

110TH CONGRESS  
2D SESSION

# S. 2547

To amend the Internal Revenue Code of 1986 to reduce taxes by providing an alternative determination of income tax liability for individuals, repealing the estate and gift taxes, reducing corporate income tax rates, reducing the maximum tax for individuals on capital gains and dividends to 10 percent, indexing the basis of assets for purposes of determining capital gain or loss, creating tax-free accounts for retirement savings, lifetime savings, and life skills, repealing the adjusted gross income threshold in the medical care deduction for individuals under age 65 who have no employer health coverage, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

JANUARY 23, 2008

Mr. BOND 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 reduce taxes by providing an alternative determination of income tax liability for individuals, repealing the estate and gift taxes, reducing corporate income tax rates, reducing the maximum tax for individuals on capital gains and dividends to 10 percent, indexing the basis of assets for purposes of determining capital gain or loss, creating tax-free accounts for retirement savings, lifetime savings, and life skills, repealing the adjusted gross income threshold in the medical care deduction for individuals

under age 65 who have no employer health coverage,  
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, ETC.**

4       (a) **SHORT TITLE.**—This Act may be cited as the  
5       “Fair and Simple Tax Act of 2008”.

6       (b) **AMENDMENT OF 1986 CODE.**—Except as other-  
7       wise expressly provided, whenever in this Act an amend-  
8       ment or repeal is expressed in terms of an amendment  
9       to, or repeal of, a section or other provision, the reference  
10      shall be considered to be made to a section or other provi-  
11      sion of the Internal Revenue Code of 1986.

12      (c) **TABLE OF CONTENTS.**—

Sec. 1. Short title, etc.

Sec. 2. Simplified alternative determination of income tax liability for individ-  
uals.

Sec. 3. Repeal of estate and gift taxes.

Sec. 4. Alternative minimum tax exemption amounts indexed for inflation.

Sec. 5. Maximum corporate income tax rate reduced to 25 percent.

Sec. 6. 15 percent rate on dividends and capital gains of individuals reduced  
to 10 percent.

Sec. 7. Indexing of certain assets for purposes of determining gain or loss.

Sec. 8. Retirement savings accounts.

Sec. 9. Lifetime savings accounts.

Sec. 10. Lifetime skills accounts.

Sec. 11. Expanded deduction for medical care expenses; expansion of individ-  
uals to whom health savings accounts may be passed on death.

Sec. 12. Research credit made permanent.

Sec. 13. Tax provisions of prior laws made permanent.

1 **SEC. 2. SIMPLIFIED ALTERNATIVE DETERMINATION OF IN-**  
 2 **COME TAX LIABILITY FOR INDIVIDUALS.**

3 (a) IN GENERAL.—Subchapter A of chapter 1 (relat-  
 4 ing to determination of tax liability) is amended by adding  
 5 at the end the following new part:

6 **“PART VIII—ALTERNATIVE DETERMINATION OF**  
 7 **TAX LIABILITY FOR INDIVIDUALS**

“Sec. 59B. Alternative determination of tax liability for individuals.

8 **“SEC. 59B. ALTERNATIVE DETERMINATION OF TAX LIABIL-**  
 9 **ITY FOR INDIVIDUALS.**

10 “(a) IN GENERAL.—In the case of an individual, the  
 11 net income tax of the taxpayer shall be the tax determined  
 12 under this section.

13 “(b) DETERMINATION OF TAX.—The tax determined  
 14 under this section is the amount equal to—

15 “(1) the sum of—

16 “(A) 10 percent of so much of simplified  
 17 taxable income as does not exceed \$40,000,

18 “(B) 15 percent of so much of simplified  
 19 taxable income as exceeds \$40,000 but does not  
 20 exceed \$150,000, and

21 “(C) 30 percent of so much of simplified  
 22 taxable income as exceeds \$150,000, reduced by

23 “(2) the sum of the credits allowed by—

24 “(A) section 31 (relating to tax withheld  
 25 on wages), and

1 “(B) section 24 (relating to child tax cred-  
2 it).

3 “(c) SIMPLIFIED TAXABLE INCOME.—For purposes  
4 of this section, the term ‘simplified taxable income’ means  
5 the amount equal to—

6 “(1) gross income, minus

7 “(2) the sum of—

8 “(A) the deduction for personal exemptions  
9 allowed by section 151,

10 “(B) the deduction allowed by section 163  
11 for acquisition indebtedness (as defined in sec-  
12 tion 163(h)(2)(B)) with respect to the principal  
13 residence (within the meaning of section 121)  
14 of the taxpayer,

15 “(C) the deduction allowed by section 164  
16 for State and local income taxes,

17 “(D) the deduction allowed by section 170  
18 (relating to charitable, etc., contributions and  
19 gifts, and

20 “(E) the deduction allowed by section 213  
21 (relating to medical, dental, etc., expenses) to  
22 the extent such deduction is determined under  
23 section 213(a)(2) (relating to individuals who  
24 have not attained age 65 and are not covered  
25 under an employer health plan).

1       “(d) NET INCOME TAX.—For purposes of this sec-  
 2 tion, the term ‘net income tax’ means the sum of the reg-  
 3 ular tax liability and the tax imposed by section 55, re-  
 4 duced by the credits allowable under this part.

5       “(e) ESTATE AND TRUSTS.—This section shall not  
 6 apply to an estate or trust.

7       “(f) SECTION TO BE ELECTIVE.—This section shall  
 8 apply to a taxpayer for a taxable year only if elected by  
 9 the taxpayer for such year. Such election, once made for  
 10 a taxable year, shall be irrevocable without the consent  
 11 of the Secretary.”.

12       (b) CLERICAL AMENDMENT.—The table of parts for  
 13 such subchapter is amended by adding at the end the fol-  
 14 lowing new item:

“PART VIII—ALTERNATIVE DETERMINATION OF TAX LIABILITY FOR  
 INDIVIDUALS.”

15       (c) EFFECTIVE DATE.—The amendments made by  
 16 this section shall apply to taxable years beginning after  
 17 December 31, 2008.

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

19       (a) IN GENERAL.—Subtitle B is hereby repealed.

20       (b) EFFECTIVE DATE.—The repeal made by sub-  
 21 section (a) shall apply to the estates of decedents dying,  
 22 and gifts and generation-skipping transfers made, after  
 23 December 31, 2008.

1 **SEC. 4. ALTERNATIVE MINIMUM TAX EXEMPTION AMOUNTS**

2 **INDEXED FOR INFLATION.**

3 (a) IN GENERAL.—Subsection (d) of section 55 (re-  
4 lating to exemption amount) is amended by adding at the  
5 end the following new paragraph:

6 “(4) INFLATION ADJUSTMENT.—

7 “(A) IN GENERAL.—In the case of any  
8 taxable year beginning in a calendar year after  
9 2007, the dollar amounts contained in para-  
10 graphs (1), (2), and (3) shall be increased by  
11 an amount equal to—

12 “(i) such dollar amount, multiplied by

13 “(ii) the cost-of-living adjustment de-  
14 termined under section 1(f)(3) for the cal-  
15 endar year in which the taxable year be-  
16 gins, determined by substituting ‘calendar  
17 year 2006’ for ‘calendar year 1992’ in sub-  
18 paragraph (B) thereof.

19 “(B) ROUNDING.—Any increase deter-  
20 mined under subparagraph (A) shall be rounded  
21 to the nearest multiple of \$100.”.

