

109TH CONGRESS
2D SESSION

H. R. 5176

To amend the Internal Revenue Code of 1986 to make the Federal income tax system simpler, fairer, and more fiscally responsible, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 25, 2006

Mr. EMANUEL introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to make the Federal income tax system simpler, fairer, and more fiscally responsible, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE;**

4 **TABLE OF CONTENTS.**

5 (a) SHORT TITLE.—This Act may be cited as the
6 “Fair Flat Tax Act of 2006”.

7 (b) AMENDMENT OF 1986 CODE.—Except as other-
8 wise expressly provided, whenever in this Act an amend-
9 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
 2 shall be considered to be made to a section or other provi-
 3 sion of the Internal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—The table of contents for
 5 this Act is as follows:

Sec. 1. Short title; amendment of 1986 Code; table of contents.
 Sec. 2. Purpose.

TITLE I—INDIVIDUAL INCOME TAX REFORMS

Sec. 101. 3 progressive individual income tax rates for all forms of income.
 Sec. 102. Increase in basic standard deduction.
 Sec. 103. Simplified family credit.
 Sec. 104. Expanded access to college.
 Sec. 105. Deduction for mortgage interest whether or not individual itemizes.
 Sec. 106. Universal pension accounts.
 Sec. 107. Repeal of individual alternative minimum tax.

TITLE II—INCOME TAX REFORMS

Subtitle A—Provisions Relating to Corporate and Business Income Tax

Sec. 201. Corporate flat tax.
 Sec. 202. Treatment of travel on corporate aircraft.
 Sec. 203. Valuation of employee personal use of noncommercial aircraft.
 Sec. 204. Elimination of tax expenditures that subsidize inefficiencies in the
 health care system.
 Sec. 205. Pass-through business entity transparency.
 Sec. 206. Broker reporting of customer's basis in securities transactions.
 Sec. 207. Repeal of lower cost or market inventory method.
 Sec. 208. Imposition of withholding on certain payments made by government
 entities.

Subtitle B—Provisions Designed to Curtail Tax Shelters

Sec. 211. Penalty for promoting abusive tax shelters.
 Sec. 212. Penalty for aiding and abetting the understatement of tax liability.
 Sec. 213. Increase in criminal monetary penalty limitation for the under-
 payment or overpayment of tax due to fraud.

Subtitle C—Economic Substance Doctrine

Sec. 221. Clarification of economic substance doctrine.
 Sec. 222. Penalty for understatements attributable to transactions lacking eco-
 nomic substance, etc.
 Sec. 223. Denial of deduction for interest on underpayments attributable to
 noneconomic substance transactions.

Subtitle D—Provisions Relating to Oil and Gas

Sec. 231. Elimination of amortization of geological and geophysical expendi-
 tures for major integrated oil companies.

Sec. 232. Revaluation of life inventories of large integrated oil companies.

Subtitle E—Uniform Definition of Child

Sec. 241. Repeal of uniform definition of child and restoration of prior rule.

Subtitle F—Other Revenue Provisions

Sec. 251. Inflation adjustment of tax on distilled spirits, beer, wine, and tobacco.

Sec. 252. Termination of various exclusions, exemptions, deductions, and credits.

Sec. 253. Termination of various preferential treatments.

TITLE III—TECHNICAL AND CONFORMING AMENDMENTS;
SUNSET

Sec. 301. Technical and conforming amendments.

Sec. 302. Sunset.

1 **SEC. 2. PURPOSE.**

2 The purpose of this Act is to amend the Internal Rev-
3 enue Code of 1986—

4 (1) to make the Federal individual income tax
5 system simpler, fairer, and more transparent by—

6 (A) recognizing the overall tax burden on
7 individual Americans,

8 (B) repealing the individual alternative
9 minimum tax,

10 (C) increasing the basic standard deduc-
11 tion and maintaining itemized deductions for
12 principal residence mortgage interest and chari-
13 table contributions,

14 (D) reducing the number of exclusions, ex-
15 emptions, deductions, and credits, and

16 (E) treating all income equally,

(2) to make the Federal corporate income tax rate a flat 35 percent and eliminate special tax preferences that favor particular types of businesses or activities, and

(3) to partially offset the Federal budget deficit through the increased revenues resulting from these reforms.

TITLE I—INDIVIDUAL INCOME TAX REFORMS

SEC. 101. 3 PROGRESSIVE INDIVIDUAL INCOME TAX RATES FOR ALL FORMS OF INCOME.

(a) MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES.—The table contained in section 1(a) is amended to read as follows:

“If taxable income is:	The tax is:
Not over \$25,000	15% of taxable income.
Over \$25,000 but not over \$120,000.	\$3,750, plus 25% of the excess over \$25,000
Over \$120,000	\$27,500, plus 35% of the excess over \$120,000.”.

(b) HEADS OF HOUSEHOLDS.—The table contained in section 1(b) is amended to read as follows:

“If taxable income is:	The tax is:
Not over \$16,000	15% of taxable income.
Over \$16,000 but not over \$105,000.	\$2,400, plus 25% of the excess over \$16,000
Over \$105,000	\$24,650, plus 35% of the excess over \$105,000.”.

(c) UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS).—The table contained in section 1(c) is amended to read as follows:

“If taxable income is:

Not over \$15,000
 Over \$15,000 but not over
 \$70,000.
 Over \$70,000

The tax is:

15% of taxable income.
 \$2,250, plus 25% of the excess over
 \$15,000
 \$16,000, plus 35% of the excess over
 \$70,000.”.

1 (d) MARRIED INDIVIDUALS FILING SEPARATE RE-
 2 TURNS.—The table contained in section 1(d) is amended
 3 to read as follows:

“If taxable income is:

Not over \$12,500
 Over \$12,500 but not over
 \$60,000.
 Over \$60,000

The tax is:

15% of taxable income.
 \$1,875, plus 25% of the excess over
 \$12,500
 \$13,750, plus 35% of the excess over
 \$60,000.”.

4 (e) CONFORMING AMENDMENTS TO INFLATION AD-
 5 JUSTMENT.—Section 1(f) is amended—

6 (1) by striking “1993” in paragraph (1) and in-
 7 serting “2006”,

8 (2) by striking “except as provided in para-
 9 graph (8)” in paragraph (2)(A),

10 (3) by striking “1992” in paragraph (3)(B) and
 11 inserting “2005”,

12 (4) by striking paragraphs (7) and (8), and

13 (5) by striking “Phaseout of Marriage Penalty
 14 in 15–Percent Bracket;” in the heading thereof.

15 (f) REPEAL OF RATE DIFFERENTIAL FOR CAPITAL
 16 GAINS AND DIVIDENDS.—

17 (1) REPEAL OF 2003 RATE REDUCTION.—Sec-
 18 tion 303 of the Jobs and Growth Tax Relief Rec-
 19 onciliation Act of 2003 is amended by striking “De-

1 cember 3, 2008” and inserting “December 31,
2 2005”.

3 (2) TERMINATION OF PRE-2003 CAPITAL GAIN
4 RATE DIFFERENTIAL.—Section 1(h) is amended
5 (after the application of paragraph (1)) by adding at
6 the end the following new paragraph:

7 “(13) TERMINATION.—This section shall not
8 apply to taxable years beginning after December 31,
9 2005.”.

10 (g) ADDITIONAL CONFORMING AMENDMENTS.—

11 (1) Section 1 is amended by striking subsection
12 (i).

13 (2) The Internal Revenue Code of 1986 is
14 amended by striking “calendar year 1992” each
15 place it appears and inserting “calendar year 2005”.

16 (3) Section 1445(e)(1) (after the application of
17 subsection (g)(1)) is amended by striking “(or, to
18 the extent provided in regulations, 20 percent)”.

19 (h) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 December 31, 2005.

22 **SEC. 102. INCREASE IN BASIC STANDARD DEDUCTION.**

23 (a) IN GENERAL.—Paragraph (2) of section 63(c)
24 (defining standard deduction) is amended to read as fol-
25 lows:

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

4 “(A) 200 percent of the dollar amount in
 5 effect under subparagraph (C) for the taxable
 6 year in the case of—

7 “(i) a joint return, or

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

10 “(B) \$26,250 in the case of a head of
 11 household (as defined in section 2(b)), or

12 “(C) \$15,000 in any other case.”.

13 (b) CONFORMING AMENDMENT TO INFLATION AD-
 14 JUSTMENT.—Section 63(c)(4)(B)(i) is amended by strik-
 15 ing “(2)(B), (2)(C), or”.

16 (c) EFFECTIVE DATE.—The amendments made by
 17 this section shall apply to taxable years beginning after
 18 December 31, 2005.

19 **SEC. 103. SIMPLIFIED FAMILY CREDIT.**

20 (a) IN GENERAL.—Section 32 (relating to earned in-
 21 come credit) is amended to read as follows:

22 **“SEC. 32. SIMPLIFIED FAMILY CREDIT.**

23 “(a) ALLOWANCE OF CREDIT.—In the case of an eli-
 24 gible individual, there shall be allowed as a credit against

1 the tax imposed by this subtitle for the taxable year an
 2 amount equal to the lesser of—

3 “(1) \$2,500 multiplied by the number of quali-
 4 fying children of the taxpayer, or

5 “(2) 50 percent of modified adjusted gross in-
 6 come.

7 “(b) LIMITATIONS.—

8 “(1) LIMITATION BASED ON MODIFIED AD-
 9 JUSTED GROSS INCOME.—

10 “(A) IN GENERAL.—The amount of the
 11 credit allowable under subsection (a) shall be
 12 reduced (but not below zero) by \$50 for each
 13 \$1,000 (or fraction thereof) by which the tax-
 14 payer’s modified adjusted gross income exceeds
 15 the threshold amount.

16 “(B) THRESHOLD AMOUNT.—For purposes
 17 of paragraph (1), the term ‘threshold amount’
 18 means \$60,000 (\$120,000 in the case of a joint
 19 return). For purposes of this paragraph, mar-
 20 ital status shall be determined under section
 21 7703.

22 “(3) LIMITATION ON NUMBER OF QUALIFYING
 23 CHILDREN TAKEN INTO ACCOUNT.—For purposes of
 24 subsection (a), not more than 3 qualifying children
 25 of the taxpayer may be taken into account.

1 “(4) LIMITATION ON AMOUNT OF REFUNDABLE
2 CREDIT.—

3 “(A) IN GENERAL.—The amount of the
4 credit allowed under subsection (a) for a tax-
5 able year which is allowed under this subpart
6 shall not exceed the modified adjusted gross in-
7 come of the taxpayer for such year.

8 “(B) ALLOWANCE OF REMAINING AMOUNT
9 OF CREDIT.—The excess of—

10 “(i) the amount of the credit allowed
11 under subsection (a), over

12 “(ii) the amount of the credit allowed
13 under this subpart by reason of subpara-
14 graph (A), shall be treated as a credit al-
15 lowed under subpart B for such taxable
16 year and not under this subpart.

17 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-
18 poses of this section—

19 “(1) ELIGIBLE INDIVIDUAL.—

20 “(A) IN GENERAL.—The term ‘eligible in-
21 dividual’ means any individual who has a quali-
22 fying child for the taxable year.

23 “(B) INDIVIDUAL WHO IS QUALIFYING
24 CHILD INELIGIBLE.—If an individual is the
25 qualifying child of a taxpayer for any taxable

1 year of such taxpayer beginning in a calendar
2 year, such individual shall not be treated as an
3 eligible individual for any taxable year of such
4 individual beginning in such calendar year.

5 “(C) EXCEPTION FOR INDIVIDUAL CLAIM-
6 ING BENEFITS UNDER SECTION 911.—The
7 term ‘eligible individual’ does not include any
8 individual who claims the benefits of section
9 911 (relating to citizens or residents living
10 abroad) for the taxable year.

11 “(D) LIMITATION ON ELIGIBILITY OF NON-
12 RESIDENT ALIENS.—The term ‘eligible indi-
13 vidual’ shall not include any individual who is
14 a nonresident alien individual for any portion of
15 the taxable year unless such individual is treat-
16 ed for such taxable year as a resident of the
17 United States for purposes of this chapter by
18 reason of an election under subsection (g) or
19 (h) of section 6013.

20 “(E) IDENTIFICATION NUMBER REQUIRE-
21 MENT.—No credit shall be allowed under this
22 section to an eligible individual who does not in-
23 clude on the return of tax for the taxable
24 year—

1 “(i) such individual’s taxpayer identi-
2 fication number, and

3 “(ii) if the individual is married (with-
4 in the meaning of section 7703), the tax-
5 payer identification number of such indi-
6 vidual’s spouse.

7 “(F) INDIVIDUALS WHO DO NOT INCLUDE
8 TIN, ETC., OF ANY QUALIFYING CHILD.—No
9 credit shall be allowed under this section to any
10 eligible individual who has one or more quali-
11 fying children if no qualifying child of such in-
12 dividual is taken into account under subsection
13 (b) by reason of paragraph (2)(B).

14 “(2) QUALIFYING CHILD.—

15 “(A) IN GENERAL.—The term ‘qualifying
16 child’ has the meaning given such term by sec-
17 tion 152, determined without regard to sub-
18 sections (b)(1), (b)(2), and (d)(1)(B) thereof.

19 “(B) IDENTIFICATION REQUIREMENTS.—

20 “(i) IN GENERAL.—A qualifying child
21 shall not be taken into account under sub-
22 section (b) unless the taxpayer includes the
23 name, age, and TIN of the qualifying child
24 on the return of tax for the taxable year.

1 “(ii) OTHER METHODS.—The Sec-
2 retary may prescribe other methods for
3 providing the information described in
4 clause (i).

5 “(C) ABODE MUST BE IN THE UNITED
6 STATES.—An individual shall not be treated as
7 a qualifying child for purposes of this section
8 unless the principal place of abode of such indi-
9 vidual is in the United States.

