

106TH CONGRESS  
1ST SESSION

# H. R. 2525

To promote freedom, fairness, and economic opportunity by repealing the income tax and other taxes, abolishing the Internal Revenue Service, and enacting a national sales tax to be administered primarily by the States.

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## IN THE HOUSE OF REPRESENTATIVES

JULY 14, 1999

Mr. LINDER (for himself, and Mr. PETERSON of Minnesota) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To promote freedom, fairness, and economic opportunity by repealing the income tax and other taxes, abolishing the Internal Revenue Service, and enacting a national sales tax to be administered primarily by the States.

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 “Fair Tax Act of 1999”.

6 (b) TABLE OF CONTENTS.—The table of contents for  
7 this Act is as follows:

Sec. 1. Short title; table of contents.

Sec. 2. Congressional findings.

TITLE I—REPEAL OF THE INCOME TAX, PAYROLL TAXES, AND  
ESTATE AND GIFT TAXES

Sec. 101. Income taxes repealed.

Sec. 102. Payroll taxes repealed.

Sec. 103. Estate and gift taxes repealed.

Sec. 104. Conforming amendments; effective date.

TITLE II—SALES TAX ENACTED

Sec. 201. Sales tax.

Sec. 202. Conforming and technical amendments.

TITLE III—OTHER MATTERS

Sec. 301. Phase-out of administration of repealed Federal taxes.

Sec. 302. Administration of other Federal taxes.

Sec. 303. Sales tax inclusive social security benefits indexation.

**1 SEC. 2. CONGRESSIONAL FINDINGS.**

**2 (a) FINDINGS RELATING TO FEDERAL INCOME**

**3 TAX.—Congress finds that the Federal income tax—**

**4 (1) retards economic growth and has reduced**  
**5 the standard of living of the American public;**

**6 (2) impedes the international competitiveness of**  
**7 United States industry;**

**8 (3) reduces savings and investment in the**  
**9 United States by taxing income multiple times;**

**10 (4) slows the capital formation necessary for**  
**11 real wages to steadily increase;**

**12 (5) lowers productivity;**

**13 (6) imposes unacceptable and unnecessary ad-**  
**14 ministrative and compliance costs on individual and**  
**15 business taxpayers;**

**16 (7) is unfair and inequitable;**

1           (8) unnecessarily intrudes upon the privacy and  
2       civil rights of United States citizens;

3           (9) hides the true cost of government by embed-  
4       ding taxes in the costs of everything Americans buy;

5           (10) is not being complied with at satisfactory  
6       levels and therefore raises the tax burden on law  
7       abiding citizens; and

8           (11) impedes upward social mobility.

9       (b) FINDINGS RELATING TO FEDERAL PAYROLL  
10   TAXES.—Congress finds further that the social security  
11   and medicare payroll taxes and self-employment taxes—

12           (1) raise the cost of employment;

13           (2) destroy jobs and cause unemployment; and

14           (3) have a disproportionately adverse impact on  
15   lower income Americans.

16       (c) FINDINGS RELATING TO FEDERAL ESTATE AND  
17   GIFT TAXES.—Congress finds further that the Federal es-  
18   tate and gift taxes—

19           (1) force family businesses and farms to be sold  
20   by the family to pay such taxes;

21           (2) discourages capital formation and entrepre-  
22   neurship;

23           (3) fosters the continued dominance of large en-  
24   terprises over small family-owned companies and  
25   farms; and

1           (4) imposes unacceptably high tax planning  
2       costs on small businesses and farms.

3       (d) FINDINGS RELATING TO NATIONAL SALES  
4 TAX.—Congress finds further that a broad-based national  
5 sales tax on goods and services purchased for final  
6 consumption—

7           (1) is similar in many respects to the sales and  
8       use taxes in place in 45 of the 50 States;

9           (2) will promote savings and investment;

10          (3) will promote fairness;

11          (4) will promote economic growth;

12          (5) will raise the standard of living;

13          (6) will increase investment;

14          (7) will enhance productivity and international  
15       competitiveness;

16          (8) will reduce administrative burdens on the  
17       American taxpayer;

18          (9) will improve upward social mobility; and

19          (10) will respect the privacy interests and civil  
20       rights of taxpayers.

21       (e) FINDINGS RELATING TO ADMINISTRATION OF  
22 NATIONAL SALES TAX.—Congress further finds that—

23          (1) most of the practical experience admin-  
24       istering sales taxes is found at the State govern-  
25       mental level;

1           (2) it is desirable to harmonize Federal and  
2       State collection and enforcement efforts to the max-  
3       imum extent possible;

4           (3) it is sound tax administration policy to fos-  
5       ter administration and collection of the Federal sales  
6       tax at the State level in return for a reasonable ad-  
7       ministration fee to the States; and

8           (4) businesses that must collect and remit taxes  
9       should receive reasonable compensation for the cost  
10      of doing so.

11       (f) FINDINGS RELATING TO REPEAL OF PRESENT  
12   FEDERAL TAX SYSTEM.—Congress further finds that the  
13   16th amendment to the United States Constitution should  
14   be repealed and that the repealing amendment should pro-  
15   hibit Federal taxation of incomes, wages, estates, and  
16   gifts.

17   **TITLE I—REPEAL OF THE IN-**  
18       **COME TAX, PAYROLL TAXES,**  
19       **AND ESTATE AND GIFT TAXES**

20   **SEC. 101. INCOME TAXES REPEALED.**

21       Subtitle A of title 26 of the Internal Revenue Code  
22   of 1986 (relating to income taxes and self-employment  
23   taxes) is repealed.

1 **SEC. 102. PAYROLL TAXES REPEALED.**

2 (a) IN GENERAL.—Subtitle C of title 26 of the Inter-  
3 nal Revenue Code of 1986 (relating to payroll taxes and  
4 withholding of income taxes) is repealed.

5 (b) FUNDING OF SOCIAL SECURITY.—For funding of  
6 the Social Security Trust Funds from general revenue, see  
7 section 201 of the Social Security Act (42 U.S.C. 401).

8 **SEC. 103. ESTATE AND GIFT TAXES REPEALED.**

9 Subtitle B of title 26 of the Internal Revenue Code  
10 of 1986 (relating to estate and gift taxes) is repealed.

11 **SEC. 104. CONFORMING AMENDMENTS; EFFECTIVE DATE.**

12 (a) CONFORMING AMENDMENTS.—The Internal Rev-  
13 enue Code of 1986 is amended—

14 (1) by striking subtitle H (relating to financing  
15 of Presidential election campaigns), and

16 (2) by redesignating—

17 (A) subtitle D (relating to miscellaneous  
18 excise taxes) as subtitle B,

19 (B) subtitle E (relating to alcohol, tobacco,  
20 and certain other excise taxes) as subtitle C,

21 (C) subtitle F (relating to procedure and  
22 administration) as subtitle D,

23 (D) subtitle G (relating to the Joint Com-  
24 mittee on Taxation) as subtitle E,

25 (E) subtitle I (relating to the Trust Fund  
26 Code) as subtitle F,

1 (F) subtitle J (relating to coal industry  
2 health benefits) as subtitle G, and

3 (G) subtitle K (relating to group health  
4 plan portability, access, and renewability re-  
5 quirements) as subtitle H.

6 (b) REDESIGNATION OF 1986 CODE.—

7 (1) IN GENERAL.—The Internal Revenue Code  
8 of 1986 enacted on October 22, 1986, as heretofore,  
9 hereby, or hereafter amended, may be cited as the  
10 “Internal Revenue Code of 1999”.

11 (2) REFERENCES IN LAWS, ETC.—Except when  
12 inappropriate, any reference in any law, Executive  
13 order, or other document—

14 (A) to the Internal Revenue Code of 1986  
15 shall include a reference to the Internal Rev-  
16 enue Code of 1999, and

17 (B) to the Internal Revenue Code of 1999  
18 shall include a reference to the provisions of law  
19 formerly known as the Internal Revenue Code  
20 of 1986.

21 (c) ADDITIONAL AMENDMENTS.—For additional con-  
22 forming amendments, see section 202 of this Act.

23 (d) EFFECTIVE DATE.—Except as otherwise pro-  
24 vided in this Act, the amendments made by this Act shall  
25 take effect on January 1, 2001.

# 1    **TITLE II—SALES TAX ENACTED**

## 2    **SEC. 201. SALES TAX.**

3        (a) IN GENERAL.—The Internal Revenue Code of  
 4    1999 is amended by inserting before subtitle B (as reded-  
 5    icated by section 104(a)(2)(A)) the following new sub-  
 6    title:

## 7                    **“Subtitle A—Sales Tax**

“Sec. 1. Principles of interpretation.

“Sec. 2. Definitions.

“CHAPTER 1. Interpretation; definitions; imposition of tax; etc.

“CHAPTER 2. Credits; refunds.

“CHAPTER 3. Family consumption allowance.

“CHAPTER 4. State and Federal cooperative tax administration.

“CHAPTER 5. Other administrative provisions.

“CHAPTER 6. Collection; appeals; taxpayer rights.

“CHAPTER 7. Special rules.

“CHAPTER 8. Financial intermediation services.

“CHAPTER 9. Additional matters.

## 8    **“SECTION 1. PRINCIPLES OF INTERPRETATION.**

9        “(a) IN GENERAL.—Any court, the Secretary, and  
 10    any sales tax administering authority shall consider the  
 11    purposes of this subtitle (as set forth in subsection (b))  
 12    as the primary aid in statutory construction.

13        “(b) PURPOSES.—The purposes of this subtitle are  
 14    as follows:

15                “(1) To raise revenue needed by the Federal  
 16        Government in a manner consistent with the other  
 17        purposes of this subtitle.

18                “(2) To tax all consumption of goods and serv-  
 19        ices in the United States once, without exception,  
 20        but only once.



1           “(3) To prevent double, multiple, or cascading  
2       taxation.

3           “(4) To simplify the tax law and reduce the ad-  
4       ministration costs of, and the costs of compliance  
5       with, the tax law.

6           “(5) To provide for the administration of the  
7       tax law in a manner that respects privacy, due proc-  
8       ess, individual rights when interacting with the gov-  
9       ernment, the presumption of innocence in criminal  
10      proceedings, and the presumption of lawful behavior  
11      in civil proceedings.

12          “(6) To increase the role of State governments  
13      in Federal tax administration because of State gov-  
14      ernment expertise in sales tax administration.

15          “(7) To enhance generally cooperation and co-  
16      ordination among State tax administrators; and to  
17      enhance cooperation and coordination among Fed-  
18      eral and State tax administrators, consistent with  
19      the principle of intergovernmental tax immunity.

20          “(c) SECONDARY AIDS TO STATUTORY CONSTRUC-  
21      TION.—As a secondary aid in statutory construction, any  
22      court, the Secretary, and any sales tax administering au-  
23      thority shall consider—

24           “(1) the common law canons of statutory con-  
25      struction;

1           “(2) the meaning and construction of concepts  
2           and terms used in the Internal Revenue Code of  
3           1986 as in effect before the effective date of this  
4           subtitle; and

5           “(3) construe any ambiguities in this Act in  
6           favor of reserving powers to the States respectively,  
7           or to the people.

8   **“SEC. 2. DEFINITIONS AND SPECIAL RULES.**

9           “(a) IN GENERAL.—For purposes of this subtitle—

10           “(1) AFFILIATED FIRMS.—A firm is affiliated  
11           with another if 1 firm owns 50 percent or more of—

12                   “(A) the voting shares in a corporation, or

13                   “(B) the capital interests of a business  
14           firm that is not a corporation.

15           “(2) CONFORMING STATE SALES TAX.—The  
16           term ‘conforming State sales tax’ means a sales tax  
17           imposed by a State that adopts the same definition  
18           of taxable property and services as adopted by this  
19           subtitle.

20           “(3) DESIGNATED COMMERCIAL PRIVATE COU-  
21           RIER SERVICE.—The term ‘designated commercial  
22           private courier service’ means a firm designated as  
23           such by the Secretary or any sales tax administering  
24           authority, upon application of the firm, if the firm—

1           “(A) provides its services to the general  
2 public,

3           “(B) records electronically to its data base  
4 kept in the regular course of its business the  
5 date on which an item was given to such firm  
6 for delivery, and

7           “(C) has been operating for at least 1  
8 year.

9           “(4) EDUCATION AND TRAINING.—The term  
10 ‘education and training’ means tuition for primary,  
11 secondary, or postsecondary level education, and job-  
12 related training courses. Such term does not include  
13 room, board, sports activities, recreational activities,  
14 hobbies, games, arts or crafts or cultural activities.

15           “(5) GROSS PAYMENTS.—The term ‘gross pay-  
16 ments’ means payments for taxable property or serv-  
17 ices, including Federal taxes imposed by this title.

18           “(6) INTANGIBLE PROPERTY.—

19           “(A) IN GENERAL.—The term ‘intangible  
20 property’ includes copyrights, trademarks, pat-  
21 ents, goodwill, financial instruments, securities,  
22 commercial paper, debts, notes and bonds, and  
23 other property deemed intangible at common  
24 law. The Secretary shall, by regulation resolve

1 differences among the provisions of common  
2 law of the several States.

3 “(B) CERTAIN TYPES OF PROPERTY.—  
4 Such term does not include tangible personal  
5 property (or rents or leaseholds of any term  
6 thereon), real property (or rents or leaseholds  
7 of any term thereon) and computer software.

8 “(7) PERSON.—The term ‘person’ means any  
9 natural person, and unless the context clearly does  
10 not allow it, any corporation, partnership, limited li-  
11 ability company, trust, estate, government, agency,  
12 administration, organization, association, or other  
13 legal entity (foreign or domestic).

14 “(8) PRODUCE, PROVIDE, RENDER, OR SELL  
15 TAXABLE PROPERTY OR SERVICES.—

16 “(A) IN GENERAL.—A taxable property or  
17 service is used to produce, provide, render, or  
18 sell a taxable property or service if such prop-  
19 erty or service is purchased by a person en-  
20 gaged in a trade or business for the purpose of  
21 employing or using such taxable property or  
22 service in the production, provision, rendering,  
23 or sale of other taxable property or services in  
24 the ordinary course of that trade or business.

1           “(B) RESEARCH, EXPERIMENTATION,  
2           TESTING, AND DEVELOPMENT.—Taxable prop-  
3           erty or services used in a trade or business for  
4           the purpose of research, experimentation, test-  
5           ing, and development shall be treated as used to  
6           produce, provide, render, or sell taxable prop-  
7           erty or services.

8           “(C) INSURANCE PAYMENTS.—Taxable  
9           property or services purchased by an insurer on  
10          behalf of an insured shall be treated as used to  
11          produce, provide, render, or sell taxable prop-  
12          erty or services if the premium for the insur-  
13          ance contract giving rise to the insurer’s obliga-  
14          tion was subject to tax pursuant to section 801  
15          (relating to financial intermediation services).

16          “(D) EDUCATION AND TRAINING.—Edu-  
17          cation and training shall be treated as services  
18          used to produce, provide, render, or sell taxable  
19          property or services.

20          “(9) REGISTERED SELLER.—The term ‘reg-  
21          istered seller’ means a person registered pursuant to  
22          section 502.

23          “(10) SALES TAX ADMINISTERING AUTHOR-  
24          ITY.—The term ‘sales tax administering authority’  
25          means—

1           “(A) the State agency designated to collect  
2           and administer the sales tax imposed by this  
3           subtitle, in an administering State, or

4           “(B) the Secretary, in a State that is  
5           neither—

6                   “(i) an administering State, nor

7                   “(ii) a State that has elected to have  
8                   its sales tax administered by an admin-  
9                   istering State.

10           “(11) SECRETARY.—The term ‘Secretary’  
11           means the Secretary of the Treasury.

12           “(12) TAXABLE EMPLOYER.—

13                   “(A) IN GENERAL.—The term ‘taxable em-  
14                   ployer’ includes—

15                           “(i) any household employing domes-  
16                           tic servants, and

17                           “(ii) any government except for gov-  
18                           ernment enterprises (as defined in section  
19                           704).

20                   “(B) EXCEPTIONS.—The term ‘taxable  
21                   employer’ does not include any employer which  
22                   is—

23                           “(i) engaged in a trade or business,

24                           “(ii) a not-for-profit organization (as  
25                           defined in section 706), or

1 “(iii) a government enterprise (as de-  
 2 fined in section 704).

3 “(C) CROSS REFERENCE.—

“For rules relating to collection and remittance of  
 tax on wages by taxable employers, see section  
 103(b)(2).

4 “(13) TAX INCLUSIVE FAIR MARKET VALUE.—

5 The term ‘tax inclusive fair market value’ means the  
 6 fair market value of taxable property or services plus  
 7 the tax imposed by this subtitle.

8 “(14) TAXABLE PROPERTY OR SERVICE.—

9 “(A) GENERAL RULE.—The term ‘taxable  
 10 property or service’ means—

11 “(i) any property (including leaseholds  
 12 of any term or rents with respect to such  
 13 property) but excluding—

14 “(I) intangible property, and

15 “(II) used property, and

16 “(ii) any service (including any finan-  
 17 cial intermediation services as determined  
 18 by section 801).

19 “(B) SERVICE.—For purposes of subpara-  
 20 graph (A), the term ‘service’—

21 “(i) shall include any service per-  
 22 formed by an employee for which the em-  
 23 ployee is paid wages or a salary by a tax-  
 24 able employer, and

1 “(ii) shall not include any service per-  
2 formed by an employee for which the em-  
3 ployee is paid wages or a salary—

4 “(I) by an employer in the reg-  
5 ular course of the employer’s trade or  
6 business,

7 “(II) by an employer that is a  
8 not-for-profit organization (as defined  
9 in section 706),

10 “(III) by an employer that is a  
11 government enterprise (as defined in  
12 section 704), and

13 “(IV) by taxable employers to  
14 employees directly providing education  
15 and training.

16 “(15) UNITED STATES.—The term ‘United  
17 States’, when used in the geographical sense, means  
18 each of the 50 States, the District of Columbia, and  
19 any commonwealth, territory, or possession of the  
20 United States.

21 “(16) USED PROPERTY.—The term ‘used prop-  
22 erty’ means—

23 “(A) property on which the tax imposed by  
24 section 101 has been collected and for which no  
25 credit has been allowed under section 203, and



1           “(B) property that was held other than for  
 2           a business purpose (as defined in section  
 3           102(b)) on December 31, 2000.

4           “(17) WAGES AND SALARY.—The terms ‘wage’  
 5           and ‘salary’ mean all compensation paid for employ-  
 6           ment service including cash compensation, employee  
 7           benefits, disability insurance, or wage replacement  
 8           insurance payments, unemployment compensation  
 9           insurance, workers’ compensation insurance, and the  
 10          fair market value of any other consideration paid by  
 11          an employer to an employee in consideration for em-  
 12          ployment services rendered.

13          “(b) CROSS REFERENCES.—

**“(1) For the definition of business purposes, see section 102(b).**

**“(2) For the definition of insurance contract, see section 206(e).**

**“(3) For the definition of qualified family, see section 302.**

**“(4) For the definition of monthly poverty level, see section 303.**

**“(5) For the definition of large seller, see section 501(e)(3).**

**“(6) For the definition of hobby activities, see section 701.**

**“(7) For the definition of gaming sponsor, see section 701(a).**

**“(8) For the definition of a chance, see section 701(b).**

**“(9) For the definition of government enterprise, see section 704(b).**

**“(10) For the definition of mixed use property, see section 705.**

**“(11) For the definition of qualified not-for-profit organization, see section 706.**

**“(12) For the definition of financial intermediation services, see section 801.**

1           **“CHAPTER 1—INTERPRETATION;**  
 2           **DEFINITIONS; IMPOSITION OF TAX; ETC.**

“Sec. 101. Imposition of sales tax.