22 (b) PRIOR INCREASE MADE PERMANENT.—Para-  
23 graph (1) of section 55(d) is amended—

24 (1) by striking “\$45,000 (\$66,250 in the case  
25 of taxable years beginning in 2007)” and inserting  
26 “\$66,250”,

1 (2) by striking “\$33,750 (\$44,350 in the case  
 2 of taxable years beginning in 2007)” and inserting  
 3 “\$44,350”, and

4 (3) by striking “paragraph (1)(A)” and insert-  
 5 ing “subparagraph (A)”.

6 (c) EFFECTIVE DATE.—The amendments made by  
 7 this section shall apply to taxable years beginning after  
 8 December 31, 2007.

9 **SEC. 5. MAXIMUM CORPORATE INCOME TAX RATE RE-**  
 10 **DUCTED TO 25 PERCENT.**

11 (a) IN GENERAL.—Paragraph (1) of section 11(b)  
 12 (relating to amount of tax on corporations) is amended  
 13 to read as follows:

14 “(1) IN GENERAL.—The amount of the tax im-  
 15 posed by subsection (a) shall be the sum of—

16 “(A) 15 percent of so much of the taxable  
 17 income as does not exceed \$50,000, and

18 “(B) 25 percent of so much of the taxable  
 19 income as exceeds \$50,000.”.

20 (b) PERSONAL SERVICE CORPORATIONS.—Para-  
 21 graph (2) of section 11(b) is amended by striking “35 per-  
 22 cent” and inserting “25 percent”.

23 (c) CONFORMING AMENDMENTS.—Paragraphs (1)  
 24 and (2) of section 1445(e) are each amended by striking  
 25 “35 percent” and inserting “25 percent”.

1 (d) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to taxable years beginning after  
 3 December 31, 2008; except that the amendments made  
 4 by subsection (c) shall take effect on January 1, 2009.

5 **SEC. 6. 15 PERCENT RATE ON DIVIDENDS AND CAPITAL**  
 6 **GAINS OF INDIVIDUALS REDUCED TO 10 PER-**  
 7 **CENT.**

8 (a) IN GENERAL.—Subparagraph (C) of section  
 9 1(h)(1) (relating to maximum capital gains rate) is  
 10 amended by striking “15 percent” and inserting “10 per-  
 11 cent”.

12 (b) EFFECTIVE DATE.—The amendment made by  
 13 this section shall apply to taxable years beginning after  
 14 December 31, 2008.

15 **SEC. 7. INDEXING OF CERTAIN ASSETS FOR PURPOSES OF**  
 16 **DETERMINING GAIN OR LOSS.**

17 (a) IN GENERAL.—Part II of subchapter O of chap-  
 18 ter 1 (relating to basis rules of general application) is  
 19 amended by redesignating section 1023 as section 1024  
 20 and by inserting after section 1022 the following new sec-  
 21 tion:

22 **“SEC. 1023. INDEXING OF CERTAIN ASSETS FOR PURPOSES**  
 23 **OF DETERMINING GAIN OR LOSS.**

24 **“(a) GENERAL RULE.—**



1           “(1) INDEXED BASIS SUBSTITUTED FOR AD-  
 2 JUSTED BASIS.—Solely for purposes of determining  
 3 gain or loss on the sale or other disposition by a tax-  
 4 payer (other than a corporation) of an indexed asset  
 5 which has been held for more than 3 years, the in-  
 6 dexed basis of the asset shall be substituted for its  
 7 adjusted basis.

8           “(2) EXCEPTION FOR DEPRECIATION, ETC.—  
 9 The deductions for depreciation, depletion, and am-  
 10 ortization shall be determined without regard to the  
 11 application of paragraph (1) to the taxpayer or any  
 12 other person.

13           “(b) INDEXED ASSET.—

14           “(1) IN GENERAL.—For purposes of this sec-  
 15 tion, the term ‘indexed asset’ means—

16                   “(A) common stock in a C corporation  
 17                   (other than a foreign corporation), and

18                   “(B) tangible property,  
 19 which is a capital asset or property used in the trade  
 20 or business (as defined in section 1231(b)).

21           “(2) STOCK IN CERTAIN FOREIGN CORPORA-  
 22 TIONS INCLUDED.—For purposes of this section—

23                   “(A) IN GENERAL.—The term ‘indexed  
 24 asset’ includes common stock in a foreign cor-

1           poration which is regularly traded on an estab-  
2           lished securities market.

3                   “(B)   EXCEPTION.—Subparagraph   (A)  
4           shall not apply to—

5                           “(i) stock in a passive foreign invest-  
6                           ment company (as defined in section  
7                           1296), and

8                           “(ii) stock in a foreign corporation  
9                           held by a United States person who meets  
10                          the requirements of section 1248(a)(2).

11                       “(C) TREATMENT OF AMERICAN DEPOSI-  
12                       TORY RECEIPTS.—An American depository re-  
13                       ceipt for common stock in a foreign corporation  
14                       shall be treated as common stock in such cor-  
15                       poration.

16           “(c) INDEXED BASIS.—For purposes of this sec-  
17           tion—

18                       “(1) IN GENERAL.—The indexed basis for any  
19                       asset is—

20                           “(A) the adjusted basis of the asset, in-  
21                           creased by

22                           “(B) the applicable inflation adjustment.

23                       “(2) APPLICABLE INFLATION ADJUSTMENT.—  
24                       The applicable inflation adjustment for any asset is  
25                       an amount equal to—

1 “(A) the adjusted basis of the asset, multi-  
2 plied by

3 “(B) the percentage (if any) by which—

4 “(i) the gross domestic product  
5 deflator for the last calendar quarter end-  
6 ing before the asset is disposed of, exceeds

7 “(ii) the gross domestic product  
8 deflator for the last calendar quarter end-  
9 ing before the asset was acquired by the  
10 taxpayer (or, if later, the calendar quarter  
11 ending on December 31, 2007).

12 The percentage under subparagraph (B) shall  
13 be rounded to the nearest  $\frac{1}{10}$  of 1 percentage  
14 point.

15 “(3) GROSS DOMESTIC PRODUCT DEFLATOR.—

16 The gross domestic product deflator for any cal-  
17 endar quarter is the implicit price deflator for the  
18 gross domestic product for such quarter (as shown  
19 in the last revision thereof released by the Secretary  
20 of Commerce before the close of the following cal-  
21 endar quarter).

22 “(d) SUSPENSION OF HOLDING PERIOD WHERE DI-  
23 MINISHED RISK OF LOSS; TREATMENT OF SHORT  
24 SALES.—

1           “(1) IN GENERAL.—If the taxpayer (or a re-  
 2           lated person) enters into any transaction which sub-  
 3           stantially reduces the risk of loss from holding any  
 4           asset, such asset shall not be treated as an indexed  
 5           asset for the period of such reduced risk.

6           “(2) SHORT SALES.—

7                   “(A) IN GENERAL.—In the case of a short  
 8           sale of an indexed asset with a short sale period  
 9           in excess of 3 years, for purposes of this title,  
 10          the amount realized shall be an amount equal  
 11          to the amount realized (determined without re-  
 12          gard to this paragraph) increased by the appli-  
 13          cable inflation adjustment. In applying sub-  
 14          section (c)(2) for purposes of the preceding sen-  
 15          tence, the date on which the property is sold  
 16          short shall be treated as the date of acquisition  
 17          and the closing date for the sale shall be treat-  
 18          ed as the date of disposition.

