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(Original Signature of Member)

113TH CONGRESS
2D SESSION

H. R. _____

To amend the Internal Revenue Code of 1986 to provide for comprehensive tax reform.

IN THE HOUSE OF REPRESENTATIVES

Mr. CAMP introduced the following bill; which was referred to the Committee on _____

A BILL

To amend the Internal Revenue Code of 1986 to provide for comprehensive tax reform.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; ETC.

(a) SHORT TITLE.—This Act may be cited as the "Tax Reform Act of 2014".

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
2 sion of the Internal Revenue Code of 1986.
3 (c) TABLE OF CONTENTS.—The table of contents of
4 this Act is as follows:

Sec. 1. Short title; etc.

TITLE I—TAX REFORM FOR INDIVIDUALS

Subtitle A—Individual Income Tax Rate Reform

Sec. 1001. Simplification of individual income tax rates.
Sec. 1002. Deduction for adjusted net capital gain.
Sec. 1003. Conforming amendments related to simplification of individual income tax rates.

Subtitle B—Simplification of Tax Benefits for Families

Sec. 1101. Standard deduction.
Sec. 1102. Increase and expansion of child tax credit.
Sec. 1103. Modification of earned income tax credit.
Sec. 1104. Repeal of deduction for personal exemptions.

Subtitle C—Simplification of Education Incentives

Sec. 1201. American opportunity tax credit.
Sec. 1202. Expansion of Pell Grant exclusion from gross income.
Sec. 1203. Repeal of exclusion of income from United States savings bonds used to pay higher education tuition and fees.
Sec. 1204. Repeal of deduction for interest on education loans.
Sec. 1205. Repeal of deduction for qualified tuition and related expenses.
Sec. 1206. No new contributions to Coverdell education savings accounts.
Sec. 1207. Repeal of exclusion for discharge of student loan indebtedness.
Sec. 1208. Repeal of exclusion for qualified tuition reductions.
Sec. 1209. Repeal of exclusion for education assistance programs.
Sec. 1210. Repeal of exception to 10-percent penalty for higher education expenses.

Subtitle D—Repeal of Certain Credits for Individuals

Sec. 1301. Repeal of dependent care credit.
Sec. 1302. Repeal of credit for adoption expenses.
Sec. 1303. Repeal of credit for nonbusiness energy property.
Sec. 1304. Repeal of credit for residential energy efficient property.
Sec. 1305. Repeal of credit for qualified electric vehicles.
Sec. 1306. Repeal of alternative motor vehicle credit.
Sec. 1307. Repeal of alternative fuel vehicle refueling property credit.
Sec. 1308. Repeal of credit for new qualified plug-in electric drive motor vehicles.
Sec. 1309. Repeal of credit for health insurance costs of eligible individuals.
Sec. 1310. Repeal of first-time homebuyer credit.

Subtitle E—Deductions, Exclusions, and Certain Other Provisions

Sec. 1401. Exclusion of gain from sale of a principal residence.
Sec. 1402. Mortgage interest.
Sec. 1403. Charitable contributions.
Sec. 1404. Denial of deduction for expenses attributable to the trade or business of being an employee.
Sec. 1405. Repeal of deduction for taxes not paid or accrued in a trade or business.
Sec. 1406. Repeal of deduction for personal casualty losses.
Sec. 1407. Limitation on wagering losses.
Sec. 1408. Repeal of deduction for tax preparation expenses.
Sec. 1409. Repeal of deduction for medical expenses.
Sec. 1410. Repeal of disqualification of expenses for over-the-counter drugs under certain accounts and arrangements.
Sec. 1411. Repeal of deduction for alimony payments and corresponding inclusion in gross income.
Sec. 1412. Repeal of deduction for moving expenses.
Sec. 1413. Termination of deduction and exclusions for contributions to medical savings accounts.
Sec. 1414. Repeal of 2-percent floor on miscellaneous itemized deductions.
Sec. 1415. Repeal of overall limitation on itemized deductions.
Sec. 1416. Deduction for amortizable bond premium allowed in determining adjusted gross income.
Sec. 1417. Repeal of exclusion, etc., for employee achievement awards.
Sec. 1418. Clarification of special rule for certain governmental plans.
Sec. 1419. Limitation on exclusion for employer-provided housing.
Sec. 1420. Fringe benefits.
Sec. 1421. Repeal of exclusion of net unrealized appreciation in employer securities.
Sec. 1422. Consistent basis reporting between estate and person acquiring property from decedent.

Subtitle F—Employment Tax Modifications

Sec. 1501. Modifications of deduction for Social Security taxes in computing net earnings from self-employment.
Sec. 1502. Determination of net earnings from self-employment.
Sec. 1503. Repeal of exemption from FICA taxes for certain foreign workers.
Sec. 1504. Repeal of exemption from FICA taxes for certain students.
Sec. 1505. Override of Treasury guidance providing that certain employer-provided supplemental unemployment benefits are not subject to employment taxes.
Sec. 1506. Certified professional employer organizations.

Subtitle G—Pensions and Retirement

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Sec. 1601. Elimination of income limits on contributions to Roth IRAs.
Sec. 1602. No new contributions to traditional IRAs.
Sec. 1603. Inflation adjustment for Roth IRA contributions.
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Sec. 1605. Repeal of exception to 10-percent penalty for first home purchases.

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Sec. 1612. Termination for new SIMPLE 401(k)s.
Sec. 1613. Rules related to designated Roth contributions.
Sec. 1614. Modifications of required distribution rules for pension plans.
Sec. 1615. Reduction in minimum age for allowable in-service distributions.
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Sec. 1617. Extended rollover period for the rollover of plan loan offset amounts in certain cases.
Sec. 1618. Coordination of contribution limitations for 403(b) plans and governmental 457(b) plans.
Sec. 1619. Application of 10-percent early distribution tax to governmental 457 plans.
Sec. 1620. Inflation adjustments for qualified plan benefit and contribution limitations.
Sec. 1621. Inflation adjustments for qualified plan elective deferral limitations.
Sec. 1622. Inflation adjustments for SIMPLE retirement accounts.
Sec. 1623. Inflation adjustments for catch-up contributions for certain employer plans.
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Sec. 1702. Tribal Advisory Committee.
Sec. 1703. Other relief for Indian tribes.

TITLE II—ALTERNATIVE MINIMUM TAX REPEAL

Sec. 2001. Repeal of alternative minimum tax.

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Sec. 3101. Revision of treatment of contributions to capital.
Sec. 3102. Repeal of deduction for local lobbying expenses.
Sec. 3103. Expenditures for repairs in connection with casualty losses.
Sec. 3104. Reform of accelerated cost recovery system.
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Sec. 3115. Repeal of deduction for expenditures by farmers for fertilizer, etc.
Sec. 3116. Repeal of special treatment of certain qualified film and television productions.

Sec. 3117. Repeal of special rules for recoveries of damages of antitrust violations, etc.
Sec. 3118. Treatment of reforestation expenditures.
Sec. 3119. 20-year amortization of goodwill and certain other intangibles.
Sec. 3120. Treatment of environmental remediation costs.
Sec. 3121. Repeal of expensing of qualified disaster expenses.
Sec. 3122. Phaseout and repeal of deduction for income attributable to domestic production activities.
Sec. 3123. Unification of deduction for organizational expenditures.
Sec. 3124. Prevention of arbitrage of deductible interest expense and tax-exempt interest income.
Sec. 3125. Prevention of transfer of certain losses from tax indifferent parties.
Sec. 3126. Entertainment, etc. expenses.
Sec. 3127. Repeal of limitation on corporate acquisition indebtedness.
Sec. 3128. Denial of deductions and credits for expenditures in illegal businesses.
Sec. 3129. Limitation on deduction for FDIC premiums.
Sec. 3130. Repeal of percentage depletion.
Sec. 3131. Repeal of passive activity exception for working interests in oil and gas property.
Sec. 3132. Repeal of special rules for gain or loss on timber, coal, or domestic iron ore.
Sec. 3133. Repeal of like-kind exchanges.
Sec. 3134. Restriction on trade or business property treated as similar or related in service to involuntarily converted property in disaster areas.
Sec. 3135. Repeal of rollover of publicly traded securities gain into specialized small business investment companies.
Sec. 3136. Termination of special rules for gain from certain small business stock.
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Sec. 3140. Common deduction conforming amendments.

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Sec. 3202. Repeal of credit for biodiesel and renewable diesel used as fuel.
Sec. 3203. Research credit modified and made permanent.
Sec. 3204. Low-income housing tax credit.
Sec. 3205. Repeal of enhanced oil recovery credit.
Sec. 3206. Phaseout and repeal of credit for electricity produced from certain renewable resources.
Sec. 3207. Repeal of Indian employment credit.
Sec. 3208. Repeal of credit for portion of employer Social Security taxes paid with respect to employee cash tips.
Sec. 3209. Repeal of credit for clinical testing expenses for certain drugs for rare diseases or conditions.
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Sec. 3304. Installment sales.
Sec. 3305. Repeal of special rule for prepaid subscription income.
Sec. 3306. Repeal of special rule for prepaid dues income of certain membership organizations.
Sec. 3307. Repeal of special rule for magazines, paperbacks, and records returned after close of the taxable year.
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Sec. 5004. Exclusion of research income limited to publicly available research.
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Sec. 8041. Insurance company taxable income.
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Sec. 8083. Definition of employee.
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Subtitle B—Conforming Amendments Related to Multiple Sections

Sec. 8101. Conforming amendments related to multiple sections.

TITLE I—TAX REFORM FOR INDIVIDUALS

Subtitle A—Individual Income Tax Rate Reform

SEC. 1001. SIMPLIFICATION OF INDIVIDUAL INCOME TAX RATES.

(a) IN GENERAL.—Section 1 is amended to read as follows:

"SEC. 1. TAX IMPOSED.

"(a) IN GENERAL.—There is hereby imposed on the income of every individual a tax equal to the sum of—

"(1) 10 PERCENT BRACKET.—10 percent of so much of the taxable income as does not exceed the 25-percent bracket threshold amount,

"(2) 25 PERCENT BRACKET.—25 percent of so much of the taxable income as exceeds the 25-percent bracket threshold amount, plus

"(3) 35 PERCENT BRACKET.—10 percent of so much of the modified adjusted gross income (as defined in section 2) as exceeds the 35-percent bracket threshold amount.

1 "(b) BRACKET THRESHOLD AMOUNTS.—For pur-
2 poses of this section—
3 "(1) 25-PERCENT BRACKET THRESHOLD
4 AMOUNT.—The term '25-percent bracket threshold
5 amount' means—
6 "(A) in the case of a joint return or sur-
7 viving spouse, $71,200,
8 "(B) in the case of any other individual
9 (other than an estate or trust), one-half of the
10 dollar amount in effect under subparagraph
11 (A), and
12 "(C) in the case of an estate or trust, zero.
13 "(2) 35-PERCENT BRACKET THRESHOLD
14 AMOUNT.—The term '35-percent bracket threshold
15 amount' means—
16 "(A) in the case of a joint return or sur-
17 viving spouse, $450,000,
18 "(B) in the case of any other individual
19 (other than an estate or trust), $400,000, and
20 "(C) in the case of an estate or trust,
21 $12,000.
22 "(c) INFLATION ADJUSTMENT.—
23 "(1) IN GENERAL.—In the case of any taxable
24 year beginning after 2014, each dollar amount in
25 subsections (b)(1)(A), (b)(2)(A), (b)(2)(B),

(b)(2)(C), (e)(3)(A), and (e)(3)(B) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under this subsection for the calendar year in which the taxable year begins.

If any increase determined under the preceding sentence is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.

"(2) COST-OF-LIVING ADJUSTMENT.—For purposes of this subsection—

"(A) IN GENERAL.—The cost-of-living adjustment for any calendar year is the percentage (if any) by which—

"(i) the C-CPI-U for the preceding calendar year, exceeds

"(ii) the normalized CPI for calendar year 2012.

"(B) SPECIAL RULE FOR ADJUSTMENTS WITH A BASE YEAR AFTER 2012.—For purposes of any provision which provides for the substitution of a year after 2012 for '2012' in subparagraph (A)(ii), subparagraph (A) shall be applied by substituting 'C-CPI-U' for 'normalized CPI' in clause (ii).

"(3) NORMALIZED CPI.—For purposes of this subsection, the normalized CPI for any calendar year is the product of—

"(A) the CPI for such calendar year, multiplied by

"(B) the C-CPI-U transition multiple.

"(4) C-CPI-U TRANSITION MULTIPLE.—For purposes of this subsection, the term 'C-CPI-U transition multiple' means the amount obtained by dividing—

"(A) the C-CPI-U for calendar year 2013, by

"(B) the CPI for calendar year 2013.

"(5) C-CPI-U.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'C-CPI-U' means the Chained Consumer Price Index for All Urban Consumers (as published by the Bureau of Labor Statistics of the Department of Labor). The values of the Chained Consumer Price Index for All Urban Consumers taken into account for purposes of determining the cost-of-living adjustment for any calendar year under this subsection shall be the latest values so published as of the date on which such Bu-

reau publishes the initial value of the Chained Consumer Price Index for All Urban Consumers for the month of August for the preceding calendar year.

"(B) DETERMINATION FOR CALENDAR YEAR.—The C-CPI-U for any calendar year is the average of the C-CPI-U as of the close of the 12-month period ending on August 31 of such calendar year.

"(6) CPI.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'Consumer Price Index' means the last Consumer Price Index for All Urban Consumers published by the Department of Labor. For purposes of the preceding sentence, the revision of the Consumer Price Index which is most consistent with the Consumer Price Index for calendar year 1986 shall be used.

"(B) DETERMINATION FOR CALENDAR YEAR.—The CPI for any calendar year is the average of the Consumer Price Index as of the close of the 12-month period ending on August 31 of such calendar year.

"(d) SPECIAL RULES FOR CERTAIN CHILDREN WITH UNEARNED INCOME.—

"(1) IN GENERAL.—In the case of any child to whom this subsection applies for any taxable year—

"(A) the 25-percent bracket threshold amount shall not be more than the taxable income of such child for the taxable year reduced by the net unearned income of such child, and

"(B) the 35-percent bracket threshold amount shall not be more than the sum of—

"(i) the taxable income of such child for the taxable year reduced by the net unearned income of such child, plus

"(ii) the dollar amount in effect under subsection (b)(2)(C) for the taxable year.

"(2) CHILD TO WHOM SUBSECTION APPLIES.—This subsection shall apply to any child for any taxable year if—

"(A) such child—

"(i) has not attained age 18 before the close of the taxable year, or

"(ii) has attained age 18 before the close of the taxable year and is described in paragraph (3),

"(B) either parent of such child is alive at the close of the taxable year, and

"(C) such child does not file a joint return for the taxable year.

"(3) CERTAIN CHILDREN WHOSE EARNED INCOME DOES NOT EXCEED ONE-HALF OF INDIVIDUAL'S SUPPORT.—A child is described in this paragraph if—

"(A) such child—

"(i) has not attained age 19 before the close of the taxable year, or

"(ii) is a student (within the meaning of section 7705(f)(2)) who has not attained age 24 before the close of the taxable year, and

"(B) such child's earned income (as defined in section 911(d)(2)) for such taxable year does not exceed one-half of the amount of the individual's support (within the meaning of section 7705(c)(1)(D) after the application of section 7705(f)(5) (without regard to subparagraph (A) thereof)) for such taxable year.

"(4) NET UNEARNED INCOME.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'net unearned income' means the excess of—

"(i) the portion of the adjusted gross income for the taxable year which is not attributable to earned income (as defined in section 911(d)(2)), over

"(ii) the sum of—

"(I) the amount in effect for the taxable year under section 63(c)(4)(A) (relating to limitation on standard deduction in the case of certain dependents) , plus

"(II) the greater of the amount described in subclause (I) or, if the child itemizes his deductions for the taxable year, the amount of the itemized deductions allowed by this chapter for the taxable year which are directly connected with the production of the portion of adjusted gross income referred to in clause (i).

"(B) LIMITATION BASED ON TAXABLE INCOME.—The amount of the net unearned income for any taxable year shall not exceed the individual's taxable income for such taxable year.

"(e) PHASEOUT OF 10-PERCENT RATE.—

"(1) IN GENERAL.—The amount of tax imposed by this section (determined without regard to this subsection) shall be increased by 5 percent of the excess (if any) of—

"(A) modified adjusted gross income, over

"(B) the applicable dollar amount.

"(2) LIMITATION.—The increase determined under paragraph (1) with respect to any taxpayer for any taxable year shall not exceed 15 percent of the lesser of—

"(A) the taxpayer's taxable income for such taxable year, or

"(B) the 25-percent bracket threshold amount in effect with respect to the taxpayer for such taxable year.

"(3) APPLICABLE DOLLAR AMOUNT.—For purposes of this subsection, the term 'applicable dollar amount' means—

"(A) in the case of a joint return or a surviving spouse, $300,000,

"(B) in the case of any other individual, $250,000.

"(4) ESTATES AND TRUSTS.—Paragraph (1) shall not apply in the case of an estate or trust.

1 ''(f) DETERMINATION OF HIGHEST RATE.—For pur-
2 poses of any provision of law which refers to the highest
3 rate of tax specified in this section (or any subsection of
4 this section), such highest rate shall be treated as being
5 35 percent.''.
6 (b) MODIFIED ADJUSTED GROSS INCOME.—Section
7 2 is amended by striking subsection (b), by redesignating
8 subsections (c), (d), and (e), as subsections (d), (e), and
9 (f), respectively, and by inserting after subsection (a) the
10 following new subsections:
11 ''(b) MODIFIED ADJUSTED GROSS INCOME.—For
12 purposes of section 1—
13 ''(1) IN GENERAL.—The term 'modified ad-
14 justed gross income' means adjusted gross income—
15 ''(A) increased by—
16 ''(i) any amount excluded from gross
17 income under sections 911, 931, and 933,
18 ''(ii) the excess (if any) of—
19 ''(I) amounts of interest received
20 or accrued by the taxpayer during the
21 taxable year which are exempt from
22 tax, over
23 ''(II) amounts disallowed as a de-
24 duction by reason of section
25 163(d)(1)(A) or 171(a)(2),

1 ''(iii) any exclusion from gross income
2 with respect to the cost described in sec-
3 tion 6051(a)(14) (without regard to sub-
4 paragraphs (A) and (B) thereof),
5 ''(iv) any deduction allowable under
6 section 162(l) (relating to special rules for
7 health insurance costs of self-employed in-
8 dividuals),
9 ''(v) any annual addition (as defined
10 in section 415(c)(2)) to a defined contribu-
11 tion plan which is not includible in, or
12 which is deductible from, the gross income
13 of the individual for the taxable year,
14 ''(vi) any deduction allowable under
15 section 223, and
16 ''(vii) the excess (if any) of—
17 ''(I) the social security benefits of
18 the individual for the taxable year (as
19 defined in section 86(d)), over
20 ''(II) the amount included in the
21 gross income of such individual for
22 such taxable year under section 86,
23 and
24 ''(B) decreased by—

"(i) any deduction allowed under section 170 (and in the case of an estate or trust, any deduction allowed under section 642(c)), and

"(ii) qualified domestic manufacturing income.

"(2) DETERMINATION OF ADJUSTED GROSS INCOME IN CASE OF ESTATES AND TRUSTS.—For purposes of this subsection, the adjusted gross income of an estate or trust shall be computed in the same manner as in the case of an individual, except that—

"(A) the deductions for costs which are paid or incurred in connection with the administration of the estate or trust and which would not have been incurred if the property were not held in such trust or estate, and

"(B) the deductions allowable under sections 642(b), 651, and 661,

shall be treated as allowable in arriving at adjusted gross income. Under regulations, appropriate adjustments shall be made in the application of part I of subchapter J of this chapter to take into account the application of this paragraph.

1 ''(c) QUALIFIED DOMESTIC MANUFACTURING IN-
2 COME.—
3 ''(1) IN GENERAL.—For purposes of subsection
4 (b), the term 'qualified domestic manufacturing in-
5 come' for any taxable year means an amount equal
6 to the excess (if any) of—
7 ''(A) the taxpayer's domestic manufac-
8 turing gross receipts for such taxable year, over
9 ''(B) the sum of—
10 ''(i) the cost of goods sold that are al-
11 locable to such receipts, and
12 ''(ii) other expenses, losses, or deduc-
13 tions, which are properly allocable to such
14 receipts.
15 ''(2) ALLOCATION METHOD.—The Secretary
16 shall prescribe rules for the proper allocation of
17 items described in paragraph (1) for purposes of de-
18 termining qualified domestic manufacturing income.
19 Such rules shall provide for the proper allocation of
20 items whether or not such items are directly allo-
21 cable to domestic manufacturing gross receipts.
22 ''(3) SPECIAL RULES FOR DETERMINING
23 COSTS.—
24 ''(A) IN GENERAL.—For purposes of deter-
25 mining costs under clause (i) of paragraph

(1)(B), any item or service brought into the United States shall be treated as acquired by purchase, and its cost shall be treated as not less than its value immediately after it entered the United States. A similar rule shall apply in determining the adjusted basis of leased or rented property where the lease or rental gives rise to domestic manufacturing gross receipts.

"(B) EXPORTS FOR FURTHER MANUFACTURE.—In the case of any property described in subparagraph (A) that had been exported by the taxpayer for further manufacture, the increase in cost or adjusted basis under subparagraph (A) shall not exceed the difference between the value of the property when exported and the value of the property when brought back into the United States after the further manufacture.

"(4) DOMESTIC MANUFACTURING GROSS RECEIPTS.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'domestic manufacturing gross receipts' means the gross receipts of the taxpayer which are derived from—

1 ''(i) any lease, rental, license, sale, ex-
2 change, or other disposition of tangible
3 personal property which was manufac-
4 tured, produced, grown, or extracted by
5 the taxpayer in whole or in significant part
6 within the United States, or
7 ''(ii) in the case of a taxpayer engaged
8 in the active conduct of a construction
9 trade or business, construction of real
10 property performed in the United States
11 by the taxpayer in the ordinary course of
12 such trade or business if such real prop-
13 erty is placed in service after December
14 31, 2014.
15 ''(B) EXCEPTIONS.—Such term shall not
16 include gross receipts of the taxpayer which are
17 derived from—
18 ''(i) the sale of food and beverages
19 prepared by the taxpayer at a retail estab-
20 lishment,
21 ''(ii) the transmission or distribution
22 of electricity, natural gas, or potable water,
23 and
24 ''(iii) the lease, rental, license, sale,
25 exchange, or other disposition of land.

"(C) SPECIAL RULE FOR CERTAIN GOVERNMENT CONTRACTS.—Gross receipts derived from the manufacture or production of any property described in subparagraph (A)(i) shall be treated as meeting the requirements of subparagraph (A)(i) if—

"(i) such property is manufactured or produced by the taxpayer pursuant to a contract with the Federal Government, and

"(ii) the Federal Acquisition Regulation requires that title or risk of loss with respect to such property be transferred to the Federal Government before the manufacture or production of such property is complete.

"(D) TREATMENT OF ACTIVITIES IN PUERTO RICO.—In the case of any taxpayer with gross receipts for any taxable year from sources within the Commonwealth of Puerto Rico, if all of such receipts are taxable under section 1 for such taxable year, then this paragraph shall be applied by treating each reference in subparagraph (A) to the United States as including the Commonwealth of Puerto Rico.

"(E) TANGIBLE PERSONAL PROPERTY.—The term 'tangible personal property' shall not include computer software or any property described in paragraph (3) or (4) of section 168(f).

"(F) RELATED PERSONS.—

"(i) IN GENERAL.—The term 'domestic manufacturing gross receipts' shall not include any gross receipts of the taxpayer derived from property leased, licensed, or rented by the taxpayer for use by any related person.

"(ii) RELATED PERSON.—For purposes of clause (i), a person shall be treated as related to another person if such persons are treated as a single employer under subsection (a) or (b) of section 52 or subsection (m) or (o) of section 414, except that determinations under subsections (a) and (b) of section 52 shall be made without regard to section 1563(b).

"(5) CERTAIN INCOME NOT QUALIFIED.—

"(A) NET EARNINGS FROM SELF EMPLOYMENT.—Domestic manufacturing gross receipts shall not include any amount which is properly

allocable to the taxpayer's net earnings from self employment (determined after any reduction provided under section 1402(m)).

"(B) CERTAIN ACCOUNTING METHOD ADJUSTMENTS.—Domestic manufacturing gross receipts shall not include any amount attributable to—

"(i) a qualified change in method of accounting (as defined in section 3301(d)(2) of the Tax Reform Act of 2014), or

"(ii) any other change in method of accounting which is required by the amendments made by such Act.

"(6) APPLICATION OF SECTION TO PASS-THROUGH ENTITIES.—

"(A) PARTNERSHIPS AND S CORPORATIONS.—Except as provided in subparagraph (B), in the case of a partnership or S corporation, each partner or shareholder shall take into account such person's allocable share of each item described in subparagraph (A) or (B) of paragraph (1) (determined without regard to whether the items described in such subpara-

graph (A) exceed the items described in such subparagraph (B)).

"(B) PUBLICLY TRADED PARTNERSHIPS.—In the case of a publicly traded partnership described in section 7704(c), each partner shall not take into account any allocable share of any item referred to in subparagraph (A).

"(C) TRUSTS AND ESTATES.—In the case of a trust or estate, the items referred to in subparagraph (A) (as determined therein) shall be apportioned between the beneficiaries and the fiduciary (and among the beneficiaries) under regulations prescribed by the Secretary.

"(7) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be necessary or appropriate to carry out the purposes of this section, including regulations or other guidance—

"(A) which prevent more than 1 taxpayer from taking into account the same qualified domestic manufacturing income, and

"(B) which require or restrict the allocation of items under paragraph (6) and require such reporting for purposes of carrying out

such paragraph as the Secretary determines appropriate.

"(8) PHASE-IN OF EXCLUSION.—In the case of any taxable year beginning before January 1, 2017, the term 'qualified domestic manufacturing income' shall be an amount equal to the product of the qualified domestic manufacturing income determined without regard to this paragraph, multiplied by—

"(A) in the case of any taxable year beginning in 2015, 33 percent, and

"(B) in the case of any taxable year beginning in 2016, 67 percent.".

(c) APPLICATION OF SECTION 15.—

(1) IN GENERAL.—Subsection (a) of section 15 is amended by striking "this chapter" and inserting "section 11".

(2) CONFORMING AMENDMENTS.—

(A) Section 15 is amended by striking subsections (d) and (f) and by redesignating subsection (e) as subsection (d).

(B) Section 15(d), as redesignated by subparagraph (A), is amended by striking "section 1 or 11(b)" and inserting "section 11(b)".

(C) Subchapter A of chapter 1 is amended—

(i) by redesignating section 12 as section 13,

(ii) by redesignating section 15 (as amended by this subsection) as section 12 and moving such section from part III of such subchapter to after section 11 in part II of such subchapter,

(iii) by striking part III, and

(iv) by amending the table of sections for part II of such subchapter by redesignating the item relating to section 12 as an item relating to section 13 and by inserting after the item relating to section 11 the following new item:

"Sec. 12. Effect of changes.".

(D) Section 6013(c) is amended by striking "sections 15, 443, and 7851(a)(1)(A)" and inserting "sections 443 and 7851(a)(1)(A)".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1002. DEDUCTION FOR ADJUSTED NET CAPITAL GAIN.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1, as amended by section 3105, is amended by inserting after section 168 the following new section:

"SEC. 169. ADJUSTED NET CAPITAL GAIN.

"(a) IN GENERAL.—If for any taxable year a taxpayer other than a corporation has an adjusted net capital gain, 40 percent of the amount of the adjusted net capital gain shall be allowed as a deduction from gross income.

"(b) ADJUSTED NET CAPITAL GAIN.—For purposes of this section, the term 'adjusted net capital gain' means the sum of—

"(1) net capital gain reduced (but not below zero) by the net collectibles gain, plus

"(2) qualified dividend income.

"(c) NET CAPITAL GAIN REDUCED BY AMOUNTS TAKEN INTO ACCOUNT AS INVESTMENT INCOME.—For purposes of this section, the net capital gain for any taxable year shall be reduced (but not below zero) by the amount which the taxpayer takes into account as investment income under section 163(d)(4)(B)(iii).

"(d) NET COLLECTIBLES GAIN.—For purposes of this section—

"(1) IN GENERAL.—The term 'net collectibles gain' means the excess (if any) of—

"(A) collectibles gain, over

"(B) collectibles loss.

"(2) COLLECTIBLES GAIN AND LOSS.—The terms 'collectibles gain' and 'collectibles loss' mean gain or loss (respectively) from the sale or exchange

of a collectible (as defined in section 408(m) without regard to paragraph (3) thereof) which is a capital asset held for more than 1 year but only to the extent such gain is taken into account in computing gross income and such loss is taken into account in computing taxable income.

"(3) PARTNERSHIPS, ETC.—For purposes of paragraph (2), any gain from the sale of an interest in a partnership, S corporation, or trust which is attributable to unrealized appreciation in the value of collectibles shall be treated as gain from the sale or exchange of a collectible. Rules similar to the rules of section 751 shall apply for purposes of the preceding sentence.

"(e) QUALIFIED DIVIDEND INCOME.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified dividend income' means dividends received during the taxable year from—

"(A) domestic corporations, and

"(B) qualified foreign corporations.

"(2) CERTAIN DIVIDENDS EXCLUDED.—Such term shall not include—

"(A) any dividend from a corporation which for the taxable year of the corporation in

which the distribution is made, or the preceding taxable year, is a corporation exempt from tax under section 501 or 521,

"(B) any amount allowed as a deduction under section 591 (relating to deduction for dividends paid by mutual savings banks, etc.), and

"(C) any dividend described in section 404(k).

"(3) COORDINATION WITH SECTION 246(c).—Such term shall not include any dividend on any share of stock—

"(A) with respect to which the holding period requirements of section 246(c) are not met (determined without regard to paragraph (5) of section 246(c) and by substituting in section 246(c) '60 days' for '45 days' each place it appears and by substituting '121-day period' for '91-day period'), or

"(B) to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

"(4) QUALIFIED FOREIGN CORPORATIONS.—

"(A) IN GENERAL.—Except as otherwise provided in this subparagraph, the term 'qualified foreign corporation' means any foreign corporation if—

"(i) such corporation is incorporated in a possession of the United States, or

"(ii) such corporation is eligible as a qualified resident for all of the benefits provided under a comprehensive income tax treaty with the United States which the Secretary determines is satisfactory for purposes of this paragraph and which includes an exchange of information program.

"(B) DIVIDENDS ON STOCK READILY TRADABLE ON UNITED STATES SECURITIES MARKET.—A foreign corporation not otherwise treated as a qualified foreign corporation under subparagraph (A) shall be so treated with respect to any dividend paid by such corporation if the stock with respect to which such dividend is paid is readily tradable on an established securities market in the United States.

"(C) EXCLUSION OF DIVIDENDS OF CERTAIN FOREIGN CORPORATIONS.—The term

'qualified foreign corporation' shall not include any foreign corporation which for the taxable year of the corporation in which the dividend was paid, or the preceding taxable year, is a passive foreign investment company (as defined in section 1297).

''(5) TREATMENT OF DIVIDENDS FROM REGULATED INVESTMENT COMPANIES AND REAL ESTATE INVESTMENT TRUSTS.—A dividend received from a regulated investment company or a real estate investment trust shall be subject to the limitations prescribed in sections 854 and 857.''.

(b) DEDUCTION ALLOWED WHETHER OR NOT INDIVIDUAL ITEMIZES DEDUCTIONS.—Section 62(a) is amended by inserting after paragraph (7) the following new paragraph:

''(8) ADJUSTED NET CAPITAL GAIN.—The deduction allowed by section 169.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1003. CONFORMING AMENDMENTS RELATED TO SIMPLIFICATION OF INDIVIDUAL INCOME TAX RATES.

(a) AMENDMENTS RELATED TO MODIFICATION OF INFLATION ADJUSTMENT.—

(1) Section 25B(b)(3)(B) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2005' for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2005' for 'calendar year 2012' in clause (ii) thereof''.

(2) Subclause (II) of section 36B(b)(3)(A)(ii) is amended by striking ''consumer price index'' and inserting ''C-CPI-U (as defined in section 1(c))''.

(3) Section 41(e)(5)(C) is amended to read as follows:

''(C) COST-OF-LIVING ADJUSTMENT DEFINED.—

''(i) IN GENERAL.—The cost-of-living adjustment for any calendar year is the cost-of-living adjustment for such calendar year determined under section 1(c)(2)(A),

by substituting 'calendar year 1987' for 'calendar year 2012' in clause (ii) thereof.

''(ii) SPECIAL RULE WHERE BASE PERIOD ENDS IN A CALENDAR YEAR OTHER THAN 1983 OR 1984.—If the base period of any taxpayer does not end in 1983 or 1984, clause (i) shall be applied by substituting the calendar year in which such base period ends for 1987.''.

(4) Section 125(i)(2) is amended—

(A) by striking ''section 1(f)(3) for the calendar year in which the taxable year begins by substituting 'calendar year 2012' for 'calendar year 1992' in subparagraph (B) thereof'' in subparagraph (B) and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins'', and

(B) by striking ''$50'' both places it appears in the last sentence and inserting ''$100''.

(5) Section 137(f) is amended—

(A) by striking ''section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2001' for 'calendar year 1992' in subparagraph (B)

thereof'' in paragraph (2) and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2001' for 'calendar year 2012' in clause (ii) thereof'', and

(B) in the last sentence thereof—

(i) by striking ''$10'' the first place it appears and inserting ''$100'', and

(ii) by striking ''nearest multiple of $10'' and inserting ''next lowest multiple of $100''.

(6) Section 162(o)(3) is amended by inserting ''as in effect before enactment of the Tax Reform Act of 2014'' after ''section 1(f)(5)''.

(7) Section 220(g)(2) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1997' for 'calendar year 2012' in clause (ii) thereof''.

(8) Section 223(g)(1) is amended by striking all that follows subparagraph (A) and inserting the following:

1 ''(B) the cost-of-living adjustment deter-
2 mined under section 1(c)(2)(A) for the calendar
3 year in which the taxable year begins, deter-
4 mined—
5 ''(i) by substituting for 'calendar year
6 2012' in clause (ii) thereof—
7 ''(I) except as provided in clause
8 (ii), 'calendar year 1997', and
9 ''(II) in the case of each dollar
10 amount in subsection (c)(2)(A), 'cal-
11 endar year 2003', and
12 ''(ii) by substituting 'March 31' for
13 'August 31' in paragraphs (5)(B) and
14 (6)(B) of section 1(c).
15 The Secretary shall publish the dollar amounts
16 as adjusted under this subsection for taxable
17 years beginning in any calendar year no later
18 than June 1 of the preceding calendar year.''.
19 (9) Section 430(c)(7)(D)(vii)(II) is amended by
20 striking ''section 1(f)(3) for the calendar year, deter-
21 mined by substituting 'calendar year 2009' for 'cal-
22 endar year 1992' in subparagraph (B) thereof'' and
23 inserting ''section 1(c)(2)(A) for the calendar year,
24 determined by substituting 'calendar year 2009' for
25 'calendar year 2012' in clause (ii) thereof''.

(10) Section 512(d)(2)(B) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins, by substituting 'calendar year 1994' for 'calendar year 1992' in subparagraph (B) thereof''and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1994' for 'calendar year 2012' in clause (ii) thereof''.

(11) Section 513(h)(2)(C)(ii) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins by substituting 'calendar year 1987' for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1987' for 'calendar year 2012' in clause (ii) thereof''.

(12) Section 877A(a)(3)(B)(i)(II) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins, by substituting 'calendar year 2007' for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar

year 2007' for 'calendar year 2012' in clause (ii) thereof''.

(13) Section 911(b)(2)(D)(ii)(II) is amended by striking ''section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting '2004' for '1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2004' for 'calendar year 2012' in clause (ii) thereof''.

(14) Section 1274A(d)(2) is amended to read as follows:

''(2) INFLATION ADJUSTMENT.—

''(A) IN GENERAL.—In the case of any debt instrument arising out of a sale or exchange during any calendar year after 2014, each adjusted dollar amount shall be increased by an amount equal to—

''(i) such adjusted dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2013' for 'calendar year 2012' in clause (ii) thereof.

"(B) ADJUSTED DOLLAR AMOUNTS.—For purposes of this paragraph, the term 'adjusted dollar amount' means the dollar amounts in subsections (b) and (c), in each case as in effect for calendar year 2014.

"(C) ROUNDING.—Any increase under subparagraph (A) shall be rounded to the nearest multiple of $100.".

(15) Section 2010(c)(3)(B)(ii) is amended by striking "section 1(f)(3) for such calendar year by substituting 'calendar year 2010' for 'calendar year 1992' in subparagraph (B) thereof" and inserting "section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2010' for 'calendar year 2012' in clause (ii) thereof".

(16) Section 2032A(a)(3)(B) is amended by striking "section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year 1992' in subparagraph (B) thereof" and inserting "section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 1997' for 'calendar year 2012' in clause (ii) thereof".

(17) Section 2503(b)(2)(B) is amended by striking "section 1(f)(3) for such calendar year by substituting 'calendar year 1997' for 'calendar year

1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year, determined by substituting 'calendar year 1997' for 'calendar year 2012' in clause (ii) thereof''.

(18) Section 4161(b)(2)(C)(i)(II) is amended by striking ''section 1(f)(3) for such calendar year, determined by substituting '2004' for '1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2004' for 'calendar year 2012' in clause (ii) thereof''.

(19) Section 4261(e)(4)(A)(ii) is amended by striking ''section 1(f)(3) for such calendar year by substituting the year before the last nonindexed year for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for such calendar year, determined by substituting the year before the last nonindexed year for 'calendar year 2012' in clause (ii) thereof''.

(20) Section 4980I(b)(3)(C)(v)(II) is amended

(A) by striking ''section 1(f)(3)'' and inserting ''section 1(c)(2)(A)'',

(B) by striking ''subparagraph (B)'' and inserting ''clause (ii)'', and

(C) by striking ''1992'' and inserting ''2012''.

(21) Section 5000A(c)(3)(D)(ii) is amended—

(A) by striking ''section 1(f)(3)'' and inserting ''section 1(c)(2)(A)'',

(B) by striking ''subparagraph (B)'' and inserting ''clause (ii)'', and

(C) by striking ''1992'' and inserting ''2012''.

(22) Section 6039F(d) is amended by striking ''section 1(f)(3), except that subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A), except that clause (ii) thereof''.

(23) Section 6323(i)(4)(B) is amended by striking ''section 1(f)(3) for the calendar year, determined by substituting 'calendar year 1996' for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for the calendar year, determined by substituting 'calendar year 1996' for 'calendar year 2012' in clause (ii) thereof''.

(24) Section 6334(g)(1)(B) is amended by striking ''section 1(f)(3) for such calendar year, by substituting 'calendar year 1998' for 'calendar year 1992' in subparagraph (B) thereof'' and inserting ''section 1(c)(2)(A) for such calendar year, deter-

mined by substituting 'calendar year 1999' for 'calendar year 2012' in clause (ii) thereof''.

(25) Section 6721(f)(1) is amended—

(A) by striking ''section 1(f)(3)'' and inserting ''section 1(c)(2)(A)'',

(B) by striking ''subparagraph (B)'' and inserting ''clause (ii)'', and

(C) by striking ''1992'' and inserting ''2012''.

(26) Section 6722(f)(1) is amended—

(A) by striking ''section 1(f)(3)'' and inserting ''section 1(c)(2)(A)'',

(B) by striking ''subparagraph (B)'' and inserting ''clause (ii)'', and

(C) by striking ''1992'' and inserting ''2012''.

(27) Section 7430(c)(1) is amended by striking ''section 1(f)(3) for such calendar year, by substituting 'calendar year 1995' for 'calendar year 1992' in subparagraph (B) thereof'' in the flush text at the end and inserting ''section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 1995' for 'calendar year 2012' in clause (ii) thereof''.

(28) Section 7872(g)(5) is amended to read as follows:

''(5) INFLATION ADJUSTMENT.—

''(A) IN GENERAL.—In the case of any loan made during any calendar year after 2014 to which paragraph (1) applies, the adjusted dollar amount shall be increased by an amount equal to—

''(i) such adjusted dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2013' for 'calendar year 2012' in clause (ii) thereof.

''(B) ADJUSTED DOLLAR AMOUNT.—For purposes of this paragraph, the term 'adjusted dollar amount' means the dollar amount in paragraph (2) as in effect for calendar year 2014.

''(C) ROUNDING.—Any increase under subparagraph (A) shall be rounded to the nearest multiple of $100.''.

(b) AMENDMENTS RELATED TO DEDUCTION FOR ADJUSTED NET CAPITAL GAIN.—

(1) Section 163(d)(4)(B) is amended by striking ''section 1(h)(11)(B)'' and inserting ''section 169(e)''.

(2) Section 172(d)(2)(B) is amended by inserting ''the deduction allowable under section 169 and'' before ''the exclusion''.

(3) Section 301(f)(4) is amended by striking ''section 1(h)(11)'' and inserting ''section 169(e)''.

(4) Section 306(a)(1)(D) is amended by striking ''section 1(h)(11)'' and inserting ''section 169(e)''.

(5) The last sentence of section 453A(c)(3) is amended by striking ''capital gain'' and all that follows and inserting ''capital gain, the deduction under section 169 shall be taken into account.''.

(6) Sections 531 and 541 are each amended by striking ''20 percent'' and inserting ''21 percent''.

(7) Section 584(c) is amended by striking ''and to which section 1(h)(11) applies'' in the last sentence and inserting ''which is qualified dividend income (as defined in section 169(e)) in the hands of such common trust fund''.

(8) Section 641(c)(2)(C) (prior to redesignation by title II) is amended by adding at the end the following new clause:

"(v) The deduction allowed by section 169.".

(9) The first sentence of section 642(c)(4) is amended by striking "consists of" and all that follows and inserting "consists of long-term capital gain or gain described in section 1202(a), proper adjustments shall be made for any deduction allowable to the trust or estate under section 169 and for any exclusion allowable under section 1202.".

(10) The last sentence of section 643(a)(3) is amended to read as follows: "The deduction under section 169 and the exclusion under section 1202 shall not be taken into account.".

(11) Section 691(c)(4) is amended by striking "1(h)" and inserting "169".

(12) Section 702(a)(5) is amended by striking "section 1(h)(11)" and inserting "section 169".

(13) Section 854 is amended—

(A) by striking "section 1(h)(11) (relating to maximum rate of tax on dividends)" in subsection (a) and inserting "section 169 (relating to adjusted net capital gain)",

(B) by striking "MAXIMUM RATE UNDER SECTION 1(h)" in the heading of subsection

(b)(1)(B) and inserting ''DETERMINATION OF ADJUSTED NET CAPITAL GAIN'', and

(C) by striking ''section 1(h)(11)(B)'' in subsection (b)(4) and inserting ''section 169(e)''.

(14) Section 857(c)(2) is amended—

(A) by striking ''section 1(h)(11)(B)'' in subparagraph (D) and inserting ''section 169(e)'', and

(B) by striking ''SECTION 1(h)(11)'' in the heading and inserting ''SECTION 169(e)''.

(15) Section 904(b) is amended—

(A) by amending paragraph (2) to read as follows:

''(2) CAPITAL GAINS.—For purposes of this section, taxable income from sources outside the United States shall include gain from the sale or exchange of capital assets (including gain so treated under section 1231) only to the extent of the lesser of—

''(A) capital gain net income from sources without the United States, or

''(B) capital gain net income.'', and

(B) by striking paragraph (3).

(16) Section 1260(a) is amended by striking ''long-term capital gain'' the first place such term

appears and all that follows and inserting ''long-term capital gain, such gain shall be treated as ordinary income to the extent such gain exceeds the net underlying long-term capital gain.''.

(17) Section 1411(c)(1)(B) is amended by inserting ''(other than section 169)'' after ''this subtitle''.

(18) Section 4985(a)(1) is amended by striking ''the rate of tax specified in section 1(h)(1)(C)'' and inserting ''21 percent''.

(19) Section 7518(g)(6)(A) is amended by striking all that follows clause (i) and inserting the following:

''(ii) by increasing the tax imposed by chapter 1 by the product of the amount of such withdrawal, multiplied by—

''(I) in the case of a taxpayer other than a corporation, 60 percent of the highest rate of tax specified in section 1, and

''(II) in the case of a corporation, the highest rate of tax specified in section 11.''.

(20) Section 53511(f) of title 46, United States Code, is amended by—

(A) by amending paragraph (1)(B) to read as follows:

''(B) increasing the tax imposed by chapter 1 of such Code by the product of the amount of such withdrawal, multiplied by—

''(i) in the case of a taxpayer other than a corporation, the highest rate of tax specified in section 1 (60 percent of such highest rate in the case of so much of such withdrawal as is made from the capital gain account), and

''(ii) in the case of a corporation, the highest rate of tax specified in section 11.'', and

(B) by striking paragraph (2) and by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively.

(21) The table of sections for part VI of subchapter B of chapter 1 is amended by inserting after the item relating to section 168 the following new item:

''Sec. 169. Adjusted net capital gain.''.

(c) OTHER CONFORMING AMENDMENTS.—

(1) Section 25B(b)(2) is amended by striking ''In the case of—'' and all that follows through ''any taxpayer not described in paragraph (1) or subpara-

graph (A),'' and inserting ''In the case of any taxpayer not described in paragraph (1),''.

(2) Section 36B(b)(3)(B)(ii)(I)(aa) is amended to read as follows:

''(aa) who is described in section 1(b)(1)(B) and who does not have any dependents for the taxable year,''.

(3) Section 486B(b)(1) is amended—

(A) by striking ''maximum rate in effect'' and inserting ''highest rate specified'', and

(B) by striking ''section 1(e)'' and inserting ''section 1''.

(4) Section 511(b)(1) is amended to read as follows:

''(1) IMPOSITION OF TAX.—There is hereby imposed for each taxable year on the unrelated business taxable income of every trust described in paragraph (2) a tax computed as provided in section 1. In making such computation for purposes of this section, the terms 'taxable income' and 'modified adjusted gross income' as used in section 1 shall both be read as 'unrelated business taxable income' as defined in section 512.''.

(5) Section 641(a) is amended by striking ''section 1(e) shall apply to the taxable income'' and inserting ''section 1 shall apply to the income''.

(6) Section 641(c)(2)(A) is amended to read as follows:

''(A) The dollar amount in effect under section 1(b)(2)(C) shall be treated as being zero.''.

(7) Section 646(b) is amended to read as follows:

''(b) TAXATION OF INCOME OF TRUST.—Except as provided in subsection (f)(1)(B)(ii), there is hereby imposed on the taxable income of an electing Settlement Trust a tax at the rate specified in section 1(a)(1). Such tax shall be in lieu of the income tax otherwise imposed by this chapter on such income.''.

(8) Section 685(c) is amended by striking ''Section 1(e)'' and inserting ''Section 1''.

(9) Section 1398(c) is amended by striking paragraphs (1) and (2), by redesignating paragraph (3) as paragraph (2), and by inserting before paragraph (2) as so redesignated the following new paragraph:

''(1) COMPUTATION AND PAYMENT OF TAX.—Except as otherwise provided in this section or part

I of subchapter A, the taxable income and modified adjusted gross income of the estate shall be computed in the same manner as for an individual. The tax shall be computed under section 1 and shall be paid by the trustee.''.

(10) Section 3402(p)(1)(B) is amended by striking ''any percentage applicable to any of the 3 lowest income brackets in the table under section 1(c),'' and inserting ''10 percent, 25 percent, 35 percent,''.

(11) Section 3402(q)(1) is amended by striking ''the third lowest rate of tax applicable under section 1(c)'' and inserting ''the highest rate of tax specified in section 1''.

(12) Section 3402(r)(3) is amended by striking ''the amount of tax which would be imposed by section 1(c) (determined without regard to any rate of tax in excess of the fourth lowest rate of tax applicable under section 1(c)) on an amount of taxable income equal to'' and inserting ''an amount equal to the product of the highest rate of tax specified in section 1 multiplied by''.

(13) Section 3406(a)(1) is amended by striking ''the fourth lowest rate of tax applicable under sec-

tion 1(c)'' and inserting ''the highest rate of tax specified in section 1''.

(14) Section 6103(e)(1)(A)(iii) is amended by striking ''section 1(g)'' and inserting ''section 1(d)''.

(d) WITHHOLDING FROM SUPPLEMENTAL WAGE PAYMENTS.—

(1) IN GENERAL.—If an employer elects under Treasury Regulation section 31.3402(g)–1 to determine the amount to be deducted and withheld from any supplemental wage payment by using a flat percentage rate, the rate to be used in determining such amount shall not be less than 35 percent.

(2) REPEAL OF SUPERCEDED PROVISION.—The American Jobs Creation Act of 2004 is amended by striking section 904.

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) WITHHOLDING FROM SUPPLEMENTAL WAGE PAYMENTS.—The provisions of, and amendments made by, subsection (d) shall apply to payments made after December 31, 2014.

Subtitle B—Simplification of Tax Benefits for Families

SEC. 1101. STANDARD DEDUCTION.

(a) INCREASE IN STANDARD DEDUCTION.—Subsection (c) of section 63 is amended to read as follows:

"(c) STANDARD DEDUCTION.—For purposes of this subtitle—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, the term 'standard deduction' means—

"(A) $22,000, in the case of a joint return, and

"(B) one-half of the amount in effect under subparagraph (A) for the taxable year, in any other case.

"(2) PHASEOUT OF STANDARD DEDUCTION.—The amount of the standard deduction determined under this subsection (without regard to this paragraph and after the application of paragraph (4)) shall be reduced (but not below zero) by an amount equal to 20 percent of the excess (if any) of—

"(A) the taxpayer's modified adjusted gross income (as defined in section 2(b)) for the taxable year, over

"(B)(i) the joint return standard deduction phaseout threshold for the taxable year, in the case of a taxpayer described in paragraph (1)(A), and

"(ii) the non-joint return standard deduction phaseout threshold for the taxable year, in any other case.

"(3) STANDARD DEDUCTION PHASEOUT THRESHOLDS.—

"(A) JOINT RETURN STANDARD DEDUCTION PHASEOUT THRESHOLD.—The term 'joint return standard deduction phaseout threshold' means, with respect to any taxable year—

"(i) the dollar amount in effect under section 1(e)(3)(A) for such taxable year, plus

"(ii) the product of—

"(I) the dollar amount in effect under section 1(b)(1)(A) for such taxable year, multiplied by

"(II) 3.

"(B) NON-JOINT RETURN STANDARD DEDUCTION PHASEOUT THRESHOLD.—The term 'non-joint return standard deduction phaseout

threshold' means, with respect to any taxable year—

"(i) the dollar amount in effect under section 1(e)(3)(B) for such taxable year, plus

"(ii) the product of—

"(I) the dollar amount in effect under section 1(b)(1)(B) for such taxable year, multiplied by

"(II) 3.

"(4) LIMITATION ON STANDARD DEDUCTION IN THE CASE OF CERTAIN DEPENDENTS.—In the case of an individual who is a dependent of another taxpayer for a taxable year beginning in the calendar year in which the individual's taxable year begins, the standard deduction applicable to such individual for such individual's taxable year shall not exceed the greater of—

"(A) $500, or

"(B) the sum of $250 and such individual's earned income (as defined in section 24(d)(2)).

"(5) CERTAIN INDIVIDUALS, ETC., NOT ELIGIBLE FOR STANDARD DEDUCTION.—In the case of—

"(A) a married individual filing a separate return where such individual's spouse elects to itemize deductions,

"(B) a nonresident alien individual,

"(C) an individual making a return under section 443(a)(1) for a period of less than 12 months on account of a change in his annual accounting period, or

"(D) an estate or trust, common trust fund, or partnership,

the standard deduction shall be zero.

"(6) INFLATION ADJUSTMENTS.—In the case of any taxable year beginning after 2014, each of the dollar amounts in paragraphs (1)(A) and (4) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined—

"(i) in the case of the dollar amount in paragraph (1)(A), under section 1(c)(2)(A) for the calendar year in which the taxable year begins,

"(ii) in the case of the dollar amount in paragraph (4)(A), under section 1(c)(2)(A) for the calendar year in which

the taxable year begins determined by substituting 'calendar year 1987' for 'calendar year 2012' in clause (ii) thereof, and

''(iii) in the case of the dollar amount in paragraph (4)(B), under section 1(c)(2)(A) for the calendar year in which the taxable year begins determined by substituting 'calendar year 1997' for 'calendar year 2012' in clause (ii) thereof.

If any increase determined under the preceding sentence is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.''.

(b) ADDITIONAL DEDUCTION FOR UNMARRIED INDIVIDUALS WITH AT LEAST ONE QUALIFYING CHILD.—

(1) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by redesignating section 224 as section 225 and by inserting after section 223 the following new section:

''SEC. 224. DEDUCTION FOR UNMARRIED INDIVIDUALS WITH AT LEAST ONE QUALIFYING CHILD.

''(a) IN GENERAL.—In the case of an unmarried individual with at least one qualifying child (within the meaning of section 7705), there shall be allowed as a deduction an amount equal to $5,500.

1 ''(b) PHASEOUT OF DEDUCTION.—The amount of the
2 deduction determined under subsection (a) (without re-
3 gard to this subsection) shall be reduced (but not below
4 zero) by an amount equal to the excess (if any) of—
5 ''(1) the taxpayer's adjusted gross income (de-
6 termined without regard to this section) for the tax-
7 able year, over
8 ''(2) $30,000.
9 ''(c) UNMARRIED INDIVIDUAL.—For purposes of this
10 section, the term 'unmarried individual' means any indi-
11 vidual who—
12 ''(1) is not married as of the close of the tax-
13 able year (as determined by applying section 7703),
14 ''(2) is not a surviving spouse (as defined in
15 section 2(a)) for the taxable year, and
16 ''(3) is not a dependent of another taxpayer for
17 a taxable year beginning in the calendar year in
18 which the individual's taxable year begins.
19 ''(d) INFLATION ADJUSTMENTS.—
20 ''(1) DEDUCTION AMOUNT.—In the case of any
21 taxable year beginning after 2014, the dollar amount
22 in subsection (a) shall be increased by an amount
23 equal to—
24 ''(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins.

"(2) PHASEOUT THRESHOLD.—In the case of any taxable year beginning after 2015, the dollar amount in subsection (b)(2) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins determined by substituting 'calendar year 2014' for 'calendar year 2012' in clause (ii) thereof.

"(3) ROUNDING.—If any increase determined under paragraph (1) or (2) is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.".

(2) DEDUCTION ALLOWED WHETHER OR NOT TAXPAYER ITEMIZES DEDUCTIONS.—Section 62(a) is amended by adding at the end the following new paragraph:

"(22) DEDUCTION FOR UNMARRIED INDIVIDUALS WITH AT LEAST ONE QUALIFYING CHILD.—The deduction allowed by section 224.".

(c) APPLICATION OF STANDARD DEDUCTION PHASEOUT TO ITEMIZED DEDUCTIONS.—Subsection (f) of section 63 is amended to read as follows:

"(f) APPLICATION OF PHASEOUT OF STANDARD DEDUCTION TO ITEMIZED DEDUCTIONS.—

"(1) IN GENERAL.—In the case of an individual whose modified adjusted gross income (as defined in section 2(b)) exceeds the amount in effect under subsection (c)(2)(B) with respect to the taxpayer for the taxable year, the amount of the itemized deductions otherwise allowable for the taxable year shall be reduced by the lesser of—

"(A) 20 percent of the excess described in subsection (c)(2) with respect to such taxpayer for such taxable year, or

"(B) the amount of the taxpayer's standard deduction for such taxable year (determined without regard to subsection (c)(2) and without regard to any election to itemize deductions).

"(2) COORDINATION WITH OTHER LIMITATIONS.—This subsection shall be applied after the application of any other limitation on the allowance of any itemized deduction.

"(3) EXCEPTION FOR ESTATES AND TRUSTS.—This subsection shall not apply to any estate or trust.".

(d) CONFORMING AMENDMENTS.—

(1) Sections 86(b)(2)(A) and 137(b)(3)(A) are each amended by inserting "224," before "911,".

(2) Section 199(d)(2)(B) is amended by inserting "section 224 and" before "this section".

(3) Section 469(i)(3)(F)(iii) is amended by inserting "and 224" after "219,".

(4) Section 1398(c), as amended by section 1003(c), is amended—

(A) by striking "BASIC" in the heading thereof,

(B) by striking "BASIC STANDARD" in the heading of paragraph (2) and inserting "STANDARD", and

(C) by striking "basic" in paragraph (2).

(5) Section 3402(m)(3) is amended by striking "(including the additional standard deduction under section 63(c)(3) for the aged and blind)".

(6) Section 6014(b)(4) is amended by striking "section 63(c)(5)" and inserting "section 63(c)(4)".

(7) The table of sections for part VII of subchapter B of chapter 1 is amended by redesignating

the item relating to section 224 as an item relating to section 225 and by inserting after the item relating to section 223 the following new item:

"Sec. 224. Deduction for unmarried individuals with at least one qualifying child.".

(e) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1102. INCREASE AND EXPANSION OF CHILD TAX CREDIT.

(a) IN GENERAL.—Section 24 is amended to read as follows:

"SEC. 24. CHILD AND DEPENDENT TAX CREDIT.

"(a) ALLOWANCE OF CREDIT.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year with respect to each dependent of the taxpayer an amount equal to $500 ($1,500 in the case of a qualifying child).

"(b) PHASEOUT OF CREDIT.—

"(1) IN GENERAL.—The credit allowed under subsection (a) (determined without regard to this subsection) shall be reduced (but not below zero) by 5 percent of the excess (if any) of—

"(A) the taxpayer's modified adjusted gross income (as defined in section 2(b)), over

"(B)(i) the joint return child credit phaseout threshold, in the case of a joint return or a surviving spouse (as defined in section 2(a)), or

"(ii) the non-joint return child credit phaseout threshold, in any other case.

"(2) JOINT RETURN CHILD CREDIT PHASEOUT THRESHOLD.—For purposes of this section, the term 'joint return child credit phaseout threshold' means, with respect to any taxable year, the sum of—

"(A) the joint return standard deduction phaseout threshold (as defined in section 63(c)(3)(A)), plus

"(B) an amount equal to—

"(i) the dollar amount in effect under section 63(c)(1)(A) for such taxable year, divided by

"(ii) 0.2.

"(3) NON-JOINT RETURN CHILD CREDIT PHASEOUT THRESHOLD.—For purposes of this section, the term 'non-joint return child credit phaseout threshold' means, with respect to any taxable year, the sum of—

1 ''(A) the non-joint return standard deduc-
2 tion phaseout threshold (as defined in section
3 63(c)(3)(B)), plus
4 ''(B) an amount equal to—
5 ''(i) the dollar amount in effect under
6 section 63(c)(1)(B) for such taxable year,
7 divided by
8 ''(ii) 0.2.
9 ''(c) QUALIFYING CHILD.—For purposes of this sec-
10 tion—
11 ''(1) IN GENERAL.—Except as provided in para-
12 graph (2), the term 'qualifying child' has the mean-
13 ing given such term by section 7705.
14 ''(2) EXCEPTION FOR CERTAIN NONCITIZENS.—
15 The term 'qualifying child' shall not include any in-
16 dividual who would not be a dependent if subpara-
17 graph (A) of section 7705(b)(3) were applied with-
18 out regard to all that follows 'resident of the United
19 States'.
20 ''(d) PORTION OF CREDIT REFUNDABLE.—
21 ''(1) IN GENERAL.—The aggregate credits al-
22 lowed under subpart C shall be increased by the
23 lesser of—
24 ''(A) the credit which would be allowed
25 under this section without regard to this sub-

1 section and the limitation under section 26(a),
2 or
3 ''(B) the amount by which the aggregate
4 amount of credits allowed under the subpart
5 (determined without regard to this subsection)
6 would increase if the limitation under section
7 26(a) were increased by 25 percent of the tax-
8 payer's earned income for the taxable year.
9 The amount of the credit allowed under this sub-
10 section shall not be treated as a credit allowed under
11 this subpart and shall reduce the amount of credit
12 otherwise allowable under subsection (a) without re-
13 gard to section 26(a).
14 ''(2) EARNED INCOME.—For purposes of this
15 subsection—
16 ''(A) IN GENERAL.—The term 'earned in-
17 come' means—
18 ''(i) the taxpayer's wages, salaries,
19 tips, and other employee compensation, but
20 only if such amounts are includible in
21 gross income for the taxable year, plus
22 ''(ii) the taxpayer's net earnings from
23 self-employment for the taxable year (with-
24 in the meaning of section 1402(a)) deter-

mined with regard to the deduction allowed to the taxpayer by section 164(f).

"(B) SPECIAL RULES.—For purposes of subparagraph (A)—

"(i) the earned income of an individual shall be computed without regard to any community property laws,

"(ii) no amount received as a pension or annuity shall be taken into account,

"(iii) no amount to which section 871(a) applies (relating to income of nonresident alien individuals not connected with United States business) shall be taken into account,

"(iv) no amount received for services provided by an individual while the individual is an inmate at a penal institution shall be taken into account,

"(v) no amount described in subparagraph (A) received for service performed in work activities as defined in paragraph (4) or (7) of section 407(d) of the Social Security Act to which the taxpayer is assigned under any State program under part A of title IV of such Act shall be taken into ac-

count, but only to the extent such amount is subsidized under such State program, and

"(vi) amounts excluded from gross income by reason of section 112 shall be taken into account as earned income.

"(C) SPECIAL RULE FOR TAXABLE YEARS BEGINNING BEFORE 2018.—In the case of any taxable year beginning before January 1, 2018, the earned income of the taxpayer taken into account under paragraph (1) shall be reduced (but not below zero) by $3,000.

"(3) EXCEPTION FOR TAXPAYERS EXCLUDING FOREIGN EARNED INCOME.—Paragraph (1) shall not apply to any taxpayer for any taxable year if such taxpayer elects to exclude any amount from gross income under section 911 for such taxable year.

"(e) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2014, each dollar amount in subsection (a) shall be increased by an amount equal to—

"(1) such dollar amount, multiplied by

"(2) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins.

If any increase determined under the preceding sentence is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.

"(f) IDENTIFICATION REQUIREMENTS.—

"(1) IN GENERAL.—No credit shall be allowed under this section to a taxpayer with respect to any dependent unless the taxpayer includes the name and taxpayer identification number of such dependent on the return of tax for the taxable year.

"(2) ADDITIONAL IDENTIFICATION REQUIREMENT WITH RESPECT TO REFUNDABLE CREDIT.—

"(A) IN GENERAL.—Subsection (d) shall not apply to any taxpayer for any taxable year unless the taxpayer includes the taxpayer's Social Security number on the return of tax for such taxable year.

"(B) JOINT RETURNS.—In the case of a joint return, the requirement of subparagraph (A) shall be treated as met if the Social Security number of either spouse is included on such return.

"(g) TAXABLE YEAR MUST BE FULL TAXABLE YEAR.—Except in the case of a taxable year closed by reason of the death of the taxpayer, no credit shall be allow-

able under this section in the case of a taxable year covering a period of less than 12 months.''.

(b) OMISSION OF IDENTIFICATION INFORMATION TREATED AS MATHEMATICAL OR CLERICAL ERROR.—Subparagraph (I) of section 6213(g)(2) of such Code is amended to read as follows:

''(I) an omission of a correct TIN under section 24(f)(1) (relating to the child and dependent tax credit), or a correct Social Security number under section 24(f)(2) (relating to the refundable portion of child and dependent tax credit), to be included on a return,''.

(c) APPLICATION OF RULE FOR SHORT TAXABLE YEARS.—Section 443(c) is amended to read as follows:

''(c) ADJUSTMENT IN CHILD AND DEPENDENT TAX CREDIT.—If a return is made for a short period by reason of subsection (a)(1) and if the tax is not computed under subsection (b)(2), then the credit allowed under section 24 shall be reduced to an amount which bears the same ratio to the full amount of such credit as the number of months in the short period bears to 12.''.

(d) CLERICAL AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by striking the item relating to section 24 and inserting the following new item:

''Sec. 24. Child and dependent tax credit.''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1103. MODIFICATION OF EARNED INCOME TAX CREDIT.

(a) IN GENERAL.—Section 32 is amended to read as follows:

"SEC. 32. EARNED INCOME.

"(a) IN GENERAL.—In the case of an individual who is an eligible individual for any taxable year, there shall be allowed as a credit against the tax imposed by this subtitle for such taxable year an amount equal to the taxpayer's employment-related taxes for such taxable year.

"(b) LIMITATIONS.—

"(1) DOLLAR LIMITATION.—The credit allowed under subsection (a) shall not exceed—

"(A) in the case of a taxpayer with 2 or more qualifying children, $3,000 ($4,000 in the case of a joint return), and

"(B) in the case of a taxpayer with 1 qualifying child, $2,400.

"(2) PHASE-OUT OF CREDIT.—The credit allowed under subsection (a) (determined after application of paragraph (1)) shall be reduced (but not below zero) by the sum of—

"(A) 19 percent of so much of the taxpayer's adjusted gross income (reduced by the amount of any excess described in subparagraph (B)) as exceeds $20,000 ($27,000 in the case of a joint return), plus

"(B) so much of the taxpayer's investment income for the taxable year as exceeds $3,300.

"(c) DEFINITIONS.—For purposes of this section—

"(1) ELIGIBLE INDIVIDUAL.—

"(A) IN GENERAL.—The term 'eligible individual' means any individual who has a qualifying child for the taxable year.

"(B) QUALIFYING CHILD INELIGIBLE.—If an individual is the qualifying child of a taxpayer for any taxable year of such taxpayer beginning in a calendar year, such individual shall not be treated as an eligible individual for any taxable year of such individual beginning in such calendar year.

"(C) EXCEPTION FOR INDIVIDUAL CLAIMING BENEFITS UNDER SECTION 911.—The term 'eligible individual' does not include any individual who claims the benefits of section 911 (relating to citizens or residents living abroad) for the taxable year.

1 "(D) LIMITATION ON ELIGIBILITY OF NON-
2 RESIDENT ALIENS.—The term 'eligible indi-
3 vidual' shall not include any individual who is
4 a nonresident alien individual for any portion of
5 the taxable year unless such individual is treat-
6 ed for such taxable year as a resident of the
7 United States for purposes of this chapter by
8 reason of an election under subsection (g) or
9 (h) of section 6013.
10 "(2) EMPLOYMENT-RELATED TAXES.—The
11 term 'employment-related taxes' means, with respect
12 to any taxpayer for any taxable year, the sum of—
13 "(A) any tax imposed under sections 3101
14 or 3111 on the wages (as defined in section
15 3121(a)) received by the taxpayer during the
16 calendar year in which the taxable year begins,
17 "(B) any tax imposed under sections
18 3201(a), 3211(a), or 3221(a) on the compensa-
19 tion (as defined in section 3231(e)) received by
20 the taxpayer during the calendar year in which
21 the taxable year begins, and
22 "(C) any tax imposed under section 1401
23 on the self-employment income of the taxpayer
24 for the taxable year.
25 "(3) QUALIFYING CHILD.—

"(A) IN GENERAL.—The term 'qualifying child' means a qualifying child of the taxpayer (within the meaning of section 7705, determined without regard to subsections (c)(1)(D) and (e) thereof).

"(B) PLACE OF ABODE.—For purposes of subparagraph (A), the requirements of section 7705(c)(1)(B) shall be met only if the principal place of abode is in the United States.

"(C) TREATMENT OF MILITARY PERSONNEL STATIONED OUTSIDE THE UNITED STATES.—For purposes of subparagraph (B), the principal place of abode of a member of the Armed Forces of the United States shall be treated as in the United States during any period during which such member is stationed outside the United States while serving on extended active duty with the Armed Forces of the United States. For purposes of the preceding sentence, the term 'extended active duty' means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.

1 ''(4) INVESTMENT INCOME.—For purposes of
2 paragraph (1), the term 'investment income'
3 means—
4 ''(A) interest or dividends to the extent in-
5 cludible in gross income for the taxable year,
6 ''(B) interest received or accrued during
7 the taxable year which is exempt from tax im-
8 posed by this chapter,
9 ''(C) the excess (if any) of—
10 ''(i) gross income from rents or royal-
11 ties not derived in the ordinary course of
12 a trade or business, over
13 ''(ii) the sum of—
14 ''(I) the deductions (other than
15 interest) which are clearly and directly
16 allocable to such gross income, plus
17 ''(II) interest deductions properly
18 allocable to such gross income,
19 ''(D) the capital gain net income (as de-
20 fined in section 1222) of the taxpayer for such
21 taxable year, and
22 ''(E) the excess (if any) of—
23 ''(i) the aggregate income from all
24 passive activities for the taxable year (de-
25 termined without regard to any amount

with respect to which a tax described in subsection (c)(2) is imposed or an amount described in a preceding subparagraph), over

"(ii) the aggregate losses from all passive activities for the taxable year (as so determined).

For purposes of subparagraph (E), the term 'passive activity' has the meaning given such term by section 469.

"(d) IDENTIFICATION REQUIREMENTS.—

"(1) IN GENERAL.—No credit shall be allowed under this section unless the taxpayer includes on the return of tax for the taxable year—

"(A) the taxpayer's Social Security number, and

"(B) the name, age, and Social Security number of each qualifying child taken into account under subsection (b)(1).

"(2) JOINT RETURNS.—In the case of a joint return, the requirement of paragraph (1)(A) shall be treated as met if the Social Security number of either spouse is included on such return.

"(3) OTHER METHODS OF PROVIDING CHILDREN'S INFORMATION.—The Secretary may pre-

scribe other methods for providing the information described in paragraph (1)(B).

"(e) RESTRICTIONS ON TAXPAYERS WHO IMPROPERLY CLAIMED CREDIT IN PRIOR YEAR.—

"(1) TAXPAYERS MAKING PRIOR FRAUDULENT OR RECKLESS CLAIMS.—

"(A) IN GENERAL.—No credit shall be allowed under this section for any taxable year in the disallowance period.

"(B) DISALLOWANCE PERIOD.—For purposes of paragraph (1), the disallowance period is—

"(i) the period of 10 taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to fraud, and

"(ii) the period of 2 taxable years after the most recent taxable year for which there was a final determination that the taxpayer's claim of credit under this section was due to reckless or intentional disregard of rules and regulations (but not due to fraud).

"(2) TAXPAYERS MAKING IMPROPER PRIOR CLAIMS.—In the case of a taxpayer who is denied credit under this section for any taxable year as a result of the deficiency procedures under subchapter B of chapter 63, no credit shall be allowed under this section for any subsequent taxable year unless the taxpayer provides such information as the Secretary may require to demonstrate eligibility for such credit.

"(f) OTHER SPECIAL RULES.—For purposes of this section—

"(1) MARRIED INDIVIDUALS.—In the case of an individual who is married (within the meaning of section 7703), this section shall apply only if a joint return is filed for the taxable year under section 6013.

"(2) TAXABLE YEAR MUST BE FULL TAXABLE YEAR.—Except in the case of a taxable year closed by reason of the death of the taxpayer, no credit shall be allowable under this section in the case of a taxable year covering a period of less than 12 months.

"(3) COORDINATION WITH CERTAIN MEANS-TESTED PROGRAMS.—For purposes of—

"(A) the United States Housing Act of 1937,

"(B) title V of the Housing Act of 1949,

"(C) section 101 of the Housing and Urban Development Act of 1965,

"(D) sections 221(d)(3), 235, and 236 of the National Housing Act, and

"(E) the Food and Nutrition Act of 2008, any refund made to an individual (or the spouse of an individual) by reason of this section, and any payment made to such individual (or such spouse) by an employer under section 3507, shall not be treated as income (and shall not be taken into account in determining resources for the month of its receipt and the following month).

"(4) COORDINATION WITH PAYROLL TAX CREDITS.—The credit allowed under subsection (a) with respect to any taxpayer for any taxable year shall be reduced by the sum of the credits allowed under sections 3103 and 3203 with respect to such taxpayer for such taxable year.

"(g) APPLICATION TO CERTAIN INDIVIDUALS WITHOUT QUALIFYING CHILDREN.—For purposes of this section and sections 3103 and 3203—

1 "(1) IN GENERAL.—In the case of an individual
2 described in paragraph (2)—
3 "(A) such individual shall be treated as an
4 eligible individual,
5 "(B) notwithstanding subsection (i), the
6 dollar limitation applicable to such individual
7 under subsection (b)(1) shall be $100 (twice
8 such amount in the case of a joint return),
9 "(C) subsection (b)(2)(A) shall be applied
10 by substituting '$8,000 ($13,000' for '$20,000
11 ($27,000', and
12 "(D) subsection (i)(1) shall not apply and
13 the employment-related taxes with respect to
14 such individual for any taxable year shall not
15 exceed the sum of—
16 "(i) any tax imposed under section
17 3101 on the wages (as defined in section
18 3121(a)) received by the taxpayer during
19 the calendar year in which the taxable year
20 begins,
21 "(ii) any tax imposed under sections
22 3201(a) (and so much of the tax imposed
23 by section 3211(a) as is attributable to the
24 rates of tax under subsections (a) and (b)
25 of section 3101) on the compensation (as

defined in section 3231(e)) received by the taxpayer during the calendar year in which the taxable year begins, and

"(iii) 50 percent of any tax imposed under section 1401 on the self-employment income of the taxpayer for the taxable year.

"(2) INDIVIDUAL TO WHOM SUBSECTION APPLIES.—An individual is described in this paragraph for any taxable year if—

"(A) such individual does not have a qualifying child for the taxable year,

"(B) such individual's principal place of abode is in the United States for more than one-half of such taxable year,

"(C) such individual (or, if the individual is married (within the meaning of section 7703), either the individual or the individual's spouse) has attained age 25 but not attained age 65 before the close of the taxable year, and

"(D) such individual is not a dependent of another taxpayer for any taxable year beginning in the same calendar year as such taxable year.

"(h) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2014, both dollar amounts

in subsection (b)(1)(A), the dollar amount in subsection (b)(1)(B), both dollar amounts in subsection (b)(2)(A), the dollar amount in subsection (b)(2)(B), the $100 amount in subsection (g)(1)(B), the $8,000 and $13,000 amounts in subsection (g)(1)(C), the $4,000 amount in subsection (i)(2), and the $3,000 amount in subsection (i)(3), shall each be increased by an amount equal to—

"(1) such dollar amount, multiplied by

"(2) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins.

If any increase determined under the preceding sentence is not a multiple of $100 ($10 in the case of the $100 amount in subsection (g)(1)(B)), such increase shall be rounded to the next lowest multiple of $100 ($10 in the case of the $100 amount in subsection (g)(1)(B)).

"(i) SPECIAL RULES FOR TAXABLE YEARS BEGINNING BEFORE 2018.—In the case of any taxable year beginning before January 1, 2018—

"(1) subsection (a) shall be applied by substituting '200 percent of the taxpayer's employment-related taxes' for 'the taxpayer's employment-related taxes',

"(2) subsection (b)(1)(A) shall be applied by substituting '$4,000' for '$3,000 ($4,000 in the case of a joint return)', and

"(3) subsection (b)(1)(B) shall be applied by substituting '$3,000' for '$2,400'.".

(b) CREDIT ALLOWED AGAINST PAYROLL TAXES.—

(1) FICA TAX.—Subchapter A of chapter 21 is amended by adding at the end the following new section:

"SEC. 3103. CREDIT AGAINST TAX.

"(a) IN GENERAL.—In the case of an individual who is allowed a credit under section 32 (determined without regard to subsection (f)(4) thereof) for a taxable year, there shall be allowed as a credit against the tax imposed by section 3101 with respect to wages received by such individual during the calendar year ending with or within such taxable year the lesser of—

"(1) the amount of tax so imposed, or

"(2) the amount of the credit allowed under section 32 (as so determined) for such taxable year.

"(b) APPLICATION OF CREDIT.—The credit determined under subsection (a) shall be taken into account under this title in the same manner as a credit or refund to which the taxpayer is entitled under section 6413(c)(1). Such credit shall not be taken into account for purposes

of determining any amount deducted and withheld under section 3102.''.

(2) RAILROAD RETIREMENT TAX.—Subchapter A of chapter 22 is amended by adding at the end the following new section:

''SEC. 3203. CREDIT AGAINST TAX.

''(a) IN GENERAL.—In the case of an individual who is allowed a credit under section 32 (determined without regard to subsection (f)(4) thereof) for a taxable year, there shall be allowed as a credit against the tax imposed by section 3201(a) (and so much of the tax imposed by section 3211(a) as is attributable to the rates of tax under subsections (a) and (b) of section 3101) with respect to compensation received by such individual during the calendar year ending with or within such taxable year the lesser of—

''(1) the amount of tax so imposed, or

''(2) the excess of—

''(A) the amount of the credit allowed under section 32 (as so determined) for such taxable year, over

''(B) the amount of the credit allowed under section 3103.

''(b) APPLICATION OF CREDIT.—The credit determined under subsection (a) shall be taken into account

under this title in the same manner as a credit or refund to which the taxpayer is entitled under section 6413(c)(1). Such credit shall not be taken into account for purposes of determining any amount deducted and withheld under section 3202.''.

(c) CONFORMING AMENDMENTS.—

(1) Section 86(f)(2) is amended by striking ''section 32(c)(2)'' and inserting ''section 24(d)(2)''.

(2) Section 129(e)(2) is amended by striking ''section 32(c)(2)'' and inserting ''section 24(d)(2)''

(3) Section 6051(a)(10) is amended by striking ''for purposes of section 32 (relating to earned income credit)'' and inserting ''under section 24(d)(2)''.

(4) Section 6211(b)(4)(A) is amended by inserting ''(determined without regard to subsection (f)(4) thereof)'' after ''32''.

(5) Section 6213(g)(2)(F) is amended by striking ''taxpayer identification number'' and inserting ''Social Security number''.

(6) Section 6213(g)(2)(G) is amended by striking ''with respect to'' and all that follows and inserting ''with respect to the tax imposed under section 1401 (relating to self-employment tax) to the extent such tax has not been paid,''.

(7) Section 6213(g)(2)(K) is amended by striking "section 32(k)(2)" and inserting "section 32(e)(2)".

(8) Section 7705(f)(6)(B), as redesignated by this Act, is amended by striking clause (iv), by striking ", and" at the end of clause (iii) and inserting a period, and by inserting "and" at the end of clause (ii).

(9) The table of sections for subchapter A of chapter 21 is amended by adding at the end the following new item:

"Sec. 3103. Credit against tax.".

(10) The table of sections for subchapter A of chapter 22 is amended by adding at the end the following new item:

"Sec. 3203. Credit against tax.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(e) TREATMENT OF TAXPAYERS WHO IMPROPERLY CLAIMED CREDIT IN PRIOR YEARS.—A claim of credit under section 32 of the Internal Revenue Code of 1986 (as in effect before the amendments made by this section) shall not fail to be taken into account under subsection (e) of such section (as amended by this section) merely

because such claim is for a taxable year beginning before January 1, 2015.

(f) TREASURY REPORT ON MAKING CREDIT ADVANCEABLE.—Not later than the date which is 180 days after the date of the enactment of this Act, the Secretary of the Treasury (or the Secretary's designee) shall submit a report to Congress making recommendations regarding the best method for providing for advance payment of the credits established by the amendments made by this section. The recommendations in such report shall seek to—

(1) provide for the payment of such credits to taxpayers as promptly as is feasible, including on a weekly, biweekly, or monthly basis, and

(2) minimize any administrative burdens on employers and the Internal Revenue Service.

SEC. 1104. REPEAL OF DEDUCTION FOR PERSONAL EXEMPTIONS.

(a) IN GENERAL.—Part V of subchapter B of chapter 1 is hereby repealed.

(b) DEFINITION OF DEPENDENT RETAINED.—

(1) IN GENERAL.—Section 152, prior to repeal by subsection (a), is hereby redesignated as section 7705 and moved to the end of chapter 79.

(2) MODIFICATION OF AGE REQUIREMENTS.—Section 7705(c)(3)(A), as redesignated by paragraph (1), is amended by striking ''as a qualifying child and—'' and all that follows and inserting ''is a qualifying child and has not attained the age of 18 as of the close of the calendar year in which the taxable year of the taxpayer begins.''.

(c) APPLICATION TO ESTATES AND TRUSTS.—Subsection (b) of section 642 is amended—

(1) by striking paragraph (2)(C),

(2) by striking paragraph (3), and

(3) by striking ''DEDUCTION FOR PERSONAL EXEMPTION'' in the heading thereof and inserting ''BASIC DEDUCTION''.

(d) APPLICATION TO NONRESIDENT ALIENS.—Section 873(b) is amended by striking paragraph (3).

(e) MODIFICATION OF WAGE WITHHOLDING RULES.—

(1) IN GENERAL.—Section 3402(a)(2) is amended by striking ''the amount of one personal exemption provided in section 151(b)'' and inserting ''$3,900''.

(2) INFLATION ADJUSTMENT.—Section 3402(a) is amended by adding at the end the following new paragraph:

"(3) INFLATION ADJUSTMENT.—In the case of any calendar year beginning after 2014, the $3,900 amount in paragraph (2) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year.

If any increase determined under the preceding sentence is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.".

(3) NUMBER OF EXEMPTIONS.—Section 3402(f)(1) is amended—

(A) in subparagraph (A), by striking "an individual described in section 151(d)(2)" and inserting "a dependent of any other taxpayer", and

(B) in subparagraph (C), by striking "with respect to whom, on the basis of facts existing at the beginning of such day, there may reasonably be expected to be allowable an exemption under section 151(c)" and inserting "who, on the basis of facts existing at the beginning of such day, is reasonably expected to be a dependent of the employee".

(f) MODIFICATION OF RETURN REQUIREMENT.—

(1) IN GENERAL.—Paragraph (1) of section 6012(a) is amended to read as follows:

''(1) Every individual who has gross income for the taxable year, except that a return shall not be required of—

''(A) an individual who is not married (determined by applying section 7703) and who has gross income for the taxable year which does not exceed the standard deduction applicable to such individual for such taxable year under section 63, or

''(B) an individual entitled to make a joint return if—

''(i) the gross income of such individual, when combined with the gross income of such individual's spouse, for the taxable year does not exceed the standard deduction which would be applicable to the taxpayer for such taxable year under section 63 if such individual and such individual's spouse made a joint return,

''(ii) such individual and such individual's spouse have the same household as their home at the close of the taxable year,

"(iii) such individual's spouse does not make a separate return, and

"(iv) neither such individual nor such individual's spouse is an individual described in section 63(c)(4) who has income (other than earned income) in excess of the amount in effect under section 63(c)(4)(A).".

(2) BANKRUPTCY ESTATES.—Paragraph (8) of section 6012(a) is amended by striking "the sum of the exemption amount plus the basic standard deduction under section 63(c)(2)(D)" and inserting "the standard deduction in effect under section 63(c)(1)(B)".

(g) CONFORMING AMENDMENTS.—

(1) Section 2(a)(1)(B) is amended by striking "a dependent" and all that follows through "section 151" and inserting "a dependent who (within the meaning of section 7705, determined without regard to subsections (b)(1), (b)(2) and (d)(1)(B) thereof) is a son, stepson, daughter, or stepdaughter of the taxpayer".

(2) Section 36B(b)(2)(A) is amended by striking "section 152" and inserting "section 7705".

(3) Section 36B(b)(3)(B) is amended by striking ''unless a deduction is allowed under section 151 for the taxable year with respect to a dependent'' in the flush matter at the end and inserting ''unless the taxpayer has a dependent for the taxable year''.

(4) Section 36B(c)(1)(D) is amended by striking ''with respect to whom a deduction under section 151 is allowable to another taxpayer'' and inserting ''who is a dependent of another taxpayer''.

(5) Section 36B(d)(1) is amended by striking ''equal to the number of individuals for whom the taxpayer is allowed a deduction under section 151 (relating to allowance of deduction for personal exemptions) for the taxable year'' and inserting ''the sum of 1 (2 in the case of a joint return) plus the number of the taxpayer's dependents for the taxable year''.

(6) Section 36B(e)(1) is amended by striking ''1 or more individuals for whom a taxpayer is allowed a deduction under section 151 (relating to allowance of deduction for personal exemptions) for the taxable year (including the taxpayer or his spouse)'' and inserting ''1 or more of the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer''.

(7) Section 42(i)(3)(D)(ii)(I) is amended—

(A) by striking ''section 152'' and inserting ''section 7705'', and

(B) by striking the period at the end and inserting a comma.

(8) Section 63(b) is amended by striking ''minus—'' and all that follows and inserting ''minus the standard deduction.''.

(9) Section 63(d) is amended by striking ''other than—'' and all that follows and inserting ''other than the deductions allowable in arriving at adjusted gross income.''.

(10) Section 72(t)(2)(D)(i)(III) is amended by striking ''section 152'' and inserting ''section 7705''.

(11) Section 72(t)(7)(A)(iii) is amended by striking ''section 152(f)(1)'' and inserting ''section 7705(f)(1)''.

(12) Section 105(b) is amended—

(A) by striking ''as defined in section 152'' and inserting ''as defined in section 7705'',

(B) by striking ''section 152(f)(1)'' and inserting ''section 7705(f)(1)'' and

(C) by striking ''section 152(e)'' and inserting ''section 7705(e)''.

(13) Section 105(c)(1) is amended by striking ''section 152'' and inserting ''section 7705''.

(14) Section 125(e)(1)(D) is amended by striking ''section 152'' and inserting ''section 7705''.

(15) Section 129(c) is amended—

(A) by striking ''with respect to whom, for such taxable year, a deduction is allowable under section 151(c) (relating to personal exemptions for dependents) to'' in paragraph (1) and inserting ''who is a dependent of'', and

(B) by striking ''section 152(f)(1)'' in paragraph (2) and inserting ''section 7705(f)(1)''.

(16) Section 132(h)(2)(B) is amended—

(A) by striking ''section 152(f)(1)'' and inserting ''section 7705(f)(1)'', and

(B) by striking ''section 152(e)'' and inserting ''section 7705(e)''.

(17) Section 139D(c)(5) is amended by striking ''section 152'' and inserting ''section 7705''.

(18) Section 162(l)(1)(D) is amended by striking ''section 152(f)(1)'' and inserting ''section 7705(f)(1)''.

(19) Section 170(g)(1) is amended by striking ''section 152'' and inserting ''section 7705''.

(20) Section 170(g)(3) is amended by striking ''section 152(d)(2)'' and inserting ''section 7705(d)(2)''.

(21) Section 172(d) is amended by striking paragraph (3).

(22) Section 220(b)(6) is amended by striking ''with respect to whom a deduction under section 151 is allowable to'' and inserting ''who is a dependent of''.

(23) Section 220(d)(2)(A) is amended by striking ''section 152'' and inserting ''section 7705''.

(24) Section 223(b)(6) is amended by striking ''with respect to whom a deduction under section 151 is allowable to'' and inserting ''who is a dependent of''.

(25) Section 223(d)(2)(A) is amended by striking ''section 152'' and inserting ''section 7705''.

(26) Section 401(h) is amended by striking ''section 152(f)(1)'' in the last sentence and inserting ''section 7705(f)(1)''.

(27) Section 402(l)(4)(D) is amended by striking ''section 152'' and inserting ''section 7705''.

(28) Section 409A(a)(2)(B)(ii)(I) is amended by striking ''section 152(a)'' and inserting ''section 7705(a)''.

(29) Section 501(c)(9) is amended by striking ''section 152(f)(1)'' and inserting ''section 7705(f)(1)''.

(30) Section 529(e)(2)(B) is amended by striking ''section 152(d)(2)'' and inserting ''section 7705(d)(2)''.

(31) Section 703(a)(2) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) through (F) as subparagraphs (A) through (E), respectively.

(32) Section 874 is amended by striking subsection (b) and by redesignating subsection (c) as subsection (b).

(33) Section 891 is amended by striking ''under section 151 and''.

(34) Section 904(b) is amended by striking paragraph (1).

(35) Section 931(b)(1) is amended by striking ''(other than the deduction under section 151, relating to personal exemptions)''.

(36) Section 933 is amended—

(A) by striking ''(other than the deduction under section 151, relating to personal exemptions)'' in paragraph (1), and

(B) by striking ''(other than the deduction for personal exemptions under section 151)'' in paragraph (2).

(37) Section 1212(b)(2)(B)(ii) is amended to read as follows:

''(ii) in the case of an estate or trust, the deduction allowed for such year under section 642(b).''.

(38) Section 1361(c)(1)(C) is amended by striking ''section 152(f)(1)(C)'' and inserting ''section 7705(f)(1)(C)''.

(39) Section 1402(a) is amended by striking paragraph (7).

(40) Section 2032A(c)(7)(D) is amended by striking ''section 152(f)(2)'' and inserting ''section 7705(f)(2)''.

(41) Section 3402(m)(1) is amended by striking ''other than the deductions referred to in section 151 and''.

(42) Section 3402(r)(2) is amended by striking ''the sum of—'' and all that follows and inserting ''the standard deduction in effect under section 63(c)(1)(B).''.

(43) Section 5000A(b)(3)(A) is amended by striking ''section 152'' and inserting ''section 7705''.

(44) Section 5000A(c)(4)(A) is amended by striking ''the number of individuals for whom the taxpayer is allowed a deduction under section 151 (relating to allowance of deduction for personal exemptions) for the taxable year'' and inserting ''the sum of 1 (2 in the case of a joint return) plus the number of the taxpayer's dependents for the taxable year''.

(45) Section 6013(b)(3)(A) is amended—

(A) by striking ''had less than the exemption amount of gross income'' in clause (ii) and inserting ''had no gross income'',

(B) by striking ''had gross income of the exemption amount or more'' in clause (iii) and inserting ''had any gross income'', and

(C) by striking the flush language following clause (iii).

(46) Section 6103(l)(21)(A)(iii) is amended to read as follows:

''(iii) the number of the taxpayer's dependents,''.

