

106TH CONGRESS
1ST SESSION

H. R. 1390

To amend the Internal Revenue Code of 1986 to reduce the rates of income tax imposed on individual taxpayers by 3 percentage points, to provide for a carryover basis of property acquired from a decedent, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 13, 1999

Mr. OWENS 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 reduce the rates of income tax imposed on individual taxpayers by 3 percentage points, to provide for a carryover basis of property acquired from a decedent, 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. SHORT TITLE.**

4 This Act may be cited as the “Income Tax Fairness
5 Act of 1999”.

6 **SEC. 2. FINDINGS.**

7 Congress finds the following:

1 (1) Working people provide about 65 percent of
2 Federal revenue through social security taxes on
3 their earnings and through income taxes on their
4 earnings and employment-related retirement income.

5 (2) By contrast, income taxes on unearned in-
6 come produce only about 11 percent of total Federal
7 revenue.

8 (3) Practically all wage and salary income is re-
9 quired to be reported on personal income tax returns
10 and, except for those receiving earned income cred-
11 its, is generally fully taxed at regular income tax
12 rates.

13 (4) By contrast, unearned income (such as cap-
14 ital gains, dividends, interest, and rental income) is
15 favored by a large number of special tax provisions,
16 so that (A) some unearned income is taxed at lower
17 rates, (B) some unearned income is tax-deferred and
18 the income taxes need not be paid until many years
19 after the income is accrued, and (C) large amounts
20 of unearned income will never be taxed at all under
21 present law.

22 (5) Working people are subject to social secu-
23 rity taxes as well as income taxes, and for over 90
24 percent of the population the combined tax on
25 earned income—30.3 percent or 43.3 percent—is

1 higher than the income tax rates of 15 percent and
2 28 percent that apply to unearned income.

3 (6) The market value of all stocks traded on
4 the New York Stock Exchange and the over-the-
5 counter market (NASDAQ) was about 3 trillion dol-
6 lars in early 1989. In early 1999 it is more than 13
7 trillion dollars. Thus there appears to be roughly 10
8 trillion dollars of realized and unrealized capital
9 gains on these stocks, plus additional large amounts
10 of capital gains on foreign stocks, real estate, and
11 other assets.

12 (7) Large amounts of capital gains will never be
13 taxed under present law, because (A) capital gains
14 are not taxed until the asset is sold or transferred,
15 and (B) unrealized capital gains are never taxed if
16 the owner holds the asset for life and bequeaths it
17 to his or her heirs, even if the heirs sell it imme-
18 diately after death.

19 (8) Owners of nonresidential real estate are al-
20 lowed depreciation deductions for the full cost of
21 buildings over 39 years, even though the buildings
22 when built are intended to stand, and usually do
23 stand, for 100 years or more.

1 **SEC. 3. REDUCTION IN INDIVIDUAL INCOME TAX RATES.**

2 (a) IN GENERAL.—Each of the tables contained in
3 subsections (a), (b), (c), (d), and (e) of section 1 of the
4 Internal Revenue Code of 1986 is amended—

5 (1) by striking “15%” and inserting “12%”;

6 (2) by striking “28%” and inserting “25%”;

7 (3) by striking “31%” and inserting “28%”;

8 (4) by striking “36%” and inserting “33%”;

9 and

10 (5) by striking “39.6%” and inserting
11 “36.6%”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 subsection (a) shall apply to taxable years beginning after
14 December 31, 1999.

15 (c) SECTION 15 NOT TO APPLY.—The amendment
16 made by subsection (a) shall not be treated as a change
17 in the rate of a tax imposed by chapter 1 of the Internal
18 Revenue Code of 1986 for purposes of section 15 of such
19 Code.

20 **SEC. 4. REPEAL OF INCREASE IN BASIS OF PROPERTY AC-**
21 **QUIRED FROM A DECEDENT.**

22 (a) IN GENERAL.—Section 1014 of the Internal Rev-
23 enue Code of 1986 (relating to basis of property acquired
24 from a decedent) is hereby repealed.

25 (b) BASIS TO BE DETERMINED UNDER RULES AP-
26 PPLICABLE TO GIFTS.—Section 1015 of such Code (relat-

1 ing to basis of property acquired by gifts and transfers
 2 in trusts) is amended by adding at the end the following
 3 new subsection:

4 “(f) PROPERTY ACQUIRED FROM OR PASSING FROM
 5 A DECEDENT.—

6 “(1) IN GENERAL.—Carryover basis property
 7 shall be treated for purposes of subsection (a) as ac-
 8 quired by gift for purposes of this section.

9 “(2) CARRYOVER BASIS PROPERTY DEFINED.—
 10 For purposes of this section, the term ‘carryover
 11 basis property’ means property acquired from or
 12 passed from a decedent dying after December 31,
 13 1999.

14 “(3) PROPERTY ACQUIRED FROM A DECE-
 15 DENT.—Section 1014(b) (as in effect on the day be-
 16 fore the date of the enactment of the Income Tax
 17 Fairness Act of 1999) shall apply for purposes of
 18 whether property is considered to have been acquired
 19 from or to have passed from the decedent.

20 “(4) INCREASE IN BASIS FOR FAMILY FARM
 21 AND CLOSELY HELD BUSINESS PROPERTY AND FOR
 22 ESTATE TAX PAID.—The basis of any carryover
 23 basis property is the sum of—

24 “(A) the basis determined under sub-
 25 section (a);

1 “(B) the family farm adjustment for such
2 property;

3 “(C) the closely held business adjustment
4 for such property; and

5 “(D) the death tax adjustment for such
6 property.