10 “(3) MODIFIED ADJUSTED GROSS INCOME.—
11 The term ‘modified adjusted gross income’ means
12 adjusted gross income—

13 “(A) determined without regard to sections
14 135, 137, 221, 911, 931, and 933, and

15 “(B) increased by the amount of interest
16 received or accrued by the taxpayer during the
17 taxable year which is exempt from tax.

18 “(d) MARRIED INDIVIDUALS.—In the case of an indi-
19 vidual who is married (within the meaning of section
20 7703), this section shall apply only if a joint return is filed
21 for the taxable year under section 6013.

22 “(e) TAXABLE YEAR MUST BE FULL TAXABLE
23 YEAR.—Except in the case of a taxable year closed by rea-
24 son of the death of the taxpayer, no credit shall be allow-

1 able under this section in the case of a taxable year cov-
2 ering a period of less than 12 months.

3 “(f) INFLATION ADJUSTMENTS.—

4 “(1) IN GENERAL.—In the case of any taxable
5 year beginning after 2006, each of the dollar
6 amounts in subsection (b)(1)(B) shall be increased
7 by an amount equal to—

8 “(A) such dollar amount, multiplied by

9 “(B) the cost-of-living adjustment deter-
10 mined under section 1(f)(3) for the calendar
11 year in which the taxable year begins, deter-
12 mined by substituting ‘calendar year 2005’ for
13 ‘calendar year 1992’ in subparagraph (B)
14 thereof.

15 “(2) ROUNDING.—If any dollar amount in sub-
16 section (b)(1)(B) after being increased under para-
17 graph (1) is not a multiple of \$1,000, such dollar
18 amount shall be rounded to the nearest multiple of
19 \$1,000.

20 “(i) COORDINATION WITH CERTAIN MEANS-TESTED
21 PROGRAMS.—For purposes of—

22 “(1) the United States Housing Act of 1937,

23 “(2) title V of the Housing Act of 1949,

24 “(3) section 101 of the Housing and Urban De-
25 velopment Act of 1965,

1 “(4) sections 221(d)(3), 235, and 236 of the
2 National Housing Act, and

3 “(5) the Food Stamp Act of 1977,
4 any refund made to an individual (or the spouse of an
5 individual) by reason of this section, and any payment
6 made to such individual (or such spouse) by an employer
7 under section 3507, shall not be treated as income (and
8 shall not be taken into account in determining resources
9 for the month of its receipt and the following month).

10 “(j) IDENTIFICATION NUMBERS.—Solely for pur-
11 poses of subsections (c)(1)(F) and (c)(3)(D), a taxpayer
12 identification number means a social security number
13 issued to an individual by the Social Security Administra-
14 tion (other than a social security number issued pursuant
15 to clause (II) (or that portion of clause (III) that relates
16 to clause (II)) of section 205(c)(2)(B)(i) of the Social Se-
17 curity Act).”.

18 (b) REPEALS OF OTHER PROVISIONS.—

19 (1) CHILD CREDIT.—Section 24 is hereby re-
20 pealed.

21 (2) DEDUCTION FOR EXEMPTION FOR DEPEND-
22 ENTS DISALLOWED TO CREDIT RECIPIENTS.—Sub-
23 section (c) of section 151 is amended by adding at
24 the end the following new sentence: “No exemption
25 shall be allowed under this section for a dependent

1 for a taxable year if a credit is allowed under section
2 32 with respect to such dependent for such taxable
3 year.”.

4 (c) CONFORMING AMENDMENTS.—

5 (1) AMENDMENTS RELATING TO REPEAL OF
6 CHILD CREDIT.—

7 (A) Sections 25(e)(1)(C) and 1400C(d) are
8 both amended by striking “24,”.

9 (B) Section 501(c)(26) is amended by in-
10 sserting “(as in effect before the enactment of
11 the Fair Flat Tax Act of 2006)” after “section
12 24(c)”.

13 (C) Section 6213(g)(2) is amended—

14 (i) by striking subparagraph (I), and

15 (ii) in subparagraph (L), by striking
16 “21, 24, or 32” and inserting “21 or 32”.

17 (2) AMENDMENTS RELATING TO REPEAL OF
18 DEDUCTION FOR EXEMPTION FOR DEPENDENTS.—

19 (A) Section 2(a) is amended by striking “a
20 deduction for the taxable year under section
21 151” and inserting “a credit for the taxable
22 year under section 32”.

23 (B) Section 2(b) is amended by striking “a
24 deduction for the taxable year for such person
25 under section 151” and inserting “a credit for

1 the taxable year for such person under section
2 32”.

3 (C) Section 21(b)(1)(A) is amended by
4 striking “a deduction under section 151(c)”
5 and inserting “a credit under section 32”.

6 (D) Section 21(e)(6)(A) is amended by
7 striking “deduction under section 151(c)” and
8 inserting “credit under section 32”.

9 (E) Section 25B(c)(2)(A) is amended by
10 striking “deduction under section 151” and in-
11 serting “credit under section 32”.

12 (F) Section 35(d)(1)(B) is amended by
13 striking “deduction under section 151(c)” and
14 inserting “credit under section 32”.

15 (G) Section 35(g)(4) is amended by strik-
16 ing “deduction under section 151” and insert-
17 ing “credit under section 32”.

18 (H) Section 63(c)(5) is amended by strik-
19 ing “deduction under section 151” and insert-
20 ing “credit under section 32”.

21 (I) Section 129(c)(1) is amended by strik-
22 ing “deduction is allowable under section 151(c)
23 (relating to personal exemptions for depend-
24 ents) ” and inserting “credit is allowable under

1 section 32 (relating to simplified family cred-
2 it)”).

3 (J) Section 135(c)(2)(A)(iii) is amended by
4 striking “deduction under section 151” and in-
5 serting “credit under section 32”.

6 (K) Section 220(b)(6) is amended by strik-
7 ing “deduction under section 151” and insert-
8 ing “credit under section 32”.

9 (L) Section 221(c) is amended by striking
10 “deduction under section 151” and inserting
11 “credit under section 32”.

12 (M) Section 2032A(c)(7)(D) is amended by
13 striking “section 151(c)(4)” and inserting “sec-
14 tion 32(c)(3)(F)”.

15 (N) Section 6012(a)(1)(A) is amended by
16 striking “an exemption for such spouse under
17 section 151(c)” and inserting “a credit for such
18 spouse under section 32”.

19 (O) Section 7703(b)(1) is amended by
20 striking “deduction for the taxable year under
21 section 151” and inserting “credit for the tax-
22 able year under section 32”.

23 (d) CLERICAL AMENDMENT.—The table of sections
24 for subpart C of part IV of subchapter A of chapter 1

1 is amended by striking the item relating to section 32 and
2 inserting the following:

“Sec. 32. Simplified family credit.”.

3 (e) EFFECTIVE DATE.—

4 (1) IN GENERAL.—The amendments made by
5 this section shall apply to taxable years beginning
6 after December 31, 2005.

7 (2) TRANSITIONAL RULE FOR NONCUSTODIAL
8 PARENTS.—

9 (A) IN GENERAL.—If, on the last day of
10 the taxable year, an eligible individual is the
11 noncustodial parent of a qualifying child, the
12 Internal Revenue Code of 1986 shall be applied
13 to such individual without regard to the amend-
14 ments made by this section.

15 (B) DEFINITIONS.—For purposes of sub-
16 paragraph (A), the terms “eligible individual”
17 and “qualifying child” shall have the meanings
18 given such terms by section 32(c) of the Inter-
19 nal Revenue Code of 1986 (as amended by this
20 section).

21 (3) TAXPAYERS HELD HARMLESS.—In the case
22 of a taxpayer who, for the first taxable year ending
23 after the date of the enactment of this Act, would
24 be allowed a deduction of the exemption amount
25 under section 151(c) of the Internal Revenue Code

1 of 1986 (determined without regard to the amend-
 2 ments made by this section) with respect to any de-
 3 pendent of the taxpayer, the taxpayer may elect to
 4 apply the Internal Revenue Code of 1986 with re-
 5 spect to such dependent as if amendments made by
 6 this section had not been enacted.

7 **SEC. 104. EXPANDED ACCESS TO COLLEGE.**

8 (a) REPLACEMENT WITH REFUNDABLE CREDIT FOR
 9 HIGHER EDUCATION EXPENSES.—Subpart C of part IV
 10 of subchapter A of chapter 1 (relating to refundable cred-
 11 its) is amended by redesignating section 36 as section 37
 12 and by inserting after section 35 the following new section:

13 **“SEC. 36. HIGHER EDUCATION EXPENSES.**

14 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
 15 dividual, there shall be allowed as a credit against the tax
 16 imposed by this subtitle for the taxable year the amount
 17 equal to the qualified tuition and related expenses paid
 18 by the taxpayer during the taxable year (for education fur-
 19 nished to the eligible student during any academic period
 20 beginning in such taxable year).

21 “(b) LIMITATIONS.—

22 “(1) DOLLAR LIMITATION.—The amount al-
 23 lowed as a credit under subsection (a) for a taxable
 24 year shall not exceed \$3,000.

1 “(2) ACADEMIC LIMITATIONS.—Expenses may
2 not be taken into account under subsection (a) with
3 respect to an eligible student for an academic year
4 if—

5 “(A) in the case of a program at the un-
6 dergraduate level, expenses have been taken
7 into account under this section in all prior tax-
8 able years with respect to such student for any
9 program at the undergraduate level for the full-
10 time equivalent of 4 academic years, and

11 “(B) in the case of a program at the grad-
12 uate level, expenses have been taken into ac-
13 count under this section in all prior taxable
14 years with respect to such student for any pro-
15 gram at the graduate level for the full-time
16 equivalent of 2 academic years.

17 For purposes of the preceding sentence, the deter-
18 mination of full-time equivalent of academic years
19 shall be under regulations issued by the Secretary.

20 “(c) ELIGIBLE STUDENT.—For purposes of this sub-
21 section, the term ‘eligible student’ means, with respect to
22 any academic period, a student who—

23 “(1) meets the requirements of section
24 484(a)(1) of the Higher Education Act of 1965 (20

1 U.S.C. 1091(a)(1)), as in effect on the date of the
2 enactment of this section, and

3 “(2) is carrying at least 1/2 the normal full-
4 time work load for the course of study the student
5 is pursuing.

6 “(d) ELECTION NOT TO HAVE SECTION APPLY.—A
7 taxpayer may elect not to have this section apply with re-
8 spect to the qualified tuition and related expenses of an
9 individual for any taxable year.

10 “(e) DEFINITIONS.—For purposes of this section—

11 “(1) QUALIFIED TUITION AND RELATED EX-
12 PENSES.—

13 “(A) IN GENERAL.—The term ‘qualified
14 tuition and related expenses’ means tuition and
15 fees required for the enrollment or attendance
16 of—

17 “(i) the taxpayer,

18 “(ii) the taxpayer’s spouse, or

19 “(iii) any dependent of the taxpayer
20 with respect to whom the taxpayer is al-
21 lowed a deduction under section 151, at an
22 eligible educational institution for courses
23 of instruction of such individual at such in-
24 stitution.

1 “(B) EXCEPTION FOR EDUCATION INVOLV-
2 ING SPORTS, ETC.—Such term does not include
3 expenses with respect to any course or other
4 education involving sports, games, or hobbies,
5 unless such course or other education is part of
6 the individual’s degree program.

7 “(C) EXCEPTION FOR NONACADEMIC
8 FEES.—Such term does not include student ac-
9 tivity fees, athletic fees, insurance expenses, or
10 other expenses unrelated to an individual’s aca-
11 demic course of instruction.

12 “(2) ELIGIBLE EDUCATIONAL INSTITUTION.—
13 The term ‘eligible educational institution’ means an
14 institution—

15 “(A) which is described in section 481 of
16 the Higher Education Act of 1965 (20 U.S.C.
17 1088), as in effect on the date of the enactment
18 of this section, and

19 “(B) which is eligible to participate in a
20 program under title IV of such Act.

21 “(3) ACADEMIC YEAR.—The term ‘academic
22 year’ has the meaning given such term by section
23 481(a)(2) of the Higher Education Act of 1965 (20
24 U.S.C. 1088(a)(2)).

25 “(f) SPECIAL RULES.—

1 “(1) IDENTIFICATION REQUIREMENT.—No
2 credit shall be allowed under subsection (a) to a tax-
3 payer with respect to the qualified tuition and re-
4 lated expenses of an individual unless the taxpayer
5 includes the name and taxpayer identification num-
6 ber of such individual on the return of tax for the
7 taxable year.

8 “(2) ADJUSTMENT FOR CERTAIN SCHOLAR-
9 SHIPS, ETC.—The amount of qualified tuition and
10 related expenses otherwise taken into account under
11 subsection (a) with respect to an individual for an
12 academic period shall be reduced by the sum of any
13 amounts paid for the benefit of such individual
14 which are allocable to such period as—

15 “(A) a qualified scholarship which is ex-
16 cludable from gross income under section 117,

17 “(B) an educational assistance allowance
18 under chapter 30, 31, 32, 34, or 35 of title 38,
19 United States Code, or under chapter 1606 of
20 title 10, United States Code, and

21 “(C) a payment (other than a gift, be-
22 quest, devise, or inheritance within the meaning
23 of section 102(a) for such individual’s edu-
24 cational expenses, or attributable to such indi-
25 vidual’s enrollment at an eligible educational in-

1 stitution, which is excludable from gross income
2 under any law of the United States.

3 “(3) TREATMENT OF EXPENSES PAID BY DE-
4 PENDENT.—If a deduction under section 151 with
5 respect to an individual is allowed to another tax-
6 payer for a taxable year beginning in the calendar
7 year in which such individual’s taxable year begins—

8 “(A) no credit shall be allowed under sub-
9 section (a) to such individual for such individ-
10 ual’s taxable year, and

11 “(B) qualified tuition and related expenses
12 paid by such individual during such individual’s
13 taxable year shall be treated for purposes of
14 this section as paid by such other taxpayer.

