

108TH CONGRESS  
2D SESSION

# H. R. 4168

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

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 2, 2004

Mr. TAUZIN (for himself, Mr. BURTON of Indiana, Mr. DEMINT, and Mr. NORWOOD) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Rules, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

To promote freedom, fairness, and economic opportunity for families by repealing the income tax, abolishing the Internal Revenue Service, and enacting a national retail 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 “Individual Tax Freedom Act of 2004”.

1 (b) TABLE OF CONTENTS.—The table of contents of  
 2 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Congressional findings.
- Sec. 3. Repeal of the income tax, estate and gift taxes, and certain excise taxes.
- Sec. 4. Sales tax.

“CHAPTER 1—SALES TAX

“SUBCHAPTER A—IMPOSITION OF TAX

- “Sec. 1. Imposition of tax.
- “Sec. 2. Exemptions.
- “Sec. 3. Rules relating to collection and remittance of tax.

“SUBCHAPTER B—CREDITS; REFUNDS; INSTALLMENT PAYMENTS OF TAX ON  
 PURCHASES OF RESIDENCES

- “Sec. 11. Credits and refunds.
- “Sec. 12. Installment payments of tax on purchase of principal residences.
- “Sec. 13. Family consumption refund.

“SUBCHAPTER C—DEFINITIONS AND SPECIAL RULES; FINANCIAL  
 INTERMEDIATION SERVICES

- “Sec. 21. Definitions.
- “Sec. 22. Special rules.
- “Sec. 23. Determination of financial intermediation services amount.
- “Sec. 24. Bad debts.
- “Sec. 25. Timing of tax on financial intermediation services.
- “Sec. 26. Alternative method for calculating tax due.
- “Sec. 27. Basic interest rate.
- “Sec. 28. Applicable interest rate.

“SUBCHAPTER D—AUTHORITY FOR STATES TO COLLECT TAX

- “Sec. 31. Authority for States to collect tax.
- “Sec. 32. Federal administrative support for States.
- “Sec. 33. Federal administration option for multistate vendors.
- “Sec. 34. General administrative matters.

“SUBCHAPTER E—OTHER ADMINISTRATIVE PROVISIONS

- “Sec. 41. Monthly reports and payments.
- “Sec. 42. Records.
- “Sec. 43. Registration.
- “Sec. 44. Certificate.
- “Sec. 45. Penalties.
- “Sec. 46. Burden of persuasion and burden of production.
- “Sec. 47. Attorneys and accountancy fees.
- “Sec. 48. Appeals.
- “Sec. 49. Taxpayer subject to subpoena on production.
- “Sec. 50. Tax Court jurisdiction.
- “Sec. 51. Power to levy.
- “Sec. 52. Problem resolution officers.
- “Sec. 53. Jurisdiction and interstate allocation.

“Sec. 54. Tax to be stated and charged separately.

“Sec. 55. Installment agreements; compromises.

“Sec. 56. Accounting.

“Sec. 57. Hobby activities.

Sec. 5. Phase-out of the Internal Revenue Service.

Sec. 6. Social Security Administration to collect payroll taxes.

Sec. 7. Self-employment tax.

Sec. 8. Social Security benefits indexed on sales tax inclusive basis.

Sec. 9. Compensating payments to certain persons on fixed income.

Sec. 10. Interest.

Sec. 11. Supermajority required to raise rate.

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

2 (a) The Congress finds that the income tax—

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

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

7 (3) reduces savings and investment in the  
8 United States;

9 (4) lowers productivity;

10 (5) imposes unacceptable administrative costs  
11 on taxpayers, individuals and businesses alike;

12 (6) is unfair and inequitable; and

13 (7) unnecessarily intrudes upon the privacy and  
14 civil rights of United States citizens.

15 (b) The Congress finds further that national sales,  
16 services and use tax on final consumption of goods and  
17 services—

18 (1) is similar in many respects to those in place  
19 in 45 of the 50 States;

20 (2) will promote savings;

- 1 (3) will promote fairness;
- 2 (4) will promote economic growth;
- 3 (5) will raise the standard of living;
- 4 (6) will increase savings and investment;
- 5 (7) will enhance productivity and international
- 6 competitiveness;
- 7 (8) will reduce administrative burdens on the
- 8 taxpayer; and
- 9 (9) will respect the privacy interests and civil
- 10 rights of taxpayers.

11 (c) The Congress further finds that—

- 12 (1) most of the practical experience admin-
- 13 istering sales taxes is found at the State Govern-
- 14 mental level;
- 15 (2) it is desirable to harmonize Federal and
- 16 State collection and enforcement efforts to the max-
- 17 imum extent possible;
- 18 (3) it is sound tax administration policy to ad-
- 19 minister and collect the Federal sales and service tax
- 20 at the State level in return for a reasonable adminis-
- 21 tration fee to the States;
- 22 (4) businesses that must collect and remit taxes
- 23 should receive reasonable compensation for the cost
- 24 of doing so; and

1           (5) the sixteenth amendment to the Constitu-  
2           tion should be repealed.

3 **SEC. 3. REPEAL OF THE INCOME TAX, ESTATE AND GIFT**  
4 **TAXES, AND CERTAIN EXCISE TAXES.**

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

7           (1) Chapter 1 (relating to income tax).

8           (2) Chapter 5 (relating to tax on transfers to  
9           avoid income tax).

10          (3) Chapter 6 (relating to consolidated returns).

11          (4) Chapter 24 (relating to collection of income  
12          tax at source).

13          (5) Subtitle B (relating to estate and gift  
14          taxes).

15          (6) Chapter 31 (relating to retail excise taxes).

16          (7) Chapter 32 (relating to manufacturers ex-  
17          cise taxes).

18          (8) Subtitle E (relating to alcohol, tobacco, and  
19          certain other excise taxes).

20          (9) Subtitle F (relating to procedure and ad-  
21          ministration of the income tax and certain other  
22          taxes) except for section 6103 (relating to confiden-  
23          tiality), chapter 66 (relating to limitations), chapter  
24          67 (relating to interest), section 6656 (relating to  
25          failure to make deposit of taxes), section 6657 (re-

1 relating to bad checks), section 6658 (relating to co-  
2 ordination with title 11), chapter 75 (relating to  
3 crimes), chapter 76 (relating to Judicial Pro-  
4 ceedings), section 7431 (relating to damages for un-  
5 authorized disclosure), section 7432 (relating to  
6 damages for failure to release lien), section 7433  
7 (relating to damages for unauthorized collection  
8 data) and chapter 77 (relating to miscellaneous pro-  
9 visions). References to provisions repealed by the  
10 preceding sentence shall be treated as references to  
11 such provisions as in effect on the day before the  
12 date of the enactment of this Act.

13 (b) EFFECTIVE DATE.—

14 (1) IN GENERAL.—Except as provided in para-  
15 graph (2), the amendments made by subsection (a)  
16 shall take effect on July 1, 2006.

17 (2) INCOME TAX.—The amendment made by  
18 subsection (a)(1) shall apply to taxable years begin-  
19 ning after June 30, 2006.

20 (3) SALES TAX.—The amendment made by sec-  
21 tion 4 shall take effect on July 1, 2006.

22 (4) SOCIAL SECURITY BENEFITS.—The amend-  
23 ment made by section 9 shall take effect on January  
24 1, 2006.

1           (5) SUPERMAJORITY REQUIRED.—The amend-  
 2           ment made by section 11 shall take effect on Janu-  
 3           ary 1, 2006.

4 **SEC. 4. SALES TAX.**

5           Subtitle A of the Internal Revenue Code of 1986 is  
 6           amended by inserting at the beginning the following new  
 7           chapter:

8                           **“CHAPTER 1—SALES TAX**

                          “SUBCHAPTER A. Imposition of tax.

                          “SUBCHAPTER B. Credits; refunds; installment payments of tax  
   on purchases of residences.

                          “SUBCHAPTER C. Definitions and special rules; financial inter-  
   mediation services.

                          “SUBCHAPTER D. Authority for States to collect tax.

                          “SUBCHAPTER E. Other administrative provisions.

9                           **“Subchapter A—Imposition of Tax**

                          “Sec. 1. Imposition of tax.

                          “Sec. 2. Exemptions.

                          “Sec. 3. Special rules relating to collection and remittance of tax.

10 **“SECTION 1. IMPOSITION OF TAX.**

11           “(a) IN GENERAL.—There is hereby imposed a tax  
 12           of 15 percent on the gross payments for the use, consump-  
 13           tion or enjoyment in the United States of any taxable  
 14           property or service, whether produced or rendered within  
 15           or without the United States.

16           “(b) COORDINATION WITH IMPORT DUTIES.—The  
 17           taxes imposed by this section are in addition to any import  
 18           duties imposed by law. The Secretary shall provide by reg-  
 19           ulation that, to the maximum extent practicable, the taxes  
 20           imposed by this section on imported property and services

1 are collected and administered in conjunction with any ap-  
2 plicable import duties.

3 “(c) LIABILITY FOR COLLECTION AND REMITTANCE  
4 OF THE TAX.—

5 “(1) GENERAL RULE.—The tax imposed by  
6 subsection (a) shall be collected and remitted by the  
7 seller, except as provided in subsection (2).

8 “(2) TAX TO BE PAID BY PURCHASER IN CER-  
9 TAIN CIRCUMSTANCES.—

10 “(A) GENERAL RULE.—In the case of tax-  
11 able property or services purchased outside of  
12 the United States for use, consumption or en-  
13 joyment in the United States, the purchaser  
14 shall remit the tax imposed by subsection (a).

15 “(B) In the case of a purchaser electing to  
16 pay tax in installments pursuant to section 12,  
17 the purchaser shall remit the tax imposed by  
18 subsection (a).

19 “(C) Employers that pay wages that are  
20 taxable services within the meaning of section  
21 21(n) shall be responsible for paying and remit-  
22 ting the tax.

23 “(D) The Secretary may provide by regula-  
24 tion that the tax imposed by subsection (a) is

1           to be collected and remitted by the purchaser  
2           rather than the seller.

3 **“SEC. 2. EXEMPTIONS.**

4           “(a) IN GENERAL.—Except as provided in section  
5 3(b)(2), no tax shall be imposed under section 1 on any  
6 taxable property or service purchased for—

7           “(1) a business purpose in an active trade or  
8           business, or

9           “(2) export from the United States for use or  
10          consumption outside the United States, provided  
11          that the purchaser provided the seller with—

12                  “(A) an intermediate sales certificate, or

13                  “(B) an export sales certificate.

14          “(b) BUSINESS PURPOSES.—For purposes of this  
15 section, the term ‘purchased for a business purpose in an  
16 active trade or business’ means purchased by a person en-  
17 gaged in an active trade or business and used in that ac-  
18 tive trade or business—

19                  “(1) for resale,

20                  “(2) to produce taxable property or services (as  
21          defined in section 21(e)), or

22                  “(3) in furtherance of other bona fide business  
23          purposes.

24          “(c) DE MINIMIS PAYMENTS.—Up to \$400 of gross  
25 payments per calendar year—

1           “(1) made by a person not engaged in an active  
2 trade or business at any time during such calendar  
3 year prior to making such gross payments, and

4           “(2) made to purchase any taxable property or  
5 service which is imported into the United States by  
6 such person for use or consumption by such person  
7 in the United States,

8 shall be exempt from the tax imposed by section 1.

9           “(d) DE MINIMIS SALES.—Up to \$2,500 per cal-  
10 endar year of gross payments received—

11           “(1) by a person not engaged in an active trade  
12 or business during such calendar year prior to the  
13 receipt of such gross payments, and

14           “(2) in connection with a casual or isolated  
15 sale,

16 shall be exempt from the tax imposed by section 1.

17           “(e) AFFILIATED FIRMS.—Firms that make pur-  
18 chases from or sell to affiliated firms which are exempt  
19 pursuant to subsection (a) shall not need to comply with  
20 the requirements of subsection (g) for such purchases to  
21 remain exempt. For purposes of this section, a firm is af-  
22 filiated with another if 1 firm owns 50 percent of the vot-  
23 ing shares or interest in the other.