“Sec. 102. Intermediate and export sales.

“Sec. 103. Rules relating to collection and remittance of tax.

3           **“SEC. 101. IMPOSITION OF SALES TAX.**

4           “(a) IN GENERAL.—There is hereby imposed a tax  
 5 on the use or consumption in the United States of taxable  
 6 property or services.

7           “(b) RATE.—

8           “(1) FOR 2001.—In the calendar year 2001, the  
 9 rate of tax is 23 percent of the gross payments for  
 10 the taxable property or service.

11           “(2) FOR YEARS AFTER 2001.—For years after  
 12 the calendar year 2001, the rate of tax is the com-  
 13 bined Federal tax rate percentage (as defined in  
 14 paragraph 3) of the gross payments for the taxable  
 15 property or service.

16           “(3) COMBINED FEDERAL TAX RATE PERCENT-  
 17 AGE.—The combined Federal tax rate percentage is  
 18 the sum of—

19           “(A) the general revenue rate (as defined  
 20 in paragraph 4), and

21           “(B) the old-age, survivors and disability  
 22 insurance rate, and

23           “(C) the hospital insurance rate.

1           “(4) GENERAL REVENUE RATE.—The general  
2       revenue rate shall be 14.91 percent.

3           “(c) COORDINATION WITH IMPORT DUTIES.—The  
4       tax imposed by this section is in addition to any import  
5       duties imposed by chapter 4 of title 19. The Secretary  
6       shall provide by regulation that, to the maximum extent  
7       practicable, the tax imposed by this section on imported  
8       taxable property and services is collected and administered  
9       in conjunction with any applicable import duties imposed  
10      by the United States.

11          “(d) LIABILITY FOR TAX.—

12               “(1) IN GENERAL.—The person using or con-  
13       suming taxable property or services in the United  
14       States is liable for the tax imposed by this section,  
15       and except as provided by subsection (e) of this sec-  
16       tion.

17               “(2) EXCEPTION WHERE TAX PAID TO SELL-  
18       ER.—A person using or consuming a taxable prop-  
19       erty or service in the United States is not liable for  
20       the tax imposed by this section if the person pays  
21       the tax to a person selling the taxable property or  
22       service and receives from such person a purchaser’s  
23       receipt within the meaning of section 510.

24      **“SEC. 102. INTERMEDIATE AND EXPORT SALES.**

25          “(a) IN GENERAL.—For purposes of this subtitle—

1           “(1) BUSINESS AND EXPORT PURPOSES.—No  
2           tax shall be imposed under section 101 on any tax-  
3           able property or service purchased for—

4                   “(A) a business purpose in a trade or busi-  
5           ness, or

6                   “(B) export from the United States for use  
7           or consumption outside the United States, if,  
8           the purchaser provided the seller with a reg-  
9           istration certificate, and the seller was a whole-  
10          sale seller.

11          “(2) INVESTMENT PURPOSE.—No tax shall be  
12          imposed under section 101 on any taxable property  
13          or service purchased for an investment purpose and  
14          held exclusively for an investment purpose.

15          “(3) STATE GOVERNMENT FUNCTIONS.—No tax  
16          shall be imposed under section 101 on State govern-  
17          ment functions that do not constitute the final con-  
18          sumption of property or services.

19          “(b) BUSINESS PURPOSES.—For purposes of this  
20          section, the term ‘purchased for a business purpose in a  
21          trade or business’ means purchased by a person engaged  
22          in a trade or business and used in that trade or business—

23                   “(1) for resale,

24                   “(2) to produce, provide, render, or sell taxable  
25          property or services, or

1           “(3) in furtherance of other bona fide business  
2           purposes.

3           “(c) INVESTMENT PURPOSES.—For purposes of this  
4           section, the term ‘purchased for an investment purpose’  
5           means property purchased exclusively for purposes of ap-  
6           preciation or the production of income but not entailing  
7           more than minor personal efforts.

8           **“SEC. 103. RULES RELATING TO COLLECTION AND REMIT-**  
9                                   **TANCE OF TAX.**

10          “(a) LIABILITY FOR COLLECTION AND REMITTANCE  
11          OF THE TAX.—Except as provided otherwise by this sec-  
12          tion, any tax imposed by this subtitle shall be collected  
13          and remitted by the seller of taxable property or services  
14          (including financial intermediation services).

15          “(b) TAX TO BE REMITTED BY PURCHASER IN CER-  
16          TAIN CIRCUMSTANCES.—

17               “(1) IN GENERAL.—In the case of taxable prop-  
18               erty or services purchased outside of the United  
19               States and imported into the United States for use  
20               or consumption in the United States, the purchaser  
21               shall remit the tax imposed by section 101.

22               “(2) CERTAIN WAGES OR SALARY.—In the case  
23               of wages or salary paid by a taxable employer which  
24               are taxable services, the employer shall remit the tax  
25               imposed by section 101.

1       “(c) CONVERSION OF BUSINESS OR EXPORT PROP-  
2    PERTY OR SERVICES.—Property or services purchased for  
3    a business purpose in a trade or business or for export  
4    (sold untaxed pursuant to section 102(a)) that is subse-  
5    quently converted to personal use shall be deemed pur-  
6    chased at the time of conversion and shall be subject to  
7    the tax imposed by section 101 at the fair market value  
8    of the converted property as of the date of conversion. The  
9    tax shall be due as if the property had been sold at the  
10   fair market value during the month of conversion. The  
11   person using or consuming the converted property is liable  
12   for and shall remit the tax.

13       “(d) SELLER RELIEVED OF LIABILITY IN CERTAIN  
14    CASES.—In the case of any taxable property or service  
15    which is sold untaxed pursuant to section 102(a), the sell-  
16    er shall be relieved of the duty to collect and remit the  
17    tax imposed under section 101 on such purchase if the  
18    seller—

19               “(1) received in good faith, and retains on file  
20       for the period set forth in section 509, a copy of a  
21       registration certificate from the purchaser, and

22               “(2) did not, at the time of sale, have reason-  
23       able cause to believe that the buyer was not reg-  
24       istered pursuant to section 502.

1       “(e) PURCHASER LIABLE TO COLLECT AND REMIT  
 2 IN CERTAIN CASES.—In the case of any taxable property  
 3 or service which is sold untaxed pursuant to section 102,  
 4 if the seller is relieved by reason of subsection (d) of the  
 5 duty to collect and remit the tax imposed by section 101,  
 6 then the duty to pay any tax due shall rest with the pur-  
 7 chaser.

8       “(f) BARTER TRANSACTIONS.—If gross payment for  
 9 taxable property or services is made in other than money,  
 10 then the person responsible for collecting and remitting  
 11 the tax shall remit the tax to the sales tax administering  
 12 authority in money as if gross payment had been made  
 13 in money at the tax inclusive fair market value of the tax-  
 14 able property or services purchased.

15       “(g) INTERCOMPANY SALES.—Firms that make pur-  
 16 chases from affiliated firms that are untaxed pursuant to  
 17 section 102, or make sales to affiliated firms that are  
 18 untaxed pursuant to section 102, shall not need to comply  
 19 with the requirements of subsection (d) (relating to certifi-  
 20 cates) for said purchases or sales to remain untaxed.

## 21       **“CHAPTER 2—CREDITS; REFUNDS**

“Sec. 201. Credits and refunds.

“Sec. 202. Business use conversion credit.

“Sec. 203. Intermediate and export sales credit.

“Sec. 204. Administration credit.

“Sec. 205. Bad debt credit.

“Sec. 206. Insurance proceeds credit.

“Sec. 207. Refunds.

1 **“SEC. 201. CREDITS AND REFUNDS.**

2 “(a) IN GENERAL.—Each person shall be allowed a  
3 credit with respect to the taxes imposed by section 101  
4 for each month in an amount equal to the sum of—

5 “(1) such person’s business use conversion  
6 credit pursuant to section 202 for such month,

7 “(2) such person’s intermediate and export  
8 sales credit pursuant to section 203 for such month,

9 “(3) the administration credit pursuant to sec-  
10 tion 204 for such month,

11 “(4) the bad debt credit pursuant to section  
12 205 for such month,

13 “(5) the insurance proceeds credit pursuant to  
14 section 206 for such month,

15 “(6) the transitional inventory credit pursuant  
16 to section 902, and

17 “(7) any amount paid in excess of the amount  
18 due.

19 “(b) CREDITS NOT ADDITIVE.—Only one credit al-  
20 lowed by chapter 2 may be taken with respect to any par-  
21 ticular gross payment.

22 **“SEC. 202. BUSINESS USE CONVERSION CREDIT.**

23 “(a) IN GENERAL.—For purposes of section 201, a  
24 person’s business use conversion credit for any month is  
25 the aggregate of the amounts determined under subsection  
26 (b) with respect to taxable property and services—



1 “(1) on which tax was imposed by section 101  
2 (and actually paid), and

3 “(2) which commenced to be 95 percent or  
4 more used during such month for business purposes  
5 (within the meaning of section 102(b)).

6 “(b) AMOUNT OF CREDIT.—The amount determined  
7 under this paragraph with respect to any taxable property  
8 or service is the lesser of—

9 “(1) the product of—

10 “(A) the rate imposed by section 101, and

11 “(B) the quotient that is—

12 “(i) the fair market value of the prop-  
13 erty or service when its use is converted,  
14 divided by

15 “(ii) the quantity that is 1 minus the  
16 tax rate imposed by section 101, or

17 “(2) the amount of tax paid with respect to  
18 such taxable property or service, including the  
19 amount, if any, determined in accordance with sec-  
20 tion 705 (relating to mixed use property).

21 **“SEC. 203. INTERMEDIATE AND EXPORT SALES CREDIT.**

22 “For purposes of section 201, a person’s intermediate  
23 and export sales credit is the amount of sales tax paid  
24 on the purchase of any taxable property or service pur-  
25 chased for—

1           “(1) a business purpose in a trade or business  
2           (as defined in section 102(b)), or

3           “(2) export from the United States for use or  
4           consumption outside the United States.

5   **“SEC. 204. ADMINISTRATION CREDIT.**

6           “(a) IN GENERAL.—Every person filing a timely  
7   monthly report (with regard to extensions) in compliance  
8   with section 501 shall be entitled to a taxpayer adminis-  
9   trative credit equal to the greater of—

10           “(1) \$200, or

11           “(2) one-quarter of 1 percent of the tax remit-  
12   ted.

13           “(b) LIMITATION.—The credit allowed under this sec-  
14   tion shall not exceed 20 percent of the tax due to be remit-  
15   ted prior to the application of any credit or credits per-  
16   mitted by section 201.

17   **“SEC. 205. BAD DEBT CREDIT.**

18           “(a) FINANCIAL INTERMEDIATION SERVICES.—Any  
19   person who has experienced a bad debt (other than unpaid  
20   invoices within the meaning of subsection (b)) shall be en-  
21   titled to a credit equal to the product of—

22           “(1) the rate imposed by section 101, and

23           “(2) the quotient that is—

24                   “(A) the amount of the bad debt (as de-  
25           fined in section 802), divided by

1                   “(B) the quantity that is 1 minus the rate  
2                   imposed by section 101.

3           “(b) UNPAID INVOICES.—Any person electing the ac-  
4           crual method pursuant to section 503 that has with re-  
5           spect to a transaction—

6                   “(1) invoiced the tax imposed by section 101,

7                   “(2) remitted the invoiced tax,

8                   “(3) actually delivered the taxable property or  
9           performed the taxable services invoiced, and

10                   “(4) not been paid 180 days after date the in-  
11           voice was due to be paid,

12           shall be entitled to a credit equal to the amount of tax  
13           remitted and unpaid by the purchaser.

14           “(c) SUBSEQUENT PAYMENT.—Any payment made  
15           with respect to a transaction subsequent to a section 205  
16           credit being taken with respect to that transaction shall  
17           be subject to tax in the month the payment was received  
18           as if a tax inclusive sale of taxable property and services  
19           in the amount of the payment had been made.

20           “(d) PARTIAL PAYMENTS.—Partial payments shall  
21           be treated as pro rata payments of the underlying obliga-  
22           tion and shall be allocated proportionately—

23                   “(1) for fully taxable payments, between pay-  
24           ment for the taxable property and service and tax,  
25           and

1           “(2) for partially taxable payments, among pay-  
 2           ment for the taxable property and service, tax and  
 3           other payment.

4           “(e) RELATED PARTIES.—The credit provided by this  
 5           section shall not be available with respect to sales made  
 6           to related parties. For purposes of this section, related  
 7           party means affiliated firms and family members (as de-  
 8           fined in section 302(b)).

9           **“SEC. 206. INSURANCE PROCEEDS CREDIT.**

10          “(a) IN GENERAL.—A person receiving a payment  
 11          from an insurer by virtue of an insurance contract shall  
 12          be entitled to a credit in an amount determined by sub-  
 13          section (b), less any amount paid to the insured by the  
 14          insurer pursuant to subsection (c), if the entire premium  
 15          (except that portion allocable to the investment account  
 16          of the underlying policy) for the insurance contract giving  
 17          rise to the insurer’s obligation to make a payment to the  
 18          insured was subject to the tax imposed by section 101 and  
 19          said tax was paid.

20          “(b) CREDIT AMOUNT.—The amount of the credit  
 21          shall be the product of—

22                 “(1) the rate imposed by section 101, and

23                 “(2) the quotient that is—

24                         “(A) the amount of the payment made by  
 25                         the insurer to the insured, divided by

1                   “(B) the quantity that is 1 minus the rate  
2                   imposed by section 101.

3           “(c) ADMINISTRATIVE OPTION.—The credit deter-  
4 mined in accordance with subsection (b) shall be paid by  
5 the insurer to the insured and the insurer shall be entitled  
6 to the credit in lieu of the insured, except that the insurer  
7 may elect, in a form prescribed by the Secretary, to not  
8 pay the credit and require the insured to make application  
9 for the credit. In the event of such election, the insurer  
10 shall provide to the Secretary and the insured the name  
11 and tax identification number of the insurer and of the  
12 insured and indicate the proper amount of the credit.

13           “(d) COORDINATION WITH RESPECT TO EXEMP-  
14 TION.—If taxable property or services purchased by an in-  
15 surer on behalf of an insured are purchased free of tax  
16 by virtue of section 2(a)(8)(C), then the credit provided  
17 by this section shall not be available with respect to that  
18 purchase.

19           “(e) INSURANCE CONTRACT.—For purposes of sub-  
20 section (a), the term ‘insurance contract’ shall include a  
21 life insurance contract, a health insurance contract, a  
22 property and casualty loss insurance contract, a general  
23 liability insurance contract, a marine insurance contract,  
24 a fire insurance contract, an accident insurance contract,  
25 a disability insurance contract, a long-term care insurance

1 contract, and an insurance contract that provides a com-  
2 bination of these types of insurance.

3 **“SEC. 207. REFUNDS.**

4       “(a) REGISTERED SELLERS.—If a registered seller  
5 files a monthly tax report with an overpayment, then,  
6 upon application by the registered seller in a form pre-  
7 scribed by the sales tax administering authority, the over-  
8 payment shown on the report shall be refunded to the reg-  
9 istered seller within 60 days of receipt of said application.  
10 In the absence of such application, the overpayment may  
11 be carried forward, without interest, by the person entitled  
12 to the credit.

13       “(b) OTHER PERSONS.—If a person other than a reg-  
14 istered seller has an overpayment for any month, then,  
15 upon application by the person in a form prescribed by  
16 the sales tax administering authority, the credit balance  
17 due shall be refunded to the person within 60 days of re-  
18 ceipt of said application.

19       “(c) INTEREST.—No interest shall be paid on any  
20 balance due from the sales tax administering authority  
21 under this subsection for any month if such balance due  
22 is paid within 60 days after the application for refund is  
23 received. Balances due not paid within 60 days after the  
24 application for refund is received shall bear interest from

1 the date of application. Interest shall be paid at the Fed-  
 2 eral short-term rate (as defined in section 512).

3 “(d) SUSPENSION OF PERIOD TO PAY REFUND  
 4 ONLY IF FEDERAL OR STATE COURT RULING.—The 60-  
 5 day periods under subsections (a) and (b) shall be sus-  
 6 pended with respect to a purported overpayment (or por-  
 7 tion thereof) only during any period that there is in effect  
 8 a preliminary, temporary, or final ruling from a Federal  
 9 or State court that there is reasonable cause to believe  
 10 that such overpayment may not actually be due.

## 11 **“CHAPTER 3—FAMILY CONSUMPTION** 12 **ALLOWANCE**

“Sec. 301. Family consumption allowance.

“Sec. 302. Qualified family.

“Sec. 303. Monthly poverty level.

“Sec. 304. Rebate mechanism.

“Sec. 305. Change in family circumstances.

### 13 **“SEC. 301. FAMILY CONSUMPTION ALLOWANCE.**

14 “Each qualified family shall be eligible to receive a  
 15 sales tax rebate each month. The sales tax rebate shall  
 16 be in an amount equal to the product of—

17 “(1) the rate of tax imposed by section 101,  
 18 and

19 “(2) the monthly poverty level.

### 20 **“SEC. 302. QUALIFIED FAMILY.**

21 “(a) GENERAL RULE.—For purposes of this chapter,  
 22 the term ‘qualified family’ shall mean 1 or more family  
 23 members sharing a common residence. All family members

1 sharing a common residence shall be considered as part  
2 of 1 qualified family.

3 “(b) FAMILY SIZE DETERMINATION.—

4 “(1) IN GENERAL.—To determine the size of a  
5 qualified family for purposes of this chapter, family  
6 members shall mean—

7 “(A) an individual,

8 “(B) the individual’s spouse,

9 “(C) all lineal ancestors and descendants  
10 of said individual (and such individual’s  
11 spouse),

12 “(D) all legally adopted children of such  
13 individual (and such individual’s spouse), and

14 “(E) all children under legal guardianship  
15 of such individual (or such individual’s spouse).

16 “(2) IDENTIFICATION REQUIREMENTS.—In  
17 order for a person to be counted as a member of the  
18 family for purposes of determining the size of the  
19 qualified family, such person must—

20 “(A) have a bona fide social security num-  
21 ber; and

22 “(B) be a lawful resident of the United  
23 States.

24 “(c) CHILDREN LIVING AWAY FROM HOME.—



1           “(1) STUDENTS LIVING AWAY FROM HOME.—

2       Any person who was a registered student during not  
3       fewer than 5 months in a calendar year while living  
4       away from the common residence of a qualified fam-  
5       ily but who receives over 50 percent of such person’s  
6       support during a calendar year from members of the  
7       qualified family shall be included as part of the fam-  
8       ily unit whose members provided said support for  
9       purposes of this chapter.

10           “(2) CHILDREN OF DIVORCED OR SEPARATED

11       PARENTS.—If a child’s parents are divorced or le-  
12       gally separated, a child for purposes of this chapter  
13       shall be treated as part of the qualified family of the  
14       custodial parent. In cases of joint custody, the custo-  
15       dial parent for purposes of this chapter shall be the  
16       parent that has custody of the child for more than  
17       one— half of the time during a given calendar year.

18       A parent entitled to be treated as the custodial par-  
19       ent pursuant to this paragraph may release this  
20       claim to the other parent if said release is in writing.

21           “(d) ANNUAL REGISTRATION.—In order to receive  
22       the family consumption allowance provided by section 301,  
23       a qualified family must register with the sales tax admin-  
24       istering authority in a form prescribed by the Secretary.  
25       The annual registration form shall provide—

1           “(1) the name of each family member who  
2           shared the qualified family’s residence on the family  
3           determination date,

4           “(2) the social security number of each family  
5           member on the family determination date who  
6           shared the qualified family’s residence on the family  
7           determination date,

8           “(3) the family member or family members to  
9           whom the family consumption allowance should be  
10          paid,

11          “(4) a certification that all listed family mem-  
12          bers are lawful residents of the United States,

13          “(5) a certification that all family members  
14          sharing the common residence are listed,

15          “(6) a certification that no family members  
16          were incarcerated on the family determination date  
17          (within the meaning of subsection (l)), and

18          “(7) the address of the qualified family.

