*
24 *448(c) as precedes paragraph (2) is amended to read*
25 *as follows:*

1 “(c) *GROSS RECEIPTS TEST.*—For purposes of this
2 *section*—

3 “(1) *IN GENERAL.*—A corporation or partnership
4 *meets the gross receipts test of this subsection for any*
5 *taxable year if the average annual gross receipts of*
6 *such entity for the 3-taxable-year period ending with*
7 *the taxable year which precedes such taxable year does*
8 *not exceed \$25,000,000.”.*

9 “(2) *APPLICATION OF EXCEPTION ON ANNUAL*
10 *BASIS.*—Section 448(b)(3) is amended to read as fol-
11 *lows:*

12 “(3) *ENTITIES WHICH MEET GROSS RECEIPTS*
13 *TEST.*—Paragraphs (1) and (2) of subsection (a) shall
14 *not apply to any corporation or partnership for any*
15 *taxable year if such entity (or any predecessor) meets*
16 *the gross receipts test of subsection (c) for such taxable*
17 *year.”.*

18 “(3) *INFLATION ADJUSTMENT.*—Section 448(c) is
19 *amended by adding at the end the following new*
20 *paragraph:*

21 “(4) *ADJUSTMENT FOR INFLATION.*—In the case
22 *of any taxable year beginning after December 31,*
23 *2018, the dollar amount in paragraph (1) shall be in-*
24 *creased by an amount equal to—*

25 “(A) *such dollar amount, multiplied by*

1 “(B) the cost-of-living adjustment deter-
2 mined under section 1(c)(2) for the calendar
3 year in which the taxable year begins, by sub-
4 stituting ‘calendar year 2017’ for ‘calendar year
5 2016’ in subparagraph (A)(ii) thereof.

6 If any amount as increased under the preceding sen-
7 tence is not a multiple of \$1,000,000, such amount
8 shall be rounded to the nearest multiple of
9 \$1,000,000.”.

10 (4) COORDINATION WITH SECTION 481.—Section
11 448(d)(7) is amended to read as follows:

12 “(7) COORDINATION WITH SECTION 481.—Any
13 change in method of accounting made pursuant to
14 this section shall be treated for purposes of section 481
15 as initiated by the taxpayer and made with the con-
16 sent of the Secretary.”.

17 (5) APPLICATION OF EXCEPTION TO CORPORA-
18 TIONS ENGAGED IN FARMING.—

19 (A) IN GENERAL.—Section 447(c) is amend-
20 ed—

21 (i) by inserting “for any taxable year”
22 after “not being a corporation” in the mat-
23 ter preceding paragraph (1), and

24 (ii) by amending paragraph (2) to
25 read as follows:

1 “(2) a corporation which meets the gross receipts
2 test of section 448(c) for such taxable year.”.

3 (B) COORDINATION WITH SECTION 481.—

4 Section 447(f) is amended to read as follows:

5 “(f) COORDINATION WITH SECTION 481.—Any change
6 in method of accounting made pursuant to this section shall
7 be treated for purposes of section 481 as initiated by the
8 taxpayer and made with the consent of the Secretary.”.

9 (C) CONFORMING AMENDMENTS.—Section
10 447 is amended—

11 (i) by striking subsections (d), (e), (h),
12 and (i), and

13 (ii) by redesignating subsections (f)
14 and (g) (as amended by subparagraph (B))
15 as subsections (d) and (e), respectively.

16 (b) EXEMPTION FROM UNICAP REQUIREMENTS.—

17 (1) IN GENERAL.—Section 263A is amended by
18 redesignating subsection (i) as subsection (j) and by
19 inserting after subsection (h) the following new sub-
20 section:

21 “(i) EXEMPTION FOR CERTAIN SMALL BUSINESSES.—

22 “(1) IN GENERAL.—In the case of any taxpayer
23 (other than a tax shelter prohibited from using the
24 cash receipts and disbursements method of accounting
25 under section 448(a)(3)) which meets the gross re-

1 *ceipts test of section 448(c) for any taxable year, this*
2 *section shall not apply with respect to such taxpayer*
3 *for such taxable year.*

4 “(2) *APPLICATION OF GROSS RECEIPTS TEST TO*
5 *INDIVIDUALS, ETC.— In the case of any taxpayer*
6 *which is not a corporation or a partnership, the gross*
7 *receipts test of section 448(c) shall be applied in the*
8 *same manner as if each trade or business of such tax-*
9 *payer were a corporation or partnership.*

10 “(3) *COORDINATION WITH SECTION 481.—Any*
11 *change in method of accounting made pursuant to*
12 *this subsection shall be treated for purposes of section*
13 *481 as initiated by the taxpayer and made with the*
14 *consent of the Secretary.”.*

15 (2) *CONFORMING AMENDMENT.—Section*
16 *263A(b)(2) is amended to read as follows:*

17 “(2) *PROPERTY ACQUIRED FOR RESALE.—Real*
18 *or personal property described in section 1221(a)(1)*
19 *which is acquired by the taxpayer for resale.”.*

20 (c) *EXEMPTION FROM INVENTORIES.—Section 471 is*
21 *amended by redesignating subsection (c) as subsection (d)*
22 *and by inserting after subsection (b) the following new sub-*
23 *section:*

24 “(c) *EXEMPTION FOR CERTAIN SMALL BUSINESSES.—*

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 accounting*
4 *under section 448(a)(3)) which meets the gross re-*
5 *ceipts 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, and*

8 “(B) *the taxpayer’s method of accounting*
9 *for inventory for such taxable year shall not be*
10 *treated as failing to clearly reflect income if such*
11 *method either—*

12 “(i) *treats inventory as non-incidental*
13 *materials and supplies, or*

14 “(ii) *conforms to such taxpayer’s meth-*
15 *od of accounting reflected in an applicable*
16 *financial statement of the taxpayer with re-*
17 *spect to such taxable year or, if the tax-*
18 *payer does not have any applicable finan-*
19 *cial statement with respect to such taxable*
20 *year, the books and records of the taxpayer*
21 *prepared in accordance with the taxpayer’s*
22 *accounting procedures.*

23 “(2) *APPLICABLE FINANCIAL STATEMENT.*—*For*
24 *purposes of this subsection, the term ‘applicable fi-*
25 *nancial statement’ means—*

1 “(A) a financial statement which is cer-
2 tified as being prepared in accordance with gen-
3 erally accepted accounting principles and which
4 is—

5 “(i) a 10-K (or successor form), or an-
6 nual statement to shareholders, required to
7 be filed by the taxpayer with the United
8 States Securities and Exchange Commis-
9 sion,

10 “(ii) an audited financial statement of
11 the taxpayer which is used for—

12 “(I) credit purposes,

13 “(II) reporting to shareholders,
14 partners, or other proprietors, or to
15 beneficiaries, or

16 “(III) any other substantial
17 nontax purpose,
18 but only if there is no statement of the tax-
19 payer described in clause (i), or

20 “(iii) filed by the taxpayer with any
21 other Federal or State agency for nontax
22 purposes, but only if there is no statement
23 of the taxpayer described in clause (i) or
24 (ii), or

1 “(B) a financial statement of the taxpayer
2 which—

3 “(i) is used for a purpose described in
4 subclause (I), (II), or (III) of subparagraph
5 (A)(ii), or

6 “(ii) filed by the taxpayer with any
7 regulatory or governmental body (whether
8 domestic or foreign) specified by the Sec-
9 retary,
10 but only if there is no statement of the taxpayer
11 described in subparagraph (A).

12 “(3) APPLICATION OF GROSS RECEIPTS TEST TO
13 INDIVIDUALS, ETC.—In the case of any taxpayer
14 which is not a corporation or a partnership, the gross
15 receipts test of section 448(c) shall be applied in the
16 same manner as if each trade or business of such tax-
17 payer were a corporation or partnership.

18 “(4) COORDINATION WITH SECTION 481.—Any
19 change in method of accounting made pursuant to
20 this subsection shall be treated for purposes of section
21 481 as initiated by the taxpayer and made with the
22 consent of the Secretary.”.

23 (d) EXEMPTION FROM PERCENTAGE COMPLETION FOR
24 LONG-TERM CONTRACTS.—

1 (1) *IN GENERAL.*—Section 460(e)(1)(B) is
2 *amended—*

3 (A) *by inserting “(other than a tax shelter*
4 *prohibited from using the cash receipts and dis-*
5 *bursements method of accounting under section*
6 *448(a)(3))” after “taxpayer” in the matter pre-*
7 *ceding clause (i), and*

8 (B) *by amending clause (ii) to read as fol-*
9 *lows:*

10 *“(ii) who meets the gross receipts test*
11 *of section 448(c) for the taxable year in*
12 *which such contract is entered into.”.*

13 (2) *CONFORMING AMENDMENTS.*—Section 460(e)
14 *is amended by striking paragraphs (2) and (3), by re-*
15 *designating paragraphs (4), (5), and (6) as para-*
16 *graphs (3), (4), and (5), respectively, and by insert-*
17 *ing after paragraph (1) the following new paragraph:*

18 “(2) *RULES RELATED TO GROSS RECEIPTS*
19 *TEST.*—

20 “(A) *APPLICATION OF GROSS RECEIPTS*
21 *TEST TO INDIVIDUALS, ETC.*— *For purposes of*
22 *paragraph (1)(B)(ii), in the case of any tax-*
23 *payer which is not a corporation or a partner-*
24 *ship, the gross receipts test of section 448(c) shall*
25 *be applied in the same manner as if each trade*

1 *or business of such taxpayer were a corporation*
2 *or partnership.*

3 “(B) *COORDINATION WITH SECTION 481.*—
4 *Any change in method of accounting made pur-*
5 *suant to paragraph (1)(B)(ii) shall be treated as*
6 *initiated by the taxpayer and made with the*
7 *consent of the Secretary. Such change shall be ef-*
8 *fectd on a cut-off basis for all similarly classi-*
9 *fied contracts entered into on or after the year*
10 *of change.”.*

11 *(e) EFFECTIVE DATE.*—

12 *(1) IN GENERAL.*—*Except as otherwise provided*
13 *in this subsection, the amendments made by this sec-*
14 *tion shall apply to taxable years beginning after De-*
15 *cember 31, 2017.*

16 *(2) PRESERVATION OF SUSPENSE ACCOUNT*
17 *RULES WITH RESPECT TO ANY EXISTING SUSPENSE*
18 *ACCOUNTS.*—*So much of the amendments made by*
19 *subsection (a)(5)(C) as relate to section 447(i) of the*
20 *Internal Revenue Code of 1986 shall not apply with*
21 *respect to any suspense account established under*
22 *such section before the date of the enactment of this*
23 *Act.*

24 *(3) EXEMPTION FROM PERCENTAGE COMPLETION*
25 *FOR LONG-TERM CONTRACTS.*—*The amendments made*

1 *by subsection (d) shall apply to contracts entered into*
2 *after December 31, 2017, in taxable years ending*
3 *after such date.*

4 **SEC. 3203. SMALL BUSINESS EXCEPTION FROM LIMITATION**

5 **ON DEDUCTION OF BUSINESS INTEREST.**

6 *(a) IN GENERAL.—Section 163(j)(2), as amended by*
7 *section 3301, is amended to read as follows:*

8 *“(2) EXEMPTION FOR CERTAIN SMALL BUSI-*
9 *NESSES.—In the case of any taxpayer (other than a*
10 *tax shelter prohibited from using the cash receipts*
11 *and disbursements method of accounting under sec-*
12 *tion 448(a)(3)) which meets the gross receipts test of*
13 *section 448(c) for any taxable year, paragraph (1)*
14 *shall not apply to such taxpayer for such taxable*
15 *year. In the case of any taxpayer which is not a cor-*
16 *poration or a partnership, the gross receipts test of*
17 *section 448(c) shall be applied in the same manner as*
18 *if such taxpayer were a corporation or partnership.”.*

19 *(b) EFFECTIVE DATE.—The amendment made by this*
20 *section shall apply to taxable years beginning after Decem-*
21 *ber 31, 2017.*

22 **SEC. 3204. MODIFICATION OF TREATMENT OF S CORPORA-**
23 **TION CONVERSIONS TO C CORPORATIONS.**

24 *(a) ADJUSTMENTS ATTRIBUTABLE TO CONVERSION*
25 *FROM S CORPORATION TO C CORPORATION.—Section 481*

1 *is amended by adding at the end the following new sub-*
2 *section:*

3 “(d) *ADJUSTMENTS ATTRIBUTABLE TO CONVERSION*
4 *FROM S CORPORATION TO C CORPORATION.*—

5 “(1) *IN GENERAL.*—*In the case of an eligible ter-*
6 *minated S corporation, any adjustment required by*
7 *subsection (a)(2) which is attributable to such cor-*
8 *poration’s revocation described in paragraph*
9 *(2)(A)(ii) shall be taken into account ratably during*
10 *the 6-taxable year period beginning with the year of*
11 *change.*

12 “(2) *ELIGIBLE TERMINATED S CORPORATION.*—
13 *For purposes of this subsection, the term ‘eligible ter-*
14 *minated S corporation’ means any C corporation—*

15 “(A) *which—*

16 “(i) *was an S corporation on the day*
17 *before the date of the enactment of the Tax*
18 *Cuts and Jobs Act, and*

19 “(ii) *during the 2-year period begin-*
20 *ning on the date of such enactment makes*
21 *a revocation of its election under section*
22 *1362(a), and*

23 “(B) *the owners of the stock of which, deter-*
24 *mined on the date such revocation is made, are*

1 *the same owners (and in identical proportions)*
2 *as on the date of such enactment.”.*

3 ***(b) CASH DISTRIBUTIONS FOLLOWING POST-TERMI-***
4 ***NATION TRANSITION PERIOD FROM S CORPORATION STA-***
5 ***TUS.—Section 1371 is amended by adding at the end the***
6 ***following new subsection:***

7 ***“(f) CASH DISTRIBUTIONS FOLLOWING POST-TERMI-***
8 ***NATION TRANSITION PERIOD.—In the case of a distribution***
9 ***of money by an eligible terminated S corporation (as de-***
10 ***fined in section 481(d)) after the post-termination transi-***
11 ***tion period, the accumulated adjustments account shall be***
12 ***allocated to such distribution, and the distribution shall be***
13 ***chargeable to accumulated earnings and profits, in the same***
14 ***ratio as the amount of such accumulated adjustments ac-***
15 ***count bears to the amount of such accumulated earnings***
16 ***and profits.”.***

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

19 ***SEC. 3301. INTEREST.***

20 ***(a) IN GENERAL.—Section 163(j) is amended to read***
21 ***as follows:***

22 ***“(j) LIMITATION ON BUSINESS INTEREST.—***

23 ***“(1) IN GENERAL.—In the case of any taxpayer***
24 ***for any taxable year, the amount allowed as a deduc-***

1 *tion under this chapter for business interest shall not*
2 *exceed the sum of—*

3 *“(A) the business interest income of such*
4 *taxpayer for such taxable year,*

5 *“(B) 30 percent of the adjusted taxable in-*
6 *come of such taxpayer for such taxable year, plus*

7 *“(C) the floor plan financing interest of*
8 *such taxpayer for such taxable year.*

9 *The amount determined under subparagraph (B)*
10 *(after any increases in such amount under paragraph*
11 *(3)(A)(iii)) shall not be less than zero.*

12 *“(2) EXEMPTION FOR CERTAIN SMALL BUSI-*
13 *NESSES.—For exemption for certain small businesses,*
14 *see the amendment made by section 3203 of the Tax*
15 *Cuts and Jobs Act.*

16 *“(3) APPLICATION TO PARTNERSHIPS, ETC.—*

17 *“(A) IN GENERAL.—In the case of any part-*
18 *nership—*

19 *“(i) this subsection shall be applied at*
20 *the partnership level and any deduction for*
21 *business interest shall be taken into account*
22 *in determining the non-separately stated*
23 *taxable income or loss of the partnership,*

24 *“(ii) the adjusted taxable income of*
25 *each partner of such partnership shall be*

1 *determined without regard to such partner's*
2 *distributive share of the non-separately stat-*
3 *ed taxable income or loss of such partner-*
4 *ship, and*

5 “(iii) *the amount determined under*
6 *paragraph (1)(B) with respect to each part-*
7 *ner of such partnership shall be increased*
8 *by such partner's distributive share of such*
9 *partnership's excess amount.*

10 “(B) *EXCESS AMOUNT.—The term ‘excess*
11 *amount’ means, with respect to any partnership,*
12 *the excess (if any) of—*

13 “(i) *30 percent of the adjusted taxable*
14 *income of the partnership, over*

15 “(ii) *the amount (if any) by which the*
16 *business interest of the partnership, reduced*
17 *by floor plan financing interest, exceeds the*
18 *business interest income of the partnership.*

19 “(C) *APPLICATION TO S CORPORATIONS.—*
20 *Rules similar to the rules of subparagraphs (A)*
21 *and (B) shall apply with respect to any S cor-*
22 *poration and its shareholders.*

23 “(4) *BUSINESS INTEREST.—For purposes of this*
24 *subsection, the term ‘business interest’ means any in-*
25 *terest paid or accrued on indebtedness properly allo-*

1 *cable to a trade or business. Such term shall not in-*
2 *clude investment interest (within the meaning of sub-*
3 *section (d)).*

4 “(5) *BUSINESS INTEREST INCOME.*—For pur-
5 *poses of this subsection, the term ‘business interest in-*
6 *come’ means the amount of interest includible in the*
7 *gross income of the taxpayer for the taxable year*
8 *which is properly allocable to a trade or business.*
9 *Such term shall not include investment income (with-*
10 *in the meaning of subsection (d)).*

11 “(6) *ADJUSTED TAXABLE INCOME.*—For pur-
12 *poses of this subsection, the term ‘adjusted taxable in-*
13 *come’ means the taxable income of the taxpayer—*

14 “(A) *computed without regard to—*

15 “(i) *any item of income, gain, deduc-*
16 *tion, or loss which is not properly allocable*
17 *to a trade or business,*

18 “(ii) *any business interest or business*
19 *interest income,*

20 “(iii) *the amount of any net operating*
21 *loss deduction under section 172, and*

22 “(iv) *any deduction allowable for de-*
23 *preciation, amortization, or depletion, and*

24 “(B) *computed with such other adjustments*
25 *as the Secretary may provide.*

1 “(7) *TRADE OR BUSINESS.*—*For purposes of this*
2 *subsection, the term ‘trade or business’ shall not in-*
3 *clude—*

4 “(A) *the trade or business of performing*
5 *services as an employee,*

6 “(B) *a real property trade or business (as*
7 *such term is defined in section 469(c)(7)(C)), or*

8 “(C) *the trade or business of the furnishing*
9 *or sale of—*

10 “(i) *electrical energy, water, or sewage*
11 *disposal services,*

12 “(ii) *gas or steam through a local dis-*
13 *tribution system, or*

14 “(iii) *transportation of gas or steam*
15 *by pipeline,*

16 *if the rates for such furnishing or sale, as the*
17 *case may be, have been established or approved*
18 *by a State or political subdivision thereof, by*
19 *any agency or instrumentality of the United*
20 *States, or by a public service or public utility*
21 *commission or other similar body of any State*
22 *or political subdivision thereof.*

23 “(8) *CARRYFORWARD OF DISALLOWED INTER-*
24 *EST.*—*For carryforward of interest disallowed under*
25 *paragraph (1), see subsection (o).*

1 “(9) *FLOOR PLAN FINANCING INTEREST DE-*
2 *FINED.—For purposes of this subsection—*

3 “(A) *IN GENERAL.—The term ‘floor plan fi-*
4 *nancing interest’ means interest paid or accrued*
5 *on floor plan financing indebtedness.*

6 “(B) *FLOOR PLAN FINANCING INDEBTED-*
7 *NESS.—The term ‘floor plan financing indebted-*
8 *ness’ means indebtedness—*

9 “(i) *used to finance the acquisition of*
10 *motor vehicles held for sale to retail cus-*
11 *tomers, and*

12 “(ii) *secured by the inventory so ac-*
13 *quired.*

14 “(C) *MOTOR VEHICLE.—The term ‘motor*
15 *vehicle’ means a motor vehicle that is any of the*
16 *following:*

17 “(i) *An automobile.*

18 “(ii) *A truck.*

19 “(iii) *A recreational vehicle.*

20 “(iv) *A motorcycle.*

21 “(v) *A boat.*

22 “(vi) *Farm machinery or equipment.*

23 “(vii) *Construction machinery or*
24 *equipment.”.*

1 (b) *CARRYFORWARD OF DISALLOWED BUSINESS IN-*
2 *TEREST.*—Section 163, after amendment by section 4302(a)
3 and before amendment by section 4302(b), is amended by
4 inserting after subsection (n) the following new subsection:

5 “(o) *CARRYFORWARD OF DISALLOWED BUSINESS IN-*
6 *TEREST.*—The amount of any business interest not allowed
7 as a deduction for any taxable year by reason of subsection
8 (j) shall be treated as business interest paid or accrued in
9 the succeeding taxable year. Business interest paid or ac-
10 crued in any taxable year (determined without regard to
11 the preceding sentence) shall not be carried past the 5th tax-
12 able year following such taxable year, determined by treat-
13 ing business interest as allowed as a deduction on a first-
14 in, first-out basis.”.

15 (c) *TREATMENT OF CARRYFORWARD OF DISALLOWED*
16 *BUSINESS INTEREST IN CERTAIN CORPORATE ACQUISI-*
17 *TIONS.*—

18 (1) *IN GENERAL.*—Section 381(c) is amended by
19 inserting after paragraph (19) the following new
20 paragraph:

21 “(20) *CARRYFORWARD OF DISALLOWED INTER-*
22 *EST.*—The carryover of disallowed interest described
23 in section 163(o) to taxable years ending after the
24 date of distribution or transfer.”.

1 (2) *APPLICATION OF LIMITATION.*—Section
2 382(d) is amended by adding at the end the following
3 new paragraph:

4 “(3) *APPLICATION TO CARRYFORWARD OF DIS-*
5 *ALLOWED INTEREST.*—The term ‘pre-change loss’
6 shall include any carryover of disallowed interest de-
7 scribed in section 163(o) under rules similar to the
8 rules of paragraph (1).”.

9 (3) *CONFORMING AMENDMENT.*—Section
10 382(k)(1) is amended by inserting after the first sen-
11 tence the following: “Such term shall include any cor-
12 poration entitled to use a carryforward of disallowed
13 interest described in section 381(c)(20).”

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

17 **SEC. 3302. MODIFICATION OF NET OPERATING LOSS DE-**
18 **DUCTION.**

19 (a) *INDEFINITE CARRYFORWARD OF NET OPERATING*
20 *LOSSES.*—Section 172(b)(1)(A)(ii) is amended by striking
21 “to each of the 20 taxable years” and inserting “to each
22 taxable year”.

23 (b) *REPEAL OF NET OPERATING LOSS CARRYBACKS*
24 *OTHER THAN 1-YEAR CARRYBACK OF ELIGIBLE DISASTER*
25 *LOSSES.*—

1 (1) *IN GENERAL.*—Section 172(b)(1)(A)(i) is
2 *amended to read as follows:*

3 “(i) *in the case of any portion of a net*
4 *operating loss for the taxable year which is*
5 *an eligible disaster loss with respect to the*
6 *taxpayer, shall be a net operating loss*
7 *carryback to the taxable year preceding the*
8 *taxable year of such loss, and”.*

9 (2) *CONFORMING AMENDMENTS.*—

10 (A) *Section 172(b)(1) is amended by strik-*
11 *ing subparagraphs (B) through (F) and insert-*
12 *ing the following:*

13 “(B) *ELIGIBLE DISASTER LOSS.*—

14 “(i) *IN GENERAL.*—*For purposes of*
15 *subparagraph (A)(i), the term ‘eligible dis-*
16 *aster loss’ means—*

17 “(I) *in the case of a taxpayer*
18 *which is a small business, net oper-*
19 *ating losses attributable to federally de-*
20 *clared disasters (as defined by section*
21 *165(i)(5)), and*

22 “(II) *in the case of a taxpayer en-*
23 *gaged in the trade or business of farm-*
24 *ing, net operating losses attributable to*
25 *such federally declared disasters.*

1 “(ii) *SMALL BUSINESS.*—For purposes
2 of this subparagraph, the term ‘small busi-
3 ness’ means a corporation or partnership
4 which meets the gross receipts test of section
5 448(c) (determined by substituting
6 ‘\$5,000,000’ for ‘\$25,000,000’ each place it
7 appears therein) for the taxable year in
8 which the loss arose (or, in the case of a sole
9 proprietorship, which would meet such test
10 if such proprietorship were a corporation).

11 “(iii) *TRADE OR BUSINESS OF FARM-*
12 *ING.*—For purposes of this subparagraph,
13 the trade or business of farming shall in-
14 clude the trade or business of—

15 “(I) operating a nursery or sod
16 farm, or

17 “(II) the raising or harvesting of
18 trees bearing fruit, nuts, or other crops,
19 or ornamental trees.

20 For purposes of subclause (II), an evergreen
21 tree which is more than 6 years old at the
22 time severed from the roots shall not be
23 treated as an ornamental tree.”.

24 (B) Section 172 is amended by striking sub-
25 sections (f), (g), and (h).

1 (c) *LIMITATION OF NET OPERATING LOSS TO 90 PER-*
2 *CENT OF TAXABLE INCOME.*—

3 (1) *IN GENERAL.*—Section 172(a) is amended to
4 read as follows:

5 “(a) *DEDUCTION ALLOWED.*—There shall be allowed
6 as a deduction for the taxable year an amount equal to the
7 lesser of—

8 “(1) the aggregate of the net operating loss
9 carryovers to such year, plus the net operating loss
10 carrybacks to such year, or

11 “(2) 90 percent of taxable income computed
12 without regard to the deduction allowable under this
13 section.

14 For purposes of this subtitle, the term ‘net operating loss
15 deduction’ means the deduction allowed by this subsection.”.

16 (2) *COORDINATION OF LIMITATION WITH*
17 *CARRYBACKS AND CARRYOVERS.*—Section 172(b)(2) is
18 amended by striking “shall be computed—” and all
19 that follows and inserting “shall—

20 “(A) be computed with the modifications
21 specified in subsection (d) other than paragraphs
22 (1), (4), and (5) thereof, and by determining the
23 amount of the net operating loss deduction with-
24 out regard to the net operating loss for the loss
25 year or for any taxable year thereafter,

1 “(B) not be considered to be less than zero,
2 and

3 “(C) not exceed the amount determined
4 under subsection (a)(2) for such prior taxable
5 year.”.

6 (3) CONFORMING AMENDMENT.—Section
7 172(d)(6) is amended by striking “and” at the end of
8 subparagraph (A), by striking the period at the end
9 of subparagraph (B) and inserting “; and”, and by
10 adding at the end the following new subparagraph:

11 “(C) subsection (a)(2) shall be applied by
12 substituting ‘real estate investment trust taxable
13 income (as defined in section 857(b)(2) but with-
14 out regard to the deduction for dividends paid
15 (as defined in section 561))’ for ‘taxable in-
16 come’.”.

17 (d) ANNUAL INCREASE OF INDEFINITE CARRYOVER
18 AMOUNTS.—Section 172(b) is amended by redesignating
19 paragraph (3) as paragraph (4) and by inserting after
20 paragraph (2) the following new paragraph:

21 “(3) ANNUAL INCREASE OF INDEFINITE CARRY-
22 OVER AMOUNTS.—For purposes of paragraph (2)—

23 “(A) the amount of any indefinite net oper-
24 ating loss which is carried to the next succeeding
25 taxable year after the loss year (within the

1 *meaning of paragraph (2)) shall be increased by*
2 *an amount equal to—*

3 *“(i) the amount of the loss which may*
4 *be so carried over to such succeeding taxable*
5 *year (determined without regard to this*
6 *paragraph), multiplied by*

7 *“(ii) the sum of—*

8 *“(I) the annual Federal short-*
9 *term rate (determined under section*
10 *1274(d)) for the last month ending be-*
11 *fore the beginning of such taxable year,*
12 *plus*

13 *“(II) 4 percentage points, and*

14 *“(B) the amount of any indefinite net oper-*
15 *ating loss which is carried to any succeeding*
16 *taxable year (after such next succeeding taxable*
17 *year) shall be an amount equal to—*

18 *“(i) the excess of—*

19 *“(I) the amount of the loss carried*
20 *to the prior taxable year (after any in-*
21 *crease under this paragraph with re-*
22 *spect to such amount), over*

23 *“(II) the amount by which such*
24 *loss was reduced under paragraph (2)*

1 *by reason of the taxable income for*
2 *such prior taxable year, multiplied by*
3 *“(ii) a percentage equal to 100 percent*
4 *plus the percentage determined under sub-*
5 *paragraph (A)(ii) with respect to such suc-*
6 *ceeding taxable year.*

7 *For purposes of the preceding sentence, the term*
8 *‘indefinite net operating loss’ means any net op-*
9 *erating loss arising in a taxable year beginning*
10 *after December 31, 2017.”.*

11 *(e) EFFECTIVE DATE.—*

12 *(1) CARRYFORWARDS AND CARRYBACKS.—The*
13 *amendments made by subsections (a) and (b) shall*
14 *apply to net operating losses arising in taxable years*
15 *beginning after December 31, 2017.*

16 *(2) NET OPERATING LOSS LIMITED TO 90 PER-*
17 *CENT OF TAXABLE INCOME.—The amendments made*
18 *by subsection (c) shall apply to taxable years begin-*
19 *ning after December 31, 2017.*

20 *(3) ANNUAL INCREASE IN CARRYOVER*
21 *AMOUNTS.—The amendments made by subsection (d)*
22 *shall apply to amounts carried to taxable years begin-*
23 *ning after December 31, 2017.*

24 *(4) SPECIAL RULE FOR NET DISASTER*
25 *LOSSES.—Notwithstanding paragraph (1), the*

1 *amendments made by subsection (b) shall not apply*
2 *to the portion of the net operating loss for any taxable*
3 *year which is a net disaster loss to which section*
4 *504(b) of the Disaster Tax Relief and Airport and*
5 *Airway Extension Act of 2017 applies.*

6 **SEC. 3303. LIKE-KIND EXCHANGES OF REAL PROPERTY.**

7 *(a) IN GENERAL.—Section 1031(a)(1) is amended by*
8 *striking “property” each place it appears and inserting*
9 *“real property”.*

10 *(b) CONFORMING AMENDMENTS.—*

11 *(1) Paragraph (2) of section 1031(a) is amended*
12 *to read as follows:*

13 *“(2) EXCEPTION FOR REAL PROPERTY HELD FOR*
14 *SALE.—This subsection shall not apply to any ex-*
15 *change of real property held primarily for sale.”.*

16 *(2) Section 1031 is amended by striking sub-*
17 *sections (e) and (i).*

18 *(3) Section 1031, as amended by paragraph (2),*
19 *is amended by inserting after subsection (d) the fol-*
20 *lowing new subsection:*

21 *“(e) APPLICATION TO CERTAIN PARTNERSHIPS.—For*
22 *purposes of this section, an interest in a partnership which*
23 *has in effect a valid election under section 761(a) to be ex-*
24 *cluded from the application of all of subchapter K shall be*

1 *treated as an interest in each of the assets of such partner-*
2 *ship and not as an interest in a partnership.”.*

3 (4) *Section 1031(h) is amended to read as fol-*
4 *lows:*

5 “(h) *SPECIAL RULES FOR FOREIGN REAL PROP-*
6 *ERTY.—Real property located in the United States and real*
7 *property located outside the United States are not property*
8 *of a like kind.”.*

9 (5) *The heading of section 1031 is amended by*
10 *striking “PROPERTY” and inserting “REAL PROP-*
11 *ERTY”.*

12 (6) *The table of sections for part III of sub-*
13 *chapter O of chapter 1 is amended by striking the*
14 *item relating to section 1031 and inserting the fol-*
15 *lowing new item:*

“Sec. 1031. Exchange of real property held for productive use or investment.”.

16 (c) *EFFECTIVE DATE.—*

17 (1) *IN GENERAL.—Except as otherwise provided*
18 *in this subsection, the amendments made by this sec-*
19 *tion shall apply to exchanges completed after Decem-*
20 *ber 31, 2017.*

21 (2) *TRANSITION RULE.—The amendments made*
22 *by this section shall not apply to any exchange if—*

23 (A) *the property disposed of by the taxpayer*
24 *in the exchange is disposed of on or before De-*
25 *cember 31 2017, or*

1 (B) the property received by the taxpayer in
2 the exchange is received on or before December
3 31, 2017.

4 **SEC. 3304. REVISION OF TREATMENT OF CONTRIBUTIONS**
5 **TO CAPITAL.**

6 (a) *INCLUSION OF CONTRIBUTIONS TO CAPITAL.*—Part
7 II of subchapter B of chapter 1 is amended by inserting
8 after section 75 the following new section:

9 **“SEC. 76. CONTRIBUTIONS TO CAPITAL.**

10 “(a) *IN GENERAL.*—Gross income includes any con-
11 tribution to the capital of any entity.

12 “(b) *TREATMENT OF CONTRIBUTIONS IN EXCHANGE*
13 *FOR STOCK, ETC.*—

14 “(1) *IN GENERAL.*—In the case of any contribu-
15 tion of money or other property to a corporation in
16 exchange for stock of such corporation—

17 “(A) such contribution shall not be treated
18 for purposes of subsection (a) as a contribution
19 to the capital of such corporation (and shall not
20 be includible in the gross income of such corpora-
21 tion), and

22 “(B) no gain or loss shall be recognized to
23 such corporation upon the issuance of such stock.