19                   “(B) SHORT SALE PERIOD.—For purposes  
 20          of subparagraph (A), the short sale period be-  
 21          gins on the day that the property is sold and  
 22          ends on the closing date for the sale.

23          “(e) TREATMENT OF REGULATED INVESTMENT  
 24          COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—

25                   “(1) ADJUSTMENTS AT ENTITY LEVEL.—

1           “(A) IN GENERAL.—Except as otherwise  
 2           provided in this paragraph, the adjustment  
 3           under subsection (a) shall be allowed to any  
 4           qualified investment entity (including for pur-  
 5           poses of determining the earnings and profits of  
 6           such entity).

7           “(B) EXCEPTION FOR CORPORATE SHARE-  
 8           HOLDERS.—Under regulations—

9                   “(i) in the case of a distribution by a  
 10                   qualified investment entity (directly or in-  
 11                   directly) to a corporation—

12                           “(I) the determination of whether  
 13                           such distribution is a dividend shall be  
 14                           made without regard to this section,  
 15                           and

16                           “(II) the amount treated as gain  
 17                           by reason of the receipt of any capital  
 18                           gain dividend shall be increased by the  
 19                           percentage by which the entity’s net  
 20                           capital gain for the taxable year (de-  
 21                           termined without regard to this sec-  
 22                           tion) exceeds the entity’s net capital  
 23                           gain for such year determined with re-  
 24                           gard to this section, and

1 “(ii) there shall be other appropriate  
2 adjustments (including deemed distribu-  
3 tions) so as to ensure that the benefits of  
4 this section are not allowed (directly or in-  
5 directly) to corporate shareholders of quali-  
6 fied investment entities.

7 For purposes of the preceding sentence, any  
8 amount includible in gross income under section  
9 852(b)(3)(D) shall be treated as a capital gain  
10 dividend and an S corporation shall not be  
11 treated as a corporation.

12 “(C) EXCEPTION FOR QUALIFICATION  
13 PURPOSES.—This section shall not apply for  
14 purposes of sections 851(b) and 856(e).

15 “(D) EXCEPTION FOR CERTAIN TAXES IM-  
16 POSED AT ENTITY LEVEL.—

17 “(i) TAX ON FAILURE TO DISTRIBUTE  
18 ENTIRE GAIN.—If any amount is subject to  
19 tax under section 852(b)(3)(A) for any  
20 taxable year, the amount on which tax is  
21 imposed under such section shall be in-  
22 creased by the percentage determined  
23 under subparagraph (B)(i)(II). A similar  
24 rule shall apply in the case of any amount  
25 subject to tax under paragraph (2) or (3)

1 of section 857(b) to the extent attributable  
2 to the excess of the net capital gain over  
3 the deduction for dividends paid deter-  
4 mined with reference to capital gain divi-  
5 dends only. The first sentence of this  
6 clause shall not apply to so much of the  
7 amount subject to tax under section  
8 852(b)(3)(A) as is designated by the com-  
9 pany under section 852(b)(3)(D).

10 “(ii) OTHER TAXES.—This section  
11 shall not apply for purposes of determining  
12 the amount of any tax imposed by para-  
13 graph (4), (5), or (6) of section 857(b).

14 “(2) ADJUSTMENTS TO INTERESTS HELD IN  
15 ENTITY.—

16 “(A) REGULATED INVESTMENT COMPA-  
17 NIES.—Stock in a regulated investment com-  
18 pany (within the meaning of section 851) shall  
19 be an indexed asset for any calendar quarter in  
20 the same ratio as—

21 “(i) the average of the fair market  
22 values of the indexed assets held by such  
23 company at the close of each month during  
24 such quarter, bears to

1 “(ii) the average of the fair market  
 2 values of all assets held by such company  
 3 at the close of each such month.

4 “(B) REAL ESTATE INVESTMENT  
 5 TRUSTS.—Stock in a real estate investment  
 6 trust (within the meaning of section 856) shall  
 7 be an indexed asset for any calendar quarter in  
 8 the same ratio as—

9 “(i) the fair market value of the in-  
 10 dexed assets held by such trust at the close  
 11 of such quarter, bears to

12 “(ii) the fair market value of all as-  
 13 sets held by such trust at the close of such  
 14 quarter.

15 “(C) RATIO OF 80 PERCENT OR MORE.—If  
 16 the ratio for any calendar quarter determined  
 17 under subparagraph (A) or (B) would (but for  
 18 this subparagraph) be 80 percent or more, such  
 19 ratio for such quarter shall be 100 percent.

20 “(D) RATIO OF 20 PERCENT OR LESS.—If  
 21 the ratio for any calendar quarter determined  
 22 under subparagraph (A) or (B) would (but for  
 23 this subparagraph) be 20 percent or less, such  
 24 ratio for such quarter shall be zero.



1           “(E) LOOK-THRU OF PARTNERSHIPS.—For  
 2           purposes of this paragraph, a qualified invest-  
 3           ment entity which holds a partnership interest  
 4           shall be treated (in lieu of holding a partnership  
 5           interest) as holding its proportionate share of  
 6           the assets held by the partnership.

7           “(3) TREATMENT OF RETURN OF CAPITAL DIS-  
 8           TRIBUTIONS.—Except as otherwise provided by the  
 9           Secretary, a distribution with respect to stock in a  
 10          qualified investment entity which is not a dividend  
 11          and which results in a reduction in the adjusted  
 12          basis of such stock shall be treated as allocable to  
 13          stock acquired by the taxpayer in the order in which  
 14          such stock was acquired.

15          “(4) QUALIFIED INVESTMENT ENTITY.—For  
 16          purposes of this subsection, the term ‘qualified in-  
 17          vestment entity’ means—

18                 “(A) a regulated investment company  
 19                 (within the meaning of section 851), and

20                 “(B) a real estate investment trust (within  
 21                 the meaning of section 856).

22          “(f) OTHER PASS-THRU ENTITIES.—

23                 “(1) PARTNERSHIPS.—

24                         “(A) IN GENERAL.—In the case of a part-  
 25                         nership, the adjustment made under subsection

1 (a) at the partnership level shall be passed  
2 through to the partners.

3 “(B) SPECIAL RULE IN THE CASE OF SEC-  
4 TION 754 ELECTIONS.—In the case of a transfer  
5 of an interest in a partnership with respect to  
6 which the election provided in section 754 is in  
7 effect—

8 “(i) the adjustment under section  
9 743(b)(1) shall, with respect to the trans-  
10 feror partner, be treated as a sale of the  
11 partnership assets for purposes of applying  
12 this section, and

13 “(ii) with respect to the transferee  
14 partner, the partnership’s holding period  
15 for purposes of this section in such assets  
16 shall be treated as beginning on the date  
17 of such adjustment.

18 “(2) S CORPORATIONS.—In the case of an S  
19 corporation, the adjustment made under subsection  
20 (a) at the corporate level shall be passed through to  
21 the shareholders. This section shall not apply for  
22 purposes of determining the amount of any tax im-  
23 posed by section 1374 or 1375.

24 “(3) COMMON TRUST FUNDS.—In the case of a  
25 common trust fund, the adjustment made under sub-

1 section (a) at the trust level shall be passed through  
 2 to the participants.