24           “(f) DE MINIMIS SALE OF FINANCIAL INTERMEDI-  
25 ATION SERVICES.—The first \$10,000 per calendar year

1 of gross payments received by a person from the sale of  
2 financial intermediation services shall be exempt from the  
3 tax imposed by section 1. The exemption provided by this  
4 subsection is in addition to other exemptions afforded by  
5 this chapter.

6 “(g) SELLER RELIEVED OF LIABILITY IN CERTAIN  
7 CASES.—In the case of any property or service which is  
8 sold exempt from tax pursuant to subsection (a), if the  
9 seller—

10 “(1) has on file a copy of an exemption certifi-  
11 cate (whether an intermediate sale or export sale  
12 certificate) from the purchaser, and

13 “(2) did not have reasonable cause to believe  
14 that an exemption from the tax imposed by section  
15 1 was unavailable to the purchaser with respect to  
16 such purchase, then the seller shall be relieved of li-  
17 ability to collect and remit the tax imposed by sec-  
18 tion 1 on such purchase.

19 **“SEC. 3. RULES RELATING TO COLLECTION AND REMIT-**  
20 **TANCE OF TAX.**

21 “(a) OBLIGATION OF GOVERNMENTAL UNITS AND  
22 NOT-FOR-PROFIT ORGANIZATIONS TO COLLECT, REMIT  
23 AND PAY TAXES.—

24 “(1) GOVERNMENTAL UNITS.—Nothing in this  
25 subtitle shall be construed to exempt any Federal,

1 State, or local governmental unit or political subdivi-  
2 sion from paying any tax imposed by this subtitle on  
3 any sale, purchase, use, consumption or enjoyment  
4 by such a unit.

5 “(2) NOT-FOR-PROFIT ORGANIZATIONS.—

6 “(A) IN GENERAL.—Dues, contributions  
7 and payments to qualified not-for-profit organi-  
8 zations shall not be considered gross payments  
9 for taxable property or services for purposes of  
10 this subtitle.

11 “(B) EXCEPTION.—Notwithstanding sub-  
12 paragraph (2)(A), payments of any form to a  
13 qualified not-for-profit organization shall be  
14 considered gross payments for taxable property  
15 or services unless said organization establishes  
16 that the property or service provided in ex-  
17 change is—

18 “(i) substantially related to the pur-  
19 poses of the qualified not-for-profit organi-  
20 zation, or

21 “(ii) is not commercially available.

22 “(C) For purposes of this section, qualified  
23 not-for-profit organization means a not-for-prof-  
24 it organization organized and operated exclu-  
25 sively—

1           “(i) for religious, charitable, scientific,  
2           testing for public safety, literary or edu-  
3           cational purposes;

4           “(ii) as civic leagues or social welfare  
5           organizations;

6           “(iii) as labor, agricultural or horti-  
7           cultural organizations;

8           “(iv) as chambers of commerce, busi-  
9           ness leagues or trade associations; or

10           “(v) as fraternal beneficiary societies,  
11           orders or associations;

12           no part of the net earnings of which inures to  
13           the benefit of any private shareholder or indi-  
14           vidual.

15           “(D) Upon application in a form pre-  
16           scribed by the State Administrator, the State  
17           Administrator shall provide qualification certifi-  
18           cates to qualified not-for-profit organizations.

19           “(E) If a not-for-profit organization pro-  
20           vides taxable property or services in connection  
21           with contributions or dues to the organizations,  
22           then it shall be required to treat the provision  
23           of said taxable property or services as a pur-  
24           chase taxable pursuant to this subtitle at the

1 fair market value of said property or personal  
2 services.

3 “(F) Taxable property and services pur-  
4 chased by not-for-profit organizations for resale  
5 or for use in the production of taxable property  
6 or services shall be eligible for the exemptions  
7 provided in section 2.

8 “(b) TAX COLLECTED ON CERTAIN EXEMPT PUR-  
9 CHASES.—

10 “(1) IN GENERAL.—In the case of a purchase  
11 which would (but for this subsection (b)) be exempt  
12 from the tax imposed by section 1 by reason of sec-  
13 tion 2(a), such subsection shall not apply to such  
14 purchase if the seller—

15 “(A) elects the application of this sub-  
16 section, and

17 “(B) immediately provides the purchaser  
18 with a receipt reflecting the information re-  
19 quired by section 54. Seller may elect to exer-  
20 cise the application of this section with respect  
21 to some or all purchases or purchasers.

22 “(2) The Secretary may by regulation provide  
23 that certain industries or specific products are such  
24 that the vendor must collect the tax on otherwise ex-  
25 empt purchases if, in the Secretary’s judgment, said

1 industry or products are such that consumers buy 25  
2 percent or more of the product sold by the industry  
3 or the product. A registered vendor may by applica-  
4 tion for good cause shown elect to opt out of the ap-  
5 plication of this paragraph.

6 “(3) CROSS REFERENCE.—

**“For credit to purchaser where seller collects tax  
on exempt purchase, see section 11(a)(3).**

**“For tax to be separately stated and charged, see  
section 54.**

7 “(c) GOVERNMENT ENTERPRISES.—

8 “(1) GOVERNMENT ENTERPRISES TO COLLECT  
9 AND REMIT TAXES ON SALES.—Nothing in this sub-  
10 title shall be construed to exempt any Federal,  
11 State, or local governmental unit or political subdivi-  
12 sion (whether or not the State is a conforming  
13 State) operating a government enterprise from col-  
14 lecting and remitting tax imposed by this subtitle on  
15 any sale of taxable property or services. Government  
16 enterprises shall comply with all duties imposed on  
17 private enterprises by this subtitle and shall be liable  
18 for penalties and subject to enforcement action in  
19 the same manner as private enterprises.

20 “(2) GOVERNMENT ENTERPRISE.—Any entity  
21 owned or operated by a Federal, State, or local gov-  
22 ernmental unit or political subdivision that receives  
23 gross payments from selling taxable property or

1 services to private persons is a government enter-  
2 prise, provided, however, that a government-owned  
3 entity shall not become a government enterprise for  
4 purposes of this section unless in any quarter it has  
5 revenues from the sale of taxable property or serv-  
6 ices that exceed \$2,500.

7 “(3) GOVERNMENT ENTERPRISES’ INTER-  
8 MEDIATE AND EXPORT SALES.—

9 “(A) Government enterprises shall not be  
10 subject to tax on purchases that would not be  
11 subject to tax pursuant to section 2 if the gov-  
12 ernment enterprise were a private enterprise.

13 “(B) Government enterprises may not use  
14 the exemption afforded by section 2 to serve as  
15 a conduit for tax-free purchases by government  
16 units that would otherwise be subject to tax-  
17 ation on purchases pursuant to section 1.  
18 Transfers of taxable property or services pur-  
19 chased exempt from tax by a government enter-  
20 prise to such government unit shall be taxable.

21 “(4) SEPARATE BOOKS OF ACCOUNT.—Any gov-  
22 ernment enterprise must maintain books of account,  
23 separate from the nonenterprise government ac-  
24 counts, maintained in accordance with generally ac-  
25 cepted accounting principles.

1           “(5) ACTIVE TRADE OR BUSINESS.—A govern-  
2           ment enterprise shall be treated as an active trade  
3           or business.

4           “(6) CROSS REFERENCE.—

**“For obligation of government units, see section  
3(a)(1).**

5   **“Subchapter B—Credits; Refunds; Install-**  
6       **ment Payments of Tax on Purchases of**  
7       **Residences**

                  “Sec. 11. Credits and refunds.

                  “Sec. 12. Installment payments of tax on purchases of principal  
                  residences.

                  “Sec. 13. Family Consumption Refund.

8   **“SEC. 11. CREDITS AND REFUNDS.**

9           “(a) GENERAL CREDITS.—Each person shall be al-  
10          lowed a credit against the taxes imposed by section 1 for  
11          any month in an amount equal to the sum of—

12               “(1) such person’s used property credit under  
13               subsection (c) for such month,

14               “(2) such person’s business use conversion  
15               credit under subsection (d) for such month,

16               “(3) the amount paid by such person with re-  
17               spect to a purchase during such month by reason of  
18               a tax collected on an exempt purchase pursuant to  
19               section 3(b) (relating to election to collect tax on  
20               certain nontaxable purchases),

21               “(4) the administration credit under section (e),

1           “(5) the compliance equipment cost credit  
2 under section (f),

3           “(6) the bad debt credit under subsection (g),

4           “(7) the insurance proceeds credit under sub-  
5 section (h),

6           “(8) the transition inventory credit under sub-  
7 section (i), and

8           “(9) any amount paid in excess of amount due.

9           “(b) REFUNDS.—

10           “(1) FILERS.—If a person files two consecutive  
11 monthly tax reports with a credit balance, then,  
12 upon application in a form prescribed by the State  
13 Administrator, then the credit balance shown on the  
14 second monthly report shall be refunded to the tax-  
15 payer within 60 days of said application.

16           “(2) NONFILERS.—If a person other than a  
17 monthly filer has an excess credit for any month,  
18 then, upon application in a form prescribed by the  
19 State Administrator, then the credit balance due  
20 shall be refunded to the taxpayer within 60 days of  
21 said application.

22           “(3) INTEREST.—No interest shall be required  
23 to be paid on any overpayment under this subsection  
24 for any month if such overpayment is paid within 60  
25 days after the close of such month.

1           “(4) SUSPENSION OF PERIOD TO PAY REFUND  
2 ONLY IF FEDERAL COURT RULING.—The 60-day pe-  
3 riods under paragraphs (1) and (2) shall be sus-  
4 pended with respect to a purported credit balance  
5 (or portion thereof) only during any period that  
6 there is in effect a preliminary ruling from a Federal  
7 court that there is reasonable cause to believe that  
8 such credit balance is not actually the amount due.

9           “(5) FILER.—For purposes of this subsection,  
10 the term ‘filer’ means, with respect to any month,  
11 any person required to register under section 43 for  
12 such month.

13           “(c) USED PROPERTY CREDIT.—

14           “(1) IN GENERAL.—For purposes of subsection  
15 (a), a seller shall receive credit for previous sales tax  
16 paid on the resale of taxable property or services, as  
17 provided in this subsection (c).

18           “(2) DETERMINATION OF USED PROPERTY  
19 CREDIT AMOUNT.—The used property credit amount  
20 determined under this paragraph with respect to any  
21 property is the lesser of—

22           “(A) the amount of tax due and paid by  
23 virtue of the present transaction (without re-  
24 gard to any credits), or

1           “(B) the most recent prior tax imposed by  
2           section 1 with respect to such property trans-  
3           action (without regard to any credits).

4           “(3) TRANSITIONAL DEEMED PAID RULE FOR  
5           PROPERTY OWNED ON EFFECTIVE DATE OF ACT.—  
6           In the case of property which was acquired by the  
7           seller before July 1, 2006, the amount under para-  
8           graph (2)(B) shall be the amount which is the prod-  
9           uct of—

10           “(A) that which would be determined  
11           under paragraph (2)(B) as if this subtitle had  
12           been in effect at the time of such acquisition,  
13           and

14           “(B) the equity ratio (as defined in para-  
15           graph (4)).

16           “(4) The equity ratio is the quotient of—

17           “(A) the income tax basis in the property  
18           at the end of the taxable year 2006, less the  
19           mortgage or debt secured by said property at  
20           the end of said taxable year, divided by

21           “(B) the income tax basis in the property  
22           at the end of the taxable year 2006,  
23           provided, however, that the quantity defined in sub-  
24           paragraph (1) cannot be less than zero and further

1 providing that the equity ratio so calculated cannot  
2 be less than zero or greater than one.

3 “(d) BUSINESS USE CONVERSION CREDIT.—

4 “(1) IN GENERAL.—For purposes of subsection  
5 (a), a person’s business use conversion credit for any  
6 month is the aggregate of the amounts determined  
7 under paragraph (2) with respect to property—

8 “(A) on which a prior tax was imposed by  
9 section 1 on the purchase by such person, and

10 “(B) which commences to be exclusively  
11 used during such month in the production by  
12 such person of other taxable property or serv-  
13 ices.