15 “(4) TREATMENT OF CERTAIN PREPAY-
16 MENTS.—If qualified tuition and related expenses
17 are paid by the taxpayer during a taxable year for
18 an academic period which begins during the first 3
19 months following such taxable year, such academic
20 period shall be treated for purposes of this section
21 as beginning during such taxable year.

22 “(5) DENIAL OF DOUBLE BENEFIT.—No credit
23 shall be allowed under this section for any expense
24 for which a deduction is allowed under any other
25 provision of this chapter.

1 “(6) NO CREDIT FOR MARRIED INDIVIDUALS
2 FILING SEPARATE RETURNS.—If the taxpayer is a
3 married individual (within the meaning of section
4 7703, this section shall apply only if the taxpayer
5 and the taxpayer’s spouse file a joint return for the
6 taxable year.

7 “(7) NONRESIDENT ALIENS.—If the taxpayer is
8 a nonresident alien individual for any portion of the
9 taxable year, this section shall apply only if such in-
10 dividual is treated as a resident alien of the United
11 States for purposes of this chapter by reason of an
12 election under subsection (g) or (h) of section 6013.

13 “(g) REGULATIONS.—The Secretary may prescribe
14 such regulations as may be necessary or appropriate to
15 carry out this section, including regulations providing for
16 a recapture of the credit allowed under this section in
17 cases where there is a refund in a subsequent taxable year
18 of any amount which was taken into account in deter-
19 mining the amount of such credit.”.

20 (b) REPEAL OF CERTAIN CREDITS, EXCLUSIONS,
21 AND DEDUCTIONS RELATING TO HIGHER EDUCATION
22 EXPENSES.—The following sections of the Internal Rev-
23 enue Code of 1986 are hereby repealed:

24 (1) Section 25A (relating to Hope and Lifetime
25 Learning Credits).

1 (2) Section 127 (relating to educational assist-
2 ance programs).

3 (3) Section 222 (relating to qualified tuition
4 and related expenses).

5 (4) Section 117(d) (relating to qualified tuition
6 reduction).

7 (c) TECHNICAL AND CONFORMING AMENDMENTS.—

8 (1) Section 62(a) is amended by striking para-
9 graph (18).

10 (2) The following sections are amended by
11 striking “222,”: 86(b)(2)(A), 135(c)(4)(A),
12 137(b)(3)(A), 199(d)(2)(A), 219(g)(3)(A)(2),
13 221(b)(2)(C)(i), and 469(i)(F).

14 (3) Section 51A(b)(5)(B) is amended by insert-
15 ing “or” after clause (ii), by striking clause (iii), and
16 by redesignating clause (iv) as clause (iii).

17 (4) Sections 125(f), 221(d)(2)(A),
18 414(n)(3)(C), 3121(a)(18), 3401(a)(18), and
19 6039D(d)(1) are each amended by striking “127,”.

20 (5) Section 132(j)(8) is amended by striking
21 “which are not excludable from gross income under
22 section 127”.

23 (6) Section 137(c)(2) is amended by inserting
24 “(as in effect on the date of enactment of the Fair
25 Flat Tax Act of 2006)” after “127(b)”.

1 (7) Section 1397(a)(2)(A) is amended by strik-
2 ing clause (i).

3 (8) Section 3306(b)(13) is amended by striking
4 “127, or”.

5 (9) Subparagraph (B) of section 72(t)(7) is
6 amended by striking “section 25A(g)(2)” and insert-
7 ing “section 36(c)(3)(B)(2)(v)(I)”.

8 (10) Subparagraph (A) of section 135(d)(2) is
9 amended by striking “section 25A” and inserting
10 “section 36”.

11 (11) Section 221(e) is amended—

12 (A) in paragraph (2)(B), by striking “sec-
13 tion 25A(g)(2)” and inserting “section
14 36(c)(3)(B)(2)(v)(I)” and by striking “section
15 25A(f)(2)” and inserting “section
16 36(c)(3)(B)(2)(v)(I)”, and

17 (B) in paragraph (3), by striking “section
18 25A(b)(3)” and inserting “section 36(c)”.

19 (12) Section 529 is amended—

20 (A) by amending clause (v) of subsection
21 (c)(3)(B) to read as follows:

22 “(v) COORDINATION WITH SCHOLAR-
23 SHIPS AND HIGHER EDUCATION REFUND-
24 ABLE CREDIT.—The total amount of quali-
25 fied higher education expenses with respect

1 to an individual for the taxable year shall
2 be reduced with respect to an individual
3 for an academic period—

4 “(I) by the sum of any amounts
5 paid for the benefit of such individual
6 which are allocable to such period
7 as—

8 “(aa) a qualified scholarship
9 which is excludable from gross
10 income under section 117,

11 “(bb) an educational assist-
12 ance allowance under chapter 30,
13 31, 32, 34, or 35 of title 38,
14 United States Code, or under
15 chapter 1606 of title 10, United
16 States Code, and

17 “(cc) a payment (other than
18 a gift, bequest, devise, or inherit-
19 ance within the meaning of sec-
20 tion 102(a) for such individual’s
21 educational expenses, or attrib-
22 utable to such individual’s enroll-
23 ment at an eligible educational
24 institution, which is excludable

1 from gross income under any law
2 of the United States, and

3 “(II) by the amount of such ex-
4 penses which were taken into account
5 in determining the credit allowed to
6 the taxpayer or any other person
7 under section 36.”, and

8 (B) in subsection (e)(3)(B)(i) by striking
9 “section 25A(b)(3)” and inserting “section
10 36(c)”.

11 (13) Section 530(d) is amended—

12 (A) in paragraph (2)(C)(i)(I) by striking
13 “section 25A(g)(2)” and inserting “section
14 36(c)(3)(B)(2)(v)(I)”,

15 (B) in paragraph (2)(C)(i)(II) by striking
16 “section 25A” and inserting “section 36”, and

17 (C) in paragraph (4)(B)(iii) by striking
18 “section 25A(g)(2)” and inserting “section
19 36(c)(3)(B)(2)(v)(I)”.

20 (14) Subsection (e) of section 6050S is amend-
21 ed by striking “section 25A (without regard to sub-
22 section (g)(2) thereof)” and inserting “section 36
23 (without regard to clause (v)(I) of subsection
24 (c)(3)(B)(2) thereof)”.

1 (15) Subparagraph (J) of section 6213(g)(2) is
2 amended by striking “section 25A(g)(1)” and insert-
3 ing “section 36(f)(1)”.

4 (16) Paragraph (2) of section 1324(b) of title
5 31, United States Code, is amended by inserting “or
6 36” after “section 35”.

7 (17) The table of sections for subpart C of part
8 IV of subchapter A of chapter 1 is amended by re-
9 designating the item relating to section 36 as an
10 item relating to section 37 and by inserting after the
11 item relating to section 35 the following new item:
 “Sec. 36. Higher education expenses”.

12 (18) The table of sections for subpart A of such
13 part IV is amended by striking the item relating to
14 section 25A.

15 (19) The table of sections for part III of sub-
16 chapter B of chapter 1 is amended by striking the
17 item relating to section 127.

18 (20) The table of sections for part VII of sub-
19 chapter B of chapter 1 is amended by striking the
20 item relating to section 222.

21 (d) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 2005.

1 **SEC. 105. DEDUCTION FOR MORTGAGE INTEREST WHETH-**
 2 **ER OR NOT INDIVIDUAL ITEMIZES.**

3 (a) IN GENERAL.—Subsection (a) of section 62 (de-
 4 fining adjusted gross income) is amended by redesignating
 5 paragraph (19) (as added by section 703(a) of the Amer-
 6 ican Jobs Creation Act of 2004) as paragraph (20) and
 7 by inserting after paragraph (20) (as so redesignated) the
 8 following new paragraph:

9 “(21) QUALIFIED RESIDENCE INTEREST.—The
 10 deduction allowed under section 163 by reason of
 11 subsection (h)(2)(D) thereof.”.

12 (b) EFFECTIVE DATE.—The amendment made by
 13 subsection (a) shall apply to interest paid in taxable years
 14 beginning after the date of the enactment of this Act.

15 **SEC. 106. UNIVERSAL PENSION ACCOUNTS.**

16 (a) DEDUCTION FOR CONTRIBUTIONS.—

17 (1) IN GENERAL.—Part VII of subchapter B of
 18 chapter 1 (relating to additional itemized deductions
 19 for individuals) is amended by inserting after section
 20 219 the following new section:

21 **“SEC. 219A. CONTRIBUTIONS TO UNIVERSAL PENSION AC-**
 22 **COUNTS.**

23 “(a) ALLOWANCE OF DEDUCTION.—In the case of an
 24 individual, there shall be allowed as a deduction an
 25 amount equal to the qualified universal pension contribu-
 26 tions of the individual for the taxable year.

1 “(b) MAXIMUM AMOUNT OF DEDUCTION.—

2 “(1) IN GENERAL.—The amount allowable as a
3 deduction under subsection (a) to any individual for
4 any taxable year shall not exceed the lesser of—

5 “(A) the deductible amount, or

6 “(B) an amount equal to the compensation
7 includible in the individual’s gross income for
8 such taxable year.

9 “(2) DEDUCTIBLE AMOUNT.—For purposes of
10 paragraph (1)(A), the deductible amount shall be de-
11 termined in accordance with the following table:

“For taxable years beginning in calendar year—	The de- ductible amount is—
2006 or 2007	\$4,000
2008 or thereafter	\$5,000.

12 “(3) COST-OF-LIVING ADJUSTMENT.—

13 “(A) IN GENERAL.—In the case of any
14 taxable year beginning in a calendar year after
15 2008, the \$5,000 amount in paragraph (2)
16 shall be increased by an amount equal to—

17 “(i) such dollar amount, multiplied by

18 “(ii) the cost-of-living adjustment de-
19 termined under section 1(f)(3) for the cal-
20 endar year in which the taxable year be-
21 gins, determined by substituting ‘calendar

1 year 2007’ for ‘calendar year 1992’ in sub-
2 paragraph (B) thereof.

3 “(B) ROUNDING.—If any amount after ad-
4 justment under clause (i) is not a multiple of
5 \$500, such amount shall be rounded to the next
6 lower multiple of \$500.

7 “(c) LIMITATION BASED ON ADJUSTED GROSS IN-
8 COME.—

9 “(1) IN GENERAL.—The deductible amount oth-
10 erwise applicable under subsection (b) for any tax-
11 able year shall be reduced (but not below zero) by
12 the amount determined under paragraph (2).

13 “(2) AMOUNT OF REDUCTION.—

14 “(A) IN GENERAL.—The amount deter-
15 mined under this paragraph with respect to any
16 dollar limitation shall be the amount which
17 bears the same ratio to such limitation as—

18 “(i) the excess of—

19 “(I) the taxpayer’s adjusted
20 gross income for such taxable year,
21 over

22 “(II) the applicable dollar
23 amount, bears to

1 “(ii) \$15,000 (\$10,000 in the case of
2 a joint return or a married individual filing
3 a separate return).

4 “(B) APPLICABLE DOLLAR AMOUNT.—For
5 purposes of subparagraph (A), the applicable
6 dollar amount is—

7 “(i) in the case of a taxpayer filing a
8 joint return, \$150,000,

9 “(ii) in the case of any other taxpayer
10 (other than a married individual filing a
11 separate return), \$95,000, and

12 “(iii) in the case of a married indi-
13 vidual filing a separate return, zero.

14 “(C) NO REDUCTION BELOW \$200 UNTIL
15 COMPLETE PHASE-OUT.—No dollar limitation
16 shall be reduced below \$200 under subpara-
17 graph (A) unless (without regard to this sub-
18 paragraph) such limitation is reduced to zero.

19 “(D) ROUNDING.—Any amount deter-
20 mined under this paragraph which is not a mul-
21 tiple of \$10 shall be rounded to the next lowest
22 \$10.

23 “(3) ADJUSTED GROSS INCOME.—For purposes
24 of this subsection, adjusted gross income of any tax-
25 payer shall be determined—

1 “(A) after application of sections 86, 219,
2 and 469, and

3 “(B) without regard to sections 135, 137,
4 221, and 911 or the deduction allowable under
5 this section.

6 “(4) MARRIED INDIVIDUALS FILING SEPARATE
7 RETURNS.—

8 “(A) IN GENERAL.—In the case of a mar-
9 ried individual filing a separate return, the
10 amount applicable under paragraph
11 (2)(A)(i)(II) is zero.

12 “(B) SPECIAL RULE FOR MARRIED INDIVIDUALS
13 FILING SEPARATELY AND LIVING
14 APART.—A husband and wife who—

15 “(i) file separate returns for any tax-
16 able year, and

17 “(ii) live apart at all times during
18 such taxable year,

19 shall not be treated as married individuals for
20 purposes of this subsection.

21 “(d) SPECIAL RULES FOR CERTAIN MARRIED INDIVIDUALS.—

22 “(1) IN GENERAL.—In the case of an individual
23 to whom this paragraph applies for the taxable year,
24

1 the limitation of paragraph (1) of subsection (b)
2 shall be equal to the lesser of—

3 “(A) the dollar amount in effect under
4 subsection (b)(1)(A) for the taxable year, or

5 “(B) the sum of—

6 “(i) the compensation includible in
7 such individual’s gross income for the tax-
8 able year, plus

9 “(ii) the compensation includible in
10 the gross income of such individual’s
11 spouse for the taxable year reduced by the
12 amount allowed as a deduction under sub-
13 section (a) to such spouse for such taxable
14 year.