3 “(4) INDEXING ADJUSTMENT DISREGARDED IN  
 4 DETERMINING LOSS ON SALE OF INTEREST IN ENTI-  
 5 TY.—Notwithstanding the preceding provisions of  
 6 this subsection, for purposes of determining the  
 7 amount of any loss on a sale or exchange of an in-  
 8 terest in a partnership, S corporation, or common  
 9 trust fund, the adjustment made under subsection  
 10 (a) shall not be taken into account in determining  
 11 the adjusted basis of such interest.

12 “(g) DISPOSITIONS BETWEEN RELATED PERSONS.—

13 “(1) IN GENERAL.—This section shall not apply  
 14 to any sale or other disposition of property between  
 15 related persons except to the extent that the basis  
 16 of such property in the hands of the transferee is a  
 17 substituted basis.

18 “(2) RELATED PERSONS DEFINED.—For pur-  
 19 poses of this section, the term ‘related persons’  
 20 means—

21 “(A) persons bearing a relationship set  
 22 forth in section 267(b), and

23 “(B) persons treated as single employer  
 24 under subsection (b) or (c) of section 414.

1       “(h) TRANSFERS TO INCREASE INDEXING ADJUST-  
 2     MENT.—If any person transfers cash, debt, or any other  
 3     property to another person and the principal purpose of  
 4     such transfer is to secure or increase an adjustment under  
 5     subsection (a), the Secretary may disallow part or all of  
 6     such adjustment or increase.

7       “(i) SPECIAL RULES.—For purposes of this section—

8               “(1) TREATMENT OF IMPROVEMENTS, ETC.—If  
 9     there is an addition to the adjusted basis of any tan-  
 10    gible property or of any stock in a corporation dur-  
 11    ing the taxable year by reason of an improvement to  
 12    such property or a contribution to capital of such  
 13    corporation—

14               “(A) such addition shall never be taken  
 15    into account under subsection (c)(1)(A) if the  
 16    aggregate amount thereof during the taxable  
 17    year with respect to such property or stock is  
 18    less than \$1,000, and

19               “(B) such addition shall be treated as a  
 20    separate asset acquired at the close of such tax-  
 21    able year if the aggregate amount thereof dur-  
 22    ing the taxable year with respect to such prop-  
 23    erty or stock is \$1,000 or more.

24       A rule similar to the rule of the preceding sentence  
 25       shall apply to any other portion of an asset to the

1 extent that separate treatment of such portion is ap-  
2 propriate to carry out the purposes of this section.

3 “(2) ASSETS WHICH ARE NOT INDEXED ASSETS  
4 THROUGHOUT HOLDING PERIOD.—The applicable in-  
5 flation adjustment shall be appropriately reduced for  
6 periods during which the asset was not an indexed  
7 asset.

8 “(3) TREATMENT OF CERTAIN DISTRIBUTIONS.—A distribution with respect to stock in a  
9 corporation which is not a dividend shall be treated  
10 as a disposition.  
11

12 “(4) SECTION CANNOT INCREASE ORDINARY  
13 LOSS.—To the extent that (but for this paragraph)  
14 this section would create or increase a net ordinary  
15 loss to which section 1231(a)(2) applies or an ordi-  
16 nary loss to which any other provision of this title  
17 applies, such provision shall not apply. The taxpayer  
18 shall be treated as having a long-term capital loss in  
19 an amount equal to the amount of the ordinary loss  
20 to which the preceding sentence applies.

21 “(5) ACQUISITION DATE WHERE THERE HAS  
22 BEEN PRIOR APPLICATION OF SUBSECTION (A)(1)  
23 WITH RESPECT TO THE TAXPAYER.—If there has  
24 been a prior application of subsection (a)(1) to an  
25 asset while such asset was held by the taxpayer, the

1 date of acquisition of such asset by the taxpayer  
 2 shall be treated as not earlier than the date of the  
 3 most recent such prior application.

4 “(j) REGULATIONS.—The Secretary shall prescribe  
 5 such regulations as may be necessary or appropriate to  
 6 carry out the purposes of this section.”.

7 (b) CLERICAL AMENDMENT.—The table of sections  
 8 for part II of subchapter O of chapter 1 is amended by  
 9 striking the item relating to section 1023 and inserting  
 10 after the item relating to section 1022 the following new  
 11 items:

“Sec. 1023. Indexing of certain assets for purposes of determining gain or loss.  
 “Sec. 1024. Cross references.”.

12 (c) EFFECTIVE DATE.—The amendments made by  
 13 this section shall apply to dispositions after December 31,  
 14 2008, in taxable years ending after such date.

15 **SEC. 8. RETIREMENT SAVINGS ACCOUNTS.**

16 (a) IN GENERAL.—Subpart A of part I of subchapter  
 17 D of chapter 1 (relating to pension, profit-sharing, stock  
 18 bonus plans, etc.) is amended by inserting after section  
 19 408A the following new section:

20 **“SEC. 408B. RETIREMENT SAVINGS ACCOUNTS.**

21 “(a) GENERAL RULE.—Except as provided in this  
 22 section, a Retirement Savings Account shall be treated for  
 23 purposes of this title in the same manner as an individual  
 24 retirement plan.

1       “(b) RETIREMENT SAVINGS ACCOUNT.—For pur-  
2 poses of this title, the term ‘Retirement Savings Account’  
3 means an individual retirement plan (as defined in section  
4 7701(a)(37) which is designated at the time of establish-  
5 ment of the plan as a Retirement Savings Account. Such  
6 designation shall be made in such manner as the Secretary  
7 may prescribe.

8       “(c) TREATMENT OF CONTRIBUTIONS.—

9               “(1) NO DEDUCTION ALLOWED.—No deduction  
10 shall be allowed under section 219 for a contribution  
11 to a Retirement Savings Account.

12              “(2) CONTRIBUTION LIMIT.—The aggregate  
13 amount of contributions for any taxable year to all  
14 Retirement Savings Accounts maintained for the  
15 benefit of an individual shall not exceed \$5,000.

16              “(3) CONTRIBUTIONS PERMITTED AFTER AGE  
17 70½.—Contributions to a Retirement Savings Ac-  
18 count may be made even after the individual for  
19 whom the account is maintained has attained age  
20 70½.

21              “(4) MANDATORY DISTRIBUTION RULES NOT  
22 TO APPLY BEFORE DEATH.—Notwithstanding sub-  
23 sections (a)(6) and (b)(3) of section 408 (relating to  
24 required distributions), the following provisions shall  
25 not apply to any Retirement Savings Account:

1 “(A) Section 401(a)(9)(A).

2 “(B) The incidental death benefit require-  
3 ments of section 401(a).

4 “(5) ROLLOVER CONTRIBUTIONS.—

5 “(A) IN GENERAL.—No rollover contribu-  
6 tion may be made to or from a Retirement Sav-  
7 ings Account except from or to another such  
8 Account, as the case may be.

9 “(B) COORDINATION WITH LIMIT.—Any  
10 rollover permitted under subparagraph (A) shall  
11 not be taken into account for purposes of para-  
12 graph (2).

13 “(6) TIME WHEN CONTRIBUTIONS MADE.—For  
14 purposes of this section, the rule of section 219(f)(3)  
15 shall apply.

16 “(d) DISTRIBUTION RULES.—Any qualified distribu-  
17 tion (as defined in section 408B(d)((2)) from a Retire-  
18 ment Savings Account shall not be includible in gross in-  
19 come.”.

20 (b) CONFORMING AMENDMENTS.—

21 (1) Clause (vi) of section 1361(c)(2)(A) is  
22 amended by inserting “or a Retirement Savings Ac-  
23 count under section 408B” after “Roth IRA under  
24 section 408A”.