(47) Section 6213(g)(2) is amended by striking subparagraph (H).

(48) Section 6334(d)(2) is amended to read as follows:

"(2) EXEMPT AMOUNT.—

"(A) IN GENERAL.—For purposes of paragraph (1), the term 'exempt amount' means an amount equal to—

"(i) the sum of the standard deduction and the personal exemption amount, divided by

"(ii) 52.

"(B) PERSONAL EXEMPTION AMOUNT.—For purposes of subparagraph (A), the personal exemption amount is $3,900 multiplied by the number of the taxpayer's dependents for the taxable year in which the levy occurs.

"(C) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2014, the $3,900 amount in subparagraph (B) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins.

If any increase determined under the preceding sentence is not a multiple of $100, such in-

crease shall be rounded to the next lowest multiple of $100.

"(D) VERIFIED STATEMENT.—Unless the taxpayer submits to the Secretary a written and properly verified statement specifying the facts necessary to determine the proper amount under subparagraph (A), subparagraph (A) shall be applied as if the taxpayer were a married individual filing a separate return with no dependents.".

(49) Section 7702B(f)(2)(C)(iii) is amended by striking "section 152(d)(2)" and inserting "section 7705(d)(2)".

(50) Section 7703(a) is amended by striking "part V of subchapter B of chapter 1 and".

(51) Section 7703(b)(1) is amended by striking "section 152(f)(1)" and all that follows and inserting "section 7705(f)(1),".

(52) Section 7705(a), as redesignated by this section, is amended by striking "this subtitle" and inserting "subtitle A".

(53)(A) Section 7705(d)(1)(B), as redesignated by this section, is amended by striking "the exemption amount (as defined in section 151(d))" and inserting "$3,900".

(B) Section 7705(d), as redesignated by this section, is amended by adding at the end the following new paragraph:

"(6) INFLATION ADJUSTMENT.—In the case of any calendar year beginning after 2014, the $3,900 amount in paragraph (1)(B) shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year.

If any increase determined under the preceding sentence is not a multiple of $100, such increase shall be rounded to the next lowest multiple of $100.".

(54) The table of sections for chapter 79 is amended by adding at the end the following new item:

"Sec. 7705. Dependent defined.".

(h) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

Subtitle C—Simplification of Education Incentives

SEC. 1201. AMERICAN OPPORTUNITY TAX CREDIT.

(a) IN GENERAL.—Section 25A is amended to read as follows:

"SEC. 25A. AMERICAN OPPORTUNITY TAX CREDIT.

"(a) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of—

"(1) 100 percent of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished to any eligible student for whom an election is in effect under this section for such taxable year during any academic period beginning in such taxable year) as does not exceed $2,000, plus

"(2) 25 percent of so much of such expenses so paid as exceeds the dollar amount in effect under paragraph (1) but does not exceed twice such dollar amount.

"(b) PORTION OF CREDIT REFUNDABLE.—So much of the credit allowable under subsection (a) (determined without regard to this subsection and section 26(a) and after application of all other provisions of this section) as does not exceed $1,500 shall be treated as a credit allowable under subpart C (and not under this part). The preceding sentence shall not apply to any taxpayer for any taxable year if such taxpayer is a child to whom section 1(d) applies for such taxable year.

1 "(c) LIMITATION BASED ON MODIFIED ADJUSTED
2 GROSS INCOME.—
3 "(1) IN GENERAL.—The amount allowable as a
4 credit under subsection (a) for any taxable year shall
5 be reduced (but not below zero) by an amount which
6 bears the same ratio to the amount so allowable (de-
7 termined without regard to this subsection and sub-
8 section (b) but after application of all other provi-
9 sions of this section) as—
10 "(A) the excess of—
11 "(i) the taxpayer's modified adjusted
12 gross income for such taxable year, over
13 "(ii) $43,000 (twice such amount in
14 the case of a joint return), bears to
15 "(B) $20,000 (twice such amount in the
16 case of a joint return).
17 "(2) MODIFIED ADJUSTED GROSS INCOME.—
18 For purposes of this subsection, the term 'modified
19 adjusted gross income' means the adjusted gross in-
20 come of the taxpayer for the taxable year increased
21 by any amount excluded from gross income under
22 section 911, 931, or 933.
23 "(d) OTHER LIMITATIONS.—
24 "(1) CREDIT ALLOWED ONLY FOR 4 TAXABLE
25 YEARS.—An election to have this section apply may

not be made for any taxable year if such an election (by the taxpayer or any other individual) is in effect with respect to such student for any 4 prior taxable years.

"(2) CREDIT ALLOWED ONLY FOR FIRST 4 YEARS OF POSTSECONDARY EDUCATION.—No credit shall be allowed under subsection (a) for a taxable year with respect to the qualified tuition and related expenses of an eligible student if the student has completed (before the beginning of such taxable year) the first 4 years of postsecondary education at an eligible educational institution.

"(e) DEFINITIONS.—For purposes of this section—

"(1) ELIGIBLE STUDENT.— The term 'eligible student' means, with respect to any academic period, a student who—

"(A) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)), as in effect on August 5, 1997, and

"(B) is carrying at least 1/2 the normal full-time work load for the course of study the student is pursuing.

"(2) QUALIFIED TUITION AND RELATED EXPENSES.—

1 "(A) IN GENERAL.—The term 'qualified
2 tuition and related expenses' means tuition,
3 fees, and course materials, required for enroll-
4 ment or attendance of—
5 "(i) the taxpayer,
6 "(ii) the taxpayer's spouse, or
7 "(iii) any dependent of the taxpayer,
8 at an eligible educational institution for courses
9 of instruction of such individual at such institu-
10 tion.
11 "(B) EXCEPTION FOR EDUCATION INVOLV-
12 ING SPORTS, ETC.—Such term does not include
13 expenses with respect to any course or other
14 education involving sports, games, or hobbies,
15 unless such course or other education is part of
16 the individual's degree program.
17 "(C) EXCEPTION FOR NONACADEMIC
18 FEES.—Such term does not include student ac-
19 tivity fees, athletic fees, insurance expenses, or
20 other expenses unrelated to an individual's aca-
21 demic course of instruction.
22 "(3) ELIGIBLE EDUCATIONAL INSTITUTION.—
23 The term 'eligible educational institution' means an
24 institution—

"(A) which is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on August 5, 1997, and

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

"(f) SPECIAL RULES.—

"(1) IDENTIFICATION REQUIREMENT.—No credit shall be allowed under subsection (a) to a taxpayer with respect to the qualified tuition and related expenses of an individual unless the taxpayer includes the name and taxpayer identification number of such individual, and the employer identification number of any institution to which such expenses were paid, on the return of tax for the taxable year.

"(2) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS, ETC.—

"(A) IN GENERAL.—The amount of qualified tuition and related expenses otherwise taken into account under subsection (a) with respect to an individual for an academic period shall be reduced (before the application of subsection (c)) by the sum of any amounts paid for the benefit of such individual which are allocable to such period as—

"(i) a qualified scholarship which is excludable from gross income under section 117,

"(ii) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or under chapter 1606 of title 10, United States Code, and

"(iii) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such individual's educational expenses, or attributable to such individual's enrollment at an eligible educational institution, which is excludable from gross income under any law of the United States.

"(B) COORDINATION WITH PELL GRANTS NOT USED FOR QUALIFIED TUITION AND RELATED EXPENSES.—For purposes of subparagraph (A), the amount of any Federal Pell Grant under section 401 of the Higher Education Act of 1965 (20 U.S.C. 1070a) shall be reduced (but not below zero) by the amount of expenses (other than qualified tuition and related expenses) which are taken into account in

determining the cost of attendance (as defined in section 472 of the Higher Education Act of 1965, as in effect on the date of the enactment of this paragraph) of such individual at an eligible educational institution for the academic period for which the credit under this section is being determined.

''(3) TREATMENT OF EXPENSES PAID BY DEPENDENT.—If an individual is a dependent of another taxpayer for a taxable year beginning in the calendar year in which such individuals taxable year begins—

''(A) no credit shall be allowed under subsection (a) to such individual for such individual's taxable year, and

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

''(4) TREATMENT OF CERTAIN PREPAYMENTS.—If qualified tuition and related expenses are paid by the taxpayer during a taxable year for an academic period which begins during the first 3 months following such taxable year, such academic

period shall be treated for purposes of this section as beginning during such taxable year.

"(5) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section for any amount for which a deduction is allowed under any other provision of this chapter.

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

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

"(g) INFLATION ADJUSTMENT.—

"(1) IN GENERAL.—In the case of a taxable year beginning after 2018, the $2,000 amount in subsection (a)(1), the $1,500 amount in subsection (b), and the $43,000 amount in subsection (c)(1)(A)(ii) shall each be increased by an amount equal to—

1 ''(A) such dollar amount, multiplied by

2 ''(B) the cost-of-living adjustment deter-
3 mined under section 1(c)(2)(A) for the calendar
4 year in which the taxable year begins, deter-
5 mined by substituting 'calendar year 2017' for
6 'calendar year 2012' in clause (ii) thereof.

7 ''(2) ROUNDING.—If any amount as adjusted
8 under paragraph (1) is not a multiple of $100
9 ($1,000 in the case of the amount in subsection
10 (c)(1)(A)(ii)), such amount shall be rounded to the
11 next lowest multiple of $100 ($1,000 in the case of
12 the amount in subsection (c)(1)(A)(ii)).

13 ''(h) REGULATIONS.—The Secretary may prescribe
14 such regulations or other guidance as may be necessary
15 or appropriate to carry out this section, including regula-
16 tions providing for a recapture of the credit allowed under
17 this section in cases where there is a refund in a subse-
18 quent taxable year of any amount which was taken into
19 account in determining the amount of such credit.''.

20 (b) REQUIREMENT TO REPORT TUITION PAID RATH-
21 ER THAN TUITION BILLED.—Section 6050S(b)(2)(B)(i)
22 is amended by striking ''or the aggregate amount billed''.

23 (c) CONFORMING AMENDMENTS.—

(1) Section 72(t)(7)(B) of such Code is amended by striking ''section 25A(g)(2)'' and inserting ''section 25A(f)(2)''.

(2) Section 529(c)(3)(B)(v)(I) of such Code is amended by striking ''section 25A(g)(2)'' and inserting ''section 25A(f)(2)''.

(3) Section 529(e)(3)(B)(i) of such Code is amended by striking ''section 25A(b)(3)'' and inserting ''section 25A(d)''.

(4) Section 530(d)(2)(C) of such Code is amended—

(A) by striking ''section 25A(g)(2)'' in clause (i)(I) and inserting ''section 25A(f)(2)'', and

(B) by striking ''HOPE AND LIFETIME LEARNING CREDITS'' in the heading and inserting ''AMERICAN OPPORTUNITY TAX CREDIT''.

(5) Section 530(d)(4)(B)(iii) of such Code is amended by striking ''section 25A(g)(2)'' and inserting ''section 25A(d)(4)(B)''.

(6) Section 6050S(e) of such Code is amended by striking ''subsection (g)(2)'' and inserting ''subsection (f)(2)''.

(7) Section 6211(b)(4)(A) of such Code is amended by striking ''subsection (i)(6)'' and inserting ''subsection (b)''.

(8) Section 6213(g)(2)(J) of such Code is amended by striking ''TIN required under section 25A(g)(1)'' and inserting ''TIN, and employer identification number, required under section 25A(f)(1)''.

(9) Section 1004(c) of division B of the American Recovery and Reinvestment Tax Act of 2009 is amended—

(A) in paragraph (1)—

(i) by striking ''section 25A(i)(6)'' each place it appears and inserting ''section 25A(b)'', and

(ii) by striking ''with respect to taxable years beginning after 2008 and before 2018'' each place it appears and inserting ''with respect to each taxable year'',

(B) in paragraph (2), by striking ''Section 25A(i)(6)'' and inserting ''Section 25A(b)'', and

(C) in paragraph (3)(C), by striking ''subsection (i)(6)'' and inserting ''subsection (b)''.

(10) The table of sections for subpart A of part IV of subchapter A of chapter 1 of the Internal Rev-

enue Code of 1986 is amended by striking the item relating to section 25A and inserting the following new item:

"Sec. 25A. American opportunity tax credit.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1202. EXPANSION OF PELL GRANT EXCLUSION FROM GROSS INCOME.

(a) IN GENERAL.—Paragraph (1) of section 117(b) of the Internal Revenue Code of 1986 is amended—

(1) by striking the period at the end and inserting ", or",

(2) by striking "received by an individual as a scholarship" and inserting the following: "received by an individual—

"(A) as a scholarship", and

(3) by adding at the end the following new subparagraph:

"(B) as a Federal Pell Grant under section 401 of the Higher Education Act of 1965 (20 U.S.C. 1070a).".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1203. REPEAL OF EXCLUSION OF INCOME FROM UNITED STATES SAVINGS BONDS USED TO PAY HIGHER EDUCATION TUITION AND FEES.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by striking section 135 (and by striking the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1204. REPEAL OF DEDUCTION FOR INTEREST ON EDUCATION LOANS.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by striking section 221 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—Section 62(a) is amended by striking paragraph (17).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1205. REPEAL OF DEDUCTION FOR QUALIFIED TUITION AND RELATED EXPENSES.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by striking section 222 (and by striking

the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—Section 62(a) is amended by striking paragraph (18).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2013.

SEC. 1206. NO NEW CONTRIBUTIONS TO COVERDELL EDUCATION SAVINGS ACCOUNTS.

(a) IN GENERAL.—Section 530(b)(1)(A) is amended to read as follows:

> ''(A) Except in the case of rollover contributions, no contribution will be accepted after December 31, 2014.''.

(b) ROLLOVERS TO QUALIFIED TUITION PROGRAMS PERMITTED.—Section 530(d)(5) is amended by inserting '', or into (by purchase or contribution) a qualified tuition program (as defined in section 529),'' after ''into another Coverdell education savings account''.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to contributions made after December 31, 2014.

(2) ROLLOVERS TO QUALIFIED TUITION PROGRAMS.—The amendments made by subsection (b) shall apply to distributions after December 31, 2014.

SEC. 1207. REPEAL OF EXCLUSION FOR DISCHARGE OF STUDENT LOAN INDEBTEDNESS.

(a) IN GENERAL.—Section 108 is amended by striking subsection (f).

(b) CONFORMING AMENDMENTS.—

(1) Section 3121(a)(20) is amended by striking ''108(f)(4),''.

(2) Section 209(a)(17) of the Social Security Act is amended by striking ''108(f)(4),''.

(3) Section 3231(e)(5) is amended by striking ''108(f)(4),''.

(4) Section 3306(b)(16) is amended by striking ''108(f)(4),''.

(5) Section 3401(a)(19) is amended by striking ''108(f)(4),''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts discharged after December 31, 2014.

SEC. 1208. REPEAL OF EXCLUSION FOR QUALIFIED TUITION REDUCTIONS.

(a) IN GENERAL.—Section 117 is amended by striking subsection (d).

(b) CONFORMING AMENDMENTS.—

(1) Section 117(c)(1) is amended—

(A) by striking ''subsections (a) and (d)'' and inserting ''subsection (a)'', and

(B) by striking ''or qualified tuition reduction''.

(2) Section 414(n)(3)(C) is amended by striking ''117(d),''.

(3) Section 414(t)(2) is amended by striking ''117(d),''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1209. REPEAL OF EXCLUSION FOR EDUCATION ASSISTANCE PROGRAMS.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by striking section 127 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 125(f)(1) is amended by striking ''127,''.

(2) Section 132(j)(8) is amended by striking ''which are not excludable from gross income under section 127''.

(3) Section 137(c) is amended to read as follows:

''(c) ADOPTION ASSISTANCE PROGRAM.—

''(1) IN GENERAL.—For purposes of this section, an adoption assistance program is a separate written plan of an employer for the exclusive benefit of such employer's employees under which the employer provides such employees with adoption assistance. Except as provided in paragraph (6), such program must meet the requirements of paragraphs (2), (3), and (4).

''(2) ELIGIBILITY.—The program shall benefit employees who qualify under a classification set up by the employer and found by the Secretary not to be discriminatory in favor of employees who are highly compensated employees (within the meaning of section 414(q)) or their dependents. For purposes of this paragraph, there shall be excluded from consideration employees not included in the program who are included in a unit of employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between em-

ployee representatives and one or more employers, if there is evidence that adoption assistance benefits were the subject of good faith bargaining between such employee representatives and such employer or employers.

"(3) PRINCIPAL SHAREHOLDERS OR OWNERS.—Not more than 5 percent of the amounts paid or incurred by the employer for adoption assistance during the year may be provided for the class of individuals who are shareholders or owners (or their spouses or dependents), each of whom (on any day of the year) owns more than 5 percent of the stock or of the capital or profits interest in the employer.

"(4) NOTIFICATION OF EMPLOYEES.—Reasonable notification of the availability and terms of the program must be provided to eligible employees.

"(5) NO FUNDING REQUIRED.—A program referred to in paragraph (1) is not required to be funded.

"(6) CERTAIN FEDERAL PROGRAMS.—An adoption reimbursement program operated under section 1052 of title 10, United States Code (relating to armed forces) or section 514 of title 14, United States Code (relating to members of the Coast

Guard) shall be treated as an adoption assistance program for purposes of this section.''.

(4) Section 414(n)(3)(C) is amended by striking ''127,''.

(5) Section 414(t)(2) is amended by striking ''127,''.

(6) Section 3121(a)(18) is amended by striking ''127,''.

(7) Section 209(a)(15) of the Social Security Act is amended by striking ''127 or''.

(8) Section 3231(e) is amended by striking paragraph (6).

(9) Section 3306(b)(13) is amended by striking ''127,''.

(10) Section 3401(a)(18) is amended by striking ''127,''.

(11) Section 6039D(d)(1) is amended by striking ''127,''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

SEC. 1210. REPEAL OF EXCEPTION TO 10-PERCENT PENALTY FOR HIGHER EDUCATION EXPENSES.

(a) IN GENERAL.—Section 72(t)(2) is amended by striking subparagraph (E).

(b) CONFORMING AMENDMENT.—Section 72(t) is amended by striking paragraph (7).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2014.

Subtitle D—Repeal of Certain Credits for Individuals

SEC. 1301. REPEAL OF DEPENDENT CARE CREDIT.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 is amended by striking section 21 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 129(a)(2) is amended by striking subparagraph (C).

(B) Section 129(e) is amended by adding at the end the following new paragraph:

''(10) MARITAL STATUS.—Rules similar to the rules of subsections (a) and (b) of section 7703 shall apply for purposes of this section.''.

(2) Section 129(e)(1) is amended to read as follows:

''(1) DEPENDENT CARE ASSISTANCE.—

''(A) IN GENERAL.—The term 'dependent care assistance' means employment-related ex-

1 penses and the provision of services which con-
2 stitute employment-related expenses.
3 "(B) EMPLOYMENT-RELATED EX-
4 PENSES.—The term 'employment-related ex-
5 penses' means amounts paid for the following
6 expenses, but only if such expenses are incurred
7 to enable the employee to be gainfully employed
8 for any period for which there are 1 or more
9 qualifying individuals with respect to the em-
10 ployee:
11 "(i) expenses for household services,
12 and
13 "(ii) expenses for the care of a quali-
14 fying individual.
15 Such term shall not include any amount paid
16 for services outside the employee's household at
17 a camp where the qualifying individual stays
18 overnight.
19 "(C) EXCEPTION.—Employment-related
20 expenses described in subparagraph (A) which
21 are incurred for services outside the employee's
22 household shall be taken into account only if in-
23 curred for the care of—
24 "(i) a qualifying individual described
25 in subparagraph (D)(i), or

"(ii) a qualifying individual (not described in subparagraph (D)(i)) who regularly spends at least 8 hours each day in the employee's household.

"(D) QUALIFYING INDIVIDUAL.—The term 'qualifying individual' means—

"(i) a dependent of the taxpayer (as defined in section 7705(a)(1)) who has not attained age 13,

"(ii) a dependent of the taxpayer (as defined in section 7705, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B)) who is physically or mentally incapable of caring for himself or herself and who has the same principal place of abode as the taxpayer for more than one-half of such taxable year, or

"(iii) the spouse of the taxpayer, if the spouse is physically or mentally incapable of caring for himself or herself and who has the same principal place of abode as the taxpayer for more than one-half of such taxable year.

"(E) DEPENDENT CARE CENTERS.—Employment-related expenses described in subpara-

graph (A) which are incurred for services provided outside the employee's household by a dependent care center shall be taken into account only if—

"(i) such center complies with all applicable laws and regulations of a State or unit of local government, and

"(ii) the requirements of subparagraph (B) are met.

"(F) DEPENDENT CARE CENTER DEFINED.—For purposes of this paragraph, the term 'dependent care center' means any facility which—

"(i) provides care for more than six individuals (other than individuals who reside at the facility), and

"(ii) receives a fee, payment, or grant for providing services for any of the individuals (regardless of whether such facility is operated for profit).

"(G) PLACE OF ABODE.—For purposes of this paragraph, an individual shall not be treated as having the same principal place of abode as the taxpayer if at any time during the taxable year of the taxpayer the relationship be-

tween the individual and the taxpayer is in violation of local law.

"(H) SPECIAL DEPENDENCY TEST IN CASE OF DIVORCED PARENTS, ETC..—If—

"(i) section 7705(e) applies to any child with respect to any calendar year, and

"(ii) such child is under the age of 13 or is physically or mentally incapable of caring for himself, in the case of any taxable year beginning in such calendar year,

such child shall be treated as a qualifying individual described in clause (i) or (ii) of subparagraph (D) (whichever is appropriate) with respect to the custodial parent (as defined in section 7705(e)(4)(A)), and shall not be treated as a qualifying individual with respect to the noncustodial parent.".

(3) Section 6213(g)(2)(L) is amended by striking "21,".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1302. REPEAL OF CREDIT FOR ADOPTION EXPENSES.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 is amended by striking section 23 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 137 is amended by striking subsections (d) and (e).

(2) Subsections (d) and (e) of section 23 (prior to being stricken by subsection (a)) are each moved to section 137 (after amendment by paragraph (1)) and inserted after subsection (c) as new subsections (d) and (e), respectively.

(3) Section 137(d)(1)(D), as amended by paragraphs (1) and (2), is amended by inserting ''(determined without regard to reimbursements under this section)'' before the period at the end.

(4) Section 137(e), as amended by paragraphs (1) and (2), is amended by striking ''(as defined in section 217(h)(3))'' and inserting ''(or any possession of the United States)''.

(5) Section 137 is amended by redesignating subsection (f) as subsection (h), and by inserting before subsection (h) (as so redesignated) the following new subsections:

''(f) FILING REQUIREMENTS.—

"(1) MARRIED COUPLES MUST FILE JOINT RETURN.—

"(A) IN GENERAL.—If the taxpayer is married at the close of the taxable year, subsection (a) shall apply to the taxpayer only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

"(B) MARITAL STATUS.—Rules similar to the rules of subsections (a) and (b) of section 7703 shall apply for purposes of this section.

"(2) TAXPAYER MUST INCLUDE TIN.—

"(A) IN GENERAL.—Subsection (a) shall apply with respect to any child only if the taxpayer includes (if known) the name, age, and TIN of such child on the return of tax for the taxable year.

"(B) OTHER METHODS.—The Secretary may, in lieu of the information referred to in subparagraph (A), require other information meeting the purposes of subparagraph (A), including identification of an agent assisting with the adoption.

"(g) BASIS ADJUSTMENTS.—For purposes of this subtitle, if the amount of any expenditure with respect to any property is excluded from gross income under this sec-

tion, the increase in the basis of such property which would (but for this subsection) result from such expenditure shall be reduced by the amount of such expenditure which is so excluded.''.

(6) Section 1016(a)(26) is amended by striking ''sections 23(g) and 137(e)'' and inserting ''section 137(g)''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

(2) SPECIAL NEEDS ADOPTIONS.—For purposes of paragraph (1), any amount treated as paid by the taxpayer under section 23(a)(3) of the Internal Revenue Code of 1986 (as in effect before its repeal by subsection (a)) shall be treated as paid on the date that the adoption referred to in such section becomes final.

SEC. 1303. REPEAL OF CREDIT FOR NONBUSINESS ENERGY PROPERTY.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 is amended by striking section 25C (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENT.—Section 1016(a) is amended by striking paragraph (33).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2013.

SEC. 1304. REPEAL OF CREDIT FOR RESIDENTIAL ENERGY EFFICIENT PROPERTY.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 is amended by striking section 25D (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 1016(a) is amended by striking paragraph (34).

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service after December 31, 2014.

SEC. 1305. REPEAL OF CREDIT FOR QUALIFIED ELECTRIC VEHICLES.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 is amended by striking section 30 (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 1016(a) is amended by striking paragraph (25).

(2) Section 6501(m) is amended by striking "section 30(e)(6),".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to vehicles acquired after December 31, 2011.

SEC. 1306. REPEAL OF ALTERNATIVE MOTOR VEHICLE CREDIT.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 is amended by striking section 30B (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (25).

(2) Section 1016(a) is amended by striking paragraph (35).

(3) Section 6501(m) is amended by striking "30B(h)(9),".

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to property purchased after December 31, 2014.

SEC. 1307. REPEAL OF ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY CREDIT.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 is amended by striking section 30C

(and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (26).

(2) Section 1016(a) is amended by striking paragraph (36).

(3) Section 6501(m) is amended by striking "30C(e)(5),".

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to property placed in service after December 31, 2014.

SEC. 1308. REPEAL OF CREDIT FOR NEW QUALIFIED PLUG-IN ELECTRIC DRIVE MOTOR VEHICLES.

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 is amended by striking section 30D (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (35).

(2) Section 1016(a) is amended by striking paragraph (37).

(3) Section 6501(m) is amended by striking "30D(e)(4),".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to vehicles acquired after December 31, 2014.

SEC. 1309. REPEAL OF CREDIT FOR HEALTH INSURANCE COSTS OF ELIGIBLE INDIVIDUALS.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 is amended by striking section 35 (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Chapter 77 is amended by striking section 7527 (and by striking the item relating to such section in the table of sections of such chapter).

(2) Section 4980B(f)(5)(C)(iv)(II) is amended by inserting ''as in effect before its repeal'' after ''section 35(c)''.

(3) Section 6211(b)(4)(A) is amended by striking ''35,''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to months beginning after December 31, 2013.

SEC. 1310. REPEAL OF FIRST-TIME HOMEBUYER CREDIT.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 is amended by striking section 36

(and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 26(b)(2) is amended by striking subparagraph (W).

(2) Section 1400C(e) is amended by striking paragraph (4).

(3) Section 6211(b)(4)(A) is amended by striking "36,".

(4) Section 6213(g)(2) is amended by striking subparagraphs (O) and (P).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to residences purchased after June 30, 2011.

Subtitle E—Deductions, Exclusions, and Certain Other Provisions

SEC. 1401. EXCLUSION OF GAIN FROM SALE OF A PRINCIPAL RESIDENCE.

(a) REQUIREMENT THAT RESIDENCE BE PRINCIPAL RESIDENCE FOR 5 YEARS DURING 8-YEAR PERIOD.—Subsection (a) of section 121 is amended—

(1) by striking "5-year period" and inserting "8-year period", and

(2) by striking "2 years" and inserting "5 years".

(b) APPLICATION TO ONLY 1 SALE OR EXCHANGE EVERY 5 YEARS.—Paragraph (3) of section 121(b) is amended to read as follows:

"(3) APPLICATION TO ONLY 1 SALE OR EXCHANGE EVERY 5 YEARS.—Subsection (a) shall not apply to any sale or exchange by the taxpayer if, during the 5-year period ending on the date of such sale or exchange, there was any other sale or exchange by the taxpayer to which subsection (a) applied.".

(c) PHASEOUT BASED ON MODIFIED ADJUSTED GROSS INCOME.—Section 121 is amended by adding at the end the following new subsection:

"(h) PHASEOUT BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(1) IN GENERAL.—If the modified adjusted gross income of the taxpayer for the taxable year exceeds $250,000 (twice such amount in the case of a joint return), the amount which would (but for this subsection) be excluded from gross income under subsection (a) for such taxable year shall be reduced (but not below zero) by the amount of such excess.

"(2) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subsection, the term 'modified adjusted gross income' has the meaning given such

term by section 2 determined after the application of this section but without regard to this subsection.''.

(d) CONFORMING AMENDMENTS.—

(1) The last paragraph of section 121(b) (relating to exclusion of gain allocated to nonqualified use) is redesignated as paragraph (5).

(2) The following provisions of section 121 are each amended by striking ''5-year period'' each place it appears therein and inserting ''8-year period'':

(A) Subsection (b)(5)(C)(ii)(I) (as redesignated by paragraph (1)).

(B) Subsection (c)(1)(B)(i)(I).

(C) Subsection (d)(7)(B).

(D) Subparagraphs (A) and (B) of subsection (d)(9).

(E) Subsection (d)(10)

(F) Subsection (d)(12)(A).

(3) Section 121(c)(1)(B)(ii) is amended by striking ''2 years'' and inserting ''5 years'':

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to sales and exchanges after December 31, 2014.

SEC. 1402. MORTGAGE INTEREST.

(a) MODIFICATION OF LIMITATIONS.—

(1) IN GENERAL.—Paragraph (3) of section 163(h) is amended to read as follows:

"(3) QUALIFIED RESIDENCE INTEREST.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'qualified residence interest' means any interest which is paid or accrued during the taxable year on indebtedness which—

"(i) is incurred in acquiring, constructing, or substantially improving any qualified residence (determined as of the time the interest is accrued) of the taxpayer, and

"(ii) is secured by such residence.

Such term also includes interest on any indebtedness secured by such residence resulting from the refinancing of indebtedness meeting the requirements of the preceding sentence (or this sentence); but only to the extent the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

"(B) LIMITATION.—

"(i) IN GENERAL.—The aggregate amount of indebtedness taken into account

under subparagraph (A) for any period shall not exceed $500,000 (half of such amount in the case of a married individual filing a separate return).

"(ii) PHASE-IN OF DECREASED LIMITATION.—For purposes of applying clause (i) with respect to any indebtedness incurred during a calendar year after 2014 and before 2018, the $500,000 amount in clause (i) shall be increased by the phase-in amount determined in accordance with the following table:

"In the case of indebtedness incurred during:	The phase-in amount is:
2015	$375,000
2016	$250,000
2017	$125,000

"(iii) TREATMENT OF REFINANCINGS OF INDEBTEDNESS INCURRED DURING PHASE-IN PERIOD.—In the case of any indebtedness which is incurred to refinance indebtedness to which clause (ii) applies (or to which this clause applies), such refinanced indebtedness shall be treated for purposes of clause (ii) as incurred on the date that the original indebtedness was incurred to the extent the amount of the in-

debtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

"(C) TREATMENT OF INDEBTEDNESS INCURRED BEFORE JANUARY 1, 2015.—

"(i) IN GENERAL.—In the case of any pre-January 1, 2015, indebtedness, this paragraph shall apply as in effect immediately before the enactment of the Tax Reform Act of 2014.

"(ii) REDUCTION IN DOLLAR LIMITATION.—The limitation of subparagraph (B) (after application of clause (ii) thereof) shall be reduced (but not below zero) by the aggregate amount of outstanding pre-January 1, 2015, indebtedness of the taxpayer with respect to which interest is allowable as a deduction by reason of this subparagraph.

"(iii) PRE-JANUARY 1, 2015, INDEBTEDNESS.—For purposes of this subparagraph, the term 'pre-January 1, 2015, indebtedness' means—

"(I) any indebtedness incurred before January 1, 2015, and

"(II) any indebtedness incurred on or after such date to refinance indebtedness described in subclause (I) (or refinanced indebtedness meeting the requirements of this subclause) to the extent the amount of the indebtedness resulting from such refinancing does not exceed the amount of the refinanced indebtedness.

"(D) LIMITATION ON PERIOD OF REFINANCING.—Subparagraphs (B)(iii) and (C)(iii)(II) shall not apply to any indebtedness after—

"(i) the expiration of the term of the original indebtedness, or

"(ii) if the principal of such original indebtedness is not amortized over its term, the expiration of the term of the 1st refinancing of such indebtedness (or if earlier, the date which is 30 years after the date of such 1st refinancing).

"(E) COORDINATION WITH CERTAIN EXCLUSIONS.—The amount otherwise treated as qualified residence interest (determined without regard to this subparagraph) with respect to

any residence of the taxpayer for any taxable year shall be reduced by the sum of the amounts excludable from the gross income of such taxpayer under sections 107 and 119 with respect to such residence.''.

(2) CONFORMING AMENDMENTS.—

(A) Section 108(h)(2) is amended to read as follows:

''(2) QUALIFIED PRINCIPAL RESIDENCE INDEBTEDNESS.—For purposes of this section, the term 'qualified principal residence indebtedness' means indebtedness described in section 163(h)(3) applied without regard to clauses (ii) and (iii) of subparagraph (B) thereof and by substituting '$2,000,000' for '$500,000' in subparagraph (B)(i) thereof.''.

(B) Section 163(h) is amended—

(i) by striking subparagraph (E) in paragraph (3),

(ii) by striking subparagraphs (E) and (F) in paragraph (4), and

(iii) by striking paragraph (5).

(C) Section 265(a)(6) is amended—

(i) by striking ''an amount as—'' and all that follows and inserting ''an amount as a military housing allowance.'', and

(ii) by striking ''PARSONAGE AND'' in the heading thereof.

(b) MODIFICATION OF REPORTING REQUIREMENTS.—

(1) INFORMATION RETURN REQUIREMENTS.—Paragraph (2) of section 6050H(b) is amended by striking ''and'' at the end of subparagraph (C), by redesignating subparagraph (D) as subparagraph (F) and by inserting after subparagraph (C) the following new subparagraphs:

''(D) the amount of outstanding principal on the mortgage as of the beginning of such calendar year,

''(E) the date of the origination of the mortgage, and''.

(2) STATEMENTS TO INDIVIDUALS.—Paragraph (2) of section 6050H(d) is amended by striking ''subsection (b)(2)(C)'' and inserting ''subparagraphs (C), (D), and (E) of subsection (b)(2)''.

(c) EFFECTIVE DATES.—

(1) MODIFICATION OF LIMITATIONS.—

(A) IN GENERAL.—The amendments made by subsection (a) shall apply to interest paid or accrued in taxable years beginning after December 31, 2014, with respect to indebtedness incurred before, on, or after such date.

(B) TREATMENT OF GRANDFATHERED INDEBTEDNESS.—For application of the amendments made by subsection (a) to grandfathered indebtedness, see section 163(h)(3)(C) of the Internal Revenue Code of 1986 as amended by this section.

(2) MODIFICATION OF REPORTING REQUIREMENTS.—The amendments made by subsection (b) shall apply to returns and statements for calendar years after December 31, 2014.

SEC. 1403. CHARITABLE CONTRIBUTIONS.

(a) 2 PERCENT FLOOR ON CHARITABLE DEDUCTION FOR INDIVIDUALS.—Paragraph (3) of section 170(b) is amended to read as follows:

''(3) 2 PERCENT FLOOR ON CHARITABLE DEDUCTION FOR INDIVIDUALS.—The amount of charitable contributions taken into account under this section as made by any individual during a taxable year (determined without regard to subsection (d)) shall be reduced by 2 percent of the taxpayer's con-

tribution base for such taxable year. Such reduction shall apply—

"(A) first, to charitable contributions to which paragraph (1)(B) applies to the extent thereof,

"(B) second, to charitable contributions to which paragraph (1)(C) applies to the extent thereof, and

"(C) third, to charitable contributions to which paragraph (1)(A) applies to the extent thereof.".

(b) EXTENSION OF TIME FOR MAKING CHARITABLE CONTRIBUTIONS.—Subsection (a) of section 170 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), respectively, and by inserting after paragraph (1) the following new paragraph:

"(2) TREATMENT OF CHARITABLE CONTRIBUTIONS MADE BY INDIVIDUALS BEFORE DUE DATE OF RETURN.—If any charitable contribution is made by an individual after the close of a taxable year but not later than the due date (determined without regard to extensions) for the return of tax for such taxable year, then the taxpayer may elect to treat such charitable contribution as made in such taxable year. Such election may be made only at the time of

the filing of such return of tax and shall be signified in such manner as the Secretary may provide.''.

(c) DEDUCTION FOR CONTRIBUTIONS OF PROPERTY GENERALLY LIMITED TO ADJUSTED BASIS.—

(1) IN GENERAL.—Subsection (e) of section 170 is amended—

(A) by striking paragraphs (1) and (6),

(B) by redesignating paragraphs (2), (3), (4), and (5) as paragraphs (3), (4), (5), and (6), respectively, and

(C) by inserting before paragraph (3) (as so redesignated) the following new paragraphs:

''(1) IN GENERAL.—Except in the case of property to which paragraph (2) applies, the amount of any charitable contribution of property otherwise taken into account under this section shall be reduced by the amount of gain which would have been realized if the property contributed had been sold by the taxpayer for its fair market value (determined at the time of such contribution).

''(2) SPECIAL RULE FOR CERTAIN PROPERTY.—

''(A) IN GENERAL.—In the case of property to which this paragraph applies, the amount of any charitable contribution of property otherwise taken into account under this

section shall be reduced by the amount of gain which would not have been long-term capital gain if the property contributed had been sold by the taxpayer at its fair market value (determined at the time of such contribution).

"(B) PROPERTY TO WHICH THIS PARAGRAPH APPLIES.—This paragraph shall apply to—

"(i) any contribution of tangible personal property if the use of such property by the donee is related to the purpose or function constituting the basis for its exemption under section 501 (or, in the case of a governmental unit, to any purpose or function described in subsection (c)),

"(ii) any qualified conservation contribution (as defined in subsection (h)(1)),

"(iii) any qualified contribution (as defined in paragraph (4)(A)),

"(iv) any qualified research contribution (as defined in paragraph (5)(B)), and

"(v) any qualified appreciated stock (as defined in subsection (e)(6)).

"(C) SPECIAL RULES FOR DETERMINING LONG-TERM CAPITAL GAIN.—

"(i) IN GENERAL.—For purposes of applying this paragraph (other than in the case of gain to which section 1245(a), 1250(a), 1252(a), or 1254(a) applies), property which is property used in the trade or business (as defined in section 1231(b)) shall be treated as a capital asset.

"(ii) CONTRIBUTIONS OF STOCK IN S CORPORATIONS.—For purposes of applying this paragraph in the case of a charitable contribution of stock in an S corporation, rules similar to the rules of section 751 shall apply in determining whether gain on such stock would have been long-term capital gain if such stock were sold by the taxpayer.".

(2) REPEAL OF SPECIAL RULES FOR FOOD AND BOOK INVENTORY.—Paragraph (4) of section 170(e), as redesignated by paragraph (1), is amended by striking subparagraphs (C) and (D) and by redesignating subparagraph (E) as subparagraph (C).

(3) CONFORMING AMENDMENTS.—

(A) Section 170(e)(3), as redesignated by paragraph (1), is amended by striking "para-

graph (1)'' and inserting ''paragraphs (1) and (2)''.

(B) Paragraphs (4) and (5) of section 170(e), as redesignated by paragraph (1), are each amended by striking ''paragraph (1)(A)'' each place it appears and inserting ''paragraph (2)(A)''.

(C) Section 170(e)(6), as redesignated by paragraph (1), is amended—

(i) by striking all that precedes ''for purposes of this paragraph'' in subparagraph (B) and inserting the following:

''(6) QUALIFIED APPRECIATED STOCK.—

''(A) IN GENERAL.—Except as provided in subparagraph (B),'',

(ii) by redesignating subparagraph (C) as subparagraph (B), and

(iii) by striking ''in a contribution to which paragraph (1)(B)(ii) applies (determined without regard to this paragraph)'' in subparagraph (B) as so redesignated.

(d) MODIFICATION OF INCOME BASED CONTRIBUTION LIMITATIONS.—

(1) IN GENERAL.—Section 170(b)(1) is amended—

(A) by striking ''30 percent'' in subparagraph (B)(i) and inserting ''25 percent'', and

(B) by striking ''50 percent'' and inserting ''40 percent'' in—

(i) the flush matter at the end of subparagraph (A),

(ii) subparagraph (B)(ii), and

(iii) clauses (i), (iv)(I), and (v) of subparagraph (C) (as redesignated by paragraph (2)).

(2) REPEAL OF SPECIAL LIMITATIONS FOR CERTAIN CAPITAL GAIN PROPERTY.—

(A) IN GENERAL.—Paragraph (1) of section 170(b) is amended by striking subparagraphs (C) and (D) and by redesignating subparagraphs (E), (F), and (G) as subparagraphs (C), (D), and (E), respectively.

(B) CONFORMING AMENDMENTS.—

(i) Section 170(b)(1)(A)(vii) is amended by striking ''subparagraph (F)'' and inserting ''subparagraph (D)''

(ii) Section 170(b)(1)(B)(ii) is amended by striking ''(determined without regard to subparagraph (C))''.

(iii) Section 170(b)(1)(C)(iii), as redesignated by paragraph (1), is amended by striking ''subparagraph (A), (B), (C) or (D)'' and inserting ''subparagraph (A) or (B)''.

(iv) Section 170(b)(2)(B)(i)(I) is amended by striking ''paragraph (1)(E)(v)'' and inserting ''paragraph (1)(C)(v)''.

(v) Section 545(b)(2) is amended by striking ''(D), and (E)'' and inserting ''and (C)''.

(e) QUALIFIED CONSERVATION CONTRIBUTIONS.—

(1) RULES MADE PERMANENT.—

(A) IN GENERAL.—Subparagraph (C) of section 170(b)(1), as redesignated by subsection (d), is amended by striking clause (vi).

(B) CORPORATE FARMERS AND RANCHERS.—Subparagraph (B) of section 170(b)(2) is amended by striking clause (iii).

(2) TREATMENT OF GOLF COURSE EASEMENTS.—Subsection (h) of section 170 is amended by adding at the end the following new paragraph:

''(7) SPECIAL RULE WITH RESPECT TO GOLF COURSES.—An interest in real property shall not be

1 treated as a qualified real property interest for pur-
2 poses of this subsection if (at the time of the con-
3 tribution of such interest) such property is, or is
4 reasonably expected to be, used as a golf course.''.
5 (3) CONFORMING AMENDMENTS.—
6 (A) Section 170(b)(1)(C)(iv)(II), as redes-
7 ignated by subsection (d), is amended by strik-
8 ing ''made after the date of the enactment of
9 this subparagraph''.
10 (B) Section 170(b)(2)(B)(i)(II) is amended
11 by striking '', in the case of contributions made
12 after the date of the enactment of this subpara-
13 graph,''.
14 (f) REPEAL OF SPECIAL RULE FOR COLLEGE ATH-
15 LETIC EVENT SEATING RIGHTS.—Section 170 is amended
16 by striking subsection (l).
17 (g) REPEAL OF SPECIAL RULE TREATING DONEE
18 INCOME FROM INTELLECTUAL PROPERTY AS AN ADDI-
19 TIONAL CHARITABLE CONTRIBUTIONS.—
20 (1) IN GENERAL.—Section 170 is amended by
21 striking subsection (m).
22 (2) CONFORMING AMENDMENTS.—Section
23 6050L is amended—
24 (A) by striking subsection (b) and redesig-
25 nating subsection (c) as subsection (b), and

(B) by striking ''or (b)'' in subsection (b) (as redesignated by subparagraph (A)).

(h) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to contributions made in taxable years beginning after December 31, 2014.

(2) QUALIFIED CONSERVATION CONTRIBUTIONS.—The amendments made by subsection (e) shall apply to contributions made in taxable years beginning after December 31, 2013.

SEC. 1404. DENIAL OF DEDUCTION FOR EXPENSES ATTRIBUTABLE TO THE TRADE OR BUSINESS OF BEING AN EMPLOYEE.

(a) IN GENERAL.—Part IX of subchapter B of chapter 1 is amended by inserting after the item relating to section 262 the following new item:

''SEC. 262A. EXPENSES ATTRIBUTABLE TO BEING AN EMPLOYEE.

''(a) IN GENERAL.—Except as otherwise provided in this section, no deduction shall be allowed with respect to any trade or business of the taxpayer which consists of the performance of services by the taxpayer as an employee.

"(b) EXCEPTION FOR ABOVE-THE-LINE DEDUCTIONS.—Subsection (a) shall not apply to any deduction allowable (determined without regard to subsection (a)) in determining adjusted gross income.".

(b) REPEAL OF CERTAIN ABOVE-THE-LINE TRADE AND BUSINESS DEDUCTIONS OF EMPLOYEES.—

(1) IN GENERAL.—Paragraph (2) of section 62(a) is amended—

(A) by striking subparagraphs (B), (C), and (D), and

(B) by redesignating subparagraph (E) as subparagraph (B).

(2) CONFORMING AMENDMENTS.—

(A) Section 62 is amended by striking subsections (b) and (d) and by redesignating subsections (c) and (e) as subsections (b) and (c), respectively.

(B) Section 62(a)(20) is amended by striking "subsection (e)" and inserting "subsection (c)".

(c) CONTINUED EXCLUSION OF WORKING CONDITION FRINGE BENEFITS.—Section 132(d) is amended by inserting "(determined without regard to section 262A)" after "section 162".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1405. REPEAL OF DEDUCTION FOR TAXES NOT PAID OR ACCRUED IN A TRADE OR BUSINESS.

(a) IN GENERAL.—Subsection (b) of section 164 is amended by striking paragraphs (5) and (6) and inserting the following new paragraph:

"(5) LIMITATION IN CASE OF INDIVIDUALS.—In the case of a taxpayer other than a corporation—

"(A) paragraphs (1) and (2) of subsection (a) shall only apply to taxes which are paid or accrued in carrying on a trade or business or an activity described in section 212, and

"(B) paragraph (3) of subsection (a) shall not apply to State and local taxes.".

(b) CONFORMING AMENDMENTS.—

(1) Section 164(a) is amended by striking paragraph (6).

(2)(A) Section 216(a) is amended by striking "proportionate share of—" and all that follows and inserting "proportionate share of the interest allowable as a deduction to the corporation under section 163 which is paid or incurred by the corporation on its indebtedness contracted—

1 ''(1) in the acquisition, construction, alteration,
2 rehabilitation, or maintenance of the houses or
3 apartment building, or
4 ''(2) in the acquisition of the land on which the
5 houses (or apartment building) are situated.''.
6 (B) Section 216(b)(3)(B)(i) is amended—
7 (i) by striking ''a share of such corpora-
8 tion's real estate taxes described in subsection
9 (a)(1) or'' in subclause (I), and
10 (ii) by striking ''of such taxes, or of such
11 interest,'' in subclause (II) and inserting ''of
12 such interest''.
13 (C) Section 216(d) is amended by striking
14 ''subsections (a)(1) and (a)(2)'' and inserting ''sub-
15 section (a)''.
16 (3) Section 274(f) is amended by striking
17 ''TAXES,'' in the heading thereof.
18 (4) Section 280A(b) is amended by striking
19 ''TAXES,'' in the heading thereof.
20 (5) Section 911(c)(3)(A)(ii) is amended—
21 (A) by striking ''and taxes'', and
22 (B) by striking ''or 164''.
23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 2014.

SEC. 1406. REPEAL OF DEDUCTION FOR PERSONAL CASUALTY LOSSES.

(a) IN GENERAL.—Subsection (c) of section 165 is amended by inserting ''and'' at the end of paragraph (1), by striking ''; and'' at the end of paragraph (2) and inserting a period, and by striking paragraph (3).

(b) CONFORMING AMENDMENTS.—

(1) Section 165 is amended by striking subsections (h) and (k).

(2) Subsection (i) of section 165 is amended—

(A) in paragraph (1)—

(i) by striking ''(as defined by clause (ii) of subsection (h)(3)(C))'', and

(ii) by striking ''(as defined by clause (i) of such subsection)'',

(B) by striking ''(as defined by subsection (h)(3)(C)(i)'' in paragraph (4), and

(C) by adding at the end the following new paragraph:

''(5) FEDERALLY DECLARED DISASTER.—For purposes of this subsection—

''(A) FEDERALLY DECLARED DISASTER.—The term 'federally declared disaster' means any disaster subsequently determined by the President of the United States to warrant assistance by the Federal Government under the

Robert T. Stafford Disaster Relief and Emergency Assistance Act.

"(B) DISASTER AREA.—The term 'disaster area' means the area so determined to warrant such assistance.".

(3)(A) Section 165(l)(1) is amended by striking "a loss described in subsection (c)(3)" and inserting "an ordinary loss described in subsection (c)(2)".

(B) Section 165(l) is amended—

(i) by striking paragraph (5),

(ii) by redesignating paragraphs (2), (3), and (4) as paragraphs (3), (4), and (5), respectively, and

(iii) by inserting after paragraph (1) the following new paragraph:

"(2) LIMITATIONS.—

"(A) DEPOSIT MAY NOT BE FEDERALLY INSURED.—No election may be made under paragraph (1) with respect to any loss on a deposit in a qualified financial institution if part or all of such deposit is insured under Federal law.

"(B) DOLLAR LIMITATION.—With respect to each financial institution, the aggregate amount of losses attributable to deposits in

such financial institution to which an election under paragraph (1) may be made by the taxpayer for any taxable year shall not exceed $20,000 ($10,000 in the case of a separate return by a married individual). The limitation of the preceding sentence shall be reduced by the amount of any insurance proceeds under any State law which can reasonably be expected to be received with respect to losses on deposits in such institution.''.

(4) Section 172(b)(1)(F)(ii), prior to redesignation under title III, is amended—

(A) by striking subclause (I) and by redesignating subclauses (II) and (III) as subclauses (I) and (II), respectively, and

(B) by striking ''subsection (h)(3)(C)(i)'' and inserting ''section 165(i)(5)''.

(5) Section 172(d)(4)(C) is amended by striking ''paragraph (2) or (3) of section 165(c)'' and inserting ''section 165(c)(2)''.

(6) Section 274(f) is amended by striking ''CASUALTY LOSSES,'' in the heading thereof.

(7) Section 280A(b) is amended by striking ''CASUALTY LOSSES,'' in the heading thereof.

(8) Section 873(b), as amended by the preceding provisions of this Act, is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1407. LIMITATION ON WAGERING LOSSES.

(a) IN GENERAL.—Section 165(d) is amended by adding at the end the following: ''For purposes of the preceding sentence, the term 'losses from wagering transactions' includes any deduction otherwise allowable under this chapter incurred in carrying on any wagering transaction.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1408. REPEAL OF DEDUCTION FOR TAX PREPARATION EXPENSES.

(a) IN GENERAL.—Section 212 is amended by adding ''or'' at the end of paragraph (1), by striking ''; or'' at the end of paragraph (2) and inserting a period, and by striking paragraph (3).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1409. REPEAL OF DEDUCTION FOR MEDICAL EXPENSES.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by striking section 213 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 223 is amended by redesignating subsections (e), (f), (g), and (h) as subsections (f), (g), (h), and (i), respectively, and by inserting after subsection (d) the following new subsection:

''(e) MEDICAL CARE.—For purposes of this section—

''(1) IN GENERAL.—The term 'medical care' means amounts paid—

''(A) for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body,

''(B) for transportation primarily for and essential to medical care referred to in subparagraph (A),

"(C) for qualified long-term care services (as defined in section 7702B(c)), or

"(D) for insurance (including amounts paid as premiums under part B of title XVIII of the Social Security Act, relating to supplementary medical insurance for the aged) covering medical care referred to in subparagraphs (A) and (B) or for any qualified long-term care insurance contract (as defined in section 7702B(b)).

In the case of a qualified long-term care insurance contract (as defined in section 7702B(b)), only eligible long-term care premiums (as defined in paragraph (7)) shall be taken into account under subparagraph (D).

"(2) AMOUNTS PAID FOR CERTAIN LODGING AWAY FROM HOME TREATED AS PAID FOR MEDICAL CARE.—Amounts paid for lodging (not lavish or extravagant under the circumstances) while away from home primarily for and essential to medical care referred to in paragraph (1)(A) shall be treated as amounts paid for medical care if—

"(A) the medical care referred to in paragraph (1)(A) is provided by a physician in a licensed hospital (or in a medical care facility

which is related to, or the equivalent of, a licensed hospital), and

"(B) there is no significant element of personal pleasure, recreation, or vacation in the travel away from home.

The amount taken into account under the preceding sentence shall not exceed $50 for each night for each individual.

"(3) PHYSICIAN.—The term 'physician' has the meaning given to such term by section 1861(r) of the Social Security Act (42 U.S.C. 1395x(r)).

"(4) CONTRACTS COVERING OTHER THAN MEDICAL CARE.—In the case of an insurance contract under which amounts are payable for other than medical care referred to in subparagraphs (A), (B) and (C) of paragraph (1)—

"(A) no amount shall be treated as paid for insurance to which paragraph (1)(D) applies unless the charge for such insurance is either separately stated in the contract, or furnished to the policyholder by the insurance company in a separate statement,

"(B) the amount taken into account as the amount paid for such insurance shall not exceed such charge, and

"(C) no amount shall be treated as paid for such insurance if the amount specified in the contract (or furnished to the policyholder by the insurance company in a separate statement) as the charge for such insurance is unreasonably large in relation to the total charges under the contract.

"(5) CERTAIN PRE-PAID CONTRACTS.— Subject to the limitations of paragraph (4), premiums paid during the taxable year by a taxpayer before he attains the age of 65 for insurance covering medical care (within the meaning of subparagraphs (A), (B), and (C) of paragraph (1)) for the taxpayer, his spouse, or a dependent after the taxpayer attains the age of 65 shall be treated as expenses paid during the taxable year for insurance which constitutes medical care if premiums for such insurance are payable (on a level payment basis) under the contract for a period of 10 years or more or until the year in which the taxpayer attains the age of 65 (but in no case for a period of less than 5 years).

"(6) COSMETIC SURGERY.—

"(A) IN GENERAL.—The term 'medical care' does not include cosmetic surgery or other similar procedures, unless the surgery or proce-

1 dure is necessary to ameliorate a deformity
2 arising from, or directly related to, a congenital
3 abnormality, a personal injury resulting from
4 an accident or trauma, or disfiguring disease.
5 ''(B) COSMETIC SURGERY DEFINED .—For
6 purposes of this paragraph, the term 'cosmetic
7 surgery' means any procedure which is directed
8 at improving the patient's appearance and does
9 not meaningfully promote the proper function
10 of the body or prevent or treat illness or dis-
11 ease.
12 ''(7) ELIGIBLE LONG-TERM CARE PREMIUMS.—
13 ''(A) IN GENERAL.—For purposes of this
14 section, the term 'eligible long-term care pre-
15 miums' means the amount paid during a tax-
16 able year for any qualified long-term care insur-
17 ance contract (as defined in section 7702B(b))
18 covering an individual, to the extent such
19 amount does not exceed the limitation deter-
20 mined under the following table:

''In the case of an individual with an attained age before the close of the taxable year of:	The limitation is:
40 or less	$200
More than 40 but not more than 50	$375
More than 50 but not more than 60	$750
More than 60 but not more than 70	$2,000
More than 70	$2,500

21 ''(B) INDEXING.—

"(i) IN GENERAL.—In the case of any taxable year beginning after 1997, each dollar amount in subparagraph (A) shall be increased by the medical care cost adjustment of such amount for such calendar year. Any increase determined under the preceding sentence shall be rounded to the nearest multiple of $10.

"(ii) MEDICAL CARE COST ADJUSTMENT.—For purposes of clause (i), the medical care cost adjustment for any calendar year is the adjustment prescribed by the Secretary, in consultation with the Secretary of Health and Human Services, for purposes of such clause. To the extent that CPI (as defined section 1(c)), or any component thereof, is taken into account in determining such adjustment, such adjustment shall be determined by taking into account C-CPI-U (as so defined), or the corresponding component thereof, in lieu of such CPI (or component thereof), but only with respect to the portion of such adjustment which relates to periods after December 31, 2014.

1 "(8) CERTAIN PAYMENTS TO RELATIVES
2 TREATED AS NOT PAID FOR MEDICAL CARE.—An
3 amount paid for a qualified long-term care service
4 (as defined in section 7702B(c)) provided to an indi-
5 vidual shall be treated as not paid for medical care
6 if such service is provided—
7 "(A) by the spouse of the individual or by
8 a relative (directly or through a partnership,
9 corporation, or other entity) unless the service
10 is provided by a licensed professional with re-
11 spect to such service, or
12 "(B) by a corporation or partnership which
13 is related (within the meaning of section 267(b)
14 or 707(b)) to the individual.
15 For purposes of this paragraph, the term 'relative'
16 means an individual bearing a relationship to the in-
17 dividual which is described in any of subparagraphs
18 (A) through (G) of section 7705(d)(2). This para-
19 graph shall not apply for purposes of section 105(b)
20 with respect to reimbursements through insurance.".
21 (B) Section 72(t)(2)(D)(i)(III) is amended by
22 striking "section 213(d)(1)(D)" and inserting "sec-
23 tion 223(e)(1)(D)".

(C) Section 104(a) is amended by striking ''section 213(d)(1)'' in the last sentence and inserting ''section 223(e)(1)''.

(D) Section 105(b) is amended by striking ''section 213(d)'' and inserting ''section 223(e)''.

(E) Section 139D is amended by striking ''section 213'' and inserting ''section 223''.

(F) Section 162(l)(2) is amended by striking ''section 213(d)(10)'' and inserting ''section 223(e)(7)''.

(G) Section 220(d)(2)(A) is amended by striking ''section 213(d)'' and inserting ''section 223(e)''.

(H) Section 223(d)(2)(A) is amended by striking ''section 213(d)'' and inserting ''subsection (e))''.

(I) Section 419A(f)(2) is amended by striking ''section 213(d)'' and inserting ''section 223(e)''.

(J) Section 501(c)(26)(A) is amended by striking ''section 213(d)'' and inserting ''section 223(e)''.

(K) Section 2503(e) is amended by striking ''section 213(d)'' and inserting ''section 223(e)''.

(L) Section 4980B(c)(4)(B)(i)(I) is amended by striking ''section 213(d)'' and inserting ''section 223(e)''.

(M) Section 6041(f) is amended by striking ''section 213(d)'' and inserting ''section 223(e)''.

(N) Section 7702B(a)(2) is amended by striking ''section 213(d)'' and inserting ''section 223(e)''.

(O) Section 7702B(a)(4) is amended by striking ''section 213(d)(1)(D)'' and inserting ''section 223(e)(1)(D)''.

(P) Section 7702B(d)(5) is amended by striking ''section 213(d)(10)'' and inserting ''section 223(e)(7)''.

(Q) Section 9832(d)(3) is amended by striking ''section 213(d)'' and inserting ''section 223(e)''.

(2) Section 72(t)(2)(B) is amended to read as follows:

''(B) MEDICAL EXPENSES.—Distributions made to an individual (other than distributions described in subparagraph (A), (C), or (D) to the extent such distributions do not exceed the excess of—

''(i) the expenses paid by the taxpayer during the taxable year, not compensated for by insurance or otherwise, for medical care (as defined in 223(e)) of the taxpayer, his spouse, or a dependent (as defined in section 7705, determined without regard to

subsections (b)(1), (b)(2), and (d)(1)(B) thereof), over

"(ii) 10 percent of the taxpayer's adjusted gross income.".

(3) Section 105 is amended by striking subsection (f).

(4) Section 162(l) is amended by striking paragraph (3).

(5) Section 402(l) is amended by striking paragraph (7) and redesignating paragraph (8) as paragraph (7).

(6) Section 220(f) is amended by striking paragraph (6).

(7) Section 223(f) is amended by striking paragraph (6).

(8) Section 7702B(e) is amended by striking paragraph (2).

(9) Section 7705(f)(7), as redesignated by this Act, is amended by striking "sections 105(b), 132(h)(2)(B), and 213(d)(5)" and inserting "sections 105(b) and 132(h)(2)(B)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1410. REPEAL OF DISQUALIFICATION OF EXPENSES FOR OVER-THE-COUNTER DRUGS UNDER CERTAIN ACCOUNTS AND ARRANGEMENTS.

(a) HSAS.—Subparagraph (A) of section 223(d)(2) is amended by striking the last sentence.

(b) ARCHER MSAS.—Subparagraph (A) of section 220(d)(2) is amended by striking the last sentence.

(c) HEALTH FLEXIBLE SPENDING ARRANGEMENTS AND HEALTH REIMBURSEMENT ARRANGEMENTS.—Section 106 is amended by striking subsection (f).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses incurred after December 31, 2014.

SEC. 1411. REPEAL OF DEDUCTION FOR ALIMONY PAYMENTS AND CORRESPONDING INCLUSION IN GROSS INCOME.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by striking section 215 (and by striking the item relating to such section in the table of sections for such part).

(b) CORRESPONDING REPEAL OF PROVISIONS PROVIDING FOR INCLUSION OF ALIMONY IN GROSS INCOME.—

(1) Subsection (a) of section 61 is amended by striking paragraph (8) and by redesignating para-

graphs (9) through (15) as paragraphs (8) through (14), respectively.

(2) Part II of subchapter B of chapter 1 is amended by striking section 71 (and by striking the item relating to such section in the table of sections for such part).

(3) Subpart F of part I of subchapter J of chapter 1 is amended by striking section 682 (and by striking the item relating to such section in the table of sections for such subpart).

(c) CONFORMING AMENDMENTS.—

(1) RELATED TO REPEAL OF SECTION 215.—

(A) Section 62(a) is amended by striking paragraph (10).

(B) Section 3402(m)(1) is amended by striking ''(other than paragraph (10) thereof)''.

(2) RELATED TO REPEAL OF SECTION 71.—

(A) Section 121(d)(3) is amended—

(i) by striking ''(as defined in section 71(b)(2))'' in subparagraph (B), and

(ii) by adding at the end the following new subparagraph:

''(C) DIVORCE OR SEPARATION INSTRUMENT.—For purposes of this paragraph, the

term 'divorce or separation instrument' means—

"(i) a decree of divorce or separate maintenance or a written instrument incident to such a decree,

"(ii) a written separation agreement, or

"(iii) a decree (not described in clause (i)) requiring a spouse to make payments for the support or maintenance of the other spouse.".

(B) Section 220(f)(7) is amended by striking "subparagraph (A) of section 71(b)(2)" and inserting "clause (i) of section 121(d)(3)(C)".

(C) Section 223(f)(7) is amended by striking "subparagraph (A) of section 71(b)(2)" and inserting "clause (i) of section 121(d)(3)(C)".

(D) Section 382(l)(3)(B)(iii) is amended by striking "section 71(b)(2)" and inserting "section 121(d)(3)(C)".

(E) Section 408(d)(6) is amended by striking "subparagraph (A) of section 71(b)(2)" and inserting "clause (i) of section 121(d)(3)(C)".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to—

(1) any divorce or separation instrument (as defined in section 71(b)(2) of the Internal Revenue Code of 1986 as in effect before the date of the enactment of this Act) executed after December 31, 2014, and

(2) any divorce or separation instrument (as so defined) executed on or before such date and modified after such date if the modification expressly provides that the amendments made by this section apply to such modification.

SEC. 1412. REPEAL OF DEDUCTION FOR MOVING EXPENSES.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by striking section 217 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 62(a) is amended by striking paragraph (15).

(2)(A) Section 132(a) is amended by striking paragraph (6).

(B) Section 82 is amended by striking ''Except as provided in section 132(a)(6), there'' and inserting ''There''.

(3)(A) Section 132 is amended by striking subsection (g).

(B) Section 132(l) is amended by striking by striking ''subsections (e) and (g)'' and inserting ''subsection (e)''.

(4) Section 274(m)(3) is amended by striking ''(other than section 217)''.

(5) Section 3121(a) is amended by striking paragraph (11).

(6) Section 209(a) of the Social Security Act is amended by striking paragraph (9).

(7) Section 3306(b) is amended by striking paragraph (9).

(8) Section 3401(a) is amended by striking paragraph (15).

(9) Section 7872(f) is amended by striking paragraph (11).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1413. TERMINATION OF DEDUCTION AND EXCLUSIONS FOR CONTRIBUTIONS TO MEDICAL SAVINGS ACCOUNTS.

(a) TERMINATION OF INCOME TAX DEDUCTION.—Section 220 is amended by adding at the end the following new subsection:

''(k) TERMINATION.—No deduction shall be allowed under subsection (a) with respect to any taxable year beginning after December 31, 2014.''.

(b) TERMINATION OF EXCLUSION FOR EMPLOYER-PROVIDED CONTRIBUTIONS.—Section 106 is amended by striking subsection (b).

(c) CONFORMING AMENDMENTS.—

(1) Section 62(a) is amended by striking paragraph (16).

(2) Section 106(d) is amended by striking paragraph (2), by redesignating paragraph (3) as paragraph (6), and by inserting after paragraph (1) the following new paragraphs:

''(2) NO CONSTRUCTIVE RECEIPT.—No amount shall be included in the gross income of any employee solely because the employee may choose between the contributions referred to in paragraph (1) and employer contributions to another health plan of the employer.

"(3) SPECIAL RULE FOR DEDUCTION OF EMPLOYER CONTRIBUTIONS.—Any employer contribution to a health savings account (as so defined), if otherwise allowable as a deduction under this chapter, shall be allowed only for the taxable year in which paid.

"(4) EMPLOYER HEALTH SAVINGS ACCOUNT CONTRIBUTION REQUIRED TO BE SHOWN ON RETURN.— Every individual required to file a return under section 6012 for the taxable year shall include on such return the aggregate amount contributed by employers to the health savings accounts (as so defined) of such individual or such individual's spouse for such taxable year.

"(5) HEALTH SAVINGS ACCOUNT CONTRIBUTIONS NOT PART OF COBRA COVERAGE.— Paragraph (1) shall not apply for purposes of section 4980B.".

(3) Section 223(b)(4) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

(4) Section 3231(e) is amended by striking paragraph (10) and by redesignating paragraphs (11) and (12) as paragraphs (10) and (11), respectively.

(5) Section 3306(b) is amended by striking paragraph (17).

(6) Section 3401(a) is amended by striking paragraph (21).

(7) Chapter 43 is amended by striking section 4980E (and by striking the item relating to such section in the table of sections for such chapter).

(8) Section 4980G is amended to read as follows:

"SEC. 4980G. FAILURE OF EMPLOYER TO MAKE COMPARABLE HEALTH SAVINGS ACCOUNT CONTRIBUTIONS.

''(a) IN GENERAL.—In the case of an employer who makes a contribution to the health savings account of any employee during a calendar year, there is hereby imposed a tax on the failure of such employer to meet the requirements of subsection (d) for such calendar year.

''(b) AMOUNT OF TAX.—The amount of the tax imposed by subsection (a) on any failure for any calendar year is the amount equal to 35 percent of the aggregate amount contributed by the employer to health savings accounts of employees for taxable years of such employees ending with or within such calendar year.

''(c) WAIVER BY SECRETARY.—In the case of a failure which is due to reasonable cause and not to willful

neglect, the Secretary may waive part or all of the tax imposed by subsection (a) to the extent that the payment of such tax would be excessive relative to the failure involved.

"(d) EMPLOYER REQUIRED TO MAKE COMPARABLE HEALTH SAVINGS ACCOUNT CONTRIBUTIONS FOR ALL PARTICIPATING EMPLOYEES.—

"(1) IN GENERAL.—An employer meets the requirements of this subsection for any calendar year if the employer makes available comparable contributions to the health savings accounts of all comparable participating employees for each coverage period during such calendar year.

"(2) COMPARABLE CONTRIBUTIONS.—

"(A) IN GENERAL.—For purposes of paragraph (1), the term 'comparable contributions' means contributions—

"(i) which are the same amount, or

"(ii) which are the same percentage of the annual deductible limit under the high deductible health plan covering the employees.

"(B) PART-YEAR EMPLOYEES.—In the case of an employee who is employed by the employer for only a portion of the calendar year,

a contribution to the health savings account of such employee shall be treated as comparable if it is an amount which bears the same ratio to the comparable amount (determined without regard to this subparagraph) as such portion bears to the entire calendar year.

"(3) COMPARABLE PARTICIPATING EMPLOYEES.—

"(A) IN GENERAL.—For purposes of paragraph (1), the term 'comparable participating employees' means all employees—

"(i) who are eligible individuals covered under any high deductible health plan of the employer, and

"(ii) who have the same category of coverage.

"(B) CATEGORIES OF COVERAGE.—For purposes of subparagraph (B), the categories of coverage are self-only and family coverage.

"(4) PART-TIME EMPLOYEES.—

"(A) IN GENERAL .—Paragraph (3) shall be applied separately with respect to part-time employees and other employees.

"(B) PART-TIME EMPLOYEE.—For purposes of subparagraph (A), the term 'part-time

employee' means any employee who is customarily employed for fewer than 30 hours per week.

''(5) SPECIAL RULE FOR NON-HIGHLY COMPENSATED EMPLOYEES.—For purposes of applying this section to a contribution to a health savings account of an employee who is not a highly compensated employee (as defined in section 414(q)), highly compensated employees shall not be treated as comparable participating employees.

''(e) CONTROLLED GROUPS.—For purposes of this section, all persons treated as a single employer under subsection (b), (c), (m), or (o) of section 414 shall be treated as 1 employer.

''(f) DEFINITIONS.—Terms used in this section which are also used in section 223 have the respective meanings given such terms in section 223.

''(g) REGULATIONS.—The Secretary shall issue regulations to carry out the purposes of this section.''.

(9) Section 6051(a) is amended by striking paragraph (11).

(10) Section 6051(a)(14)(A) is amended by striking ''paragraphs (11) and (12)'' and inserting ''paragraph (12)''.

(d) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1414. REPEAL OF 2-PERCENT FLOOR ON MISCELLANEOUS ITEMIZED DEDUCTIONS.

(a) IN GENERAL.—Part 1 of subchapter B of chapter 1 is amended by striking section 67 (and the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 642(b)(2)(C)(i)(II) is amended to read as follows:

"(II) by determining the adjusted gross income of the trust under the rules of section 2(b)(2) (without the reference to section 642(b)).".

(2) Section 162(o) is amended by striking paragraph (2).

(3) Section 302(b)(5) is amended by striking "section 67(c)(2)(B)" and inserting "section 562(c)(2)".

(4) Section 562(c) is amended—

(A) by striking "(as defined in section 67(c)(2)(B))",

(B) by striking "(as so defined)",

(C) by striking ''Except in the case of'' and inserting the following:

''(1) IN GENERAL.—Except in the case of'', and

(D) by adding at the end the following new paragraph:

''(2) PUBLICLY OFFERED REGULATED INVESTMENT COMPANY.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'publicly offered regulated investment company' means a regulated investment company the shares of which are—

''(i) continuously offered pursuant to a public offering (within the meaning of section 4 of the Securities Act of 1933, as amended (15 U.S.C. 77a to 77aa)),

''(ii) regularly traded on an established securities market, or

''(iii) held by or for no fewer than 500 persons at all times during the taxable year.

''(B) SECRETARY MAY REDUCE 500 PERSON REQUIREMENT.—The Secretary may by regulation decrease the minimum shareholder requirement of clause (i)(III) in the case of regulated investment companies which experience a

loss of shareholders through net redemptions of their shares.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1415. REPEAL OF OVERALL LIMITATION ON ITEMIZED DEDUCTIONS.

(a) IN GENERAL.—Part 1 of subchapter B of chapter 1 is amended by striking section 68 (and the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1416. DEDUCTION FOR AMORTIZABLE BOND PREMIUM ALLOWED IN DETERMINING ADJUSTED GROSS INCOME.

(a) IN GENERAL.—Subsection (a) of section 62, as amended by section 1411, is amended by inserting after paragraph (9) the following new paragraph:

''(10) AMORTIZABLE BOND PREMIUM.—The deduction allowed under section 171(a)(1).''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1417. REPEAL OF EXCLUSION, ETC., FOR EMPLOYEE ACHIEVEMENT AWARDS.

(a) IN GENERAL.—Section 74 is amended by striking subsection (c).

(b) REPEAL OF LIMITATION ON DEDUCTION.—Section 274 is amended by striking subsection (j).

(c) CONFORMING AMENDMENTS.—

(1) Section 102(c)(2) is amended by striking the first sentence.

(2) Section 414(n)(3)(C) is amended by striking "274(j),".

(3) Section 414(t)(2) is amended by striking "274(j),".

(4) Section 3121(a)(20) is amended by striking "74(c),".

(5) Section 209(a)(17) of the Social Security Act is amended by striking "74(c),".

(6) Section 3231(e)(5) is amended by striking "74(c),".

(7) Section 3306(b)(16) is amended by striking "74(c),".

(8) Section 3401(a)(19) is amended by striking "74(c),".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1418. CLARIFICATION OF SPECIAL RULE FOR CERTAIN GOVERNMENTAL PLANS.

(a) TREATMENT OF BENEFICIARIES.—Section 105(j)(1) is amended—

(1) by striking ''the taxpayer'' and inserting ''an employee, spouse, dependent (as defined for purposes of subsection (b)), or child (as so defined)'', and

(2) by striking ''deceased plan participant's beneficiary'' and inserting ''deceased employee's beneficiary who is not a surviving spouse, dependent (as so defined), or child (as so defined)''.

(b) APPLICATION TO POLITICAL SUBDIVISIONS OF STATES.—Section 105(j)(2) is amended—

(1) by inserting ''or established by or on behalf of a State or political subdivision thereof'' after ''public retirement system'', and

(2) by inserting ''or 501(c)(9)'' after ''section 115'' in subparagraph (B) thereof.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to payments after the date of the enactment of this Act.

SEC. 1419. LIMITATION ON EXCLUSION FOR EMPLOYER-PROVIDED HOUSING.

(a) IN GENERAL.—Section 119 is amended by adding at the end the following new subsection:

"(e) LIMITATION ON EXCLUSION OF LODGING.—

"(1) IN GENERAL.—The aggregate amount excluded from gross income of the taxpayer under subsections (a) and (d) with respect to lodging for any taxable year shall not exceed $50,000 (half such amount in the case of a married individual filing a separate return).

"(2) LIMITATION TO 1 HOME.—Subsections (a) and (d) (separately and in combination) shall not apply with respect to more than 1 residence of the taxpayer at any given time. In the case of a joint return, the preceding sentence shall apply separately to each spouse for any period during which each spouse resides separate from the other spouse in a residence which is provided in connection with the employment of each spouse, respectively.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1420. FRINGE BENEFITS.

(a) REPEAL OF SPECIAL RULE FOR AIR TRANSPORTATION BY PARENT OF EMPLOYEE.—Subsection (h) of section 132 is amended by striking paragraph (3).

(b) TRANSPORTATION AND PARKING.—

(1) FREEZE AT CURRENT LEVELS.—

(A) IN GENERAL.—Paragraph (2) of section 132(f) is amended—

(i) in subparagraph (A) by striking ''$100'' and inserting ''$130'', and

(ii) in subparagraph (B) by striking ''$175'' and inserting ''$250''.

(B) INFLATION ADJUSTMENT.—Subsection (f) of such section is amended by striking paragraph (6) and redesignating paragraph (7) as paragraph (6).

(2) REPEAL OF BICYCLE BENEFIT.—

(A) IN GENERAL.—Paragraph (1) of section 132(f) is amended by striking subparagraph (D).

(B) CONFORMING AMENDMENTS.—

(i) Section 132(f)(2) is amended by inserting ''and'' at the end of subparagraph (A), by striking ''and'' at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C).

(ii) Section 132(f)(4) is amended by striking ''(other than a qualified bicycle commuting reimbursement)''.

(iii) Section 132(f)(5) is amended by striking subparagraph (F).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1421. REPEAL OF EXCLUSION OF NET UNREALIZED APPRECIATION IN EMPLOYER SECURITIES.

(a) IN GENERAL.—Section 402(e) is amended by striking paragraph (4).

(b) CONFORMING AMENDMENTS.—

(1) Section 401(k)(10) is amended by striking subparagraph (B) and inserting the following new subparagraphs:

"(B) DISTRIBUTIONS MUST BE LUMP SUM DISTRIBUTIONS.—A termination shall not be treated as described in subparagraph (A) with respect to any employee unless the employee receives a lump sum distribution by reason of the termination.

"(C) LUMP-SUM DISTRIBUTION DEFINED.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'lump sum distribution' means the distribution or payment within one taxable year of the recipient of the balance to the credit of an employee which becomes payable to the recipient from a trust which forms a part of

a plan described in section 401(a) and which is exempt from tax under section 501 or from a plan described in section 403(a). Such term includes a distribution of an annuity contract from—

"(I) a trust which forms a part of a plan described in section 401(a) and which is exempt from tax under section 501(a), or

"(II) an annuity plan described in section 403(a).

For purposes of this clause, a distribution to two or more trusts shall be treated as a distribution to one recipient.

"(ii) AGGREGATION OF CERTAIN TRUSTS AND PLANS.—For purposes of determining the balance to the credit of an employee under clause (i)—

"(I) all trusts which are part of a plan shall be treated as a single trust, all pension plans maintained by the employer shall be treated as a single plan, all profit-sharing plans maintained by the employer shall be treated as a single plan, and all stock

bonus plans maintained by the employer shall be treated as a single plan, and

"(II) trusts which are not qualified trusts under section 401(a) and annuity contracts which do not satisfy the requirements of section 404(a)(2) shall not be taken into account.

"(iii) COMMUNITY PROPERTY LAWS.—The provisions of this subparagraph shall be applied without regard to community property laws.

"(iv) BALANCE TO CREDIT OF EMPLOYEE NOT TO INCLUDE AMOUNTS PAYABLE UNDER QUALIFIED DOMESTIC RELATIONS ORDER.—The balance to the credit of an employee shall not include any amount payable to an alternate payee under a qualified domestic relations order (within the meaning of section 414(p)).

"(v) TRANSFERS TO COST-OF-LIVING ARRANGEMENT NOT TREATED AS DISTRIBUTION.—The balance to the credit of an employee under a defined contribution plan shall not include any amount trans-

ferred from such defined contribution plan to a qualified cost-of-living arrangement (within the meaning of section 415(k)(2)) under a defined benefit plan. (vii)

"(vi) LUMP-SUM DISTRIBUTIONS OF ALTERNATE PAYEES.—If any distribution or payment of the balance to the credit of an employee would be treated as a lump-sum distribution, then, for purposes of this paragraph, the payment under a qualified domestic relations order (within the meaning of section 414(p)) of the balance to the credit of an alternate payee who is the spouse or former spouse of the employee shall be treated as a lump-sum distribution. For purposes of this clause, the balance to the credit of the alternate payee shall not include any amount payable to the employee.

"(vii) EXCLUSION OF ACCUMULATE DEDUCTIBLE EMPLOYEE CONTRIBUTIONS.— For purposes of this subparagraph, the balance to the credit of the employee does not include the accumulated deductible employee contributions under

the plan (within the meaning of section 72(o)(5)).''.

(2) Section 3405(e) is amended by striking paragraph (8).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2014.

SEC. 1422. CONSISTENT BASIS REPORTING BETWEEN ESTATE AND PERSON ACQUIRING PROPERTY FROM DECEDENT.

(a) PROPERTY ACQUIRED FROM A DECEDENT.—Section 1014 is amended by adding at the end the following new subsection:

''(f) BASIS MUST BE CONSISTENT WITH ESTATE TAX RETURN.—For purposes of this section—

''(1) IN GENERAL.—The basis of any property to which subsection (a) applies shall not exceed—

''(A) in the case of property the final value of which has been determined for purposes of the tax imposed by chapter 11 on the estate of such decedent, such value, and

''(B) in the case of property not described in subparagraph (A) and with respect to which a statement has been furnished under section

6035(a) identifying the value of such property, such value.

''(2) EXCEPTION.—Paragraph (1) shall only apply to any property whose inclusion in the decedent's estate increased the liability for the tax imposed by chapter 11 (reduced by credits allowable against such tax) on such estate.

''(3) REGULATIONS.—The Secretary may by regulations provide exceptions to the application of this subsection.''.

(b) INFORMATION REPORTING.—

(1) IN GENERAL.—Subpart A of part III of subchapter A of chapter 61 is amended by inserting after section 6034A the following new section:

''SEC. 6035. BASIS INFORMATION TO PERSONS ACQUIRING PROPERTY FROM DECEDENT.

''(a) INFORMATION WITH RESPECT TO PROPERTY ACQUIRED FROM DECEDENTS.—

''(1) IN GENERAL.—The executor of any estate required to file a return under section 6018(a) shall furnish to the Secretary and to each person acquiring any interest in property included in the decedent's gross estate for Federal estate tax purposes a statement identifying the value of each interest in such property as reported on such return and such

other information with respect to such interest as the Secretary may prescribe.

"(2) STATEMENTS BY BENEFICIARIES.—Each person required to file a return under section 6018(b) shall furnish to the Secretary and to each other person who holds a legal or beneficial interest in the property to which such return relates a statement identifying the information described in paragraph (1).

"(3) TIME FOR FURNISHING STATEMENT.—

"(A) IN GENERAL.—Each statement required to be furnished under paragraph (1) or (2) shall be furnished at such time as the Secretary may prescribe, but in no case at a time later than the earlier of—

"(i) the date which is 30 days after the date on which the return under section 6018 was required to be filed (including extensions, if any), or

"(ii) the date which is 30 days after the date such return is filed.

"(B) ADJUSTMENTS.—In any case in which there is an adjustment to the information required to be included on a statement filed under paragraph (1) or (2) after such state-

ment has been filed, a supplemental statement under such paragraph shall be filed not later than the date which is 30 days after such adjustment is made.

''(b) REGULATIONS.—The Secretary shall prescribe such regulations as necessary to carry out this section, including regulations relating to—

''(1) the application of this section to property with regard to which no estate tax return is required to be filed, and

''(2) situations in which the surviving joint tenant or other recipient may have better information than the executor regarding the basis or fair market value of the property.''.

(2) PENALTY FOR FAILURE TO FILE.—

(A) RETURN.—Section 6724(d)(1) is amended by striking ''and'' at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting '', and'', and by adding at the end the following new subparagraph:

''(D) any statement required to be filed with the Secretary under section 6035.''.

(B) STATEMENT.—Section 6724(d)(2) is amended by striking ''or'' at the end of sub-

paragraph (GG), by striking the period at the end of subparagraph (HH) and inserting ", or", and by adding at the end the following new subparagraph:

"(II) section 6035 (other than a statement described in paragraph (1)(D)).".

(3) CLERICAL AMENDMENT.—The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6034A the following new item:

"Sec. 6035. Basis information to persons acquiring property from decedent.".

(c) PENALTY FOR INCONSISTENT REPORTING.—

(1) IN GENERAL.—Subsection (b) of section 6662 is amended by inserting after paragraph (7) the following new paragraph:

"(8) Any inconsistent estate basis.".

(2) INCONSISTENT BASIS REPORTING.—Section 6662 is amended by adding at the end the following new subsection:

"(k) INCONSISTENT ESTATE BASIS REPORTING.—For purposes of this section, the term 'inconsistent estate basis' means the portion of the understatement which is attributable to in the case of property acquired from a decedent, a basis determination with respect to such property which is not consistent with the value of such property as determined under section 1014(f).".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers for which an estate tax return is filed after the date of the enactment of this Act.

Subtitle F—Employment Tax Modifications

SEC. 1501. MODIFICATIONS OF DEDUCTION FOR SOCIAL SECURITY TAXES IN COMPUTING NET EARNINGS FROM SELF-EMPLOYMENT.

(a) IN GENERAL.—Paragraph (12) of section 1402(a) is amended to read as follows:

"(12) in lieu of the deduction allowable under section 164(f) (relating to deduction for one-half of self-employment taxes), there shall be allowed as a deduction an amount equal to the sum of—

"(A) 7.1064 percent of so much of the individual's net earnings from self-employment for the taxable year (determined without regard to this paragraph) as does not exceed an amount equal to the product of 1.0765 and the excess (if any) of—

"(i) the contribution and benefit base (as determined under section 230 of the Social Security Act) in effect for the cal-

endar year in which the taxable year begins, over

"(ii) the wages (within the meaning of subsection (b)(1)) paid to the individual during such taxable year, plus

"(B) 1.4293 percent of the excess (if any) of the individual's net earnings from self-employment for the taxable year (determined without regard to this paragraph) over the amount of such net earnings taken into account under subparagraph (A);".

(b) COORDINATION WITH BENEFITS.—Paragraph (11) of section 211(a) of the Social Security Act is amended to read as follows:

"(11) in lieu of the deduction allowable under section 164(f) of the Internal Revenue Code of 1986 (relating to deduction for one-half of self-employment taxes), there shall be allowed as a deduction an amount equal to the sum of—

"(A) 7.1064 percent of so much of the individual's net-earnings from self-employment for the taxable year (determined without regard to this paragraph) as does not exceed an amount equal to the product of 1.0765 and the excess (if any) of—

"(i) the contribution and benefit base (as determined under section 230) in effect for the calendar year in which the taxable year begins,

"(ii) the wages (within the meaning of section 1402(b)(1) of the Internal Revenue Code of 1986) paid to the individual during such taxable year, plus

"(B) 1.4293 percent of the excess (if any) of such net earnings over the amount of such net earnings taken into account under subparagraph (A);".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1502. DETERMINATION OF NET EARNINGS FROM SELF-EMPLOYMENT.

(a) PRO RATA SHARE OF S CORPORATION ITEMS INCLUDED AS NET EARNINGS FROM SELF-EMPLOYMENT.—

(1) IN GENERAL.—Section 1402(a) is amended by inserting ", plus (notwithstanding subsection (c)(2)) his pro rata share of nonseparately computed income or loss (as defined in section 1366(a)(2)) from any trade or business carried on by an S cor-

poration in which he is a shareholder'' before ''; except that'' in the matter preceding paragraph (1).

(2) APPLICATION OF ADJUSTMENTS.—Section 1402(a) is amended by inserting ''and such pro rata share of S corporation nonseparately computed income or loss'' after ''such distributive share of partnership ordinary income or loss'' in the matter preceding paragraph (1).

(3) CONFORMING AMENDMENTS.—Section 211(a) of the Social Security Act is amended in the matter preceding paragraph (1)—

(A) by inserting '', plus (notwithstanding subsection (c)(2)) his pro rata share of nonseparately computed income or loss (as defined in section 1366(a)(2) of the Internal Revenue Code of 1986)from any trade or business carried on by an S corporation in which he is a shareholder'' before ''; except that'', and

(B) by inserting ''and such pro rata share of S corporation nonseparately computed income or loss'' after ''such distributive share of partnership ordinary income or loss''.

(b) REPEAL OF EXCEPTION FOR LIMITED PARTNERS.—

(1) IN GENERAL.—Section 1402(a) is amended by striking paragraph (13).

(2) CONFORMING AMENDMENT.—Section 211(a) of the Social Security Act is amended by striking paragraph (12).

(c) DEDUCTION FOR RETURN ON INVESTED CAPITAL.—

(1) IN GENERAL.—Section 1402 is amended by adding at the end the following new subsection:

''(m) DEDUCTION FOR RETURN ON INVESTED CAPITAL.—

''(1) IN GENERAL.—An individual's net earnings from self-employment shall be reduced (but not below zero) by the lesser of—

''(A) 30 percent of the sum of—

''(i) such individual's pass-through net earnings from self-employment, and

''(ii) such individual's wages (as defined in section 3121) paid with respect to any trade or business carried on by an S corporation in which he is a shareholder, or

''(B) such individual's pass-through net earnings from self-employment.

"(2) PASS-THROUGH NET EARNINGS FROM SELF-EMPLOYMENT.—For purposes of this subsection, the term 'pass-through net earnings from self-employment' means net earnings from self-employment (as computed under subsection (a) without regard to this subsection) determined without regard to any trade or business carried on by the individual.

"(3) 100 PERCENT DEDUCTION WHERE NO MATERIAL PARTICIPATION.—

"(A) IN GENERAL.—If an individual does not have material participation with respect to an entity (as determined under subparagraph (B)), in lieu of the reduction provided under paragraph (1) such individual's net earnings from self-employment shall be reduced (but not below zero) by the sum of—

"(i) the reduction determined under paragraph (1) applied—

"(I) by substituting '100 percent' for '30 percent' in subparagraph (A) thereof, and

"(II) by determining pass-through net earnings from self-employment by only taking into account

1 distributive and pro rata shares from
2 non-participation entities, and
3 ''(III) by only taking into ac-
4 count under subparagraph (A)(ii)
5 thereof wages paid with respect to
6 trades or businesses carried on by S
7 corporations which are non-participa-
8 tion entities, plus
9 ''(ii) the reduction determined under
10 paragraph (1) applied—
11 ''(I) by determining pass-through
12 net earnings from self-employment by
13 not taking into account any distribu-
14 tive or pro rata share from a non-par-
15 ticipation entity, and
16 ''(II) by not taking into account
17 under subparagraph (A)(ii) thereof
18 any wages paid with respect to trades
19 or businesses carried on by an S cor-
20 poration which is a non-participation
21 entity.
22 ''(B) MATERIAL PARTICIPATION.—For
23 purposes of this paragraph—
24 ''(i) IN GENERAL.—An individual does
25 not have material participation with re-

spect to an entity (hereafter referred to as the top-tier entity) if such individual demonstrates to the satisfaction of the Secretary that such individual—

"(I) does not materially participate (as determined under section 469(h) without regard to paragraph (2) thereof) in any activity carried on by such top-tier entity, and

"(II) does not materially participate (as so determined) in any activity carried on by any entity in which such top-tier entity holds (directly or indirectly) any interest.

"(ii) FAMILY ATTRIBUTION.—For purposes of applying clause (i), the participation of any individual in any activity shall also be treated as performed by such individual's spouse and the lineal descendants of such individual and such individual's spouse.

"(C) NON-PARTICIPATION ENTITY.—For purposes of this paragraph, the term 'non-participation entity' means, with respect to any individual, any entity with respect to which such

individual does not have material participation (as determined under subparagraph (B)).''.

