

109<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# S. 812

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

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## IN THE SENATE OF THE UNITED STATES

APRIL 15, 2005

Mr. SPECTER introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

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

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

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS; AMEND-**  
4 **MENT OF 1986 CODE.**

5 (a) SHORT TITLE.—This Act may be cited as the  
6 “Flat Tax Act of 2005”.

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

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



1       “(b) TAXABLE EARNED INCOME.—For purposes of  
2 this section, the term ‘taxable earned income’ means the  
3 excess (if any) of—

4               “(1) the earned income received or accrued dur-  
5 ing the taxable year, over

6               “(2) the sum of—

7                       “(A) the standard deduction,

8                       “(B) the deduction for cash charitable con-  
9 tributions, and

10                      “(C) the deduction for home acquisition in-  
11 debtedness, for such taxable year.

12       “(c) EARNED INCOME.—For purposes of this sec-  
13 tion—

14               “(1) IN GENERAL.—The term ‘earned income’  
15 means wages, salaries, or professional fees, and  
16 other amounts received from sources within the  
17 United States as compensation for personal services  
18 actually rendered, but does not include that part of  
19 compensation derived by the taxpayer for personal  
20 services rendered by the taxpayer to a corporation  
21 which represents a distribution of earnings or profits  
22 rather than a reasonable allowance as compensation  
23 for the personal services actually rendered.

24               “(2) TAXPAYER ENGAGED IN TRADE OR BUSI-  
25 NESS.—In the case of a taxpayer engaged in a trade

1 or business in which both personal services and cap-  
2 ital are material income-producing factors, under  
3 regulations prescribed by the Secretary, a reasonable  
4 allowance as compensation for the personal services  
5 rendered by the taxpayer, not in excess of 30 per-  
6 cent of the taxpayer's share of the net profits of  
7 such trade or business, shall be considered as earned  
8 income.

9 **“SEC. 2. STANDARD DEDUCTION.**

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

12 “(1) the basic standard deduction, plus

13 “(2) the additional standard deduction.

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

16 “(1) 200 percent of the dollar amount in effect  
17 under paragraph (3) of the taxable year in the case  
18 of—

19 “(A) a joint return, or

20 “(B) a surviving spouse (as defined in sec-  
21 tion 5(a)),

22 “(2) \$15,000 in the case of a head of household  
23 (as defined in section 5(b)), or

24 “(3) \$10,000 in any other case.

1       “(c) ADDITIONAL STANDARD DEDUCTION.—For pur-  
2 poses of subsection (a), the additional standard deduction  
3 is \$5,000 for each dependent (as defined in section 6)—

4           “(1) whose earned income for the calendar year  
5 in which the taxable year of the taxpayer begins is  
6 less than the basic standard deduction specified in  
7 subsection (b)(3), or

8           “(2) who is a child of the taxpayer and who—

9               “(A) has not attained the age of 19 at the  
10 close of the calendar year in which the taxable  
11 year of the taxpayer begins, or

12               “(B) is a student who has not attained the  
13 age of 24 at the close of such calendar year.

14       “(d) INFLATION ADJUSTMENT.—

15           “(1) IN GENERAL.—In the case of any taxable  
16 year beginning in a calendar year after 2006, each  
17 dollar amount contained in subsections (b) and (c)  
18 shall be increased by an amount equal to—

19               “(A) such dollar amount, multiplied by

20               “(B) the cost-of-living adjustment for the  
21 calendar year in which the taxable year begins.

22           “(2) COST-OF-LIVING ADJUSTMENT.—For pur-  
23 poses of paragraph (1), the cost-of-living adjustment  
24 for any calendar year is the percentage (if any) by  
25 which—

1           “(A) the CPI for the preceding calendar  
2           year, exceeds

3           “(B) the CPI for calendar year 2005.

4           “(3) CPI FOR ANY CALENDAR YEAR.—For pur-  
5           poses of paragraph (2), the CPI for any calendar  
6           year is the average of the Consumer Price Index as  
7           of the close of the 12-month period ending on Au-  
8           gust 31 of such calendar year.

9           “(4) CONSUMER PRICE INDEX.—For purposes  
10          of paragraph (3), the term ‘Consumer Price Index’  
11          means the last Consumer Price Index for all-urban  
12          consumers published by the Department of Labor.  
13          For purposes of the preceding sentence, the revision  
14          of the Consumer Price Index which is most con-  
15          sistent with the Consumer Price Index for calendar  
16          year 1986 shall be used.

17          “(5) ROUNDING.—If any increase determined  
18          under paragraph (1) is not a multiple of \$50, such  
19          amount shall be rounded to the next lowest multiple  
20          of \$50.

21       **“SEC. 3. DEDUCTION FOR CASH CHARITABLE CONTRIBU-**  
22       **TIONS.**

23          “(a) GENERAL RULE.—For purposes of this part,  
24          there shall be allowed as a deduction any charitable con-  
25          tribution (as defined in subsection (b)) not to exceed

1 \$2,500 (\$1,250, in the case of a married individual filing  
2 a separate return), payment of which is made within the  
3 taxable year.

4 “(b) CHARITABLE CONTRIBUTION DEFINED.—For  
5 purposes of this section, the term ‘charitable contribution’  
6 means a contribution or gift of cash or its equivalent to  
7 or for the use of the following:

8 “(1) A State, a possession of the United States,  
9 or any political subdivision of any of the foregoing,  
10 or the United States or the District of Columbia,  
11 but only if the contribution or gift is made for exclu-  
12 sively public purposes.

13 “(2) A corporation, trust, or community chest,  
14 fund, or foundation—

15 “(A) created or organized in the United  
16 States or in any possession thereof, or under  
17 the law of the United States, any State, the  
18 District of Columbia, or any possession of the  
19 United States,

20 “(B) organized and operated exclusively  
21 for religious, charitable, scientific, literary, or  
22 educational purposes, or to foster national or  
23 international amateur sports competition (but  
24 only if no part of its activities involve the provi-

1 sion of athletic facilities or equipment), or for  
2 the prevention of cruelty to children or animals,

3 “(C) no part of the net earnings of which  
4 inures to the benefit of any private shareholder  
5 or individual, and

6 “(D) which is not disqualified for tax ex-  
7 emption under section 501(c)(3) by reason of  
8 attempting to influence legislation, and which  
9 does not participate in, or intervene in (includ-  
10 ing the publishing or distributing of state-  
11 ments), any political campaign on behalf of (or  
12 in opposition to) any candidate for public office.

13 A contribution or gift by a corporation to a trust,  
14 chest, fund, or foundation shall be deductible by rea-  
15 son of this paragraph only if it is to be used within  
16 the United States or any of its possessions exclu-  
17 sively for purposes specified in subparagraph (B).

18 Rules similar to the rules of section 501(j) shall  
19 apply for purposes of this paragraph.

20 “(3) A post or organization of war veterans, or  
21 an auxiliary unit or society of, or trust or foundation  
22 for, any such post or organization—

23 “(A) organized in the United States or any  
24 of its possessions, and

1           “(B) no part of the net earnings of which  
2           inures to the benefit of any private shareholder  
3           or individual.

