

105TH CONGRESS  
1ST SESSION

# H. R. 1040

To promote freedom, fairness, and economic opportunity for families by  
reducing the power and reach of the Federal establishment.

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## IN THE HOUSE OF REPRESENTATIVES

MARCH 12, 1997

Mr. ARMEY introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on Rules, and the Budget, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

To promote freedom, fairness, and economic opportunity for  
families by reducing the power and reach of the Federal  
establishment.

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; TABLE OF CONTENTS.**

4       (a) SHORT TITLE.—This Act may be cited as the  
5       “Freedom and Fairness Restoration Act of 1997”.

6       (b) TABLE OF CONTENTS.—

Sec. 1. Short title; table of contents.

TITLE I—TAX REDUCTION AND SIMPLIFICATION;  
SUPERMAJORITY REQUIRED FOR TAX CHANGES

Subtitle A—Tax Reduction and Simplification

- Sec. 101. Individual income tax.
- Sec. 102. Tax on business activities.
- Sec. 103. Simplification of rules relating to qualified retirement plans.
- Sec. 104. Repeal of alternative minimum tax.
- Sec. 105. Repeal of credits.
- Sec. 106. Repeal of estate and gift taxes and obsolete income tax provisions.
- Sec. 107. Effective date.

Subtitle B—Supermajority Required for Tax Changes

- Sec. 111. Supermajority required.

TITLE II—SPENDING RESTRAINT AND BUDGET PROCESS  
REFORM

Subtitle A—Balanced Budget by Fiscal Year 2002

- Sec. 201. Maximum spending amounts.
- Sec. 202. Enforcing maximum spending sequestration.
- Sec. 203. Total spending point of order.

Subtitle B—Zero Based Budgeting and Decennial Sunsetting

- Sec. 211. Reauthorization of discretionary programs and unearned entitlements.
- Sec. 212. Point of order.
- Sec. 213. Decennial sunsetting.

1 **TITLE I—TAX REDUCTION AND**  
2 **SIMPLIFICATION; SUPER-**  
3 **MAJORITY REQUIRED FOR**  
4 **TAX CHANGES**

5 **Subtitle A—Tax Reduction and**  
6 **Simplification**

7 **SEC. 101. INDIVIDUAL INCOME TAX.**

8 (a) IN GENERAL.—Section 1 of the Internal Revenue  
9 Code of 1986 is amended to read as follows:

10 **“SECTION 1. TAX IMPOSED.**

11 “There is hereby imposed on the taxable income of  
12 every individual a tax equal to 20 percent (17 percent in  
13 the case of taxable years beginning after December 31,

1 1998) of the taxable income of such individual for such  
 2 taxable year.”

3 (b) TAXABLE INCOME.—Section 63 of such Code is  
 4 amended to read as follows:

5 **“SEC. 63. TAXABLE INCOME.**

6 “(a) IN GENERAL.—For purposes of this subtitle, the  
 7 term ‘taxable income’ means the excess of—

8 “(1) the sum of—

9 “(A) wages (as defined in section 3121(a)  
 10 without regard to paragraph (1) thereof) which  
 11 are paid in cash and which are received during  
 12 the taxable year for services performed in the  
 13 United States,

14 “(B) retirement distributions which are in-  
 15 cludible in gross income for such taxable year,  
 16 plus

17 “(C) amounts received under any law of  
 18 the United States or of any State which is in  
 19 the nature of unemployment compensation, over  
 20 “(2) the standard deduction.

21 “(b) STANDARD DEDUCTION.—

22 “(1) IN GENERAL.—For purposes of this sub-  
 23 title, the term ‘standard deduction’ means the sum  
 24 of—

25 “(A) the basic standard deduction, plus

1 “(B) the additional standard deduction.

2 “(2) BASIC STANDARD DEDUCTION.—For pur-  
3 poses of paragraph (1), the basic standard deduction  
4 is—

5 “(A) \$22,000 in the case of—

6 “(i) a joint return, or

7 “(ii) a surviving spouse (as defined in  
8 section 2(a)),

9 “(B) \$14,400 in the case of a head of  
10 household (as defined in section 2(b)), and

11 “(C) \$11,000 in the case of an individ-  
12 ual—

13 “(i) who is not married and who is  
14 not a surviving spouse or head of house-  
15 hold, or

16 “(ii) who is a married individual filing  
17 a separate return.