24 “(2) *TREATMENT LIMITED TO VALUE OF*
25 *STOCK.*—For purposes of this subsection, a contribu-

1 *tion of money or other property to a corporation shall*
2 *be treated as being in exchange for stock of such cor-*
3 *poration only to the extent that the fair market value*
4 *of such money and other property does not exceed the*
5 *fair market value of such stock.*

6 *“(3) APPLICATION TO ENTITIES OTHER THAN*
7 *CORPORATIONS.—In the case of any entity other than*
8 *a corporation, rules similar to the rules of paragraphs*
9 *(1) and (2) shall apply in the case of any contribu-*
10 *tion of money or other property to such entity in ex-*
11 *change for any interest in such entity.*

12 *“(c) TREASURY STOCK TREATED AS STOCK.—Any ref-*
13 *erence in this section to stock shall be treated as including*
14 *a reference to treasury stock.”.*

15 *(b) BASIS OF CORPORATION IN CONTRIBUTED PROP-*
16 *ERTY.—*

17 *(1) CONTRIBUTIONS TO CAPITAL.—Subsection (c)*
18 *of section 362 is amended to read as follows:*

19 *“(c) CONTRIBUTIONS TO CAPITAL.—If property other*
20 *than money is transferred to a corporation as a contribu-*
21 *tion to the capital of such corporation (within the meaning*
22 *of section 76) then the basis of such property shall be the*
23 *greater of—*

1 “(1) *the basis determined in the hands of the*
2 *transferor, increased by the amount of gain recog-*
3 *nized to the transferor on such transfer, or*

4 “(2) *the amount included in gross income by*
5 *such corporation under section 76 with respect to such*
6 *contribution.*”.

7 (2) *CONTRIBUTIONS IN EXCHANGE FOR STOCK.—*
8 *Paragraph (2) of section 362(a) is amended by strik-*
9 *ing “contribution to capital” and inserting “con-*
10 *tribution in exchange for stock of such corporation*
11 *(determined under rules similar to the rules of para-*
12 *graphs (2) and (3) of section 76(b))*”.

13 (c) *CONFORMING AMENDMENTS.—*

14 (1) *Section 108(e) is amended by striking para-*
15 *graph (6).*

16 (2) *Part III of subchapter B of chapter 1 is*
17 *amended by striking section 118 (and by striking the*
18 *item relating to such section in the table of sections*
19 *for such part).*

20 (3) *The table of sections for part II of subchapter*
21 *B of chapter 1 is amended by inserting after the item*
22 *relating to section 75 the following new item:*

 “Sec. 76. *Contributions to capital.*”.

23 (d) *EFFECTIVE DATE.—The amendments made by this*
24 *section shall apply to contributions made, and transactions*
25 *entered into, after the date of the enactment of this Act.*

1 **SEC. 3305. REPEAL OF DEDUCTION FOR LOCAL LOBBYING**
2 **EXPENSES.**

3 (a) *IN GENERAL.*—Section 162(e) is amended by strik-
4 ing paragraphs (2) and (7) and by redesignating para-
5 graphs (3), (4), (5), (6), and (8) as paragraphs (2), (3),
6 (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 162(e)(4)(B)(ii)”.

10 (c) *EFFECTIVE DATE.*—The amendments made by this
11 section shall apply to amounts paid or incurred after De-
12 cember 31, 2017.

13 **SEC. 3306. REPEAL OF DEDUCTION FOR INCOME ATTRIB-**
14 **UTABLE TO DOMESTIC PRODUCTION ACTIVI-**
15 **TIES.**

16 (a) *IN GENERAL.*—Part VI of subchapter B of chapter
17 1 is amended by striking section 199 (and by striking the
18 item relating to such section in the table of sections for such
19 part).

20 (b) *CONFORMING AMENDMENTS.*—

21 (1) Sections 74(d)(2)(B), 86(b)(2)(A),
22 137(b)(3)(A), 219(g)(3)(A)(ii), and 246(b)(1) are each
23 amended by striking “199,”.

24 (2) Section 170(b)(2)(D), as amended by the pre-
25 ceding provisions of this Act, is amended by striking

1 *clause (iv), by redesignating clause (v) as clause (iv),*
2 *and by inserting “and” at the end of clause (iii).*

3 *(3) Section 172(d) is amended by striking para-*
4 *graph (7).*

5 *(4) Section 613(a) is amended by striking “and*
6 *without the deduction under section 199”.*

7 *(5) Section 613A(d)(1) is amended by striking*
8 *subparagraph (B) and by redesignating subpara-*
9 *graphs (C), (D), and (E) as subparagraphs (B), (C),*
10 *and (D), respectively.*

11 *(6) Section 1402(a) is amended by adding “and”*
12 *at the end of paragraph (15) and by striking para-*
13 *graph (16).*

14 *(c) EFFECTIVE DATE.—The amendments made by this*
15 *section shall apply to taxable years beginning after Decem-*
16 *ber 31, 2017.*

17 **SEC. 3307. ENTERTAINMENT, ETC. EXPENSES.**

18 *(a) DENIAL OF DEDUCTION.—Subsection (a) of section*
19 *274 is amended to read as follows:*

20 *“(a) ENTERTAINMENT, AMUSEMENT, RECREATION,*
21 *AND OTHER FRINGE BENEFITS .—*

22 *“(1) IN GENERAL.—No deduction otherwise al-*
23 *lowable under this chapter shall be allowed for*
24 *amounts paid or incurred for any of the following*
25 *items:*

1 “(A) *ACTIVITY*.—With respect to an activity
2 which is of a type generally considered to con-
3 stitute entertainment, amusement, or recreation.

4 “(B) *MEMBERSHIP DUES*.—With respect to
5 membership in any club organized for business,
6 pleasure, recreation or other social purposes.

7 “(C) *AMENITY*.—With respect to a de mini-
8 mis fringe (as defined in section 132(e)(1)) that
9 is primarily personal in nature and involving
10 property or services that are not directly related
11 to the taxpayer’s trade or business.

12 “(D) *FACILITY*.—With respect to a facility
13 or portion thereof used in connection with an ac-
14 tivity referred to in subparagraph (A), member-
15 ship dues or similar amounts referred to in sub-
16 paragraph (B), or an amenity referred to in sub-
17 paragraph (C).

18 “(E) *QUALIFIED TRANSPORTATION FRINGE*
19 *AND PARKING FACILITY*.—Which is a qualified
20 transportation fringe (as defined in section
21 132(f)) or which is a parking facility used in
22 connection with qualified parking (as defined in
23 section 132(f)(5)(C)).

1 “(F) *ON-PREMISES ATHLETIC FACILITY.*—
2 *Which is an on-premises athletic facility as de-*
3 *finied in section 132(j)(4)(B).*

4 “(2) *SPECIAL RULES.*—*For purposes of applying*
5 *paragraph (1), an activity described in section 212*
6 *shall be treated as a trade or business.*

7 “(3) *REGULATIONS.*—*Under the regulations pre-*
8 *scribed to carry out this section, the Secretary shall*
9 *include regulations—*

10 “(A) *defining entertainment, amenities,*
11 *recreation, amusement, and facilities for pur-*
12 *poses of this subsection,*

13 “(B) *providing for the appropriate alloca-*
14 *tion of depreciation and other costs with respect*
15 *to facilities used for parking or for on-premises*
16 *athletic facilities, and*

17 “(C) *specifying arrangements a primary*
18 *purpose of which is the avoidance of this sub-*
19 *section.”.*

20 (b) *EXCEPTION FOR CERTAIN EXPENSES INCLUDIBLE*
21 *IN INCOME OF RECIPIENT.*—

22 (1) *EXPENSES TREATED AS COMPENSATION.*—
23 *Paragraph (2) of section 274(e) is amended to read*
24 *as follows:*

1 “(2) *EXPENSES TREATED AS COMPENSATION.—*
2 *Expenses for goods, services, and facilities, to the ex-*
3 *tent that the expenses do not exceed the amount of the*
4 *expenses which are treated by the taxpayer, with re-*
5 *spect to the recipient of the entertainment, amuse-*
6 *ment, or recreation, as compensation to an employee*
7 *on the taxpayer’s return of tax under this chapter*
8 *and as wages to such employee for purposes of chapter*
9 *24 (relating to withholding of income tax at source on*
10 *wages).’.*

11 (2) *EXPENSES INCLUDIBLE IN INCOME OF PER-*
12 *SONS WHO ARE NOT EMPLOYEES.—Paragraph (9) of*
13 *section 274(e) is amended by striking “to the extent*
14 *that the expenses” and inserting “to the extent that*
15 *the expenses do not exceed the amount of the expenses*
16 *that”.*

17 (c) *EXCEPTIONS FOR REIMBURSED EXPENSES.—*
18 *Paragraph (3) of section 274(e) is amended to read as fol-*
19 *lows:*

20 “(3) *REIMBURSED EXPENSES.—*

21 “(A) *IN GENERAL.—Expenses paid or in-*
22 *curred by the taxpayer, in connection with the*
23 *performance by him of services for another per-*
24 *son (whether or not such other person is the tax-*
25 *payer’s employer), under a reimbursement or*

1 *other expense allowance arrangement with such*
2 *other person, but this paragraph shall apply—*

3 “(i) *where the services are performed*
4 *for an employer, only if the employer has*
5 *not treated such expenses in the manner*
6 *provided in paragraph (2), or*

7 “(ii) *where the services are performed*
8 *for a person other than an employer, only*
9 *if the taxpayer accounts (to the extent pro-*
10 *vided by subsection (d)) to such person.*

11 “(B) *EXCEPTION.—Except as provided by*
12 *the Secretary, subparagraph (A) shall not*
13 *apply—*

14 “(i) *in the case of an arrangement in*
15 *which the person other than the employer is*
16 *an entity described in section 168(h)(2)(A),*
17 *or*

18 “(ii) *to any other arrangement des-*
19 *ignated by the Secretary as having the effect*
20 *of avoiding the limitation under subpara-*
21 *graph (A).”.*

22 “(d) *50 PERCENT LIMITATION ON MEALS AND ENTER-*
23 *TAINMENT EXPENSES.—Subsection (n) of section 274 is*
24 *amended to read as follows:*

25 “(n) *LIMITATION ON CERTAIN EXPENSES.—*

1 “(1) *IN GENERAL.*—*The amount allowable as a*
2 *deduction under this chapter for any expense for food*
3 *or beverages (pursuant to subsection (e)(1)) or busi-*
4 *ness meals (pursuant to subsection (k)(1)) shall not*
5 *exceed 50 percent of the amount of such expense or*
6 *item which would (but for this paragraph) be allow-*
7 *able as a deduction under this chapter.*

8 “(2) *EXCEPTIONS.*—*Paragraph (1) shall not*
9 *apply to any expense if—*

10 “(A) *such expense is described in paragraph*
11 *(2), (3), (6), (7), or (8) of subsection (e),*

12 “(B) *in the case of an expense for food or*
13 *beverages, such expense is excludable from the*
14 *gross income of the recipient under section 132*
15 *by reason of subsection (e) thereof (relating to de*
16 *minimis fringes) or under section 119 (relating*
17 *to meals and lodging furnished for convenience of*
18 *employer), or*

19 “(C) *in the case of an employer who pays*
20 *or reimburses moving expenses of an employee,*
21 *such expenses are includible in the income of the*
22 *employee under section 82.*

23 “(3) *SPECIAL RULE FOR INDIVIDUALS SUBJECT*
24 *TO FEDERAL HOURS OF SERVICE.*—*In the case of any*
25 *expenses for food or beverages consumed while away*

1 *from home (within the meaning of section 162(a)(2))*
2 *by an individual during, or incident to, the period of*
3 *duty subject to the hours of service limitations of the*
4 *Department of Transportation, paragraph (1) shall be*
5 *applied by substituting ‘80 percent’ for ‘50 percent’.”.*

6 *(e) CONFORMING AMENDMENTS.—*

7 *(1) Section 274(d) is amended—*

8 *(A) by striking paragraph (2) and redesign-*
9 *ating paragraphs (3) and (4) as paragraphs*
10 *(2) and (3), respectively, and*

11 *(B) in the flush material following para-*
12 *graph (3) (as so redesignated)—*

13 *(i) by striking “, entertainment,*
14 *amusement, recreation, or” in item (B),*
15 *and*

16 *(ii) by striking “(D) the business rela-*
17 *tionship to the taxpayer of persons enter-*
18 *tained, using the facility or property, or re-*
19 *ceiving the gift” and inserting “(D) the*
20 *business relationship to the taxpayer of the*
21 *person receiving the benefit”.*

22 *(2) Section 274(e) is amended by striking para-*
23 *graph (4) and redesignating paragraphs (5), (6), (7),*
24 *(8), and (9) as paragraphs (4), (5), (6), (7), and (8),*
25 *respectively.*

1 (3) *Section 274(k)(2)(A) is amended by striking*
2 “(4), (7), (8), or (9)” *and inserting “(6), (7), or (8)”.*

3 (4) *Section 274 is amended by striking sub-*
4 *section (l).*

5 (5) *Section 274(m)(1)(B)(ii) is amended by*
6 *striking “(4), (7), (8), or (9)” and inserting “(6), (7),*
7 *or (8)”.*

8 (f) *EFFECTIVE DATE.*—*The amendments made by this*
9 *section shall apply to amounts paid or incurred after De-*
10 *cember 31, 2017.*

11 **SEC. 3308. UNRELATED BUSINESS TAXABLE INCOME IN-**
12 **CREASED BY AMOUNT OF CERTAIN FRINGE**
13 **BENEFIT EXPENSES FOR WHICH DEDUCTION**
14 **IS DISALLOWED.**

15 (a) *IN GENERAL.*—*Section 512(a) is amended by add-*
16 *ing at the end the following new paragraph:*

17 “(6) *INCREASE IN UNRELATED BUSINESS TAX-*
18 *ABLE INCOME BY DISALLOWED FRINGE.*—*Unrelated*
19 *business taxable income of an organization shall be*
20 *increased by any amount for which a deduction is not*
21 *allowable under this chapter by reason of section 274*
22 *and which is paid or incurred by such organization*
23 *for any qualified transportation fringe (as defined in*
24 *section 132(f)), any parking facility used in connec-*
25 *tion with qualified parking (as defined in section*

1 132(f)(5)(C)), or any on-premises athletic facility (as
2 defined in section 132(j)(4)(B)). The preceding sen-
3 tence shall not apply to the extent the amount paid
4 or incurred is directly connected with an unrelated
5 trade or business which is regularly carried on by the
6 organization. The Secretary may issue such regula-
7 tions or other guidance as may be necessary or appro-
8 priate to carry out the purposes of this paragraph,
9 including regulations or other guidance providing for
10 the appropriate allocation of depreciation and other
11 costs with respect to facilities used for parking or for
12 on-premises athletic facilities.

13 ”.

14 (b) *EFFECTIVE DATE.*—The amendment made by this
15 section shall apply to amounts paid or incurred after De-
16 cember 31, 2017.

17 **SEC. 3309. LIMITATION ON DEDUCTION FOR FDIC PRE-**
18 **MIUMS.**

19 (a) *IN GENERAL.*—Section 162 is amended by redesign-
20 ating subsection (q) as subsection (r) and by inserting
21 after subsection (p) the following new subsection:

22 “(q) *DISALLOWANCE OF FDIC PREMIUMS PAID BY*
23 *CERTAIN LARGE FINANCIAL INSTITUTIONS.*—

1 “(1) *IN GENERAL.*—No deduction shall be al-
2 lowed for the applicable percentage of any FDIC pre-
3 mium paid or incurred by the taxpayer.

4 “(2) *EXCEPTION FOR SMALL INSTITUTIONS.*—
5 Paragraph (1) shall not apply to any taxpayer for
6 any taxable year if the total consolidated assets of
7 such taxpayer (determined as of the close of such tax-
8 able year) do not exceed \$10,000,000,000.

9 “(3) *APPLICABLE PERCENTAGE.*—For purposes
10 of this subsection, the term ‘applicable percentage’
11 means, with respect to any taxpayer for any taxable
12 year, the ratio (expressed as a percentage but not
13 greater than 100 percent) which—

14 “(A) the excess of—

15 “(i) the total consolidated assets of
16 such taxpayer (determined as of the close of
17 such taxable year), over

18 “(ii) \$10,000,000,000, bears to

19 “(B) \$40,000,000,000.

20 “(4) *FDIC PREMIUMS.*—For purposes of this
21 subsection, the term ‘FDIC premium’ means any as-
22 sessment imposed under section 7(b) of the Federal
23 Deposit Insurance Act (12 U.S.C. 1817(b)).

24 “(5) *TOTAL CONSOLIDATED ASSETS.*—For pur-
25 poses of this subsection, the term ‘total consolidated

1 *assets’ has the meaning given such term under section*
2 *165 of the Dodd-Frank Wall Street Reform and Con-*
3 *sumer Protection Act (12 U.S.C. 5365).*

4 “(6) *AGGREGATION RULE.*—

5 “(A) *IN GENERAL.*—*Members of an ex-*
6 *panded affiliated group shall be treated as a sin-*
7 *gle taxpayer for purposes of applying this sub-*
8 *section.*

9 “(B) *EXPANDED AFFILIATED GROUP.*—*For*
10 *purposes of this paragraph, the term ‘expanded*
11 *affiliated group’ means an affiliated group as*
12 *defined in section 1504(a), determined—*

13 “(i) *by substituting ‘more than 50 per-*
14 *cent’ for ‘at least 80 percent’ each place it*
15 *appears, and*

16 “(ii) *without regard to paragraphs (2)*
17 *and (3) of section 1504(b).*

18 *A partnership or any other entity (other than a*
19 *corporation) shall be treated as a member of an*
20 *expanded affiliated group if such entity is con-*
21 *trolled (within the meaning of section 954(d)(3))*
22 *by members of such group (including any entity*
23 *treated as a member of such group by reason of*
24 *this sentence).”.*

1 (b) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to taxable years beginning after Decem-*
3 *ber 31, 2017.*

4 **SEC. 3310. REPEAL OF ROLLOVER OF PUBLICLY TRADED SE-**
5 **CURITIES GAIN INTO SPECIALIZED SMALL**
6 **BUSINESS INVESTMENT COMPANIES.**

7 (a) *IN GENERAL.*—*Part III of subchapter O of chapter*
8 *1 is amended by striking section 1044 (and by striking the*
9 *item relating to such section in the table of sections of such*
10 *part).*

11 (b) *CONFORMING AMENDMENTS.*—*Section 1016(a)(23)*
12 *is amended—*

13 (1) *by striking “1044,” and*

14 (2) *by striking “1044(d).”*

15 (c) *EFFECTIVE DATE.*—*The amendments made by this*
16 *section shall apply to sales after December 31, 2017.*

17 **SEC. 3311. CERTAIN SELF-CREATED PROPERTY NOT TREAT-**
18 **ED AS A CAPITAL ASSET.**

19 (a) *PATENTS, ETC.*—*Section 1221(a)(3) is amended by*
20 *inserting “a patent, invention, model or design (whether or*
21 *not patented), a secret formula or process,” before “a copy-*
22 *right”.*

23 (b) *CONFORMING AMENDMENT.*—*Section*
24 *1231(b)(1)(C) is amended by inserting “a patent, inven-*

1 *tion, model or design (whether or not patented), a secret*
2 *formula or process,” before “a copyright”.*

3 *(c) EFFECTIVE DATE.—The amendments made by this*
4 *section shall apply to dispositions after December 31, 2017.*

5 **SEC. 3312. REPEAL OF SPECIAL RULE FOR SALE OR EX-**
6 **CHANGE OF PATENTS.**

7 *(a) IN GENERAL.—Part IV of subchapter P of chapter*
8 *1 is amended by striking section 1235 (and by striking the*
9 *item relating to such section in the table of sections of such*
10 *part).*

11 *(b) CONFORMING AMENDMENTS.—*

12 *(1) Section 483(d) is amended by striking para-*
13 *graph (4).*

14 *(2) Section 901(l)(5) is amended by striking*
15 *“without regard to section 1235 or any similar rule”*
16 *and inserting “without regard to any provision which*
17 *treats a disposition as a sale or exchange of a capital*
18 *asset held for more than 1 year or any similar provi-*
19 *sion”.*

20 *(3) Section 1274(c)(3) is amended by striking*
21 *subparagraph (E) and redesignating subparagraph*
22 *(F) as subparagraph (E).*

23 *(c) EFFECTIVE DATE.—The amendments made by this*
24 *section shall apply to dispositions after December 31, 2017.*

1 **SEC. 3313. REPEAL OF TECHNICAL TERMINATION OF PART-**
2 **NEERSHIPS.**

3 (a) *IN GENERAL.*—Paragraph (1) of section 708(b) is
4 amended—

5 (1) by striking “, or” at the end of subparagraph

6 (A) and all that follows and inserting a period, and

7 (2) by striking “only if—” and all that follows
8 through “no part of any business” and inserting the
9 following: “only if no part of any business”.

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

13 **SEC. 3314. RECHARACTERIZATION OF CERTAIN GAINS IN**
14 **THE CASE OF PARTNERSHIP PROFITS INTER-**
15 **ESTS HELD IN CONNECTION WITH PERFORM-**
16 **ANCE OF INVESTMENT SERVICES.**

17 (a) *IN GENERAL.*—Part IV of subchapter O of chapter
18 1 is amended—

19 (1) by redesignating section 1061 as section
20 1062, and

21 (2) by inserting after section 1060 the following
22 new section:

1 **“SEC. 1061. PARTNERSHIP INTERESTS HELD IN CONNEC-**
2 **TION WITH PERFORMANCE OF SERVICES.**

3 “(a) *IN GENERAL.*—If one or more applicable partner-
4 ship interests are held by a taxpayer at any time during
5 the taxable year, the excess (if any) of—

6 “(1) *the taxpayer’s net long-term capital gain*
7 with respect to such interests for such taxable year,
8 over

9 “(2) *the taxpayer’s net long-term capital gain*
10 with respect to such interests for such taxable year
11 computed by applying paragraphs (3) and (4) of sec-
12 tions 1222 by substituting ‘3 years’ for ‘1 year’,
13 shall be treated as short-term capital gain.

14 “(b) *SPECIAL RULE.*—To the extent provided by the
15 Secretary, subsection (a) shall not apply to income or gain
16 attributable to any asset not held for portfolio investment
17 on behalf of third party investors.

18 “(c) *APPLICABLE PARTNERSHIP INTEREST.*—For pur-
19 poses of this section—

20 “(1) *IN GENERAL.*—Except as provided in this
21 paragraph or paragraph (4), the term ‘applicable
22 partnership interest’ means any interest in a partner-
23 ship which, directly or indirectly, is transferred to (or
24 is held by) the taxpayer in connection with the per-
25 formance of substantial services by the taxpayer, or
26 any other related person, in any applicable trade or

1 *business. The previous sentence shall not apply to an*
2 *interest held by a person who is employed by another*
3 *entity that is conducting a trade or business (other*
4 *than an applicable trade or business) and only pro-*
5 *vides services to such other entity.*

6 “(2) *APPLICABLE TRADE OR BUSINESS.*—*The*
7 *term ‘applicable trade or business’ means any activ-*
8 *ity conducted on a regular, continuous, and substan-*
9 *tial basis which, regardless of whether the activity is*
10 *conducted in one or more entities, consists, in whole*
11 *or in part, of—*

12 “(A) *raising or returning capital, and*

13 “(B) *either—*

14 “(i) *investing in (or disposing of) spec-*
15 *ified assets (or identifying specified assets*
16 *for such investing or disposition), or*

17 “(ii) *developing specified assets.*

18 “(3) *SPECIFIED ASSET.*—*The term ‘specified*
19 *asset’ means securities (as defined in section 475(c)(2)*
20 *without regard to the last sentence thereof), commod-*
21 *ities (as defined in section 475(e)(2)), real estate held*
22 *for rental or investment, cash or cash equivalents, op-*
23 *tions or derivative contracts with respect to any of the*
24 *foregoing, and an interest in a partnership to the ex-*

1 *tent of the partnership's proportionate interest in any*
2 *of the foregoing.*

3 “(4) *EXCEPTIONS.*—*The term ‘applicable part-*
4 *nership interest’ shall not include—*

5 “(A) *any interest in a partnership directly*
6 *or indirectly held by a corporation, or*

7 “(B) *any capital interest in the partnership*
8 *which provides the taxpayer with a right to*
9 *share in partnership capital commensurate*
10 *with—*

11 “(i) *the amount of capital contributed*
12 *(determined at the time of receipt of such*
13 *partnership interest), or*

14 “(ii) *the value of such interest subject*
15 *to tax under section 83 upon the receipt or*
16 *vesting of such interest.*

17 “(5) *THIRD PARTY INVESTOR.*—*The term ‘third*
18 *party investor’ means a person who—*

19 “(A) *holds an interest in the partnership*
20 *which does not constitute property held in con-*
21 *nection with an applicable trade or business;*
22 *and*

23 “(B) *is not (and has not been) actively en-*
24 *gaged, and is (and was) not related to a person*
25 *so engaged, in (directly or indirectly) providing*

1 *substantial services described in paragraph (1)*
2 *for such partnership or any applicable trade or*
3 *business.*

4 “(d) *TRANSFER OF APPLICABLE PARTNERSHIP INTER-*
5 *EST TO RELATED PERSON.—*

6 “(1) *IN GENERAL.—If a taxpayer transfers any*
7 *applicable partnership interest, directly or indirectly,*
8 *to a person related to the taxpayer, the taxpayer shall*
9 *include in gross income (as short term capital gain)*
10 *the excess (if any) of—*

11 “(A) *so much of the taxpayer’s long-term*
12 *capital gains with respect to such interest for*
13 *such taxable year attributable to the sale or ex-*
14 *change of any asset held for not more than 3*
15 *years as is allocable to such interest, over*

16 “(B) *any amount treated as short term cap-*
17 *ital gain under subsection (a) with respect to the*
18 *transfer of such interest.*

19 “(2) *RELATED PERSON.—For purposes of this*
20 *paragraph, a person is related to the taxpayer if—*

21 “(A) *the person is a member of the tax-*
22 *payer’s family within the meaning of section*
23 *318(a)(1), or*

24 “(B) *the person performed a service within*
25 *the current calendar year or the preceding three*

1 *calendar years in any applicable trade or busi-*
2 *ness in which or for which the taxpayer per-*
3 *formed a service.*

4 “(e) *REPORTING.*—*The Secretary shall require such re-*
5 *porting (at the time and in the manner prescribed by the*
6 *Secretary) as is necessary to carry out the purposes of this*
7 *section.*

8 “(f) *REGULATIONS.*—*The Secretary shall issue such*
9 *regulations or other guidance as is necessary or appropriate*
10 *to carry out the purposes of this section”.*

11 “(b) *COORDINATION WITH SECTION 83.*—*Subsection (e)*
12 *of section 83 is amended by striking “or” at the end of*
13 *paragraph (4), by striking the period at the end of para-*
14 *graph (5) and inserting “, or”, and by adding at the end*
15 *the following new paragraph:*

16 “(6) *a transfer of an applicable partnership in-*
17 *terest to which section 1061 applies.”.*

18 “(c) *CLERICAL AMENDMENT.*—*The table of sections for*
19 *part IV of subchapter O of chapter 1 is amended by striking*
20 *the item relating to 1061 and inserting the following new*
21 *items:*

 “*Sec. 1061. Partnership interests held in connection with performance of services.*
 “*Sec. 1062. Cross references.*”.

22 “(d) *EFFECTIVE DATE.*—*The amendments made by this*
23 *section shall apply to taxable years beginning after Decem-*
24 *ber 31, 2017.*

1 **SEC. 3315. AMORTIZATION OF RESEARCH AND EXPERI-**
2 **MENTAL EXPENDITURES.**

3 (a) *IN GENERAL.*—Section 174 is amended to read as
4 follows:

5 **“SEC. 174. AMORTIZATION OF RESEARCH AND EXPERI-**
6 **MENTAL EXPENDITURES.**

7 “(a) *IN GENERAL.*—In the case of a taxpayer’s speci-
8 fied research or experimental expenditures for any taxable
9 year—

10 “(1) except as provided in paragraph (2), no de-
11 duction shall be allowed for such expenditures, and

12 “(2) the taxpayer shall—

13 “(A) charge such expenditures to capital ac-
14 count, and

15 “(B) be allowed an amortization deduction
16 of such expenditures ratably over the 5-year pe-
17 riod (15-year period in the case of any specified
18 research or experimental expenditures which are
19 attributable to foreign research (within the
20 meaning of section 41(d)(4)(F))) beginning with
21 the midpoint of the taxable year in which such
22 expenditures are paid or incurred.

23 “(b) *SPECIFIED RESEARCH OR EXPERIMENTAL EX-*
24 *PENDITURES.*—For purposes of this section, the term ‘speci-
25 fied research or experimental expenditures’ means, with re-
26 spect to any taxable year, research or experimental expendi-

1 *tures which are paid or incurred by the taxpayer during*
2 *such taxable year in connection with the taxpayer's trade*
3 *or business.*

4 *“(c) SPECIAL RULES.—*

5 *“(1) LAND AND OTHER PROPERTY.—This section*
6 *shall not apply to any expenditure for the acquisition*
7 *or improvement of land, or for the acquisition or im-*
8 *provement of property to be used in connection with*
9 *the research or experimentation and of a character*
10 *which is subject to the allowance under section 167*
11 *(relating to allowance for depreciation, etc.) or section*
12 *611 (relating to allowance for depletion); but for pur-*
13 *poses of this section allowances under section 167,*
14 *and allowances under section 611, shall be considered*
15 *as expenditures.*

16 *“(2) EXPLORATION EXPENDITURES.—This sec-*
17 *tion shall not apply to any expenditure paid or in-*
18 *curring for the purpose of ascertaining the existence,*
19 *location, extent, or quality of any deposit of ore or*
20 *other mineral (including oil and gas).*

21 *“(3) SOFTWARE DEVELOPMENT.—For purposes*
22 *of this section, any amount paid or incurred in con-*
23 *nection with the development of any software shall be*
24 *treated as a research or experimental expenditure.*

1 “(d) *TREATMENT UPON DISPOSITION, RETIREMENT,*
2 *OR ABANDONMENT.*—If any property with respect to which
3 *specified research or experimental expenditures are paid or*
4 *incurred is disposed, retired, or abandoned during the pe-*
5 *riod during which such expenditures are allowed as an am-*
6 *ortization deduction under this section, no deduction shall*
7 *be allowed with respect to such expenditures on account of*
8 *such disposition, retirement, or abandonment and such am-*
9 *ortization deduction shall continue with respect to such ex-*
10 *penditures.”.*

11 (b) *CLERICAL AMENDMENT.*—The table of sections for
12 *part VI of subchapter B of chapter 1 is amended by striking*
13 *the item relating to section 174 and inserting the following*
14 *new item:*

“Sec. 174. *Amortization of research and experimental expenditures.*”.

15 (c) *EFFECTIVE DATE.*—The amendments made by this
16 *section shall apply to amounts paid or incurred in taxable*
17 *years beginning after December 31, 2022.*

18 **SEC. 3316. UNIFORM TREATMENT OF EXPENSES IN CONTIN-**
19 **GENCY FEE CASES.**

20 (a) *IN GENERAL.*—Section 162, as amended by the
21 *preceding provisions of this Act, is amended by redesign-*
22 *ating subsection (r) as subsection (s) and by inserting*
23 *after subsection (q) the following new subsection:*

1 “(r) *EXPENSES IN CONTINGENCY FEE CASES.*—No de-
2 duction shall be allowed under subsection (a) to a taxpayer
3 for any expense—

4 “(1) paid or incurred in the course of the trade
5 or business of practicing law, and

6 “(2) resulting from a case for which the taxpayer
7 is compensated primarily on a contingent basis,
8 until such time as such contingency is resolved.”.

9 (b) *EFFECTIVE DATE.*—The amendment made by this
10 section shall apply to expenses and costs paid or incurred
11 in taxable years beginning after the date of the enactment
12 of this Act.

13 ***Subtitle E—Reform of Business*** 14 ***Credits***

15 ***SEC. 3401. REPEAL OF CREDIT FOR CLINICAL TESTING EX-*** 16 ***PENSES FOR CERTAIN DRUGS FOR RARE DIS-*** 17 ***EASES OR CONDITIONS.***

18 (a) *IN GENERAL.*—Subpart D of part IV of subchapter
19 A of chapter 1 is amended by striking section 45C (and
20 by striking the item relating to such section in the table
21 of sections for such subpart).

22 (b) *CONFORMING AMENDMENTS.*—

23 (1) Section 38(b) is amended by striking para-
24 graph (12).

1 (2) *Section 280C is amended by striking sub-*
2 *section (b).*

3 (3) *Section 6501(m) is amended by striking*
4 *“45C(d)(4),”.*

5 (c) *EFFECTIVE DATE.—The amendments made by this*
6 *section shall apply to amounts paid or incurred in taxable*
7 *years beginning after December 31, 2017.*

8 **SEC. 3402. REPEAL OF EMPLOYER-PROVIDED CHILD CARE**
9 **CREDIT.**

10 (a) *IN GENERAL.—Subpart D of part IV of subchapter*
11 *A of chapter 1 is amended by striking section 45F (and*
12 *by striking the item relating to such section in the table*
13 *of sections for such subpart).*

14 (b) *CONFORMING AMENDMENTS.—*

15 (1) *Section 38(b) is amended by striking para-*
16 *graph (15).*

17 (2) *Section 1016(a) is amended by striking*
18 *paragraph (28).*

19 (c) *EFFECTIVE DATE.—*

20 (1) *IN GENERAL.—Except as otherwise provided*
21 *in this subsection, the amendments made by this sec-*
22 *tion shall apply to taxable years beginning after De-*
23 *cember 31, 2017.*

24 (2) *BASIS ADJUSTMENTS.—The amendment*
25 *made by subsection (b)(2) shall apply to credits deter-*

1 mined for taxable years beginning after December 31,
2 2017.

3 **SEC. 3403. REPEAL OF REHABILITATION CREDIT.**

4 (a) *IN GENERAL.*—Subpart E of part IV of subchapter
5 A of chapter 1 is amended by striking section 47 (and by
6 striking the item relating to such section in the table of sec-
7 tions for such subpart).