4           “(4) In the case of a contribution or gift by an  
5           individual, a domestic fraternal society, order, or as-  
6           sociation, operating under the lodge system, but only  
7           if such contribution or gift is to be used exclusively  
8           for religious, charitable, scientific, literary, or edu-  
9           cational purposes, or for the prevention of cruelty to  
10          children or animals.

11          “(5) A cemetery company owned and operated  
12          exclusively for the benefit of its members, or any  
13          corporation chartered solely for burial purposes as a  
14          cemetery corporation and not permitted by its char-  
15          ter to engage in any business not necessarily inci-  
16          dent to that purpose, if such company or corporation  
17          is not operated for profit and no part of the net  
18          earnings of such company or corporation inures to  
19          the benefit of any private shareholder or individual.  
20          For purposes of this section, the term ‘charitable contribu-  
21          tion’ also means an amount treated under subsection (d)  
22          as paid for the use of an organization described in para-  
23          graph (2), (3), or (4).

24          “(c) DISALLOWANCE OF DEDUCTION IN CERTAIN  
25          CASES AND SPECIAL RULES.—

1           “(1) SUBSTANTIATION REQUIREMENT FOR CER-  
2           TAIN CONTRIBUTIONS.—

3           “(A) GENERAL RULE.—No deduction shall  
4           be allowed under subsection (a) for any con-  
5           tribution of \$250 or more unless the taxpayer  
6           substantiates the contribution by a contempora-  
7           neous written acknowledgment of the contribu-  
8           tion by the donee organization that meets the  
9           requirements of subparagraph (B).

10           “(B) CONTENT OF ACKNOWLEDGMENT.—  
11           An acknowledgment meets the requirements of  
12           this subparagraph if it includes the following  
13           information:

14           “(i) The amount of cash contributed.

15           “(ii) Whether the donee organization  
16           provided any goods or services in consider-  
17           ation, in whole or in part, for any contribu-  
18           tion described in clause (i).

19           “(iii) A description and good faith es-  
20           timate of the value of any goods or services  
21           referred to in clause (ii) or, if such goods  
22           or services consist solely of intangible reli-  
23           gious benefits, a statement to that effect.

24           For purposes of this subparagraph, the term  
25           ‘intangible religious benefit’ means any intan-

1 gible religious benefit which is provided by an  
2 organization organized exclusively for religious  
3 purposes and which generally is not sold in a  
4 commercial transaction outside the donative  
5 context.

6 “(C) CONTEMPORANEOUS.—For purposes  
7 of subparagraph (A), an acknowledgment shall  
8 be considered to be contemporaneous if the tax-  
9 payer obtains the acknowledgment on or before  
10 the earlier of—

11 “(i) the date on which the taxpayer  
12 files a return for the taxable year in which  
13 the contribution was made, or

14 “(ii) the due date (including exten-  
15 sions) for filing such return.

16 “(D) SUBSTANTIATION NOT REQUIRED  
17 FOR CONTRIBUTIONS REPORTED BY THE  
18 DONEE ORGANIZATION.—Subparagraph (A)  
19 shall not apply to a contribution if the donee  
20 organization files a return, on such form and in  
21 accordance with such regulations as the Sec-  
22 retary may prescribe, which includes the infor-  
23 mation described in subparagraph (B) with re-  
24 spect to the contribution.

1           “(E) REGULATIONS.—The Secretary shall  
2           prescribe such regulations as may be necessary  
3           or appropriate to carry out the purposes of this  
4           paragraph, including regulations that may pro-  
5           vide that some or all of the requirements of this  
6           paragraph do not apply in appropriate cases.

7           “(2) DENIAL OF DEDUCTION WHERE CON-  
8           TRIBUTION FOR LOBBYING ACTIVITIES.—No deduc-  
9           tion shall be allowed under this section for a con-  
10          tribution to an organization which conducts activities  
11          to which section 11(d)(2)(C)(i) applies on matters of  
12          direct financial interest to the donor’s trade or busi-  
13          ness, if a principal purpose of the contribution was  
14          to avoid Federal income tax by securing a deduction  
15          for such activities under this section which would be  
16          disallowed by reason of section 11(d)(2)(C) if the  
17          donor had conducted such activities directly. No de-  
18          duction shall be allowed under section 11(d) for any  
19          amount for which a deduction is disallowed under  
20          the preceding sentence.

21          “(d) AMOUNTS PAID TO MAINTAIN CERTAIN STU-  
22          DENTS AS MEMBERS OF TAXPAYER’S HOUSEHOLD.—

23                 “(1) IN GENERAL.—Subject to the limitations  
24                 provided by paragraph (2), amounts paid by the tax-  
25                 payer to maintain an individual (other than a de-

1 pendent, as defined in section 6, or a relative of the  
2 taxpayer) as a member of such taxpayer's household  
3 during the period that such individual is—

4 “(A) a member of the taxpayer's household  
5 under a written agreement between the tax-  
6 payer and an organization described in para-  
7 graph (2), (3), or (4) of subsection (b) to imple-  
8 ment a program of the organization to provide  
9 educational opportunities for pupils or students  
10 in private homes, and

11 “(B) a full-time pupil or student in the  
12 twelfth or any lower grade at an educational or-  
13 ganization located in the United States which  
14 normally maintains a regular faculty and cur-  
15 riculum and normally has a regularly enrolled  
16 body of pupils or students in attendance at the  
17 place where its educational activities are regu-  
18 larly carried on, shall be treated as amounts  
19 paid for the use of the organization.

20 “(2) LIMITATIONS.—

21 “(A) AMOUNT.—Paragraph (1) shall apply  
22 to amounts paid within the taxable year only to  
23 the extent that such amounts do not exceed \$50  
24 multiplied by the number of full calendar  
25 months during the taxable year which fall with-

1 in the period described in paragraph (1). For  
2 purposes of the preceding sentence, if 15 or  
3 more days of a calendar month fall within such  
4 period such month shall be considered as a full  
5 calendar month.

6 “(B) COMPENSATION OR REIMBURSE-  
7 MENT.—Paragraph (1) shall not apply to any  
8 amount paid by the taxpayer within the taxable  
9 year if the taxpayer receives any money or  
10 other property as compensation or reimburse-  
11 ment for maintaining the individual in the tax-  
12 payer’s household during the period described  
13 in paragraph (1).

14 “(3) RELATIVE DEFINED.—For purposes of  
15 paragraph (1), the term ‘relative of the taxpayer’  
16 means an individual who, with respect to the tax-  
17 payer, bears any of the relationships described in  
18 subparagraphs (A) through (G) of section 6(d)(2).

19 “(4) NO OTHER AMOUNT ALLOWED AS DEDUC-  
20 TION.—No deduction shall be allowed under sub-  
21 section (a) for any amount paid by a taxpayer to  
22 maintain an individual as a member of the tax-  
23 payer’s household under a program described in  
24 paragraph (1)(A) except as provided in this sub-  
25 section.

1       “(e) DENIAL OF DEDUCTION FOR CERTAIN TRAVEL  
2 EXPENSES.—No deduction shall be allowed under this sec-  
3 tion for traveling expenses (including amounts expended  
4 for meals and lodging) while away from home, whether  
5 paid directly or by reimbursement, unless there is no sig-  
6 nificant element of personal pleasure, recreation, or vaca-  
7 tion in such travel.