15 “(2) INDIVIDUALS TO WHOM PARAGRAPH (1)
16 APPLIES.—Paragraph (1) shall apply to any indi-
17 vidual if—

18 “(A) such individual files a joint return for
19 the taxable year, and

20 “(B) the amount of compensation (if any)
21 includible in such individual’s gross income for
22 the taxable year is less than the compensation
23 includible in the gross income of such individ-
24 ual’s spouse for the taxable year.

1 “(e) QUALIFIED UNIVERSAL PENSION CONTRIBU-
 2 TIONS.—For purposes of this section, the term ‘qualified
 3 universal pension contribution’ means any amount paid in
 4 cash for the taxable year by or on behalf of an individual
 5 to a Universal PensionAccount for such individual’s ben-
 6 efit.

7 “(f) OTHER DEFINITIONS AND SPECIAL RULES.—

8 “(1) ATTAINMENT OF AGE 70½.—No deduction
 9 shall be allowed under this section with respect to
 10 any qualified retirement contribution for the benefit
 11 of an individual if such individual has attained age
 12 70½ before the close of such individual’s taxable
 13 year for which the contribution was made.

14 “(2) RECONTRIBUTED AMOUNTS.—No deduc-
 15 tion shall be allowed under this section with respect
 16 to a rollover contribution to a Universal Pension Ac-
 17 count.

18 “(3) DENIAL OF DEDUCTION FOR AMOUNT
 19 CONTRIBUTED TO INHERITED ACCOUNTS.—No de-
 20 duction shall be allowed under this section with re-
 21 spect to any amount paid to an inherited Universal
 22 Pension Account.

23 “(g) OTHER DEFINITIONS AND SPECIAL RULES.—

1 “(1) COMPENSATION.—For purposes of this
2 section, the term ‘compensation’ has the meaning
3 given to such term by section 219(f)(1).

4 “(2) MARRIED INDIVIDUALS.—The maximum
5 deduction under subsection (b) shall be computed
6 separately for each individual, and this section shall
7 be applied without regard to any community prop-
8 erty laws.

9 “(3) TIME WHEN CONTRIBUTIONS DEEMED
10 MADE.—A taxpayer shall be deemed to have made a
11 contribution to a Universal Pension Account on the
12 last day of the preceding taxable year if the con-
13 tribution is made on account of such taxable year
14 and is made not later than the time prescribed by
15 law for filing the return for such taxable year (not
16 including extensions thereof).

17 “(4) EMPLOYER PAYMENTS.—For purposes of
18 this title, any amount paid by an employer to a Uni-
19 versal Pension Account shall be treated as payment
20 of compensation to the employee (other than a self-
21 employed individual who is an employee within the
22 meaning of section 401(c)(1)) includible in the em-
23 ployee’s gross income in the taxable year for which
24 the amount was contributed, whether or not a de-

duction for such payment is allowable under this section to the employee.

“(5) EXCESS CONTRIBUTIONS TREATED AS CONTRIBUTION MADE DURING SUBSEQUENT YEAR FOR WHICH THERE IS AN UNUSED LIMITATION.—A rule similar to the rule of section 219(f)(5) shall apply for purposes of this section.”.

(2) DEDUCTION ALLOWED WHETHER OR NOT TAXPAYER ITEMIZES DEDUCTIONS.—Subsection (a) of section 62 is amended by inserting after paragraph (20) the following new paragraph:

“(21) CONTRIBUTIONS TO UNIVERSAL PENSION ACCOUNTS.—The deduction allowed by section 219A.”.

(3) TECHNICAL AMENDMENTS.—

(A) Subparagraph (B) of section 135(c)(4) is amended by striking “and 219” and inserting “219, and 219A”.

(B) Subparagraph (B) of section 137(b)(3) is amended by inserting “219A,” after “219,”.

(C) Subparagraph (A) of section 199(d)(2) is amended by inserting “219A,” after “219,”.

(D) Clause (ii) of section 219(g)(3)(A) is amended by inserting “219A,” after “137,”.

1 (E) Clause (ii) of section 221(b)(2)(C) is
 2 amended by inserting “219A,” after “219,”.

3 (F) Clause (ii) of section 222(b)(2)(C) is
 4 amended by inserting “219A,” after “219,”.

5 (G) Clause (iii) of section 469(i)(3)(F) is
 6 amended by inserting “219A,” after “219,”.

7 (4) CLERICAL AMENDMENT.—The table of sec-
 8 tions for part VII of subchapter B of chapter 1 is
 9 amended by inserting after the item relating to sec-
 10 tion 219 the following new item:

“Sec. 219A. Contributions to Universal Pension Accounts.”.

11 (b) UNIVERSAL PENSION ACCOUNTS.—

12 (1) IN GENERAL.—Subpart A of part I of sub-
 13 chapter D of chapter 1 is amended by inserting after
 14 section 408A the following new section:

15 **“SEC. 408B. UNIVERSAL PENSION ACCOUNTS.**

16 “(a) IN GENERAL.—For purposes of this title, the
 17 term ‘Universal Pension Account’ means a trust created
 18 or organized in the United States for the exclusive benefit
 19 of an individual or such individual’s beneficiaries, but only
 20 if the written governing instrument creating the trust
 21 meets the following requirements:

22 “(1) Except in the case of a rollover contribu-
 23 tion described in subsection (b)(3) or in section
 24 402(c), 403(a)(4), 403(b)(8), or 457(e)(16), no con-
 25 tribution will be accepted unless it is in cash, and

1 contributions will not be accepted for the taxable
2 year on behalf of any individual in excess of the de-
3 ductible amount in effect for such taxable year
4 under section 219A(b)(2).

5 “(2) The trustee is a bank (as defined in sec-
6 tion 408(n)) or such other person who demonstrates
7 to the satisfaction of the Secretary that the manner
8 in which such other person will administer the trust
9 will be consistent with the requirements of this sec-
10 tion.

11 “(3) No part of the trust funds will be invested
12 in life insurance contracts.

13 “(4) The interest of an individual in the bal-
14 ance in such individual’s account is nonforfeitable.

15 “(5) The assets of the trust will not be commin-
16 gled with other property except in a common trust
17 fund or common investment fund.

18 “(6) Under regulations prescribed by the Sec-
19 retary, rules similar to the rules of section 401(a)(9)
20 and the incidental death benefit requirements of sec-
21 tion 401(a) shall apply to the distribution of the en-
22 tire interest of an individual for whose benefit the
23 trust is maintained.

24 “(b) TAX TREATMENT OF DISTRIBUTIONS.—

1 “(1) IN GENERAL.—Except as otherwise pro-
2 vided in this subsection, any amount distributed out
3 of a Universal Pension Account shall be included in
4 gross income by the distributee without regard to
5 basis.

6 “(2) EXCEPTION FOR IMMEDIATE ANNU-
7 ITIES.—If any distribution is a part of a series of
8 substantially equal periodic payments (not less fre-
9 quently than annually) made for the life (or life ex-
10 pectancy) of the distributee or the joint lives (or
11 joint life expectancies) of such distributee and such
12 distributee’s designated beneficiary, the amount in-
13 cludible in gross income under paragraph (1) shall
14 be determined in the manner provided under section
15 72. The rules of section 408(d)(2) shall apply for
16 purposes of the preceding sentence.

17 “(3) EXCEPTION FOR ROLLOVERS.—

18 “(A) IN GENERAL.—Paragraph (1) shall
19 not apply to any amount distributed out of a
20 Universal Pension Account to the individual for
21 whose benefit the account is maintained if the
22 entire amount received (including money and
23 any other property) is paid into a Universal
24 Pension Account (other than an endowment
25 contract) for the benefit of such individual not

1 later than the 60th day after the day on which
 2 the individual receives the distribution.

3 “(B) LIMITATION.—This paragraph does
 4 not apply to any amount described in subpara-
 5 graph (A) received by an individual from a Uni-
 6 versal Pension Account if at any time during
 7 the 1-year period ending on the day of such re-
 8 ceipt such individual received any other amount
 9 described in that subparagraph from a Uni-
 10 versal Pension Account which was not includible
 11 in such individual’s gross income because of the
 12 application of this paragraph.

13 “(C) SPECIAL RULES.—Rules similar to
 14 the rules of subparagraphs (C), (D), (E), (F),
 15 and (I) of section 408(d)(3) shall apply for pur-
 16 poses of this paragraph.

17 “(4) EXCEPTION FOR QUALIFIED DISTRIBUTIONS.—
 18

19 “(A) DISTRIBUTIONS FOR HIGHER EDU-
 20 CATION EXPENSES.—Paragraph (1) shall not
 21 apply to distributions to an individual to the ex-
 22 tent such distributions do not exceed the quali-
 23 fied higher education expenses (as defined in
 24 section 72(t)(7)) of the taxpayer for the taxable
 25 year.

1 “(B) DISTRIBUTIONS FOR FIRST HOME
2 PURCHASES.—Paragraph (1) shall not apply to
3 distributions to an individual which are quali-
4 fied first-time homebuyer distributions (as de-
5 fined in section 72(t)(8)).

6 “(5) OTHER DISTRIBUTIONS.—Rules similar to
7 the rules of paragraphs (4) and (6) of section
8 408(d) shall apply for purposes of this subsection.

9 “(c) TAX TREATMENT OF ACCOUNTS.—

10 “(1) EXEMPTION FROM TAX.—Any Universal
11 Pension Account is exempt from taxation under this
12 subtitle unless such account has ceased to be a Uni-
13 versal Pension Account by reason of paragraph (2).
14 Notwithstanding the preceding sentence, any such
15 account is subject to the taxes imposed by section
16 511 (relating to imposition of tax on unrelated busi-
17 ness income of charitable, etc. organizations).

18 “(2) LOSS OF EXEMPTION FOR PROHIBITED
19 TRANSACTION.—Rules similar to the rules of section
20 408(e)(2) shall apply for purposes of this subsection.

21 “(3) EFFECT OF PLEDGING ACCOUNT AS SECU-
22 RITY; PURCHASE OF ENDOWMENT CONTRACT; COM-
23 MINGLING AMOUNTS IN CERTAIN COMMON TRUST
24 FUNDS AND COMMON INVESTMENT FUNDS.—Rules
25 similar to the rules of paragraphs (4), (5), and (6)

1 of section 408(e) shall apply for purposes of this
2 subsection.

3 “(d) ROLLOVERS PERMITTED FROM IRA’S, ETC.—

4 Solely for purposes of determining whether any rollover
5 may be made to a Universal Pension Account, a Universal
6 Pension Account shall be treated as if it were an individual
7 retirement plan. No amount may be distributed in a roll-
8 over other than to a Universal Pension Account.

9 “(e) SPECIAL RULES.—

10 “(1) COMMUNITY PROPERTY LAWS.—This sec-
11 tion shall be applied without regard to any commu-
12 nity property laws.

13 “(2) CUSTODIAL ACCOUNTS.—Rules similar to
14 the rules of section 408(g) shall apply for purposes
15 of this subsection.

16 “(3) INVESTMENT IN COLLECTIBLES TREATED
17 AS DISTRIBUTIONS.—The acquisition by a Universal
18 Pension Account of any collectible (as defined in sec-
19 tion 408(m)) shall be treated (for purposes of this
20 section and section 402) as a distribution from such
21 account in an amount equal to the cost to such ac-
22 count of such collectible.

23 “(f) REPORTS.—The trustee of a Universal Pension
24 Account shall make such reports regarding such Account
25 to the Secretary and to the individuals for whom the Ac-

1 count is, or is to be, maintained with respect to contribu-
 2 tions (and the years to which they relate), distributions,
 3 aggregating \$10 or more in any calendar year and such
 4 other matters as the Secretary may require. The reports
 5 required by this subsection—

6 “(1) shall be filed at such time and in such
 7 manner as the Secretary prescribes, and

8 “(2) shall be furnished to individuals—

9 “(A) not later than January 31 of the cal-
 10 endar year following the calendar year to which
 11 such reports relate, and

12 “(B) in such manner as the Secretary pre-
 13 scribes.”.

14 (2) TECHNICAL AMENDMENTS.—

15 (A) EXCESS CONTRIBUTIONS.—

16 (i) IN GENERAL.—Subsection (a) of
 17 section 4973 is amended by redesignating
 18 paragraphs (2), (3), and (4) as paragraphs
 19 (3), (4), and (5), respectively, and by in-
 20 serting after paragraph (1) the following
 21 new paragraph:

22 “(2) a Universal Pension Account (as defined in
 23 section 408B),”.

1 (ii) DETERMINATION OF EXCESS.—

2 Section 4973 is amended by adding at the
3 end the following new subsection:

4 “(i) EXCESS CONTRIBUTIONS TO UNIVERSAL PEN-
5 SION ACCOUNTS.—Rules similar to the rules under sub-
6 section (b) shall apply to any Universal Pension Account
7 (as defined in section 408B).”.

8 (B) EARLY WITHDRAWAL PENALTY,
9 ETC.—Subsection (c) of section 4974 is amend-
10 ed by striking “or” at the end of paragraph (4),
11 by striking the period at the end of paragraph
12 (5) and inserting “, or”, and by inserting after
13 paragraph (5) the following new paragraph:

14 “(6) a Universal Pension Account described in
15 section 408B.”.

16 (C) PROHIBITED TRANSACTIONS.—

17 (i) IN GENERAL.—Paragraph (1) of
18 section 4975(e) is amended by redesign-
19 ating subparagraphs (D), (E), and (F) as
20 subparagraphs (E), (F), and (G), respec-
21 tively, and by inserting after subparagraph
22 (C) the following new subparagraph:

23 “(D) a Universal Pension Account de-
24 scribed in section 408B,”.

1 (ii) EXCEPTION.—Subsection (c) of
 2 section 4975 is amended by adding at the
 3 end the following new paragraph:

4 “(5) SPECIAL RULE FOR UNIVERSAL PENSION
 5 ACCOUNTS.—An individual for whose benefit a Uni-
 6 versal Pension Account is established shall be ex-
 7 empt from the tax imposed by this section with re-
 8 spect to any transaction concerning such Account
 9 (which would otherwise be taxable under this sec-
 10 tion) if section 408B(d)(2) applies with respect to
 11 such transaction.”.