(2) CONFORMING AMENDMENT.—Section 211 of the Social Security Act is amended by adding at the end the following new subsection:

''(l) DEDUCTION FOR RETURN ON INVESTED CAPITAL.—

''(1) IN GENERAL.—An individual's net earnings from self-employment shall be reduced (but not below zero) by the lesser of—

''(A) 30 percent of the sum of—

''(i) such individual's pass-through net earnings from self-employment, and

''(ii) such individual's wages (as defined in section 209) paid with respect to any trade or business carried on by an S corporation in which he is a shareholder, or

''(B) such individual's pass-through net earnings from self-employment.

''(2) PASS-THROUGH NET EARNINGS FROM SELF-EMPLOYMENT.—For purposes of this subsection, the term 'pass-through net earnings from self-employment' means net earnings from self-employment (as computed under subsection (a) without

regard to this subsection) determined without regard to any trade or business carried on by the individual.

"(3) 100 PERCENT DEDUCTION WHERE NO MATERIAL PARTICIPATION.—

"(A) IN GENERAL.—If an individual does not have material participation with respect to an entity (as determined under subparagraph (B)), in lieu of the reduction provided under paragraph (1) such individual's net earnings from self-employment shall be reduced (but not below zero) by the sum of—

"(i) the reduction determined under paragraph (1) applied—

"(I) by substituting '100 percent' for '30 percent' in subparagraph (A) thereof, and

"(II) by determining pass-through net earnings from self-employment by only taking into account distributive and pro rata shares from non-participation entities, and

"(III) by only taking into account under subparagraph (A)(ii) thereof wages paid with respect to trades or businesses carried on by S

corporations which are non-participation entities, plus

"(ii) the reduction determined under paragraph (1) applied—

"(I) by determining pass-through net earnings from self-employment by not taking into account any distributive or pro rata share from a non-participation entity, and

"(II) by not taking into account under subparagraph (A)(ii) thereof any wages paid with respect to trades or businesses carried on by an S corporation which is a nonparticipation entity.

"(B) MATERIAL PARTICIPATION.—For purposes of this paragraph—

"(i) IN GENERAL.—An individual does not have material participation with respect to an entity (hereafter referred to as the top-tier entity) if such individual demonstrates to the satisfaction of the Secretary of the Treasury under section 1402(m) of the Internal Revenue Code of 1986 that such individual—

"(I) does not materially participate (as determined under section 469(h) of the Internal Revenue Code of 1986 without regard to paragraph (2) thereof) in any activity carried on by such top-tier entity, and

"(II) does not materially participate (as so determined) in any activity carried on by any entity in which such top-tier entity holds (directly or indirectly) any interest.

"(ii) FAMILY ATTRIBUTION.—For purposes of applying clause (i), the participation of any individual in any activity shall also be treated as performed by such individual's spouse and the lineal descendants of such individual and such individual's spouse.

"(C) NONPARTICIPATION ENTITY.—For purposes of this paragraph, the term 'nonparticipation entity' means, with respect to any individual, any entity with respect to which such individual does not have material participation (as determined under subparagraph (B)).".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1503. REPEAL OF EXEMPTION FROM FICA TAXES FOR CERTAIN FOREIGN WORKERS.

(a) IN GENERAL.—Subsection (b) of section 3121 is amended by striking paragraphs (1) and (19).

(b) COORDINATION WITH BENEFITS.—Subsection (a) of section 210 of the Social Security Act is amended by striking paragraphs (1) and (19).

(c) RAILROAD RETIREMENT TAX.—Paragraph (1) of section 3231(e) is amended by striking the third sentence.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to remuneration received for services performed after December 31, 2014.

SEC. 1504. REPEAL OF EXEMPTION FROM FICA TAXES FOR CERTAIN STUDENTS.

(a) IN GENERAL.—Paragraph (10) of section 3121(b) is amended—

(1) by inserting ''during any calendar year'' after ''service performed'' in the matter preceding subparagraph (A), and

(2) by inserting '', and the remuneration paid by the employer with respect to such service during such calendar year is less than the dollar amount in

effect under section 213(d) of the Social Security Act (relating to amount required for a quarter of coverage) with respect to such year'' before the semicolon at the end.

(b) COLLEGE CLUBS, FRATERNITIES, AND SORORITIES.—Paragraph (2) of section 3121(b) is amended—

(1) by inserting ''during any calendar year'' after ''domestic service performed'', and

(2) by inserting '', if the remuneration paid by the employer with respect to such service during such calendar year is less than the dollar amount in effect under section 213(d) of the Social Security Act (relating to amount required for a quarter of coverage) with respect to such year'' before the semicolon at the end.

(c) DEDUCTION OF TAX FROM WAGES.—Subsection (a) of section 3102 is amended by inserting ''; and an employer who in any calendar year pays to an employee remuneration to which paragraph (2) or (10) of section 3121(b) is applicable may deduct an amount equivalent to such tax from any such payment of remuneration, even though at the time of payment the total amount of such remuneration paid to the employee by the employer in the calendar year is less than the dollar amount in effect

1 under section 213(d) of the Social Security Act with re-
2 spect to such year'' before the period at the end.
3 (d) COORDINATION WITH BENEFITS.—
4 (1) Paragraph (10) of section 210(a) of the So-
5 cial Security Act is amended—
6 (A) by inserting ''during any calendar
7 year'' after ''Service performed'' in the matter
8 preceding subparagraph (A), and
9 (B) by inserting '', and the remuneration
10 paid by the employer with respect to such serv-
11 ice during such calendar year is less than the
12 dollar amount in effect under section 213(d)
13 (relating to amount required for a quarter of
14 coverage) with respect to such year'' before the
15 semicolon at the end.
16 (2) Paragraph (2) of section 210(a) of the So-
17 cial Security Act is amended—
18 (A) by inserting ''during any calendar
19 year'' after ''Domestic service performed'', and
20 (B) by inserting '', if the remuneration
21 paid by the employer with respect to such serv-
22 ice during such calendar year is less than the
23 dollar amount in effect under section 213(d)
24 (relating to amount required for a quarter of

coverage) with respect to such year'' before the semicolon at the end.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to remuneration received for services performed after December 31, 2014.

SEC. 1505. OVERRIDE OF TREASURY GUIDANCE PROVIDING THAT CERTAIN EMPLOYER-PROVIDED SUPPLEMENTAL UNEMPLOYMENT BENEFITS ARE NOT SUBJECT TO EMPLOYMENT TAXES.

(a) IN GENERAL.—Effective with respect to amounts paid after December 31, 2014—

(1) Revenue Ruling 56-249,

(2) Revenue Ruling 58-128,

(3) Revenue Ruling 60-330,

(4) so much of the holding of Revenue Ruling 77-347 as relates to Plan (1) and Plan (2),

(5) Revenue Ruling 90-72, and

(6) any other ruling, regulation, or other guidance provided by the Secretary of the Treasury, or his designee, to the extent that such ruling, regulation, or guidance provides that any payment made by an employer by reason of involuntary termination of employment shall not be treated as wages or compensation for purposes of any provision of the Internal Revenue Code of 1986,

shall be null and void. The preceding sentence shall not apply to the extent a ruling, regulation, or other guidance implements a statutory exception to wages or compensation.

(b) REPEAL OF WITHHOLDING REQUIREMENT.—

(1) IN GENERAL.—Section 3402(o)(1) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

(2) CONFORMING AMENDMENTS.—

(A) Section 3402(o)(2) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

(B) Section 3402(o)(5)(A) is amended by striking ''paragraph (1)(C)'' and inserting ''paragraph (1)(B)''.

(3) EFFECTIVE DATE.—

(A) IN GENERAL.—The amendments made by this subsection shall apply to amounts paid after December 31, 2013.

(B) NO INFERENCE.—No amendment made by this subsection shall be construed to create any inference with respect to any amounts paid before January 1, 2014.

SEC. 1506. CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATIONS.

(a) EMPLOYMENT TAXES.—Chapter 25 is amended by adding at the end the following new section:

"SEC. 3511. CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATIONS.

"(a) GENERAL RULES.—For purposes of the taxes and other obligations imposed by this subtitle—

"(1) a certified professional employer organization shall be treated as the employer (and no other person shall be treated as the employer) of any work site employee performing services for any customer of such organization, but only with respect to remuneration remitted by such organization to such work site employee, and

"(2) the exemptions, exclusions, definitions, and other rules which are based on type of employer and which would (but for paragraph (1)) apply shall apply with respect to such taxes imposed on such remuneration.

"(b) SUCCESSOR EMPLOYER STATUS.—For purposes of sections 3121(a)(1), 3231(e)(2)(C), and 3306(b)(1)—

"(1) a certified professional employer organization entering into a service contract with a customer with respect to a work site employee shall be treated as a successor employer and the customer shall be

treated as a predecessor employer during the term of such service contract, and

''(2) a customer whose service contract with a certified professional employer organization is terminated with respect to a work site employee shall be treated as a successor employer and the certified professional employer organization shall be treated as a predecessor employer.

''(c) LIABILITY OF CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATION.—Solely for purposes of its liability for the taxes and other obligations imposed by this subtitle—

''(1) a certified professional employer organization shall be treated as the employer of any work site employee (other than a person described in subsection (e)) who is performing services covered by a contract meeting the requirements of section 7706(e)(2), but only with respect to remuneration remitted by such organization to such individual, and

''(2) exemptions, exclusions, definitions, and other rules which are based on type of employer and which would (but for paragraph (1)) apply shall apply with respect to such taxes imposed on such remuneration.

1 ''(d) SPECIAL RULE FOR RELATED PARTY.—This
2 section shall not apply in the case of a customer which
3 bears a relationship to a certified professional employer
4 organization described in section 267(b) or 707(b). For
5 purposes of the preceding sentence, such sections shall be
6 applied by substituting '10 percent' for '50 percent'.

7 ''(e) SPECIAL RULE FOR CERTAIN INDIVIDUALS.—
8 For purposes of the taxes imposed under this subtitle, an
9 individual with net earnings from self-employment derived
10 from the customer's trade or business (including a partner
11 in a partnership that is a customer), is not a work site
12 employee with respect to remuneration paid by a certified
13 professional employer organization.

14 ''(f) REGULATIONS.—The Secretary shall prescribe
15 such regulations as may be necessary or appropriate to
16 carry out the purposes of this section.''.

17 (b) CERTIFIED PROFESSIONAL EMPLOYER ORGANI-
18 ZATION DEFINED.—Chapter 79, as amended by the pre-
19 ceding provisions of this Act, is amended by adding at the
20 end the following new section:

21 **''SEC. 7706. CERTIFIED PROFESSIONAL EMPLOYER ORGANI-**
22 **ZATIONS.**

23 ''(a) IN GENERAL.—For purposes of this title, the
24 term 'certified professional employer organization' means
25 a person who applies to be treated as a certified profes-

1 sional employer organization for purposes of section 3511
2 and who has been certified by the Secretary as meeting
3 the requirements of subsection (b).

4 ''(b) CERTIFICATION REQUIREMENTS.—A person
5 meets the requirements of this subsection if such person—

6 ''(1) demonstrates that such person (and any
7 owner, officer, and such other persons as may be
8 specified in regulations) meets such requirements as
9 the Secretary shall establish with respect to tax sta-
10 tus, background, experience, business location, and
11 annual financial audits,

12 ''(2) agrees that it will satisfy the bond and
13 independent financial review requirements of sub-
14 sections (c) on an ongoing basis,

15 ''(3) agrees that it will satisfy such reporting
16 obligations as may be imposed by the Secretary,

17 ''(4) computes its taxable income using an ac-
18 crual method of accounting unless the Secretary ap-
19 proves another method,

20 ''(5) agrees to verify on such periodic basis as
21 the Secretary may prescribe that it continues to
22 meet the requirements of this subsection, and

23 ''(6) agrees to notify the Secretary in writing,
24 within such time as the of Secretary may prescribe,
25 of any change that materially affects the continuing

accuracy of any agreement or information which was previously made or provided.

"(c) BOND AND INDEPENDENT FINANCIAL REVIEW.—

"(1) IN GENERAL.—An organization meets the requirements of this paragraph if such organization—

"(A) meets the bond requirements of paragraph (2), and

"(B) meets the independent financial review requirements of paragraph (3).

"(2) BOND.—

"(A) IN GENERAL.—A certified professional employer organization meets the requirements of this paragraph if the organization has posted a bond for the payment of taxes under subtitle C (in a form acceptable to the Secretary) that is in an amount at least equal to the amount specified in subparagraph (B).

"(B) AMOUNT OF BOND.—

"(i) IN GENERAL.—For the period April 1 of any calendar year through March 31 of the following calendar year, the amount of the bond required is equal to the greater of—

"(I) 5 percent of the organization's liability under section 3511 for taxes imposed by subtitle C during the preceding calendar year (but not to exceed $1,000,000), or

"(II) $50,000.

"(ii) SPECIAL RULE FOR NEWLY CREATED PROFESSIONAL EMPLOYER ORGANIZATIONS.—During the first three full calendar years that an organization is in existence, subclause (I) of clause (i) shall not apply. For this purpose—

"(I) under rules provided by the Secretary, an organization is treated as in existence as of the date that such organization began providing services to any customer which were comparable to the services being provided with respect to work site employees, regardless of whether such date occurred before or after the organization is certified under subsection (b), and

"(II) an organization with liability under section 3511 for taxes im-

posed by subtitle C during the preceding calendar year in excess of $5,000,000 shall no longer be described in this clause (ii) as of April 1 of the year following such calendar year.

"(3) INDEPENDENT FINANCIAL REVIEW REQUIREMENTS.—A certified professional employer organization meets the requirements of this paragraph if such organization—

"(A) has, as of the most recent audit date, caused to be prepared and provided to the Secretary (in such manner as the Secretary may prescribe) an opinion of an independent certified public accountant as to whether the certified professional employer organization's financial statements are presented fairly in accordance with generally accepted accounting principles, and

"(B) provides to the Secretary an assertion regarding Federal employment tax payments and an examination level attestation on such assertion from an independent certified public accountant not later than the last day of the second month beginning after the end of each

calendar quarter. Such assertion shall state that the organization has withheld and made deposits of all taxes imposed by chapters 21, 22, and 24 of the Internal Revenue Code in accordance with regulations imposed by the Secretary for such calendar quarter and such examination level attestation shall state that such assertion is fairly stated, in all material respects.

"(4) CONTROLLED GROUP RULES.—For purposes of the requirements of paragraphs (2) and (3), all professional employer organizations that are members of a controlled group within the meaning of sections 414(b) and (c) shall be treated as a single organization.

"(5) FAILURE TO FILE ASSERTION AND ATTESTATION.—If the certified professional employer organization fails to file the assertion and attestation required by paragraph (3) with respect to any calendar quarter, then the requirements of paragraph (3) with respect to such failure shall be treated as not satisfied for the period beginning on the due date for such attestation.

"(6) AUDIT DATE.—For purposes of paragraph (3)(A), the audit date shall be six months after the completion of the organization's fiscal year.

"(d) SUSPENSION AND REVOCATION AUTHORITY.—The Secretary may suspend or revoke a certification of any person under subsection (b) for purposes of section 3511 if the Secretary determines that such person is not satisfying the agreements or requirements of subsections (b) or (c), or fails to satisfy applicable accounting, reporting, payment, or deposit requirements.

"(e) WORK SITE EMPLOYEE.—For purposes of this title—

"(1) IN GENERAL.—The term 'work site employee' means, with respect to a certified professional employer organization, an individual who—

"(A) performs services for a customer pursuant to a contract which is between such customer and the certified professional employer organization and which meets the requirements of paragraph (2), and

"(B) performs services at a work site meeting the requirements of paragraph (3).

"(2) SERVICE CONTRACT REQUIREMENTS.—A contract meets the requirements of this paragraph with respect to an individual performing services for

a customer if such contract is in writing and provides that the certified professional employer organization shall—

"(A) assume responsibility for payment of wages to the individual, without regard to the receipt or adequacy of payment from the customer for such services,

"(B) assume responsibility for reporting, withholding, and paying any applicable taxes under subtitle C, with respect to the individual's wages, without regard to the receipt or adequacy of payment from the customer for such services,

"(C) assume responsibility for any employee benefits which the service contract may require the certified professional employer organization to provide, without regard to the receipt or adequacy of payment from the customer for such services,

"(D) assume responsibility for hiring, firing and for recruiting workers in addition to the customer's responsibility for recruiting, hiring, and firing workers,

"(E) maintain employee records relating to the individual, and

"(F) agree to be treated as a certified professional employer organization for purposes of section 3511 with respect to such individual.

"(3) WORK SITE COVERAGE REQUIREMENT.—The requirements of this paragraph are met with respect to an individual if at least 85 percent of the individuals performing services for the customer at the work site where such individual performs services are subject to 1 or more contracts with the certified professional employer organization which meet the requirements of paragraph (2) (but not taking into account those individuals who are excluded employees within the meaning of section 414(q)(5)).

"(f) DETERMINATION OF EMPLOYMENT STATUS.—Except to the extent necessary for purposes of section 3511, nothing in this section shall be construed to affect the determination of who is an employee or employer for purposes of this title.

"(g) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.".

(c) CONFORMING AMENDMENTS.—

(1) Section 3302 is amended by adding at the end the following new subsection:

1 ''(h) TREATMENT OF CERTIFIED PROFESSIONAL EM-
2 PLOYER ORGANIZATIONS.—If a certified professional em-
3 ployer organization (as defined in section 7706), or a cus-
4 tomer of such organization, makes a contribution to the
5 State's unemployment fund with respect to a work site
6 employee, such organization shall be eligible for the credits
7 available under this section with respect to such contribu-
8 tion.''.

9 (2) Section 3303(a) is amended—

10 (A) by striking the period at the end of
11 paragraph (3) and inserting ''; and'' and by in-
12 serting after paragraph (3) the following new
13 paragraph:

14 ''(4) if the taxpayer is a certified professional
15 employer organization (as defined in section 7706)
16 that is treated as the employer under section 3511,
17 such certified professional employer organization is
18 permitted to collect and remit, in accordance with
19 paragraphs (1), (2), and (3), contributions during
20 the taxable year to the State unemployment fund
21 with respect to a work site employee.'', and

22 (B) in the last sentence—

23 (i) by striking ''paragraphs (1), (2), and
24 (3)'' and inserting ''paragraphs (1), (2), (3),
25 and (4)'', and

(ii) by striking ''paragraph (1), (2), or (3)'' and inserting ''paragraph (1), (2), (3), or (4)''.

(3) Section 6053(c) is amended by adding at the end the following new paragraph:

''(8) CERTIFIED PROFESSIONAL EMPLOYER ORGANIZATIONS.—For purposes of any report required by this subsection, in the case of a certified professional employer organization that is treated, under section 3511, as the employer of a work site employee, the customer with respect to whom a work site employee performs services shall be the employer for purposes of reporting under this section and the certified professional employer organization shall furnish to the customer any information necessary to complete such reporting no later than such time as the Secretary shall prescribe.''.

(d) CLERICAL AMENDMENTS.—

(1) The table of sections for chapter 25 is amended by adding at the end the following new item:

''Sec. 3511. Certified professional employer organizations.''.

(2) The table of sections for chapter 79, as amended by the preceding provisions of this Act, is

1 amended by adding at the end the following new
2 item:

"Sec. 7706. Certified professional employer organizations.".

3 (e) REPORTING REQUIREMENTS AND OBLIGA-
4 TIONS.—The Secretary of the Treasury shall develop such
5 reporting and recordkeeping rules, regulations, and proce-
6 dures as the Secretary determines necessary or appro-
7 priate to ensure compliance with the amendments made
8 by this section with respect to entities applying for certifi-
9 cation as certified professional employer organizations or
10 entities that have been so certified. Such rules shall be
11 designed in a manner which streamlines, to the extent pos-
12 sible, the application of requirements of such amendments,
13 the exchange of information between a certified profes-
14 sional employer organization and its customers, and the
15 reporting and recordkeeping obligations of the certified
16 professional employer organization.

17 (f) USER FEES.—Subsection (b) of section 7528 is
18 amended by adding at the end thereof the following new
19 paragraph:

20 "(4) CERTIFIED PROFESSIONAL EMPLOYER OR-
21 GANIZATIONS.—The fee charged under the program
22 in connection with the certification by the Secretary
23 of a professional employer organization under sec-
24 tion 7706 shall be an annual fee not to exceed
25 $1,000 per year.".

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply with respect to wages for services performed on or after January 1 of the first calendar year beginning more than 12 months after the date of the enactment of this Act.

(2) CERTIFICATION PROGRAM.—The Secretary of the Treasury shall establish the certification program described in section 7706(b) of the Internal Revenue Code of 1986, as added by this section, not later than 6 months before the effective date determined under paragraph (1).

(h) NO INFERENCE.—Nothing contained in this section or the amendments made by this section shall be construed to create any inference with respect to the determination of who is an employee or employer—

(1) for Federal tax purposes (other than the purposes set forth in the amendments made by this section), or

(2) for purposes of any other provision of law.

Subtitle G—Pensions and Retirement

PART 1—INDIVIDUAL RETIREMENT PLANS

SEC. 1601. ELIMINATION OF INCOME LIMITS ON CONTRIBUTIONS TO ROTH IRAs.

(a) IN GENERAL.—Subsection (c) of section 408A is amended by striking paragraph (3).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1602. NO NEW CONTRIBUTIONS TO TRADITIONAL IRAs.

(a) IN GENERAL.—

(1) INDIVIDUAL RETIREMENT ACCOUNTS.—Paragraph (1) of section 408(a) is amended by striking ''in excess of the amount'' and all that follows through the end and inserting the following: ''unless it is a contribution under a simplified employee pension described in subsection (k) not in excess of the amount of the limitation in effect for such taxable year under section 415(c)(1)(A), a contribution to a simple retirement account described in subsection (p) not in excess of the amount described in section 408(p)(8) for such taxable year, or a contribution to a Roth IRA described in section 408A not in excess of the amount in effect for the taxable

year with respect to such individual under section 408A(c)(1)(A)(i).''.

(2) INDIVIDUAL RETIREMENT ANNUITIES.—

(A) IN GENERAL.—Subparagraph (B) of section 408(b)(2) is amended to read as follows:

''(B) any amount paid as a premium on behalf of any individual for a taxable year would meet the requirements of subsection (a)(1) if it were paid as a contribution to an individual retirement account, and''.

(B) ENDOWMENT CONTRACT REQUIREMENT.—The last sentence of section 408(b) is amended by striking ''the dollar amount in effect under section 219(b)(1)(A)'' and inserting ''the amounts described in paragraph (2)(B)''.

(b) CONFORMING AMENDMENTS.—

(1) AMENDMENTS RELATING TO DEDUCTIBILITY.—

(A) Section 219(a) is amended by striking ''equal to the qualified retirement contributions of the individual'' and inserting ''equal to the amounts contributed on behalf of the individual to a plan described in section 501(c)(18)''.

(B) Section 219(b) is amended—

(i) by striking ''MAXIMUM AMOUNT OF DEDUCTION'' and all that follows through ''Notwithstanding paragraph (1), the amount allowable as a deduction'' and inserting ''MAXIMUM AMOUNT OF DEDUCTION.—The amount allowable as a deduction'', and

(ii) by striking paragraphs (4) and (5).

(C) Section 219 is amended by striking subsections (c), (d), (e), (g), and (h) and by redesignating subsection (f) as subsection (c).

(D) Section 219(c), as so redesignated, is amended—

(i) by striking ''OTHER DEFINITIONS AND SPECIAL RULES'' and inserting ''SPECIAL RULES'',

(ii) by striking paragraphs (1), (3), (4), (5), (6), (7), and (8), and

(iii) by inserting before paragraph (2) the following new paragraph:

''(1) BENEFICIARY MUST BE UNDER AGE 70½.—No deduction shall be allowed under this section with respect to any amount contributed on behalf of an individual to a plan described in section

501(c)(18) if such individual has attained age 70½ before the close of such individual's taxable year for which the contribution was made.''.

(E) Section 4973(b)(2)(C) is amended by striking ''(determined without regard to section 219(f)(6))''.

(2) AMENDMENTS RELATING TO ROTH IRA CONTRIBUTION LIMITS.—

(A) Section 408A(c), as amended by this Act, is amended—

(i) by striking paragraphs (1) and (2) and inserting the following new paragraphs:

''(1) MAXIMUM CONTRIBUTION.—

''(A) IN GENERAL.—The aggregate amount of contributions for any taxable year to all Roth IRAs maintained for the benefit of an individual shall not exceed the lesser of—

''(i) $5,500, or

''(ii) an amount equal to the compensation includible in the individual's gross income for such taxable year.

''(B) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS 50 OR OLDER.—In the case of an individual who has attained the age of 50 before

the close of the taxable year, the amount in effect under subparagraph (A)(i) for such taxable year shall be increased by $1,000.

"(2) SPECIAL RULE FOR CERTAIN MARRIED INDIVIDUALS.—In the case of an individual to whom this paragraph applies for the taxable year, the limitation of paragraph (1) shall be equal to the lesser of—

"(A) the dollar amount in effect under paragraph (1)(A)(i) for the taxable year, or

"(B) the sum of—

"(i) the compensation includible in such individual's gross income for the taxable year, plus

"(ii) the compensation includible in the gross income of such individual's spouse for the taxable year reduced by—

"(I) the amount allowed as a deduction under section 219(a) to such spouse for such taxable year,

"(II) the amount of any contribution on behalf of such spouse to a Roth IRA for such taxable year.

1 ''(3) INDIVIDUALS TO WHOM PARAGRAPH (2)
2 APPLIES.—Paragraph (2) shall apply to any indi-
3 vidual if—
4 ''(A) such individual files a joint return for
5 the taxable year, and
6 ''(B) the amount of compensation (if any)
7 includible in such individual's gross income for
8 the taxable year is less than the compensation
9 includible in the gross income of such individ-
10 ual's spouse for the taxable year.''.
11 (ii) by striking ''paragraph (2)'' in
12 paragraph (6) and inserting ''paragraph
13 (1)'',
14 (iii) by striking ''the rule of section
15 219(f)(3) shall apply'' in paragraph (7)
16 and inserting the following: ''a taxpayer
17 shall be deemed to have made a contribu-
18 tion to a Roth IRA on the last day of the
19 preceding taxable year if the contribution
20 is made on account of such taxable year
21 and is made not later than the time pre-
22 scribed by law for filing the return for
23 such taxable year (not including extensions
24 thereof)'', and

(iv) by adding at the end the following new paragraphs:

"(8) COMPENSATION.—For purposes of this section, the term 'compensation' includes earned income (as defined in section 401(c)(2)). The term 'compensation' does not include any amount received as a pension or annuity and does not include any amount received as deferred compensation. For purposes of this paragraph, section 401(c)(2) shall be applied as if the term trade or business for purposes of section 1402 included service described in subsection (c)(6) thereof. The term compensation includes any differential wage payment (as defined in section 3401(h)(2)).

"(9) MARRIED INDIVIDUALS.—The limitation under this subsection shall be computed separately for each individual, and this section shall be applied without regard to any community property laws.

"(10) SPECIAL RULE FOR COMPENSATION EARNED BY MEMBERS OF ARMED FORCES FOR SERVICES IN COMBAT ZONE.—For purposes of paragraphs (1)(A)(ii) and (2), the amount of compensation includible in an individual's gross income shall be determined without regard to section 112.".

(B) Section 408A(d)(3)(A) is amended—

(i) by inserting ''and'' at the end of clause (i),

(ii) by striking '', and'' at the end of clause (ii) and inserting a period,

(iii) by striking clause (iii), and

(iv) by striking the last sentence.

(3) AMENDMENTS RELATING TO TRADITIONAL IRAS.—

(A) Section 408(d)(4) is amended—

(i) by striking subparagraph (B) and inserting the following:

''(B) in the case of simplified employee pension, such contribution is not excluded from gross income under section 402(h),''.

(ii) by adding at the end the following: ''This paragraph shall not apply to any contribution to a simple retirement account.''.

(B) Section 408(d)(5)(A) is amended—

(i) by striking ''in effect under section 219(b)(1)(A)'' and inserting ''in effect with respect to the taxpayer for the taxable year under section 408A(c)(1)(A)(i)'',

(ii) by striking ''the amount allowable as a deduction'' and all that follows

through ''such excess contribution.'' and inserting ''the amount that may be contributed under section 408A(c)(1) for the taxable year for which the contribution was made if such distribution is received after the date described in paragraph (4).'',

(iii) by adding at the end of subparagraph (A) the following: ''This paragraph shall not apply to any contribution to a simple retirement account.'', and

(iv) by striking the last sentence.

(C) Section 408 is amended by striking subsection (o).

(4) AMENDMENTS RELATING TO SIMPLE RETIREMENT ACCOUNTS.—

(A) Section 408(p)(2)(D)(ii) is amended by striking ''means a plan, contract'' and all that follows through the period at the end and inserting the following: ''means—

''(I) a plan described in section 401(a) which includes a trust exempt from tax under section 501(a),

''(II) an annuity plan described in section 403(a),

"(III) an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A)),

"(IV) an annuity contract described in section 403(b),

"(V) a simplified employee pension (within the meaning of section 408(k)),

"(VI) any simple retirement account (within the meaning of section 408(p)), or

"(VII) a trust described in section 501(c)(18).".

(B) Section 408(p)(8) is amended to read as follows:

"(8) COORDINATION WITH MAXIMUM LIMITATION UNDER SUBSECTION (a).—In the case of a simple retirement account, for purposes of subsections (a)(1) and (b)(2), contributions may not exceed the sum of—

"(A) the dollar amount in effect under paragraph (2)(A)(ii), and

"(B) the employer contribution required under subparagraph (A)(iii) or (B)(i) of paragraph (2), whichever is applicable.".

(5) AMENDMENTS RELATING TO SEPS.—Section 408 is amended by striking subsection (j).

(6) AMENDMENTS RELATING TO EXCISE TAX ON EXCESS CONTRIBUTIONS.—

(A) TRADITIONAL IRAS.—Subsection (b) of section 4973 is amended—

(i) by striking paragraph (1) and inserting the following:

"(1) the amounts contributed for the taxable year to the accounts or for the annuities or bonds (other than any contributions to a Roth IRA) which are not permitted contributions under subsection (a)(1) or (b)(2) of section 408, and".

(ii) in paragraph (2)(C), by striking "the maximum amount allowable" and all that follows through "without regard to section 219(f)(6))" and inserting "the permitted contributions under subsection (a)(1) or (b)(2) of section 408 for the taxable year over the amount contributed", and

(iii) by striking the last sentence and inserting the following: ''Paragraph (2) shall be determined separately with respect to any simplified employee pension (within the meaning of section 408(k)) and any simple retirement account (within the meaning of section 408(p)).''.

(B) ROTH IRAS.—Section 4973(f) is amended by striking ''sections 408A(c)(2) and (c)(3)'' each place it appears and inserting ''section 408A(c)(1)''.

(7) AMENDMENTS RELATING TO SAVER'S CREDIT.—Section 25B(d)(1)(A) is amended to read as follows:

''(A) the amounts—

''(i) paid in cash for the taxable year by or on behalf of an individual to all Roth IRAs maintained for such individual's benefit, and

''(ii) contributed on behalf of the individual to a plan described in section 501(c)(18),''.

(8) OTHER CONFORMING AMENDMENTS.—

(A) Section 86(f)(3) is amended by striking ''219(f)(1)'' and inserting ''section 408A(c)(8)''.

(B) Section 132(m)(3) is amended by striking ''section 219(g)(5)'' and inserting ''section 408(p)(2)(D)(ii)''.

(C)(i) Section 223(d) is amended—

(I) by redesignating paragraph (4) as paragraph (7),

(II) by inserting after paragraph (3) the following new paragraphs:

''(4) RECONTRIBUTED AMOUNTS.—No deduction shall be allowed under this section with respect to a rollover contribution described in subsection (f)(5).

''(5) TIME WHEN CONTRIBUTIONS DEEMED MADE.—For purposes of this section, a taxpayer shall be deemed to have made a contribution to a health savings account on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).

"(6) EMPLOYER PAYMENTS.—Except as provided in section 106(d), for purposes of this title, any amount paid by an employer to a health savings account shall be treated as payment of compensation to the employee (other than a self-employed individual who is an employee within the meaning of section 401(c)(1)) includible in his gross income in the taxable year for which the amount was contributed, whether or not a deduction for such payment is allowable under this section to the employee.".

(ii) Section 223(d)(7), as so redesignated, is amended by striking subparagraphs (A), (B), and (C), and redesignating subparagraphs (D) and (E) as subparagraphs (A) and (B), respectively.

(D) Section 409A(d)(2)(A) is amended by striking "subparagraph (A) or (B) of section 219(g)(5) (without regard to subparagraph (A)(iii))" and inserting "section 408(p)(2)(D)(ii) (without regard to subclause (III) thereof)".

(E) Section 501(c)(18)(D)(i) is amended by striking "section 219(b)(3)" and inserting "section 219(a)".

(F) Section 877A(d)(4)(A) is amended by striking ''section 219(g)(5)'' and inserting ''408(p)(2)(D)(ii)''.

(G) Section 6652 is amended by striking subsection (g).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1603. INFLATION ADJUSTMENT FOR ROTH IRA CONTRIBUTIONS.

(a) IN GENERAL.—Subsection (c) of section 408A, as amended by this Act, is amended by adding at the end the following new paragraph:

''(11) COST-OF-LIVING ADJUSTMENT.—In the case of any taxable year beginning after 2023, the dollar amount in paragraph (1)(A)(i) shall be increased by an amount equal to—

''(A) such dollar amount, multiplied by

''(B) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 2022' for 'calendar year 2012' in clause (ii) thereof.

If any increase determined under the preceding sentence is not a multiple of $500, such increase shall be rounded to the next lowest multiple of $500.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1604. REPEAL OF SPECIAL RULE PERMITTING RECHARACTERIZATION OF ROTH IRA CONTRIBUTIONS AS TRADITIONAL IRA CONTRIBUTIONS.

(a) IN GENERAL.—Section 408A(d) is amended by striking paragraph (6) and by redesignating paragraph (7) as paragraph (6).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1605. REPEAL OF EXCEPTION TO 10-PERCENT PENALTY FOR FIRST HOME PURCHASES.

(a) IN GENERAL.—Section 72(t)(2) is amended by striking subparagraph (F).

(b) ROTH IRAS.—Subparagraph (A) of section 408A(d)(2) is amended by inserting ''or'' at the end of clause (ii), and by striking '', or'' at the end of clause (iii) and inserting a period, and by striking clause (iv).

(c) CONFORMING AMENDMENT.—

(1) Section 72(t) is amended by striking paragraph (8).

(2) Section 408A(d), as amended by this Act, is amended by striking paragraph (5) and by redesignating paragraph (6) as paragraph (5).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2014.

PART 2—EMPLOYER-PROVIDED PLANS

SEC. 1611. TERMINATION FOR NEW SEPs.

(a) IN GENERAL.—

(1) Section 408(k) is amended by redesignating paragraph (9) as paragraph (10) and by inserting after paragraph (8) the following new paragraph:

''(9) TERMINATION.—This subsection shall not apply to years beginning after December 31, 2014. The preceding sentence shall not apply to any simplified employee pension of an employer if such simplified employee pension, and the terms thereof, meet the requirements of this subsection on and after such date.''.

(2) Section 402(h) is amended by adding at the end the following new paragraph:

''(4) TERMINATION.—This subsection shall not apply to any simplified employee pension the ar-

rangement for which is established after December 31, 2014.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1612. TERMINATION FOR NEW SIMPLE 401(k)s.

(a) AMENDMENTS RELATING TO SIMPLE 401(k)s.—Section 401(k)(11) is amended by adding at the end the following new subparagraph:

''(E) TERMINATION.—This paragraph shall apply to a cash or deferred arrangement for any plan year beginning after December 31, 2014, only if such arrangement meets the requirements of this paragraph for the last plan year beginning before January 1, 2015, and for each plan year thereafter.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to plan years beginning after December 31, 2014.

SEC. 1613. RULES RELATED TO DESIGNATED ROTH CONTRIBUTIONS.

(a) APPLICABLE RETIREMENT PLANS WHICH PERMIT ELECTIVE DEFERRALS REQUIRED TO ACCEPT DESIGNATED ROTH CONTRIBUTIONS.—

(1) IN GENERAL.—Paragraph (30) of section 401(a) is amended—

(A) by striking ''DEFERRALS.—'' and all that follows through ''In the case of a trust'' and inserting the following: ''DEFERRALS.—

''(A) IN GENERAL.—In the case of a trust'',

(B) by striking ''unless the plan provides that'' and inserting the following: ''unless the plan—

''(i) provides that'',

(C) by striking the period at the end and inserting '', and'', and

(D) by adding at the end the following:

''(ii) except as provided in subparagraph (B), includes a qualified Roth contribution program (as defined in section 402A(b)).

''(B) EXCEPTION FOR CERTAIN SMALL PLANS.—Subparagraph (A)(ii) shall not apply to any plan of an eligible employer (as defined in section 408(p)(2)(C)).''.

(2) CONFORMING AMENDMENTS.—

(A) Section 402A(b)(1) is amended by striking all that follows ''designated Roth contributions'' and inserting a period.

(B) The heading of section 402A (and the item relating to such section in the table of sections for part I of subchapter D of chapter 1) is amended by striking ''**OPTIONAL TREATMENT OF ELECTIVE DEFERRALS AS ROTH CONTRIBUTIONS**'' and inserting ''**DESIGNATED ROTH CONTRIBUTIONS**''.

(b) RESTRICTION ON PORTION OF ELECTIVE DEFERRAL LIMITATION WHICH MAY APPLY TO TRADITIONAL ELECTIVE DEFERRALS.—

(1) IN GENERAL.—Subparagraph (A) of section 402(g)(1) is amended by striking ''the applicable dollar amount'' and inserting ''50 percent (100 percent in the case of elective deferrals with respect to any plan of an eligible employer (as defined in section 408(p)(2)(C)) of the applicable dollar amount''.

(2) GOVERNMENT 457(b) PLANS.—

(A) IN GENERAL.—Subsection (b) of section 457 is amended by striking ''and'' at the end of paragraph (5), by redesignating paragraph (6) as paragraph (7), and by inserting

after paragraph (5) the following new paragraph:

''(6) which, in the case of a plan maintained by an employer described in subsection (e)(1)(A), meets requirements similar to the requirements of section 401(a)(30), and''.

(B) CONFORMING AMENDMENT.—Section 402(g)(1)(A) is amended by inserting ''and section 457(a)(1)'' after ''(h)(1)(B)''.

(C) CROSS-REFERENCE.—For treatment of amounts deferred under an eligible compensation plan of a governmental employer as elective deferrals, see section 1618(b)(1) of this Act.

(3) ROTH ELECTIVE DEFERRALS PERMITTED TO EXTENT OF FULL LIMITATION AMOUNT.—

(A) IN GENERAL.—Section 402A(c)(2)(A) is amended to read as follows:

''(A) the applicable dollar amount in effect under section 402(g)(1)(B) with respect to the employee for the taxable year, over''.

(B) CONFORMING AMENDMENTS.—

(i) Section 401(a)(30) is amended—

(I) by inserting ''(including contributions treated as elective deferrals

under section 402A(a)(1))'' after ''section 402(g)(3)'', and

(II) by striking ''section 402(g)(1)(A)'' and inserting ''section 402(g)(1)(B), and that the amount of elective deferrals not included in gross income may not exceed the amount of the limitation in effect under section 402(g)(1)(A),''.

(ii) Section 402(g)(1)(C) is amended—

(I) by striking ''In addition to subparagraph (A)'' and inserting ''For purposes of subparagraph (A)''.

(II) by striking ''gross income shall not include'' and all that follows through ''does not exceed'' and inserting ''the applicable dollar amount in effect for the taxable year under subparagraph (B) shall be increased by''.

(iii)(I) So much of section 402(g)(2)(A) as precedes clause (i) is amended to read as follows:

''(A) IN GENERAL.—If an individual's aggregate elective deferrals for a taxable year ex-

ceed the applicable dollar amount under paragraph (1) (hereinafter in this paragraph referred to as 'excess total deferrals') or if an individual's aggregate elective deferrals (disregarding designated Roth contributions and simple Roth contributions) exceed the amount excludable under paragraph (1)(A) (hereinafter in this paragraph referred to as 'excess non-Roth deferrals')—".

(II) Section 402(g)(2)(A)(i) is amended by striking "such excess deferrals" and inserting "such excess total deferrals or excess non-Roth deferrals".

(III) Section 402(g)(2)(C)(ii) is amended by striking "the excess deferral" and inserting "the excess total deferral or excess non-Roth deferral".

(IV) Section 402A(d)(2)(C) is amended by striking "excess deferral" and inserting "excess total deferral".

(V) Section 402A(d)(3) is amended by striking "excess deferral" each place it appears and inserting "excess total deferral".

(VI) Section 402(g)(1)(A) is amended by striking the second sentence.

(iv) Section 402A(c)(1)(A) is amended by striking ''without regard to this section'' and inserting ''(determined without regard to this section and section 402(g))''.

(4) REPORTING BY EMPLOYERS.—Section 6051(a)(8) is amended by inserting after ''(as defined in section 402A)'' the following: '', and the type of plan under which amounts are deferred or contributed''.

(c) SIMPLE ROTH RETIREMENT ACCOUNTS PERMITTED.—

(1) IN GENERAL.—Subsection (p) of section 408 is amended by adding at the end the following new paragraph:

''(11) ROTH CONTRIBUTIONS.—For purposes of this section—

''(A) IN GENERAL.—If a qualified salary reduction arrangement with respect to a simple retirement account includes a simple Roth contribution program, any simple Roth contribution made by an employer pursuant to such program shall be treated as an elective employer contribution, except that such contribu-

tion shall be paid to a Roth IRA and shall not be excludable from gross income.

"(B) SIMPLE ROTH CONTRIBUTION PROGRAM.—The term 'simple Roth contribution program' means a program under which an employee may elect to make simple Roth contributions.

"(C) SIMPLE ROTH CONTRIBUTION.—The term 'simple Roth contribution' means any elective employer contribution which—

"(i) is excludable from gross income of an employee without regard to this paragraph, and

"(ii) the employee designates (at such time and in such manner as the Secretary may prescribe) as not being so excludable.

"(D) LIMITATION.—In the case of an eligible employer which elects the application of this subparagraph with respect to the simple retirement accounts established pursuant to a qualified salary reduction arrangement of such employer, notwithstanding paragraph (2)(E), the applicable dollar amount for purposes of paragraph (2)(A)(ii), shall be equal to—

"(i) in the case of any such account which is not designated as a Roth IRA, 50 percent of the applicable dollar amount in effect under section 402(g)(1)(B) for the taxable year, and

"(ii) in the case of any such account which is designated as a Roth IRA, the excess (if any) of—

"(I) the applicable dollar amount in effect under section 402(g)(1)(B) for the taxable year, over

"(II) the aggregate amount of elective employer contributions to any account described in clause (i).

In the case of a simple retirement account with respect to which the application of this subparagraph is elected, the employer shall not be treated as an eligible employer for purposes of section 402(g)(1)(A), and the applicable dollar amount with respect to any eligible participant (as defined in section 414(v)) shall, notwithstanding section 414(v)(2)(B)(ii), be determined by reference to section 402(g)(1)(C).".

(2) COORDINATION WITH MAXIMUM ROTH LIMITATION.—Subsection (c) of section 408A, as amend-

ed by this Act, is amended by adding at the end the following new paragraph:

''(12) INCREASE IN MAXIMUM LIMITATION FOR SIMPLE ROTH.—In the case of any simple retirement account, subparagraphs (A)(i) and (B) of paragraph (1) shall be applied by disregarding any contributions made to a simple retirement account and any qualified rollover contributions.''.

(3) CONFORMING AMENDMENTS.—

(A) Section 408A(f)(1) is amended by striking ''or a simple retirement account''.

(B) Section 6051(a)(8), as amended by this Act, is amended by inserting after ''(as defined in section 402A)'' the following: ''and simple Roth contributions (as defined in section 408(p)(11)(C))''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to plan years and taxable years beginning after December 31, 2014.

(2) SUBSECTION (c).—The amendments made by subsection (c) shall apply to calendar years beginning after December 31, 2014.

SEC. 1614. MODIFICATIONS OF REQUIRED DISTRIBUTION RULES FOR PENSION PLANS.

(a) IN GENERAL.—Section 401(a)(9)(B) of the Internal Revenue Code of 1986 is amended to read as follows:

"(B) REQUIRED DISTRIBUTIONS WHERE EMPLOYEE DIES BEFORE ENTIRE INTEREST IS DISTRIBUTED.—

"(i) 5-YEAR GENERAL RULE.—A trust shall not constitute a qualified trust under this section unless the plan provides that, if an employee dies before the distribution of the employee's interest (whether or not such distribution has begun in accordance with subparagraph (A)), the entire interest of the employee will be distributed within 5 years after the death of such employee.

"(ii) EXCEPTION FOR ELIGIBLE DESIGNATED BENEFICIARIES.—If—

"(I) any portion of the employee's interest is payable to (or for the benefit of) an eligible designated beneficiary,

"(II) such portion will be distributed (in accordance with regulations) over the life of such eligible designated beneficiary (or over a period

not extending beyond the life expectancy of such beneficiary), and

"(III) such distributions begin not later than 1 year after the date of the employee's death or such later date as the Secretary may by regulations prescribe,

then, for purposes of clause (i) and except as provided in clause (iv) or subparagraph (E)(iii), the portion referred to in subclause (I) shall be treated as distributed on the date on which such distributions begin.

"(iii) SPECIAL RULE FOR SURVIVING SPOUSE OF EMPLOYEE.—If the eligible designated beneficiary referred to in clause (ii)(I) is the surviving spouse of the employee—

"(I) the date on which the distributions are required to begin under clause (ii)(III) shall not be earlier than the date on which the employee would have attained age 70 ½, and

"(II) if the surviving spouse dies before the distributions to such spouse begin, this subparagraph shall be ap-

plied as if the surviving spouse were the employee.

"(iv) RULES UPON DEATH OF ELIGIBLE DESIGNATED BENEFICIARY.—If an eligible designated beneficiary dies before the portion of an employee's interest described in clause (ii) is entirely distributed, clause (ii) shall not apply to any beneficiary of such eligible designated beneficiary and the remainder of such portion shall be distributed within 5 years after the death of such beneficiary.".

(b) DEFINITION OF ELIGIBLE DESIGNATED BENEFICIARY.—Section 401(a)(9)(E) of such Code is amended to read as follows:

"(E) DEFINITIONS AND RULES RELATING TO DESIGNATED BENEFICIARY.—For purposes of this paragraph—

"(i) DESIGNATED BENEFICIARY.—The term 'designated beneficiary' means any individual designated as a beneficiary by the employee.

"(ii) ELIGIBLE DESIGNATED BENEFICIARY.—The term 'eligible designated beneficiary' means, with respect to any em-

ployee, any designated beneficiary who, as of the date of death of the employee, is—

"(I) the surviving spouse of the employee,

"(II) subject to clause (iii), a child of the employee who has not attained age 22,

"(III) disabled (within the meaning of section 72(m)(7)),

"(IV) a chronically ill individual (within the meaning of section 7702B(c)(2), except that the requirements of subparagraph (A)(i) thereof shall only be treated as met if there is a certification that, as of such date, the period of inability described in such subparagraph with respect to the individual is an indefinite one that is reasonably expected to be lengthy in nature), or

"(V) an individual not described in any of the preceding subparagraphs who is not more than 10 years younger than the employee.

"(iii) SPECIAL RULE FOR CHILDREN.—Subject to subparagraph (F), an individual described in clause (ii)(II) shall cease to be an eligible designated beneficiary as of the date the individual attains age 22 and the requirement of subparagraph (B)(i) shall not be treated as met with respect to any remaining portion of an employee's interest payable to the individual unless such portion is distributed within 5 years after such date.".

(c) REQUIRED BEGINNING DATE.—Section 401(a)(9)(C) of such Code is amended by adding at the end the following new clause:

"(v) EMPLOYEES BECOMING 5-PERCENT OWNERS AFTER AGE 70½.—If an employee becomes a 5-percent owner (as defined in section 416) with respect to a plan year ending in a calendar year after the calendar year in which the employee attains age 70½, then clause (i)(II) shall be applied by substituting the calendar year in which the employee became such an owner for the calendar year in which the employee retires.".

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in this subsection, the amendments made by this section shall apply to distributions with respect to employees who die after December 31, 2014.

(2) REQUIRED BEGINNING DATE.—The amendment made by subsection (c) shall apply to employees becoming a 5-percent owner with respect to plan years ending in calendar years beginning before, on, or after the date of the enactment of this Act, except that—

(A) if, without regard to such amendment, an employee's required beginning date occurs before April 1, 2015, such amendment shall not result in an earlier required beginning date for such employee, and

(B) if, solely by reason of such amendment, an employee's required beginning date would occur before April 1, 2015, such employee's required beginning date shall occur on April 1, 2015.

(3) EXCEPTION FOR CERTAIN BENEFICIARIES.—If a designated beneficiary of an employee who dies before January 1, 2015, dies after December 31, 2014—

(A) the amendments made by this section shall apply to any beneficiary of such designated beneficiary, and

(B) the designated beneficiary shall be treated as an eligible designated beneficiary for purposes of applying section 401(a)(9)(B)(iv) of such Code (as in effect after the amendments made by this section).

(4) EXCEPTION FOR CERTAIN EXISTING ANNUITY CONTRACTS.—

(A) IN GENERAL.—The amendments made by this section shall not apply to a qualified annuity which is a binding annuity contract in effect on the date of the enactment of this Act and at all times thereafter.

(B) QUALIFIED ANNUITY CONTRACT.—For purposes of this paragraph, the term ''qualified annuity'' means, with respect to an employee, an annuity—

(i) which is a commercial annuity (as defined in section 3405(e)(6) of such Code) or payable by a defined benefit plan,

(ii) under which the annuity payments are substantially equal periodic payments (not less frequently than annually) over the

lives of such employee and a designated beneficiary (or over a period not extending beyond the life expectancy of such employee or the life expectancy of such employee and a designated beneficiary) in accordance with the regulations described in section 401(a)(9)(A)(ii) of such Code (as in effect before such amendments) and which meets the other requirements of this section 401(a)(9) of such Code (as so in effect) with respect to such payments, and

(iii) with respect to which—

(I) annuity payments to the employee have begun before January 1, 2015, and the employee has made an irrevocable election before such date as to the method and amount of the annuity payments to the employee or any designated beneficiaries, or

(II) if subclause (I) does not apply, the employee has made an irrevocable election before the date of the enactment of this Act as to the method and amount of the annuity

payments to the employee or any designated beneficiaries.

SEC. 1615. REDUCTION IN MINIMUM AGE FOR ALLOWABLE IN-SERVICE DISTRIBUTIONS.

(a) IN GENERAL.—Section 401(a)(36) is amended by striking ''age 62'' and inserting ''age 59 ½''.

(b) APPLICATION TO GOVERNMENTAL SECTION 457(b) PLANS.—Clause (i) of section 457(d)(1)(A) is amended by inserting ''(in the case of a plan maintained by an employer described in subsection (e)(1)(A), age 59 ½)'' before the comma at the end.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made after December 31, 2014.

SEC. 1616. MODIFICATION OF RULES GOVERNING HARDSHIP DISTRIBUTIONS.

(a) IN GENERAL.—Not later than 1 year after the date of the enactment of this Act, the Secretary of the Treasury shall modify Treasury Regulation section 1.401(k)–1(d)(3)(iv)(E) to—

(1) delete the 6-month prohibition on contributions imposed by paragraph (2) thereof, and

(2) to make any other modifications necessary to carry out the purposes of section

401(k)(2)(B)(i)(IV) of the Internal Revenue Code of 1986.

(b) EFFECTIVE DATE.—The revised regulations under this section shall apply to plan years beginning after December 31, 2014.

SEC. 1617. EXTENDED ROLLOVER PERIOD FOR THE ROLLOVER OF PLAN LOAN OFFSET AMOUNTS IN CERTAIN CASES.

(a) IN GENERAL.—Paragraph (3) of section 402(c) is amended by adding at the end the following new subparagraph:

"(C) ROLLOVER OF CERTAIN PLAN LOAN OFFSET AMOUNTS.—

"(i) IN GENERAL.—In the case of a qualified plan loan offset amount, paragraph (1) shall not apply to any transfer of such amount made after the due date (including extensions) for filing the return of tax for the taxable year in which such amount is treated as distributed from a qualified employer plan.

"(ii) QUALIFIED PLAN LOAN OFFSET AMOUNT.—For purposes of this subparagraph, the term 'qualified plan loan offset amount' means a plan loan offset amount

which is treated as distributed from a qualified employer plan to a participant or beneficiary solely by reason of—

"(I) the termination of the qualified employer plan, or

"(II) the failure to meet the repayment terms of the loan from such plan because of the separation from service of the participant (whether due to layoff, cessation of business, termination of employment, or otherwise).

"(iii) PLAN LOAN OFFSET AMOUNT.—For purposes of clause (ii), the term 'plan loan offset amount' means the amount by which the participant's accrued benefit under the plan is reduced in order to repay a loan from the plan.

"(iv) LIMITATION.—This subparagraph shall not apply to any plan loan offset amount unless such plan loan offset amount relates to a loan to which section 72(p)(1) does not apply by reason of section 72(p)(2).

"(v) QUALIFIED EMPLOYER PLAN.—For purposes of this subsection, the term 'qualified employer plan' has the meaning given such term by section 72(p)(4).".

(b) CONFORMING AMENDMENT.—Subparagraph (A) of section 402(c)(3) is amended by striking "subparagraph (B)" and inserting "subparagraphs (B) and (C)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1618. COORDINATION OF CONTRIBUTION LIMITATIONS FOR 403(b) PLANS AND GOVERNMENTAL 457(b) PLANS.

(a) 403(b) PLANS.—

(1) ELIMINATION OF SPECIAL CATCH-UP RULE.—Subsection (g) of section 402 is amended by striking paragraph (7) and by redesignating paragraph (8) as paragraph (7).

(2) ELIMINATION OF POST TERMINATION NONELECTIVE CONTRIBUTIONS.—Subsection (b) of section 403 is amended—

(A) in paragraph (3), by striking "for the most recent period" and all that follows through "more than five years", and

(B) by striking paragraph (4).

(3) ELIMINATION OF INCREASED CONTRIBUTION LIMIT FOR CHURCH PLANS.—Subsection (c) of section 415 is amended by striking paragraph (7).

(4) ELIMINATION OF SEPARATE 415(c) LIMITS.—Paragraph (4) of section 415(k) is amended by striking ''each employer with respect to which the participant has the control required'' and inserting ''the employer and each employer which is part of a controlled group or under common control''.

(b) 457(b) PLANS.—

(1) ELIMINATION OF SEPARATE DEFERRAL LIMIT.—Paragraph (3) of section 402(g) is amended by striking ''and'' at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting '', and'', and by inserting after subparagraph (D) the following new subparagraph:

''(E) any amount deferred under an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A).''.

(2) TAKEN INTO ACCOUNT UNDER LIMITATION FOR DEFINED CONTRIBUTION PLANS.—

(A) IN GENERAL.—Paragraph (2) of section 415(a) is amended by striking ''or'' at the end of subparagraph (B), by inserting ''or'' at

the end of subparagraph (C), and by inserting after subparagraph (C) the following new subparagraph:

"(D) an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A),".

(B) DEFINITION.—Paragraph (1) of section 415(k) is amended by striking "or" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ", or", and by adding at the end the following new subparagraph:

"(E) an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A).".

(3) ELIMINATION OF SPECIAL CATCH-UP RULE.—Paragraph (3) of section 457(b) is amended by inserting ", in the case of an eligible employer described in subsection (e)(1)(B)," after "which".

(c) CONFORMING AMENDMENTS.—

(1) Section 25B(d)(1)(B) is amended—

(A) by striking clause (ii), and

(B) by striking "the amount of—" and all that follows through "any elective deferrals"

and inserting the following: ''the amount of any elective deferrals''.

(2) Section 402A(e)(2) is amended—

(A) by striking '', and'' and all that follows and inserting a period, and

(B) by striking ''means—'' and all that follows through ''any elective deferral described in subparagraph (A) or (C)'' and inserting the following: ''means any elective deferral described in (A), (C), or (E)''.

(3) Section 457(e) is amended by striking paragraph (18).

(4) Section 414(u)(2)(C) is amended by inserting ''by an eligible employer described in section 457(e)(1)(B)'' after ''(as defined in section 457(b))''.

(5) Section 414(v)(2)(D) is amended—

(A) by striking ''clauses (i), (ii), and (iv) of'', and

(B) by striking '', and plans described in clause (iii)'' and all that follows through the end and inserting a period.

(6) Section 414(v)(3)(A)(i) is amended by striking ''(determined without regard to section 457(b)(3))''.

(7) Section 414(v)(6)(B) is amended by striking ''subsection (u)(2)(C)'' and inserting ''section 402(g)(3)''.

(8) Section 414(v)(6) is amended by striking subparagraph (C).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years and taxable years beginning after December 31, 2014.

SEC. 1619. APPLICATION OF 10-PERCENT EARLY DISTRIBUTION TAX TO GOVERNMENTAL 457 PLANS.

(a) IN GENERAL.—Paragraph (1) of section 72(t) is amended by inserting ''or an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A),'' after ''section 4974(c)),''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to withdrawals on or after February 26, 2014.

SEC. 1620. INFLATION ADJUSTMENTS FOR QUALIFIED PLAN BENEFIT AND CONTRIBUTION LIMITATIONS.

(a) DEFINED BENEFIT PLANS.—

(1) CURRENT LIMIT.—Subparagraph (A) of section 415(b)(1) is amended by striking ''$160,000'' and inserting ''$210,000''.

(2) INFLATION ADJUSTMENT.—Section 415(d) is amended—

(A) in paragraph (1)(A)—

(i) by striking ''$160,000'' and inserting ''$210,000'', and

(ii) by inserting ''for calendar years beginning after 2023'' after ''subsection (b)(1)(A)'',

(B) paragraph (3)(A), by striking ''July 1, 2001'' and inserting ''July 1, 2022''.

(b) DEFINED CONTRIBUTION PLANS.—

(1) CURRENT LIMIT.—Subparagraph (A) of section 415(c)(1) is amended by striking ''$40,000'' and inserting ''$52,000''.

(2) INFLATION ADJUSTMENT.—Subsection (d) of section 415 is amended—

(A) in paragraph (1)(C)—

(i) by striking ''$40,000'' and inserting ''$52,000'',

(ii) by inserting ''for calendar years beginning after 2023'' after ''subsection (c)(1)(A)'',

(B) in paragraph (3)(D), by striking ''July 1, 2001'' and inserting ''July 1, 2022''.

(c) CONFORMING AMENDMENTS.—

(1) Section 415(b)(2) is amended by striking ''$160,000'' each place it appears in subparagraphs (C) and (D) and inserting ''$210,000''.

(2) Section 415(b) is amended by striking ''$160,000'' in the fourth sentence of paragraph (7) and inserting ''$210,000''.

(3) The headings for subparagraphs (C) and (D) of section 415(b)(2) are each amended by striking ''$160,000'' and inserting ''$210,000''.

(4) The heading for subparagraph (A) of section 415(d)(3) is amended by striking ''$160,000'' and inserting ''$210,000''.

(5) The heading for subparagraph (D) of section 415(d)(3) is amended by striking ''$40,000'' and inserting ''$52,000''.

(6) The heading for subparagraph (A) of section 415(d)(4) is amended by striking ''$160,000'' and inserting ''$210,000''.

(7) The heading for subparagraph (B) of section 415(d)(4) is amended by striking ''$40,000'' and inserting ''$52,000''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to years ending with or within a calendar year beginning after 2014.

SEC. 1621. INFLATION ADJUSTMENTS FOR QUALIFIED PLAN ELECTIVE DEFERRAL LIMITATIONS.

(a) CURRENT LIMIT.—Subparagraph (B) of section 402(g)(1) is amended by striking ''shall be'' and all that follows and inserting ''is $17,500.''

(b) INFLATION ADJUSTMENT.—Paragraph (4) of section 402(g) is amended—

(1) by striking ''December 31, 2006'' and inserting ''December 31, 2023'',

(2) by striking ''$15,000'' and inserting ''$17,500'', and

(3) by striking ''2005'' and inserting ''2022''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years and taxable years beginning after December 31, 2014.

SEC. 1622. INFLATION ADJUSTMENTS FOR SIMPLE RETIREMENT ACCOUNTS.

(a) CURRENT LIMIT.—Clause (i) of section 408(p)(2)(E) is amended by striking ''shall be'' and all that follows and inserting ''shall be $12,000''.

(b) INFLATION ADJUSTMENT.—Clause (ii) of section 408(p)(2)(E) is amended—

(1) by striking ''December 31, 2005'' and inserting ''December 31, 2023'',

(2) by striking ''$10,000'' and inserting ''$12,000'',

(3) by striking ''2004'' and inserting ''2022''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years beginning after 2014.

SEC. 1623. INFLATION ADJUSTMENTS FOR CATCH-UP CONTRIBUTIONS FOR CERTAIN EMPLOYER PLANS.

(a) CURRENT LIMIT.—

(1) PLANS OTHER THAN SIMPLE 401(k) AND SIMPLE RETIREMENT ACCOUNTS.—Clause (i) of section 414(v)(2)(B) is amended by striking ''determined in accordance with the following table'' and all that follows through the period at the end and inserting ''$5,500.''.

(2) SIMPLE 401(k) AND SIMPLE RETIREMENT ACCOUNTS.—Clause (ii) of section 414(v)(2)(B) is amended by striking ''determined in accordance with the following table'' and all that follows through the period at the end and inserting ''$2,500.''.

(b) INFLATION ADJUSTMENT.—Subparagraph (C) of section 414(v)(2) is amended—

(1) by striking ''December 31, 2006'' and inserting ''December 31, 2023'',

(2) by striking ''$5,000'' and inserting ''$5,500'', and

(3) by striking ''2005'' and inserting ''2022''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 1624. INFLATION ADJUSTMENTS FOR GOVERNMENTAL AND TAX-EXEMPT ORGANIZATION PLANS.

(a) CURRENT LIMIT.—Subparagraph (A) of section 457(b)(2) is amended by striking ''the applicable dollar amount'' and inserting ''$17,500''.

(b) INFLATION ADJUSTMENT.—Paragraph (15) of section 457(e) is amended—

(1) by striking ''APPLICABLE DOLLAR AMOUNT.—'' and all that follows through ''COST-OF-LIVING ADJUSTMENTS.—In the case of taxable years beginning after December 31, 2006'' and inserting the following: ''COST-OF-LIVING ADJUSTMENTS.—In the case of taxable years beginning after December 31, 2023'',

(2) by striking ''the $15,000 amount under subparagraph (A)'' and inserting ''the $17,500 amount under subsection (b)(2)(A)'', and

(3) by striking ''2005'' and inserting ''2022''.

(c) CONFORMING AMENDMENT.—Section 457(f)(4)(A) is amended by striking ''twice the applicable dollar limit determined under subsection (e)(15)'' and in-

serting ''twice the amount in effect under subsection (b)(2)(A)''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

Subtitle H—Certain Provisions Related to Members of Indian Tribes

SEC. 1701. INDIAN GENERAL WELFARE BENEFITS.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by inserting before section 140 the following new section:

''SEC. 139E. INDIAN GENERAL WELFARE BENEFITS.

''(a) IN GENERAL.—Gross income does not include the value of any Indian general welfare benefit.

''(b) INDIAN GENERAL WELFARE BENEFIT.—For purposes of this section, the term 'Indian general welfare benefit' includes any payment made or services provided to or on behalf of a member of an Indian tribe (or any spouse or dependent of such a member) pursuant to an Indian tribal government program, but only if—

''(1) the program is administered under specified written guidelines and does not discriminate in favor of members of the governing body of the tribe, and

1 ''(2) the benefits provided under such pro-
2 gram—
3 ''(A) are available to any tribal member
4 who meets such guidelines,
5 ''(B) are for the promotion of general wel-
6 fare,
7 ''(C) are not lavish or extravagant, and
8 ''(D) are not compensation for services.
9 ''(c) DEFINITIONS AND SPECIAL RULES.—For pur-
10 poses of this section—
11 ''(1) INDIAN TRIBAL GOVERNMENT.—For pur-
12 poses of this section, the term 'Indian tribal govern-
13 ment' includes any agencies or instrumentalities of
14 an Indian tribal government and any Alaska Native
15 regional or village corporation, as defined in, or es-
16 tablished pursuant to, the Alaska Native Claims Set-
17 tlement Act (43 U.S.C. 1601, et seq.).
18 ''(2) DEPENDENT.—The term 'dependent' has
19 the meaning given such term by section 7705, deter-
20 mined without regard to subsections (b)(1), (b)(2),
21 and (d)(1)(B).
22 ''(3) LAVISH OR EXTRAVAGANT.—The Sec-
23 retary shall, in consultation with the Tribal Advisory
24 Committee (as established under section 1702 of the
25 Tax Reform Act of 2014), establish guidelines for

what constitutes lavish or extravagant benefits with respect to Indian tribal government programs.

"(4) ESTABLISHMENT OF TRIBAL GOVERNMENT PROGRAM.—A program shall not fail to be treated as an Indian tribal government program solely by reason of the program being established by tribal custom or government practice.".

(b) CONFORMING AMENDMENT.—The table of sections for part III of subchapter B of chapter 1 is amended by inserting before the item relating to section 140 the following new item:

"Sec. 139E. Indian general welfare benefits.".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years for which the period of limitation on refund or credit under section 6511 of the Internal Revenue Code of 1986 has not expired.

(2) ONE-YEAR WAIVER OF STATUTE OF LIMITATIONS.—If the period of limitation on a credit or refund resulting from the amendments made by subsection (a) expires before the end of the 1-year period beginning on the date of the enactment of this Act, refund or credit of such overpayment (to the extent attributable to such amendments) may, never-

theless, be made or allowed if claim therefor is filed before the close of such 1-year period.

SEC. 1702. TRIBAL ADVISORY COMMITTEE.

(a) ESTABLISHMENT.—The Secretary of the Treasury shall establish a Tribal Advisory Committee (hereinafter in this subsection referred to as the ''Committee'').

(b) DUTIES.—

(1) IMPLEMENTATION.—The Committee shall advise the Secretary on matters relating to the taxation of Indians.

(2) EDUCATION AND TRAINING.—The Secretary shall, in consultation with the Committee, establish and require—

(A) training and education for internal revenue field agents who administer and enforce internal revenue laws with respect to Indian tribes on Federal Indian law and the Federal Government's unique legal treaty and trust relationship with Indian tribal governments, and

(B) training of such internal revenue field agents, and provision of training and technical assistance to tribal financial officers, about implementation of this Act and the amendments made thereby.

(c) MEMBERSHIP.—

(1) IN GENERAL.—The Committee shall be composed of 7 members appointed as follows:

(A) Three members appointed by the Secretary of the Treasury.

(B) One member appointed by the Chairman, and one member appointed by the Ranking Member, of the Committee on Ways and Means of the House of Representatives.

(C) One member appointed by the Chairman, and one member appointed by the Ranking Member, of the Committee on Finance of the Senate.

(2) TERM.—

(A) IN GENERAL.—Except as provided in subparagraph (B), each member's term shall be 4 years.

(B) INITIAL STAGGERING.—The first appointments made by the Secretary under paragraph (1)(A) shall be for a term of 2 years.

SEC. 1703. OTHER RELIEF FOR INDIAN TRIBES.

(a) WAIVER OF PENALTIES AND INTEREST.—The Secretary of the Treasury may waive any interest and penalties imposed under the Internal Revenue Code of 1986 on any Indian tribal government or member of an Indian tribe (or any spouse or dependent of such a member) to

the extent such interest and penalties relate to excluding a payment or benefit from gross income under the general welfare exclusion.

(b) DEFINITIONS.—For purposes of this section—

(1) INDIAN TRIBAL GOVERNMENT.—The term ''Indian tribal government'' shall have the meaning given such term by section 139E of such Code, as added by this Act.

(2) INDIAN TRIBE.—The term ''Indian tribe'' shall have the meaning given such term by section 139D(c)(1) of such Code, as amended by this Act.

TITLE II—ALTERNATIVE MINIMUM TAX REPEAL

SEC. 2001. REPEAL OF ALTERNATIVE MINIMUM TAX.

(a) IN GENERAL.—Subchapter A of chapter 1 is amended by striking part VI (and by striking the item relating to such part in the table of parts for subchapter A).

(b) CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—

(1) LIMITATION.—Subsection (c) of section 53 is amended to read as follows:

''(c) LIMITATION.—The credit allowed under subsection (a) shall not exceed the regular tax liability of the

1 taxpayer reduced by the sum of the credits allowed under
2 subparts A, B, and D.''.
3 (2) CREDITS TREATED AS REFUNDABLE.—Sub-
4 section (e) of section 53 is amended to read as fol-
5 lows:
6 ''(e) PORTION OF CREDIT TREATED AS REFUND-
7 ABLE.—
8 ''(1) IN GENERAL.—In the case of any taxable
9 year beginning in 2016, 2017, 2018, or 2019, the
10 limitation under subsection (c) shall be increased by
11 the AMT refundable credit amount for such year.
12 ''(2) AMT REFUNDABLE CREDIT AMOUNT.—
13 For purposes of paragraph (1), the AMT refundable
14 credit amount is an amount equal to 50 percent
15 (100 percent in the case of a taxable year beginning
16 in 2019) of the excess (if any) of—
17 ''(A) the minimum tax credit determined
18 under subsection (b) for the taxable year, over
19 ''(B) the minimum tax credit allowed
20 under subsection (a) for such year (before the
21 application of this subsection for such year).
22 ''(3) CREDIT REFUNDABLE.—For purposes of
23 this title (other than this section), the credit allowed
24 by reason of this subsection shall be treated as a

1 credit allowed under subpart C (and not this sub-
2 part).
3 ''(4) SHORT TAXABLE YEARS.—In the case of
4 any taxable year of less than 365 days, the AMT re-
5 fundable credit amount determined under paragraph
6 (2) with respect to such taxable year shall be the
7 amount which bears the same ratio to such amount
8 determined without regard to this paragraph as the
9 number of days in such taxable year bears to 365.''.
10 (3) TREATMENT OF REFERENCES.—Section
11 53(d) is amended by adding at the end the following
12 new paragraph:
13 ''(3) AMT TERM REFERENCES.—Any references
14 in this subsection to section 55, 56, or 57 shall be
15 treated as a reference to such section as in effect be-
16 fore its repeal by the Tax Reform Act of 2014.''.
17 (4) REPEAL OF SPECIAL RULES WITH RESPECT
18 TO TREATMENT OF INCENTIVE STOCK OPTIONS.—
19 Section 53 is amended by striking subsection (f).
20 (c) CONFORMING AMENDMENTS RELATED TO AMT
21 REPEAL.—
22 (1) Section 2(e), as redesignated by section
23 1001, is amended by striking ''sections 1 and 55''
24 and inserting ''section 1''.

(2) Section 5(a) is amended by striking paragraph (4).

(3) Section 11(d) is amended by striking ''the taxes imposed by subsection (a) and section 55'' and inserting ''the tax imposed by subsection (a)''.

(4) Section 13, as redesignated by title I, is amended by striking paragraph (7).

(5) Section 26(a) is amended to read as follows:

''(a) LIMITATION BASED ON AMOUNT OF TAX.—The aggregate amount of credits allowed by this subpart for the taxable year shall not exceed the taxpayer's regular tax liability for the taxable year.''.

(6) Section 26(b)(2) is amended by striking subparagraph (A).

(7) Section 26 is amended by striking subsection (c).

(8) Section 38(c) is amended—

(A) by striking paragraphs (1) through (5),

(B) by redesignating paragraph (6) as paragraph (2),

(C) by inserting before paragraph (2) (as so redesignated) the following new paragraph:

"(1) IN GENERAL.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

"(A) the sum of—

"(i) so much of the regular tax liability as does not exceed $25,000, plus

"(ii) 75 percent of so much of the regular tax liability as exceeds $25,000, over

"(B) the sum of the credits allowable under subparts A and B of this part.", and

(D) by striking "subparagraph (B) of paragraph (1)" each place it appears in paragraph (2) (as so redesignated) and inserting "clauses (i) and (ii) of paragraph (1)(A)".

(9) Section 45D(g)(4)(B) is amended by striking "or for purposes of section 55".

(10) Section 54(c)(1) is amended to read as follows:

"(1) regular tax liability (as defined in section 26(b)), over".

(11) Section 54A(c)(1)(A) is amended to read as follows:

"(A) regular tax liability (as defined in section 26(b)), over".

(12)(A) Section 108(b)(2) is amended by striking subparagraph (C) and by redesignating subparagraphs (D) through (G) as subparagraphs (C) through (F), respectively.

(B) Section 108(b)(3)(B) is amended—

(i) by striking ''subparagraphs (B), (C), and (G)'' and inserting ''subparagraphs (B) and (F) of paragraph (2)'', and

(ii) by striking ''subparagraph (F)'' and inserting ''paragraph (2)(E)''.

(C) Section 108(b)(4)(B) is amended by striking ''subparagraph (A) or (D)'' in the heading and text thereof and inserting ''subparagraph (A) or (C)''.

(D) Section 108(b)(4)(C) is amended by striking ''subparagraphs (B) and (G)'' in the heading and text thereof and inserting ''subparagraphs (B) and (F)''.

(13) Section 168(k)(2) is amended by striking subparagraph (G).

(14) Section 173 is amended by striking subsection (b).

(15) Section 174(f) is amended to read as follows:

"(f) CROSS REFERENCE.—For adjustments to basis of property for amounts allowed as deductions as deferred expenses under subsection (b), see section 1016(a)(14).".

(16) Section 263A(c) is amended by striking paragraph (6).

(17) Section 382(l) is amended by striking paragraph (7) and by redesignating paragraph (8) as paragraph (7).

(18) Section 443 (relating to returns for a period of less than 12 months) adjustment in computing minimum tax and tax preferences) is amended by striking subsection (d) and by redesignating subsection (e) as subsection (d).

(19) Section 641(c) is amended—

(A) in paragraph (2) by striking subparagraph (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively, and

(B) in paragraph (3), by striking "paragraph (2)(C)" and inserting "paragraph (2)(B)".

(20) Subsections (b) and (c) of section 666 are each amended by striking "(other than the tax imposed by section 55)".

(21) Section 815(c)(2) is amended by striking the last sentence.

(22) Section 847 is amended—

(A) by striking the last sentence of paragraph (9), and

(B) in paragraph (10), by inserting ''and'' at the end of subparagraph (A), by striking subparagraph (B), and by redesignating subparagraph (C) as subparagraph (B).

(23) Section 848 is amended by striking subsection (i) and by redesignating subsection (j) as subsection (i).

(24) Section 860E(a) is amended by striking paragraph (4).

(25) Section 871(b)(1) is amended by striking ''or 55''.

(26) Section 882(a)(1) is amended by striking ''55,''.

(27) Section 897(a) is amended to read as follows:

''(a) TREATMENT AS EFFECTIVELY CONNECTED WITH UNITED STATES TRADE OR BUSINESS.—For purposes of this title, gain or loss of a nonresident alien individual or a foreign corporation from the disposition of a

United States real property interest shall be taken into account—

"(1) in the case of a nonresident alien individual, under section 871(b)(1), or

"(2) in the case of a foreign corporation, under section 882(a)(1), as if the taxpayer were engaged in a trade or business within the United States during the taxable year and as if such gain or loss were effectively connected with such trade or business.".

(28) Section 904(k) is amended to read as follows:

"(k) CROSS REFERENCE.—For increase of limitation under subsection (a) for taxes paid with respect to amounts received which were included in the gross income of the taxpayer for a prior taxable year as a United States shareholder with respect to a controlled foreign corporation, see section 960(b).".

(29) Section 911(f) is amended to read as follows:

"(f) DETERMINATION OF TAX LIABILITY.—If, for any taxable year, any amount is excluded from gross income of a taxpayer under subsection (a), then, notwithstanding section 1, if such taxpayer has taxable income for such taxable year, the tax imposed by section 1 for such taxable year shall be equal to the excess (if any) of—

"(1) the tax which would be imposed by section 1 for such taxable year if the taxpayer's taxable income were increased by the amount excluded under subsection (a) for such taxable year, over

"(2) the tax which would be imposed by section 1 for such taxable year if the taxpayer's taxable income were equal to the amount excluded under subsection (a) for such taxable year.".

(30) Section 962(a)(1) is amended—

(A) by striking "sections 1 and 55" and inserting "section 1", and

(B) by striking "sections 11 and 55" and inserting "section 11".

(31) Section 1016(a) is amended by striking paragraph (20).

(32) Section 1202(a)(4) is amended by inserting "and" at the end of subparagraph (A), by striking ", and" and inserting a period at the end of subparagraph (B), and by striking subparagraph (C).

(33) Section 1374(b)(3)(B) is amended by striking the last sentence thereof.

(34) Section 1397E(c)(1) is amended to read as follows:

"(1) regular tax liability (as defined in section 26(b), over".

(35) Section 1561(a) is amended—

(A) by inserting ''and'' at the end of paragraph (1), by striking the comma at the end of paragraph (2) and inserting a period, and by striking paragraphs (3) and (4), and

(B) by striking the last sentence.

(36) Section 6015(d)(2)(B) is amended by striking ''or 55''.

(37) Section 6425(c)(1)(A) is amended—

(A) by adding ''plus'' at the end of clause (i), and

(B) by striking clause (ii) and by redesignating clause (iii) as clause (ii).

(38) Section 6654(d)(2) is amended—

(A) in clause (i) of subparagraph (B), by striking '', alternative minimum taxable income,'', and

(B) in clause (i) of subparagraph (C), by striking '', alternative minimum taxable income,''.

(39) Section 6655(e)(2)(B) is amended—

(A) by striking ''The taxable income, alternative minimum taxable income, and modified alternative taxable income shall'' and inserting ''Taxable income shall'', and

(B) by striking clause (iii).

(40) Section 6655(g)(1)(A) is amended—

(A) by striking clause (ii), and

(B) by redesignating clauses (iii) and (iv) as clauses (ii) and (iii), respectively.

(41) Section 6662(e)(3)(C) is amended by striking "the regular tax (as defined in section 55(c))" and inserting "the regular tax liability (as defined in section 26(b))".

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) PRIOR ELECTIONS WITH RESPECT TO CERTAIN TAX PREFERENCES.—So much of the amendment made by subsection (a) as relates to the repeal of section 59(e) of the Internal Revenue Code of 1986 shall apply to amounts paid or incurred after December 31, 2014.

(3) TREATMENT OF NET OPERATING LOSS CARRYBACKS.—For purposes of section 56(d) of the Internal Revenue Code of 1986 (as in effect before its repeal), the amount of any net operating loss which may be carried back from a taxable year be-

ginning after December 31, 2014, to taxable years beginning before January 1, 2015, shall be determined without regard to any adjustments under section 56(d)(2)(A) of such Code (as so in effect).

TITLE III—BUSINESS TAX REFORM

Subtitle A—Tax Rates

SEC. 3001. 25-PERCENT CORPORATE TAX RATE.

(a) IN GENERAL.—Subsection (b) of section 11 is amended to read as follows:

''(b) AMOUNT OF TAX.—

''(1) IN GENERAL.—Except as provided in paragraph (2), the amount of the tax imposed by subsection (a) shall be 25 percent of taxable income.

''(2) PHASE-IN FOR TAXABLE YEARS BEGINNING BEFORE 2019.—

''(A) IN GENERAL.—In the case of taxable years beginning before 2019, the amount of tax imposed by subsection (a) shall be the sum of—

''(i) 25 percent of so much of the taxable income as does not exceed $75,000, and

''(ii) the applicable percentage of so much of taxable income as exceeds $75,000.

"(B) APPLICABLE PERCENTAGE.—For purposes of this paragraph, the applicable percentage shall be determined in accordance with the following table:

"In the case of taxable years beginning during calendar year	The applicable percentage is:
2015	33%
2016	31%
2017	29%
2018	27%".

(b) CONFORMING AMENDMENTS.—

(1) Paragraphs (2)(B) and (6)(A)(ii) of section 860E(e) are each amended by striking "section 11(b)(1)" and inserting "section 11(b)".

(2)(A) Part I of subchapter P of chapter 1 is amended by striking section 1201 (and by striking the item relating to such section in the table of sections for such part).

(B) Section 13, as amended and redesignated by the preceding provisions of this Act, is amended by striking paragraphs (4) and (6), and by redesignating paragraph (5) as paragraph (4).

(C) Section 527(b) is amended—

(i) by striking paragraph (2), and

(ii) by striking all that precedes "is hereby imposed" and inserting:

"(b) TAX IMPOSED.—A tax".

(D) Sections 594(a) is amended by striking ''taxes imposed by section 11 or 1201(a)'' and inserting ''tax imposed by section 11''.

(E) Section 691(c)(4) is amended by striking ''1201,''.

(F) Section 801(a) is amended—

(i) by striking paragraph (2), and

(ii) by striking all that precedes ''is hereby imposed'' and inserting:

''(a) TAX IMPOSED.—A tax''.

(G) Section 831(d) is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(H) Sections 832(c)(5) and 834(b)(1)(D) are each amended by striking ''sec. 1201 and following,''.

(I) Section 852(b)(3)(A) is amended by striking ''section 1201(a)'' and inserting ''section 11(b)''.

(J) Section 857(b)(3) is amended—

(i) by striking subparagraph (A) and redesignating subparagraphs (B) through (F) as subparagraphs (A) through (E), respectively,

(ii) in subparagraph (C), as so redesignated—

(I) by striking ''subparagraph (A)(ii)'' in clause (i) thereof and inserting ''paragraph (1)'',

(II) by striking ''the tax imposed by subparagraph (A)(ii)'' in clauses (ii) and (iv) thereof and inserting ''the tax imposed by paragraph (1) on undistributed capital gain'',

(iii) in subparagraph (E), as so redesignated, by striking ''subparagraph (B) or (D)'' and inserting ''subparagraph (A) or (C)'', and

(iv) by adding at the end the following new subparagraph:

''(F) UNDISTRIBUTED CAPITAL GAIN.—For purposes of this paragraph, the term 'undistributed capital gain' means the excess of the net capital gain over the deduction for dividends paid (as defined in section 561) determined with reference to capital gain dividends only.''.

(K) Section 882(a)(1) is amended by striking '', or 1201(a)''.

(L) Section 1374(b) is amended by striking paragraph (4).

(M) Section 1381(b) is amended by striking ''taxes imposed by section 11 or 1201'' and inserting ''tax imposed by section 11''.

(N) Sections 6425(c)(1)(A)(i) and 6655(g)(1)(A)(i) are each amended by striking ''or 1201(a),''.

(3)(A) Section 1445(e)(1) is amended—

(i) by striking ''35 percent'' and inserting ''the highest rate of tax in effect for the taxable year under section 11(b)'', and

(ii) by striking ''of the gain'' and inserting ''multiplied by the gain''.

(B) Section 1445(e)(2) is amended by striking ''35 percent of the amount'' and inserting ''the highest rate of tax in effect for the taxable year under section 11(b) multiplied by the amount''.

(C) Section 1445(e)(6) is amended—

(i) by striking ''35 percent'' and inserting ''the highest rate of tax in effect for the taxable year under section 11(b)'', and

(ii) by striking ''of the amount'' and inserting ''multiplied by the amount''.

(D) Section 1446(b)(2)(B) is amended by striking ''section 11(b)(1)'' and inserting ''section 11(b)''.

(4) Section 852(b)(1) is amended by striking the last sentence.

(5)(A) Part I of subchapter B of chapter 5 is amended by striking section 1551 (and by striking the item relating to such section in the table of sections for such part).

(B) Section 535(c)(5) is amended to read as follows:

"(5) CROSS REFERENCE.—For limitation on credit provided in paragraph (2) or (3) in the case of certain controlled corporations, see section 1561.".

(6)(A) Section 1561, as amended by the preceding provisions of this Act, is amended to read as follows:

"SEC. 1561. LIMITATION ON ACCUMULATED EARNINGS CREDIT IN THE CASE OF CERTAIN CONTROLLED CORPORATIONS.

"(a) IN GENERAL.—The component members of a controlled group of corporations on a December 31 shall, for their taxable years which include such December 31, be limited for purposes of this subtitle to one $250,000 ($150,000 if any component member is a corporation described in section 535(c)(2)(B)) amount for purposes of computing the accumulated earnings credit under section

535(c)(2) and (3). Such amount shall be divided equally among the component members of such group on such December 31 unless the Secretary prescribes regulations permitting an unequal allocation of such amount.

"(b) CERTAIN SHORT TAXABLE YEARS.—If a corporation has a short taxable year which does not include a December 31 and is a component member of a controlled group of corporations with respect to such taxable year, then for purposes of this subtitle, the amount to be used in computing the accumulated earnings credit under section 535(c)(2) and (3) of such corporation for such taxable year shall be the amount specified in subsection (a) with respect to such group, divided by the number of corporations which are component members of such group on the last day of such taxable year. For purposes of the preceding sentence, section 1563(b) shall be applied as if such last day were substituted for December 31.".

(B) The table of sections for part II of subchapter B of chapter 5 is amended by striking the item relating to section 1561 and inserting the following new item:

"Sec. 1561. Limitation on accumulated earnings credit in the case of certain controlled corporations.".

(7) Section 7874(e)(1)(B) is amended by striking "section 11(b)(1)" and inserting "section 11(b)".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) WITHHOLDING.—The amendments made by subsection (b)(3) shall apply to distributions made after December 31, 2014.

(3) CERTAIN TRANSFERS.—The amendments made by subsection (b)(5) shall apply to transfers made after December 31, 2018.

(4) CERTAIN OTHER AMENDMENTS RELATED TO SINGLE RATE OF TAX.—The amendments made by paragraphs (4) and (6) of subsection (b) shall apply to taxable years beginning after December 31, 2018.

Subtitle B—Reform of Business-related Exclusions and Deductions

SEC. 3101. REVISION OF TREATMENT OF CONTRIBUTIONS TO CAPITAL.

(a) INCLUSION OF CONTRIBUTIONS TO CAPITAL.—Part II of subchapter B of chapter 1 is amended by inserting after section 75 the following new section:

"SEC. 76. CONTRIBUTIONS TO CAPITAL.

''(a) IN GENERAL.—Gross income includes—

"(1) any contribution to the capital of any entity, and

"(2) any premium received by such entity with respect to any option on any interest in such entity.

"(b) TREATMENT OF CONTRIBUTIONS IN EXCHANGE FOR STOCK, ETC.—

"(1) IN GENERAL.—In the case of any contribution of money or other property to a corporation in exchange for stock of such corporation—

"(A) such contribution shall not be treated for purposes of subsection (a) as a contribution to the capital of such corporation (and shall not be includible in the gross income of such corporation), and

"(B) no gain or loss shall be recognized to such corporation upon the issuance of such stock.

"(2) TREATMENT LIMITED TO VALUE OF STOCK.— For purposes of this subsection, a contribution of money or other property to a corporation shall be treated as being in exchange for stock of such corporation only to the extent that the fair market value of such money and other property does not exceed the fair market value of such stock.

"(3) APPLICATION TO ENTITIES OTHER THAN CORPORATIONS.—In the case of any entity other than a corporation, rules similar to the rules of paragraphs (1) and (2) shall apply in the case of any contribution of money or other property to such entity in exchange for any interest in such entity.

"(c) TREASURY STOCK TREATED AS STOCK.—Any reference in this section to stock shall be treated as including a reference to treasury stock.".

(b) BASIS OF CORPORATION IN CONTRIBUTED PROPERTY.—

(1) CONTRIBUTIONS TO CAPITAL.—Subsection (c) of section 362 is amended to read as follows:

"(c) CONTRIBUTIONS TO CAPITAL.—If property other than money is transferred to a corporation as a contribution to the capital of such corporation (within the meaning of section 76) then the basis of such property shall be the greater of—

"(1) the basis determined in the hands of the transferor, increased by the amount of gain recognized to the transferor on such transfer, or

"(2) the amount included in gross income by such corporation under section 76 with respect to such contribution.".

(2) CONTRIBUTIONS IN EXCHANGE FOR STOCK.—Paragraph (2) of section 362(a) is amended by striking ''contribution to capital'' and inserting ''contribution in exchange for stock of such corporation (determined under rules similar to the rules of paragraphs (2) and (3) of section 76(b))''.

(c) CONFORMING AMENDMENTS.—

(1) Section 108(e) is amended by striking paragraph (6).

(2) Part III of subchapter B of chapter 1 is amended by striking section 118 (and by striking the item relating to such section in the table of sections for such part).

(3) The table of sections for part II of subchapter B of chapter 1 is amended by inserting after the item relating to section 75 the following new item:

''Sec. 76. Contributions to capital.''.

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

SEC. 3102. REPEAL OF DEDUCTION FOR LOCAL LOBBYING EXPENSES.

(a) IN GENERAL.—Section 162(e) is amended by striking paragraphs (2) and (7) and by redesignating

paragraphs (3), (4), (5), (6), and (8) as paragraphs (2), (3), (4), (5), and (6), respectively.

(b) CONFORMING AMENDMENT.—Section 6033(e)(1)(B)(ii) is amended by striking ''section 162(e)(5)(B)(ii)'' and inserting ''section 162(e)(4)(B)(ii)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

SEC. 3103. EXPENDITURES FOR REPAIRS IN CONNECTION WITH CASUALTY LOSSES.

(a) IN GENERAL.—Section 165, as amended by the preceding provisions of this Act, is amended by inserting after subsection (g) the following new subsection:

''(h) SPECIAL RULE FOR CASUALTY LOSSES.—

''(1) EXPENDITURES FOR REPAIRS IN CONNECTION WITH CASUALTY LOSSES.—If a deduction is allowable under this section for any casualty loss with respect to any property, any expenditure made for any repair of damage to such property in connection with such casualty loss shall be treated as a permanent improvement made to increase the value of such property for purposes of section 263(a)(1).