19 Said registration shall be signed by all members of the  
20 qualified family that have attained the age of 21 years  
21 as of the date of filing.

22          “(e) REGISTRATION NOT MANDATORY.—Registra-  
23 tion is not mandatory for any qualified family.

24          “(f) EFFECT OF FAILURE TO PROVIDE ANNUAL  
25 REGISTRATION.—Any qualified family that fails to reg-

1 ister in accordance with this section within 30 days of the  
2 family determination date, shall cease receiving the  
3 monthly family consumption allowance in the month be-  
4 ginning 90 days after the family determination date.

5 “(g) EFFECT OF CURING FAILURE TO PROVIDE AN-  
6 NUAL REGISTRATION.—Any qualified family that failed to  
7 timely make its annual registration in accordance with this  
8 section but subsequently cures its failure to register, shall  
9 be entitled to up to 6 months of lapsed sales tax rebate  
10 payments. No interest on lapsed payment amounts shall  
11 be paid.

12 “(h) EFFECTIVE DATE OF ANNUAL REGISTRA-  
13 TIONS.—Annual registrations shall take effect for the  
14 month beginning 90 days after the family registration  
15 date.

16 “(i) EFFECTIVE DATE OF REVISED REGISTRA-  
17 TIONS.—A revised registration made pursuant to section  
18 305 shall take effect for the first month beginning 60 days  
19 after the revised registration was filed. The existing reg-  
20 istration shall remain in effect until the effective date of  
21 the revised registration.

22 “(j) DETERMINATION OF REGISTRATION FILING  
23 DATE.—An annual or revised registration shall be deemed  
24 filed when—

1           “(1) deposited in the United States mail, post-  
2           age prepaid, to the address of the sales tax admin-  
3           istering authority,

4           “(2) delivered and accepted at the offices of the  
5           sales tax administering authority, or

6           “(3) provided to a designated commercial pri-  
7           vate courier service for delivery within 2 days to the  
8           sales tax administering authority at the address of  
9           the sales tax administering authority.

10          “(k) PROPOSED REGISTRATION TO BE PROVIDED.—  
11       30 or more days before the family registration date, the  
12       sales tax administering authority shall mail to the address  
13       shown on the most recent rebate registration or change  
14       of address notice filed pursuant to section 305(d) a pro-  
15       posed registration that may be simply signed by the appro-  
16       priate family members if family circumstances have not  
17       changed.

18          “(l) INCARCERATED INDIVIDUALS.—An individual  
19       shall not be eligible under this chapter to be included as  
20       a member of any qualified family if that individual—

21               “(1) is incarcerated in a local, State, or Federal  
22               jail, prison, mental hospital, or other institution on  
23               the family determination date, and

24               “(2) is scheduled to be incarcerated for 6  
25               months or more in the 12-month period following

1 the effective date of the annual registration or the  
 2 revised registration of said qualified family.

3 “(m) FAMILY DETERMINATION DATE.—The family  
 4 determination date is a date assigned to each family by  
 5 the Secretary for purposes of determining qualified family  
 6 size and other information necessary for the administra-  
 7 tion of this chapter. The Secretary shall promulgate regu-  
 8 lations regarding the issuance of family determination  
 9 dates. In the absence of any regulations, the family deter-  
 10 mination date for all families shall be October 1. The Sec-  
 11 retary may assign family determination dates for adminis-  
 12 trative convenience. Permissible means of assigning family  
 13 determination dates include a method based on the  
 14 birthdates of family members.

15 “(n) CROSS REFERENCE.—

**“For penalty for filing false rebate claim, see sec-  
 tion 505(i).**

16 **“SEC. 303. MONTHLY POVERTY LEVEL.**

17 “(a) IN GENERAL.—The monthly poverty level for  
 18 any particular month shall be one-twelfth of the ‘annual  
 19 poverty level’. For purposes of this section the ‘annual  
 20 poverty level’ shall be the sum of—

21 “(1) the annual level determined by the Depart-  
 22 ment of Health and Human Services poverty guide-  
 23 lines required by section 652 and 673(2) of the Om-

1       nibus Reconciliation Act of 1981 for a particular  
2       family size, and

3           “(2) in case of families that include a married  
4       couple, the ‘annual marriage penalty elimination  
5       amount’.

6       “(b) ANNUAL MARRIAGE PENALTY ELIMINATION  
7       AMOUNT.—The annual marriage penalty elimination  
8       amount shall be the amount that is—

9           “(1) the amount that is two times the annual  
10      level determined by the Department of Health and  
11      Human Services poverty guidelines required by sec-  
12      tions 652 and 673(2) of the Omnibus Reconciliation  
13      Act of 1981 for a family of one, less

14          “(2) the annual level determined by the Depart-  
15      ment of Health and Human Services poverty guide-  
16      lines required by section 652 and 673(2) of the Om-  
17      nibus Reconciliation Act of 1981 for a family of two.

18   **“SEC. 304. REBATE MECHANISM.**

19       “(a) GENERAL RULE.—The Social Security Adminis-  
20      tration shall provide a monthly sales tax rebate to duly  
21      registered qualified families in an amount determined in  
22      accordance with section 301.

23       “(b) PERSONS RECEIVING REBATE.—The payments  
24      shall be made to the persons designated by the qualifying  
25      family in the annual or revised registration for each quali-

1 fied family in effect with respect to the month for which  
 2 payment is being made. Payments may only be made to  
 3 persons 18 years or older. If more than 1 person is des-  
 4 ignated in a registration to receive the rebate, then the  
 5 rebate payment shall be divided evenly between or among  
 6 those persons designated.

7 “(c) WHEN REBATES MAILED.—Rebates shall be  
 8 mailed on or before the first business day of the month  
 9 for which the rebate is being provided.

10 “(d) SMARTCARDS AND DIRECT ELECTRONIC DE-  
 11 POSIT PERMISSIBLE.—The Social Security Administration  
 12 may provide rebates in the form of smartcards that carry  
 13 cash balances in their memory for use in making pur-  
 14 chases at retail establishments or by direct electronic de-  
 15 posit.

16 **“SEC. 305. CHANGE IN FAMILY CIRCUMSTANCES.**

17 “(a) GENERAL RULE.—In the absence of the filing  
 18 of a revised registration in accordance with this chapter,  
 19 the common residence of the qualified family, marital sta-  
 20 tus and number of persons in a qualified family on the  
 21 family registration date shall govern determinations re-  
 22 quired to be made under this chapter for purposes of the  
 23 following calendar year.

24 “(b) NO DOUBLE COUNTING.—In no event shall any  
 25 person be considered part of more than 1 qualified family.

1       “(c) REVISED REGISTRATION PERMISSIBLE.—A  
2 qualified family may file a revised registration for pur-  
3 poses of section 302(d) to reflect a change in family cir-  
4 cumstances. A revised registration form shall provide—

5               “(1) the name of each family member who  
6 shared the qualified family’s residence on the filing  
7 date of the revised registration,

8               “(2) the social security number of each family  
9 member 2 years of age or older who shared the  
10 qualified family’s residence on the filing date of the  
11 revised registration,

12               “(3) the family member or family members to  
13 whom the family consumption allowance should be  
14 paid,

15               “(4) a certification that all listed family mem-  
16 bers are lawful residents of the United States,

17               “(5) a certification that all family members  
18 sharing the common residence are listed,

19               “(6) a certification that no family members  
20 were incarcerated on the family determination date  
21 (within the meaning of section 302(l)), and

22               “(7) the address of the qualified family.

23 Said revised registration shall be signed by all members  
24 of the qualified family that have attained the age of 21  
25 years as of the filing date of the revised registration.



1       “(d) CHANGE OF ADDRESS.—A change of address for  
 2 a qualified family may be filed with the sales tax admin-  
 3 istering authority at any time and shall not constitute a  
 4 revised registration.

5       “(e) REVISED REGISTRATION NOT MANDATORY.—  
 6 Revised registrations reflecting changes in family status  
 7 are not mandatory.

8       **“CHAPTER 4—FEDERAL AND STATE**  
 9       **COOPERATIVE TAX ADMINISTRATION**

“Sec. 401. Authority for States to collect tax.

“Sec. 402. Federal administrative support for States.

“Sec. 403. Federal-State tax conferences.

“Sec. 404. Federal administration in certain States.

“Sec. 405. Interstate allocation and destination determination.

“Sec. 406. General administrative matters.

“Sec. 407. Jurisdiction.

10   **“SEC. 401. AUTHORITY FOR STATES TO COLLECT TAX.**

11       “(a) IN GENERAL.—The tax imposed by section 101  
 12 on gross payments for the use or consumption of taxable  
 13 property or services within a State shall be administered,  
 14 collected, and remitted to the United States Treasury by  
 15 such State if the State is an administering State.

16       “(b) ADMINISTERING STATE.—For purposes of this  
 17 section, the term ‘administering State’ means any State—

18               “(1) which maintains a sales tax, and

19               “(2) which enters into a cooperative agreement  
 20 with the Secretary containing reasonable provisions  
 21 governing the administration by such State of the  
 22 taxes imposed by this subtitle and the remittance to

1 the United States in a timely manner of taxes col-  
2 lected under this chapter.

3 “(c) COOPERATIVE AGREEMENTS.—The agreement  
4 under subsection (b)(2) shall include provisions for the ex-  
5 peditious transfer of funds, contact officers, dispute reso-  
6 lution, information exchange, confidentiality, taxpayer  
7 rights, and other matters of importance. The agreement  
8 shall not contain extraneous matters.

9 “(d) TIMELY REMITTANCE OF TAX.—

10 “(1) IN GENERAL.—Administering States shall  
11 remit and pay over taxes collected under this subtitle  
12 on behalf of the United States (less the administra-  
13 tion fee allowable under paragraph (2)) not later  
14 than 5 days after receipt. Interest at 150 percent of  
15 the Federal short-term rate shall be paid with re-  
16 spect to amounts remitted after the due date.

17 “(2) ADMINISTRATION FEE.—An administering  
18 State may retain an administration fee equal to one-  
19 quarter of 1 percent of the amounts otherwise re-  
20 quired to be remitted to the United States under  
21 this chapter by the administering State.

22 “(e) LIMITATION ON ADMINISTRATION OF TAX BY  
23 UNITED STATES.—The Secretary may administer the tax  
24 imposed by this subtitle in an administering State only  
25 if—

1           “(1)(A) such State has failed on a regular basis  
2           to timely remit to the United States taxes collected  
3           under this chapter on behalf of the United States,  
4           or

5           “(B) such State has on a regular basis other-  
6           wise materially breached the agreement referred to  
7           in subsection (b)(2);

8           “(2) the State has failed to cure such alleged  
9           failures and breaches within a reasonable time;

10          “(3) the Secretary provides such State with  
11          written notice of such alleged failures and breaches;  
12          and

13          “(4) a District Court of the United States with-  
14          in such State, upon application of the Secretary, has  
15          rendered a decision—

16               “(A) making findings of fact that—

17                       “(i) such State has failed on a regular  
18                       basis to timely remit to the United States  
19                       taxes collected under this chapter on behalf  
20                       of the United States, or such State has on  
21                       a regular basis otherwise materially  
22                       breached the agreement referred to in sub-  
23                       section (b)(2);

1                   “(ii) the Secretary has provided such  
2                   State with written notice of such alleged  
3                   failures and breaches; and

4                   “(iii) the State has failed to cure such  
5                   alleged failures and breaches within a rea-  
6                   sonable time; and

7                   “(B) making a determination that it is in  
8                   the best interest of the citizens of the United  
9                   States that the administering State’s authority  
10                  to administer the tax imposed by this subtitle  
11                  be revoked and said tax be administered di-  
12                  rectly by the Secretary.

13                The order of the District Court revoking the author-  
14                ity of an Administering State shall contain provi-  
15                sions governing the orderly transfer of authority to  
16                the Secretary.

17                “(f) REINSTITUTION.—A State that has had its au-  
18                thority revoked pursuant to subsection (e) shall not be an  
19                administering State for a period of not less than 5 years  
20                after the date of the order of revocation. For the first cal-  
21                endar year commencing 8 years after the date of the order  
22                of revocation, the State shall be regarded without preju-  
23                dice as eligible to become an administering State.

24                “(g) THIRD STATE ADMINISTRATION PERMISS-  
25                SIBLE.—It shall be permissible for a State to contract with

1 an administering State to administer the State’s sales tax  
 2 for an agreed fee. In this case, the agreement con-  
 3 templated by subsection (c) shall have both the State and  
 4 the Federal Government as parties.

5 “(h) INVESTIGATIONS AND AUDITS.—Administering  
 6 States shall not conduct investigations or audits at facili-  
 7 ties in other administering States in connection with the  
 8 tax imposed by section 101 or conforming State sales tax  
 9 but shall instead cooperate with other administering  
 10 States using the mechanisms established by section 402,  
 11 by compact or by other agreement.

12 **“SEC. 402. FEDERAL ADMINISTRATIVE SUPPORT FOR**  
 13 **STATES.**

14 “(a) IN GENERAL.—The Secretary shall administer  
 15 a program to facilitate information sharing among States.

16 “(b) STATE COMPACTS.—The Secretary shall facili-  
 17 tate, and may be a party to a compact among States for  
 18 purposes of facilitating the taxation of interstate pur-  
 19 chases and for other purposes that may facilitate imple-  
 20 mentation of this subtitle.

21 “(c) AGREEMENT WITH CONFORMING STATES.—The  
 22 Secretary is authorized to enter into and shall enter into  
 23 an agreement among conforming States enabling con-  
 24 forming States to collect conforming State sales tax on  
 25 sales made by sellers without a particular conforming

1 State to a destination within that particular conforming  
2 State.

3 “(d) SECRETARY’S AUTHORITY.—The Secretary shall  
4 have the authority to promulgate regulations, to provide  
5 guidelines, to assist States in administering the national  
6 sales tax, to provide for uniformity in the administration  
7 of the tax and to provide guidance to the public.

8 **“SEC. 403. FEDERAL-STATE TAX CONFERENCES.**

9 “Not less than once annually, the Secretary shall host  
10 a conference with the sales tax administrators from the  
11 various administering States to evaluate the state of the  
12 national sales tax system, to address issues of mutual con-  
13 cern and to develop and consider legislative, regulatory,  
14 and administrative proposals to improve the tax system.

15 **“SEC. 404. FEDERAL ADMINISTRATION IN CERTAIN STATES.**

16 “The Secretary shall administer the tax imposed by  
17 this subtitle in any State or other United States jurisdic-  
18 tion that—

19 “(1) is not an administering State, or

20 “(2) elected to have another State administer  
21 its tax in accordance with section 401(g).

1 **“SEC. 405. INTERSTATE ALLOCATION AND DESTINATION**  
2 **DETERMINATION.**

3 “(a) **DESTINATION GENERALLY.**—The tax imposed  
4 by this subtitle is a destination principle tax. This section  
5 shall govern for purposes of determining—

6 “(1) whether the destination of taxable property  
7 and services is within or without the United States,  
8 and

9 “(2) which State or territory within the United  
10 States is the destination of taxable property and  
11 services.

12 “(b) **TANGIBLE PERSONAL PROPERTY.**—Except as  
13 provided in subsection (f) (relating to certain leases), the  
14 destination of tangible personal property shall be the State  
15 or territory in which the property was first delivered to  
16 the purchaser (including agents and authorized represent-  
17 atives).

18 “(c) **REAL PROPERTY.**—The destination of real prop-  
19 erty, or rents or leaseholds on real property, shall be the  
20 State or territory in which the real property is located.

21 “(d) **OTHER PROPERTY.**—The destination of any  
22 other taxable property shall be the residence of the pur-  
23 chaser.

24 “(e) **SERVICES.**—

25 “(1) **GENERAL RULE.**—The destination of serv-  
26 ices shall be the State or territory in which the use

1 or consumption of the services occurred. Allocation  
2 of service invoices relating to more than 1 jurisdic-  
3 tion shall be on the basis of time or another method  
4 determined by regulation.

5 “(2) TELECOMMUNICATIONS SERVICES.—The  
6 destination of telecommunications services shall be  
7 the residence of the purchaser. Telecommunications  
8 services include telephone, telegraph, beeper, radio,  
9 cable television, satellite, and computer on-line or  
10 network services.

11 “(3) DOMESTIC TRANSPORTATION SERVICES.—  
12 For transportation services where all of the final  
13 destinations are within the United States, the des-  
14 tination of transportation services shall be the final  
15 destination of the trip (in the case of round or mul-  
16 tiple trip fares, the services amount shall be equally  
17 allocated among each final destination).

18 “(4) INTERNATIONAL TRANSPORTATION SERV-  
19 ICES.—For transportation services where the final  
20 destination or origin of the trip is without the  
21 United States, the service amount shall be deemed  
22 50 percent attributable to the United States destina-  
23 tion or origin.



1           “(5) ELECTRICAL SERVICE.—The destination of  
2       electrical services shall be the residence of the pur-  
3       chaser.

4           “(f) FINANCIAL INTERMEDIATION SERVICES.—The  
5       destination of financial intermediation services shall be the  
6       residence of the purchaser.

7           “(g) RENTS PAID FOR THE LEASE OF TANGIBLE  
8       PROPERTY.—

9           “(1) GENERAL RULE.—Except as provided in  
10      paragraph (2), the destination of rents paid for the  
11      lease of tangible property and leaseholds on such  
12      property shall be where the property is located while  
13      in use.

14          “(2) LAND VEHICLES; AIRCRAFT, WATER  
15      CRAFT.—The destination of rental and lease pay-  
16      ments on land vehicles, aircraft and water craft shall  
17      be—

18           “(A) in the case of rentals and leases of a  
19      term of 1 month or less, the location where the  
20      land vehicle, aircraft, or water craft was origi-  
21      nally delivered to the renter or lessee; and

22           “(B) in the case of rentals and leases of a  
23      term greater than 1 month, the residence of the  
24      renter or lessee.

1       “(h) ALLOCATION RULES.—For purposes of allo-  
2 cating revenue—

3               “(1) between or among administering States  
4       from taxes imposed by this subtitle or from State  
5       sales taxes administered by third-party admin-  
6       istering States, or

7               “(2) between or among States imposing con-  
8       forming State sales taxes,  
9       the revenue shall be allocated to those States that are the  
10      destination of the taxable property or service.

11       “(i) FEDERAL OFFICE OF REVENUE ALLOCATION.—  
12      The Secretary shall establish an Office of Revenue Alloca-  
13      tion to arbitrate any claims or disputes among admin-  
14      istering States as to the destination of taxable property  
15      and services for purposes of allocating revenue between or  
16      among the States from taxes imposed by this subtitle. The  
17      determination of the Administrator of the Office of Rev-  
18      enue Allocation shall be subject to judicial review in any  
19      Federal court with competent jurisdiction. The standard  
20      of review shall be abuse of discretion.

21      **“SEC. 406. GENERAL ADMINISTRATIVE MATTERS.**

22       “(a) IN GENERAL.—The Secretary and each sales tax  
23      administering authority may employ such persons as may  
24      be necessary for the administration of this subtitle and  
25      may delegate to employees the authority to conduct inter-

1 views, hearings, prescribe rules, promulgate regulations,  
2 and perform such other duties as are required by this sub-  
3 title.