14 “(2) AMOUNT OF CREDIT.—The amount deter-  
15 mined under this paragraph with respect to any  
16 property is lesser of—

17 “(A) the product of the rate imposed by  
18 section 1 and the fair market value of the prop-  
19 erty when its use is converted, and

20 “(B) the prior tax referred to in paragraph  
21 (1)(A).

22 “(3) Property converted from business use to  
23 personal use shall be subject to tax pursuant to sec-  
24 tion 1 on the book value of the converted property  
25 as of the date of conversion, provided that the books

1 are kept in accordance with generally accepted ac-  
2 counting principles.

3 “(e) ADMINISTRATION CREDIT.—Every taxpayer fil-  
4 ing a timely monthly report in compliance with section 41  
5 shall be entitled to a taxpayer administrative credit equal  
6 to the greater of—

7 “(1) \$200, or

8 “(2) one-half of 1 percent of the tax remitted,  
9 provided, however, that in no event will the credit af-  
10 farded by this section exceed 20 percent of the tax  
11 due to be remitted prior to the application of this  
12 credit.

13 “(f) COMPLIANCE EQUIPMENT COST CREDIT.—Ven-  
14 dors required to purchase new equipment to comply with  
15 the provisions of section 54 shall be entitled to a credit  
16 in the amount of 50 percent of the cost of such equipment.

17 “(g) BAD DEBT CREDIT.—

18 “(1) FINANCIAL INTERMEDIATION SERVICES.—

19 Any person registered pursuant to section 43 who  
20 has experienced a bad debt (other than unpaid in-  
21 voices within the meaning of paragraph (2)) shall be  
22 entitled to a credit equal to the product of—

23 “(A) the rate imposed by section 1, and

24 “(B) the quotient that is—

1                   “(i) the amount of the bad debt (as  
2                   defined in section 24), divided by

3                   “(ii) the quantity that is 1 minus the  
4                   rate imposed by section 1.

5                   “(2) UNPAID INVOICES.—Any person electing  
6                   the accrual method pursuant to section 56 that has  
7                   with respect to a transaction—

8                   “(A) invoiced the tax imposed by section 1,

9                   “(B) remitted the invoiced tax,

10                   “(C) actually delivered the taxable prop-  
11                   erty or performed the taxable services invoiced,  
12                   and

13                   “(D) not been paid 90 days after the date  
14                   the invoice was due to be paid,

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

17                   “(3) SUBSEQUENT PAYMENT.—Any payment  
18                   made with respect to a transaction subsequent to a  
19                   subsection (g) credit being taken with respect to  
20                   that transaction shall be subject to tax in the month  
21                   the payment was received as if a tax inclusive sale  
22                   of taxable property and services in the amount of  
23                   the payment had been made.

24                   “(4) PARTIAL PAYMENTS.—Partial payments  
25                   shall be treated as pro rata payments of the under-

1       lying obligation and shall be allocated proportion-  
2       ately among payment for the taxable property and  
3       service, tax and otherwise (in the case of partially  
4       nontaxable payments).

5               “(5) RELATED PARTIES.—The credit provided  
6       by this section shall not be available with respect to  
7       sales made to affiliated firms (within the meaning of  
8       section 2(e)).

9               “(h) INSURANCE PROCEEDS CREDIT.—

10              “(1) IN GENERAL.—A person receiving a pay-  
11       ment from an insurer by virtue of an insurance con-  
12       tract shall be entitled to a credit in an amount de-  
13       termined by paragraph (2), less any amount paid to  
14       the insured by the insurer pursuant to paragraph  
15       (3), if the entire premium (except that portion allo-  
16       cable to the investment account of the underlying  
17       policy) for the insurance contract giving rise to the  
18       insurer’s obligation to make a payment to the in-  
19       sured was subject to the tax imposed by section 1  
20       and such tax was paid.

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

23                      “(A) the rate imposed by section 1, and

24                      “(B) the quotient that is—

1                   “(i) the amount of the payment made  
2                   by the insurer to the insured, divided by

3                   “(ii) the quantity that is 1 minus the  
4                   rate imposed by section 1.

5                   “(3) ADMINISTRATIVE OPTION.—The credit de-  
6                   termined in accordance with paragraph (2) shall be  
7                   paid by the insurer to the insured and the insurer  
8                   shall be entitled to the credit in lieu of the insured  
9                   provided, however, the insurer may elect, in a form  
10                  prescribed by the Secretary, to not pay the credit  
11                  and require the insured to make application for the  
12                  credit. In the event of such election, the insurer shall  
13                  provide to the Secretary and the insured the name  
14                  and tax identification number of the insurer and of  
15                  the insured and indicate the proper amount of the  
16                  credit.

17                  “(4) COORDINATION WITH RESPECT TO EXEMP-  
18                  TION.—If taxable property or services purchased by  
19                  an insurer on behalf of an insured are purchased  
20                  free of tax by virtue of section 21(e)(3), then the  
21                  credit provided by this section shall not be available  
22                  with respect to that purchase.

23                  “(5) INSURANCE CONTRACT.—For purposes of  
24                  paragraph (1), the term ‘insurance contract’ in-  
25                  cludes a life insurance contract, a health insurance

1 contract, a property and casualty loss insurance con-  
2 tract, a general liability insurance contract, a marine  
3 insurance contract, a fire insurance contract, an ac-  
4 cident insurance contract, a disability insurance con-  
5 tract, a long-term care insurance contract, and an  
6 insurance contract that provides a combination of  
7 these types of insurance.

8 “(i) TRANSITIONAL INVENTORY CREDIT.—

9 “(1) TRANSITION INVENTORY CREDIT.—A cred-  
10 it shall be allowed equal to the product of the rate  
11 of tax imposed by section 1 and the cost of qualified  
12 inventory.

13 “(2) INVENTORY.—

14 “(A) QUALIFIED INVENTORY.—Inventory  
15 held by an active trade or business on the close  
16 of business June 30, 2006, that is subsequently  
17 sold subject to the tax imposed by section 1  
18 shall be qualified inventory.

19 “(B) COST.—For purposes of this section,  
20 qualified inventory shall have the cost that it  
21 had on the income tax return of the active  
22 trade or business filed for the period ending  
23 June 30, 2006 (including any amounts capital-  
24 ized by virtue of section 263A as in effect on  
25 June 30, 2006).

1           “(3) TIMING OF CREDIT.—The credit provided  
2           under paragraph (1) shall be allowed on the sales  
3           tax return where the taxable sale of the qualified in-  
4           ventory is reported. The person claiming such credit  
5           shall attach supporting schedules in the form that  
6           the Secretary may prescribe.

7   **“SEC. 12. INSTALLMENT PAYMENTS OF TAX ON PURCHASE**  
8                   **OF PRINCIPAL RESIDENCES.**

9           “(a) IN GENERAL.—If—

10           “(1) property is purchased and used as the  
11           principal residence of any purchaser of such prop-  
12           erty, and

13           “(2) such purchaser elects the application of  
14           this section, then the tax imposed by section 1 with  
15           respect to such purchase shall be paid in equal an-  
16           nual installments over the 30-year period beginning  
17           on the date of such sale together with simple inter-  
18           est at the rate imposed by section 6621.

19           “(b) TERMINATION OF INSTALLMENTS IF PROPERTY  
20   IS SOLD OR OTHERWISE CEASES TO BE PRINCIPAL RESI-  
21   DENCE.—

22           “(1) IN GENERAL.—If, before the close of the  
23           30-year period referred to in subsection (a), any  
24           property to which an election under subsection (a)  
25           applies—

1           “(A) is sold, or

2           “(B) otherwise ceases to be used as the  
3           principal residence of any purchaser making  
4           such election,

5           then the unpaid installments shall be due no later  
6           than two years after the time of such sale or ces-  
7           sation. To the extent that such sale or cessation is  
8           only of a portion of such residential property, the  
9           preceding sentence shall apply only to a like portion  
10          (based on value) of such unpaid installments.

11          “(2) SPECIAL RULE.—In a case to which para-  
12          graph (1)(B) applies with respect to any pur-  
13          chaser—

14                 “(A) if such purchaser purchases within  
15                 two years another property which property is  
16                 purchased and used as the principal residence  
17                 of such purchaser, the remaining unpaid install-  
18                 ments shall be due at the time of such pur-  
19                 chase,

20                 “(B) if subparagraph (A) does not apply to  
21                 such purchaser, the remaining unpaid install-  
22                 ments shall be due at the close of the two-year  
23                 period beginning on the date of the cessation  
24                 referred to in paragraph (1); and

1           “(C) the two-year period referred to in  
2           subparagraph (B) shall be suspended during  
3           any period that such purchaser uses such prop-  
4           erty as his principal residence.

5           “(3) If any purchaser exercises the right to in-  
6           stallment payments under this section, then the re-  
7           sponsibility to remit the tax due is the purchaser’s  
8           rather than the seller’s provided that the seller has  
9           on file a copy of the election form prescribed by the  
10          Secretary.

11 **“SEC. 13. FAMILY CONSUMPTION REFUND.**

12          “(a) GENERAL RULE.—Each qualified family unit  
13 (as defined in subsection (b)) shall be eligible to receive  
14 a sales tax rebate in an amount no greater than the prod-  
15 uct of—

16           “(1) the rate of tax imposed by section 1, and

17           “(2) the lesser of—

18           “(A) the poverty level (as defined in sub-  
19           section (c)), or

20           “(B) the wage income of the family unit,  
21           in the manner prescribed and subject to the  
22           limitations set forth by this section.

23          “(b) QUALIFIED FAMILY UNIT DEFINED.—For pur-  
24 poses of this section, the term qualified family unit shall  
25 mean any family sharing a common residence. Any family

1 members (as defined in subsection (e)) sharing a common  
2 residence shall be considered part of one integrated family  
3 unit.

4 “(c) POVERTY LEVEL DEFINED.—The poverty level  
5 shall be the quotient that is—

6 “(1) the level determined by the Department of  
7 Health and Human Services poverty guidelines re-  
8 quired by sections 652 and 673(2) of the Omnibus  
9 Reconciliation Act of 1981 (all States and the Dis-  
10 trict of Columbia) for family units of a particular  
11 size, divided by

12 “(2) the quantity that is one minus the tax rate  
13 imposed by section 1.

14 “(d) REBATE MECHANISM.—

15 “(1) GENERAL RULE.—The rebate provided by  
16 section (a) shall be provided to each qualified family  
17 unit by including the pay period rebate amount in  
18 each paycheck.

19 “(2) PAY PERIOD REBATE AMOUNT.—The pay  
20 period rebate amount shall be the lesser of product  
21 of the rate of tax imposed by the section 1 and—

22 “(A) the wages paid during the pay period,

23 or

24 “(B) the quotient that is the poverty level  
25 for the family unit (determined in accordance

1           with subsection (c)) divided by the number of  
2           pay periods in a year.

3           “(3) ADJUSTED WITHHOLDING TABLES TO BE  
4           PROVIDED TO EMPLOYERS.—The Social Security  
5           Administration shall publish revised withholding ta-  
6           bles for use by employers.

7           “(4) COORDINATION.—The family member re-  
8           ceiving the family consumption rebate shall set  
9           forth, in a form prescribed by the Social Security  
10          Administration, the names and Social Security num-  
11          bers of all members of the family unit for which a  
12          rebate is claimed. Employers shall provide this infor-  
13          mation in the form prescribed to the Social Security  
14          Administration.

15          “(e) FAMILY MEMBERS DEFINED.—For purposes of  
16          determining the size of the family unit, family members  
17          shall include each spouse or the head of household, chil-  
18          dren, grandchildren, parents and grandparents.

19          “(f) DISQUALIFIED FAMILY MEMBERS.—In order for  
20          a family member to be counted for purposes of deter-  
21          mining family unit size, said family member must—

22                  “(1) if over the age of two years, have a bona  
23                  fide Social Security number; and

24                  “(2) be a lawful resident of the United States.