1           (2) Section 4973 (relating to tax on excess con-  
 2           tributions to certain tax-favored accounts and annu-  
 3           ities) is amended by inserting after subsection (g)  
 4           the following new subsection:

5           “(h) EXCESS CONTRIBUTIONS TO RETIREMENT SAV-  
 6           INGS ACCOUNTS.—For purposes of this section, in the  
 7           case of contributions to a Retirement Savings Account  
 8           (within the meaning of section 408B(b)), the term ‘excess  
 9           contributions’ means the sum of—

10           “(1) the excess (if any) of—

11           “(A) the amount contributed for the tax-  
 12           able year to Retirement Savings Accounts  
 13           (other than a rollover contribution from another  
 14           such Account), over

15           “(B) \$5,000, and

16           “(2) the amount determined under this sub-  
 17           section for the preceding taxable year, reduced by  
 18           the sum of—

19           “(A) the distributions out of the Accounts  
 20           for the taxable year, and

21           “(B) the excess (if any) of \$5,000 over the  
 22           amount contributed by the individual to all Re-  
 23           tirement Savings Accounts for the taxable year.

24           For purposes of this subsection, any contribution  
 25           which is distributed from a Retirement Savings Ac-

1 count in a distribution described in section  
 2 408(d)(4) shall be treated as an amount not contrib-  
 3 uted.”.

4 (3) The table of sections for subpart A of part  
 5 I of subchapter D of chapter 1 is amended by insert-  
 6 ing after the item relating to section 408A the fol-  
 7 lowing new item:

“Sec. 408B. Retirement Savings Accounts.”.

8 (c) EFFECTIVE DATE.—The amendments made by  
 9 this section shall apply to amounts contributed for taxable  
 10 years beginning after December 31, 2008.

11 **SEC. 9. LIFETIME SAVINGS ACCOUNTS.**

12 (a) IN GENERAL.—Subchapter F of chapter 1 (relat-  
 13 ing to exempt organizations) is amended by adding at the  
 14 end the following new part:

15 **“PART IX—LIFETIME SAVINGS ACCOUNTS.**

“Sec. 530C. Lifetime Savings Accounts.

16 **“SEC. 530C. LIFETIME SAVINGS ACCOUNTS.**

17 “(a) IN GENERAL.—A Lifetime Savings Account  
 18 shall be exempt from taxation under this subtitle. Not-  
 19 withstanding the preceding sentence, the Lifetime Savings  
 20 Account shall be subject to the taxes imposed by section  
 21 511 (relating to imposition of tax on unrelated business  
 22 income of charitable organizations).

23 “(b) DEFINITIONS AND SPECIAL RULES.—For pur-  
 24 poses of this section—

1           “(1) LIFETIME SAVINGS ACCOUNT.—The term  
2           ‘Lifetime Savings Account’ means a trust created or  
3           organized in the United States exclusively for the  
4           benefit of an individual who is the designated bene-  
5           ficiary of the trust (and designated as a Lifetime  
6           Savings Account at the time created or organized),  
7           but only if the written governing instrument creating  
8           the trust meets the following requirements:

9                   “(A) No contribution will be accepted—

10                          “(i) unless it is in cash, and

11                          “(ii) except in the case of rollover con-  
12                          tributions from another Lifetime Savings  
13                          Account, if such contribution would result  
14                          in aggregate contributions for the taxable  
15                          year exceeding \$5,000.

16                   “(B) The trustee is a bank (as defined in  
17                   section 408(n)) or another person who dem-  
18                   onstrates to the satisfaction of the Secretary  
19                   that the manner in which that person will ad-  
20                   minister the trust will be consistent with the re-  
21                   quirements of this section or who has so dem-  
22                   onstrated with respect to any individual retire-  
23                   ment plan.

24                   “(C) No part of the trust assets will be in-  
25                   vested in life insurance contracts.

1           “(D) The assets of the trust shall not be  
2           commingled with other property except in a  
3           common trust fund or common investment  
4           fund.

5           “(2) TIME WHEN CONTRIBUTIONS DEEMED  
6           MADE.—An individual shall be deemed to have made  
7           a contribution to a Lifetime Savings Account on the  
8           last day of the preceding taxable year if the con-  
9           tribution is made on account of such taxable year  
10          and is made not later than the time prescribed by  
11          law for filing the return for such taxable year (not  
12          including extensions thereof).

13          “(3) CONTRIBUTIONS RETURNED BEFORE DUE  
14          DATE OF RETURN.—A rule similar to the rule of sec-  
15          tion 408(d)(4) shall apply for purposes of this sec-  
16          tion.

17          “(c) DISTRIBUTION NOT INCLUDIBLE.—Distribu-  
18          tions from a Lifetime Savings Account shall not be includ-  
19          ible in gross income.

20          “(d) TAX TREATMENT OF ACCOUNTS.—Rules similar  
21          to the rules of paragraphs (2) and (4) of section 408(e)  
22          shall apply to any Lifetime Savings Account.

23          “(e) COMMUNITY PROPERTY LAWS.—This section  
24          shall be applied without regard to any community property  
25          laws.

1       “(f) CUSTODIAL ACCOUNTS.—For purposes of this  
 2 section, a custodial account shall be treated as a trust if  
 3 the assets of such account are held by a bank (as defined  
 4 in section 408(n) or another person who demonstrates, to  
 5 the satisfaction of the Secretary, that the manner in which  
 6 he will administer the account will be consistent with the  
 7 requirements of this section, and if the custodial account  
 8 would, except for the fact that it is not a trust, constitute  
 9 an account described in subsection (b)(1). For purposes  
 10 of this title, in the case of a custodial account treated as  
 11 a trust by reason of the preceding sentence, the custodian  
 12 of such account shall be treated as the trustee thereof.

13       “(g) REPORTS.—The trustee of a Lifetime Savings  
 14 Account shall make such reports regarding such Account  
 15 to the Secretary and to the beneficiary of the Account with  
 16 respect to contributions, distributions, and such other  
 17 matters as the Secretary may require. The reports re-  
 18 quired by this subsection shall be filed at such time and  
 19 in such manner and furnished to such individuals at such  
 20 time and in such manner as may be required.”.

21       (b) TAX OF EXCESS CONTRIBUTIONS.—

22           (1) Subsection (a) of section 4973 (relating to  
 23 tax on excess contributions to certain tax-favored ac-  
 24 counts and annuities) is amended by striking “or”  
 25 at the end of paragraph (4), by adding “or” at the

1 end of paragraph (5), and by inserting after para-  
 2 graph (5) the following new paragraph:

3 “(6) a Lifetime Savings Account (as defined by  
 4 section 530C(b)),”.

5 (2) Section 4973 is amended by inserting after  
 6 subsection (h) the following new subsection:

7 “(i) EXCESS CONTRIBUTIONS TO LIFETIME SAVINGS  
 8 ACCOUNTS.—For purposes of this section, in the case of  
 9 contributions to a Lifetime Savings Account (within the  
 10 meaning of section 530C(b)), the term ‘excess contribu-  
 11 tions’ means the sum of—

12 “(1) the excess (if any) of—

13 “(A) the amount contributed for the tax-  
 14 able year to Lifetime Savings Accounts (other  
 15 than a rollover contribution from another such  
 16 Account), over

17 “(B) \$5,000, and

18 “(2) the amount determined under this sub-  
 19 section for the preceding taxable year, reduced by  
 20 the sum of—

21 “(A) the distributions out of such Accounts  
 22 for the taxable year, and

23 “(B) the excess (if any) of \$5,000 over the  
 24 amount contributed by the individual to all such  
 25 Accounts for the taxable year.