4 “(b) RESOLUTION OF ANY INCONSISTENT RULES  
5 AND REGULATIONS.—In the event that the Secretary and  
6 any sales tax administering authority have issued incon-  
7 sistent rules or regulations, any lawful rule or regulation  
8 issued by the Secretary shall govern.

9 “(c) ADEQUATE NOTICE TO BE PROVIDED.—Except  
10 in the case of an emergency declared by the Secretary (and  
11 not his designee), no rule or regulation issued by the Sec-  
12 retary with respect to any internal revenue law shall take  
13 effect before 90 days have elapsed after its publication in  
14 the Federal Register. Upon issuance, the Secretary shall  
15 provide copies of all rules or regulations issued under this  
16 title to each sales tax administering authority.

17 “(d) NO RULES, RULINGS, OR REGULATIONS WITH  
18 RETROACTIVE EFFECT.—No rule, ruling, or regulation  
19 issued or promulgated by the Secretary relating to any in-  
20 ternal revenue law or by a sales tax administering author-  
21 ity shall apply to a period prior to its publication in the  
22 Federal Register (or State equivalent) except that a regu-  
23 lation may take retroactive effect to prevent abuse.

24 “(e) REVIEW OF IMPACT OF REGULATIONS, RULES,  
25 AND RULINGS ON SMALL BUSINESS.—

1           “(1) SUBMISSION TO SMALL BUSINESS ADMIN-  
2           ISTRATION.—After publication of any proposed or  
3           temporary regulation by the Secretary relating to in-  
4           ternal revenue laws, the Secretary shall submit such  
5           regulation to the Chief Counsel for Advocacy of the  
6           Small Business Administration for comment on the  
7           impact of such regulation on small businesses. Not  
8           later than the date 30 days after the date of such  
9           submission, the Chief Counsel for Advocacy of the  
10          Small Business Administration shall submit com-  
11          ments on such regulation to the Secretary.

12          “(2) CONSIDERATION OF COMMENTS.—In pre-  
13          scribing any final regulation which supersedes a pro-  
14          posed or temporary regulation which had been sub-  
15          mitted under this subsection to the Chief Counsel  
16          for Advocacy of the Small Business Administration,  
17          the Secretary shall—

18                 “(A) consider the comments of the Chief  
19                 Counsel for Advocacy of the Small Business  
20                 Administration on such proposed or temporary  
21                 regulation, and

22                 “(B) in promulgating such final regulation,  
23                 include a narrative that describes the response  
24                 to such comments.

1           “(3) SUBMISSION OF CERTAIN FINAL REGULA-  
2           TION.—In the case of promulgation by the Secretary  
3           of any final regulations (other than a temporary reg-  
4           ulation) which do not supersede a proposed regula-  
5           tion, the requirements of paragraphs (1) and (2)  
6           shall apply, except that the submission under para-  
7           graph (1) shall be made at least 30 days before the  
8           date of such promulgation, and the consideration  
9           and discussion required under paragraph (2) shall  
10          be made in connection with the promulgation of such  
11          final regulation.

12          “(f) SMALL BUSINESS REGULATORY SAFEGUARDS.—  
13          The Small Business Regulatory Enforcement Fairness Act  
14          (Public Law 104–121; 110 Stat. 857 (‘SBREFA’)) and  
15          the Regulatory Flexibility Act (5 U.S.C. 601–612  
16          (‘RFA’)) shall apply to regulations promulgated under this  
17          subtitle.

18          **“SEC. 407. JURISDICTION.**

19          “(a) STATE JURISDICTION.—A sales tax admin-  
20          istering authority shall have jurisdiction over any gross  
21          payments made which have a destination (as determined  
22          in accordance with section 405) within the State of said  
23          sales tax administering authority. This grant of jurisdic-  
24          tion is not exclusive of any other jurisdiction that such  
25          sales tax administering authority may have.

1       “(b) FEDERAL JURISDICTION.—The grant of juris-  
 2       diction in subsection (a) shall not be in derogation of Fed-  
 3       eral jurisdiction over the same matter. The Federal Gov-  
 4       ernment shall have the right to exercise preemptive juris-  
 5       diction over matters relating to the taxes imposed by this  
 6       subtitle.

7       **“CHAPTER 5—OTHER ADMINISTRATIVE**  
 8       **PROVISIONS**

“Sec. 501. Monthly reports and payments.

“Sec. 502. Registration.

“Sec. 503. Accounting.

“Sec. 504. Registration certificates.

“Sec. 505. Penalties.

“Sec. 506. Burden of persuasion and burden of production.

“Sec. 507. Attorneys’ and accountancy fees.

“Sec. 508. Summons, examinations, audits, etc.

“Sec. 509. Records.

“Sec. 510. Tax to be separately stated and charged.

“Sec. 511. Coordination with title 11.

“Sec. 512. Applicable interest rate.

9       **“SEC. 501. MONTHLY REPORTS AND PAYMENTS.**

10       “(a) TAX REPORTS AND FILING DATES.—

11               “(1) IN GENERAL.—On or before the 15th day  
 12       of each month, each person who is—

13               “(A) liable to collect and remit the tax im-  
 14       posed by this subtitle by reason of section  
 15       103(a), or

16               “(B) liable to pay tax imposed by this sub-  
 17       title which is not collected pursuant to section  
 18       103(a),

1 shall submit to the appropriate sales tax admin-  
2 istering authority (in a form prescribed by the Sec-  
3 retary) a report relating to the previous calendar  
4 month.

5 “(2) CONTENTS OF REPORT.—The report re-  
6 quired under paragraph (1) shall set forth—

7 “(A) the gross payments referred to in sec-  
8 tion 101,

9 “(B) the tax collected under chapter 4 in  
10 connection with such payments,

11 “(C) the amount and type of any credit  
12 claimed, and

13 “(D) other information reasonably required  
14 by the Secretary or the sales tax administering  
15 authority for the administration, collection, and  
16 remittance of the tax imposed by this subtitle.

17 “(b) TAX PAYMENTS DATE.—

18 “(1) GENERAL RULE.—The tax imposed by this  
19 subtitle during any calendar month is due and shall  
20 be paid to the appropriate sales tax administering  
21 authority on or before the 15th day of the suc-  
22 ceeding month. Both Federal tax imposed by this  
23 subtitle and conforming State sales tax (if any) shall  
24 be paid in 1 aggregate payment.

1 “(2) CROSS REFERENCE.—

“See subsection (e) relating to remitting of separate segregated funds for sellers that are not small sellers.

2 “(c) EXTENSIONS FOR FILING REPORTS.—

3 “(1) AUTOMATIC EXTENSIONS FOR NOT MORE  
4 THAN 30 DAYS.—On application, an extension of not  
5 more than 30 days to file reports under subsection  
6 (a) shall be automatically granted.

7 “(2) OTHER EXTENSIONS.—On application, ex-  
8 tensions of 30 to 60 days to file such reports shall  
9 be liberally granted by the sales tax administering  
10 authority for reasonable cause. Extensions greater  
11 than 60 days may be granted by the sales tax ad-  
12 ministering authority to avoid hardship.

13 “(3) NO EXTENSION FOR PAYMENT OF  
14 TAXES.—Notwithstanding paragraphs (1) and (2),  
15 no extension shall be granted with respect to the  
16 time for paying or remitting the taxes under this  
17 subtitle.

18 “(d) TELEPHONE REPORTING OF VIOLATIONS.—The  
19 Secretary shall establish a system under which a violation  
20 of this subtitle can be brought to the attention of the sales  
21 tax administering authority for investigation through the  
22 use of a toll-free telephone number and otherwise.

23 “(e) SEPARATE SEGREGATED ACCOUNTS.—



1           “(1) IN GENERAL.—Any registered seller that  
2           is not a small seller shall deposit all sales taxes col-  
3           lected pursuant to section 103 in a particular week  
4           in a separate segregated account maintained at a  
5           bank or other financial institution within 3 business  
6           days of the end of such week. Said registered seller  
7           shall also maintain in that account sufficient funds  
8           to meet the bank or financial institution minimum  
9           balance requirements, if any, and to pay account  
10          fees and costs.

11          “(2) SMALL SELLER.—For purposes of this  
12          subsection, a small seller is any person that has not  
13          collected \$20,000 or more of the taxes imposed by  
14          this subtitle in any of the previous 12 months.

15          “(3) LARGE SELLERS.—Any seller that has col-  
16          lected \$100,000 or more of the taxes imposed by  
17          this subtitle in any of the previous 12 months is a  
18          large seller. A large seller shall remit to the sales tax  
19          administering authority the entire balance of depos-  
20          ited taxes in its separate segregated account on the  
21          first business day following the end of the calendar  
22          week. The Secretary may by regulation require the  
23          electronic transfer of funds due from large sellers.

1           “(4) WEEK.—For purposes of this subsection,  
2           the term ‘week’ shall mean the 7-day period ending  
3           on a Friday.

4           “(f) DETERMINATION OF REPORT FILING DATE.—  
5           A report filed pursuant to subsection (a) shall be deemed  
6           filed when—

7           “(1) deposited in the United States mail, post-  
8           age prepaid, addressed to the sales tax administering  
9           authority,

10           “(2) delivered and accepted at the offices of the  
11           sales tax administering authority,

12           “(3) provided to a designated commercial pri-  
13           vate courier service for delivery within 2 days to the  
14           sales tax administering authority at the address of  
15           the sales tax administering authority, or

16           “(4) by other means permitted by the Sec-  
17           retary.

18           “(g) SECURITY REQUIREMENTS.—A large seller  
19           (within the meaning of subsection (e)(3)) shall be required  
20           to provide security in an amount equal to the greater of  
21           \$100,000 or one and one-half times the seller’s average  
22           monthly tax liability during the previous 6 calendar  
23           months. Security may be a cash bond, a bond from a sur-  
24           ety company approved by the Secretary, a certificate of  
25           deposit, or a State or United States Treasury bond. A

1 bond qualifying under this subsection must be a con-  
2 tinuing instrument for each calendar year (or portion  
3 thereof) that the bond is in effect. The bond must remain  
4 in effect until the surety or sureties are released and dis-  
5 charged. Failure to provide security in accordance with  
6 this section shall result in revocation of the seller's section  
7 502 registration. If a person who has provided security  
8 pursuant to this subsection—

9           “(1) fails to pay an amount indicated in a final  
10       notice of amount due under this subtitle (within the  
11       meaning of section 605(d)),

12           “(2) no Taxpayer Assistance Order is in effect  
13       relating to the amount due,

14           “(3) either the time for filing an appeal pursu-  
15       ant to section 604 has passed or the appeal was de-  
16       nied, and

17           “(4) the amount due is not being litigated in  
18       any judicial forum,

19 then the security or part of the security, as the case may  
20 be, may be forfeited in favor of the Secretary to the extent  
21 of such tax due (plus interest if any).

22       “(h) REWARDS PROGRAM.—The Secretary is author-  
23 ized to maintain a program of awards wherein individuals  
24 that assist the Secretary or sales tax administering au-

1 thortities in discovering or prosecuting tax fraud may be  
2 remunerated.

3 “(i) CROSS REFERENCE.—

“For interest due on taxes remitted late, see section 6601.

4 “SEC. 502. REGISTRATION.

5 “(a) IN GENERAL.—Any person liable to collect and  
6 remit taxes pursuant to section 103(a) who is engaged in  
7 a trade or business shall register as a seller with the sales  
8 tax administering authority administering the taxes im-  
9 posed by this subtitle.

10 “(b) AFFILIATED FIRMS.—Affiliated firms shall be  
11 treated as 1 person for purposes of this section. Affiliated  
12 firms may elect, upon giving notice to the Secretary in  
13 a form prescribed by the Secretary, to treat separate firms  
14 as separate persons for purposes of this subtitle.

15 “(c) DESIGNATION OF TAX MATTERS PERSON.—  
16 Every person registered pursuant to subsection (a) shall  
17 designate a tax matters person who shall be an individual  
18 whom the sales tax administering authority may contact  
19 regarding tax matters. Each person registered must pro-  
20 vide notice of a change in the identity of the tax matters  
21 person within 30 days of said change.

22 “(d) CERTIFICATES OF REGISTRATION.—The sales  
23 tax administering authority shall provide certificates of  
24 registration to registered sellers.

1       “(e) EFFECT OF FAILURE TO REGISTER.—Any per-  
2 son that is required to register and who fails to do so is  
3 prohibited from selling taxable property or services. The  
4 Secretary or a sales tax administering authority may bring  
5 an action seeking a temporary restraining order, an in-  
6 junction, or such other order as may be appropriate to  
7 enforce this section.

8       **“SEC. 503. ACCOUNTING.**

9       “(a) CASH METHOD TO BE USED GENERALLY.—  
10 Registered sellers and other persons shall report trans-  
11 actions using the cash method of accounting unless an  
12 election to use the accrual method of accounting is made  
13 pursuant to subsection (b).

14       “(b) ELECTION TO USE ACCRUAL METHOD.—A per-  
15 son may elect with respect to a calendar year to remit  
16 taxes and report transactions with respect to the month  
17 where a sale was invoiced and accrued.

18       “(c) CROSS REFERENCE.—

**“See section 205 for rules relating to bad debts for  
sellers electing the accrual method.**

19       **“SEC. 504. REGISTRATION CERTIFICATES.**

20       “‘The sales tax administering authority shall issue  
21 certificates of registration to registered sellers and such  
22 other certificates as are necessary or may prove useful in  
23 the administration of the taxes imposed by this subtitle.

1   **“SEC. 505. PENALTIES.**

2           “(a) FAILURE TO REGISTER.—Each person who is  
3 required to register pursuant to section 502 but fails to  
4 do so prior to notification by the sales tax administering  
5 authority shall be liable for a penalty of \$500.

6           “(b) RECKLESS OR WILLFUL FAILURE TO COLLECT  
7 TAX.—

8                   “(1) CIVIL PENALTY; FRAUD.—Each person  
9 who is required to and recklessly or willfully fails to  
10 collect taxes imposed by this subtitle shall be liable  
11 for a penalty equal to the greater of \$500 or 20 per-  
12 cent of the tax not collected.

13                   “(2) CRIMINAL PENALTY.—Each person who is  
14 required to and willfully fails as part of a trade or  
15 business to collect taxes imposed by this subtitle  
16 may be fined an amount up to the amount deter-  
17 mined in accordance with paragraph (1) or impris-  
18 oned for a period of not more than 1 year or both.

19           “(c) RECKLESS OR WILLFUL ASSERTION OF INVALID  
20 EXEMPTION.—

21                   “(1) CIVIL PENALTY; FRAUD.—Each person  
22 who recklessly or willfully asserts an invalid inter-  
23 mediate or export sales exemption from the taxes  
24 imposed by this subtitle shall be liable for a penalty  
25 equal to the greater of \$500 or 20 percent of the tax  
26 not collected or remitted.

1           “(2) CRIMINAL PENALTY.—Each person who  
2           willfully asserts an invalid intermediate or export  
3           sales exemption from the taxes imposed by this sub-  
4           title may be fined an amount up to the amount de-  
5           termined in accordance with paragraph (1) or im-  
6           prisoned for a period of not more than 1 year or  
7           both.

8           “(d) RECKLESS OR WILLFUL FAILURE TO REMIT  
9           TAX COLLECTED.—

10           “(1) CIVIL PENALTY; FRAUD.—Each person  
11           who is required to and recklessly or willfully fails to  
12           remit taxes imposed by this subtitle and collected  
13           from purchasers shall be liable for a penalty equal  
14           to the greater of \$1,000 or 50 percent of the tax not  
15           remitted.

16           “(2) CRIMINAL PENALTY.—Each person who  
17           willfully fails to remit taxes imposed by this subtitle  
18           and collected from purchasers may be fined an  
19           amount up to the amount determined in accordance  
20           with paragraph (1) or imprisoned for a period of not  
21           more than 2 years or both.

22           “(e) RECKLESS OR WILLFUL FAILURE TO PAY  
23           TAX.—Each person who is required to and recklessly or  
24           willfully fails to pay taxes imposed by this subtitle shall

1 be liable for a penalty equal to the greater of \$500 or  
2 20 percent of the tax not paid.

3 “(f) PENALTY FOR LATE FILING.—

4 “(1) IN GENERAL.—In the case of a failure by  
5 any person who is required to and fails to file a re-  
6 port required by section 501 on or before the due  
7 date (determined with regard to any extension) for  
8 such report, such person shall pay a penalty for each  
9 month or fraction thereof that said report is late  
10 equal to the greater of—

11 “(A) \$50, or

12 “(B) 0.5 percent of the gross payments re-  
13 quired to be shown on the report.

14 “(2) INCREASED PENALTY ON RETURNS FILED  
15 AFTER WRITTEN INQUIRY.—The amount of the pen-  
16 alty under paragraph (1) shall be doubled with re-  
17 spect to any report filed after a written inquiry with  
18 respect to such report is received by the taxpayer  
19 from the sales tax administering authority.

20 “(3) LIMITATION.—The penalty imposed under  
21 this subsection shall not exceed 12 percent.

22 “(4) EXCEPTIONS.—

23 “(A) REASONABLE CAUSE.—No penalty  
24 shall be imposed under this subsection with re-



1           spect to any failure if it is shown that such fail-  
2           ure is due to reasonable cause.

3           “(B) OTHER WAIVER AUTHORITY.—In ad-  
4           dition to penalties not imposed by reason of  
5           subparagraph (A), the sales tax administering  
6           authority, on application, shall waive the pen-  
7           alty imposed by paragraph (1) once per reg-  
8           istered person per 24-month period. The pre-  
9           ceding sentence shall not apply to a penalty de-  
10          termined under paragraph (2).

11          “(g) PENALTY FOR WILLFULLY OR RECKLESSLY AC-  
12          CEPTING A FALSE INTERMEDIATE OR EXPORT SALES  
13          CERTIFICATE.—A person who willingly or recklessly ac-  
14          cepts a false intermediate or export sales certificate shall  
15          pay a penalty equal to 20 percent of the tax not collected  
16          by reason of said acceptance.

17          “(h) PENALTY FOR LATE REMITTANCE OF TAXES.—

18                 “(1) IN GENERAL.—A person who is required  
19                 to timely remit taxes imposed by this subtitle and  
20                 remits taxes more than 1 month after such taxes are  
21                 due shall pay a penalty equal to 1 percent per month  
22                 (or fraction thereof) from the due date.

23                 “(2) LIMITATION.—The penalty imposed under  
24                 this subsection shall not exceed 24 percent.

1           “(3) EXCEPTIONS FOR REASONABLE CAUSE.—

2           No penalty shall be imposed under paragraph (1)  
3           with respect to any late remittance if it is shown  
4           that such late remittance is due to reasonable cause.

5           “(i) PENALTY FOR FILING FALSE REBATE CLAIM.—

6           “(1) CIVIL PENALTY; FRAUD.—A person who  
7           willingly or recklessly files a false claim for a family  
8           consumption allowance rebate (within the meaning  
9           of chapter 3) shall—

10           “(A) pay a penalty equal to the greater of  
11           \$500 or 50 percent of the claimed annual re-  
12           bate amount not actually due, and

13           “(B) repay any rebates received as a result  
14           of the false rebate claim (together with inter-  
15           est).

16           “(2) CRIMINAL PENALTY.—A person who will-  
17           ingly files a false claim for a family consumption al-  
18           lowance rebate (within the meaning of chapter 3)  
19           may be fined an amount up to the amount deter-  
20           mined in accordance with paragraph (1) or impris-  
21           oned for a period not more than 1 year or both.

22           “(j) PENALTY FOR BAD CHECK.—If any check or  
23           money order in payment of any amount receivable under  
24           this subtitle is not duly paid, in addition to other penalties

1 provided by law, the person who tendered such check shall  
2 pay a penalty equal to the greater of—

3 “(1) \$25, or

4 “(2) two percent of the amount of such check.