18 “(3) ADDITIONAL STANDARD DEDUCTION.—For  
19 purposes of paragraph (1), the additional standard  
20 deduction is \$5,000 for each dependent (as defined  
21 in section 152) who is described in section 151(c)(1)  
22 for the taxable year and who is not required to file  
23 a return for such taxable year.

1       “(c) RETIREMENT DISTRIBUTIONS.—For purposes of  
2 subsection (a), the term ‘retirement distribution’ means  
3 any distribution from—

4           “(1) a plan described in section 401(a) which  
5 includes a trust exempt from tax under section  
6 501(a),

7           “(2) an annuity plan described in section  
8 403(a),

9           “(3) an annuity contract described in section  
10 403(b),

11          “(4) an individual retirement account described  
12 in section 408(a),

13          “(5) an individual retirement annuity described  
14 in section 408(b),

15          “(6) an eligible deferred compensation plan (as  
16 defined in section 457),

17          “(7) a governmental plan (as defined in section  
18 414(d)), or

19          “(8) a trust described in section 501(c)(18).

20 Such term includes any plan, contract, account, annuity,  
21 or trust which, at any time, has been determined by the  
22 Secretary to be such a plan, contract, account, annuity,  
23 or trust.

24       “(d) INCOME OF CERTAIN CHILDREN.—For purposes  
25 of this subtitle—

1           “(1) an individual’s taxable income shall include  
2           the taxable income of each dependent child of such  
3           individual who has not attained age 14 as of the  
4           close of such taxable year, and

5           “(2) such dependent child shall have no liability  
6           for tax imposed by section 1 with respect to such in-  
7           come and shall not be required to file a return for  
8           such taxable year.

9           “(e) INFLATION ADJUSTMENT.—

10           “(1) IN GENERAL.—In the case of any taxable  
11           year beginning in a calendar year after 1997, each  
12           dollar amount contained in subsection (b) shall be  
13           increased by an amount determined by the Secretary  
14           to be equal to—

15                   “(A) such dollar amount, multiplied by

16                   “(B) the cost-of-living adjustment for such  
17           calendar year.

18           “(2) COST-OF-LIVING ADJUSTMENT.—For pur-  
19           poses of paragraph (1), the cost-of-living adjustment  
20           for any calendar year is the percentage (if any) by  
21           which—

22                   “(A) the CPI for the preceding calendar  
23           year, exceeds

24                   “(B) the CPI for the calendar year 1996.

1           “(3) CPI FOR ANY CALENDAR YEAR.—For pur-  
 2           poses of paragraph (2), the CPI for any calendar  
 3           year is the average of the Consumer Price Index as  
 4           of the close of the 12-month period ending on Au-  
 5           gust 31 of such calendar year.

6           “(4) CONSUMER PRICE INDEX.—For purposes  
 7           of paragraph (3), the term ‘Consumer Price Index’  
 8           means the last Consumer Price Index for all-urban  
 9           consumers published by the Department of Labor.  
 10          For purposes of the preceding sentence, the revision  
 11          of the Consumer Price Index which is most consist-  
 12          ent with the Consumer Price Index for calendar year  
 13          1986 shall be used.

14          “(5) ROUNDING.—If any increase determined  
 15          under paragraph (1) is not a multiple of \$10, such  
 16          increase shall be rounded to the next highest mul-  
 17          tiple of \$10.

18          “(f) MARITAL STATUS.—For purposes of this section,  
 19          marital status shall be determined under section 7703.”

20   **SEC. 102. TAX ON BUSINESS ACTIVITIES.**

21          (a) IN GENERAL.—Section 11 of the Internal Reve-  
 22          nue Code of 1986 (relating to tax imposed on corpora-  
 23          tions) is amended to read as follows:

1 **“SEC. 11. TAX IMPOSED ON BUSINESS ACTIVITIES.**

2       “(a) TAX IMPOSED.—There is hereby imposed on  
3 every person engaged in a business activity a tax equal  
4 to 20 percent (17 percent in the case of taxable years be-  
5 ginning after December 31, 1998) of the business taxable  
6 income of such person.

7       “(b) LIABILITY FOR TAX.—The tax imposed by this  
8 section shall be paid by the person engaged in the business  
9 activity, whether such person is an individual, partnership,  
10 corporation, or otherwise.

11       “(c) BUSINESS TAXABLE INCOME.—For purposes of  
12 this section—

13               “(1) IN GENERAL.—The term ‘business taxable  
14 income’ means gross active income reduced by the  
15 deductions specified in subsection (d).