12 (D) FAILURE TO PROVIDE REPORTS.—
 13 Paragraph (2) of section 6693(a) (relating to
 14 failure to provide reports on individual retire-
 15 ment accounts or annuities) is amended by re-
 16 designating subparagraphs (C) and (D) as sub-
 17 paragraphs (D) and (E), respectively, and by
 18 inserting after subparagraph (B) the following
 19 new subparagraph:

20 “(C) a Universal Pension Account de-
 21 scribed in section 408B,”.

22 (E) W-2 REPORTING.—Subsection (a) of
 23 section 6051 is amended by striking “and” at
 24 the end of paragraph (10), by striking the pe-
 25 riod at the end of paragraph (11) and inserting

1 “, and”, and by inserting after paragraph (11)
 2 the following new paragraph:

3 “(12) the total amount of elective employer con-
 4 tributions under section 408B(f)(2)(A).”.

5 (F) OTHER TECHNICAL AMENDMENTS.—

6 The following provisions are each amended by
 7 inserting “408B(f),” after “408(p),”:

8 (i) Subsections (b) and (c) of section
 9 414.

10 (ii) Section 414(m)(4)(B).

11 (iii) Section 414(n)(3)(B).

12 (iv) Section 414(u)(1)(C).

13 (G) ELECTIVE CONTRIBUTIONS SUBJECT
 14 TO FICA AND FUTA.—

15 (i) Paragraph (5) of section 3121(a)
 16 is amended by striking “or” at the end of
 17 subparagraph (H), by striking the semi-
 18 colon at the end of subparagraph (I) and
 19 inserting “, or”, and by adding at the end
 20 the following new subparagraph:

21 “(J) under an arrangement to which sec-
 22 tion 408B(f) applies, other than any elective
 23 contributions under paragraph (2)(A) thereof;”.

24 (ii) Paragraph (4) of section 209(a) of
 25 the Social Security Act is amended by add-

ing at the end “or (J) under an arrangement to which section 408B(f) of such Code applies, other than any elective contributions under paragraph (2)(A) thereof;”.

(iii) Paragraph (5) of section 3306(b) is amended by striking “or” at the end of subparagraph (G), by striking the semicolon at the end of subparagraph (H) and inserting “, or”, and by adding at the end the following new subparagraph:

“(I) under an arrangement to which section 408B(f) applies, other than any elective contributions under paragraph (2)(A) thereof;”.

(iv) Paragraph (12) of section 3401(a) is amended by adding at the end the following new subparagraph:

“(F) under an arrangement to which section 408B(f) applies; or”.

(3) CLERICAL AMENDMENT.—The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by inserting after the item relating to section 408A the following new item:

“Sec. 408B. Universal Pension Accounts.”.

(c) TERMINATION OF CONTRIBUTIONS TO INDIVIDUAL RETIREMENT PLANS, INCLUDING ROTH IRA’S.—

1 (1) Subsection (a) of section 408 is amended by
2 adding at the end the following new paragraph:

3 “(7) No contribution (other than a rollover con-
4 tribution referred to in paragraph (1)) shall be ac-
5 cepted for any taxable year beginning after Decem-
6 ber 31, 2005, unless such account is a simplified
7 employee pension or a simple retirement account.”.

8 (2) Subsection (b) of section 408 is amended by
9 inserting after paragraph (4) the following new
10 paragraph:

11 “(5) No contribution shall be accepted for any
12 taxable year beginning after December 31, 2005, un-
13 less such annuity is a simplified employee pension or
14 a simple retirement account.”.

15 (d) CREDIT FOR SMALL EMPLOYERS MAINTAINING
16 SALARY REDUCTION ARRANGEMENTS FOR UNIVERSAL
17 PENSION ACCOUNTS.—

18 (1) IN GENERAL.—Subpart D of part IV of
19 subchapter A of chapter 1 (relating to business re-
20 lated credits) is amended by adding at the end the
21 following new section:

22 **“SEC. 45N. SMALL EMPLOYER UNIVERSAL PENSION AC-**
23 **COUNT COSTS.**

24 “(a) GENERAL RULE.—For purposes of section 38,
25 in the case of an eligible employer, the small employer

1 Universal Pension Account cost credit determined under
2 this section for any taxable year is the aggregate of the
3 amount determined under subsection (b) for each em-
4 ployee participating in an arrangement meeting the re-
5 quirements of section 408B(f).

6 “(b) AMOUNT OF CREDIT.—The amount of the credit
7 determined under this section for any taxable year with
8 respect to an employee shall be—

9 “(1) \$50 for the taxable year which includes the
10 date that the arrangement referred to subsection (a)
11 becomes effective,

12 “(2) \$20 for each of the 3 taxable years fol-
13 lowing the taxable year described in paragraph (1),
14 and

15 “(3) zero for any other taxable year.

16 “(c) ELIGIBLE EMPLOYER.—For purposes of this
17 section, the term ‘eligible employer’ means, with respect
18 to any taxable year, an employer which had no more than
19 100 employees on a typical business day during the most
20 recent calendar year ending before such taxable year. For
21 purposes of the preceding sentence, all persons treated as
22 a single employer under subsection (a) or (b) of section
23 52, or subsection (n) or (o) of section 414, shall be treated
24 as one person.”.

1 (2) CREDIT ALLOWED AS PART OF GENERAL
 2 BUSINESS CREDIT.—Section 38(b) (defining current
 3 year business credit) is amended by striking “plus”
 4 at the end of paragraph (25), by striking the period
 5 at the end of paragraph (26) and inserting “, plus”,
 6 and by adding at the end the following new para-
 7 graph:

8 “(27) in the case of an eligible employer (as de-
 9 fined in section 45J(c)), the small employer Uni-
 10 versal Pension Account cost credit determined under
 11 section 45J(a).”.

12 (3) CLERICAL AMENDMENT.—The table of sec-
 13 tions for subpart D of part IV of subchapter A of
 14 chapter 1 is amended by adding at the end the fol-
 15 lowing new item:

“Sec. 45N. Small employer Universal Pension Account costs”.

16 (e) EFFECTIVE DATE.—The amendments made by
 17 this section shall apply to taxable years beginning after
 18 December 31, 2005.

19 **SEC. 107. REPEAL OF INDIVIDUAL ALTERNATIVE MINIMUM**
 20 **TAX.**

21 (a) IN GENERAL.—Section 55(a) (relating to alter-
 22 native minimum tax imposed) is amended by adding at
 23 the end the following new flush sentence:

1 “For purposes of this title, the tentative minimum tax on
 2 any taxpayer other than a corporation for any taxable year
 3 beginning after December 31, 2005, shall be zero.”.

4 (b) MODIFICATION OF LIMITATION ON USE OF
 5 CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—

6 Subsection (c) of section 53 (relating to credit for prior
 7 year minimum tax liability) is amended to read as follows:

8 “(c) LIMITATION.—

9 “(1) IN GENERAL.—Except as provided in para-
 10 graph (2), the credit allowable under subsection (a)
 11 for any taxable year shall not exceed the excess (if
 12 any) of—

13 “(A) the regular tax liability of the tax-
 14 payer for such taxable year reduced by the sum
 15 of the credits allowable under subparts A, B, D,
 16 E, and F of this part, over

17 “(B) the tentative minimum tax for the
 18 taxable year.

19 “(2) TAXABLE YEARS BEGINNING AFTER
 20 2005.—In the case of any taxable year beginning
 21 after 2005, the credit allowable under subsection (a)
 22 to a taxpayer other than a corporation for any tax-
 23 able year shall not exceed 90 percent of the regular
 24 tax liability of the taxpayer for such taxable year re-

1 duced by the sum of the credits allowable under sub-
2 parts A, B, D, E, and F of this part.”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2005.

6 **TITLE II—INCOME TAX**
7 **REFORMS**
8 **Subtitle A—Provisions Relating to**
9 **Corporate and Business Income**
10 **Tax**

11 **SEC. 201. CORPORATE FLAT TAX.**

12 (a) IN GENERAL.—Subsection (b) of section 11 (re-
13 lating to tax imposed) is amended to read as follows:

14 “(b) AMOUNT OF TAX.—The amount of tax imposed
15 by subsection (a) shall be equal to 35 percent of the tax-
16 able income.”.

17 (b) CONFORMING AMENDMENTS.—

18 (1) Section 280C(c)(3)(B)(ii)(II) is amended by
19 striking “maximum rate of tax under section
20 11(b)(1)” and inserting “rate of tax under section
21 11(b)”.

22 (2) Sections 860E(e)(2)(B), 860E(e)(6)(A)(ii),
23 860K(d)(2)(A)(ii), 860K(e)(1)(B)(ii),
24 1446(b)(2)(B), and 7874(e)(1)(B) are each amended
25 by striking “highest rate of tax specified in section

1 11(b)(1)” and inserting “rate of tax specified in sec-
2 tion 11(b)”.

3 (3) Section 904(b)(3)(D)(ii) is amended by
4 striking “(determined without regard to the last sen-
5 tence of section 11(b)(1))”.

6 (4) Section 962 is amended by striking sub-
7 section (c) and by redesignating subsection (d) as
8 subsection (c).

9 (5) Section 1201(a) is amended by striking
10 “(determined without regard to the last 2 sentences
11 of section 11(b)(1))”.

12 (6) Section 1561(a) is amended—

13 (A) by striking paragraph (1) and by re-
14 designating paragraphs (2), (3), and (4) as
15 paragraphs (1), (2), and (3), respectively,

16 (B) by striking “The amounts specified in
17 paragraph (1), the” and inserting “The”,

18 (C) by striking “paragraph (2)” and in-
19 serting “paragraph (1)”,

20 (D) by striking “paragraph (3)” both
21 places it appears and inserting “paragraph
22 (2)”,

23 (E) by striking “paragraph (4)” and in-
24 serting “paragraph (3)”, and

25 (F) by striking the fourth sentence.

1 (7) Subsection (b) of section 1561 is amended
2 to read as follows:

3 “(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-
4 poration has a short taxable year which does not include
5 a December 31 and is a component member of a controlled
6 group of corporations with respect to such taxable year,
7 then for purposes of this subtitle, the amount to be used
8 in computing the accumulated earnings credit under sec-
9 tion 535(c)(2) and (3) of such corporation for such taxable
10 year shall be the amount specified in subsection (a)(1) di-
11 vided by the number of corporations which are component
12 members of such group on the last day of such taxable
13 year. For purposes of the preceding sentence, section
14 1563(b) shall be applied as if such last day were sub-
15 stituted for December 31.”.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 2005.

19 **SEC. 202. TREATMENT OF TRAVEL ON CORPORATE AIR-**
20 **CRAFT.**

21 (a) IN GENERAL.—Section 162 (relating to trade or
22 business expenses) is amended by redesignating subsection
23 (q) as subsection (r) and b inserting after subsection (p)
24 the following new subsection:

1 “(q) TREATMENT OF TRAVEL ON CORPORATE AIR-
 2 CRAFT.—The rate at which an amount allowable as a de-
 3 duction under this chapter for the use of an aircraft owned
 4 by the taxpayer is determined shall not exceed the rate
 5 at which an amount paid or included in income by an em-
 6 ployee of such taxpayer for the personal use of such air-
 7 craft is determined.”.

8 (b) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply to taxable years beginning after
 10 December 31, 2005.

11 **SEC. 203. VALUATION OF EMPLOYEE PERSONAL USE OF**
 12 **NONCOMMERCIAL AIRCRAFT.**

13 (a) IN GENERAL.—For purposes of Federal income
 14 tax inclusion, the value of any employee personal use of
 15 noncommercial aircraft shall equal the excess (if any) of—

16 (1) greater of—

17 (A) the fair market value of such use, or

18 (B) the actual cost of such use (including
 19 all fixed and variable costs), over

20 (2) any amount paid by or on behalf of such
 21 employee for such use.

22 (b) EFFECTIVE DATE.—Subsection (a) shall apply to
 23 use after the date of the enactment of this Act.

1 **SEC. 204. ELIMINATION OF TAX EXPENDITURES THAT SUB-**
2 **SIDIZE INEFFICIENCIES IN THE HEALTH**
3 **CARE SYSTEM.**

4 Not later than 180 days after the date of the enact-
5 ment of this Act, the Secretary of the Treasury shall re-
6 port to the Committee on Finance of the Senate and the
7 Committee on Ways and Means of the House of Rep-
8 resentatives recommendations regarding the elimination of
9 Federal tax incentives which subsidize inefficiencies in the
10 health care system and if eliminated would result in Fed-
11 eral budget savings of not less than \$10,000,000,000 an-
12 nually.

13 **SEC. 205. PASS-THROUGH BUSINESS ENTITY TRANS-**
14 **PARENCY.**

15 Not later than 90 days after the date of the enact-
16 ment of this Act, the Secretary of the Treasury shall re-
17 port to the Committee on Finance of the Senate and the
18 Committee on Ways and Means of the House of Rep-
19 resentatives regarding the implementation of additional
20 reporting requirements with respect to any pass-through
21 entity with the goal of the reduction of tax avoidance
22 through the use of such entities, In addition, the Secretary
23 shall develop procedures to share such report data with
24 State revenue agencies under the disclosure requirements
25 of section 6103(d) of the Internal Revenue Code of 1986.

1 **SEC. 206. BROKER REPORTING OF CUSTOMER'S BASIS IN**
2 **SECURITIES TRANSACTIONS.**

3 (a) IN GENERAL.—Section 6045 (relating to returns
4 of brokers) is amended by adding at the end the following
5 new subsection:

6 “(g) ADDITIONAL INFORMATION REQUIRED IN THE
7 CASE OF SECURITIES TRANSACTIONS.—

8 “(1) IN GENERAL.—If a broker is otherwise re-
9 quired to make a return under subsection (a) with
10 respect to any applicable security, the broker shall
11 include in such return the information described in
12 paragraph (2).