8 (b) *CONFORMING AMENDMENTS.*—

9 (1) Section 170(f)(14)(A) is amended by insert-
10 ing “(as in effect before its repeal by the Tax Cuts
11 and Jobs Act)” after “section 47”.

12 (2) Section 170(h)(4) is amended—

13 (A) by striking “(as defined in section
14 47(c)(3)(B))” in subparagraph (C)(ii), and

15 (B) by adding at the end the following new
16 subparagraph:

17 “(D) *REGISTERED HISTORIC DISTRICT.*—

18 The term ‘registered historic district’ means—

19 “(i) any district listed in the National
20 Register, and

21 “(ii) any district—

22 “(I) which is designated under a
23 statute of the appropriate State or
24 local government, if such statute is cer-
25 tified by the Secretary of the Interior

1 to the Secretary as containing criteria
2 which will substantially achieve the
3 purpose of preserving and rehabili-
4 tating buildings of historic significance
5 to the district, and

6 “(II) which is certified by the Sec-
7 retary of the Interior to the Secretary
8 as meeting substantially all of the re-
9 quirements for the listing of districts
10 in the National Register.”.

11 (3) Section 469(i)(3) is amended by striking sub-
12 paragraph (B).

13 (4) Section 469(i)(6)(B) is amended—

14 (A) by striking “in the case of—” and all
15 that follows and inserting “in the case of any
16 credit determined under section 42 for any tax-
17 able year.”, and

18 (B) by striking “, REHABILITATION CRED-
19 IT,” in the heading thereof.

20 (5) Section 469(k)(1) is amended by striking “,
21 or any rehabilitation credit determined under section
22 47,”.

23 (c) *EFFECTIVE DATE.*—

24 (1) *IN GENERAL.*—Except as provided in para-
25 graph (2), the amendments made by this section shall

1 *apply to amounts paid or incurred after December*
2 *31, 2017.*

3 (2) *TRANSITION RULE.—In the case of qualified*
4 *rehabilitation expenditures (within the meaning of*
5 *section 47 of the Internal Revenue Code of 1986 as in*
6 *effect before its repeal) with respect to any building—*

7 (A) *owned or leased (as permitted by sec-*
8 *tion 47 of the Internal Revenue Code of 1986 as*
9 *in effect before its repeal) by the taxpayer at all*
10 *times after December 31, 2017, and*

11 (B) *with respect to which the 24-month pe-*
12 *riod selected by the taxpayer under section*
13 *47(c)(1)(C) of such Code begins not later than*
14 *the end of the 180-day period beginning on the*
15 *date of the enactment of this Act,*

16 *the amendments made by this section shall apply to*
17 *such expenditures paid or incurred after the end of*
18 *the taxable year in which the 24-month period re-*
19 *ferred to in subparagraph (B) ends.*

20 **SEC. 3404. REPEAL OF WORK OPPORTUNITY TAX CREDIT.**

21 (a) *IN GENERAL.—Subpart F of part IV of subchapter*
22 *A of chapter 1 is amended by striking section 51 (and by*
23 *striking the item relating to such section in the table of sec-*
24 *tions for such subpart).*

1 (b) *CLERICAL AMENDMENT.*—*The heading of such sub-*
2 *part F (and the item relating to such subpart in the table*
3 *of subparts for part IV of subchapter A of chapter 1) are*
4 *each amended by striking “Rules for Computing Work Op-*
5 *portunity Credit” and inserting “Special Rules”.*

6 (c) *EFFECTIVE DATE.*—*The amendments made by this*
7 *section shall apply to amounts paid or incurred to individ-*
8 *uals who begin work for the employer after December 31,*
9 *2017.*

10 **SEC. 3405. REPEAL OF DEDUCTION FOR CERTAIN UNUSED**
11 **BUSINESS CREDITS.**

12 (a) *IN GENERAL.*—*Part VI of subchapter B of chapter*
13 *1 is amended by striking section 196 (and by striking the*
14 *item relating to such section in the table of sections for such*
15 *part).*

16 (b) *EFFECTIVE DATE.*—*The amendments made by this*
17 *section shall apply to taxable years beginning after Decem-*
18 *ber 31, 2017.*

19 **SEC. 3406. TERMINATION OF NEW MARKETS TAX CREDIT.**

20 (a) *IN GENERAL.*—*Section 45D(f) is amended—*

21 (1) *by striking “2019” in paragraph (1)(G) and*
22 *inserting “2017”, and*

23 (2) *by striking “2024” in paragraph (3) and in-*
24 *serting “2022”.*

1 (b) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to calendar years beginning after De-*
3 *cember 31, 2017.*

4 **SEC. 3407. REPEAL OF CREDIT FOR EXPENDITURES TO PRO-**
5 **VIDE ACCESS TO DISABLED INDIVIDUALS.**

6 (a) *IN GENERAL.*—*Subpart D of part IV of subchapter*
7 *A of chapter 1 is amended by striking section 44 (and by*
8 *striking the item relating to such section in the table of sec-*
9 *tions for such subpart).*

10 (b) *CONFORMING AMENDMENT.*—*Section 38(b) is*
11 *amended by striking paragraph (7).*

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

15 **SEC. 3408. MODIFICATION OF CREDIT FOR PORTION OF EM-**
16 **PLOYER SOCIAL SECURITY TAXES PAID WITH**
17 **RESPECT TO EMPLOYEE TIPS.**

18 (a) *CREDIT DETERMINED WITH RESPECT TO MIN-*
19 *IMUM WAGE AS IN EFFECT.*—*Section 45B(b)(1)(B) is*
20 *amended by striking “as in effect on January 1, 2007,*
21 *and”.*

22 (b) *INFORMATION RETURN REQUIREMENT.*—*Section*
23 *45B is amended by redesignating subsections (c) and (d)*
24 *as subsections (d) and (e), respectively, and by inserting*
25 *after subsection (b) the following new subsection:*

1 “(c) *INFORMATION RETURN REQUIREMENT.*—

2 “(1) *IN GENERAL.*—No credit shall be determined
3 under subsection (a) with respect to any food or bev-
4 erage establishment of any taxpayer for any taxable
5 year unless such taxpayer has, with respect to the cal-
6 endar year which ends in or with such taxable year—

7 “(A) made a report to the Secretary show-
8 ing the information described in section
9 6053(c)(1) with respect to such food or beverage
10 establishment, and

11 “(B) furnished written statements to each
12 employee of such food or beverage establishment
13 showing the information described in section
14 6053(c)(2).

15 “(2) *ALLOCATION OF 10 PERCENT OF GROSS RE-*
16 *CEIPTS.*—For purposes of determining the informa-
17 tion referred to in subparagraphs (A) and (B), section
18 6053(c)(3)(A)(i) shall be applied by substituting ‘10
19 percent’ for ‘8 percent’. For purposes of section
20 6053(c)(5), any reference to section 6053(c)(3)(B)
21 contained therein shall be treated as including a ref-
22 erence to this paragraph.

23 “(3) *FOOD OR BEVERAGE ESTABLISHMENT.*—For
24 purposes of this subsection, the term ‘food or beverage
25 establishment’ means any trade or business (or por-

1 *tion thereof) which would be a large food or beverage*
2 *establishment (as defined in section 6053(c)(4)) if*
3 *such section were applied without regard to subpara-*
4 *graph (C) thereof.”.*

5 *(c) EFFECTIVE DATE.—The amendments made by this*
6 *section shall apply to taxable years beginning after Decem-*
7 *ber 31, 2017.*

8 ***Subtitle F—Energy Credits***

9 ***SEC. 3501. MODIFICATIONS TO CREDIT FOR ELECTRICITY***
10 ***PRODUCED FROM CERTAIN RENEWABLE RE-***
11 ***SOURCES.***

12 *(a) TERMINATION OF INFLATION ADJUSTMENT.—Sec-*
13 *tion 45(b)(2) is amended—*

14 *(1) by striking “The 1.5 cent amount” and in-*
15 *serting the following:*

16 *“(A) IN GENERAL.—The 1.5 cent amount”,*
17 *and*

18 *(2) by adding at the end the following new sub-*
19 *paragraph:*

20 *“(B) TERMINATION.—Subparagraph (A)*
21 *shall not apply with respect to any electricity or*
22 *refined coal produced at a facility the construc-*
23 *tion of which begins after the date of the enact-*
24 *ment of this subparagraph.”.*

1 (b) *SPECIAL RULE FOR DETERMINATION OF BEGIN-*
2 *NING OF CONSTRUCTION.*—Section 45(e) is amended by
3 *adding at the end the following new paragraph:*

4 “(12) *SPECIAL RULE FOR DETERMINING BEGIN-*
5 *NING OF CONSTRUCTION.*—For purposes of subsection
6 *(d), the construction of any facility, modification, im-*
7 *provement, addition, or other property shall not be*
8 *treated as beginning before any date unless there is a*
9 *continuous program of construction which begins be-*
10 *fore such date and ends on the date that such prop-*
11 *erty is placed in service.”.*

12 (c) *EFFECTIVE DATES.*—

13 (1) *TERMINATION OF INFLATION ADJUSTMENT.*—
14 *The amendments made by subsection (a) shall apply*
15 *to taxable years ending after the date of the enact-*
16 *ment of this Act.*

17 (2) *SPECIAL RULE FOR DETERMINATION OF BE-*
18 *GINNING OF CONSTRUCTION.*—The amendment made
19 *by subsection (b) shall apply to taxable years begin-*
20 *ning before, on, or after the date of the enactment of*
21 *this Act.*

22 **SEC. 3502. MODIFICATION OF THE ENERGY INVESTMENT**
23 **TAX CREDIT.**

24 (a) *EXTENSION OF SOLAR ENERGY PROPERTY.*—Sec-
25 *tion 48(a)(3)(A)(ii) is amended by striking “periods ending*

1 *before January 1, 2017” and inserting “property the con-*
2 *struction of which begins before January 1, 2022”.*

3 *(b) EXTENSION OF QUALIFIED FUEL CELL PROP-*
4 *ERTY.—Section 48(c)(1)(D) is amended by striking “for*
5 *any period after December 31, 2016” and inserting “the*
6 *construction of which does not begin before January 1,*
7 *2022”.*

8 *(c) EXTENSION OF QUALIFIED MICROTURBINE PROP-*
9 *ERTY.—Section 48(c)(2)(D) is amended by striking “for*
10 *any period after December 31, 2016” and inserting “the*
11 *construction of which does not begin before January 1,*
12 *2022”.*

13 *(d) EXTENSION OF COMBINED HEAT AND POWER SYS-*
14 *TEM PROPERTY.—Section 48(c)(3)(A)(iv) is amended by*
15 *striking “which is placed in service before January 1, 2017”*
16 *and inserting “the construction of which begins before Jan-*
17 *uary 1, 2022”.*

18 *(e) EXTENSION OF QUALIFIED SMALL WIND ENERGY*
19 *PROPERTY.—Section 48(c)(4)(C) is amended by striking*
20 *“for any period after December 31, 2016” and inserting*
21 *“the construction of which does not begin before January*
22 *1, 2022”.*

23 *(f) EXTENSION OF THERMAL ENERGY PROPERTY.—*
24 *Section 48(a)(3)(A)(vii) is amended by striking “periods*

1 *ending before January 1, 2017” and inserting “property*
2 *the construction of which begins before January 1, 2022”.*

3 *(g) PHASEOUT OF 30 PERCENT CREDIT RATE FOR*
4 *FUEL CELL AND SMALL WIND ENERGY PROPERTY.—Sec-*
5 *tion 48(a) is amended by adding at the end the following*
6 *new paragraph:*

7 *“(7) PHASEOUT FOR QUALIFIED FUEL CELL*
8 *PROPERTY AND QUALIFIED SMALL WIND ENERGY*
9 *PROPERTY.—*

10 *“(A) IN GENERAL.—In the case of qualified*
11 *fuel cell property or qualified small wind energy*
12 *property, the construction of which begins before*
13 *January 1, 2022, the energy percentage deter-*
14 *mined under paragraph (2) shall be equal to—*

15 *“(i) in the case of any property the*
16 *construction of which begins after December*
17 *31, 2019, and before January 1, 2021, 26*
18 *percent, and*

19 *“(ii) in the case of any property the*
20 *construction of which begins after December*
21 *31, 2020, and before January 1, 2022, 22*
22 *percent.*

23 *“(B) PLACED IN SERVICE DEADLINE.—In*
24 *the case of any qualified fuel cell property or*
25 *qualified small wind energy property, the con-*

1 *struction of which begins before January 1,*
2 *2022, and which is not placed in service before*
3 *January 1, 2024, the energy percentage deter-*
4 *mined under paragraph (2) shall be equal to 10*
5 *percent.”.*

6 *(h) PHASEOUT FOR FIBER-OPTIC SOLAR ENERGY*
7 *PROPERTY.—Subparagraphs (A) and (B) of section*
8 *48(a)(6) are each amended by inserting “or (3)(A)(ii)”*
9 *after “paragraph (3)(A)(i)”.*

10 *(i) TERMINATION OF SOLAR ENERGY PROPERTY.—*
11 *Section 48(a)(3)(A)(i) is amended by inserting “, the con-*
12 *struction of which begins before January 1, 2028, and”*
13 *after “equipment”.*

14 *(j) TERMINATION OF GEOTHERMAL ENERGY PROP-*
15 *ERTY.—Section 48(a)(3)(A)(iii) is amended by inserting “,*
16 *the construction of which begins before January 1, 2028,*
17 *and” after “equipment”.*

18 *(k) SPECIAL RULE FOR DETERMINATION OF BEGIN-*
19 *NING OF CONSTRUCTION.—Section 48(c) is amended by*
20 *adding at the end the following new paragraph:*

21 *“(5) SPECIAL RULE FOR DETERMINING BEGIN-*
22 *NING OF CONSTRUCTION.—The construction of any fa-*
23 *cility, modification, improvement, addition, or other*
24 *property shall not be treated as beginning before any*
25 *date unless there is a continuous program of construc-*

1 *tion which begins before such date and ends on the*
2 *date that such property is placed in service.”.*

3 *(l) EFFECTIVE DATE.—*

4 *(1) IN GENERAL.—Except as otherwise provided*
5 *in this subsection, the amendments made by this sec-*
6 *tion shall apply to periods after December 31, 2016,*
7 *under rules similar to the rules of section 48(m) of the*
8 *Internal Revenue Code of 1986 (as in effect on the*
9 *day before the date of the enactment of the Revenue*
10 *Reconciliation Act of 1990).*

11 *(2) EXTENSION OF COMBINED HEAT AND POWER*
12 *SYSTEM PROPERTY.—The amendment made by sub-*
13 *section (d) shall apply to property placed in service*
14 *after December 31, 2016.*

15 *(3) PHASEOUTS AND TERMINATIONS.—The*
16 *amendments made by subsections (g), (h), (i), and (j)*
17 *shall take effect on the date of the enactment of this*
18 *Act.*

19 *(4) SPECIAL RULE FOR DETERMINATION OF BE-*
20 *GINNING OF CONSTRUCTION.—The amendment made*
21 *by subsection (k) shall apply to taxable years begin-*
22 *ning before, on, or after the date of the enactment of*
23 *this Act.*

1 **SEC. 3503. EXTENSION AND PHASEOUT OF RESIDENTIAL**
2 **ENERGY EFFICIENT PROPERTY.**

3 (a) *EXTENSION.*—Section 25D(h) is amended by strik-
4 ing “December 31, 2016 (December 31, 2021, in the case
5 of any qualified solar electric property expenditures and
6 qualified solar water heating property expenditures)” and
7 inserting “December 31, 2021”.

8 (b) *PHASEOUT.*—

9 (1) *IN GENERAL.*—Paragraphs (3), (4), and (5)
10 of section 25D(a) are amended by striking “30 per-
11 cent” each place it appears and inserting “the appli-
12 cable percentage”.

13 (2) *CONFORMING AMENDMENT.*—Section 25D(g)
14 of such Code is amended by striking “paragraphs (1)
15 and (2) of”.

16 (c) *EFFECTIVE DATE.*—The amendments made by this
17 section shall apply to property placed in service after De-
18 cember 31, 2016.

19 **SEC. 3504. REPEAL OF ENHANCED OIL RECOVERY CREDIT.**

20 (a) *IN GENERAL.*—Subpart D of part IV of subchapter
21 A of chapter 1 is amended by striking section 43 (and by
22 striking the item relating to such section in the table of sec-
23 tions for such subpart).

24 (b) *CONFORMING AMENDMENTS.*—

25 (1) Section 38(b) is amended by striking para-
26 graph (6).

1 (2) *Section 6501(m) is amended by striking*
2 *“43,”.*

3 (c) *EFFECTIVE DATE.*—*The amendments made by this*
4 *section shall apply to taxable years beginning after Decem-*
5 *ber 31, 2017.*

6 **SEC. 3505. REPEAL OF CREDIT FOR PRODUCING OIL AND**
7 **GAS FROM MARGINAL WELLS.**

8 (a) *IN GENERAL.*—*Subpart D of part IV of subchapter*
9 *A of chapter 1 is amended by striking section 45I (and by*
10 *striking the item relating to such section in the table of sec-*
11 *tions for such subpart).*

12 (b) *CONFORMING AMENDMENT.*—*Section 38(b) is*
13 *amended by striking paragraph (19).*

14 (c) *EFFECTIVE DATE.*—*The amendments made by this*
15 *section shall apply to taxable years beginning after Decem-*
16 *ber 31, 2017.*

17 **SEC. 3506. MODIFICATIONS OF CREDIT FOR PRODUCTION**
18 **FROM ADVANCED NUCLEAR POWER FACILI-**
19 **TIES.**

20 (a) *TREATMENT OF UNUTILIZED LIMITATION*
21 *AMOUNTS.*—*Section 45J(b) is amended—*

22 (1) *in paragraph (4), by inserting “or any*
23 *amendment to” after “enactment of”; and*

24 (2) *by adding at the end the following new para-*
25 *graph:*

1 “(5) *ALLOCATION OF UNUTILIZED LIMITATION.*—

2 “(A) *IN GENERAL.*—*Any unutilized na-*
3 *tional megawatt capacity limitation shall be al-*
4 *located by the Secretary under paragraph (3) as*
5 *rapidly as is practicable after December 31,*
6 *2020—*

7 “(i) *first to facilities placed in service*
8 *on or before such date to the extent that*
9 *such facilities did not receive an allocation*
10 *equal to their full nameplate capacity; and*

11 “(ii) *then to facilities placed in service*
12 *after such date in the order in which such*
13 *facilities are placed in service.*

14 “(B) *UNUTILIZED NATIONAL MEGAWATT CA-*
15 *PACITY LIMITATION.*—*The term ‘unutilized na-*
16 *tional megawatt capacity limitation’ means the*
17 *excess (if any) of—*

18 “(i) *6,000 megawatts, over*

19 “(ii) *the aggregate amount of national*
20 *megawatt capacity limitation allocated by*
21 *the Secretary before January 1, 2021, re-*
22 *duced by any amount of such limitation*
23 *which was allocated to a facility which was*
24 *not placed in service before such date.*

1 “(C) *COORDINATION WITH OTHER PROVI-*
2 *SIONS.—In the case of any unutilized national*
3 *megawatt capacity limitation allocated by the*
4 *Secretary pursuant to this paragraph—*

5 “(i) *such allocation shall be treated for*
6 *purposes of this section in the same manner*
7 *as an allocation of national megawatt ca-*
8 *capacity limitation; and*

9 “(ii) *subsection (d)(1)(B) shall not*
10 *apply to any facility which receives such al-*
11 *location.”.*

12 (b) *TRANSFER OF CREDIT BY CERTAIN PUBLIC ENTI-*
13 *TIES.—*

14 (1) *IN GENERAL.—Section 45J is amended—*

15 (A) *by redesignating subsection (e) as sub-*
16 *section (f); and*

17 (B) *by inserting after subsection (d) the fol-*
18 *lowing new subsection:*

19 “(e) *TRANSFER OF CREDIT BY CERTAIN PUBLIC ENTI-*
20 *TIES.—*

21 “(1) *IN GENERAL.—If, with respect to a credit*
22 *under subsection (a) for any taxable year—*

23 “(A) *the taxpayer would be a qualified pub-*
24 *lic entity; and*

1 “(B) *such entity elects the application of*
2 *this paragraph for such taxable year with respect*
3 *to all (or any portion specified in such election)*
4 *of such credit,*
5 *the eligible project partner specified in such election*
6 *(and not the qualified public entity) shall be treated*
7 *as the taxpayer for purposes of this title with respect*
8 *to such credit (or such portion thereof).*

9 “(2) *DEFINITIONS.—For purposes of this sub-*
10 *section—*

11 “(A) *QUALIFIED PUBLIC ENTITY.—The term*
12 *‘qualified public entity’ means—*

13 “(i) *a Federal, State, or local govern-*
14 *ment entity, or any political subdivision,*
15 *agency, or instrumentality thereof;*

16 “(ii) *a mutual or cooperative electric*
17 *company described in section 501(c)(12) or*
18 *section 1381(a)(2); or*

19 “(iii) *a not-for-profit electric utility*
20 *which has or had received a loan or loan*
21 *guarantee under the Rural Electrification*
22 *Act of 1936.*

23 “(B) *ELIGIBLE PROJECT PARTNER.—The*
24 *term ‘eligible project partner’ means—*

1 “(i) *any person responsible for, or par-*
2 *ticipating in, the design or construction of*
3 *the advanced nuclear power facility to*
4 *which the credit under subsection (a) re-*
5 *lates;*

6 “(ii) *any person who participates in*
7 *the provision of the nuclear steam supply*
8 *system to the advanced nuclear power facil-*
9 *ity to which the credit under subsection (a)*
10 *relates;*

11 “(iii) *any person who participates in*
12 *the provision of nuclear fuel to the advanced*
13 *nuclear power facility to which the credit*
14 *under subsection (a) relates; or*

15 “(iv) *any person who has an owner-*
16 *ship interest in such facility.*

17 “(3) *SPECIAL RULES.—*

18 “(A) *APPLICATION TO PARTNERSHIPS.—In*
19 *the case of a credit under subsection (a) which*
20 *is determined at the partnership level—*

21 “(i) *for purposes of paragraph (1)(A),*
22 *a qualified public entity shall be treated as*
23 *the taxpayer with respect to such entity’s*
24 *distributive share of such credit; and*

1 “(ii) the term ‘eligible project partner’
2 shall include any partner of the partner-
3 ship.

4 “(B) TAXABLE YEAR IN WHICH CREDIT
5 TAKEN INTO ACCOUNT.—In the case of any credit
6 (or portion thereof) with respect to which an
7 election is made under paragraph (1), such cred-
8 it shall be taken into account in the first taxable
9 year of the eligible project partner ending with,
10 or after, the qualified public entity’s taxable year
11 with respect to which the credit was determined.

12 “(C) TREATMENT OF TRANSFER UNDER PRI-
13 VATE USE RULES.—For purposes of section
14 141(b)(1), any benefit derived by an eligible
15 project partner in connection with an election
16 under this subsection shall not be taken into ac-
17 count as a private business use.”.

18 (2) SPECIAL RULE FOR PROCEEDS OF TRANS-
19 FERS FOR MUTUAL OR COOPERATIVE ELECTRIC COM-
20 PANIES.—Section 501(c)(12) of such Code is amended
21 by adding at the end the following new subparagraph:

22 “(I) In the case of a mutual or cooperative
23 electric company described in this paragraph or
24 an organization described in section 1381(a)(2),
25 income received or accrued in connection with

1 *an election under section 45J(e)(1) shall be treat-*
2 *ed as an amount collected from members for the*
3 *sole purpose of meeting losses and expenses.”.*

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 (b)*
11 *shall apply to taxable years beginning after the date*
12 *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) is*
16 *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 sections*
2 *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 ACTIV-*
6 *ITY BONDS.—Any reference to section 143, 144, or 146 shall*
7 *be treated as a reference to such section as in effect before*
8 *its repeal by the Tax Cuts and Jobs Act.”.*

9 (3) *Section 26(b)(2) is amended by striking sub-*
10 *paragraph (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 the*
23 *issue)”, and*

24 (B) *by striking the last sentence of subpara-*
25 *graph (D)(v).*

1 (8) *Clause (iv) of section 148(f)(4)(C) is amend-*
2 *ed to read as follows:*

3 “(iv) *CONSTRUCTION ISSUE.—For pur-*
4 *poses of this subparagraph—*

5 “(I) *IN GENERAL.—The term ‘con-*
6 *struction issue’ means any issue if at*
7 *least 75 percent of the available con-*
8 *struction proceeds of such issue are to*
9 *be used for construction expenditures.*

10 “(II) *CONSTRUCTION.—The term*
11 *‘construction’ includes reconstruction*
12 *and rehabilitation.”.*

13 (9) *Section 149(b)(3) is amended by striking*
14 *subparagraph (C).*

15 (10) *Section 149(e)(2) is amended—*

16 (A) *by striking subparagraphs (C), (D),*
17 *and (F) and by redesignating subparagraphs (E)*
18 *and (G) as subparagraphs (C) and (D), respec-*
19 *tively, and*

20 (B) *by striking the second sentence.*

21 (11) *Section 149(f)(6) is amended—*

22 (A) *by striking subparagraph (B), and*

23 (B) *by striking “For purposes of this sub-*
24 *section” and all that follows through “The term”*

1 *and inserting the following: “For purposes of*
2 *this subsection, the term”.*

3 *(12) Section 150(e)(3) is amended to read as fol-*
4 *lows:*

5 *“(3) PUBLIC APPROVAL REQUIREMENT.—A bond*
6 *shall not be treated as part of an issue which meets*
7 *the requirements of paragraph (1) unless such bond*
8 *satisfies the requirements of section 147(f)(2) (as in*
9 *effect before its repeal by the Tax Cuts and Jobs*
10 *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 as*
17 *follows:*

18 *“(A) RELATED PERSONS.—A person is a re-*
19 *lated person to another person if—*

20 *“(i) the relationship between such per-*
21 *sons would result in a disallowance of losses*
22 *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 ‘more*

1 *than 50 percent’ shall be substituted for ‘at*
2 *least 80 percent’ each place it appears*
3 *therein).’.*

4 *(16) Section 6045(e)(4)(B) is amended by insert-*
5 *ing “(as in effect before its repeal by the Tax Cuts*
6 *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), and*

12 *(B) by striking “TAX-EXEMPT BONDS.—”*

13 *and all that follows through “Subsection (a) of*

14 *section 103” and inserting the following: “TAX-*

15 *EXEMPT BONDS.—Subsection (a) of section 103”.*

16 *(c) EFFECTIVE DATE.—The amendments made by this*
17 *section shall apply to bonds issued after December 31, 2017.*

18 **SEC. 3602. REPEAL OF ADVANCE REFUNDING BONDS.**

19 *(a) IN GENERAL.—Paragraph (1) of section 149(d) is*
20 *amended by striking “as part of an issue described in para-*
21 *graph (2), (3), or (4).” and inserting “to advance refund*
22 *another bond.”.*

23 *(b) CONFORMING AMENDMENTS.—*

1 (1) *Section 149(d) is amended by striking para-*
2 *graphs (2), (3), (4), and (6) and by redesignating*
3 *paragraphs (5) and (7) as paragraphs (2) and (3).*

4 (2) *Section 148(f)(4)(C) is amended by striking*
5 *clause (xiv) and by redesignating clauses (xv) to*
6 *(xvii) as clauses (xiv) to (xvi).*

7 (c) *EFFECTIVE DATE.*—*The amendments made by this*
8 *section shall apply to advance refunding bonds issued after*
9 *December 31, 2017.*

10 **SEC. 3603. REPEAL OF TAX CREDIT BONDS.**

11 (a) *IN GENERAL.*—*Part IV of subchapter A of chapter*
12 *1 is amended by striking subparts H, I, and J (and by*
13 *striking the items relating to such subparts in the table of*
14 *subparts for such part).*

15 (b) *PAYMENTS TO ISSUERS.*—*Subchapter B of chapter*
16 *65 is amended by striking section 6431 (and by striking*
17 *the item relating to such section in the table of sections for*
18 *such subchapter).*

19 (c) *CONFORMING AMENDMENTS.*—

20 (1) *Part IV of subchapter U of chapter 1 is*
21 *amended by striking section 1397E (and by striking*
22 *the item relating to such section in the table of sec-*
23 *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 striking*
5 *“, and 6431” and inserting “and” before “36B”.*

6 (4) *Section 6401(b)(1) is amended by striking*
7 *“G, H, I, and J” and inserting “and G”.*

8 (d) *EFFECTIVE DATE.—The amendments made by this*
9 *section shall apply to bonds issued after December 31, 2017.*

10 **SEC. 3604. NO TAX EXEMPT BONDS FOR PROFESSIONAL**
11 **STADIUMS.**

12 (a) *IN GENERAL.—Section 103(b), as amended by this*
13 *Act, is further amended by adding at the end the following*
14 *new paragraph:*

15 *“(4) PROFESSIONAL STADIUM BOND.—Any pro-*
16 *fessional stadium bond.”.*

17 (b) *PROFESSIONAL STADIUM BOND DEFINED.—Sub-*
18 *section (c) of section 103 is amended by adding at the end*
19 *the following new paragraph:*

20 *“(3) PROFESSIONAL STADIUM BOND.—The term*
21 *‘professional stadium bond’ means any bond issued as*
22 *part of an issue any proceeds of which are used to fi-*
23 *nance or refinance capital expenditures allocable to a*
24 *facility (or appurtenant real property) which, during*
25 *at least 5 days during any calendar year, is used as*

1 *a stadium or arena for professional sports exhibitions,*
2 *games, or training.”.*

3 (c) *EFFECTIVE DATE.*—*The amendments made by this*
4 *section shall apply to bonds issued after November 2, 2017.*

5 ***Subtitle H—Insurance***

6 ***SEC. 3701. NET OPERATING LOSSES OF LIFE INSURANCE***
7 ***COMPANIES.***

8 (a) *IN GENERAL.*—*Section 805(b) is amended by strik-*
9 *ing paragraph (4) and by redesignating paragraph (5) as*
10 *paragraph (4).*

11 (b) *CONFORMING AMENDMENTS.*—

12 (1) *Part I of subchapter L of chapter 1 is*
13 *amended by striking section 810 (and by striking the*
14 *item relating to such section in the table of sections*
15 *for such part).*

16 (2) *Part III of subchapter L of chapter 1 is*
17 *amended by striking section 844 (and by striking the*
18 *item relating to such section in the table of sections*
19 *for such part).*

20 (3) *Section 381 is amended by striking sub-*
21 *section (d).*

22 (4) *Section 805(a)(4)(B)(ii) is amended to read*
23 *as follows:*

24 *“(ii) the deduction allowed under sec-*
25 *tion 172,”.*

1 (5) *Section 805(a) is amended by striking para-*
2 *graph (5).*

3 (6) *Section 953(b)(1)(B) is amended to read as*
4 *follows:*

5 “(B) *So much of section 805(a)(8) as relates*
6 *to the deduction allowed under section 172.*”.

7 (c) *EFFECTIVE DATE.*—*The amendments made by this*
8 *section shall apply to losses arising in taxable years begin-*
9 *ning after December 31, 2017.*

10 **SEC. 3702. REPEAL OF SMALL LIFE INSURANCE COMPANY**
11 **DEDUCTION.**

12 (a) *IN GENERAL.*—*Part I of subchapter L of chapter*
13 *1 is amended by striking section 806 (and by striking the*
14 *item relating to such section in the table of sections for such*
15 *part).*

16 (b) *CONFORMING AMENDMENTS.*—

17 (1) *Section 453B(e) is amended—*

18 (A) *by striking “(as defined in section*
19 *806(b)(3))” in paragraph (2)(B), and*

20 (B) *by adding at the end the following new*
21 *paragraph:*

22 “(3) *NONINSURANCE BUSINESS.*—

23 “(A) *IN GENERAL.*—*For purposes of this*
24 *subsection, the term ‘noninsurance business’*

1 *means any activity which is not an insurance*
2 *business.*

3 “(B) *CERTAIN ACTIVITIES TREATED AS IN-*
4 *SURANCE BUSINESSES.—For purposes of sub-*
5 *paragraph (A), any activity which is not an in-*
6 *surance business shall be treated as an insurance*
7 *business if—*

8 “(i) *it is of a type traditionally car-*
9 *ried on by life insurance companies for in-*
10 *vestment purposes, but only if the carrying*
11 *on of such activity (other than in the case*
12 *of real estate) does not constitute the active*
13 *conduct of a trade or business, or*

14 “(ii) *it involves the performance of ad-*
15 *ministrative services in connection with*
16 *plans providing life insurance, pension, or*
17 *accident and health benefits.”.*

18 (2) *Section 465(c)(7)(D)(v)(II) is amended by*
19 *striking “section 806(b)(3)” and inserting “section*
20 *453B(e)(3)”.*

21 (3) *Section 801(a)(2) is amended by striking*
22 *subparagraph (C).*

23 (4) *Section 804 is amended by striking*
24 *“means—” and all that follows and inserting “means*
25 *the general deductions provided in section 805.”.*

1 (5) *Section 805(a)(4)(B), as amended by section*
2 *3701, is amended by striking clause (i) and by redes-*
3 *ignating clauses (ii), (iii), and (iv) as clauses (i),*
4 *(ii), and (iii), respectively.*

5 (6) *Section 805(b)(2)(A) is amended by striking*
6 *clause (iii) and by redesignating clauses (iv) and (v)*
7 *as clauses (iii) and (iv), respectively.*

8 (7) *Section 842(c) is amended by striking para-*
9 *graph (1) and by redesignating paragraphs (2) and*
10 *(3) as paragraphs (1) and (2), respectively.*

11 (8) *Section 953(b)(1), as amended by section*
12 *3701, is amended by striking subparagraph (A) and*
13 *by redesignating subparagraphs (B) and (C) as sub-*
14 *paragraphs (A) and (B), respectively.*

15 (c) *EFFECTIVE DATE.*—*The amendments made by this*
16 *section shall apply to taxable years beginning after Decem-*
17 *ber 31, 2017.*

18 **SEC. 3703. SURTAX ON LIFE INSURANCE COMPANY TAXABLE**

19 **INCOME.**

20 (a) *IN GENERAL.*—*Section 801(a)(1) is amended—*

21 (1) *by striking “consist of a tax” and insert*
22 *“consist of the sum of—*

23 *“(A) a tax”, and*

24 (2) *by striking the period at the end and insert-*
25 *ing “, and”, and*

1 (3) *by adding at the end the following new sub-*
2 *paragraph:*

3 “(B) *a tax equal to 8 percent of the life in-*
4 *surance company taxable income.*”.