16               “(2) GROSS ACTIVE INCOME.—

17                       “(A) IN GENERAL.—For purposes of para-  
18 graph (1), the term ‘gross active income’ means  
19 gross receipts from—

20                               “(i) the sale or exchange of property  
21 or services in the United States by any  
22 person in connection with a business activ-  
23 ity, and

24                               “(ii) the export of property or services  
25 from the United States in connection with  
26 a business activity.



1           “(B) EXCHANGES.—For purposes of this  
 2           section, the amount treated as gross receipts  
 3           from the exchange of property or services is the  
 4           fair market value of the property or services re-  
 5           ceived, plus any money received.

6           “(C) COORDINATION WITH SPECIAL RULES  
 7           FOR FINANCIAL SERVICES, ETC.—Except as  
 8           provided in subsection (e)—

9                   “(i) the term ‘property’ does not in-  
 10                  clude money or any financial instrument,  
 11                  and

12                  “(ii) the term ‘services’ does not in-  
 13                  clude financial services.

14           “(3) EXEMPTION FROM TAX FOR ACTIVITIES OF  
 15           GOVERNMENTAL ENTITIES AND TAX-EXEMPT ORGA-  
 16           NIZATIONS.—For purposes of this section, the term  
 17           ‘business activity’ does not include any activity of a  
 18           governmental entity or of any other organization  
 19           which is exempt from tax under this chapter.

20           “(d) DEDUCTIONS.—

21                  “(1) IN GENERAL.—The deductions specified in  
 22                  this subsection are—

23                   “(A) the cost of business inputs for the  
 24                  business activity,

1           “(B) wages (as defined in section 3121(a)  
2           without regard to paragraph (1) thereof) which  
3           are paid in cash for services performed in the  
4           United States as an employee, and

5           “(C) retirement contributions to or under  
6           any plan or arrangement which makes retire-  
7           ment distributions (as defined in section 63(c))  
8           for the benefit of such employees to the extent  
9           such contributions are allowed as a deduction  
10          under section 404.

11          “(2) BUSINESS INPUTS.—

12               “(A) IN GENERAL.—For purposes of para-  
13               graph (1), the term ‘cost of business inputs’  
14               means—

15                       “(i) the amount paid for property sold  
16                       or used in connection with a business ac-  
17                       tivity,

18                       “(ii) the amount paid for services  
19                       (other than for the services of employees,  
20                       including fringe benefits paid by reason of  
21                       such services) in connection with a busi-  
22                       ness activity, and

23                       “(iii) any excise tax, sales tax, cus-  
24                       toms duty, or other separately stated levy  
25                       imposed by a Federal, State, or local gov-

1                   ernment on the purchase of property or  
 2                   services which are for use in connection  
 3                   with a business activity.

4                   Such term shall not include any tax imposed by  
 5                   chapter 2 or 21.

6                   “(B) EXCEPTIONS.—Such term shall not  
 7                   include—

8                   “(i) items described in subparagraphs  
 9                   (B) and (C) of paragraph (1), and

10                  “(ii) items for personal use not in  
 11                  connection with any business activity.

12                  “(C) EXCHANGES.—For purposes of this  
 13                  section, the amount treated as paid in connec-  
 14                  tion with the exchange of property or services  
 15                  is the fair market value of the property or serv-  
 16                  ices exchanged, plus any money paid.

17                  “(e) SPECIAL RULES FOR FINANCIAL INTER-  
 18                  MEDIATION SERVICE ACTIVITIES.—In the case of the  
 19                  business activity of providing financial intermediation  
 20                  services, the taxable income from such activity shall be  
 21                  equal to the value of the intermediation services provided  
 22                  in such activity.

23                  “(f) EXCEPTION FOR SERVICES PERFORMED AS EM-  
 24                  PLOYEE.—For purposes of this section, the term ‘business

1 activity’ does not include the performance of services by  
 2 an employee for the employee’s employer.

3 “(g) CARRYOVER OF CREDIT-EQUIVALENT OF EX-  
 4 CESS DEDUCTIONS.—

5 “(1) IN GENERAL.—If the aggregate deductions  
 6 for any taxable year exceed the gross active income  
 7 for such taxable year, the credit-equivalent of such  
 8 excess shall be allowed as a credit against the tax  
 9 imposed by this section for the following taxable  
 10 year.