13 “(2) ADDITIONAL INFORMATION REQUIRED.—

14 “(A) IN GENERAL.—The information re-
15 quired under paragraph (1) to be shown on a
16 return with respect to an applicable security of
17 a customer shall include for each reported ap-
18 plicable security the customer's adjusted basis
19 in such security.

20 “(B) EXEMPTION FROM REQUIREMENT.—

21 The Secretary shall issue such regulations or
22 guidance as necessary concerning the applica-
23 tion of the requirement under subparagraph (A)
24 in cases in which a broker in making a return
25 does not have sufficient information to meet
26 such requirement with respect to the reported

1 applicable security. Such regulations or guid-
2 ance may—

3 “(i) require such other information re-
4 lated to such adjusted basis as the Sec-
5 retary may prescribe, and

6 “(ii) exempt classes of cases in which
7 the broker does not have sufficient infor-
8 mation to meet either the requirement
9 under subparagraph (A) or the require-
10 ment under clause (i).

11 “(3) INFORMATION TRANSFERS.—To the extent
12 provided in regulations, there shall be such ex-
13 changes of information between brokers as such reg-
14 ulations may require for purposes of enabling such
15 brokers to meet the requirements of this subsection.

16 “(4) DEFINITIONS.—For purposes of this sub-
17 section, the term ‘applicable security’ means any—

18 “(A) security described in subparagraph
19 (A) or (C) of section 475(c)(2),

20 “(B) interest in a regulated investment
21 company (as defined in section 851), or

22 “(C) other financial instrument designated
23 in regulations prescribed by the Secretary.”.

24 (b) EFFECTIVE DATE.—The amendment made by
25 this section shall apply to returns the due date for which

1 (determined without regard to extensions) is after Decem-
 2 ber 31, 2008, with respect to securities acquired after De-
 3 cember 31, 2007.

4 **SEC. 207. REPEAL OF LOWER COST OR MARKET INVENTORY**
 5 **METHOD.**

6 (a) IN GENERAL.—Section 471 (relating to general
 7 rule for inventories) is amended by redesignating sub-
 8 section (c) as subsection (d) and by inserting after sub-
 9 section (b) the following new subsection:

10 “(c) PROHIBITION ON USE OF LOWER COST OR MAR-
 11 KET METHOD.—

12 “(1) IN GENERAL.—For any taxable year be-
 13 ginning after December 31, 2006, a taxpayer may
 14 not use any method which values inventories at cost
 15 or market, whichever is lower.

16 “(2) 3-YEAR AVERAGING FOR INCREASES IN IN-
 17 VENTORY VALUE.—In the case of a taxpayer that
 18 used a method which values inventories at cost or
 19 market, whichever is lower, for the taxable year end-
 20 ing with or within December 31, 2006, the begin-
 21 ning inventory for the first taxable year beginning
 22 after such date shall be valued both with and with-
 23 out the application of paragraph (1). Any change in
 24 the inventory amount resulting from the application
 25 of the preceding sentence shall be taken into account

1 ratably in each of the 3 taxable years beginning with
 2 the first taxable year for which the method described
 3 in subsection (b) is first used.

4 “(3) CERTAIN ADJUSTMENTS NOT TO APPLY.—
 5 Section 481 shall not apply with respect to any
 6 change in the method of accounting which is re-
 7 quired by this subsection.”.

8 (b) EFFECTIVE DATE.—The amendment made by
 9 subsection (a) shall apply to taxable years beginning after
 10 December 31, 2006.

11 **SEC. 208. IMPOSITION OF WITHHOLDING ON CERTAIN PAY-**
 12 **MENTS MADE BY GOVERNMENT ENTITIES.**

13 (a) IN GENERAL.—Section 3402 is amended by add-
 14 ing at the end the following new subsection:

15 “(t) EXTENSION OF WITHHOLDING TO CERTAIN
 16 PAYMENTS MADE BY GOVERNMENT ENTITIES.—

17 “(1) GENERAL RULE.—The Government of the
 18 United States, every State, every political subdivi-
 19 sion thereof, and every instrumentality of the fore-
 20 going (including multi-State agencies) making any
 21 payment for goods and services which is subject to
 22 withholding shall deduct and withhold from such
 23 payment a tax in an amount equal to 3 percent of
 24 such payment.

1 “(2) EXCEPTIONS.—Paragraph (1) shall not
2 apply to any payment—

3 “(A) except as provided in subparagraph
4 (B), which is subject to withholding under any
5 other provision of this chapter or chapter 3,

6 “(B) which is subject to withholding under
7 section 3406 and from which amounts are being
8 withheld under such section,

9 “(C) of interest,

10 “(D) for real property,

11 “(E) to any tax-exempt entity, foreign gov-
12 ernment, or other entity subject to the require-
13 ments of paragraph (1),

14 “(F) made pursuant to a classified or con-
15 fidential contract (as defined in section
16 6050M(e)(3)), and

17 “(G) made by a political subdivision of a
18 State (or any instrumentality thereof) which
19 makes less than \$100,000,000 of such pay-
20 ments annually.

21 “(3) COORDINATION WITH OTHER SECTIONS.—

22 For purposes of sections 3403 and 3404 and for
23 purposes of so much of subtitle F (except section
24 7205) as relates to this chapter, payments to any
25 person of any payment for goods and services which

1 is subject to withholding shall be treated as if such
 2 payments were wages paid by an employer to an em-
 3 ployee.”.

4 (b) EFFECTIVE DATE.—The amendment made by
 5 this section shall apply to payments made after December
 6 31, 2006.

7 **Subtitle B—Provisions Designed to** 8 **Curtail Tax Shelters**

9 **SEC. 211. PENALTY FOR PROMOTING ABUSIVE TAX SHEL-** 10 **TERS.**

11 (a) PENALTY FOR PROMOTING ABUSIVE TAX SHEL-
 12 TERS.—Section 6700 (relating to promoting abusive tax
 13 shelters, etc.) is amended—

14 (1) by redesignating subsections (b) and (c) as
 15 subsections (d) and (e), respectively,

16 (2) by striking “a penalty” and all that follows
 17 through the period in the first sentence of subsection
 18 (a) and inserting “a penalty determined under sub-
 19 section (b)”, and

20 (3) by inserting after subsection (a) the fol-
 21 lowing new subsections:

22 “(b) AMOUNT OF PENALTY; CALCULATION OF PEN-
 23 ALTY; LIABILITY FOR PENALTY.—

24 “(1) AMOUNT OF PENALTY.—The amount of
 25 the penalty imposed by subsection (a) shall be 100

1 percent of the gross income derived (or to be de-
2 rived) from such activity by the person or persons
3 subject to such penalty.

4 “(2) CALCULATION OF PENALTY.—The penalty
5 amount determined under paragraph (1) shall be
6 calculated with respect to each instance of an activ-
7 ity described in subsection (a), each instance in
8 which income was derived by the person or persons
9 subject to such penalty, and each person who par-
10 ticipated in such an activity.

11 “(3) LIABILITY FOR PENALTY.—If more than 1
12 person is liable under subsection (a) with respect to
13 such activity, all such persons shall be jointly and
14 severally liable for the penalty under such sub-
15 section.

16 “(c) PENALTY NOT DEDUCTIBLE.—The payment of
17 any penalty imposed under this section or the payment
18 of any amount to settle or avoid the imposition of such
19 penalty shall not be considered an ordinary and necessary
20 expense in carrying on a trade or business for purposes
21 of this title and shall not be deductible by the person who
22 is subject to such penalty or who makes such payment.”.

23 (b) CONFORMING AMENDMENT.—Section 6700(a) is
24 amended by striking the last sentence.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to the activities described in para-
3 graphs (1) and (2) of section 6700(a) of the Internal Rev-
4 enue Code of 1986 and after the date of the enactment
5 of this Act.

6 **SEC. 212. PENALTY FOR AIDING AND ABETTING THE UN-**
7 **DERSTATEMENT OF TAX LIABILITY.**

8 (a) IN GENERAL.—Section 6701(a) (relating to impo-
9 sition of penalty) is amended—

10 (1) by inserting “, or tax liability reflected in,”
11 after “the preparation or presentation of” in para-
12 graph (1),

13 (2) by inserting “aid, assistance, procurement,
14 or advice with respect to such” before “portion”
15 both places it appears in paragraphs (2) and (3),
16 and

17 (3) by inserting “instance of aid, assistance,
18 procurement, or advice or each such” before “docu-
19 ment” in the matter following paragraph (3).

20 (b) AMOUNT OF PENALTY.—Subsection (b) of section
21 6701 (relating to penalties for aiding and abetting under-
22 statement of tax liability) is amended to read as follows:

23 “(b) AMOUNT OF PENALTY; CALCULATION OF PEN-
24 ALTY; LIABILITY FOR PENALTY.—

1 “(1) AMOUNT OF PENALTY.—The amount of
2 the penalty imposed by subsection (a) shall be 100
3 percent of the gross income derived (or to be de-
4 rived) from such aid, assistance, procurement, or ad-
5 vice provided by the person or persons subject to
6 such penalty.

7 “(2) CALCULATION OF PENALTY.—The penalty
8 amount determined under paragraph (1) shall be
9 calculated with respect to each instance of aid, as-
10 sistance, procurement, or advice described in sub-
11 section (a), each instance in which income was de-
12 rived by the person or persons subject to such pen-
13 alty, and each person who made such an understatement of the liability for tax.

15 “(3) LIABILITY FOR PENALTY.—If more than 1
16 person is liable under subsection (a) with respect to
17 providing such aid, assistance, procurement, or ad-
18 vice, all such persons shall be jointly and severally
19 liable for the penalty under such subsection.”.

20 (c) PENALTY NOT DEDUCTIBLE.—Section 6701 is
21 amended by adding at the end the following new sub-
22 section:

23 “(g) PENALTY NOT DEDUCTIBLE.—The payment of
24 any penalty imposed under this section or the payment
25 of any amount to settle or avoid the imposition of such

1 penalty shall not be considered an ordinary and necessary
 2 expense in carrying on a trade or business for purposes
 3 of this title and shall not be deductible by the person who
 4 is subject to such penalty or who makes such payment.”.

5 (d) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to the activities described in sec-
 7 tion 6701(a) of the Internal Revenue Code of 1986 after
 8 the date of the enactment of this Act.

9 **SEC. 213. INCREASE IN CRIMINAL MONETARY PENALTY**
 10 **LIMITATION FOR THE UNDERPAYMENT OR**
 11 **OVERPAYMENT OF TAX DUE TO FRAUD.**

12 (a) IN GENERAL.—Section 7206 (relating to fraud
 13 and false statements) is amended—

14 (1) by striking “Any person who—” and insert-
 15 ing “(a) IN GENERAL.—Any person who—”, and

16 (2) by adding at the end the following new sub-
 17 section:

18 “(b) INCREASE IN MONETARY LIMITATION FOR UN-
 19 DERPAYMENT OR OVERPAYMENT OF TAX DUE TO
 20 FRAUD.—If any portion of any underpayment (as defined
 21 in section 6664(a)) or overpayment (as defined in section
 22 6401(a)) of tax required to be shown on a return is attrib-
 23 utable to fraudulent action described in subsection (a), the
 24 applicable dollar amount under subsection (a) shall in no
 25 event be less than an amount equal to such portion. A

1 rule similar to the rule under section 6663(b) shall apply
2 for purposes of determining the portion so attributable.”.

3 (b) INCREASE IN PENALTIES.—

4 (1) ATTEMPT TO EVADE OR DEFEAT TAX.—

5 Section 7201 is amended—

6 (A) by striking “\$100,000” and inserting
7 “\$500,000”,

8 (B) by striking “\$500,000” and inserting
9 “\$1,000,000”, and

10 (C) by striking “5 years” and inserting
11 “10 years”.

12 (2) WILLFUL FAILURE TO FILE RETURN, SUP-
13 PLY INFORMATION, OR PAY TAX.—Section 7203 is
14 amended—

15 (A) in the first sentence—

16 (i) by striking “Any person” and in-
17 serting the following:

18 “(a) IN GENERAL.—Any person”, and

19 (ii) by striking “\$25,000” and insert-
20 ing “\$50,000”,

21 (B) in the third sentence, by striking “sec-
22 tion” and inserting “subsection”, and

23 (C) by adding at the end the following new
24 subsection:

25 “(b) AGGRAVATED FAILURE TO FILE.—

1 “(1) IN GENERAL.—In the case of any failure
2 described in paragraph (2), the first sentence of sub-
3 section (a) shall be applied by substituting—

4 “(A) ‘felony’ for ‘misdemeanor’

5 “(B) ‘\$500,000 (\$1,000,000’ for ‘\$25,000
6 (\$100,000’, and

7 “(C) ‘10 years’ for ‘1 year’.

8 “(2) FAILURE DESCRIBED.—A failure described
9 in this paragraph is a failure to make a return de-
10 scribed in subsection (a) for a period of 3 or more
11 consecutive taxable years.”.

12 (3) FRAUD AND FALSE STATEMENTS.—Section
13 7206(a) (as redesignated by subsection (a)) is
14 amended—

15 (A) by striking “\$100,000” and inserting
16 “\$500,000”,

17 (B) by striking “\$500,000” and inserting
18 “\$1,000,000”, and

19 (C) by striking “3 years” and inserting “5
20 years”.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to actions, and failures to act, oc-
23 curring after the date of the enactment of this Act.