5 “(k) PENALTY FOR FAILURE TO MAINTAIN A SEPA-  
6 RATE SEGREGATED ACCOUNT.—Any person required to  
7 maintain a separate segregated account pursuant to sec-  
8 tion 501(e) that fails to maintain such a separate seg-  
9 regated account shall pay a penalty of \$1,000.

10 “(l) PENALTY FOR FAILURE TO DEPOSIT COL-  
11 LECTED TAXES IN A SEPARATE SEGREGATED AC-  
12 COUNT.—Any person required to deposit collected taxes  
13 into a separate segregated account maintained pursuant  
14 to section 501(e) that fails to timely deposit said taxes  
15 into the separate segregated account shall pay a penalty  
16 equal to 1 percent of the amount required to be deposited.  
17 The penalty imposed by the previous sentence shall be tri-  
18 pled unless said taxes have been deposited in the separate  
19 segregated account or remitted to the sales tax admin-  
20 istering authority within 16 days of the date said deposit  
21 was due.

22 “(m) JOINT AND SEVERAL LIABILITY FOR TAX MAT-  
23 TERS PERSON AND RESPONSIBLE OFFICERS.—The tax  
24 matters person (designated pursuant to section 502(c))  
25 and responsible officers or partners of a firm shall be

1 jointly and severally liable for the tax imposed by this sub-  
2 title and penalties imposed by this subtitle.

3 “(n) RIGHT OF CONTRIBUTION.—If more than 1 per-  
4 son is liable with respect to any tax or penalty imposed  
5 by this subtitle, each person who paid such tax or penalty  
6 shall be entitled to recover from other persons who are  
7 liable for such tax or penalty an amount equal to the ex-  
8 cess of the amount paid by such person over such person’s  
9 proportionate share of the tax or penalty.

10 “(o) CIVIL PENALTIES AND CRIMINAL FINES NOT  
11 EXCLUSIVE.—

12 “(1) CIVIL PENALTY.—The fact that a civil  
13 penalty has been imposed shall not prevent the im-  
14 position of a criminal fine.

15 “(2) CRIMINAL FINE.—The fact that a criminal  
16 fine has been imposed shall not prevent the imposi-  
17 tion of a civil penalty.

18 “(p) CONFIDENTIALITY.—Any person who violates  
19 the requirements relating to confidentiality of tax informa-  
20 tion (as provided in section 605(e)) may be fined up to  
21 \$10,000 or imprisoned for a period of not more than 1  
22 year, or both.

1 “(q) CROSS REFERENCE.—

“For interest due on late payments, see section  
6601.

2 “SEC. 506. BURDEN OF PERSUASION AND BURDEN OF PRO-  
3 Duction.

4 “In all disputes concerning taxes imposed by this sub-  
5 title, the person engaged in a dispute with the sales tax  
6 administering authority or the Secretary, as the case may  
7 be, shall have the burden of production of documents and  
8 records but the sales tax administering authority or the  
9 Secretary shall have the burden of persuasion. In all dis-  
10 putes concerning an exemption claimed by a purchaser,  
11 if the seller has on file an intermediate sale or export sale  
12 certificate from the purchaser and did not have reasonable  
13 cause to believe that the certificate was improperly pro-  
14 vided by the purchaser with respect to such purchase  
15 (within the meaning of section 103), then the burden of  
16 production of documents and records relating to that ex-  
17 emption shall rest with the purchaser and not with the  
18 seller.

19 “SEC. 507. ATTORNEYS’ AND ACCOUNTANCY FEES.

20 “In all disputes concerning taxes imposed by this sub-  
21 title, the person engaged in a dispute with the sales tax  
22 administering authority or the Secretary, as the case may  
23 be, shall be entitled to reasonable attorneys’ fees, account-  
24 ancY fees, and other reasonable professional fees incurred

1 in direct relation to the dispute unless the sales tax admin-  
2 istering authority or the Secretary establishes that its po-  
3 sition was substantially justified.

4 **“SEC. 508. SUMMONS, EXAMINATIONS, AUDITS, ETC.**

5       “(a) SUMMONS.—Persons are subject to administra-  
6 tive summons by the sales tax administering authority for  
7 records, documents, and testimony required by the sales  
8 tax administering authority to accurately determine liabil-  
9 ity for tax under this subtitle. A summons shall be served  
10 by the sales tax administering authority by an attested  
11 copy delivered in hand to the person to whom it is directed  
12 or left at his last known address. The summons shall de-  
13 scribe with reasonable certainty what is sought.

14       “(b) EXAMINATIONS AND AUDITS.—The sales tax ad-  
15 ministering authority has the authority to conduct at a  
16 reasonable time and place examinations and audits of per-  
17 sons who are or may be liable to collect and remit tax  
18 imposed by this subtitle and to examine the books, papers,  
19 records, or other data of such persons which may be rel-  
20 evant or material to the determination of tax due.

21       “(c) LIMITATION ON AUTHORITY IN CASE OF REFER-  
22 RAL.—No administrative summons may be issued by the  
23 sales tax administering authority and no action be com-  
24 menced to enforce an administrative summons with re-  
25 spect to any person if a Justice Department referral or

1 referral to a State Attorney General's Office is in effect  
2 with respect to such person relating to a tax imposed by  
3 this subtitle. Such referral is in effect with respect to any  
4 person if the sales tax administering authority or the Sec-  
5 retary has recommended to the Justice Department or a  
6 State Attorney General's Office a grand jury investigation  
7 of such person or a criminal prosecution of such person  
8 that contemplates criminal sanctions under this title. A  
9 referral shall be terminated when—

10           “(1) the Justice Department or a State Attor-  
11       ney General's Office notifies the sales tax admin-  
12       istering authority or the Secretary that he will not—

13                   “(A) prosecute such person for any offense  
14       connected with the internal revenue laws,

15                   “(B) authorize a grand jury investigation  
16       of such person with respect to such offense, or

17                   “(C) continue such a grand jury investiga-  
18       tion, or

19           “(2) a final disposition has been made of any  
20       criminal proceeding connected with the internal rev-  
21       enue laws, or conforming State sales tax, against  
22       such person.

23 **“SEC. 509. RECORDS.**

24       “Any person liable to remit taxes pursuant to this  
25 subtitle shall keep records (including a record of all section

1 510 receipts provided, complete records of intermediate  
2 and export sales, including purchaser's intermediate and  
3 export sales certificates and tax number and the net of  
4 tax amount of purchase) sufficient to determine the  
5 amounts reported, collected, and remitted for a period of  
6 6 years after the latter of the filing of the report for which  
7 the records formed the basis or when the report was due  
8 to be filed. Any purchaser who purchased taxable property  
9 or services but did not pay tax by reason of asserting an  
10 intermediate and export sales exemption shall keep records  
11 sufficient to determine whether said exemption was valid  
12 for a period of 7 years after the purchase of taxable prop-  
13 erty or services.

14 **“SEC. 510. TAX TO BE SEPARATELY STATED AND CHARGED.**

15       “(a) IN GENERAL.—For each purchase of taxable  
16 property or services for which a tax is imposed by section  
17 101, the seller shall charge the tax imposed by section 101  
18 separately from the purchase. For purchase of taxable  
19 property or services for which a tax is imposed by section  
20 101, the seller shall provide to the purchaser a receipt for  
21 each transaction that includes—

22               “(1) the property or services price exclusive of  
23       tax;

24               “(2) the amount of tax paid;



1           “(3) the property or service price inclusive of  
2       tax;

3           “(4) the tax rate (the amount of tax paid (per  
4       paragraph (2)) divided by the property or service  
5       price inclusive of tax (per paragraph (3)));

6           “(5) the date that the good or service was sold;

7           “(6) the name of the vendor; and

8           “(7) the vendor registration number.

9       “(b) VENDING MACHINE EXCEPTION.—The require-  
10   ments of subsection (a) shall be inapplicable in the case  
11   of sales by vending machines. Vending machines for pur-  
12   poses of this subsection are machines—

13           “(1) that dispense taxable property in exchange  
14       for coins or currency; and

15           “(2) that sell no single item exceeding \$10 per  
16       unit in price.

17       “(c) FINANCIAL INTERMEDIATION SERVICES EXCEP-  
18   TION.—The requirements of subsection (a) shall be inap-  
19   plicable in the case of sales financial intermediation serv-  
20   ice. Receipts shall be issued when the tax is imposed (in  
21   accordance with section 803 (relating to timing of tax on  
22   financial intermediation services)).

1 **“SEC. 511. COORDINATION WITH TITLE 11.**

2 “No addition to tax shall be made under section 505  
3 with respect to a period during which a case is pending  
4 under title 11, United States Code—

5 “(1) if such tax was incurred by the estate and  
6 the failure occurred pursuant to an order of the  
7 court finding probable insufficiency of funds of the  
8 estate to pay administrative expenses; or

9 “(2) if—

10 “(A) such tax was incurred by the debtor  
11 before the earlier of the order for relief or (in  
12 the involuntary case) the appointment of a  
13 trustee; and

14 “(B) the petition was filed before the due  
15 date prescribed by law (including extensions)  
16 for filing a return of such tax, or the date for  
17 making the addition to tax occurs on or after  
18 the date the petition was filed.

19 **“SEC. 512. APPLICABLE INTEREST RATE.**

20 “(a) IN GENERAL.—

21 “(1) FEDERAL SHORT-TERM RATE.—In the  
22 case of a debt instrument, investment, financing  
23 lease, or account with a term of not over 3 years,  
24 the applicable interest rate is the Federal short-term  
25 rate.

1           “(2) FEDERAL MID-TERM RATE.—In the case  
2           of a debt instrument, investment, financing lease, or  
3           account with a term of over 3 years but not over 9  
4           years, the applicable interest rate is the Federal  
5           mid-term rate.

6           “(3) FEDERAL LONG-TERM RATE.—In the case  
7           of a debt instrument, investment, financing lease, or  
8           account with a term of over 9 years, the applicable  
9           interest rate is the Federal long-term rate.

10          “(b) FEDERAL SHORT-TERM RATE.—The Federal  
11       short-term rate shall be the rate determined by the Sec-  
12       retary based on the average market yield (selected by the  
13       Secretary and ending in the calendar month in which the  
14       determination is made during any one month) on out-  
15       standing marketable obligations of the United States with  
16       remaining periods to maturity of 3 years or fewer.

17          “(c) FEDERAL MID-TERM RATE.—The Federal mid-  
18       term rate shall be the rate determined by the Secretary  
19       based on the average market yield (selected by the Sec-  
20       retary and ending in the calendar month in which the de-  
21       termination is made during any 1 month) on outstanding  
22       marketable obligations of the United States with remain-  
23       ing periods to maturity of more than 3 years and not over  
24       9 years.

1       “(d) FEDERAL LONG-TERM RATE.—The Federal  
 2 long-term rate shall be the rate determined by the Sec-  
 3 retary based on the average market yield (selected by the  
 4 Secretary and ending in the calendar month in which the  
 5 determination is made during any 1 month) on out-  
 6 standing marketable obligations of the United States with  
 7 remaining periods to maturity of over 9 years.

8       “(e) DETERMINATION OF RATES.—During each cal-  
 9 endar month, the Secretary shall determine the Federal  
 10 short-term rate, the Federal mid-term rate and the Fed-  
 11 eral long-term rate which shall apply during the following  
 12 calendar month.

13       **“CHAPTER 6—COLLECTIONS; APPEALS;**  
 14                               **TAXPAYER RIGHTS**

“Sec. 601. Collections.  
 “Sec. 602. Power to levy, etc.  
 “Sec. 603. Problem resolution offices.  
 “Sec. 604. Appeals.  
 “Sec. 605. Taxpayer rights.  
 “Sec. 606. Installment agreements; compromises.

15       **“SEC. 601. COLLECTIONS.**

16       “The sales tax administering authority shall collect  
 17 the taxes imposed by this subtitle, except as provided in  
 18 section 404 (relating to Federal administration in certain  
 19 States).

20       **“SEC. 602. POWER TO LEVY, ETC.**

21       “(a) IN GENERAL.—The sales tax administering au-  
 22 thority may levy and seize property, garnish wages or sal-

1 ary and file liens to collect amounts due under this sub-  
2 title, pursuant to enforcement of—

3 “(1) a judgment duly rendered by a court of  
4 law;

5 “(2) an amount due if the taxpayer has failed  
6 to exercise his appeals rights under section 604; or

7 “(3) an amount due if the appeals process de-  
8 termined that an amount remained due and the tax-  
9 payer has failed to timely petition the Tax Court for  
10 relief.

11 “(b) EXEMPTION FROM LEVY, SEIZURE, AND GAR-  
12 NISHMENT.—There shall be exempt from levy, seizure,  
13 and garnishment or penalty in connection with any tax  
14 imposed by this subtitle—

15 “(1) wearing apparel, school books, fuel, provi-  
16 sions, furniture, personal effects, tools of a trade or  
17 profession, livestock in a household up to an aggre-  
18 gate value of \$15,000; and

19 “(2) monthly money income equal to 150 per-  
20 cent of the monthly poverty level (as defined in sec-  
21 tion 303).

22 “(c) LIENS TO BE TIMELY RELEASED.—Subject to  
23 such reasonable regulations as the Secretary may provide,  
24 any lien imposed with respect to a tax imposed by this  
25 title shall be released not later than 30 days after—

1           “(1) the liability was satisfied or became unen-  
2       forceable; or

3           “(2) a bond was accepted as security.

4   **“SEC. 603. PROBLEM RESOLUTION OFFICES.**

5       “(a) PROBLEM RESOLUTION OFFICE TO BE ESTAB-  
6   LISHED.—Each sales tax administering authority shall es-  
7   tablish an independent Problem Resolution Office and ap-  
8   point an adequate number of problem resolution officers.  
9   The head of the problem resolution office must be ap-  
10  pointed by, and serve at the pleasure of, either the State  
11  Governor (in the case of an administering State) or the  
12  President of the United States.

13       “(b) AUTHORITY OF PROBLEM RESOLUTION OFFI-  
14  CERS.—Problem resolution officers shall have the author-  
15  ity to investigate complaints and issue a Taxpayer Assist-  
16  ance Order to administratively enjoin any collection activ-  
17  ity if, in the opinion of the problem resolution officer, said  
18  collection activity is reasonably likely to not be in compli-  
19  ance with law or to prevent hardship (other than by reason  
20  of having to pay taxes lawfully due). Problem resolution  
21  officers shall also have the authority to issue Taxpayer As-  
22  sistance Orders releasing or returning property that has  
23  been levied upon or seized, ordering that a lien be released  
24  and that garnished wages be returned. A Taxpayer Assist-  
25  ance Order may only be rescinded or modified by the prob-

1 lem resolution officer that issued it, by the highest official  
2 in the relevant sales tax administering authority or by its  
3 general counsel upon a finding that the collection activity  
4 is justified by clear and convincing evidence. The authority  
5 to reverse this Taxpayer Assistance Order may not be del-  
6 egated.

7       “(c) FORM OF REQUEST FOR TAXPAYER ASSISTANCE  
8 ORDER.—The Secretary shall establish a form and proce-  
9 dure to aid persons requesting the assistance of the Prob-  
10 lem Resolution Office and to aid the Problem Resolution  
11 Office in understanding the needs of the person seeking  
12 assistance. The use of this form, however, shall not be a  
13 prerequisite to a problem resolution officer taking action,  
14 including issuing a Taxpayer Assistance Order.

15       “(d) CONTENT OF TAXPAYER ASSISTANCE ORDER.—  
16 A Taxpayer Assistance Order shall contain the name of  
17 the problem resolution officer, any provision relating to  
18 the running of any applicable period of limitation, the  
19 name of the person that the Taxpayer Assistance Order  
20 assists, the government office (or employee or officer of  
21 said government office) to whom it is directed and the ac-  
22 tion or cessation of action that the Taxpayer Assistance  
23 Order requires of said government office (or employee or  
24 officer of said government office). The Taxpayer Assist-  
25 ance Order need not contain findings of fact or its legal

1 basis; however, the problem resolution officer must provide  
2 findings of fact and the legal basis for the issuance of the  
3 Taxpayer Assistance Order to the sales tax administering  
4 authority upon the request of an officer of said authority  
5 within 2 weeks of the receipt of such request.

6 “(e) INDEPENDENCE PROTECTED.—Problem resolu-  
7 tion officers shall not be disciplined or adversely affected  
8 for the issuance of administrative injunctions unless a pat-  
9 tern of issuing injunctions that are manifestly unreason-  
10 able is proven in an administrative hearing by a prepon-  
11 derance of the evidence.

12 “(f) OTHER RIGHTS NOT LIMITED.—Nothing in this  
13 section shall limit the authority of the sales tax admin-  
14 istering authority, the registered person or other person  
15 from pursuing any legal remedy in any court with jurisdic-  
16 tion over the dispute at issue.

17 “(g) LIMITATIONS.—The running of any applicable  
18 period of limitation shall be suspended for a period of 8  
19 weeks following the issuance of a Taxpayer Assistance  
20 Order or, if specified, for a longer period set forth in the  
21 Taxpayer Assistance Order provided the suspension does  
22 not exceed 6 months.

23 **“SEC. 604. APPEALS.**

24 “(a) ADMINISTRATIVE APPEALS.—The sales tax ad-  
25 ministering authority shall establish an administrative ap-



1 peals process wherein the registered person or other per-  
 2 son in disagreement with a decision of the sales tax admin-  
 3 istering authority asserting liability for tax is provided a  
 4 full and fair hearing in connection with any disputes said  
 5 person has with the sales tax administering authority.

6 “(b) TIMING OF ADMINISTRATIVE APPEALS.—Said  
 7 administrative appeal must be made within 60 days of re-  
 8 ceiving a final notice of amount due pursuant to section  
 9 605(d) unless leave for an extension is granted by the ap-  
 10 peals officer in a form prescribed by the Secretary. Leave  
 11 shall be granted to avoid hardship.

12 **“SEC. 605. TAXPAYER RIGHTS.**

13 “(a) RIGHTS TO BE DISCLOSED.—The sales tax ad-  
 14 ministering authority shall provide to any person against  
 15 whom it has—

- 16 “(1) commenced an audit or investigation;
- 17 “(2) issued a final notice of amount due;
- 18 “(3) filed an administrative lien, levy, or gar-  
 19 nishment;
- 20 “(4) commenced other collection action;
- 21 “(5) commenced an action for civil penalties; or
- 22 “(6) any other legal action,

23 a document setting forth in plain English the rights of  
 24 the person. The document shall explain the administrative  
 25 appeals process, the authority of the Problem Resolution

1 Office (established pursuant to section 603) and how to  
2 contact that Office, the burden of production and persua-  
3 sion that the person and the sales tax administering au-  
4 thority bear (pursuant to section 506), the right of the  
5 person to professional fees (pursuant to section 507), the  
6 right to record interviews and such other rights as the per-  
7 son may possess under this subtitle. Said document will  
8 also set forth the procedures for entering into an install-  
9 ment agreement.

10 “(b) RIGHT TO PROFESSIONAL ASSISTANCE.—In all  
11 dealings with the sales tax administering authority, a per-  
12 son shall have the right to assistance, at their own ex-  
13 pense, of 1 or more professional advisors.

14 “(c) RIGHT TO RECORD INTERVIEWS.—Any person  
15 who is interviewed by an agent of the sales tax admin-  
16 istering authority shall have the right to video or audio  
17 tape the interview at the person’s own expense.