1           “(g) STUDENTS LIVING AWAY FROM HOME.—A stu-  
2 dent during each of five months in a calendar year living  
3 away from the common residence of a family unit but who  
4 receives over 50 percent of his support from the family  
5 unit shall be included as part of that family unit for pur-  
6 poses of this section.

7           “(h) CHANGE IN FAMILY CIRCUMSTANCES.—The  
8 residence of family members, marital status and number  
9 of persons in a family unit on the first day of the calendar  
10 year shall govern determinations required to be made  
11 under this section for purposes of said calendar year.

12           “(i) TWO OR MORE FAMILY MEMBERS WORKING.—  
13 The family unit may elect to divide the rebate between  
14 two family members. Family members shall make this  
15 election in a form prescribed by the Social Security Ad-  
16 ministration and shall when making said election disclose  
17 the name and Social Security number of the other family  
18 members. Creditable wages for families making this elec-  
19 tion shall not exceed one half of the poverty level for that  
20 family unit.

21           “(j) EMPLOYERS TO ADJUST REMITTANCES.—Em-  
22 ployers shall reduce their payroll tax remittances to the  
23 Social Security Administration by the amount of Family  
24 Consumption Rebate provided in employee paychecks.

1 “(k) NO DOUBLE COUNTING.—In no event shall any  
2 person be considered part of more than one family unit.

3 “(l) SOCIAL SECURITY ADMINISTRATION.—The So-  
4 cial Security Administration shall provide to multiple  
5 wage-earner family units who received a lower rebate  
6 amount than that to which they were entitled under sub-  
7 section (a) due to the application of the limitations in sub-  
8 section (d)(2) and subsection (i) any payment due within  
9 30 days of the close of the calendar year.

10 **“Subchapter C—Definitions and Special**  
11 **Rules; Financial Intermediation Services**

“Sec. 21. Definitions.

“Sec. 22. Special rules.

“Sec. 23. Determination of financial intermediation services  
amount.

“Sec. 24. Bad debts.

“Sec. 25. Timing of tax on financial intermediation services.

“Sec. 26. Alternative method for calculating tax due.

“Sec. 27. Basic interest rate.

“Sec. 28. Applicable interest rate.

12 **“SEC. 21. DEFINITIONS.**

13 “(a) FINANCIAL INTERMEDIATION SERVICES.—The  
14 term ‘financial intermediation services’ means financial  
15 intermediation services determined in accordance with sec-  
16 tion 23.

17 “(b) GROSS PAYMENTS.—For purposes of this sub-  
18 title, the term ‘gross payments’ shall mean gross payments  
19 inclusive of Federal tax imposed by, and State taxes im-  
20 posed in conformity with, this chapter but exclusive of cus-  
21 toms duties. Gross payment shall be the product of the

1 pre-tax factor and the payments for the taxable property  
2 or service exclusive of State and Federal taxes imposed  
3 by, and State taxes imposed in conformity with, this sub-  
4 title. For purposes of this section, the pre-tax factor shall  
5 be one divided by the quantity that is one minus the sum  
6 of—

7           “(1) the Federal tax rate imposed by section 1,  
8           and

9           “(2) the State tax rate imposed in conformity  
10          with this subtitle.

11          “(c) Primary residence shall mean residential real  
12 property used predominantly as the place of abode for a  
13 person or persons. A person shall have only one primary  
14 residence for purposes of this section. A married couple  
15 shall have only one primary residence.

16          “(d) PURCHASED FOR RESALE.—For purposes of  
17 section 2(b)(1), a property or service is purchased for re-  
18 sale if such property or service is purchased by a person  
19 in an active trade or business for the purpose of reselling  
20 the taxable property or service in the ordinary course of  
21 that active trade or business.

22          “(e) PURCHASED TO PRODUCE TAXABLE PROPERTY  
23 OR SERVICES.—For purposes of section 2(b)(2)—

24               “(1) IN GENERAL.—A property or service is  
25               purchased to produce a taxable property or service

1 if such property or service is purchased by a person  
2 in an active trade or business for the purpose of em-  
3 ploying or using such property or service in the pro-  
4 duction or sale of other taxable property or services  
5 in the ordinary course of that active trade or busi-  
6 ness.

7 “(2) RESEARCH EXPERIMENTATION AND DE-  
8 VELOPMENT.—Taxable property or services used in  
9 an active trade or business for the purpose of re-  
10 search, experimentation and development shall be  
11 treated as purchased to produce taxable property or  
12 services.

13 “(3) INSURANCE PAYMENTS.—Taxable property  
14 or services purchased by an insurance company on  
15 behalf of an insured shall be treated as a property  
16 or service purchased to produce a taxable property  
17 or service if the entire premium for the insurance  
18 contract giving rise to the insurer’s obligation was  
19 subject to tax in accordance with subsection (a) (re-  
20 lating to financial intermediation services).

21 “(4) EDUCATION AND TRAINING.—Education  
22 and training shall be treated as purchased to  
23 produce taxable property or services. For purposes  
24 of this section, education and training shall mean  
25 tuition for general primary, secondary, or university

1 level education, and tuition for job-related training  
2 courses. Tuition shall not include amounts attrib-  
3 utable to room or board for the student.

4 “(f) Qualified fixtures shall include only those fix-  
5 tures that are a permanent, integral, incorporated and  
6 irremovable part of the structure and shall exclude fur-  
7 niture, furnishings, appliances or similar tangible personal  
8 property.

9 “(g) REAL PROPERTY.—For purposes of this chap-  
10 ter, the term real property shall have the meaning ascribed  
11 to it at common law. The Secretary shall by regulation  
12 establish uniform national rules for purposes of admin-  
13 istering this chapter to the extent that jurisdictions within  
14 the United States may provide different holdings as to the  
15 scope of the term real property.

16 “(h) RESIDENCE.—Whenever this chapter requires  
17 that the State of ‘residence’ need be determined, it shall  
18 be determined in descending order of priority as the State  
19 of permanent abode, the center of vital interests, or the  
20 habitual abode. If the State of residence is still undeter-  
21 mined, if the person is a resident of the United States,  
22 the determination will be made by the Federal Office of  
23 Revenue Allocation.

1       “(i) Residential real property is real property, includ-  
2 ing structures, land, and qualified fixtures and appur-  
3 tenances thereto that—

4               “(1) is held in fee simple and

5               “(2) is predominantly used as a residence or  
6 dwelling.

7       “(j) SECRETARY.—For purposes of this chapter, the  
8 term ‘Secretary’ means the United States Secretary of  
9 Treasury.

10       “(k) STATE ADMINISTRATOR.—For purposes of this  
11 chapter, the term ‘State Administrator’ shall mean the  
12 highest State official responsible for administering the  
13 taxes imposed by this subtitle in the conforming State. In  
14 States that are not conforming States, the ‘State Adminis-  
15 trator’ shall mean the person designated by the Secretary  
16 as the Federal official responsible for administering the  
17 taxes imposed by this chapter in a non-conforming State.  
18 State Administrator shall also mean, when the context so  
19 requires, the Federal official responsible for administering  
20 the multi-State vendor program.

21       “(l) Structures, for purposes of subsection (i) shall  
22 include homes that are manufactured housing but not self-  
23 propelled and not on wheels.

24       “(m) TANGIBLE PERSONAL PROPERTY.—For pur-  
25 poses of this chapter, the term tangible personal property

1 shall have the meaning ascribed to it at common law. The  
2 Secretary shall by regulation establish uniform national  
3 rules for purposes of administering this chapter to the ex-  
4 tent that jurisdictions within the United States may pro-  
5 vide different holdings as to the scope of the term tangible  
6 personal property.

7 “(n) TAXABLE PROPERTY OR SERVICES.—

8 “(1) GENERAL RULE.—For purposes of this  
9 chapter, the term ‘taxable property or service’  
10 means—

11 “(A) any property (including leaseholds of  
12 any term or rents with respect to such prop-  
13 erty) other than intangible property, and

14 “(B) any service (including any financial  
15 intermediation services).

16 “(2) WAGES.—For purposes of the preceding  
17 sentence, services shall not include wages paid by an  
18 employer engaged in an active trade or business that  
19 is registered pursuant to section 43. Services shall  
20 include wages paid by an employer (including gov-  
21 ernment employers) not engaged in an active trade  
22 or business unless those wages are paid by a quali-  
23 fied not-for-profit organization (as defined in section  
24 3(a)(2)(C).

25 “(3) INTANGIBLE PROPERTY.—

1           “(A) IN GENERAL.—For purposes of this  
2 subtitle, intangible property shall include copy-  
3 rights, trademarks, patents, goodwill, financial  
4 instruments, and other property deemed intan-  
5 gible at common law.

6           “(B) CERTAIN TYPES OF PROPERTY.—For  
7 purposes of this subtitle, intangible property  
8 shall not include tangible personal property (or  
9 rents or leaseholds of any term thereon), real  
10 property (or rents or leaseholds of any term  
11 thereon), and computer software.

12           “(C) ANTI-AVOIDANCE RULE.—Notwith-  
13 standing subparagraph (A), the sale of a copy-  
14 right or trademark shall be treated as the sale  
15 of taxable services (within the meaning of sec-  
16 tion 1) if the substance of the transaction sell-  
17 ing said copyright or trademark constituted the  
18 sale of the services that produced the copy-  
19 righted material or the trademark.

20           “(o) UNITED STATES.—For purposes of this chapter,  
21 the term ‘United States’, when used in the geographical  
22 sense, means the 50 States, the District of Columbia, and  
23 any commonwealth, territory or possession of the United  
24 States.

1 **“SEC. 22. SPECIAL RULES.**

2 “(a) FOREIGN FINANCIAL INTERMEDIATION SERV-  
3 ICES.—

4 “(1) SPECIAL RULES RELATING TO INTER-  
5 NATIONAL FINANCIAL INTERMEDIATION SERVICES.—

6 Financial intermediation services shall be deemed as  
7 used or consumed within the United States if the  
8 person (or any related party within the meaning of  
9 section 2(e)) purchasing the services is a resident of  
10 the United States.

11 “(2) Any person that provides financial inter-  
12 mediation services to United States residents must,  
13 as a condition of lawfully providing such services,  
14 designate, in a form prescribed by the Secretary, a  
15 United States tax representative. This United States  
16 tax representative shall be responsible for ensuring  
17 that the taxes imposed by this chapter are collected  
18 and remitted and shall be jointly and severally liable  
19 for collecting and remitting these taxes. The Sec-  
20 retary may require reasonable bond of the United  
21 States tax representative.

22 “(b) FINANCING LEASES.—

23 “(1) DEFINED.—For purposes of this section, a  
24 financing lease shall be any lease under which the  
25 lessee shall have the right to acquire the property

1 for 50 percent or less of its fair market value at the  
2 end of the lease term.

3 “(2) TAX.—Financing leases shall be taxed in  
4 the method set forth in this section.

5 “(3) DETERMINATION OF PRINCIPLE AND IN-  
6 TEREST COMPONENTS OF FINANCING LEASE.—The  
7 Secretary shall promulgate rules for disaggregating  
8 the principle and interest components of a financing  
9 lease. The principle amount shall be determined to  
10 the extent possible by examination of the contem-  
11 poraneous sales price or prices of the same or simi-  
12 lar property as the leased property.

13 “(4) ALTERNATIVE METHOD.—In the event  
14 that contemporaneous sales prices of the same or  
15 similar property as the lease property are not avail-  
16 able, the principle and interest components of a fi-  
17 nancing lease shall be disaggregating using the ap-  
18 plicable interest rate (as defined in section 28), plus  
19 4 percent.

20 “(5) PRINCIPAL COMPONENT.—The principal  
21 component of the financing lease shall be subject to  
22 tax as if a purchase in the amount of the principal  
23 component had been made on the day the lease was  
24 entered into.

1           “(6) INTEREST COMPONENT.—The financial  
2           intermediation services amount with respect to the  
3           interest component of the financing lease shall be  
4           subject to tax.