''(2) ELECTION TO EXPENSE REPAIR IN LIEU OF DEDUCTING CASUALTY LOSS.—If the taxpayer

elects the application of this paragraph with respect to any property with respect to which there is a casualty loss, no deduction shall be allowable under this section for the casualty loss with respect to such property and paragraph (1) shall not apply to expenditures made for repair of damage to such property in connection with such casualty loss. Any election under this paragraph shall be made not later than the due date for the return of tax (including extensions) for the taxable year in which the casualty loss occurs and, once made, may be revoked only with the consent of the Secretary.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to losses sustained after December 31, 2014.

SEC. 3104. REFORM OF ACCELERATED COST RECOVERY SYSTEM.

(a) APPLICABLE DEPRECIATION METHOD.—Subsection (b) of section 168 is amended to read as follows:

''(b) APPLICABLE DEPRECIATION METHOD.—For purposes of this section—

''(1) IN GENERAL.—The applicable depreciation method is the straight line method.

''(2) SALVAGE VALUE TREATED AS ZERO.—Salvage value shall be treated as zero.''.

(b) APPLICABLE RECOVERY PERIOD.—Subsection (c) of section 168 is amended to read as follows:

"(c) APPLICABLE RECOVERY PERIOD.—For purposes of this section—

"(1) IN GENERAL.—Except as provided in paragraph (2), the applicable recovery period for any property is the class life of such property.

"(2) SPECIAL RULES FOR DETERMINING CLASS LIFE OF CERTAIN PROPERTY.—

"(A) PROPERTY WITH NO CLASS LIFE.—In the case of personal property with no class life, the recovery period is 12 years.

"(B) CERTAIN HORSES.—In the case of any race horse, and any horse other than a race horse which is more than 12 years old at the time it is placed in service, 3 years.

"(C) SEMI-CONDUCTOR MANUFACTURING EQUIPMENT.—In the case of any semi-conductor manufacturing equipment, the recovery period is 5 years.

"(D) QUALIFIED TECHNOLOGICAL EQUIPMENT.—In the case of any qualified technological equipment, the recovery period is 5 years.

"(E) AUTOMOBILE OR LIGHT GENERAL PURPOSE TRUCK.—In the case of any automobile or light general purpose truck, the recovery period is 5 years.

"(F) QUALIFIED RENT-TO-OWN PROPERTY.—In the case of any qualified rent-to-own property, the recovery period is 9 years.

"(G) CERTAIN TELEPHONE SWITCHING EQUIPMENT.—In the case of any computer-based telephone central office switching equipment, the recovery period is 9.5 years.

"(H) RAILROAD TRACK.—In the case of any railroad track, the recovery period is 10 years.

"(I) SMART ELECTRIC DISTRIBUTION PROPERTY.—In the case of qualified smart electric meters and qualified smart electric grid systems, the recovery period is 10 years.

"(J) AIRPLANES.—In the case of any fixed-wing aircraft (including any fixed-wing airframe or engine), the recovery period is 12 years.

"(K) NATURAL GAS GATHERING LINE.—In the case of any natural gas gathering line, the recovery period is 14 years.

"(L) TREE OR VINE BEARING FRUIT OR NUTS.—In the case of any tree or vine bearing fruit or nuts, the recovery period is 20 years.

"(M) TELEPHONE DISTRIBUTION PLANT.—In the case of any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications by cable, the recovery period is 24 years.

"(N) REAL PROPERTY.—In the case of nonresidential real property, residential rental property, and any section 1245 property (as defined in section 1245(a)(3)) which is real property with no class life, the recovery period is 40 years.

"(O) WATER TREATMENT AND UTILITY PROPERTY.—In the case of any municipal wastewater treatment plant or water utility property, the recovery period is 50 years.

"(P) CLEARING AND GRADING IMPROVEMENTS; TUNNEL BORE.—In the case of any clearing and grading land improvements or tunnel bore, the recovery period is 50 years.

"(Q) TAX-EXEMPT USE PROPERTY SUBJECT TO LEASE.—In the case of any tax-exempt use property subject to a lease, the recovery pe-

riod used for purposes of paragraph (2) shall (notwithstanding any other subparagraph of this paragraph) in no event be less than 125 percent of the lease term.''.

(c) NEUTRAL COST RECOVERY SYSTEM.—Section 168, as amended by subsection (f), is amended by adding at the end the following new subsection:

''(i) NEUTRAL COST RECOVERY SYSTEM.—

''(1) IN GENERAL.—In the case of any property (to which this section applies) placed in service by the taxpayer in a taxable year for which such taxpayer has elected the application of this subsection, the deduction determined under subsection (a) with respect to such property for any taxable year shall be increased by an amount equal to the product of—

''(A) the modified adjusted basis of such property determined as of the close of such taxable year (determined without regard to this subsection but after taking all other adjustments for such taxable year into account), multiplied by

''(B) the inflation adjustment percentage for the calendar year in which such taxable year begins.

"(2) MODIFIED ADJUSTED BASIS.—For purposes of this subsection, the term 'modified adjusted basis' means, with respect to any property, the adjusted basis which would be determined with respect to such property if this subsection never applied to such property.

"(3) INFLATION ADJUSTMENT PERCENTAGE.—For purposes of this subsection, the term 'inflation adjustment percentage' means, with respect to any calendar year, the cost-of-living adjustment which would be determined under section 1(c)(2)(A) for such calendar year if clause (ii) thereof were applied by substituting 'the C-CPI-U for the calendar year preceding the calendar year referred to in clause (i)' for 'the normalized CPI for calendar year 2012'.

"(4) INCREASE FOR FIRST TAXABLE YEAR REDUCED TO TAKE INTO ACCOUNT PLACED IN SERVICE CONVENTION.—In the case of the taxable year in which any property is placed in service, the increase determined under paragraph (1) with respect to such property shall be equal to—

"(A) in the case of any property to which subsection (d)(3) applies, ⅛ of the amount of such increase determined without regard to this paragraph, and

"(B) in the case of any other property, ½ of the amount of such increase determined without regard to this paragraph.

"(5) OVERALL DEPRECIATION ALLOWANCE NOT TO EXCEED BASIS.—The deduction determined under subsection (a) (after any increase determined under this subsection) with respect to any property for any taxable year shall not exceed the adjusted basis of such property determined as of the beginning of such taxable year.

"(6) CERTAIN PROPERTY EXCLUDED.—Paragraph (1) shall not apply to any specified property used outside the United States or to any property described in subsection (d)(2).

"(7) ELECTION.—

"(A) IN GENERAL.—An election under paragraph (1) for any taxable year shall be made not later than the due date (including extensions) for the return of tax for such taxable year. Such election, once made, shall be irrevocable. Such election shall apply with respect to all property placed in service during the taxable for which made (and shall apply for subsequent taxable years but only with respect to such property).

"(B) TAXPAYER ENGAGED IN MORE THAN ONE BUSINESS.—A taxpayer engaged in more than one trade or business may make separate elections under paragraph (1) with respect to each such trade or business.".

(d) APPLICATION OF MID-MONTH CONVENTION.—

(1) IN GENERAL.—Subparagraphs (A), (B) and (C) of section 168(d)(2) are amended to read as follows:

"(A) real property,

"(B) water treatment and utility property, and

"(C) any clearing and grading land improvements or tunnel bore,".

(2) CONFORMING AMENDMENT.—Clause (i) of section 168(d)(3)(B) is amended to read as follows:

"(i) any property described in paragraph (2),".

(e) DEFINITIONS.—Subsection (e) of section 168 is amended to read as follows:

"(e) DEFINITIONS.—For purposes of this section—

"(1) CLASS LIFE.—

"(A) IN GENERAL.—Except as provided in this section, the term 'class life' means the class life (if any) which would be applicable with re-

spect to any property as of January 1, 1986, under subsection (m) of section 167 (determined without regard to paragraph (4) and as if the taxpayer had made an election under such subsection). The reference in this paragraph to subsection (m) of section 167 shall be treated as a reference to such subsection as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990.

''(B) SECRETARIAL AUTHORITY TO MODIFY REV. PROC. 87-56.—

''(i) IN GENERAL.—The Secretary, through the Office of Tax Analysis and in consultation with the Bureau of Economic Analysis of the Department of Commerce, shall—

''(I) determine, and develop a schedule of, the economic depreciation of the major categories of depreciable property (other than property with a specified class life under subsection (c)(2)) to approximate constant straight-line depreciation, and

"(II) develop recommendations regarding the proper economic depreciation for property with a specified class life under subsection (c)(2).

"(ii) REPORT.—Not later than December 31, 2017, the Secretary shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate—

"(I) the schedule developed under clause (i)(I), and

"(II) the recommendations developed under clause (i)(II).

The schedule developed under clause (i)(I) shall take effect with respect to property placed in service after the later of December 31, 2017, or the end of the first calendar year ending after the calendar year during which such schedule is submitted.

"(2) RESIDENTIAL RENTAL PROPERTY.—

"(A) IN GENERAL.—The term 'residential rental property' means any building or structure if 80 percent or more of the gross rental income from such building or structure for the

taxable year is rental income from dwelling units.

"(B) DWELLING UNIT.—For purposes of subparagraph (A)—

"(i) the term 'dwelling unit' means a house or apartment used to provide living accommodations in a building or structure, but does not include a unit in a hotel, motel, or other establishment more than one-half of the units in which are used on a transient basis, and

"(ii) if any portion of the building or structure is occupied by the taxpayer, the gross rental income from such building or structure shall include the rental value of the portion so occupied.

"(3) NONRESIDENTIAL REAL PROPERTY.—The term 'nonresidential real property' means section 1250 property which is not—

"(A) residential rental property, or

"(B) property with a class life of less than 27.5 years.

"(4) WATER UTILITY PROPERTY.—The term 'water utility property' means property—

1 ''(A) which is an integral part of the gath-
2 ering, treatment, or commercial distribution of
3 water, and
4 ''(B) any municipal sewer.
5 ''(5) QUALIFIED RENT-TO-OWN PROPERTY.—
6 ''(A) IN GENERAL.—The term 'qualified
7 rent-to-own property' means any property held
8 by a rent-to-own dealer for purposes of being
9 subject to a rent-to-own contract.
10 ''(B) RENT-TO-OWN DEALER.—The term
11 'rent-to-own dealer' means a person that, in the
12 ordinary course of business, regularly enters
13 into rent-to-own contracts with customers for
14 the use of consumer property, if a substantial
15 portion of those contracts terminate and the
16 property is returned to such person before the
17 receipt of all payments required to transfer
18 ownership of the property from such person to
19 the customer.
20 ''(C) CONSUMER PROPERTY.—The term
21 'consumer property' means tangible personal
22 property of a type generally used within the
23 home for personal use.
24 ''(D) RENT-TO-OWN CONTRACT.—The
25 term 'rent-to-own contract' means any lease for

the use of consumer property between a rent-to-own dealer and a customer who is an individual which—

"(i) is titled 'Rent-to-Own Agreement' or 'Lease Agreement with Ownership Option', or uses other similar language,

"(ii) provides for level (or decreasing where no payment is less than 40 percent of the largest payment), regular periodic payments (for a payment period which is a week or month),

"(iii) provides that legal title to such property remains with the rent-to-own dealer until the customer makes all the payments described in clause (ii) or early purchase payments required under the contract to acquire legal title to the item of property,

"(iv) provides a beginning date and a maximum period of time for which the contract may be in effect that does not exceed 156 weeks or 36 months from such beginning date (including renewals or options to extend),

1 ''(v) provides for payments within the
2 156-week or 36-month period that, in the
3 aggregate, generally exceed the normal re-
4 tail price of the consumer property plus in-
5 terest,
6 ''(vi) provides for payments under the
7 contract that, in the aggregate, do not ex-
8 ceed $10,000 per item of consumer prop-
9 erty,
10 ''(vii) provides that the customer does
11 not have any legal obligation to make all
12 the payments referred to in clause (ii) set
13 forth under the contract, and that at the
14 end of each payment period the customer
15 may either continue to use the consumer
16 property by making the payment for the
17 next payment period or return such prop-
18 erty to the rent-to-own dealer in good
19 working order, in which case the customer
20 does not incur any further obligations
21 under the contract and is not entitled to a
22 return of any payments previously made
23 under the contract, and
24 ''(viii) provides that the customer has
25 no right to sell, sublease, mortgage, pawn,

pledge, encumber, or otherwise dispose of the consumer property until all the payments stated in the contract have been made.

"(6) QUALIFIED TECHNOLOGICAL EQUIPMENT.—

"(A) IN GENERAL.—The term 'qualified technological equipment' means—

"(i) any computer or peripheral equipment,

"(ii) any high technology telephone station equipment installed on the customer's premises, and

"(iii) any high technology medical equipment.

"(B) COMPUTER OR PERIPHERAL EQUIPMENT DEFINED.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'computer or peripheral equipment' means—

"(I) any computer, and

"(II) any related peripheral equipment.

1 "(ii) COMPUTER.—The term 'com-
2 puter' means a programmable electroni-
3 cally activated device which—
4 "(I) is capable of accepting infor-
5 mation, applying prescribed processes
6 to the information, and supplying the
7 results of these processes with or
8 without human intervention, and
9 "(II) consists of a central proc-
10 essing unit containing extensive stor-
11 age, logic, arithmetic, and control ca-
12 pabilities.
13 "(C) HIGH TECHNOLOGY MEDICAL EQUIP-
14 MENT.—For purposes of this paragraph, the
15 term 'high technology medical equipment'
16 means any electronic, electromechanical, or
17 computer-based high technology equipment used
18 in the screening, monitoring, observation, diag-
19 nosis, or treatment of patients in a laboratory,
20 medical, or hospital environment.
21 "(7) NATURAL GAS GATHERING LINE.—The
22 term 'natural gas gathering line' means—
23 "(A) the pipe, equipment, and appur-
24 tenances determined to be a gathering line by

the Federal Energy Regulatory Commission, and

"(B) the pipe, equipment, and appurtenances used to deliver natural gas from the wellhead or a commonpoint to the point at which such gas first reaches—

"(i) a gas processing plant,

"(ii) an interconnection with a transmission pipeline for which a certificate as an interstate transmission pipeline has been issued by the Federal Energy Regulatory Commission,

"(iii) an interconnection with an intrastate transmission pipeline, or

"(iv) a direct interconnection with a local distribution company, a gas storage facility, or an industrial consumer.

"(8) QUALIFIED SMART ELECTRIC METERS.—

"(A) IN GENERAL.—The term 'qualified smart electric meter' means any smart electric meter which—

"(i) is placed in service by a taxpayer that is a supplier of electric energy or a provider of electric energy services, and

"(ii) does not have a class life (determined without regard to subsection (c)) of less than 10 years.

"(B) SMART ELECTRIC METER.—For purposes of subparagraph (A), the term 'smart electric meter' means any time-based meter and related communication equipment which is capable of being used by the taxpayer as part of a system that—

"(i) measures and records electricity usage data on a time-differentiated basis in at least 24 separate time segments per day,

"(ii) provides for the exchange of information between supplier or provider and the customer's electric meter in support of time-based rates or other forms of demand response,

"(iii) provides data to such supplier or provider so that the supplier or provider can provide energy usage information to customers electronically, and

"(iv) provides net metering.

"(9) QUALIFIED SMART ELECTRIC GRID SYSTEMS.—

"(A) IN GENERAL.—The term 'qualified smart electric grid system' means any smart grid property which—

"(i) is used as part of a system for electric distribution grid communications, monitoring, and management placed in service by a taxpayer who is a supplier of electric energy or a provider of electric energy services, and

"(ii) does not have a class life (determined without regard to subsection (c)) of less than 10 years.

"(B) SMART GRID PROPERTY.—For the purposes of subparagraph (A), the term 'smart grid property' means electronics and related equipment that is capable of—

"(i) sensing, collecting, and monitoring data of or from all portions of a utility's electric distribution grid,

"(ii) providing real-time, two-way communications to monitor or manage such grid, and

"(iii) providing real time analysis of and event prediction based upon collected data that can be used to improve electric

distribution system reliability, quality, and performance.

"(10) SPECIFIED PROPERTY USED OUTSIDE THE UNITED STATES.—

"(A) IN GENERAL.—The term 'specified property used outside the United States' means—

"(i) any aircraft which is registered by the Administrator of the Federal Aviation Agency and which is operated to and from the United States or is operated under contract with the United States,

"(ii) rolling stock which is used within and without the United States and which is—

"(I) of a rail carrier subject to part A of subtitle IV of title 49, or

"(II) of a United States person (other than a corporation described in subclause (I)) but only if the rolling stock is not leased to one or more foreign persons for periods aggregating more than 12 months in any 24-month period,

"(iii) any vessel documented under the laws of the United States which is operated in the foreign or domestic commerce of the United States,

"(iv) any motor vehicle of a United States person (as defined in section 7701(a)(30)) which is operated to and from the United States,

"(v) any container of a United States person which is used in the transportation of property to and from the United States,

"(vi) any property (other than a vessel or an aircraft) of a United States person which is used for the purpose of exploring for, developing, removing, or transporting resources from the outer Continental Shelf (within the meaning of section 2 of the Outer Continental Shelf Lands Act, as amended and supplemented; (43 U.S.C. 1331)),

"(vii) any property which is owned by a domestic corporation or by a United States citizen (other than a citizen entitled to the benefits of section 931 or 933) and which is used predominantly in a posses-

sion of the United States by such a corporation, or such a citizen, or by a corporation created or organized in, or under the law of, a possession of the United States,

''(viii) any communications satellite (as defined in section 103(3) of the Communications Satellite Act of 1962, 47 U.S.C. 702(3)), or any interest therein, of a United States person,

''(ix) any cable, or any interest therein, of a domestic corporation engaged in furnishing telephone service to which section 168(e)(10)(C) applies (or of a wholly owned domestic subsidiary of such a corporation), if such cable is part of a submarine cable system which constitutes part of a communication link exclusively between the United States and one or more foreign countries,

''(x) any property (other than a vessel or an aircraft) of a United States person which is used in international or territorial waters within the northern portion of the Western Hemisphere for the purpose of ex-

ploring for, developing, removing, or transporting resources from ocean waters or deposits under such waters,

"(xi) any property described in section 48(l)(3)(A)(ix) (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990) which is owned by a United States person and which is used in international or territorial waters to generate energy for use in the United States, and

"(xii) any satellite (not described in clause (viii)) or other spacecraft (or any interest therein) held by a United States person if such satellite or other spacecraft was launched from within the United States.

"(B) NORTHERN PORTION OF THE WESTERN HEMISPHERE.—For purposes of subparagraph (A)(x), the term 'northern portion of the Western Hemisphere' means the area lying west of the 30th meridian west of Greenwich, east of the international dateline, and north of the Equator, but not including any foreign country which is a country of South America.".

(f) CONFORMING AMENDMENTS.—

(1) AMENDMENTS TO SECTION 168.—

(A) Section 168 is amended by striking subsections (g), (j), (k), (l), (m), and (n), and by redesignating subsections (h) and (i) as subsections (g) and (h), respectively.

(B) Section 168(h), as redesignated by subparagraph (A), is amended—

(i) by striking paragraphs (1), (2), (11), (12), (13), (14), (15), (16), (17), (18), and (19) and by redesignating paragraphs (3) through (10) as paragraphs (1) through (8), respectively, and

(ii) by striking ''DEFINITIONS AND'' in the heading thereof.

(C) Section 168(h)(8), as redesignated by subparagraphs (A) and (B), is moved to the end of section 168(e) (as amended by subsection (e)) and redesignated as paragraph (11).

(2) OTHER CONFORMING AMENDMENTS.—

(A) Section 50(b)(4) is amended—

(i) in subparagraph (A)(ii)—

(I) by striking ''section 168(h)(2)(C)'' and inserting ''section 168(g)(2)(C)'',

(II) by striking ''section 168(h)(2)(A)(iii)'' and inserting ''section 168(g)(2)(A)(iii)'', and

(III) by striking ''section 168(h)(2)(B)'' and inserting ''section 168(g)(2)(B)'',

(ii) in subparagraph (B), by striking ''section 168(i)(3)'' and inserting ''section 168(h)(1)'', and

(iii) in subparagraphs (D) and (E), by striking ''section 168(h)'' each place it appears and inserting ''section 168(g)''.

(B)(i) Section 50(b)(1)(B) is amended by striking ''any property described in section 168(g)(4)'' and inserting ''any specified property used outside the United States (as defined in section 168(e)(10)''.

(ii) Section 865(c)(3)(B) is amended by striking ''property of a kind described in section 168(g)(4)'' and inserting ''specified property used outside the United States (as defined in section 168(e)(10)''.

(C) Section 179(e)(2) is amended by inserting ''as in effect before its repeal by the

1 Tax Reform Act of 2014'' after ''section
2 168(n)(2)''.
3 (D) Section 179(f), as amended by section
4 3111, is amended—
5 (i) by striking paragraph (2), and
6 (ii) by inserting after paragraph (1)
7 the following new paragraphs:
8 ''(2) QUALIFIED REAL PROPERTY.—For pur-
9 poses of this subsection, the term 'qualified real
10 property' means qualified leasehold improvement
11 property, qualified restaurant property, and qualified
12 retail improvement property.
13 ''(3) QUALIFIED LEASEHOLD IMPROVEMENT
14 PROPERTY.—For purposes of this subsection—
15 ''(A) IN GENERAL.—The term 'qualified
16 leasehold improvement property' means any im-
17 provement to an interior portion of a building
18 which is nonresidential real property if—
19 ''(i) such improvement is made under
20 or pursuant to a lease (as defined in sec-
21 tion 168(g)(7))—
22 ''(I) by the lessee (or any subles-
23 see) of such portion, or
24 ''(II) by the lessor of such por-
25 tion,

"(ii) such portion is to be occupied exclusively by the lessee (or any sublessee) of such portion, and

"(iii) such improvement is placed in service more than 3 years after the date the building was first placed in service.

"(B) CERTAIN IMPROVEMENTS NOT INCLUDED.—Such term shall not include any improvement for which the expenditure is attributable to—

"(i) the enlargement of the building,

"(ii) any elevator or escalator,

"(iii) any structural component benefitting a common area, and

"(iv) the internal structural framework of the building.

"(C) DEFINITIONS AND SPECIAL RULES.—For purposes of this paragraph—

"(i) COMMITMENT TO LEASE TREATED AS LEASE.—A commitment to enter into a lease shall be treated as a lease, and the parties to such commitment shall be treated as lessor and lessee, respectively.

"(ii) RELATED PERSONS.—A lease between related persons shall not be consid-

ered a lease. For purposes of the preceding sentence, the term 'related persons' means—

"(I) members of an affiliated group (as defined in section 1504), and

"(II) persons having a relationship described in subsection (b) of section 267; except that, for purposes of this subclause, the phrase '80 percent or more' shall be substituted for the phrase 'more than 50 percent' each place it appears in such subsection.

"(D) IMPROVEMENTS MADE BY LESSOR.—In the case of an improvement made by the person who was the lessor of such improvement when such improvement was placed in service, such improvement shall be qualified leasehold improvement property (if at all) only so long as such improvement is held by such person.

"(E) EXCEPTION FOR CHANGES IN FORM OF BUSINESS.—Property shall not cease to be qualified leasehold improvement property by reason of—

"(i) death,

"(ii) a transaction to which section 381(a) applies,

"(iii) a mere change in the form of conducting the trade or business so long as the property is retained in such trade or business as qualified leasehold improvement property and the taxpayer retains a substantial interest in such trade or business,

"(iv) the acquisition of such property in an exchange described in section 1031 (as in effect before its repeal by the Tax Reform Act of 2014), 1033, or 1038 to the extent that the basis of such property includes an amount representing the adjusted basis of other property owned by the taxpayer or a related person, or

"(v) the acquisition of such property by the taxpayer in a transaction described in section 332, 351, 361, 721, or 731 (or the acquisition of such property by the taxpayer from the transferee or acquiring corporation in a transaction described in such section), to the extent that the basis of the

property in the hands of the taxpayer is determined by reference to its basis in the hands of the transferor or distributor.

"(4) QUALIFIED RESTAURANT PROPERTY.—For purposes of this subsection, the term 'qualified restaurant property' means any section 1250 property which is—

"(A) a building, or

"(B) an improvement to a building,

if more than 50 percent of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals.

"(5) QUALIFIED RETAIL IMPROVEMENT PROPERTY.—

"(A) IN GENERAL.—The term 'qualified retail improvement property' means any improvement to an interior portion of a building which is nonresidential real property if—

"(i) such portion is open to the general public and is used in the retail trade or business of selling tangible personal property to the general public, and

"(ii) such improvement is placed in service more than 3 years after the date the building was first placed in service.

"(B) IMPROVEMENTS MADE BY OWNER.—In the case of an improvement made by the owner of such improvement, such improvement shall be qualified retail improvement property (if at all) only so long as such improvement is held by such owner. Rules similar to the rules under paragraph (3)(E) shall apply for purposes of the preceding sentence.

"(C) CERTAIN IMPROVEMENTS NOT INCLUDED.—Such term shall not include any improvement for which the expenditure is attributable to—

"(i) the enlargement of the building,

"(ii) any elevator or escalator,

"(iii) any structural component benefitting a common area, or

"(iv) the internal structural framework of the building.".

(E) Section 280F(b) is amended—

(i) by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively, and

(ii) by striking ", and the depreciation deduction" and all that follows through

"alternative depreciation system)" in paragraph (1) (as redesignated by clause (i)).

(F) Section 280F(d)(4)(A)(iv) is amended by striking "section 168(i)(2)(B)" and inserting "section 168(e)(6)(B)".

(G) Section 312(k)(3) is amended by striking "EXCEPTION FOR TANGIBLE PROPERTY" and all that follows through "For purposes of computing the earnings and profits" and inserting "EXCEPTION FOR CERTAIN TANGIBLE PROPERTY.—For purposes of computing the earnings and profits".

(H) Section 460(c) is amended by striking paragraph (6).

(I) Section 460(d)(2) is amended by striking "section 168(h)(2)(D)" and inserting "section 168(g)(2)(D)".

(J) Section 460(e)(6) is amended by striking "section 168(e)(2)(A)(ii)" each place it appears and inserting "section 168(e)(2)(B)".

(K)(i) Subparagraphs (A) and (C) of section 470(c)(2) are each amended by striking "section 168(h)" and inserting "section 168(g)."

(ii) Section 470(c)(2)(B) is amended by striking ''section 168(h)(6)'' and inserting ''section 168(g)(6)''.

(L) Section 512(b)(17)(B)(ii)(I) is amended by striking ''section 168(h)(4)(B)'' and inserting ''section 168(g)(4)(B)''.

(M) Section 514(c)(9)(B)(vi)(II) is amended by striking ''section 168(h)(6)'' and inserting ''section 168(g)(6)''.

(N) Section 527(i)(3)(D) is amended by striking ''section 168(h)(4)'' and inserting ''section 168(g)(4)''.

(O) The second sentence of section 860E(e)(5) is amended by striking ''section 168(h)(2)(D)'' and inserting ''section 168(g)(2)(D)''.

(P) Section 1245(a) is amended—

(i) in paragraph (3)(D), by striking ''section 168(i)(13)'' and inserting ''paragraph (4)'', and

(ii) by adding at the end the following new paragraph:

''(4) SINGLE PURPOSE AGRICULTURAL OR HORTICULTURAL STRUCTURE.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'single purpose agricultural or horticultural structure' means—

"(i) a single purpose livestock structure, and

"(ii) a single purpose horticultural structure.

"(B) DEFINITIONS.—For purposes of this paragraph—

"(i) SINGLE PURPOSE LIVESTOCK STRUCTURE.—The term 'single purpose livestock structure' means any enclosure or structure specifically designed, constructed, and used—

"(I) for housing, raising, and feeding a particular type of livestock and their produce, and

"(II) for housing the equipment (including any replacements) necessary for the housing, raising, and feeding referred to in subclause (I).

"(ii) SINGLE PURPOSE HORTICULTURAL STRUCTURE.—The term 'single purpose horticultural structure' means—

"(I) a greenhouse specifically designed, constructed, and used for the commercial production of plants, and

"(II) a structure specifically designed, constructed, and used for the commercial production of mushrooms.

"(iii) STRUCTURES WHICH INCLUDE WORK SPACE.—An enclosure or structure which provides work space shall be treated as a single purpose agricultural or horticultural structure only if such work space is solely for—

"(I) the stocking, caring for, or collecting of livestock or plants (as the case may be) or their produce,

"(II) the maintenance of the enclosure or structure, and

"(III) the maintenance or replacement of the equipment or stock enclosed or housed therein.

"(iv) LIVESTOCK.—The term "livestock" includes poultry.".

(Q) Section 1245(a)(3)(F) is amended to read as follows:

"(F) any clearing and grading land improvements or tunnel bore (within the meaning of section 168(c)(2)(P)).".

(R) Section 6050V(d)(3) is amended by striking "section 168(h)(2)(A)(iv)" and inserting "section 168(g)(2)(A)(iv)".

(S) Section 6211(b)(4)(A) is amended by striking "168(k)(4),".

(T) The second sentence of section 7701(e)(4)(A) is amended by striking "section 168(h)" and inserting "section 168(g)".

(U) Section 7871(f)(3) is amended—

(i) by striking "(as defined in section 168(j)(6))" in subparagraph (B)(ii), and

(ii) by adding at the end the following new subparagraph:

"(D) INDIAN RESERVATION.—For purposes of this paragraph, the term 'Indian reservation' means a reservation, as defined in—

"(i) section 3(d) of the Indian Financing Act of 1974 (25 U.S.C. 1452(d)), or

"(ii) section 4(10) of the Indian Child Welfare Act of 1978 (25 U.S.C. 1903(10)).

For purposes of the preceding sentence, such section 3(d) shall be applied by treating the term 'former Indian reservations in Oklahoma' as including only lands which are within the jurisdictional area of an Oklahoma Indian tribe (as determined by the Secretary of the Interior) and are recognized by such Secretary as eligible for trust land status under 25 CFR Part 151 (as in effect on August 5, 1997).''.

(g) NORMALIZATION REQUIREMENTS.—

(1) IN GENERAL.—A normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168 of the Internal Revenue Code of 1986 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method.

(2) ALTERNATIVE METHOD FOR CERTAIN TAXPAYERS.—If, as of the first day of the taxable year that includes the date of enactment of this Act—

(A) the taxpayer was required by a regulatory agency to compute depreciation for public

utility property on the basis of an average life or composite rate method, and

(B) the taxpayer's books and underlying records did not contain the vintage account data necessary to apply the average rate assumption method,

the taxpayer will be treated as using a normalization method of accounting if, with respect to such jurisdiction, the taxpayer uses the alternative method for public utility property that is subject to the regulatory authority of that jurisdiction.

(3) DEFINITIONS.—For purposes of this subsection—

(A) EXCESS TAX RESERVE.—The term ''excess tax reserve'' means the excess of—

(i) the reserve for deferred taxes (as described in section 168(i)(9)(A)(ii) of the Internal Revenue Code of 1986 as in effect on the day before the date of the enactment of this Act), over

(ii) the amount which would be the balance in such reserve if the amount of such reserve were determined by assuming that the corporate rate reductions provided

in this Act were in effect for all prior periods.

(B) AVERAGE RATE ASSUMPTION METHOD.—The average rate assumption method is the method under which the excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in its regulated books of account which gave rise to the reserve for deferred taxes. Under such method, if timing differences for the property reverse, the amount of the adjustment to the reserve for the deferred taxes is calculated by multiplying—

(i) the ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property as of the beginning of the period in question, by

(ii) the amount of the timing differences which reverse during such period.

(C) ALTERNATIVE METHOD.—The ''alternative method'' is the method in which the taxpayer—

(i) computes the excess tax reserve on all public utility property included in the plant account on the basis of the weighted

average life or composite rate used to compute depreciation for regulatory purposes, and

(ii) reduces the excess tax reserve ratably over the remaining regulatory life of the property.

(4) TAX INCREASED FOR NORMALIZATION VIOLATION.— If, for any taxable year ending after the date of the enactment of this Act, the taxpayer does not use a normalization method of accounting, the taxpayer's tax for the taxable year shall be increased by the amount by which it reduces its excess tax reserve more rapidly than permitted under a normalization method of accounting.

(h) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2016.

SEC. 3105. REPEAL OF AMORTIZATION OF POLLUTION CONTROL FACILITIES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 169 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 642(f) is amended by striking ''the deductions for amortization provided by sections 169 and 197'' and inserting ''the deduction for amortization provided by section 197''.

(2) Section 1250(b)(3) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''169''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to facilities placed in service after December 31, 2014.

SEC. 3106. NET OPERATING LOSS DEDUCTION.

(a) LIMITATION ON NET OPERATING LOSSES OF CORPORATIONS.—

(1) IN GENERAL.—Section 172(a) is amended to read as follows:

''(a) DEDUCTION ALLOWED.—

''(1) IN GENERAL.—There shall be allowed as a deduction for the taxable year an amount equal to the aggregate of—

''(A) the net operating loss carryovers to such year, plus

''(B) the net operating loss carrybacks to such year.

''(2) LIMITATION IN CASE OF CORPORATIONS.—In the case of a corporation—

"(A) the deduction allowed under paragraph (1) for the taxable year shall not exceed 90 percent of the taxable income for such year computed without regard to the deduction allowable under this section, and

"(B) appropriate adjustments in the application of subsection (b)(2) shall be made to take into account the limitation of subparagraph (A).

"(3) NET OPERATING LOSS DEDUCTION DEFINED.—For purposes of this subtitle, the term 'net operating loss deduction' means the deduction allowed by this subsection.".

(2) COORDINATION WITH LIMITATION ON DEDUCTION FOR CHARITABLE CONTRIBUTIONS.—

(A) IN GENERAL.—Section 170(b)(2)(C) is amended by redesignating clauses (iv) and (v) as clauses (v) and (vi), respectively, and by inserting after clause (iii) the following new clause:

"(iv) the limitation imposed under section 172(a)(2)(A),".

(B) LIFE INSURANCE COMPANIES.—Section 805(b)(2)(A) is amended by redesignating clauses (ii) through (v) as clauses (iii) through

(vi), respectively, and by inserting after clause (i) the following new clause:

"(ii) the limitation imposed under section 172(a)(2)(A),".

(b) REPEAL OF SPECIAL CARRYBACK PROVISIONS.—

(1) IN GENERAL.—Section 172(b)(1) is amended by striking subparagraphs (C), (D), (E), (G), (H), (I), and (J) and by redesignating subparagraph (F) as subparagraph (C).

(2) CONFORMING AMENDMENTS.—

(A) Section 172(b)(1)(C), as redesignated by paragraph (1), is amended—

(i) in clause (ii), by striking the last sentence, and

(ii) in clause (iv), by striking "in a manner similar to the manner in which a specified liability loss is treated" and inserting "as a separate net operating loss for such taxable year to be taken into account after the remaining portion of the net operating loss for such taxable year".

(B) Section 172 is amended by striking subsections (f), (g), (h), (i), and (j) and by redesignating subsection (k) as subsection (f).

(c) EFFECTIVE DATES.—

(1) LIMITATION ON NOLS OF CORPORATIONS.—The amendments made by subsection (a) shall apply to—

(A) taxable years beginning after December 31, 2014, and

(B) to carrybacks of losses arising in taxable years beginning after December 31, 2014, to taxable years beginning on or before such date.

(2) REPEAL OF SPECIAL CARRYBACKS.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendments made by subsection (b) shall apply to losses arising in taxable years beginning after December 31, 2014.

(B) EXPIRED PROVISIONS.—So much of the amendments made by subsection (b) as relate to striking subparagraphs (D), (H), (I), and (J) of section 172(b)(1) of the Internal Revenue Code of 1986 shall take effect on the date of the enactment of this Act.

SEC. 3107. CIRCULATION EXPENDITURES.

(a) IN GENERAL.—Section 173 is amended to read as follows:

"SEC. 173. CIRCULATION EXPENDITURES.

"(a) IN GENERAL.—In the case of a taxpayer's specified circulation expenditures—

"(1) except as provided in paragraph (2), no deduction shall be allowed for such expenditures, and

"(2) the taxpayer shall—

"(A) charge such expenditures to capital account, and

"(B) be allowed an amortization deduction of such expenditures ratably over the 36-month period beginning with the midpoint of the month in which such expenditures are paid or incurred.

"(b) SPECIFIED CIRCULATION EXPENDITURES.—For purposes of this section, the term 'specified circulation expenditures' means all expenditures (other than expenditures for the purchase of land or depreciable property or for the acquisition of circulation through the purchase of any part of the business of another publisher of a newspaper, magazine, or other periodical) to establish, maintain, or increase the circulation of a newspaper, magazine, or other periodical.

"(c) TREATMENT UPON ABANDONMENT.—If any property with respect to which specified circulation expenditures are paid or incurred is disposed, retired, or

abandoned during the period during which such expenditures are allowed as an amortization deduction under this section, no deduction shall be allowed with respect to such expenditures on account of such disposition, retirement, or abandonment and such amortization deduction shall continue with respect to such expenditures.

"(d) PHASE-IN FOR TAXABLE YEARS BEGINNING BEFORE 2019.—

"(1) IN GENERAL.—In the case of specified circulation expenditures paid or incurred in taxable years beginning before 2019—

"(A) notwithstanding subsection (a), the applicable percentage of such expenditures shall be allowed as a deduction for the taxable year in which paid or incurred, and

"(B) subsection (a) shall apply to the remainder of such expenditures.

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be determined in accordance with the following table:

"In the case of taxable years beginning in:	**The applicable percentage is:**
2016	75%
2017	50%
2018	25%

"(3) ELECTION OUT OF PHASE-IN.—The taxpayer may elect, at such time and in such form and manner as the Secretary shall prescribe, for para-

graph (1) not to apply for all taxable years beginning before 2019. Such election, once made, shall be irrevocable.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2015.

SEC. 3108. AMORTIZATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES.

(a) IN GENERAL.—Section 174 is amended to read as follows:

''SEC. 174. AMORTIZATION OF RESEARCH AND EXPERIMENTAL EXPENDITURES.

''(a) IN GENERAL.—In the case of a taxpayer's specified research or experimental expenditures for any taxable year—

''(1) except as provided in paragraph (2), no deduction shall be allowed for such expenditures, and

''(2) the taxpayer shall—

''(A) charge such expenditures to capital account, and

''(B) be allowed an amortization deduction of such expenditures ratably over the 5-year period (15-year period in the case of any specified research or experimental expenditures which are

attributable to foreign research (within the meaning of section 41(d)(4)(F))) beginning with the midpoint of the taxable year in which such expenditures are paid or incurred.

''(b) SPECIFIED RESEARCH OR EXPERIMENTAL EXPENDITURES.—For purposes of this section, the term 'specified research or experimental expenditures' means, with respect to any taxable year, research or experimental expenditures which are paid or incurred by the taxpayer during such taxable year in connection with the taxpayer's trade or business.

''(c) SPECIAL RULES.—

''(1) LAND AND OTHER PROPERTY.—This section shall not apply to any expenditure for the acquisition or improvement of land, or for the acquisition or improvement of property to be used in connection with the research or experimentation and of a character which is subject to the allowance under section 167 (relating to allowance for depreciation, etc.) or section 611 (relating to allowance for depletion); but for purposes of this section allowances under section 167, and allowances under section 611, shall be considered as expenditures.

''(2) EXPLORATION EXPENDITURES.—This section shall not apply to any expenditure paid or in-

curred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral (including oil and gas).

"(3) SOFTWARE DEVELOPMENT.—For purposes of this section, any amount paid or incurred in connection with the development of any software shall be treated as a research or experimental expenditure.

"(d) TREATMENT UPON DISPOSITION, RETIREMENT, OR ABANDONMENT.—If any property with respect to which specified research or experimental expenditures are paid or incurred is disposed, retired, or abandoned during the period during which such expenditures are allowed as an amortization deduction under this section, no deduction shall be allowed with respect to such expenditures on account of such disposition, retirement, or abandonment and such amortization deduction shall continue with respect to such expenditures.

"(e) SPECIAL RULES FOR EXPENDITURES FOR DOMESTIC RESEARCH DURING TAXABLE YEARS BEGINNING BEFORE 2021.—

"(1) IN GENERAL.—In the case of domestic research or experimental expenditures paid or incurred during any taxable year beginning before 2021—

"(A) notwithstanding subsection (a), the applicable percentage of such expenditures shall be allowed as a deduction in the taxable year in which paid or incurred, and

"(B) subsection (a) shall apply to the remainder of such expenditures by substituting the applicable period for 'the 5-year period'.

"(2) DOMESTIC RESEARCH OR EXPERIMENTAL EXPENDITURES.—For purposes of this subsection, the term 'domestic research or experimental expenditures' means any expenditures—

"(A) to which subsection (a) applies (determined without regard to this subsection), and

"(B) which are not attributable to foreign research (within the meaning of section 41(d)(4)(F)).

"(3) APPLICABLE PERCENTAGE.—For purposes of this subsection, the applicable percentage shall be determined in accordance with the following table:

"In the case of taxable years beginning in:	**The applicable percentage is:**
2015	60%
2016 or 2017	40%
2018, 2019, or 2020	20%

"(4) APPLICABLE PERIOD.—For purposes of this subsection, the applicable period shall be determined in accordance with the following table:

"In the case of taxable years beginning in:	The applicable period is the:
2015	2-year period
2016 or 2017	3-year period
2018, 2019, or 2020	4-year period

"(5) ELECTION OUT OF PHASE-IN.—The taxpayer may elect, at such time and in such form and manner as the Secretary shall prescribe, for paragraph (1) not to apply to all domestic research or experimental expenditures of the taxpayer for any taxable years beginning before 2021. Such election, once made, shall be irrevocable.".

(b) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by striking the item relating to section 174 and inserting the following new item:

"Sec. 174. Amortization of research and experimental expenditures.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3109. REPEAL OF DEDUCTIONS FOR SOIL AND WATER CONSERVATION EXPENDITURES AND ENDANGERED SPECIES RECOVERY EXPENDITURES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 175 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—Paragraphs (1)(A) and (2) of section 1252(a) are each amended by striking ''relating to soil and water conservation expenditures'' and inserting ''as in effect before its repeal by the Tax Reform Act of 2014''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

(2) ASSESSMENTS TREATED AS PAID OR INCURRED.—In the case of any amount paid or incurred before December 31, 2014, and treated as paid or incurred in any succeeding taxable year by reason of section 175(f) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of this Act), paragraph (1) shall not apply.

SEC. 3110. AMORTIZATION OF CERTAIN ADVERTISING EXPENSES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by inserting after section 176 the following new section:

"SEC. 177. AMORTIZATION OF CERTAIN ADVERTISING EXPENSES.

"(a) IN GENERAL.—In the case of a taxpayer's amortizable advertising expenses for any taxable year—

"(1) except as provided in paragraph (2), no deduction shall be allowed for such expenses, and

"(2) the taxpayer shall—

"(A) charge such expenses to capital account, and

"(B) be allowed an amortization deduction of such expenses ratably over the 10-year period beginning with the midpoint of the taxable year in which such expenses are paid or incurred.

"(b) EXEMPTION.—

"(1) IN GENERAL.—So much of the taxpayer's otherwise deductible advertising expenses for any taxable year as do not exceed $1,000,000 shall not be taken into account in determining such taxpayer's amortizable advertising expenses for such taxable year.

"(2) PHASEOUT OF EXEMPTION.—In the case of a taxpayer whose otherwise deductible advertising expenses for any taxable year exceed $1,500,000, the dollar amount in effect under paragraph (1) with respect to such taxpayer for such taxable year shall

be reduced (but not below zero) by twice such excess.

"(3) AGGREGATION; SHORT TAXABLE YEARS.—For purposes of this subsection, rules similar to the rules of paragraphs (2) and (3)(B) of section 448(b) shall apply.

"(c) AMORTIZABLE ADVERTISING EXPENSES.—

"(1) IN GENERAL.—For purposes of this section, the term 'amortizable advertising expenses' means, with respect to any taxpayer for any taxable year, the applicable percentage of the taxpayer's otherwise deductible advertising expenses for such taxable year.

"(2) APPLICABLE PERCENTAGE.—For purposes of this subsection, the term 'applicable percentage' means (with respect to the taxpayer's otherwise deductible advertising expenses for any taxable year) the percentage determined in accordance with the following table:

"For taxable years beginning in:	The applicable percentage is:
2015	20 percent
2016	30 percent
2017	40 percent
2018 or thereafter	50 percent.

"(3) ELECTION OUT OF PHASE-IN.—The taxpayer may elect, at such time and in such form and

manner as the Secretary shall prescribe, to treat the applicable percentage as being equal to 50 percent for all taxable years beginning before 2018. Such election, once made, shall be irrevocable.

''(d) OTHERWISE DEDUCTIBLE ADVERTISING EXPENSES.—For purposes of this section—

''(1) IN GENERAL.—The term 'otherwise deductible advertising expenses' means, with respect to any taxpayer for any taxable year, the deductions which would (but for this section) be allowable to the taxpayer for such taxable year with respect to specified advertising expenses.

''(2) SPECIFIED ADVERTISING EXPENSES.—The term 'specified advertising expenses' means any amount paid or incurred for the development, production, or placement (including any form of transmission, broadcast, publication, display, or distribution) of any communication to the general public (or portions thereof) which is intended to promote the taxpayer or a trade or business of the taxpayer (or any service, facility, or product provided pursuant to such trade or business).

''(3) EXCEPTIONS.—The term 'specified advertising expenses' shall not include—

"(A) CERTAIN WAGES.—Wages paid or incurred to any employee unless the services rendered by such employee are primarily related to—

"(i) an activity described in paragraph (2) (other than the direct sale of goods or services to customers of the taxpayer), or

"(ii) the direct supervision of employees rendering services primarily related to such an activity.

"(B) DEPRECIATION OF TANGIBLE PROPERTY.—In the case of any tangible property, any amount for which a deduction is allowed for depreciation under section 167.

"(C) AMORTIZABLE SECTION 197 INTANGIBLES.—Any amount for which a deduction is allowed for amortization under section 197.

"(D) DISCOUNTS, ETC.—Any discount, coupon, rebate, slotting allowance, sample, prize, loyalty reward point, or any item determined by the Secretary to be similar to any of the foregoing (other than any amount paid or incurred to promote any of the foregoing).

"(E) CERTAIN COMMUNICATIONS ON TAXPAYER'S PROPERTY.—Any amount paid or in-

curred with respect to any communication appearing on tangible property of the taxpayer which—

"(i) is of a character subject to the allowance for depreciation, or

"(ii) is properly treated as inventory for purposes of section 471.

"(F) CREATION OF LOGOS, TRADE NAMES, ETC.—Any amount paid or incurred for the creation of any logo, trademark, or trade name.

"(G) PACKAGE DESIGN.—Any amount to which section 263A(i) applies.

"(H) MARKETING RESEARCH.—Any amount paid or incurred for marketing research.

"(I) BUSINESS MEALS.—Any amount paid or incurred for meals.

"(J) QUALIFIED SPONSORSHIP PAYMENTS.—Any amount paid or incurred as a qualified sponsorship payment (as defined in section 513(i)(2)) with respect to an organization subject to the tax imposed by section 511.

"(e) TREATMENT UPON ABANDONMENT.—If any property with respect to which specified advertising expenses are paid or incurred is disposed, retired, or aban-

1 doned during the period during which such expenses are
2 allowed as an amortization deduction under this section,
3 no deduction shall be allowed with respect such expenses
4 on account of such disposition, retirement, or abandon-
5 ment and such amortization deduction shall continue with
6 respect to such expenses.

7 ''(f) INFLATION ADJUSTMENT.—

8 ''(1) IN GENERAL.—In the case of any taxable
9 year beginning after 2015, each of the dollar
10 amounts in subsection (b) shall be increased by an
11 amount equal to—

12 ''(A) such dollar amount, multiplied by

13 ''(B) the cost-of-living adjustment deter-
14 mined under section 1(c)(2)(A) for such cal-
15 endar year, determined by substituting 'cal-
16 endar year 2014' for 'calendar year 2012' in
17 clause (ii) thereof.

18 ''(2) ROUNDING.—The amount of any increase
19 under paragraph (1) shall be rounded to the nearest
20 multiple of $10,000.''.

21 (b) CAPITALIZATION OF PACKAGE DESIGN EX-
22 PENSES.—Section 263A is amended by redesignating sub-
23 section (i) as subsection (j) and by inserting after sub-
24 section (h) the following new subsection:

"(i) CAPITALIZATION OF PACKAGE DESIGN EXPENSES.—For purposes of this section, in the case of any amount paid or incurred for package design, such amounts shall be treated as an indirect cost described in subsection (a)(2)(B) with respect to packages which utilize such design.".

(c) CLERICAL AMENDMENT.—The table of sections for part VI of subchapter B of chapter 1 is amended by inserting after the item relating to section 176 the following new item:

"Sec. 177. Amortization of certain advertising expenses.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3111. EXPENSING CERTAIN DEPRECIABLE BUSINESS ASSETS FOR SMALL BUSINESS.

(a) IN GENERAL.—

(1) DOLLAR LIMITATION.—Paragraph (1) of section 179(b) is amended by striking "shall not exceed—" and all that follows and inserting "shall not exceed $250,000.".

(2) REDUCTION IN LIMITATION.—Paragraph (2) of section 179(b) is amended by striking "exceeds—" and all that follows and inserting "exceeds $800,000.".

(b) COMPUTER SOFTWARE.—Clause (ii) of section 179(d)(1)(A) is amended by striking ''to which section 167 applies, and which is placed in service in a taxable year beginning after 2002 and before 2014'' and inserting ''and to which section 167 applies''.

(c) ELECTION.—Paragraph (2) of section 179(c) is amended—

(1) by striking ''may not be revoked'' and all that follows through ''and before 2014'', and

(2) by striking ''IRREVOCABLE'' in the heading thereof.

(d) AIR CONDITIONING AND HEATING UNITS.—Paragraph (1) of section 179(d) is amended by striking ''and shall not include air conditioning or heating units''.

(e) QUALIFIED REAL PROPERTY.—Section 179(f) is amended—

(1) by striking ''beginning in 2010, 2011, 2012, or 2013'' in paragraph (1), and

(2) by striking paragraphs (3) and (4).

(f) INFLATION ADJUSTMENT.—Subsection (b) of section 179 is amended by adding at the end the following new paragraph:

''(6) INFLATION ADJUSTMENT.—

''(A) IN GENERAL.—In the case of any taxable year beginning after 2014, the dollar

amounts in paragraphs (1) and (2) shall each be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2013' for 'calendar year 2012' in clause (ii) thereof.

"(B) ROUNDING.—The amount of any increase under subparagraph (A) shall be rounded to the nearest multiple of $10,000.".

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2013.

SEC. 3112. REPEAL OF ELECTION TO EXPENSE CERTAIN REFINERIES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 179C (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—Section 312(k)(3), as amended by the preceding provisions of this Act, is amended by striking ", 179C" each place it appears.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2013.

SEC. 3113. REPEAL OF DEDUCTION FOR ENERGY EFFICIENT COMMERCIAL BUILDINGS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 179D (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—

(1) Section 1016(a) is amended by striking paragraph (31).

(2) Section 312(k)(3), as amended by the preceding provisions of this Act, is amended by striking ", 179D" each place it appears.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2013.

SEC. 3114. REPEAL OF ELECTION TO EXPENSE ADVANCED MINE SAFETY EQUIPMENT.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 179E (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—Section 312(k)(3), as amended by the preceding provisions of this Act, is amended—

(1) by striking ", or 179E, as the case may be", and

(2) by striking ", or 179E" each place it appears.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2013.

SEC. 3115. REPEAL OF DEDUCTION FOR EXPENDITURES BY FARMERS FOR FERTILIZER, ETC.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 180 (and by striking the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3116. REPEAL OF SPECIAL TREATMENT OF CERTAIN QUALIFIED FILM AND TELEVISION PRODUCTIONS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 181 (and by striking

the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to productions commencing after December 31, 2013.

SEC. 3117. REPEAL OF SPECIAL RULES FOR RECOVERIES OF DAMAGES OF ANTITRUST VIOLATIONS, ETC.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 186 (and by striking the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3118. TREATMENT OF REFORESTATION EXPENDITURES.

(a) ELIMINATION OF EXPENSING ELECTION.—Section 194 is amended by striking subsections (a) and (b), by redesignating subsection (c) and (d) as subsections (b) and (c), respectively, and by inserting before subsection (b) (as so redesignated) the following new subsection:

''(a) IN GENERAL.—In the case of a taxpayer's qualified reforestation expenditures for any taxable year—

"(1) except as provided in paragraph (2), no deduction shall be allowed for such expenditures, and

"(2) the taxpayer shall—

"(A) charge such expenditures to capital account, and

"(B) be allowed an amortization deduction of such expenditures ratably over the 7-year period beginning with the midpoint of the taxable year in which such expenditures are paid or incurred.".

(b) QUALIFIED REFORESTATION EXPENDITURES.—Section 194(b), as redesignated by subsection (a), is amended by striking paragraph (2), by redesignating paragraph (1) as paragraph (2), and by inserting before paragraph (2) (as so redesignated the following new paragraph:

"(1) QUALIFIED REFORESTATION EXPENDITURES.—The term 'qualified reforestation expenditures' means, with respect to any taxable year, the reforestation expenditures paid or incurred by the taxpayer during such taxable year with respect to qualified timber property.".

(c) QUALIFIED TIMBER PROPERTY LIMITED TO ORNAMENTAL TREES.—Section 194(b)(2), as redesignated by subsections (a) and (b), is amended to read as follows:

"(2) QUALIFIED TIMBER PROPERTY.—The term 'qualified timber property' means a woodlot or other site located in the United States which—

"(A) will contain evergreen trees in significant commercial quantities which are reasonably expected to be more than 6 years old at the time severed from the roots, and

"(B) is held by the taxpayer for the planting, cultivating, caring for, and cutting of such trees for sale for ornamental purposes.".

(d) DETERMINATION OF RECOMPUTED BASIS.—Section 1245(b) is amended by striking paragraph (7).

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3119. 20-YEAR AMORTIZATION OF GOODWILL AND CERTAIN OTHER INTANGIBLES.

(a) IN GENERAL.—Subsection (a) of section 197 is amended by striking "15-year period" and inserting "20-year period".

(b) MORTGAGE SERVICING RIGHTS.—Subsection (e) of section 197 is amended by striking paragraph (6) and by redesignating paragraph (7) as paragraph (6).

(c) CONFORMING AMENDMENTS.—

(1) Clause (i) of section 197(e)(4)(D) is amended by striking "15 years" and inserting "20 years".

(2) Section 167(f) is amended by striking paragraph (3).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to property acquired after December 31, 2014.

SEC. 3120. TREATMENT OF ENVIRONMENTAL REMEDIATION COSTS.

(a) IN GENERAL.—Subsection (a) of section 198 is amended to read as follows:

"(a) IN GENERAL.—In the case of a taxpayer's qualified environmental remediation expenditures for any taxable year—

"(1) except as provided in paragraph (2), no deduction shall be allowed for such expenditures, and

"(2) the taxpayer shall—

"(A) charge such expenditures to capital account, and

"(B) be allowed an amortization deduction of such expenditures ratably over the 40-year period beginning with the midpoint of the taxable year in which such expenditures are paid or incurred.".

(b) MADE PERMANENT.—Section 198 is amended by striking subsection (h).

(c) CONFORMING AMENDMENTS.—

(1) Section 198, as amended by subsection (b), is amended by striking subsection (f) and by redesignating subsection (g) as subsection (f).

(2) Section 198 (and the item relating to such section in the table of sections for part VI of subchapter B of chapter 1) is amended by striking "**EXPENSING**" in the heading thereof and inserting "**AMORTIZATION**".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to expenditures paid or incurred after December 31, 2014.

SEC. 3121. REPEAL OF EXPENSING OF QUALIFIED DISASTER EXPENSES.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 198A (and by striking the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

SEC. 3122. PHASEOUT AND REPEAL OF DEDUCTION FOR INCOME ATTRIBUTABLE TO DOMESTIC PRODUCTION ACTIVITIES.

(a) PHASEOUT.—

(1) IN GENERAL.—Subsection (a) of section 199 is amended by adding at the end the following new paragraph:

''(3) PHASEOUT.—In the case of any taxable year beginning after 2014, paragraph (1) shall be applied by substituting for the percentage contained therein the phaseout percentage determined under the following table:

''For taxable years beginning in:	**The phaseout percentage is:**
2015	6%
2016	3%''.

(2) COORDINATION WITH OIL RELATED QUALIFIED PRODUCTION ACTIVITIES INCOME.—Section 199(d) is amended by striking paragraph (9).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2014.

(b) REPEAL.—

(1) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 199 (and by striking the item relating to such section in the table of sections for such part).

(2) CONFORMING AMENDMENTS.—

(A) Sections 86(b)(2)(A), 137(b)(3)(A), 246(b)(1), and 469(i)(3)(F)(iii) are each amended by striking ''199,''.

(B) Section 163(j)(6)(A)(i), as amended by the preceding provisions of this Act, is amended by striking subclause (III) and by redesignating subclauses (IV) and (V) as subclauses (III) and (IV), respectively.

(C) Section 170(b)(2)(C), as amended by the preceding provisions of this Act, is amended by striking clause (v), by redesignating clause (vi) as clause (v), and by inserting ''and'' at the end of clause (iv).

(D) Section 172(d) is amended by striking paragraph (7).

(E) Section 1402(a) is amended by adding ''and'' at the end of paragraph (15) and by striking paragraph (16).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2016.

SEC. 3123. UNIFICATION OF DEDUCTION FOR ORGANIZATIONAL EXPENDITURES.

(a) IN GENERAL.—Subsections (a) and (b) of section 195 is amended by inserting ''and organizational'' after ''start-up'' each place it appears.

(b) ORGANIZATIONAL EXPENDITURES.—Subsection (c) of section 195 is amended by adding at the end the following new paragraph:

''(3) ORGANIZATIONAL EXPENDITURES.—The term 'organizational expenditures' means any expenditure which—

''(A) is incident to the creation of a corporation or a partnership,

''(B) is chargeable to capital account, and

''(C) is of a character which, if expended incident to the creation of a corporation or a partnership having a limited life, would be amortizable over such life.''.

(c) DOLLAR AMOUNTS.—Clause (ii) of section 195(b)(1)(A) is amended—

(1) by striking ''$5,000'' and inserting ''$10,000'', and

(2) by striking ''$50,000'' and inserting ''$60,000''.

(d) MID-YEAR CONVENTION.—Subparagraph (B) of section 195(b)(1), as amended by subsection (a), is amended to read as follows:

''(B) the remainder of such start-up and organizational expenditures shall be charged to capital account and allowed as an amortization deduction determined by amortizing such expenditures ratably over the 15-year period beginning with the midpoint of the taxable year in which the active trade or business begins.''.

(e) CONFORMING AMENDMENTS.—

(1) Section 195(b)(1) is amended—

(A) by inserting ''(or, in the case of a partnership, the partnership elects)'' after ''If a taxpayer elects'', and

(B) by inserting ''(or the partnership, as the case may be)'' after ''the taxpayer'' in subparagraph (A).

(2) Section 195(b)(2) is amended—

(A) by striking ''AMORTIZATION PERIOD.—In any case'' and inserting the following: ''AMORTIZATION PERIOD.—

''(A) IN GENERAL.—In any case'', and

(B) by adding at the end the following new subparagraph:

"(B) SPECIAL PARTNERSHIP RULE.—In the case of a partnership, subparagraph (A) shall be applied at the partnership level.".

(3) Section 195(b) is amended by striking paragraph (3).

(4)(A) Part VIII of subchapter B of chapter 1 is amended by striking section 248 (and by striking the item relating to such section in the table of sections for such part).

(B) Section 170(b)(2)(C)(ii) is amended by striking "(except section 248)".

(C) Section 312(n)(3) is amended by striking "Sections 173 and 248" and inserting "Section 173".

(D) Section 535(b)(3) is amended by striking "(except section 248)".

(E) Section 545(b)(3) is amended by striking "(except section 248)".

(F) Section 834(c)(7) is amended by striking "(except section 248)".

(G) Section 852(b)(2)(C) is amended by striking "(except section 248)".

(H) Section 857(b)(2)(A) is amended by striking ''(except section 248)''.

(I) Section 1363(b) is amended by inserting ''and'' at the end of paragraph (2), by striking paragraph (3), and by redesignating paragraph (4) as paragraph (3).

(J) Section 1375(b)(1)(B)(i) is amended by striking ''(other than the deduction allowed by section 248, relating to organization expenditures)''.

(5) Part I of subchapter K of chapter 1 is amended by striking section 709 (and by striking the item relating to such section in the table of sections for such part).

(6) The heading of section 195 (and the item relating to such section in the table of sections for part VI of subchapter B of chapter 1) are each amended by inserting ''and organizational'' after ''Start-up''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3124. PREVENTION OF ARBITRAGE OF DEDUCTIBLE INTEREST EXPENSE AND TAX-EXEMPT INTEREST INCOME.

(a) PRO RATA ALLOCATION RULES APPLICABLE TO FINANCIAL INSTITUTIONS MODIFIED AND MADE APPLICABLE TO ALL C CORPORATIONS.—

(1) APPLICATION TO CORPORATIONS.—So much of section 265(b) as precedes paragraph (3) is amended to read as follows:

"(b) PRO RATA ALLOCATION OF INTEREST EXPENSE OF CORPORATIONS AND FINANCIAL INSTITUTIONS TO TAX-EXEMPT INTEREST.—

"(1) IN GENERAL.—In the case of a C corporation or a financial institution, no deduction shall be allowed for that portion of the taxpayer's interest expense which is allocable to tax-exempt interest.

"(2) ALLOCATION.—For purposes of paragraph (1), the portion of the taxpayer's interest expense which is allocable to tax-exempt interest is an amount which bears the same ratio to such interest expense as—

"(A) the taxpayer's average adjusted bases (within the meaning of section 1016) of tax-exempt obligations acquired on or after February 26, 2014 (August 7, 1986, in the case of a financial institution), bears to

"(B) such average adjusted bases for all assets of the taxpayer.".

(2) REPEAL OF EXCEPTIONS.—Section 265(b) is amended by striking paragraphs (3) and (7).

(b) LIMITATION ON INVESTMENT INTEREST.—

(1) IN GENERAL.—Section 163(d)(1) is amended to read as follows:

"(1) IN GENERAL.—In the case of a taxpayer other than a corporation, the amount allowed as a deduction under this chapter for investment interest for any taxable year—

"(A) shall be reduced by the amount of tax-exempt interest received by the taxpayer during such taxable year, and

"(B) shall not (after any reduction under subparagraph (A)) exceed the net investment income of the taxpayer for such taxable year.".

(2) REDUCTIONS FOR TAX-EXEMPT INTEREST NOT CARRIED FORWARD.—Section 163(d)(2) is amended by striking "paragraph (1)" and inserting "paragraph (1)(B)".

(3) CLARIFICATION THAT PROPERTY HELD FOR INVESTMENT INCLUDES PROPERTY PRODUCING TAX-EXEMPT INTEREST.—Section 163(d)(5)(A) is amended by striking "and" at the end of clause (i),

by striking the period at the end of clause (ii)(II) and inserting ", and", and by adding at the end the following new clause:

"(iii) any property held for the production of tax-exempt interest (including any shares of stock of a regulated investment company which during the taxable year of the holder thereof distributes exempt-interest dividends).".

(4) COORDINATION WITH SECTION 265.—

(A) IN GENERAL.—Section 265(a) is amended by—

(i) striking paragraph (2) and inserting the following new paragraph:

"(2) INTEREST.—

"(A) CORPORATIONS AND FINANCIAL INSTITUTIONS.—For pro rata allocation rules in the case of corporations and financial institutions, see subsection (b).

"(B) OTHER TAXPAYERS.—For limitation on investment interest in the case of other taxpayers, see section 163(d).", and

(ii) by striking paragraphs (4) and (5) and by redesignating paragraph (6) as paragraph (4).

(B) CONFORMING AMENDMENTS.—

(i) Section 265(b), as amended by subsection (a), is amended by inserting after paragraph (2) the following new paragraph:

''(3) SPECIAL RULES FOR SHORT SALES.—

''(A) IN GENERAL.—For purposes of this subsection, interest includes any amount paid or incurred—

''(i) by any person making a short sale in connection with personal property used in such short sale, or

''(ii) by any other person for the use of any collateral with respect to such short sale.

''(B) EXCEPTION WHERE NO RETURN ON CASH COLLATERAL .—If—

''(i) the taxpayer provides cash as collateral for any short sale, and

''(ii) the taxpayer receives no material earnings on such cash during the period of the sale,

subparagraph (A)(i) shall not apply to such short sale.''.

(ii) Section 265(b)(6) is amended to read as follows:

"(6) COORDINATION WITH SECTION 263A.—This section shall be applied before the application of section 263A (relating to capitalization of certain expenses where taxpayer produces property).".

(iii) Section 163(n)(2) is amended to read as follows:

"(2) For disallowance of deduction for interest relating to tax-exempt income, see sections 163(d) and 265(b)".

(c) EFFECTIVE DATES.—

(1) APPLICATION OF PRO RATA ALLOCATION RULES.—

(A) APPLICATION TO C CORPORATIONS.—The amendments made by subsection (a)(1) shall apply to taxable years ending on or after February 26, 2014.

(B) REPEAL OF EXCEPTIONS.—The amendments made by subsection (a)(2) shall apply to obligations issued on or after February 26, 2014.

(2) LIMITATION ON INVESTMENT INTEREST.—The amendments made by subsection (b) shall apply to taxable years beginning after December 31, 2014.

SEC. 3125. PREVENTION OF TRANSFER OF CERTAIN LOSSES FROM TAX INDIFFERENT PARTIES.

(a) IN GENERAL.—Section 267(d) is amended to read as follows:

"(d) AMOUNT OF GAIN WHERE LOSS PREVIOUSLY DISALLOWED.—

"(1) IN GENERAL.—If—

"(A) in the case of a sale or exchange of property to the taxpayer a loss sustained by the transferor is not allowable to the transferor as a deduction by reason of subsection (a)(1), and

"(B) the taxpayer sells or otherwise disposes of such property (or of other property the basis of which in the taxpayer's hands is determined directly or indirectly by reference to such property) at a gain,

then such gain shall be recognized only to the extent that it exceeds so much of such loss as is properly allocable to the property sold or otherwise disposed of by the taxpayer.

"(2) EXCEPTION FOR WASH SALES.—Paragraph (1) shall not apply if the loss sustained by the transferor is not allowable to the transferor as a deduction by reason of section 1091 (relating to wash sales).

"(3) EXCEPTION FOR TRANSFERS FROM TAX INDIFFERENT PARTIES.—Paragraph (1) shall not apply to the extent any loss sustained by the transferor (if allowed) would not be taken into account in determining a tax imposed under section 1 or 11 or a tax computed as provided by either of such sections.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to sales and exchanges after December 31, 2014.

SEC. 3126. ENTERTAINMENT, ETC. EXPENSES.

(a) DENIAL OF DEDUCTION.—Subsection (a) of section 274 is amended to read as follows:

"(a) ENTERTAINMENT, AMUSEMENT, OR RECREATION.—

"(1) IN GENERAL.—No deduction otherwise allowable under this chapter shall be allowed for amounts paid or incurred for any of the following items:

"(A) ACTIVITY.—With respect to an activity which is of a type generally considered to constitute entertainment, amusement, or recreation.

"(B) MEMBERSHIP DUES.—With respect to membership in any club organized for busi-

ness, pleasure, recreation or other social purposes.

"(C) AMENITY.—With respect to a de minimis fringe (as defined in section 132(e)(1)) that is primarily personal in nature and involving property or services that are not directly related to the taxpayer's trade or business.

"(D) FACILITY.—With respect to a facility or portion thereof used in connection with an activity referred to in subparagraph (A), membership dues or similar amounts referred to in subparagraph (B), or an amenity referred to in subparagraph (C).

"(E) QUALIFIED TRANSPORTATION FRINGE AND PARKING FACILITY.—Which is a qualified transportation fringe (as defined in section 132(f)) or which is a parking facility used in connection with qualified parking (as defined in section 132(f)(5)(C)).

"(2) SPECIAL RULES.—For purposes of applying paragraph (1), an activity described in section 212 shall be treated as a trade or business.

"(3) REGULATIONS.—Under the regulations prescribed to carry out this section, the Secretary shall include regulations—

"(A) defining entertainment, amenities, recreation, amusement, and facilities for purposes of this subsection,

"(B) providing for the appropriate allocation of depreciation and other costs with respect to facilities used for parking, and

"(C) specifying arrangements a primary purpose of which is the avoidance of this subsection.".

(b) EXCEPTION FOR CERTAIN EXPENSES INCLUDIBLE IN INCOME OF RECIPIENT.—

(1) EXPENSES TREATED AS COMPENSATION.—Paragraph (2) of section 274(e) is amended to read as follows:

"(2) EXPENSES TREATED AS COMPENSATION.—Expenses for goods, services, and facilities, to the extent that the expenses do not exceed the amount of the expenses which are treated by the taxpayer, with respect to the recipient of the entertainment, amusement, or recreation, as compensation to an employee on the taxpayer's return of tax under this chapter and as wages to such employee for purposes of chapter 24 (relating to withholding of income tax at source on wages).".

(2) EXPENSES INCLUDIBLE IN INCOME OF PERSONS WHO ARE NOT EMPLOYEES.—Paragraph (9) of section 274(e) is amended by striking ''to the extent that the expenses'' and inserting ''to the extent that the expenses do not exceed the amount of the expenses that''.

(c) EXCEPTIONS FOR REIMBURSED EXPENSES.—Paragraph (3) of section 274(e) is amended to read as follows:

''(3) REIMBURSED EXPENSES.—

''(A) IN GENERAL.—Expenses paid or incurred by the taxpayer, in connection with the performance by him of services for another person (whether or not such other person is the taxpayer's employer), under a reimbursement or other expense allowance arrangement with such other person, but this paragraph shall apply—

''(i) where the services are performed for an employer, only if the employer has not treated such expenses in the manner provided in paragraph (2), or

''(ii) where the services are performed for a person other than an employer, only if the taxpayer accounts (to the extent provided by subsection (d)) to such person.

"(B) EXCEPTION.—Except as provided by the Secretary, subparagraph (A) shall not apply—

"(i) in the case of an arrangement in which the person other than the employer is an entity described in section 168(g)(2)(A), or

"(ii) to any other arrangement designated by the Secretary as having the effect of avoiding the limitation under subparagraph (A).".

(d) 50 PERCENT LIMITATION ON MEALS AND ENTERTAINMENT EXPENSES.—Subsection (n) of section 274 is amended to read as follows:

"(n) LIMITATION ON CERTAIN EXPENSES.—

"(1) IN GENERAL.—The amount allowable as a deduction under this chapter for any expense for food or beverages (pursuant to subsection (e)(1)) or business meals (pursuant to subsection (k)(1)) shall not exceed 50 percent of the amount of such expense or item which would (but for this paragraph) be allowable as a deduction under this chapter.

"(2) EXCEPTIONS.—Paragraph (1) shall not apply to any expense if—

"(A) such expense is described in paragraph (2), (3), (6), (7), or (8) of subsection (e),

"(B) in the case of an expense for food or beverages, such expense is excludable from the gross income of the recipient under section 132 by reason of subsection (e) thereof (relating to de minimis fringes) or under section 119 (relating to meals and lodging furnished for convenience of employer), or

"(C) in the case of an employer who pays or reimburses moving expenses of an employee, such expenses are includible in the income of the employee under section 82.

"(3) SPECIAL RULE FOR INDIVIDUALS SUBJECT TO FEDERAL HOURS OF SERVICE.—In the case of any expenses for food or beverages consumed while away from home (within the meaning of section 162(a)(2)) by an individual during, or incident to, the period of duty subject to the hours of service limitations of the Department of Transportation, paragraph (1) shall be applied by substituting '80 percent' for '50 percent'.".

(e) CONFORMING AMENDMENTS.—

(1) Section 274(d) is amended—

(A) by striking paragraph (2) and redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively, and

(B) in the flush material following paragraph (3) (as so redesignated)—

(i) by striking ", entertainment, amusement, recreation, or" in item (B), and

(ii) by striking "(D) the business relationship to the taxpayer of persons entertained, using the facility or property, or receiving the gift" and inserting "(D) the business relationship to the taxpayer of the person receiving the benefit".

(2) Section 274(e) is amended by striking paragraph (4) and redesignating paragraphs (5), (6), (7), (8), and (9) as paragraphs (4), (5), (6), (7), and (8), respectively.

(3) Section 274(k)(2)(A) is amended by striking "(4), (7), (8), or (9)" and inserting "(6), (7), or (8)".

(4) Section 274 is amended by striking subsection (l).

(5) Section 274(m)(1)(B)(ii) is amended by striking "(4), (7), (8), or (9)" and inserting "(6), (7), or (8)".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

SEC. 3127. REPEAL OF LIMITATION ON CORPORATE ACQUISITION INDEBTEDNESS.

(a) IN GENERAL.—Part IX of subchapter B of chapter 1 is amended by striking section 279 (and by striking the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to interest paid or incurred with respect to indebtedness incurred after December 31, 2014.

SEC. 3128. DENIAL OF DEDUCTIONS AND CREDITS FOR EXPENDITURES IN ILLEGAL BUSINESSES.

(a) IN GENERAL.—Section 280E is amended to read as follows:

"SEC. 280E. EXPENDITURES IN CONNECTION WITH ILLEGAL BUSINESSES.

"No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if—

"(1) such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted, or

"(2) the carrying out of such trade or business is a felony under Federal law or the law of any State in which such trade or business is conducted.".

(b) CLERICAL AMENDMENT.—The table of sections for part IX of subchapter B of chapter 1 is amended by striking the item relating to section 280E and inserting the following new item:

"Sec. 280E. Expenditures in connection with illegal businesses.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after the date of the enactment of this Act in taxable years ending after the date of the enactment of this Act.

SEC. 3129. LIMITATION ON DEDUCTION FOR FDIC PREMIUMS.

(a) IN GENERAL.—Section 162 is amended by redesignating subsection (q) as subsection (r) and by inserting after subsection (p) the following new subsection:

"(q) DISALLOWANCE OF FDIC PREMIUMS PAID BY CERTAIN LARGE FINANCIAL INSTITUTIONS.—

"(1) IN GENERAL.—No deduction shall be allowed for the applicable percentage of any FDIC premium paid or incurred by the taxpayer.

"(2) EXCEPTION FOR SMALL INSTITUTIONS.—Paragraph (1) shall not apply to any taxpayer for any taxable year if the total consolidated assets of such taxpayer (determined as of the close of such taxable year) do not exceed $10,000,000,000.

"(3) APPLICABLE PERCENTAGE.—For purposes of this subsection, the term 'applicable percentage' means, with respect to any taxpayer for any taxable year, the ratio (expressed as a percentage but not greater than 100 percent) which—

"(A) the excess of—

"(i) the total consolidated assets of such taxpayer (determined as of the close of such taxable year), over

"(ii) $10,000,000,000, bears to

"(B) $40,000,000,000.

"(4) FDIC PREMIUMS.—For purposes of this subsection, the term 'FDIC premium' means any assessment imposed under section 7(b) of the Federal Deposit Insurance Act (12 U.S.C. 1817(b)).

"(5) TOTAL CONSOLIDATED ASSETS.—For purposes of this subsection, the term 'total consolidated

assets' has the meaning given such term under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5365).

"(6) AGGREGATION RULE.—

"(A) IN GENERAL.—Members of an expanded affiliated group shall be treated as a single taxpayer for purposes of applying this subsection.

"(B) EXPANDED AFFILIATED GROUP.—For purposes of this paragraph, the term 'expanded affiliated group' means an affiliated group as defined in section 1504(a), determined—

"(i) by substituting 'more than 50 percent' for 'at least 80 percent' each place it appears, and

"(ii) without regard to paragraphs (2) and (3) of section 1504(b).

A partnership or any other entity (other than a corporation) shall be treated as a member of an expanded affiliated group if such entity is controlled (within the meaning of section 954(d)(3)) by members of such group (including any entity treated as a member of such group by reason of this sentence).".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3130. REPEAL OF PERCENTAGE DEPLETION.

(a) IN GENERAL.—Part I of subchapter I of chapter 1 is amended by striking sections 613 and 613A (and by striking the items relating to such sections in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1)(A) Such part is amended by redesignating section 614 as section 613 (and, in the table of sections for such part, by redesignating the item relating to section 614 as an item relating to section 613).

(B) Clauses (iv) and (v) of section 465(c)(2)(A) are each amended by striking ''section 614'' and inserting ''section 613''.

(C) Section 1016(e) is amended by striking ''section 614'' and inserting ''section 613''.

(D) Section 1254(a)(3) is amended by striking ''section 614'' and inserting ''section 613''.

(2) Section 45(c)(4) is amended to read as follows:

''(4) GEOTHERMAL ENERGY.—

"(A) IN GENERAL.—The term 'geothermal energy' means energy derived from a geothermal deposit.

"(B) GEOTHERMAL DEPOSIT.—The term 'geothermal deposit' means a geothermal reservoir consisting of natural heat which is stored in rocks or in an aqueous liquid or vapor (whether or not under pressure).".

(3) Section 48(a)(3)(A)(iii) is amended by striking "section 613(e)(2)" and inserting "section 45(c)(4)(B)"

(4) Section 381(c) is amended by striking paragraph (18).

(5) Section 465(c)(1)(E) is amended by striking "section 613(e)(2)" and inserting "section 45(c)(4)(B)".

(6) Section 468(d)(3) is amended by striking "section 614" and inserting "section 613".

(7) Section 611(a) is amended by striking the second sentence.

(8) Section 613(d), as redesignated by paragraph (1), is amended by striking "includes only" and all that follows and inserting "includes only an interest burdened by the costs of production.".

(9) Section 636(a) is amended by striking ''(for purposes of section 613)''.

(10) Section 636(d) is amended by striking ''section 614(a)'' and inserting ''section 613(a)''.

(11) Section 705(a) is amended—

(A) in paragraph (1), by adding ''and'' at the end of subparagraph (A), by striking ''; and'' at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C),

(B) in paragraph (2), by striking ''; and'' at the end of subparagraph (B) and inserting a period, and

(C) by striking paragraph (3).

(12) Section 901(e)(1)(A) is amended by striking ''(or, if smaller'' and all that follows through ''under section 613)''.

(13) Section 993(c)(2)(C) is amended by inserting ''(as each such section was in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 613 or 613A''.

(14) Section 1202(e)(3)(D) is amended by inserting ''(as each such section was in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 613 or 613A''.

(15) Section 1367(a) is amended—

(A) in paragraph (1), by adding ''and'' at the end of subparagraph (A), by striking '', and'' at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C), and

(B) in paragraph (2), by adding ''and'' at the end of subparagraph (C), by striking '', and'' at the end of subparagraph (D) and inserting a period, and by striking subparagraph (E).

(16) Section 1446(c) is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(17) Section 4612(a)(7) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 613''.

(18) Section 4940(c)(3)(B) is amended—

(A) by striking clause (ii), and

(B) by striking all that precedes ''The deduction provided'' and inserting the following:

''(B) MODIFICATIONS.—For purposes of subparagraph (A), the deduction provided''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3131. REPEAL OF PASSIVE ACTIVITY EXCEPTION FOR WORKING INTERESTS IN OIL AND GAS PROPERTY.

(a) IN GENERAL.—Subsection (c) of section 469 is amended by striking paragraph (3).

(b) CONFORMING AMENDMENTS.—Section 469 is amended—

(1) by striking paragraph (4) and by redesignating paragraphs (5), (6), and (7) as paragraphs (3), (4), and (5), respectively, and

(2) in paragraph (2)—

(A) by striking ''paragraph (7)'' and inserting ''paragraph (5)'', and

(B) by inserting '', without regard to whether or not the taxpayer materially participates in the activity'' before the period at the end.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December, 31, 2014.

SEC. 3132. REPEAL OF SPECIAL RULES FOR GAIN OR LOSS ON TIMBER, COAL, OR DOMESTIC IRON ORE.

(a) IN GENERAL.—Subchapter I of chapter 1 is amended by striking part III (and by striking the item relating to such part in the table of parts for such subchapter).

(b) CONFORMING AMENDMENTS.—

(1) Section 512(b)(5) is amended by striking the last sentence.

(2) Section 871(a)(1)(B) is amended by striking ''gains described in section 631(b) or (c), and''.

(3) Section 871(d)(1)(A) is amended—

(A) by striking '', (ii) rents'' and inserting ''and (ii) rents'', and

(B) by striking '', and (iii) gains described in section 631(b) or (c)''.

(4)(A) Section 881(a) is amended by striking paragraph (2) and by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively.

(B) Section 1442(a) is amended—

(i) by striking ''881(a)(3) and (4)'' and inserting ''881(a)(2) and (3)'',

(ii) by striking ''881(a)(3),'' and inserting ''881(a)(2),'', and

(iii) by striking ''881(a)(4)'' and inserting ''881(a)(3)''.

(5) Section 882(d)(1)(A) is amended—

(A) by striking ", (ii) rents" and inserting "and (ii) rents", and

(B) by striking ", and (iii) gains described in section 631(b) or (c)".

(6) Section 1231(b) is amended by striking paragraph (2).

(7) Section 1402(a)(3) is amended by inserting "or" at the end of subparagraph (A) and by striking subparagraph (B) and redesignating subparagraph (C) as subparagraph (B).

(8) Section 1441 is amended—

(A) in subsection (b), by striking ", gains described in section 631(b) or (c)", and

(B) in subsection (c)(5), by striking "gains described in section 631(b) or (c), gains subject to tax under section 871(a)(1)(D)," and inserting "gains subject to tax under section 871(a)(1)(D)".

(9) (A) Part IX of subchapter B of chapter 1 is amended by striking section 272 (and by striking the item relating to such section in the table of sections for such subpart).

(B) Section 1016(a) is amended by striking paragraph (15).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) BASIS ADJUSTMENTS.—The amendment made by subsection (b)(9)(B) shall apply to deductions determined for taxable years beginning after December 31, 2014.

SEC. 3133. REPEAL OF LIKE-KIND EXCHANGES.

(a) IN GENERAL.—Part III of subchapter O of chapter 1 is amended by striking section 1031 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 121(d)(10) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 1031''.

(2) Section 197(f)(2)(B)(i) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''1031''.

(3) Section 453(f) is amended by striking paragraph (6).

(4) Section 470(e)(4) is amended—

(A) by striking ''Sections 1031(a) and'' in subparagraph (A) and inserting ''Section'',

(i) by striking ''1031 or'' in subparagraph (B), and

(ii) by striking ''SECTIONS 1031 AND'' in the heading thereof and inserting ''SECTION''.

(5)(A) Section 501(c)(12)(C)(v) is amended by striking ''asset exchange or conversion transaction'' and inserting ''specified involuntary conversion''.

(B) Section 501(c)(12)(G) is amended—

(i) by striking ''asset exchange or conversion transaction'' and inserting ''specified involuntary conversion'',

(ii) by striking ''voluntary exchange or'', and

(iii) by striking ''1031 or''.

(6)(A) Section 704(c) is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(B) Section 704(c)(2), as so redesignated, is amended by striking ''or (2)''.

(7) Section 857(e)(2) is amended by striking subparagraph (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively.

(8)(A) Section 1035 is amended by striking subsection (d) and inserting the following new subsections:

"(d) GAIN FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of subsection (a), of section 1036(a), or of section 1037(a), if it were not for the fact that the property received in exchange consists not only of property permitted by such provisions to be received without the recognition of gain, but also of other property or money, then the gain, if any, to the recipient shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property.

"(e) LOSS FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of subsection (a), of section 1036(a), or of section 1037(a), if it were not for the fact that the property received in exchange consists not only of property permitted by such provisions to be received without the recognition of gain or loss, but also of other property or money, then no loss from the exchange shall be recognized.

"(f) BASIS.—If property was acquired on an exchange described in this section, section 1036(a), or section 1037(a), then the basis shall be the same as that of the property exchanged, decreased in the amount of any

money received by the taxpayer and increased in the amount of gain or decreased in the amount of loss to the taxpayer that was recognized on such exchange. If the property so acquired consisted in part of the type of property permitted by this section, section 1036(a), or section 1037(a), to be received without the recognition of gain or loss, and in part of other property, the basis provided in this subsection shall be allocated between the properties (other than money) received, and for the purpose of the allocation there shall be assigned to such other property an amount equivalent to its fair market value at the date of the exchange. For purposes of this section and section 1036(a), where as part of the consideration to the taxpayer another party to the exchange assumed (as determined under section 357(d)) a liability of the taxpayer, such assumption shall be considered as money received by the taxpayer on the exchange.''.

(B) Section 1036(c) is amended—

(i) in paragraph (1), by striking ''subsections (b) and (c) of section 1031'' and inserting ''subsections (d) and (e) of section 1035'', and

(ii) in paragraph (2), by striking ''subsection (d) of section 1031'' and inserting ''subsection (f) of section 1035''.

(C) Section 1037(c) is amended—

(i) in paragraph (1), by striking ''subsections (b) and (c) of section 1031'' and inserting ''subsections (d) and (e) of section 1035'', and

(ii) in paragraph (2), by striking ''subsection (d) of section 1031'' and inserting ''subsection (f) of section 1035''.

(D) Section 83(g) is amended by striking ''section 1031'' and inserting ''section 1035''.

(E) Section 424(b) is amended by striking ''section 1031'' and inserting ''section 1035''.

(F) Section 424(c)(1)(B) is amended by striking ''section 1031'' and inserting ''section 1035''.

(9) Section 1060(c) is amended by striking the second sentence thereof.

(10) Section 1245(b)(4) is amended—

(A) by striking ''LIKE KIND EXCHANGES; INVOLUNTARY'' and inserting ''INVOLUNTARY'', and

(B) by striking ''1031 or''.

(11) Section 1250(d)(4) is amended—

(A) by striking ''LIKE KIND EXCHANGES; INVOLUNTARY'' and inserting ''INVOLUNTARY'',

(B) by striking "1031 or" in subparagraph (A), and

(C) by striking "1031 or" in subparagraph (E).

(12) Section 2032A(e)(14)(C) is amended—

(A) in clause (i)(I), by inserting "(as in effect before its repeal by the Tax Reform Act of 2014)" after "section 1031", and

(B) in clause (ii)(I), by inserting "(as so in effect)" after "section 1031".

(13) Section 4940(c)(4) is amended by striking subparagraph (D).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to transfers after December 31, 2014.

(2) EXCEPTION FOR TRANSFERS PURSUANT TO BINDING CONTRACTS.—Notwithstanding paragraph (1), the amendments made by this section shall not apply to any transfer if—

(A) such transfer is pursuant to a written binding contract entered into before January 1, 2015, and

(B) the exchange of which such transfer is a part is completed before January 1, 2017.

SEC. 3134. RESTRICTION ON TRADE OR BUSINESS PROPERTY TREATED AS SIMILAR OR RELATED IN SERVICE TO INVOLUNTARILY CONVERTED PROPERTY IN DISASTER AREAS.

(a) CLASS LIFE OF REPLACEMENT PROPERTY NOT TO EXCEED CONVERTED PROPERTY.—Section 1033(h)(2) is amended by inserting ''if the class life of such tangible property does not exceed the class life of the property so converted'' before the period at the end.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to disasters declared after December 31, 2014.

SEC. 3135. REPEAL OF ROLLOVER OF PUBLICLY TRADED SECURITIES GAIN INTO SPECIALIZED SMALL BUSINESS INVESTMENT COMPANIES.

(a) IN GENERAL.—Part III of subchapter O of chapter 1 is amended by striking section 1044 (and by striking the item relating to such section in the table of sections of such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 45D(c)(2)(A) is amended to read as follows:

''(A) any partnership or corporation which is licensed by the Small Business Administration under section 301(d) of the Small Business

Investment Act of 1958 (as in effect on May 13, 1993), and''.

(2) Section 1016(a)(23) is amended—

(A) by striking ''1044,'', and

(B) by striking ''1044(d),''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after December 31, 2014.

SEC. 3136. TERMINATION OF SPECIAL RULES FOR GAIN FROM CERTAIN SMALL BUSINESS STOCK.

(a) TERMINATION OF PARTIAL EXCLUSION.—Section 1202 is amended—

(1) by inserting ''and before the date of the enactment of the Tax Reform Act of 2014'' after ''Revenue Reconciliation Act of 1993'' in subsection (c)(1), and

(2) by adding at the end the following new subsection:

''(l) TERMINATION.—For termination with respect to qualified small business stock issued after the date of the enactment of the Tax Reform Act of 2014, see subsection (c)(1).''.

(b) REPEAL OF ROLLOVER RULES.—

(1) IN GENERAL.—Part III of subchapter O of chapter 1 is amended by striking section 1045 (and

by striking the item relating to such section in the table of sections of such part).

(2) CONFORMING AMENDMENTS.—

(A) Section 1016(a)(23) is amended—

(i) by striking ''1045,'', and

(ii) by striking ''1045(b)(3),''.

(B) Section 1223 is amended by striking paragraph (13).

(c) EFFECTIVE DATES.—

(1) TERMINATION OF PARTIAL EXCLUSION.—The amendments made by subsection (a) shall apply to sales and exchanges after the date of the enactment of this Act.

(2) REPEAL OF ROLLOVER RULES.—

(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by subsection (b) shall apply to sales after the date of the enactment of this Act.

(B) SAVINGS PROVISION.—The amendments made by subsection (b)(2) shall not apply with respect to property the acquisition of which was before the date of the enactment of this Act.

SEC. 3137. CERTAIN SELF-CREATED PROPERTY NOT TREATED AS A CAPITAL ASSET.