8       “(f) DISALLOWANCE OF DEDUCTIONS IN CERTAIN  
9 CASES.—For disallowance of deductions for contributions  
10 to or for the use of Communist controlled organizations,  
11 see section 11(a) of the Internal Security Act of 1950 (50  
12 U.S.C. 790).

13       “(g) TREATMENT OF CERTAIN AMOUNTS PAID TO OR  
14 FOR THE BENEFIT OF INSTITUTIONS OF HIGHER EDU-  
15 CATION.—

16               “(1) IN GENERAL.—For purposes of this sec-  
17 tion, 80 percent of any amount described in para-  
18 graph (2) shall be treated as a charitable contribu-  
19 tion.

20               “(2) AMOUNT DESCRIBED.—For purposes of  
21 paragraph (1), an amount is described in this para-  
22 graph if—

23                       “(A) the amount is paid by the taxpayer to  
24 or for the benefit of an educational organiza-  
25 tion—

1                   “(i) which is described in subsection  
2                   (d)(1)(B), and

3                   “(ii) which is an institution of higher  
4                   education (as defined in section 3304(f)),  
5                   and

6                   “(B) such amount would be allowable as a  
7                   deduction under this section but for the fact  
8                   that the taxpayer receives (directly or indi-  
9                   rectly) as a result of paying such amount the  
10                  right to purchase tickets for seating at an ath-  
11                  letic event in an athletic stadium of such insti-  
12                  tution.

13 If any portion of a payment is for the purchase of such  
14 tickets, such portion and the remaining portion (if any)  
15 of such payment shall be treated as separate amounts for  
16 purposes of this subsection.

17                  “(h) OTHER CROSS REFERENCES.—

18                  “(1) For treatment of certain organizations  
19                  providing child care, see section 501(k).

20                  “(2) For charitable contributions of partners,  
21                  see section 702.

22                  “(3) For treatment of gifts for benefit of or use  
23                  in connection with the Naval Academy as gifts to or  
24                  for the use of the United States, see section 6973  
25                  of title 10, United States Code.

1           “(4) For treatment of gifts accepted by the  
2           Secretary of State, the Director of the International  
3           Communication Agency, or the Director of the  
4           United States International Development Coopera-  
5           tion Agency, as gifts to or for the use of the United  
6           States, see section 25 of the State Department Basic  
7           Authorities Act of 1956.

8           “(5) For treatment of gifts of money accepted  
9           by the Attorney General for credit to the ‘Com-  
10          missary Funds, Federal Prisons’ as gifts to or for  
11          the use of the United States, see section 4043 of  
12          title 18, United States Code.

13          “(6) For charitable contributions to or for the  
14          use of Indian tribal governments (or subdivisions of  
15          such governments), see section 7871.

16 **“SEC. 4. DEDUCTION FOR HOME ACQUISITION INDEBTED-**  
17 **NESS.**

18          “(a) GENERAL RULE.—For purposes of this part,  
19 there shall be allowed as a deduction all qualified residence  
20 interest paid or accrued within the taxable year.

21          “(b) QUALIFIED RESIDENCE INTEREST DEFINED.—  
22 The term ‘qualified residence interest’ means any interest  
23 which is paid or accrued during the taxable year on acqui-  
24 sition indebtedness with respect to any qualified residence  
25 of the taxpayer. For purposes of the preceding sentence,

1 the determination of whether any property is a qualified  
 2 residence of the taxpayer shall be made as of the time  
 3 the interest is accrued.

4 “(c) ACQUISITION INDEBTEDNESS.—

5 “(1) IN GENERAL.—The term ‘acquisition in-  
 6 debtedness’ means any indebtedness which—

7 “(A) is incurred in acquiring, constructing,  
 8 or substantially improving any qualified resi-  
 9 dence of the taxpayer, and

10 “(B) is secured by such residence.

11 Such term also includes any indebtedness secured by such  
 12 residence resulting from the refinancing of indebtedness  
 13 meeting the requirements of the preceding sentence (or  
 14 this sentence); but only to the extent the amount of the  
 15 indebtedness resulting from such refinancing does not ex-  
 16 ceed the amount of the refinanced indebtedness.

17 “(2) \$100,000 limitation.—The aggregate  
 18 amount treated as acquisition indebtedness for any  
 19 period shall not exceed \$100,000 (\$50,000 in the  
 20 case of a married individual filing a separate re-  
 21 turn).

22 “(d) TREATMENT OF INDEBTEDNESS INCURRED ON  
 23 OR BEFORE OCTOBER 13, 1987.—

24 “(1) IN GENERAL.—In the case of any pre-Oc-  
 25 tober 13, 1987, indebtedness—

1           “(A) such indebtedness shall be treated as  
2           acquisition indebtedness, and

3           “(B) the limitation of subsection (c)(2)  
4           shall not apply.

5           “(2) REDUCTION IN \$100,000 LIMITATION.—The  
6           limitation of subsection (c)(2) shall be reduced (but  
7           not below zero) by the aggregate amount of out-  
8           standing pre-October 13, 1987, indebtedness.

9           “(3) PRE-OCTOBER 13, 1987, INDEBTEDNESS.—  
10          The term ‘pre-October 13, 1987, indebtedness’  
11          means—

12           “(A) any indebtedness which was incurred  
13           on or before October 13, 1987, and which was  
14           secured by a qualified residence on October 13,  
15           1987, and at all times thereafter before the in-  
16           terest is paid or accrued, or

17           “(B) any indebtedness which is secured by  
18           the qualified residence and was incurred after  
19           October 13, 1987, to refinance indebtedness de-  
20           scribed in subparagraph (A) (or refinanced in-  
21           debtedness meeting the requirements of this  
22           subparagraph) to the extent (immediately after  
23           the refinancing) the principal amount of the in-  
24           debtedness resulting from the refinancing does  
25           not exceed the principal amount of the refi-

1           nanced indebtedness (immediately before the re-  
2           financing).

3           “(4) LIMITATION ON PERIOD OF REFI-  
4           NANCING.—Subparagraph (B) of paragraph (3)  
5           shall not apply to any indebtedness after—

6                   “(A) the expiration of the term of the in-  
7                   debtedness described in paragraph (3)(A), or

8                   “(B) if the principal of the indebtedness  
9                   described in paragraph (3)(A) is not amortized  
10                  over its term, the expiration of the term of the  
11                  first refinancing of such indebtedness (or if ear-  
12                  lier, the date which is 30 years after the date  
13                  of such first refinancing).

14          “(e) OTHER DEFINITIONS AND SPECIAL RULES.—  
15          For purposes of this section—

16                  “(1) QUALIFIED RESIDENCE.—For purposes of  
17                  this subsection—

18                          “(A) IN GENERAL.—Except as provided in  
19                          subparagraph (C), the term ‘qualified residence’  
20                          means the principal residence of the taxpayer.

21                          “(B) MARRIED INDIVIDUALS FILING SEPA-  
22                          RATE RETURNS.—If a married couple does not  
23                          file a joint return for the taxable year—

1           “(i) such couple shall be treated as 1  
2 taxpayer for purposes of subparagraph  
3 (A), and

4           “(ii) each individual shall be entitled  
5 to take into account  $\frac{1}{2}$  of the principal  
6 residence unless both individuals consent  
7 in writing to 1 individual taking into ac-  
8 count the principal residence.