5           “(7) COORDINATION.—If the principal compo-  
6           nent and financial intermediation services amount  
7           with respect to the interest component of a lease  
8           have been taxed pursuant to this section, then the  
9           gross lease or rental payments shall not be subject  
10          to additional tax.

11          “(c) INSTALLMENT SALES, ACCOUNTING, RE-  
12          TURNS.—

13           “(1) GENERAL RULE.—Tax will be due when  
14           payment for the taxable property and services sold,  
15           consumed, used or enjoyed is actually received.

16           “(2) ALTERNATIVE RULE.—A vendor may elect  
17           to adopt the accrual method of accounting for pur-  
18           poses of determining when the tax will be due. Said  
19           election must apply to all sales made by vendor in  
20           a particular calendar year.

21           “(3) INSTALLMENT SALES.—Tax will be due on  
22           taxable property and services sold under the install-  
23           ment method when payment for the taxable property  
24           and services sold is actually received.

1           “(4) RETURNS.—A credit shall be provided to  
2 the vendor for returned taxable property and serv-  
3 ices when actual payment for the returned taxable  
4 property and services is made by the vendor to the  
5 person returning the taxable property and services.

6           “(d) MIXED USE PROPERTY OR SERVICES.—

7           “(1) MIXED USE PROPERTY OR SERVICE DE-  
8 FINED.—Mixed Use Property or Service is taxable  
9 property or services purchased both for a purpose  
10 that would give rise to an exemption pursuant to  
11 section 2 and for taxable use, consumption or enjoy-  
12 ment.

13           “(2) EXEMPTION THRESHOLD.—Mixed Use  
14 Property or Service shall not be exempt pursuant to  
15 section 2 unless said property is used more than 95  
16 percent for purposes that would give rise to an ex-  
17 emption pursuant to section 2.

18           “(3) MIXED USE PROPERTY OR SERVICES  
19 CREDIT.—A business registered pursuant to section  
20 43 is entitled to a business use conversion credit  
21 (pursuant to section 11(d)) equal to product of—

22                   “(A) the mixed use property amount,

23                   “(B) the business use ratio, and

24                   “(C) the rate of tax imposed by section 1.

1           “(4) MIXED USE PROPERTY AMOUNT.—The  
2 mixed use property amount for each year shall be—

3           “(A) one-thirtieth of the purchase price for  
4 real property for thirty years or until the prop-  
5 erty is sold,

6           “(B) one-seventh of the purchase price for  
7 tangible personal property for seven years or  
8 until the property is sold,

9           “(C) one-fifth of the purchase price for ve-  
10 hicles for five years or until the property is  
11 sold, and

12           “(D) a reasonable amount for other types  
13 of taxable property or services or in accordance  
14 with regulations.

15           “(5) BUSINESS USE RATIO.—The business use  
16 ratio is the ratio of business use to total use for a  
17 particular year. For vehicles, the business use ratio  
18 will be the ratio of business purpose miles to total  
19 miles. For real property, the business use ratio is  
20 the ratio of floor space used for business purposes  
21 to total floor space. For tangible personal property  
22 (except for vehicles), the business use ratio is the  
23 ratio of total time used for business purposes to  
24 total time used. For other property or services, the  
25 business ratio shall be calculated using a reasonable

1 method. Reasonable records must be maintained to  
2 support a taxpayer's business use of the mixed use  
3 property or service.

4 “(e) GAMING.—There is hereby imposed a 15-percent  
5 tax on taxable gaming services. Taxable gaming services  
6 shall be the gross gaming receipts less total gaming pay-  
7 offs. This tax shall be paid and remitted by the person  
8 offering the gaming services.

9 **“SEC. 23. DETERMINATION OF FINANCIAL INTERMEDI-**  
10 **ATION SERVICES AMOUNT.**

11 “(a) FINANCIAL INTERMEDIATION SERVICES.—For  
12 purposes of this subtitle—

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

15 “(A) explicitly charged financial intermedi-  
16 ation services, and

17 “(B) implicitly charged financial intermedi-  
18 ation services.

19 “(2) EXPLICITLY CHARGED FINANCIAL INTER-  
20 MEDIATION SERVICES.—The term ‘explicitly charged  
21 financial intermediation services’ includes—

22 “(A) brokerage fees,

23 “(B) explicitly stated banking, loan origi-  
24 nation, processing, documentation, credit check  
25 fees or other similar fees,

1           “(C) safe-deposit box fees,

2           “(D) insurance premiums, to the extent  
3 such premiums are not allocable to the invest-  
4 ment account of the underlying insurance pol-  
5 icy,

6           “(E) trustees’ fees, and

7           “(F) other financial service fees (including,  
8 but not limited to, mutual fund management,  
9 sales, and exit fees).

10           “(3) IMPLICITLY CHARGED FINANCIAL INTER-  
11 MEDIATION SERVICES.—

12           “(A) IN GENERAL.—The term ‘implicitly  
13 charged financial intermediation services’ in-  
14 cludes the gross imputed amount in relation to  
15 any underlying interest bearing investment, ac-  
16 count, or debt.

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

20           “(i) with respect to any underlying in-  
21 terest bearing investment or account, the  
22 product of—

23           “(I) the excess (if any) of the  
24 basic interest rate (as defined in sec-

1                   tion 27) over the rate paid on such in-  
2                   vestment, and

3                   “(II) such account balance, and  
4                   “(ii) with respect to any underlying  
5                   interest bearing debt, the product of—

6                   “(I) the excess (if any) of the  
7                   rate paid on such debt over the basic  
8                   interest rate (as defined in section  
9                   27), and

10                   “(II) such debt balance.

11           “(b) For purposes of section 1(c), the seller of finan-  
12   cial intermediation services shall be—

13                   “(1) in the case of explicitly charged financial  
14                   intermediation services (as defined in subsection  
15                   (a)(2)), the person who receives the gross payments  
16                   for the charged financial intermediation services,

17                   “(2) in the case of implicit financial intermedi-  
18                   ation services (as defined in subsection (a)(3)) with  
19                   respect to any underlying interest bearing invest-  
20                   ment or account, the person making the interest  
21                   payments on the interest bearing investment or ac-  
22                   count, and

23                   “(3) in the case of implicit financial intermedi-  
24                   ation services (as defined in subsection (a)(2)) with  
25                   respect to any interest bearing debt, the person re-

1 ceiving the interest payments on the interest bearing  
2 debt.

3 **“SEC. 24. BAD DEBTS.**

4 “(a) For purposes of section 11, a bad debt shall be  
5 a business loan or debt that becomes wholly or partially  
6 worthless.

7 “(b) For purposes of subsection (a), a business loan  
8 or debt is a bona fide loan or debt made for a business  
9 purpose that both parties intended be repaid.

10 “(c) No loan or debt shall be considered wholly or  
11 partially worthless unless it has been in arrears for 90  
12 days or more, provided, however, that if a debt is dis-  
13 charged wholly or partially in bankruptcy before 90 days  
14 has elapsed, then it shall be deemed wholly or partially  
15 worthless on the date of discharge.

16 “(d) A loan or debt that has been in arrears for 90  
17 days or more may be deemed wholly or partially worthless  
18 by the holder unless a payment schedule has been entered  
19 into between the debtor and the lender.

20 “(e) CROSS REFERENCE.—

**“For tax on subsequent payments, see section  
11(g)(3).**

21 **“SEC. 25. TIMING OF TAX ON FINANCIAL INTERMEDIATION**  
22 **SERVICES.**

23 “The tax on financial intermediation services pro-  
24 vided in connection to an underlying investment account

1 or debt shall be calculated and collected with the same  
2 frequency that statements are rendered by the financial  
3 institution in connection with the investment account or  
4 debt but not less frequently than quarterly.

5 **“SEC. 26. ALTERNATIVE METHOD FOR CALCULATING TAX**  
6 **DUE.**

7 “(a) **ALTERNATIVE METHOD PERMISSIBLE.**—A pro-  
8 vider of financial intermediation services need not cal-  
9 culate its liability on a transaction-by-transaction or ac-  
10 count-by-account basis provided that the method used by  
11 the financial intermediation services provider—

12 “(1) is reasonable, and

13 “(2) will lead to a tax liability that is substan-  
14 tially similar to that projected under ordinary sales  
15 tax principles. The provider of financial intermedi-  
16 ation services shall set forth his proposed method  
17 and the reasons why it meets the criteria set forth  
18 in the preceding sentence in a petition to the Sec-  
19 retary.

20 “(b) **SECRETARY TO RULE.**—An alternative method  
21 proposed in a petition pursuant to subsection (a) shall be  
22 accepted by the Secretary unless the Secretary rules that  
23 the proposed alternative method—

24 “(1) is unreasonable, or

1           “(2) will lead to a tax liability that is substan-  
2           tially different from that projected under ordinary  
3           sales tax principles.

4 The Secretary shall set forth the reasons for his ruling  
5 in a finding. The Secretary must make his ruling within  
6 120 days of receiving the petition and notify the petitioner  
7 of his decision. In the event the Secretary fails to render  
8 a ruling within 120 days, then the proposed method shall  
9 be permissible. He must provide the petitioner with a copy  
10 of the finding within 30 days of a ruling. He must publish  
11 the permissible method (including those methods that be-  
12 come permissible by virtue of the Secretary’s failure to  
13 rule).

14           “(c) EFFECTIVE DATES OF ALTERNATIVE METH-  
15 OD.—An alternative method ruled permissible or permis-  
16 sible by virtue of the Secretary’s failure to rule shall be  
17 effective indefinitely and may take effect as early as the  
18 month after the alternative method becomes permissible.  
19 The Secretary may, however, after an investigation, audit,  
20 or otherwise, subsequently rule on his own initiative that  
21 the method is not permissible. Such subsequent ruling  
22 shall be prospective in effect and not take effect until the  
23 latter of—

24           “(1) the first day of the calendar year following  
25           the ruling, or

1           “(2) 120 days after the ruling.

2 If judicial review is sought pursuant to subsection (d), said  
3 subsequent ruling shall not take effect until a final judg-  
4 ment is rendered by the court.

5           “(d) JUDICIAL REVIEW.—A ruling by the Secretary  
6 with respect to a petition for use of an alternative method  
7 pursuant to subsection (a) shall be subject to judicial re-  
8 view in any court of competent jurisdiction, provided, how-  
9 ever, that the standard of review shall be whether the peti-  
10 tioner establishes by clear and convincing evidence that  
11 the decision of the Secretary should be reversed.

12           “(e) REGULATIONS.—The Secretary may provide by  
13 regulation permissible alternative methods for calculating  
14 tax due including methods based on annual flows of rev-  
15 enue and expense.

16 **“SEC. 27. BASIC INTEREST RATE.**

17           “For purposes of this subchapter, the basic interest  
18 rate with respect to a debt instrument, investment, financ-  
19 ing lease, or account shall be the applicable interest rate  
20 (as determined in section 28). For debt instruments, in-  
21 vestments, or accounts of contractually fixed interest, the  
22 applicable interest rate of the month of issuance shall  
23 apply. For debt instruments, investments, or accounts of  
24 variable interest rates and which have no reference inter-  
25 est rate, the applicable interest rate shall be the Federal

1 short-term interest rate for each month. For debt instru-  
2 ments, investments or accounts of variable interest rates  
3 and which have a reference interest rate, the applicable  
4 interest rate shall be the applicable interest rate for the  
5 reference interest rate for each month.

6 **“SEC. 28. APPLICABLE INTEREST RATE.**

7 “(a) IN GENERAL.—

8 “(1) In the case of a debt instrument, invest-  
9 ment, financing lease, or account with a term of not  
10 over 3 years, the applicable interest rate is the Fed-  
11 eral short-term rate.

12 “(2) In the case of a debt instrument, invest-  
13 ment, financing lease, or account with a term of over  
14 3 years but not over 9 years, the applicable interest  
15 rate is the Federal mid-term rate.

16 “(3) In the case of a debt instrument, invest-  
17 ment, financing lease, or account with a term of over  
18 9 years, the applicable interest rate is the Federal  
19 long-term rate.