(a) PATENTS, ETC.—Section 1221(a)(3) is amended by inserting "a patent, invention, model or design (whether or not patented), a secret formula or process," before "a copyright".

(b) SELF-CREATED MUSICAL WORKS.—Section 1221(b) is amended by striking paragraph (3).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 2014.

SEC. 3138. REPEAL OF SPECIAL RULE FOR SALE OR EXCHANGE OF PATENTS.

(a) IN GENERAL.—Part IV of subchapter P of chapter 1 is amended by striking section 1235 (and by striking the item relating to such section in the table of sections of such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 483(d) is amended by striking paragraph (4).

(2)(A) Section 871(a)(1), as amended by the preceding provisions of this Act, is amended by striking subparagraph (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively.

(B) Section 871(g)(3) is amended by striking ''(a)(1)(C)'' and inserting ''(a)(1)(B)''.

(C) Subsections (h)(1) and (i)(1) of section 871 are each amended by striking ''(1)(C)'' and inserting ''(1)(B)''.

(D) Section 1441, as amended by the preceding provisions of this Act, is amended—

(i) in subsections (b) and (c)(8), by striking ''871(a)(1)(C)'' and inserting ''871(a)(1)(B)'', and

(ii) in subsections (b) and (c)(5), by striking ''871(a)(1)(D)'' and inserting ''871(a)(1)(C)''.

(E) Section 1442(a), as amended by the preceding provisions of this Act, is amended—

(i) by striking ''871(a)(1)(C) and (D)'' and inserting ''871(a)(1)(B) and (C)'', and

(ii) by striking ''871(a)(1)(D)'' and inserting ''871(a)(1)(C)''.

(3) Section 901(l)(5) is amended by striking ''without regard to section 1235 or any similar rule'' and inserting ''without regard to any provision which treats a disposition as a sale or exchange of a capital asset held for more than 1 year or any similar provision''.

(4) Section 1274(c)(3) is amended by striking subparagraph (E) and redesignating subparagraph (F) as subparagraph (E).

(5) Subsections (b) and (c)(5) of section 1441, as amended by the preceding provisions of this Act, are each amended by striking ''gains subject to tax under section 871(a)(1)(C), and gains on transfers described in section 1235 made on or before October 4, 1966'' and inserting ''and gains subject to tax under section 871(a)(1)(C)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 2014.

SEC. 3139. DEPRECIATION RECAPTURE ON GAIN FROM DISPOSITION OF CERTAIN DEPRECIABLE REALTY.

(a) IN GENERAL.—Subsection (a) of section 1250 is amended to read as follows:

''(a) IN GENERAL.—Except as otherwise provided in this section, if section 1250 property is disposed of after December 31, 2014, the amount of gain with respect to such property which is treated as ordinary income shall be an amount equal to the lesser of—

''(1) the sum of—

"(A) the amount of additional depreciation attributable to periods before January 1, 2015, in respect of such property, and

"(B) the amount of depreciation adjustments attributable to periods after December 31, 2014, in respect of such property, or

"(2) the excess of the amount realized (or, in the case of a disposition other than a sale, exchange, or involuntary conversion, the fair market value of such property), over the adjusted basis of such property.".

(b) CONFORMING AMENDMENTS.—

(1) Section 267(e)(5)(D)(i) is amended to read as follows:

"(i) any interest in—

"(I) any section 1250 property with respect to which a mortgage is insured under section 221(d)(3) or 236 of the National Housing Act, or housing financed or assisted by direct loan or tax abatement under similar provisions of State or local laws and with respect to which the owner is subject to the restrictions described in section 1039(b)(1)(B) (as in effect on

the day before the date of the enactment of the Revenue Reconciliation Act of 1990),

''(II) dwelling units which, on the average, were held for occupancy by families or individuals eligible to receive subsidies under section 8 of the United States Housing Act of 1937, as amended, or under the provisions of State or local law authorizing similar levels of subsidy for lower-income families,

''(III) any section 1250 property with respect to which a depreciation deduction for rehabilitation expenditures was allowed under section 167(k), or

''(IV) any section 1250 property with respect to which a loan is made or insured under title V of the Housing Act of 1949, and''.

(2) Section 1250(b) is amended by striking paragraph (4) and by redesignating paragraph (5) as paragraph (4).

(3) Section 1250(c) is amended by striking ''For purposes of this section'' and inserting ''For purposes of this title''

(4)(A) Section 1250(d)(5)(B)(i) is amended by striking ''and the applicable percentage for the property had been 100 percent''.

(B) Section 1250(d)(5)(B)(ii) is amended to read as follows:

''(ii) the amount of such gain (if any) to which section 751(b) applied.''.

(5) Section 1250(d) is amended by striking paragraph (7).

(6) Section 1250 is amended by striking subsections (e) and (f) and by redesignating subsections (g) and (h) as subsections (e) and (f), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 2014.

SEC. 3140. COMMON DEDUCTION CONFORMING AMENDMENTS.

(a) IN GENERAL.—

(1) Section 1245(a)(2)(C) is amended by striking ''section 179,'' and all that follows through ''or 194'' and inserting ''section 179 or (as in effect before repeal by the Tax Reform Act of 2014) section

179A, 179B, 179C, 179D, 179E, 181, 190, 193, or 194,''

(2) Section 1245(a)(3)(C) is amended by striking ''section 169'' and all that follows through ''or 194'' and inserting ''section 179, 185, 188 (as in effect before its repeal by the Revenue Reconciliation Act of 1990), or (as in effect before repeal by the Tax Reform Act of 2014) section 169, 179A, 179B, 179C, 179D, 179E, 190, 193, or 194''.

(3) Section 263(a)(1) is amended by striking subparagraphs (C), (D), (F), (H), (I), (J), (K), and (L) and by redesignating subparagraphs (E) and (G) as subparagraphs (C) and (D), respectively.

(4) Section 280C, as amended by the preceding provisions of this Act, is amended by redesignating subsections (c) and (g) as subsections (b) and (c), respectively.

(b) EFFECTIVE DATE.—Each portion of each amendment made by this section shall take effect as if included in the provision of this subtitle to which such portion relates.

Subtitle C—Reform of Business Credits

SEC. 3201. REPEAL OF CREDIT FOR ALCOHOL, ETC., USED AS FUEL.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 40 (and by striking the item relating to such section in the table of sections for such subpart).

(b) REPEAL OF CORRESPONDING EXCISE TAX CREDITS.—

(1) CREDIT.—Subchapter B of chapter 65 is amended by striking section 6426 (and by striking the item relating to such section in the table of sections for such subchapter).

(2) PAYMENT.—Section 6427 is amended by striking subsection (e).

(c) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (3).

(2) Section 6416(a)(4)(C) is amended—

(A) by striking ''section 6427(i)(4)'' and inserting ''section 6427(i)(3)'', and

(B) by striking ''section 6427(i)(3)(B)'' and inserting ''subparagraph (B) thereof''.

(3) Section 6427(i) is amended by striking paragraph (3) and by redesignating paragraph (4) as paragraph (3).

(4) Section 6427(i)(3), as redesignated by paragraph (2), is amended—

(A) by striking the sentence at the end of subparagraph (A),

(B) by redesignating subparagraph (B) as subparagraph (C), and

(C) by inserting after subparagraph (A) the following new subparagraph:

"(B) PAYMENT OF CLAIM.—Notwithstanding subsection (l)(1), if the Secretary has not paid pursuant to a claim filed under subsection (b)(4), (l)(4)(C)(ii), or (l)(5) within 45 days of the date of the filing of such claim (20 days in the case of an electronic claim), the claim shall be paid with interest from such date determined by using the overpayment rate and method under section 6621.".

(5) Subpart B of part III of subchapter A of chapter 32 is amended by striking section 4104 (and by striking the item relating to such section in the table of sections for such subpart).

(6) Section 6501(m) is amended by striking "40(f),".

(7) Section 9503(b)(1) is amended by striking the second sentence.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to fuels sold or used after December 31, 2013.

SEC. 3202. REPEAL OF CREDIT FOR BIODIESEL AND RENEWABLE DIESEL USED AS FUEL.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 40A (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (17).

(2) Part II of subchapter B of chapter 1 is amended by striking section 87 (and by striking the item relating to such section in the table of sections for such subpart).

(3) Section 4101(a)(1) is amended by striking ", every person producing" and all that follows through "section 40(b)(6)(E))".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to fuels sold or used after December 31, 2013.

SEC. 3203. RESEARCH CREDIT MODIFIED AND MADE PERMANENT.

(a) PERMANENT SIMPLIFICATION OF INCREMENTAL RESEARCH CREDIT AND ELIMINATION OF CREDIT FOR ENERGY RESEARCH CONSORTIUM PAYMENTS.—

(1) IN GENERAL.—Subsection (a) of section 41 is amended to read as follows:

''(a) IN GENERAL.—For purposes of section 38, the research credit determined under this section for the taxable year shall be an amount equal to the sum of—

''(1) 15 percent of so much of the qualified research expenses for the taxable year as exceeds 50 percent of the average qualified research expenses for the 3 taxable years preceding the taxable year for which the credit is being determined, plus

''(2) 15 percent of so much of the basic research payments for the taxable year as exceeds 50 percent of the average basic research payments for the 3 taxable years preceding the taxable year for which the credit is being determined.''.

(2) REPEAL OF TERMINATION.—Section 41 is amended by striking subsection (h).

(3) CONFORMING AMENDMENTS.—

(A) Subsection (c) of section 41 is amended to read as follows:

"(c) DETERMINATION OF AVERAGE RESEARCH EXPENSES FOR PRIOR YEARS.—

"(1) SPECIAL RULE IN CASE OF NO QUALIFIED RESEARCH EXPENDITURES IN ANY OF 3 PRECEDING TAXABLE YEARS.—In any case in which the taxpayer has no qualified research expenses in any one of the 3 taxable years preceding the taxable year for which the credit is being determined, the amount determined under subsection (a)(1) for such taxable year shall be equal to 10 percent of the qualified research expenses for the taxable year.

"(2) CONSISTENT TREATMENT OF EXPENSES.—

"(A) IN GENERAL.—Notwithstanding whether the period for filing a claim for credit or refund has expired for any taxable year taken into account in determining the average qualified research expenses, or average basic research payments, taken into account under subsection (a), the qualified research expenses and basic research payments taken into account in determining such averages shall be determined

on a basis consistent with the determination of qualified research expenses and basic research payments, respectively, for the credit year.

"(B) PREVENTION OF DISTORTIONS.—The Secretary may prescribe regulations to prevent distortions in calculating a taxpayer's qualified research expenses or basic research payments caused by a change in accounting methods used by such taxpayer between the current year and a year taken into account in determining the average qualified research expenses or average basic research payments taken into account under subsection (a).".

(B) Section 41(e) is amended—

(i) by striking all that precedes paragraph (6) and inserting the following:

"(e) BASIC RESEARCH PAYMENTS.—For purposes of this section—

"(1) IN GENERAL.—The term 'basic research payment' means, with respect to any taxable year, any amount paid in cash during such taxable year by a corporation to any qualified organization for basic research but only if—

"(A) such payment is pursuant to a written agreement between such corporation and such qualified organization, and

"(B) such basic research is to be performed by such qualified organization.

"(2) EXCEPTION TO REQUIREMENT THAT RESEARCH BE PERFORMED BY THE ORGANIZATION.—In the case of a qualified organization described in subparagraph (C) or (D) of paragraph (3), subparagraph (B) of paragraph (1) shall not apply.",

(ii) by redesignating paragraphs (6) and (7) as paragraphs (3) and (4), respectively, and

(iii) in paragraph (4) as so redesignated, by striking subparagraphs (B) and (C) and by redesignating subparagraphs (D) and (E) as subparagraphs (B) and (C), respectively.

(C)(i) Section 41(f)(1) is amended by striking ", basic research payments, and amounts paid or incurred to energy research consortiums," in subparagraphs (A)(ii) and (B)(ii) and inserting "and basic research payments".

(ii) Section 41(f) is amended by striking paragraph (6).

(4) EFFECTIVE DATE.—

(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by this subsection shall apply to taxable years beginning after December 31, 2013.

(B) PARAGRAPH (2).—The amendment made by paragraph (2) shall apply to amounts paid or incurred after December 31, 2013.

(b) OTHER REFORMS.—

(1) ELIMINATION OF CREDIT FOR COMPUTER SOFTWARE.—Subparagraph (E) of section 41(d)(4) is amended—

(A) by striking ''Except to the extent provided in regulations, any research'' and inserting ''Any research'', and

(B) by striking ''which is developed by'' and all that follows through the end and inserting a period.

(2) ELIMINATION OF INCREASED CREDIT FOR AMOUNTS PAID TO CERTAIN ENTITIES.—Paragraph (3) of section 41(b) is amended by striking subparagraphs (C) and (D).

(3) ELIMINATION OF CREDIT FOR SUPPLIES.—Subparagraph (A) of section 41(b)(2) is amended by inserting ''and'' at the end of clause (i), by striking clause (ii), and by redesignating clause (iii) as clause (ii).

(4) ELIMINATION OF ELECTION OF REDUCED CREDIT.—Section 280C(c) is amended by striking paragraphs (3) and (4).

(5) CONFORMING AMENDMENTS.—

(A) The second sentence of section 41(b)(2)(A) is amended by striking ''Clause (iii)'' and inserting ''Clause (ii)''.

(B) Section 41(b)(2) is amended by striking subparagraph (C) and by redesignating subparagraph (D) as subparagraph (C).

(C) Section 41(d)(2)(B) is amended by striking '', computer software''.

(6) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2013.

SEC. 3204. LOW-INCOME HOUSING TAX CREDIT.

(a) REFORM OF LIMITATION AND ALLOCATION RULES.—

(1) ALLOCATIONS OF ELIGIBLE BASIS AMOUNTS RATHER THAN CREDIT AMOUNTS; ELIMINATION OF

NATIONAL REALLOCATIONS.—Subsection (h) of section 42 is amended to read as follows:

"(h) LIMITATION ON QUALIFIED BASIS WITH RESPECT TO PROJECTS LOCATED IN A STATE.—

"(1) QUALIFIED BASIS MAY NOT EXCEED LIMITATION AMOUNT ALLOCATED TO BUILDING.—

"(A) IN GENERAL.—The qualified basis of any building which is taken into account under subsection (a) for any taxable year shall not exceed the limitation amount allocated to such building under this subsection.

"(B) TIME FOR MAKING ALLOCATION.—Except in the case of an allocation which meets the requirements of subparagraph (C), (D), (E), or (F), an allocation shall be taken into account under subparagraph (A) only if it is made not later than the close of the calendar year in which the building is placed in service.

"(C) EXCEPTION WHERE BINDING COMMITMENT.—An allocation meets the requirements of this subparagraph if there is a binding commitment (not later than the close of the calendar year in which the building is placed in service) by the housing credit agency to allocate

a specified limitation amount to such building beginning in a specified later taxable year.

"(D) EXCEPTION WHERE INCREASE IN QUALIFIED BASIS.—

"(i) IN GENERAL.—An allocation meets the requirements of this subparagraph if such allocation is made not later than the close of the calendar year in which ends the taxable year to which it will 1st apply but only to the extent the amount of such allocation does not exceed the limitation under clause (ii).

"(ii) LIMITATION.—The limitation under this clause is the excess of—

"(I) the qualified basis of such building as of the close of the 1st taxable year to which such allocation will apply, over

"(II) the qualified basis of such building as of the close of the 1st taxable year to which the most recent prior allocation with respect to such building applied.

"(iii) HOUSING CREDIT BASIS LIMITATION REDUCED BY FULL ALLOCATION.—

Notwithstanding clause (i), the full amount of the allocation shall be taken into account under paragraph (2).

"(E) EXCEPTION WHERE 10 PERCENT OF COST INCURRED.—

"(i) IN GENERAL.—An allocation meets the requirements of this subparagraph if such allocation is made with respect to a qualified building which is placed in service not later than the close of the second calendar year following the calendar year in which the allocation is made.

"(ii) QUALIFIED BUILDING.—For purposes of clause (i), the term 'qualified building' means any building which is part of a project if the taxpayer's basis in such project (as of the date which is 1 year after the date that the allocation was made) is more than 10 percent of the taxpayer's reasonably expected basis in such project (as of the close of the second calendar year referred to in clause (i)). Such term does not include any existing building unless a credit is allowable under subsection (e) for rehabilitation expenditures

paid or incurred by the taxpayer with respect to such building for a taxable year ending during the second calendar year referred to in clause (i) or the prior taxable year.

"(F) ALLOCATION OF CREDIT ON A PROJECT BASIS.—

"(i) IN GENERAL.—In the case of a project which includes (or will include) more than 1 building, an allocation meets the requirements of this subparagraph if—

"(I) the allocation is made to the project for a calendar year during the project period,

"(II) the allocation only applies to buildings placed in service during or after the calendar year for which the allocation is made, and

"(III) the portion of such allocation which is allocated to any building in such project is specified not later than the close of the calendar year in which the building is placed in service.

"(ii) PROJECT PERIOD.—For purposes of clause (i), the term 'project period' means the period—

"(I) beginning with the 1st calendar year for which an allocation may be made for the 1st building placed in service as part of such project, and

"(II) ending with the calendar year the last building is placed in service as part of such project.

"(2) ALLOCATED LIMITATION AMOUNT TO APPLY TO ALL TAXABLE YEARS ENDING DURING OR AFTER ALLOCATION YEAR.—Any limitation amount allocated to any building for any calendar year—

"(A) shall apply to such building for all taxable years in the compliance period ending during or after such calendar year, and

"(B) shall reduce the aggregate limitation amount of the allocating agency only for such calendar year.

"(3) LIMITATION AMOUNT FOR AGENCIES.—

"(A) IN GENERAL.—The limitation amount which a housing credit agency may allocate for any calendar year is the portion of the State

limitation allocated under this paragraph for such calendar year to such agency.

"(B) STATE LIMITATION INITIALLY ALLOCATED TO STATE HOUSING CREDIT AGENCIES.—Except as provided in subparagraph (F), the State limitation for each calendar year shall be allocated to the housing credit agency of such State. If there is more than 1 housing credit agency of a State, all such agencies shall be treated as a single agency.

"(C) STATE LIMITATION.—The State limitation applicable to any State for any calendar year shall be an amount equal to the sum of—

"(i) the unused State limitation (if any) of such State for the preceding calendar year,

"(ii) the greater of—

"(I) $31.20 multiplied by the State population, or

"(II) $36,300,000, plus

"(iii) the amount of State limitation returned in the calendar year.

"(D) UNUSED STATE LIMITATION.—For purposes of subparagraph (C)(i), the unused State limitation for any calendar year is the ex-

cess (if any) of the sum of the amounts described in clauses (ii) and (iii) of subparagraph (C) over the aggregate limitation amount allocated for such year.

"(E) STATE LIMITATION RETURNED IN THE CALENDAR YEAR.—For purposes of subparagraph (C)(iii), the amount of State limitation returned in the calendar year equals the limitation amount previously allocated within the State to any project—

"(i) which fails to meet the 10 percent test under paragraph (1)(E)(ii) on a date after the close of the calendar year in which the allocation was made,

"(ii) which does not become a qualified low-income housing project within the period required by this section or the terms of the allocation, or

"(iii) with respect to which an allocation is cancelled by mutual consent of the housing credit agency and the allocation recipient.

"(F) STATE MAY PROVIDE FOR DIFFERENT ALLOCATION.—For purposes of this paragraph, a State may by law provide (or a

Governor of a State may proclaim) a different formula for allocating the State limitation among the State housing credit agencies in such State.

"(G) POPULATION.—For purposes of this paragraph, determinations of the population of any State shall be made with respect to any calendar year on the basis of the most recent census estimate of the resident population of such State released by the Bureau of Census before the beginning of such calendar year.

"(H) COST-OF-LIVING ADJUSTMENT.—

"(i) IN GENERAL.—In the case of a calendar year after 2015, the dollar amounts in subparagraph (C)(ii) shall each be increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(c)(2)(A) for such calendar year, determined by substituting 'calendar year 2014' for 'calendar year 2012' in clause (ii) thereof.

"(ii) ROUNDING.—

"(I) In the case of the dollar amount in subparagraph (C)(ii)(I), any increase under clause (i) which is not a multiple of 20 cents shall be rounded to the next lowest multiple of 20 cents.

"(II) In the case of the dollar amount in subparagraph (C)(ii)(II), any increase under clause (i) which is not a multiple of $100,000 shall be rounded to the next lowest multiple of $100,000.

"(4) PORTION OF STATE LIMITATION SET-ASIDE FOR CERTAIN PROJECTS INVOLVING QUALIFIED NONPROFIT ORGANIZATIONS.—

"(A) IN GENERAL.—Not more than 90 percent of the State limitation for any State for any calendar year shall be allocated to projects other than qualified low-income housing projects described in subparagraph (B).

"(B) PROJECTS INVOLVING QUALIFIED NONPROFIT ORGANIZATIONS.—For purposes of subparagraph (A), a qualified low-income housing project is described in this subparagraph if a qualified nonprofit organization is to own an

interest in the project (directly or through a partnership) and materially participate (within the meaning of section 469(h)) in the development and operation of the project throughout the credit period.

"(C) QUALIFIED NONPROFIT ORGANIZATION.—For purposes of this paragraph, the term 'qualified nonprofit organization' means any organization if—

"(i) such organization is described in paragraph (3) or (4) of section 501(c) and is exempt from tax under section 501(a),

"(ii) such organization is determined by the State housing credit agency not to be affiliated with or controlled by a for-profit organization; and

"(iii) 1 of the exempt purposes of such organization includes the fostering of low-income housing.

"(D) TREATMENT OF CERTAIN SUBSIDIARIES.—

"(i) IN GENERAL.—For purposes of this paragraph, a qualified nonprofit organization shall be treated as satisfying the ownership and material participation test

of subparagraph (B) if any qualified corporation in which such organization holds stock satisfies such test.

"(ii) QUALIFIED CORPORATION.—For purposes of clause (i), the term 'qualified corporation' means any corporation if 100 percent of the stock of such corporation is held by 1 or more qualified nonprofit organizations at all times during the period such corporation is in existence.

"(E) STATE MAY NOT OVERRIDE SET-ASIDE.—Nothing in subparagraph (F) of paragraph (3) shall be construed to permit a State not to comply with subparagraph (A) of this paragraph.

"(5) BUILDINGS ELIGIBLE FOR CREDIT ONLY IF MINIMUM LONG-TERM COMMITMENT TO LOW-INCOME HOUSING.—

"(A) IN GENERAL.—No credit shall be allowed by reason of this section with respect to any building for the taxable year unless an extended low-income housing commitment is in effect as of the end of such taxable year.

"(B) EXTENDED LOW-INCOME HOUSING COMMITMENT.—For purposes of this para-

graph, the term 'extended low-income housing commitment' means any agreement between the taxpayer and the housing credit agency—

"(i) which requires that the applicable fraction (as defined in subsection (c)(1)) for the building for each taxable year in the extended use period will not be less than the applicable fraction specified in such agreement and which prohibits the actions described in subclauses (I) and (II) of subparagraph (E)(ii),

"(ii) which allows individuals who meet the income limitation applicable to the building under subsection (g) (whether prospective, present, or former occupants of the building) the right to enforce in any State court the requirement and prohibitions of clause (i),

"(iii) which prohibits the disposition to any person of any portion of the building to which such agreement applies unless all of the building to which such agreement applies is disposed of to such person,

"(iv) which prohibits the refusal to lease to a holder of a voucher or certificate

of eligibility under section 8 of the United States Housing Act of 1937 because of the status of the prospective tenant as such a holder,

"(v) which is binding on all successors of the taxpayer, and

"(vi) which, with respect to the property, is recorded pursuant to State law as a restrictive covenant.

"(C) ALLOCATION OF LIMITATION AMOUNT MAY NOT EXCEED AMOUNT NECESSARY TO SUPPORT COMMITMENT.—The limitation amount allocated to any building may not exceed the amount necessary to support the applicable fraction specified in the extended low-income housing commitment for such building.

"(D) EXTENDED USE PERIOD.—For purposes of this paragraph, the term 'extended use period' means the period—

"(i) beginning on the 1st day in the credit period on which such building is part of a qualified low-income housing project, and

"(ii) ending on the later of—

"(I) the date specified by such agency in such agreement, or

"(II) the date which is 15 years after the close of the credit period.

"(E) EXCEPTIONS IF FORECLOSURE OR IF NO BUYER WILLING TO MAINTAIN LOW-INCOME STATUS.—

"(i) IN GENERAL.—The extended use period for any building shall terminate—

"(I) on the date the building is acquired by foreclosure (or instrument in lieu of foreclosure) unless the Secretary determines that such acquisition is part of an arrangement with the taxpayer a purpose of which is to terminate such period, or

"(II) on the last day of the period specified in subparagraph (I) if the housing credit agency is unable to present during such period a qualified contract for the acquisition of the low-income portion of the building by any person who will continue to operate such portion as a qualified low-income building.

Subclause (II) shall not apply to the extent more stringent requirements are provided in the agreement or in State law.

"(ii) EVICTION, ETC., OF EXISTING LOW-INCOME TENANTS NOT PERMITTED.—The termination of an extended use period under clause (i) shall not be construed to permit before the close of the 3-year period following such termination—

"(I) the eviction or the termination of tenancy (other than for good cause) of an existing tenant of any low-income unit, or

"(II) any increase in the gross rent with respect to such unit not otherwise permitted under this section.

"(F) QUALIFIED CONTRACT.—For purposes of subparagraph (E), the term 'qualified contract' means a bona fide contract to acquire (within a reasonable period after the contract is entered into) the nonlow-income portion of the building for fair market value and the low-income portion of the building for an amount not less than the applicable fraction (specified in

the extended low-income housing commitment) of—

"(i) the sum of—

"(I) the outstanding indebtedness secured by, or with respect to, the building,

"(II) the adjusted investor equity in the building, plus

"(III) other capital contributions not reflected in the amounts described in subclause (I) or (II), reduced by

"(ii) cash distributions from (or available for distribution from) the project.

The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out this paragraph, including regulations to prevent the manipulation of the amount determined under the preceding sentence.

"(G) ADJUSTED INVESTOR EQUITY.—

"(i) IN GENERAL.—For purposes of subparagraph (F), the term 'adjusted investor equity' means, with respect to any calendar year, the aggregate amount of cash taxpayers invested with respect to the project increased by the amount equal to—

"(I) such amount, multiplied by

"(II) the cost-of-living adjustment for such calendar year, determined under section 1(c)(2)(A) by substituting the base calendar year for 'calendar year 2012' in clause (ii) thereof.

An amount shall be taken into account as an investment in the project only to the extent there was an obligation to invest such amount as of the beginning of the credit period and to the extent such amount is reflected in the adjusted basis of the project.

"(ii) COST-OF-LIVING INCREASES IN EXCESS OF 5 PERCENT NOT TAKEN INTO ACCOUNT.—Under regulations prescribed by the Secretary, if the C-CPI-U for any calendar year (within the meaning of section 1(c)) exceeds the C-CPI-U for the preceding calendar year by more than 5 percent, the C-CPI-U for the base calendar year shall be increased such that such excess shall never be taken into account under clause (i).

"(iii) BASE CALENDAR YEAR.—For purposes of this subparagraph, the term 'base calendar year' means the calendar year with or within which the 1st taxable year of the credit period ends.

"(H) LOW-INCOME PORTION.—For purposes of this paragraph, the low-income portion of a building is the portion of such building equal to the applicable fraction specified in the extended low-income housing commitment for the building.

"(I) PERIOD FOR FINDING BUYER.—The period referred to in this subparagraph is the 1-year period beginning on the date (after the 14th year of the credit period) the taxpayer submits a written request to the housing credit agency to find a person to acquire the taxpayer's interest in the low-income portion of the building.

"(J) EFFECT OF NONCOMPLIANCE.—If, during a taxable year, there is a determination that an extended low-income housing agreement was not in effect as of the beginning of such year, such determination shall not apply to any period before such year and subparagraph (A)

shall be applied without regard to such determination if the failure is corrected within 1 year from the date of the determination.

"(K) PROJECTS WHICH CONSIST OF MORE THAN 1 BUILDING.—The application of this paragraph to projects which consist of more than 1 building shall be made under regulations prescribed by the Secretary.

"(6) SPECIAL RULES.—

"(A) BUILDING MUST BE LOCATED WITHIN JURISDICTION OF CREDIT AGENCY.—A housing credit agency may allocate its limitation amount only to buildings located in the jurisdiction of the governmental unit of which such agency is a part.

"(B) AGENCY ALLOCATIONS IN EXCESS OF LIMIT.—If the limitation amounts allocated by a housing credit agency for any calendar year exceed the portion of the State limitation allocated to such agency for such calendar year, the limitation amounts so allocated shall be reduced (to the extent of such excess) for buildings in the reverse of the order in which the allocations of such amounts were made.

"(C) CREDIT REDUCED IF CREDIT IS LESS THAN CREDIT WHICH WOULD BE ALLOWABLE WITHOUT REGARD TO PLACED IN SERVICE CONVENTION, ETC..—

"(i) IN GENERAL.—The amount of the credit determined under this section with respect to any building shall not exceed the clause (ii) percentage of the amount of the credit which would (but for this subparagraph) be determined under this section with respect to such building.

"(ii) DETERMINATION OF PERCENTAGE.—For purposes of clause (i), the clause (ii) percentage with respect to any building is the percentage which—

"(I) the credit amount which would be determined under this section with respect to the building if the limitation amount allocated to such building were equal to the qualified basis of such building, bears to

"(II) the credit amount determined in accordance with clause (iii).

"(iii) DETERMINATION OF CREDIT AMOUNT.—The credit amount determined

in accordance with this clause is the amount of the credit which would (but for this subparagraph) be determined under this section with respect to the building if this section were applied without regard to subsection (f)(2)(A).

''(7) OTHER DEFINITIONS.—For purposes of this subsection—

''(A) HOUSING CREDIT AGENCY.—The term 'housing credit agency' means any agency authorized to carry out this subsection.

''(B) POSSESSIONS TREATED AS STATES.—The term 'State' includes a possession of the United States.''.

(2) CONFORMING AMENDMENTS.—

(A) Section 42(f) is amended by striking paragraph (3).

(B) Section 42(i)(3)(B)(iii)(II) is amended by striking ''subsection (h)(5)'' and inserting ''subsection (h)(4)''.

(C) Section 42(i)(7)(A) is amended by striking ''subsection (h)(5)(C)'' and inserting ''subsection (h)(4)(C)''.

(D) Section 42(i)(8) is amended by striking the last sentence.

(E) Section 42(i) is amended by striking paragraph (9).

(F) Section 42(k)(2)(A) is amended by striking ''subsection (h)(5)'' and inserting ''subsection (h)(4)''.

(G) Section 42(l)(3) is amended by striking ''housing credit amount'' both places it appears and inserting ''limitation amount''.

(H) Section 42(m)(1)(A) is amended by striking ''housing credit dollar amount'' both places it appears and inserting ''limitation amount''.

(I) Section 42(m)(1)(B)(ii) is amended by striking ''housing credit dollar amounts'' and inserting ''limitation amounts''.

(J) Section 42(m)(1) is amended by striking subparagraph (D).

(K) Subparagraphs (A), (B)(iii), (C)(i)(I), and (C)(i)(II) of section 42(m)(2) are each amended by striking ''housing credit dollar amount'' and inserting ''limitation amount''.

(L) Section 42(m)(2) is amended by striking subparagraph (D).

(b) 15-YEAR CREDIT PERIOD.—

(1) IN GENERAL.—Section 42(f)(1) is amended by striking ''10 taxable years'' and inserting ''15 taxable years''.

(2) REPEAL OF RECAPTURE.—Section 42 is amended by striking subsection (j).

(3) CONFORMING AMENDMENTS.—

(A) Section 42(d)(7) is amended—

(i) by striking ''COMPLIANCE PERIOD'' in the heading thereof and inserting ''CREDIT PERIOD'', and

(ii) by striking ''compliance period'' in subparagraph (B)(ii) and inserting ''credit period''.

(B) Section 42(f)(4) is amended by striking the last sentence thereof.

(C) Section 42(i) is amended by striking paragraph (1).

(D) Section 42(i)(6) is amended by striking ''and any increase in tax under subsection (j)''.

(E) Section 42(k)(4)(C) is amended to read as follows:

''(C) SPECIAL RULES.—

''(i) TAX BENEFIT RULE.—The tax for the taxable year shall be increased

under subparagraph (A) only with respect to credits allowed by reason of this section which were used to reduce tax liability. In the case of credits not so used to reduce tax liability, the carryforwards and carrybacks under section 39 shall be appropriately adjusted.

''(ii) NO CREDITS AGAINST TAX.—Any increase in tax under this paragraph shall not be treated as a tax imposed by this chapter for purposes of determining the amount of any credit under this chapter.''.

(c) DETERMINATION OF APPLICABLE PERCENTAGE.—

(1) ELIMINATION OF 30 PERCENT CREDIT; MODIFICATION OF DISCOUNT RATE.—Subsection (b) of section 42 is amended to read as follows:

''(b) APPLICABLE PERCENTAGE.—

''(1) IN GENERAL.—For purposes of this section, the term 'applicable percentage' means with respect to any building, the appropriate percentage prescribed by the Secretary for the earlier of—

''(A) the month in which such building is placed in service, or

"(B) at the election of the taxpayer, the month in which the taxpayer and the housing credit agency enter into an agreement with respect to such building (which is binding on such agency, the taxpayer, and all successors in interest) as to the limitation amount to be allocated to such building.

A month may be elected under subparagraph (B) only if the election is made not later than the 5th day after the close of such month. Such an election, once made, shall be irrevocable.

"(2) METHOD OF PRESCRIBING PERCENTAGES.—The percentages prescribed by the Secretary for any month shall be percentages which will yield over a 15-year period amounts of credit under subsection (a) which have a present value equal to 70 percent of the qualified basis of the building.

"(3) METHOD OF DISCOUNTING.—

"(A) IN GENERAL.—The present value under paragraph (2) shall be determined—

"(i) as of the last day of the 1st year of the 15-year period referred to in paragraph (2),

"(ii) by using a discount rate equal to the applicable discount percentage of the

average of the annual Federal mid-term rate and the annual Federal long-term rate applicable under section 1274(d)(1) to the month applicable under subparagraph (A) or (B) of paragraph (1) and compounded annually, and

''(iii) by assuming that the credit allowable under this section for any year is received on the last day of such year.

''(B) APPLICABLE DISCOUNT PERCENTAGE.—For purposes of this paragraph, the term 'applicable discount percentage' means, with respect to any month referred to in subparagraph (A)(ii) the number of percentage points by which 100 percent exceeds the highest rate of tax in effect under section 11 for a taxable year which begins in such month.

''(4) CROSS REFERENCE.—For treatment of certain rehabilitation expenditures as separate new buildings, see subsection (e).''.

(2) EXISTING AND FEDERALLY SUBSIDIZED BUILDINGS INELIGIBLE FOR CREDIT.—Section 42(d) is amended—

(A) by striking paragraphs (1), (2), and (6), and redesignating paragraphs (3), (4), (5),

and (7) as paragraphs (2), (3), (4), and (5), respectively, and

(B) by inserting before paragraph (2) (as so redesignated) the following new paragraph:

''(1) IN GENERAL.—The eligible basis of any building is—

''(A) in the case a new building which is not Federally subsidized for the taxable year, its adjusted basis as of the close of the 1st taxable year of the credit period, and

''(B) zero in any other case.''.

(3) CONFORMING AMENDMENTS.—

(A) Section 42(e) is amended—

(i) in paragraph (2)(B), by striking ''paragraph (3) or (4)'' and inserting ''paragraph (2) or (3)''.

(ii) in paragraph (3), by striking subparagraph (B) and redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively,

(iii) in paragraph (4), by striking the last sentence thereof, and

(iv) by striking paragraph (5) and redesignating paragraph (6) as paragraph (5).

(B) Section 42(f) is amended by striking paragraph (5).

(C) Section 42(i)(2)(A) is amended by striking ''for purposes of subsection (b)(1),''.

(D) Section 42(i)(3) is amended—

(i) by striking ''(as defined in subsection (d)(2)(D)(iii))'' in subparagraph (C)(ii) and inserting ''(within the meaning of subparagraph (F))'', and

(ii) by adding at the end the following new subparagraph:

''(F) RELATED PERSON.—For purposes of subparagraph (C), a person (hereinafter in this subparagraph referred to as the 'related person') is related to any person if the related person bears a relationship to such person specified in section 267(b) or 707(b)(1), or the related person and such person are engaged in trades or businesses under common control (within the meaning of subsections (a) and (b) of section 52).''.

(E) Section 42(i) is amended by striking paragraph (5).

(F) Section 42(k)(2)(B) is amended by striking ", except that" and all that follows and inserting a period.

(d) REPEAL OF SPECIAL RULES FOR BUILDINGS IN HIGH COST AND DIFFICULT DEVELOPMENT AREAS.—

(1) IN GENERAL.—Paragraph (4) of section 42(d), as redesignated by subsection (c)(2), is amended to read as follows:

"(4) FEDERAL GRANTS NOT TAKEN INTO ACCOUNT IN DETERMINING ELIGIBLE BASIS.—The eligible basis of a building shall not include any costs financed with the proceeds of a federally funded grant.".

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (3) of section 42(d), as redesignated by subsection (c)(2), is amended—

(i) by striking "(as defined in paragraph (5)(C))" in subparagraph (C)(i), and

(ii) by adding at the end the following new subparagraph:

"(E) QUALIFIED CENSUS TRACT.—For purposes of this paragraph—

"(i) IN GENERAL.—The term 'qualified census tract' means any census tract

which is designated by the Secretary of Housing and Urban Development and, for the most recent year for which census data are available on household income in such tract, either in which 50 percent or more of the households have an income which is less than 60 percent of the area median gross income for such year or which has a poverty rate of at least 25 percent. If the Secretary of Housing and Urban Development determines that sufficient data for any period are not available to apply this subparagraph on the basis of census tracts, such Secretary shall apply this subparagraph for such period on the basis of enumeration districts.

''(ii) LIMIT ON MSA'S DESIGNATED.—The portion of a metropolitan statistical area which may be designated for purposes of this subparagraph shall not exceed an area having 20 percent of the population of such metropolitan statistical area.

''(iii) DETERMINATION OF AREAS.—For purposes of this subparagraph, each metropolitan statistical area shall be treat-

ed as a separate area and all nonmetropolitan areas in a State shall be treated as 1 area.''.

(B) Clause (i) of section 42(d)(5)(A), as redesignated by subsection (c)(2), is amended to read as follows:

''(i) such building shall be treated as a new building, but''.

(e) REPEAL OF CERTAIN EXCEPTIONS TO RULES AGAINST PREFERENTIAL TREATMENT.—Section 42(g)(9) is amended—

(1) by adding ''or'' at the end of subparagraph (A), and

(2) by striking subparagraphs (B) and (C) and inserting the following new subparagraph:

''(B) who are veterans (as defined in section 101 of title 38, United States Code).''.

(f) MODIFICATION OF SELECTION CRITERIA.—Section 42(m)(1)(C) is amended—

(1) by adding ''and'' at the end of clause (vii),

(2) by striking the comma at the end of clause (viii) and inserting a period, and

(3) by striking clauses (ix) and (x).

(g) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply with respect to State limitation amounts determined for calendar years after 2014 (and to determinations with respect to allocations of such limitation amounts).

(2) TRANSITION RULE.—For purposes of determining the State limitation amount for calendar year 2015 under section 42(h)(3)(C) of the Internal Revenue Code of 1986, as amended by this section, the amount described in clause (i) of such section shall be treated as being equal to the quotient of—

(A) the amount which would be described in section 42(h)(3)(C)(i) of such Code (determined without regard to the amendments made by this section), divided by

(B) the applicable percentage determined under section 42(b)(1)(B)(i) for December 2014 (determined without regard to the amendments made by this section).

SEC. 3205. REPEAL OF ENHANCED OIL RECOVERY CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 43 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (6).

(2) Section 6501(m) is amended by striking ''43,''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 3206. PHASEOUT AND REPEAL OF CREDIT FOR ELECTRICITY PRODUCED FROM CERTAIN RENEWABLE RESOURCES.

(a) REDUCTION OF CREDIT AND PHASEOUT AMOUNTS.—

(1) IN GENERAL.—Section 45(b) is amended by striking paragraph (2).

(2) CONFORMING AMENDMENTS.—Section 45(e)(2) is amended—

(A) by striking ''the inflation adjustment factor and'' in subparagraph (A), and

(B) by striking subparagraph (B) and redesignating subparagraph (C) as subparagraph (B).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to electricity, and refined coal, produced and sold after December 31, 2014.

(b) SPECIAL RULE FOR DETERMINING BEGINNING OF CONSTRUCTION.—

(1) IN GENERAL.—Section 45(e) is amended by adding at the end the following new paragraph:

"(12) SPECIAL RULE FOR DETERMINING BEGINNING OF CONSTRUCTION.—For purposes of subsection (d) and section 48(a)(5), the construction of any facility, modification, improvement, addition, or other property shall not be treated as beginning before any date unless there is a continuous program of construction which begins before such date and ends on the date that such property is placed in service.".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to taxable years beginning before, on, or after the date of the enactment of this Act.

(c) REPEAL OF CREDIT.—

(1) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45 (and by striking the item relating to such section in the table of sections for such subpart).

(2) CONFORMING AMENDMENT.—Section 38(b) is amended by striking paragraph (8).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to electricity, and refined coal, produced and sold after December 31, 2024.

SEC. 3207. REPEAL OF INDIAN EMPLOYMENT CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45A (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—

(1) Section 38(b) is amended by striking paragraph (10).

(2) Section 139D(c)(1) is amended to read as follows:

''(1) INDIAN TRIBE.—The term 'Indian tribe' means any Indian tribe, band, nation, pueblo, or other organized group or community, including any Alaska Native village or regional or village corporation, as defined in, or established pursuant to, the Alaska Native Claims Settlement Act (43 U.S.C. 1601 et seq.) which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.''.

(3) Section 280C(a) is amended by striking "45A,".

(4) Section 5000A(e)(3) is amended by striking "section 45A(c)(6)" and inserting "section 139D(c)(1)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2013.

SEC. 3208. REPEAL OF CREDIT FOR PORTION OF EMPLOYER SOCIAL SECURITY TAXES PAID WITH RESPECT TO EMPLOYEE CASH TIPS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45B (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (11).

(2) Section 6501(m) is amended by striking "45B,".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to tips received for services performed after December 31, 2014.

SEC. 3209. REPEAL OF CREDIT FOR CLINICAL TESTING EXPENSES FOR CERTAIN DRUGS FOR RARE DISEASES OR CONDITIONS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45C (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (12).

(2) Section 280C is amended by striking subsection (b).

(3) Section 6501(m) is amended by striking "45C(d)(4),".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3210. REPEAL OF CREDIT FOR SMALL EMPLOYER PENSION PLAN STARTUP COSTS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45E (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—Section 38(b) is amended by striking paragraph (14).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to costs paid or incurred after December 31, 2014, with respect to qualified employer plans first effective after such date.

SEC. 3211. REPEAL OF EMPLOYER-PROVIDED CHILD CARE CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45F (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (15).

(2) Section 1016(a) is amended by striking paragraph (28).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) BASIS ADJUSTMENTS.—The amendment made by subsection (b)(2) shall apply to credits determined for taxable years beginning after December 31, 2014.

SEC. 3212. REPEAL OF RAILROAD TRACK MAINTENANCE CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45G (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (16).

(2) Section 1016(a) is amended by striking paragraph (29).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2013.

(2) BASIS ADJUSTMENTS.—The amendment made by subsection (b)(2) shall apply to credits determined for taxable years beginning after December 31, 2013.

SEC. 3213. REPEAL OF CREDIT FOR PRODUCTION OF LOW SULFUR DIESEL FUEL.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45H (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (18).

(2) Section 280C is amended by striking subsection (d).

(3) Section 6501(m) is amended by striking "45H(g),".

(4) Section 6720A is amended—

(A) by striking "(as defined in section 45H(c)(3))" in subsection (a), and

(B) by adding at the end the following new subsection:

"(c) APPLICABLE EPA REGULATIONS.—The term 'applicable EPA regulations' means the Highway Diesel Fuel Sulfur Control Requirements of the Environmental Protection Agency.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to expenses paid or incurred in taxable years beginning after December 31, 2014.

SEC. 3214. REPEAL OF CREDIT FOR PRODUCING OIL AND GAS FROM MARGINAL WELLS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45I (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 38(b) is amended by striking paragraph (19).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3215. REPEAL OF CREDIT FOR PRODUCTION FROM ADVANCED NUCLEAR POWER FACILITIES.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45J (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 38(b) is amended by striking paragraph (21).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to electricity produced and sold after December 31, 2014.

SEC. 3216. REPEAL OF CREDIT FOR PRODUCING FUEL FROM A NONCONVENTIONAL SOURCE.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45K (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (22).

(2) Section 45(e)(9) is amended—

(A) in subparagraph (A)—

(i) by inserting ", as in effect before its repeal" after "within the meaning of section 45K", and

(ii) by inserting "(as in effect before its repeal)" after "under section 45K", and

(B) in subparagraph (B), by inserting "(as in effect before its repeal)" after "section 45K".

(3) Section 4041(a)(2) is amended—

(A) by striking "(as defined in section 45K(c)(3))" in subparagraph (B)(ii), and

(B) by adding at the end the following new subparagraph:

"(C) BIOMASS.—The term "biomass" means any organic material other than—

"(i) oil and natural gas (or any product thereof), and

"(ii) coal (including lignite) or any product thereof.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to fuel produced and sold after December 31, 2013.

SEC. 3217. REPEAL OF NEW ENERGY EFFICIENT HOME CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45L (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (23).

(2) Section 1016(a) is amended by striking paragraph (32).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to homes acquired after December 31, 2013.

SEC. 3218. REPEAL OF ENERGY EFFICIENT APPLIANCE CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45M (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 38(b) is amended by striking paragraph (24).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to appliances produced after December 31, 2013.

SEC. 3219. REPEAL OF MINE RESCUE TEAM TRAINING CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45N (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (31).

(2) Section 280C is amended by striking subsection (e).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2013.

SEC. 3220. REPEAL OF AGRICULTURAL CHEMICALS SECURITY CREDIT.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45O (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (32).

(2) Section 280C is amended by striking subsection (f).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2012.

SEC. 3221. REPEAL OF CREDIT FOR CARBON DIOXIDE SEQUESTRATION.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45Q (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 38(b) is amended by striking paragraph (34).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to credits determined for taxable years beginning after December 31, 2014.

SEC. 3222. REPEAL OF CREDIT FOR EMPLOYEE HEALTH INSURANCE EXPENSES OF SMALL EMPLOYERS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 is amended by striking section 45R (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) is amended by striking paragraph (36).

(2) Section 280C is amended by striking subsection (h).

(3) Section 6055(b)(2) is amended by inserting ''and'' at the end of subparagraph (A), by striking '', and'' at the end of subparagraph (B) and inserting a period, and by striking subparagraph (C).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred for taxable years beginning after December 31, 2014.

SEC. 3223. REPEAL OF REHABILITATION CREDIT.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 is amended by striking section 47 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 170(f)(14)(A) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 47''.

(2) Section 170(h)(4) is amended—

(A) by striking ''(as defined in section 47(c)(3)(B))'' in subparagraph (C)(ii), and

(B) by adding at the end the following new subparagraph:

''(D) REGISTERED HISTORIC DISTRICT.—The term 'registered historic district' means—

''(i) any district listed in the National Register, and

"(ii) any district—

"(I) which is designated under a statute of the appropriate State or local government, if such statute is certified by the Secretary of the Interior to the Secretary as containing criteria which will substantially achieve the purpose of preserving and rehabilitating buildings of historic significance to the district, and

"(II) which is certified by the Secretary of the Interior to the Secretary as meeting substantially all of the requirements for the listing of districts in the National Register.".

(3) Section 469(i)(3) is amended by striking subparagraph (B).

(4) Section 469(i)(6)(B) is amended—

(A) by striking "in the case of—" and all that follows and inserting "in the case of any credit determined under section 42 for any taxable year.", and

(B) by striking ", REHABILITATION CREDIT," in the heading thereof.

(5) Section 469(k)(1) is amended by striking ", or any rehabilitation credit determined under section 47,".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to amounts paid after December 31, 2014.

(2) TRANSITION RULE.—In the case of qualified rehabilitation expenditures (within the meaning of section 47 of the Internal Revenue Code of 1986 as in effect before its repeal) with respect to any building—

(A) acquired by the taxpayer before January 1, 2015, and

(B) with respect to which the 24-month period selected by the taxpayer under section 47(c)(1)(C) of such Code begins not later than January 1, 2015,

the amendments made by this section shall apply to amounts paid after December 31, 2016.

SEC. 3224. REPEAL OF ENERGY CREDIT.

(a) TERMINATION.—Section 48 is amended by adding at the end the following new subsection:

"(e) APPLICATION OF SECTION.—This section shall not apply to any energy property placed in service after December 31, 2016.".

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (2)(A)(i)(II), and clauses (ii) and (vii) of paragraph (3)(A), of section 48(a) are each amended by striking "but only with respect to periods ending before January 1, 2017".

(2) Paragraph (1) of section 48(c) is amended by striking subparagraph (D).

(3) Paragraph (2) of section 48(c) is amended by striking subparagraph (D).

(4) Subparagraph (A) of section 48(c)(3) is amended by inserting "and" at the end of clause (ii), by striking ", and" at the end of clause (iii) and inserting a period, and by striking clause (iv).

(5) Paragraph (4) of section 48(c) is amended by striking subparagraph (C).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2016.

SEC. 3225. REPEAL OF QUALIFYING ADVANCED COAL PROJECT CREDIT.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 is amended by striking section 48A

(and by striking the item relating to such section in the table of sections for such subpart).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to allocations and reallocations after December 31, 2014.

SEC. 3226. REPEAL OF QUALIFYING GASIFICATION PROJECT CREDIT.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 is amended by striking section 48B (and by striking the item relating to such section in the table of sections for such subpart).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to allocations and reallocations after December 31, 2014.

SEC. 3227. REPEAL OF QUALIFYING ADVANCED ENERGY PROJECT CREDIT.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 is amended by striking section 48C (and by striking the item relating to such section in the table of sections for such subpart).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to allocations and reallocations after December 31, 2014.

SEC. 3228. REPEAL OF QUALIFYING THERAPEUTIC DISCOVERY PROJECT CREDIT.

(a) IN GENERAL.—Subpart E of part IV of subchapter A of chapter 1 is amended by striking section 48D (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—Section 280C is amended by striking the second subsection (g) (as added by the Patient Protection and Affordable Care Act).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to allocations and reallocations after December 31, 2014.

SEC. 3229. REPEAL OF WORK OPPORTUNITY TAX CREDIT.

(a) IN GENERAL.—Subpart F of part IV of subchapter A of chapter 1 is amended by striking section 51 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CLERICAL AMENDMENT.—The heading of such subpart F (and the item relating to such subpart in the table of subparts for part IV of subchapter A of chapter 1) are each amended by striking ''Rules for Computing Work Opportunity Credit'' and inserting ''Special Rules''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred to individuals who begin work for the employer after December 31, 2013.

SEC. 3230. REPEAL OF DEDUCTION FOR CERTAIN UNUSED BUSINESS CREDITS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 196 (and by striking the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

Subtitle D—Accounting Methods

SEC. 3301. LIMITATION ON USE OF CASH METHOD OF ACCOUNTING.

(a) IN GENERAL.—Section 448 is amended to read as follows:

"SEC. 448. LIMITATION ON USE OF CASH METHOD OF ACCOUNTING.

''(a) IN GENERAL.—The cash receipts and disbursements method of accounting may only be used by—

''(1) a natural person,

''(2) a farming business, and

''(3) any other entity which meets the gross receipts test of subsection (b) for the taxable year.

Such method may not be used by a tax shelter (as defined in subsection (d)).

''(b) GROSS RECEIPTS TEST.—For purposes of this section—

"(1) IN GENERAL.—An entity meets the gross receipts test of this subsection for any taxable year if the average annual gross receipts of such entity for the 3-taxable-year period ending with the taxable year which precedes such taxable year does not exceed $10,000,000.

"(2) AGGREGATION RULES.—All persons treated as a single employer under subsection (a) or (b) of section 52 or subsection (m) or (o) of section 414 shall be treated as one entity for purposes of paragraph (1).

"(3) SPECIAL RULES.—For purposes of this subsection—

"(A) NOT IN EXISTENCE FOR ENTIRE 3-YEAR PERIOD.—If the entity was not in existence for the entire 3-year period referred to in paragraph (1), such paragraph shall be applied on the basis of the period during which such entity (or trade or business) was in existence.

"(B) SHORT TAXABLE YEARS.—Gross receipts for any taxable year of less than 12 months shall be annualized by multiplying the gross receipts for the short period by 12 and dividing the result by the number of months in the short period.

"(C) GROSS RECEIPTS.—Gross receipts for any taxable year shall be reduced by returns and allowances made during such year.

"(D) TREATMENT OF PREDECESSORS.—Any reference in this subsection to an entity shall include a reference to any predecessor of such entity.

"(c) FARMING BUSINESS.—For purposes of this section—

"(1) IN GENERAL.—The term 'farming business' means the trade or business of farming.

"(2) CERTAIN TRADES AND BUSINESSES INCLUDED.—

"(A) IN GENERAL.—The term 'farming business' shall include the trade or business of—

"(i) operating a nursery or sod farm, or

"(ii) the raising or harvesting of trees bearing fruit, nuts, or other crops, or ornamental trees.

"(B) CERTAIN EVERGREEN TREES NOT TREATED AS ORNAMENTAL.—For purposes of subparagraph (A)(ii), an evergreen tree which is more than 6 years old at the time severed from

the roots shall not be treated as an ornamental tree.

"(d) TAX SHELTER DEFINED.—For purposes of this section, the term 'tax shelter' has the meaning given such term by section 461(i)(2) (determined after application of paragraph (3) thereof). An S corporation shall not be treated as a tax shelter for purposes of this section merely by reason of being required to file a notice of exemption from registration with a State agency described in section 461(i)(2)(A), but only if there is a requirement applicable to all corporations offering securities for sale in the State that to be exempt from such registration the corporation must file such a notice.

"(e) SPECIAL RULES.—For purposes of this section—

"(1) COORDINATION WITH SECTION 481.—In the case of any person required by this section to change its method of accounting for any taxable year—

"(A) such change shall be treated as initiated by such person, and

"(B) such change shall be treated as made with the consent of the Secretary.

"(2) USE OF RELATED PARTIES, ETC.—The Secretary shall prescribe such regulations as may be

necessary to prevent the use of related parties, pass-thru entities, or intermediaries to avoid the application of this section.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 446(c)(1) is amended by inserting ''to the extent provided in section 448,'' before ''the cash receipts''.

(2) Section 451 is amended by adding at the end the following new subsection:

''(j) SPECIAL RULE FOR LOSSES OF CERTAIN SERVICE PROVIDERS ON ACCRUAL METHOD OF ACCOUNTING.—

''(1) IN GENERAL.—In the case of any person using an accrual method of accounting with respect to amounts to be received for the performance of services by such person, such person shall not be required to accrue any portion of such amounts which (on the basis of such person's experience) will not be collected if such services are in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other field identified by the Secretary for purposes of this subsection.

''(2) EXCEPTION.—Paragraph (1) shall not apply to any amount if interest is required to be

paid on such amount or there is any penalty for failure to timely pay such amount.

"(3) REGULATIONS.—The Secretary shall prescribe regulations to permit taxpayers to determine amounts referred to in paragraph (1) using computations or formulas which, based on experience, accurately reflect the amount of income that will not be collected by such person. A taxpayer may adopt, or request consent of the Secretary to change to, a computation or formula that clearly reflects the taxpayer's experience. A request under the preceding sentence shall be approved if such computation or formula clearly reflects the taxpayer's experience.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(d) CHANGE IN METHOD OF ACCOUNTING.—

(1) IN GENERAL.—In the case of any qualified change in method of accounting for the taxpayer's first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) if the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 by reason of such change is positive—

(i) such amount shall be taken into account during the 4-taxable year period beginning with the earlier of the taxpayer's elected taxable year or the taxpayer's first taxable year beginning after December 31, 2018, as follows:

(I) 10 percent of such amount in the first taxable year in such period,

(II) 15 percent of such amount in the second taxable year in such period,

(III) 25 percent of such amount in the third taxable year in such period, and

(IV) 50 percent of such amount in the fourth taxable year in such period, and

(ii) for purposes of applying the regulations and other guidance issued under such section (including any provisions which require accelerated inclusion), the period beginning with the taxpayer's first taxable year beginning after December 31 2014, and ending with the taxable year before the first taxable year referred to in clause (i) shall not fail to be taken into account as part of the period of the adjustment merely because such amount is not otherwise taken into account under clause (i) during such period.

(2) QUALIFIED CHANGE IN METHOD OF ACCOUNTING.—For purposes of this subsection, the term ''qualified change in method of accounting'' means any change in method of accounting which—

(A) is required by the amendments made by this section, or

(B) was prohibited under the Internal Revenue Code of 1986 prior to such amendments and is permitted under such Code after such amendments.

(3) ELECTED TAXABLE YEAR.—For purposes of this subsection, the term ''elected taxable year''

means such taxable year as the taxpayer may elect (at such time and in such form and manner as the Secretary may provide) which begins after December 31, 2014, and is before the taxpayer's second taxable year beginning after December 31, 2018.

SEC. 3302. RULES FOR DETERMINING WHETHER TAXPAYER HAS ADOPTED A METHOD OF ACCOUNTING.

(a) IN GENERAL.—Section 446 is amended by adding at the end the following new subsection:

''(g) RULES FOR TREATING ACCOUNTING METHOD AS ADOPTED BY TAXPAYER.—If the taxpayer uses a method of accounting with respect to any item on any return of tax—

''(1) in the case of any method of accounting which the taxpayer is permitted to use with respect to such item, such method shall be treated as having been adopted by the taxpayer with respect to such item, and

''(2) in the case of any method of accounting which the taxpayer is not permitted to use with respect to such item, such method shall be treated as having been adopted by the taxpayer with respect to such item if the taxpayer used the same method with respect to such item on the return of tax for the preceding taxable year.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3303. CERTAIN SPECIAL RULES FOR TAXABLE YEAR OF INCLUSION.

(a) INCLUSION NOT LATER THAN FOR FINANCIAL ACCOUNTING PURPOSES.—Section 451 is amended by redesignating subsections (b) through (j) as subsection (c) through (k), respectively, and by inserting after subsection (a) the following new subsection:

"(b) INCLUSION NOT LATER THAN FOR FINANCIAL ACCOUNTING PURPOSES.—

"(1) IN GENERAL.—In the case of a taxpayer the taxable income of which is computed under the accrual method of accounting, the amount of any portion of any item of income shall be included in gross income not later than the taxable year with respect to which such amount is taken into account as income in—

"(A) an audited financial statement of the taxpayer described in section 1221(b)(3)(B), or

"(B) such other financial statement as the Secretary may specify for purposes of this subsection.

"(2) COORDINATION WITH SPECIAL RULES FOR LONG-TERM CONTRACTS.—Paragraph (1) shall not apply with respect to any item of income to which section 460 applies.".

(b) TREATMENT OF ADVANCE PAYMENTS.—Section 451, as amended by subsection (a), is amended by redesignating subsections (c) through (k) as subsections (d) through (l), respectively, and by inserting after subsection (b) the following new subsection:

"(c) TREATMENT OF ADVANCE PAYMENTS.—

"(1) IN GENERAL.—A taxpayer which computes taxable income under the accrual method of accounting, and receives any advance payment during the taxable year, shall—

"(A) except as provided in subparagraph (B), include such advance payment in gross income for such taxable year, or

"(B) if the taxpayer elects the application of this subparagraph with respect to the category of advance payments to which such advance payment belongs, the taxpayer shall—

"(i) to the extent that any portion of such advance payment is required under subsection (b) to be included in gross income in the taxable year in which such

payment is received, so include such portion, and

"(ii) include the remaining portion of such advance payment in gross income in the taxable year following the taxable year in which such payment is received.

"(2) ELECTION.—

"(A) IN GENERAL.—Except as otherwise provided in this paragraph, the election under paragraph (1)(B) shall be made at such time, in such form and manner, and with respect to such categories of advance payments, as the Secretary may provide.

"(B) PERIOD TO WHICH ELECTION APPLIES.—An election under paragraph (1)(B) shall be effective for the taxable year with respect to which it is first made and for all subsequent taxable years, unless the taxpayer secures the consent of the Secretary to revoke such election. For purposes of this title, the computation of taxable income under an election made under paragraph (1)(B) shall be treated as a method of accounting.

"(3) ADVANCE PAYMENT.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'advance payment' means any payment—

"(i) the full inclusion of which in the gross income of the taxpayer for the taxable year of receipt is a permissible method of accounting under this section (determined without regard to this subsection), and

"(ii) which is for goods, services, or such other items as may be identified by the Secretary for purposes of this clause.

"(B) EXCLUSIONS.—Except as otherwise provided by the Secretary, such term shall not include—

"(i) rent,

"(ii) insurance premiums,

"(iii) payments with respect to financial instruments,

"(iv) payments with respect to warranty or guarantee contracts under which a third party is the primary obligor,

"(v) payments subject to section 871(a), 881, 1441, or 1442,

"(vi) payments in property to which section 83 applies, and

"(vii) any other payment identified by the Secretary for purposes of this subparagraph.".

(c) CROP INSURANCE PROCEEDS AND DISASTER PAYMENTS.—Section 451, as amended by subsections (a) and (b), is amended by striking subsection (f).

(d) LIVESTOCK SOLD ON ACCOUNT OF DROUGHT, FLOOD, AND OTHER WEATHER-RELATED CONDITIONS.—Section 451, as amended by subsections (a) and (b), is amended by striking subsection (g).

(e) SALES OR DISPOSITIONS TO IMPLEMENT FEDERAL ENERGY REGULATORY COMMISSION OR STATE ELECTRIC RESTRUCTURING POLICY.—Section 451, as amended by subsections (a) and (b), is amended by striking subsection (k).

(f) CONFORMING AMENDMENTS.—Section 451, as amended by subsections (a), (b), (c), (d), and (e), is amended by redesignating subsections (h), (i), (j), and (l) as subsections (f), (g), (h), and (i), respectively.

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) CROP INSURANCE PROCEEDS AND DISASTER PAYMENTS.——

(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by subsection (c) shall apply to destruction and damage of crops occurring after December 31, 2014.

(B) INABILITY TO PLANT.—In the case of inability to plant crops because of a natural disaster, the amendments made by subsection (c) shall apply to natural disasters occurring after December 31, 2014.

(3) LIVESTOCK.—The amendments made by subsection (d) shall apply to sales and exchanges after December 31, 2014.

(4) SALES OR DISPOSITIONS TO IMPLEMENT ELECTRIC RESTRUCTURING POLICY.—The amendments made by subsection (e) shall apply to sales and dispositions after December 31, 2013.

(5) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by subsections (a) and (b) to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer, and

(B) such change shall be treated as made with the consent of the Secretary of the Treasury.

SEC. 3304. INSTALLMENT SALES.

(a) REPEAL OF EXCEPTIONS TO TREATMENT AS DEALER DISPOSITIONS.—Section 453(l) is amended to read as follows:

''(l) DEALER DISPOSITIONS.—For purposes of subsection (b)(2)(A), the term 'dealer disposition' means any of the following dispositions:

''(1) PERSONAL PROPERTY.—Any disposition of personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan.

''(2) REAL PROPERTY.—Any disposition of real property which is held by the taxpayer for sale to customers in the ordinary course of the taxpayer's trade or business.''.

(b) MODIFICATION OF RULES FOR NONDEALERS.—

(1) REPEAL OF SPECIAL RULE FOR INTEREST PAYMENTS.—Section 453A(b)(2) is amended to read as follows:

"(2) INTEREST PAYMENT EXCEPTION FOR OBLIGATIONS NOT OUTSTANDING AT CLOSE OF TAXABLE YEAR.—Subsection (a)(1) shall apply to an obligation described in paragraph (1) arising during any taxable year only if such obligation is outstanding as of the close of such taxable year.".

(2) REPEAL OF EXCEPTION FOR FARM PROPERTY.—Section 453A(b)(3) is amended—

(A) by striking "from the disposition—" and all that follows and inserting "from the disposition by an individual of personal use property (within the meaning of section 1275(b)(3)).", and

(B) by striking "AND FARM" in the heading.

(3) REPEAL OF SPECIAL RULE FOR TIMESHARES AND RESIDENTIAL LOTS.—Section 453A(b) is amended by striking paragraph (4) and by redesignating paragraph (5) as paragraph (4).

(4) CONFORMING AMENDMENT.—Section 453A(c) is amended—

(A) by striking "the applicable percentage of" in paragraph (2)(A), and

(B) by striking paragraph (4) and by redesignating paragraphs (5) and (6) as paragraphs (4) and (5), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to sales and other dispositions after December 31, 2014.

SEC. 3305. REPEAL OF SPECIAL RULE FOR PREPAID SUBSCRIPTION INCOME.

(a) IN GENERAL.—Subpart B of part II of subchapter E of chapter 1 is amended by striking section 455 (and by striking the item relating to such section in the table of sections for such subpart).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to payments received after December 31, 2014.

SEC. 3306. REPEAL OF SPECIAL RULE FOR PREPAID DUES INCOME OF CERTAIN MEMBERSHIP ORGANIZATIONS.

(a) IN GENERAL.—Subpart B of part II of subchapter E of chapter 1 is amended by striking section 456 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 277(b)(2) is amended by inserting ''(as in effect before its repeal)'' after ''section 456(c)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to payments received after December 31, 2014.

SEC. 3307. REPEAL OF SPECIAL RULE FOR MAGAZINES, PAPERBACKS, AND RECORDS RETURNED AFTER CLOSE OF THE TAXABLE YEAR.

(a) IN GENERAL.—Subpart B of part II of subchapter E of chapter 1 is amended by striking section 458 (and by striking the item relating to such section in the table of sections for such subpart).

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer, and

(B) such change shall be treated as made with the consent of the Secretary of the Treasury.

SEC. 3308. MODIFICATION OF RULES FOR LONG-TERM CONTRACTS.

(a) REPEAL OF EXCEPTION FOR HOME CONSTRUCTION CONTRACTS.—Paragraph (1) of section 460(e) is amended to read as follows:

"(1) EXCEPTION FOR CERTAIN CONSTRUCTION CONTRACTS.—Subsections (a), (b), and (c)(1) and (2) shall not apply to any construction contract entered into by a taxpayer—

"(A) who estimates (at the time such contract is entered into) that such contract will be completed within the 2-year period beginning on the contract commencement date of such contract, and

"(B) whose average annual gross receipts for the 3 taxable years preceding the taxable year in which such contract is entered into do not exceed $10,000,000.

For purposes of this paragraph, rules similar to the rules of paragraphs (2) and (3) of section 448(b) shall apply.".

(b) REPEAL OF SPECIAL RULE FOR OTHER RESIDENTIAL CONSTRUCTION CONTRACTS.—Section 460(e) is amended by striking paragraphs (5) and (6).

(c) REPEAL OF SPECIAL RULES FOR QUALIFIED SHIP CONTRACTS.—

(1) IN GENERAL.—Section 10203(b) of the Revenue Act of 1987 is amended by striking paragraph (2).

(2) QUALIFIED NAVAL SHIP CONTRACTS.—The American Jobs Creation Act of 2004 is amended by striking section 708.

(d) CONFORMING AMENDMENTS.—Section 460(e) is amended by striking paragraphs (2) and (3) and by redesignating paragraph (4) as paragraph (2).

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to contracts entered into after December 31, 2014.

SEC. 3309. NUCLEAR DECOMMISSIONING RESERVE FUNDS.

(a) GROSS INCOME ON NUCLEAR DECOMMISSIONING RESERVE FUNDS TAXED AT CORPORATE RATE.—Section 468A(e)(2) is amended by striking ''at the rate of 20 percent'' and inserting ''at a rate equal to the maximum rate in effect for such taxable year under section 11''.

(b) INCOME INCLUSION UPON DISQUALIFIED DISTRIBUTION.—Section 468A(c)(1) is amended by striking ''and'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', and'', and by adding at the end the following new subparagraph:

"(C) if any distribution is made from the Fund during such taxable year which is not used as provided in subsection (e)(4), the balance of the Fund determined immediately before such distribution.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3310. REPEAL OF LAST-IN, FIRST-OUT METHOD OF INVENTORY.

(a) IN GENERAL.—Section 471 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) LAST-IN, FIRST-OUT METHOD NOT PERMISSIBLE.—The last-in, first-out method of determining inventories shall in no event be treated as clearly reflecting income.".

(b) CONFORMING AMENDMENTS.—

(1) Subpart D of part II of subchapter E of chapter 1 is amended by striking sections 472, 473, and 474 (and by striking the items relating to such sections in the table of sections for such subpart).

(2)(A) Section 312(n), as amended by the preceding provisions of this Act, is amended by striking paragraph (3) and by redesignating paragraphs (4)

through (7) as paragraphs (3) through (6), respectively.

(B) Section 312(n)(6), as amended by the preceding provisions of this Act, is amended—

(i) by striking ''paragraphs (4) and (6)'' in subparagraph (A) and inserting ''paragraph (4)'', and

(ii) by striking ''paragraph (5)'' in subparagraph (B) and inserting ''paragraph (3)''.

(C) Section 301(e)(3), as amended by the preceding provisions of this Act, is amended—

(i) by striking ''paragraph (6)'' and inserting ''paragraph (5)'', and

(ii) by striking ''SECTION 312(n)(6)'' in the heading and inserting ''SECTION 312(n)(5)''.

(D) Section 952(c)(3), as amended by the preceding provisions of this Act, is amended by striking ''paragraphs (3), (4), and (5)'' and inserting ''paragraphs (2), (3), and (4)''.

(E) Section 1293(e)(3), as amended by the preceding provisions of this Act, is amended by striking ''paragraphs (3), (4), and (5)'' and inserting ''paragraphs (2), (3), and (4)''.

(F) Section 1503(e)(2)(C), as amended by the preceding provisions of this Act, is amended—

(i) by striking ''paragraph (6)'' and inserting ''paragraph (5)'', and

(ii) by striking ''SECTION 312(n)(6)'' in the heading and inserting ''SECTION 312(n)(5)''.

(3) Section 1363 is amended by striking subsection (d).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(d) CHANGE IN METHOD OF ACCOUNTING.—

(1) IN GENERAL.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) if the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Rev-

enue Code of 1986 by reason of such change is positive—

(i) such amount shall be taken into account during the 4-taxable year period beginning with the earlier of the taxpayer's elected taxable year or the taxpayer's first taxable year beginning after December 31, 2018, as follows:

(I) 10 percent of such amount in the first taxable year in such period,

(II) 15 percent of such amount in the second taxable year in such period,

(III) 25 percent of such amount in the third taxable year in such period, and

(IV) 50 percent of such amount in the fourth taxable year in such period, and

(ii) for purposes of applying the regulations and other guidance issued under such section (including any provisions which require accelerated inclusion), the period beginning with the taxpayer's first taxable year beginning after December 31

2014, and ending with the taxable year before the first taxable year referred to in clause (i) shall not fail to be taken into account as part of the period of the adjustment merely because such amount is not otherwise taken into account under clause (i) during such period.

(2) ELECTED TAXABLE YEAR.—For purposes of this subsection, the term ''elected taxable year'' means such taxable year as the taxpayer may elect (at such time and in such form and manner as the Secretary may provide) which begins after December 31, 2014, and is before the taxpayer's second taxable year beginning after December 31, 2018.

(3) REDUCTION IN AMOUNT OF ADJUSTMENT FOR CLOSELY-HELD ENTITIES.—

(A) IN GENERAL.—In the case of any closely-held entity, paragraph (1)(C) shall be applied by treating any reference to ''such amount'' as a reference to 20 percent (28 percent in the case of a C corporation) of such amount.

(B) CLOSELY-HELD ENTITY.—For purposes of this paragraph—

(i) IN GENERAL.—The term ''closely-held entity'' means any domestic corporation or domestic partnership which—

(I) is not an ineligible entity,

(II) does not have more than 100 shareholders or partners (as the case may be), and

(III) does not have as a shareholder or partner a person (other than an estate, a trust described in section 1361(c)(2) of the Internal Revenue Code of 1986, or an organization described section 1361(c)(6) of such Code) who is not an individual.

(ii) CERTAIN SUBSIDIARIES.—An entity shall not fail to be treated as a closely-held entity by reason of clause (i)(III) if all of the interests in such entity are held by a single closely-held entity (determined without regard to this clause) and individuals taken into account under clause (i)(II) with respect to such entity. In the case of tiered entities (other than the top tier entity), the preceding sentence shall be applied—

(I) by substituting ''(determined after application of this clause)'' for ''(determined without regard to this clause)'', and

(II) by substituting ''with respect to the top tier entity'' for ''with respect to such entity''.

(iii) INELIGIBLE ENTITY.—The term ''ineligible entity'' means any entity described in section 1361(b)(2) of the Internal Revenue Code of 1986 applied by substituting ''corporation or partnership'' for ''corporation'' each place it appears.

(iv) DATE OF DETERMINATION.—The status of any entity as a closely-held entity shall be determined as of February 26, 2014.

(v) SOLE PROPRIETORS.—An individual operating a trade or business shall be treated as a closely-held entity.

(C) CERTAIN TRANSFERS DISREGARDED.—

(i) IN GENERAL.—In the case of any specified inventory transfer, the adjustments referred to in paragraph (1)(C) shall be determined—

(I) with respect to the transferor, as though the property transferred continued to be held at all times by such transferor, and

(II) with respect to the transferee, as though such property was never transferred to such transferee.

(ii) SPECIFIED INVENTORY TRANSFER.—The term ''specified inventory transfer'' means any transfer of property described in section 1221(a)(1) if—

(I) such transfer is to a closely-held entity from any person who is not a closely-held entity,

(II) such transfer is on or after February 26, 2014, and before the beginning of the transferor's first taxable year beginning after December 31, 2014, and

(III) the basis of such property in the hands of the transferee immediately after such transfer is either determined by reference to the basis of such property in the hands of the transferor or is less than the fair mar-

ket value of such property at the time of such transfer.

SEC. 3311. REPEAL OF LOWER OF COST OR MARKET METHOD OF INVENTORY.

(a) IN GENERAL.—Section 471, as amended by the preceding provisions of this Act, is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

''(d) LOWER OF COST OR MARKET METHOD NOT PERMISSIBLE.—The lower of cost or market method of determining inventories shall in no event be treated as clearly reflecting income. For purposes of the preceding sentence, the lower of cost or market shall include the lower of cost or bona fide net selling price.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(c) CHANGE IN METHOD OF ACCOUNTING.—

(1) IN GENERAL.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) if the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 by reason of such change is positive—

(i) such amount shall be taken into account during the 4-taxable year period beginning with the earlier of the taxpayer's elected taxable year or the taxpayer's first taxable year beginning after December 31, 2018, as follows:

(I) 10 percent of such amount in the first taxable year in such period,

(II) 15 percent of such amount in the second taxable year in such period,

(III) 25 percent of such amount in the third taxable year in such period, and

(IV) 50 percent of such amount in the fourth taxable year in such period, and

(ii) for purposes of applying the regulations and other guidance issued under such section (including any provisions which require accelerated inclusion), the period beginning with the taxpayer's first taxable year beginning after December 31 2014, and ending with the taxable year before the first taxable year referred to in clause (i) shall not fail to be taken into account as part of the period of the adjustment merely because such amount is not otherwise taken into account under clause (i) during such period.

(2) ELECTED TAXABLE YEAR.—For purposes of this subsection, the term ''elected taxable year'' means such taxable year as the taxpayer may elect (at such time and in such form and manner as the Secretary may provide) which begins after December 31, 2014, and is before the taxpayer's second taxable year beginning after December 31, 2018.

SEC. 3312. MODIFICATION OF RULES FOR CAPITALIZATION AND INCLUSION IN INVENTORY COSTS OF CERTAIN EXPENSES.

(a) $10,000,000 GROSS RECEIPTS EXCEPTION TO APPLY TO PROPERTY PRODUCED BY THE TAXPAYER.—

Section 263A(b) is amended by striking all that follows paragraph (1) and inserting the following new paragraphs:

"(2) PROPERTY ACQUIRED FOR RESALE.—Real or personal property described in section 1221(a)(1) which is acquired by the taxpayer for resale.

"(3) EXCEPTION FOR TAXPAYER WITH GROSS RECEIPTS OF $10,000,000 OR LESS.—This section shall not apply to any property produced or acquired by the taxpayer during any taxable year if the average annual gross receipts of the taxpayer (or any predecessor) for the 3-taxable year period ending with the taxable year preceding such taxable year do not exceed $10,000,000. For purposes of this paragraph, rules similar to the rules of paragraphs (2) and (3) of section 448(b) shall apply.

"(4) FILMS, SOUND RECORDINGS, BOOKS, ETC.—For purposes of this subsection, the term 'tangible personal property' shall include a film, sound recording, video tape, book, or similar property.".

(b) REPEAL OF EXCEPTIONS FOR TIMBER AND CERTAIN ORNAMENTAL TREES.—Section 263A(c) is amended by striking paragraph (5).

(c) REPEAL OF EXCEPTION FOR QUALIFIED CREATIVE EXPENSES.—Section 263A is amended by striking subsection (h).

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by the amendments made by this section to change its method of accounting for its first taxable year beginning after December 31, 2014—

(A) such change shall be treated as initiated by the taxpayer, and

(B) such change shall be treated as made with the consent of the Secretary of the Treasury.

SEC. 3313. MODIFICATION OF INCOME FORECAST METHOD.

(a) EXTENSION OF FORECAST PERIOD.—

(1) IN GENERAL.—Paragraph (1) of section 167(g) is amended by striking "10th" each place it appears and inserting "20th".

(2) MODIFICATION OF RECOMPUTATION YEARS.—Paragraph (4) of section 167(g) is amend-

ed by striking ''the 3d and the 10th'' and inserting ''the 5th, 10th, 15th, and 20th''.

(b) MODIFICATION OF RULES FOR TREATMENT OF PARTICIPATIONS AND RESIDUALS.—Paragraph (7) of section 167(g) is amended to read as follows:

''(7) TREATMENT OF PARTICIPATIONS AND RESIDUALS.—

''(A) IN GENERAL.—In the case of any participation or residual with respect to any property to which this subsection applies (including any property to which section 168 applies by reason of paragraph (8)), the taxpayer—

''(i) shall exclude such participation or residual from the adjusted basis of such property, and

''(ii) shall be allowed a deduction for such participation or residual in the taxable year in which such participation or residual is paid.

''(B) PARTICIPATIONS AND RESIDUALS.—For purposes of this paragraph, the term 'participation or residual' means, with respect to any property, any cost the amount of which by

contract varies with the amount of income earned in connection with such property.''.

(c) ELECTION TO UTILIZE 20-YEAR STRAIGHT LINE RECOVERY.—Subsection (g) of section 167 is amended by redesignating (8) as paragraph (9) and by inserting after paragraph (7) the following new paragraph:

''(8) ELECTION TO UTILIZE 20-YEAR STRAIGHT LINE RECOVERY.—If the taxpayer elects the application of this paragraph for any taxable year, the depreciation deduction allowable with respect to any property placed in service by the taxpayer during such taxable year which would otherwise be determined under paragraph (1) shall be determined under section 168—

''(A) by treating the straight line method as the applicable depreciation method, and

''(B) by treating 20 years as the applicable recovery period.''.

(d) REPEAL OF SPECIAL RULES FOR CERTAIN MUSICAL WORKS AND COPYRIGHTS.—Subsection (g) of section 167, as amended by subsection (c), is amended by striking paragraph (9).

(e) SAFE HARBOR AMORTIZATION OF CERTAIN INTANGIBLE ASSETS.—Effective for property placed in service after December 31, 2014, the Secretary of the Treas-

ury, or the Secretary's designee, shall revise Treasury Regulation section 1.167(a)-3(b) (and such regulation shall be applied) such that the safe harbor amortization for certain intangible assets to which such regulation applies shall allow the taxpayer to treat such asset as having a useful life equal to 20 years (and not 15 years).

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2014.

SEC. 3314. REPEAL OF AVERAGING OF FARM INCOME.

(a) IN GENERAL.—Subchapter Q of chapter 1 is amended by striking part I (and by striking the item relating to such part in the table of parts for such subchapter).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3315. TREATMENT OF PATENT OR TRADEMARK INFRINGEMENT AWARDS.

(a) IN GENERAL.—Part II of subchapter B of chapter 1 is amended by adding at the end the following new section:

"SEC. 91. PATENT OR TRADEMARK INFRINGEMENT AWARDS.

''(a) IN GENERAL.—Except as provided in subsection (b), any payment received for infringement of any patent

or trademark (whether by reason of judgment or settlement) shall be included in gross income as ordinary income.

"(b) IMPAIRMENT OF CAPITAL.—If the taxpayer demonstrates to the satisfaction of the Secretary that a payment described in subsection (a) constitutes damages received by reason of the reduction in value of property of the taxpayer caused by the infringement referred to in subsection (a)—

"(1) the taxpayer's basis in such property shall be reduced (but not below zero) by the amount of such payment, and

"(2) subsection (a) shall apply to so much of such payment as exceeds the amount of the reduction under paragraph (1).".

(b) CONFORMING AMENDMENTS.—

(1) Section 1016(a) is amended by adding at the end the following new paragraph:

"(38) to the extent provided in section 91(b)(1),".

(2) The table of sections for part II of subchapter B of chapter 1 is amended by adding at the end the following new item:

"Sec. 91. Patent or trademark infringement awards.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to payments received pursuant to judgments and settlements after December 31, 2014.

SEC. 3316. REPEAL OF REDUNDANT RULES WITH RESPECT TO CARRYING CHARGES.

(a) IN GENERAL.—Part IX of subchapter B of chapter 1 is amended by striking section 266 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 163(n) is amended by striking paragraph (3) and by redesignating paragraphs (4) and (5) as paragraphs (3) and (4), respectively.

(2) Section 1016(a)(1)(A)(i), as amended by section 3514, is amended by striking ''described in section 266''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2014.

SEC. 3317. REPEAL OF RECURRING ITEM EXCEPTION FOR SPUDDING OF OIL OR GAS WELLS.

(a) IN GENERAL.—Section 461(i) is amended by striking paragraph (2) and by redesignating paragraphs (3), (4), and (5) as paragraphs (2), (3), and (4), respectively.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

Subtitle E—Financial Instruments

PART 1—DERIVATIVES AND HEDGES

SEC. 3401. TREATMENT OF CERTAIN DERIVATIVES.

(a) IN GENERAL.—Subchapter E of chapter 1 is amended by adding at the end the following new part:

"PART IV—DERIVATIVES

"Sec. 485. Treatment of certain derivatives.
"Sec. 486. Derivative defined.

"SEC. 485. TREATMENT OF CERTAIN DERIVATIVES.

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

"(1) any derivative held by a taxpayer at the close of the taxable year shall be treated as sold for its fair market value on the last business day of such taxable year (and any gain or loss shall be taken into account for the taxable year), and

"(2) proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain or loss taken into account by reason of paragraph (1).

"(b) TREATMENT AS ORDINARY INCOME OR LOSS; ALLOWANCE AS NET OPERATING LOSS.—All items of income, gain, loss, and deduction with respect to any derivative—

"(1) shall be treated as ordinary income or loss, and

"(2) shall be treated for purposes of section 172(d)(4) as attributable to a trade or business of the taxpayer.

"(c) MARK TO MARKET OF CERTAIN OFFSETTING POSITIONS.—

"(1) IN GENERAL.—In the case of any straddle which includes any derivative, subsections (a) and (b) shall apply to all positions comprising such straddle in the same manner as such subsections apply to such derivative.

"(2) APPLICATION TO BUILT-IN GAIN POSITIONS.—

"(A) IN GENERAL.—In the case of any built-in gain position to which subsection (a) applies by reason of paragraph (1)—

"(i) in addition to any other time at which such position is treated as sold under subsection (a)(1), such position shall be treated as sold for its fair market value at the time that the straddle is established with respect to such position,

"(ii) proper adjustment shall be made in the amount of any gain or loss subse-

quently realized for gain taken into account by reason of clause (i), and

"(iii) subsection (b) shall not apply to any gain taken into account by reason of clause (i).

"(B) BUILT-IN GAIN POSITION.—For purposes of this subsection, the term 'built-in gain position' means any position (other than a derivative to which subsection (a) applies) with respect to which a gain would be realized if such position were sold for its fair market value at the time that the straddle is established with respect to such position.

"(C) EXCEPTION FOR STRAIGHT DEBT.—Subparagraph (A) shall not apply to any position with respect to debt if—

"(i) the interest payments (or other similar amounts) with respect to such position meet the requirements of section 860G(a)(1)(B)(i), and

"(ii) such position is not convertible (directly or indirectly) into stock of the issuer or any related person.

"(D) EXCEPTION FOR STRADDLES CONSISTING OF QUALIFIED COVERED CALL OPTIONS

AND THE OPTIONED STOCK.—Subparagraph (A) shall not apply to any position which is part of a straddle if—

"(i) all the offsetting positions which are part of such straddle consist of 1 or more qualified covered call options (as defined in paragraph (6)) and the stock to be purchased from the taxpayer under such options, and

"(ii) such straddle is not part of a larger straddle.

"(3) APPLICATION TO BUILT-IN LOSS POSITIONS.—

"(A) IN GENERAL.—In the case of any built-in loss position to which subsection (a) applies by reason of paragraph (1), any gain or loss realized under subsection (a)(1) shall be properly adjusted so as not to take into account the loss referred to in subparagraph (B) with respect to such position.

"(B) BUILT-IN LOSS POSITION.—For purposes of subparagraph (A), the term 'built-in loss position' means any position (other than a derivative to which subsection (a) applies) with respect to which a loss would be realized if such

position were sold for its fair market value at the time that the straddle is established with respect to such position.

"(4) HOLDING PERIOD OF NON-DERIVATIVES.—For purposes of section 1222, in the case of any position to which subsection (a) applies by reason of paragraph (1), the holding period of such position shall not include—

"(A) the period during which subsection (a) applies to such position, and

"(B) in the case of a built-in gain position, the period before such position is treated as sold under paragraph (2)(A).

"(5) STRADDLE.—For purposes of this section—

"(A) the term 'straddle' has the meaning given such term by section 1092(c) applied by treating all offsetting positions as being with respect to personal property, and

"(B) the term 'position' includes any derivative.

"(6) QUALIFIED COVERED CALL OPTIONS.—

"(A) IN GENERAL.—For purposes of paragraph (2)(D), the term 'qualified covered call option' means any option granted by the tax-

1 payer to purchase stock held by the taxpayer
2 (or stock acquired by the taxpayer in connection
3 with the granting of the option) but only if—
4 ''(i) such option is traded on a na-
5 tional securities exchange which is reg-
6 istered with the Securities and Exchange
7 Commission or other market which the
8 Secretary determines has rules adequate to
9 carry out the purposes of this paragraph,
10 ''(ii) such option is granted—
11 ''(I) more than 30 days before
12 the day on which the option expires,
13 and
14 ''(II) not more than 90 days be-
15 fore the day on which the option ex-
16 pires,
17 ''(iii) such option is not granted by an
18 options dealer (as defined in subparagraph
19 (B)) in connection with such dealer's activ-
20 ity of dealing in options, and
21 ''(iv) gain or loss with respect to such
22 option would not be ordinary income or
23 loss if determined without regard to this
24 section.

"(B) OPTIONS DEALER.—For purposes of subparagraph (A), the term 'options dealer' means—

"(i) any person registered with an appropriate national securities exchange as a market maker or specialist in listed options, and

"(ii) to the extent provided by the Secretary consistent with the purposes of this paragraph, any person whom the Secretary determines performs functions similar to the persons described in clause (i).

"(C) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this paragraph and paragraph (2)(D). Such regulations may include modifications to the provisions of this paragraph and paragraph (2)(D) which are appropriate to take account of changes in the practices of option exchanges or to prevent the use of options for tax avoidance purposes.

"(d) TERMINATIONS, ETC.—

"(1) IN GENERAL.—The rules of subsections (a) and (b) shall also apply to the termination (or

transfer) during the taxable year of the taxpayer's obligation (or rights) with respect to a derivative by offsetting, by taking or making delivery, by exercise or being exercised, by assignment or being assigned, by lapse, by expiration, by settlement, or otherwise.

"(2) MARK TO MARKET OF ALL POSITIONS IN STRADDLE IF ANY POSITION TERMINATED OR TRANSFERRED.—If paragraph (1) applies with respect to any position which is part of a straddle, the rules of subsections (a) and (b) shall apply to every position which is part of such straddle.

"(e) DETERMINATION OF FAIR MARKET VALUE.—For purposes of this section—

"(1) TERMINATIONS, ETC.—For purposes of subsection (d), fair market value shall be determined at the time of the termination (or transfer).

"(2) BLOCKAGE FACTOR NOT TAKEN INTO ACCOUNT.—To the extent provided in regulations prescribed by the Secretary, fair market value shall be determined without regard to any premium or discount based on the proportion of the total available trading units which are held.

"(f) COORDINATION WITH CERTAIN RULES.—The rules of sections 263(g) and 263A shall not apply to any derivative or other position to which subsection (a) applies,

and section 1091 shall not apply (and section 1092 shall apply) to any loss recognized under subsection (a).

"SEC. 486. DERIVATIVE DEFINED.

"(a) IN GENERAL.—For purposes of this part, except as otherwise provided in this section, the term 'derivative' means any contract (including any option, forward contract, futures contract, short position, swap, or similar contract) the value of which, or any payment or other transfer with respect to which, is (directly or indirectly) determined by reference to one or more of the following:

"(1) Any share of stock in a corporation.