5 **SEC. 3704. ADJUSTMENT FOR CHANGE IN COMPUTING RE-**
6 **SERVES.**

7 (a) *IN GENERAL.*—Paragraph (1) of section 807(f) is
8 *amended to read as follows:*

9 “(1) *TREATMENT AS CHANGE IN METHOD OF AC-*
10 *COUNTING.*—*If the basis for determining any item re-*
11 *ferred to in subsection (c) as of the close of any tax-*
12 *able year differs from the basis for such determination*
13 *as of the close of the preceding taxable year, then so*
14 *much of the difference between—*

15 “(A) *the amount of the item at the close of*
16 *the taxable year, computed on the new basis, and*

17 “(B) *the amount of the item at the close of*
18 *the taxable year, computed on the old basis,*

19 *as is attributable to contracts issued before the taxable*
20 *year shall be taken into account under section 481 as*
21 *adjustments attributable to a change in method of ac-*
22 *counting initiated by the taxpayer and made with the*
23 *consent of the Secretary.*”.

1 (b) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to taxable years beginning after Decem-*
3 *ber 31, 2017.*

4 **SEC. 3705. REPEAL OF SPECIAL RULE FOR DISTRIBUTIONS**
5 **TO SHAREHOLDERS FROM PRE-1984 POLICY-**
6 **HOLDERS SURPLUS ACCOUNT.**

7 (a) *IN GENERAL.*—*Subpart D of part I of subchapter*
8 *L is amended by striking section 815 (and by striking the*
9 *item relating to such section in the table of sections for such*
10 *subpart).*

11 (b) *CONFORMING AMENDMENT.*—*Section 801 is*
12 *amended by striking subsection (c).*

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

16 (d) *PHASED INCLUSION OF REMAINING BALANCE OF*
17 *POLICYHOLDERS SURPLUS ACCOUNTS.*—*In the case of any*
18 *stock life insurance company which has a balance (deter-*
19 *mined as of the close of such company's last taxable year*
20 *beginning before January 1, 2018) in an existing policy-*
21 *holders surplus account (as defined in section 815 of the*
22 *Internal Revenue Code of 1986, as in effect before its re-*
23 *peal), the tax imposed by section 801 of such Code for the*
24 *first 8 taxable years beginning after December 31, 2017,*

1 *shall be the amount which would be imposed by such section*
2 *for such year on the sum of—*

3 *(1) life insurance company taxable income for*
4 *such year (within the meaning of such section 801 but*
5 *not less than zero), plus*

6 *(2) $\frac{1}{8}$ of such balance.*

7 **SEC. 3706. MODIFICATION OF PRORATION RULES FOR**
8 **PROPERTY AND CASUALTY INSURANCE COM-**
9 **PANIES.**

10 *(a) IN GENERAL.—Section 832(b)(5)(B) is amended*
11 *by striking “15 percent” and inserting “26.25 percent”.*

12 *(b) EFFECTIVE DATE.—The amendment made by this*
13 *section shall apply to taxable years beginning after Decem-*
14 *ber 31, 2017.*

15 **SEC. 3707. MODIFICATION OF DISCOUNTING RULES FOR**
16 **PROPERTY AND CASUALTY INSURANCE COM-**
17 **PANIES.**

18 *(a) MODIFICATION OF RATE OF INTEREST USED TO*
19 *DISCOUNT UNPAID LOSSES.—Paragraph (2) of section*
20 *846(c) is amended to read as follows:*

21 *“(2) DETERMINATION OF ANNUAL RATE.—The*
22 *annual rate determined by the Secretary under this*
23 *paragraph for any calendar year shall be a rate de-*
24 *termined on the basis of the corporate bond yield*
25 *curve (as defined in section 430(h)(2)(D)(i)).”.*

1 **(b) MODIFICATION OF COMPUTATIONAL RULES FOR**
2 **LOSS PAYMENT PATTERNS.**—Section 846(d)(3) is amended
3 by striking subparagraphs (B) through (G) and inserting
4 the following new subparagraphs:

5 **“(B) TREATMENT OF CERTAIN LOSSES.—**
6 *Losses which would have been treated as paid in*
7 *the last year of the period applicable under sub-*
8 *paragraph (A)(i) or (A)(ii) shall be treated as*
9 *paid in the following manner:*

10 **“(i) 3-YEAR LOSS PAYMENT PAT-**
11 **TERN.—**

12 **“(I) IN GENERAL.—***The period*
13 *taken into account under subpara-*
14 *graph (A)(i) shall be extended to the*
15 *extent required under subclause (II).*

16 **“(II) COMPUTATION OF EXTEN-**
17 **SION.—***The amount of losses which*
18 *would have been treated as paid in the*
19 *3d year after the accident year shall be*
20 *treated as paid in such 3d year and*
21 *each subsequent year in an amount*
22 *equal to the average of the losses treat-*
23 *ed as paid in the 1st and 2d years*
24 *after the accident year (or, if lesser, the*
25 *portion of the unpaid losses not there-*

1 *tofore taken into account). To the ex-*
2 *tent such unpaid losses have not been*
3 *treated as paid before the 18th year*
4 *after the accident year, they shall be*
5 *treated as paid in such 18th year.*

6 *“(ii) 10-YEAR LOSS PAYMENT PAT-*
7 *TERN.—*

8 *“(I) IN GENERAL.—The period*
9 *taken into account under subpara-*
10 *graph (A)(ii) shall be extended to the*
11 *extent required under subclause (II).*

12 *“(II) COMPUTATION OF EXTEN-*
13 *SION.—The amount of losses which*
14 *would have been treated as paid in the*
15 *10th year after the accident year shall*
16 *be treated as paid in such 10th year*
17 *and each subsequent year in an*
18 *amount equal to the amount of the av-*
19 *erage of the losses treated as paid in*
20 *the 7th, 8th, and 9th years after the ac-*
21 *cident year (or, if lesser, the portion of*
22 *the unpaid losses not theretofore taken*
23 *into account). To the extent such un-*
24 *paid losses have not been treated as*
25 *paid before the 25th year after the ac-*

1 *cident year, they shall be treated as*
2 *paid in such 25th year.”.*

3 (c) *REPEAL OF HISTORICAL PAYMENT PATTERN*
4 *ELECTION.*—*Section 846 is amended by striking subsection*
5 *(e) and by redesignating subsections (f) and (g) as sub-*
6 *sections (e) and (f), respectively.*

7 (d) *EFFECTIVE DATE.*—*The amendments made by this*
8 *section shall apply to taxable years beginning after Decem-*
9 *ber 31, 2017.*

10 (e) *TRANSITIONAL RULE.*—*For the first taxable year*
11 *beginning after December 31, 2017—*

12 (1) *the unpaid losses and the expenses unpaid*
13 *(as defined in paragraphs (5)(B) and (6) of section*
14 *832(b) of the Internal Revenue Code of 1986) at the*
15 *end of the preceding taxable year, and*

16 (2) *the unpaid losses as defined in sections*
17 *807(c)(2) and 805(a)(1) of such Code at the end of the*
18 *preceding taxable year,*

19 *shall be determined as if the amendments made by this sec-*
20 *tion had applied to such unpaid losses and expenses unpaid*
21 *in the preceding taxable year and by using the interest rate*
22 *and loss payment patterns applicable to accident years end-*
23 *ing with calendar year 2018, and any adjustment shall be*
24 *taken into account ratably in such first taxable year and*
25 *the 7 succeeding taxable years. For subsequent taxable*

1 *years, such amendments shall be applied with respect to*
2 *such unpaid losses and expenses unpaid by using the inter-*
3 *est rate and loss payment patterns applicable to accident*
4 *years ending with calendar year 2018.*

5 **SEC. 3708. REPEAL OF SPECIAL ESTIMATED TAX PAYMENTS.**

6 *(a) IN GENERAL.—Part III of subchapter L of chapter*
7 *1 is amended by striking section 847 (and by striking the*
8 *item relating to such section in the table of sections for such*
9 *part).*

10 *(b) EFFECTIVE DATE.—The amendments made by this*
11 *section shall apply to taxable years beginning after Decem-*
12 *ber 31, 2017.*

13 ***Subtitle I—Compensation***

14 **SEC. 3801. MODIFICATION OF LIMITATION ON EXCESSIVE**
15 **EMPLOYEE REMUNERATION.**

16 *(a) REPEAL OF PERFORMANCE-BASED COMPENSATION*
17 *AND COMMISSION EXCEPTIONS FOR LIMITATION ON EXCES-*
18 *SIVE EMPLOYEE REMUNERATION.—*

19 *(1) IN GENERAL.—Section 162(m)(4) is amended*
20 *by striking subparagraphs (B) and (C) and by redes-*
21 *ignating subparagraphs (D), (E), (F), and (G) as*
22 *subparagraphs (B), (C), (D), and (E), respectively.*

23 *(2) CONFORMING AMENDMENTS.—*

24 *(A) Paragraphs (5)(E) and (6)(D) of sec-*
25 *tion 162(m) are each amended by striking “sub-*

1 *paragraphs (B), (C), and (D)” and inserting*
2 *“subparagraph (B)”.*

3 *(B) Paragraphs (5)(G) and (6)(G) of sec-*
4 *tion 162(m) are each amended by striking “(F)*
5 *and (G)” and inserting “(D) and (E)”.*

6 *(b) EXPANSION OF APPLICABLE EMPLOYER.—Section*
7 *162(m)(2) is amended to read as follows:*

8 *“(2) PUBLICLY HELD CORPORATION.—For pur-*
9 *poses of this subsection, the term ‘publicly held cor-*
10 *poration’ means any corporation which is an issuer*
11 *(as defined in section 3 of the Securities Exchange*
12 *Act of 1934 (15 U.S.C. 78c))—*

13 *“(A) the securities of which are required to*
14 *be registered under section 12 of such Act (15*
15 *U.S.C. 78l), or*

16 *“(B) that is required to file reports under*
17 *section 15(d) of such Act (15 U.S.C. 78o(d)).”.*

18 *(c) MODIFICATION OF DEFINITION OF COVERED EM-*
19 *PLOYEES.—Section 162(m)(3) is amended—*

20 *(1) in subparagraph (A), by striking “as of the*
21 *close of the taxable year, such employee is the chief ex-*
22 *ecutive officer of the taxpayer or is” and inserting*
23 *“such employee is the principal executive officer or*
24 *principal financial officer of the taxpayer at any*
25 *time during the taxable year, or was”,*

1 (2) *in subparagraph (B)—*

2 (A) *by striking “4” and inserting “3”, and*

3 (B) *by striking “(other than the chief execu-*
4 *tive officer)” and inserting “(other than the*
5 *principal executive officer or principal financial*
6 *officer)”*, and

7 (3) *by striking “or” at the end of subparagraph*
8 *(A), by striking the period at the end of subparagraph*
9 *(B) and inserting “, or”, and by adding at the end*
10 *the following:*

11 “(C) *was a covered employee of the taxpayer*
12 *(or any predecessor) for any preceding taxable*
13 *year beginning after December 31, 2016.*

14 *Such term shall include any employee who would be*
15 *described in subparagraph (B) if the reporting de-*
16 *scribed in such subparagraph were required as so de-*
17 *scribed.”.*

18 (d) *SPECIAL RULE FOR REMUNERATION PAID TO*
19 *BENEFICIARIES, ETC.—Section 162(m)(4), as amended by*
20 *subsection (a), is amended by adding at the end the fol-*
21 *lowing new subparagraph:*

22 “(F) *SPECIAL RULE FOR REMUNERATION*
23 *PAID TO BENEFICIARIES, ETC.—Remuneration*
24 *shall not fail to be applicable employee remu-*
25 *neration merely because it is includible in the*

1 income of, or paid to, a person other than the
2 covered employee, including after the death of the
3 covered employee.”.

4 (e) *EFFECTIVE DATE.*—The amendments made by this
5 section shall apply to taxable years beginning after Decem-
6 ber 31, 2017.

7 **SEC. 3802. EXCISE TAX ON EXCESS TAX-EXEMPT ORGANIZA-**
8 **TION EXECUTIVE COMPENSATION.**

9 (a) *IN GENERAL.*—Subchapter D of chapter 42 is
10 amended by adding at the end the following new section:

11 **“SEC. 4960. TAX ON EXCESS TAX-EXEMPT ORGANIZATION**
12 **EXECUTIVE COMPENSATION.**

13 “(a) *TAX IMPOSED.*—There is hereby imposed a tax
14 equal to 20 percent of the sum of—

15 “(1) so much of the remuneration paid (other
16 than any excess parachute payment) by an applicable
17 tax-exempt organization for the taxable year with re-
18 spect to employment of any covered employee in ex-
19 cess of \$1,000,000, plus

20 “(2) any excess parachute payment paid by such
21 an organization to any covered employee.

22 “(b) *LIABILITY FOR TAX.*—The employer shall be liable
23 for the tax imposed under subsection (a).

24 “(c) *DEFINITIONS AND SPECIAL RULES.*—For pur-
25 poses of this section—

1 “(1) *APPLICABLE TAX-EXEMPT ORGANIZATION.*—

2 *The term ‘applicable tax-exempt organization’ means*
3 *any organization that for the taxable year—*

4 “(A) *is exempt from taxation under section*
5 *501(a),*

6 “(B) *is a farmers’ cooperative organization*
7 *described in section 521(b)(1),*

8 “(C) *has income excluded from taxation*
9 *under section 115(1), or*

10 “(D) *is a political organization described in*
11 *section 527(e)(1).*

12 “(2) *COVERED EMPLOYEE.*—*For purposes of this*
13 *section, the term ‘covered employee’ means any em-*
14 *ployee (including any former employee) of an appli-*
15 *cable tax-exempt organization if the employee—*

16 “(A) *is one of the 5 highest compensated*
17 *employees of the organization for the taxable*
18 *year, or*

19 “(B) *was a covered employee of the organi-*
20 *zation (or any predecessor) for any preceding*
21 *taxable year beginning after December 31, 2016.*

22 “(3) *REMUNERATION.*—*For purposes of this sec-*
23 *tion, the term ‘remuneration’ means wages (as de-*
24 *finied in section 3401(a)), except that such term shall*

1 *not include any designated Roth contribution (as de-*
2 *finied in section 402A(c)).*

3 “(4) *REMUNERATION FROM RELATED ORGANIZA-*
4 *TIONS.—*

5 “(A) *IN GENERAL.—*Remuneration of a cov-
6 *ered employee paid by an applicable tax-exempt*
7 *organization shall include any remuneration*
8 *paid with respect to employment of such em-*
9 *ployee by any related person or governmental en-*
10 *tity.*

11 “(B) *RELATED ORGANIZATIONS.—*A person
12 *or governmental entity shall be treated as related*
13 *to an applicable tax-exempt organization if such*
14 *person or governmental entity—*

15 “(i) *controls, or is controlled by, the*
16 *organization,*

17 “(ii) *is controlled by one or more per-*
18 *sons that control the organization,*

19 “(iii) *is a supported organization (as*
20 *defined in section 509(f)(2)) during the tax-*
21 *able year with respect to the organization,*

22 “(iv) *is a supporting organization de-*
23 *scribed in section 509(a)(3) during the tax-*
24 *able year with respect to the organization,*
25 *or*

1 “(v) *in the case of an organization that*
2 *is a voluntary employees’ beneficiary asso-*
3 *ciation described in section 501(a)(9), estab-*
4 *lishes, maintains, or makes contributions to*
5 *such voluntary employees’ beneficiary asso-*
6 *ciation.*

7 “(C) *LIABILITY FOR TAX.—In any case in*
8 *which remuneration from more than one em-*
9 *ployer is taken into account under this para-*
10 *graph in determining the tax imposed by sub-*
11 *section (a), each such employer shall be liable for*
12 *such tax in an amount which bears the same*
13 *ratio to the total tax determined under sub-*
14 *section (a) with respect to such remuneration*
15 *as—*

16 “(i) *the amount of remuneration paid*
17 *by such employer with respect to such em-*
18 *ployee, bears to*

19 “(ii) *the amount of remuneration paid*
20 *by all such employers to such employee.*

21 “(5) *EXCESS PARACHUTE PAYMENT.—For pur-*
22 *poses determining the tax imposed by subsection*
23 *(a)(2)—*

24 “(A) *IN GENERAL.—The term ‘excess para-*
25 *chute payment’ means an amount equal to the*

1 *excess of any parachute payment over the por-*
2 *tion of the base amount allocated to such pay-*
3 *ment.*

4 “(B) *PARACHUTE PAYMENT.*—*The term*
5 *‘parachute payment’ means any payment in the*
6 *nature of compensation to (or for the benefit of)*
7 *a covered employee if—*

8 “(i) *such payment is contingent on*
9 *such employee’s separation from employ-*
10 *ment with the employer, and*

11 “(ii) *the aggregate present value of the*
12 *payments in the nature of compensation to*
13 *(or for the benefit of) such individual which*
14 *are contingent on such separation equals or*
15 *exceeds an amount equal to 3 times the base*
16 *amount.*

17 *Such term does not include any payment de-*
18 *scribed in section 280G(b)(6) (relating to exemp-*
19 *tion for payments under qualified plans) or any*
20 *payment made under or to an annuity contract*
21 *described in section 403(b) or a plan described*
22 *in section 457(b).*

23 “(C) *BASE AMOUNT.*—*Rules similar to the*
24 *rules of 280G(b)(3) shall apply for purposes of*
25 *determining the base amount.*

1 “(D) *PROPERTY TRANSFERS; PRESENT*
2 *VALUE.—Rules similar to the rules of para-*
3 *graphs (3) and (4) of section 280G(d) shall*
4 *apply.*

5 “(6) *COORDINATION WITH DEDUCTION LIMITA-*
6 *TION.—Remuneration the deduction for which is not*
7 *allowed by reason of section 162(m) shall not be taken*
8 *into account for purposes of this section.*

9 “(d) *REGULATIONS.—The Secretary shall prescribe*
10 *such regulations as may be necessary to prevent avoidance*
11 *of the purposes of this section through the performance of*
12 *services other than as an employee.”.*

13 (b) *CLERICAL AMENDMENT.—The table of sections for*
14 *subchapter D of chapter 42 is amended by adding at the*
15 *end the following new item:*

 “Sec. 4960. *Tax on excess exempt organization executive compensation.*”.

16 (c) *EFFECTIVE DATE.—The amendments made by this*
17 *section shall apply to taxable years beginning after Decem-*
18 *ber 31, 2017.*

19 **SEC. 3803. TREATMENT OF QUALIFIED EQUITY GRANTS.**

20 (a) *IN GENERAL.—*

21 (1) *ELECTION TO DEFER INCOME.—Section 83 is*
22 *amended by adding at the end the following new sub-*
23 *section:*

24 “(i) *QUALIFIED EQUITY GRANTS.—*

1 “(1) *IN GENERAL.*—For purposes of this subtitle,
2 if qualified stock is transferred to a qualified em-
3 ployee who makes an election with respect to such
4 stock under this subsection—

5 “(A) except as provided in subparagraph
6 (B), no amount shall be included in income
7 under subsection (a) for the first taxable year in
8 which the rights of the employee in such stock
9 are transferable or are not subject to a substan-
10 tial risk of forfeiture, whichever is applicable,
11 and

12 “(B) an amount equal to the amount which
13 would be included in income of the employee
14 under subsection (a) (determined without regard
15 to this subsection) shall be included in income
16 for the taxable year of the employee which in-
17 cludes the earliest of—

18 “(i) the first date such qualified stock
19 becomes transferable (including transferable
20 to the employer),

21 “(ii) the date the employee first be-
22 comes an excluded employee,

23 “(iii) the first date on which any stock
24 of the corporation which issued the qualified
25 stock becomes readily tradable on an estab-

1 *lished securities market (as determined by*
2 *the Secretary, but not including any market*
3 *unless such market is recognized as an es-*
4 *tablished securities market by the Secretary*
5 *for purposes of a provision of this title other*
6 *than this subsection),*

7 *“(iv) the date that is 5 years after the*
8 *first date the rights of the employee in such*
9 *stock are transferable or are not subject to*
10 *a substantial risk of forfeiture, whichever*
11 *occurs earlier, or*

12 *“(v) the date on which the employee re-*
13 *vokes (at such time and in such manner as*
14 *the Secretary may provide) the election*
15 *under this subsection with respect to such*
16 *stock.*

17 *“(2) QUALIFIED STOCK.—*

18 *“(A) IN GENERAL.—For purposes of this*
19 *subsection, the term ‘qualified stock’ means, with*
20 *respect to any qualified employee, any stock in*
21 *a corporation which is the employer of such em-*
22 *ployee, if—*

23 *“(i) such stock is received—*

24 *“(I) in connection with the exer-*
25 *cise of an option, or*

1 “(II) in settlement of a restricted
2 stock unit, and

3 “(ii) such option or restricted stock
4 unit was provided by the corporation—

5 “(I) in connection with the per-
6 formance of services as an employee,
7 and

8 “(II) during a calendar year in
9 which such corporation was an eligible
10 corporation.

11 “(B) *LIMITATION.*—The term ‘qualified
12 stock’ shall not include any stock if the employee
13 may sell such stock to, or otherwise receive cash
14 in lieu of stock from, the corporation at the time
15 that the rights of the employee in such stock first
16 become transferable or not subject to a substan-
17 tial risk of forfeiture.

18 “(C) *ELIGIBLE CORPORATION.*—For pur-
19 poses of subparagraph (A)(ii)(II)—

20 “(i) *IN GENERAL.*—The term ‘eligible
21 corporation’ means, with respect to any cal-
22 endar year, any corporation if—

23 “(I) no stock of such corporation
24 (or any predecessor of such corpora-
25 tion) is readily tradable on an estab-

1 *lished securities market (as determined*
2 *under paragraph (1)(B)(iii)) during*
3 *any preceding calendar year, and*

4 *“(II) such corporation has a writ-*
5 *ten plan under which, in such calendar*
6 *year, not less than 80 percent of all*
7 *employees who provide services to such*
8 *corporation in the United States (or*
9 *any possession of the United States)*
10 *are granted stock options, or restricted*
11 *stock units, with the same rights and*
12 *privileges to receive qualified stock.*

13 *“(ii) SAME RIGHTS AND PRIVILEGES.—*
14 *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 a*
19 *similar manner as provided under sec-*
20 *tion 423(b)(5),*

21 *“(II) employees shall not fail to be*
22 *treated as having the same rights and*
23 *privileges to receive qualified stock*
24 *solely because the number of shares*
25 *available to all employees is not equal*

1 *in amount, so long as the number of*
2 *shares available to each employee is*
3 *more than a de minimis amount, and*
4 “(III) *rights and privileges with*
5 *respect to the exercise of an option*
6 *shall not be treated as the same as*
7 *rights and privileges with respect to*
8 *the settlement of a restricted stock unit.*

9 “(iii) *EMPLOYEE.—For purposes of*
10 *clause (i)(II), the term ‘employee’ shall not*
11 *include any employee described in section*
12 *4980E(d)(4) or any excluded employee.*

13 “(iv) *SPECIAL RULE FOR CALENDAR*
14 *YEARS BEFORE 2018.—In the case of any*
15 *calendar year beginning before January 1,*
16 *2018, clause (i)(II) shall be applied without*
17 *regard to whether the rights and privileges*
18 *with respect to the qualified stock are the*
19 *same.*

20 “(3) *QUALIFIED EMPLOYEE; EXCLUDED EM-*
21 *PLOYEE.—For purposes of this subsection—*

22 “(A) *IN GENERAL.—The term ‘qualified em-*
23 *ployee’ means any individual who—*

24 “(i) *is not an excluded employee, and*

1 “(ii) agrees in the election made under
2 this subsection to meet such requirements as
3 determined by the Secretary to be necessary
4 to ensure that the withholding requirements
5 of the corporation under chapter 24 with re-
6 spect to the qualified stock are met.

7 “(B) *EXCLUDED EMPLOYEE*.—The term ‘ex-
8 cluded employee’ means, with respect to any cor-
9 poration, any individual—

10 “(i) who was a 1-percent owner (with-
11 in the meaning of section 416(i)(1)(B)(ii))
12 at any time during the 10 preceding cal-
13 endar years,

14 “(ii) who is or has been at any prior
15 time—

16 “(I) the chief executive officer of
17 such corporation or an individual act-
18 ing in such a capacity, or

19 “(II) the chief financial officer of
20 such corporation or an individual act-
21 ing in such a capacity,

22 “(iii) who bears a relationship de-
23 scribed in section 318(a)(1) to any indi-
24 vidual described in subclause (I) or (II) of
25 clause (ii), or

1 “(iv) who has been for any of the 10
2 preceding taxable years one of the 4 highest
3 compensated officers of such corporation de-
4 termined with respect to each such taxable
5 year on the basis of the shareholder disclo-
6 sure rules for compensation under the Secu-
7 rities Exchange Act of 1934 (as if such rules
8 applied to such corporation).

9 “(4) ELECTION.—

10 “(A) TIME FOR MAKING ELECTION.—An
11 election with respect to qualified stock shall be
12 made under this subsection no later than 30
13 days after the first time the rights of the em-
14 ployee in such stock are transferable or are not
15 subject to a substantial risk of forfeiture, which-
16 ever occurs earlier, and shall be made in a man-
17 ner similar to the manner in which an election
18 is made under subsection (b).

19 “(B) LIMITATIONS.—No election may be
20 made under this section with respect to any
21 qualified stock if—

22 “(i) the qualified employee has made
23 an election under subsection (b) with respect
24 to such qualified stock,

1 “(ii) any stock of the corporation
2 which issued the qualified stock is readily
3 tradable on an established securities market
4 (as determined under paragraph
5 (1)(B)(iii)) at any time before the election
6 is made, or

7 “(iii) such corporation purchased any
8 of its outstanding stock in the calendar year
9 preceding the calendar year which includes
10 the first time the rights of the employee in
11 such stock are transferable or are not subject
12 to a substantial risk of forfeiture, unless—

13 “(I) not less than 25 percent of
14 the total dollar amount of the stock so
15 purchased is deferral stock, and

16 “(II) the determination of which
17 individuals from whom deferral stock
18 is purchased is made on a reasonable
19 basis.

20 “(C) DEFINITIONS AND SPECIAL RULES RE-
21 LATED TO LIMITATION ON STOCK REDEMP-
22 TIONS.—

23 “(i) DEFERRAL STOCK.—For purposes
24 of this paragraph, the term ‘deferral stock’

1 *means stock with respect to which an elec-*
2 *tion is in effect under this subsection.*

3 “(ii) *DEFERRAL STOCK WITH RESPECT*
4 *TO ANY INDIVIDUAL NOT TAKEN INTO AC-*
5 *COUNT IF INDIVIDUAL HOLDS DEFERRAL*
6 *STOCK WITH LONGER DEFERRAL PERIOD.—*
7 *Stock purchased by a corporation from any*
8 *individual shall not be treated as deferral*
9 *stock for purposes of clause (iii) if such in-*
10 *dividual (immediately after such purchase)*
11 *holds any deferral stock with respect to*
12 *which an election has been in effect under*
13 *this subsection for a longer period than the*
14 *election with respect to the stock so pur-*
15 *chased.*

16 “(iii) *PURCHASE OF ALL OUTSTANDING*
17 *DEFERRAL STOCK.—The requirements of*
18 *subclauses (I) and (II) of subparagraph*
19 *(B)(iii) shall be treated as met if the stock*
20 *so purchased includes all of the corpora-*
21 *tion’s outstanding deferral stock.*

22 “(iv) *REPORTING.—Any corporation*
23 *which has outstanding deferral stock as of*
24 *the beginning of any calendar year and*
25 *which purchases any of its outstanding*

1 *stock during such calendar year shall in-*
2 *clude on its return of tax for the taxable*
3 *year in which, or with which, such calendar*
4 *year ends the total dollar amount of its out-*
5 *standing stock so purchased during such*
6 *calendar year and such other information*
7 *as the Secretary may require for purposes of*
8 *administering this paragraph.*

9 “(5) *CONTROLLED GROUPS.*—*For purposes of*
10 *this subsection, all corporations which are members of*
11 *the same controlled group of corporations (as defined*
12 *in section 1563(a)) shall be treated as one corpora-*
13 *tion.*

14 “(6) *NOTICE REQUIREMENT.*—*Any corporation*
15 *that transfers qualified stock to a qualified employee*
16 *shall, at the time that (or a reasonable period before)*
17 *an amount attributable to such stock would (but for*
18 *this subsection) first be includible in the gross income*
19 *of such employee—*

20 “(A) *certify to such employee that such*
21 *stock is qualified stock, and*

22 “(B) *notify such employee—*

23 “(i) *that the employee may elect to*
24 *defer income on such stock under this sub-*
25 *section, and*

1 “(ii) that, if the employee makes such
2 an election—

3 “(I) the amount of income recog-
4 nized at the end of the deferral period
5 will be based on the value of the stock
6 at the time at which the rights of the
7 employee in such stock first become
8 transferable or not subject to substan-
9 tial risk of forfeiture, notwithstanding
10 whether the value of the stock has de-
11 clined during the deferral period,

12 “(II) the amount of such income
13 recognized at the end of the deferral pe-
14 riod will be subject to withholding
15 under section 3401(i) at the rate deter-
16 mined under section 3402(t), and

17 “(III) the responsibilities of the
18 employee (as determined by the Sec-
19 retary under paragraph (3)(A)(ii))
20 with respect to such withholding.

21 “(7) *RESTRICTED STOCK UNITS.*—This section
22 (other than this subsection), including any election
23 under subsection (b), shall not apply to restricted
24 stock units.”.

1 (2) *DEDUCTION BY EMPLOYER.*—Subsection (h)
2 of section 83 is amended by striking “or (d)(2)” and
3 inserting “(d)(2), or (i)”.

4 (b) *WITHHOLDING.*—

5 (1) *TIME OF WITHHOLDING.*—Section 3401 is
6 amended by adding at the end the following new sub-
7 section:

8 “(i) *QUALIFIED STOCK FOR WHICH AN ELECTION IS*
9 *IN EFFECT UNDER SECTION 83(i).*—For purposes of sub-
10 section (a), qualified stock (as defined in section 83(i)) with
11 respect to which an election is made under section 83(i)
12 shall be treated as wages—

13 “(1) received on the earliest date described in
14 section 83(i)(1)(B), and

15 “(2) in an amount equal to the amount included
16 in income under section 83 for the taxable year which
17 includes such date.”.

18 (2) *AMOUNT OF WITHHOLDING.*—Section 3402 is
19 amended by adding at the end the following new sub-
20 section:

21 “(t) *RATE OF WITHHOLDING FOR CERTAIN STOCK.*—
22 In the case of any qualified stock (as defined in section
23 83(i)) with respect to which an election is made under sec-
24 tion 83(i)—

1 “(1) *the rate of tax under subsection (a) shall*
2 *not be less than the maximum rate of tax in effect*
3 *under section 1, and*

4 “(2) *such stock shall be treated for purposes of*
5 *section 3501(b) in the same manner as a non-cash*
6 *fringe benefit.*”.

7 (c) *COORDINATION WITH OTHER DEFERRED COM-*
8 *PENSATION RULES.—*

9 (1) *ELECTION TO APPLY DEFERRAL TO STATU-*
10 *TORY OPTIONS.—*

11 (A) *INCENTIVE STOCK OPTIONS.—Section*
12 *422(b) is amended by adding at the end the fol-*
13 *lowing: “Such term shall not include any option*
14 *if an election is made under section 83(i) with*
15 *respect to the stock received in connection with*
16 *the exercise of such option.*”.