11 “(2) CREDIT-EQUIVALENT OF EXCESS DEDUC-  
 12 TIONS.—For purposes of paragraph (1), the credit-  
 13 equivalent of the excess described in paragraph (1)  
 14 for any taxable year is an amount equal to—

15 “(A) the sum of—

16 “(i) such excess, plus

17 “(ii) the product of such excess and  
 18 the 3-month Treasury rate for the last  
 19 month of such taxable year, multiplied by

20 “(B) the rate of the tax imposed by sub-  
 21 section (a) for such taxable year.

22 “(3) CARRYOVER OF UNUSED CREDIT.—If the  
 23 credit allowable for any taxable year by reason of  
 24 this subsection exceeds the tax imposed by this sec-

1       tion for such year, then (in lieu of treating such ex-  
2       cess as an overpayment) the sum of—

3               “(A) such excess, plus

4               “(B) the product of such excess and the 3-  
5       month Treasury rate for the last month of such  
6       taxable year,

7       shall be allowed as a credit against the tax imposed  
8       by this section for the following taxable year.

9               “(4) 3-MONTH TREASURY RATE.—For purposes  
10      of this subsection, the 3-month Treasury rate is the  
11      rate determined by the Secretary based on the aver-  
12      age market yield (during any 1-month period se-  
13      lected by the Secretary and ending in the calendar  
14      month in which the determination is made) on out-  
15      standing marketable obligations of the United States  
16      with remaining periods to maturity of 3 months or  
17      less.”

18      (b) TAX ON TAX-EXEMPT ENTITIES PROVIDING  
19      NONCASH COMPENSATION TO EMPLOYEES.—Section  
20      4977 of such Code is amended to read as follows:

21      **“SEC. 4977. TAX ON NONCASH COMPENSATION PROVIDED**  
22                       **TO EMPLOYEES NOT ENGAGED IN BUSINESS**  
23                       **ACTIVITY.**

24               “(a) IMPOSITION OF TAX.—There is hereby imposed  
25      a tax equal to 20 percent (17 percent in the case of cal-

1 endar years beginning after December 31, 1998) of the  
2 value of excludable compensation provided during the cal-  
3 endar year by an employer for the benefit of employees  
4 to whom this section applies.

5 “(b) LIABILITY FOR TAX.—The tax imposed by this  
6 section shall be paid by the employer.

7 “(c) EXCLUDABLE COMPENSATION.—For purposes  
8 of subsection (a), the term ‘excludable compensation’  
9 means any remuneration for services performed as an em-  
10 ployee other than—

11 “(1) wages (as defined in section 3121(a) with-  
12 out regard to paragraph (1) thereof) which are paid  
13 in cash,

14 “(2) remuneration for services performed out-  
15 side the United States, and

16 “(3) retirement contributions to or under any  
17 plan or arrangement which makes retirement dis-  
18 tributions (as defined in section 63(c)).

19 “(d) EMPLOYEES TO WHOM SECTION APPLIES.—  
20 This section shall apply to an employee who is employed  
21 in any activity by—

22 “(1) any organization which is exempt from  
23 taxation under this chapter, or

1           “(2) any agency or instrumentality of the  
2       United States, any State or political subdivision of  
3       a State, or the District of Columbia.”

4   **SEC. 103. SIMPLIFICATION OF RULES RELATING TO QUALI-**  
5                   **FIED RETIREMENT PLANS.**

6       (a) IN GENERAL.—The following provisions of the In-  
7       ternal Revenue Code of 1986 are hereby repealed:

8           (1) NONDISCRIMINATION RULES.—

9               (A) Paragraphs (4) and (5) of section  
10           401(a) (relating to nondiscrimination require-  
11           ments).

12            (B) Sections 401(a)(10)(B) and 416 (re-  
13            lating to top heavy plans).

14            (C) Section 401(a)(17) (relating to com-  
15            pensation limit).

16            (D) Sections 401(a)(26) and 410(b) (relat-  
17            ing to minimum participation and coverage re-  
18            quirements).

19            (E) Paragraphs (3), (8), (11), and (12) of  
20            sections 401(k), and section 4979, (relating to  
21            actual deferral percentage).

22            (F) Section 401(l) (relating to permitted  
23            disparity in plan contributions or benefits).

1 (G) Section 401(m) (relating to non-  
2 discrimination test for matching contributions  
3 and employee contributions).

4 (H) Paragraphs (1)(D) and (12) of section  
5 403(b) (relating to nondiscrimination require-  
6 ments).

7 (I) Paragraph (3) of section 408(k) and  
8 paragraph (6) (other than subparagraph (A)(i))  
9 of such section (relating to simplified employee  
10 pensions).