"(2) Any partnership or beneficial ownership interest in a partnership or trust.

"(3) Any evidence of indebtedness.

"(4) Except as provided in subsection (d), any real property.

"(5) Any commodity which is actively traded (within the meaning of section 1092(d)(1)).

"(6) Any currency.

"(7) Any rate, price, amount, index, formula, or algorithm.

"(8) Any other item as the Secretary may prescribe.

Such term shall not include any item described in paragraphs (1) through (8).

1 "(b) EXCEPTIONS.—

2 "(1) CERTAIN REAL PROPERTY.—

3 "(A) IN GENERAL.—For purposes of sub-
4 section (a)(4), the term 'real property' shall not
5 include—

6 "(i) a tract of real property (as de-
7 fined in section 1237(c)), or

8 "(ii) any real property which would be
9 property described in section 1221(a)(1)
10 with respect to the taxpayer if held directly
11 by the taxpayer.

12 "(B) REGULATIONS.—The Secretary shall
13 prescribe regulations or other guidance under
14 which multiple tracts of real property may be
15 treated as a single tract of real property for
16 purposes of subparagraph (A)(i) if the contract
17 referred to in subsection (a) is of a type which
18 is designed to facilitate the acquisition or dis-
19 position of such real property.

20 "(2) HEDGING TRANSACTIONS.—

21 "(A) IN GENERAL.—For purposes of this
22 part, the term 'derivative' shall not include any
23 contract which is part of a hedging transaction
24 (as defined in section 1221(b)).

"(B) SECTION 988 HEDGING TRANSACTIONS.—For exception for section 988 hedging transactions, see section 988(d)(1).

"(3) SECURITIES LENDING, SALE-REPURCHASE, AND SIMILAR FINANCING TRANSACTIONS.—To the extent provided by the Secretary, for purposes of this part, the term 'derivative' shall not include the right to the return of the same or substantially identical securities transferred in a securities lending transaction, sale-repurchase transaction, or similar financing transaction.

"(4) OPTIONS RECEIVED IN CONNECTION WITH THE PERFORMANCE OF SERVICES.—For purposes of this part, the term 'derivative' shall not include any option described in section 83(e)(3) received in connection with the performance of services.

"(5) INSURANCE CONTRACTS, ANNUITIES, AND ENDOWMENTS.—For purposes of this part, the term 'derivative' shall not include any insurance, annuity, or endowment contract issued by an insurance company to which subchapter L applies (or issued by any foreign corporation to which such subchapter would apply if such foreign corporation were a domestic corporation).

"(6) DERIVATIVES WITH RESPECT TO STOCK OF MEMBERS OF SAME WORLDWIDE AFFILIATED GROUP.—For purposes of this part, the term 'derivative' shall not include, and subsections (c) and (d)(2) of section 485 shall not apply to, any derivative (determined without regard to this subsection) with respect to stock issued by any member of the same worldwide affiliated group (as defined in section 864(f)) in which the taxpayer is a member.

"(7) COMMODITIES USED IN NORMAL COURSE OF TRADE OR BUSINESS.—For purposes of this part, the term 'derivative' shall not include any contract with respect to any commodity if—

"(A) such contract requires physical delivery with the option of cash settlement only in unusual and exceptional circumstances, and

"(B) such commodity is used (and is used in quantities with respect to which such derivative relates) in the normal course of the taxpayer's trade or business (or, in the case of an individual, for personal consumption).

"(c) CONTRACTS WITH EMBEDDED DERIVATIVE COMPONENTS.—

"(1) IN GENERAL.—If a contract has derivative and nonderivative components, then each derivative

component shall be treated as a derivative for purposes of this part. If the derivative component cannot be separately valued, then the entire contract shall be treated as a derivative for purposes of this part.

"(2) EXCEPTION FOR CERTAIN EMBEDDED DERIVATIVE COMPONENTS OF DEBT INSTRUMENTS.—A debt instrument shall not be treated as having a derivative component merely because—

"(A) such debt instrument is denominated in a nonfunctional currency (as defined in section 988(c)(1)(C)(ii)),

"(B) payments with respect to such debt instrument are determined by reference to the value of a nonfunctional currency (as so defined), or

"(C) such debt instrument is a convertible debt instrument, contingent payment debt instrument, a variable rate debt instrument, an integrated debt instrument, an investment unit, a debt instrument with alternative payment schedules, or other debt instrument with respect to which the regulations under section 1275(d) apply.

"(d) TREATMENT OF AMERICAN DEPOSITORY RECEIPTS AND SIMILAR INSTRUMENTS.—Except as otherwise provided by the Secretary, for purposes of this part, American depository receipts (and similar instruments) with respect to shares of stock in foreign corporations shall be treated as shares of stock in such foreign corporations.".

(b) COORDINATION WITH RULES FOR DEALERS AND TRADERS.—

(1) DERIVATIVES NOT TREATED AS SECURITIES.—Section 475(c)(2) is amended—

(A) by adding "and" at the end of subparagraph (C),

(B) by striking subparagraphs (D) and (E) and by redesignating subparagraph (F) as subparagraph (D),

(C) by striking "subparagraph (A), (B), (C), (D), or (E)" in subparagraph (D)(i), as so redesignated, and inserting "subparagraph (A), (B), or (C)", and

(D) by amending the last sentence to read as follows: "Such term shall not include any position to which section 485(a) applies."

(2) DERIVATIVES NOT TREATED AS COMMODITIES.—Section 475(e)(2) is amended—

(A) by adding ''and'' at the end of subparagraph (A),

(B) by striking subparagraphs (B) and (C) and by redesignating subparagraph (D) as subparagraph (B), and

(C) by striking ''subparagraph (A), (B) or (C)'' in subparagraph (B)(i), as so redesignated, and inserting ''subparagraph (A)''.

(3) CONFORMING AMENDMENTS.—

(A) Section 475(b) is amended by striking paragraph (4).

(B) Section 475(d)(2)(B) is amended—

(i) by striking ''subsection (c)(2)(F)(iii)'' and inserting ''subsection (c)(2)(D)(iii)'', and

(ii) by striking ''subsection (c)(2)(F)'' and inserting ''subsection (c)(2)(D)''.

(C) Section 475(f)(1)(D) is amended by striking ''subsections (b)(4) and (d)'' and inserting ''subsection (d)''.

(c) COORDINATION WITH STRADDLE RULES.—

(1) IN GENERAL.—Section 1092(e) is amended to read as follows:

"(e) EXCEPTION FOR HEDGING TRANSACTIONS AND STRADDLES WITH DERIVATIVES.—This section shall not apply in the case of—

"(1) any hedging transaction (as defined in section 1221(b)), and

"(2) any straddle (as defined in section 485) which includes any derivative (as defined in section 486).".

(2) CONFORMING AMENDMENTS.—

(A) Section 263(g)(3) is amended to read as follows:

"(3) EXCEPTION FOR HEDGING TRANSACTIONS AND STRADDLES WITH DERIVATIVES.—This subsection shall not apply in the case of—

"(A) any hedging transaction (as defined in section 1221(b)), and

"(B) any straddle (as defined in section 485) which includes any derivative (as defined in section 486).".

(B) Section 1092(b) is amended—

(i) by striking paragraph (2), and

(ii) by striking all that precedes "The Secretary shall" and inserting the following:

"(b) REGULATIONS.—The Secretary shall".

(C) Section 1092(c) is amended by striking paragraph (4).

(D) Section 1092 is amended by striking subsection (f) and by redesignating subsection (g) as subsection (f).

(d) TREATMENT OF CONVERTIBLE DEBT INSTRUMENTS.—The Secretary of the Treasury, or the Secretary's designee, shall modify the regulations issued under section 1275(d) of the Internal Revenue Code of 1986 to provide that convertible debt instruments are treated in a manner similar to contingent payment debt instruments.

(e) REPEAL OF CERTAIN OTHER SUPERCEDED RULES FOR DETERMINING CAPITAL GAINS AND LOSSES.—

(1) IN GENERAL.—Part IV of subchapter P of chapter 1 is amended by striking sections 1233, 1234, 1234A, 1234B, 1236, 1256, 1258, 1259, and 1260 (and by striking the items relating to such sections in the table of sections for such part).

(2) CONFORMING AMENDMENTS RELATED TO REPEAL OF SECTION 1233.—Section 1092(b) is amended by inserting ''(as in effect before their repeal)'' after ''section 1233''.

(3) CONFORMING AMENDMENTS RELATED TO REPEAL OF SECTION 1234.—Section 6045(h)(2) is amended—

(A) by striking ''(as defined in section 1234(b)(2)(A)'', and

(B) by adding at the end the following: ''For purposes of the preceding sentence, the term 'closing transaction' means any termination of the taxpayer's obligation under an option in property other than through the exercise or lapse of the option.''.

(4) CONFORMING AMENDMENTS RELATED TO REPEAL OF SECTION 1236.—

(A) Section 475(d)(3)(A) is amended by striking ''or section 1236(b)''.

(B) Section 512(b)(5) is amended by striking ''section 1236(c)'' and inserting ''section 1058(c)''.

(C) Section 1058 is amended—

(i) by striking ''(as defined in section 1236(c))'' in subsection (a), and

(ii) by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

1 ''(c) SECURITIES.—For purposes of this section, the
2 term 'security' means any share of stock in any corpora-
3 tion, certificate of stock or interest in any corporation,
4 note, bond, debenture, or evidence of indebtedness, or any
5 evidence of an interest in or right to subscribe to or pur-
6 chase any of the foregoing.''.

7 (5) CONFORMING AMENDMENTS RELATED TO
8 REPEAL OF SECTION 1256.—

9 (A) Section 461(i)(2)(B), as amended by
10 the preceding provisions of this Act, is amended
11 to read as follows:

12 ''(B) any partnership or other entity (other
13 than a corporation which is not an S corpora-
14 tion) if more than 35 percent of the losses of
15 such entity during the taxable year are allocable
16 to limited partners or limited entrepreneurs
17 (within the meaning of section 461(j)(4)), and''.

18 (B) Section 475(d)(1) is amended by strik-
19 ing ''sections 263(g), 263A, and 1256(a)'' and
20 inserting ''sections 263(g) and 263A''.

21 (C) Section 988(c)(1) is amended by strik-
22 ing subparagraphs (D) and (E).

23 (D) Section 1092(a)(3)(C)(ii)(II) is
24 amended by striking ''section 1256(e)'' and in-
25 serting ''section 1221(b)''.

(E) Section 1092(d) is amended by striking paragraphs (5) and (6) and by redesignating paragraphs (7) and (8) as paragraphs (5) and (6), respectively.

(F) Section 1212 is amended by striking subsection (c).

(G) Section 1223 is amended by striking paragraphs (7) and (14).

(H) Section 1281(b)(1)(E) is amended to read as follows:

''(E) is a hedging transaction (as defined in section 1221(b)), or''.

(I) Section 1402 is amended by striking subsection (i).

(J) Section 4982(e)(6)(B) is amended by striking ''sections 1256 and 1296'' and inserting ''sections 485 and 1296''.

(6) CONFORMING AMENDMENTS RELATED TO REPEAL OF SECTION 1259.—Section 475(f)(1) is amended by striking subparagraph (C) and by redesignating subparagraph (D) as subparagraph (C).

(f) OTHER CONFORMING AMENDMENTS.—

(1) Section 355(g)(2)(B)(i)(V) is amended to read as follows:

"(V) any derivative (as defined in section 486),".

(2) Section 856(n)(4) is amended by inserting "or derivatives (as defined in section 486)" after "securities (as defined in section 475(c)(2))".

(3) Section 857(e)(2)(B)(i), as amended by the preceding provisions of this Act, is amended by striking "section 860E or 1272" and inserting "section 485, 860E, or 1272".

(4) Section 988(d)(1) is amended—

(A) by striking "or 1256" and inserting "or 485", and

(B) by striking "1092, and 1256" and inserting "485, and 1092".

(5) Section 1091(e) is amended to read as follows:

"(e) COORDINATION WITH MARK TO MARKET OF DERIVATIVES.—Notwithstanding any other provision of this section, a derivative (as defined in section 486) shall not be treated as a security for purposes of this section.".

(6)(A) Section 1221(a)(6) is amended to read as follows:

"(6) any derivative (as defined in section 486),".

(B) Section 1221(b) is amended by striking paragraph (1).

(7) Section 4975(f)(11)(D) is amended by striking clauses (i) and (ii) and inserting the following:

"(i) SECURITY.—The term 'security' means any security described in section 475(c)(2) (without regard to subparagraph (D)(iii) thereof) and any derivative with respect to such a security (within the meaning of section 486).

"(ii) COMMODITY.—The term 'commodity' means any commodity described in section 475(e)(2) (without regard to subparagraph (B)(iii) thereof) and any derivative with respect to such a commodity (within the meaning of section 486).".

(8) The table of parts for subchapter E of chapter 1 is amended by adding at the end the following new item:

PART IV. DERIVATIVES.

(g) EFFECTIVE DATES.—The amendments made by this section shall apply to—

(1) taxable years ending after December 31, 2014, in the case of property acquired and positions established after December 31, 2014, and

(2) taxable years ending after December 31, 2019, in the case of any other property or position. For purposes of this subsection, any property acquired on or before December 31, 2014, which becomes part of a straddle (as defined in section 485, as added by this section) after such date shall be treated as a position established after such date.

SEC. 3402. MODIFICATION OF CERTAIN RULES RELATED TO HEDGES.

(a) TREATMENT OF HEDGES IDENTIFIED FOR FINANCIAL ACCOUNTING PURPOSES.—

(1) IN GENERAL.—Section 1221(b), as amended by the preceding provisions of this Act, is amended to read as follows:

''(b) HEDGING TRANSACTION.—For purposes of this section—

''(1) IN GENERAL.—The term 'hedging transaction' means any transaction described in paragraph (2) and identified under paragraph (3).

''(2) TRANSACTION DESCRIBED.—A transaction is described in this paragraph if such transaction is entered into by the taxpayer in the normal course of the taxpayer's trade or business primarily—

''(A) to manage risk of price changes or currency fluctuations with respect to ordinary

property which is held or to be held by the taxpayer,

"(B) to manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, by the taxpayer, or

"(C) to manage such other risks as the Secretary may prescribe in regulations.

"(3) IDENTIFICATION.—A transaction is identified under this paragraph if—

"(A) such transaction is clearly identified as a hedging transaction for purposes of this paragraph before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe), or

"(B) such transaction is treated as a hedging transaction (within the meaning of generally accepted accounting principles) for purposes of an audited financial statement of the taxpayer which—

"(i) is certified as being prepared in accordance with generally accepted accounting principles, and

"(ii) is used for the purposes of a statement or report—

"(I) to shareholders, partners, or other proprietors, or to beneficiaries, or

"(II) for credit purposes.

"(4) TREATMENT OF NONIDENTIFICATION OR IMPROPER IDENTIFICATION OF HEDGING TRANSACTIONS.—The Secretary shall prescribe regulations to properly characterize any income, gain, expense, or loss arising from a transaction—

"(A) which would be a hedging transaction if identified under paragraph (3), or

"(B) which is identified under paragraph (3) but is not a transaction described in paragraph (2).

In the case of a transaction identified under paragraph (3) solely by reason of paragraph (3)(B), subparagraph (B) of this paragraph shall not apply with respect to such transaction unless the taxpayer treats such transaction as a hedging transaction for purposes of any provision of this title.

"(5) BONDS HELD BY AN INSURANCE COMPANY.—For purposes of paragraph (2)(A), in the case of an insurance company to which subchapter

L applies, any bond, debenture, note, certificate, or other evidence of indebtedness held by the taxpayer shall be treated as ordinary property.

''(6) REGULATIONS.—The Secretary shall prescribe such regulations as are appropriate to carry-out the purposes of this subsection and subsection (a)(7) in the case of transactions involving related parties.''.

(2) CONFORMING AMENDMENTS.—

(A) Section 856(c)(5)(G)(i) is amended by striking ''(as defined in clause (ii) or (iii) of section 1221(b)(2)(A)) which is clearly identified pursuant to section 1221(a)(7)'' and inserting ''(as defined in section 1221(b) (determined without regard to paragraph (2)(A) thereof)''.

(B) Section 954(c)(5)(A) is amended to read as follows:

''(A) COMMODITY HEDGING TRANSACTIONS.—

''(i) IN GENERAL.—For purposes of paragraph (1)(C)(i), the term 'commodity hedging transaction' means any transaction with respect to a commodity if such transaction would be a hedging transaction under section 1221(b) if—

"(I) the only transactions described in paragraph (2) thereof were transactions described in clause (ii), and

"(II) paragraphs (3) and (4) thereof were applied by substituting 'controlled foreign corporation' for 'taxpayer' each place it appears.

"(ii) TRANSACTION DESCRIBED.—A transaction is described in this clause if such transaction is entered into by the controlled foreign corporation in the normal course of the controlled foreign corporation's trade or business primarily—

"(I) to manage risk of price changes or currency fluctuations with respect to ordinary property or property described in section 1231(b) which is held or to be held by the controlled foreign corporation, or

"(II) to manage such other risks as the Secretary may prescribe in regulations.".

(C) Section 1221(a)(7) is amended by striking ''which is clearly'' and all that follows through ''regulations prescribe)''.

(b) SPECIAL RULE FOR COMMODITY HEDGING TRANSACTIONS INVOLVING RELATED CONTROLLED FOREIGN CORPORATIONS.—Section 954(c)(5)(A), as amended by subsection (a), is amended by adding at the end the following new clause:

''(iii) APPLICATION TO RELATED CONTROLLED FOREIGN CORPORATIONS.—

''(I) IN GENERAL.—In the case of qualified property, clause (ii)(I) shall be applied by substituting 'the controlled foreign corporation or another controlled foreign corporation which is a related person (within the meaning of subsection (d)(3))' for 'the controlled foreign corporation'.

''(II) QUALIFIED PROPERTY.—For purposes of this clause, the term 'qualified property' means ordinary property or property described in section 1231(b) (if disposed of at a gain) the income from the disposition of which would be neither subpart F in-

come nor income treated as effectively connected with the conduct of a trade or business in the United States.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions entered into after December 31, 2014.

PART 2—TREATMENT OF DEBT INSTRUMENTS

SEC. 3411. CURRENT INCLUSION IN INCOME OF MARKET DISCOUNT.

(a) IN GENERAL.—Subpart B of part V of subchapter P of chapter 1 is amended by redesignating section 1278 as section 1279 and by inserting after section 1277 the following new section:

''SEC. 1278. CURRENT INCLUSION IN INCOME OF MARKET DISCOUNT ON BONDS ACQUIRED AFTER 2014.

''(a) IN GENERAL.—There shall be included in the gross income of the holder of any market discount bond acquired after December 31, 2014, an amount equal to the sum of the daily portions of the market discount for each day during the taxable year on which such holder held such bond.

''(b) DETERMINATION OF DAILY PORTIONS.—

''(1) IN GENERAL.—For purposes of subsection (a), the daily portion of the market discount on any market discount bond shall be an amount equal to

the daily portion of original issue discount which would be includible in gross income under section 1272(a) (determined without regard to paragraph (2) thereof) if such bond had been—

"(A) originally issued on the date on which such bond was acquired by the taxpayer,

"(B) for an issue price equal to the basis of such bond immediately after such acquisition.

"(2) COORDINATION WHERE BOND HAS ORIGINAL ISSUE DISCOUNT.—In the case of any bond having original issue discount, the daily portion determined under paragraph (1) shall be reduced by the daily portion of original issue discount includible in gross income under section 1272(a) (determined without regard to paragraph (2) thereof) with respect to such bond.

"(3) SPECIAL RULE WHERE PARTIAL PRINCIPAL PAYMENTS.—In the case of a bond the principal of which may be paid in 2 or more payments, the daily portions of market discount shall be determined under regulations prescribed by the Secretary.

"(c) LIMITATION.—

"(1) IN GENERAL.—The amount of market discount allocable to any accrual period for purposes of

determining the sum of the daily portions under subsection (a) shall not exceed the excess (if any) of—

"(A) the product of—

"(i) the maximum accrual rate determined under paragraph (2), properly adjusted for the length of the accrual period, multiplied by

"(ii) the adjusted basis of such bond at the beginning of such accrual period, over

"(B) the sum of the qualified stated interest and original issue discount allocable to such accrual period.

"(2) MAXIMUM ACCRUAL RATE.—The maximum accrual rate determined under this paragraph with respect to any bond is the greater of—

"(A) such bonds's yield to maturity (determined as of the date of the issuance of such bond) plus 5 percentage points, or

"(B) the applicable Federal rate for such bond (determined under section 1274(d) as of the date of the acquisition of such bond and on the basis of the remaining term of such bond as of such date) plus 10 percentage points.

"(3) APPLICATION TO POOLS.—In the case of debt instruments to which section 1272(a)(6) applies, rules similar to the rules of such section shall apply for purposes of determining the daily portions of market discount.

"(4) ACCRUAL PERIOD.—For purposes of this subsection, the term 'accrual period' has the meaning given such term in section 1272(a)(5).

"(d) SPECIAL RULES.—

"(1) ACCRUALS TREATED AS INTEREST.—Except for purposes of sections 103, 871(a), 881, 1441, 1442, and 6049 (and such other provisions as may be specified in regulations), any amount included in gross income under this section shall be treated as interest for purposes of this title.

"(2) BASIS ADJUSTMENT.—The basis of any market discount bond in the hands of the taxpayer shall be increased by the amount included in gross income pursuant to this section.

"(3) TREATMENT OF LOSS ON DISPOSITION.—So much of any loss recognized by the taxpayer on the disposition of a market discount bond as does not exceed the aggregate amounts included in the taxpayer's gross income under subsection (a) with

respect to such bond shall be treated for purposes of this title as an ordinary loss.''.

(b) TREATMENT OF MARKET DISCOUNT ON SHORT-TERM NONGOVERNMENTAL BONDS.—

(1) ACCRUAL BASIS TAXPAYERS, ETC.—Section 1283 is amended by striking subsection (c) and redesignating subsection (d) as subsection (c).

(2) OTHER TAXPAYERS.—

(A) Section 1271(a)(3) is amended—

(i) by striking all that precedes subparagraph (C) and inserting the following:

''(3) CERTAIN SHORT-TERM OBLIGATIONS.—

''(A) IN GENERAL.—On the sale or exchange of any short-term obligation (as defined in section 1283(a)(1)), any gain realized which does not exceed an amount equal to the ratable share of the acquisition discount shall be treated as ordinary income.'', and

(ii) by redesignating subparagraphs (C), (D), and (E) as subparagraphs (B), (C), and (D), respectively.

(B) Section 1271(a) is amended by striking paragraph (4).

(C) Section 1283(c)(3), as redesignated by paragraph (1), is amended by striking ''para-

graphs (3) and (4) of section 1271(a)'' and inserting ''section 1271(a)(3)''.

(c) COORDINATION WITH RULES RELATED TO TREATING MARKET DISCOUNT AS ORDINARY INCOME UPON DISPOSITION.—

(1) IN GENERAL.—Section 1276 is amended by adding at the end the following new subsection:

''(e) COORDINATION WITH RULES FOR CURRENT INCLUSION OF MARKET DISCOUNT.—This section shall not apply to any market discount bond to which section 1278 applies.''.

(2) COORDINATION WITH DEFERRAL OF INTEREST DEDUCTION.—Section 1277 is amended by adding at the end the following new subsection:

''(d) COORDINATION WITH RULES FOR CURRENT INCLUSION OF MARKET DISCOUNT.—This section shall not apply to any market discount bond to which section 1278 applies.''.

(3) COORDINATION WITH ELECTION TO INCLUDE MARKET DISCOUNT CURRENTLY.—Section 1279(b), as redesignated by subsection (a), is amended by adding at the end the following new paragraph:

''(5) COORDINATION WITH RULES FOR CURRENT INCLUSION OF MARKET DISCOUNT.—This sub-

section shall not apply to any market discount bond to which section 1278 applies.''.

(d) TREATMENT OF CERTAIN BONDS HELD BY PARTNERSHIPS.—

(1) TRANSFERS OF PARTNERSHIP INTERESTS.—Section 1279(a), as redesignated by subsection (a), is amended by adding at the end the following new paragraph:

''(6) TRANSFERS OF PARTNERSHIP INTERESTS.—In the case of a transfer described in section 743 of an interest in a partnership holding a bond, the partnership shall be treated as acquiring the transferee partner's proportionate share of such bond at the time of such transfer.''.

(2) DISTRIBUTION OF BONDS BY PARTNERSHIPS.—Section 1279(a)(2), as redesignated by subsection (a), is amended by adding at the end the following new subparagraph:

''(D) DISTRIBUTION BY PARTNERSHIP.—If the basis of the taxpayer in a bond is determined under section 734(a)(2) or (b), for purposes of subparagraph (A)(ii), the basis of such bond shall not be less than its fair market value immediately after its acquisition by the taxpayer.''.

(e) MODERNIZATION OF CERTAIN DEFINITIONS.—

(1) REPEAL OF SUPERCEDED EXCEPTION FOR MARKET DISCOUNT BONDS ACQUIRED AT ISSUE.—Section 1279(a)(1), as redesignated by subsection (a), is amended by striking subparagraph (D)

(2) REVISED ISSUE PRICE.—Section 1279(a)(4), as redesignated by subsection (a), is amended—

(A) by redesignating subparagraphs (A) and (B) as clauses (i) and (ii) and by indenting such clauses appropriately,

(B) by striking ''means the sum of—'' and inserting ''means the excess of—

''(A) the sum of—'',

(C) by striking the period at the end and inserting '', over'', and

(D) by adding at the end the following new subparagraph:

''(B) the sum of—

''(i) any payments other than qualified stated interest made under the bond during periods before the acquisition of the bond by the taxpayer, and

''(ii) any premium which has accrued during such periods (determined as if

owned at all times by the original holder).''.

(3) REDEMPTION PRICE .—

(A) IN GENERAL.—Section 1273(a)(2) is amended to read as follows:

''(2) REDEMPTION PRICE.—

''(A) IN GENERAL.—The term 'redemption price' means the sum of all payments provided by the debt instrument other than qualified stated interest.

''(B) QUALIFIED STATED INTEREST.—The term 'qualified stated interest' means stated interest that is unconditionally payable in money and other property (other than a debt instrument of the issuer) at least annually at a fixed rate (or to the extent provided by regulations, at a variable rate).

''(C) BASIS ADJUSTMENT.—The basis of any debt instrument shall be reduced by the amount of any payment received other than qualified stated interest.''.

(B) CONFORMING AMENDMENTS.—

(i) Each of the following provisions is amended by striking ''stated redemption

price at maturity'' and inserting ''redemption price'':

(I) Section 1271(a)(3)(B) (as redesignated by subsection (b)).

(II) Section 1273(a)(1)(A).

(III) Section 1273(a)(3).

(IV) Section 1273(b)(4).

(V) Section 1274(c)(1)(A).

(VI) Section 1279(a)(5) (as redesignated by subsection (a)).

(VII) Section 1283(a)(2)(A).

(VIII) Section 1286(a)(1).

(IX) The heading and text of section 1286(e)(4).

(ii) Section 108(e)(10)(B) is amended by striking ''stated'' both places it appears.

(iii) Section 1272(a)(6)(A)(i) is amended by striking ''stated''.

(iv) Subparagraphs (A)(i) and (C) of section 1279(a)(2) (as redesignated by subsection (a)) are each amended by striking ''the stated redemption price of the bond at maturity'' and inserting ''the redemption price of the bond''.

(v) Section 1279(a)(2)(B) (as redesignated by subsection (a)) is amended by striking ''the stated redemption price of such bond at maturity'' and inserting ''the redemption price of such bond''.

(4) ADJUSTED ISSUE PRICE.—Section 1275(a) is amended by adding at the end the following new paragraph:

''(5) ADJUSTED ISSUE PRICE.—

''(A) IN GENERAL.—For purposes of this part, the adjusted issue price of any debt instrument is its issue price—

''(i) increased by the aggregate of the original issue discount includible in the gross income of all holders for prior periods (determined without regard to paragraph (7) of section 1272(a)), or, in the case of a tax-exempt obligation, the aggregate amount which accrued in the manner provided by this subsection (determined without regard to such paragraph (7)) for all prior periods, and

''(ii) reduced by the sum of—

"(I) any payments other than qualified stated interest previously made on the debt instrument, and

"(II) in the case of a debt instrument which was issued with amortizable bond premium (as defined in section 171(b)), the aggregate amount by which the basis of such instrument would have been reduced under section 1016(a)(5) for prior periods if the instrument had been held by the original holder at all times.

"(B) DE MINIMIS RULE.—The adjusted issue price of the issuer shall be properly adjusted to take into account that section 1273(a)(3) does not apply to the deduction under section 163 for original issue discount.".

(5) CERTAIN OTHER TERMS.—Paragraphs (3), (4), and (5) of section 1272(a) are amended to read as follows:

"(3) DETERMINATION OF DAILY PORTIONS.—For purposes of paragraph (1), the daily portion of the original issue discount on any debt instrument shall be determined by allocating to each day in any accrual period its ratable share of the original issue

discount allocable to such accrual period. For purposes of the preceding sentence, the original issue discount allocable to any accrual period is the excess (if any) of—

"(A) the product of—

"(i) the adjusted issue price of the debt instrument at the beginning of such accrual period, multiplied by

"(ii) the yield to maturity of the debt instrument properly adjusted for the length of the accrual period, over

"(B) the amount of any qualified stated interest allocable to such accrual period.

"(4) YIELD TO MATURITY.—For purposes of this subsection, the term 'yield to maturity' means the discount rate that, when used in computing the present value of all principal and interest payments to be made under the debt instrument produces an amount equal to the issue price of the debt instrument.

"(5) ACCRUAL PERIOD.—For purposes of this subsection, the term 'accrual period' shall be determined under regulations prescribed by the Secretary, provided that an accrual period shall in no event be longer than one year.".

(f) BROKER REPORTING OF INCLUDIBLE DISCOUNT ON BONDS.—

(1) IN GENERAL.—Section 6045 is amended by adding at the end the following new subsection:

"(i) DISCOUNT ON BONDS.—

"(1) IN GENERAL.—If any customer of a broker holds a covered bond in an account with such broker at any time during a calendar year—

"(A) such broker shall file a return under subsection (a) for such calendar year, and

"(B) such return shall include with respect to each such covered bond—

"(i) the amount (if any) includible in the gross income of such customer as original issue discount with respect to such bond under section 1272 for periods during such calendar year, and.

"(ii) the amount (if any) includible in the gross income of such customer as market discount with respect to such bond under section 1278(a) for periods during such calendar year.

"(2) COVERED BOND.—For purposes of this subsection, the term 'covered bond' means any obli-

gation to which section 1272 or 1278(a) applies if such obligation—

"(A) was acquired after December 31, 2014, through a transaction in the account in which such obligation is held, or

"(B) was transferred to such account from an account in which such obligation was a covered bond, but only if the broker received a statement under section 6045A with respect to the transfer.

"(3) STATEMENTS TO CUSTOMERS.—The requirements of subsections (b) shall apply with respect to any return filed under subsection (a) by reason of this subsection.".

(2) INFORMATION REQUIRED IN CONNECTION WITH TRANSFERS OF COVERED BONDS TO BROKERS.—Subsection (a) of section 6045A is amended—

(A) by inserting "or a covered bond (as defined in section 6045(i)(2))" after "covered security (as defined in section 6045(g)(3))", and

(B) by striking "section 6045(g)" and inserting "subsections (g) and (i) of section 6045".

(3) COORDINATION WITH REPORTING BY ISSUER OF ORIGINAL ISSUE DISCOUNT.—Paragraph (6) of section 6049(d) is amended by adding at the end the following new subparagraph:

"(C) PREVENTION OF DOUBLE REPORTING.—Except as otherwise provided by the Secretary, original issue discount with respect to any obligation shall not be required to be reported under this section if such original issue discount is required to be reported with respect to such obligation under section 6045(i).".

(g) CONFORMING AMENDMENTS.—

(1) Section 857(e)(2)(B)(i), as amended by the preceding provisions of this Act, is amended by striking "or 1272" and inserting "1272, or 1278".

(2) Section 1042(d) is amended by striking "section 1278(a)(2)(A)(ii)" in the matter following paragraph (2) and inserting "section 1279(a)(2)(A)(ii)".

(3) Section 1016(a), as amended by the preceding provisions of this Act, is amended by adding at the end the following new paragraph:

"(39) in the case of any debt instrument, to extend provided in sections 1272(d)(1), 1273(a)(2)(C), and 1278(d)(2).".

(4) Section 1276 is amended by inserting ''**ON BONDS NOT SUBJECT TO CURRENT INCLUSION**'' after ''**ACCRUED MARKET DISCOUNT**'' in the heading thereof.

(5) Section 1277 is amended by inserting ''**ON BONDS NOT SUBJECT TO CURRENT INCLUSION**'' after ''**ACCRUED MARKET DISCOUNT**'' in the heading thereof.

(6) Section 1281 is amended by striking subsection (c).

(7) Section 1282 is amended by striking subsection (d).

(8) The table of sections for subpart B of part V of subchapter P of chapter 1 is amended to read as follows:

''Sec. 1276. Disposition gain representing accrued market discount on bonds not subject to current inclusion treated as ordinary income.
''Sec. 1277. Deferral of interest deduction allocable to accrued market discount on bonds not subject to current inclusion.
''Sec. 1278. Current inclusion in income of market discount on bonds acquired after 2014.
''Sec. 1279. Definitions and special rules.''.

(h) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to obligations acquired after December 31, 2014.

(2) MODERNIZATION OF TERMS.—The amendments made by subsection (e) shall take effect on January 1, 2015.

SEC. 3412. TREATMENT OF CERTAIN EXCHANGES OF DEBT INSTRUMENTS.

(a) DETERMINATION OF ISSUE PRICE.—

(1) IN GENERAL.—Subpart A of part V of subchapter P is amended by inserting after section 1274A the following new section:

"SEC. 1274B. DETERMINATION OF ISSUE PRICE IN THE CASE OF AN EXCHANGE OF DEBT INSTRUMENTS.

''(a) IN GENERAL.—In the case of an exchange (including by significant modification) by an issuer of a new debt instrument for an existing debt instrument issued by the same issuer, the issue price of the new debt instrument shall be the least of—

''(1) the adjusted issue price of the existing debt instrument,

''(2) the stated principal amount of the new debt instrument, or

''(3) the imputed principal amount of the new debt instrument.

"(b) APPLICABLE RATE.—The discount rate used to determine the imputed principal amount of the new debt instrument under subsection (a)(3) shall be the lesser of—

"(1) the applicable Federal rate determined under section 1274(d) with respect to the new debt instrument, or

"(2) the greater of—

"(A) the rate of qualified stated interest with respect to the existing debt instrument, or

"(B) the applicable Federal rate determined under section 1274(d) with respect to the existing debt instrument.

"(c) TREATMENT OF INVESTMENT UNITS.—Rules similar to the rules of section 1273(c)(2) shall apply for purposes of this section.".

(2) CONFORMING AMENDMENTS.—

(A) Section 108(e)(10)(B) is amended by striking "and 1274" and inserting ", 1274, and 1274B".

(B) Section 1274(c)(3), as amended by the preceding provisions of this Act, is amended by adding at the end the following new subparagraph:

"(F) CERTAIN MODIFIED DEBT.—Any debt instrument the issue price of which is determined under section 1274B.".

(C) The table of sections for subpart A of part V of subchapter P is amended by inserting after the item relating to section 1274A the following new item:

"Sec. 1274B. Determination of issue price in the case of an exchange of debt instruments.".

(b) NONRECOGNITION OF GAIN OR LOSS BY HOLDER.—

(1) IN GENERAL.—Section 1037 is amended to read as follows:

"SEC. 1037. CERTAIN EXCHANGES OF DEBT INSTRUMENTS.

"(a) NONRECOGNITION OF GAIN OR LOSS.—No gain or loss shall be recognized to the holder of a debt instrument if such existing debt instrument is exchanged solely for a new debt instrument (whether by exchange or significant modification) issued by the same issuer.

"(b) PROPERTY ATTRIBUTABLE TO ACCRUED INTEREST.—Subsection (a) shall not apply to the extent that any property received is attributable to interest which accrued on the existing debt instrument on or after the beginning of the holder's holding period of such instrument.

"(c) LIMITATION ON GAIN RECOGNITION IN CASE OF EXCHANGE NOT SOLELY FOR A NEW DEBT INSTRU-

1 MENT.—In the case of an exchange of a debt instrument
2 to which section 1035(d) applies, the amount of gain rec-
3 ognized shall not exceed the amount of gain which would
4 have been recognized if section 1274B did not apply.

5 "(d) CROSS REFERENCES.—

6 "(1) For rules relating to securities exchanged
7 or distributed in a reorganization, etc., see sections
8 354, 355, and 356.

9 "(2) For rules relating to recognition of gain or
10 loss where exchange was not made solely for another
11 debt instrument of the issuer, see subsections (d)
12 and (e) of section 1035.

13 "(3) For rules relating to basis of obligations
14 acquired in an exchange described in subsection (a),
15 see subsection (f) of section 1035.".

16 (2) CLERICAL AMENDMENT.—The table of sec-
17 tions for part III of subchapter O of chapter 1 is
18 amended by striking the item relating to section
19 1037 and inserting the following new item:

"Sec. 1037. Certain exchanges of debt instruments.".

20 (c) APPLICATION TO EXCESS PRINCIPAL RULES FOR
21 CORPORATE REORGANIZATIONS.—

22 (1) EXCHANGES OF SECURITIES IN REORGA-
23 NIZATIONS.—

24 (A) IN GENERAL.—Section 354(a)(2)(A)(i)
25 is amended to read as follows:

"(i) the issue price of any such securities received exceeds the adjusted issue price of any such securities surrendered, or".

(B) DEFINITIONS.—Section 354(a)(2) is amended by inserting after subparagraph (C) the following new subparagraph:

"(D) DEFINITIONS.—For purposes of this paragraph—

"(i) ISSUE PRICE.—The issue price of any security shall be determined under sections 1273, 1274, and 1274B.

"(ii) ADJUSTED ISSUE PRICE.— The adjusted issue price of any security shall be determined under section 1275(a)(5).".

(2) SECTION 355 TRANSACTIONS.—Section 355(a)(3)(A)(i) is amended to read as follows:

"(i) the issue price (as defined in section 354(a)(2)(D)) of the securities in the controlled corporation which are received exceeds the adjusted issue price (as so defined) of the securities which are surrendered in connection with such distribution, or".

(3) SECTION 356 TRANSACTIONS.—

(A) IN GENERAL.—Section 356(d)(2)(B)(ii) is amended to read as follows:

"(ii) the issue price (as defined in section 354(a)(2)(D)) of such securities received exceeds the adjusted issue price (as so defined) of such securities surrendered,".

(B) CONFORMING AMENDMENTS.—

(i) Section 356(d)(2)(B) is amended in the matter following clause (ii)—

(I) by striking "the fair market value of such excess" and inserting "the amount of such excess", and

(II) by striking "the entire principal amount" and inserting "the entire issue price (as so defined)".

(ii) Section 356(d)(2)(C) is amended to read as follows:

"(C) GREATER PRINCIPAL AMOUNT IN SECTION 355 TRANSACTION.—If, in an exchange or distribution described in section 355, the issue price (as defined in section 354(a)(2)(D)) of the securities in the controlled corporation which are received exceeds the adjusted issue price (as so defined) of the securities in the dis-

tributing corporation which are surrendered, then, with respect to such securities received, the term 'other property' means only the amount of such excess.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to transactions after December 31, 2014.

SEC. 3413. COORDINATION WITH RULES FOR INCLUSION NOT LATER THAN FOR FINANCIAL ACCOUNTING PURPOSES.

(a) IN GENERAL.—Section 451(b), as amended by the preceding provisions of this Act, is amended by inserting immediately after the heading thereof (and before paragraph (1) thereof) the following: ''Notwithstanding any other provision of law (including part V of subchapter P)—''.

(b) EFFECTIVE DATE; CHANGE IN METHOD OF ACCOUNTING.—The amendment made by subsection (a) shall be treated for purposes of section 3303(g) as though such amendment were made by section 3303(a).

SEC. 3414. RULES REGARDING CERTAIN GOVERNMENT DEBT.

(a) REPEAL OF CERTAIN SUPERCEDED RULES.—Subpart B of part II of subchapter E of chapter 1 is amended by striking section 454 (and by striking the item

relating to such section in the table of sections for such subpart).

(b) PRESERVATION OF RULES RELATED TO UNITED STATES SAVINGS BONDS.—Subpart A of part V of subchapter P of chapter 1 is amended by inserting after section 1272 the following new section:

"SEC. 1272A. UNITED STATES SAVINGS BONDS.

''(a) ELECTION TO INCLUDE INCREASE IN REDEMPTION PRICE IN INCOME.—A taxpayer holding a United States savings bond may elect (on the taxpayer's return for the taxable year) to treat any increase in the redemption price as income received in the taxable year. If any such election is made with respect to any such obligation, it shall apply also to all such obligations owned by the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by the taxpayer and shall be binding for all subsequent taxable years, unless revoked with the consent of the Secretary. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which the taxpayer's election applies, the increase in the redemption price of such obligations occurring between the date of acquisition and the first day of such taxable year shall also be treated as income received in such taxable year.

1 ''(b) TREATMENT UPON REDEMPTION OR FINAL MA-
2 TURITY.—The increase in redemption value of a United
3 States savings bond (to the extent not previously included
4 in gross income) in excess of the adjusted basis of such
5 bond shall be included in gross income in the earlier of
6 the taxable year in which the bond is redeemed or in the
7 taxable year of final maturity.
8 ''(c) CROSS REFERENCES.—
9 ''(1) For exception from current inclusion of
10 original issue discount, see section 1272(a)(2)(B).
11 ''(2) For exception from market discount rules,
12 see section 1279(a)(1)(B)(iii).''.
13 (c) CONFORMING AMENDMENTS.—
14 (1) Section 852(b)(2), as amended by the pre-
15 ceding provisions of this Act, is amended by striking
16 subparagraph (E) and redesignating subparagraphs
17 (F) and (G) as subparagraphs (E) and (F), respec-
18 tively.
19 (2) Section 1283(c)(3), as amended by the pre-
20 ceding provisions of this Act, is amended by striking
21 all that precedes ''shall not apply'' and inserting the
22 following:
23 ''(3) COORDINATION WITH SECTION 1271.—Sec-
24 tion 1271(a)(3)''.

(3) Section 7871(a)(6) is amended by adding ''and'' at the end of subparagraph (A) and by striking subparagraph (C).

(4) The table of sections for subpart A of part V of subchapter P of chapter 1 is amended by inserting after the item relating to section 1272 the following new item:

''Sec. 1272A. United States savings bonds.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

PART 3—CERTAIN RULES FOR DETERMINING GAIN AND LOSS

SEC. 3421. COST BASIS OF SPECIFIED SECURITIES DETERMINED WITHOUT REGARD TO IDENTIFICATION.

(a) IN GENERAL.—Section 1012 is amended by adding at the end the following new subsection:

''(e) COST BASIS OF SPECIFIED SECURITIES DETERMINED WITHOUT REGARD TO IDENTIFICATION.—Except to the extent otherwise provided in this section or in regulations thereunder permitting the use of an average basis method for determining cost, in the case of the sale, exchange, or other disposition of a specified security (within the meaning of section 6045(g)(3)(B)), the basis (and

1 holding period) of such security shall be determined on
2 a first-in first-out basis.''.
3 (b) CONFORMING AMENDMENTS.—
4 (1) Section 1012(c)(1) is amended by striking
5 ''the conventions prescribed by regulations under
6 this section'' and inserting ''the method applicable
7 for determining the cost of such security''.
8 (2) Section 1012(c)(2)(A) is amended by strik-
9 ing ''section 1012'' and inserting ''this section (as in
10 effect prior to the enactment of the Tax Reform Act
11 of 2014)''.
12 (3) Section 6045(g)(2)(B)(i)(I) is amended by
13 striking ''unless the customer notifies the broker by
14 means of making an adequate identification of the
15 stock sold or transferred''.
16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to sales, exchanges, and other dis-
18 positions after December 31, 2014.
19 **SEC. 3422. WASH SALES BY RELATED PARTIES.**
20 (a) APPLICATION OF WASH SALE RULES TO RE-
21 LATED PARTIES.—Subsection (a) of section 1091 is
22 amended by striking ''the taxpayer has acquired'' and in-
23 serting ''the taxpayer (or a related party) has acquired''.
24 (b) MODIFICATION OF BASIS ADJUSTMENT RULE TO
25 PREVENT TRANSFER OF LOSSES TO RELATED PAR-

TIES.—Subsection (d) of section 1091 is amended to read as follows:

"(d) ADJUSTMENT TO BASIS IN CASE OF WASH SALE.—If the taxpayer (or the taxpayer's spouse) acquires substantially identical stock or securities during the period which—

"(1) begins 30 days before the disposition with respect to which a deduction was disallowed under subsection (a), and

"(2) ends with the close of the taxpayer's first taxable year which begins after such disposition,

the basis of such stock or securities shall be increased by the amount of the deduction so disallowed (reduced by any amount of such deduction taken into account under this subsection to increase the basis of stock or securities previously acquired).".

(c) RELATED PARTY.—Section 1091 is amended by adding at the end the following new subsection:

"(g) RELATED PARTY.—For purposes of this section—

"(1) IN GENERAL.—The term 'related party' means—

"(A) the taxpayer's spouse,

1 ''(B) any dependent of the taxpayer and
2 any other taxpayer with respect to whom the
3 taxpayer is a dependent,
4 ''(C) any individual, corporation, partner-
5 ship, trust, or estate which controls, or is con-
6 trolled by, (within the meaning of section
7 954(d)(3)) the taxpayer or any individual de-
8 scribed in subparagraph (A) or (B) with respect
9 to the taxpayer (or any combination thereof),
10 ''(D) any individual retirement plan, Ar-
11 cher MSA (as defined in section 220(d)), or
12 health savings account (as defined in section
13 223(d)), of the taxpayer or of any individual de-
14 scribed in subparagraph (A) or (B) with respect
15 to the taxpayer,
16 ''(E) any account under a qualified tuition
17 program described in section 529 or a Coverdell
18 education savings account (as defined in section
19 530(b)) if the taxpayer, or any individual de-
20 scribed in subparagraph (A) or (B) with respect
21 to the taxpayer, is the designated beneficiary of
22 such account or has the right to make any deci-
23 sion with respect to the investment of any
24 amount in such account, and
25 ''(F) any account under—

"(i) a plan described in section 401(a),

"(ii) an annuity plan described in section 403(a),

"(iii) an annuity contract described in section 403(b), or

"(iv) an eligible deferred compensation plan described in section 457(b) and maintained by an employer described in section 457(e)(1)(A),

if the taxpayer or any individual described in subparagraph (A) or (B) with respect to the taxpayer has the right to make any decision with respect to the investment of any amount in such account .

"(2) RULES FOR DETERMINING STATUS.—

"(A) RELATIONSHIPS DETERMINED AT TIME OF ACQUISITION.—Determinations under paragraph (1) shall be made as of the time of the purchase or exchange referred to in subsection (a) except that determinations under subparagraphs (A) and (B) of paragraph (1) shall be made for the taxable year which includes such purchase or exchange.

"(B) DETERMINATION OF MARITAL STATUS.—

"(i) IN GENERAL.—Except as provided in clause (ii), marital status shall be determined under section 7703.

"(ii) SPECIAL RULE FOR MARRIED INDIVIDUALS FILING SEPARATELY AND LIVING APART.—A husband and wife who—

"(I) file separate returns for any taxable year, and

"(II) live apart at all times during such taxable year,

shall not be treated as married individuals.

"(3) REGULATIONS.—The Secretary shall issue such regulations or other guidance as may be necessary to prevent the avoidance of the purposes of this subsection, including regulations which treat persons as related parties if such persons are formed or availed of to avoid the purposes of this subsection.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to sales and other dispositions after December 31, 2014.

SEC. 3423. NONRECOGNITION FOR DERIVATIVE TRANSACTIONS BY A CORPORATION WITH RESPECT TO ITS STOCK.

(a) IN GENERAL.—Section 1032 is amended to read as follows:

"SEC. 1032. DERIVATIVE TRANSACTIONS BY A CORPORATION WITH RESPECT TO ITS STOCK.

"(a) IN GENERAL.—Except as otherwise provided in this section or section 76, section 1032 derivative items of a corporation shall not be taken into account in determining such corporation's liability for tax under this subtitle.

"(b) INCOME RECOGNITION ON CERTAIN FORWARD CONTRACTS.—

"(1) IN GENERAL.—If—

"(A) a corporation acquires its stock, and

"(B) such acquisition is part of a plan (or series of related transactions) pursuant to which the corporation enters into a forward contract with respect to its stock,

such corporation shall include amounts in income as if the excess of the amount to be received under the forward contract over the fair market value of the stock as of the date the corporation entered into the forward contract were original issue discount on a debt instrument acquired on such date. The pre-

ceding sentence shall apply only to the extent that the amount of stock involved in the forward contract does not exceed the amount acquired as described in subparagraph (A).

"(2) PLAN PRESUMED TO EXIST.—If a corporation enters into a forward contract with respect to its stock within the 60-day period beginning on the date which is 30 days before the date that the corporation acquires its stock, such acquisition shall be treated as pursuant to a plan described in paragraph (1)(B) unless it is established that entering into such contract and such acquisition are not pursuant to a plan or series of related transactions.

"(c) SECTION 1032 DERIVATIVE ITEMS.—For purposes of this section, the term 'section 1032 derivative item' means any item of income, gain, loss, or deduction if—

"(1) such item arises out of the rights or obligations under any derivative (as defined in section 486) to the extent such derivative relates to the corporation's stock (or is attributable to any transfer or extinguishment of any such right or obligation), or

"(2) such item arises under any other contract or position but only to the extent that such item re-

flects (or is determined by reference to) changes in the value of such stock or distributions thereon.

Such term shall not include any deduction with respect to which section 83(h) applies and shall not include any deduction for any item which is in the nature of compensation for services rendered. For purposes of this subparagraph, de minimis relationships, as determined by the Secretary, shall be disregarded.

''(d) TREASURY STOCK TREATED AS STOCK.—Any reference in this section to stock shall be treated as including a reference to treasury stock.

''(e) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be appropriate to carry out the purposes of this section, including regulations or other guidance which—

''(1) treat the portion of an instrument which is described in subsection (c)(1) separately from the portion of such instrument which is not so described, and

''(2) treat section 1032 derivative items as contributions to the capital of the corporation to the extent that the application of this section would be inconsistent with the purposes of section 76(b).''.

(b) CLERICAL AMENDMENT.—The item relating to section 1032 in the table of sections for part III of subchapter O of chapter 1 is amended to read as follows:

"Sec. 1032. Derivative transactions by a corporation with respect to its stock.".

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

PART 4—TAX FAVORED BONDS

SEC. 3431. TERMINATION OF PRIVATE ACTIVITY BONDS.

(a) IN GENERAL.—Paragraph (1) of section 103(b) is amended—

(1) by striking "which is not a qualified bond (within the meaning of section 141)", and

(2) by striking "WHICH IS NOT A QUALIFIED BOND" in the heading thereof.

(b) CONFORMING AMENDMENTS.—

(1) Section 141 is amended by striking subsection (e).

(2) Subpart A of part IV of subchapter B of chapter 1 is amended by striking sections 142, 143, 144, 145, 146, and 147 (and by striking each of the items relating to such sections in the table of sections for such subpart).

(3) Section 25 is amended by adding at the end the following new subsection:

"(j) COORDINATION WITH REPEAL OF PRIVATE ACTIVITY BONDS.—Any reference to section 143, 144, or 146 shall be treated as a reference to such section as in effect before its repeal by the Tax Reform Act of 2014.".

(4) Section 26(b)(2) is amended by striking subparagraph (D).

(5) Section 141(b) is amended by striking paragraphs (5) and (9) and by redesignating paragraphs (6), (7), and (8) as paragraphs (5), (6), and (7), respectively.

(6) Section 141(d) is amended by striking paragraph (5) and by redesignating paragraphs (6) and (7) as paragraphs (5) and (6).

(7) Section 148(b)(2)(E) is amended by striking "in the case of a bond other than a private activity bond,".

(8) Section 148(b)(3) is amended to read as follows:

"(3) TAX-EXEMPT BONDS NOT TREATED AS INVESTMENT PROPERTY.—The term 'investment property' does not include any tax-exempt bond.".

(9) Section 148(f)(3) is amended by striking "or is a private activity bond" in the fourth sentence.

(10) Section 148(f)(4) is amended—

(A) by striking ''(determined in accordance with section 147(b)(2)(A))'' in the flush matter following subparagraph (A)(ii),

(B) by striking the last sentence of subparagraph (D)(v), and

(C) by adding at the end the following new subparagraph:

''(E) AVERAGE MATURITY.—For purposes of this paragraph, the average maturity of any issue shall be determined by taking into account the respective issue prices of the bonds issued as part of such issue.''.

(11) Section 148(f)(4)(A) is amended in the flush matter after clause (ii) by striking ''In the case of an issue no bond of which is a private activity bond, clause'' and inserting ''Clause''.

(12) Section 148(f)(4)(B)(ii) is amended—

(A) by striking subclause (II), and

(B) by striking ''CERTAIN BONDS.—'' and all that follows through ''issue described in subclause (II)'' and inserting ''CERTAIN BONDS.—In the case of an issue no bond of which is a tax or revenue anticipation bond''.

(13)(A) Section 148(f)(4)(C)(iv) is amended to read as follows:

"(iv) CONSTRUCTION ISSUE.—For purposes of this subparagraph, the term 'construction issue' means any issue if at least 75 percent of the available construction proceeds of such issue are to be used for construction expenditures with respect to property which is to be owned by a governmental unit.".

(B) Section 148(f)(4)(C) is amended by redesignating clauses (v) through (xvii) as clauses (viii) through (xx), respectively, and by inserting after clause (iv) the following new clauses:

"(v) CONSTRUCTION.—For purposes of this subparagraph, the term 'construction' includes reconstruction and rehabilitation.

"(vi) SAFE HARBOR FOR LEASES AND MANAGEMENT CONTRACTS.—For purposes of this subparagraph, property leased by a governmental unit shall be treated as owned by such governmental unit if—

"(I) the lessee makes an irrevocable election (binding on the lessee and all successors in interest under the lease) not to claim depreciation or

an investment credit with respect to such property,

"(II) the lease term (as defined in section 168(h)(1)) is not more than 80 percent of the reasonably expected economic life of the property, and

"(III) the lessee has no option to purchase the property other than at fair market value (as of the time such option is exercised).

"(vii) DETERMINATION OF ECONOMIC LIFE.—For purposes of clause (vi), the reasonably expected economic life of any facility shall be determined as of the later of—

"(I) the date on which the bonds are issued, or

"(II) the date on which the facility is placed in service (or expected to be placed in service).".

(C) Section 148(f)(4)(D) is amended by striking "subparagraph (C)(iv)" each place it appears and inserting "subparagraph (C)(v)".

(14) Section 148(f)(4)(D)(i) is amended—

(A) by striking subclause (II),

(B) by striking ''(other than private activity bonds)'' in subclause (IV), and

(C) by redesignating subclauses (III) and (IV) (as amended by subparagraph (B)) as subclauses (II) and (III).

(15) Section 148(f)(4)(D)(ii) is amended by striking ''subclause (IV)'' both places it appears and inserting ''subclause (III)''.

(16) Section 148(f)(4)(D)(iii) is amended by striking ''subclause (IV)'' and inserting ''subclause (III)''.

(17) Section 148(f)(4)(D)(iv)(II) is amended by striking ''clause (i)(IV)'' and inserting ''clause (i)(III)''.

(18) Section 148(f)(4)(D)(vi) is amended by striking the last sentence.

(19) Section 148(f)(7) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B).

(20) Section 149(b)(3) is amended—

(A) by striking subparagraph (C) and by redesignating subparagraphs (D) and (E) as subparagraphs (C) and (D), and

(B) by striking ''subparagraph (E)'' in subparagraph (A)(iv) and inserting ''subparagraph (D)''.

(21) Section 149(e)(2) is amended—

(A) by striking subparagraphs (C), (D), and (F) and by redesignating subparagraphs (E) and (G) as subparagraphs (C) and (D), respectively, and

(B) by striking the second sentence.

(22) Section 149(f)(6) is amended—

(A) by striking subparagraph (B), and

(B) by striking ''For purposes of this subsection'' and all that follows through ''The term'' and inserting the following: ''For purposes of this subsection, the term''.

(23) Section 150 is amended by striking subsections (b) and (c) and by redesignating subsections (d) and (e) as subsections (b) and (c), respectively.

(24) Section 150(e)(3) is amended to read as follows:

''(3) PUBLIC APPROVAL REQUIREMENT.—A bond shall not be treated as part of an issue which meets the requirements of paragraph (1) unless such bond satisfies the requirements of section 147(f)(2)

(as in effect before its repeal by the Tax Reform Act of 2014).''.

(25) Section 269A(b)(3) is amended by striking ''144(a)(3)'' and inserting ''414(n)(6)(A)''.

(26) Section 414(m)(5) is amended by striking ''section 144(a)(3)'' and inserting ''subsection (n)(6)(A)''.

(27) Section 414(n)(6)(A) is amended to read as follows:

''(A) RELATED PERSONS.—A person is a related person to another person if—

''(i) the relationship between such persons would result in a disallowance of losses under section 267 or 707(b), or

''(ii) such persons are members of the same controlled group of corporations (as defined in section 1563(a), except that 'more than 50 percent' shall be substituted for 'at least 80 percent' each place it appears therein).''.

(28) Section 6045(e)(4)(B) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 143(m)(3)''.

(29) Section 6654(f)(1) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''section 143(m)''.

(30) Section 7871(c) is amended—

(A) by striking paragraphs (2) and (3), and

(B) by striking ''TAX-EXEMPT BONDS.—'' and all that follows through ''Subsection (a) of section 103'' and inserting the following: ''TAX-EXEMPT BONDS.—Subsection (a) of section 103''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after December 31, 2014.

SEC. 3432. TERMINATION OF CREDIT FOR INTEREST ON CERTAIN HOME MORTGAGES.

(a) IN GENERAL.—Section 25, as amended by the preceding provisions of this Act, is amended by adding at the end the following new subsection:

''(k) TERMINATION.—No credit shall be allowed under this section with respect to any mortgage credit certificate issued after December 31, 2014.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after December 31, 2014.

SEC. 3433. REPEAL OF ADVANCE REFUNDING BONDS.

(a) IN GENERAL.—Paragraph (1) of section 149(d) is amended by striking ''as part of an issue described in paragraph (2), (3), or (4).'' and inserting ''to advance refund a bond.''.

(b) CONFORMING AMENDMENTS.—

(1) Section 149(d) is amended by striking paragraphs (2), (3), (4), and (6) and by redesignating paragraphs (5) and (7) as paragraphs (2) and (3).

(2) Section 148(f)(4)(C), as amended by the preceding provisions of this Act, is amended by striking clause (xvii) and by redesignating clauses (xviii), (xix), and (xx) as clauses (xvii), (xviii), and (xix), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to advance refunding bonds issued after December 31, 2014.

SEC. 3434. REPEAL OF TAX CREDIT BOND RULES.

(a) IN GENERAL.—Part IV of subchapter A of chapter 1 is amended by striking subparts H, I, and J (and by striking the items relating to such subparts in the table of subparts for such part).

(b) PAYMENTS TO ISSUERS.—Subchapter B of chapter 65 is amended by striking section 6431 (and by striking the item relating to such section in the table of sections for such subchapter).

(c) CONFORMING AMENDMENTS.—

(1) Section 6211(b)(4)(A) is amended by striking ''and 6431''.

(2) Section 6401(b)(1) is amended by striking ''G, H, I, and J'' and inserting ''and G''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after the date of the enactment of this Act.

Subtitle F—Insurance Reforms

SEC. 3501. EXCEPTION TO PRO RATA INTEREST EXPENSE DISALLOWANCE FOR CORPORATE-OWNED LIFE INSURANCE RESTRICTED TO 20-PERCENT OWNERS.

(a) IN GENERAL.—Subparagraph (A) of section 264(f)(4) is amended—

(1) by striking ''policy or contract)—'' and all that follows through ''A policy or contract'' and inserting ''policy or contract) a 20-percent owner of such entity. A policy or contract'', and

(2) by striking '', OFFICERS, DIRECTORS, AND EMPLOYEES'' in the heading.

(b) CONFORMING AMENDMENT.—Section 264(f)(4) is amended by striking subparagraph (E).

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to contracts issued after December

31, 2014. For purposes of the preceding sentence, any material increase in the death benefit or other material change in the contract shall be treated as a new contract.

SEC. 3502. NET OPERATING LOSSES OF LIFE INSURANCE COMPANIES.

(a) IN GENERAL.—Paragraph (5) of section 805(a) is amended to read as follows:

"(5) NET OPERATING LOSS DEDUCTION.—The deduction allowed under section 172, determined—

"(A) by treating the net operating loss for any taxable year as equal to the excess (if any) of—

"(i) the life insurance deductions for such taxable year, over

"(ii) the life insurance gross income for such taxable year, and

"(B) by applying subsection (d)(5) thereof with the modifications described in paragraph (4) of this subsection.".

(b) CONFORMING AMENDMENTS.—

(1) Part I of subchapter L of chapter 1 is amended by striking section 810 (and by striking the item relating to such section in the table of sections for such part).

(2) Part III of subchapter L of chapter 1 is amended by striking section 844 (and by striking the item relating to such section in the table of sections for such part).

(3) Section 381 is amended by striking subsection (d).

(4) Section 805(a)(4)(B)(i), as redesignated by the preceding provisions of this Act, is amended to read as follows:

"(ii) the net operating loss deduction provided by paragraph (5),".

(5) Section 805(b)(2)(A)(iii), as redesignated by the preceding provisions of this Act, is amended to read as follows:

"(iv) any net operating loss carryback to the taxable year under section 172 (as applied pursuant to subsection (a)(5)), and".

(6) Section 805(b) is amended by striking paragraph (4) and redesignating paragraph (5) as paragraph (4).

(7) Section 953(b)(1)(A), as redesignated by the preceding provisions of this Act, is amended by striking "operations" and inserting "net operating".

(8) Section 1351(i)(3) is amended by striking ''or the operations loss deduction under section 810,''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to losses arising in taxable years beginning after December 31, 2014.

SEC. 3503. REPEAL OF SMALL LIFE INSURANCE COMPANY DEDUCTION.

(a) IN GENERAL.—Part I of subchapter L of chapter 1 is amended by striking section 806 (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 453B(e) is amended—

(A) by striking ''(as defined in section 806(b)(3))'' in paragraph (2)(B), and

(B) by adding at the end the following new paragraph:

''(3) NONINSURANCE BUSINESS.—

''(A) IN GENERAL.—For purposes of this subsection, the term 'noninsurance business' means any activity which is not an insurance business.

''(B) CERTAIN ACTIVITIES TREATED AS INSURANCE BUSINESSES.—For purposes of sub-

paragraph (A), any activity which is not an insurance business shall be treated as an insurance business if—

"(i) it is of a type traditionally carried on by life insurance companies for investment purposes, but only if the carrying on of such activity (other than in the case of real estate) does not constitute the active conduct of a trade or business, or

"(ii) it involves the performance of administrative services in connection with plans providing life insurance, pension, or accident and health benefits.".

(2) Section 465(c)(7)(D)(v)(II) is amended by striking "section 806(b)(3)" and inserting "section 453B(e)(3)".

(3) Section 801(a)(2) is amended by striking subparagraph (C).

(4) Section 804 is amended by striking "means—" and all that follows and inserting "means the general deductions provided in section 805.".

(5) Section 805(a)(4)(B) is amended by striking clause (i) and by redesignating clauses (ii), (iii), and (iv) as clauses (i), (ii), and (iii), respectively.

(6) Section 805(b)(2)(A) is amended by striking clause (iii) and by redesignating clauses (iv) and (v) as clauses (iii) and (iv), respectively.

(7) Section 815(c)(2)(A) is amended by inserting ''and'' at the end of clause (i), by striking clause (ii), and by redesignating clause (iii) as clause (ii).

(8) Section 842(c) is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(9) Section 953(b)(1) is amended by striking subparagraph (A) and by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3504. COMPUTATION OF LIFE INSURANCE TAX RESERVES.

(a) IN GENERAL.—Subparagraph (B) of section 807(d)(2) is amended to read as follows:

''(B) an interest rate equal to the sum of—

''(i) the applicable Federal interest rate, plus

''(ii) 3.5 percentage points, and''.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (4) of section 807(d) is amended to read as follows:

"(4) APPLICABLE FEDERAL INTEREST RATE.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'applicable Federal interest rate' means the annual rate determined by the Secretary under subparagraph (C) for the calendar year in which the contract was issued.

"(B) ELECTION TO RECOMPUTE FEDERAL INTEREST RATE EVERY 5 YEARS.—For purposes of this subsection—

"(i) IN GENERAL.—In computing the amount of the reserve with respect to any contract to which an election under this subparagraph applies for periods during any recomputation period, the applicable Federal interest rate shall be the annual rate determined by the Secretary under subparagraph (C) for the 1st year of such period. No change in the applicable Federal interest rate shall be made under the preceding sentence unless such change

would equal or exceed ½ of 1 percentage point.

"(ii) RECOMPUTATION PERIOD.—For purposes of clause (i), the term 'recomputation period' means, with respect to any contract, the 5 calendar year period beginning with the 5th calendar year beginning after the calendar year in which the contract was issued (and each subsequent 5 calendar year period).

"(iii) ELECTION.—An election under this subparagraph shall apply to all contracts issued during the calendar year for which the election was made or during any subsequent calendar year unless such election is revoked with the consent of the Secretary.

"(iv) SPREAD NOT AVAILABLE.—Subsection (f) shall not apply to any adjustment required under this paragraph.

"(C) RATE OF INTEREST.—

"(i) IN GENERAL.—For purposes of this paragraph, the rate of interest determined under this subparagraph shall be

the annual rate determined by the Secretary under clause (ii).

"(ii) DETERMINATION OF ANNUAL RATE.—

"(I) IN GENERAL.—The annual rate determined by the Secretary under this clause for any calendar year shall be a rate equal to the average of the applicable Federal mid-term rates (as defined in section 1274(d) but based on annual compounding) effective as of the beginning of each of the calendar months in the test period.

"(II) TEST PERIOD.—For purposes of subclause (I), the test period is the most recent 60-calendar-month period ending before the beginning of the calendar year for which the determination is made.".

(2) The first sentence following paragraph (6) in section 807(c) is amended by striking "the applicable Federal interest rate under subsection (d)(2)(B)(i), the prevailing State assumed interest rate under subsection (d)(2)(B)(ii)," and inserting

"the interest rate determined under subsection (d)(2)(B)".

(3) Section 808 is amended by adding at the end the following new subsection:

"(g) PREVAILING STATE ASSUMED INTEREST RATE.—For purposes of this subchapter—

"(1) IN GENERAL.—The term 'prevailing State assumed interest rate' means, with respect to any contract, the highest assumed interest rate permitted to be used in computing life insurance reserves for insurance contracts or annuity contracts (as the case may be) under the insurance laws of at least 26 States. For purposes of the preceding sentence, the effect of nonforfeiture laws of a State on interest rates for reserves shall not be taken into account.

"(2) WHEN RATE DETERMINED.—The prevailing State assumed interest rate with respect to any contract shall be determined as of the beginning of the calendar year in which the contract was issued.".

(4) Paragraph (1) of section 811(d) is amended by striking "the greater of the prevailing State assumed interest rate or applicable Federal interest

rate in effect under section 807'' and inserting ''the interest rate in effect under section 807(d)(2)(B)''.

(5) Subparagraph (A) of section 846(f)(6) is amended by striking ''except that'' and all that follows and inserting ''except that the limitation of subsection (a)(3) shall apply in lieu of the limitation of the last sentence of section 807(d)(1), and''.

(6) Subparagraph (B) of section 954(i)(5) is amended by striking ''shall be substituted for the prevailing State assumed interest rate'' and inserting ''shall, if higher, be substituted for the interest rate in effect under section 807(d)(2)(B)''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(2) TRANSITION RULE.—For the first taxable year beginning after December 31, 2014, the reserve with respect to any contract (as determined under section 807(d)(2) of the Internal Revenue Code of 1986) at the end of the preceding taxable year shall be determined as if the amendments made by this section had applied to such reserve in such preceding taxable year and by using the interest rate applicable to such reserves under section 807(d)(2) of the

Internal Revenue Code of 1986 for calendar year 2015. For subsequent taxable years, such amendments shall be applied with respect to such reserve by using the interest rate applicable under such section for calendar year 2015.

(3) TRANSITION RELIEF.—

(A) IN GENERAL.—If—

(i) the reserve determined under section 807(d)(2) of the Internal Revenue Code of 1986 with respect to any contract as of the close of the year preceding the first taxable year beginning after December 31, 2014, differs from

(ii) the reserve which would have been determined with respect to such contract as of the close of such taxable year under such section determined without regard to paragraph (2),

then the difference between the amount of the reserve described in clause (i) and the amount of the reserve described in clause (ii) shall be taken into account under the method provided in subparagraph (B).

(B) METHOD.—The method provided in this subparagraph is as follows:

(i) if the amount determined under subparagraph (A)(i) exceeds the amount determined under subparagraph (A)(ii), ⅛ of such excess shall be taken into account, for each of the 8 succeeding taxable years, as a deduction under section 805(a)(2) of such Code, or

(ii) if the amount determined under subparagraph (A)(ii) exceeds the amount determined under subparagraph (A)(i), ⅛ of such excess shall be included in gross income, for each of the 8 succeeding taxable years, under section 803(a)(2) of such Code.

SEC. 3505. ADJUSTMENT FOR CHANGE IN COMPUTING RESERVES.

(a) IN GENERAL.—Paragraph (1) of section 807(f) is amended to read as follows:

"(1) TREATMENT AS CHANGE IN METHOD OF ACCOUNTING.—If the basis for determining any item referred to in subsection (c) as of the close of any taxable year differs from the basis for such determination as of the close of the preceding taxable year, then so much of the difference between—

"(A) the amount of the item at the close of the taxable year, computed on the new basis, and

"(B) the amount of the item at the close of the taxable year, computed on the old basis, as is attributable to contracts issued before the taxable year shall be taken into account under section 481 as adjustments attributable to a change in method of accounting initiated by the taxpayer and made with the consent of the Secretary.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3506. MODIFICATION OF RULES FOR LIFE INSURANCE PRORATION FOR PURPOSES OF DETERMINING THE DIVIDENDS RECEIVED DEDUCTION.

(a) IN GENERAL.—Section 812 is amended to read as follows:

"SEC. 812. DETERMINATION OF COMPANY'S AND POLICYHOLDER'S SHARE ON ACCOUNT BY ACCOUNT BASIS.

"(a) DETERMINATION ON ACCOUNT BY ACCOUNT BASIS.—Sections 805(a)(4) and 807 shall be applied on an account by account basis.

1 "(b) COMPANY'S SHARE.—For purposes of section
2 805(a)(4), the term 'company's share' means, with respect
3 to any account for any taxable year, the ratio (expressed
4 as a percentage) of—
5 "(1) the excess of—
6 "(A) the mean assets of such account for
7 such taxable year, over
8 "(B) the mean reserves with respect to
9 such account for such taxable year, divided by
10 "(2) the mean assets of such account for such
11 taxable year.
12 "(c) POLICYHOLDER'S SHARE.—For purposes of sec-
13 tion 807, the term 'policyholder's share' means, with re-
14 spect to any account for any taxable year, the excess of
15 100 percent over the percentage determined under para-
16 graph (2).
17 "(d) MEAN ASSETS AND MEAN RESERVES DE-
18 FINED.—For purposes of this subsection—
19 "(1) MEAN ASSETS.—The term 'mean assets'
20 means, with respect to any account for any taxable
21 year, 50 percent of the sum of—
22 "(A) the fair market value of the assets of
23 such account determined as of the beginning of
24 such taxable year, and

"(B) the fair market value of the assets of such account determined as of the close of such taxable year.

"(2) MEAN RESERVES.—The term 'mean reserves' means, with respect to any account for any taxable year, 50 percent of the sum of—

"(A) the reserves with respect to such account as determined under section 807 as of the beginning of such taxable year, and

"(B) the reserves with respect to such account as determined under section 807 as of the close of such taxable year.

"(3) CERTAIN DIVIDENDS NOT TAKEN INTO ACCOUNT.—Dividends described in section 246(c) shall not be taken into account for purposes of determining mean assets or mean reserves.

"(4) FEES AND EXPENSES NOT TAKEN INTO ACCOUNT.—Fees and expenses shall not be taken into account for purposes of determining mean assets or mean reserves.".

(b) CONFORMING AMENDMENT.—Section 817A(e)(2) is amended by striking ", 807(d)(2)(B), and 812" and inserting "and 807(d)(2)(B)"

(c) CLERICAL AMENDMENT.—The table of sections for subpart D of part I of subchapter L of chapter 1 is

amended by striking the item relating to section 812 and inserting the following:

"Sec. 812. Determination of company's and policyholder's share on account by account basis.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3507. REPEAL OF SPECIAL RULE FOR DISTRIBUTIONS TO SHAREHOLDERS FROM PRE-1984 POLICYHOLDERS SURPLUS ACCOUNT.

(a) IN GENERAL.—Subpart D of part I of subchapter L is amended by striking section 815 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENT.—Section 801 is amended by striking subsection (c).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(d) PHASED INCLUSION OF REMAINING BALANCE OF POLICYHOLDERS SURPLUS ACCOUNTS.—In the case of any stock life insurance company which has a balance (determined as of the close of such company's last taxable year beginning before January 1, 2015) in an existing policyholders surplus account (as defined in section 815 of the Internal Revenue Code of 1986, as in effect before

its repeal), the tax imposed by section 801 of such Code for the first 8 taxable years beginning after December 31, 2014, shall be the amount which would be imposed by such section for such year on the sum of—

(1) life insurance company taxable income for such year (within the meaning of such section 801 but not less than zero), plus

(2) ⅛ of such balance.

SEC. 3508. MODIFICATION OF PRORATION RULES FOR PROPERTY AND CASUALTY INSURANCE COMPANIES.

(a) IN GENERAL.—Section 832(b)(5)(B) is amended by striking ''15 percent'' and inserting ''the percentage determined under subparagraph (F))''.

(b) DETERMINATION OF PERCENTAGE.—Section 832(b)(5) is amended by adding at the end the following new subparagraph:

''(F) DETERMINATION OF PERCENTAGE.—

''(i) IN GENERAL.—For purposes of subparagraph (B), the percentage determined under this subparagraph is the ratio (expressed as a percentage) of—

''(I) the average adjusted bases (within the meaning of section 1016)

of tax-exempt assets of the company, to

"(II) such average adjusted bases of all assets of the company.

"(ii) TAX-EXEMPT ASSETS.—For purposes of clause (i)(I), the term 'tax-exempt assets' means assets of the type which give rise to income described in subparagraph (B).".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3509. REPEAL OF SPECIAL TREATMENT OF BLUE CROSS AND BLUE SHIELD ORGANIZATIONS, ETC.

(a) TRANSITIONAL REPEAL OF SPECIAL RULES.—

(1) IN GENERAL.—Section 833 is amended by striking subsection (b), by redesignating subsection (c) as subsection (b), and by amending subsection (a) to read as follows:

"(a) IN GENERAL.—An organization to which this section applies shall be taxable under this part in the same manner as if it were a stock insurance company.".

(2) TAX STATUS NOT DEPENDENT ON MEDICAL LOSS RATIO.—Subsection (b) of section 833, as re-

designated by subsection (a), is amended by striking paragraph (5).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2014.

(b) REPEAL OF STATUTORY TREATMENT AS A STOCK INSURANCE COMPANY.—

(1) IN GENERAL.—Part II of subchapter L of chapter is amended by striking section 833 (and by striking the item relating to such section in the table of sections for such part).

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years beginning after December 31, 2016.

SEC. 3510. MODIFICATION OF DISCOUNTING RULES FOR PROPERTY AND CASUALTY INSURANCE COMPANIES.

(a) MODIFICATION OF RATE OF INTEREST USED TO DISCOUNT UNPAID LOSSES.—Paragraph (2) of section 846(c) is amended to read as follows:

"(2) DETERMINATION OF ANNUAL RATE.—The annual rate determined by the Secretary under this paragraph for any calendar year shall be a rate determined on the basis of the corporate bond yield curve (as defined in section 430(h)(2)(D)(i)).".

(b) MODIFICATION OF COMPUTATIONAL RULES FOR LOSS PAYMENT PATTERNS.—Section 846(d)(3) is amended by striking subparagraphs (B) through (G) and inserting the following new subparagraphs:

"(B) TREATMENT OF CERTAIN LOSSES.—Losses which would have been treated as paid in the last year of the period applicable under subparagraph (A)(i) or (A)(ii) shall be treated as paid in the following manner:

"(i) 3-YEAR LOSS PAYMENT PATTERN.—

"(I) IN GENERAL.—The period taken into account under subparagraph (A)(i) shall be extended to the extent required under subclause (II).

"(II) COMPUTATION OF EXTENSION.—The amount of losses which would have been treated as paid in the 3d year after the accident year shall be treated as paid in such 3d year and each subsequent year in an amount equal to the amount of the losses treated as paid in the 2d year after the accident year (or, if lesser,

the portion of the unpaid losses not theretofore taken into account).

"(ii) 10-YEAR LOSS PAYMENT PATTERN.—

"(I) IN GENERAL.—The period taken into account under subparagraph (A)(ii) shall be extended to the extent required under subclause (II).

"(II) COMPUTATION OF EXTENSION.—The amount of losses which would have been treated as paid in the 10th year after the accident year shall be treated as paid in such 10th year and each subsequent year in an amount equal to the amount of the losses treated as paid in the 9th year after the accident year (or, if lesser, the portion of the unpaid losses not theretofore taken into account).

"(C) SPECIAL RULE FOR INTERNATIONAL AND REINSURANCE LINES OF BUSINESS.—Except as otherwise provided by regulations, any determination made under subsection (a) with respect to unpaid losses relating to the international or reinsurance lines of business shall

be made using, in lieu of the loss payment pattern applicable to the respective lines of business, a pattern determined by the Secretary under paragraphs (1) and (2) based on the combined losses for all lines of business described in subparagraph (A)(ii).

"(D) SPECIAL RULE FOR 2D OR 9TH YEAR IF NEGATIVE OR ZERO.—

"(i) 3-YEAR LOSS PAYMENT PATTERN.—If the amount of the losses treated as paid in the 2d year after the accident year is zero or a negative amount, subparagraph (B)(i)(II) shall be applied by substituting the average of the losses treated as paid in the 1st and 2d years after the accident year for the losses treated as paid in the 2d year after the accident year.

"(ii) 10-YEAR LOSS PAYMENT PATTERN.—If the amount of the losses treated as paid in the 9th year after the accident year is zero or a negative amount, subparagraph (B)(ii)(II) shall be applied by substituting the average of the losses treated as paid in the 7th, 8th, and 9th years after the accident year for the losses treat-

ed as paid in the 9th year after the accident year.''.

(c) REPEAL OF HISTORICAL PAYMENT PATTERN ELECTION.—Section 846 is amended by striking subsection (e) and by redesignating subsections (f) and (g) as subsections (e) and (f), respectively.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(e) TRANSITIONAL RULE.—For the first taxable year beginning after December 31, 2014—

(1) the unpaid losses and the expenses unpaid (as defined in paragraphs (5)(B) and (6) of section 832(b) of the Internal Revenue Code of 1986) at the end of the preceding taxable year, and

(2) the unpaid losses as defined in sections 807(c)(2) and 805(a)(1) of such Code at the end of the preceding taxable year,

shall be determined as if the amendments made by this section had applied to such unpaid losses and expenses unpaid in the preceding taxable year and by using the interest rate and loss payment patterns applicable to accident years ending with calendar year 2015, and any adjustment shall be taken into account ratably in such first taxable year and the 7 succeeding taxable years. For sub-

sequent taxable years, such amendments shall be applied with respect to such unpaid losses and expenses unpaid by using the interest rate and loss payment patterns applicable to accident years ending with calendar year 2015.

SEC. 3511. REPEAL OF SPECIAL ESTIMATED TAX PAYMENTS.

(a) IN GENERAL.—Part III of subchapter L of chapter 1 is amended by striking section 847 (and by striking the item relating to such section in the table of sections for such part).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3512. CAPITALIZATION OF CERTAIN POLICY ACQUISITION EXPENSES.

(a) IN GENERAL.—Paragraph (1) of section 848(c) is amended by striking subparagraphs (A), (B), and (C) and inserting the following new subparagraphs:

"(A) 5 percent of the net premiums for such taxable year on specified insurance contracts which are group contracts, and

"(B) 12 percent of the net premiums for such taxable year on specified insurance contracts not described in subparagraph (A).".

(b) GROUP CONTRACTS.—So much of paragraph (2) of section 848(e) as precedes subparagraph (A) thereof is amended to read as follows:

"(2) GROUP CONTRACT.—The term 'group contract' means any specified insurance contract—".

(c) CONFORMING AMENDMENTS.—Section 848(e) is amended by striking paragraphs (3) and (6) and by redesignating paragraphs (4) and (5) as paragraphs (3) and (4), respectively.

(d) EFFECTIVE DATE.— The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3513. TAX REPORTING FOR LIFE SETTLEMENT TRANSACTIONS.

(a) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 is amended by adding at the end the following new section:

"SEC. 6050X. RETURNS RELATING TO CERTAIN LIFE INSURANCE CONTRACT TRANSACTIONS.

"(a) REQUIREMENT OF REPORTING OF CERTAIN PAYMENTS.—

"(1) IN GENERAL.—Every person who acquires a life insurance contract or any interest in a life insurance contract in a reportable policy sale during any taxable year shall make a return for such tax-

able year (at such time and in such manner as the Secretary shall prescribe) setting forth—

"(A) the name, address, and TIN of such person,

"(B) the name, address, and TIN of each recipient of payment in the reportable policy sale,

"(C) the date of such sale,

"(D) the name of the issuer of the life insurance contract sold and the policy number of such contract, and

"(E) the amount of each payment.

"(2) STATEMENT TO BE FURNISHED TO PERSONS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under this subsection shall furnish to each person whose name is required to be set forth in such return a written statement showing—

"(A) the name, address, and phone number of the information contact of the person required to make such return, and

"(B) the information required to be shown on such return with respect to such person, except that in the case of an issuer of a life insurance contract, such statement is not required to

include the information specified in paragraph (1)(E).

"(b) REQUIREMENT OF REPORTING OF SELLER'S BASIS IN LIFE INSURANCE CONTRACTS.—

"(1) IN GENERAL.—Upon receipt of the statement required under subsection (a)(2) or upon notice of a transfer of a life insurance contract to a foreign person, each issuer of a life insurance contract shall make a return (at such time and in such manner as the Secretary shall prescribe) setting forth—

"(A) the name, address, and TIN of the seller who transfers any interest in such contract in such sale,

"(B) the investment in the contract (as defined in section 72(e)(6)) with respect to such seller, and

"(C) the policy number of such contract.

"(2) STATEMENT TO BE FURNISHED TO PERSONS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under this subsection shall furnish to each person whose name is required to be set forth in such return a written statement showing—

"(A) the name, address, and phone number of the information contact of the person required to make such return, and

"(B) the information required to be shown on such return with respect to each seller whose name is required to be set forth in such return.

"(c) REQUIREMENT OF REPORTING WITH RESPECT TO REPORTABLE DEATH BENEFITS.—

"(1) IN GENERAL.—Every person who makes a payment of reportable death benefits during any taxable year shall make a return for such taxable year (at such time and in such manner as the Secretary shall prescribe) setting forth—

"(A) the name, address, and TIN of the person making such payment,

"(B) the name, address, and TIN of each recipient of such payment,

"(C) the date of each such payment, and

"(D) the amount of each such payment.

"(2) STATEMENT TO BE FURNISHED TO PERSONS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under this subsection shall furnish to each person whose name is required to be set forth in such return a written statement showing—

"(A) the name, address, and phone number of the information contact of the person required to make such return, and

"(B) the information required to be shown on such return with respect to each recipient of payment whose name is required to be set forth in such return.

"(d) DEFINITIONS.—For purposes of this section:

"(1) PAYMENT.—The term 'payment' means the amount of cash and the fair market value of any consideration transferred in a reportable policy sale.

"(2) REPORTABLE POLICY SALE.—The term 'reportable policy sale' has the meaning given such term in section 101(a)(3)(B).

"(3) ISSUER.—The term 'issuer' means any life insurance company that bears the risk with respect to a life insurance contract on the date any return or statement is required to be made under this section.

"(4) REPORTABLE DEATH BENEFITS.—The term 'reportable death benefits' means amounts paid by reason of the death of the insured under a life insurance contract that has been transferred in a reportable policy sale.".

(b) CLERICAL AMENDMENT.—The table of sections for subpart B of part III of subchapter A of chapter 61 is amended by inserting after the item relating to section 6050W the following new item:

"Sec. 6050X. Returns relating to certain life insurance contract transactions.".

(c) CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 6724 is amended—

(A) by striking "or" at the end of clause (xxiv) of paragraph (1)(B), by striking "and" at the end of clause (xxv) of such paragraph and inserting "or", and by inserting after such clause (xxv) the following new clause:

"(xxvi) section 6050X (relating to returns relating to certain life insurance contract transactions), and", and

(B) by striking "or" at the end of subparagraph (GG) of paragraph (2), by striking the period at the end of subparagraph (HH) of such paragraph and inserting ", or", and by inserting after such subparagraph (HH) the following new subparagraph:

"(II) subsection (a)(2), (b)(2), or (c)(2) of section 6050X (relating to returns relating to certain life insurance contract transactions).".

(2) Section 6047 is amended—

(A) by redesignating subsection (g) as subsection (h),

(B) by inserting after subsection (f) the following new subsection:

''(g) INFORMATION RELATING TO LIFE INSURANCE CONTRACT TRANSACTIONS.—This section shall not apply to any information which is required to be reported under section 6050X.'', and

(C) by adding at the end of subsection (h), as so redesignated, the following new paragraph:

''(4) For provisions requiring reporting of information relating to certain life insurance contract transactions, see section 6050X.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to—

(1) reportable policy sales (as defined in section 6050X(d)(2) of the Internal Revenue Code of 1986 (as added by subsection (a)) after December 31, 2014, and

(2) reportable death benefits (as defined in section 6050X(d)(4) of such Code (as added by subsection (a)) paid after December 31, 2014.

SEC. 3514. CLARIFICATION OF TAX BASIS OF LIFE INSURANCE CONTRACTS.

(a) CLARIFICATION WITH RESPECT TO ADJUSTMENTS.—Paragraph (1) of section 1016(a) is amended by striking subparagraph (A) and all that follows and inserting the following:

"(A) for—

"(i) taxes or other carrying charges described in section 266; or

"(ii) expenditures described in section 173 (relating to circulation expenditures),

for which deductions have been taken by the taxpayer in determining taxable income for the taxable year or prior taxable years; or

"(B) for mortality, expense, or other reasonable charges incurred under an annuity or life insurance contract;".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to transactions entered into after August 25, 2009.

SEC. 3515. EXCEPTION TO TRANSFER FOR VALUABLE CONSIDERATION RULES.

(a) IN GENERAL.—Subsection (a) of section 101 is amended by inserting after paragraph (2) the following new paragraph:

"(3) EXCEPTION TO VALUABLE CONSIDERATION RULES FOR COMMERCIAL TRANSFERS.—

"(A) IN GENERAL.—The second sentence of paragraph (2) shall not apply in the case of a transfer of a life insurance contract, or any interest therein, which is a reportable policy sale.

"(B) REPORTABLE POLICY SALE.—For purposes of this paragraph, the term 'reportable policy sale' means the acquisition of an interest in a life insurance contract, directly or indirectly, if the acquirer has no substantial family, business, or financial relationship with the insured apart from the acquirer's interest in such life insurance contract. For purposes of the preceding sentence, the term 'indirectly' applies to the acquisition of an interest in a partnership, trust, or other entity that holds an interest in the life insurance contract.".

(b) CONFORMING AMENDMENT.—Paragraph (1) of section 101(a) is amended by striking "paragraph (2)" and inserting "paragraphs (2) and (3)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers after December 31, 2014.

Subtitle G—Pass-Thru and Certain Other Entities

PART 1—S CORPORATIONS

SEC. 3601. REDUCED RECOGNITION PERIOD FOR BUILT-IN GAINS MADE PERMANENT.

(a) IN GENERAL.—Paragraph (7) of section 1374(d) (relating to definitions and special rules) is amended to read as follows:

"(7) RECOGNITION PERIOD.—

"(A) IN GENERAL.—The term 'recognition period' means the 5-year period beginning with the 1st day of the 1st taxable year for which the corporation was an S corporation. For purposes of applying this section to any amount includible in income by reason of distributions to shareholders pursuant to section 593(e), the preceding sentence shall be applied without regard to the phrase '5-year'.

"(B) INSTALLMENT SALES.—If an S corporation sells an asset and reports the income from the sale using the installment method under section 453, the treatment of all payments received shall be governed by the provisions of this paragraph applicable to the taxable year in which such sale was made.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2013.

SEC. 3602. MODIFICATIONS TO S CORPORATION PASSIVE INVESTMENT INCOME RULES.

(a) INCREASED PERCENTAGE LIMIT.—Paragraph (2) of section 1375(a) is amended by striking ''25 percent'' and inserting ''60 percent''.

(b) REPEAL OF EXCESSIVE PASSIVE INCOME AS A TERMINATION EVENT.—Section 1362(d) is amended by striking paragraph (3).