1 For purposes of this subsection, any contribution  
 2 which is distributed from a Lifetime Savings Ac-  
 3 count in a distribution described in section  
 4 530C(b)(3) shall be treated as an amount not con-  
 5 tributed.”.

6 (c) TAX ON PROHIBITED TRANSACTIONS.—

7 (1) IN GENERAL.—Paragraph (1) of section  
 8 4975(e) (relating to prohibited transactions) is  
 9 amended by striking “or” at the end of subpara-  
 10 graph (F), by redesignating subparagraph (G) as  
 11 subparagraph (H), and by inserting after subpara-  
 12 graph (F) the following new subparagraph:

13 “(G) a Lifetime Savings Account described  
 14 in section 530C, or”.

15 (2) SPECIAL RULE.—Subsection (c) of section  
 16 4975 is amended by inserting after paragraph (6)  
 17 the following new paragraph:

18 “(7) SPECIAL RULES FOR LIFETIME SAVINGS  
 19 ACCOUNTS.—An individual for whose benefit a Life-  
 20 time Savings Account is established and any contrib-  
 21 utor to such account shall be exempt from the tax  
 22 imposed by this section with respect to any trans-  
 23 action concerning such account (which would other-  
 24 wise be taxable under this section) if section  
 25 530C(d) applies with respect to such transaction.”.

1 (d) FAILURE TO PROVIDE REPORTS.—Paragraph  
 2 (2) of section 6693(a) (relating to failure to provide re-  
 3 ports on certain tax-favored accounts or annuities; pen-  
 4 alties relating to designated nondeductible contributions)  
 5 is amended by striking “and” at the end of subparagraph  
 6 (D), by striking the period at the end of subparagraph  
 7 (E) and inserting “, and”, and by inserting after subpara-  
 8 graph (E) the end the following new subparagraph:

9 “(F) section 530C(g) (relating to Lifetime  
 10 Savings Accounts).”.

11 (e) CLERICAL AMENDMENT.—The table of parts for  
 12 subchapter F of chapter 1 is amended by adding at the  
 13 end the following new item:

“Part IX—Lifetime Savings Accounts.”.

14 **SEC. 10. LIFETIME SKILLS ACCOUNTS.**

15 (a) IN GENERAL.—Part VIII of subchapter F of  
 16 chapter 1 (relating to higher education savings entities)  
 17 is amended by adding at the end the following new section:

18 **“SEC. 530A. LIFETIME SKILLS ACCOUNTS.**

19 “(a) IN GENERAL.—A Lifetime Skills Account shall  
 20 be exempt from taxation under this subtitle. Notwith-  
 21 standing the preceding sentence, the Lifetime Skills Ac-  
 22 count shall be subject to the taxes imposed by section 511  
 23 (relating to imposition of tax on unrelated business income  
 24 of charitable organizations).



1       “(b) DEFINITIONS AND SPECIAL RULES.—For pur-  
2 poses of this section—

3               “(1) LIFETIME SKILLS ACCOUNT.—The term  
4 ‘Lifetime Skills Account’ means a trust created or  
5 organized in the United States exclusively for the  
6 purpose of paying the qualified life skills expenses of  
7 an individual who is the designated beneficiary of  
8 the trust (and designated as a Lifetime Skills Ac-  
9 count at the time created or organized), but only if  
10 the written governing instrument creating the trust  
11 meets the following requirements:

12               “(A) No contribution will be accepted—

13                       “(i) unless it is in cash, and

14                       “(ii) except in the case of rollover con-  
15 tributions from another such Account, if  
16 such contribution would result in aggregate  
17 contributions for the taxable year exceed-  
18 ing \$1,000.

19               “(B) The trustee is a bank (as defined in  
20 section 408(n)) or another person who dem-  
21 onstrates to the satisfaction of the Secretary  
22 that the manner in which that person will ad-  
23 minister the trust will be consistent with the re-  
24 quirements of this section or who has so dem-

1           onstrated with respect to any individual retire-  
2           ment plan.

3           “(C) No part of the trust assets will be in-  
4           vested in life insurance contracts.

5           “(D) The assets of the trust shall not be  
6           commingled with other property except in a  
7           common trust fund or common investment  
8           fund.

9           “(2) QUALIFIED LIFE SKILLS EXPENSES.—The  
10          term ‘qualified life skills expenses’ means expenses  
11          for any of the following services:

12               “(A) Comprehensive and specialized as-  
13               sessments of the skill levels and service needs of  
14               adults and dislocated workers, which may in-  
15               clude—

16                       “(i) diagnostic testing and use of  
17                       other assessment tools, and

18                       “(ii) in-depth interviewing and evalua-  
19                       tion to identify employment barriers and  
20                       appropriate employment goals.

21           “(B) Development of an individual employ-  
22           ment plan, to identify the employment goals,  
23           appropriate achievement objectives, and appro-  
24           priate combination of services for the partici-  
25           pant to achieve the employment goals.

1           “(C) Individual counseling and career  
2 planning.

3           “(D) Short-term prevocational services, in-  
4 cluding development of learning skills, commu-  
5 nication skills, interviewing skills, punctuality,  
6 personal maintenance skills, and professional  
7 conduct, to prepare individuals for unsubsidized  
8 employment or training.

9           “(E) Occupational skills training, including  
10 training for nontraditional employment.

11           “(F) On-the-job training.

12           “(G) Programs that combine workplace  
13 training with related instruction, which may in-  
14 clude cooperative education programs.

15           “(H) Training programs operated by the  
16 private sector.

17           “(I) Skill upgrading and retraining.

18           “(J) Entrepreneurial training.

19           “(K) Job readiness training.

20           “(L) Adult education and literacy activities  
21 provided in combination with services described  
22 in any of subparagraphs (E) through (K).

23           “(M) Customized training conducted with  
24 a commitment by an employer or group of em-

1            ployers to employ an individual upon successful  
2            completion of the training.

3            “(3) TIME WHEN CONTRIBUTIONS DEEMED  
4            MADE.—An individual shall be deemed to have made  
5            a contribution to a Lifetime Skills Account on the  
6            last day of the preceding taxable year if the con-  
7            tribution is made on account of such taxable year  
8            and is made not later than the time prescribed by  
9            law for filing the return for such taxable year (not  
10           including extensions thereof).

11           “(c) TAX TREATMENT OF DISTRIBUTIONS.—

12           “(1) IN GENERAL.—Any distribution from a  
13           Lifetime Skills Account shall be includible in the  
14           gross income of the distributee in the manner pro-  
15           vided in section 72.

16           “(2) DISTRIBUTIONS FOR QUALIFIED LIFE  
17           SKILLS EXPENSES.—

18           “(A) IN GENERAL.—No amount shall be  
19           includible in gross income under paragraph (1)  
20           if the qualified life skills expenses of the des-  
21           ignated beneficiary during the taxable year are  
22           not less than the aggregate distributions during  
23           the taxable year.

24           “(B) DISTRIBUTIONS IN EXCESS OF EX-  
25           PENSES.—If such aggregate distributions ex-

ceed such expenses during the taxable year, the amount otherwise includible in gross income under paragraph (1) shall be reduced by the amount which bears the same ratio to the amount which would be includible in gross income under paragraph (1) (without regard to this subparagraph) as the qualified life skills expenses bear to such aggregate distributions.