11 (2) CONTRIBUTION LIMITS.—

12 (A) Sections 401(a)(16), 403(b) (2) and  
13 (3), and 415 (relating to limitations on benefits  
14 and contributions under qualified plans).

15 (B) Sections 401(a)(30) and 402(g) (relat-  
16 ing to limitation on exclusion for elective defer-  
17 rals).

18 (C) Paragraphs (3) and (7) of section  
19 404(a) (relating to percentage of compensation  
20 limits).

21 (D) Section 404(l) (relating to limit on in-  
22 cludible compensation).

23 (3) RESTRICTIONS ON DISTRIBUTIONS.—



1 (A) Section 72(t) (relating to 10-percent  
2 additional tax on early distributions from quali-  
3 fied retirement plans).

4 (B) Sections 401(a)(9), 403(b)(10), and  
5 4974 (relating to minimum distribution rules).

6 (C) Section 402(e)(4) (relating to net un-  
7 realized appreciation).

8 (D) Section 4980A (relating to tax on ex-  
9 cess distributions from qualified retirement  
10 plans).

11 (4) SPECIAL REQUIREMENTS FOR PLAN BENE-  
12 FITING SELF-EMPLOYED INDIVIDUALS.—Subsections  
13 (a)(10)(A) and (d) of section 401.

14 (5) PROHIBITION OF TAX-EXEMPT ORGANIZA-  
15 TIONS AND GOVERNMENTS FROM HAVING QUALIFIED  
16 CASH OR DEFERRED ARRANGEMENTS.—Section  
17 401(k)(4)(B).

18 (b) EMPLOYER REVERSIONS OF EXCESS PENSION  
19 ASSETS PERMITTED SUBJECT ONLY TO INCOME INCLU-  
20 SION.—

21 (1) REPEAL OF TAX ON EMPLOYER REVER-  
22 SIONS.—Section 4980 of such Code is hereby re-  
23 pealed.

1           (2) EMPLOYER REVERSIONS PERMITTED WITH-  
 2           OUT PLAN TERMINATION.—Section 420 of such  
 3           Code is amended to read as follows:

4   **“SEC. 420. TRANSFERS OF EXCESS PENSION ASSETS.**

5           “(a) IN GENERAL.—If there is a qualified transfer  
 6 of any excess pension assets of a defined benefit plan  
 7 (other than a multiemployer plan) to an employer—

8           “(1) a trust which is part of such plan shall not  
 9           be treated as failing to meet the requirements of sec-  
 10          tion 401(a) or any other provision of law solely by  
 11          reason of such transfer (or any other action author-  
 12          ized under this section), and

13          “(2) such transfer shall not be treated as a pro-  
 14          hibited transaction for purposes of section 4975.

15 The gross income of the employer shall include the amount  
 16 of any qualified transfer made during the taxable year.

17          “(b) QUALIFIED TRANSFER.—For purposes of this  
 18 section—

19          “(1) IN GENERAL.—The term ‘qualified trans-  
 20          fer’ means a transfer—

21                  “(A) of excess pension assets of a defined  
 22                  benefit plan to the employer, and

23                  “(B) with respect to which the vesting re-  
 24                  quirements of subsection (c) are met in connec-  
 25                  tion with the plan.

1           “(2) ONLY 1 TRANSFER PER YEAR.—No more  
 2           than 1 transfer with respect to any plan during a  
 3           taxable year may be treated as a qualified transfer  
 4           for purposes of this section.

5           “(c) VESTING REQUIREMENTS OF PLANS TRANSFER-  
 6           RING ASSETS.—The vesting requirements of this sub-  
 7           section are met if the plan provides that the accrued pen-  
 8           sion benefits of any participant or beneficiary under the  
 9           plan become nonforfeitable in the same manner which  
 10          would be required if the plan had terminated immediately  
 11          before the qualified transfer (or in the case of a partici-  
 12          pant who separated during the 1-year period ending on  
 13          the date of the transfer, immediately before such separa-  
 14          tion).

15          “(d) DEFINITION AND SPECIAL RULE.—For pur-  
 16          poses of this section—

17               “(1) EXCESS PENSION ASSETS.—The term ‘ex-  
 18               cess pension assets’ means the excess (if any) of—

19                       “(A) the amount determined under section  
 20                       412(c)(7)(A)(ii), over

21                       “(B) the greater of—

22                               “(i) the amount determined under  
 23                               section 412(c)(7)(A)(i), or

24                               “(ii) 125 percent of current liability  
 25                               (as defined in section 412(c)(7)(B)).