9           “(C) PRE-OCTOBER 13, 1987, INDEBTED-  
10 NESS.—In the case of any pre-October 13,  
11 1987, indebtedness, the term ‘qualified resi-  
12 dence’ has the meaning given that term in sec-  
13 tion 163(h)(4), as in effect on the day before  
14 the date of enactment of this subparagraph.

15           “(2) SPECIAL RULE FOR COOPERATIVE HOUS-  
16 ING CORPORATIONS.—Any indebtedness secured by  
17 stock held by the taxpayer as a tenant-stockholder in  
18 a cooperative housing corporation shall be treated as  
19 secured by the house or apartment which the tax-  
20 payer is entitled to occupy as such a tenant-stock-  
21 holder. If stock described in the preceding sentence  
22 may not be used to secure indebtedness, indebted-  
23 ness shall be treated as so secured if the taxpayer  
24 establishes to the satisfaction of the Secretary that

1 such indebtedness was incurred to acquire such  
2 stock.

3 “(3) UNENFORCEABLE SECURITY INTERESTS.—  
4 Indebtedness shall not fail to be treated as secured  
5 by any property solely because, under any applicable  
6 State or local homestead or other debtor protection  
7 law in effect on August 16, 1986, the security inter-  
8 est is ineffective or the enforceability of the security  
9 interest is restricted.

10 “(4) SPECIAL RULES FOR ESTATES AND  
11 TRUSTS.—For purposes of determining whether any  
12 interest paid or accrued by an estate or trust is  
13 qualified residence interest, any residence held by  
14 such estate or trust shall be treated as a qualified  
15 residence of such estate or trust if such estate or  
16 trust establishes that such residence is a qualified  
17 residence of a beneficiary who has a present interest  
18 in such estate or trust or an interest in the resid-  
19 uary of such estate or trust.

20 **“SEC. 5. DEFINITIONS AND SPECIAL RULES.**

21 “(a) DEFINITION OF SURVIVING SPOUSE.—

22 “(1) IN GENERAL.—For purposes of this part,  
23 the term ‘surviving spouse’ means a taxpayer—

1           “(A) whose spouse died during either of  
2           the taxpayer’s 2 taxable years immediately pre-  
3           ceding the taxable year, and

4           “(B) who maintains as the taxpayer’s  
5           home a household which constitutes for the tax-  
6           able year the principal place of abode (as a  
7           member of such household) of a dependent—

8                   “(i) who (within the meaning of sec-  
9                   tion 6, determined without regard to sub-  
10                   sections (b)(1), (b)(2), and (d)(1)(B)) is a  
11                   son, stepson, daughter, or stepdaughter of  
12                   the taxpayer, and

13                   “(ii) with respect to whom the tax-  
14                   payer is entitled to a deduction for the tax-  
15                   able year under section 2.

16           For purposes of this paragraph, an individual shall  
17           be considered as maintaining a household only if  
18           over one-half of the cost of maintaining the house-  
19           hold during the taxable year is furnished by such in-  
20           dividual.

21           “(2) LIMITATIONS.—Notwithstanding para-  
22           graph (1), for purposes of this part a taxpayer shall  
23           not be considered to be a surviving spouse—

24                   “(A) if the taxpayer has remarried at any  
25                   time before the close of the taxable year, or

1           “(B) unless, for the taxpayer’s taxable  
2           year during which the taxpayer’s spouse died, a  
3           joint return could have been made under the  
4           provisions of section 6013 (without regard to  
5           subsection (a)(3) thereof).

6           “(3) SPECIAL RULE WHERE DECEASED SPOUSE  
7           WAS IN MISSING STATUS.—If an individual was in a  
8           missing status (within the meaning of section  
9           6013(f)(3)) as a result of service in a combat zone  
10          and if such individual remains in such status until  
11          the date referred to in subparagraph (A) or (B),  
12          then, for purposes of paragraph (1)(A), the date on  
13          which such individual dies shall be treated as the  
14          earlier of the date determined under subparagraph  
15          (A) or the date determined under subparagraph (B):

16               “(A) The date on which the determination  
17               is made under section 556 of title 37 of the  
18               United States Code or under section 5566 of  
19               title 5 of such Code (whichever is applicable)  
20               that such individual died while in such missing  
21               status.

22               “(B) Except in the case of the combat  
23               zone designated for purposes of the Vietnam  
24               conflict, the date which is 2 years after the date

1 designated as the date of termination of com-  
2 batant activities in that zone.

3 “(b) DEFINITION OF HEAD OF HOUSEHOLD.—

4 “(1) IN GENERAL.—For purposes of this part,  
5 an individual shall be considered a head of a house-  
6 hold if, and only if, such individual is not married  
7 at the close of such individual’s taxable year, is not  
8 a surviving spouse (as defined in subsection (a)),  
9 and either—

10 “(A) maintains as such individual’s home a  
11 household which constitutes for more than one-  
12 half of such taxable year the principal place of  
13 abode, as a member of such household, of—

14 “(i) a qualifying child of the indi-  
15 vidual (as defined in section 6(e), deter-  
16 mined without regard to section 6(e)), but  
17 not if such child—

18 “(I) is married at the close of the  
19 taxpayer’s taxable year, and

20 “(II) is not a dependent of such  
21 individual by reason of section 6(b)(2)  
22 or 6(b)(3), or both, or

23 “(ii) any other person who is a de-  
24 pendent of the taxpayer, if the taxpayer is

1 entitled to a deduction for the taxable year  
2 for such person under section 2, or

3 “(B) maintains a household which con-  
4 stitutes for such taxable year the principal place  
5 of abode of the father or mother of the tax-  
6 payer, if the taxpayer is entitled to a deduction  
7 for the taxable year for such father or mother  
8 under section 2.

9 For purposes of this paragraph, an individual shall  
10 be considered as maintaining a household only if  
11 over one-half of the cost of maintaining the house-  
12 hold during the taxable year is furnished by such in-  
13 dividual.

14 “(2) DETERMINATION OF STATUS.—For pur-  
15 poses of this subsection—

16 “(A) an individual who is legally separated  
17 from such individual’s spouse under a decree of  
18 divorce or of separate maintenance shall not be  
19 considered as married,

20 “(B) a taxpayer shall be considered as not  
21 married at the close of such taxpayer’s taxable  
22 year if at any time during the taxable year such  
23 taxpayer’s spouse is a nonresident alien, and

24 “(C) a taxpayer shall be considered as  
25 married at the close of such taxpayer’s taxable

1           year if such taxpayer’s spouse (other than a  
2           spouse described in subparagraph (B)) died  
3           during the taxable year.

4           “(3) LIMITATIONS.—Notwithstanding para-  
5           graph (1), for purposes of this part, a taxpayer shall  
6           not be considered to be a head of a household—

7                   “(A) if at any time during the taxable year  
8           the taxpayer is a nonresident alien, or

9                   “(B) by reason of an individual who would  
10           not be a dependent for the taxable year but  
11           for—

12                   “(i) subparagraph (H) of section  
13           6(d)(2), or

14                   “(ii) paragraph (3) of section 6(d).