7 “(5) FAMILY FARM ADJUSTMENT.—

8 “(A) IN GENERAL.—In the case of carry-
9 over basis property which is qualified real prop-
10 erty (as defined in section 2032A(b)), the fam-
11 ily farm adjustment is the portion of the aggre-
12 gate family farm adjustment which is allocated
13 to the property pursuant to this section.

14 “(B) ADJUSTMENT NOT TO APPLY IF ES-
15 TATE TAX BENEFIT IS OR WOULD BE RECAP-
16 TURED.—The basis of any property shall be de-
17 termined without regard to this paragraph if
18 any additional estate tax is or has been imposed
19 by section 2032A(c) with respect to such prop-
20 erty (or would have been so imposed if section
21 2032A had been elected with respect to such
22 property).

23 “(C) AGGREGATE FAMILY FARM ADJUST-
24 MENT.—In the case of any estate, the aggre-

1 gate family farm adjustment is the amount (if
2 any) by which—

3 “(i) \$1,000,000, exceeds

4 “(ii) the aggregate of the initial bases
5 of all carryover basis property which is
6 qualified real property (as so defined).

7 “(6) CLOSELY HELD BUSINESS ADJUSTMENT.—

8 “(A) IN GENERAL.—In the case of carry-
9 over basis property which is an interest in a
10 closely held business (as defined in section
11 6166(b)), the closely held business adjustment
12 is the portion of the aggregate closely held busi-
13 ness adjustment which is allocated to the prop-
14 erty pursuant to this section.

15 “(B) AGGREGATE CLOSELY HELD BUSI-
16 NESS ADJUSTMENT.—In the case of any estate,
17 the aggregate closely held business adjustment
18 is the amount (if any) by which—

19 “(i) \$1,000,000, exceeds

20 “(ii) the sum of—

21 “(I) the aggregate of the initial
22 bases of all carryover basis property
23 which is an interest in closely held
24 business (as so defined), plus

1 “(II) the aggregate family farm
2 adjustment under paragraph (3).

3 “(7) DEATH TAX ADJUSTMENT.—

4 “(A) IN GENERAL.—The death tax adjust-
5 ment for any carryover basis property is the
6 portion of the aggregate death tax adjustment
7 which is allocated to the property pursuant to
8 this section.

9 “(B) LIMITATION.—The death tax adjust-
10 ment for any property shall not exceed—

11 “(i) the net appreciation of such prop-
12 erty, multiplied by

13 “(ii) the Federal marginal estate tax
14 rate.

15 “(C) NET APPRECIATION.—For purposes
16 of this paragraph, the net appreciation in value
17 of any property is the amount by which—

18 “(i) the fair market value of such
19 property, exceeds

20 “(ii) the basis determined under sub-
21 section (a) increased by the adjustments
22 described in subparagraphs (B) and (C) of
23 paragraph (3) for such property.

24 “(D) AGGREGATE DEATH TAX ADJUST-
25 MENT.—In the case of any estate—

1 “(i) IN GENERAL.—The aggregate
2 death tax adjustment is the product of—

3 “(I) the aggregate net apprecia-
4 tion of all properties which have net
5 appreciation, and

6 “(II) the Federal marginal estate
7 tax rate.

8 “(ii) LIMITATION.—The amount taken
9 into account under clause (i)(I) shall not
10 exceed the taxable estate.

11 “(iii) FEDERAL MARGINAL ESTATE
12 TAX RATE.—The term ‘Federal marginal
13 estate tax rate’ means the highest rate in
14 the rate schedule set forth in section
15 2001(c)—

16 “(I) which is used in determining
17 the tentative tax under section
18 2001(b)(1) with respect to the estate
19 of the decedent, and

20 “(II) the amount subject to
21 which is at least \$50,000.

22 In no event shall the Federal marginal es-
23 tate tax rate be less than 30 percent.

24 “(8) ALLOCATION RULES.—The executor shall
25 allocate the adjustments under this subsection

1 among the properties on the return of the tax im-
 2 posed by chapter 11.”.

3 (c) CONFORMING AMENDMENTS.—

4 (1) The table of sections for part II of sub-
 5 chapter O of chapter 1 of such Code is amended by
 6 striking the item relating to section 1014.

7 (2) The heading of section 1015 of such Code
 8 is amended to read as follows:

9 **“SEC. 1015. BASIS OF PROPERTY ACQUIRED BY GIFT, FROM**
 10 **A DECEDENT, OR TRANSFERRED IN TRUST.”.**

11 (3) The table of sections for part II of sub-
 12 chapter O of chapter 1 of such Code is amended by
 13 striking the item relating to section 1015 and insert-
 14 ing the following new item:

“Sec. 1015. Basis of property acquired by gift, from a decedent,
 or transferred in trust.”.

15 (d) EFFECTIVE DATE.—The amendments made by
 16 this section shall apply to decedents dying after December
 17 31, 1999.

18 **SEC. 5. INCREASE IN COST RECOVERY PERIOD FROM 39**
 19 **YEARS TO 100 YEARS FOR NONRESIDENTIAL**
 20 **REAL PROPERTY.**

21 (a) IN GENERAL.—The table in section 168(c) of
 22 such Code (relating to applicable recovery period) is
 23 amended by striking “39 years” and inserting “100
 24 years”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to property placed in service by
3 the taxpayer after December 31, 1999.

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