1       The determination under this paragraph shall be  
 2       made as of the most recent valuation date of the  
 3       plan preceding the qualified transfer.

4               “(2) COORDINATION WITH SECTION 412.—In  
 5       the case of a qualified transfer—

6               “(A) any assets transferred in a plan year  
 7       on or before the valuation date for such year  
 8       (and any income allocable thereto) shall, for  
 9       purposes of section 412, be treated as assets in  
 10      the plan as of the valuation date for such year,  
 11      and

12              “(B) the plan shall be treated as having a  
 13      net     experience     loss     under     section  
 14      412(b)(2)(B)(iv) in an amount equal to the  
 15      amount of such transfer and for which amorti-  
 16      zation charges begin for the first plan year  
 17      after the plan year in which such transfer oc-  
 18      curs, except that such section shall be applied  
 19      to such amount by substituting ‘10 plan years’  
 20      for ‘5 plan years’.”

21   **SEC. 104. REPEAL OF ALTERNATIVE MINIMUM TAX.**

22       Part VI of subchapter A of chapter 1 of the Internal  
 23   Revenue Code of 1986 is hereby repealed.

1 **SEC. 105. REPEAL OF CREDITS.**

2 Part IV of subchapter A of chapter 1 of the Internal  
3 Revenue Code of 1986 is hereby repealed.

4 **SEC. 106. REPEAL OF ESTATE AND GIFT TAXES AND OBSO-**  
5 **LETE INCOME TAX PROVISIONS.**

6 (a) REPEAL OF ESTATE AND GIFT TAXES.—

7 (1) IN GENERAL.—Subtitle B of the Internal  
8 Revenue Code of 1986 is hereby repealed.

9 (2) EFFECTIVE DATE.—The repeal made by  
10 paragraph (1) shall apply to the estates of decedents  
11 dying, and gifts and generation-skipping transfers  
12 made, after December 31, 1996.

13 (b) REPEAL OF OBSOLETE INCOME TAX PROVI-  
14 SIONS.—

15 (1) IN GENERAL.—Except as provided in para-  
16 graph (2), chapter 1 of the Internal Revenue Code  
17 of 1986 is hereby repealed.

18 (2) EXCEPTIONS.—Paragraph (1) shall not  
19 apply to—

20 (A) sections 1, 11, and 63 of such Code,  
21 as amended by this Act,

22 (B) those provisions of chapter 1 of such  
23 Code which are necessary for determining  
24 whether or not—

25 (i) retirement distributions are includ-  
26 ible in the gross income of employees, or

1 (ii) an organization is exempt from  
 2 tax under such chapter, and  
 3 (C) subchapter D of such chapter 1 (relat-  
 4 ing to deferred compensation).

5 **SEC. 107. EFFECTIVE DATE.**

6 Except as otherwise provided in this subtitle, the  
 7 amendments made by this subtitle shall apply to taxable  
 8 years beginning after December 31, 1996.

9 **Subtitle B—Supermajority**  
 10 **Required for Tax Changes**

11 **SEC. 111. SUPERMAJORITY REQUIRED.**

12 (a) IN GENERAL.—It shall not be in order in the  
 13 House of Representatives or the Senate to consider any  
 14 bill, joint resolution, amendment thereto, or conference re-  
 15 port thereon that includes any provision that—

- 16 (1) increases any Federal income tax rate,
- 17 (2) creates any additional Federal income tax
- 18 rate,
- 19 (3) reduces the standard deduction, or
- 20 (4) provides any exclusion, deduction, credit or
- 21 other benefit which results in a reduction in Federal
- 22 revenues.

23 (b) WAIVER OR SUSPENSION.—This section may be  
 24 waived or suspended in the House of Representatives or

1 the Senate only by the affirmative vote of three-fifths of  
 2 the Members, duly chosen and sworn.

3 **TITLE II—SPENDING RESTRAINT**  
 4 **AND BUDGET PROCESS REFORM**  
 5 **Subtitle A—Balanced Budget by**  
 6 **Fiscal Year 2002**

7 **SEC. 201. MAXIMUM SPENDING AMOUNTS.**

8 Section 601(a)(1) of the Congressional Budget Act  
 9 of 1974 is amended to read as follows:

10 “(1) MAXIMUM SPENDING AMOUNT.—The term  
 11 ‘maximum spending amount’ means—

12 “(A) with respect to fiscal year 1998,  
 13 \$1,653,000,000,000 in outlays;

14 “(B) with respect to fiscal year 1999,  
 15 \$1,687,000,000,000 in outlays;

16 “(C) with respect to fiscal year 2000,  
 17 \$1,748,000,000,000 in outlays;

18 “(D) with respect to fiscal year 2001,  
 19 \$1,799,000,000,000 in outlays; and

20 “(E) with respect to fiscal year 2002,  
 21 \$1,851,000,000,000 in outlays.”.

