

105TH CONGRESS
1ST SESSION

H. R. 2971

To amend the Internal Revenue Code of 1986 to impose a flat tax only on the earned income of individuals and on business taxable income, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 8, 1997

Mr. SOUDER (for himself and Mr. SOLOMON) introduced the following bill;
which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to impose a flat tax only on the earned income of individuals and on business taxable income, and for other purposes.

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. INDIVIDUALS TAXED ONLY ON EARNED IN-**
4 **COME.**

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

1 **“SECTION 1. TAX IMPOSED.**

2 “(a) IMPOSITION OF TAX.—There is hereby imposed
3 on the income of every individual a tax equal to 20 percent
4 of the excess (if any) of—

5 “(1) the taxable earned income received or ac-
6 crued during the taxable year, over

7 “(2) the sum of—

8 “(A) the standard deduction (as defined in
9 section 63) for such taxable year,

10 “(B) the deduction under section 170, plus

11 “(C) the deduction under section 163 for
12 qualified residence interest (as defined in sec-
13 tion 163(h)(3)).

14 “(b) TAXABLE EARNED INCOME.—For purposes of
15 this section, the term ‘taxable earned income’ means the
16 excess (if any) of earned income (as defined in section
17 911(d)(2)) over the foreign earned income (as defined in
18 section 911(b)(1)).”

19 (b) INCREASE IN STANDARD DEDUCTION.—Section
20 63 of such Code is amended to read as follows:

21 **“SEC. 63. STANDARD DEDUCTION.**

22 “(a) IN GENERAL.—For purposes of this subtitle, the
23 term ‘standard deduction’ means the sum of—

24 “(1) the basic standard deduction, plus

25 “(2) the additional standard deduction.

1 “(b) BASIC STANDARD DEDUCTION.—For purposes
2 of subsection (a), the basic standard deduction is—

3 “(1) \$16,500 in the case of—

4 “(A) a joint return, and

5 “(B) a surviving spouse (as defined in sec-
6 tion 2(a)),

7 “(2) \$14,000 in the case of a head of household
8 (as defined in section 2(b)), and

9 “(3) \$9,500 in the case of an individual—

10 “(A) who is not married and who is not a
11 surviving spouse or head of household, or

12 “(B) who is a married individual filing a
13 separate return.

14 “(c) ADDITIONAL STANDARD DEDUCTION.—For pur-
15 poses of subsection (a), the additional standard deduction
16 is \$4,500 for each dependent (as defined in section 152)
17 described in section 151(c)(1) for the taxable year.

18 “(d) INFLATION ADJUSTMENT.—

19 “(1) IN GENERAL.—In the case of any taxable
20 year beginning in a calendar year after 1998, each
21 dollar amount contained in subsections (b) and (c)
22 shall be increased by an amount equal to—

23 “(A) such dollar amount, multiplied by

24 “(B) the cost-of-living adjustment under
25 section 1(f)(3) for the calendar year in which

1 the taxable year begins, determined by sub-
2 stituting ‘calendar year 1997’ for ‘calendar year
3 1992’ in subparagraph (B) of such section.

4 “(2) ROUNDING.—If any increase determined
5 under paragraph (1) is not a multiple of \$50, such
6 amount shall be rounded to the next lowest multiple
7 of \$50.”

8 **SEC. 2. LIMITATION OF HOME MORTGAGE DEDUCTION TO**
9 **ACQUISITION INDEBTEDNESS.**

10 Paragraph (3) of section 163(h) of the Internal Reve-
11 nue Code of 1986 (relating to interest) is amended—

12 (1) by striking subparagraphs (A), (C), and (D)
13 and inserting before subparagraph (B) the following
14 new subparagraph:

15 “(A) IN GENERAL.—The term ‘qualified
16 residence interest’ means any interest which is
17 paid or accrued during the taxable year on ac-
18 quisition indebtedness with respect to any quali-
19 fied residence of the taxpayer. For purposes of
20 the preceding sentence, the determination of
21 whether any property is a qualified residence of
22 the taxpayer shall be made as of the time the
23 interest is accrued.”, and

1 (2) by striking “\$1,000,000” each place it ap-
 2 pears and “\$500,000” in subparagraph (B)(ii) and
 3 inserting “\$100,000” and “\$50,000”, respectively.

4 **SEC. 3. TAX ON BUSINESS ACTIVITIES.**

5 Section 11 of the Internal Revenue Code of 1986 (re-
 6 lating to tax imposed on corporations) is amended to read
 7 as follows:

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

9 “(a) TAX IMPOSED.—There is hereby imposed on
 10 every person engaged in a business activity a tax equal
 11 to 20 percent of the business taxable income of such per-
 12 son.

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

17 “(c) BUSINESS TAXABLE INCOME.—

18 “(1) IN GENERAL.—For purposes of this sec-
 19 tion, the term ‘business taxable income’ means gross
 20 active income reduced by the deductions specified in
 21 subsection (d).

22 “(2) GROSS ACTIVE INCOME.—For purposes of
 23 paragraph (1), the term ‘gross active income’ means
 24 gross income other than investment income.

25 “(d) DEDUCTIONS.—

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

3 “(A) the cost of business inputs for the
4 business activity,

5 “(B) the compensation (including contribu-
6 tions to qualified retirement plans but not in-
7 cluding other fringe benefits) paid for employ-
8 ees performing services in such activity, and

9 “(C) the cost of tangible personal and real
10 property used in such activity.

11 “(2) BUSINESS INPUTS.—For purposes of sub-
12 paragraph (A), the term ‘cost of business inputs’
13 means—

14 “(A) the actual amount paid for goods,
15 services, and materials, whether or not resold
16 during the taxable year,

17 “(B) the fair market value of business in-
18 puts brought into the United States, and

19 “(C) the actual cost, if reasonable, of trav-
20 el and entertainment expenses for business pur-
21 poses.

22 Such term shall not include purchases of goods and
23 services provided to employees or owners.

24 “(e) CARRYOVER OF EXCESS DEDUCTIONS.—

1 “(1) IN GENERAL.—If the aggregate deductions
 2 for any taxable year exceed the gross active income
 3 for such taxable year, the amount of the deductions
 4 specified in subsection (d) for the succeeding taxable
 5 year (determined without regard to this subsection)
 6 shall be increased by the sum of—

7 “(A) such excess, plus

8 “(B) the product of such excess and the 3-
 9 month Treasury rate for the last month of such
 10 taxable year.

11 “(2) 3-MONTH TREASURY RATE.—For purposes
 12 of paragraph (1), the 3-month Treasury rate is the
 13 rate determined by the Secretary based on the aver-
 14 age market yield (during any 1-month period se-
 15 lected by the Secretary and ending in the calendar
 16 month in which the determination is made) on out-
 17 standing marketable obligations of the United States
 18 with remaining periods to maturity of 3 months or
 19 less.”

20 **SEC. 4. EFFECTIVE DATE.**

21 The amendments made by this Act shall apply to tax-
 22 able years beginning after December 31, 1997.

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