(c) CONFORMING AMENDMENTS.—

(1) Subsection (b) of section 1375 is amended by striking paragraphs (3) and (4) and inserting the following new paragraph:

''(3) PASSIVE INVESTMENT INCOME DEFINED.—

''(A) IN GENERAL.—Except as otherwise provided in this paragraph, the term 'passive investment income' means gross receipts derived from royalties, rents, dividends, interest, and annuities.

''(B) EXCEPTION FOR INTEREST ON NOTES FROM SALES OF INVENTORY.—The term 'passive investment income' shall not include in-

terest on any obligation acquired in the ordinary course of the corporation's trade or business from its sale of property described in section 1221(a)(1).

"(C) TREATMENT OF CERTAIN LENDING OR FINANCE COMPANIES.—If the S corporation meets the requirements of section 542(c)(6) for the taxable year, the term 'passive investment income' shall not include gross receipts for the taxable year which are derived directly from the active and regular conduct of a lending or finance business (as defined in section 542(d)(1)).

"(D) TREATMENT OF CERTAIN DIVIDENDS.—If an S corporation holds stock in a C corporation meeting the requirements of section 1504(a)(2), the term 'passive investment income' shall not include dividends from such C corporation to the extent such dividends are attributable to the earnings and profits of such C corporation derived from the active conduct of a trade or business.

"(E) EXCEPTION FOR BANKS, ETC.—In the case of a bank (as defined in section 581) or a depository institution holding company (as

1 defined in section 3(w)(1) of the Federal De-
2 posit Insurance Act (12 U.S.C. 1813(w)(1)),
3 the term 'passive investment income' shall not
4 include—
5 ''(i) interest income earned by such
6 bank or company, or
7 ''(ii) dividends on assets required to
8 be held by such bank or company, includ-
9 ing stock in the Federal Reserve Bank, the
10 Federal Home Loan Bank, or the Federal
11 Agricultural Mortgage Bank or participa-
12 tion certificates issued by a Federal Inter-
13 mediate Credit Bank.
14 ''(F) GROSS RECEIPTS FROM THE SALES
15 OF CERTAIN ASSETS.—For purposes of this
16 paragraph—
17 ''(i) CAPITAL ASSETS OTHER THAN
18 STOCK AND SECURITIES.—In the case of
19 dispositions of capital assets (other than
20 stock and securities), gross receipts from
21 such dispositions shall be taken into ac-
22 count only to the extent of capital gain net
23 income therefrom.
24 ''(ii) STOCK AND SECURITIES.—In the
25 case of sales or exchanges of stock or secu-

rities, gross receipts shall be taken into account only to the extent of the gain therefrom.

''(G) COORDINATION WITH SECTION 1374.—The amount of passive investment income shall be determined by not taking into account any recognized built-in gain or loss of the S corporation for any taxable year in the recognition period. Terms used in the preceding sentence shall have the same respective meanings as when used in section 1374.''.

(2)(A) Subparagraph (J) of section 26(b)(2) is amended by striking ''25 percent'' and inserting ''60 percent''.

(B) Clause (i) of section 1375(b)(1)(A) is amended by striking ''25 percent'' and inserting ''60 percent''.

(C) The heading for section 1375 is amended by striking ''**25 PERCENT**'' and inserting ''**60 PERCENT**''.

(D) The item relating to section 1375 in the table of sections for part III of subchapter S of chapter 1 is amended by striking ''25 percent'' and inserting ''60 percent''.

(3) Subparagraph (B) of section 1362(f)(1) is amended by striking ''paragraph (2) or (3) of subsection (d)'' and inserting ''subsection (d)(2)''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3603. EXPANSION OF QUALIFYING BENEFICIARIES OF AN ELECTING SMALL BUSINESS TRUST.

(a) NO LOOK-THROUGH FOR ELIGIBILITY PURPOSES.—Subparagraph (C) of section 1361(b)(1) is amended by inserting ''(determined without regard to subsection (c)(2)(B)(v))'' after ''shareholder''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on January 1, 2015.

SEC. 3604. CHARITABLE CONTRIBUTION DEDUCTION FOR ELECTING SMALL BUSINESS TRUSTS.

(a) IN GENERAL.—Paragraph (2) of section 641(c), as amended by the preceding provisions of this Act, is amended by inserting after subparagraph (C) the following new subparagraph:

''(D)(i) Section 642(c) shall not apply.

''(ii) For purposes of section 170(b)(1)(E), adjusted gross income shall be computed in the same manner as in the case of an individual, except that the deductions for costs which are

paid or incurred in connection with the administration of the trust and which would not have been incurred if the property were not held in such trust shall be treated as allowable in arriving at adjusted gross income.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3605. PERMANENT RULE REGARDING BASIS ADJUSTMENT TO STOCK OF S CORPORATIONS MAKING CHARITABLE CONTRIBUTIONS OF PROPERTY.

(a) IN GENERAL.—Section 1367(a)(2) (relating to decreases in basis) is amended by striking the last sentence.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to contributions made in taxable years beginning after December 31, 2013.

SEC. 3606. EXTENSION OF TIME FOR MAKING S CORPORATION ELECTIONS.

(a) IN GENERAL.—Subsection (b) of section 1362 is amended to read as follows:

''(b) WHEN MADE.—

''(1) IN GENERAL.—An election under subsection (a) may be made by a small business cor-

poration for any taxable year not later than the due date for filing the return of the S corporation for such taxable year (including extensions).

"(2) CERTAIN ELECTIONS TREATED AS MADE FOR NEXT TAXABLE YEAR.—If—

"(A) an election under subsection (a) is made for any taxable year within the period described in paragraph (1), but

"(B) either—

"(i) on 1 or more days in such taxable year and before the day on which the election was made the corporation did not meet the requirements of subsection (b) of section 1361, or

"(ii) 1 or more of the persons who held stock in the corporation during such taxable year and before the election was made did not consent to the election,

then such election shall be treated as made for the following taxable year.

"(3) AUTHORITY TO TREAT LATE ELECTIONS, ETC., AS TIMELY.—If—

"(A) an election under subsection (a) is made for any taxable year after the date prescribed by this subsection for making such elec-

tion for such taxable year or no such election is made for any taxable year, and

"(B) the Secretary determines that there was reasonable cause for the failure to timely make such election,

the Secretary may treat such an election as timely made for such taxable year.

"(4) ELECTION ON TIMELY FILED RETURNS.—Except as otherwise provided by the Secretary, an election under subsection (a) for any taxable year may be made on a timely filed return of the S corporation for such taxable year.

"(5) SECRETARIAL AUTHORITY.—The Secretary may prescribe such regulations, rules, or other guidance as may be necessary or appropriate for purposes of applying this subsection.".

(b) COORDINATION WITH CERTAIN OTHER PROVISIONS.—

(1) QUALIFIED SUBCHAPTER S SUBSIDIARIES.—Section 1361(b)(3)(B) is amended by adding at the end the following flush sentence:

"Rules similar to the rules of section 1362(b) shall apply with respect to any election under clause (ii).".

(2) QUALIFIED SUBCHAPTER S TRUSTS.—Section 1361(d)(2) is amended by striking subparagraph (D).

(c) REVOCATIONS.—Paragraph (1) of section 1362(d) is amended—

(1) by striking ''subparagraph (D)'' in subparagraph (C) and inserting ''subparagraphs (D) and (E)'', and

(2) by adding at the end the following new subparagraph:

''(E) AUTHORITY TO TREAT LATE REVOCATIONS AS TIMELY.—If—

''(i) a revocation under subparagraph (A) is made for any taxable year after the date prescribed by this paragraph for making such revocation for such taxable year or no such revocation is made for any taxable year, and

''(ii) the Secretary determines that there was reasonable cause for the failure to timely make such revocation,

the Secretary may treat such a revocation as timely made for such taxable year.''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to elections for taxable years beginning after December 31, 2014.

(2) REVOCATIONS.—The amendments made by subsection (c) shall apply to revocations after December 31, 2014.

SEC. 3607. RELOCATION OF C CORPORATION DEFINITION.

(a) IN GENERAL.—Subsection (a) of section 1361 is amended—

(1) by striking paragraph (2), and

(2) by striking ''S CORPORATION DEFINED.—'' and all that follows through ''For purposes of this title, the term 'S corporation' means'' and inserting the following: ''IN GENERAL.—For purposes of this title, the term 'S corporation' means''.

(b) CONFORMING AMENDMENT.—Section 7701(a)(3) is amended—

(1) by striking ''CORPORATION.—The term 'corporation' means'' and inserting the following: ''CORPORATIONS.—

''(1) IN GENERAL.—The term 'corporation' means'', and

(2) by adding at the end the following new paragraph:

"(2) C CORPORATIONS.—The term 'C corporation' means, with respect to any taxable year, a corporation which is not an S corporation for such year.".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

PART 2—PARTNERSHIPS

SEC. 3611. REPEAL OF RULES RELATING TO GUARANTEED PAYMENTS AND LIQUIDATING DISTRIBUTIONS.

(a) PAYMENT TO PARTNER FOR SERVICES OR USE OF CAPITAL.—

(1) IN GENERAL.—Section 707 is amended by striking subsection (c).

(2) CONFORMING AMENDMENTS.—

(A) Section 267(e) is amended by striking paragraph (4).

(B) Section 706(a) is amended by striking "and 707(c)".

(C) Section 1402(a) is amended, in the matter following paragraph (17)—

(i) by striking "(after such gross income has been reduced by the sum of all

payments to which section 707(c) applies)'' in clauses (iii) and (iv), and

(ii) by striking ''(after such gross income has been so reduced)'' in clause (iv).

(D) Section 2701(c)(1)(B) is amended by inserting ''or'' at the end of clause (i), by striking '', or'' at the end of clause (ii) and inserting a period, and by striking clause (iii).

(E) Section 7519(d) is amended by striking paragraph (5).

(3) EFFECTIVE DATES.—

(A) IN GENERAL.—Except as otherwise provided in this paragraph, the amendments made by this subsection shall apply to partnership taxable years beginning after December 31, 2014.

(B) TRANSFERS.—The amendment made by paragraph (2)(E) shall apply to transfers after December 31, 2014.

(b) PAYMENTS MADE IN LIQUIDATION OF RETIRING OR DECEASED PARTNER.—

(1) IN GENERAL.—Subpart B of part II of subchapter K of chapter 1 is amended by striking section 736 (and by striking the item relating to such section in the table of sections for such subpart).

(2) RETIRED PARTNERS AND SUCCESSORS IN INTEREST OF DECEASED PARTNERS TREATED AS PARTNERS UNTIL LIQUIDATION.—Section 761(d) is amended by adding at the end the following: ''For purposes of this subchapter, any retired partner or a deceased partner's successor in interest shall be treated as a partner until the complete liquidation of such interest.''

(3) CONFORMING AMENDMENT.—

(A) Section 357(c)(3)(A) is amended by striking ''payment of which either—'' and all that follows through ''then, for purposes of'' and inserting ''payment of which would give rise to a deduction, then, for purposes of''.

(B) Section 731(d) is amended—

(i) by striking ''section 736 (relating to payments to a retiring partner or a deceased partner's successor in interest),'', and

(ii) by striking ''items), and'' and inserting ''items) and''.

(C) Section 751(b)(2) is amended—

(i) by striking subparagraph (B), and

(ii) by striking ''shall not apply to—'' and all that follows through ''a distribu-

tion of property'' and inserting the following: ''shall not apply to a distribution of property''.

(D)(i) Section 753 is amended by striking ''The amount includible'' and all that follows and inserting ''For treatment of income in respect of a decedent, see section 691.''

(ii) Section 691 is amended by striking subsection (e).

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply to partners retiring or dying after December 31, 2014.

SEC. 3612. MANDATORY ADJUSTMENTS TO BASIS OF PARTNERSHIP PROPERTY IN CASE OF TRANSFER OF PARTNERSHIP INTERESTS.

(a) IN GENERAL.—Section 743 is amended—

(1) by striking subsections (a), (c), (d), (e), and (f) and by redesignating subsection (b) as subsection (a),

(2) in subsection (a) (as so redesignated) by striking ''with respect to which the election provided in section 754 is in effect or which has a substantial built-in loss immediately after such transfer'', and

(3) by adding at the end the following new subsection:

1 ''(b) ALLOCATION OF BASIS.—

2 ''(1) GENERAL RULE.—Any increase or de-
3 crease in the adjusted basis of partnership property
4 under subsection (a) shall, except as provided in
5 paragraph (2), be allocated—

6 ''(A) in a manner which has the effect of
7 reducing the difference between the fair market
8 value and the adjusted basis of partnership
9 properties, or

10 ''(B) in any other manner permitted by
11 regulations prescribed by the Secretary.

12 ''(2) SPECIAL RULE.—In applying the allocation
13 rules provided in paragraph (1), increases or de-
14 creases in the adjusted basis of partnership property
15 arising from a transfer of an interest attributable to
16 property consisting of—

17 ''(A) capital assets and property described
18 in section 1231(b), or

19 ''(B) any other property of the partner-
20 ship,

21 shall be allocated to partnership property of a like
22 character except that the basis of any such partner-
23 ship property shall not be reduced below zero.''.

24 (b) CONFORMING AMENDMENTS.—

25 (1) Section 704(c)(1) is amended—

(A) by adding ''and'' at the end of subparagraph (A),

(B) by striking '', and'' at the end of subparagraph (B) and inserting a period, and

(C) by striking all that follows subparagraph (B).

(2) Section 732 is amended by striking subsection (d) and by redesignating subsections (e) and (f) as subsections (d) and (e), respectively.

(3) Section 761(e)(2) is amended by striking ''optional''.

(4) Section 6031 is amended by striking subsection (f).

(5) The heading for section 743 is amended to read as follows: ''**ADJUSTMENT TO BASIS OF PARTNERSHIP PROPERTY.**''

(6) The heading for subsection (a) (as redesignated by the preceding provisions of this Act) of section 743 is amended by striking ''ADJUSTMENT TO BASIS OF PARTNERSHIP PROPERTY'' and inserting ''IN GENERAL''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers after December 31, 2014.

SEC. 3613. MANDATORY ADJUSTMENTS TO BASIS OF UNDISTRIBUTED PARTNERSHIP PROPERTY.

(a) IN GENERAL.—Section 734 is amended to read as follows:

"SEC. 734. ADJUSTMENT TO BASIS OF UNDISTRIBUTED PARTNERSHIP PROPERTY.

"(a) IN GENERAL.—In the case of any distribution to a partner, the partnership shall adjust the basis of partnership property such that each remaining partner's net liquidation amount immediately after such distribution is equal to such partner's net liquidation amount immediately before such distribution.

"(b) DISTRIBUTIONS OTHER THAN IN LIQUIDATION OF A PARTNER'S INTEREST.—In the case of any distribution to a partner other than in liquidation of such partner's interest, proper adjustment shall be made under subsection (a) with respect to such partner to take into account—

"(1) the amount of any gain recognized by such partner with respect to such distribution under section 731(a), and

"(2) the amount of any gain or loss which would be recognized by such partner if such partner sold the property distributed at fair market value immediately after such distribution.

"(c) NET LIQUIDATION AMOUNT.—For purposes of this section, the term 'net liquidation amount' means, with respect to any partner, the net amount of gain or loss (if any) which would be taken into account by the partner under section 702 if the partnership sold all of its assets at fair market value (and no other amounts were taken into account under such section).

"(d) ALLOCATION OF BASIS.—

"(1) DECREASES IN BASIS.—Any decrease in the adjusted basis of partnership property which is required under this section—

"(A) shall be made in accordance with paragraph (3) of section 732(c), and

"(B) shall be made first with respect to property other than unrealized receivables (as defined in section 751(c)) and inventory (as defined in section 751(d)) to the extent thereof.

If any such decrease is prevented by the absence of sufficient adjusted basis of partnership property, each partner shall recognize gain in the amount of such partner's distributive share of such prevented decrease. Such gain shall be treated as gain from the sale of the partner's partnership interest.

"(2) INCREASES IN BASIS.—Any increase in the adjusted basis of partnership property which is required under this section—

"(A) shall be made in accordance with paragraph (2) of section 732(c), and

"(B) shall be made only with respect to property other than unrealized receivables (as defined in section 751(c)) and inventory (as defined in section 751(d)).

If any such increase is prevented by the absence of property described in subparagraph (B), each partners shall recognize a loss in the amount of such partner's distributive share of such prevented increase. Such loss shall be treated as a loss from the sale of the partner's partnership interest.

"(e) NO ALLOCATION OF BASIS DECREASE TO STOCK OF CORPORATE PARTNER.—In making an allocation under subsection (d) of any decrease in the adjusted basis of partnership property required under subsection (a)—

"(1) no allocation may be made to stock in a corporation (or any person related (within the meaning of section 267(b) or 707(b)(1)) to such corporation) which is a partner in the partnership, and

"(2) any amount not allocable to stock by reason of paragraph (1) shall be allocated under subsection (d) to other partnership property.

Gain shall be recognized by the partnership to the extent that the amount required to be allocated to other partnership property under subsection (e)(2) exceeds the aggregate adjusted basis of such other property immediately before the allocation required by subsection (a).".

(b) CONFORMING AMENDMENTS.—

(1)(A) Subpart D of part II of subchapter K of chapter 1 is amended by striking sections 754 and 755 (and by striking items relating to such sections in the table of sections of such subpart).

(B) Clause (ii) of section 706(d)(2)(D) is amended by striking "section 755" and inserting "section 743(b)".

(2) Subsection (d) of section 1060 is amended—

(A) by striking "section 755" in paragraph (1) and inserting "sections 734 and 743", and

(B) by striking "section 755" in paragraph (2) and inserting "section 734 or 743".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2014.

SEC. 3614. CORRESPONDING ADJUSTMENTS TO BASIS OF PROPERTIES HELD BY PARTNERSHIP WHERE PARTNERSHIP BASIS ADJUSTED.

(a) IN GENERAL.—Subpart B of part II of subchapter K of chapter 1, as amended by the preceding provisions of this Act, is amended by inserting after section 735 the following new section:

"SEC. 736. CORRESPONDING ADJUSTMENT TO BASIS OF PROPERTIES HELD BY LOWER-TIER PARTNERSHIP IN CASE OF UPPER-TIER PARTNERSHIP BASIS ADJUSTMENTS.

"(a) DISTRIBUTIONS BY UPPER-TIER PARTNERSHIP.—In the case of any distribution of property to a partner by an upper-tier partnership, if such distribution results in an adjustment in the upper-tier partnership's adjusted basis in an interest in a lower-tier partnership under section 734, then such lower-tier partnership shall make a corresponding adjustment to the adjusted basis of its partnership property.

"(b) DISTRIBUTIONS OF INTERESTS IN LOWER-TIER PARTNERSHIP.—In the case of any distribution of an interest in a lower-tier partnership by an upper-tier partnership—

"(1) if the adjusted basis of such interest in the hands of the upper-tier partnership (determined immediately before such distribution) exceeds the ad-

1 justed basis of such interest in the hands of the dis-
2 tributee partner (determined immediately after such
3 distribution), then such lower-tier partnership shall
4 decrease the adjusted basis of its partnership prop-
5 erty by the amount of such excess, or
6 ''(2) if the adjusted basis of such interest in the
7 hands of the distributee partner (determined imme-
8 diately after such distribution) exceeds the adjusted
9 basis of such interest in the hands of the upper-tier
10 partnership (determined immediately before such
11 distribution), then such lower-tier partnership shall
12 increase the adjusted basis of its partnership prop-
13 erty by the amount of such excess.
14 ''(c) DISPOSITIONS OF INTERESTS IN UPPER-TIER
15 PARTNERSHIP.—In the case of a disposition of an interest
16 in an upper-tier partnership which holds an interest in a
17 lower-tier partnership, if there is an adjustment to the ad-
18 justed basis of the lower-tier partnership under section
19 743, then such lower-tier partnership shall make a cor-
20 responding adjustment to the adjusted basis of its part-
21 nership property.
22 ''(d) MULTI-TIERED PARTNERSHIPS.—In the case of
23 any adjustment under subsection (a), (b), or (c) in the
24 adjusted basis of an interest in another partnership, such

other partnership shall make a corresponding adjustment in the adjusted basis of its partnership property.

"(e) ALLOCATION OF BASIS; RECOGNITION OF GAIN.—In the case of any adjustment in the adjusted basis of partnership property—

"(1) under subsection (a), (b), (c), or (d), such adjustment shall be made only with respect to the upper-tier partnership's proportionate share (as determined under section 743(a)) of the adjusted basis of the lower-tier partnership's property,

"(2) under subsection (a) or (b) (or so much of subsection (d) as relates to either such subsection), rules similar to the rules of section 734(d) shall apply, and

"(3) under subsection (c) (or so much of subsection (d) as relates to such subsection), rules similar to the rules of section 743(b) shall apply.

"(f) REPORTING.—In the case of any adjustment in the adjusted basis of partnership property by a lower-tier partnership under this section by reason of a distribution by, or a disposition of an interest in, an upper-tier partnership, such upper-tier partnership shall furnish (in such manner as the Secretary shall prescribe) to such lower-tier partnership such information as is necessary to enable such lower-tier partnership to make such adjustment.

"(g) UPPER- AND LOWER-TIER PARTNERSHIPS.—For purposes of this section—

"(1) UPPER-TIER PARTNERSHIP.—The term 'upper-tier partnership' means a partnership owning an interest in another partnership.

"(2) LOWER-TIER PARTNERSHIP.—The term 'lower-tier partnership' means the partnership referred to in paragraph (1) an interest in which is owned by the upper-tier partnership.".

(b) EFFECTIVE DATES.—The amendments made by this section shall apply to distributions and transfers after December 31, 2014.

SEC. 3615. CHARITABLE CONTRIBUTIONS AND FOREIGN TAXES TAKEN INTO ACCOUNT IN DETERMINING LIMITATION ON ALLOWANCE OF PARTNER'S SHARE OF LOSS.

(a) IN GENERAL.—Subsection (d) of section 704 is amended—

(1) by striking "A partner's distributive share" and inserting the following:

"(1) IN GENERAL.—A partner's distributive share",

(2) by striking "Any excess of such loss" and inserting the following:

"(2) CARRYOVER.—Any excess of such loss", and

(3) by adding at the end the following new paragraph:

"(3) SPECIAL RULES.—In determining the amount of any loss under paragraph (1), there shall be taken into account as a deduction the partner's distributive share of—

"(A) the adjusted basis of charitable contributions described in paragraph (4) of section 702(a), and

"(B) the amount of taxes described in paragraph (6) of such section.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to partnership taxable years beginning after December 31, 2014.

SEC. 3616. REVISIONS RELATED TO UNREALIZED RECEIVABLES AND INVENTORY ITEMS.

(a) REPEAL OF REQUIREMENT THAT INVENTORY BE SUBSTANTIALLY APPRECIATED IN CERTAIN PARTNERSHIP DISTRIBUTIONS TREATED AS SALE OR EXCHANGE.—

(1) IN GENERAL.—Clause (ii) of section 751(b)(1)(A) is amended by striking "which have appreciated substantially in value".

(2) CONFORMING AMENDMENT.—Section 751(b) is amended by striking paragraph (3).

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to distributions after December 31, 2014.

(b) REVISION OF REGULATIONS RELATING TO TREATMENT OF UNREALIZED RECEIVABLES AND INVENTORY ITEMS.—The Secretary of the Treasury shall revise regulations issued under section 751(b) of the Internal Revenue Code of 1986 to take into account the partner's share of income and gain rather than the partner's share of partnership assets.

(c) SIMPLIFICATION OF DEFINITION OF UNREALIZED RECEIVABLES.—

(1) IN GENERAL.—Section 751(c) is amended by striking all that follows paragraph (2) and inserting the following:

''For purposes of this section and sections 731, 732, 734, and 741, such term also includes any property other than inventory items, but only to the extent of the amount which would be treated as ordinary income if (at the time of the transaction described in the applicable section) such property had been sold by the partnership for its fair market value.''.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to partnership taxable years beginning after December 31, 2014.

SEC. 3617. REPEAL OF TIME LIMITATION ON TAXING PRECONTRIBUTION GAIN.

(a) IN GENERAL.—Subparagraph (B) of section 704(c)(1) is amended by striking ''within 7 years of being contributed''.

(b) CONFORMING AMENDMENT.—Paragraph (1) of section 737(b) is amended by striking ''within 7 years of the distribution''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property contributed to a partnership after December 31, 2014.

SEC. 3618. PARTNERSHIP INTERESTS CREATED BY GIFT.

(a) IN GENERAL.—Section 761(b) is amended by adding at the end the following: ''In the case of a capital interest in a partnership in which capital is a material income-producing factor, whether a person is a partner with respect to such interest shall be determined without regard to whether such interest was derived by gift from any other person.''.

(b) CONFORMING AMENDMENTS.—Section 704(e) is amended—

(1) by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively,

(2) by striking ''this section'' in paragraph (2) (as so redesignated) and inserting ''this subsection'', and

(3) by striking ''FAMILY PARTNERSHIPS'' in the heading and inserting ''PARTNERSHIP INTERESTS CREATED BY GIFT''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to partnership taxable years beginning after December 31, 2014.

SEC. 3619. REPEAL OF TECHNICAL TERMINATION.

(a) IN GENERAL.—Paragraph (1) of section 708(b) is amended—

(1) by striking '', or'' and all that follows and inserting a period, and

(2) by striking ''only if—'' and all that follows through ''no part of any business'' and inserting the following: ''only if no part of any business''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to partnership taxable years beginning after December 31, 2014.

SEC. 3620. PUBLICLY TRADED PARTNERSHIP EXCEPTION RESTRICTED TO MINING AND NATURAL RESOURCES PARTNERSHIPS.

(a) IN GENERAL.—Subsection (d) of section 7704 is amended to read as follows:

''(d) QUALIFYING INCOME.—For purposes of this section, the term 'qualifying income' means—

''(1) income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including geothermal energy and excluding fertilizer and timber) or industrial source carbon dioxide, and

''(2) any gain from the sale or disposition of a capital asset (or property described in section 1231(b)) held for the production of income described in paragraph (1).

For purposes of this subsection, the term 'mineral or natural resource' means any product of a character with respect to which a deduction for depletion is allowable under section 611 (other than minerals from sea water or the air (or similar inexhaustible sources), soil, sod, dirt, turf, water, or mosses).''.

(b) CONFORMING AMENDMENTS.—Section 988(c)(1)(E) is amended—

(1) by striking ''income or gains described in subparagraph (A), (B), or (G) of section 7704(d)(1)'' in clause (iii)(III) and inserting ''qualifying income or gains'',

(2) by striking subclause (III) of clause (vi) and by redesignating subclause (IV) as subclause (III),

(3) by redesignating clause (vi) (as amended by this subparagraph) as clause (viii), and

(4) by inserting after clause (v) the following new clauses:

''(vi) QUALIFYING INCOME OR GAINS.—The term 'qualifying income or gains' means—

''(I) interest,

''(II) dividends, and

''(III) in the case of a partnership described in the second sentence of section 7704(c)(3), income and gains from commodities (not described in section 1221(a)(1)) or futures, forwards, and options with respect to commodities.

''(vii) INADVERTENT TERMINATIONS.—If—

"(I) A partnership fails to meet the gross income requirements of this subparagraph,

"(II) the Secretary determines that such failure was inadvertent,

"(III) no later than a reasonable time after the discovery of such failure, steps are taken so that such partnership once more meets such gross income requirements, and

"(IV) such partnership agrees to make such adjustments (including adjustments with respect to the partners) or to pay such amounts as may be required by the Secretary with respect to such period,

then, notwithstanding such failure, such entity shall be treated as continuing to meet such gross income requirements for such period.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2016.

SEC. 3621. ORDINARY INCOME TREATMENT IN THE CASE OF PARTNERSHIP INTERESTS HELD IN CONNECTION WITH PERFORMANCE OF SERVICES.

(a) IN GENERAL.—Part IV of subchapter O of chapter 1 is amended—

(1) by redesignating section 1061 as section 1062, and

(2) by inserting after section 1060 the following new section:

"SEC. 1061. PARTNERSHIP INTERESTS HELD IN CONNECTION WITH PERFORMANCE OF SERVICES.

"(a) IN GENERAL.—If one or more applicable partnership interests are held by a taxpayer at any time during the taxable year, so much of—

"(1) the taxpayer's net capital gain with respect to such interests for such taxable year, as does not exceed

"(2) the taxpayer's recharacterization account balance for such taxable year,

shall be treated as ordinary income.

"(b) NET CAPITAL GAIN.—

"(1) IN GENERAL.—For purposes of subsection (a)(1), net capital gain shall be determined under section 1222, except that such section shall be applied—

"(A) without regard to the recharacterization of any item as ordinary income under this section,

"(B) by only taking into account items of gain and loss—

"(i) taken into account by the taxpayer under section 702 with respect to any applicable partnership interest,

"(ii) recognized by the taxpayer on the disposition of any such interest, or

"(iii) recognized by the taxpayer under paragraph (4) on a distribution of property with respect to such interest, and

"(C) in the case of a taxable year for which section 1231 gains (as defined in section 1231(a)(3)(A)) exceed section 1231 losses (as defined in section 1231(a)(3)(B)), by treating property which is taken into account in determining such gains and losses as capital assets held for more than 1 year.

"(2) ALLOCATION TO ITEMS OF GAIN.—The amount treated as ordinary income under subsection (a) shall be allocated ratably among the items of long-term capital gain taken into account in determining net capital gain under paragraph (1).

"(3) RECOGNITION OF GAIN ON DISPOSITION OF APPLICABLE PARTNERSHIP INTERESTS.—Any gain on the disposition of any applicable partnership interest shall be recognized notwithstanding any other provision of this title.

"(4) RECOGNITION OF GAIN ON DISTRIBUTIONS OF PARTNERSHIP PROPERTY.—

"(A) IN GENERAL.—In the case of any distribution of property by a partnership with respect to any applicable partnership interest, the partner receiving such property shall recognize gain equal to the excess (if any) of—

"(i) the fair market value of such property at the time of such distribution, over

"(ii) the adjusted basis of such property in the hands of such partner (determined without regard to subparagraph (B)).

"(B) ADJUSTMENT OF BASIS.—In the case of a distribution to which subparagraph (A) applies, the basis of the distributed property in the hands of the distributee partner shall be the amount determined under subparagraph (A)(i).

"(c) RECHARACTERIZATION ACCOUNT BALANCE.—

1 "(1) IN GENERAL.—For purposes of this sec-
2 tion, the term 'recharacterization account balance'
3 means, with respect to any taxpayer for any taxable
4 year, the excess (if any) of—
5 "(A) the sum of—
6 "(i) the taxpayer's aggregate annual
7 recharacterization amounts with respect to
8 applicable partnership interests for such
9 taxable year, plus
10 "(ii) the taxpayer's recharacterization
11 account balance for the taxable year pre-
12 ceding such taxable year, over
13 "(B) the sum of—
14 "(i) the taxpayer's net ordinary in-
15 come with respect to applicable partnership
16 interests for such taxable year (determined
17 without regard to this section), plus
18 "(ii) the amount treated as ordinary
19 income of the taxpayer under this section
20 for the taxable year preceding such taxable
21 year.
22 "(2) ANNUAL RECHARACTERIZATION
23 AMOUNT.—For purposes of this subsection—
24 "(A) IN GENERAL.—The term 'annual re-
25 characterization amount' means, with respect to

any applicable partnership interest for any partnership taxable year, an amount equal to the product of—

"(i) the specified rate determined under subparagraph (B) for the calendar year in which such taxable year begins, multiplied by

"(ii) the excess (if any) of—

"(I) an amount equal to the applicable percentage of the partnership's aggregate invested capital for such taxable year, over

"(II) the specified capital contribution of the partner with respect to the applicable partnership interest for such taxable year.

If a taxpayer holds an applicable partnership interest for less than the entire taxable year, the amount determined under the preceding sentence shall be ratably reduced.

"(B) SPECIFIED RATE.—For purposes of subparagraph (A), the term 'specified rate' means, with respect to any calendar year, a percentage equal to—

1 ''(i) the Federal long-term rate deter-
2 mined under section 1274(d)(1) for the
3 last month of the calendar year, plus
4 ''(ii) 10 percentage points.
5 ''(C) APPLICABLE PERCENTAGE.—
6 ''(i) IN GENERAL.—The term 'applica-
7 ble percentage' means, with respect to any
8 applicable partnership interest, the highest
9 percentage of profits of the partnership
10 that could be allocated with respect to such
11 interest for the taxable year (consistent
12 with the partnership agreement and as-
13 suming such facts and circumstances with
14 respect to such taxable year as would re-
15 sult in such highest percentage).
16 ''(ii) SECRETARIAL AUTHORITY.—The
17 Secretary shall prescribe rules for the de-
18 termination of the applicable percentage in
19 cases in which the percentage of profits of
20 a partnership that are to be allocated with
21 respect to an applicable partnership inter-
22 est varies on the basis of the aggregate
23 amount of such profits. Such rules may
24 provide a percentage which may be used in
25 lieu of the highest percentage determined

under clause (i) in cases where such other percentage is consistent with the purposes of this section.

''(D) AGGREGATE INVESTED CAPITAL.—

''(i) IN GENERAL.—The term 'aggregate invested capital' means, with respect to any taxable year, the average daily amount of invested capital of the partnership for such taxable year.

''(ii) INVESTED CAPITAL.—The term 'invested capital' means, with respect to any partnership as of any day, the total cumulative value, determined at the time of contribution, of all money or other property contributed to the partnership on or before such day.

''(iii) REDUCTION FOR LIQUIDATION OF PARTNERSHIP INTERESTS.—The invested capital of a partnership shall be reduced by the aggregate amount distributed in liquidation of interests in the partnership.

''(iv) TREATMENT OF CERTAIN INDEBTEDNESS AS INVESTED CAPITAL.—The

following amounts shall be treated as invested capital:

"(I) PARTNER LOANS.—The aggregate value (determined as of the time of the loan) of money or other property which a partner loans to the partnership.

"(II) INDEBTEDNESS ELIGIBLE TO SHARE IN EQUITY OF THE PARTNERSHIP.—The face amount of any convertible debt of the partnership or any debt obligation providing equity participation in the partnership.

"(E) SPECIFIED CAPITAL CONTRIBUTION.—

"(i) IN GENERAL.—The term 'specified capital contribution' means, with respect to any applicable partnership interest for any taxable year, the average daily amount of contributed capital with respect to such interest for such year.

"(ii) CONTRIBUTED CAPITAL.—The term 'contributed capital' means, with respect to applicable partnership interest as of any day, the excess (if any) of—

1 ''(I) the total cumulative value,
2 determined at the time of contribu-
3 tion, of all money or other property
4 contributed by the partner to the
5 partnership with respect to such inter-
6 est as of such day, over
7 ''(II) the total cumulative value,
8 determined at the time of distribution,
9 of all money or other property distrib-
10 uted by the partnership to the partner
11 with respect to such interest as of
12 such day.
13 ''(iii) TREATMENT OF RELATED
14 PARTY BORROWINGS.—Any amount bor-
15 rowed directly or indirectly from the part-
16 nership or any other partner of the part-
17 nership or any person related to such other
18 partner or such partnership shall not be
19 taken into account under this subpara-
20 graph. For purposes of the preceding sen-
21 tence, a person shall be treated as related
22 to another person if the relationship be-
23 tween such persons would be described in
24 section 267(b) or 707(b) if such sections
25 and section 267(f) were applied by sub-

stituting '10 percent' for '50 percent' each place it appears.

"(F) MULTIPLE INTERESTS.—If at any time during a taxable year a taxpayer holds directly or indirectly more than 1 applicable partnership interest in a single partnership, such interests shall be treated as 1 applicable partnership interest for purposes of applying this paragraph.

"(3) NET ORDINARY INCOME.—For purposes of this subsection, the net ordinary income with respect to applicable partnership interests for any taxable year is the excess (if any) of—

"(A) the taxpayer's distributive share of items of income and gain under section 702 with respect to applicable partnership interests for such taxable year (determined without regard to any items of gain taken into account in determining net capital gain under subsection (b)(1)), over

"(B) the taxpayer's distributive share of items of deduction and loss under section 702 with respect to such interests for such taxable year (determined without regard to any items of

loss taken into account in determining net capital gain under subsection (b)(1)).

"(d) APPLICABLE PARTNERSHIP INTEREST.—For purposes of this section—

"(1) IN GENERAL.—The term 'applicable partnership interest' means any interest in a partnership which, directly or indirectly, is transferred to (or is held by) the taxpayer in connection with the performance of services by the taxpayer, or any other person, in any applicable trade or business.

"(2) APPLICABLE TRADE OR BUSINESS.—

"(A) IN GENERAL.—The term 'applicable trade or business' means any trade or business conducted on a regular, continuous, and substantial basis which, regardless of whether the activities are conducted in one or more entities, consists, in whole or in part, of—

"(i) raising or returning capital,

"(ii) investing in (or disposing of) trades or businesses (or identifying trades or businesses for such investing or disposition), and

"(iii) developing such trades or businesses.

"(B) TREATMENT OF RESEARCH AND EXPERIMENTATION ACTIVITIES.—Any activity involving research or experimentation (within the meaning of section 469(c)(4)) shall be treated as a trade or business for purposes of clauses (ii) and (iii) of subparagraph (A).

"(e) TRANSFER OF APPLICABLE PARTNERSHIP INTEREST TO RELATED PERSON.—

"(1) IN GENERAL.—If a taxpayer transfers any applicable partnership interest, directly or indirectly, to a person related to the taxpayer, the taxpayer shall include in gross income (as ordinary income) so much of the taxpayer's recharacterization account balance for such taxable year as is allocable to such interest (determined in such manner as the Secretary may provide and reduced by any amount treated as ordinary income under subsection (a) with respect to the transfer of such interest).

"(2) RELATED PERSON.—For purposes of this paragraph, a person is related to the taxpayer if—

"(A) the person is a member of the taxpayer's family within the meaning of section 318(a)(1), or

"(B) the person performed a service within the current calendar year or the preceding three

calendar years in any applicable trade or business in which or for which the taxpayer performed a service.

"(f) REPORTING BY ENTITY OF TAXPAYER'S ANNUAL RECHARACTERIZATION AMOUNT.—A partnership shall report to the Secretary, and include with the information required to be furnished under section 6031(b) to each partner, the amount of the partner's annual recharacterization amount for the taxable year, if any. A similar rule applies to any entity that receives a report of an annual recharacterization amount for the taxable year.

"(g) REGULATIONS.—The Secretary shall issue such regulations or other guidance as necessary to carry out this section, including regulations—

"(1) to prevent the abuse of the purposes of this section, including through—

"(A) the allocation of income to tax indifferent parties, or

"(B) a reduction in the invested capital of the partnership (including attempts to undervalue contributed or loaned property),

"(2) which provide that partnership interests shall not fail to be treated as transferred or held in connection with the performance of services merely

because the taxpayer also made contributions to the partnership,

"(3) which provide for the application of this section in cases where the taxpayer has more than 1 applicable interest in a partnership, and

"(4) which provide for the application of this section in cases of tiered structures of entities.".

(b) COORDINATION WITH SECTION 83.—Subsection (e) of section 83 is amended by striking "or" at the end of paragraph (4), by striking the period at the end of paragraph (5) and inserting ", or", and by adding at the end the following new paragraph:

"(6) a transfer of a partnership interest to which section 1061 applies.".

(c) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter O of chapter 1 is amended by striking the item relating to 1061 and inserting the following new items:

"Sec. 1061. Partnership interests held in connection with performance of services.
"Sec. 1062. Cross references.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3622. PARTNERSHIP AUDITS AND ADJUSTMENTS.

(a) REPEAL OF TEFRA PARTNERSHIP AUDIT RULES.—Chapter 63 is amended by striking subchapter

C (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(b) REPEAL OF ELECTING LARGE PARTNERSHIP RULES.—

(1) IN GENERAL.—Subchapter K of chapter 1 is amended by striking part IV (and by striking the item relating to such part in the table of parts for such subchapter).

(2) ASSESSMENT RULES RELATING TO ELECTING LARGE PARTNERSHIPS.—Chapter 63 is amended by striking subchapter D (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(3) EFFECTIVE DATE.—The amendments made by this section shall apply to returns filed after December 31, 2014.

(c) PARTNERSHIP AUDIT REFORM.—

(1) IN GENERAL.—Chapter 63, as amended by the preceding provisions of this Act, is amended by inserting after subchapter B the following new subchapter:

"Subchapter C—Treatment of Partnerships

"PART I—IN GENERAL

"PART II—PARTNERSHIP ADJUSTMENTS

"PART III—PROCEDURE

"PART IV—DEFINITIONS AND SPECIAL RULES

1 **"PART I—IN GENERAL**

"Sec. 6221. Determination at partnership level.
"Sec. 6222. Partner's return must be consistent with partnership return.
"Sec. 6223. Designation of partnership representative.

2 **"SEC. 6221. DETERMINATION AT PARTNERSHIP LEVEL.**

3 "(a) IN GENERAL.—Items of income, gain, loss, de-
4 duction, or credit of a partnership for a partnership tax-
5 able year (and any partner's distributive share thereof)
6 shall be audited, any tax attributable thereto shall be as-
7 sessed and collected, and the applicability of any penalty,
8 addition to tax, or additional amount which relates to an
9 adjustment to any such item or share shall be determined,
10 at the partnership level pursuant to this subchapter.

11 "(b) ELECTION OUT FOR CERTAIN PARTNERSHIPS
12 WITH 100 OR FEWER PARTNERS.—This subchapter shall
13 not apply with respect to any partnership for any taxable
14 year if—

15 "(1) the partnership elects the application of
16 this subsection for such taxable year,

17 "(2) the partnership has 100 or fewer partners
18 on the last day of such taxable year,

19 "(3) each of the partners of such partnership is
20 an individual, a C corporation (other than a real es-
21 tate investment trust or a regulated investment com-
22 pany), any foreign entity that would be treated as a
23 C corporation were it domestic, or an estate of a de-
24 ceased partner,

"(4) the election—

"(A) is made with a timely filed return for such taxable year, and

"(B) includes (in the manner prescribed by the Secretary) a disclosure of the name and taxpayer identification number of each partner of such partnership, and

"(5) the partnership notifies each such partner of such election in the manner prescribed by the Secretary.

For purposes of paragraph (4)(B), the Secretary may provide for alternative identification of any foreign partners.

"SEC. 6222. PARTNER'S RETURN MUST BE CONSISTENT WITH PARTNERSHIP RETURN.

"(a) IN GENERAL.—A partner of any partnership shall, on the partner's return, treat each item of income, gain, loss, deduction, or credit attributable to such partnership in a manner which is consistent with the treatment of such income, gain, loss, deduction, or credit on the partnership return.

"(b) UNDERPAYMENT DUE TO INCONSISTENT TREATMENT ASSESSED AS MATH ERROR.—Any underpayment of tax by a partner by reason of failing to comply with the requirements of subsection (a) shall be assessed and collected in the same manner as if such underpayment

were on account of a mathematical or clerical error appearing on the partner's return. Paragraph (2) of section 6213(b) shall not apply to any assessment of an underpayment referred to in the preceding sentence.

"(c) ADDITION TO TAX FOR FAILURE TO COMPLY WITH SECTION.—For addition to tax in the case of partner's disregard of the requirements of this section, see part II of subchapter A of chapter 68.

"SEC. 6223. PARTNERS BOUND BY ACTIONS OF PARTNERSHIP.

"(a) DESIGNATION OF PARTNER.—Each partnership shall designate (in the manner prescribed by the Secretary) a partner (or other person) as the partnership representative who shall have the sole authority to act on behalf of the partnership under this subchapter. In any case in which such a designation is not in effect, the Secretary may select any partner as the partnership representative.

"(b) BINDING EFFECT.—A partnership and all partners of such partnership shall be bound—

"(1) by actions taken under this subchapter by the partnership, and

"(2) by any decision in a proceeding brought under this subchapter.

"PART II—PARTNERSHIP ADJUSTMENTS

"Sec. 6225. Partnership adjustment by Secretary.
"Sec. 6226. Administrative adjustment request by partnership.

"SEC. 6225. PARTNERSHIP ADJUSTMENT BY SECRETARY.

"(a) IN GENERAL.—In the case of any adjustment by the Secretary in the amount of any item of income, gain, loss, deduction, or credit of a partnership, or any partner's distributive share thereof—

"(1) the partnership shall pay any imputed underpayment with respect to such adjustment in the adjustment year as provided in section 6232, and

"(2) any imputed overpayment shall be taken into account by the partnership in the adjustment year as a reduction in non-separately stated income or an increase in non-separately stated loss (whichever is appropriate) under section 702(a)(8).

"(b) DETERMINATION OF IMPUTED UNDERPAYMENTS AND OVERPAYMENTS.—For purposes of this subchapter—

"(1) IN GENERAL.—Except as provided in subsection (c), any imputed underpayment or imputed overpayment with respect to any partnership adjustment for any reviewed year shall be determined—

"(A) by netting all adjustments of items of income, gain, loss, or deduction and multiplying such net amount by the highest rate of tax in effect for the reviewed year under section 1 or 11,

"(B) by treating any net increase or decrease in loss under subparagraph (A) as a decrease or increase, respectively, in income, and

"(C) by taking into account any adjustments to items of credit as an increase or decrease, as the case may be, in the amount determined under subparagraph (A).

"(2) ADJUSTMENTS TO DISTRIBUTIVE SHARES OF PARTNERS NOT NETTED.—In the case of any adjustment which reallocates the distributive share of any item from one partner to another, such adjustment shall be taken into account under paragraph (1) by disregarding—

"(A) any decrease in any item of income or gain, and

"(B) any increase in any item of deduction, loss, or credit.

"(c) MODIFICATION OF IMPUTED UNDERPAYMENTS.—

"(1) METHOD IN GENERAL.—The Secretary shall establish procedures under which the imputed underpayment amount may be modified consistent with the requirements of this subsection.

"(2) AMENDED RETURNS OF PARTNERS.—Such procedures shall provide that if—

"(A) one or more partners file returns for the taxable year of the partners which includes the end of the reviewed year of the partnership,

"(B) such returns take into account all adjustments under subsection (a) properly allocable to such partners (and for any other taxable year with respect to which any tax attribute is affected by reason of such adjustments), and

"(C) payment of any tax due is included with such return,

then the imputed underpayment amount shall be determined without regard to the portion of the adjustments so taken into account.

"(3) REALLOCATION OF DISTRIBUTIVE SHARE.—In the case of any adjustment which reallocates the distributive share of any item from one partner to another, paragraph (2) shall apply only if returns are filed by all partners affected by such adjustment.

"(4) YEAR AND DAY FOR SUBMISSION TO SECRETARY.—Anything required to be submitted pursuant to paragraph (1) shall be submitted to the Secretary not later than the close the 180-day period beginning on the date on which the notice of a pro-

posed partnership adjustment is mailed under section 6231 unless such period is extended with the consent of the Secretary.

''(5) DECISION OF SECRETARY.—Any modification of the imputed underpayment amount under this subsection shall be made only upon approval of such modification by the Secretary.

''(d) DEFINITIONS AND SPECIAL RULE.—For purposes of this subchapter—

''(1) REVIEWED YEAR.—The term 'reviewed year' means the partnership taxable year to which the item being adjusted relates.

''(2) ADJUSTMENT YEAR.—The term 'adjustment year' means the partnership taxable year in which—

''(A) in the case of an adjustment pursuant to the decision of a court in a proceeding brought under section 6234, such decision becomes final,

''(B) in the case of an administrative adjustment request under section 6226, such administrative adjustment request is made, or

''(C) in any other case, notice of the final partnership adjustment is mailed under section 6231.

"SEC. 6226. ADMINISTRATIVE ADJUSTMENT REQUEST BY PARTNERSHIP.

"(a) IN GENERAL.—A partnership may file a request for an administrative adjustment in the amount of any item of income, gain, loss, deduction, or credit of the partnership for any partnership taxable year, but only to the extent such adjustment results in an imputed underpayment.

"(b) ADJUSTMENT.—Any adjustment under subsection (a) shall be determined and taken into account by the partnership under rules similar to the rules of section 6225 (other than subsection (c) thereof) for the partnership taxable year in which the administrative adjustment request is made.

"(c) PERIOD OF LIMITATIONS.—A partnership may not file such a request—

"(1) more than 3 years after the later of—

"(A) the date on which the partnership return for such year is filed, or

"(B) the last day for filing the partnership return for such year (determined without regard to extensions), and

"(2) after any notice of an administrative proceeding with respect to the taxable year is mailed under section 6231.

"PART III—PROCEDURE

"Sec. 6231. Notice of proceedings and adjustment.
"Sec. 6232. Assessment, collection, and payment.
"Sec. 6233. Penalties and interest.
"Sec. 6234. Judicial review of partnership adjustment.
"Sec. 6235. Period of limitations on making adjustments.

"SEC. 6231. NOTICE OF PROCEEDINGS AND ADJUSTMENT.

"(a) IN GENERAL.—The Secretary shall mail to the partnership and the partnership representative—

"(1) notice of any administrative proceeding initiated at the partnership level with respect to an adjustment of any item of income, gain, loss, deduction, or credit of a partnership for a partnership taxable year, or any partner's distributive share thereof,

"(2) notice of any proposed partnership adjustment resulting from such proceeding, and

"(3) notice of any final partnership adjustment resulting from such proceeding.

Any notice of a final partnership adjustment shall not be mailed earlier than 180 days after the date on which the notice of the proposed partnership adjustment is mailed. Such notices shall be sufficient if mailed to the last known address of the partnership representative or the partnership (even if the partnership has terminated its existence). The first sentence shall apply to any proceeding with respect to an administrative adjustment request filed by a partnership under section 6226.

"(b) FURTHER NOTICES RESTRICTED.—If the Secretary mails a notice of a final partnership adjustment to any partnership for any partnership taxable year and the partnership files a petition under section 6234 with respect to such notice, in the absence of a showing of fraud, malfeasance, or misrepresentation of a material fact, the Secretary shall not mail another such notice to such partnership with respect to such taxable year.

"(c) AUTHORITY TO RESCIND NOTICE WITH PARTNERSHIP CONSENT.—The Secretary may, with the consent of the partnership, rescind any notice of a partnership adjustment mailed to such partnership. Any notice so rescinded shall not be treated as a notice of a partnership adjustment for purposes of this subchapter, and the taxpayer shall have no right to bring a proceeding under section 6234 with respect to such notice.

"SEC. 6232. ASSESSMENT, COLLECTION, AND PAYMENT.

"(a) IN GENERAL.—Any imputed underpayment—

"(1) shall be assessed and collected in the same manner as if it were a tax imposed for the adjustment year by subtitle A, and

"(2) shall be paid on or before the return due date for the adjustment year.

"(b) LIMITATION ON ASSESSMENT.—Except as otherwise provided in this chapter, no assessment of a defi-

ciency may be made (and no levy or proceeding in any court for the collection of any amount resulting from such adjustment may be made, begun or prosecuted) before—

"(1) the close of the 90th day after the day on which a notice of a final partnership adjustment was mailed, and

"(2) if a petition is filed under section 6234 with respect to such notice, the decision of the court has become final.

"(c) PREMATURE ACTION MAY BE ENJOINED.—Notwithstanding section 7421(a), any action which violates subsection (b) may be enjoined in the proper court, including the Tax Court. The Tax Court shall have no jurisdiction to enjoin any action under this subsection unless a timely petition has been filed under section 6234 and then only in respect of the adjustments that are the subject of such petition.

"(d) EXCEPTIONS TO RESTRICTIONS ON ADJUSTMENTS.—

"(1) ADJUSTMENTS ARISING OUT OF MATH OR CLERICAL ERRORS.—

"(A) IN GENERAL.— If the partnership is notified that, on account of a mathematical or clerical error appearing on the partnership return, an adjustment to a partnership item is re-

quired, rules similar to the rules of paragraphs (1) and (2) of section 6213(b) shall apply to such adjustment.

"(B) SPECIAL RULE.—If a partnership is a partner in another partnership, any adjustment on account of such partnership's failure to comply with the requirements of section 6222(a) with respect to its interest in such other partnership shall be treated as an adjustment referred to in subparagraph (A), except that paragraph (2) of section 6213(b) shall not apply to such adjustment.

"(2) PARTNERSHIP MAY WAIVE RESTRICTIONS.—The partnership may at any time (whether or not any notice of partnership adjustment has been issued), by a signed notice in writing filed with the Secretary, waive the restrictions provided in subsection (b) on the making of any partnership adjustment.

"(e) LIMIT WHERE NO PROCEEDING BEGUN.—If no proceeding under section 6234 is begun with respect to any notice of a final partnership adjustment during the 90-day period described in subsection (b) thereof, the amount for which the partnership is liable under section

6225 shall not exceed the amount determined in accordance with such notice.

"SEC. 6233. PENALTIES AND INTEREST.

"(a) PENALTIES AND INTEREST DETERMINED FROM REVIEWED YEAR.—

"(1) IN GENERAL.—In the case of an imputed underpayment with respect to a partnership adjustment for a reviewed year, the partnership—

"(A) shall pay to the Secretary interest computed under paragraph (2), and

"(B) shall be liable for any penalty, addition to tax, or additional amount as provided in paragraph (3).

"(2) DETERMINATION OF AMOUNT OF INTEREST.—The interest computed under this paragraph with respect to any partnership adjustment is the interest which would be determined under chapter 67—

"(A) on the imputed underpayment determined with respect to such adjustment,

"(B) for the period beginning on the day after the return due date for the reviewed year and ending on the return due date for the adjustment year (or, if earlier, the date payment of the imputed underpayment is made).

Proper adjustments in the amount determined under the preceding sentence shall be made for adjustments required for partnership taxable years after the reviewed year and before the adjustment year by reason of such partnership adjustment.

''(3) PENALTIES.—A partnership shall be liable for any penalty, addition to tax, or additional amount for which it would have been liable if such partnership had been an individual subject to tax under chapter 1 for the reviewed year and the imputed underpayment were an actual underpayment (or understatement) for such year.

''(b) INTEREST AND PENALTIES WITH RESPECT TO ADJUSTMENT YEAR RETURN.—

''(1) IN GENERAL.—In the case of any failure to pay an imputed underpayment on the date prescribed therefor, the partnership shall be liable—

''(A) for interest as determined under paragraph (2), and

''(B) for any penalty, addition to tax, or additional amount as determined under paragraph (3).

''(2) INTEREST.—Interest determined under this paragraph is the interest that would be determined by treating the imputed underpayment as an

underpayment of tax imposed in the adjustment year.

"(3) PENALTIES.—Penalties, additions to tax, or additional amounts determined under this paragraph are the penalties, additions to tax, or additional amounts that would be determined—

"(A) by applying section 6651(a)(2) to such failure to pay.

"(B) by treating the imputed underpayment as an underpayment of tax for purposes of part II of subchapter A of chapter 68.

"SEC. 6234. JUDICIAL REVIEW OF PARTNERSHIP ADJUSTMENT.

"(a) IN GENERAL.—Within 90 days after the date on which a notice of a final partnership adjustment is mailed under section 6231 with respect to any partnership taxable year, the partnership may file a petition for a readjustment for such taxable year with—

"(1) the Tax Court,

"(2) the district court of the United States for the district in which the partnership's principal place of business is located, or

"(3) the Claims Court.

"(b) JURISDICTIONAL REQUIREMENT FOR BRINGING ACTION IN DISTRICT COURT OR CLAIMS COURT.—

"(1) IN GENERAL.—A readjustment petition under this section may be filed in a district court of the United States or the Claims Court only if the partnership filing the petition deposits with the Secretary, on or before the date the petition is filed, the amount of the imputed underpayment (as of the date of the filing of the petition) if the partnership adjustment was made as provided by the notice of final partnership adjustment. The court may by order provide that the jurisdictional requirements of this paragraph are satisfied where there has been a good faith attempt to satisfy such requirement and any shortfall of the amount required to be deposited is timely corrected.

"(2) INTEREST PAYABLE.—Any amount deposited under paragraph (1), while deposited, shall not be treated as a payment of tax for purposes of this title (other than chapter 67).

"(c) SCOPE OF JUDICIAL REVIEW.—A court with which a petition is filed in accordance with this section shall have jurisdiction to determine all items of income, gain, loss, deduction, or credit of the partnership for the partnership taxable year to which the notice of final partnership adjustment relates, the proper allocation of such items among the partners, and the applicability of any

1 penalty, addition to tax, or additional amount for which
2 the partnership may be liable under this subchapter.

3 ''(d) DETERMINATION OF COURT REVIEWABLE.—
4 Any determination by a court under this section shall have
5 the force and effect of a decision of the Tax Court or a
6 final judgment or decree of the district court or the Claims
7 Court, as the case may be, and shall be reviewable as such.
8 The date of any such determination shall be treated as
9 being the date of the court's order entering the decision.

10 ''(e) EFFECT OF DECISION DISMISSING ACTION.—If
11 an action brought under this section is dismissed other
12 than by reason of a rescission under section 6231(c), the
13 decision of the court dismissing the action shall be consid-
14 ered as its decision that the notice of final partnership
15 adjustment is correct, and an appropriate order shall be
16 entered in the records of the court.

17 **''SEC. 6235. PERIOD OF LIMITATIONS ON MAKING ADJUST-**
18 **MENTS.**

19 ''(a) IN GENERAL.—Except as otherwise provided in
20 this section, no adjustment under this subpart for any
21 partnership taxable year may be made after the date
22 which is 3 years after the latest of—

23 ''(1) the date on which the partnership return
24 for such taxable year was filed,

1 ''(2) the return due date for the taxable year,
2 or
3 ''(3) the date on which the partnership filed an
4 administrative adjustment request with respect to
5 such year under section 6226.
6 ''(b) EXTENSION BY AGREEMENT.— The period de-
7 scribed in subsection (a) (including an extension period
8 under this subsection) may be extended by an agreement
9 entered into by the Secretary and the partnership before
10 the expiration of such period.
11 ''(c) SPECIAL RULE IN CASE OF FRAUD, ETC.—
12 ''(1) FALSE RETURN.— In the case of a false
13 or fraudulent partnership return with intent to
14 evade tax, the adjustment may be made at any time.
15 ''(2) SUBSTANTIAL OMISSION OF INCOME.—If
16 any partnership omits from gross income an amount
17 properly includible therein and such amount is de-
18 scribed in section 6501(e)(1)(A), subsection (a) shall
19 be applied by substituting '6 years' for '3 years'.
20 ''(3) NO RETURN.—In the case of a failure by
21 a partnership to file a return for any taxable year,
22 the adjustment may be made at any time.
23 ''(4) RETURN FILED BY SECRETARY.—For pur-
24 poses of this section, a return executed by the Sec-
25 retary under subsection (b) of section 6020 on be-

half of the partnership shall not be treated as a return of the partnership.

''(d) SUSPENSION WHEN SECRETARY MAILS NOTICE OF ADJUSTMENT.—If notice of a final partnership adjustment with respect to any taxable year is mailed under section 6231, the running of the period specified in subsection (a) (as modified by the other provisions of this section) shall be suspended—

''(1) for the period during which an action may be brought under section 6234 (and, if a petition is filed under such section with respect to such notice, until the decision of the court becomes final), and

''(2) for 1 year thereafter.

"PART IV—DEFINITIONS AND SPECIAL RULES

''Sec. 6241. Definitions and special rules.

"SEC. 6241. DEFINITIONS AND SPECIAL RULES.

''(a) DEFINITIONS AND SPECIAL RULES.—For purposes of this subchapter—

''(1) PARTNERSHIP.—The term 'partnership' means any partnership required to file a return under section 6031(a).

''(2) PARTNER.—The term 'partner' means—

''(A) a partner in the partnership, and

''(B) any other person whose income tax liability under subtitle A is determined in whole

or in part by taking into account directly or indirectly income, gain, deduction, or loss of the partnership.

''(b) PARTNERSHIP ADJUSTMENT.—The term 'partnership adjustment' means any adjustment in the amount of any item of income, gain, loss, deduction, or credit of a partnership, or any partner's distributive share thereof.

''(c) RETURN DUE DATE.—The term 'return due date' means, with respect to the taxable year, the date prescribed for filing the partnership return for such taxable year (determined without regard to extensions).

''(d) JOINT AND SEVERAL LIABILITY.—

''(1) IN GENERAL.—The partnership and any partner of the partnership shall be jointly and severally liable for any imputed underpayment and any penalty, addition to tax, or additional amount attributable thereto.

''(2) PERIOD FOR ASSESSMENT OF PARTNERS.—The period for assessment of an imputed underpayment with respect to a partner of a partnership shall not expire earlier than 3 years after the date on which an assessment of such imputed underpayment was made with respect to the partnership.

"(3) DETERMINING PARTNERS.—A person shall be treated as partner of the partnership if such person is a partner of such partnership at any time during the reviewed or adjustment year.

"(e) PAYMENTS NONDEDUCTIBLE.—No deduction shall be allowed under subtitle A for any payment required to be made by a partnership under this subchapter.

"(f) SPECIAL RULE FOR DEDUCTIONS, LOSSES, AND CREDITS OF FOREIGN PARTNERSHIPS.—Except to the extent otherwise provided in regulations, in the case of any partnership the partnership representative of which resides outside the United States or the books of which are maintained outside the United States, no deduction, loss, or credit shall be allowable to any partner unless section 6031 is complied with for the partnership's taxable year in which such deduction, loss, or credit arose at such time as the Secretary prescribes by regulations.

"(g) PARTNERSHIPS HAVING PRINCIPAL PLACE OF BUSINESS OUTSIDE UNITED STATES.—For purposes of sections 6234, a principal place of business located outside the United States shall be treated as located in the District of Columbia.

"(h) PARTNERSHIPS IN CASES UNDER TITLE 11 OF UNITED STATES CODE.—

"(1) SUSPENSION OF PERIOD OF LIMITATIONS ON MAKING ADJUSTMENT, ASSESSMENT, OR COLLECTION.—The running of any period of limitations provided in this subchapter on making a partnership adjustment (or provided by section 6501 or 6502 on the assessment or collection of any imputed underpayment determined under this subchapter) shall, in a case under title 11 of the United States Code, be suspended during the period during which the Secretary is prohibited by reason of such case from making the adjustment (or assessment or collection) and—

"(A) for adjustment or assessment, 60 days thereafter, and

"(B) for collection, 6 months thereafter.

A rule similar to the rule of section 6213(f)(2) shall apply for purposes of section 6232(b).

"(2) SUSPENSION OF PERIOD OF LIMITATION FOR FILING FOR JUDICIAL REVIEW.—The running of the period specified in section 6234 shall, in a case under title 11 of the United States Code, be suspended during the period during which the partnership is prohibited by reason of such case from filing a petition under section 6234 and for 60 days thereafter.".

(2) CLERICAL AMENDMENT.—The table of subchapters for chapter 63 is amended by inserting after the item relating to subchapter B the following new items:

"SUBCHAPTER C. TREATMENT OF PARTNERSHIPS.".

(d) CONFORMING AMENDMENTS.—

(1) Section 6422 is amended by striking paragraph (12).

(2) Section 6501(n) is amended by striking paragraphs (2) and (3) and by striking "CROSS REFERENCES" and all that follows through "For period of limitations" and inserting "CROSS REFERENCE.—For period of limitations".

(3) Section 6503(a)(1) is amended by striking "(or section 6229" and all that follows through "of section 6230(a))".

(4) Section 6504 is amended by striking paragraph (11).

(5) Section 6511 is amended by striking subsection (g).

(6) Section 6512(b)(3) is amended by striking the second sentence.

(7) Section 6515 is amended by striking paragraph (6).

(8) Section 6601(c) is amended by striking the last sentence.

(9) Section 7421(a) is amended by striking ''6225(b), 6246(b)'' and inserting ''6232(c)''.

(10) Section 7422 is amended by striking subsection (h).

(11) Section 7459(c) is amended by striking ''section 6226'' and all that follows through ''or 6252'' and inserting ''section 6234''.

(12) Section 7482(b)(1) is amended—

(A) in subparagraph (E), by striking ''section 6226, 6228, 6247, or 6252'' and inserting ''section 6234'',

(B) by striking subparagraph (F), by striking ''or'' at the end of subparagraph (E) and inserting a period, and by inserting ''or'' at the end of subparagraph (D), and

(C) in the last sentence, by striking ''section 6226, 6228(a), or 6234(c)'' and inserting ''section 6234''.

(13) Section 7485(b) is amended by striking ''section 6226, 6228(a), 6247, or 6252'' and inserting ''section 6234''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to returns filed for partnership taxable years ending after December 31, 2014, except that a partnership may elect (at such time and in such form

and manner as the Secretary of the Treasury may prescribe) for such amendments to apply to any return of the partnership filed for partnership taxable years ending after the date of the enactment of this Act and before January 1, 2015.

PART 3—REITS AND RICS

SEC. 3631. PREVENTION OF TAX-FREE SPINOFFS INVOLVING REITS.

(a) IN GENERAL.—Section 355 is amended by adding at the end the following new subsection:

''(h) SECTION NOT TO APPLY TO DISTRIBUTIONS INVOLVING REAL ESTATE INVESTMENT TRUSTS.—This section (and so much of section 356 as relates to this section) shall not apply to any distribution if either the distributing corporation or controlled corporation is a real estate investment trust.''.

(b) PREVENTION OF REIT ELECTION FOLLOWING TAX-FREE SPIN OFF.—Section 856(c) is amended by redesignating paragraph (8) as paragraph (9) and by inserting after paragraph (7) the following new paragraph:

''(8) ELECTION AFTER TAX-FREE REORGANIZATION.—If a corporation was a distributing corporation or a controlled corporation with respect to any distribution to which section 355 applied, such corporation (and any successor corporation) shall not

be eligible to make any election under subsection (c)(1) for any taxable year prior to the 10th taxable year which begins after the taxable year in which such distribution was made.''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to distributions on or after February 26, 2014.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution made pursuant to an agreement which was binding on February 26, 2014, and at all times thereafter.

SEC. 3632. EXTENSION OF PERIOD FOR PREVENTION OF REIT ELECTION FOLLOWING REVOCATION OR TERMINATION.

(a) IN GENERAL.—Section 856(g)(3) is amended by striking ''fifth'' and inserting ''10th''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to terminations and revocations after December 31, 2014.

SEC. 3633. CERTAIN SHORT-LIFE PROPERTY NOT TREATED AS REAL PROPERTY FOR PURPOSES OF REIT PROVISIONS.

(a) IN GENERAL.—Section 856(c)(5) is amended by adding at the end the following new subparagraph:

"(L) REAL PROPERTY.—The term 'real property' shall not include any tangible property with a class life of less than 27.5 years. For purposes of the preceding sentence, class life of tangible property for any taxable year shall be the greater of—

"(i) the class life of such property in the hands of the real estate investment trust, or

"(ii) the class life which would be applicable to such property if such property was placed in service in the taxable year.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2016.

SEC. 3634. REPEAL OF SPECIAL RULES FOR TIMBER HELD BY REITS.

(a) IN GENERAL.—Section 856(c)(5)(L), as added by this Act, is amended by inserting "timber or" after "shall not include".

(b) CONFORMING AMENDMENTS.—

(1) Section 856(c)(2) is amended by inserting ''and'' at the end of subparagraph (G), by striking ''and'' at the end of subparagraph (H), and by striking subparagraph (I).

(2) Section 856(c)(5), as amended by the preceding provisions of this Act, is amended by striking subparagraphs (H) and (I) and by redesignating subparagraphs (J), (K), and (L) as subparagraphs (H), (I) and (J), respectively.

(3) Section 856(c), as amended by the preceding provisions of this Act, is amended by striking paragraph (9).

(4) Section 857(b)(6) is amended by striking subparagraphs (D), (G), and (H), and by redesignating subparagraphs (E) and (F) as subparagraphs (D) and (E), respectively.

(5) Section 857(b)(6)(D), as redesignated by paragraph (4), is amended by striking ''subparagraphs (C) and (D)'' and inserting ''subparagraph (C)''.

(6) Section 857(b)(6)(E), as redesignated by paragraph (4), is amended—

(A) by striking ''subparagraph (C) or (D)'' and inserting ''subparagraph (C)'', and

(B) by striking ''subparagraphs (C), (D), and (E)'' and inserting ''subparagraphs (C) and (D)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2016.

SEC. 3635. LIMITATION ON FIXED PERCENTAGE RENT AND INTEREST EXCEPTIONS FOR REIT INCOME TESTS.

(a) IN GENERAL.—Section 856 is amended by adding at the end the following new subsection:

''(o) LIMITATION ON FIXED PERCENTAGE RENT AND INTEREST EXCEPTIONS.—

''(1) IN GENERAL.—If the fixed percentage rent and interest income received or accrued by a real estate investment trust from a single C corporation (other than a taxable REIT subsidiary of such real estate investment trust) for any taxable year exceeds either—

''(A) 25 percent of the fixed percentage rent income received or accrued by such real estate investment trust for such taxable year, or

''(B) 25 percent of the fixed percentage interest income received or accrued by such real estate investment trust for such taxable year,

then, notwithstanding subsection (d)(2), none of the fixed percentage rent income received or accrued from such corporation which is attributable to leases entered into after December 31, 2014, shall be treated as rents from real property and, notwithstanding subsection (f), none of the fixed percentage interest income received or accrued from such corporation which is attributable to debt instruments acquired after December 31, 2014, shall be treated as interest.

"(2) FIXED PERCENTAGE RENT AND INTEREST INCOME.—For purposes of this subsection—

"(A) FIXED PERCENTAGE RENT AND INTEREST INCOME.—The term 'fixed percentage rent and interest income' means the sum of the fixed percentage rent income plus the fixed percentage interest income.

"(B) FIXED PERCENTAGE RENT INCOME.—The term 'fixed percentage rent income' means amounts described in subsection (d)(2)(A) which are based on a fixed percentage or percentages of receipts or sales.

"(C) FIXED PERCENTAGE INTEREST INCOME.—The term 'fixed percentage interest income' means amounts described in subsection

(f)(1) which are based on a fixed percentage or percentages of receipts or sales.

''(3) AGGREGATION RULE.—Members of the same affiliated group (as defined in section 1504, applied by substituting '50 percent' for '80 percent' each place it appears therein) shall be treated as 1 corporation for purposes of paragraph (1).

''(4) TREATMENT OF MODIFICATIONS.—For purposes of paragraph (1), any material modification (including any extension of the term) of a lease or debt instrument shall be treated as a new lease or debt instrument, as the case may be, entered into on the date of such modification.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years ending after December 31, 2014.

SEC. 3636. REPEAL OF PREFERENTIAL DIVIDEND RULE FOR PUBLICLY OFFERED REITS.

(a) IN GENERAL.—Paragraph (1) of section 562(c), as amended by the preceding provisions of this Act, is amended by inserting ''or a publicly offered REIT'' after ''a publicly offered regulated investment company''.

(b) PUBLICLY OFFERED REIT.—Subsection (c) of section 562, as so amended, is amended by adding at the end the following new paragraph:

"(3) PUBLICLY OFFERED REIT.—For purposes of this subsection, the term 'publicly offered REIT' means a real estate investment trust which is required to file annual and periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934.".

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to distributions in taxable years beginning after December 31, 2014.

SEC. 3637. AUTHORITY FOR ALTERNATIVE REMEDIES TO ADDRESS CERTAIN REIT DISTRIBUTION FAILURES.

(a) IN GENERAL.—Subsection (e) of section 562 is amended—

(1) by striking "In the case of a real estate investment trust" and inserting the following:

"(1) DETERMINATION OF EARNINGS AND PROFITS FOR PURPOSES OF DIVIDENDS PAID DEDUCTION.—In the case of a real estate investment trust", and

(2) by adding at the end the following new paragraph:

"(2) AUTHORITY TO PROVIDE ALTERNATIVE REMEDIES FOR CERTAIN FAILURES.—In the case of a failure of a distribution by a real estate investment

trust to comply with the requirements of subsection (c), the Secretary may provide an appropriate remedy to cure such failure in lieu of not considering the distribution to be a dividend for purposes of computing the dividends paid deduction if—

"(A) the Secretary determines that such failure is inadvertent or is due to reasonable cause and not due to willful neglect, or

"(B) such failure is of a type of failure which the Secretary has identified for purposes of this paragraph as being described in subparagraph (A).".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions in taxable years beginning after December 31, 2014.

SEC. 3638. LIMITATIONS ON DESIGNATION OF DIVIDENDS BY REITS.

(a) IN GENERAL.—Section 857 is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

"(g) LIMITATIONS ON DESIGNATION OF DIVIDENDS.—

"(1) OVERALL LIMITATION.—The aggregate amount of dividends designated by a real estate investment trust under subsections (b)(3)(C) and

(c)(2)(A) with respect to any taxable year may not exceed the dividends paid by such trust with respect to such year. For purposes of the preceding sentence, dividends paid after the close of the taxable year described in section 858 shall be treated as paid with respect to such year.

"(2) PROPORTIONALITY.—The Secretary may prescribe regulations or other guidance requiring the proportionality of the designation of particular types of dividends among shares or beneficial interests of a real estate investment trust.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions in taxable years beginning after December 31, 2014.

SEC. 3639. NON-REIT EARNINGS AND PROFITS REQUIRED TO BE DISTRIBUTED BY REIT IN CASH.

(a) IN GENERAL.—Section 857, as amended by the preceding provisions of this Act, is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

"(h) DETERMINATION OF EARNINGS AND PROFITS ACCUMULATED IN NON-REIT YEARS.—

"(1) IN GENERAL.—For purposes of subsection (a)(2)(B), distributions during the transition period shall be taken into account in determining accumu-

lated earning and profits only if such distributions are made in cash.

"(2) TRANSITION PERIOD.—For purposes of this subsection, the term 'transition period' means the period of taxable years beginning with the last taxable year (other than a short taxable year) which was a non-REIT year (as defined in subsection (a)) and ending with the first taxable year to which the provisions of this part apply.".

(b) CONFORMING AMENDMENT.—Section 857(a)(2)(B) is amended by inserting "(determined as provided in subsection (h))" before the period at the end.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made on or after February 26, 2014.

SEC. 3640. DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS AND MORTGAGES TREATED AS REAL ESTATE ASSETS.

(a) DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS TREATED AS REAL ESTATE ASSETS.—

(1) IN GENERAL.—Subparagraph (B) of section 856(c)(5) is amended—

(A) by striking "and shares" and inserting ", shares", and

(B) by inserting ", and debt instruments issued by publicly offered REITs" before the period at the end of the first sentence.

(2) INCOME FROM NONQUALIFIED DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS NOT QUALIFIED FOR PURPOSES OF SATISFYING THE 75 PERCENT GROSS INCOME TEST.—Subparagraph (H) of section 856(c)(3) is amended by inserting "(other than a nonqualified publicly offered REIT debt instrument)" after "real estate asset".

(3) 25 PERCENT ASSET LIMITATION ON HOLDING OF NONQUALIFIED DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS.—Subparagraph (B) of section 856(c)(4) is amended by redesignating clause (iii) as clause (iv) and by inserting after clause (ii) the following new clause:

"(iii) not more than 25 percent of the value of its total assets is represented by nonqualified publicly offered REIT debt instruments, and".

(4) DEFINITIONS RELATED TO DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS.—Paragraph (5) of section 856(c), as amended by the preceding provisions of this Act, is amended by adding at the end the following new subparagraph:

"(K) DEFINITIONS RELATED TO DEBT INSTRUMENTS OF PUBLICLY OFFERED REITS.—

"(i) PUBLICLY OFFERED REIT.—The term 'publicly offered REIT' has the meaning given such term by section 562(c)(3).

"(ii) NONQUALIFIED PUBLICLY OFFERED REIT DEBT INSTRUMENT.—The term 'nonqualified publicly offered REIT debt instrument' means any real estate asset which would cease to be a real estate asset if subparagraph (B) were applied without regard to the reference to 'debt instruments issued by publicly offered REITs'.".

(b) INTERESTS IN MORTGAGES ON INTERESTS IN REAL PROPERTY TREATED AS REAL ESTATE ASSETS.—Subparagraph (B) of section 856(c)(5) is amended by inserting "or on interests in real property" after "interests in mortgages on real property".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3641. ASSET AND INCOME TEST CLARIFICATION REGARDING ANCILLARY PERSONAL PROPERTY.

(a) IN GENERAL.—Subsection (c) of section 856 is amended by adding at the end the following new paragraph:

"(9) SPECIAL RULES FOR CERTAIN PERSONAL PROPERTY WHICH IS ANCILLARY TO REAL PROPERTY.—

"(A) CERTAIN PERSONAL PROPERTY LEASED IN CONNECTION WITH REAL PROPERTY.—Personal property shall be treated as a real estate asset for purposes of paragraph (4)(A) to the extent that rents attributable to such personal property are treated as rents from real property under subsection (d)(1)(C).

"(B) CERTAIN PERSONAL PROPERTY MORTGAGED IN CONNECTION WITH REAL PROPERTY.—In the case of an obligation secured by a mortgage on both real property and personal property, if the fair market value of such personal property does not exceed 15 percent of the total fair market value of all such property, such personal property shall be treated as real property for purposes of applying paragraphs (3)(B) and (4)(A). For purposes of the preceding sentence, the fair market value of all

such property shall be determined in the same manner as the fair market value of real property is determined for purposes of apportioning interest income between real property and personal property under paragraph (3)(B).''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3642. HEDGING PROVISIONS.

(a) MODIFICATION TO PERMIT THE TERMINATION OF A HEDGING TRANSACTION USING AN ADDITIONAL HEDGING INSTRUMENT.—Subparagraph (G) of section 856(c)(5) is amended by striking ''and'' at the end of clause (i), by striking the period at the end of clause (ii) and inserting '', and'', and by adding at the end the following new clause:

''(iii) if—

''(I) a real estate investment trust enters into one or more positions described in clause (i) with respect to indebtedness described in clause (i) or one or more positions described in clause (ii) with respect to property which generates income or gain described in paragraph (2) or (3),

"(II) any portion of such indebtedness is extinguished or any portion of such property is disposed of, and

"(III) in connection with such extinguishment or disposition, such trust enters into one or more transactions which would be hedging transactions described in subparagraph (B) or (C) of section 1221(b)(2) with respect to any position referred to in subclause (I) if such position were ordinary property,

any income of such trust from any position referred to in subclause (I) and from any transaction referred to in subclause (III) (including gain from the termination of any such position or transaction) shall not constitute gross income under paragraphs (2) and (3) to the extent that such transaction hedges such position.".

(b) IDENTIFICATION REQUIREMENTS.—

(1) IN GENERAL.—Subparagraph (G) of section 856(c)(5), as amended by subsection (a), is amended by striking "and" at the end of clause (ii), by striking the period at the end of clause (iii) and inserting

1 ‘‘, and’’, and by adding at the end the following new
2 clause:
3 ‘‘(iv) clauses (i), (ii), and (iii) shall
4 not apply with respect to any transaction
5 unless such transaction satisfies the identi-
6 fication requirement described in section
7 1221(b)(3)(A) (determined after taking
8 into account any curative provisions pro-
9 vided under the regulations referred to
10 therein).’’.
11 (2) CONFORMING AMENDMENTS.—Subpara-
12 graph (G) of section 856(c)(5) is amended—
13 (A) by striking ‘‘which is clearly identified
14 pursuant to section 1221(a)(7)’’ in clause (i),
15 and
16 (B) by striking ‘‘, but only if such trans-
17 action is clearly identified as such before the
18 close of the day on which it was acquired, origi-
19 nated, or entered into (or such other time as
20 the Secretary may prescribe)’’ in clause (ii).
21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 2014.

SEC. 3643. MODIFICATION OF REIT EARNINGS AND PROFITS CALCULATION TO AVOID DUPLICATE TAXATION.

(a) EARNINGS AND PROFITS NOT INCREASED BY AMOUNTS ALLOWED IN COMPUTING TAXABLE INCOME IN PRIOR YEARS.—

(1) IN GENERAL.—Paragraph (1) of section 857(d) is amended to read as follows:

''(1) IN GENERAL.—The earnings and profits of a real estate investment trust for any taxable year (but not its accumulated earnings) shall not be reduced by any amount which—

''(A) is not allowable in computing its taxable income for such taxable year, and

''(B) was not allowable in computing its taxable income for any prior taxable year.''.

(2) EXCEPTION FOR PURPOSES OF DETERMINING DIVIDENDS PAID DEDUCTION.—Paragraph (1) of section 562(e), as amended by the preceding provisions of this Act, is amended—

(A) by striking ''deduction, the earnings'' and inserting the following: ''deduction—

''(A) the earnings'',

(B) by striking the period at the end and inserting '', and'', and

(C) by adding at the end the following new subparagraph:

"(B) section 857(d)(1) shall be applied without regard to subparagraph (B) thereof.".

(3) CONFORMING AMENDMENTS.—Subsection (d) of section 857 is amended by adding at the end the following new paragraphs:

"(4) REAL ESTATE INVESTMENT TRUST.—For purposes of this subsection, the term 'real estate investment trust' includes a domestic corporation, trust, or association which is a real estate investment trust determined without regard to the requirements of subsection (a).

"(5) SPECIAL RULES FOR DETERMINING EARNINGS AND PROFITS FOR PURPOSES OF THE DEDUCTION FOR DIVIDENDS PAID.—For special rules for determining the earnings and profits of a real estate investment trust for purposes of the deduction for dividends paid, see section 562(e)(1).".

(b) TREATMENT OF GAIN ON SALES OF REAL PROPERTY.—Subparagraph (A) of section 562(e)(1), as amended by the preceding provisions of this Act, is amended to read as follows:

"(A) the earnings and profits of such trust for any taxable year (but not its accumulated

earnings) shall be increased by the amount of gain (if any) on the sale or exchange of real property which is taken into account in determining the taxable income of such trust for such taxable year (and not otherwise taken into account in determining such earnings and profits), and''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3644. REDUCTION IN PERCENTAGE LIMITATION ON ASSETS OF REIT WHICH MAY BE TAXABLE REIT SUBSIDIARIES.

(a) IN GENERAL.—Section 856(c)(4)(B)(ii) is amended by striking ''25 percent'' and inserting ''20 percent''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2016.

SEC. 3645. TREATMENT OF CERTAIN SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES.

(a) TAXABLE REIT SUBSIDIARIES TREATED IN SAME MANNER AS INDEPENDENT CONTRACTORS FOR CERTAIN PURPOSES.—

(1) MARKETING AND DEVELOPMENT EXPENSES UNDER RENTAL PROPERTY SAFE HARBOR.—Clause (v) of section 857(b)(6)(C) is amended by inserting ''or by a taxable REIT subsidiary'' before the period at the end.

(2) FORECLOSURE PROPERTY GRACE PERIOD.—Subparagraph (C) of section 856(e)(4) is amended by inserting ''or through a taxable REIT subsidiary'' after ''receive any income''.

(b) TAX ON REDETERMINED TRS SERVICE INCOME.—

(1) IN GENERAL.—Subparagraph (A) of section 857(b)(7) is amended by striking ''and excess interest'' and inserting ''excess interest, and redetermined TRS service income''.

(2) REDETERMINED TRS SERVICE INCOME.—Paragraph (7) of section 857(b) is amended by redesignating subparagraphs (E) and (F) as subparagraphs (F) and (G), respectively, and inserting after subparagraph (D) the following new subparagraph:

''(E) REDETERMINED TRS SERVICE INCOME.—

''(i) IN GENERAL.—The term 'redetermined TRS service income' means gross income of a taxable REIT subsidiary of a

real estate investment trust attributable to services provided to, or on behalf of, such trust (less deductions properly allocable thereto) to the extent the amount of such income (less such deductions) would (but for subparagraph (F)) be increased on distribution, apportionment, or allocation under section 482.

''(ii) COORDINATION WITH REDETERMINED RENTS.—Clause (i) shall not apply with respect to gross income attributable to services furnished or rendered to a tenant of the real estate investment trust (or to deductions properly allocable thereto).''.

(3) CONFORMING AMENDMENTS.—Subparagraphs (B)(i) and (C) of section 857(b)(7) are each amended by striking ''subparagraph (E)'' and inserting ''subparagraph (F)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3646. STUDY RELATING TO TAXABLE REIT SUBSIDIARIES.

The Secretary of the Treasury (or the Secretary's designee) shall, biannually—

(1) conduct a study to determine—

(A) how many taxable REIT subsidiaries are in existence and the aggregate amount of taxes paid by such subsidiaries, and

(B) the amount by which transactions between a REIT and a taxable REIT subsidiary reduce taxable income of the taxable REIT subsidiary (whether or not such transactions are conducted at arms length), and

(2) submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate describing the results of such study.

SEC. 3647. C CORPORATION ELECTION TO BECOME, OR TRANSFER ASSETS TO, A RIC OR REIT.

(a) IN GENERAL.—Part IV of subchapter O of chapter 1, as amended by the preceding provisions of this Act, is amended by redesignating section 1062 as section 1063 and by inserting after section 1061 the following new section:

"SEC. 1062. RECOGNITION OF GAIN OR LOSS UPON C CORPORATION ELECTION TO BECOME, OR TRANSFER ASSETS TO, A REGULATED INVESTMENT COMPANY OR A REAL ESTATE INVESTMENT TRUST.

"(a) IN GENERAL.—If a C corporation elects to become a regulated investment company or a real estate investment trust for a taxable year, such corporation shall recognize gain or loss as if all its assets were sold by such corporation at their fair market value immediately before the close of the last taxable year before such corporation becomes a regulated investment company or real estate investment trust (as the case may be).

"(b) APPLICATION TO TRANSFERS OF ASSETS.—In the case of a C corporation which transfers to a regulated investment company or a real estate investment trust one or more assets the basis of which is determined (in whole or in part) by reference to the basis of such asset or assets in the hands of the C corporation, such corporation shall recognize gain or loss as if such assets were sold by such corporation at their fair market value as of the end of the day before the day of the transfer.

"(c) NONAPPLICATION TO NET LOSS.—Subsections (a) and (b) shall not apply if their application would result in the recognition of a net loss. For purposes of the preceding sentence, the term 'net loss' means the excess of

aggregate losses over aggregate gains (including items of income) without regard to character.

''(d) BASIS ADJUSTMENT.—If any asset is treated as sold under subsection (a) or (b), the basis of such asset immediately after such deemed sale shall be equal to the fair market value of such asset as determined under such subsection.

''(e) C CORPORATION.—For purposes of this section, the term 'C corporation' does not include a regulated investment company or a real estate investment trust.''.

(b) CLERICAL AMENDMENT.—The table of sections for part IV of subchapter O of chapter 1 is amended by redesignating the item relating to section 1062 as an item relating to section 1063 and by inserting after the item relating to section 1061 the following new item:

''Sec. 1062. Recognition of gain or loss upon C corporation election to become, or transfer assets to, a regulated investment company or a real estate investment trust.''.

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to elections and transfers on or after February 26, 2014.

SEC. 3648. INTERESTS IN RICS AND REITS NOT EXCLUDED FROM DEFINITION OF UNITED STATES REAL PROPERTY INTERESTS.

(a) IN GENERAL.—Section 897(c)(1)(B) is amended by striking ''and'' at the end of clause (i), by striking the

period at the end of clause (ii)(II) and inserting ", and", and by adding at the end the following new clause:

"(iii) neither such corporation nor any predecessor of such corporation was a regulated investment company or a real estate investment company at any time during the period described in subparagraph (A)(ii).".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to dispositions after December 31, 2014.

SEC. 3649. DIVIDENDS DERIVED FROM RICS AND REITS INELIGIBLE FOR DEDUCTION FOR UNITED STATES SOURCE PORTION OF DIVIDENDS FROM CERTAIN FOREIGN CORPORATIONS.

(a) IN GENERAL.—Section 245(a) is amended by adding at the end the following new paragraph:

"(12) DIVIDENDS DERIVED FROM RICS AND REITS INELIGIBLE FOR DEDUCTION.—Regulated investment companies and real estate investment trusts shall not be treated as domestic corporations for purposes of paragraph (5)(B).".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to dividends received from regu-

lated investment companies and real estate investment trusts on or after February 26, 2014.

PART 4—PERSONAL HOLDING COMPANIES

SEC. 3661. EXCLUSION OF DIVIDENDS FROM CONTROLLED FOREIGN CORPORATIONS FROM THE DEFINITION OF PERSONAL HOLDING COMPANY INCOME FOR PURPOSES OF THE PERSONAL HOLDING COMPANY RULES.

(a) IN GENERAL.—Paragraph (1) of section 543(a) is amended—

(1) by redesignating subparagraphs (C) and (D) as subparagraphs (D) and (E), respectively, and

(2) by inserting after subparagraph (B) the following:

"(C) dividends received by a United States shareholder (as defined in section 951(b)) from a controlled foreign corporation (as defined in section 957(a)),".

(b) EFFECTIVE DATE.—The amendments made by this Act shall apply to taxable years beginning after December 31, 2014.

Subtitle H—Taxation of Foreign Persons

SEC. 3701. PREVENTION OF AVOIDANCE OF TAX THROUGH REINSURANCE WITH NON-TAXED AFFILIATES.

(a) IN GENERAL.—Part III of subchapter L of chapter 1 is amended by adding at the end the following new section:

"SEC. 849. SPECIAL RULES FOR REINSURANCE OF NON-LIFE CONTRACTS WITH NON-TAXED AFFILIATES.

''(a) IN GENERAL.—The taxable income under section 831(a) or the life insurance company taxable income under section 801(b) (as the case may be) of an insurance company shall be determined by not taking into account—

''(1) any non-taxed reinsurance premium,

''(2) any additional amount paid by such insurance company with respect to the reinsurance for which such non-taxed reinsurance premium is paid, to the extent such additional amount is properly allocable to such non-taxed reinsurance premium, and

''(3) any return premium, ceding commission, reinsurance recovered, or other amount received by such insurance company with respect to the reinsurance for which such non-taxed reinsurance premium is paid, to the extent such return premium, ceding

commission, reinsurance recovered, or other amount is properly allocable to such non-taxed reinsurance premium.