1 **SEC. 202. ENFORCING MAXIMUM SPENDING SEQUESTRA-**  
 2 **TION.**

3 (a) SEQUESTRATION.—Section 253(a) of the Bal-  
 4 anced Budget and Emergency Deficit Control Act of 1985  
 5 is amended to read as follows:

6 “(a) SEQUESTRATION.—Within 15 days after Con-  
 7 gress adjourns to end a session (other than the One Hun-  
 8 dred Third Congress), and on the same day as sequestra-  
 9 tion (if any) under sections 251 and 252, but after any  
 10 sequestration required by those sections, there shall be a  
 11 sequestration (if necessary) to reduce total Federal spend-  
 12 ing to the maximum permissible level as set forth in sec-  
 13 tion 601(a)(1) of the Congressional Budget Act of 1974.”.

14 (b) CONFORMING AMENDMENT TO HEADING.—The  
 15 section heading of section 253 of the Balanced Budget and  
 16 Emergency Deficit Control Act of 1985 is amended to  
 17 read as follows:

18 **“SEC. 253. ENFORCING MAXIMUM SPENDING LIMITS.”.**

19 (c) ADDITIONAL CONFORMING AMENDMENTS.—Sec-  
 20 tion 253 of the Balanced Budget and Emergency Deficit  
 21 Control Act of 1985 is amended—

22 (1) by repealing subsections (b), (g), and (h),  
 23 and by redesignating subsections (c), (d), (e), and  
 24 (f), as subsections (b), (c), (d), and (e), respectively;

25 (2) in subsection (b) (as redesignated), by  
 26 amending the first sentence to read as follows: “To



1       reduce total Federal spending to the maximum per-  
2       missible level for a budget year, 20 percent of the  
3       required outlay reductions shall be obtained from  
4       non-exempt defense accounts (accounts designated  
5       as function 050 in the President’s fiscal year 1998  
6       budget submission) and 80 percent from non-ex-  
7       empt, non-defense accounts (all other non-exempt  
8       accounts).”;

9               (3) in subsection (c) (as redesignated), by strik-  
10       ing “subsection (c)” and inserting “subsection (b)”;  
11       and

12              (4) in subsection (e) (as redesignated), by strik-  
13       ing “(b), (c), (d), and (e)” and inserting “(b), (c),  
14       and (d)” and by striking “(d) or (e)” and inserting  
15       “(c) or “(d)”.

16       (d) LOOK-BACK SEQUESTER.—Section 253 of the  
17       Balanced Budget and Emergency Deficit Control Act of  
18       1985 is amended by adding at the end the following new  
19       subsection:

20       “(f) LOOK-BACK SEQUESTER.—

21              “(1) IN GENERAL.—On July 1 of each fiscal  
22       year, the Director of OMB shall determine if laws  
23       effective during the current fiscal year will cause  
24       spending to exceed the maximum spending amount  
25       for such fiscal year. If the limit is exceeded, there

1 shall be a preliminary sequester on July 1 to elimi-  
2 nate the excess.

3 “(2) PERMANENT SEQUESTER.—Budget au-  
4 thority sequestered on July 1 pursuant to paragraph  
5 (1) shall be permanently canceled on July 15.

6 “(3) NO MARGIN.—The margin for determining  
7 a sequester under this subsection shall be zero.

8 “(4) SEQUESTRATION PROCEDURES.—The pro-  
9 vision of subsections (b), (c), and (d) of this section  
10 shall apply to a sequester under this subsection.”.

11 (e) REPORTS.—Section 254 of the Balanced Budget  
12 and Emergency Deficit Control Act of 1985 is amended—

13 (1) by striking subsection (c);

14 (2) in subsection (d)(1), by striking “deficit se-  
15 questration” and inserting “total spending seques-  
16 tration”;

17 (3) in subsection (d) by repealing paragraph (4)  
18 and inserting the following new paragraph:

19 “(4) TOTAL SPENDING SEQUESTRATION RE-  
20 PORTS.—The preview reports shall set forth for the  
21 budget year estimates for each of the following:

22 “(A) The amount of reductions required  
23 from defense accounts and the reductions re-  
24 quired from non-defense accounts.