15           “(c) CERTAIN MARRIED INDIVIDUALS LIVING  
16 APART.—For purposes of this part, an individual shall be  
17 treated as not married at the close of the taxable year  
18 if such individual is so treated under the provisions of sec-  
19 tion 7703(b).

20 **“SEC. 6. DEPENDENT DEFINED.**

21           “(a) IN GENERAL.—For purposes of this subtitle, the  
22 term ‘dependent’ means—

23                   “(1) a qualifying child, or

24                   “(2) a qualifying relative.

25           “(b) EXCEPTIONS.—For purposes of this section—

1           “(1) DEPENDENTS INELIGIBLE.—If an indi-  
2           vidual is a dependent of a taxpayer for any taxable  
3           year of such taxpayer beginning in a calendar year,  
4           such individual shall be treated as having no depend-  
5           ents for any taxable year of such individual begin-  
6           ning in such calendar year.

7           “(2) MARRIED DEPENDENTS.—An individual  
8           shall not be treated as a dependent of a taxpayer  
9           under subsection (a) if such individual has made a  
10          joint return with the individual’s spouse under sec-  
11          tion 6013 for the taxable year beginning in the cal-  
12          endar year in which the taxable year of the taxpayer  
13          begins.

14          “(3) CITIZENS OR NATIONALS OF OTHER COUN-  
15          TRIES.—

16                 “(A) IN GENERAL.—The term ‘dependent’  
17                 does not include an individual who is not a cit-  
18                 izen or national of the United States unless  
19                 such individual is a resident of the United  
20                 States or a country contiguous to the United  
21                 States.

22                 “(B) EXCEPTION FOR ADOPTED CHILD.—  
23                 Subparagraph (A) shall not exclude any child of  
24                 a taxpayer (within the meaning of subsection

1 (f)(1)(B)) from the definition of ‘dependent’  
2 if—

3 “(i) for the taxable year of the tax-  
4 payer, the child has the same principal  
5 place of abode as the taxpayer and is a  
6 member of the taxpayer’s household, and

7 “(ii) the taxpayer is a citizen or na-  
8 tional of the United States.

9 “(c) QUALIFYING CHILD.—For purposes of this sec-  
10 tion—

11 “(1) IN GENERAL.—The term ‘qualifying child’  
12 means, with respect to any taxpayer for any taxable  
13 year, an individual—

14 “(A) who bears a relationship to the tax-  
15 payer described in paragraph (2),

16 “(B) who has the same principal place of  
17 abode as the taxpayer for more than one-half of  
18 such taxable year,

19 “(C) who meets the age requirements of  
20 paragraph (3), and

21 “(D) who has not provided over one-half of  
22 such individual’s own support for the calendar  
23 year in which the taxable year of the taxpayer  
24 begins.

1           “(2) RELATIONSHIP.—For purposes of para-  
2 graph (1)(A), an individual bears a relationship to  
3 the taxpayer described in this paragraph if such in-  
4 dividual is—

5           “(A) a child of the taxpayer or a descend-  
6 ant of such a child, or

7           “(B) a brother, sister, stepbrother, or step-  
8 sister of the taxpayer or a descendant of any  
9 such relative.

10          “(3) AGE REQUIREMENTS.—

11          “(A) IN GENERAL.—For purposes of para-  
12 graph (1)(C), an individual meets the require-  
13 ments of this paragraph if such individual—

14           “(i) has not attained the age of 19 as  
15 of the close of the calendar year in which  
16 the taxable year of the taxpayer begins, or

17           “(ii) is a student who has not attained  
18 the age of 24 as of the close of such cal-  
19 endar year.

20          “(B) SPECIAL RULE FOR DISABLED.—In  
21 the case of an individual who is permanently  
22 and totally disabled at any time during such  
23 calendar year, the requirements of subpara-  
24 graph (A) shall be treated as met with respect  
25 to such individual.

1           “(4) SPECIAL RULE RELATING TO 2 OR MORE  
2 CLAIMING QUALIFYING CHILD.—

3           “(A) IN GENERAL.—Except as provided in  
4 subparagraph (B), if (but for this paragraph)  
5 an individual may be and is claimed as a quali-  
6 fying child by 2 or more taxpayers for a taxable  
7 year beginning in the same calendar year, such  
8 individual shall be treated as the qualifying  
9 child of the taxpayer who is—

10           “(i) a parent of the individual, or

11           “(ii) if clause (i) does not apply, the  
12 taxpayer with the highest adjusted gross  
13 income for such taxable year.

14           “(B) MORE THAN 1 PARENT CLAIMING  
15 QUALIFYING CHILD.—If the parents claiming  
16 any qualifying child do not file a joint return  
17 together, such child shall be treated as the  
18 qualifying child of—

19           “(i) the parent with whom the child  
20 resided for the longest period of time dur-  
21 ing the taxable year, or

22           “(ii) if the child resides with both par-  
23 ents for the same amount of time during  
24 such taxable year, the parent with the  
25 highest adjusted gross income.

1       “(d) QUALIFYING RELATIVE.—For purposes of this  
2 section—

3           “(1) IN GENERAL.—The term ‘qualifying rel-  
4 ative’ means, with respect to any taxpayer for any  
5 taxable year, an individual—

6           “(A) who bears a relationship to the tax-  
7 payer described in paragraph (2),

8           “(B) with respect to whom the taxpayer  
9 provides over one-half of the individual’s sup-  
10 port for the calendar year in which such taxable  
11 year begins, and

12           “(C) who is not a qualifying child of such  
13 taxpayer or of any other taxpayer for any tax-  
14 able year beginning in the calendar year in  
15 which such taxable year begins.

16           “(2) RELATIONSHIP.—For purposes of para-  
17 graph (1)(A), an individual bears a relationship to  
18 the taxpayer described in this paragraph if the indi-  
19 vidual is any of the following with respect to the tax-  
20 payer:

21           “(A) A child or a descendant of a child.

22           “(B) A brother, sister, stepbrother, or  
23 stepsister.

24           “(C) The father or mother, or an ancestor  
25 of either.

1           “(D) A stepfather or stepmother.

2           “(E) A son or daughter of a brother or sis-  
3           ter of the taxpayer.

4           “(F) A brother or sister of the father or  
5           mother of the taxpayer.

6           “(G) A son-in-law, daughter-in-law, father-  
7           in-law, mother-in-law, brother-in-law, or sister-  
8           in-law.

9           “(H) An individual (other than an indi-  
10          vidual who at any time during the taxable year  
11          was the spouse, determined without regard to  
12          section 7703, of the taxpayer) who, for the tax-  
13          able year of the taxpayer, has the same prin-  
14          cipal place of abode as the taxpayer and is a  
15          member of the taxpayer’s household.