17 (B) *EMPLOYEE STOCK PURCHASE PLANS.—*
18 *Section 423(a) is amended by adding at the end*
19 *the following flush sentence:*

20 *“The preceding sentence shall not apply to any share of*
21 *stock with respect to which an election is made under sec-*
22 *tion 83(i).”.*

23 (2) *EXCLUSION FROM DEFINITION OF NON-*
24 *QUALIFIED DEFERRED COMPENSATION PLAN.—Sub-*

1 *section (d) of section 409A is amended by adding at*
2 *the end the following new paragraph:*

3 *“(7) TREATMENT OF QUALIFIED STOCK.—An ar-*
4 *rangement under which an employee may receive*
5 *qualified stock (as defined in section 83(i)(2)) shall*
6 *not be treated as a nonqualified deferred compensa-*
7 *tion plan solely because of an employee’s election, or*
8 *ability to make an election, to defer recognition of in-*
9 *come under section 83(i).”.*

10 *(d) INFORMATION REPORTING.—Section 6051(a) is*
11 *amended by striking “and” at the end of paragraph (13),*
12 *by striking the period at the end of paragraph (14) and*
13 *inserting a comma, and by inserting after paragraph (14)*
14 *the following new paragraphs:*

15 *“(15) the amount excludable from gross income*
16 *under subparagraph (A) of section 83(i)(1),*

17 *“(16) the amount includible in gross income*
18 *under subparagraph (B) of section 83(i)(1) with re-*
19 *spect to an event described in such subparagraph*
20 *which occurs in such calendar year, and*

21 *“(17) the aggregate amount of income which is*
22 *being deferred pursuant to elections under section*
23 *83(i), determined as of the close of the calendar*
24 *year.”.*

1 (e) *PENALTY FOR FAILURE OF EMPLOYER TO PRO-*
2 *VIDE NOTICE OF TAX CONSEQUENCES.*—Section 6652 is
3 *amended by adding at the end the following new subsection:*

4 “(o) *FAILURE TO PROVIDE NOTICE UNDER SECTION*
5 *83(i).*—*In the case of each failure to provide a notice as*
6 *required by section 83(i)(6), at the time prescribed therefor,*
7 *unless it is shown that such failure is due to reasonable*
8 *cause and not to willful neglect, there shall be paid, on no-*
9 *tice and demand of the Secretary and in the same manner*
10 *as tax, by the person failing to provide such notice, an*
11 *amount equal to \$100 for each such failure, but the total*
12 *amount imposed on such person for all such failures during*
13 *any calendar year shall not exceed \$50,000.”.*

14 (f) *EFFECTIVE DATES.*—

15 (1) *IN GENERAL.*—*Except as provided in para-*
16 *graph (2), the amendments made by this section shall*
17 *apply to stock attributable to options exercised, or re-*
18 *stricted stock units settled, after December 31, 2017.*

19 (2) *REQUIREMENT TO PROVIDE NOTICE.*—*The*
20 *amendments made by subsection (e) shall apply to*
21 *failures after December 31, 2017.*

22 (g) *TRANSITION RULE.*—*Until such time as the Sec-*
23 *retary (or the Secretary’s delegate) issue regulations or*
24 *other guidance for purposes of implementing the require-*
25 *ments of paragraph (2)(C)(i)(II) of section 83(i) of the In-*

1 *ternal Revenue Code of 1986 (as added by this section), or*
2 *the requirements of paragraph (6) of such section, a cor-*
3 *poration shall be treated as being in compliance with such*
4 *requirements (respectively) if such corporation complies*
5 *with a reasonable good faith interpretation of such require-*
6 *ments.*

7 ***TITLE IV—TAXATION OF FOR-***
8 ***EIGN INCOME AND FOREIGN***
9 ***PERSONS***

10 ***Subtitle A—Establishment of Par-***
11 ***ticipation Exemption System for***
12 ***Taxation of Foreign Income***

13 ***SEC. 4001. DEDUCTION FOR FOREIGN-SOURCE PORTION OF***
14 ***DIVIDENDS RECEIVED BY DOMESTIC COR-***
15 ***PORATIONS FROM SPECIFIED 10-PERCENT***
16 ***OWNED FOREIGN CORPORATIONS.***

17 *(a) IN GENERAL.—Part VIII of subchapter B of chap-*
18 *ter 1 is amended by inserting after section 245 the following*
19 *new section:*

20 ***“SEC. 245A. DEDUCTION FOR FOREIGN-SOURCE PORTION***
21 ***OF DIVIDENDS RECEIVED BY DOMESTIC COR-***
22 ***PORATIONS FROM SPECIFIED 10-PERCENT***
23 ***OWNED FOREIGN CORPORATIONS.***

24 *“(a) IN GENERAL.—In the case of any dividend re-*
25 *ceived from a specified 10-percent owned foreign corpora-*

tion by a domestic corporation which is a United States shareholder with respect to such foreign corporation, there shall be allowed as a deduction an amount equal to the foreign-source portion of such dividend.

“(b) *SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATION.*—For purposes of this section, the term ‘specified 10-percent owned foreign corporation’ means any foreign corporation with respect to which any domestic corporation is a United States shareholder. Such term shall not include any passive foreign investment company (within the meaning of subpart D of part VI of subchapter P) that is not a controlled foreign corporation.

“(c) *FOREIGN-SOURCE PORTION.*—For purposes of this section—

“(1) *IN GENERAL.*—The foreign-source portion of any dividend is an amount which bears the same ratio to such dividend as—

“(A) the post-1986 undistributed foreign earnings of the specified 10-percent owned foreign corporation, bears to

“(B) the total post-1986 undistributed earnings of such foreign corporation.

“(2) *POST-1986 UNDISTRIBUTED EARNINGS.*—The term ‘post-1986 undistributed earnings’ means the amount of the earnings and profits of the specified

1 10-percent owned foreign corporation (computed in
2 accordance with sections 964(a) and 986) accumu-
3 lated in taxable years beginning after December 31,
4 1986—

5 “(A) as of the close of the taxable year of the
6 specified 10-percent owned foreign corporation in
7 which the dividend is distributed, and

8 “(B) without diminution by reason of divi-
9 dends distributed during such taxable year.

10 “(3) *POST-1986 UNDISTRIBUTED FOREIGN EARN-*
11 *INGS.—The term ‘post-1986 undistributed foreign*
12 *earnings’ means the portion of the post-1986 undis-*
13 *tributed earnings which is attributable to neither—*

14 “(A) income described in subparagraph (A)
15 of section 245(a)(5), nor

16 “(B) dividends described in subparagraph
17 (B) of such section (determined without regard to
18 section 245(a)(12)).

19 “(4) *TREATMENT OF DISTRIBUTIONS FROM*
20 *EARNINGS BEFORE 1987.—*

21 “(A) *IN GENERAL.—In the case of any divi-*
22 *dend paid out of earnings and profits of the*
23 *specified 10-percent owned foreign corporation*
24 *(computed in accordance with sections 964(a)*

1 *and 1986) accumulated in taxable years begin-*
2 *ning before January 1, 1987—*

3 “(i) paragraphs (1), (2), and (3) shall
4 be applied without regard to the phrase
5 ‘post-1986’ each place it appears, and

6 “(ii) paragraph (2) shall be applied by
7 substituting ‘after the date specified in sec-
8 tion 316(a)(1)’ for ‘in taxable years begin-
9 ning after December 31, 1986’.

10 “(B) *DIVIDENDS PAID FIRST OUT OF POST-*
11 *1986 EARNINGS.—Dividends shall be treated as*
12 *paid out of post-1986 undistributed earnings to*
13 *the extent thereof.*

14 “(5) *TREATMENT OF CERTAIN DIVIDENDS IN EX-*
15 *CESS OF UNDISTRIBUTED EARNINGS.—In the case of*
16 *any dividend from the specified 10-percent owned for-*
17 *ign corporation which is in excess of undistributed*
18 *earnings (as determined under paragraph (2) after*
19 *taking into account the modifications described in*
20 *clauses (i) and (ii) of paragraph (4)(A)), the foreign-*
21 *source portion of such dividend is an amount which*
22 *bears the same ratio to such dividend as—*

23 “(A) *the portion of the earnings and profits*
24 *described in subparagraph (B) which is attrib-*
25 *utable to neither income described in paragraph*

1 (3)(A) *nor dividends described in paragraph*
2 (3)(B), *bears to*

3 “(B) *the earnings and profits of such cor-*
4 *poration for the taxable year in which such dis-*
5 *tribution is made (computed as of the close of the*
6 *taxable year without diminution by reason of*
7 *any distributions made during the taxable year).*

8 “(d) *DISALLOWANCE OF FOREIGN TAX CREDIT, 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 or*
22 *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 para-*
4 *graph:*

5 *“(5) SPECIAL RULES FOR FOREIGN SOURCE POR-*
6 *TION OF DIVIDENDS RECEIVED FROM SPECIFIED 10-*
7 *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’ for*
13 *‘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 DURING*
18 *HOLDING PERIOD.—For purposes of applying*
19 *paragraph (1) with respect to section 245A, the*
20 *taxpayer shall be treated as holding the stock re-*
21 *ferred to in paragraph (1) for any period only*
22 *if—*

23 *“(i) the specified 10-percent owned for-*
24 *eign corporation referred to in section*

1 245A(a) is a specified 10-percent owned for-
2 eign 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 APPLICABLE*
8 *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.—*Section
13 1059(b)(2)(B) is amended by striking “or 245” and
14 inserting “245, or 245A”.

15 (d) *COORDINATION WITH FOREIGN TAX CREDIT LIM-*
16 *ITATION.—*Section 904(b) is amended by adding at the end
17 the following new paragraph:

18 “(5) *TREATMENT OF DIVIDENDS FOR WHICH DE-*
19 *DUCTION IS ALLOWED UNDER SECTION 245A.—*For
20 purposes of subsection (a), in the case of a United
21 States shareholder with respect to a specified 10-per-
22 cent owned foreign corporation, such shareholder’s
23 taxable income from sources without the United
24 States (and entire taxable income) shall be deter-
25 mined without regard to—

1 “(A) the foreign-source portion of any divi-
2 dend received from such foreign corporation, and

3 “(B) any deductions properly allocable or
4 apportioned to—

5 “(i) income (other than subpart F in-
6 come (as defined in section 952) and foreign
7 high return amounts (as defined in section
8 951A(b)) with respect to stock of such speci-
9 fied 10-percent owned foreign corporation,
10 or

11 “(ii) such stock (to the extent income
12 with respect to such stock is other than sub-
13 part F income (as so defined) or foreign
14 high return amounts (as so defined)).

15 Any term which is used in section 245A and in this
16 paragraph shall have the same meaning for purposes
17 of this paragraph as when used in such section.”.

18 (e) CONFORMING AMENDMENTS.—

19 (1) Section 245(a)(4) is amended by striking
20 “section 902(c)(1)” and inserting “section 245A(c)(2)
21 applied by substituting ‘qualified 10-percent owned
22 foreign corporation’ for ‘specified 10-percent owned
23 foreign corporation’ each place it appears”.

24 (2) Section 951(b) is amended by striking “sub-
25 part” and inserting “title”.

1 (3) *Section 957(a) is amended by striking “sub-*
2 *part” in the matter preceding paragraph (1) and in-*
3 *serting “title”.*

4 (4) *The table of sections for part VIII of sub-*
5 *chapter B of chapter 1 is amended by inserting after*
6 *section 245 the following new item:*

“Sec. 245A. Deduction for foreign-source portion of dividends received by domes-
tic corporations from specified 10-percent owned foreign corpora-
tions.”.

7 (f) *EFFECTIVE DATE.—The amendments made by this*
8 *section shall apply to distributions made after (and, in the*
9 *case of the amendments made by subsection (d), deductions*
10 *with respect to taxable years ending after) December 31,*
11 *2017.*

12 **SEC. 4002. APPLICATION OF PARTICIPATION EXEMPTION TO**
13 **INVESTMENTS IN UNITED STATES PROPERTY.**

14 (a) *IN GENERAL.—Section 956(a) is amended in the*
15 *matter preceding paragraph (1) by inserting “(other than*
16 *a corporation)” after “United States shareholder”.*

17 (b) *REGULATORY AUTHORITY TO PREVENT ABUSE.—*
18 *Section 956(e) is amended by striking “including regula-*
19 *tions to prevent” and inserting “including regulations—*

20 *“(1) to address United States shareholders that*
21 *are partnerships with corporate partners, and*

22 *“(2) to prevent”.*

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

4 **SEC. 4003. LIMITATION ON LOSSES WITH RESPECT TO SPEC-**
5 **IFIED 10-PERCENT OWNED FOREIGN COR-**
6 **PORATIONS.**

7 (a) *BASIS IN SPECIFIED 10-PERCENT OWNED FOR-*
8 *EIGN CORPORATION REDUCED BY NONTAXED PORTION OF*
9 *DIVIDEND FOR PURPOSES OF DETERMINING LOSS.*—

10 (1) *IN GENERAL.*—*Section 961 is amended by*
11 *adding at the end the following new subsection:*

12 “(d) *BASIS IN SPECIFIED 10-PERCENT OWNED FOR-*
13 *EIGN CORPORATION REDUCED BY NONTAXED PORTION OF*
14 *DIVIDEND FOR PURPOSES OF DETERMINING LOSS.*—*If a*
15 *domestic corporation received a dividend from a specified*
16 *10-percent owned foreign corporation (as defined in section*
17 *245A) in any taxable year, solely for purposes of deter-*
18 *mining loss on any disposition of stock of such foreign cor-*
19 *poration in such taxable year or any subsequent taxable*
20 *year, the basis of such domestic corporation in such stock*
21 *shall be reduced (but not below zero) by the amount of any*
22 *deduction allowable to such domestic corporation under sec-*
23 *tion 245A with respect to such stock except to the extent*
24 *such basis was reduced under section 1059 by reason of a*
25 *dividend for which such a deduction was allowable.”.*

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

4 (b) *TREATMENT OF FOREIGN BRANCH LOSSES TRANS-*
5 *FERRED TO SPECIFIED 10-PERCENT OWNED FOREIGN COR-*
6 *PORATIONS.*—

7 (1) *IN GENERAL.*—*Part II of subchapter B of*
8 *chapter 1 is amended by adding at the end the fol-*
9 *lowing new section:*

10 **“SEC. 91. CERTAIN FOREIGN BRANCH LOSSES TRANS-**
11 **FERRED TO SPECIFIED 10-PERCENT OWNED**
12 **FOREIGN CORPORATIONS.**

13 “(a) *IN GENERAL.*—*If a domestic corporation trans-*
14 *fers substantially all of the assets of a foreign branch (with-*
15 *in the meaning of section 367(a)(3)(C)) to a specified 10-*
16 *percent owned foreign corporation (as defined in section*
17 *245A) with respect to which it is a United States share-*
18 *holder after such transfer, such domestic corporation shall*
19 *include in gross income for the taxable year which includes*
20 *such transfer an amount equal to the transferred loss*
21 *amount with respect to such transfer.*

22 “(b) *TRANSFERRED LOSS AMOUNT.*—*For purposes of*
23 *this section, the term ‘transferred loss amount’ means, with*
24 *respect to any transfer of substantially all of the assets of*
25 *a foreign branch, the excess (if any) of—*

1 “(1) *the sum of losses—*

2 “(A) *which were incurred by the foreign*
3 *branch after December 31, 2017, and before the*
4 *transfer, and*

5 “(B) *with respect to which a deduction was*
6 *allowed to the taxpayer, over*

7 “(2) *the sum of—*

8 “(A) *any taxable income of such branch for*
9 *a taxable year after the taxable year in which*
10 *the loss was incurred and through the close of the*
11 *taxable year of the transfer, and*

12 “(B) *any amount which is recognized under*
13 *section 904(f)(3) on account of the transfer.*

14 “(c) *REDUCTION FOR RECOGNIZED GAINS.—*

15 “(1) *IN GENERAL.—In the case of a transfer not*
16 *described in section 367(a)(3)(C), the transferred loss*
17 *amount shall be reduced (but not below zero) by the*
18 *amount of gain recognized by the taxpayer on account*
19 *of the transfer (other than amounts taken into ac-*
20 *count under subsection (c)(2)(B)).*

21 “(2) *COORDINATION WITH RECOGNITION UNDER*
22 *SECTION 367.—In the case of a transfer described in*
23 *section 367(a)(3)(C), the transferred loss amount shall*
24 *not exceed the excess (if any) of—*

1 “(A) the excess of the amount described in
2 section 367(a)(3)(C)(i) over the amount described
3 in section 367(a)(3)(C)(ii) with respect to such
4 transfer, over

5 “(B) the amount of gain recognized under
6 section 367(a)(3)(C) with respect to such trans-
7 fer.

8 “(d) *SOURCE OF INCOME.*—Amounts included in gross
9 income under this section shall be treated as derived from
10 sources within the United States.

11 “(e) *BASIS ADJUSTMENTS.*—Consistent with such reg-
12 ulations or other guidance as the Secretary may prescribe,
13 proper adjustments shall be made in the adjusted basis of
14 the taxpayer’s stock in the specified 10-percent owned for-
15 eign corporation to which the transfer is made, and in the
16 transferee’s adjusted basis in the property transferred, to
17 reflect amounts included in gross income under this sec-
18 tion.”.

19 (2) *AMOUNTS RECOGNIZED UNDER SECTION 367*
20 *ON TRANSFER OF FOREIGN BRANCH WITH PREVIOUSLY*
21 *DEDUCTED LOSSES TREATED AS UNITED STATES*
22 *SOURCE.*—Section 367(a)(3)(C) is amended by strik-
23 ing “outside” in the last sentence and inserting
24 “within”.

1 (3) *CLERICAL AMENDMENT.*—*The table of sec-*
2 *tions for part II of subchapter B of chapter 1 is*
3 *amended by adding at the end the following new item:*

 “*Sec. 91. Certain foreign branch losses transferred to specified 10-percent owned
 foreign corporations.*”.

4 (4) *EFFECTIVE DATE.*—*The amendments made*
5 *by this subsection shall apply to transfers after De-*
6 *cember 31, 2017.*

7 **SEC. 4004. TREATMENT OF DEFERRED FOREIGN INCOME**
8 **UPON TRANSITION TO PARTICIPATION EX-**
9 **EMPTION SYSTEM OF TAXATION.**

10 (a) *IN GENERAL.*—*Section 965 is amended to read as*
11 *follows:*

12 **“SEC. 965. TREATMENT OF DEFERRED FOREIGN INCOME**
13 **UPON TRANSITION TO PARTICIPATION EX-**
14 **EMPTION SYSTEM OF TAXATION.**

15 “(a) *TREATMENT OF DEFERRED FOREIGN INCOME AS*
16 *SUBPART F INCOME.*—*In the case of the last taxable year*
17 *of a deferred foreign income corporation which begins before*
18 *January 1, 2018, the subpart F income of such foreign cor-*
19 *poration (as otherwise determined for such taxable year*
20 *under section 952) shall be increased by the greater of—*

21 “(1) *the accumulated post-1986 deferred foreign*
22 *income of such corporation determined as of Novem-*
23 *ber 2, 2017, or*

1 “(2) *the accumulated post-1986 deferred foreign*
2 *income of such corporation determined as of December*
3 *31, 2017.*

4 “(b) *REDUCTION IN AMOUNTS INCLUDED IN GROSS IN-*
5 *COME OF UNITED STATES SHAREHOLDERS OF SPECIFIED*
6 *FOREIGN CORPORATIONS WITH DEFICITS IN EARNINGS*
7 *AND PROFITS.—*

8 “(1) *IN GENERAL.—In the case of a taxpayer*
9 *which is a United States shareholder with respect to*
10 *at least one deferred foreign income corporation and*
11 *at least one E&P deficit foreign corporation, the*
12 *amount which would (but for this subsection) be taken*
13 *into account under section 951(a)(1) by reason of sub-*
14 *section (a) as such United States shareholder’s pro*
15 *rata share of the subpart F income of each deferred*
16 *foreign income corporation shall be reduced (but not*
17 *below zero) by the amount of such United States*
18 *shareholder’s aggregate foreign E&P deficit which is*
19 *allocated under paragraph (2) to such deferred foreign*
20 *income corporation.*

21 “(2) *ALLOCATION OF AGGREGATE FOREIGN E&P*
22 *DEFICIT.—The aggregate foreign E&P deficit of any*
23 *United States shareholder shall be allocated among*
24 *the deferred foreign income corporations of such*

1 *United States shareholder in an amount which bears*
2 *the same proportion to such aggregate as—*

3 “(A) *such United States shareholder’s pro*
4 *rata share of the accumulated post-1986 deferred*
5 *foreign income of each such deferred foreign in-*
6 *come corporation, bears to*

7 “(B) *the aggregate of such United States*
8 *shareholder’s pro rata share of the accumulated*
9 *post-1986 deferred foreign income of all deferred*
10 *foreign income corporations of such United*
11 *States shareholder.*

12 “(3) *DEFINITIONS RELATED TO E&P DEFICITS.—*
13 *For purposes of this subsection—*

14 “(A) *AGGREGATE FOREIGN E&P DEFICIT.—*
15 *The term ‘aggregate foreign E&P deficit’ means,*
16 *with respect to any United States shareholder,*
17 *the aggregate of such shareholder’s pro rata*
18 *shares of the specified E&P deficits of the E&P*
19 *deficit foreign corporations of such shareholder.*

20 “(B) *E&P DEFICIT FOREIGN CORPORA-*
21 *TION.—The term ‘E&P deficit foreign corpora-*
22 *tion’ means, with respect to any taxpayer, any*
23 *specified foreign corporation with respect to*
24 *which such taxpayer is a United States share-*
25 *holder, if—*

1 “(i) *such specified foreign corporation*
2 *has a deficit in post-1986 earnings and*
3 *profits, and*

4 “(ii) *as of November 2, 2017—*

5 “(I) *such corporation was a speci-*
6 *fied foreign corporation, and*

7 “(II) *such taxpayer was a United*
8 *States shareholder of such corporation.*

9 “(C) *SPECIFIED E&P DEFICIT.—The term*
10 *‘specified E&P deficit’ means, with respect to*
11 *any E&P deficit foreign corporation, the amount*
12 *of the deficit referred to in subparagraph (B).*

13 “(4) *NETTING AMONG UNITED STATES SHARE-*
14 *HOLDERS IN SAME AFFILIATED GROUP.—*

15 “(A) *IN GENERAL.—In the case of any af-*
16 *filiated group which includes at least one E&P*
17 *net surplus shareholder and one E&P net deficit*
18 *shareholder, the amount which would (but for*
19 *this paragraph) be taken into account under sec-*
20 *tion 951(a)(1) by reason of subsection (a) by*
21 *each such E&P net surplus shareholder shall be*
22 *reduced (but not below zero) by such share-*
23 *holder’s applicable share of the affiliated group’s*
24 *aggregate unused E&P deficit.*

1 “(B) *E&P NET SURPLUS SHAREHOLDER.*—

2 *For purposes of this paragraph, the term ‘E&P*
3 *net surplus shareholder’ means any United*
4 *States shareholder which would (determined*
5 *without regard to this paragraph) take into ac-*
6 *count an amount greater than zero under section*
7 *951(a)(1) by reason of subsection (a).*

8 “(C) *E&P NET DEFICIT SHAREHOLDER.*—

9 *For purposes of this paragraph, the term ‘E&P*
10 *net deficit shareholder’ means any United States*
11 *shareholder if—*

12 “(i) *the aggregate foreign E&P deficit*
13 *with respect to such shareholder (as defined*
14 *in paragraph (3)(A)), exceeds*

15 “(ii) *the amount which would (but for*
16 *this subsection) be taken into account by*
17 *such shareholder under section 951(a)(1) by*
18 *reason of subsection (a).*

19 “(D) *AGGREGATE UNUSED E&P DEFICIT.*—

20 *For purposes of this paragraph—*

21 “(i) *IN GENERAL.*—*The term ‘aggre-*
22 *gate unused E&P deficit’ means, with re-*
23 *spect to any affiliated group, the lesser of—*

24 “(I) *the sum of the excesses de-*
25 *scribed in subparagraph (C), deter-*

1 mined with respect to each E&P net
2 deficit shareholder in such group, or

3 “(II) the amount determined
4 under subparagraph (E)(ii).

5 “(ii) *REDUCTION WITH RESPECT TO*
6 *E&P NET DEFICIT SHAREHOLDERS WHICH*
7 *ARE NOT WHOLLY OWNED BY THE AFFILI-*
8 *ATED GROUP.—If the group ownership per-*
9 *centage of any E&P net deficit shareholder*
10 *is less than 100 percent, the amount of the*
11 *excess described in subparagraph (C) which*
12 *is taken into account under clause (i)(I)*
13 *with respect to such E&P net deficit share-*
14 *holder shall be such group ownership per-*
15 *centage of such amount.*

16 “(E) *APPLICABLE SHARE.—For purposes of*
17 *this paragraph, the term ‘applicable share’*
18 *means, with respect to any E&P net surplus*
19 *shareholder in any affiliated group, the amount*
20 *which bears the same proportion to such group’s*
21 *aggregate unused E&P deficit as—*

22 “(i) the product of—

23 “(I) such shareholder’s group own-
24 ership percentage, multiplied by

1 “(II) the amount which would
2 (but for this paragraph) be taken into
3 account under section 951(a)(1) by
4 reason of subsection (a) by such share-
5 holder, bears to

6 “(ii) the aggregate amount determined
7 under clause (i) with respect to all E&P net
8 surplus shareholders in such group.

9 “(F) GROUP OWNERSHIP PERCENTAGE.—
10 For purposes of this paragraph, the term ‘group
11 ownership percentage’ means, with respect to
12 any United States shareholder in any affiliated
13 group, the percentage of the value of the stock of
14 such United States shareholder which is held by
15 other includible corporations in such affiliated
16 group. Notwithstanding the preceding sentence,
17 the group ownership percentage of the common
18 parent of the affiliated group is 100 percent.
19 Any term used in this subparagraph which is
20 also used in section 1504 shall have the same
21 meaning as when used in such section.

22 “(c) APPLICATION OF PARTICIPATION EXEMPTION TO
23 INCLUDED INCOME.—

24 “(1) IN GENERAL.—In the case of a United
25 States shareholder of a deferred foreign income cor-

1 *poration, there shall be allowed as a deduction for the*
2 *taxable year in which an amount is included in the*
3 *gross income of such United States shareholder under*
4 *section 951(a)(1) by reason of this section an amount*
5 *equal to the sum of—*

6 *“(A) the United States shareholder’s 7 per-*
7 *cent rate equivalent percentage of the excess (if*
8 *any) of—*

9 *“(i) the amount so included as gross*
10 *income, over*

11 *“(ii) the amount of such United States*
12 *shareholder’s aggregate foreign cash posi-*
13 *tion, plus*

14 *“(B) the United States shareholder’s 14 per-*
15 *cent rate equivalent percentage of so much of the*
16 *amount described in subparagraph (A)(ii) as*
17 *does not exceed the amount described in subpara-*
18 *graph (A)(i).*

19 *“(2) 7 AND 14 PERCENT RATE EQUIVALENT PER-*
20 *CENTAGES.—For purposes of this subsection—*

21 *“(A) 7 PERCENT RATE EQUIVALENT PER-*
22 *CENTAGE.—The term ‘7 percent rate equivalent*
23 *percentage’ means, with respect to any United*
24 *States shareholder for any taxable year, the per-*
25 *centage which would result in the amount to*

1 *which such percentage applies being subject to a*
2 *7 percent rate of tax determined by only taking*
3 *into account a deduction equal to such percent-*
4 *age of such amount and the highest rate of tax*
5 *specified in section 11 for such taxable year. In*
6 *the case of any taxable year of a United States*
7 *shareholder to which section 15 applies, the high-*
8 *est rate of tax under section 11 before the effec-*
9 *tive date of the change in rates and the highest*
10 *rate of tax under section 11 after the effective*
11 *date of such change shall each be taken into ac-*
12 *count under the preceding sentence in the same*
13 *proportions as the portion of such taxable year*
14 *which is before and after such effective date, re-*
15 *spectively.*

16 “(B) 14 PERCENT RATE EQUIVALENT PER-
17 CENTAGE.—The term ‘14 percent rate equivalent
18 percentage’ means, with respect to any United
19 States shareholder for any taxable year, the per-
20 centage determined under subparagraph (A) ap-
21 plied by substituting ‘14 percent rate of tax’ for
22 ‘7 percent rate of tax’.

23 “(3) AGGREGATE FOREIGN CASH POSITION.—For
24 purposes of this subsection—

1 “(A) *IN GENERAL.*—*The term ‘aggregate*
2 *foreign cash position’ means, with respect to any*
3 *United States shareholder, one-third of the sum*
4 *of—*

5 “(i) *the aggregate of such United*
6 *States shareholder’s pro rata share of the*
7 *cash position of each specified foreign cor-*
8 *poration of such United States shareholder*
9 *determined as of November 2, 2017,*

10 “(ii) *the aggregate described in clause*
11 *(i) determined as of the close of the last tax-*
12 *able year of each such specified foreign cor-*
13 *poration which ends before November 2,*
14 *2017, and*

15 “(iii) *the aggregate described in clause*
16 *(i) determined as of the close of the taxable*
17 *year of each such specified foreign corpora-*
18 *tion which precedes the taxable year re-*
19 *ferred to in clause (ii).*

20 *In the case of any foreign corporation which did*
21 *not exist as of the determination date described*
22 *in clause (ii) or (iii), this subparagraph shall be*
23 *applied separately to such foreign corporation by*
24 *not taking into account such clause and by sub-*
25 *stituting ‘one-half (100 percent in the case that*

1 *both clauses (ii) and (iii) are disregarded)*’ for
2 *‘one-third’.*

3 “(B) *CASH POSITION.*—*For purposes of this*
4 *paragraph, the cash position of any specified for-*
5 *foreign corporation is the sum of—*

6 “(i) *cash held by such foreign corpora-*
7 *tion,*

8 “(ii) *the net accounts receivable of such*
9 *foreign corporation, plus*

10 “(iii) *the fair market value of the fol-*
11 *lowing assets held by such corporation:*

12 “(I) *Actively traded personal*
13 *property for which there is an estab-*
14 *lished financial market.*

15 “(II) *Commercial paper, certifi-*
16 *cates of deposit, the securities of the*
17 *Federal government and of any State*
18 *or foreign government.*

19 “(III) *Any foreign currency.*

20 “(IV) *Any obligation with a term*
21 *of less than one year.*

22 “(V) *Any asset which the Sec-*
23 *retary identifies as being economically*
24 *equivalent to any asset described in*
25 *this subparagraph.*

1 “(C) *NET ACCOUNTS RECEIVABLE.*—For
2 purposes of this paragraph, the term ‘net ac-
3 counts receivable’ means, with respect to any
4 specified foreign corporation, the excess (if any)
5 of—

6 “(i) such corporation’s accounts receiv-
7 able, over

8 “(ii) such corporation’s accounts pay-
9 able (determined consistent with the rules of
10 section 461).

11 “(D) *PREVENTION OF DOUBLE COUNTING.*—

12 “(i) *IN GENERAL.*—The applicable per-
13 centage of each specified cash position of a
14 specified foreign corporation shall not be
15 taken into account by—

16 “(I) the United States shareholder
17 referred to in clause (ii) with respect to
18 such position, or

19 “(II) any United States share-
20 holder which is an includible corpora-
21 tion in the same affiliated group as
22 such United States shareholder referred
23 to in clause (ii).

1 “(ii) *SPECIFIED CASH POSITION*.—For
2 purposes of this subparagraph, the term
3 ‘specified cash position’ means—

4 “(I) amounts described in sub-
5 paragraph (B)(ii) to the extent such
6 amounts are receivable from another
7 specified foreign corporation with re-
8 spect to any United States shareholder,

9 “(II) amounts described in sub-
10 paragraph (B)(iii)(I) to the extent
11 such amounts consist of an equity in-
12 terest in another specified foreign cor-
13 poration with respect to any United
14 States shareholder, and

15 “(III) amounts described in sub-
16 paragraph (B)(iii)(IV) to the extent
17 that another specified foreign corpora-
18 tion with respect to any United States
19 shareholder is obligated to repay such
20 amount.

21 “(iii) *APPLICABLE PERCENTAGE*.—For
22 purposes of this subparagraph, the term
23 ‘applicable percentage’ means—

24 “(I) with respect to each specified
25 cash position described in subclause (I)

1 or (III) of clause (ii), the pro rata
2 share of the United States shareholder
3 referred to in clause (ii) with respect to
4 the specified foreign corporation re-
5 ferred to in such clause, and

6 “(II) with respect to each specified
7 cash position described in clause
8 (ii)(II), the ratio (expressed as a per-
9 centage and not in excess of 100 per-
10 cent) of the United States shareholder’s
11 pro rata share of the cash position of
12 the specified foreign corporation re-
13 ferred to in such clause divided by the
14 amount of such specified cash position.

15 For purposes of this subparagraph, a sepa-
16 rate applicable percentage shall be deter-
17 mined under each of subclauses (I) and (II)
18 with respect to each specified foreign cor-
19 poration referred to in clause (ii) with re-
20 spect to which a specified cash position is
21 determined for the specified foreign corpora-
22 tion referred to in clause (i).

23 “(iv) *REDUCTION WITH RESPECT TO*
24 *AFFILIATED GROUP MEMBERS NOT WHOLLY*
25 *OWNED BY THE AFFILIATED GROUP.—For*

1 purposes of clause (i)(II), in the case of an
2 includible corporation the group ownership
3 percentage of which is less than 100 percent
4 (as determined under subsection (b)(4)(F)),
5 the amount not take into account by reason
6 of such clause shall be the group ownership
7 percentage of such amount (determined
8 without regard to this clause).

9 “(E) CERTAIN BLOCKED ASSETS NOT TAKEN
10 INTO ACCOUNT.—A cash position of a specified
11 foreign corporation shall not be taken into ac-
12 count under subparagraph (A) if such position
13 could not (as of the date that it would otherwise
14 have been taken into account under clause (i),
15 (ii), or (iii) of subparagraph (A)) have been dis-
16 tributed by such specified foreign corporation to
17 United States shareholders of such specified for-
18 eign corporation because of currency or other re-
19 strictions or limitations imposed under the laws
20 of any foreign country (within the meaning of
21 section 964(b)).