20 “(b) FEDERAL SHORT-TERM RATE.—The Federal  
21 short-term rate shall be the rate determined by the Sec-  
22 retary based on the average market yield (during any 1  
23 month) on outstanding marketable obligations of the  
24 United States with remaining periods to maturity of 3  
25 years or less.



1 administering State shall be administered, collected, and  
2 remitted to the United States Treasury by such State.

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

5 “(1) which maintains a conforming sales tax,  
6 and

7 “(2) which enters into a cooperative agreement  
8 with the Secretary containing reasonable provisions,  
9 limited in scope and detail, governing the adminis-  
10 tration by such State of the taxes imposed by this  
11 chapter and the remittance to the United States in  
12 a timely manner of taxes collected under this chap-  
13 ter.

14 “(c) CONFORMING SALES TAX.—For purposes of  
15 subsection (b), a State maintains a conforming sales tax  
16 if such State imposes, administers, and collects a sales  
17 tax—

18 “(1) which conforms to the tax imposed by this  
19 chapter in all significant respects (other than the  
20 rate of tax), including—

21 “(A) the same taxable property and serv-  
22 ices,

23 “(B) the same exemptions, and

24 “(C) the same credits and refunds (other  
25 than section 11(a)(4) (relating to the taxpayer

1 administrative credit) and section 13 (relating to  
2 the family consumption refund)), and

3 “(2) which is imposed at a rate of no less than  
4 1 percent.

5 “(d) COOPERATIVE AGREEMENTS.—The agreement  
6 under subsection (b)(2) shall be limited in scope and detail  
7 but include provisions for the expeditious transfer of  
8 funds, contact officers, dispute resolution, information ex-  
9 change, confidentiality, taxpayer rights, and other matters  
10 of importance.

11 “(e) TIMELY REMITTANCE OF TAX.—

12 “(1) IN GENERAL.—Administering States shall  
13 remit and pay over taxes collected under this chap-  
14 ter on behalf of the United States (less the adminis-  
15 tration fee allowable under paragraph (2)) no later  
16 than 15 days after receipt.

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

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

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

5           “(B) such State has on a regular and sustained  
6           basis otherwise materially breached the agreement  
7           referred to in subsection (b)(2),

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

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

13           “(4) a district court of the United States within  
14           such State has rendered a decision permitting such  
15           administration.

16           “(g) The Secretary shall administer the tax imposed  
17           by this chapter in any State or other jurisdiction that is  
18           not an administering State.

19           “(h) It shall be permissible for a conforming State  
20           to contract with another conforming State to administer  
21           its sales tax for an agreed fee. In this case, the agreement  
22           contemplated by subsection (d) shall have both States and  
23           the Federal Government as parties.

24           “(i) COORDINATION AMONG CONFORMING STATES.—

1           “(1) EXEMPTION CERTIFICATES.—Conforming  
2 States shall honor exemption certificates issued by  
3 other conforming States.

4           “(2) AUDITS.—Conforming States shall not  
5 conduct audits at facilities in other Conforming  
6 States but shall instead cooperate with other Con-  
7 forming States using the mechanisms established by  
8 section 32 of this subchapter or by other agreement  
9 or Compact.

10 **“SEC. 32. FEDERAL ADMINISTRATIVE SUPPORT FOR**  
11 **STATES.**

12           “(a) The Secretary shall administer a program to fa-  
13 cilitate information sharing among States.

14           “(b) The Secretary shall facilitate and may be a party  
15 to a Compact Among Conforming States for purposes of  
16 facilitating the taxation of interstate purchases and for  
17 other purposes that may facilitate implementation of this  
18 chapter.

19           “(c) The Secretary shall have the authority to pro-  
20 mulgate regulations and guidelines to assist States in ad-  
21 ministering the national sales tax, to provide for uni-  
22 formity in the administration of the tax and to provide  
23 guidance to taxpayers and administrators.

1 **“SEC. 33. FEDERAL ADMINISTRATION OPTION FOR**  
2 **MULTISTATE VENDORS.**

3 “(a) IN GENERAL.—Vendors that maintain retail es-  
4 tablishments in five or more conforming States may elect,  
5 in a form prescribed by the Secretary, to have their sales  
6 tax obligations administered by the Federal Government  
7 under the multistate vendor program.

8 “(b) FEDERAL GOVERNMENT TO COLLECT AND  
9 REMIT STATE SALES TAXES.—Under the multistate ven-  
10 dor program, the Federal Government will collect Federal  
11 and conforming State sales taxes and remit the State sales  
12 taxes to the States within 10 days of receiving said rev-  
13 enue.

14 “(c) FEDERAL ADMINISTRATION.—The Federal Gov-  
15 ernment will serve in the place of the State Administrator  
16 with respect to multi-State vendors exercising the election  
17 under this section. With respect to electing multi-State  
18 vendors, the Federal Government exclusively will—

19 “(1) audit;

20 “(2) provide certificates; and

21 “(3) otherwise administer the Federal and con-  
22 forming State sales tax in place of the administering  
23 State.

24 **“SEC. 34. GENERAL ADMINISTRATIVE MATTERS.**

25 “(a) IN GENERAL.—The Secretary and each State  
26 Administrator may employ accountants, auditors, inves-

1 tigators, assistants, and clerks for the administration of  
2 this subtitle and may delegate to employees the authority  
3 to conduct interviews, hearings, prescribe rules, promul-  
4 gate regulations, and perform such other duties as are re-  
5 quired by this subtitle.

6       “(b) RESOLUTION OF ANY INCONSISTENT RULES  
7 AND REGULATIONS.—In the event that the Secretary and  
8 any State Administrator have issued inconsistent rules or  
9 regulations, the rule or regulation issued by the Secretary  
10 shall govern provided that the Secretary possessed the  
11 statutory authority to issue the rule or regulation.

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

20       “(d) NO RULES, RULINGS, OR REGULATIONS WITH  
21 RETROACTIVE EFFECT.—

22               “(1) IN GENERAL.—No rule, ruling, or regula-  
23 tion issued or promulgated by the Secretary relating  
24 to any internal revenue law or by a State Adminis-  
25 trator that constitutes a change in law (including a

1 reversal of prior law and new law) shall be retroactive  
2 in effect.

3 “(2) Notwithstanding paragraph (1), a rule,  
4 ruling, or regulation that provides guidance or clari-  
5 fies existing law may lawfully apply to cases prior to  
6 its issuance.

7 “(3) For purposes of this subsection, the term  
8 ‘law’ includes State and Federal statutes, regula-  
9 tions, rules, rulings, and court decisions.

10 “(4) A rule, ruling, or regulation issued in con-  
11 travention to paragraph (1) shall be void as to tax-  
12 able events arising prior to the issuance of such rule,  
13 ruling, or regulation.

14 “(5) REVIEW OF IMPACT OF RULES, RULINGS,  
15 AND REGULATIONS ON SMALL BUSINESS.—

16 “(A) SUBMISSION TO SMALL BUSINESS AD-  
17 MINISTRATION.—After publication of any pro-  
18 posed or temporary regulation by the Secretary  
19 relating to internal revenue laws, the Secretary  
20 shall submit such regulation to the Chief Coun-  
21 sel for Advocacy of the Small Business Admin-  
22 istration for comment on the impact of such  
23 regulation on small businesses. Not later than  
24 the date 4 weeks after the date of such submis-  
25 sion, the Chief Counsel for Advocacy of the

1 Small Business Administration shall submit  
2 comments on such regulation to the Secretary.

3 “(B) CONSIDERATION OF COMMENTS.—In  
4 prescribing any final regulation which super-  
5 sedes a proposed or temporary regulation which  
6 had been submitted under this subsection to the  
7 Chief Counsel for Advocacy of the Small Busi-  
8 ness Administration, the Secretary shall—

9 “(i) consider the comments of the  
10 Chief Counsel for Advocacy of the Small  
11 Business Administration on such proposed  
12 or temporary regulation, and

13 “(ii) discuss any response to such  
14 comments in the preamble to the regula-  
15 tion.

16 “(C) SUBMISSION OF CERTAIN FINAL REG-  
17 ULATIONS.—In the case of promulgation by the  
18 Secretary of any final regulations (other than a  
19 temporary regulation) which do not supersede a  
20 proposed regulation, the requirements of sub-  
21 paragraphs (A) and (B) shall apply, except that  
22 the submission under subparagraph (A) shall be  
23 made at least 4 weeks before the date of such  
24 promulgation, and the consideration and discus-  
25 sion required under subparagraph (B) shall be



1           “(3) the amount and type of any credit claimed.

2           “(b) PAYMENTS OF TAX.—The tax imposed by this  
3 chapter with respect to any use, consumption or enjoy-  
4 ment during any month shall be paid on or before the 20th  
5 of the succeeding month. One payment shall pay both Fed-  
6 eral and conforming State tax liability.

7           “(c) INTEREST ON AMOUNTS REMITTED LATE.—

8           “(1) IN GENERAL.—If any amount required to  
9 be paid on or before the 20th of any month is paid  
10 after such 20th day, the taxpayer shall pay simple  
11 interest from such 20th day at the rate of—

12                   “(A) 1 percent per month (or any fraction  
13 thereof) for the first month, and

14                   “(B) 1.5 percent per month (or any frac-  
15 tion thereof) thereafter.

16           “(2) AMOUNTS PAID AFTER COLLECTION AC-  
17 TION.—

18                   “(A) IN GENERAL.—The rate of interest  
19 under paragraph (1) shall be 2 percent per  
20 month (or any fraction thereof) with respect to  
21 amounts paid only after the commencement of  
22 a collection action with respect to such  
23 amounts.

24                   “(B) COLLECTION ACTION.—For purposes  
25 of subparagraph (A), the term ‘collection ac-

1           tion' includes administrative levies or garnish-  
2           ments and the commencement of legal action in  
3           any court.

4           “(d) PENALTY FOR LATE FILING.—

5           “(1) IN GENERAL.—In the case of a failure by  
6           any person to file a report required by subsection (a)  
7           on or before due date (determined with regard to  
8           any extension) for such report, such person shall pay  
9           a penalty equal to the greater of—

10                   “(A) \$50, or

11                   “(B) 0.5 percent of the gross payments re-  
12           ferred to in section 1 required to be shown on  
13           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 State Administrator.

20           “(3) EXCEPTIONS.—

21           “(A) REASONABLE CAUSE.—No penalty  
22           shall be imposed under paragraph (1) with re-  
23           spect to any failure if it is shown that such fail-  
24           ure is due to reasonable cause.

1           “(B) OTHER WAIVER AUTHORITY.—In ad-  
2           dition to penalties not imposed by reason of  
3           subparagraph (A), the State Administrator, on  
4           application, shall waive the penalty imposed by  
5           paragraph (1) once per taxpayer per 2-year pe-  
6           riod. The preceding sentence shall not apply to  
7           a penalty determined under paragraph (2).

8           “(e) EXTENSIONS FOR FILING REPORTS.—

9           “(1) AUTOMATIC EXTENSIONS FOR LESS THAN  
10          30 DAYS.—On application, extensions of less than 30  
11          days to file reports under subsection (a) shall be  
12          automatically granted.

13          “(2) OTHER EXTENSIONS.—Extensions of 30 to  
14          90 days to file such reports shall be liberally granted  
15          by the State Administrator for reasonable cause. Ex-  
16          tensions greater than 90 days may be granted by the  
17          State Administrator to avoid hardship.

18          “(3) NO EXTENSION FOR PAYMENT OF  
19          TAXES.—Notwithstanding paragraphs (1) and (2),  
20          no extension shall be granted with respect to the  
21          time for paying the taxes under this chapter.

22          “(f) PENALTY FOR WILLFULLY OR RECKLESSLY AC-  
23          CEPTING A FALSE EXEMPTION CERTIFICATE.—A person  
24          who willingly or recklessly accepts a false exemption cer-  
25          tificate shall pay a penalty equal to 20 percent of the tax

1 not collected on gross payments for taxable property and  
2 services by virtue of said acceptance.