16          “(3) SPECIAL RULE RELATING TO MULTIPLE  
17          SUPPORT AGREEMENTS.—For purposes of paragraph  
18          (1)(C), over one-half of the support of an individual  
19          for a calendar year shall be treated as received from  
20          the taxpayer if—

21                 “(A) no one person contributed over one-  
22                 half of such support,

23                 “(B) over one-half of such support was re-  
24                 ceived from 2 or more persons each of whom,  
25                 but for the fact that any such person alone did

1 not contribute over one-half of such support,  
2 would have been entitled to claim such indi-  
3 vidual as a dependent for a taxable year begin-  
4 ning in such calendar year,

5 “(C) the taxpayer contributed over 10 per-  
6 cent of such support, and

7 “(D) each person described in subpara-  
8 graph (B) (other than the taxpayer) who con-  
9 tributed over 10 percent of such support files a  
10 written declaration (in such manner and form  
11 as the Secretary may by regulations prescribe)  
12 that such person will not claim such individual  
13 as a dependent for any taxable year beginning  
14 in such calendar year.

15 “(4) SPECIAL RULE RELATING TO INCOME OF  
16 HANDICAPPED DEPENDENTS.—

17 “(A) IN GENERAL.—For purposes of para-  
18 graph (1)(B), the gross income of an individual  
19 who is permanently and totally disabled at any  
20 time during the taxable year shall not include  
21 income attributable to services performed by the  
22 individual at a sheltered workshop if—

23 “(i) the availability of medical care at  
24 such workshop is the principal reason for  
25 the individual’s presence there, and

1           “(ii) the income arises solely from ac-  
2           tivities at such workshop which are inci-  
3           dent to such medical care.

4           “(B) SHELTERED WORKSHOP DEFINED.—  
5           For purposes of subparagraph (A), the term  
6           ‘sheltered workshop’ means a school—

7           “(i) which provides special instruction  
8           or training designed to alleviate the dis-  
9           ability of the individual, and

10           “(ii) which is operated by an organi-  
11           zation described in section 501(c)(3) and  
12           exempt from tax under section 501(a), or  
13           by a State, a possession of the United  
14           States, any political subdivision of any of  
15           the foregoing, the United States, or the  
16           District of Columbia.

17           “(5) SPECIAL RULES FOR SUPPORT.—For pur-  
18           poses of this subsection—

19           “(A) payments to a spouse which are in-  
20           cludible in the gross income of such spouse  
21           shall not be treated as a payment by the payor  
22           spouse for the support of any dependent, and

23           “(B) in the case of the remarriage of a  
24           parent, support of a child received from the

1 parent's spouse shall be treated as received  
2 from the parent.

3 “(e) SPECIAL RULE FOR DIVORCED PARENTS.—

4 “(1) IN GENERAL.—Notwithstanding subsection  
5 (c)(1)(B), (c)(4), or (d)(1)(C), if—

6 “(A) a child receives over one-half of the  
7 child's support during the calendar year from  
8 the child's parents—

9 “(i) who are divorced or legally sepa-  
10 rated under a decree of divorce or separate  
11 maintenance,

12 “(ii) who are separated under a writ-  
13 ten separation agreement, or

14 “(iii) who live apart at all times dur-  
15 ing the last 6 months of the calendar year,  
16 and

17 “(B) such child is in the custody of 1 or  
18 both of the child's parents for more than one-  
19 half of the calendar year, such child shall be  
20 treated as being the qualifying child or quali-  
21 fying relative of the noncustodial parent for a  
22 calendar year if the requirements described in  
23 paragraph (2) are met.

1           “(2) REQUIREMENTS.—For purposes of para-  
2 graph (1), the requirements described in this para-  
3 graph are met if—

4           “(A) a decree of divorce or separate main-  
5 tenance or written separation agreement be-  
6 tween the parents applicable to the taxable year  
7 beginning in such calendar year provides that  
8 the noncustodial parent shall be entitled to any  
9 deduction allowable under section 2 for such  
10 child, and in the case of such a decree or agree-  
11 ment executed before January 1, 1985, the  
12 noncustodial parent provides at least \$600 for  
13 the support of such child during such calendar  
14 year, or

15           “(B) the custodial parent signs a written  
16 declaration (in such manner and form as the  
17 Secretary may prescribe) that such parent will  
18 not claim such child as a dependent for such  
19 taxable year.

20           For purposes of subparagraph (A), amounts ex-  
21 pended for the support of a child or children shall  
22 be treated as received from the noncustodial parent  
23 to the extent that such parent provided amounts for  
24 such support.

1           “(3) CUSTODIAL PARENT AND NONCUSTODIAL  
2 PARENT.—For purposes of this subsection—

3           “(A) CUSTODIAL PARENT.—The term ‘cus-  
4 todial parent’ means the parent with whom a  
5 child shared the same principal place of abode  
6 for the greater portion of the calendar year.

7           “(B) NONCUSTODIAL PARENT.—The term  
8 ‘noncustodial parent’ means the parent who is  
9 not the custodial parent.

10          “(4) EXCEPTION FOR MULTIPLE-SUPPORT  
11 AGREEMENTS.—This subsection shall not apply in  
12 any case where over one-half of the support of the  
13 child is treated as having been received from a tax-  
14 payer under the provision of subsection (d)(3).

15          “(f) OTHER DEFINITIONS AND RULES.—For pur-  
16 poses of this section—

17          “(1) CHILD DEFINED.—

18           “(A) IN GENERAL.—The term ‘child’  
19 means an individual who is—

20           “(i) a son, daughter, stepson, or step-  
21 daughter of the taxpayer, or

22           “(ii) an eligible foster child of the tax-  
23 payer.

24           “(B) ADOPTED CHILD.—In determining  
25 whether any of the relationships specified in

1           subparagraph (A)(i) or paragraph (4) exists, a  
2           legally adopted individual of the taxpayer, or an  
3           individual who is lawfully placed with the tax-  
4           payer for legal adoption by the taxpayer, shall  
5           be treated as a child of such individual by  
6           blood.

7           “(C) ELIGIBLE FOSTER CHILD.—For pur-  
8           poses of subparagraph (A)(ii), the term ‘eligible  
9           foster child’ means an individual who is placed  
10          with the taxpayer by an authorized placement  
11          agency or by judgment, decree, or other order  
12          of any court of competent jurisdiction.

13          “(2) STUDENT DEFINED.—The term ‘student’  
14          means an individual who during each of 5 calendar  
15          months during the calendar year in which the tax-  
16          able year of the taxpayer begins—

17                 “(A) is a full-time student at an edu-  
18                 cational organization described in section  
19                 3(d)(1)(B), or

20                 “(B) is pursuing a full-time course of insti-  
21                 tutional on-farm training under the supervision  
22                 of an accredited agent of an educational organi-  
23                 zation described in section 3(d)(1)(B) or of a  
24                 State or political subdivision of a State.

1           “(3) DETERMINATION OF HOUSEHOLD STA-  
2           TUS.—An individual shall not be treated as a mem-  
3           ber of the taxpayer’s household if at any time during  
4           the taxable year of the taxpayer the relationship be-  
5           tween such individual and the taxpayer is in viola-  
6           tion of local law.

7           “(4) BROTHER AND SISTER.—The terms  
8           ‘brother’ and ‘sister’ include a brother or sister by  
9           the half blood.

10           “(5) SPECIAL SUPPORT TEST IN CASE OF STU-  
11           DENTS.—For purposes of subsections (e)(1)(D) and  
12           (d)(1)(C), in the case of an individual who is—

13                   “(A) a child of the taxpayer, and

14                   “(B) a student, amounts received as schol-  
15                   arships for study at an educational organization  
16                   described in section 3(d)(1)(B) shall not be  
17                   taken into account.