22 “(F) CASH POSITIONS OF CERTAIN NON-
23 CORPORATE ENTITIES TAKEN INTO ACCOUNT.—
24 An entity (other than a domestic corporation)
25 shall be treated as a specified foreign corporation

1 *of a United States shareholder for purposes of de-*
2 *termining such United States shareholder's ag-*
3 *gregate foreign cash position if any interest in*
4 *such entity is held by a specified foreign corpora-*
5 *tion of such United States shareholder (deter-*
6 *mined after application of this subparagraph)*
7 *and such entity would be a specified foreign cor-*
8 *poration of such United States shareholder if*
9 *such entity were a foreign corporation.*

10 “(G) *TIME OF CERTAIN DETERMINA-*
11 *TIONS.—For purposes of this paragraph, the de-*
12 *termination of whether a person is a United*
13 *States shareholder, whether a person is a speci-*
14 *fied foreign corporation, and the pro rata share*
15 *of a United States shareholder with respect to a*
16 *specified foreign corporation, shall be determined*
17 *as of the end of the taxable year described in sub-*
18 *section (a).*

19 “(H) *ANTI-ABUSE.—If the Secretary deter-*
20 *mines that the principal purpose of any trans-*
21 *action was to reduce the aggregate foreign cash*
22 *position taken into account under this sub-*
23 *section, such transaction shall be disregarded for*
24 *purposes of this subsection.*

1 “(d) *DEFERRED FOREIGN INCOME CORPORATION; AC-*
2 *CUMULATED POST-1986 DEFERRED FOREIGN INCOME.*—
3 *For purposes of this section—*

4 “(1) *DEFERRED FOREIGN INCOME CORPORA-*
5 *TION.*—*The term ‘deferred foreign income corporation’*
6 *means, with respect to any United States shareholder,*
7 *any specified foreign corporation of such United*
8 *States shareholder which has accumulated post-1986*
9 *deferred foreign income (as of the date referred to in*
10 *paragraph (1) or (2) of subsection (a), whichever is*
11 *applicable with respect to such foreign corporation)*
12 *greater than zero.*

13 “(2) *ACCUMULATED POST-1986 DEFERRED FOR-*
14 *EIGN INCOME.*—*The term ‘accumulated post-1986 de-*
15 *ferred foreign income’ means the post-1986 earnings*
16 *and profits except to the extent such earnings—*

17 “(A) *are attributable to income of the speci-*
18 *fied foreign corporation which is effectively con-*
19 *nected with the conduct of a trade or business*
20 *within the United States and subject to tax*
21 *under this chapter, or*

22 “(B) *if distributed, would be excluded from*
23 *the gross income of a United States shareholder*
24 *under section 959.*

1 *To the extent provided in regulations or other guid-*
2 *ance prescribed by the Secretary, in the case of any*
3 *controlled foreign corporation which has shareholders*
4 *which are not United States shareholders, accumu-*
5 *lated post-1986 deferred foreign income shall be ap-*
6 *propriately reduced by amounts which would be de-*
7 *scribed in subparagraph (B) if such shareholders were*
8 *United States shareholders.*

9 “(3) *POST-1986 EARNINGS AND PROFITS.*—*The*
10 *term ‘post-1986 earnings and profits’ means the earn-*
11 *ings and profits of the foreign corporation (computed*
12 *in accordance with sections 964(a) and 986) accumu-*
13 *lated in taxable years beginning after December 31,*
14 *1986, and determined—*

15 “(A) *as of the date referred to in paragraph*
16 *(1) or (2) of subsection (a), whichever is applica-*
17 *ble with respect to such foreign corporation,*

18 “(B) *without diminution by reason of divi-*
19 *dends distributed during the taxable year ending*
20 *with or including such date, and*

21 “(C) *increased by the amount of any quali-*
22 *fied deficit (within the meaning of section*
23 *952(c)(1)(B)(ii)) arising before January 1, 2018,*
24 *which is treated as a qualified deficit (within the*
25 *meaning of such section as amended by the Tax*

1 *Cuts and Jobs Act) for purposes of such foreign*
2 *corporation's first taxable year beginning after*
3 *December 31, 2017.*

4 “(e) *SPECIFIED FOREIGN CORPORATION.*—

5 “(1) *IN GENERAL.*—*For purposes of this section,*
6 *the term ‘specified foreign corporation’ means—*

7 “(A) *any controlled foreign corporation,*
8 *and*

9 “(B) *any foreign corporation with respect*
10 *to which one or more domestic corporations is a*
11 *United States shareholder (determined without*
12 *regard to section 958(b)(4)).*

13 “(2) *APPLICATION TO CERTAIN FOREIGN COR-*
14 *PORATIONS.*—*For purposes of sections 951 and 961, a*
15 *foreign corporation described in paragraph (1)(B)*
16 *shall be treated as a controlled foreign corporation*
17 *solely for purposes of taking into account the subpart*
18 *F income of such corporation under subsection (a)*
19 *(and for purposes of applying subsection (f)).*

20 “(3) *EXCEPTION FOR PASSIVE FOREIGN INVEST-*
21 *MENT COMPANIES.*—*The term ‘specified foreign cor-*
22 *poration’ shall not include any passive foreign invest-*
23 *ment company (within the meaning of subpart D of*
24 *part VI of subchapter P) that is not a controlled for-*
25 *ign corporation.*

1 “(f) *DETERMINATIONS OF PRO RATA SHARE.*—For
2 purposes of this section, the determination of any United
3 States shareholder’s pro rata share of any amount with re-
4 spect to any specified foreign corporation shall be deter-
5 mined under rules similar to the rules of section 951(a)(2)
6 by treating such amount in the same manner as subpart
7 F income (and by treating such specified foreign corpora-
8 tion as a controlled foreign corporation).

9 “(g) *DISALLOWANCE OF FOREIGN TAX CREDIT, ETC.*—
10 “(1) *IN GENERAL.*—No credit shall be allowed
11 under section 901 for the applicable percentage of any
12 taxes paid or accrued (or treated as paid or accrued)
13 with respect to any amount for which a deduction is
14 allowed under this section.

15 “(2) *APPLICABLE PERCENTAGE.*—For purposes
16 of this subsection, the term ‘applicable percentage’
17 means the amount (expressed as a percentage) equal
18 to the sum of—

19 “(A) 80 percent of the ratio of—

20 “(i) the excess to which subsection
21 (c)(1)(A) applies, divided by

22 “(ii) the sum of such excess plus the
23 amount to which subsection (c)(1)(B) ap-
24 plies, plus

25 “(B) 60 percent of the ratio of—

1 “(i) the amount to which subsection
2 (c)(1)(B) applies, divided by

3 “(ii) the sum described in subpara-
4 graph (A)(ii).

5 “(3) DENIAL OF DEDUCTION.—No deduction
6 shall be allowed under this chapter for any tax for
7 which credit is not allowable under section 901 by
8 reason of paragraph (1) (determined by treating the
9 taxpayer as having elected the benefits of subpart A
10 of part III of subchapter N).

11 “(4) COORDINATION WITH SECTION 78.—With re-
12 spect to the taxes treated as paid or accrued by a do-
13 mestic corporation with respect to amounts which are
14 includible in gross income of such domestic corpora-
15 tion by reason of this section, section 78 shall apply
16 only to so much of such taxes as bears the same pro-
17 portion to the amount of such taxes as—

18 “(A) the excess of—

19 “(i) the amounts which are includible
20 in gross income of such domestic corpora-
21 tion by reason of this section, over

22 “(ii) the deduction allowable under
23 subsection (c) with respect to such amounts,
24 bears to

25 “(B) such amounts.

1 “(5) *EXTENSION OF FOREIGN TAX CREDIT CAR-*
2 *RYOVER PERIOD.*—*With respect to any taxes paid or*
3 *accrued (or treated as paid or accrued) with respect*
4 *to any amount for which a deduction is allowed*
5 *under this section, section 904(c) shall be applied by*
6 *substituting ‘first 20 succeeding taxable years’ for*
7 *‘first 10 succeeding taxable years’.*

8 “(h) *ELECTION TO PAY LIABILITY IN INSTALL-*
9 *MENTS.*—

10 “(1) *IN GENERAL.*—*In the case of a United*
11 *States shareholder of a deferred foreign income cor-*
12 *poration, such United States shareholder may elect to*
13 *pay the net tax liability under this section in 8 equal*
14 *installments.*

15 “(2) *DATE FOR PAYMENT OF INSTALLMENTS.*—*If*
16 *an election is made under paragraph (1), the first in-*
17 *stallment shall be paid on the due date (determined*
18 *without regard to any extension of time for filing the*
19 *return) for the return of tax for the taxable year de-*
20 *scribed in subsection (a) and each succeeding install-*
21 *ment shall be paid on the due date (as so determined)*
22 *for the return of tax for the taxable year following the*
23 *taxable year with respect to which the preceding in-*
24 *stallment was made.*

1 “(3) *ACCELERATION OF PAYMENT.*—*If there is*
2 *an addition to tax for failure to timely pay any in-*
3 *stallment required under this subsection, a liquida-*
4 *tion or sale of substantially all the assets of the tax-*
5 *payer (including in a title 11 or similar case), a ces-*
6 *sation of business by the taxpayer, or any similar cir-*
7 *cumstance, then the unpaid portion of all remaining*
8 *installments shall be due on the date of such event (or*
9 *in the case of a title 11 or similar case, the day before*
10 *the petition is filed). The preceding sentence shall not*
11 *apply to the sale of substantially all the assets of a*
12 *taxpayer to a buyer if such buyer enters into an*
13 *agreement with the Secretary under which such buyer*
14 *is liable for the remaining installments due under*
15 *this subsection in the same manner as if such buyer*
16 *were the taxpayer.*

17 “(4) *PRORATION OF DEFICIENCY TO INSTALL-*
18 *MENTS.*—*If an election is made under paragraph (1)*
19 *to pay the net tax liability under this section in in-*
20 *stallments and a deficiency has been assessed with re-*
21 *spect to such net tax liability, the deficiency shall be*
22 *prorated to the installments payable under paragraph*
23 *(1). The part of the deficiency so prorated to any in-*
24 *stallment the date for payment of which has not ar-*
25 *rived shall be collected at the same time as, and as*

1 *a part of, such installment. The part of the deficiency*
2 *so prorated to any installment the date for payment*
3 *of which has arrived shall be paid upon notice and*
4 *demand from the Secretary. This subsection shall not*
5 *apply if the deficiency is due to negligence, to inten-*
6 *tional disregard of rules and regulations, or to fraud*
7 *with intent to evade tax.*

8 *“(5) ELECTION.—Any election under paragraph*
9 *(1) shall be made not later than the due date for the*
10 *return of tax for the taxable year described in sub-*
11 *section (a) and shall be made in such manner as the*
12 *Secretary may provide.*

13 *“(6) NET TAX LIABILITY UNDER THIS SEC-*
14 *TION.—For purposes of this subsection—*

15 *“(A) IN GENERAL.—The net tax liability*
16 *under this section with respect to any United*
17 *States shareholder is the excess (if any) of—*

18 *“(i) such taxpayer’s net income tax for*
19 *the taxable year in which an amount is in-*
20 *cluded in the gross income of such United*
21 *States shareholder under section 951(a)(1)*
22 *by reason of this section, over*

23 *“(ii) such taxpayer’s net income tax*
24 *for such taxable year determined—*

1 “(I) without regard to this sec-
2 tion, and

3 “(II) without regard to any in-
4 come, deduction, or credit, properly at-
5 tributable to a dividend received by
6 such United States shareholder from
7 any deferred foreign income corpora-
8 tion.

9 “(B) NET INCOME TAX.—The term ‘net in-
10 come tax’ means the regular tax liability reduced
11 by the credits allowed under subparts A, B, and
12 D of part IV of subchapter A.

13 “(i) SPECIAL RULES FOR S CORPORATION SHARE-
14 HOLDERS.—

15 “(1) IN GENERAL.—In the case of any S cor-
16 poration which is a United States shareholder of a
17 deferred foreign income corporation, each shareholder
18 of such S corporation may elect to defer payment of
19 such shareholder’s net tax liability under this section
20 with respect to such S corporation until the share-
21 holder’s taxable year which includes the triggering
22 event with respect to such liability. Any net tax li-
23 ability payment of which is deferred under the pre-
24 ceding sentence shall be assessed on the return as an

1 *addition to tax in the shareholder's taxable year*
2 *which includes such triggering event.*

3 “(2) *TRIGGERING EVENT.*—

4 “(A) *IN GENERAL.*—*In the case of any*
5 *shareholder's net tax liability under this section*
6 *with respect to any S corporation, the triggering*
7 *event with respect to such liability is whichever*
8 *of the following occurs first:*

9 “(i) *Such corporation ceases to be an S*
10 *corporation (determined as of the first day*
11 *of the first taxable year that such corpora-*
12 *tion is not an S corporation).*

13 “(ii) *A liquidation or sale of substan-*
14 *tially all the assets of such S corporation*
15 *(including in a title 11 or similar case), a*
16 *cessation of business by such S corporation,*
17 *such S corporation ceases to exist, or any*
18 *similar circumstance.*

19 “(iii) *A transfer of any share of stock*
20 *in such S corporation by the taxpayer (in-*
21 *cluding by reason of death, or otherwise).*

22 “(B) *PARTIAL TRANSFERS OF STOCK.*—*In*
23 *the case of a transfer of less than all of the tax-*
24 *payer's shares of stock in the S corporation, such*
25 *transfer shall only be a triggering event with re-*

1 *spect to so much of the taxpayer's net tax liabil-*
2 *ity under this section with respect to such S cor-*
3 *poration as is properly allocable to such stock.*

4 “(C) *TRANSFER OF LIABILITY.*—A transfer
5 *described in clause (iii) shall not be treated as*
6 *a triggering event if the transferee enters into an*
7 *agreement with the Secretary under which such*
8 *transferee is liable for net tax liability with re-*
9 *spect to such stock in the same manner as if such*
10 *transferee were the taxpayer.*

11 “(3) *NET TAX LIABILITY.*—A shareholder's net
12 *tax liability under this section with respect to any S*
13 *corporation is the net tax liability under this section*
14 *which would be determined under subsection (h)(6) if*
15 *the only subpart F income taken into account by such*
16 *shareholder by reason of this section were allocations*
17 *from such S corporation.*

18 “(4) *ELECTION TO PAY DEFERRED LIABILITY IN*
19 *INSTALLMENTS.*—In the case of a taxpayer which
20 *elects to defer payment under paragraph (1)—*

21 “(A) *subsection (h) shall be applied sepa-*
22 *rately with respect to the liability to which such*
23 *election applies,*

24 “(B) *an election under subsection (h) with*
25 *respect to such liability shall be treated as timely*

1 *made if made not later than the due date for the*
2 *return of tax for the taxable year in which the*
3 *triggering event with respect to such liability oc-*
4 *curs,*

5 *“(C) the first installment under subsection*
6 *(h) with respect to such liability shall be paid*
7 *not later than such due date (but determined*
8 *without regard to any extension of time for filing*
9 *the return), and*

10 *“(D) if the triggering event with respect to*
11 *any net tax liability is described in paragraph*
12 *(2)(A)(ii), an election under subsection (h) with*
13 *respect to such liability may be made only with*
14 *the consent of the Secretary.*

15 *“(5) JOINT AND SEVERAL LIABILITY OF S COR-*
16 *PORATION.—If any shareholder of an S corporation*
17 *elects to defer payment under paragraph (1), such S*
18 *corporation shall be jointly and severally liable for*
19 *such payment and any penalty, addition to tax, or*
20 *additional amount attributable thereto.*

21 *“(6) EXTENSION OF LIMITATION ON COLLEC-*
22 *TION.—Notwithstanding any other provision of law,*
23 *any limitation on the time period for the collection of*
24 *a liability deferred under this subsection shall not be*

1 *treated as beginning before the date of the triggering*
2 *event with respect to such liability.*

3 “(7) *ANNUAL REPORTING OF NET TAX LIABIL-*
4 *ITY.—*

5 “(A) *IN GENERAL.—Any shareholder of an*
6 *S corporation which makes an election under*
7 *paragraph (1) shall report the amount of such*
8 *shareholder’s deferred net tax liability on such*
9 *shareholder’s return of tax for the taxable year*
10 *for which such election is made and on the re-*
11 *turn of tax for each taxable year thereafter until*
12 *such amount has been fully assessed on such re-*
13 *turns.*

14 “(B) *DEFERRED NET TAX LIABILITY.—For*
15 *purposes of this paragraph, the term ‘deferred*
16 *net tax liability’ means, with respect to any tax-*
17 *able year, the amount of net tax liability pay-*
18 *ment of which has been deferred under para-*
19 *graph (1) and which has not been assessed on a*
20 *return of tax for any prior taxable year.*

21 “(C) *FAILURE TO REPORT.—In the case of*
22 *any failure to report any amount required to be*
23 *reported under subparagraph (A) with respect to*
24 *any taxable year before the due date for the re-*
25 *turn of tax for such taxable year, there shall be*

1 *assessed on such return as an addition to tax 5*
2 *percent of such amount.*

3 “(8) *ELECTION.*—*Any election under paragraph*
4 *(1)—*

5 “(A) *shall be made by the shareholder of the*
6 *S corporation not later than the due date for*
7 *such shareholder’s return of tax for the taxable*
8 *year which includes the close of the taxable year*
9 *of such S corporation in which the amount de-*
10 *scribed in subsection (a) is taken into account,*
11 *and*

12 “(B) *shall be made in such manner as the*
13 *Secretary may provide.*

14 “(j) *REPORTING BY S CORPORATION.*—*Each S cor-*
15 *poration which is a United States shareholder of a deferred*
16 *foreign income corporation shall report in its return of tax*
17 *under section 6037(a) the amount includible in its gross*
18 *income for such taxable year by reason of this section and*
19 *the amount of the deduction allowable by subsection (c).*
20 *Any copy provided to a shareholder under section 6037(b)*
21 *shall include a statement of such shareholder’s pro rata*
22 *share of such amounts.*

23 “(k) *INCLUSION OF DEFERRED FOREIGN INCOME*
24 *UNDER THIS SECTION NOT TO TRIGGER RECAPTURE OF*
25 *OVERALL FOREIGN LOSS, ETC.*—*For purposes of sections*

1 904(f)(1) and 907(c)(4), in the case of a United States
2 shareholder of a deferred foreign income corporation, such
3 United States shareholder's taxable income from sources
4 without the United States and combined foreign oil and gas
5 income shall be determined without regard to this section.

6 “(l) *REGULATIONS.*—The Secretary may prescribe
7 such regulations or other guidance as may be necessary or
8 appropriate to carry out the provisions of this section.”.

9 (b) *CLERICAL AMENDMENT.*—The table of sections for
10 subpart F of part III of subchapter N of chapter 1 is
11 amended by striking the item relating to section 965 and
12 inserting the following:

“Sec. 965. *Treatment of deferred foreign income upon transition to participation exemption system of taxation.*”.

13 ***Subtitle B—Modifications Related***
14 ***to Foreign Tax Credit System***

15 ***SEC. 4101. REPEAL OF SECTION 902 INDIRECT FOREIGN TAX***

16 ***CREDITS; DETERMINATION OF SECTION 960***

17 ***CREDIT ON CURRENT YEAR BASIS.***

18 (a) *REPEAL OF SECTION 902 INDIRECT FOREIGN TAX*
19 *CREDITS.*—Subpart A of part III of subchapter N of chap-
20 ter 1 is amended by striking section 902.

21 (b) *DETERMINATION OF SECTION 960 CREDIT ON CUR-*
22 *RENT YEAR BASIS.*—Section 960 is amended—

23 (1) by striking subsection (c), by redesignating
24 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 corpora-*
7 *tion any item of income under section 951(a)(1) with re-*
8 *spect to any controlled foreign corporation with respect to*
9 *which such domestic corporation is a United States share-*
10 *holder, such domestic corporation shall be deemed to have*
11 *paid so much of such foreign corporation’s foreign income*
12 *taxes as are properly attributable to such item of income.*

13 “(b) *SPECIAL RULES FOR DISTRIBUTIONS FROM PRE-*
14 *VIOUSLY TAXED EARNINGS AND PROFITS.*—*For purposes of*
15 *this subpart—*

16 “(1) *IN GENERAL.*—*If any portion of a distribu-*
17 *tion from a controlled foreign corporation to a domes-*
18 *tic corporation which is a United States shareholder*
19 *with respect to such controlled foreign corporation is*
20 *excluded from gross income under section 959(a), such*
21 *domestic corporation shall be deemed to have paid so*
22 *much of such foreign corporation’s foreign income*
23 *taxes as—*

24 “(A) *are properly attributable to such por-*
25 *tion, and*

1 “(B) have not been deemed to have to been
2 paid by such domestic corporation under this
3 section for the taxable year or any prior taxable
4 year.

5 “(2) *TIERED CONTROLLED FOREIGN CORPORA-*
6 *TIONS.—If section 959(b) applies to any portion of a*
7 *distribution from a controlled foreign corporation to*
8 *another controlled foreign corporation, such controlled*
9 *foreign corporation shall be deemed to have paid so*
10 *much of such other controlled foreign corporation’s*
11 *foreign income taxes as—*

12 “(A) are properly attributable to such por-
13 tion, and

14 “(B) have not been deemed to have been
15 paid by a domestic corporation under this sec-
16 tion for the taxable year or any prior taxable
17 year.”,

18 (2) and by adding after subsection (c) (as so re-
19 designated) the following new subsections:

20 “(d) *FOREIGN INCOME TAXES.—The term ‘foreign in-*
21 *come taxes’ means any income, war profits, or excess profits*
22 *taxes paid or accrued to any foreign country or possession*
23 *of the United States.*

1 “(e) *REGULATIONS.*—*The Secretary may prescribe*
2 *such regulations or other guidance as may be necessary or*
3 *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 CRED-**
7 **IT.**

8 *“If a domestic corporation chooses to have the benefits*
9 *of subpart A of part III of subchapter N (relating to foreign*
10 *tax credit) for any taxable year, an amount equal to the*
11 *taxes deemed to be paid by such corporation under sub-*
12 *sections (a) and (b) of section 960 for such taxable year*
13 *shall be treated for purposes of this title (other than sections*
14 *959, 960, and 961) as an item of income required to be*
15 *included in the gross income of such domestic corporation*
16 *under section 951(a) for such taxable year.*”.

17 (2) *Section 245(a)(10)(C) is amended by striking*
18 *“sections 902, 907, and 960” and inserting “sections*
19 *907 and 960”.*

20 (3) *Sections 535(b)(1) and 545(b)(1) are each*
21 *amended by striking “section 902(a) or 960(a)(1)”*
22 *and inserting “section 960”.*

23 (4) *Section 814(f)(1) is amended—*

24 *(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 striking
5 “sections 902, 907, and 960” and inserting “sections
6 907 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 through
11 “that portion” and inserting “but is not limited to,
12 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 striking
18 “sections 902 and 960” and inserting “section 960”.

19 (11) Section 901(k)(2) is amended by striking
20 “section 853, 902, or 960” and inserting “section 853
21 or 960”.

22 (12) Section 901(k)(6) is amended by striking
23 “902 or”.

24 (13) Section 901(m)(1) is amended by striking
25 “relevant foreign assets—” and all that follows and

1 *inserting “relevant foreign assets shall not be taken*
2 *into account in determining the credit allowed under*
3 *subsection (a).”.*

4 (14) *Section 904(d)(1) is amended by striking*
5 *“sections 902, 907, and 960” and inserting “sections*
6 *907 and 960”.*

7 (15) *Section 904(d)(6)(A) is amended by striking*
8 *“sections 902, 907, and 960” and inserting “sections*
9 *907 and 960”.*

10 (16) *Section 904(h)(10)(A) is amended by strik-*
11 *ing “sections 902, 907, and 960” and inserting “sec-*
12 *tions 907 and 960”.*

13 (17) *Section 904 is amended by striking sub-*
14 *section (k).*

15 (18) *Section 905(c)(1) is amended by striking*
16 *the last sentence.*

17 (19) *Section 905(c)(2)(B)(i) is amended to read*
18 *as follows:*

19 *“(i) shall be taken into account for the*
20 *taxable year to which such taxes relate,*
21 *and”.*

22 (20) *Section 906(a) is amended by striking “(or*
23 *deemed, under section 902, paid or accrued during*
24 *the taxable year)”.*

1 (21) *Section 906(b) is amended by striking para-*
2 *graphs (4) and (5).*

3 (22) *Section 907(b)(2)(B) is amended by striking*
4 *“902 or”.*

5 (23) *Section 907(c)(3) is amended—*

6 *(A) by striking subparagraph (A) and re-*
7 *designating subparagraphs (B) and (C) as sub-*
8 *paragraphs (A) and (B), respectively, and*

9 *(B) by striking “section 960(a)” in sub-*
10 *paragraph (A) (as so redesignated) and inserting*
11 *“section 960”.*

12 (24) *Section 907(c)(5) is amended by striking*
13 *“902 or”.*

14 (25) *Section 907(f)(2)(B)(i) is amended by strik-*
15 *ing “902 or”.*

16 (26) *Section 908(a) is amended by striking “902*
17 *or”.*

18 (27) *Section 909(b) is amended—*

19 *(A) by striking “section 902 corporation” in*
20 *the matter preceding paragraph (1) and insert-*
21 *ing “10/50 corporation”,*

22 *(B) by striking “902 or” in paragraph (1),*

23 *(C) by striking “by such section 902 cor-*
24 *poration” and all that follows in the matter fol-*
25 *lowing paragraph (2) and inserting “by such 10/*

1 50 corporation or a domestic corporation which
2 is a United States shareholder with respect to
3 such 10/50 corporation.”, and

4 (D) by striking “SECTION 902 CORPORA-
5 TIONS” in the heading thereof and inserting “10/
6 50 CORPORATIONS”.

7 (28) Section 909(d)(5) is amended to read as fol-
8 lows:

9 “(5) 10/50 CORPORATION.—The term ‘10/50 cor-
10 poration’ means any foreign corporation with respect
11 to which one or more domestic corporations is a
12 United States shareholder.”.

13 (29) Section 958(a)(1) is amended by striking
14 “960(a)(1)” and inserting “960”.

15 (30) Section 959(d) is amended by striking “Ex-
16 cept as provided in section 960(a)(3), any” and in-
17 serting “Any”.

18 (31) Section 959(e) is amended by striking “sec-
19 tion 960(b)” and inserting “section 960(c)”.

20 (32) Section 1291(g)(2)(A) is amended by strik-
21 ing “any distribution—” and all that follows through
22 “but only if” and inserting “any distribution, any
23 withholding tax imposed with respect to such dis-
24 tribution, but only if”.

1 (33) *Section 6038(c)(1)(B) is amended by strik-*
2 *ing “sections 902 (relating to foreign tax credit for*
3 *corporate stockholder in foreign corporation) and 960*
4 *(relating to special rules for foreign tax credit)” and*
5 *inserting “section 960”.*

6 (34) *Section 6038(c)(4) is amended by striking*
7 *subparagraph (C).*

8 (35) *The table of sections for subpart A of part*
9 *III of subchapter N of chapter 1 is amended by strik-*
10 *ing the item relating to section 902.*

11 (36) *The table of sections for subpart F of part*
12 *III of subchapter N of chapter 1 is amended by strik-*
13 *ing the item relating to section 960 and inserting the*
14 *following:*

“Sec. 960. Deemed paid credit for subpart F inclusions.”.

15 (d) *EFFECTIVE DATE.—The amendments made by this*
16 *section shall apply to taxable years beginning after Decem-*
17 *ber 31, 2017.*

18 **SEC. 4102. SOURCE OF INCOME FROM SALES OF INVENTORY**
19 **DETERMINED SOLELY ON BASIS OF PRODUC-**
20 **TION ACTIVITIES.**

21 (a) *IN GENERAL.—Section 863(b) is amended by add-*
22 *ing at the end the following: “Gains, profits, and income*
23 *from the sale or exchange of inventory property described*
24 *in paragraph (2) shall be allocated and apportioned be-*
25 *tween sources within and without the United States solely*

1 *on the basis of the production activities with respect to the*
2 *property.”.*

3 (b) *EFFECTIVE DATE.*—*The amendment made by this*
4 *section shall apply to taxable years beginning after Decem-*
5 *ber 31, 2017.*

6 ***Subtitle C—Modification of Subpart***
7 ***F Provisions***

8 ***SEC. 4201. REPEAL OF INCLUSION BASED ON WITHDRAWAL***
9 ***OF PREVIOUSLY EXCLUDED SUBPART F IN-***
10 ***COME FROM QUALIFIED INVESTMENT.***

11 (a) *IN GENERAL.*—*Subpart F of part III of subchapter*
12 *N of chapter 1 is amended by striking section 955.*

13 (b) *CONFORMING AMENDMENTS.*—

14 (1)(A) *Section 951(a)(1)(A) is amended to read*
15 *as follows:*

16 “(A) *his pro rata share (determined under*
17 *paragraph (2)) of the corporation’s subpart F*
18 *income for such year, and”.*

19 (B) *Section 851(b)(3) is amended by striking*
20 *“section 951(a)(1)(A)(i)” in the flush language at the*
21 *end and inserting “section 951(a)(1)(A)”.*

22 (C) *Section 952(c)(1)(B)(i) is amended by strik-*
23 *ing “section 951(a)(1)(A)(i)” and inserting “section*
24 *951(a)(1)(A)”.*

1 (D) Section 953(c)(1)(C) is amended by striking
2 “section 951(a)(1)(A)(i)” and inserting “section
3 951(a)(1)(A)”.

4 (2) *Section 951(a) is amended by striking para-*
5 *graph (3).*

6 (3) *Section 953(d)(4)(B)(iv)(II) is amended by*
7 *striking “or amounts referred to in clause (ii) or (iii)*
8 *of section 951(a)(1)(A)”.*

9 (4) Section 964(b) is amended by striking “,
10 955,”.

11 (5) *Section 970 is amended by striking sub-*
12 *section (b).*

(6) *The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 955.*

(c) *EFFECTIVE DATE.*—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

21 **SEC. 4202. REPEAL OF TREATMENT OF FOREIGN BASE COM-**
22 **PANY OIL RELATED INCOME AS SUBPART F**
23 **INCOME.**

24 (a) *IN GENERAL.*—Section 954(a) is amended by strik-
25 ing paragraph (5), by striking the comma at the end of

1 *paragraph (3) and inserting a period, and by inserting*
2 *“and” at the end of paragraph (2).*

3 *(b) CONFORMING AMENDMENTS.—*

4 *(1) Section 952(c)(1)(B)(iii) is amended by*
5 *striking subclause (I) and by redesignating subclauses*
6 *(II) through (V) as subclauses (I) through (IV), re-*
7 *spectively.*

8 *(2) Section 954(b)(4) is amended by striking the*
9 *last sentence.*

10 *(3) Section 954(b)(5) is amended by striking*
11 *“the foreign base company services income, and the*
12 *foreign base company oil related income” and insert-*
13 *ing “and the foreign base company services income”.*

14 *(4) Section 954(b) is amended by striking para-*
15 *graph (6).*

16 *(5) Section 954 is amended by striking sub-*
17 *section (g).*

18 *(c) EFFECTIVE DATE.—The amendments made by this*
19 *section shall apply to taxable years of foreign corporations*
20 *beginning after December 31, 2017, and to taxable years*
21 *of United States shareholders in which or with which such*
22 *taxable years of foreign corporations end.*

1 **SEC. 4203. INFLATION ADJUSTMENT OF DE MINIMIS EXCEP-**
2 **TION FOR FOREIGN BASE COMPANY INCOME.**

3 (a) *IN GENERAL.*—Section 954(b)(3) is amended by
4 adding at the end the following new subparagraph:

5 “(D) *INFLATION ADJUSTMENT.*—In the case
6 of any taxable year beginning after 2017, the
7 dollar amount in subparagraph (A)(ii) shall be
8 increased by an amount equal to—

9 “(i) such dollar amount, multiplied by
10 “(ii) the cost-of-living adjustment de-
11 termined under section 1(c)(2)(A) for the
12 calendar year in which the taxable year be-
13 gins.

14 Any increase determined under the preceding
15 sentence shall be rounded to the nearest multiple
16 of \$50,000.”.

17 (b) *EFFECTIVE DATE.*—The amendments made by this
18 section shall apply to taxable years of foreign corporations
19 beginning after December 31, 2017, and to taxable years
20 of United States shareholders in which or with which such
21 taxable years of foreign corporations end.

22 **SEC. 4204. LOOK-THRU RULE FOR RELATED CONTROLLED**
23 **FOREIGN CORPORATIONS MADE PERMANENT.**

24 (a) *IN GENERAL.*—Paragraph (6) of section 954(c) is
25 amended by striking subparagraph (C).

1 (b) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to taxable years of foreign corporations*
3 *beginning after December 31, 2019, and to taxable years*
4 *of United States shareholders in which or with which such*
5 *taxable years of foreign corporations end.*

6 **SEC. 4205. MODIFICATION OF STOCK ATTRIBUTION RULES**
7 **FOR DETERMINING STATUS AS A CON-**
8 **TROLLED FOREIGN CORPORATION.**

9 (a) *IN GENERAL.*—*Section 958(b) is amended—*
10 (1) *by striking paragraph (4), and*
11 (2) *by striking “Paragraphs (1) and (4)” in the*
12 *last sentence and inserting “Paragraph (1)”.*

13 (b) *APPLICATION OF CERTAIN REPORTING REQUIRE-*
14 *MENTS.*—*Section 6038(e)(2) is amended by striking “except*
15 *that—” and all that follows through “in applying subpara-*
16 *graph (C)” and inserting “except that in applying subpara-*
17 *graph (C)”.*

18 (c) *EFFECTIVE DATE.*—*The amendments made by this*
19 *section shall apply to taxable years of foreign corporations*
20 *beginning after December 31, 2017, and to taxable years*
21 *of United States shareholders in which or with which such*
22 *taxable years of foreign corporations end.*

1 **SEC. 4206. ELIMINATION OF REQUIREMENT THAT COR-**
2 **PORATION MUST BE CONTROLLED FOR 30**
3 **DAYS BEFORE SUBPART F INCLUSIONS**
4 **APPLY.**

5 (a) *IN GENERAL.*—Section 951(a)(1) is amended by
6 striking “for an uninterrupted period of 30 days or more”
7 and inserting “at any time”.

8 (b) *EFFECTIVE DATE.*—The amendment made by this
9 section shall apply to taxable years of foreign corporations
10 beginning after December 31, 2017, and to taxable years
11 of United States shareholders with or within which such
12 taxable years of foreign corporations end.