1           “(B) The sequestration percentage nec-  
 2           essary to achieve the required reduction in de-  
 3           fense accounts under section 253(c).

4           “(C) The reductions required under sec-  
 5           tions 253(d)(1) and 253(d)(2).

6           “(D) The sequestration percentage nec-  
 7           essary to achieve the required reduction in non-  
 8           defense accounts under section 253(d)(3).”; and  
 9           (4) in subsection (g)(3), by striking “DEFICIT”  
 10          and inserting “TOTAL SPENDING” in the side head-  
 11          ing and in the first sentence by striking “deficit”  
 12          and inserting “total spending”.

13          (f) CONFORMING AMENDMENT TO TABLE OF CON-  
 14          TENTS.—The item relating to section 253 is amended by  
 15          striking “Enforcing deficit targets” and inserting “En-  
 16          forcing maximum spending limits”.

17      **SEC. 203. TOTAL SPENDING POINT OF ORDER.**

18          Section 605(b) of the Congressional Budget Act of  
 19          1974 is amended to read as follows:

20          “(b) TOTAL SPENDING POINT OF ORDER.—

21               “(1) IN GENERAL.—It shall not be in order in  
 22          the House of Representatives or the Senate to con-  
 23          sider any bill, joint resolution, amendment thereto,  
 24          or conference report thereon, that includes any pro-  
 25          vision that would result in total spending for a fiscal

1 year that exceeds the maximum permissible total  
 2 spending amount for such fiscal year as set forth  
 3 in section 601(a)(1).

4 “(2) WAIVER OR SUSPENSION.—This subsection  
 5 may be waived or suspended in the House of Rep-  
 6 resentatives or the Senate only by the affirmative  
 7 vote of three-fifths of its Members, duly chosen and  
 8 sworn.”.

## 9 **Subtitle B—Zero Based Budgeting** 10 **and Decennial Sunsetting**

### 11 **SEC. 211. REAUTHORIZATION OF DISCRETIONARY PRO-** 12 **GRAMS AND UNEARNED ENTITLEMENTS.**

13 (a) FISCAL YEAR 1998.—Effective October 1, 1997,  
 14 spending authority for each unearned entitlement and  
 15 high-cost discretionary spending program is terminated  
 16 unless such spending authority is reauthorized after the  
 17 date of enactment of this Act.

18 (b) FISCAL YEAR 1999.—Effective October 1, 1998,  
 19 spending authority for each discretionary spending pro-  
 20 gram (not including high-cost discretionary spending pro-  
 21 grams) is terminated unless such spending authority is re-  
 22 authorized after the date of enactment of this Act.

23 (c) DEFINITIONS.—For purposes of this subtitle—

24 (1) the term “unearned entitlement” means an  
 25 entitlement not earned by service or paid for in total

1 or in part by assessments or contributions such as  
2 Social Security, veterans' benefits, retirement pro-  
3 grams, and medicare; and

4 (2) the term "high-cost discretionary program"  
5 means the most expensive one-third of discretionary  
6 program within each budget function account.

7 **SEC. 212. POINT OF ORDER.**

8 (a) IN GENERAL.—It shall not be in order in the  
9 House of Representatives or the Senate to consider any  
10 bill, joint resolution, amendment, or conference report that  
11 includes any provision that appropriates funds unless such  
12 appropriation has been previously authorized by law.

13 (b) WAIVER OR SUSPENSION.—This section may be  
14 waived or suspended in the House of Representatives or  
15 the Senate only by the affirmative vote of three-fifths of  
16 the Members, duly chosen and sworn.

17 **SEC. 213. DECENNIAL SUNSETTING.**

18 (a) FIRST DECENNIAL CENSUS YEAR.—Effective on  
19 the first day of the fiscal year beginning in the first decen-  
20 nial census year after the year 2001 and each 10 years  
21 thereafter, the spending authority described in section  
22 211(a) is terminated unless such spending authority is re-  
23 authorized after the last date the spending authority was  
24 required to be reauthorized under this subtitle.

1       (b) SECOND DECENNIAL CENSUS YEAR.—Effective  
2 on the first day of the fiscal year beginning in the year  
3 after the first decennial census year after the year 2001  
4 and each 10 years thereafter, the spending authority de-  
5 scribed in section 211(b) is terminated unless such spend-  
6 ing authority is reauthorized after the last date the spend-  
7 ing authority was required to be reauthorized under this  
8 subtitle.