“(C) COORDINATION WITH OTHER EDUCATION SAVINGS INCENTIVES.—For purposes of subparagraph (A), rules similar to the rules of subparagraph (C) of section 530(d)(2) shall apply.

“(D) DISALLOWANCE OF EXCLUDED AMOUNTS AS DEDUCTION, CREDIT, OR EXCLUSION.—No deduction, credit, or exclusion shall be allowed to the taxpayer under any other section of this chapter for any qualified life skills expenses to the extent taken into account in determining the amount of the exclusion under this paragraph.

“(3) SPECIAL RULES FOR APPLYING ESTATE AND GIFT TAXES WITH RESPECT TO ACCOUNT.—Rules similar to the rules of paragraphs (2), (4),

1       and (5) of section 529(c) shall apply for purposes of  
2       this section.

3               “(4) ADDITIONAL TAX FOR DISTRIBUTIONS NOT  
4       USED FOR LIFE SKILLS EXPENSES.—

5               “(A) IN GENERAL.—The tax imposed by  
6       this chapter for any taxable year on any tax-  
7       payer who receives a payment or distribution  
8       from a Lifetime Skills Account which is includ-  
9       ible in gross income shall be increased by 10  
10      percent of the amount which is so includible.

11              “(B) EXCEPTIONS.—Rules similar to the  
12      following rules shall apply for purposes of this  
13      subsection:

14                      “(i) Subparagraphs (B) and (C) of  
15                      section 530(d)(4).

16                      “(ii) Paragraphs (5), (6), (7), and (8)  
17                      of section 530(d).

18              “(d) TAX TREATMENT OF ACCOUNTS.—Rules similar  
19      to the rules of paragraphs (2) and (4) of section 408(e)  
20      shall apply to any Lifetime Skills Account.

21              “(e) COMMUNITY PROPERTY LAWS.—This section  
22      shall be applied without regard to any community property  
23      laws.

24              “(f) CUSTODIAL ACCOUNTS.—For purposes of this  
25      section, a custodial account shall be treated as a trust if

1 the assets of such account are held by a bank (as defined  
 2 in section 408(n) or another person who demonstrates, to  
 3 the satisfaction of the Secretary, that the manner in which  
 4 he will administer the account will be consistent with the  
 5 requirements of this section, and if the custodial account  
 6 would, except for the fact that it is not a trust, constitute  
 7 an account described in subsection (b)(1). For purposes  
 8 of this title, in the case of a custodial account treated as  
 9 a trust by reason of the preceding sentence, the custodian  
 10 of such account shall be treated as the trustee thereof.

11 “(g) REPORTS.—The trustee of a Lifetime Skills Ac-  
 12 count shall make such reports regarding such account to  
 13 the Secretary and to the beneficiary of the Account with  
 14 respect to contributions, distributions, and such other  
 15 matters as the Secretary may require. The reports re-  
 16 quired by this subsection shall be filed at such time and  
 17 in such manner and furnished to such individuals at such  
 18 time and in such manner as may be required.”.

19 (b) TAX ON EXCESS CONTRIBUTIONS.—

20 (1) IN GENERAL.—Subsection (a) of section  
 21 4973, as amended by section 9 of this Act, is  
 22 amended by striking “or” at the end of paragraph  
 23 (5), by adding “or” at the end of paragraph (6), and  
 24 by inserting after paragraph (6) the following new  
 25 paragraph:

1           “(7) a Lifetime Skills Account (as defined in  
2           section 530A(b)),”.

3           (2) EXCESS CONTRIBUTION DEFINED.—Section  
4           4973 is amended by inserting after subsection (i)  
5           the following new subsection:

6           “(j) EXCESS CONTRIBUTIONS TO LIFETIME SKILLS  
7           ACCOUNTS.—For purposes of this section, in the case of  
8           contributions to a Lifetime Skills Account (within the  
9           meaning of section 530B(b)), the term ‘excess contribu-  
10          tions’ means the sum of—

11           “(1) the excess (if any) of—

12           “(A) the amount contributed for the tax-  
13           able year to Lifetime Skills Accounts (other  
14           than a rollover contribution from another such  
15           Account), over

16           “(B) \$1,000, and

17           “(2) the amount determined under this sub-  
18           section for the preceding taxable year, reduced by  
19           the sum of—

20           “(A) the distributions out of such Accounts  
21           for the taxable year, and

22           “(B) the excess (if any) of \$1,000 over the  
23           amount contributed by the individual to all such  
24           Accounts for the taxable year.



For purposes of this subsection, any contribution which is distributed from a Lifetime Skills Account in a distribution to which rules similar to the rules of section 530(d)(4)(C) apply under section 530B(c)(4)(B)(i) shall be treated as an amount not contributed.”.

(c) TAX ON PROHIBITED TRANSACTIONS.—

(1) IN GENERAL.—Paragraph (1) of section 4975(e) (relating to prohibited transactions), as amended by section 9 of this Act, is amended by striking “or” at the end of subparagraph (G), by redesignating subparagraph (H) as subparagraph (I), and by inserting after subparagraph (G) the following new subparagraph:

“(H) a Lifetime Skills Account described in section 530A, or”.

(2) SPECIAL RULE.—Subsection (c) of section 4975, as amended by section 9 of this Act, is amended by adding at the end the following new paragraph:

“(8) SPECIAL RULES FOR LIFETIME SKILLS ACCOUNTS.—An individual for whose benefit a Lifetime Skills Account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any trans-

1       action concerning such account (which would other-  
 2       wise be taxable under this section) if section  
 3       530A(d) applies with respect to such transaction.”.

4       (d) FAILURE TO PROVIDE REPORTS.—Paragraph  
 5       (2) of section 6693(a) (relating to failure to provide re-  
 6       ports on certain tax-favored accounts or annuities; pen-  
 7       alties relating to designated nondeductible contributions),  
 8       as amended by section 9 of this Act, is amended by strik-  
 9       ing “and” at the end of subparagraph (E), by striking  
 10      the period at the end of subparagraph (F) and inserting  
 11      “, and”, and by adding at the end the following new sub-  
 12      paragraph:

13                       “(G) section 530A(g) (relating to Lifetime  
 14                       Skills Accounts).”.

15       (e) TECHNICAL AMENDMENTS.—

16               (1) Section 26(b)(2) is amended by striking  
 17       “and” at the end of subparagraph (U), by striking  
 18       the period at the end of subparagraph (V) and in-  
 19       serting “, and”, and by adding at the end the fol-  
 20       lowing new subparagraph:

21                       “(W) section 530A(c)(4) (relating to Life-  
 22                       time Skills Accounts).”.

23               (2) Paragraph (9) of section 72(e) is amend-  
 24       ed—

1 (A) by striking “COVERDELL” in the head-  
 2 ing,

3 (B) by striking “or under a Coverdell” and  
 4 inserting “, under a Coverdell”, and

5 (C) by inserting “, or under a Lifetime  
 6 Skills Account (as defined in section 530A(b))”  
 7 after “530(b))”.

8 (3) Subparagraph (C) of section 135(c)(2) is  
 9 amended—

10 (A) in the heading by striking “AND” and  
 11 by adding at the end “, AND LIFETIME SKILLS  
 12 ACCOUNTS”,

13 (B) by striking “or to a Coverdell” and in-  
 14 serting “to a Coverdell”, and

15 (C) by inserting “, or to a Lifetime Skills  
 16 Account (as defined in section 530A(b))” after  
 17 “530)”.