18 “(d) RIGHT TO FINAL NOTICE OF AMOUNT DUE.—  
19 No collection or enforcement action will be commenced  
20 against a person until 30 days after they have been pro-  
21 vided with a final notice of amount due under this subtitle  
22 by the sales tax administering authority. The final notice  
23 of amount due shall set forth the amount of tax due (along  
24 with any interest and penalties due) and the factual and  
25 legal basis for such amounts being due with sufficient

1 specificity that such basis can be understood by a reason-  
2 able person who is not a tax professional reading the no-  
3 tice. The final notice shall be sent by certified mail, return  
4 receipt requested, to—

5 “(1) the address last provided by a registered  
6 seller; or

7 “(2) the best available address to a person who  
8 is not a registered seller.

9 “(e) CONFIDENTIALITY OF TAX INFORMATION.—

10 “(1) IN GENERAL.—All reports and report in-  
11 formation (related to any internal revenue law) shall  
12 be confidential and except as authorized by this  
13 title—

14 “(A) no officer or employee (including  
15 former officers and employees) of the United  
16 States;

17 “(B) no officer or employee (including  
18 former officers and employees) of any State or  
19 local agency who has had access to returns or  
20 return information; and

21 “(C) no other person who has had access  
22 to returns or return information,  
23 shall disclose any report or report information ob-  
24 tained by him in any manner in connection with his  
25 service as such officer or employee or otherwise.

1           “(2) DESIGNEES.—The sales tax administering  
2           authority may, subject to such requirements as the  
3           Secretary may impose, disclose the report and report  
4           information of a person to that person or persons as  
5           that person may designate to receive said informa-  
6           tion or return.

7           “(3) OTHER SALES TAX ADMINISTERING AU-  
8           THORITIES.—A sales tax administering authority  
9           may, subject to such requirements as the Secretary  
10          may impose, disclose the report and report informa-  
11          tion to another sales tax administering authority.

12          “(4) INCOMPETENCY.—A sales tax admin-  
13          istering authority may, subject to such requirements  
14          as the Secretary may impose, disclose the report and  
15          report information to the committee, trustee, or  
16          guardian of a person who is incompetent.

17          “(5) DECEASED PERSONS.—A sales tax admin-  
18          istering authority may, subject to such requirements  
19          as the Secretary may impose, disclose the report and  
20          report information to the decedent’s—

21                  “(A) administrator, executor, estate trust-  
22                  ee, or

23                  “(B) heir at law, next of kin, or beneficiary  
24                  under a will who has a material interest that  
25                  will be affected by the information.

1           “(6) BANKRUPTCY.—A sales tax administering  
2           authority may, subject to such requirements as the  
3           Secretary may impose, disclose the report and report  
4           information to a person’s trustee in bankruptcy.

5           “(7) CONGRESS.—Upon written request from  
6           the Chairman of the Committee on Ways and  
7           Means, the Chairman of the Committee on Finance  
8           of the Senate, or the Chairman or Chief of Staff of  
9           the Joint Committee on Taxation, a sales tax admin-  
10          istering authority shall disclose the report and report  
11          information, except that any report or report infor-  
12          mation that can be associated with or otherwise  
13          identify a particular person shall be furnished to  
14          such committee only when sitting in closed executive  
15          session unless such person otherwise consents in  
16          writing to such disclosure.

17          “(8) WAIVER OF PRIVACY RIGHTS.—A person  
18          may waive confidentiality rights provided by this sec-  
19          tion. Such waiver must be in writing.

20          “(9) INTERNAL USE.—Disclosure of the report  
21          or report information by officers or employees of a  
22          sales tax administering authority to other officers or  
23          employees of a sales tax administering authority in  
24          the ordinary course of tax administration activities

1 shall not constitute unlawful disclosure of the report  
2 or report information.

3 “(10) STATISTICAL USE.—Upon request in  
4 writing by the Secretary of Commerce, the Secretary  
5 shall furnish such reports and report information to  
6 officers and employees of the Department of Com-  
7 merce as the Secretary may prescribe by regulation  
8 for the purposes of, and only to the extent necessary  
9 in, the structuring of censuses and national eco-  
10 nomic accounts and conducting related statistical ac-  
11 tivities authorized by law.

12 “(11) DEPARTMENT OF THE TREASURY.—Re-  
13 turns and return information shall be open for in-  
14 spection by officers and employees of the Depart-  
15 ment of the Treasury whose official duties require  
16 such inspection or disclosure for the purpose of, and  
17 only to the extent necessary for, preparing economic  
18 or financial forecasts, projections, analyses, or esti-  
19 mates. Such inspection or disclosure shall be per-  
20 mitted only upon written request that sets forth the  
21 reasons why such inspection or disclosure is nec-  
22 essary and is signed by the head of the bureau or  
23 office of the Department of the Treasury requesting  
24 the inspection or disclosure.

1 **“SEC. 606. INSTALLMENT AGREEMENTS; COMPROMISES.**

2       “The sales tax administering authority is authorized  
 3 to enter into written agreements with any person under  
 4 which the person is allowed to satisfy liability for payment  
 5 of any tax under this subtitle (and penalties and interest  
 6 relating thereto) in installment payments if the sales tax  
 7 administering authority determines that such agreement  
 8 will facilitate the collection of such liability. The agree-  
 9 ment shall remain in effect for the term of the agreement  
 10 unless the information that the person provided to the  
 11 sales tax administering authority was materially inac-  
 12 curate or incomplete. The sales tax administering author-  
 13 ity may compromise any amounts alleged to be due.

14 **“CHAPTER 7—SPECIAL RULES**

“Sec. 701. Hobby activities.

“Sec. 702. Gaming activities.

“Sec. 703. Government purchases.

“Sec. 704. Government enterprises.

“Sec. 705. Mixed use property.

“Sec. 706. Not-for-profit organizations.

15 **“SEC. 701. HOBBY ACTIVITIES.**

16       “(a) HOBBY ACTIVITIES.—Neither the exemption af-  
 17 forded by section 102 for intermediate sales nor the cred-  
 18 its available pursuant to section 202 or 203 shall be avail-  
 19 able for any taxable property or service purchased for use  
 20 in an activity if that activity is not engaged in for-profit.

1       “(b) STATUS DEEMED.—If the activity has received  
 2 gross payments for the sale of taxable property or services  
 3 that exceed the sum of—

4               “(1) taxable property and services purchased;

5               “(2) wages and salary paid; and

6               “(3) taxes (of any type) paid,

7 in 2 or more of the most recent 3 calendar years during  
 8 which it operated then the business activity shall be con-  
 9 clusively deemed to be engaged in for profit.

10 **“SEC. 702. GAMING ACTIVITIES.**

11       “(a) REGISTRATION.—Any person selling 1 or more  
 12 chances is a gaming sponsor and shall register, in a form  
 13 prescribed by the Secretary, with the sales tax admin-  
 14 istering authority as a gaming sponsor.

15       “(b) CHANCE DEFINED.—For purposes of this sec-  
 16 tion, the term ‘chance’ means a lottery ticket, a raffle tick-  
 17 et, chips, other tokens, a bet or bets placed, a wager or  
 18 wagers placed, or any similar device where the purchase  
 19 of the right gives rise to an obligation by the gaming spon-  
 20 sor to pay upon the occurrence of—

21               “(1) a random or unpredictable event; or

22               “(2) an event over which neither the gaming  
 23 sponsor nor the person purchasing the chance has  
 24 control over the outcome.



1       “(c) CHANCES NOT TAXABLE PROPERTY OR SERV-  
 2 ICE.—Notwithstanding any other provision in this sub-  
 3 title, a chance is not taxable property or services for pur-  
 4 poses of section 101.

5       “(d) TAX ON GAMING SERVICES IMPOSED.—A 23-  
 6 percent tax is hereby imposed on the taxable gaming serv-  
 7 ices of a gaming sponsor. This tax shall be paid and remit-  
 8 ted by the gaming sponsor. The tax shall be remitted by  
 9 the 15th day of each month with respect to taxable gaming  
 10 services during the previous calendar month.

11       “(e) TAXABLE GAMING SERVICES DEFINED.—For  
 12 purposes of this section, the term ‘taxable gaming services’  
 13 means—

14               “(1) gross receipts of the gaming sponsor from  
 15 the sale of chances, minus

16               “(2) the sum of—

17                       “(A) total gaming payoffs to chance pur-  
 18 chasers (or their designees); and

19                       “(B) gaming specific taxes (other than the  
 20 tax imposed by this section) imposed by the  
 21 Federal, State, or local government.

22 **“SEC. 703. GOVERNMENT PURCHASES.**

23       “(a) GOVERNMENT PURCHASES.—

24               “(1) PURCHASES BY THE FEDERAL GOVERN-  
 25 MENT.—Purchases by the Federal Government of

1 taxable property and services shall be subject to the  
2 tax imposed by section 101.

3 “(2) PURCHASE BY STATE GOVERNMENTS AND  
4 THEIR POLITICAL SUBDIVISIONS.—Purchases by  
5 State governments and their political subdivisions of  
6 taxable property and services shall be subject to the  
7 tax imposed by section 101.

8 “(b) CROSS REFERENCES.—

**“For purchases by government enterprises see  
section 704.**

9 **“SEC. 704. GOVERNMENT ENTERPRISES.**

10 “(a) GOVERNMENT ENTERPRISES TO COLLECT AND  
11 REMIT TAXES ON SALES.—Nothing in this subtitle shall  
12 be construed to exempt any Federal, State, or local gov-  
13 ernmental unit or political subdivision (whether or not the  
14 State is an administering State) operating a government  
15 enterprise from collecting and remitting tax imposed by  
16 this subtitle on any sale of taxable property or services.  
17 Government enterprises shall comply with all duties im-  
18 posed by this subtitle and shall be liable for penalties and  
19 subject to enforcement action in the same manner as pri-  
20 vate persons that are not government enterprises.

21 “(b) GOVERNMENT ENTERPRISE.—Any entity owned  
22 or operated by a Federal, State, or local governmental unit  
23 or political subdivision that receives gross payments from  
24 private persons is a government enterprise, except that a

1 government-owned entity shall not become a government  
2 enterprise for purposes of this section unless in any quar-  
3 ter it has revenues from selling taxable property or serv-  
4 ices that exceed \$2,500.

5 “(c) GOVERNMENT ENTERPRISES INTERMEDIATE  
6 SALES.—

7 “(1) IN GENERAL.—Government enterprises  
8 shall not be subject to tax on purchases that would  
9 not be subject to tax pursuant to section 102(b) if  
10 the government enterprise were a private enterprise.

11 “(2) EXCEPTION.—Government enterprises  
12 may not use the exemption afforded by section  
13 102(b) to serve as a conduit for tax-free purchases  
14 by government units that would otherwise be subject  
15 to taxation on purchases pursuant to section 703.  
16 Transfers of taxable property or services purchased  
17 exempt from tax from a government enterprise to  
18 such government unit shall be taxable.

19 “(d) SEPARATE BOOKS OF ACCOUNT.—Any govern-  
20 ment enterprise must maintain books of account, separate  
21 from the nonenterprise government accounts, maintained  
22 in accordance with generally accepted accounting prin-  
23 ciples.

1       “(e) TRADE OR BUSINESS.—A government enterprise  
2 shall be treated as a trade or business for purposes of this  
3 subtitle.

4       “(f) ENTERPRISE SUBSIDIES CONSTITUTE TAXABLE  
5 PURCHASE.—A transfer of funds to a government enter-  
6 prise by a government entity without full consideration  
7 shall constitute a taxable government purchase with the  
8 meaning of section 703 to the extent that the transfer of  
9 funds exceeds the fair market value of the consideration.

10   **“SEC. 705. MIXED USE PROPERTY.**

11       “(a) MIXED USE PROPERTY OR SERVICE.—

12           “(1) MIXED USE PROPERTY OR SERVICE DE-  
13 FINED.—For purposes of this section, the term  
14 ‘mixed use property or service’ is a taxable property  
15 or taxable service used for both taxable use or con-  
16 sumption and for a purpose that would not be sub-  
17 ject to tax pursuant to section 102(a)(1).

18           “(2) TAXABLE THRESHOLD.—Mixed use prop-  
19 erty or service shall be subject to tax notwith-  
20 standing section 102(a)(1) unless such property or  
21 service is used more than 95 percent for purposes  
22 that would give rise to an exemption pursuant to  
23 section 102(a)(1) during each calendar year (or por-  
24 tions thereof) it is owned.

1           “(3) MIXED USE PROPERTY OR SERVICES  
2 CREDIT.—A person registered pursuant to section  
3 502 is entitled to a business use conversion credit  
4 (pursuant to section 202) equal to the product of—

5                   “(A) the mixed use property amount; and

6                   “(B) the business use ratio; and

7                   “(C) the rate of tax imposed by section  
8 101.

9           “(4) MIXED USE PROPERTY AMOUNT.—The  
10 mixed use property amount for each month (or frac-  
11 tion thereof) in which the property was owned shall  
12 be—

13                   “(A) one-three-hundred-sixtieth of the  
14 gross payments for real property for 360  
15 months or until the property is sold;

16                   “(B) one-eighty-fourth of the gross pay-  
17 ments for tangible personal property for 84  
18 months or until the property is sold;

19                   “(C) one-sixtieth of the gross payments for  
20 vehicles for 60 months or until the property is  
21 sold; or

22                   “(D) for other types of taxable property or  
23 services, a reasonable amount or in accordance  
24 with regulations prescribed by the Secretary.

1           “(5) BUSINESS USE RATIO.—For purposes of  
2       this section, the term ‘business use ratio’ means the  
3       ratio of business use to total use for a particular cal-  
4       endar month (or portion thereof if the property was  
5       owned for only part of said calendar month). For ve-  
6       hicles, the business use ratio will be the ratio of  
7       business purpose miles to total miles in a particular  
8       calendar month. For real property, the business use  
9       ratio is the ratio of floor space used primarily for  
10      business purposes to total floor space in a particular  
11      calendar month. For tangible personal property (ex-  
12      cept for vehicles), the business use ratio is the ratio  
13      of total time used for business purposes to total time  
14      used in a particular calendar year. For other prop-  
15      erty or services, the business ratio shall be cal-  
16      culated using a reasonable method. Reasonable  
17      records must be maintained to support a person’s  
18      business use of the mixed use property or service.

19      “(b) TIMING OF BUSINESS USE CONVERSION CRED-  
20      IT ARISING OUT OF OWNERSHIP OF MIXED USE PROP-  
21      ERTY.—A person entitled to a credit pursuant to sub-  
22      section (a)(3) arising out of the ownership of mixed use  
23      property must account for the mixed use on a calendar  
24      year basis, and may file for the credit with respect to

1 mixed used property in any month following the calendar  
 2 year giving rise to the credit.

3 “(c) CROSS REFERENCES.—

**“For business use conversion credit, see section  
 202.**

4 **“SEC. 706. NOT-FOR-PROFIT ORGANIZATIONS.**

5 “(a) NOT-FOR-PROFIT ORGANIZATIONS.—Dues, con-  
 6 tributions, and similar payments to qualified not-for-profit  
 7 organizations shall not be considered gross payments for  
 8 taxable property or services for purposes of this subtitle.

9 “(b) DEFINITION.—For purposes of this section, the  
 10 term ‘qualified not-for-profit organization’ means a not-  
 11 for-profit organization organized and operated  
 12 exclusively—

13 “(1) for religious, charitable, scientific, testing  
 14 for public safety, literary, or educational purposes;

15 “(2) as civic leagues or social welfare organiza-  
 16 tions;

17 “(3) as labor, agricultural, or horticultural or-  
 18 ganizations;

19 “(4) as chambers of commerce, business  
 20 leagues, or trade associations; or

21 “(5) as fraternal beneficiary societies, orders, or  
 22 associations;

23 no part of the net earnings of which inures to the benefit  
 24 of any private shareholder or individual.

1       “(c) QUALIFICATION CERTIFICATES.—Upon applica-  
 2       tion in a form prescribed by the Secretary, the sales tax  
 3       administering authority shall provide qualification certifi-  
 4       cates to qualified not-for-profit organizations.

5       “(d) TAXABLE TRANSACTIONS.—If a qualified not-  
 6       for-profit organization provides taxable property or serv-  
 7       ices in connection with contributions, dues, or similar pay-  
 8       ments to the organization, then it shall be required to  
 9       treat the provision of said taxable property or services as  
 10      a purchase taxable pursuant to this subtitle at the fair  
 11      market value of said taxable property or services.

12      “(e) EXEMPTIONS.—Taxable property and services  
 13      purchased by a qualified not-for-profit organization shall  
 14      be eligible for the exemptions provided in section 102.

15                   **“CHAPTER 8—FINANCIAL**  
 16                   **INTERMEDIATION SERVICES**

“Sec. 801. Determination of financial intermediation services  
 amount.

“Sec. 802. Bad debts.

“Sec. 803. Timing of tax on financial intermediation services.

“Sec. 804. Financing leases.

“Sec. 805. Basic interest rate.

“Sec. 806. Foreign financial intermediation services.

17   **“SEC. 801. DETERMINATION OF FINANCIAL INTERMEDI-**  
 18                   **ATION SERVICES AMOUNT.**

19      “(a) FINANCIAL INTERMEDIATION SERVICES.—For  
 20      purposes of this subtitle—

21              “(1) IN GENERAL.—The term ‘financial inter-  
 22      mediation services’ means the sum of—



1           “(A) explicitly charged fees for financial  
2           intermediation services, and

3           “(B) implicitly charged fees for financial  
4           intermediation services.

5           “(2) EXPLICITLY CHARGED FEES FOR FINAN-  
6           CIAL INTERMEDIATION SERVICES.—The term ‘explic-  
7           itly charged fees for financial intermediation serv-  
8           ices’ includes—

9           “(A) brokerage fees;

10           “(B) explicitly stated banking, loan origi-  
11           nation, processing, documentation, credit check  
12           fees, or other similar fees;

13           “(C) safe-deposit box fees;

14           “(D) insurance premiums, to the extent  
15           such premiums are not allocable to the invest-  
16           ment account of the underlying insurance pol-  
17           icy;

18           “(E) trustees’ fees; and

19           “(F) other financial services fees (includ-  
20           ing mutual fund management, sales, and exit  
21           fees).

22           “(3) IMPLICITLY CHARGED FEES FOR FINAN-  
23           CIAL INTERMEDIATION SERVICES.—

24           “(A) IN GENERAL.—The term ‘implicitly  
25           charged fees for financial intermediation serv-

1           ices’ includes the gross imputed amount in rela-  
 2           tion to any underlying interest-bearing invest-  
 3           ment, account, or debt.

4                   “(B) GROSS IMPUTED AMOUNT.—For pur-  
 5           poses of subparagraph (A), the term ‘gross im-  
 6           puted amount’ means—

7                           “(i) with respect to any underlying in-  
 8                   terest-bearing investment or account, the  
 9                   product of—

10                                   “(I) the excess (if any) of the  
 11                                   basic interest rate (as defined in sec-  
 12                                   tion 805) over the rate paid on such  
 13                                   investment; and

14                                   “(II) the amount of the invest-  
 15                                   ment or account; and

16                                   “(ii) with respect to any underlying  
 17                   interest-bearing debt, the product of—

18                                   “(I) the excess (if any) of the  
 19                                   rate paid on such debt over the basic  
 20                                   interest rate (as defined in section  
 21                                   805); and

22                                   “(II) the amount of the debt.

23           “(b) SELLER OF FINANCIAL INTERMEDIATION SERV-  
 24   ICES.—For purposes of section 103(a), the seller of finan-  
 25   cial intermediation services shall be—

1           “(1) in the case of explicitly charged fees for fi-  
2           nancial intermediation services, the seller shall be  
3           the person who receives the gross payments for the  
4           charged financial intermediation services;

5           “(2) in the case of implicitly charged fees for fi-  
6           nancial intermediation services with respect to any  
7           underlying interest-bearing investment or account,  
8           the person making the interest payments on the in-  
9           terest-bearing investment or account; and

10           “(3) in the case of implicitly charged fees for fi-  
11           nancial intermediation services with respect to any  
12           interest-bearing debt, the person receiving the inter-  
13           est payments on the interest-bearing debt.