1 **Subtitle C—Economic Substance**
2 **Doctrine**

3 **SEC. 221. CLARIFICATION OF ECONOMIC SUBSTANCE DOC-**
4 **TRINE.**

5 (a) IN GENERAL.—Section 7701 is amended by re-
6 designating subsection (o) as subsection (p) and by insert-
7 ing after subsection (n) the following new subsection:

8 “(o) CLARIFICATION OF ECONOMIC SUBSTANCE
9 DOCTRINE; ETC.—

10 “(1) GENERAL RULES.—

11 “(A) IN GENERAL.—In any case in which
12 a court determines that the economic substance
13 doctrine is relevant for purposes of this title to
14 a transaction (or series of transactions), such
15 transaction (or series of transactions) shall have
16 economic substance only if the requirements of
17 this paragraph are met.

18 “(B) DEFINITION OF ECONOMIC SUB-
19 STANCE.—For purposes of subparagraph (A)—

20 “(i) IN GENERAL.—A transaction has
21 economic substance only if—

22 “(I) the transaction changes in a
23 meaningful way (apart from Federal
24 tax effects) the taxpayer’s economic
25 position, and

1 “(II) the taxpayer has a substan-
2 tial nontax purpose for entering into
3 such transaction and the transaction
4 is a reasonable means of accom-
5 plishing such purpose.

6 In applying subclause (II), a purpose of
7 achieving a financial accounting benefit
8 shall not be taken into account in deter-
9 mining whether a transaction has a sub-
10 stantial nontax purpose if the origin of
11 such financial accounting benefit is a re-
12 duction of income tax.

13 “(ii) SPECIAL RULE WHERE TAX-
14 PAYER RELIES ON PROFIT POTENTIAL.—A
15 transaction shall not be treated as having
16 economic substance by reason of having a
17 potential for profit unless—

18 “(I) the present value of the rea-
19 sonably expected pre-tax profit from
20 the transaction is substantial in rela-
21 tion to the present value of the ex-
22 pected net tax benefits that would be
23 allowed if the transaction were re-
24 spected, and

1 “(II) the reasonably expected
2 pre-tax profit from the transaction ex-
3 ceeds a risk-free rate of return.

4 “(C) TREATMENT OF FEES AND FOREIGN
5 TAXES.—Fees and other transaction expenses
6 and foreign taxes shall be taken into account as
7 expenses in determining pre-tax profit under
8 subparagraph (B)(ii).

9 “(2) SPECIAL RULES FOR TRANSACTIONS WITH
10 TAX-INDIFFERENT PARTIES.—

11 “(A) SPECIAL RULES FOR FINANCING
12 TRANSACTIONS.—The form of a transaction
13 which is in substance the borrowing of money
14 or the acquisition of financial capital directly or
15 indirectly from a tax-indifferent party shall not
16 be respected if the present value of the deduc-
17 tions to be claimed with respect to the trans-
18 action is substantially in excess of the present
19 value of the anticipated economic returns of the
20 person lending the money or providing the fi-
21 nancial capital. A public offering shall be treat-
22 ed as a borrowing, or an acquisition of financial
23 capital, from a tax-indifferent party if it is rea-
24 sonably expected that at least 50 percent of the

1 offering will be placed with tax-indifferent par-
 2 ties.

3 “(B) ARTIFICIAL INCOME SHIFTING AND
 4 BASIS ADJUSTMENTS.—The form of a trans-
 5 action with a tax-indifferent party shall not be
 6 respected if—

7 “(i) it results in an allocation of in-
 8 come or gain to the tax-indifferent party in
 9 excess of such party’s economic income or
 10 gain, or

11 “(ii) it results in a basis adjustment
 12 or shifting of basis on account of over-
 13 stating the income or gain of the tax-indif-
 14 ferent party.

15 “(3) DEFINITIONS AND SPECIAL RULES.—For
 16 purposes of this subsection—

17 “(A) ECONOMIC SUBSTANCE DOCTRINE.—
 18 The term ‘economic substance doctrine’ means
 19 the common law doctrine under which tax bene-
 20 fits under subtitle A with respect to a trans-
 21 action are not allowable if the transaction does
 22 not have economic substance or lacks a business
 23 purpose.

24 “(B) TAX-INDIFFERENT PARTY.—The
 25 term ‘tax-indifferent party’ means any person

or entity not subject to tax imposed by subtitle A. A person shall be treated as a tax-indifferent party with respect to a transaction if the items taken into account with respect to the transaction have no substantial impact on such person's liability under subtitle A.

“(C) EXCEPTION FOR PERSONAL TRANSACTIONS OF INDIVIDUALS.—In the case of an individual, this subsection shall apply only to transactions entered into in connection with a trade or business or an activity engaged in for the production of income.

“(D) TREATMENT OF LESSORS.—In applying paragraph (1)(B)(ii) to the lessor of tangible property subject to a lease—

“(i) the expected net tax benefits with respect to the leased property shall not include the benefits of—

“(I) depreciation,

“(II) any tax credit, or

“(III) any other deduction as provided in guidance by the Secretary, and

“(ii) subclause (II) of paragraph (1)(B)(ii) shall be disregarded in deter-

1 mining whether any of such benefits are al-
2 lowable.

3 “(4) OTHER COMMON LAW DOCTRINES NOT AF-
4 FECTED.—Except as specifically provided in this
5 subsection, the provisions of this subsection shall not
6 be construed as altering or supplanting any other
7 rule of law, and the requirements of this subsection
8 shall be construed as being in addition to any such
9 other rule of law.

10 “(5) REGULATIONS.—The Secretary shall pre-
11 scribe such regulations as may be necessary or ap-
12 propriate to carry out the purposes of this sub-
13 section. Such regulations may include exemptions
14 from the application of this subsection.”.

15 (b) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to transactions entered into after
17 the date of the enactment of this Act.

18 **SEC. 222. PENALTY FOR UNDERSTATEMENTS ATTRIB-**
19 **UTABLE TO TRANSACTIONS LACKING ECO-**
20 **NOMIC SUBSTANCE, ETC.**

21 (a) IN GENERAL.—Subchapter A of chapter 68 is
22 amended by inserting after section 6662A the following
23 new section:

1 **“SEC. 6662B. PENALTY FOR UNDERSTATEMENTS ATTRIB-**
2 **UTABLE TO TRANSACTIONS LACKING ECO-**
3 **NOMIC SUBSTANCE, ETC.**

4 “(a) IMPOSITION OF PENALTY.—If a taxpayer has an
5 noneconomic substance transaction understatement for
6 any taxable year, there shall be added to the tax an
7 amount equal to 40 percent of the amount of such under-
8 statement.

9 “(b) REDUCTION OF PENALTY FOR DISCLOSED
10 TRANSACTIONS.—Subsection (a) shall be applied by sub-
11 stituting ‘20 percent’ for ‘40 percent’ with respect to the
12 portion of any noneconomic substance transaction under-
13 statement with respect to which the relevant facts affect-
14 ing the tax treatment of the item are adequately disclosed
15 in the return or a statement attached to the return.

16 “(c) NONECONOMIC SUBSTANCE TRANSACTION UN-
17 DERSTATEMENT.—For purposes of this section—

18 “(1) IN GENERAL.—The term ‘noneconomic
19 substance transaction understatement’ means any
20 amount which would be an understatement under
21 section 6662A(b)(1) if section 6662A were applied
22 by taking into account items attributable to non-
23 economic substance transactions rather than items
24 to which section 6662A would apply without regard
25 to this paragraph.

1 “(2) NONECONOMIC SUBSTANCE TRANS-
2 ACTION.—The term ‘noneconomic substance trans-
3 action’ means any transaction if—

4 “(A) there is a lack of economic substance
5 (within the meaning of section 7701(o)(1)) for
6 the transaction giving rise to the claimed ben-
7 efit or the transaction was not respected under
8 section 7701(o)(2), or

9 “(B) the transaction fails to meet the re-
10 quirements of any similar rule of law.

11 “(d) RULES APPLICABLE TO COMPROMISE OF PEN-
12 ALTY.—

13 “(1) IN GENERAL.—If the 1st letter of pro-
14 posed deficiency which allows the taxpayer an oppor-
15 tunity for administrative review in the Internal Rev-
16 enue Service Office of Appeals has been sent with
17 respect to a penalty to which this section applies,
18 only the Commissioner of Internal Revenue may
19 compromise all or any portion of such penalty.

20 “(2) APPLICABLE RULES.—The rules of para-
21 graphs (2) and (3) of section 6707A(d) shall apply
22 for purposes of paragraph (1).

23 “(e) COORDINATION WITH OTHER PENALTIES.—Ex-
24 cept as otherwise provided in this part, the penalty im-

1 posed by this section shall be in addition to any other pen-
 2 alty imposed by this title.

3 “(f) CROSS REFERENCES.—

4 “(1) For coordination of penalty with under-
 5 statements under section 6662 and other special
 6 rules, see section 6662A(e).

7 “(2) For reporting of penalty imposed under
 8 this section to the Securities and Exchange Commis-
 9 sion, see section 6707A(e).”.

10 (b) COORDINATION WITH OTHER UNDERSTATE-
 11 MENTS AND PENALTIES.—

12 (1) The second sentence of section
 13 6662(d)(2)(A) is amended by inserting “and without
 14 regard to items with respect to which a penalty is
 15 imposed by section 6662B” before the period at the
 16 end.

17 (2) Subsection (e) of section 6662A is amend-
 18 ed—

19 (A) in paragraph (1), by inserting “and
 20 noneconomic substance transaction understate-
 21 ments” after “reportable transaction under-
 22 statements” both places it appears,

23 (B) in paragraph (2)(A), by inserting “and
 24 a noneconomic substance transaction under-

1 statement” after “reportable transaction under-
2 statement”,

3 (C) in paragraph (2)(B), by inserting
4 “6662B or” before “6663”,

5 (D) in paragraph (2)(C)(i), by inserting
6 “or section 6662B” before the period at the
7 end,

8 (E) in paragraph (2)(C)(ii), by inserting
9 “and section 6662B” after “This section”,

10 (F) in paragraph (3), by inserting “or non-
11 economic substance transaction understate-
12 ment” after “reportable transaction understate-
13 ment”, and

14 (G) by adding at the end the following new
15 paragraph:

16 “(4) NONECONOMIC SUBSTANCE TRANSACTION
17 UNDERSTATEMENT.—For purposes of this sub-
18 section, the term ‘noneconomic substance trans-
19 action understatement’ has the meaning given such
20 term by section 6662B(c).”.

21 (3) Subsection (e) of section 6707A is amend-
22 ed—

23 (A) by striking “or” at the end of subpara-
24 graph (B), and

1 (B) by striking subparagraph (C) and in-
 2 serting the following new subparagraphs:

3 “(C) is required to pay a penalty under
 4 section 6662B with respect to any noneconomic
 5 substance transaction, or

6 “(D) is required to pay a penalty under
 7 section 6662(h) with respect to any transaction
 8 and would (but for section 6662A(e)(2)(C))
 9 have been subject to penalty under section
 10 6662A at a rate prescribed under section
 11 6662A(c) or under section 6662B,”.

12 (c) CLERICAL AMENDMENT.—The table of sections
 13 for part II of subchapter A of chapter 68 is amended by
 14 inserting after the item relating to section 6662A the fol-
 15 lowing new item:

“6662B. Penalty for understatements attributable to transactions lacking eco-
 nomic substance, etc.”.

16 (d) EFFECTIVE DATE.—The amendments made by
 17 this section shall apply to transactions entered into after
 18 the date of the enactment of this Act.

19 **SEC. 223. DENIAL OF DEDUCTION FOR INTEREST ON UN-**
 20 **DERPAYMENTS ATTRIBUTABLE TO NON-**
 21 **ECONOMIC SUBSTANCE TRANSACTIONS.**

22 (a) IN GENERAL.—Section 163(m) (relating to inter-
 23 est on unpaid taxes attributable to nondisclosed reportable
 24 transactions) is amended—

1 (1) by striking “attributable” and all that fol-
 2 lows and inserting the following: “attributable to—

3 “(1) the portion of any reportable transaction
 4 understatement (as defined in section 6662A(b))
 5 with respect to which the requirement of section
 6 6664(d)(2)(A) is not met, or

7 “(2) any noneconomic substance transaction
 8 understatement (as defined in section 6662B(c)).”,
 9 and

10 (2) by inserting “And Noneconomic Substance
 11 Transactions” in the heading thereof after “Trans-
 12 actions”.

13 (b) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to transactions after the date of
 15 the enactment of this Act in taxable years ending after
 16 such date.

17 **Subtitle D—Provisions Relating to** 18 **Oil and Gas**

19 **SEC. 231. ELIMINATION OF AMORTIZATION OF GEOLOGI-** 20 **CAL AND GEOPHYSICAL EXPENDITURES FOR** 21 **MAJOR INTEGRATED OIL COMPANIES.**

22 (a) IN GENERAL.—Section 167(h) is amended by
 23 adding at the end the following new paragraph:

24 “(5) NONAPPLICATION TO MAJOR INTEGRATED
 25 OIL COMPANIES.—This subsection shall not apply

1 with respect to any expenses paid or incurred for
 2 any taxable year by any integrated oil company (as
 3 defined in section 291(b)(4)) which has an average
 4 daily worldwide production of crude oil of at least
 5 500,000 barrels for such taxable year.”.

6 (b) EFFECTIVE DATE.—The amendment made by
 7 this section shall take effect as if included in the amend-
 8 ment made by section 1329(a) of the Energy Policy Act
 9 of 2005.

10 **SEC. 232. REVALUATION OF LIFO INVENTORIES OF LARGE**
 11 **INTEGRATED OIL COMPANIES.**

12 (a) GENERAL RULE.—Notwithstanding any other
 13 provision of law, if a taxpayer is an applicable integrated
 14 oil company for its last taxable year ending in calendar
 15 year 2005, the taxpayer shall—

16 (1) increase, effective as of the close of such
 17 taxable year, the value of each historic LIFO layer
 18 of inventories of crude oil, natural gas, or any other
 19 petroleum product (within the meaning of section
 20 4611) by the layer adjustment amount, and

21 (2) decrease its cost of goods sold for such tax-
 22 able year by the aggregate amount of the increases
 23 under paragraph (1).