13 ***Subtitle D—Prevention of Base***
14 ***Erosion***

15 **SEC. 4301. CURRENT YEAR INCLUSION BY UNITED STATES**
16 **SHAREHOLDERS WITH FOREIGN HIGH RE-**
17 **TURNS.**

18 (a) *IN GENERAL.*—Subpart F of part III of subchapter
19 N of chapter 1 is amended by inserting after section 951
20 the following new section:

21 **“SEC. 951A. FOREIGN HIGH RETURN AMOUNT INCLUDED IN**
22 **GROSS INCOME OF UNITED STATES SHARE-**
23 **HOLDERS.**

24 “(a) *IN GENERAL.*—Each person who is a United
25 States shareholder of any controlled foreign corporation for
26 any taxable year of such United States shareholder shall

1 *include in gross income for such taxable year 50 percent*
2 *of such shareholder's foreign high return amount for such*
3 *taxable year.*

4 “(b) *FOREIGN HIGH RETURN AMOUNT.*—*For purposes*
5 *of this section—*

6 “(1) *IN GENERAL.*—*The term ‘foreign high re-*
7 *turn amount’ means, with respect to any United*
8 *States shareholder for any taxable year of such*
9 *United States shareholder, the excess (if any) of—*

10 “(A) *such shareholder's net CFC tested in-*
11 *come for such taxable year, over*

12 “(B) *the excess (if any) of—*

13 “(i) *the applicable percentage of the*
14 *aggregate of such shareholder's pro rata*
15 *share of the qualified business asset invest-*
16 *ment of each controlled foreign corporation*
17 *with respect to which such shareholder is a*
18 *United States shareholder for such taxable*
19 *year (determined for each taxable year of*
20 *each such controlled foreign corporation*
21 *which ends in or with such taxable year of*
22 *such United States shareholder), over*

23 “(ii) *the amount of interest expense*
24 *taken into account under subsection*
25 *(c)(2)(A)(ii) in determining the share-*

1 holder's net CFC tested income for the tax-
2 able year.

3 “(2) *APPLICABLE PERCENTAGE.*—The term ‘ap-
4 plicable percentage’ means, with respect to any tax-
5 able year, the Federal short-term rate (determined
6 under section 1274(d) for the month in which or with
7 which such taxable year ends) plus 7 percentage
8 points.

9 “(c) *NET CFC TESTED INCOME.*—For purposes of this
10 section—

11 “(1) *IN GENERAL.*—The term ‘net CFC tested in-
12 come’ means, with respect to any United States share-
13 holder for any taxable year of such United States
14 shareholder, the excess (if any) of—

15 “(A) the aggregate of such shareholder’s pro
16 rata share of the tested income of each controlled
17 foreign corporation with respect to which such
18 shareholder is a United States shareholder for
19 such taxable year of such United States share-
20 holder (determined for each taxable year of such
21 controlled foreign corporation which ends in or
22 with such taxable year of such United States
23 shareholder), over

24 “(B) the aggregate of such shareholder’s pro
25 rata share of the tested loss of each controlled for-

1 *eign corporation with respect to which such*
2 *shareholder is a United States shareholder for*
3 *such taxable year of such United States share-*
4 *holder (determined for each taxable year of such*
5 *controlled foreign corporation which ends in or*
6 *with such taxable year of such United States*
7 *shareholder).*

8 “(2) *TESTED INCOME; TESTED LOSS.*—*For pur-*
9 *poses of this section—*

10 “(A) *TESTED INCOME.*—*The term ‘tested in-*
11 *come’ means, with respect to any controlled for-*
12 *eign corporation for any taxable year of such*
13 *controlled foreign corporation, the excess (if any)*
14 *of—*

15 “(i) *the gross income of such corpora-*
16 *tion determined without regard to—*

17 “(I) *any item of income which is*
18 *effectively connected with the conduct*
19 *by such corporation of a trade or busi-*
20 *ness within the United States if subject*
21 *to tax under this chapter,*

22 “(II) *any gross income taken into*
23 *account in determining the subpart F*
24 *income of such corporation,*

1 “(III) *except as otherwise pro-*
2 *vided by the Secretary, any amount ex-*
3 *cluded from the foreign personal hold-*
4 *ing company income (as defined in*
5 *section 954) of such corporation by*
6 *reason of section 954(c)(6) but only to*
7 *the extent that any deduction allowable*
8 *for the payment or accrual of such*
9 *amount does not result in a reduction*
10 *in the foreign high return amount of*
11 *any United States shareholder (deter-*
12 *mined without regard to this sub-*
13 *clause),*

14 “(IV) *any gross income excluded*
15 *from the foreign personal holding com-*
16 *pany income (as defined in section*
17 *954) of such corporation by reason of*
18 *subsection (c)(2)(C), (h), or (i) of sec-*
19 *tion 954,*

20 “(V) *any gross income excluded*
21 *from the insurance income (as defined*
22 *in section 953) of such corporation by*
23 *reason of section 953(a)(2),*

24 “(VI) *any gross income excluded*
25 *from foreign base company income (as*

1 *defined in section 954) or insurance*
2 *income (as defined in section 953) of*
3 *such corporation by reason of section*
4 *954(b)(4),*

5 *“(VII) any dividend received from*
6 *a related person (as defined in section*
7 *954(d)(3)), and*

8 *“(VIII) any commodities gross in-*
9 *come of such corporation, over*

10 *“(ii) the deductions (including taxes)*
11 *properly allocable to such gross income*
12 *under rules similar to the rules of section*
13 *954(b)(5) (or which would be so properly*
14 *allocable if such corporation had such gross*
15 *income).*

16 *“(B) TESTED LOSS.—The term ‘tested loss’*
17 *means, with respect to any controlled foreign*
18 *corporation for any taxable year of such con-*
19 *trolled foreign corporation, the excess (if any) of*
20 *the amount described in subparagraph (A)(ii)*
21 *over the amount described in subparagraph*
22 *(A)(i).*

23 *“(d) QUALIFIED BUSINESS ASSET INVESTMENT.—For*
24 *purposes of this section—*

1 “(1) *IN GENERAL.*—The term ‘qualified business
2 *asset investment*’ means, with respect to any con-
3 *trolled foreign corporation for any taxable year of*
4 *such controlled foreign corporation, the aggregate of*
5 *the corporation’s adjusted bases (determined as of the*
6 *close of such taxable year and after any adjustments*
7 *with respect to such taxable year) in specified tan-*
8 *gible property—*

9 “(A) *used in a trade or business of the cor-*
10 *poration, and*

11 “(B) *of a type with respect to which a de-*
12 *duction is allowable under section 168.*

13 “(2) *SPECIFIED TANGIBLE PROPERTY.*—The term
14 *‘specified tangible property’ means any tangible prop-*
15 *erty to the extent such property is used in the produc-*
16 *tion of tested income or tested loss.*

17 “(3) *PARTNERSHIP PROPERTY.*—For purposes of
18 *this subsection, if a controlled foreign corporation*
19 *holds an interest in a partnership at the close of such*
20 *taxable year of the controlled foreign corporation,*
21 *such controlled foreign corporation shall take into ac-*
22 *count under paragraph (1) the controlled foreign cor-*
23 *poration’s distributive share of the aggregate of the*
24 *partnership’s adjusted bases (determined as of such*
25 *date in the hands of the partnership) in tangible*

1 *property held by such partnership to the extent such*
2 *property—*

3 *“(A) is used in the trade or business of the*
4 *partnership,*

5 *“(B) is of a type with respect to which a de-*
6 *duction is allowable under section 168, and*

7 *“(C) is used in the production of tested in-*
8 *come or tested loss (determined with respect to*
9 *such controlled foreign corporation’s distributive*
10 *share of income or loss with respect to such prop-*
11 *erty).*

12 *For purposes of this paragraph, the controlled foreign*
13 *corporation’s distributive share of the adjusted basis*
14 *of any property shall be the controlled foreign cor-*
15 *poration’s distributive share of income and loss with*
16 *respect to such property.*

17 *“(4) DETERMINATION OF ADJUSTED BASIS.—For*
18 *purposes of this subsection, the adjusted basis in any*
19 *property shall be determined without regard to any*
20 *provision of this title (or any other provision of law)*
21 *which is enacted after the date of the enactment of*
22 *this section.*

23 *“(5) REGULATIONS.—The Secretary shall issue*
24 *such regulations or other guidance as the Secretary*
25 *determines appropriate to prevent the avoidance of*

1 *the purposes of this subsection, including regulations*
2 *or other guidance which provide for the treatment of*
3 *property if—*

4 “(A) *such property is transferred, or held,*
5 *temporarily, or*

6 “(B) *the avoidance of the purposes of this*
7 *paragraph is a factor in the transfer or holding*
8 *of such property.*

9 “(e) *COMMODITIES GROSS INCOME.—For purposes of*
10 *this section—*

11 “(1) *COMMODITIES GROSS INCOME.—The term*
12 *‘commodities gross income’ means, with respect to*
13 *any corporation—*

14 “(A) *gross income of such corporation from*
15 *the disposition of commodities which are pro-*
16 *duced or extracted by such corporation (or a*
17 *partnership in which such corporation is a part-*
18 *ner), and*

19 “(B) *gross income of such corporation from*
20 *the disposition of property which gives rise to in-*
21 *come described in subparagraph (A).*

22 “(2) *COMMODITY.—The term ‘commodity’ means*
23 *any commodity described in section 475(e)(2)(A) or*
24 *section 475(e)(2)(D) (determined without regard to*
25 *clause (i) thereof and by substituting ‘a commodity*

1 *described in subparagraph (A)’ for ‘such a com-*
2 *modity’ in clause (ii) thereof).*

3 “(f) *TAXABLE YEARS FOR WHICH PERSONS ARE*
4 *TREATED AS UNITED STATES SHAREHOLDERS OF CON-*
5 *TROLLED FOREIGN CORPORATIONS.—For purposes of this*
6 *section—*

7 “(1) *IN GENERAL.—A United States shareholder*
8 *of a controlled foreign corporation shall be treated as*
9 *a United States shareholder of such controlled foreign*
10 *corporation for any taxable year of such United*
11 *States shareholder if—*

12 “(A) *a taxable year of such controlled for-*
13 *ign corporation ends in or with such taxable*
14 *year of such person, and*

15 “(B) *such person owns (within the meaning*
16 *of section 958(a)) stock in such controlled foreign*
17 *corporation on the last day, in such taxable year*
18 *of such foreign corporation, on which the foreign*
19 *corporation is a controlled foreign corporation.*

20 “(2) *TREATMENT AS A CONTROLLED FOREIGN*
21 *CORPORATION.—Except for purposes of paragraph*
22 *(1)(B) and the application of section 951(a)(2) to this*
23 *section pursuant to subsection (g), a foreign corpora-*
24 *tion shall be treated as a controlled foreign corpora-*
25 *tion for any taxable year of such foreign corporation*

1 *if such foreign corporation is a controlled foreign cor-*
2 *poration at any time during such taxable year.*

3 “(g) *DETERMINATION OF PRO RATA SHARE.—For*
4 *purposes of this section, pro rata shares shall be determined*
5 *under the rules of section 951(a)(2) in the same manner*
6 *as such section applies to subpart F income.*

7 “(h) *COORDINATION WITH SUBPART F.—*

8 “(1) *TREATMENT AS SUBPART F INCOME FOR*
9 *CERTAIN PURPOSES.—Except as otherwise provided*
10 *by the Secretary any foreign high return amount in-*
11 *cluded in gross income under subsection (a) shall be*
12 *treated in the same manner as an amount included*
13 *under section 951(a)(1)(A) for purposes of applying*
14 *sections 168(h)(2)(B), 535(b)(10), 851(b), 904(h)(1),*
15 *959, 961, 962, 993(a)(1)(E), 996(f)(1), 1248(b)(1),*
16 *1248(d)(1), 6501(e)(1)(C), 6654(d)(2)(D), and*
17 *6655(e)(4).*

18 “(2) *ENTIRE FOREIGN HIGH RETURN AMOUNT*
19 *TAKEN INTO ACCOUNT FOR PURPOSES OF CERTAIN*
20 *SECTIONS.—For purposes of applying paragraph (1)*
21 *with respect to sections 168(h)(2)(B), 851(b), 959,*
22 *961, 962, 1248(b)(1), and 1248(d)(1), the foreign high*
23 *return amount included in gross income under sub-*
24 *section (a) shall be determined by substituting ‘100*
25 *percent’ for ‘50 percent’ in such subsection.*

1 “(3) *ALLOCATION OF FOREIGN HIGH RETURN*
2 *AMOUNT TO CONTROLLED FOREIGN CORPORATIONS.—*
3 *For purposes of the sections referred to in paragraph*
4 *(1), with respect to any controlled foreign corporation*
5 *any pro rata amount from which is taken into ac-*
6 *count in determining the foreign high return amount*
7 *included in gross income of a United States share-*
8 *holder under subsection (a), the portion of such for-*
9 *foreign high return amount which is treated as being*
10 *with respect to such controlled foreign corporation*
11 *is—*

12 “(A) *in the case of a controlled foreign cor-*
13 *poration with tested loss, zero, and*

14 “(B) *in the case of a controlled foreign cor-*
15 *poration with tested income, the portion of such*
16 *foreign high return amount which bears the same*
17 *ratio to such foreign high return amount as—*

18 “(i) *such United States shareholder’s*
19 *pro rata amount of the tested income of*
20 *such controlled foreign corporation, bears to*
21 “(ii) *the aggregate amount determined*
22 *under subsection (c)(1)(A) with respect to*
23 *such United States shareholder.*

24 “(4) *COORDINATION WITH SUBPART F TO DENY*
25 *DOUBLE BENEFIT OF LOSSES.—In the case of any*

1 *United States shareholder of any controlled foreign*
2 *corporation, the amount included in gross income*
3 *under section 951(a)(1)(A) shall be determined by in-*
4 *creasing the earnings and profits of such controlled*
5 *foreign corporation (solely for purposes of deter-*
6 *mining such amount) by an amount that bears the*
7 *same ratio (not greater than 1) to such shareholder's*
8 *pro rata share of the tested loss of such controlled for-*
9 *ign corporation as—*

10 *“(A) the aggregate amount determined*
11 *under subsection (c)(1)(A) with respect to such*
12 *shareholder, bears to*

13 *“(B) the aggregate amount determined*
14 *under subsection (c)(1)(B) with respect to such*
15 *shareholder.”.*

16 *(b) FOREIGN TAX CREDIT.—*

17 *(1) APPLICATION OF DEEMED PAID FOREIGN TAX*
18 *CREDIT.—Section 960, as amended by the preceding*
19 *provisions of this Act, is amended by redesignating*
20 *subsections (d) and (e) as subsections (e) and (f), re-*
21 *spectively, and by inserting after subsection (c) the*
22 *following new subsection:*

23 *“(d) DEEMED PAID CREDIT FOR TAXES PROPERLY*
24 *ATTRIBUTABLE TO TESTED INCOME.—*

1 “(1) *IN GENERAL.*—For purposes of this subpart,
2 if any amount is includible in the gross income of a
3 domestic corporation under section 951A, such domes-
4 tic corporation shall be deemed to have paid foreign
5 income taxes equal to 80 percent of—

6 “(A) such domestic corporation’s foreign
7 high return percentage, multiplied by

8 “(B) the aggregate tested foreign income
9 taxes paid or accrued by controlled foreign cor-
10 porations with respect to which such domestic
11 corporation is a United States shareholder.

12 “(2) *FOREIGN HIGH RETURN PERCENTAGE.*—For
13 purposes of paragraph (1), the term ‘foreign high re-
14 turn percentage’ means, with respect to any domestic
15 corporation, the ratio (expressed as a percentage) of—

16 “(A) such corporation’s foreign high return
17 amount (as defined in section 951A(b)), divided
18 by

19 “(B) the aggregate amount determined
20 under section 951A(c)(1)(A) with respect to such
21 corporation.

22 “(3) *TESTED FOREIGN INCOME TAXES.*—For
23 purposes of paragraph (1), the term ‘tested foreign in-
24 come taxes’ means, with respect to any domestic cor-
25 poration which is a United States shareholder of a

1 *controlled foreign corporation, the foreign income*
2 *taxes paid or accrued by such foreign corporation*
3 *which are properly attributable to gross income de-*
4 *scribed in section 951A(c)(2)(A)(i).”.*

5 (2) *APPLICATION OF FOREIGN TAX CREDIT LIM-*
6 *TATION.—*

7 (A) *SEPARATE BASKET FOR FOREIGN HIGH*
8 *RETURN AMOUNT.—Section 904(d)(1) is amend-*
9 *ed by redesignating subparagraphs (A) and (B)*
10 *as subparagraphs (B) and (C), respectively, and*
11 *by inserting before subparagraph (B) (as so re-*
12 *designated) the following new subparagraph:*

13 “(A) *any amount includible in gross income*
14 *under section 951A,”.*

15 (B) *NO CARRYOVER OF EXCESS TAXES.—*
16 *Section 904(c) is amended by adding at the end*
17 *the following: “This subsection shall not apply to*
18 *taxes paid or accrued with respect to amounts*
19 *described in subsection (d)(1)(A).”*

20 (3) *GROSS UP FOR DEEMED PAID FOREIGN TAX*
21 *CREDIT.—Section 78, as amended by the preceding*
22 *provisions of this Act, is amended—*

23 (A) *by striking “any taxable year, an*
24 *amount” and inserting “any taxable year—*
25 *“(1) an amount”, and*

1 (B) by striking the period at the end and
2 inserting “, and

3 “(2) an amount equal to the taxes deemed to be
4 paid by such corporation under section 960(d) for
5 such taxable year (determined by substituting ‘100
6 percent’ for ‘80 percent’ in such section) shall be
7 treated for purposes of this title (other than sections
8 959, 960, and 961) as an increase in the foreign high
9 return amount of such domestic corporation under
10 section 951A for such taxable year.”.

11 (c) CONFORMING AMENDMENTS.—

12 (1) Section 170(b)(2)(D) is amended by striking
13 “computed without regard to” and all that follows
14 and inserting “computed—

15 “(i) without regard to—

16 “(I) this section,

17 “(II) part VIII (except section
18 248),

19 “(III) any net operating loss
20 carryback to the taxable year under
21 section 172,

22 “(IV) any capital loss carryback
23 to the taxable year under section
24 1212(a)(1), and

1 “(ii) by substituting ‘100 percent’ for
2 ‘50 percent’ in section 951A(a).”.

3 (2) Section 246(b)(1) is amended by—

4 (A) striking “and without regard to” and
5 inserting “without regard to”, and

6 (B) by striking the period at the end and
7 inserting “, and by substituting ‘100 percent’ for
8 ‘50 percent’ in section 951A(a).”.

9 (3) Section 469(i)(3)(F) is amended by striking
10 “determined without regard to” and all that follows
11 and inserting “determined—

12 “(i) without regard to—

13 “(I) any amount includible in
14 gross income under section 86,

15 “(II) the amounts allowable as a
16 deduction under section 219, and

17 “(III) any passive activity loss or
18 any loss allowable by reason of sub-
19 section (c)(7), and

20 “(ii) by substituting ‘100 percent’ for
21 ‘50 percent’ in section 951A(a).”.

22 (4) Section 856(c)(2) is amended by striking
23 “and” at the end of subparagraph (H), by adding
24 “and” at the end of subparagraph (I), and by insert-

1 *ing after subparagraph (I) the following new sub-*
2 *paragraph:*

3 *“(J) amounts includible in gross income*
4 *under section 951A(a);”.*

5 *(5) Section 856(c)(3)(D) is amended by striking*
6 *“dividends or other distributions on, and gain” and*
7 *inserting “dividends, other distributions on, amounts*
8 *includible in gross income under section 951A(a) with*
9 *respect to, and gain”.*

10 *(6) The table of sections for subpart F of part III*
11 *of subchapter N of chapter 1 is amended by inserting*
12 *after the item relating to section 951 the following*
13 *new item:*

“Sec. 951A. Foreign high return amount included in gross income of United
 States shareholders.”.

14 *(d) EFFECTIVE DATE.—The amendments made by this*
15 *section shall apply to taxable years of foreign corporations*
16 *beginning after December 31, 2017, and to taxable years*
17 *of United States shareholders in which or with which such*
18 *taxable years of foreign corporations end.*

1 **SEC. 4302. LIMITATION ON DEDUCTION OF INTEREST BY**
2 **DOMESTIC CORPORATIONS WHICH ARE MEM-**
3 **BERS OF AN INTERNATIONAL FINANCIAL RE-**
4 **PORTING GROUP.**

5 (a) *IN GENERAL.*—Section 163 is amended by redesign-
6 nating subsection (n) as subsection (p) and by inserting
7 after subsection (m) the following new subsection:

8 “(n) *LIMITATION ON DEDUCTION OF INTEREST BY DO-*
9 *MESTIC CORPORATIONS IN INTERNATIONAL FINANCIAL RE-*
10 *PORTING GROUPS.*—

11 “(1) *IN GENERAL.*—In the case of any domestic
12 corporation which is a member of any international
13 financial reporting group, the deduction under this
14 chapter for interest paid or accrued during the tax-
15 able year shall not exceed the sum of—

16 “(A) the allowable percentage of 110 percent
17 of the excess (if any) of —

18 “(i) the amount of such interest so
19 paid or accrued, over

20 “(ii) the amount described in subpara-
21 graph (B), plus

22 “(B) the amount of interest includible in
23 gross income of such corporation for such taxable
24 year.

25 “(2) *INTERNATIONAL FINANCIAL REPORTING*
26 *GROUP.*—

1 “(A) *For purposes of this subsection, the*
2 *term ‘international financial reporting group’*
3 *means, with respect to any reporting year, any*
4 *group of entities which—*

5 “(i) *includes—*

6 “(I) *at least one foreign corpora-*
7 *tion engaged in a trade or business*
8 *within the United States, or*

9 “(II) *at least one domestic cor-*
10 *poration and one foreign corporation,*

11 “(ii) *prepares consolidated financial*
12 *statements with respect to such year, and*

13 “(iii) *reports in such statements aver-*
14 *age annual gross receipts (determined in the*
15 *aggregate with respect to all entities which*
16 *are part of such group) for the 3-reporting-*
17 *year period ending with such reporting year*
18 *in excess of \$100,000,000.*

19 “(B) *RULES RELATING TO DETERMINATION*
20 *OF AVERAGE GROSS RECEIPTS.—For purposes of*
21 *subparagraph (A)(iii), rules similar to the rules*
22 *of section 448(c)(3) shall apply.*

23 “(3) *ALLOWABLE PERCENTAGE.—For purposes of*
24 *this subsection—*

1 “(A) *IN GENERAL.*—*The term ‘allowable*
2 *percentage’ means, with respect to any domestic*
3 *corporation for any taxable year, the ratio (ex-*
4 *pressed as a percentage and not greater than 100*
5 *percent) of—*

6 “(i) *such corporation’s allocable share*
7 *of the international financial reporting*
8 *group’s reported net interest expense for the*
9 *reporting year of such group which ends in*
10 *or with such taxable year of such corpora-*
11 *tion, over*

12 “(ii) *such corporation’s reported net*
13 *interest expense for such reporting year of*
14 *such group.*

15 “(B) *REPORTED NET INTEREST EXPENSE.*—
16 *The term ‘reported net interest expense’ means—*

17 “(i) *with respect to any international*
18 *financial reporting group for any reporting*
19 *year, the excess of—*

20 “(I) *the aggregate amount of in-*
21 *terest expense reported in such group’s*
22 *consolidated financial statements for*
23 *such taxable year, over*

24 “(II) *the aggregate amount of in-*
25 *terest income reported in such group’s*

1 *consolidated financial statements for*
2 *such taxable year, and*

3 *“(ii) with respect to any domestic cor-*
4 *poration for any reporting year, the excess*
5 *of—*

6 *“(I) the amount of interest ex-*
7 *pense of such corporation reported in*
8 *the books and records of the inter-*
9 *national financial reporting group*
10 *which are used in preparing such*
11 *group’s consolidated financial state-*
12 *ments for such taxable year, over*

13 *“(II) the amount of interest in-*
14 *come of such corporation reported in*
15 *such books and records.*

16 *“(C) ALLOCABLE SHARE OF REPORTED NET*
17 *INTEREST EXPENSE.—With respect to any do-*
18 *mestic corporation which is a member of any*
19 *international financial reporting group, such*
20 *corporation’s allocable share of such group’s re-*
21 *ported net interest expense for any reporting*
22 *year is the portion of such expense which bears*
23 *the same ratio to such expense as—*

24 *“(i) the EBITDA of such corporation*
25 *for such reporting year, bears to*

1 “(ii) *the EBITDA of such group for*
2 *such reporting year.*

3 “(D) *EBITDA.—*

4 “(i) *IN GENERAL.—The term*
5 *‘EBITDA’ means, with respect to any re-*
6 *porting year, earnings before interest, taxes,*
7 *depreciation, and amortization—*

8 “(I) *as determined in the inter-*
9 *national financial reporting group’s*
10 *consolidated financial statements for*
11 *such year, or*

12 “(II) *for purposes of subpara-*
13 *graph (A)(i), as determined in the*
14 *books and records of the international*
15 *financial reporting group which are*
16 *used in preparing such statements if*
17 *not determined in such statements.*

18 “(ii) *TREATMENT OF DISREGARDED*
19 *ENTITIES.—The EBITDA of any domestic*
20 *corporation shall not fail to include the*
21 *EBITDA of any entity which is disregarded*
22 *for purposes of this chapter.*

23 “(iii) *TREATMENT OF INTRA-GROUP*
24 *DISTRIBUTIONS.—The EBITDA of any do-*
25 *mestic corporation shall be determined*

1 *without regard to any distribution received*
2 *by such corporation from any other member*
3 *of the international financial reporting*
4 *group.*

5 “(E) *SPECIAL RULES FOR NON-POSITIVE*
6 *EBITDA.—*

7 “(i) *NON-POSITIVE GROUP EBITDA.—*
8 *In the case of any international financial*
9 *reporting group the EBITDA of which is*
10 *zero or less, paragraph (1) shall not apply*
11 *to any member of such group the EBITDA*
12 *of which is above zero.*

13 “(ii) *NON-POSITIVE ENTITY EBITDA.—*
14 *In the case of any group member the*
15 *EBITDA of which is zero or less, paragraph*
16 *(1) shall be applied without regard to sub-*
17 *paragraph (A) thereof.*

18 “(4) *CONSOLIDATED FINANCIAL STATEMENT.—*
19 *For purposes of this subsection, the term ‘consolidated*
20 *financial statement’ means any consolidated financial*
21 *statement described in paragraph (2)(A)(ii) if such*
22 *statement is—*

23 “(A) *a financial statement which is cer-*
24 *tified as being prepared in accordance with gen-*
25 *erally accepted accounting principles, inter-*

1 *national financial reporting standards, or any*
2 *other comparable method of accounting identified*
3 *by the Secretary, and which is—*

4 *“(i) a 10-K (or successor form), or an-*
5 *nual statement to shareholders, required to*
6 *be filed with the United States Securities*
7 *and Exchange Commission,*

8 *“(ii) an audited financial statement*
9 *which is used for—*

10 *“(I) credit purposes,*

11 *“(II) reporting to shareholders,*
12 *partners, or other proprietors, or to*
13 *beneficiaries, or*

14 *“(III) any other substantial*
15 *nontax purpose,*

16 *but only if there is no statement described*
17 *in clause (i), or*

18 *“(iii) filed with any other Federal or*
19 *State agency for nontax purposes, but only*
20 *if there is no statement described in clause*
21 *(i) or (ii), or*

22 *“(B) a financial statement which—*

23 *“(i) is used for a purpose described in*
24 *subclause (I), (II), or (III) of subparagraph*
25 *(A)(ii), or*

1 “(ii) filed with any regulatory or gov-
2 ernmental body (whether domestic or for-
3 eign) specified by the Secretary,
4 but only if there is no statement described in
5 subparagraph (A).

6 “(5) *REPORTING YEAR*.—For purposes of this
7 subsection, the term ‘reporting year’ means, with re-
8 spect to any international financial reporting group,
9 the year with respect to which the consolidated finan-
10 cial statements are prepared.

11 “(6) *APPLICATION TO CERTAIN ENTITIES*.—

12 “(A) *PARTNERSHIPS*.—Except as otherwise
13 provided by the Secretary in paragraph (7), this
14 subsection shall apply to any partnership which
15 is a member of any international financial re-
16 porting group under rules similar to the rules of
17 section 163(j)(3).

18 “(B) *FOREIGN CORPORATIONS ENGAGED IN*
19 *TRADE OR BUSINESS WITHIN THE UNITED*
20 *STATES*.—Except as otherwise provided by the
21 Secretary in paragraph (8), any deduction for
22 interest paid or accrued by a foreign corporation
23 engaged in a trade or business within the United
24 States shall be limited in a manner consistent
25 with the principles of this subsection.

1 “(C) *CONSOLIDATED GROUPS.*—*For pur-*
2 *poses of this subsection, the members of any*
3 *group that file (or are required to file) a consoli-*
4 *dated return with respect to the tax imposed by*
5 *chapter 1 for a taxable year shall be treated as*
6 *a single corporation.*

7 “(7) *REGULATIONS.*—*The Secretary may issue*
8 *such regulations or other guidance as are necessary or*
9 *appropriate to carry out the purposes of this sub-*
10 *section.*”.

11 (b) *CARRYFORWARD OF DISALLOWED INTEREST.*—

12 (1) *IN GENERAL.*—*Section 163(o) is amended to*
13 *read as follows:*

14 “(o) *CARRYFORWARD OF CERTAIN DISALLOWED IN-*
15 *TEREST.*—*The amount of any interest not allowed as a de-*
16 *duction for any taxable year by reason of subsection (j)(1)*
17 *or (n)(1) (whichever imposes the lower limitation with re-*
18 *spect to such taxable year) shall be treated as interest (and*
19 *as business interest for purposes of subsection (j)(1)) paid*
20 *or accrued in the succeeding taxable year. Interest paid or*
21 *accrued in any taxable year (determined without regard to*
22 *the preceding sentence) shall not be carried past the 5th tax-*
23 *able year following such taxable year, determined by treat-*
24 *ing interest as allowed as a deduction on a first-in, first-*
25 *out basis.*”.

1 (2) *TREATMENT OF CARRYFORWARD OF DIS-*
2 *ALLOWED INTEREST IN CERTAIN CORPORATE ACQUISI-*
3 *TIONS.—For rules related to the carryforward of dis-*
4 *allowed interest in certain corporate acquisitions, see*
5 *the amendments made by section 3301(c).*

6 (c) *EFFECTIVE DATE.—The amendments made by this*
7 *section shall apply to taxable years beginning after Decem-*
8 *ber 31, 2017.*

9 **SEC. 4303. EXCISE TAX ON CERTAIN PAYMENTS FROM DO-**
10 **MESTIC CORPORATIONS TO RELATED FOR-**
11 **EIGN CORPORATIONS; ELECTION TO TREAT**
12 **SUCH PAYMENTS AS EFFECTIVELY CON-**
13 **NECTED INCOME.**

14 (a) *EXCISE TAX ON CERTAIN AMOUNTS FROM DOMES-*
15 *TIC CORPORATIONS TO FOREIGN AFFILIATES.—*

16 (1) *IN GENERAL.—Chapter 36 is amended by*
17 *adding at the end the following new subchapter:*

18 **“Subchapter E—Tax on Certain Amounts to**
19 **Foreign Affiliates**

“Sec. 4491. Imposition of tax on certain amounts from domestic corporations to
 foreign affiliates.

20 **“SEC. 4491. IMPOSITION OF TAX ON CERTAIN AMOUNTS**
21 **FROM DOMESTIC CORPORATIONS TO FOR-**
22 **EIGN AFFILIATES.**

23 “(a) *IN GENERAL.—There is hereby imposed on each*
24 *specified amount paid or incurred by a domestic corpora-*

1 *tion to a foreign corporation which is a member of the same*
2 *international financial reporting group as such domestic*
3 *corporation a tax equal to the highest rate of tax in effect*
4 *under section 11 multiplied by such amount.*

5 “(b) *BY WHOM PAID.*—*The tax imposed by subsection*
6 *(a) shall be paid by the domestic corporation described in*
7 *such subsection.*

8 “(c) *EXCEPTION FOR EFFECTIVELY CONNECTED IN-*
9 *COME.*—*Subsection (a) shall not apply to so much of any*
10 *specified amount as is effectively connected with the conduct*
11 *of a trade or business within the United States if such*
12 *amount is subject to tax under chapter 1. In the case of*
13 *any amount which is treated as effectively connected with*
14 *the conduct of a trade or business within the United States*
15 *by reason of section 882(g), the preceding sentence shall*
16 *apply to such amount only if the domestic corporation pro-*
17 *vides to the Secretary (at such time and in such form and*
18 *manner as the Secretary may provide) a copy of the election*
19 *made under section 882(g) by the foreign corporation re-*
20 *ferred to in subsection (a).*

21 “(d) *DEFINITIONS AND SPECIAL RULES.*—*Terms used*
22 *in this section that are also used in section 882(g) shall*
23 *have the same meaning as when used in such section and*
24 *rules similar to the rules of paragraphs (5) and (6) of such*
25 *section shall apply for purposes of this section.”.*

1 (2) *DENIAL OF DEDUCTION FOR TAX IMPOSED.*—
2 *Section 275(a) is amended by inserting after para-*
3 *graph (6) the following new paragraph:*

4 “(7) *Taxes imposed by section 4491.*”.

5 (3) *CLERICAL AMENDMENT.*—*The table of sub-*
6 *chapters for chapter 36 is amended by adding at the*
7 *end the following new item:*

 “*SUBCHAPTER E. TAX ON CERTAIN AMOUNTS TO FOREIGN AFFILIATES.*”.