3 “(g) The Secretary shall establish a system whereby  
4 violation of the Individual Tax Freedom Act of 2004 can  
5 be brought to the attention of the Secretary for investiga-  
6 tion through the use of a toll-free telephone number and  
7 otherwise.

8 **“SEC. 42. RECORDS.**

9 “Any person liable to collect and remit taxes pursu-  
10 ant to this chapter or pay the tax imposed by this chapter  
11 by reason of gross payments described in section 1, shall  
12 keep records (including, but not limited to, copies of all  
13 section 54 receipts provided and complete records of ex-  
14 empt purchases including exempt purchaser’s exemption  
15 certificates and tax number and the net of tax amount  
16 of purchase) sufficient to provide a reasonable basis for  
17 determining the amounts reported, collected, and remitted  
18 for a period of 3 years after the filing of the report for  
19 which the records formed the basis. Any purchaser who  
20 purchased taxable property or services but did not pay tax  
21 by reason of asserting an exemption shall keep records  
22 sufficient to provide a reasonable basis for determining  
23 whether the exemption was valid for a period of 3 years  
24 after the purchase of taxable property or services.

1 **“SEC. 43. REGISTRATION.**

2 “(a) IN GENERAL.—Any person liable to collect and  
3 remit taxes pursuant to section 1 who is engaged in an  
4 active trade or business shall register with the State or  
5 Federal taxing authorities administering the taxes im-  
6 posed by this chapter.

7 “(b) DESIGNATION OF TAX MATTERS PERSON.—

8 Every person registered pursuant to subsection (a) shall  
9 designate a tax matters person. Each person registered  
10 must provide notice of a change in the identity of the tax  
11 matters person within 30 days of said change.

12 **“SEC. 44. CERTIFICATE.**

13 “The State Administrator shall issue certificates of  
14 registration and qualification certificates to qualified not-  
15 for-profit organizations and may issue such other certifi-  
16 cates as may prove useful in the administration of the  
17 taxes imposed by this chapter.

18 **“SEC. 45. PENALTIES.**

19 “(a) FAILURE TO REGISTER.—Each person who is  
20 required to register pursuant to section 43 but fails to do  
21 so prior to notification by the State Administrator shall  
22 be liable for a penalty of \$500.

23 “(b) FAILURE TO COLLECT OR REMIT TAX.—

24 “(1) CIVIL PENALTY.—Each person who reck-  
25 lessly or willfully fails to collect or remit taxes im-  
26 posed by section 1 shall be liable for a penalty equal

1 to the greater of \$500 or 20 percent of the tax not  
2 collected or remitted.

3 “(2) CRIMINAL PENALTY.—Each person who  
4 willfully fails as part of an active trade or business  
5 to collect or remit taxes imposed by this chapter  
6 may be imprisoned for a period of up to one year.

7 “(c) FAILURE TO PAY TAX.—

8 “(1) CIVIL PENALTY.—Each person who will-  
9 fully fails to pay taxes imposed by section 1 shall be  
10 liable for a penalty equal to the greater of \$500 or  
11 20 percent of the tax not paid.

12 “(2) CRIMINAL PENALTY.—Each person who  
13 willfully fails to pay taxes imposed by this chapter  
14 may be imprisoned for a period of up to six months.

15 **“SEC. 46. BURDEN OF PERSUASION AND BURDEN OF PRO-**  
16 **DUCTION.**

17 “In all disputes concerning taxes imposed by this  
18 chapter, the person engaged in a dispute with the State  
19 Administrator shall have the burden of production of doc-  
20 uments and records but the State Administrator shall  
21 have the burden of persuasion. In all disputes concerning  
22 the legitimacy of an exemption claimed by a purchaser,  
23 if the seller has on file a copy of a bona fide exemption  
24 certificate and did not have reasonable cause to believe  
25 that an exemption from the tax was unavailable to the

1 purchaser with respect to such purchase, then the burden  
2 of production of documents and records relating to that  
3 exemption shall rest with the purchaser and not with the  
4 seller.

5 **“SEC. 47. ATTORNEYS AND ACCOUNTANCY FEES.**

6 “In all disputes concerning taxes imposed by this  
7 chapter, the person engaged in a dispute with the State  
8 Administrator or the Secretary, as the case may be, shall  
9 be entitled to reasonable attorneys and accountancy fees  
10 incurred in direct relation to the dispute unless the State  
11 Administrator or the Secretary, as the case may be, estab-  
12 lishes that his position was substantially justified.

13 **“SEC. 48. APPEALS.**

14 “The State Administrator and the Secretary shall es-  
15 tablish an administrative appeals process wherein the tax-  
16 payer is provided a full and fair hearing in connection with  
17 any disputes he has with the State Administrator or the  
18 Secretary.

19 **“SEC. 49. TAXPAYER SUBJECT TO SUBPOENA ON PRODUC-**  
20 **TION.**

21 “Taxpayers are subject to subpoena for records and  
22 documents required by the State Administrator or the Sec-  
23 retary, as the case may be, to accurately determine liabil-  
24 ity for tax under this chapter.

1 **“SEC. 50. TAX COURT JURISDICTION.**

2 “The United States Tax Court shall have jurisdiction  
3 pursuant to section 7442 in connection with all disputes  
4 with taxpayers arising under this chapter.

5 **“SEC. 51. POWER TO LEVY.**

6 “Pursuant to enforcement of a judgment duly ren-  
7 dered by a court of law, the State Administrator or the  
8 Secretary, as the case may be, shall have the right to levy  
9 and seize property and garnish wages to collect amounts  
10 due under this chapter.

11 **“SEC. 52. PROBLEM RESOLUTION OFFICERS.**

12 “The State Administrator shall establish a Problem  
13 Resolution Office. Problem Resolution Officers shall have  
14 the authority to investigate taxpayer complaints and en-  
15 join collection activity if, in the opinion of the Problem  
16 Resolution Officer, said collection activity is reasonably  
17 likely to not be in compliance with law. Said administra-  
18 tive injunction may only be reversed by the highest official  
19 in the relevant State or Federal taxing authority or by  
20 its General Counsel upon a finding that the collection ac-  
21 tivity is justified by clear and convincing evidence. The  
22 authority to reverse this administrative injunction may not  
23 be delegated. Problem Resolution Officers shall not be dis-  
24 ciplined or adversely affected for the issuance of adminis-  
25 trative injunctions unless a pattern or issuing injunctions  
26 that are manifestly unreasonable is proven in an adminis-

1 trative hearing. Nothing in this section shall limit the au-  
2 thority of the State Administrators or the taxpayer to pur-  
3 sue any legal remedy in any court with jurisdiction over  
4 the dispute at issue.

5 **“SEC. 53. JURISDICTION AND INTERSTATE ALLOCATION.**

6       “(a) ALLOCATION RULES.—For purposes of allo-  
7 cating revenue between or among administering states  
8 from taxes imposed by this subtitle, the revenue shall be  
9 allocated to those states that are the destination of the  
10 taxable property or services. The destination of the pur-  
11 chase of taxable property and services shall be determined  
12 in accordance with this section.

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

24       “(c) TANGIBLE PERSONAL PROPERTY.—The destina-  
25 tion of tangible personal property shall be the state or ter-

1 ritory in which the property was first delivered to the pur-  
2 chaser. Tangible personal property shipped by means of  
3 the mail or common carrier shall be deemed delivered to  
4 the location of the purchaser for purposes of this sub-  
5 section upon shipment by mail or common carrier.

6 “(d) REAL PROPERTY.—The destination of real prop-  
7 erty or rents or leaseholds on real property shall be state  
8 or territory in which the real property is located.

9 “(e) OTHER PROPERTY.—The destination of other  
10 property shall be residence of the purchaser.

11 “(f) SERVICES.—

12 “(1) GENERAL RULE.—The destination of serv-  
13 ices shall be state or territory in which the use, con-  
14 sumption or enjoyment of the services occurred. Al-  
15 location of service invoices relating to more than one  
16 jurisdiction shall be on the basis of time.

17 “(2) TELECOMMUNICATIONS SERVICES.—The  
18 destination of telecommunications services shall be  
19 the residence of the purchaser. Telecommunications  
20 services shall include telephone, telegraph, cable tele-  
21 vision, satellite and computer on-line or network  
22 services.

23 “(3) DOMESTIC TRANSPORTATION SERVICES.—  
24 For transportation services where all of the final  
25 destinations are within the United States, the des-

1        tination of transportation services shall be the final  
2        destination of the trip (in the case of round or mul-  
3        tiple trip fares, the services amount shall be equally  
4        allocated among the final destinations).

5            “(4) INTERNATIONAL TRANSPORTATION SERV-  
6        ICES.—For transportation services where the final  
7        destination or origin of the trip is without the  
8        United States, the service amount shall be deemed  
9        50 percent attributable to the United States destina-  
10       tion or origin.

11          “(g) FINANCIAL INTERMEDIATION SERVICES.—The  
12       destination of financial intermediation services shall be the  
13       residence of the purchase.

14          “(h) A State Tax Administrator shall have jurisdic-  
15       tion over any gross payments made which have a destina-  
16       tion (as determined in accordance with this section) within  
17       the state of said State Tax Administrator. This grant of  
18       jurisdiction is not exclusive of other jurisdiction that said  
19       State Tax Administrator may have.

20          “(i) RENTS AND ROYALTIES PAID FOR THE LEASE  
21       OF TANGIBLE PROPERTY.—

22            “(1) GENERAL RULE.—The destination of rents  
23       and royalties paid for the lease of tangible property  
24       shall be where the property is located.

1           “(2) VEHICLES.—The destination of rent and  
2           lease payments on vehicles shall be—

3                   “(A) in the case of rentals and leases of a  
4                   term one month or less, the location where the  
5                   vehicle was originally delivered to the lessee;  
6                   and

7                   “(B) in the case of rentals and leases of a  
8                   term greater than one month, the residence of  
9                   the lessee.

10 **“SEC. 54. TAX TO BE STATED AND CHARGED SEPARATELY.**

11           “(a) IN GENERAL.—For each purchase of taxable  
12           property or services for which a tax is imposed pursuant  
13           to section 1, the sales tax shall be charged separately from  
14           the purchase price by the vendor or seller. For purchase  
15           of taxable property or services for which a tax is imposed  
16           pursuant to section 1, the vendor shall provide to the pur-  
17           chaser a receipt that sets forth at least the following infor-  
18           mation:

19                   “(1) The property or services price exclusive of  
20                   tax.

21                   “(2) The amount of tax paid.

22                   “(3) The property or service price inclusive of  
23                   tax.

1           “(4) The tax rate (the amount of tax paid (per  
2           subparagraph 2) divided by the property or service  
3           price inclusive of tax (per subparagraph 3)).

4           “(5) The date that the good or service was sold.

5           “(6) The name of the vendor.

6           “(7) The vendor registration number.

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

11           “(1) that dispense taxable property in exchange  
12          for coins, one, five, ten or twenty dollar bills, and

13           “(2) that sell no single item exceeding ten dol-  
14          lars per unit in price.

15          **“SEC. 55. INSTALLMENT AGREEMENTS; COMPROMISES.**

16          “The State Administrator or the Secretary, as the  
17          case may be, is authorized to enter into written agree-  
18          ments with any person under which the person is allowed  
19          to satisfy liability for payment of any tax in installment  
20          payments if he determines that such agreement will facili-  
21          tate the collection of such liability. The agreement shall  
22          remain in effect for the term of the agreement unless the  
23          information that the person provided to the Secretary or  
24          the State Administrator was materially inaccurate or in-

1 complete. The Secretary and the State Administrator may  
2 compromise any amounts alleged to be due.

3 **“SEC. 56. ACCOUNTING.**

4 “(a) CASH METHOD TO BE USED GENERALLY.—  
5 Vendors and other persons shall remit taxes and report  
6 transactions with respect to the month for which payment  
7 was received or the tax imposed by this chapter otherwise  
8 becomes due.

9 “(b) ELECTION TO USE ACCRUAL METHOD.—A per-  
10 son may elect with respect to a calendar year, in a form  
11 prescribed by the Secretary, to remit taxes and report  
12 transactions with respect to the month where a sale was  
13 invoiced and accrued.