24 If the aggregate amount of the increases under paragraph
 25 (1) exceed the taxpayer’s cost of goods sold for such tax-

1 able year, the taxpayer's gross income for such taxable
 2 year shall be increased by the amount of such excess.

3 (b) LAYER ADJUSTMENT AMOUNT.—For purposes of
 4 this section—

5 (1) IN GENERAL.—The term “layer adjustment
 6 amount” means, with respect to any historic LIFO
 7 layer, the product of—

8 (A) \$18.75, and

9 (B) the number of barrels of crude oil (or
 10 in the case of natural gas or other petroleum
 11 products, the number of barrel-of-oil equiva-
 12 lents) represented by the layer.

13 (2) BARREL-OF-OIL EQUIVALENT.—The term
 14 “barrel-of-oil equivalent” has the meaning given
 15 such term by section 29(d)(5) (as in effect before its
 16 redesignation by the Energy Tax Incentives Act of
 17 2005).

18 (c) APPLICATION OF REQUIREMENT.—

19 (1) NO CHANGE IN METHOD OF ACCOUNTING.—
 20 Any adjustment required by this section shall not be
 21 treated as a change in method of accounting.

22 (2) UNDERPAYMENTS OF ESTIMATED TAX.—No
 23 addition to the tax shall be made under section 6655
 24 of the Internal Revenue Code of 1986 (relating to
 25 failure by corporation to pay estimated tax) with re-

1 spect to any underpayment of an installment re-
 2 quired to be paid with respect to the taxable year
 3 described in subsection (a) to the extent such under-
 4 payment was created or increased by this section.

5 (d) APPLICABLE INTEGRATED OIL COMPANY.—For
 6 purposes of this section, the term “applicable integrated
 7 oil company” means an integrated oil company (as defined
 8 in section 291(b)(4) of the Internal Revenue Code of
 9 1986) which had gross receipts in excess of
 10 \$1,000,000,000 for its last taxable year ending during cal-
 11 endar year 2005. For purposes of this subsection, all per-
 12 sons treated as a single employer under subsections (a)
 13 and (b) of section 52 of the Internal Revenue Code of
 14 1986 shall be treated as 1 person and, in the case of a
 15 short taxable year, the rule under section 448(c)(3)(B)
 16 shall apply.

17 **Subtitle E—Uniform Definition of** 18 **Child**

19 **SEC. 241. REPEAL OF UNIFORM DEFINITION OF CHILD AND** 20 **RESTORATION OF PRIOR RULE.**

21 (a) IN GENERAL.—Title II of the Working Families
 22 Tax Relief Act of 2004 (relating to uniform definition of
 23 child), and the amendments made by such title, are hereby
 24 repealed.

1 (b) ADMINISTRATION OF INTERNAL REVENUE CODE
 2 OF 1986.—The Internal Revenue Code of 1986 shall be
 3 applied and administered as if the provisions, and amend-
 4 ments, specified in subsection (a) had never been enacted.

5 (c) CONFORMING AMENDMENT.—Section
 6 32(c)(2)(A), as added by section 102 of this Act, is
 7 amended to read as follows:

8 “(2) QUALIFYING CHILD.—

9 “(A) IN GENERAL.—The term ‘qualifying
 10 child’ means any individual if—

11 “(i) the taxpayer is allowed a deduc-
 12 tion under section 151 (determined without
 13 regard to paragraphs (1)(A) and (2) of
 14 subsection (c) and subsection 152(e)), with
 15 respect to such individual for the taxable
 16 year, and

17 “(ii) such individual bears a relation-
 18 ship to the taxpayer described in para-
 19 graph (1), (2), or (3) of section 152(a). ”.

20 (d) EFFECTIVE DATE.—This section shall apply to
 21 taxable years beginning after December 31, 2006.

Subtitle F—Other Revenue Provisions

SEC. 251. INFLATION ADJUSTMENT OF TAX ON DISTILLED SPIRITS, BEER, WINE, AND TOBACCO.

(a) DISTILLED SPIRITS.—Section 5001 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

“(c) ADJUSTMENT OF TAX RATES FOR INFLATION.—In the case of any calendar year beginning after 2006, each of the rates of tax in subsection (a), and the dollar amount in section 5010(a)(1)(A), shall be increased by an amount equal to—

“(1) such rate of tax or dollar amount (as the case may be), multiplied by

“(2) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting ‘calendar year 2005’ for ‘calendar year 1992’ in subparagraph (B) thereof.”.

(b) WINE.—Section 5041 is amended by adding at the end the following new subsection:

“(g) ADJUSTMENT OF TAX RATES FOR INFLATION.—In the case of any calendar year beginning after 2006, each of the rates of tax in subsection (b) shall be increased by an amount equal to—

1 “(1) such rate of tax, multiplied by

2 “(2) the cost-of-living adjustment determined
3 under section 1(f)(3) for the calendar year in which
4 the taxable year begins, by substituting ‘calendar
5 year 2005’ for ‘calendar year 1992’ in subparagraph
6 (B) thereof.”.

7 (c) BEER.—Section 5041 is amended by adding at
8 the end the following new subsection:

9 “(d) ADJUSTMENT OF TAX RATES FOR INFLA-
10 TION.—In the case of any calendar year beginning after
11 2006, each of the rates of tax in subsection (a) shall be
12 increased by an amount equal to—

13 “(1) such rate of tax, multiplied by

14 “(2) the cost-of-living adjustment determined
15 under section 1(f)(3) for the calendar year in which
16 the taxable year begins, by substituting ‘calendar
17 year 2005’ for ‘calendar year 1992’ in subparagraph
18 (B) thereof.”.

19 (d) TOBACCO PRODUCTS.—Section 5701 is amended
20 by adding at the end the following new subsection:

21 “(i) ADJUSTMENT OF TAX RATES FOR INFLATION.—
22 In the case of any calendar year beginning after 2006,
23 each of the rates of tax in subsections (a), (b), (c), (d),
24 (e), (f), and (g) shall be increased by an amount equal
25 to—

1 “(1) such rate of tax or dollar amount (as the
2 case may be), multiplied by

3 “(2) the cost-of-living adjustment determined
4 under section 1(f)(3) for the calendar year in which
5 the taxable year begins, by substituting ‘calendar
6 year 2005’ for ‘calendar year 1992’ in subparagraph
7 (B) thereof.”.

8 (e) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to years beginning after December
10 31, 2006.

11 **SEC. 252. TERMINATION OF VARIOUS EXCLUSIONS, EXEMP-**
12 **TIONS, DEDUCTIONS, AND CREDITS.**

13 (a) IN GENERAL.—Subchapter C of chapter 90 (re-
14 lating to provisions affecting more than one subtitle) is
15 amended by adding at the end the following new section:

16 **“SEC. 7875. TERMINATION OF CERTAIN PROVISIONS.**

17 “The following provisions shall not apply to taxable
18 years beginning after December 31, 2005:

19 “(1) Section 44 (relating to credit for expendi-
20 tures to provide access to disabled individuals).

21 “(2) Section 62(a)(2)(D) (relating to deduction
22 for certain expenses of elementary and secondary
23 school teachers).

24 “(3) Section 67 (relating to 2-percent floor on
25 miscellaneous itemized deductions).

1 “(4) Section 74(c) (relating to exclusion of cer-
2 tain employee achievement awards).

3 “(5) Section 79 (relating to exclusion of group-
4 term life insurance purchased for employees).

5 “(6) Section 104(a)(1) (relating to exclusion of
6 workmen’s compensation).

7 “(7) Section 104(a)(2) (relating to exclusion of
8 damages for physical injuries and sickness).

9 “(8) Section 107 (relating to exclusion of rental
10 value of parsonages).

11 “(9) Section 119 (relating to exclusion of meals
12 or lodging furnished for the convenience of the em-
13 ployer).

14 “(10) Section 125 (relating to exclusion of cafe-
15 teria plan benefits).

16 “(11) Section 132 (relating to certain fringe
17 benefits), except with respect to subsection (a)(5)
18 thereof (relating to exclusion of qualified transpor-
19 tation fringe).

20 “(12) Section 163(h)(4)(A)(i)(II) (relating to
21 definition of qualified residence).

22 “(13) Section 165(d) (relating to deduction for
23 wagering losses).

24 “(14) Section 217 (relating to deduction for
25 moving expenses).

1 “(15) Section 454 (relating to deferral of tax
2 on obligations issued at discount).

3 “(16) Section 501(c)(9) (relating to tax-exempt
4 status of voluntary employees’ beneficiary associa-
5 tions).

6 “(17) Section 911 (relating to exclusion of
7 earned income of citizens or residents of the United
8 States living abroad).

9 “(18) Section 912 (relating to exemption for
10 certain allowances).”.

11 (b) CONFORMING AMENDMENT.—The table of sec-
12 tions for subchapter C of chapter 90 is amended by adding
13 at the end the following new item:

“Sec. 7875. Termination of certain provisions.”.

14 **SEC. 253. TERMINATION OF VARIOUS PREFERENTIAL**
15 **TREATMENTS.**

16 (a) IN GENERAL.—Section 7875, as added by section
17 106, is amended—

18 (1) by inserting “(or transactions in the case of
19 sections referred to in paragraphs (21), (22), (23),
20 (24), and (27))” after “taxable years beginning”,
21 and

22 (2) by adding at the end the following new
23 paragraphs:

24 “(19) Section 43 (relating to enhanced oil re-
25 covery credit).

1 “(20) Section 263(c) (relating to intangible
2 drilling and development costs in the case of oil and
3 gas wells and geothermal wells).

4 “(21) Section 382(l)(5) (relating to exception
5 from net operating loss limitations for corporations
6 in bankruptcy proceeding).

7 “(22) Section 451(i) (relating to special rules
8 for sales or dispositions to implement Federal En-
9 ergy Regulatory Commission or State electric re-
10 structuring policy).

11 “(23) Section 453A (relating to special rules for
12 nondealers), but only with respect to the dollar limi-
13 tation under subsection (b)(1) thereof and sub-
14 section (b)(3) thereof (relating to exception for per-
15 sonal use and farm property).

16 “(24) Section 460(e)(1) (relating to special
17 rules for long-term home construction contracts or
18 other short-term construction contracts).

19 “(25) Section 613A (relating to percentage de-
20 pletion in case of oil and gas wells).

21 “(26) Section 616 (relating to development
22 costs).

23 “(27) Sections 861(a)(6), 862(a)(6), 863(b)(2),
24 863(b)(3), and 865(b) (relating to inventory prop-
25 erty sales source rule exception).”.

1 (b) FULL TAX RATE ON NUCLEAR DECOMMISS-
 2 SIONING RESERVE FUND.—Subparagraph (B) of section
 3 468A(e)(2) is amended to read as follows:

4 “(B) RATE OF TAX.—For purposes of sub-
 5 paragraph (A), the rate set forth in this sub-
 6 paragraph is 35 percent.”.

7 (c) DEFERRAL OF ACTIVE INCOME OF CONTROLLED
 8 FOREIGN CORPORATIONS.—Section 952 (relating to sub-
 9 part F income defined) is amended by adding at the end
 10 the following new subsection:

11 “(e) SPECIAL APPLICATION OF SUBPART.—

12 “(1) IN GENERAL.—For taxable years begin-
 13 ning after December 31, 2005, notwithstanding any
 14 other provision of this subpart, the term ‘subpart F
 15 income’ means, in the case of any controlled foreign
 16 corporation, the income of such corporation derived
 17 from any foreign country.

18 “(2) APPLICABLE RULES.—Rules similar to the
 19 rules under the last sentence of subsection (a) and
 20 subsection (d) shall apply to this subsection.”.

21 (d) DEFERRAL OF ACTIVE FINANCING INCOME.—
 22 Section 953(e)(10) is amended—

23 (1) by striking “2006” and inserting “2005”,
 24 and

25 (2) by striking “2007” and inserting “2006”.

1 (e) DEPRECIATION ON EQUIPMENT IN EXCESS OF
 2 ALTERNATIVE DEPRECIATION SYSTEM.—Section
 3 168(g)(1) (relating to alternative depreciation system) is
 4 amended by striking “and” at the end of subparagraph
 5 (D), by adding “and” at the end of subparagraph (E),
 6 and by inserting after subparagraph (E) the following new
 7 subparagraph:

8 “(F) notwithstanding subsection (a), any
 9 tangible property placed in service after Decem-
 10 ber 31, 2005,”.

11 (f) EFFECTIVE DATE.—The amendments made by
 12 subsections (b), (c), and (d) shall apply to taxable years
 13 beginning after December 31, 2005.

14 **TITLE III—TECHNICAL AND CON-**
 15 **FORMING AMENDMENTS;**
 16 **SUNSET**

17 **SEC. 301. TECHNICAL AND CONFORMING AMENDMENTS.**

18 The Secretary of the Treasury or the Secretary’s del-
 19 egate shall not later than 90 days after the date of the
 20 enactment of this Act, submit to the Committee on Ways
 21 and Means of the House of Representatives and the Com-
 22 mittee on Finance of the Senate a draft of any technical
 23 and conforming changes in the Internal Revenue Code of
 24 1986 which are necessary to reflect throughout such Code

1 the purposes of the provisions of, and amendments made
2 by, this Act.

3 **SEC. 302. SUNSET.**

4 (a) IN GENERAL.—All provisions of, and amend-
5 ments made by, this Act shall not apply to taxable years
6 beginning after December 31, 2010.

7 (b) APPLICATION OF CODE.—The Internal Revenue
8 Code of 1986 shall be applied and administered to taxable
9 years described in subsection (a) as if the provisions of,
10 and amendments made by, this Act had never been en-
11 acted.

○