14   **“SEC. 802. BAD DEBTS.**

15           “(a) IN GENERAL.—For purposes of section 205(a),  
16           a bad debt shall be a business debt that becomes wholly  
17           or partially worthless to the payee.

18           “(b) BUSINESS LOAN.—For purposes of subsection  
19           (a), a business loan or debt is a bona fide loan or debt  
20           made for a business purpose that both parties intended  
21           be repaid.

22           “(c) DETERMINATION OF WORTHLESSNESS.—

23           “(1) IN GENERAL.—No loan or debt shall be  
24           considered wholly or partially worthless unless it has  
25           been in arrears for 180 days or more, except that if

1 a debt is discharged wholly or partially in bank-  
 2 ruptcy before 180 days has elapsed, then it shall be  
 3 deemed wholly or partially worthless on the date of  
 4 discharge.

5 “(2) DETERMINATION BY HOLDER.—A loan or  
 6 debt that has been in arrears for 180 days or more  
 7 may be deemed wholly or partially worthless by the  
 8 holder unless a payment schedule has been entered  
 9 into between the debtor and the lender.

10 “(d) CROSS REFERENCE.—

“See section 205(c) for tax on subsequent pay-  
 ments.

11 **“SEC. 803. TIMING OF TAX ON FINANCIAL INTERMEDIATION**  
 12 **SERVICES.**

13 “The tax on financial intermediation services pro-  
 14 vided by section 801 with respect to an underlying invest-  
 15 ment account or debt shall be imposed and collected with  
 16 the same frequency that statements are rendered by the  
 17 financial institution in connection with the investment ac-  
 18 count or debt but not less frequently than quarterly.

19 **“SEC. 804. FINANCING LEASES.**

20 “(a) DEFINITION.—For purposes of this section, the  
 21 term ‘financing lease’ means any lease under which the  
 22 lessee has the right to acquire the property for 50 percent  
 23 or less of its fair market value at the end of the lease  
 24 term.

1       “(b) GENERAL RULE.—Financing leases shall be  
2   taxed in the method set forth in this section.

3       “(c) DETERMINATION OF PRINCIPAL AND INTEREST  
4   COMPONENTS OF FINANCING LEASE.—The Secretary  
5   shall promulgate rules for disaggregating the principal  
6   and interest components of a financing lease. The prin-  
7   cipal amount shall be determined to the extent possible  
8   by examination of the contemporaneous sales price or  
9   prices of property the same or similar as the leased prop-  
10   erty.

11       “(d) ALTERNATIVE METHOD.—In the event that con-  
12   temporaneous sales prices of property the same or similar  
13   as the leased property are not available, the principal and  
14   interest components of a financing lease shall be  
15   disaggregated using the applicable interest rate (as de-  
16   fined in section 512) plus 4 percent.

17       “(e) PRINCIPAL COMPONENT.—The principal compo-  
18   nent of the financing lease shall be subject to tax as if  
19   a purchase in the amount of the principal component had  
20   been made on the day on which said lease was executed.

21       “(f) INTEREST COMPONENT.—The financial inter-  
22   mediation services amount with respect to the interest  
23   component of the financing lease shall be subject to tax  
24   under this subtitle.

1       “(g) COORDINATION.—If the principal component  
2 and financial intermediation services amount with respect  
3 to the interest component of a lease have been taxed pur-  
4 suant to this section, then the gross lease or rental pay-  
5 ments shall not be subject to additional tax.

6       **“SEC. 805. BASIC INTEREST RATE.**

7       “For purposes of this chapter, the basic interest rate  
8 with respect to a debt instrument, investment, financing  
9 lease, or account shall be the applicable interest rate (as  
10 determined in section 512). For debt instruments, invest-  
11 ments, or accounts of contractually fixed interest, the ap-  
12 plicable interest rate of the month of issuance shall apply.  
13 For debt instruments, investments, or accounts of variable  
14 interest rates and which have no reference interest rate,  
15 the applicable interest shall be the Federal short-term in-  
16 terest rate for each month. For debt instruments, invest-  
17 ments, or accounts of variable interest rates and which  
18 have a reference interest rate, the applicable interest shall  
19 be the applicable interest rate for the reference interest  
20 rate for each month.

21       **“SEC. 806. FOREIGN FINANCIAL INTERMEDIATION SERV-**  
22                               **ICES.**

23       “(a) SPECIAL RULES RELATING TO INTERNATIONAL  
24 FINANCIAL INTERMEDIATION SERVICES.—Financial  
25 intermediation services shall be deemed as used or con-

1 sumed within the United States if the person (or any re-  
 2 lated party as defined in section 205(e)) purchasing the  
 3 services is a resident of the United States.

4 “(b) DESIGNATION OF TAX REPRESENTATIVE.—Any  
 5 person that provides financial intermediation services to  
 6 United States residents must, as a condition of lawfully  
 7 providing such services, designate, in a form prescribed  
 8 by the Secretary, a tax representative for purposes of this  
 9 subtitle. The tax representative shall be responsible for en-  
 10 suring that the taxes imposed by this subtitle are collected  
 11 and remitted and shall be jointly and severally liable for  
 12 collecting and remitting these taxes. The Secretary may  
 13 require reasonable bond of the tax representative. The  
 14 Secretary or a sales tax administering authority may bring  
 15 an action seeking a temporary restraining order, an in-  
 16 junction, or such other order as may be appropriate to  
 17 enforce this section.

18 “(c) CROSS REFERENCES.—

“For definition of person, see section 901.

## 19 “CHAPTER 9—ADDITIONAL MATTERS

“Sec. 901. Additional matters.

“Sec. 902. Transition matters.

“Sec. 903. Wages to be reported to Social Security Administra-  
 tion.

“Sec. 904. Trust Fund revenue.

“Sec. 905. Withholding of tax on nonresident aliens and foreign  
 corporations.

1 **“SEC. 901. ADDITIONAL MATTERS.**

2 “(a) INTANGIBLE PROPERTY ANTI-AVOIDANCE  
3 RULE.—Notwithstanding section 2(a)(14)(A)(i), the sale  
4 of a copyright or trademark shall be treated as the sale  
5 of taxable services (within the meaning of section 101(a))  
6 if the substance of the sales of copyright or trademark  
7 constituted the sale of the services that produced the copy-  
8 righted material or the trademark.

9 “(b) DE MINIMIS PAYMENTS.—Up to \$400 of gross  
10 payments per calendar year shall be exempt from the tax  
11 imposed by section 101 if—

12 “(1) made by a person not in connection with  
13 a trade or business at any time during such calendar  
14 year prior to making said gross payments, and

15 “(2) made to purchase any taxable property or  
16 service which is imported into the United States by  
17 such person for use or consumption by such person  
18 in the United States.

19 “(c) DE MINIMIS SALES.—Up to \$1,200 per calendar  
20 year of gross payments shall be exempt from the tax im-  
21 posed by section 101 if received—

22 “(1) by a person not in connection with a trade  
23 or business during such calendar year prior to the  
24 receipt of said gross payments; and

25 “(2) in connection with a casual or isolated  
26 sale.



1       “(d) DE MINIMIS SALE OF FINANCIAL INTERMEDI-  
2    TION SERVICES.—Up to \$10,000 per calendar year of  
3    gross payments received by a person from the sale of fi-  
4    nancial intermediation services (as determined in accord-  
5    ance with section 801) shall be exempt from the tax im-  
6    posed by section 101. The exemption provided by this sub-  
7    section is in addition to other exemptions afforded by this  
8    chapter. The exemption provided by this subsection shall  
9    not be available to large sellers (as defined in section  
10   501(e)(3)).

11       “(e) PROXY BUYING TAXABLE.—If a registered per-  
12   son provides taxable property or services to a person either  
13   as a gift, prize, reward, or as remuneration for employ-  
14   ment, and such taxable property or services were not pre-  
15   viously subject to tax pursuant to section 101, then the  
16   provision of such taxable property or services by the reg-  
17   istered person shall be deemed the conversion of such tax-  
18   able property or services to personal use subject to tax  
19   pursuant to section 103(c) at the tax inclusive fair market  
20   value of such taxable property or services.

21       “(f) SUBSTANCE OVER FORM.—The substance of a  
22   transaction will prevail over its form if the transaction has  
23   no bona fide economic purpose and is designed to evade  
24   tax imposed by this subtitle.

25       “(g) CERTAIN EMPLOYEE DISCOUNTS TAXABLE.—

1           “(1) EMPLOYEE DISCOUNT.—For purposes of  
2           this subsection, the term ‘employee discount’ means  
3           an employer’s offer of taxable property or services  
4           for sale to its employees or their families (within the  
5           meaning of section 302(b)) for less than the offer of  
6           such taxable property or services to the general pub-  
7           lic.

8           “(2) EMPLOYEE DISCOUNT AMOUNT.—For pur-  
9           poses of this subsection, the employee discount  
10          amount is the amount by which taxable property or  
11          services are sold pursuant to an employee discount  
12          below the amount for which such taxable property or  
13          services would have been sold to the general public.

14          “(3) TAXABLE AMOUNT.—If the employee dis-  
15          count amount exceeds 20 percent of the price that  
16          the taxable property or services would have been sold  
17          to the general public, then the sale of such taxable  
18          property or services by the employer shall be deemed  
19          the conversion of such taxable property or services  
20          to personal use and tax shall be imposed on the tax-  
21          able employee discount amount. The taxable em-  
22          ployee discount amount shall be—

23                 “(A) the employee discount amount, minus

1                   “(B) 20 percent of the amount for which  
 2                   said taxable property or services would have  
 3                   been sold to the general public.

4           “(h) SATURDAY, SUNDAY, OR LEGAL HOLIDAY.—  
 5 When the last day prescribed for performing any act re-  
 6 quired by this subtitle falls on a Saturday, Sunday, or  
 7 legal holiday (in the jurisdiction where the return is to  
 8 be filed), the performance of such act shall be considered  
 9 timely if it is performed on the next day which is not a  
 10 Saturday, Sunday, or legal holiday (in the jurisdiction  
 11 where the return is to be filed).

12   **“SEC. 902. TRANSITION MATTERS.**

13           “(a) INVENTORY.—

14                   “(1) QUALIFIED INVENTORY.—Inventory held  
 15           by a trade or business on the close of business on  
 16           December 31, 2000, shall be qualified inventory if it  
 17           is sold—

18                           “(A) before December 31, 2004;

19                           “(B) by a registered person; and

20                           “(C) subject to the tax imposed by section  
 21           101.

22                   “(2) COST.—For purposes of this section, quali-  
 23           fied inventory shall have the cost that it had for  
 24           Federal income tax purposes for the trade or busi-  
 25           ness as of December 31, 2000 (including any

1 amounts capitalized by reason of section 263A of the  
2 Internal Revenue Code of 1986 as in effect on De-  
3 cember 31, 2000).

4 “(3) TRANSITIONAL INVENTORY CREDIT.—The  
5 trade or business which held the qualified inventory  
6 on the close of business on December 31, 2000, shall  
7 be entitled to a transitional inventory credit equal to  
8 the cost of the qualified inventory (determined in ac-  
9 cordance with paragraph (2)) times the rate of tax  
10 imposed by section 101.

11 “(4) TIMING OF CREDIT.—The credit provided  
12 under paragraph (3) shall be allowed with respect to  
13 the month when the inventory is sold subject to the  
14 tax imposed by this subtitle. Said credit shall be re-  
15 ported as an intermediate and export sales credit  
16 and the person claiming said credit shall attach sup-  
17 porting schedules in the form that the Secretary  
18 may prescribe.

19 “(b) WORK-IN-PROCESS.—For purposes of this sec-  
20 tion, inventory shall include work-in-process.

21 “(c) QUALIFIED INVENTORY HELD BY BUSINESSES  
22 NOT SELLING SAID QUALIFIED INVENTORY AT RE-  
23 TAIL.—

24 “(1) IN GENERAL.—Qualified inventory held by  
25 businesses that sells said qualified inventory not sub-

1       ject to tax pursuant to section 102(a) shall be eligi-  
2       ble for the transitional inventory credit only if that  
3       business (or a business that has successor rights  
4       pursuant to paragraph (2)) receives certification in  
5       a form satisfactory to the Secretary that the quali-  
6       fied inventory was subsequently sold subject to the  
7       tax imposed by this subtitle.

8               “(2) TRANSITIONAL INVENTORY CREDIT RIGHT  
9       MAY BE SOLD.—The business entitled to the transi-  
10      tional inventory credit may sell the right to receive  
11      said transitional inventory credit to the purchaser of  
12      the qualified inventory that gave rise to the credit  
13      entitlement. Any purchaser of such qualified inven-  
14      tory (or property or services into which the qualified  
15      inventory has been incorporated) may sell the right  
16      to said transitional inventory credit to a subsequent  
17      purchaser of said qualified inventory (or property or  
18      services into which the qualified inventory has been  
19      incorporated).

20   **“SEC. 903. WAGES TO BE REPORTED TO SOCIAL SECURITY**  
21               **ADMINISTRATION.**

22               “(a) IN GENERAL.—Employers shall submit such in-  
23      formation to the Social Security Administration as is re-  
24      quired by the Social Security Administration to calculate  
25      social security benefits under title II of the Social Security

1 Act, including wages paid, in a form prescribed by the Sec-  
2 retary. A copy of the employer submission to the Social  
3 Security Administration relating to each employee shall be  
4 provided to each employee by the employer.

5 “(b) WAGES.—For purposes of this section, the term  
6 ‘wages’ means all cash remuneration for employment (in-  
7 cluding tips to an employee by third parties provided that  
8 the employer or employee maintains records documenting  
9 such tips) including self-employment income; except that  
10 such term shall not include—

11 “(1) any insurance benefits received (including  
12 death benefits);

13 “(2) pension or annuity benefits received;

14 “(3) tips received by an employee over \$5,000  
15 per year; and

16 “(4) benefits received under a government enti-  
17 tlement program (including social security benefits  
18 and unemployment compensation benefits).

19 “(c) SELF-EMPLOYMENT INCOME.—For purposes of  
20 subsection (b), the term ‘self-employment income’ means  
21 gross payments received for taxable property or services  
22 minus the sum of—

23 “(1) gross payments made for taxable property  
24 or services (without regard to whether tax was paid

1       pursuant to section 101 on such taxable property or  
2       services), and

3               “(2) wages paid by the self-employed person to  
4       employees of the self-employed person.

5       **“SEC. 904. TRUST FUND REVENUE.**

6       “(a) SECRETARY TO MAKE ALLOCATION OF SALES  
7       TAX REVENUE.—The Secretary shall allocate the revenue  
8       received by virtue of the tax imposed by section 101 in  
9       accordance with this section. The revenue shall be allo-  
10      cated among—

11               “(1) the general revenue,

12               “(2) the old-age and survivors insurance trust  
13      fund,

14               “(3) the disability insurance trust fund,

15               “(4) the hospital insurance trust fund, and

16               “(5) the Federal supplementary medical insur-  
17      ance trust fund.

18       “(b) GENERAL RULE.—

19               “(1) GENERAL REVENUE.—The proportion of  
20      total revenue allocated to the general revenue shall  
21      be the same proportion as the rate in section  
22      101(b)(4) bears to the combined Federal tax rate  
23      percentage (as defined in section 101(b)(3)).

24               “(2) The amount of revenue allocated to the  
25      old-age and survivors insurance and disability insur-

1       ance trust funds shall be the same proportion as the  
2       old-age, survivors and disability insurance rate (as  
3       defined in subsection (d)) bears to the combined  
4       Federal tax rate percentage (as defined in section  
5       101(b)(3)).

6               “(3) The amount of revenue allocated to the  
7       hospital insurance and Federal supplementary med-  
8       ical insurance trust funds shall be the same propor-  
9       tion as the hospital insurance rate (as defined in  
10      subsection (e)) bears to the combined Federal tax  
11      rate percentage (as defined in section 101(b)(3)).

12      “(c) CALENDAR YEAR 2001.—Notwithstanding sub-  
13      section (b), the revenue allocation pursuant to subsection  
14      (a) for calendar year 2001 shall be as follows:

15              “(1) 64.83 percent of total revenue to general  
16      revenue;

17              “(2) 27.43 percent of total revenue to the old-  
18      age and survivors insurance and disability insurance  
19      trust funds, and

20              “(3) 7.74 percent of total revenue to the hos-  
21      pital insurance and Federal supplementary medical  
22      insurance trust funds.

23      “(d) OLD-AGE, SURVIVORS AND DISABILITY INSUR-  
24      ANCE RATE.—The old-age, survivors and disability insur-  
25      ance rate shall be determined by the Social Security Ad-



1 ministration. The old-age, survivors and disability insur-  
2 ance rate shall be that sales tax rate which is necessary  
3 to raise the same amount of revenue that would have been  
4 raised by imposing a 12.4 percent tax on the Social Secu-  
5 rity wage base (including self-employment income) as de-  
6 termined in accordance with chapter 21 of the Internal  
7 Revenue Code most recently in effect prior to the enact-  
8 ment of this Act. The rate shall be determined using actu-  
9 arially sound methodology and announced at least 6  
10 months prior to the beginning of the calendar year for  
11 which it applies.

12       “(e) HOSPITAL INSURANCE RATE.—The hospital in-  
13 surance rate shall be determined by the Social Security  
14 Administration. The hospital insurance rate shall be that  
15 sales tax rate which is necessary to raise the same amount  
16 of revenue that would have been raised by imposing a 2.9  
17 percent tax on the Medicare wage base (including self-em-  
18 ployment income) as determined in accordance with chap-  
19 ter 21 of the Internal Revenue Code most recently in effect  
20 prior to the enactment of this Act. The rate shall be deter-  
21 mined using actuarially sound methodology and an-  
22 nounced at least 6 months prior to the beginning of the  
23 calendar year for which it applies.

24       “(f) ASSISTANCE.—The Secretary shall provide such  
25 technical assistance as the Social Security Administration

1 shall require to determine the old-age, survivors and dis-  
2 ability insurance rate and the hospital insurance rate.

3 “(g) FURTHER ALLOCATIONS.—

4 “(1) OLD-AGE, SURVIVORS AND DISABILITY IN-  
5 SURANCE.—The Secretary shall allocate revenue re-  
6 ceived because of the old-age, survivors and dis-  
7 ability insurance rate to the old-age and survivors  
8 insurance trust fund and the disability insurance  
9 trust fund in accordance with law or, in the absence  
10 of other statutory provision, in the same proportion  
11 that the old-age and survivors insurance trust fund  
12 receipts bore to the sum of the old-age and survivors  
13 insurance trust fund receipts and the disability in-  
14 surance trust fund receipts in calendar year 2000  
15 (taking into account only receipts pursuant to chap-  
16 ter 21 of the Internal Revenue Code).

17 “(2) HOSPITAL INSURANCE.—the Secretary  
18 shall allocate revenue received because of the hos-  
19 pital insurance rate to the hospital insurance trust  
20 fund and the Federal supplementary medical insur-  
21 ance trust fund in accordance with law or, in the ab-  
22 sence of other statutory provision, in the same pro-  
23 portion that hospital insurance trust fund receipts  
24 bore to the sum of the hospital insurance trust fund  
25 receipts and Federal supplementary medical insur-

1       ance trust fund receipts in calendar year 2000 (tak-  
2       ing into account only receipts pursuant to chapter  
3       21 of the Internal Revenue Code).