18           “(6) TREATMENT OF MISSING CHILDREN.—

19                   “(A) IN GENERAL.—Solely for the pur-  
20                   poses referred to in subparagraph (B), a child  
21                   of the taxpayer—

22                           “(i) who is presumed by law enforce-  
23                           ment authorities to have been kidnapped  
24                           by someone who is not a member of the  
25                           family of such child or the taxpayer, and

1           “(ii) who had, for the taxable year in  
2           which the kidnapping occurred, the same  
3           principal place of abode as the taxpayer for  
4           more than one-half of the portion of such  
5           year before the date of the kidnapping,  
6           shall be treated as meeting the require-  
7           ment of subsection (c)(1)(B) with respect  
8           to a taxpayer for all taxable years ending  
9           during the period that the child is kid-  
10          napped.

11          “(B) PURPOSES.—Subparagraph (A) shall  
12          apply solely for purposes of determining—

13                 “(i) the deduction under section 2(c),  
14                 and

15                 “(ii) whether an individual is a sur-  
16                 viving spouse or a head of a household (as  
17                 such terms are defined in section 5).

18          “(C) COMPARABLE TREATMENT OF CER-  
19          TAIN QUALIFYING RELATIVES.—For purposes  
20          of this section, a child of the taxpayer—

21                 “(i) who is presumed by law enforce-  
22                 ment authorities to have been kidnapped  
23                 by someone who is not a member of the  
24                 family of such child or the taxpayer, and

1           “(ii) who was (without regard to this  
 2           paragraph) a qualifying relative of the tax-  
 3           payer for the portion of the taxable year  
 4           before the date of the kidnapping, shall be  
 5           treated as a qualifying relative of the tax-  
 6           payer for all taxable years ending during  
 7           the period that the child is kidnapped.

8           “(D) TERMINATION OF TREATMENT.—  
 9           Subparagraphs (A) and (C) shall cease to apply  
 10          as of the first taxable year of the taxpayer be-  
 11          ginning after the calendar year in which there  
 12          is a determination that the child is dead (or, if  
 13          earlier, in which the child would have attained  
 14          age 18).

15           **“PART II—TAX ON BUSINESS ACTIVITIES**

“Sec. 11. Tax imposed on business activities.

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

17           “(a) TAX IMPOSED.—There is hereby imposed on  
 18          every person engaged in a business activity located in the  
 19          United States a tax equal to 20 percent of the business  
 20          taxable income of such person.

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

1 “(c) BUSINESS TAXABLE INCOME.—

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

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

9 “(d) DEDUCTIONS.—

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

12 “(A) the cost of business inputs for the  
13 business activity,

14 “(B) the compensation (including contribu-  
15 tions to qualified retirement plans but not in-  
16 cluding other fringe benefits) paid for employ-  
17 ees performing services in such activity, and

18 “(C) the cost of personal and real property  
19 used in such activity.

20 “(2) BUSINESS INPUTS.—

21 “(A) IN GENERAL.—For purposes of para-  
22 graph (1)(A), the term ‘cost of business inputs’  
23 means—

1           “(i) the actual cost of goods, services,  
2           and materials, whether or not resold dur-  
3           ing the taxable year, and

4           “(ii) the actual cost, if reasonable, of  
5           travel and entertainment expenses for busi-  
6           ness purposes.

7           “(B) PURCHASES OF GOODS AND SERV-  
8           ICES EXCLUDED.—Such term shall not include  
9           purchases of goods and services provided to em-  
10          ployees or owners.

11          “(C) CERTAIN LOBBYING AND POLITICAL  
12          EXPENDITURES EXCLUDED.—

13           “(i) IN GENERAL.—Such term shall  
14           not include any amount paid or incurred in  
15           connection with—

16                   “(I) influencing legislation,

17                   “(II) participation in, or inter-  
18                   vention in, any political campaign on  
19                   behalf of (or in opposition to) any  
20                   candidate for public office,

21                   “(III) any attempt to influence  
22                   the general public, or segments there-  
23                   of, with respect to elections, legislative  
24                   matters, or referendums, or

1           “(IV) any direct communication  
2           with a covered executive branch offi-  
3           cial in an attempt to influence the of-  
4           ficial actions or positions of such offi-  
5           cial.

6           “(ii) EXCEPTION FOR LOCAL LEGISLA-  
7           TION.—In the case of any legislation of  
8           any local council or similar governing  
9           body—

10                   “(I) clause (i)(I) shall not apply,  
11                   and

12                   “(II) such term shall include all  
13                   ordinary and necessary expenses (in-  
14                   cluding, but not limited to, traveling  
15                   expenses described in subparagraph  
16                   (A)(iii) and the cost of preparing tes-  
17                   timony) paid or incurred during the  
18                   taxable year in carrying on any trade  
19                   or business—

20                   “(aa) in direct connection  
21                   with appearances before, submis-  
22                   sion of statements to, or sending  
23                   communications to the commit-  
24                   tees, or individual members, of  
25                   such council or body with respect

1 to legislation or proposed legisla-  
2 tion of direct interest to the tax-  
3 payer, or

4 “(bb) in direct connection  
5 with communication of informa-  
6 tion between the taxpayer and an  
7 organization of which the tax-  
8 payer is a member with respect  
9 to any such legislation or pro-  
10 posed legislation which is of di-  
11 rect interest to the taxpayer and  
12 to such organization, and that  
13 portion of the dues so paid or in-  
14 curred with respect to any orga-  
15 nization of which the taxpayer is  
16 a member which is attributable  
17 to the expenses of the activities  
18 carried on by such organization.

19 “(iii) APPLICATION TO DUES OF TAX-  
20 EXEMPT ORGANIZATIONS.—Such term  
21 shall include the portion of dues or other  
22 similar amounts paid by the taxpayer to an  
23 organization which is exempt from tax  
24 under this subtitle which the organization  
25 notifies the taxpayer under section

1           6033(e)(1)(A)(ii) is allocable to expendi-  
2           tures to which clause (i) applies.

3           “(iv) INFLUENCING LEGISLATION.—

4           For purposes of this subparagraph—

5           “(I) IN GENERAL.—The term ‘in-  
6           fluencing legislation’ means any at-  
7           tempt to influence any legislation  
8           through communication with any  
9           member or employee of a legislative  
10          body, or with any government official  
11          or employee who may participate in  
12          the formulation of legislation.

13          “(II) LEGISLATION.—The term  
14          ‘legislation’ has the meaning given  
15          that term in section 4911(e)(2).

16          “(v) OTHER SPECIAL RULES.—

17          “(I) EXCEPTION FOR CERTAIN  
18          TAXPAYERS.—In the case of any tax-  
19          payer engaged in the trade or busi-  
20          ness of conducting activities described  
21          in clause (i), clause (i) shall not apply  
22          to expenditures of the taxpayer in  
23          conducting such activities directly on  
24          behalf of another person (but shall  
25          apply to payments by such other per-

1 son to the taxpayer for conducting  
2 such activities).