8 (b) *ELECTION TO TREAT CERTAIN PAYMENTS FROM*
9 *DOMESTIC CORPORATIONS TO RELATED FOREIGN COR-*
10 *PORATIONS AS EFFECTIVELY CONNECTED INCOME.*—*Sec-*
11 *tion 882 is amended by adding at the end the following*
12 *new subsection:*

13 “(g) *ELECTION TO TREAT CERTAIN PAYMENTS FROM*
14 *DOMESTIC CORPORATIONS TO RELATED FOREIGN COR-*
15 *PORATIONS AS EFFECTIVELY CONNECTED INCOME.*—

16 “(1) *IN GENERAL.*—*In the case of any specified*
17 *amount paid or incurred by a domestic corporation*
18 *to a foreign corporation which is a member of the*
19 *same international financial reporting group as such*
20 *domestic corporation and which has elected to be sub-*
21 *ject to the provisions of this subsection—*

22 “(A) *such amount shall be taken into ac-*
23 *count (other than for purposes of sections 245,*
24 *245A, and 881) in the taxable year of such for-*

1 *foreign corporation during which such amount is*
2 *paid or incurred as if—*

3 *“(i) such foreign corporation were en-*
4 *gaged in a trade or business within the*
5 *United States,*

6 *“(ii) such foreign corporation had a*
7 *permanent establishment in the United*
8 *States during the taxable year, and*

9 *“(iii) such payment were effectively*
10 *connected with the conduct of a trade or*
11 *business within the United States and were*
12 *attributable to such permanent establish-*
13 *ment,*

14 *“(B) for purposes of subsection (c)(1)(A), no*
15 *deduction shall be allowed with respect to such*
16 *amount and such subsection shall be applied*
17 *without regard to such amount, and*

18 *“(C) the foreign corporation shall be al-*
19 *lowed a deduction (for the taxable year referred*
20 *to in subparagraph (A)) equal to the deemed ex-*
21 *penses with respect to such amount.*

22 *“(2) SPECIFIED AMOUNT.—For purposes of this*
23 *subsection—*

24 *“(A) IN GENERAL.—The term ‘specified*
25 *amount’ means any amount which is, with re-*

1 *spect to the payor, allowable as a deduction or*
2 *includible in costs of goods sold, inventory, or the*
3 *basis of a depreciable or amortizable asset.*

4 “(B) *EXCEPTIONS.*—*The term ‘specified*
5 *amount’ shall not include—*

6 “(i) *interest,*

7 “(ii) *any amount paid or incurred for*
8 *the acquisition of any security described in*
9 *section 475(c)(2) (determined without re-*
10 *gard to the last sentence thereof) or any*
11 *commodity described in section 475(e)(2),*

12 “(iii) *except as provided in subpara-*
13 *graph (C), any amount with respect to*
14 *which tax is imposed under section 881(a),*
15 *and*

16 “(iv) *in the case of a payor which has*
17 *elected to use a services cost method for pur-*
18 *poses of section 482, any amount paid or*
19 *incurred for services if such amount is the*
20 *total services cost with no markup.*

21 “(C) *AMOUNTS NOT TREATED AS EFFEC-*
22 *TIVELY CONNECTED TO EXTENT OF GROSS-BASIS*
23 *TAX.*—*Subparagraph (B)(iii) shall only apply to*
24 *so much of any specified amount as bears the*
25 *proportion to such amount as—*

1 “(i) the rate of tax imposed under sec-
2 tion 881(a) with respect to such amount,
3 bears to

4 “(ii) 30 percent.

5 “(3) *DEEMED EXPENSES*.—

6 “(A) *IN GENERAL*.—The deemed expenses
7 with respect to any specified amount received by
8 a foreign corporation during any reporting year
9 is the amount of expenses such that the net in-
10 come ratio of such foreign corporation with re-
11 spect to such amount (taking into account only
12 such specified amount and such deemed expenses)
13 is equal to the net income ratio of the inter-
14 national financial reporting group determined
15 for such reporting year with respect to the prod-
16 uct line to which the specified amount relates.

17 “(B) *NET INCOME RATIO*.—For purposes of
18 this paragraph, the term ‘net income ratio’
19 means the ratio of—

20 “(i) net income determined without re-
21 gard to interest income, interest expense,
22 and income taxes, divided by

23 “(ii) revenues.

24 “(C) *METHOD OF DETERMINATION*.—

25 Amounts described in subparagraph (B) shall be

1 *determined with respect to the international fi-*
2 *nancial reporting group on the basis of the con-*
3 *solidated financial statements referred to in*
4 *paragraph (4)(A)(i) and the books and records of*
5 *the members of the international financial re-*
6 *porting group which are used in preparing such*
7 *statements, taking into account only revenues*
8 *and expenses of the members of such group (other*
9 *than the members of such group which are (or*
10 *are treated as) a domestic corporation for pur-*
11 *poses of this subsection) derived from, or in-*
12 *curring with respect to—*

13 *“(i) persons who are not members of*
14 *such group, and*

15 *“(ii) members of such group which are*
16 *(or are treated as) a domestic corporation*
17 *for purposes of this subsection.*

18 *“(4) INTERNATIONAL FINANCIAL REPORTING*
19 *GROUP.—For purposes of this subsection—*

20 *“(A) IN GENERAL.—The term ‘international*
21 *financial reporting group’ means any group of*
22 *entities, with respect to any specified amount, if*
23 *such amount is paid or incurred during a re-*
24 *porting year of such group with respect to*
25 *which—*

1 “(i) such group prepares consolidated
2 financial statements (within the meaning of
3 section 163(n)(4)) with respect to such year,
4 and

5 “(ii) the average annual aggregate
6 payment amount of such group for the 3-re-
7 porting-year period ending with such re-
8 porting year exceeds \$100,000,000.

9 “(B) ANNUAL AGGREGATE PAYMENT
10 AMOUNT.—The term ‘annual aggregate payment
11 amount’ means, with respect to any reporting
12 year of the group referred to in subparagraph
13 (A)(i), the aggregate specified amounts to which
14 paragraph (1) applies (or would apply if such
15 group were an international financial reporting
16 group).

17 “(C) APPLICATION OF CERTAIN RULES.—
18 Rules similar to the rules of subparagraphs (A),
19 (B), and (D) of section 448(c)(3) shall apply for
20 purposes of this paragraph.

21 “(5) TREATMENT OF PARTNERSHIPS.—Any spec-
22 ified amount paid, incurred, or received by a partner-
23 ship which is a member of any international finan-
24 cial reporting group (and any amount treated as
25 paid, incurred, or received by a partnership under

1 *this paragraph) shall be treated for purposes of this*
2 *subsection as amounts paid, incurred, or received, re-*
3 *spectively, by each partner of such partnership in an*
4 *amount equal to such partner's distributive share of*
5 *the items of income, gain, deduction, or loss to which*
6 *such amounts relate.*

7 “(6) *TREATMENT OF AMOUNTS IN CONNECTION*
8 *WITH UNITED STATES TRADE OR BUSINESS.—Any*
9 *specified amount paid, incurred, or received by a for-*
10 *foreign corporation in connection with the conduct of a*
11 *trade or business within the United States (other than*
12 *a trade or business it is deemed to conduct pursuant*
13 *to this subsection) shall be treated for purposes of this*
14 *subsection as an amount paid, incurred, or received,*
15 *respectively, by a domestic corporation. For purposes*
16 *of the preceding sentence, a foreign corporation shall*
17 *be deemed to pay, incur, and receive amounts with*
18 *respect to a trade or business it conducts within the*
19 *United States (other than a trade or business it is*
20 *deemed to conduct pursuant to this subsection) to the*
21 *extent such foreign corporation would be treated as*
22 *paying, incurring, or receiving such amounts from*
23 *such trade or business if such trade or business were*
24 *a domestic corporation.*

1 “(7) *JOINT AND SEVERAL LIABILITY OF MEM-*
2 *BERS OF INTERNAL FINANCIAL REPORTING GROUP.—*
3 *In the case of any underpayment with respect to any*
4 *taxable year of a foreign corporation which is a mem-*
5 *ber of an international financial accounting group,*
6 *each domestic corporation which is a member of such*
7 *group at any time during such taxable year shall be*
8 *jointly and severally liable for—*

9 “(A) *so much of such underpayment as does*
10 *not exceed the excess (if any) of such under-*
11 *payment over the amount of such underpayment*
12 *determined without regard to this subsection,*
13 *and*

14 “(B) *any penalty, addition to tax, or addi-*
15 *tional amount attributable to the amount de-*
16 *scribed in subparagraph (A).*

17 “(8) *FOREIGN TAX CREDIT ALLOWED.—The cred-*
18 *it allowed under section 906(a) with respect to*
19 *amounts taken into account in income under para-*
20 *graph (1)(A) shall be limited to 80 percent of the*
21 *amount of taxes paid or accrued and determined*
22 *without regard to section 906(b)(1).*

23 “(9) *ELECTION.—Any election under paragraph*
24 *(1)—*

1 “(A) shall be made at such time and in
2 such form and manner as the Secretary may
3 provide, and

4 “(B) shall apply for the taxable year for
5 which made and all subsequent taxable years un-
6 less revoked with the consent of the Secretary.

7 “(10) *REGULATIONS.*—The Secretary may issue
8 such regulations or other guidance as are necessary or
9 appropriate to carry out the purposes of this sub-
10 section, including regulations or other guidance—

11 “(A) to provide for the proper determina-
12 tion of product lines, and

13 “(B) to prevent the avoidance of the pur-
14 poses of this subsection through the use of con-
15 duit transactions or by other means.”.

16 (c) *REPORTING REQUIREMENTS.*—

17 (1) *REPORTING BY FOREIGN CORPORATION.*—
18 Section 6038C(b) is amended to read as follows:

19 “(b) *REQUIRED INFORMATION.*—

20 “(1) *IN GENERAL.*—The information described in
21 this subsection is—

22 “(A) the information described in section
23 6038A(b), and

24 “(B) such other information as the Sec-
25 retary may prescribe by regulations relating to

1 *any item not directly connected with a trans-*
2 *action for which information is required under*
3 *subparagraph (A).*

4 “(2) *CERTAIN PAYMENTS FROM RELATED DOMES-*
5 *TIC CORPORATIONS.—*

6 “(A) *IN GENERAL.—In the case of any re-*
7 *porting corporation that receives during the tax-*
8 *able year any amount to which section 882(g)(1)*
9 *applies, the information described in this sub-*
10 *section shall include, with respect to each mem-*
11 *ber of the international financial reporting*
12 *group from which any such amount is received—*

13 “(i) *the name and taxpayer identifica-*
14 *tion number of such member,*

15 “(ii) *the aggregate amounts received*
16 *from such member,*

17 “(iii) *the product lines to which such*
18 *amounts relate, the aggregate amounts re-*
19 *lating to each such product line, and the net*
20 *income ratio for each such product line (de-*
21 *termined under section 882(g)(3)(B) with*
22 *respect to the international financial report-*
23 *ing group), and*

24 “(iv) *a summary of any changes in fi-*
25 *nancial accounting methods that affect the*

1 *computation of any net income ratio de-*
2 *scribed in clause (iii).*

3 “(B) *DEFINITIONS AND SPECIAL RULES.*—

4 *Terms used in this paragraph that are also used*
5 *in section 882(g) shall have the same meaning as*
6 *when used in such section and rules similar to*
7 *the rules of paragraphs (5) and (6) of such sec-*
8 *tion shall apply for purposes of this para-*
9 *graph.”.*

10 (2) *REPORTING BY DOMESTIC GROUP MEM-*
11 *BERS.*—

12 (A) *IN GENERAL.*—*Subpart A of part III*
13 *of subchapter A of chapter 61 is amended by in-*
14 *serting after section 6038D the following new*
15 *section:*

16 **“SEC. 6038E. INFORMATION WITH RESPECT TO CERTAIN**
17 **PAYMENTS FROM DOMESTIC CORPORATIONS**
18 **TO RELATED FOREIGN CORPORATIONS.**

19 “(a) *IN GENERAL.*—*In the case of any domestic cor-*
20 *poration which pays or incurs any amount to which section*
21 *882(g)(1) applies, such person shall—*

22 “(1) *make a return according to the forms and*
23 *regulations prescribed the Secretary, setting forth the*
24 *information described in subsection (b), and*

1 “(2) *maintain (at the location, in the manner,*
2 *and to the extent prescribed in regulations) such*
3 *records as may be appropriate to determine liability*
4 *for tax pursuant to paragraphs (1) and (7) of section*
5 *882(g).*

6 “(b) *REQUIRED INFORMATION.—The information de-*
7 *scribed in this subsection is—*

8 “(1) *the name and taxpayer identification num-*
9 *ber of the common parent of the international finan-*
10 *cial reporting group in which such domestic corpora-*
11 *tion is a member, and*

12 “(2) *with respect to any person who receives an*
13 *amount described in subsection (a) from such domes-*
14 *tic corporation—*

15 “(A) *the name and taxpayer identification*
16 *number of such person,*

17 “(B) *the aggregate amounts received by such*
18 *person,*

19 “(C) *the product lines to which such*
20 *amounts relate, the aggregate amounts relating*
21 *to each such product line, and the net income*
22 *ratio for each such product line (determined*
23 *under section 882(g)(3)(B) with respect to the*
24 *international financial reporting group), and*

1 “(D) a summary of any changes in finan-
2 cial accounting methods that affect the computa-
3 tion of any net income ratios described in sub-
4 paragraph (C).

5 “(c) DEFINITIONS AND SPECIAL RULES.—Terms used
6 in this paragraph that are also used in section 882(g) shall
7 have the same meaning as when used in such section and
8 rules similar to the rules of paragraphs (5) and (6) of such
9 section shall apply for purposes of this paragraph.”.

10 (B) CLERICAL AMENDMENT.—The table of
11 sections for subpart A of part III of subchapter
12 A of chapter 61 is amended by inserting after the
13 item relating to section 6038D the following new
14 item:

 “Sec. 6038E. Information with respect to certain payments from domestic cor-
 porations to related foreign corporations.”.

15 (d) EFFECTIVE DATE.—The amendments made by this
16 section shall apply to amounts paid or incurred after De-
17 cember 31, 2018.

1 ***Subtitle E—Provisions Related to***
2 ***Possessions of the United States***

3 ***SEC. 4401. EXTENSION OF DEDUCTION ALLOWABLE WITH***
4 ***RESPECT TO INCOME ATTRIBUTABLE TO DO-***
5 ***MESTIC PRODUCTION ACTIVITIES IN PUERTO***
6 ***RICO.***

7 (a) *IN GENERAL.*—Section 199(d)(8)(C), prior to its
8 repeal by this Act, is amended—

9 (1) by striking “first 11 taxable years” and in-
10 serting “first 12 taxable years”, and

11 (2) by striking “January 1, 2017” and inserting
12 “January 1, 2018”.

13 (b) *EFFECTIVE DATE.*—The amendments made by this
14 section shall apply to taxable years beginning after Decem-
15 ber 31, 2016.

16 ***SEC. 4402. EXTENSION OF TEMPORARY INCREASE IN LIMIT***
17 ***ON COVER OVER OF RUM EXCISE TAXES TO***
18 ***PUERTO RICO AND THE VIRGIN ISLANDS.***

19 (a) *IN GENERAL.*—Section 7652(f)(1) is amended by
20 striking “January 1, 2017” and inserting “January 1,
21 2023”.

22 (b) *EFFECTIVE DATE.*—The amendment made by this
23 section shall apply to distilled spirits brought into the
24 United States after December 31, 2016.

1 **SEC. 4403. EXTENSION OF AMERICAN SAMOA ECONOMIC DE-**
2 **VELOPMENT CREDIT.**

3 (a) *IN GENERAL.*—Section 119(d) of division A of the
4 *Tax Relief and Health Care Act of 2006* is amended—

5 (1) by striking “January 1, 2017” each place it
6 appears and inserting “January 1, 2023”,

7 (2) by striking “first 11 taxable years” in para-
8 graph (1) and inserting “first 17 taxable years”, and

9 (3) by striking “first 5 taxable years” in para-
10 graph (2) and inserting “first 11 taxable years”.

11 (b) *TREATMENT OF CERTAIN REFERENCES.*—Section
12 119(e) of division A of the *Tax Relief and Health Care Act*
13 of 2006 is amended by adding at the end the following:
14 “References in this subsection to section 199 of the *Internal*
15 *Revenue Code of 1986* shall be treated as references to such
16 section as in effect before its repeal by the *Tax Cuts and*
17 *Jobs Act.*”.

18 (c) *EFFECTIVE DATE.*—The amendments made by this
19 section shall apply to taxable years beginning after Decem-
20 ber 31, 2016.

1 ***Subtitle F—Other International***
2 ***Reforms***

3 ***SEC. 4501. RESTRICTION ON INSURANCE BUSINESS EXCEP-***
4 ***TION TO PASSIVE FOREIGN INVESTMENT***
5 ***COMPANY RULES.***

6 (a) *IN GENERAL.*—Section 1297(b)(2)(B) is amended
7 to read as follows:

8 “(B) derived in the active conduct of an in-
9 surance business by a qualifying insurance cor-
10 poration (as defined in subsection (f)),”.

11 (b) *QUALIFYING INSURANCE CORPORATION DE-*
12 *FINED.*—Section 1297 is amended by adding at the end the
13 following new subsection:

14 “(f) *QUALIFYING INSURANCE CORPORATION.*—For
15 purposes of subsection (b)(2)(B)—

16 “(1) *IN GENERAL.*—The term ‘qualifying insur-
17 ance corporation’ means, with respect to any taxable
18 year, a foreign corporation—

19 “(A) which would be subject to tax under
20 subchapter L if such corporation were a domestic
21 corporation, and

22 “(B) the applicable insurance liabilities of
23 which constitute more than 25 percent of its
24 total assets, determined on the basis of such li-
25 abilities and assets as reported on the corpora-

1 *tion’s applicable financial statement for the last*
2 *year ending with or within the taxable year.*

3 “(2) *ALTERNATIVE FACTS AND CIRCUMSTANCES*
4 *TEST FOR CERTAIN CORPORATIONS.—If a corporation*
5 *fails to qualify as a qualified insurance corporation*
6 *under paragraph (1) solely because the percentage de-*
7 *termined under paragraph (1)(B) is 25 percent or*
8 *less, a United States person that owns stock in such*
9 *corporation may elect to treat such stock as stock of*
10 *a qualifying insurance corporation if—*

11 “(A) *the percentage so determined for the*
12 *corporation is at least 10 percent, and*

13 “(B) *under regulations provided by the Sec-*
14 *retary, based on the applicable facts and cir-*
15 *cumstances—*

16 “(i) *the corporation is predominantly*
17 *engaged in an insurance business, and*

18 “(ii) *such failure is due solely to run-*
19 *off-related or rating-related circumstances*
20 *involving such insurance business.*

21 “(3) *APPLICABLE INSURANCE LIABILITIES.—For*
22 *purposes of this subsection—*

23 “(A) *IN GENERAL.—The term ‘applicable*
24 *insurance liabilities’ means, with respect to any*

1 *life or property and casualty insurance busi-*
2 *ness—*

3 “(i) *loss and loss adjustment expenses,*
4 *and*

5 “(ii) *reserves (other than deficiency,*
6 *contingency, or unearned premium reserves)*
7 *for life and health insurance risks and life*
8 *and health insurance claims with respect to*
9 *contracts providing coverage for mortality*
10 *or morbidity risks.*

11 “(B) *LIMITATIONS ON AMOUNT OF LIABIL-*
12 *ITIES.—Any amount determined under clause (i)*
13 *or (ii) of subparagraph (A) shall not exceed the*
14 *lesser of such amount—*

15 “(i) *as reported to the applicable in-*
16 *surance regulatory body in the applicable*
17 *financial statement described in paragraph*
18 *(4)(A) (or, if less, the amount required by*
19 *applicable law or regulation), or*

20 “(ii) *as determined under regulations*
21 *prescribed by the Secretary.*

22 “(4) *OTHER DEFINITIONS AND RULES.—For*
23 *purposes of this subsection—*

24 “(A) *APPLICABLE FINANCIAL STATEMENT.—*
25 *The term ‘applicable financial statement’ means*

1 *a statement for financial reporting purposes*
2 *which—*

3 *“(i) is made on the basis of generally*
4 *accepted accounting principles,*

5 *“(ii) is made on the basis of inter-*
6 *national financial reporting standards, but*
7 *only if there is no statement that meets the*
8 *requirement of clause (i), or*

9 *“(iii) except as otherwise provided by*
10 *the Secretary in regulations, is the annual*
11 *statement which is required to be filed with*
12 *the applicable insurance regulatory body,*
13 *but only if there is no statement which*
14 *meets the requirements of clause (i) or (ii).*

15 *“(B) APPLICABLE INSURANCE REGULATORY*
16 *BODY.—The term ‘applicable insurance regu-*
17 *latory body’ means, with respect to any insur-*
18 *ance business, the entity established by law to li-*
19 *cense, authorize, or regulate such business and to*
20 *which the statement described in subparagraph*
21 *(A) is provided.”.*

22 *(c) EFFECTIVE DATE.—The amendments made by this*
23 *section shall apply to taxable years beginning after Decem-*
24 *ber 31, 2017.*

1 **TITLE V—EXEMPT**
2 **ORGANIZATIONS**
3 **Subtitle A—Unrelated Business**
4 **Income Tax**

5 **SEC. 5001. CLARIFICATION OF UNRELATED BUSINESS IN-**
6 **COME TAX TREATMENT OF ENTITIES TREAT-**
7 **ED AS EXEMPT FROM TAXATION UNDER SEC-**
8 **TION 501(a).**

9 (a) *IN GENERAL.*—Section 511 is amended by adding
10 *at the end the following new subsection:*

11 “(d) *ORGANIZATIONS AND TRUSTS EXEMPT FROM*
12 *TAXATION NOT SOLELY BY REASON OF SECTION 501(a).*—
13 *For purposes of subsections (a)(2) and (b)(2), an organiza-*
14 *tion or trust shall not fail to be treated as exempt from*
15 *taxation under this subtitle by reason of section 501(a) sole-*
16 *ly because such organization is also so exempt, or excludes*
17 *amounts from gross income, by reason of any other provi-*
18 *sion of this title.”.*

19 (b) *EFFECTIVE DATE.*—*The amendments made by this*
20 *section shall apply to taxable years beginning after Decem-*
21 *ber 31, 2017.*

1 **SEC. 5002. EXCLUSION OF RESEARCH INCOME LIMITED TO**
2 **PUBLICLY AVAILABLE RESEARCH.**

3 (a) *IN GENERAL.*—Section 512(b)(9) is amended by
4 striking “from research” and inserting “from such re-
5 search”.

6 (b) *EFFECTIVE DATE.*—The amendments made by this
7 section shall apply to taxable years beginning after Decem-
8 ber 31, 2017.

9 **Subtitle B—Excise Taxes**

10 **SEC. 5101. SIMPLIFICATION OF EXCISE TAX ON PRIVATE**
11 **FOUNDATION INVESTMENT INCOME.**

12 (a) *RATE REDUCTION.*—Section 4940(a) is amended
13 by striking “2 percent” and inserting “1.4 percent”.

14 (b) *REPEAL OF SPECIAL RULES FOR CERTAIN PRI-*
15 *VATE FOUNDATIONS.*—Section 4940 is amended by striking
16 subsection (e).

17 (c) *EFFECTIVE DATE.*—The amendments made by this
18 section shall apply to taxable years beginning after Decem-
19 ber 31, 2017.

20 **SEC. 5102. PRIVATE OPERATING FOUNDATION REQUIRE-**
21 **MENTS RELATING TO OPERATION OF ART MU-**
22 **SEUM.**

23 (a) *IN GENERAL.*—Section 4942(j) is amended by add-
24 ing at the end the following new paragraph:

25 “(6) *ORGANIZATION OPERATING ART MUSEUM.*—
26 *For purposes of this section, the term ‘operating foun-*

1 *dation’ shall not include an organization which oper-*
2 *ates an art museum as a substantial activity unless*
3 *such museum is open during normal business hours*
4 *to the public for at least 1,000 hours during the tax-*
5 *able year.”.*

6 *(b) EFFECTIVE DATE.—The amendments made by this*
7 *section shall apply to taxable years beginning after Decem-*
8 *ber 31, 2017.*

9 **SEC. 5103. EXCISE TAX BASED ON INVESTMENT INCOME OF**
10 **PRIVATE COLLEGES AND UNIVERSITIES.**

11 *(a) IN GENERAL.—Chapter 42 is amended by adding*
12 *at the end the following new subchapter:*

13 **“Subchapter H—Excise Tax Based on Invest-**
14 **ment Income of Private Colleges and Uni-**
15 **versities**

“Sec. 4969. Excise tax based on investment income of private colleges and univer-
 sities.

16 **“SEC. 4969. EXCISE TAX BASED ON INVESTMENT INCOME OF**
17 **PRIVATE COLLEGES AND UNIVERSITIES.**

18 *“(a) TAX IMPOSED.—There is hereby imposed on each*
19 *applicable educational institution for the taxable year a tax*
20 *equal to 1.4 percent of the net investment income of such*
21 *institution for the taxable year.*

22 *“(b) APPLICABLE EDUCATIONAL INSTITUTION.—For*
23 *purposes of this subchapter—*

1 “(1) *IN GENERAL.*—The term ‘applicable edu-
2 cational institution’ means an eligible educational in-
3 stitution (as defined in section 25A(e)(3))—

4 “(A) which has at least 500 students during
5 the preceding taxable year,

6 “(B) which is not described in the first sen-
7 tence of section 511(a)(2)(B), and

8 “(C) the aggregate fair market value of the
9 assets of which at the end of the preceding tax-
10 able year (other than those assets which are used
11 directly in carrying out the institution’s exempt
12 purpose) is at least \$250,000 per student of the
13 institution.

14 “(2) *STUDENTS.*—For purposes of paragraph
15 (1), the number of students of an institution shall be
16 based on the daily average number of full-time stu-
17 dents attending such institution (with part-time stu-
18 dents taken into account on a full-time student equiv-
19 alent basis).

20 “(c) *NET INVESTMENT INCOME.*—For purposes of this
21 section, net investment income shall be determined under
22 rules similar to the rules of section 4940(c).

23 “(d) *ASSETS AND NET INVESTMENT INCOME OF RE-*
24 *LATED ORGANIZATIONS.*—

1 “(1) *IN GENERAL.*—For purposes of subsections
2 (b)(1)(C) and (c), the assets and net investment in-
3 come of any related organization shall be treated as
4 the assets and net investment income of the eligible
5 educational institution.

6 “(2) *RELATED ORGANIZATION.*—For purposes of
7 this subsection, the term ‘related organization’ means,
8 with respect to an eligible educational institution,
9 any organization which—

10 “(A) controls, or is controlled by, such insti-
11 tution,

12 “(B) is controlled by one or more persons
13 that control such institution, or

14 “(C) is a supported organization (as de-
15 fined in section 509(f)(3)), or an organization
16 described in section 509(a)(3), during the taxable
17 year with respect to such institution.”.

18 (b) *CLERICAL AMENDMENT.*—The table of subchapters
19 for chapter 42 is amended by adding at the end the fol-
20 lowing new item:

“SUBCHAPTER H—EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE
COLLEGES AND UNIVERSITIES”.

21 (c) *EFFECTIVE DATE.*—The amendments made by this
22 section shall apply to taxable years beginning after Decem-
23 ber 31, 2017.

1 **SEC. 5104. EXCEPTION FROM PRIVATE FOUNDATION EX-**
2 **CESS BUSINESS HOLDING TAX FOR INDE-**
3 **PENDENTLY-OPERATED PHILANTHROPIC**
4 **BUSINESS HOLDINGS.**

5 (a) *IN GENERAL.*—Section 4943 is amended by adding
6 at the end the following new subsection:

7 “(g) *EXCEPTION FOR CERTAIN HOLDINGS LIMITED TO*
8 *INDEPENDENTLY-OPERATED PHILANTHROPIC BUSINESS.*—

9 “(1) *IN GENERAL.*—Subsection (a) shall not
10 apply with respect to the holdings of a private foun-
11 dation in any business enterprise which for the tax-
12 able year meets—

13 “(A) the ownership requirements of para-
14 graph (2),

15 “(B) the all profits to charity distribution
16 requirement of paragraph (3), and

17 “(C) the independent operation require-
18 ments of paragraph (4).

19 “(2) *OWNERSHIP.*—The ownership requirements
20 of this paragraph are met if—

21 “(A) 100 percent of the voting stock in the
22 business enterprise is held by the private founda-
23 tion at all times during the taxable year, and

24 “(B) all the private foundation’s ownership
25 interests in the business enterprise were acquired
26 not by purchase.

1 “(3) *ALL PROFITS TO CHARITY.*—

2 “(A) *IN GENERAL.*—*The all profits to char-*
3 *ity distribution requirement of this paragraph is*
4 *met if the business enterprise, not later than 120*
5 *days after the close of the taxable year, distrib-*
6 *utes an amount equal to its net operating income*
7 *for such taxable year to the private foundation.*

8 “(B) *NET OPERATING INCOME.*—*For pur-*
9 *poses of this paragraph, the net operating in-*
10 *come of any business enterprise for any taxable*
11 *year is an amount equal to the gross income of*
12 *the business enterprise for the taxable year, re-*
13 *duced by the sum of—*

14 “(i) *the deductions allowed by chapter*
15 *1 for the taxable year which are directly*
16 *connected with the production of such in-*
17 *come,*

18 “(ii) *the tax imposed by chapter 1 on*
19 *the business enterprise for the taxable year,*
20 *and*

21 “(iii) *an amount for a reasonable re-*
22 *serve for working capital and other business*
23 *needs of the business enterprise.*

1 “(4) *INDEPENDENT OPERATION.*—*The inde-*
2 *pendent operation requirements of this paragraph are*
3 *met if, at all times during the taxable year—*

4 “(A) *no substantial contributor (as defined*
5 *in section 4958(c)(3)(C)) to the private founda-*
6 *tion, or family member of such a contributor (de-*
7 *termined under section 4958(f)(4)) is a director,*
8 *officer, trustee, manager, employee, or contractor*
9 *of the business enterprise (or an individual hav-*
10 *ing powers or responsibilities similar to any of*
11 *the foregoing),*

12 “(B) *at least a majority of the board of di-*
13 *rectors of the private foundation are not—*

14 “(i) *also directors or officers of the*
15 *business enterprise, or*

16 “(ii) *members of the family (deter-*
17 *mined under section 4958(f)(4)) of a sub-*
18 *stantial contributor (as defined in section*
19 *4958(c)(3)(C)) to the private foundation,*
20 *and*

21 “(C) *there is no loan outstanding from the*
22 *business enterprise to a substantial contributor*
23 *(as so defined) to the private foundation or a*
24 *family member of such contributor (as so deter-*
25 *mined).*

1 “(5) *CERTAIN DEEMED PRIVATE FOUNDATIONS*
2 *EXCLUDED.*—*This subsection shall not apply to—*

3 “(A) *any fund or organization treated as a*
4 *private foundation for purposes of this section by*
5 *reason of subsection (e) or (f),*

6 “(B) *any trust described in section*
7 *4947(a)(1) (relating to charitable trusts), and*

8 “(C) *any trust described in section*
9 *4947(a)(2) (relating to split-interest trusts).”.*

10 (b) *EFFECTIVE DATE.*—*The amendments made by this*
11 *section shall apply to taxable years beginning after Decem-*
12 *ber 31, 2017.*

13 ***Subtitle C—Requirements for***
14 ***Organizations Exempt From Tax***

15 ***SEC. 5201. 501(c)(3) ORGANIZATIONS PERMITTED TO MAKE***
16 ***STATEMENTS RELATING TO POLITICAL CAM-***
17 ***PAIGN IN ORDINARY COURSE OF ACTIVITIES.***

18 (a) *IN GENERAL.*—*Section 501 is amended by adding*
19 *at the end the following new subsection:*

20 “(s) *SPECIAL RULE RELATING TO POLITICAL CAM-*
21 *PAIGN STATEMENTS OF ORGANIZATIONS DESCRIBED IN*
22 *SUBSECTION (c)(3).*—

23 “(1) *IN GENERAL.*—*For purposes of subsection*
24 *(c)(3) and sections 170(c)(2), 2055, 2106, 2522, and*
25 *4955, an organization shall not fail to be treated as*

1 organized and operated exclusively for a purpose de-
2 scribed in subsection (c)(3), nor shall it be deemed to
3 have participated in, or intervened in any political
4 campaign on behalf of (or in opposition to) any can-
5 didate for public office, solely because of the content
6 of any statement which—

7 “(A) is made in the ordinary course of the
8 organization’s regular and customary activities
9 in carrying out its exempt purpose, and

10 “(B) results in the organization incurring
11 not more than de minimis incremental expenses.

12 “(2) *TERMINATION.*—Paragraph (1) shall not
13 apply to taxable years beginning after December 31,
14 2023.”.

15 (b) *EFFECTIVE DATE.*—The amendments made by this
16 section shall apply to taxable years beginning after Decem-
17 ber 31, 2018.

18 **SEC. 5202. ADDITIONAL REPORTING REQUIREMENTS FOR**
19 **DONOR ADVISED FUND SPONSORING ORGA-**
20 **NIZATIONS.**

21 (a) *IN GENERAL.*—Section 6033(k) is amended by
22 striking “and” at the end of paragraph (2), by striking the
23 period at the end of paragraph (3), and by adding at the
24 end the following new paragraphs:

1 “(4) indicate the average amount of grants made
2 from such funds during such taxable year (expressed
3 as a percentage of the value of assets held in such
4 funds at the beginning of such taxable year), and

5 “(5) indicate whether the organization has a pol-
6 icy with respect to donor advised funds (as so de-
7 fined) for frequency and minimum level of distribu-
8 tions.

9 Such organization shall include with such return a copy
10 of any policy described in paragraph (5).”.

11 (b) *EFFECTIVE DATE.*—The amendment made by this
12 section shall apply for returns filed for taxable years begin-
13 ning after December 31, 2017.

Amend the title so as to read: “A bill to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.”.