4   **“SEC. 905. WITHHOLDING OF TAX ON NONRESIDENT ALIENS**  
5                   **AND FOREIGN CORPORATIONS.**

6       “(a) IN GENERAL.—All persons, in whatever capacity  
7   acting (including lessees or mortgagors or real or personal  
8   property, fiduciaries, employers, and all officers and em-  
9   ployees of the United States) having control, receipt, cus-  
10   tody, disposal, or payment of any income to the extent  
11   such income constitutes gross income from sources within  
12   the United States of any nonresident alien individual, for-  
13   eign partnership, or foreign corporation shall deduct and  
14   withhold from that income a tax equal to 23 percent there-  
15   of.

16       “(b) EXCEPTION.—No tax shall be required to be de-  
17   ducted from interest on portfolio debt investments.

18       “(c) TREATY COUNTRIES.—In the case of payments  
19   to nonresident alien individuals, foreign partnerships, or  
20   foreign corporations that have a residence in (or the na-  
21   tionality of a country) that has entered into a tax treaty  
22   with the United States, then the rate of withholding tax  
23   prescribed by the treaty shall govern.”.

1 **SEC. 202. CONFORMING AND TECHNICAL AMENDMENTS.**

2 (a) REPEALS.—The following provisions of the Inter-  
3 nal Revenue Code of 1986 are repealed:

4 (1) Subchapter A of chapter 61 of subtitle D  
5 (as redesignated by section 104) (relating to infor-  
6 mation and returns).

7 (2) Sections 6103 through 6116 of subchapter  
8 B of chapter 61 of subtitle D (as so redesignated).

9 (3) Section 6157 (relating to unemployment  
10 taxes).

11 (4) Section 6163 (relating to estate taxes).

12 (5) Section 6164 (relating to corporate taxes).

13 (6) Section 6166 (relating to estate taxes).

14 (7) Section 6167 (relating to foreign expropria-  
15 tion losses).

16 (8) Sections 6201, 6205 and 6207 (relating to  
17 assessments).

18 (9) Subchapter C of chapter 63 of subtitle D  
19 (as so redesignated) (relating to tax treatment of  
20 partnership items).

21 (10) Section 6305 (relating to collections of cer-  
22 tain liabilities).

23 (11) Sections 6314, 6315, 6316, and 6317 (re-  
24 lating to payments of repealed taxes).

25 (12) Sections 6324, 6324A and 6324B (relat-  
26 ing to liens for estate and gift taxes).

1           (13) Section 6344 (relating to cross references).

2           (14) Section 6411 (relating to carrybacks).

3           (15) Section 6413 (relating to employment  
4 taxes).

5           (16) Section 6414 (relating to withheld income  
6 taxes).

7           (17) Section 6422 (relating to cross references).

8           (18) Section 6425 (relating to overpayment of  
9 corporate estimated taxes).

10          (19) Section 6504 (relating to cross references).

11          (20) Section 6652 (relating to failure to file  
12 certain information returns).

13          (21) Sections 6654 and 6655 (relating to fail-  
14 ure to payment estimated income tax).

15          (22) Section 6662 (relating to penalties).

16          (23) Sections 6677 through 6711 (relating to  
17 income tax related penalties).

18          (24) Part II of subchapter B of chapter 68 (re-  
19 lating to certain information returns).

20          (25) Part I of subchapter A of chapter 70 (re-  
21 lating to termination of taxable year).

22          (26) Section 6864 (relating to certain  
23 carrybacks).

24          (27) Section 7103 (relating to cross references).

1           (28) Section 7204 (relating to withholding  
2 statements).

3           (29) Section 7211 (relating certain statements).

4           (30) Section 7231 (relating to failure to obtain  
5 certain licenses).

6           (31) Section 7270 (relating to insurance poli-  
7 cies).

8           (32) Section 7404 (relating to estate taxes).

9           (33) Section 7407 (relating to income tax pre-  
10 parers).

11          (34) Section 7408 (relating to income tax shel-  
12 ters).

13          (35) Section 7409 (relating to 501(c)(3) organi-  
14 zations).

15          (36) Section 7427 (relating to income tax pre-  
16 parers).

17          (37) Section 7428 (relating to 501(c)(3) organi-  
18 zations).

19          (38) Section 7476 (relating to declaratory judg-  
20 ments relating to retirement plans).

21          (39) Section 7478 (relating to declaratory judg-  
22 ments relating to certain tax-exempt obligations).

23          (40) Section 7508 (relating to postponing time  
24 for certain actions required by the income, estate,  
25 and gift tax).

1           (41) Section 7509 (relating to Postal Service  
2 payroll taxes).

3           (42) Section 7512 (relating to payroll taxes).

4           (43) Section 7517 (relating to estate and gift  
5 tax evaluation).

6           (44) Section 7518 (relating to Merchant Marine  
7 tax incentives).

8           (45) Section 7519 (relating to taxable years).

9           (46) Section 7520 (relating to insurance and  
10 annuity valuation tables).

11          (47) Section 7523 (relating to reporting Fed-  
12 eral income and outlays on Form 1040s).

13          (48) Section 7611 (relating to church income  
14 tax exemptions and church unrelated business in-  
15 come tax inquiries).

16          (49) Section 7654 (relating to possessions' in-  
17 come taxes).

18          (50) Section 7655 (relating to cross references).

19          (51) Section 7701(a)(16).

20          (52) Section 7701(a)(19).

21          (53) Section 7701(a)(20).

22          (54) Paragraphs (32) through (38) of section  
23 7701(a).

24          (55) Paragraphs (41) through (46) of section  
25 7701(a).

1 (56) Section 7701(b).

2 (57) Subsections (e) through (m) of section  
3 7701.

4 (58) Section 7702 (relating to life insurance  
5 contracts).

6 (59) Section 7702A (relating to modified en-  
7 dowment contracts).

8 (60) Section 7702B (relating to long-term care  
9 insurance).

10 (61) Section 7703 (relating to the determina-  
11 tion of marital status).

12 (62) Section 7704 (relating to publicly traded  
13 partnerships).

14 (63) Section 7805.

15 (64) Section 7851.

16 (65) Section 7872.

17 (66) Section 7873.

18 (b) OTHER CONFORMING AND TECHNICAL AMEND-  
19 MENTS.—

20 (1) Section 6151 is amended by striking sub-  
21 section (b) and by redesignating subsection (c) as  
22 subsection (b).

23 (2) Section 6161 is amended to read as follows:



1 **“SEC. 6161. EXTENSION OF TIME FOR PAYING TAX.**

2 “The Secretary, except as otherwise provided in this  
3 title, may extend the time for payment of the amount of  
4 the tax shown or required to be shown on any return, re-  
5 port, or declaration required under authority of this title  
6 for a reasonable period not to exceed 6 months (12 months  
7 in the case of a taxpayer who is abroad).”.

8 (3) Section 6211(a) is amended—

9 (A) by striking “income, estate and gift  
10 taxes imposed by subtitles A and B and”,

11 (B) by striking “subtitle A or B, or”, and

12 (C) by striking “, as defined in subsection  
13 (b)(2),” in paragraph (2).

14 (4) Section 6211(b) is amended to read as fol-  
15 lows:

16 “(b) REBATE DEFINED.—For purposes of subsection  
17 (a)(2), the term ‘rebate’ means so much of an abatement,  
18 credit, refund, or other payment, as was made on the  
19 ground that the tax imposed by chapter 41, 42, 43, or  
20 44 was less than the excess of the amount specified in  
21 subsection (a)(1) over the rebates previously made.”.

22 (5) Section 6212 is amended to read as follows:

23 “(b) ADDRESS FOR NOTICE OF DEFICIENCY.—In the  
24 absence of notice to the Secretary under section 6903 of  
25 the existence of a fiduciary relationship, notice of a defi-  
26 ciency in respect of a tax imposed by chapter 42, 43, or

1 44 if mailed to the taxpayer at his last known address,  
2 shall be sufficient for purposes of such chapter and this  
3 chapter even if such taxpayer is deceased, or is under a  
4 legal disability, or, in the case of a corporation, has termi-  
5 nated its existence.”.

6 (6) Section 6302(b) is amended by striking  
7 “21,”.

8 (7) Section 6302 is amended by striking sub-  
9 sections (g) and (i) and by redesignating subsection  
10 (h) as subsection (g).

11 (8) Section 6325 is amended by striking sub-  
12 section (c) and by redesignating subsections (d)  
13 through (h) as subsections (c) through (g), respec-  
14 tively.

15 (9) Section 6402(d) is amended by striking  
16 paragraph (3).

17 (10) Section 6402 is amended by striking sub-  
18 section (j) and by redesignating subsection (k) as  
19 subsection (j).

20 (11) Section 6501(b) is amended—

21 (A) by striking “except tax imposed by  
22 chapter 3, 21 or 24,” in paragraph (1), and

23 (B) by striking paragraph (2) and by re-  
24 designating paragraphs (3) and (4) as para-  
25 graphs (2) and (3), respectively.

1           (12) Section 6501(c) is amended by striking  
2 paragraphs (5) through (9).

3           (13) Section 6501(e) is amended by striking  
4 “subsection (c)—” and all that follows through  
5 “subtitle D” in paragraph (3) and inserting “sub-  
6 section (c), in the case of a return of a tax imposed  
7 under a provision of subtitle B”.

8           (14) Section 6501 is amended by striking sub-  
9 sections (f) through (k) and subsections (m) and (n)  
10 and by redesignating subsection (l) as subsection (f).

11           (15) Section 6503(a) is amended—

12                   (A) by striking paragraph (2),

13                   (B) by striking “DEFICIENCY.—” and all  
14 that follows through “The running” and insert-  
15 ing “DEFICIENCY.—The running”, and

16                   (C) by striking “income, estate, gift and”.

17           (16) Section 6503 is amended by striking sub-  
18 sections (e), (f), (i), and (k) and by redesignating  
19 subsections (g), (h), and (j) as subsections (e), (f),  
20 and (g), respectively.

21           (17) Section 6511 is amended by striking sub-  
22 sections (d) and (g) and by redesignating sub-  
23 sections (f) and (h) as subsections (d) and (e), re-  
24 spectively.

1           (18) Section 6512(b)(1) is amended by striking  
 2           “of income tax for the same taxable year, of gift tax  
 3           for the same calendar year or calendar quarter, of  
 4           estate tax in respect of the taxable estate of the  
 5           same decedent or”.

6           (19) Section 6513 is amended—

7                   (A) by striking “(a) EARLY RETURN OR  
 8           ADVANCE PAYMENT OF TAX.—”, and

9                   (B) by striking subsections (b) through (e).

10          (20) Chapter 67 is amended by striking sub-  
 11          chapters A through D and inserting the following:

12       **“SEC. 6601. INTEREST ON OVERPAYMENTS AND UNDERPAY-**  
 13               **MENTS.**

14           “(a) UNDERPAYMENTS.—If any amount of tax im-  
 15       posed by this title is not paid on or before the last date  
 16       prescribed for payment, interest on such amount at the  
 17       Federal short-term rate (as defined in section 512(b))  
 18       shall be paid from such last date to the date paid.

19           “(b) OVERPAYMENTS.—Interest shall be allowed and  
 20       paid upon any overpayment in respect of any internal rev-  
 21       enue tax at the Federal short-term rate (as defined in sec-  
 22       tion 512(b)) from 60 days after the date of the overpay-  
 23       ment until the date the overpayment is refunded.”.

1           (21) Section 6651(a)(1) is amended by striking  
2           “subchapter A of chapter 61 (other than part III  
3           thereof),”.

4           (22) Section 6656 is amended by striking sub-  
5           section (c) and by redesignating subsection (d) as  
6           subsection (c).

7           (23) Section 6663 is amended by striking sub-  
8           section (c).

9           (24) Section 6664(c) is amended—

10                   (A) by striking “EXCEPTION.—” and all  
11                   that follows through “No penalty” and insert-  
12                   ing “EXCEPTION.—No penalty”, and

13                   (B) by striking paragraphs (2) and (3).

14           (25) Chapter 72 is amended by striking all  
15           matter preceding section 7011.

16           (26) Section 7422 is amended by striking sub-  
17           sections (h) and (i) and by redesignating subsections  
18           (j) and (k) as subsections (h) and (i), respectively.

19           (27) Section 7451 is amended to read as fol-  
20           lows:

21   **“SEC. 7451. FEE FOR FILING PETITION.**

22           “The Tax Court is authorized to impose a fee in an  
23   amount not in excess of \$60 to be fixed by the Tax Court  
24   for the filing of any petition for the redetermination of  
25   a deficiency.”.

1           (28) Section 7454 is amended by striking sub-  
2           section (b) and by redesignating subsection (c) as  
3           subsection (b).

4           (29) Section 7463(a) is amended—

5                   (A) by striking paragraphs (2) and (3),

6                   (B) by redesignating paragraph (4) as  
7           paragraph (2), and

8                   (C) by striking “D” in paragraph (2) (as  
9           so redesignated) and inserting “B”.

10          (30) Section 7463(c) is amended by striking  
11          “sections 6214(a) and” and inserting “section”.

12          (31) Section 7463(e) is amended by striking “,  
13          to the extent that the procedures described in sub-  
14          chapter B of chapter 63 apply”.

15          (32) Section 7481 is amended by striking sub-  
16          section (d).

17          (33) Section 7608 is amended by striking “sub-  
18          title E” each place it appears and inserting “subtitle  
19          C”.

20          (34) Section 7651 is amended by striking para-  
21          graph (5).

22          (35) Section 7701(a)(29) is amended by strik-  
23          ing “1986” and inserting “1998”.

24          (36) Section 7809(c) is amended by striking  
25          paragraphs (1) and (4) and by redesignating para-

1       graphs (2) and (3) as paragraphs (1) and (2), re-  
2       spectively.

3           (37) Section 7871(a) is amended by striking  
4       paragraphs (1) and (3) through (6) and by redesign-  
5       nating paragraphs (2) and (7) as paragraphs (1)  
6       and (2), respectively.

7           (38) Section 7871 is amended by striking sub-  
8       section (c) and by redesignating subsections (d) and  
9       (e) as subsections (c) and (d), respectively.

10          (39) Section 8021 is amended by striking sub-  
11       section (a) and by redesignating subsections (b)  
12       through (f) as subsections (a) through (e), respec-  
13       tively.

14          (40) Section 8022(a)(2)(A) is ammended by  
15       striking “, particularly the income tax”.

16          (41) Section 8023 is amended by striking “In-  
17       ternal Revenue Service” each place it appears and  
18       inserting “Department of the Treasury”.

19          (42) Section 9501(b)(2) is amended by striking  
20       subparagraph (C).

21          (43) Section 9702(a) is amended by striking  
22       paragraph (4).

23          (44) Section 9705(a) is amended by striking  
24       paragraph (4) and by redesignating paragraph (5)  
25       as paragraph (4).

1           (45) Section 9706(d)(2)(A) is amended by  
2           striking “6103” and inserting “605(e)”.

3           (46) Section 9707 is amended by striking sub-  
4           section (f).

5           (47) Section 9712(d) is amended by striking  
6           paragraph (5) and by redesignating paragraph (6)  
7           as paragraph (5).

8           (48) Section 9803(a) is amended by striking  
9           “(as defined in section 414(f))”.

## 10       **TITLE III—OTHER MATTERS**

### 11   **SEC. 301. PHASE-OUT OF ADMINISTRATION OF REPEALED** 12           **FEDERAL TAXES.**

13       (a) APPROPRIATIONS.—Appropriations for any ex-  
14       penses of the Internal Revenue Service including proc-  
15       essing tax returns for years prior to the repeal of the taxes  
16       repealed by title I of this Act, revenue accounting, man-  
17       agement, transfer of payroll and wage data to the Social  
18       Security Administration for years after fiscal year 2005  
19       shall not be authorized.

20       (b) RECORDS.—Federal records related to the admin-  
21       istration of taxes repealed by title I of this Act shall be  
22       destroyed by the end of fiscal year 2005, except that any  
23       records necessary to calculate social security benefits shall  
24       be retained by the Social Security Administration and any  
25       records necessary to support ongoing litigation with re-



1 spect taxes to owed or refunds due shall be retained until  
2 final disposition of such litigation.

3 (c) CONFORMING AMENDMENTS.—Section 7802 is  
4 amended—

5 (1) by striking subsections (a) and (b) and by  
6 redesignating subsections (c) and (d) as subsections  
7 (a) and (b),

8 (2) by striking “Internal Revenue Service” each  
9 place it appears and inserting “Department of the  
10 Treasury”, and

11 (3) by striking “Commissioner” or “Commis-  
12 sioner of Internal Revenue” each place they appear  
13 and inserting “Secretary”.

14 (d) EFFECTIVE DATE.—The amendments made by  
15 subsection (c) shall take effect on January 1, 2003.

16 **SEC. 302. ADMINISTRATION OF OTHER FEDERAL TAXES.**

17 (a) IN GENERAL.—Section 7801 (relating to the au-  
18 thority of the Department of the Treasury) is amended  
19 by adding at the end the following:

20 “(d) EXCISE TAX BUREAU.—There shall be in the  
21 Department of the Treasury an Excise Tax Bureau to ad-  
22 minister those excise taxes not administered by the Bu-  
23 reau of Alcohol, Tobacco and Firearms.

24 “(e) SALES TAX BUREAU.—There shall be in the De-  
25 partment of the Treasury a Sales Tax Bureau to admin-

1 ister the national sales tax in those States where it is re-  
 2 quired pursuant to section 404, and to discharge other  
 3 Federal duties and powers relating to the national sales  
 4 tax (including those required by sections 402, 403, and  
 5 405). The Office of Revenue Allocation shall be within the  
 6 Sales Tax Bureau.”.

7 (b) ASSISTANT GENERAL COUNSELS.—Section  
 8 7801(b)(2) is amended to read as follows:

9 “(2) ASSISTANT GENERAL COUNSELS.—The  
 10 Secretary of the Treasury may appoint, without re-  
 11 gard to the provisions of the civil service laws, and  
 12 fix the duties of not more than 5 assistant general  
 13 counsels.”.

14 **SEC. 303. SALES TAX INCLUSIVE SOCIAL SECURITY BENE-**  
 15 **FITS INDEXATION.**

16 Subparagraph (D) of section 215(i)(1) of the Social  
 17 Security Act (42 U.S.C. 415(i)(1)) (relating to cost-of-liv-  
 18 ing increases in social security benefits) is amended to  
 19 read as follows:

20 “(D)(i) the term ‘CPI increase percentage’,  
 21 with respect to a base quarter or cost-of-living quar-  
 22 ter in any calendar year, means the percentage  
 23 (rounded to the nearest one-tenth of 1 percent) by  
 24 which the Consumer Price Index for that quarter (as  
 25 prepared by the Department of Labor) exceeds such

1 index for the most recent prior calendar quarter  
2 which was a base quarter under subparagraph  
3 (A)(ii) or, if later, the most recent cost-of-living  
4 computation quarter under subparagraph (B);

5 “(ii) if the Consumer Price Index (as so pre-  
6 pared) does not include the national sales tax paid,  
7 then the term ‘CPI increase percentage’, with re-  
8 spect to a base quarter or cost-of-living quarter in  
9 any calendar year, means the percentage (rounded  
10 to the nearest one-tenth of 1 percent) by which the  
11 product of—

12 “(I) the Consumer Price Index for that  
13 quarter (as so prepared), and

14 “(II) the national sales tax factor,  
15 exceeds such index for the most recent prior cal-  
16 endar quarter which was a base quarter under sub-  
17 paragraph (A)(ii) or, if later, the most recent cost  
18 of living computation quarter under subparagraph  
19 (B); and

20 “(iii) the national sales tax factor is equal to 1  
21 plus the quotient that is—

22 “(I) the sales tax rate imposed by section  
23 101 of of the Internal Revenue Code of 1999,  
24 divided by

- 1 “(II) the quantity that is 1 minus such
- 2 sales tax rate.”.

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