3 “(II) DE MINIMIS EXCEPTION.—

4 “(aa) IN GENERAL.—Clause  
5 (i) shall not apply to any in-  
6 house expenditures for any tax-  
7 able year if such expenditures do  
8 not exceed \$2,000. In deter-  
9 mining whether a taxpayer ex-  
10 ceeds the \$2,000 limit, there  
11 shall not be taken into account  
12 overhead costs otherwise allocable  
13 to activities described in sub-  
14 clauses (I) and (IV) of clause (i).

15 “(bb) IN-HOUSE EXPENDI-  
16 TURES.—For purposes of provi-  
17 sion (aa), the term ‘in-house ex-  
18 penditures’ means expenditures  
19 described in subclauses (I) and  
20 (IV) of clause (i) other than pay-  
21 ments by the taxpayer to a per-  
22 son engaged in the trade or busi-  
23 ness of conducting activities de-  
24 scribed in clause (i) for the con-  
25 duct of such activities on behalf

1 of the taxpayer, or dues or other  
2 similar amounts paid or incurred  
3 by the taxpayer which are allo-  
4 cable to activities described in  
5 clause (i).

6 “(III) EXPENSES INCURRED IN  
7 CONNECTION WITH LOBBYING AND  
8 POLITICAL ACTIVITIES.—Any amount  
9 paid or incurred for research for, or  
10 preparation, planning, or coordination  
11 of, any activity described in clause (i)  
12 shall be treated as paid or incurred in  
13 connection with such activity.

14 “(vi) COVERED EXECUTIVE BRANCH  
15 OFFICIAL.—For purposes of this subpara-  
16 graph, the term ‘covered executive branch  
17 official’ means—

18 “(I) the President,

19 “(II) the Vice President,

20 “(III) any officer or employee of  
21 the White House Office of the Execu-  
22 tive Office of the President, and the 2  
23 most senior level officers of each of  
24 the other agencies in such Executive  
25 Office, and

1           “(IV) any individual serving in a  
2           position in level I of the Executive  
3           Schedule under section 5312 of title  
4           5, United States Code, any other indi-  
5           vidual designated by the President as  
6           having Cabinet level status, and any  
7           immediate deputy of such an indi-  
8           vidual.

9           “(vii) SPECIAL RULE FOR INDIAN  
10          TRIBAL GOVERNMENTS.—For purposes of  
11          this subparagraph, an Indian tribal gov-  
12          ernment shall be treated in the same man-  
13          ner as a local council or similar governing  
14          body.

15          “(viii) CROSS REFERENCE.—

“For reporting requirements and alternative taxes related to this sub-  
section, see section 6033(e).

16          “(e) CARRYOVER OF EXCESS DEDUCTIONS.—

17                 “(1) IN GENERAL.—If the aggregate deductions  
18                 for any taxable year exceed the gross active income  
19                 for such taxable year, the amount of the deductions  
20                 specified in subsection (d) for the succeeding taxable  
21                 year (determined without regard to this subsection)  
22                 shall be increased by the sum of—

23                         “(A) such excess, plus

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

4           “(2) 3-MONTH TREASURY RATE.—For purposes  
5           of paragraph (1), the 3-month Treasury rate is the  
6           rate determined by the Secretary based on the aver-  
7           age market yield (during any 1-month period se-  
8           lected by the Secretary and ending in the calendar  
9           month in which the determination is made) on out-  
10          standing marketable obligations of the United States  
11          with remaining periods to maturity of 3 months or  
12          less.”

13          (b) CONFORMING REPEALS AND REDESIGNATIONS.—

14           (1) REPEALS.—The following subchapters of  
15          chapter 1 of subtitle A and the items relating to  
16          such subchapters in the table of subchapters for  
17          such chapter 1 are repealed:

18           (A) Subchapter B (relating to computation  
19          of taxable income).

20           (B) Subchapter C (relating to corporate  
21          distributions and adjustments).

22           (C) Subchapter D (relating to deferred  
23          compensation, etc.).

24           (D) Subchapter G (relating to corporations  
25          used to avoid income tax on shareholders).

1           (E) Subchapter H (relating to banking in-  
2           stitutions).

3           (F) Subchapter I (relating to natural re-  
4           sources).

5           (G) Subchapter J (relating to estates,  
6           trusts, beneficiaries, and decedents).

7           (H) Subchapter L (relating to insurance  
8           companies).

9           (I) Subchapter M (relating to regulated in-  
10          vestment companies and real estate investment  
11          trusts).

12          (J) Subchapter N (relating to tax based on  
13          income from sources within or without the  
14          United States).

15          (K) Subchapter O (relating to gain or loss  
16          on disposition of property).

17          (L) Subchapter P (relating to capital gains  
18          and losses).

19          (M) Subchapter Q (relating to readjust-  
20          ment of tax between years and special limita-  
21          tions).

22          (N) Subchapter S (relating to tax treat-  
23          ment of S corporations and their shareholders).

24          (O) Subchapter T (relating to cooperatives  
25          and their patrons).

1           (P) Subchapter U (relating to designation  
2           and treatment of empowerment zones, enter-  
3           prise communities, and rural development in-  
4           vestment areas).

5           (Q) Subchapter V (relating to title 11  
6           cases).

7           (R) Subchapter W (relating to District of  
8           Columbia Enterprise Zone).

9           (2) REDESIGNATIONS.—The following sub-  
10          chapters of chapter 1 of subtitle A and the items re-  
11          lating to such subchapters in the table of sub-  
12          chapters for such chapter 1 are redesignated:

13           (A) Subchapter E (relating to accounting  
14           periods and methods of accounting) as sub-  
15           chapter B.

16           (B) Subchapter F (relating to exempt or-  
17           ganizations) as subchapter C.

18           (C) Subchapter K (relating to partners  
19           and partnerships) as subchapter D.

20 **SEC. 3. REPEAL OF ESTATE AND GIFT TAXES.**

21          Subtitle B (relating to estate, gift, and generation-  
22          skipping taxes) and the item relating to such subtitle in  
23          the table of subtitles is repealed.

1 **SEC. 4. ADDITIONAL REPEALS.**

2 Subtitles H (relating to financing of presidential elec-  
3 tion campaigns) and J (relating to coal industry health  
4 benefits) and the items relating to such subtitles in the  
5 table of subtitles are repealed.

6 **SEC. 5. EFFECTIVE DATES.**

7 (a) **IN GENERAL.**—Except as provided in subsection  
8 (b), the amendments made by this Act apply to taxable  
9 years beginning after December 31, 2005.

10 (b) **REPEAL OF ESTATE AND GIFT TAXES.**—The re-  
11 peal made by section 3 applies to estates of decedents  
12 dying, and transfers made, after December 31, 2005.

13 (c) **TECHNICAL AND CONFORMING CHANGES.**—The  
14 Secretary of the Treasury or the Secretary's delegate  
15 shall, as soon as practicable but in any event not later  
16 than 90 days after the date of enactment of this Act, sub-  
17 mit to the Committee on Ways and Means of the House  
18 of Representatives and the Committee on Finance of the  
19 Senate a draft of any technical and conforming changes  
20 in the Internal Revenue Code of 1986 which are necessary  
21 to reflect throughout such Code the changes in the sub-  
22 stantive provisions of law made by this Act.

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