14 “(c) CROSS REFERENCE.—

**“For rules relating to bad debts for vendors elect-  
ing the accrual method, see section 11(g).**

15 **“SEC. 57. HOBBY ACTIVITIES.**

16 “(a) The exemption afforded by section 2(a)(1) shall  
17 not be available for any taxable property or service used  
18 by a trade or business if that trade or business is not en-  
19 gaged in for profit.

20 “(b) If the trade or business has received gross pay-  
21 ments for the sale of taxable property or services that ex-  
22 ceed the sum of—

23 “(1) taxable property and services purchased,

24 “(2) wages paid, and

1           “(3) taxes paid,  
2 in 2 or more of the most recent 4 calendar years during  
3 which it operated, then the business activity shall be con-  
4 clusively deemed to be engaged in for profit.”.

5 **SEC. 5. PHASE-OUT OF THE INTERNAL REVENUE SERVICE.**

6           (a) IN GENERAL.—Appropriations for any expenses  
7 of the Internal Revenue Service including processing in-  
8 come tax returns for years prior to the repeal of the in-  
9 come tax, revenue accounting, management, transfer of  
10 payroll tax data to the Social Security Administration and  
11 otherwise for years after fiscal year 2007 are not author-  
12 ized.

13           (b) EXCISE AND SALES TAX BUREAUS.—Section  
14 7801 is amended by adding the following new subsections:

15           “(d) EXCISE TAX BUREAU.—There shall be in the  
16 Department of Treasury an Excise Tax Bureau to admin-  
17 ister those excise taxes not repealed by this Act.

18           “(e) SALES TAX BUREAU.—There shall be in the De-  
19 partment of Treasury a Sales Tax Bureau to administer  
20 the national sales tax in those States where it is required  
21 pursuant to section 31(g), and to discharge other Federal  
22 duties and powers relating to the national sales tax (in-  
23 cluding those required by sections 32, 33, and 53(b)). The  
24 Office of Revenue Allocation shall be within the Sales Tax  
25 Bureau.”.

1 (c) ASSISTANT GENERAL COUNSELS.—Section  
2 7801(b)(2) is amended to read as follows:

3 “(2) ASSISTANT GENERAL COUNSELS.—The  
4 Secretary of the Treasury may appoint, without re-  
5 gard to the provisions of the civil service laws, and  
6 fix the duties of not more than 5 Assistant General  
7 Counsels.”.

8 (d) SHORT YEAR.—

9 (1) For purposes of the Federal income tax, the  
10 tax imposed by section 1 and section 11 for taxable  
11 years ending June 30, 2006, shall be modified as set  
12 forth in this subsection.

13 (2) For calendar year taxpayers, the dollar fig-  
14 ures in section 1 and section 11 shall be reduced by  
15 dividing by 2 all dollar figures that would be applica-  
16 ble but for this subsection.

17 (3) For fiscal year taxpayers, the dollar figures  
18 in section 1 and section 11 shall be equal to the  
19 product of—

20 (A) the dollar amount that would be appli-  
21 cable but for this subsection, and

22 (B) the ratio that has as its numerator the  
23 number of months in the taxpayer’s taxable  
24 year ending June 30, 2006, and as its denomi-  
25 nator 12.

1           (4) The Secretary shall publish tax rate sched-  
2           ules in accordance with this subsection.

3 **SEC. 6. SOCIAL SECURITY ADMINISTRATION TO COLLECT**  
4                                   **PAYROLL TAXES.**

5           (a) IN GENERAL.—Commencing January 1, 2006,  
6 the Social Security Administration shall collect and ad-  
7 minister the taxes imposed pursuant to chapter 2 of sub-  
8 title A (relating to self employment income taxes) and sub-  
9 title C (relating to employment taxes) of the Internal Rev-  
10 enue Code of 1986.

11           (b) CROSS REFERENCES.—

**For revised rules relating to the self-employment  
tax, see section 7 of this Act.**

**For rules relating to revised withholding tax  
schedules and family consumption refund, see sec-  
tion 13.**

12 **SEC. 7. SELF-EMPLOYMENT TAX.**

13           (a) IN GENERAL.—Subsection 1402(a) of the Inter-  
14 nal Revenue Code of 1986 is amended to read as follows:

15           “(a) IN GENERAL.—‘Self employment income’ shall  
16 mean gross payments received in a calendar year from the  
17 sale of taxable property or services (without regard to ex-  
18 emption) less the sum in a calendar year of—

19                           “(1) purchases of taxable property or services  
20                           (without regard to exemption) in furtherance of a  
21                           business purpose,

1           “(2) any wages paid (whether to the self-em-  
2           ployed person or others) in furtherance of a business  
3           purpose,

4           “(3) unused transition amounts, and

5           “(4) undeducted negative self employment in-  
6           come amounts from prior periods.

7           “(b) TRANSITION AMOUNTS.—

8           “(1) GENERAL RULE.—The transition amount  
9           for the ten calendar years commencing in 2006 shall  
10          be the unrecovered basis amount as of the end of  
11          December 31, 2005, divided by ten.

12          “(2) UNRECOVERED BASIS AMOUNT.—The un-  
13          recovered basis amount shall be remaining income  
14          tax basis relating to—

15                 “(A) prior law section 167 property placed  
16                 in service prior to January 1, 2006, and

17                 “(B) inventory held as of the end of 2005  
18                 (including any amounts capitalized in accord-  
19                 ance with prior law section 263A).”.

20          (b) CONFORMING AMENDMENTS.—Subsections  
21          1402(b) and 1402(c) are hereby repealed. Subsections  
22          1402(d) et seq. are hereby renumbered as subsections  
23          1402(b) et seq.

1 **SEC. 8. SOCIAL SECURITY BENEFITS INDEXED ON SALES**  
2 **TAX INCLUSIVE BASIS.**

3 Subparagraph (D) of paragraph (1) of subsection (i)  
4 of section 215 of the Social Security Act (42 U.S.C. 415)  
5 (relating to cost-of-living increases in Social Security bene-  
6 fits) is amended to read as follows:

7 “(D)(i) the term ‘CPI increase percentage’,  
8 with respect to a base quarter or cost-of-living quar-  
9 ter in any calendar year, means the percentage  
10 (rounded to the nearest one-tenth of 1 percent) by  
11 which the Consumer Price Index for that quarter (as  
12 prepared by the Department of Labor) exceeds such  
13 index for the most recent prior calendar quarter  
14 which was a base quarter under subparagraph  
15 (A)(ii) or, if later, the most recent cost-of-living  
16 computation quarter under subparagraph (B);

17 “(ii) if the Consumer Price Index (as prepared  
18 by the Department of Labor) does not include the  
19 national sales tax paid, then the term ‘CPI increase  
20 percentage’ with respect to a base quarter or cost-  
21 of-living quarter in any calendar year, means the  
22 percentage (rounded to the nearest one-tenth of 1  
23 percent) by which the product of—

24 “(I) the Consumer Price Index for that  
25 quarter (as prepared by the Department of  
26 Labor); and

1                   “(II) the national sales tax factor,  
2           exceeds such index for the most recent prior cal-  
3           endar quarter which was a base quarter under sub-  
4           paragraph (A)(ii) or, if later, the most recent cost-  
5           of-living computation quarter under subparagraph  
6           (B); and

7                   “(iii) for purposes of clause (ii), the ‘national  
8           sales tax factor’ is equal to one plus the quotient  
9           that is—

10                   “(I) the sales tax rate (as defined in sec-  
11           tion 1 of title 26), divided by

12                   “(II) the quantity that is one minus the  
13           sales tax rate.”.

14 **SEC. 9. COMPENSATING PAYMENTS TO CERTAIN PERSONS**  
15 **ON FIXED INCOME.**

16           (a) COMPENSATING PAYMENT.—Eligible persons (as  
17           defined in subsection (c)) shall receive a compensating  
18           payment (as defined in subsection (b)) provided that they  
19           comply with subsection (g) (relating to applications).

20           (b) COMPENSATING PAYMENT DEFINED.—The term  
21           “compensating payment” means the product of the quali-  
22           fied fixed income payment amount (as defined in sub-  
23           section (e)) and the excess inflation rate (as defined in  
24           subsection (f)).

1 (c) ELIGIBLE PERSON DEFINED.—An eligible person  
2 is any person with respect to any calendar year who is  
3 entitled to—

4 (1) Social Security benefits; and

5 (2) qualified fixed income payments (as defined  
6 in subsection (d)).

7 (d) QUALIFIED FIXED INCOME PAYMENT DE-  
8 FINED.—A qualified fixed income payment is a payment  
9 received by—

10 (1) a beneficiary under a defined benefit plan  
11 (within the meaning of section 414(j) of the Internal  
12 Revenue Code as in effect prior to the enactment of  
13 this Act) whether sponsored by a private or Govern-  
14 ment employer; or

15 (2) by an annuitant pursuant to an annuity  
16 contract between the annuitant and a bona fide in-  
17 surance company.

18 A payment pursuant to a plan or annuity contract is not  
19 a qualified fixed income payment if the payment varies  
20 with investment performance, interest rates, or inflation.

21 Payments pursuant to an annuity contract entered into  
22 after June 30, 2006, shall not be qualified fixed income  
23 payments. Payments pursuant to a defined benefit plan  
24 to a beneficiary that had been a participant in said defined  
25 benefit plan (within the meaning of section 410 of the In-

1 ternal Revenue Code as in effect prior to the enactment  
2 of this Act) for less than 5 years shall not be qualified  
3 fixed income payments.

4 (e) QUALIFIED FIXED INCOME PAYMENT  
5 AMOUNT.—The qualified fixed income payment amount is  
6  $\frac{1}{12}$  of qualified fixed income payments that an eligible  
7 person is entitled to receive during the calendar year sub-  
8 sequent to the year for which the compensating payment  
9 is calculated, provided, however, that the qualified fixed  
10 income payment amount shall not exceed \$5,000.

11 (f) EXCESS INFLATION RATE DEFINED.—The term  
12 “excess inflation rate” shall mean the excess, if any, of  
13 the consumer price index (all urban) during the 18-month  
14 period ending December 31, 2006, over the increase pro-  
15 jected for the consumer price index (all urban) in the Of-  
16 fice of Management and Budget baseline reported in the  
17 Budget of the United States for Fiscal Year 2006 for said  
18 18-month period. The baseline assumption for the 6  
19 months in 2006 shall be  $\frac{1}{2}$  of the assumed increase for  
20 the entire calendar year 2006.

21 (g) APPLICATION REQUIRED.—In order to receive  
22 compensating payments, each eligible person must apply  
23 in a form prescribed by the Secretary of Health and  
24 Human Services and provide such documentation as the  
25 Secretary may reasonably require.

1           (h) MEANS OF PAYMENT.—Each person entitled to  
2 a compensating payment shall receive the compensating  
3 payment with their Social Security benefit payment. The  
4 compensating payment shall be separately indicated but  
5 may be included in one check. The funds to make compen-  
6 sating payments shall come from the general fund.

7           (i) The Secretary of Health and Human Services may  
8 require insurers that are parties to annuity contracts and  
9 defined benefit plan sponsors to issue a statement to an-  
10 nuitants or plan participants including such information  
11 as the Secretary may require to determine the qualified  
12 fixed income payment amount.

13 **SEC. 10. INTEREST.**

14           Section 6621 of the Internal Revenue Code of 1986  
15 is amended by striking the last sentence in section  
16 6621(a)(1) and by striking “3” in section 6621(a)(2)(B)  
17 and substituting in its stead “2”.

18 **SEC. 11. SUPERMAJORITY REQUIRED TO RAISE RATE.**

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

23                   (1) increases any federal sales tax rate, and

1           (2) provides any exemption, deduction, credit or  
2           other benefit which results in a reduction in federal  
3           revenues.

4           (b) WAIVER OR SUSPENSION.—This section may be  
5           waived or suspended in the House of Representatives or  
6           the Senate only by the affirmative vote of two-thirds of  
7           the Members, duly chosen and sworn.

○