18 (4) Subparagraph (A) of section 221(d)(2) is  
 19 amended by striking “or 530” and inserting “530,  
 20 or 530A”.

21 (5) Subparagraph (B) of section 222(c)(2) is  
 22 amended by striking “or 530(d)(2)” and inserting  
 23 “530(d)(2), or 530A(c)(2)”.

24 (6) Clause (vi) of section 529(c)(3)(B) is  
 25 amended—

1 (A) by adding at the end of the heading  
 2 “AND LIFETIME SKILLS ACCOUNTS”, and

3 (B) by striking “and section 530(d)(2)(A)  
 4 apply” each place it appears and inserting “,  
 5 section 530(d)(2)(A), and 530A(c)(2)(A)  
 6 apply”.

7 (7) The table of sections for part VIII of sub-  
 8 chapter F of chapter 1 is amended by adding at the  
 9 end the following new item:

“Sec. 530A. Lifetime Skills Accounts.”.

10 (f) EFFECTIVE DATE.—The amendments made by  
 11 this section shall apply to taxable years beginning after  
 12 December 31, 2008.

13 **SEC. 11. EXPANDED DEDUCTION FOR MEDICAL CARE EX-**  
 14 **PENSES; EXPANSION OF INDIVIDUALS TO**  
 15 **WHOM HEALTH SAVINGS ACCOUNTS MAY BE**  
 16 **PASSED ON DEATH.**

17 (a) IN GENERAL.—Subsection (a) of section 213 (re-  
 18 lating to medical, dental, etc., expenses) is amended to  
 19 read as follows:

20 “(a) ALLOWANCE OF DEDUCTION.—

21 “(1) IN GENERAL.—There shall be allowed as a  
 22 deduction the expenses paid during the taxable year,  
 23 not compensated for by insurance or otherwise, for  
 24 medical care of the taxpayer, his spouse, or a de-  
 25 pendent (as defined in section 152, determined with-

1 out regard to subsections (b)(1), (b)(2), and  
 2 (d)(1)(B) thereof), to the extent that such expenses  
 3 exceed 7.5 percent of adjusted gross income.

4 “(2) INDIVIDUALS WHO HAVE NOT ATTAINED  
 5 AGE 65 AND ARE NOT COVERED UNDER AN EM-  
 6 PLOYER PLAN.—

7 “(A) IN GENERAL.—The expenses for med-  
 8 ical care of an individual which are incurred  
 9 while the individual is an eligible individual may  
 10 be taken into account under paragraph (1)  
 11 without regard to the adjusted gross income  
 12 threshold.

13 “(B) ELIGIBLE INDIVIDUAL.—For pur-  
 14 poses of this paragraph, the term ‘eligible indi-  
 15 vidual’ means any individual—

16 “(i) who has not attained age 65 as of  
 17 the close of the taxable year, and

18 “(ii) who is not covered by any plan  
 19 sponsored by an employer of such indi-  
 20 vidual, such individual’s spouse, or of any  
 21 other individual with respect to whom such  
 22 individual is a dependent (within the  
 23 meaning of paragraph (1)).

24 “(C) LIMITATIONS.—

1           “(i) PER INDIVIDUAL.—The amount  
 2           of each individual’s expenses which may be  
 3           taken into account by reason of subpara-  
 4           graph (A) for the taxable year shall not ex-  
 5           ceed \$7,500.

6           “(ii) PER TAXPAYER.—If expenses for  
 7           the medical care of more than 1 eligible in-  
 8           dividual are paid by the taxpayer, clause  
 9           (i) shall not apply and the aggregate ex-  
 10          penses which may be taken into account by  
 11          reason of subparagraph (A) for the taxable  
 12          year shall not exceed \$15,000.

13          “(D) UNUSED LIMITATION MAY BE DEPOS-  
 14          ITED INTO HEALTH SAVINGS ACCOUNT.—

15          “(i) IN GENERAL.—Except as other-  
 16          wise provided in this subparagraph, if the  
 17          limitation under subparagraph (C) applica-  
 18          ble to an individual exceeds the expenses  
 19          taken into account by reason of subpara-  
 20          graph (A), then, for purposes of section  
 21          223 (relating to health savings accounts)—

22               “(I) such individual shall be  
 23               treated as an eligible individual for  
 24               purposes of such section, and

1 “(II) the limitation otherwise ap-  
 2 plicable under section 223(b) shall be  
 3 increased by an amount equal to such  
 4 excess.

5 “(ii) ALLOCATION OF PER TAXPAYER  
 6 LIMITATION.—For purposes of clause (i),  
 7 the limitation under subparagraph (C)(ii)  
 8 shall be allocated among the individuals’s  
 9 whose expenses are paid in proportion to  
 10 their respective shares of such expenses.

11 “(iii) TREATMENT OF DEPEND-  
 12 ENTS.—Clause (i) shall not apply to a de-  
 13 pendent (within the meaning of paragraph  
 14 (1)) of the taxpayer, and any excess deter-  
 15 mined under clause (i) for such dependent  
 16 shall be allowed to the taxpayer. In the  
 17 case of a joint return, any excess allowed  
 18 to the taxpayer under the preceding sen-  
 19 tence shall be divided equally between the  
 20 husband and wife.”.

21 (b) HEATH SAVINGS ACCOUNTS MAY BE PASSED TO  
 22 OTHER THAN SPOUSE.—Paragraph (8) of section 223(f)  
 23 (relating to treatment after death of account beneficiary)  
 24 is amended to read as follows:

1           “(8) TREATMENT AFTER DEATH OF ACCOUNT  
 2           BENEFICIARY.—If an individual acquires the account  
 3           beneficiary’s interest in a health savings account by  
 4           reason of being the designated beneficiary of such  
 5           account at the death of the account beneficiary, such  
 6           health savings account shall be treated as if the indi-  
 7           vidual were the account beneficiary.”.

8           (c) EFFECTIVE DATE.—The amendments made by  
 9           this section shall apply to taxable years beginning after  
 10          December 31, 2008.

11       **SEC. 12. RESEARCH CREDIT MADE PERMANENT.**

12          (a) IN GENERAL.—Section 41 (relating to credit for  
 13          increasing research activities) is amended by striking sub-  
 14          section (h).

15          (b) CONFORMING AMENDMENT.—Paragraph (1) of  
 16          section 45C(b) is amended by striking subparagraph (D).

17          (c) EFFECTIVE DATE.—The amendments made by  
 18          this section shall apply to amounts paid or incurred after  
 19          December 31, 2007.

20       **SEC. 13. TAX PROVISIONS OF PRIOR LAWS MADE PERMA-**  
 21                               **NENT.**

22          (a) ECONOMIC GROWTH AND TAX RELIEF REC-  
 23          ONCILIATION ACT OF 2001.—Title IX of the Economic  
 24          Growth and Tax Relief Reconciliation Act of 2001 (relat-  
 25          ing to sunset of provisions of Act) is hereby repealed.



1       (b) JOBS AND GROWTH TAX RELIEF RECONCILI-  
2   ATION ACT OF 2003.—Section 107 of the Jobs and  
3   Growth Tax Relief Reconciliation Act of 2003 (relating  
4   to application of EGTRRA sunset to this title) is hereby  
5   repealed.

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