"(b) NON-TAXED REINSURANCE PREMIUMS.—For purposes of this section—

"(1) IN GENERAL.—The term 'non-taxed reinsurance premium' means any reinsurance premium paid directly or indirectly to an affiliated corporation with respect to reinsurance of risks (other than excepted risks), to the extent that the income attributable to the premium is not subject to tax under this subtitle (either as the income of the affiliated corporation or as amounts included in gross income by a United States shareholder under section 951).

"(2) EXCEPTED RISKS.—The term 'excepted risks' means any risk with respect to which reserves described in section 816(b)(1) are established.

"(c) AFFILIATED CORPORATIONS.—For purposes of this section, a corporation shall be treated as affiliated with an insurance company if both corporations would be members of the same controlled group of corporations (as defined in section 1563(a)) if section 1563 were applied—

"(1) by substituting 'at least 50 percent' for 'at least 80 percent' each place it appears in subsection (a)(1), and

"(2) without regard to subsections (a)(4), (b)(2)(C), (b)(2)(D), and (e)(3)(C).

"(d) ELECTION TO TREAT REINSURANCE INCOME AS EFFECTIVELY CONNECTED.—

"(1) IN GENERAL.—A specified affiliated corporation may elect for any taxable year to treat specified reinsurance income as—

"(A) income effectively connected with the conduct of a trade or business in the United States, and

"(B) for purposes of any treaty between the United States and any foreign country, income attributable to a permanent establishment in the United States.

"(2) EFFECT OF ELECTION.—In the case of any specified reinsurance income with respect to which the election under this subsection applies—

"(A) DEDUCTION ALLOWED FOR REINSURANCE PREMIUMS.—For exemption from subsection (a), see definition of non-taxed reinsurance premiums in subsection (b).

"(B) EXCEPTION FROM EXCISE TAX.—The tax imposed by section 4371 shall not apply with respect to any income treated as effectively

connected with the conduct of a trade or business in the United States under paragraph (1).

"(C) TAXATION UNDER THIS SUBCHAPTER.—Such income shall be subject to tax under this subchapter to the same extent and in the same manner as if such income were the income of a domestic insurance company.

"(D) COORDINATION WITH FOREIGN TAX CREDIT PROVISIONS.—For purposes of subpart A of part III of subchapter N and sections 78 and 960—

"(i) such specified reinsurance income shall be treated as derived from sources without the United States, and

"(ii) subsections (a), (b), and (c) of section 904 ,and section 960, shall be applied separately with respect to each item of such income.

The Secretary may issue regulations or other guidance which provide that related items of specified reinsurance income may be aggregated for purposes of applying clause (ii).

"(3) SPECIFIED AFFILIATED CORPORATION.—For purposes of this subsection, the term 'specified affiliated corporation' means any affiliated corpora-

tion which is a foreign corporation and which meets such requirements as the Secretary shall prescribe to ensure that tax on the specified reinsurance income of such corporation is properly determined and paid.

"(4) SPECIFIED REINSURANCE INCOME.—For purposes of this paragraph, the term 'specified reinsurance income' means all income of a specified affiliated corporation which is attributable to reinsurance with respect to which subsection (a) would (but for the election under this subsection) apply.

"(5) RULES RELATED TO ELECTION.—Any election under paragraph (1) shall—

"(A) be made at such time and in such form and manner as the Secretary may provide, and

"(B) apply for the taxable year for which made and all subsequent taxable years unless revoked with the consent of the Secretary.

"(e) EXCEPTION FOR AMOUNTS SUBJECT TO FOREIGN TAX.—An amount shall not be treated as described in paragraph (1), (2), or (3) of subsection (a) if the taxpayer demonstrates to the satisfaction of the Secretary that such amount was subject to an effective rate of income tax imposed by a foreign country which is not less

than 100 percent of the maximum rate of tax specified in section 11.

''(f) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be appropriate to carry out, or to prevent the avoidance of the purposes of, this section, including regulations or other guidance which provide for the application of this section to alternative reinsurance transactions, fronting transactions, conduit and reciprocal transactions, and any economically equivalent transactions.''.

(b) CLERICAL AMENDMENT.—The table of sections for part III of subchapter L of chapter 1 is amended by adding at the end the following new item:

''Sec. 849. Special rules for reinsurance of non-life contracts with non-taxed affiliates.''.

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3702. TAXATION OF PASSENGER CRUISE GROSS INCOME OF FOREIGN CORPORATIONS AND NONRESIDENT ALIEN INDIVIDUALS.

(a) IN GENERAL.—Section 882 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

''(f) TREATMENT OF PASSENGER CRUISE GROSS INCOME.—

1 "(1) IN GENERAL.—For purposes of this title,
2 the effectively connected passenger cruise gross in-
3 come of a foreign corporation shall be treated as
4 gross income which is effectively connected with the
5 conduct of a trade or business in the United States.
6 "(2) EFFECTIVELY CONNECTED PASSENGER
7 CRUISE GROSS INCOME.—For purposes of this sub-
8 section, the term 'effectively connected passenger
9 cruise gross income' means, with respect to the oper-
10 ation of any ship in a covered voyage, the United
11 States territorial waters percentage of the gross in-
12 come (determined without regard to section
13 883(a)(1)) derived from such operation, including
14 any amount received with respect to the provision of
15 any on- or off-board activities, services, or sales,
16 with respect to passengers incidental to such oper-
17 ation (or with respect to any agreement with any
18 person with respect to the provision of any such ac-
19 tivities, services, or sales).
20 "(3) UNITED STATES TERRITORIAL WATERS
21 PERCENTAGE.—For purposes of this subsection—
22 "(A) IN GENERAL.—The term 'United
23 States territorial waters percentage' means,
24 with respect to the operation of any ship in any

covered voyage, the ratio (expressed as a percentage) of—

"(i) the number of days during such voyage such ship was operated in the territorial waters of the United States, divided by

"(ii) the total number of days of such voyage.

"(B) CALENDAR DAY RULE.—If a ship—

"(i) is operated in a covered voyage, or

"(ii) is operated in the territorial waters of the United States during a covered voyage,

for any portion of a calendar day, such ship shall be treated as having operated in a covered voyage, or as having operated in such territorial waters, respectively, for the entirety of such day.

"(C) TERRITORIAL WATERS.—The territorial waters of the United States shall be treated as consisting of those waters which are—

"(i) within the international boundary line between the United States and any contiguous foreign country, or

"(ii) within 12 nautical miles from low tide on the coastline of the United States.

"(4) COVERED VOYAGE.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'covered voyage' has the meaning given such term by section 4472(1).

"(B) ANTI-ABUSE RULE.—Except as otherwise provided by the Secretary, if passengers embark a ship in the United States and more than 10 percent of such passengers disembark in the United States, the operation of such ship at all times between such events shall be treated as a covered voyage. Nothing in the preceding sentence shall preclude any operation of a ship (including any operation of a ship before or after such events) which would otherwise be treated as part of a covered voyage from being so treated.

"(5) TREATMENT OF OTHERWISE EFFECTIVELY CONNECTED INCOME.—Gross income which would, without regard to this subsection, be gross income

which is effectively connected with the conduct of a trade or business in the United States—

"(A) shall be so treated, and

"(B) shall not be taken into account as gross income under paragraph (2).".

(b) APPLICATION TO NONRESIDENT ALIEN INDIVIDUALS.—Section 871 is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

"(n) TREATMENT OF PASSENGER CRUISE GROSS INCOME.—

"(1) IN GENERAL.—For purposes of this title, the effectively connected passenger cruise gross income of a nonresident alien individual shall be treated as gross income which is effectively connected with the conduct of a trade or business in the United States.

"(2) DEFINITIONS AND SPECIAL RULES.—For purposes of this subsection—

"(A) DEFINITIONS.—Terms used in this subsection which are also used in section 882(f) shall have the same meaning as when used in such section, except that section 882(f)(2) shall be applied by substituting 'section 872(b)(1)' for 'section 883(a)(1)'.

"(B) TREATMENT OF OTHERWISE EFFECTIVELY CONNECTED INCOME.—Rules similar to the rules of section 882(f)(5) shall apply for purposes of this subsection.".

(c) COORDINATION WITH RECIPROCAL EXEMPTIONS FOR SHIPPING INCOME.—

(1) IN GENERAL.—Section 883(a)(1) is amended by striking "Gross income" and inserting "Except as provided in section 882(f), gross income".

(2) NONRESIDENT ALIEN INDIVIDUALS.—Section 872(b)(1) is amended by striking "Gross income" and inserting "Except as provided in section 871(n), gross income".

(d) COORDINATION WITH TAX ON GROSS TRANSPORTATION INCOME.—Section 887(b)(4) is amended by adding at the end the following new flush text:

"The preceding sentence shall not apply to any United States source gross transportation income which is effectively connected passenger cruise gross income (within the meaning of section 871(n) or 882(f)).".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3703. RESTRICTION ON INSURANCE BUSINESS EXCEPTION TO PASSIVE FOREIGN INVESTMENT COMPANY RULES.

(a) IN GENERAL.—Section 1297(b)(2)(B) is amended to read as follows:

"(B) derived in the active conduct of an insurance business by a corporation if—

"(i) such corporation would be subject to tax under subchapter L if such corporation were a domestic corporation,

"(ii) more than 50 percent of such corporation's gross receipts for the taxable year consist of premiums, and

"(iii) the applicable insurance liabilities of such corporation constitute more than 35 percent of its total assets as reported on the corporation's applicable financial statement for the year with which or in which the taxable year ends,".

(b) APPLICABLE INSURANCE LIABILITIES; APPLICABLE FINANCIAL STATEMENT.—

(1) IN GENERAL.—Section 1297(b) is amended by adding at the end the following new paragraph:

"(3) DEFINITIONS.—For purposes of this subsection—

1 "(A) APPLICABLE INSURANCE LIABIL-
2 ITIES.—The term 'applicable insurance liabil-
3 ities' means, with respect to any life or property
4 and casualty insurance business—
5 "(i) loss and loss adjustment ex-
6 penses,
7 "(ii) unearned premiums, and
8 "(iii) reserves (other than deficiency
9 or contingency reserves) for life and health
10 insurance risks and life and health insur-
11 ance claims with respect to contracts pro-
12 viding coverage for mortality or morbidity
13 risks (not to exceed the amount of such re-
14 serve that is required to be reported to the
15 home country insurance regulatory body).
16 "(B) APPLICABLE FINANCIAL STATE-
17 MENT.—The term 'applicable financial state-
18 ment' means a statement for financial reporting
19 purposes which—
20 "(i) is made on the basis of generally
21 accepted accounting principles,
22 "(ii) is made on the basis of inter-
23 national financial reporting standards, but
24 only if there is no statement that meets
25 the requirement of clause (i), or

"(iii) except as otherwise provided by the Secretary in regulations, is the annual statement which is required to be filed with the home country insurance regulatory body, but only if there is no statement which meets the requirements of clause (i) or (ii).".

(2) CONFORMING AMENDMENT.—Section 1297(b) is amended—

(A) by striking the last sentence in paragraph (2) thereof, and

(B) by adding at the end of paragraph (3) thereof (as added by paragraph (1)), the following new subparagraph:

"(C) RELATED PERSON.—The term 'related person' has the meaning given such term by section 954(d)(3) determined by substituting 'foreign corporation' for 'controlled foreign corporation' each place it appears therein.".

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3704. MODIFICATION OF LIMITATION ON EARNINGS STRIPPING.

(a) IN GENERAL.—Section 163(j)(2)(B)(i)(II) is amended by striking ''50 percent'' and inserting ''40 percent''.

(b) NO NEW EXCESS LIMITATION CARRYFORWARDS.—Section 163(j)(2)(B)(ii) is amended by striking ''for any taxable year'' and inserting ''for any taxable year beginning before January 1, 2015''.

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3705. LIMITATION ON TREATY BENEFITS FOR CERTAIN DEDUCTIBLE PAYMENTS.

(a) IN GENERAL.—Section 894 of the Internal Revenue Code of 1986 (relating to income affected by treaty) is amended by adding at the end the following new subsection:

''(d) LIMITATION ON TREATY BENEFITS FOR CERTAIN DEDUCTIBLE PAYMENTS.—

''(1) IN GENERAL.—In the case of any deductible related-party payment, any withholding tax imposed under chapter 3 (and any tax imposed under subpart A or B of this part) with respect to such payment may not be reduced under any treaty of the United States unless any such withholding tax would

be reduced under a treaty of the United States if such payment were made directly to the foreign parent corporation.

"(2) DEDUCTIBLE RELATED-PARTY PAYMENT.—For purposes of this subsection, the term 'deductible related-party payment' means any payment made, directly or indirectly, by any person to any other person if the payment is allowable as a deduction under this chapter and both persons are members of the same foreign controlled group of entities.

"(3) FOREIGN CONTROLLED GROUP OF ENTITIES.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'foreign controlled group of entities' means a controlled group of entities the common parent of which is a foreign corporation.

"(B) CONTROLLED GROUP OF ENTITIES.—The term 'controlled group of entities' means a controlled group of corporations as defined in section 1563(a)(1), except that—

"(i) 'more than 50 percent' shall be substituted for 'at least 80 percent' each place it appears therein, and

"(ii) the determination shall be made without regard to subsections (a)(4) and (b)(2) of section 1563.

A partnership or any other entity (other than a corporation) shall be treated as a member of a controlled group of entities if such entity is controlled (within the meaning of section 954(d)(3)) by members of such group (including any entity treated as a member of such group by reason of this sentence).

"(4) FOREIGN PARENT CORPORATION.—For purposes of this subsection, the term 'foreign parent corporation' means, with respect to any deductible related-party payment, the common parent of the foreign controlled group of entities referred to in paragraph (3)(A).

"(5) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as are necessary or appropriate to carry out the purposes of this subsection, including regulations or other guidance which provide for—

"(A) the treatment of two or more persons as members of a foreign controlled group of entities if such persons would be the common par-

ent of such group if treated as one corporation, and

"(B) the treatment of any member of a foreign controlled group of entities as the common parent of such group if such treatment is appropriate taking into account the economic relationships among such entities.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to payments made after the date of the enactment of this Act.

Subtitle I—Provisions Related to Compensation

PART 1—EXECUTIVE COMPENSATION

SEC. 3801. NONQUALIFIED DEFERRED COMPENSATION.

(a) IN GENERAL.—Subpart A of part I of subchapter D of chapter 1 is amended by adding at the end the following new section:

"SEC. 409B. NONQUALIFIED DEFERRED COMPENSATION.

"(a) IN GENERAL.—Any compensation which is deferred under a nonqualified deferred compensation plan shall be includible in gross income when there is no substantial risk of forfeiture of the rights to such compensation.

"(b) DEFINITIONS.—For purposes of this section—

"(1) SUBSTANTIAL RISK OF FORFEITURE.—The rights of a person to compensation shall be treated as subject to a substantial risk of forfeiture only if such person's rights to such compensation are conditioned upon the future performance of substantial services by any individual.

"(2) NONQUALIFIED DEFERRED COMPENSATION PLAN.—For purposes of this section:

"(A) NONQUALIFIED DEFERRED COMPENSATION PLAN.—The term 'nonqualified deferred compensation plan' means any plan that provides for the deferral of compensation, other than—

"(i) a qualified employer plan,

"(ii) any bona fide vacation leave, sick leave, compensatory time, disability pay, or death benefit plan, and

"(iii) any other plan or arrangement designated by the Secretary consistent with the purposes of this section.

"(B) EQUITY-BASED COMPENSATION.—The term 'nonqualified deferred compensation plan' shall include any plan that provides a right to compensation based on the appreciation

in value of a specified number of equity units of the service recipient or stock options.

''(3) QUALIFIED EMPLOYER PLAN.—The term 'qualified employer plan' means any plan, contract, pension, account, or trust described in 408(p)(2)(D)(ii).

''(4) PLAN INCLUDES ARRANGEMENTS, ETC.—The term 'plan' includes any agreement or arrangement, including an agreement or arrangement that includes one person.

''(5) EXCEPTION.—Compensation shall not be treated as deferred for purposes of this section if the service provider receives payment of such compensation not later than 6 months after the end of the taxable year of the service recipient during which the right to the payment of such compensation is no longer subject to a substantial risk of forfeiture.

''(6) TREATMENT OF EARNINGS.—References to deferred compensation shall be treated as including references to income (whether actual or notional) attributable to such compensation or such income.

''(7) AGGREGATION RULES.—Except as provided by the Secretary, rules similar to the rules of subsections (b) and (c) of section 414 shall apply.

1 ''(c) NO INFERENCE ON EARLIER INCOME INCLU-
2 SION OR REQUIREMENT OF LATER INCLUSION.—Nothing
3 in this section shall be construed to prevent the inclusion
4 of amounts in gross income under any other provision of
5 this chapter or any other rule of law earlier than the time
6 provided in this section. Any amount included in gross in-
7 come under this section shall not be required to be in-
8 cluded in gross income under any other provision of this
9 chapter or any other rule of law later than the time pro-
10 vided in this section.

11 ''(d) REGULATIONS.—The Secretary shall prescribe
12 such regulations as may be necessary or appropriate to
13 carry out the purposes of this section, including regula-
14 tions disregarding a substantial risk of forfeiture in cases
15 where necessary to carry out the purposes of this sec-
16 tion.''.

17 (b) TERMINATION OF CERTAIN OTHER NON-
18 QUALIFIED DEFERRED COMPENSATION RULES.—

19 (1) NONQUALIFIED DEFERRED COMPENSA-
20 TION.—

21 (A) IN GENERAL.—Subpart A of part I of
22 subchapter D of chapter 1 is amended by strik-
23 ing section 409A (and by striking the item re-
24 lating to such section in the table of sections
25 for such subpart).

(B) CONFORMING AMENDMENTS.—

(i) Section 26(b)(2) is amended by striking subparagraph (V).

(ii) Section 3401(a) is amended by striking the flush sentence at the end.

(iii) Section 6041 is amended by striking subsection (g).

(iv) Section 6051(a), as amended by the preceding provisions of this Act, is amended by striking paragraph (12), by inserting ''and'' at the end of paragraph (11), and by redesignating paragraph (13) as paragraph (12).

(2) 457(b) PLANS OF TAX EXEMPT ORGANIZATIONS.—Section 457 is amended by adding at the end the following new subsection:

''(h) TERMINATION OF CERTAIN PLANS.—

''(1) TAX-EXEMPT ORGANIZATION PLANS.—This section shall not apply to amounts deferred which are attributable to services performed after December 31, 2014, under a plan maintained by an employer described in subsection (e)(1)(B).

''(2) INELIGIBLE DEFERRED COMPENSATION PLANS.—Subsection (f) shall not apply to amounts

deferred which are attributable to services performed after December 31, 2014.''.

(3) NONQUALIFIED DEFERRED COMPENSATION FROM CERTAIN TAX INDIFFERENT PARTIES.—

(A) IN GENERAL.—Subpart B of part II of subchapter E of chapter 1 is amended by striking section 457A (and by striking the item relating to such section in the table of sections for such subpart).

(B) CONFORMING AMENDMENT.—Section 26(b)(2) is amended by striking subparagraph (X).

(c) CLERICAL AMENDMENT.—The table of sections for part I of subchapter D of chapter 1 is amended by adding at the end the following new item:

''Sec. 409B. Nonqualified deferred compensation.''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to amounts which are attributable to services performed after December 31, 2014.

(2) APPLICATION TO EXISTING DEFERRALS.—In the case of any amount deferred to which the amendments made by this section do no apply solely by reason of the fact that the amount is attributable

to services performed before January 1, 2015, to the extent such amount is not includible in gross income in a taxable year beginning before 2023, such amounts shall be includible in gross income in the later of—

(A) the last taxable year beginning before 2023, or

(B) the taxable year in which there is no substantial risk of forfeiture of the rights to such compensation (determined in the same manner as determined for purposes of section 409B of the Internal Revenue Code of 1986, as added by this section).

(3) ACCELERATED PAYMENTS.—No later than 120 days after the date of the enactment of this Act, the Secretary shall issue guidance providing a limited period of time during which a nonqualified deferred compensation arrangement attributable to services performed on or before December 31, 2014, may, without violating the requirements of section 409A of the Internal Revenue Code of 1986, be amended to conform the date of distribution to the date the amounts are required to be included in income.

(4) CERTAIN BACK-TO-BACK ARRANGEMENTS.—If the taxpayer is also a service recipient and maintains one or more nonqualified deferred compensation arrangements for its service providers under which any amount is attributable to services performed on or before December 31, 2014, the guidance issued under paragraph (3) shall permit such arrangements to be amended to conform the dates of distribution under such arrangement to the date amounts are required to be included in the income of such taxpayer under this subsection.

(5) ACCELERATED PAYMENT NOT TREATED AS MATERIAL MODIFICATION.—Any amendment to a nonqualified deferred compensation arrangement made pursuant to paragraph (3) or (4) shall not be treated as a material modification of the arrangement for purposes of section 409A of the Internal Revenue Code of 1986.

SEC. 3802. MODIFICATION OF LIMITATION ON EXCESSIVE EMPLOYEE REMUNERATION.

(a) REPEAL OF PERFORMANCE-BASED COMPENSATION AND COMMISSION EXCEPTIONS FOR LIMITATION ON EXCESSIVE EMPLOYEE REMUNERATION.—

(1) IN GENERAL.—Paragraph (4) of section 162(m) is amended by striking subparagraphs (B)

and (C) and by redesignating subparagraphs (D), (E), (F), and (G) as subparagraphs (B), (C), (D), and (E), respectively.

(2) CONFORMING AMENDMENTS.—

(A) Paragraphs (5)(E) and (6)(D) of section 162(m) are each amended by striking ''subparagraphs (B), (C), and (D)'' and inserting ''subparagraph (B)''.

(B) Paragraphs (5)(G) and (6)(G) of section 162(m) are each amended by striking ''(F) and (G)'' and inserting ''(D) and (E)''.

(b) MODIFICATION OF DEFINITION OF COVERED EMPLOYEES.—Paragraph (3) of section 162(m) is amended—

(1) in subparagraph (A), by striking ''as of the close of the taxable year, such employee is the chief executive officer of the taxpayer or is'' and inserting ''such employee is the chief executive officer or the chief financial officer of the taxpayer at any time during the taxable year, or was'',

(2) in subparagraph (B)—

(A) by striking ''4'' and inserting ''3'', and

(B) by striking ''(other than the chief executive officer)'' and inserting ''(other than any individual described in subparagraph (A))'', and

(3) by striking ''or'' at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting '', or'', and by adding at the end the following:

''(C) was a covered employee of the taxpayer (or any predecessor) for any preceding taxable year beginning after December 31, 2013.''.

(c) SPECIAL RULE FOR REMUNERATION PAID TO BENEFICIARIES, ETC.—Paragraph (4) of section 162(m), as amended by subsection (a), is amended by adding at the end the following new subparagraph:

''(F) SPECIAL RULE FOR REMUNERATION PAID TO BENEFICIARIES, ETC.—Remuneration shall not fail to be applicable employee remuneration merely because it is includible in the income of, or paid to, a person other than the covered employee, including after the death of the covered employee.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3803. EXCISE TAX ON EXCESS TAX-EXEMPT ORGANIZATION EXECUTIVE COMPENSATION.

(a) IN GENERAL.—Subchapter D of chapter 42 is amended by adding at the end the following new section:

"SEC. 4960. TAX ON EXCESS TAX-EXEMPT ORGANIZATION EXECUTIVE COMPENSATION.

"(a) TAX IMPOSED.—There is hereby imposed a tax equal to 25 percent of the sum of—

"(1) so much of the remuneration paid (other than any excess parachute payment) by an applicable tax-exempt organization for the taxable year with respect to employment of any covered employee in excess of $1,000,000, plus

"(2) any excess parachute payment paid by such an organization to any covered employee.

"(b) LIABILITY FOR TAX.—The employer shall be liable for the tax imposed under subsection (a).

"(c) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) APPLICABLE TAX-EXEMPT ORGANIZATION.—The term 'applicable tax-exempt organization' means any organization that for the taxable year—

"(A) is exempt from taxation under section 501(a),

"(B) is a farmers' cooperative organization described in section 521(b)(1), or

"(C) has income excluded from taxation under section 115(1).

"(2) COVERED EMPLOYEE.—For purposes of this section, the term 'covered employee' means any employee (including any former employee) of an applicable tax-exempt organization if the employee—

"(A) is one of the 5 highest compensated employees of the organization for the taxable year, or

"(B) was a covered employee of the organization (or any predecessor) for any preceding taxable year beginning after December 31, 2013.

"(3) REMUNERATION.—For purposes of this section, the term 'remuneration' means wages (as defined in section 3401(a)), except that such term shall not include any designated Roth contribution (as defined in section 402A(c)).

"(4) REMUNERATION FROM RELATED ORGANIZATIONS.—

"(A) IN GENERAL.—Remuneration of a covered employee by an applicable tax-exempt organization shall include any remuneration

paid with respect to employment of such employee by any related person or governmental entity.

"(B) RELATED ORGANIZATIONS.—A person or governmental entity shall be treated as related to an applicable tax-exempt organization if such person or governmental entity—

"(i) controls, or is controlled by, the organization,

"(ii) is controlled by one or more persons that control the organization,

"(iii) is a supported organization (as defined in section 509(f)(2)) during the taxable year with respect to the organization,

"(iv) is a supporting organization described in section 509(a)(3) during the taxable year with respect to the organization, or

"(v) in the case of an organization that is a voluntary employees' beneficiary association described in section 501(a)(9), establishes, maintains, or makes contributions to such voluntary employees' beneficiary association.

"(C) LIABILITY FOR TAX.—In any case in which remuneration from more than one employer is taken into account under this paragraph in determining the tax imposed by subsection (a), each such employer shall be liable for such tax in an amount which bears the same ratio to the total tax determined under subsection (a) with respect to such remuneration as—

"(i) the amount of remuneration paid by such employer with respect to such employee, bears to

"(ii) the amount of remuneration paid by all such employers to such employee.

"(5) EXCESS PARACHUTE PAYMENT.—For purposes determining the tax imposed by subsection (a)(2)—

"(A) IN GENERAL.—The term 'excess parachute payment' means an amount equal to the excess of any parachute payment over the portion of the base amount allocated to such payment.

"(B) PARACHUTE PAYMENT.—The term 'parachute payment' means any payment in the

nature of compensation to (or for the benefit of) a covered employee if—

"(i) such payment is contingent on such employee's separation from employment with the employer, and

"(ii) the aggregate present value of the payments in the nature of compensation to (or for the benefit of) such individual which are contingent on such separation equals or exceeds an amount equal to 3 times the base amount.

Such term does not include any payment described in section 280G(b)(6) (relating to exemption for payments under qualified plans) or any payment made under or to an annuity contract described in section 403(b) or a plan described in section 457(b).

"(C) BASE AMOUNT.—Rules similar to the rules of 280G(b)(3) shall apply for purposes of determining the base amount.

"(D) PROPERTY TRANSFERS; PRESENT VALUE.—Rules similar to the rules of paragraphs (3) and (4) of section 280G(d) shall apply.

"(6) COORDINATION WITH DEDUCTION LIMITATION.—Remuneration the deduction for which is not allowed by reason of section 162(m) shall not be taken into account for purposes of this section.".

(b) CLERICAL AMENDMENT.—The table of sections for subchapter D of chapter 42 is amended by adding at the end the following new item:

"Sec. 4960. Tax on excess exempt organization executive compensation.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 3804. DENIAL OF DEDUCTION AS RESEARCH EXPENDITURE FOR STOCK TRANSFERRED PURSUANT TO AN INCENTIVE STOCK OPTION.

(a) IN GENERAL.—Paragraph (2) of section 421(a) is amended by striking "under section 162 (relating to trade or business expenses)".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to stock transferred on or after February 26, 2014.

PART 2—WORKER CLASSIFICATION

SEC. 3811. DETERMINATION OF WORKER CLASSIFICATION.

(a) IN GENERAL.—Chapter 79, as amended by the preceding provisions of this Act, is amended by adding at the end the following new section:

"SEC. 7707. DETERMINATION OF WORKER CLASSIFICATION.

''(a) IN GENERAL.—For purposes of this title (and notwithstanding any provision of this title not contained in this section to the contrary), if the requirements of subsections (b), (c), and (d) are met with respect to any service performed by a service provider, then with respect to such service—

''(1) the service provider shall not be treated as an employee,

''(2) the service recipient shall not be treated as an employer,

''(3) any payor shall not be treated as an employer, and

''(4) the compensation paid or received for such service shall not be treated as paid or received with respect to employment.

''(b) GENERAL SERVICE PROVIDER REQUIREMENTS.—

''(1) IN GENERAL.—The requirements of this subsection are met with respect to any service if the service provider either—

''(A) meets the requirements of paragraph (2) with respect to such service, or

''(B) in the case a service provider engaged in the trade or business of selling (or soliciting the sale of) goods or services, meets the re-

quirements of paragraph (3) with respect to such service.

"(2) GENERAL REQUIREMENTS.—The requirements of this paragraph are met with respect to any service if the service provider, in connection with performing the service—

"(A) incurs significant unreimbursed expenses,

"(B) agrees to perform the service for a particular amount of time, to achieve a specific result, or to complete a specific task,

"(C) is primarily compensated on a basis not tied to the number of hours worked, and

"(D) at least one of the following:

"(i) has a significant investment in assets or training,

"(ii) is not required to perform services exclusively for the service recipient, or

"(iii) has not performed services for the service recipient as an employee during the 1-year period ending with the date of the commencement of services under the contract described in subsection (d).

"(3) ALTERNATIVE REQUIREMENTS WITH RESPECT TO SALES PERSONS.—In the case of a service

provider engaged in the trade or business of selling (or soliciting the sale of) goods or services, the requirements of this paragraph are met with respect to any service provided in the ordinary course of such trade or business if—

"(A) the service provider is compensated primarily on a commission basis, and

"(B) substantially all the compensation for such service is directly related to sales of goods or services rather than to the number of hours worked.

"(c) PLACE OF BUSINESS OR OWN EQUIPMENT REQUIREMENT.—The requirement of this subsection is met with respect to any service if the service provider—

"(1) has a principal place of business,

"(2) does not primarily provide the service in the service recipient's place of business,

"(3) pays a fair market rent for use of the service recipient's place of business, or

"(4) provides the service primarily using equipment supplied by the service provider.

"(d) WRITTEN CONTRACT REQUIREMENT.—The requirements of this subsection are met with respect to any service if such service is performed pursuant to a written

1 contract between the service provider and the service re-
2 cipient (or payor) which meets the following requirements:
3 ''(1) The contract includes each of the fol-
4 lowing:
5 ''(A) The service provider's name, taxpayer
6 identification number, and address.
7 ''(B) A statement that the service provider
8 will not be treated as an employee with respect
9 to the services provided pursuant to the con-
10 tract for purposes of this title.
11 ''(C) A statement that the service recipient
12 (or the payor) will withhold upon and report to
13 the Internal Revenue Service the compensation
14 payable pursuant to the contract consistent
15 with the requirements of this title.
16 ''(D) A statement that the service provider
17 is responsible for payment of Federal, State,
18 and local taxes, including self-employment
19 taxes, on compensation payable pursuant to the
20 contract.
21 ''(E) A statement that the contract is in-
22 tended to be considered a contract described in
23 this subsection.
24 ''(2) The term of the contract does not exceed
25 1 year. The preceding sentence shall not prevent one

or more subsequent written renewals of the contract from satisfying the requirements of this subsection if the term of each such renewal does not exceed 1 year and if the information required under paragraph (1)(A) is updated in connection with each such renewal.

''(3) The contract (or renewal) is signed by both the service recipient (or payor) and the service provider not later than the date on which the aggregate payments made by the service recipient to the service provider exceeds $600 for the year covered by the contract (or renewal).

''(e) REPORTING REQUIREMENTS.—If any service recipient or payor fails to meet the applicable reporting requirements of section 6041(a) or 6041A(a) for any taxable year with respect to any service provider, this section shall not apply for purposes of making any determination with respect to the liability of such service recipient or payor for any tax with respect to such service provider for such period. For purposes of the preceding sentence, such reporting requirements shall be treated as met if the failure to satisfy such requirements is due to reasonable cause and not willful neglect.

''(f) EXCEPTION FOR SERVICES PROVIDED BY OWNER.—This section shall not apply with respect to any

service provided by a service provider to a service recipient if the service provider owns any interest in the service recipient or any payor with respect to the service provided. The preceding sentence shall not apply in the case of a service recipient the stock of which is regularly traded on an established securities market.

''(g) EXCEPTION FOR SERVICES NOT RECEIVED IN COURSE OF A TRADE OR BUSINESS.—This section shall not apply with respect to any service unless such service is performed in the ordinary course of a trade or business of the service recipient.

''(h) LIMITATION ON RECLASSIFICATION BY SECRETARY.—For purposes of this title—

''(1) EFFECT OF RECLASSIFICATION ON RECIPIENTS AND PAYORS.—A determination by the Secretary that a service recipient or a payor should have treated a service provider as an employee shall be effective with respect to the service recipient or payor no earlier than the notice date if—

''(A) the service recipient or the payor entered into a written contract with the service provider which meets the requirements of subsection (d),

''(B) the service recipient or the payor satisfied the applicable reporting requirements of

section 6041(a) or 6041A(a) for all relevant taxable years with respect to the service provider,

"(C) the service recipient or the payor collected and paid over all applicable taxes imposed under subtitle C for all relevant taxable years with respect to the service provider,

"(D) the service recipient or the payor demonstrates a reasonable basis for having determined that the service provider should not be treated as an employee under this section and that such determination was made in good faith.

"(2) EFFECT OF RECLASSIFICATION ON SERVICE PROVIDERS.—A determination by the Secretary that a service provider should have been treated as an employee shall be effective with respect to the service provider no earlier than the notice date if—

"(A) the service provider entered into a written contract with the service recipient or payor which meets the requirements of subsection (d),

"(B) the service provider satisfied the applicable reporting requirements of sections 6012(a) and 6017 for all relevant taxable years

with respect to the service recipient or payor, and

"(C) the service provider demonstrates a reasonable basis for determining that the service provider is not an employee under this section and that such determination was made in good faith.

"(3) NOTICE DATE.—For purposes of this subsection, the term 'notice date' means the 30th day after the earliest of—

"(A) the date on which the first letter of proposed deficiency which allows the service provider, the service recipient, or the payor an opportunity for administrative review in the Internal Revenue Service Office of Appeals is sent,

"(B) the date on which a deficiency notice under section 6212 is sent, or

"(C) the date on which a notice of determination under section 7436(b)(2) is sent.

"(4) REASONABLE CAUSE EXCEPTION.—The requirements of paragraphs (1)(B) and (2)(B) shall be treated as met if the failure to satisfy such requirements is due to reasonable cause and not willful neglect.

"(5) NO RESTRICTION ON ADMINISTRATIVE OR JUDICIAL REVIEW.—Nothing in this subsection shall be construed as limiting any provision of law which provides an opportunity for administrative or judicial review of a determination by the Secretary.

"(i) DEFINITIONS.—For purposes of this section—

"(1) SERVICE PROVIDER.—

"(A) IN GENERAL.—The term 'service provider' means any qualified person who performs service for another person.

"(B) QUALIFIED PERSON.—The term 'qualified person' means—

"(i) any natural person, and

"(ii) any entity if any of the services referred to in subparagraph (A) are performed by one or more natural persons who directly own interests in such entity.

"(2) SERVICE RECIPIENT.—The term 'service recipient' means the person for whom the service provider performs such service.

"(3) PAYOR.—The term 'payor' means any person who pays the service provider for performing such service.

"(j) REGULATIONS.—Notwithstanding section 530(d) of the Revenue Act of 1978, the Secretary shall issue such

1 regulations as the Secretary determines are necessary to
2 carry out the purposes of this section.''.
3 (b) WITHHOLDING BY PAYOR IN CASE OF CERTAIN
4 PERSONS CLASSIFIED AS NOT EMPLOYEES.—Section
5 3402 is amended by redesignating subsection (s) as sub-
6 section (t) and inserting after subsection (r) the following
7 new subsection:
8 ''(s) EXTENSION OF WITHHOLDING TO PAYMENTS
9 TO CERTAIN PERSONS CLASSIFIED AS NOT EMPLOY-
10 EES.—
11 ''(1) IN GENERAL.—For purposes of this chap-
12 ter and so much of subtitle F as relates to this chap-
13 ter, compensation paid pursuant to a contract de-
14 scribed in section 7707(d) shall be treated as if it
15 were a payment of wages by an employer to an em-
16 ployee.
17 ''(2) AMOUNT WITHHELD.—Except as otherwise
18 provided under subsection (i), the amount to be de-
19 ducted and withheld pursuant to paragraph (1) with
20 respect to compensation paid pursuant to any such
21 contract during any calendar year shall be an
22 amount equal to 5 percent of so much of the amount
23 of such compensation as does not exceed $10,000.''.
24 (c) REPORTING.—Section 6041A is amended by add-
25 ing at the end the following new subsection:

"(g) SPECIAL RULES FOR CERTAIN PERSONS CLASSIFIED AS NOT EMPLOYEES.—In the case of any service recipient required to make a return under subsection (a) with respect to compensation to which section 7707(a) applies—

"(1) such return shall include—

"(A) the aggregate amount of such compensation paid to each person whose name is required to be included on such return,

"(B) the aggregate amount deducted and withheld under section 3402(s) with respect to such compensation, and

"(C) an indication of whether a copy of the contract described in section 7707(d) is on file with the service recipient or payor, and

"(2) the statement required to be furnished under subsection (e) shall include the information described in paragraph (1) with respect to the service provider to whom such statement is furnished.

Terms used in this subsection which are also used in section 7707 shall have the same meaning as when used in such section.".

(d) CLERICAL AMENDMENT.—The table of sections for chapter 79, as amended by the preceding provisions

of this Act, is amended by adding at the end the following new item:

"Sec. 7707. Determination of worker classification.".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to services performed after December 31, 2014 (and to payments made for such services after such date).

Subtitle J—Zones and Short-Term Regional Benefits

SEC. 3821. REPEAL OF PROVISIONS RELATING TO EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.

(a) IN GENERAL.—Chapter 1 is amended by striking subchapter U (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 38(b) is amended by striking paragraph (9).

(B) Section 280C(a) is amended by striking "1396(a),".

(2) Section 179(e) is amended by striking paragraph (3) and by redesignating paragraph (4) as paragraph (3).

(3) Section 1202(a)(2)(A) is amended by inserting "(as in effect before its repeal by the Tax Reform Act of 2014)" after "section 1397C(b)".

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendment made by this section shall take effect on the date of the enactment of this Act.

(2) ROLLOVERS.—So much of subsection (a) as relates to the repeal of section 1397B of the Internal Revenue Code of 1986 shall apply to sales after the date of the enactment of this Act.

(3) SAVINGS PROVISION.—The amendments made by this section shall not apply to obligations described in section 1394 of the Internal Revenue Code of 1986 (as in effect before its repeal) which were issued before January 1, 2014.

SEC. 3822. REPEAL OF DC ZONE PROVISIONS.

(a) IN GENERAL.—Chapter 1 is amended by striking subchapter W (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 1202(a)(2)(B) is amended by inserting ''(as in effect before its repeal by the Tax Reform Act of 2014)'' after ''1400B(b)''.

(2) Section 25(e)(1)(C) is amended by striking ''sections 23, 25D, and 1400C'' and inserting ''section 23''.

(3) Section 1016(a) is amended by striking paragraph (27).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SAVINGS PROVISION.—The amendments made by this section shall not apply to—

(A) in the case of the repeal of section 1400A of the Internal Revenue Code of 1986, obligations described in section 1394 of such Code (as in effect before its repeal) which were issued before January 1, 2012,

(B) in the case of the repeal of section 1400B of such Code, DC Zone assets (as defined in such section, as in effect before its repeal) which were acquired by the taxpayer before January 1, 2012, and

(C) in the case of the repeal of section 1400C of such Code, principal residences acquired before January 1, 2012.

SEC. 3823. REPEAL OF PROVISIONS RELATING TO RENEWAL COMMUNITIES.

(a) IN GENERAL.—Chapter 1 is amended by striking subchapter X (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 469(i)(3), as amended by the preceding provisions of this Act, is amended by striking subparagraph (C) and by redesignating subparagraphs (D), (E), and (F) as subparagraphs (B), (C), and (D).

(B) Section 469(i)(3)(C), as so redesignated, is amended to read as follows:

"(C) ORDERING RULE.—If subparagraph (B) applies for a taxable year, paragraph (1) shall be applied—

"(i) first to the portion of the passive activity loss to which such subparagraph does not apply, and

"(ii) then to the portion of such loss to which such subparagraph does apply.".

(C) Section 469(i)(6)(B), as amended by the preceding provisions of this Act, is amended—

(i) by striking "COMMERCIAL REVITALIZATION DEDUCTION" in the heading,

(ii) by striking ''in the case of—'' and all that follows through ''any credit'' in clause (i),

(iii) by striking ''year, or'' in clause (i) and inserting ''year.'', and

(iv) by striking clause (iii).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SAVINGS PROVISION.—The amendments made by this section shall not apply to—

(A) in the case of the repeal of section 1400F of the Internal Revenue Code of 1986, qualified community assets (as defined in such section, as in effect before its repeal) which were acquired by the taxpayer before January 1, 2010,

(B) in the case of the repeal section 1400H of such Code, wages paid or incurred before January 1, 2010,

(C) in the case of the repeal of section 1400I of such Code, qualified revitalization buildings (as defined in such section, as in ef-

fect before its repeal) which were placed in service before January 1, 2010, and

(D) in the case of the repeal of section 1400J of such Code, property acquired before January 1, 2010.

SEC. 3824. REPEAL OF VARIOUS SHORT-TERM REGIONAL BENEFITS.

(a) IN GENERAL.—Chapter 1 is amended by striking subchapter Y (and by striking the item relating to such subchapter in the table of subchapters for such chapter).

(b) CONFORMING AMENDMENTS.—Section 38(b) is amended by striking paragraphs (27), (28), (29) and (30).

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SAVINGS PROVISION.—The amendments made by this section shall not apply to—

(A) in the case of the repeal of section 1400L(a) of the Internal Revenue Code of 1986, qualified wages (as defined in such section, as in effect before its repeal) which were paid or incurred before January 1, 2004,

(B) in the case of the repeal of subsections (b) and (f) of section 1400L of such Code, qualified New York Liberty Zone property (as defined in section 1400L(b) of such Code, as in effect before its repeal) placed in service before January 1, 2010,

(C) in the case of the repeal of section 1400L(c) of such Code, qualified New York Liberty Zone leasehold improvement property (as defined in such section, as in effect before its repeal) placed in service before January 1, 2007,

(D) in the case of the repeal of section 1400L(d) of such Code, qualified New York Liberty bonds (as defined in such section, as in effect before its repeal) issued before January 1, 2014,

(E) in the case of the repeal of section 1400L(e) of such Code, advanced refundings before January 1, 2006,

(F) in the case of the repeal of section 1400L(g) of such Code, property which is compulsorily or involuntarily converted as a result of the terrorist attacks on September 11, 2001,

(G) in the case of the repeal of section 1400N(a) of such Code, obligations issued before January 1, 2012,

(H) in the case of the repeal of section 1400N(b) of such Code, advanced refundings before January 1, 2011,

(I) in the case of the repeal of section 1400N(d) of such Code, property placed in service before January 1, 2012,

(J) in the case of the repeal of section 1400N(e) of such Code, property placed in service before January 1, 2009,

(K) in the case of the repeal of subsections (f) and (g) of section 1400N of such Code, amounts paid or incurred before January 1, 2008,

(L) in the case of the repeal of section 1400N(h) of such Code, amounts paid or incurred before January 1, 2012,

(M) in the case of the repeal of section 1400N(l) of such Code, bonds issued before January 1, 2007,

(N) in the case of the repeal of section 1400Q(a) of such Code, distributions before January 1, 2007,

(O) in the case of the repeal of section 1400Q(b) of such Code, contributions before March 1, 2006,

(P) in the case of the repeal of section 1400Q(c) of such Code, loans made before January 1, 2007,

(Q) in the case of the repeal of section 1400R of such Code, wages paid or incurred before January 1, 2006,

(R) in the case of the repeal of section 1400S(a) of such Code, contributions paid before January 1, 2006,

(S) in the case of the repeal of section 1400T of such Code, financing provided before January 1, 2011, and

(T) in the case of the repeal of part III of subchapter Y of chapter 1 of such Code, obligations issued before January 1, 2011.

TITLE IV—PARTICIPATION EXEMPTION SYSTEM FOR THE TAXATION OF FOREIGN INCOME

Subtitle A—Establishment of Exemption System

SEC. 4001. DEDUCTION FOR DIVIDENDS RECEIVED BY DOMESTIC CORPORATIONS FROM CERTAIN FOREIGN CORPORATIONS.

(a) IN GENERAL.—Part VIII of subchapter B of chapter 1 is amended by inserting after section 245 the following new section:

"SEC. 245A. DIVIDENDS RECEIVED BY DOMESTIC CORPORATIONS FROM CERTAIN FOREIGN CORPORATIONS.

"(a) IN GENERAL.—In the case of any dividend received from a specified 10-percent owned foreign corporation by a domestic corporation which is a United States shareholder with respect to such foreign corporation, there shall be allowed as a deduction an amount equal to 95 percent of the foreign-source portion of such dividend.

"(b) SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATION.—For purposes of this section, the term 'specified 10-percent owned foreign corporation' means any foreign corporation if any domestic corporation owns directly,

or indirectly through a chain of ownership described under section 958(a), 10 percent or more of the voting stock of such foreign corporation.

"(c) FOREIGN-SOURCE PORTION.—For purposes of this section—

"(1) IN GENERAL.—The foreign-source portion of any dividend is an amount which bears the same ratio to such dividends as—

"(A) the post-1986 undistributed foreign earnings, bears to

"(B) the total post-1986 undistributed earnings.

"(2) POST-1986 UNDISTRIBUTED EARNINGS.—The term 'post-1986 undistributed earnings' means the amount of the earnings and profits of the specified 10-percent owned foreign corporation (computed in accordance with sections 964(a) and 986) accumulated in taxable years beginning after December 31, 1986—

"(A) as of the close of the taxable year of the specified 10-percent owned foreign corporation in which the dividend is distributed, and

"(B) without diminution by reason of dividends distributed during such taxable year.

"(3) POST-1986 UNDISTRIBUTED FOREIGN EARNINGS.—The term 'post-1986 undistributed foreign earnings' means the portion of the post-1986 undistributed earnings which is attributable to neither—

"(A) income described in subparagraph (A) of section 245(a)(5), nor

"(B) dividends described in subparagraph (B) of such section (determined without regard to section 245(a)(12)).

"(4) TREATMENT OF DISTRIBUTIONS FROM EARNINGS BEFORE 1987.—

"(A) IN GENERAL.—In the case of any dividend paid out of earnings and profits of the specified 10-percent owned foreign corporation (computed in accordance with sections 964(a) and 986) accumulated in taxable years beginning before January 1, 1987—

"(i) paragraphs (1), (2), and (3) shall be applied without regard to the phrase 'post-1986' each place it appears, and

"(ii) paragraph (2) shall be applied without regard to the phrase 'in taxable years beginning after December 31, 1986'.

"(B) DIVIDENDS PAID FIRST OUT OF POST-1986 EARNINGS.—Dividends shall be treated as paid out of post-1986 undistributed earnings to the extent thereof.

"(d) DISALLOWANCE OF FOREIGN TAX CREDIT, ETC.—

"(1) IN GENERAL.—No credit shall be allowed under section 901 for any taxes paid or accrued (or treated as paid or accrued) with respect to any dividend for which a deduction is allowed under this section.

"(2) DENIAL OF DEDUCTION.—No deduction shall be allowed under this chapter for any tax for which credit is not allowable under section 901 by reason of paragraph (1) (determined by treating the taxpayer as having elected the benefits of subpart A of part III of subchapter N).

"(e) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as may be necessary or appropriate to carry out the provisions of this section.".

(b) APPLICATION OF HOLDING PERIOD REQUIREMENT.—Subsection (c) of section 246 is amended—

(1) by striking "or 245" in paragraph (1) and inserting "245, or 245A", and

(2) by adding at the end the following new paragraph:

"(5) SPECIAL RULES FOR FOREIGN SOURCE PORTION OF DIVIDENDS RECEIVED FROM SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.—

"(A) 6-MONTH HOLDING PERIOD REQUIREMENT.—For purposes of section 245A—

"(i) paragraph (1)(A) shall be applied—

"(I) by substituting '180 days' for '45 days'each place it appears, and

"(II) by substituting '361-day period' for '91-day period', and

"(ii) paragraph (2) shall not apply.

"(B) STATUS MUST BE MAINTAINED DURING HOLDING PERIOD.—For purposes of section 245A, the holding period requirement of this subsection shall be treated as met only if—

"(i) the specified 10-percent owned corporation referred to in section 245A(a) is a specified 10-percent owned corporation at all times during such period, and

"(ii) the taxpayer is a United States shareholder with respect to such specified

10-percent owned corporation at all times during such period.''.

(c) APPLICATION OF RULES GENERALLY APPLICABLE TO DEDUCTIONS FOR DIVIDENDS RECEIVED.—

(1) TREATMENT OF DIVIDENDS FROM CERTAIN CORPORATIONS.—Paragraph (1) of section 246(a) is amended by striking ''and 245'' and inserting ''245, and 245A''.

(2) ASSETS GENERATING TAX-EXEMPT PORTION OF DIVIDEND NOT TAKEN INTO ACCOUNT IN ALLOCATING AND APPORTIONING DEDUCTIBLE EXPENSES.—Paragraph (3) of section 864(e) is amended by striking ''or 245(a)'' and inserting '', 245(a), or 245A''.

(3) COORDINATION WITH SECTION 1059.—Subparagraph (B) of section 1059(b)(2) is amended by striking ''or 245'' and inserting ''245, or 245A''.

(d) COORDINATION WITH FOREIGN TAX CREDIT LIMITATION.—Subsection (b) of section 904, as amended by the preceding provisions of this Act, is amended by redesignating paragraph (2) as paragraph (1) and by adding at the end the following new paragraph:

''(2) TREATMENT OF DIVIDENDS FOR WHICH DEDUCTION IS ALLOWED UNDER SECTION 245A.—For purposes of subsection (a), in the case of a do-

mestic corporation which is a United States shareholder with respect to a specified 10-percent owned foreign corporation, such domestic corporation's taxable income from sources without the United States shall be determined without regard to—

"(A) the foreign-source portion of any dividend received from such foreign corporation, and

"(B) any deductions properly allocable to such portion.

Any term which is used in section 245A and in this paragraph shall have the same meaning for purposes of this paragraph as when used in such section.".

(e) CONFORMING AMENDMENTS.—

(1) Paragraph (4) of section 245(a) is amended by striking "section 902(c)(1)" and inserting "section 245A(c)(2)".

(2) Subsection (b) of section 951 is amended by striking "subpart" and inserting "title".

(3) Subsection (a) of section 957 is amended by striking "subpart" in the matter preceding paragraph (1) and inserting "title".

(4) The table of sections for part VIII of subchapter B of chapter 1 is amended by inserting after

the item relating to section 245 the following new item:

"Sec. 245A. Dividends received by domestic corporations from certain foreign corporations.".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4002. LIMITATION ON LOSSES WITH RESPECT TO SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.

(a) BASIS IN SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATION REDUCED BY NONTAXED PORTION OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—

(1) IN GENERAL.—Section 961 is amended by adding at the end the following new subsection:

"(d) BASIS IN SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATION REDUCED BY NONTAXED PORTION OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—If a domestic corporation received a dividend from a specified 10-percent owned foreign corporation (as defined in section 245A) in any taxable year, solely for purposes of determining loss on any disposition in such taxable year or any subsequent taxable year, the basis of such domestic corporation in the stock of such foreign corporation shall

be reduced by the amount of any deduction allowable to such domestic corporation under section 245A with respect to such stock.''.

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply to dividends received in taxable years beginning after December 31, 2014.

(b) TREATMENT OF FOREIGN BRANCH LOSSES TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.—

(1) IN GENERAL.—Part II of subchapter B of chapter 1, as amended by the preceding provisions of this Act, is amended by adding at the end the following new section:

''SEC. 92. CERTAIN FOREIGN BRANCH LOSSES TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS.

''(a) IN GENERAL.—If a domestic corporation transfers substantially all of the assets of a foreign branch (within the meaning of section 367(a)(3)(C)) to a specified 10-percent owned foreign corporation (as defined in section 245A) with respect to which it is a United States shareholder after such transfer, such domestic corporation shall include in gross income for the taxable year which includes such transfer an amount equal to the transferred loss amount with respect to such transfer.

1 ''(b) LIMITATION AND CARRYFORWARD BASED ON
2 FOREIGN-SOURCE DIVIDENDS RECEIVED.—
3 ''(1) IN GENERAL.—The amount included in
4 the gross income of the taxpayer under subsection
5 (a) for any taxable year shall not exceed the amount
6 allowed as a deduction under section 245A for such
7 taxable year (taking into account dividends received
8 from all specified 10-percent owned foreign corpora-
9 tions with respect to which the taxpayer is a United
10 States shareholder).
11 ''(2) AMOUNTS NOT INCLUDED CARRIED FOR-
12 WARD.—Any amount not included in gross income
13 for any taxable year by reason of paragraph (1)
14 shall, subject to the application of paragraph (1) to
15 the succeeding taxable year, be included in gross in-
16 come for the succeeding taxable year.
17 ''(c) TRANSFERRED LOSS AMOUNT.—For purposes
18 of this section, the term 'transferred loss amount' means,
19 with respect to any transfer of substantially all of the as-
20 sets of a foreign branch, the excess (if any) of—
21 ''(1) the sum of losses—
22 ''(A) which were incurred by the foreign
23 branch after December 31, 2014, and before
24 the transfer, and

"(B) with respect to which a deduction was allowed to the taxpayer, over

"(2) the sum of—

"(A) any taxable income of such branch for a taxable year after the taxable year in which the loss was incurred and through the close of the taxable year of the transfer, and

"(B) any amount which is recognized under section 904(f)(3) on account of the transfer.

"(d) REDUCTION FOR RECOGNIZED GAINS.—

"(1) IN GENERAL.—In the case of a transfer not described in section 367(a)(3)(C), the transferred loss amount shall be reduced (but not below zero) by the amount of gain recognized by the taxpayer on account of the transfer (other than amounts taken into account under subsection (c)(2)(B)).

"(2) COORDINATION WITH RECOGNITION UNDER SECTION 367.—In the case of a transfer described in section 367(a)(3)(C), the transferred loss amount shall not exceed the excess (if any) of—

"(A) the excess of the amount described in section 367(a)(3)(C)(i) over the amount de-

scribed in section 367(a)(3)(C)(ii) with respect to such transfer, over

''(B) the amount of gain recognized under section 367(a)(3)(C) with respect to such transfer.

''(e) SOURCE OF INCOME.—Amounts included in gross income under this section shall be treated as derived from sources within the United States.

''(f) BASIS ADJUSTMENTS.—Consistent with such regulations or other guidance as the Secretary may prescribe, proper adjustments shall be made in the adjusted basis of the taxpayer's stock in the specified 10-percent owned foreign corporation to which the transfer is made, and in the transferee's adjusted basis in the property transferred, to reflect amounts included in gross income under this section.''.

(2) AMOUNTS RECOGNIZED UNDER SECTION 367 ON TRANSFER OF FOREIGN BRANCH WITH PREVIOUSLY DEDUCTED LOSSES TREATED AS UNITED STATES SOURCE.—Subparagraph (C) of section 367(a)(3) is amended by striking ''outside'' in the last sentence and inserting ''within''.

(3) CLERICAL AMENDMENT.—The table of subparts for such part, as amended by the preceding

provisions of this Act, is amended by adding at the end the following new item:

"Sec. 92. Certain foreign branch losses transferred to specified 10-percent owned foreign corporations.".

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply to transfers after December 31, 2014.

SEC. 4003. TREATMENT OF DEFERRED FOREIGN INCOME UPON TRANSITION TO PARTICIPATION EXEMPTION SYSTEM OF TAXATION.

(a) IN GENERAL.—Section 965 is amended to read as follows:

"SEC. 965. TREATMENT OF DEFERRED FOREIGN INCOME UPON TRANSITION TO PARTICIPATION EXEMPTION SYSTEM OF TAXATION.

"(a) TREATMENT OF DEFERRED FOREIGN INCOME AS SUBPART F INCOME.—In the case of the last taxable year of a deferred foreign income corporation which begins before January 1, 2015, the subpart F income of such foreign corporation (as otherwise determined for such taxable year under section 952) shall be increased by the accumulated post-1986 deferred foreign income of such corporation determined as of the close of such taxable year.

"(b) REDUCTION IN AMOUNTS INCLUDED IN GROSS INCOME OF UNITED STATES SHAREHOLDERS OF SPECI-

1 FIED FOREIGN CORPORATIONS WITH DEFICITS IN EARN-
2 INGS AND PROFITS.—
3 "(1) IN GENERAL.—In the case of a taxpayer
4 which is a United States shareholder with respect to
5 at least one deferred foreign income corporation and
6 at least one E&P deficit foreign corporation, the
7 amount which would (but for this subsection) be
8 taken into account under section 951(a)(1) by rea-
9 son of subsection (a) as such United States share-
10 holder's pro rata share of the subpart F income of
11 each deferred foreign income corporation shall be re-
12 duced (but not below zero) by the amount of such
13 United States shareholder's aggregate foreign E&P
14 deficit which is allocated under paragraph (2) to
15 such deferred foreign income corporation.
16 "(2) ALLOCATION OF AGGREGATE FOREIGN E&P
17 DEFICIT.—The aggregate foreign E&P deficit of any
18 United States shareholder shall be allocated among
19 the deferred foreign income corporations of such
20 United States shareholder in an amount which bears
21 the same proportion to such aggregate as—
22 "(A) such United States shareholder's pro
23 rata share of the accumulated post-1986 de-
24 ferred foreign income of each such deferred for-
25 eign income corporation, bears to

"(B) the aggregate of such United States shareholder's pro rata share of the accumulated post-1986 deferred foreign income of all deferred foreign income corporations of such United States shareholder.

"(3) DEFINITIONS RELATED TO E&P DEFICITS.—For purposes of this subsection—

"(A) AGGREGATE FOREIGN E&P DEFICIT.—The term 'aggregate foreign E&P deficit' means, with respect to any United States shareholder, the aggregate of such shareholder's pro rata shares of the specified E&P deficits of the E&P deficit foreign corporations of such shareholder.

"(B) E&P DEFICIT FOREIGN CORPORATION.—The term 'E&P deficit foreign corporation' means, with respect to any taxpayer, any specified foreign corporation with respect to which such taxpayer is a United States shareholder, if—

"(i) such specified foreign corporation has a deficit in post-1986 earnings and profits, and

"(ii) as of February 26, 2014—

"(I) such corporation was a specified foreign corporation, and

"(II) such taxpayer was a United States shareholder of such corporation.

"(C) SPECIFIED E&P DEFICIT.—The term 'specified E&P deficit' means, with respect to any E&P deficit foreign corporation, the amount of the deficit referred to in subparagraph (B).

"(c) APPLICATION OF PARTICIPATION EXEMPTION TO INCLUDED INCOME.—

"(1) IN GENERAL.—In the case of a United States shareholder of a deferred foreign income corporation, there shall be allowed as a deduction for the taxable year in which an amount is included in the gross income of such United States shareholder under section 951(a)(1) by reason of this section an amount equal to the sum of—

"(A) 90 percent of the excess (if any) of—

"(i) the amount so included as gross income, over

"(ii) the amount of such United States shareholder's aggregate foreign cash position, plus

"(B) 75 percent of so much of the amount described in subparagraph (A)(ii) as does not exceed the amount described in subparagraph (A)(i).

"(2) AGGREGATE FOREIGN CASH POSITION.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'aggregate foreign cash position' means, with respect to any United States shareholder, the greater of—

"(i) the aggregate of such United States shareholder's pro rata share of the cash position of each specified foreign corporation of such United States shareholder determined as of the close of the last taxable year of such specified foreign corporation which begins before January 1, 2015, or

"(ii) one half of the sum of—

"(I) the aggregate described in clause (i) determined as of the close of the last taxable year of each such specified foreign corporation which ends before February 26, 2014, plus

"(II) the aggregate described in clause (i) determined as of the close of

the taxable year of each such specified foreign corporation which precedes the taxable year referred to in subclause (I).

''(B) CASH POSITION.—For purposes of this paragraph, the cash position of any specified foreign corporation is the sum of—

''(i) cash and foreign currency held by such foreign corporation,

''(ii) the net accounts receivable of such foreign corporation, plus

''(iii) the fair market value of the following assets held by such corporation:

''(I) Actively traded personal property for which there is an established financial market.

''(II) Commercial paper, certificates of deposit, the securities of the Federal government and of any State or foreign government

''(III) Any obligation with a term of less than one year.

''(IV) Any asset which the Secretary identifies as being economically

equivalent to any asset described in this subparagraph.

"(C) NET ACCOUNTS RECEIVABLE.—For purposes of this paragraph, the term 'net accounts receivable' means, with respect to any specified foreign corporation, the excess (if any) of—

"(i) such corporation's accounts receivable, over

"(ii) such corporation's accounts payable (determined consistent with the rules of section 461).

"(D) PREVENTION OF DOUBLE COUNTING.—Cash positions of a specified foreign corporation described in clause (ii) or (iii)(III) of subparagraph (B) shall not be taken into account by a United States shareholder under subparagraph (A) to the extent that such United States shareholder demonstrates to the satisfaction of the Secretary that such amount is so taken into account by such United States shareholder with respect to another specified foreign corporation.

"(E) CASH POSITIONS OF FOREIGN PASS-THRU ENTITIES TAKEN INTO ACCOUNT.—Any

foreign entity which would be a specified foreign corporation of a United States shareholder if such entity were a corporation shall be treated as a specified foreign corporation of such United States shareholder for purposes of determining such United States shareholder's aggregate foreign cash position.

"(F) ANTI-ABUSE.—If the Secretary determines that the principal purpose of any transaction was to reduce the aggregate foreign cash position taken into account under this subsection, such transaction shall be disregarded for purposes of this subsection.

"(d) DEFERRED FOREIGN INCOME CORPORATION; ACCUMULATED POST-1986 DEFERRED FOREIGN INCOME.—For purposes of this section—

"(1) DEFERRED FOREIGN INCOME CORPORATION.—The term 'deferred foreign income corporation' means, with respect to any United States shareholder, any specified foreign corporation of such United States shareholder which has accumulated post-1986 deferred foreign income (as of the close of the taxable year referred to in subsection (a)) greater than zero.

1 ''(2) ACCUMULATED POST-1986 DEFERRED FOR-
2 EIGN INCOME.—The term 'accumulated post-1986
3 deferred foreign income' means the post-1986 earn-
4 ings and profits except to the extent such earnings—
5 ''(A) are attributable to income of the
6 specified foreign corporation which is effectively
7 connected with the conduct of a trade or busi-
8 ness within the United States and subject to
9 tax under this chapter,
10 ''(B) if distributed, would—
11 ''(i) in the case of a controlled foreign
12 corporation, be excluded from the gross in-
13 come of a United States shareholder under
14 section 959, or
15 ''(ii) in the case of any passive foreign
16 investment company (as defined in section
17 1297) other than a controlled foreign cor-
18 poration, be treated as a distribution which
19 is not a dividend, or
20 ''(C) in the case of any passive foreign in-
21 vestment company (as so defined), is properly
22 attributable to an unreversed inclusion of a
23 United States person under section 1296.
24 To the extent provided in regulations or other guid-
25 ance prescribed by the Secretary, in the case of any

1 controlled foreign corporation which has share-
2 holders which are not United States shareholders,
3 accumulated post-1986 deferred foreign income shall
4 be appropriately reduced by amounts which would be
5 described in subparagraph (B)(i) is such share-
6 holders were United States shareholders. Such regu-
7 lations or other guidance may provide a similar rule
8 for purposes of subparagraph (B)(ii) and (C).
9 ''(3) POST-1986 EARNINGS AND PROFITS.—The
10 term 'post-1986 earnings and profits' means the
11 earnings and profits of the foreign corporation (com-
12 puted in accordance with sections 964(a) and 986)
13 accumulated in taxable years beginning after Decem-
14 ber 31, 1986, and determined—
15 ''(A) as of the close the taxable year re-
16 ferred to in subsection (a), and
17 ''(B) without diminution by reason of divi-
18 dends distributed during such taxable year.
19 ''(e) SPECIFIED FOREIGN CORPORATION.—
20 ''(1) IN GENERAL.—For purposes of this sec-
21 tion, the term 'specified foreign corporation'
22 means—
23 ''(A) any controlled foreign corporation,
24 and

"(B) any section 902 corporation (as defined in section 909(d)(5) as in effect before the date of the enactment of the Tax Reform Act of 2014).

"(2) APPLICATION TO SECTION 902 CORPORATIONS.—For purposes of section 951, a section 902 corporation (as so defined) shall be treated as a controlled foreign corporation solely for purposes of taking into account the subpart F income of such corporation under subsection (a) (and for purposes of applying subsection (f)).

"(f) DETERMINATIONS OF PRO RATA SHARE.—For purposes of this section, the determination of any United States shareholder's pro rata share of any amount with respect to any specified foreign corporation shall be determined under rules similar to the rules of section 951(a)(2) by treating such amount in the same manner as subpart F income (and by treating such specified foreign corporation as a controlled foreign corporation).

"(g) DISALLOWANCE OF FOREIGN TAX CREDIT, ETC.—

"(1) IN GENERAL.—No credit shall be allowed under section 901 for the applicable percentage of any taxes paid or accrued (or treated as paid or ac-

crued) with respect to any amount for which a deduction is allowed under this section.

"(2) APPLICABLE PERCENTAGE.—For purposes of this subsection, the term 'applicable percentage' means the amount (expressed as a percentage) equal to the sum of—

"(A) 0.9 multiplied by the ratio of—

"(i) the excess to which subsection (c)(1)(A) applies, divided by

"(ii) the sum of such excess plus the amount to which subsection (c)(1)(B) applies, plus

"(B) 0.75 multiplied by the ratio of—

"(i) the amount to which subsection (c)(1)(B) applies, divided by

"(ii) the sum described in subparagraph (A)(ii).

"(3) DENIAL OF DEDUCTION.—No deduction shall be allowed under this chapter for any tax for which credit is not allowable under section 901 by reason of paragraph (1) (determined by treating the taxpayer as having elected the benefits of subpart A of part III of subchapter N).

"(4) COORDINATION WITH SECTION 78.—Section 78 shall not apply to any tax for which credit

is not allowable under section 901 by reason of paragraph (1).

"(h) ELECTION TO PAY LIABILITY IN INSTALLMENTS.—

"(1) IN GENERAL.—In the case of a United States shareholder of a deferred foreign income corporation, such United States shareholder may elect to pay the net tax liability under this section in 8 installments of the following amounts:

"(A) 8 percent of the net tax liability in the case of each of the first 5 of such installments,

"(B) 15 percent of the net tax liability in the case of the 6th such installment,

"(C) 20 percent of the net tax liability in the case of the 7th such installment, and

"(D) 25 percent of the net tax liability in the case of the 8th such installment.

"(2) DATE FOR PAYMENT OF INSTALLMENTS.—If an election is made under paragraph (1), the first installment shall be paid on the due date (determined without regard to any extension of time for filing the return) for the return of tax for the taxable year described in subsection (b) and each succeeding installment shall be paid on the due date (as

so determined) for the return of tax for the taxable year following the taxable year with respect to which the preceding installment was made.

"(3) ACCELERATION OF PAYMENT.—If there is an addition to tax for failure to pay timely assessed with respect to any installment required under this subsection, a liquidation or sale of substantially all the assets of the taxpayer (including in a title 11 or similar case), a cessation of business by the taxpayer, or any similar circumstance, then the unpaid portion of all remaining installments shall be due on the date of such event (or in the case of a title 11 or similar case, the day before the petition is filed). The preceding sentence shall not apply to the sale of substantially all the assets of a taxpayer to a buyer if such buyer enters into an agreement with the Secretary under which such buyer is liable for the remaining installments due under this subsection in the same manner as if such buyer were the taxpayer.

"(4) PRORATION OF DEFICIENCY TO INSTALLMENTS.—If an election is made under paragraph (1) to pay the net tax liability under this section in installments and a deficiency has been assessed with respect to such net tax liability, the deficiency shall

be prorated to the installments payable under paragraph (1). The part of the deficiency so prorated to any installment the date for payment of which has not arrived shall be collected at the same time as, and as a part of, such installment. The part of the deficiency so prorated to any installment the date for payment of which has arrived shall be paid upon notice and demand from the Secretary. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

"(5) ELECTION.—Any election under paragraph (1) shall be made not later than the due date for the return of tax for the taxable year described in subsection (a) and shall be made in such manner as the Secretary may provide.

"(6) NET TAX LIABILITY UNDER THIS SECTION.—For purposes of this subsection—

"(A) IN GENERAL.—The net tax liability under this section with respect to any United States shareholder is the excess (if any) of—

"(i) such taxpayer's net income tax for the taxable year described in subsection (a), over

"(ii) such taxpayer's net income tax for such taxable year determined without regard to this section.

"(B) NET INCOME TAX.—The term 'net income tax' means the regular tax liability reduced by the credits allowed under subparts A, B, and D of part IV of subchapter A.

"(i) SPECIAL RULES FOR S CORPORATION SHAREHOLDERS.—

"(1) IN GENERAL.—In the case of any S corporation which is a United States shareholder of a deferred foreign income corporation, each shareholder of such S corporation may elect to defer payment of such shareholder's net tax liability under this section with respect to such S corporation until the shareholder's taxable year which includes the triggering event with respect to such liability.

"(2) TRIGGERING EVENT.—

"(A) IN GENERAL.—In the case of any shareholder's net tax liability under this section with respect to any S corporation, the triggering event with respect to such liability is whichever of the following occurs first:

"(i) Such corporation ceases to be an S corporation (determined as of the first

day of the first taxable year that such corporation is not an S corporation).

"(ii) A liquidation or sale of substantially all the assets of such S corporation (including in a title 11 or similar case), a cessation of business by such S corporation, such S corporation ceases to exist, or any similar circumstance.

"(iii) A transfer of any share of stock in such S corporation by the taxpayer (including by reason of death, or otherwise).

"(B) PARTIAL TRANSFERS OF STOCK.—In the case of a transfer of less than all of the taxpayer's shares of stock in the S corporation, such transfer shall only be a triggering event with respect to so much of the taxpayer's net tax liability under this section with respect to such S corporation as is properly allocable to such stock.

"(C) TRANSFER OF LIABILITY.—A transfer described in clause (iii) shall not be treated as a triggering event if the transferee enters into an agreement with the Secretary under which such transferee is liable for net tax liabil-

ity with respect to such stock in the same manner as if such transferee were the taxpayer.

"(3) NET TAX LIABILITY.—A shareholder's net tax liability under this section with respect to any S corporation is the net tax liability under this section which would be determined under subsection (h)(6) if the only subpart F income taken into account by such shareholder by reason of this section were allocations from such S corporation.

"(4) ELECTION TO PAY DEFERRED LIABILITY IN INSTALLMENTS.—In the case of a taxpayer which elects to defer payment under paragraph (1), subsection (h) shall be applied—

"(A) separately with respect to the liability to which such election applies,

"(B) an election under subsection (h) with respect to such liability shall be treated as timely made if made not later than the due date for the return of tax for the taxable year in which the triggering event with respect to such liability occurs,

"(C) the first installment under subsection (h) with respect to such liability shall be paid not later than such due date (but determined

without regard to any extension of time for filing the return), and

"(D) if the triggering event with respect to any net tax liability is described in paragraph (2)(A)(ii), an election under subsection (h) with respect to such liability may be made only with the consent of the Secretary.

"(5) JOINT AND SEVERAL LIABILITY OF S CORPORATION.—If any shareholder of an S corporation elects to defer payment under paragraph (1), such S corporation shall be jointly and severally liable for such payment and any penalty, addition to tax, or additional amount attributable thereto.

"(6) EXTENSION OF LIMITATION ON COLLECTION.—Notwithstanding any other provision of law, any limitation on the time period for the collection of a liability deferred under this subsection shall not be treated as beginning before the date of the triggering event with respect to such liability.

"(7) ELECTION.—Any election under paragraph (1) shall be made not later than the due date for the return of tax for the taxable year described in subsection (a) and shall be made in such manner as the Secretary may provide.

"(j) INCLUSION OF DEFERRED FOREIGN INCOME UNDER THIS SECTION NOT TO TRIGGER RECAPTURE OF OVERALL FOREIGN LOSS.—For purposes of section 904(f)(1), in the case of a United States shareholder of a deferred foreign income corporation, such United States shareholder's taxable income from sources without the United States shall be determined without regard to this section.

"(k) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as may be necessary or appropriate to carry out the provisions of this section.".

(b) DEDICATION OF REVENUES TO HIGHWAY TRUST FUND.—

(1) IN GENERAL.—Section 9503(f) is amended by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

"(5) APPROPRIATION TO TRUST FUND OF NET TAX LIABILITIES RECEIVED UNDER SECTION 965.—

"(A) IN GENERAL.—Out of money in the Treasury not otherwise appropriated, there are hereby appropriated to the Highway Trust Fund amounts equivalent to the aggregate net tax liabilities under section 965 (as defined in such section) received in the Treasury.

"(B) MONTHLY TRANSFERS BASED ON ESTIMATES.—For rule providing for the monthly transfer of amounts appropriated under subparagraph (A) based on estimates of the Secretary, see section 9601.".

(2) TRANSFERS TO MASS TRANSIT ACCOUNT.—Section 9503(e)(2) is amended by striking "the mass transit portion" and inserting ", 20 percent of the amounts appropriated to the Highway Trust Fund under subsection (f)(5), and the mass transit portion".

(c) CLERICAL AMENDMENT.—The table of section for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 965 and inserting the following:

"Sec. 965. Treatment of deferred foreign income upon transition to participation exemption system of taxation.".

SEC. 4004. LOOK-THRU RULE FOR RELATED CONTROLLED FOREIGN CORPORATIONS MADE PERMANENT.

(a) IN GENERAL.—Paragraph (6) of section 954(c) is amended by striking subparagraph (C).

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2013, and to taxable

years of United States shareholders in which or with which such taxable years of foreign corporations end.

Subtitle B—Modifications Related to Foreign Tax Credit System

SEC. 4101. REPEAL OF SECTION 902 INDIRECT FOREIGN TAX CREDITS; DETERMINATION OF SECTION 960 CREDIT ON CURRENT YEAR BASIS.

(a) REPEAL OF SECTION 902 INDIRECT FOREIGN TAX CREDITS.—Subpart A of part III of subchapter N of chapter 1 is amended by striking section 902.

(b) DETERMINATION OF SECTION 960 CREDIT ON CURRENT YEAR BASIS.—Section 960 is amended—

(1) by striking subsection (c), by redesignating subsection (b) as subsection (c), by striking all that precedes subsection (c) (as so redesignated) and inserting the following:

"SEC. 960. DEEMED PAID CREDIT FOR SUBPART F INCLUSIONS.

"(a) IN GENERAL.—For purposes of this subpart, if there is included in the gross income of a domestic corporation any item of income under section 951(a)(1) with respect to any controlled foreign corporation with respect to which such domestic corporation is a United States shareholder, such domestic corporation shall be deemed to have paid so much of such foreign corporation's foreign

income taxes as are properly attributable to the item of income so included.

"(b) SPECIAL RULES FOR DISTRIBUTIONS FROM PREVIOUSLY TAXED EARNINGS AND PROFITS.—For purposes of this subpart—

"(1) IN GENERAL.—If any portion of a distribution from a controlled foreign corporation to a domestic corporation which is a United States shareholder with respect to such controlled foreign corporation is excluded from gross income under section 959(a), such domestic corporation shall be deemed to have paid so much of such foreign corporation's foreign income taxes as—

"(A) are properly attributable to such portion, and

"(B) have not been deemed to have to been paid by such domestic corporation under this section for any prior taxable year.

"(2) TIERED CONTROLLED FOREIGN CORPORATIONS.—If section 959(b) applies to any portion of a distribution from a controlled foreign corporation to another controlled foreign corporation, such controlled foreign corporation shall be deemed to have paid so much of such other controlled foreign corporation's foreign income taxes as—

"(A) are properly attributable to such portion, and

"(B) have not been deemed to have been paid by a domestic corporation under this section for any prior taxable year.",

(2) and by adding after subsection (c) (as so redesignated) the following new subsections:

"(d) FOREIGN INCOME TAXES.—The term 'foreign income taxes' means any income, war profits, or excess profits taxes paid or accrued to any foreign country or possession of the United States.

"(e) REGULATIONS.—The Secretary shall provide such regulations as may be necessary or appropriate to carry out the provisions of this section.".

(c) CONFORMING AMENDMENTS.—

(1) Section 78 is amended to read as follows:

"SEC. 78. GROSS UP FOR DEEMED PAID FOREIGN TAX CREDIT.

"If a domestic corporation chooses to have the benefits of subpart A of part III of subchapter N (relating to foreign tax credit) for any taxable year, an amount equal to the taxes deemed to be paid by such corporation under section 960 (relating to deemed paid credit for subpart F inclusions) for such taxable year shall be treated for purposes of this title (other than section 960) as an

item of income required to be included in the gross income of such domestic corporation under section 951(a).''.

(2) Section 245(a)(10) is amended by striking ''902,''.

(3) Sections 535(b)(1) and 545(b)(1) are each amended by striking ''section 902(a) or 960(a)(1)'' and inserting ''section 960''.

(4) Paragraph (1) of section 814(f) is amended—

(A) by striking subparagraph (B), and

(B) by striking all that precedes ''No income'' and inserting the following:

''(1) TREATMENT OF FOREIGN TAXES.—''.

(5) Subparagraph (B) of section 864(h)(1) is amended by striking ''902,''.

(6) Subsection (a) of section 901 is amended by striking ''sections 902 and 960'' and inserting ''section 960''.

(7) Paragraph (2) of section 901(e) is amended by striking ''but is not limited to—'' and all that follows through ''that portion'' and inserting ''but is not limited to that portion''.

(8) Subsection (f) of section 901 is amended by striking ''sections 902 and 960'' and inserting ''section 960''.

(9) Subparagraph (A) of section 901(j)(1) is amended by striking ''902 or''.

(10) Subparagraph (B) of section 901(j)(1) is amended by striking ''sections 902 and 960'' and inserting ''section 960''.

(11) Paragraph (2) of section 901(k) is amended by striking ''902,''.

(12) Paragraph (6) of section 901(k) is amended by striking ''902 or''.

(13) Subparagraph (A) of section 904(h)(10) is amended by striking ''sections 902, 907, and 960'' and inserting ''sections 907 and 960''.

(14) Section 904 is amended by striking subsection (k).

(15) Paragraph (1) of section 905(c) is amended by striking the last sentence.

(16) Subclause (I) of section 905(c)(2)(B)(i) is amended by striking ''section 902 or''.

(17) Subsection (a) of section 906 is amended by striking ''(or deemed, under section 902, paid or accrued during the taxable year)''.

(18) Subsection (b) of section 906 is amended by striking paragraphs (4) and (5).

(19) Subparagraph (B) of section 907(b)(2) is amended by striking ''902 or''.

(20) Paragraph (3) of section 907(c) is amended—

(A) by striking subparagraph (A) and redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively, and

(B) by striking ''section 960(a)'' in subparagraph (A) (as so redesignated) and inserting ''section 960''.

(21) Paragraph (5) of section 907(c) is amended by striking ''902 or''.

(22) Clause (i) of section 907(f)(2)(B) is amended by striking ''902 or''.

(23) Subsection (a) of section 908 is amended by striking ''902 or''.

(24) Subsection (b) of section 909 is amended—

(A) by striking ''section 902 corporation'' in the matter preceding paragraph (1) and inserting ''specified 10-percent owned foreign corporation'',

(B) by striking ''902 or'' in paragraph (1),

(C) by striking ''by such section 902 corporation'' and all that follows in the matter following paragraph (2) and inserting ''by such specified 10-percent owned foreign corporation

or a domestic corporation which is a United States shareholder with respect to such specified 10-percent owned foreign corporation.'', and

(D) by striking ''SECTION 902 CORPORATIONS'' in the heading thereof and inserting ''SPECIFIED 10-PERCENT OWNED FOREIGN CORPORATIONS''.

(25) Subsection (d) of section 909 is amended by striking paragraph (5).

(26) Paragraph (1) of section 958(a) is amended by striking ''960(a)(1)'' and inserting ''960''.

(27) Subsection (d) of section 959 is amended by striking ''Except as provided in section 960(a)(3), any'' and inserting ''Any''.

(28) Subsection (e) of section 959 is amended by striking ''and section 960(b)''.

(29) Subparagraph (A) of section 1291(g)(2) is amended by striking ''any distribution—'' and all that follows through ''but only if'' and inserting ''any distribution, any withholding tax imposed with respect to such distribution, but only if''.

(30) Section 1293 is amended by striking subsection (f).

(31) Subparagraph (B) of section 6038(c)(1) is amended by striking ''sections 902 (relating to foreign tax credit for corporate stockholder in foreign corporation) and 960 (relating to special rules for foreign tax credit)'' and inserting ''section 960''.

(32) Paragraph (4) of section 6038(c) is amended by striking subparagraph (C).

(33) The table of sections for subpart A of part III of subchapter N of chapter 1 is amended by striking the item relating to section 902.

(34) The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 960 and inserting the following:

''Sec. 960. Deemed paid credit for subpart F inclusions.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4102. FOREIGN TAX CREDIT LIMITATION APPLIED BY ALLOCATING ONLY DIRECTLY ALLOCABLE DEDUCTIONS TO FOREIGN SOURCE INCOME.

(a) IN GENERAL.—Subsection (b) of section 904, as amended by the preceding provisions of this Act, is amended by adding at the end the following new paragraph:

"(3) DEDUCTIONS ALLOCABLE TO FOREIGN SOURCE INCOME ONLY IF DIRECTLY ALLOCABLE.—For purposes of subsection (a), the taxpayer's taxable income from sources without the United States shall be determined by allocating deductions to such income only if such deductions are directly allocable to such income.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4103. PASSIVE CATEGORY INCOME EXPANDED TO INCLUDE OTHER MOBILE INCOME.

(a) TREATMENT OF FOREIGN BASE COMPANY INTANGIBLE INCOME AND FOREIGN BASE COMPANY SALES INCOME AS MOBILE CATEGORY INCOME.—Clause (i) of section 904(d)(2)(A) is amended by striking "and specified passive category income" and inserting "specified passive category income, foreign base company sales income (as defined in section 954(d)), and foreign base company intangible income (as defined in section 954(f))".

(b) REPEAL OF SPECIAL RULES TREATING FINANCIAL SERVICES INCOME AS GENERAL CATEGORY INCOME.—Paragraph (2) of section 904(d) is amended by

1 striking subparagraphs (C) and (D) and by redesignating
2 subparagraphs (E) through (K) as subparagraphs (C)
3 through (I), respectively.

4 (c) CONFORMING AMENDMENTS.—

5 (1) RELATING TO REFERENCES TO PASSIVE IN-
6 COME.—

7 (A) Section 904(d)(1)(A) is amended by
8 striking ''passive category income'' and insert-
9 ing ''mobile category income''.

10 (B) Section 904(d)(2)(A)(i), as amended
11 by subsection (a), is amended—

12 (i) by striking ''PASSIVE CATEGORY
13 INCOME'' in the heading thereof and insert-
14 ing ''MOBILE CATEGORY INCOME'',

15 (ii) by striking ''passive category in-
16 come'' and inserting ''mobile category in-
17 come'',

18 (iii) by striking ''passive income'' and
19 inserting ''mobile income'', and

20 (iv) by striking ''specified passive cat-
21 egory income'' and inserting ''specified mo-
22 bile category income''.

23 (C) Section 904(d)(2)(A)(ii) is amended by
24 striking ''passive category income'' and insert-
25 ing ''mobile category income''.

(D) Section 904(d)(2)(B) is amended—

(i) by striking ''PASSIVE INCOME'' in the heading thereof and inserting ''MOBILE INCOME'',

(ii) by striking ''passive income'' in clauses (i), (ii), and (iii) and inserting ''mobile income'',

(iii) by striking ''SPECIFIED PASSIVE CATEGORY INCOME'' in the heading of clause (iv) and inserting ''SPECIFIED MOBILE CATEGORY INCOME'', and

(iv) by striking ''specified passive category income'' in clause (iv) and inserting ''specified mobile category income''.

(E) Section 904(d)(2)(D), as redesignated by subsection (b), is amended by striking ''passive income'' and inserting ''mobile income''.

(F) Section 904(d)(3)(A) is amended by striking ''passive category income'' and inserting ''mobile category income''.

(G) Section 904(d)(3)(B) is amended by striking ''passive category income'' both places it appears and inserting ''mobile category income''.

(H) Section 904(d)(3)(C) is amended by striking ''passive category income'' both places it appears and inserting ''mobile category income''.

(I) Section 904(d)(3)(D) is amended by striking ''passive category income'' both places it appears and inserting ''mobile category income''.

(J) Section 904(d)(3)(E) is amended—

(i) by striking ''passive category income'' both places it appears and inserting ''mobile category income'', and

(ii) by striking ''passive income'' and inserting ''mobile income''.

(K) Section 904(d)(3)(F) is amended by striking ''passive category income'' both places it appears and inserting ''mobile category income''.

(2) OTHER CONFORMING AMENDMENTS.—

(A) Subparagraph (B) of section 864(f)(5) is amended by inserting ''(as in effect before its repeal)'' after ''section 904(d)(2)(D)(ii)''.

(B) Subparagraph (B) of section 954(c)(2) is amended by striking ''section 904(d)(2)(G)'' and inserting ''section 904(d)(2)(E)''.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

(2) TREATMENT OF CARRYFORWARDS AND CARRYBACKS.—For purposes of section 904 of the Internal Revenue Code of 1986—

(A) the amendments made by this section shall apply to any taxes carried from any taxable year beginning before January 1, 2015, to any taxable year beginning on or after such date, and

(B) the Secretary of the Treasury, or his designee, may by regulations provide for the allocation of any carryback of taxes with respect to income from a taxable year beginning on or after January 1, 2015, to a taxable year beginning before such date for purposes of allocating such income among the separate categories in effect under section 904(d) for the taxable year to which carried.

SEC. 4104. SOURCE OF INCOME FROM SALES OF INVENTORY DETERMINED SOLELY ON BASIS OF PRODUCTION ACTIVITIES.

(a) IN GENERAL.—Subsection (b) of section 863 is amended by adding at the end the following: ''Gains, profits, and income from the sale or exchange of inventory property described in paragraph (2) shall be allocated and apportioned between sources within and without the United States solely on the basis of the production activities with respect to the property.''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

Subtitle C—Rules Related to Passive and Mobile Income

PART 1—MODIFICATION OF SUBPART F PROVISIONS

SEC. 4201. SUBPART F INCOME TO ONLY INCLUDE LOW-TAXED FOREIGN INCOME.

(a) IN GENERAL.—Subsection (a) of section 954 is amended—

(1) by redesignating paragraphs (1), (2), (3), and (5) as subparagraphs (A) through (D), respectively,

(2) by striking ''For purposes of'' and inserting the following:

"(1) IN GENERAL.—For purposes of", and

(3) by adding at the end the following new paragraph:

"(2) APPLICATION ONLY TO FOREIGN BASE COMPANY INCOME SUBJECT TO A LOW FOREIGN EFFECTIVE RATE OF TAX.—

"(A) IN GENERAL.—Foreign base company income shall only include items of income received by a controlled foreign corporation which are subject to an effective rate of income tax imposed by a foreign country which is less than 100 percent of the maximum rate of tax specified in section 11.

"(B) APPLICATION TO FOREIGN BASE COMPANY INCOME SUBJECT TO REDUCED DOMESTIC RATE OF TAX.—

"(i) FOREIGN BASE COMPANY SALES INCOME.—In the case of foreign base company sales income, subparagraph (A) shall be applied by substituting '50 percent' for '100 percent'.

"(ii) FOREIGN BASE COMPANY INTANGIBLE INCOME.—In the case of foreign base company intangible income, subparagraph (A) shall be applied—

"(I) by substituting 'the applicable percentage of the foreign percentage (determined under section 250(c) with respect to the controlled foreign corporation)' for '100 percent', and

"(II) by treating the foreign base company intangible income as a single item of income.

"(iii) APPLICABLE PERCENTAGE.—For purposes of clause (ii)(I), the term 'applicable percentage' means, with respect to any taxable year of a controlled foreign corporation, the percentage determined in accordance with the following table:

"In the case of any taxable year beginning in:	The applicable percentage is:
2015	45 percent
2016	48 percent
2017	52 percent
2018	56 percent
2019 or thereafter	60 percent.".

(b) INSURANCE INCOME.—Subsection (a) of section 953 is amended by redesignating paragraph (2) as paragraph (3) and by inserting after paragraph (1) the following new paragraph:

"(2) APPLICATION ONLY TO INSURANCE INCOME SUBJECT TO A LOW FOREIGN EFFECTIVE RATE OF TAX.—Insurance income shall only include

items of income received by a controlled foreign corporation which are subject to an effective rate of income tax imposed by a foreign country which is less than the maximum rate of tax specified in section 11.''.

(c) CONFORMING AMENDMENTS.—

(1) Section 954(b)(3)(B) is amended by striking ''paragraphs (4) and (5)'' and inserting ''subsection (a)(2), section 953(a)(2), and paragraph (5)''

(2) Section 954(b) is amended by striking paragraph (4).

(3) Section 954(c)(1) is amended by striking ''subsection (a)(1)'' and inserting ''this section''.

(4) Section 954(d)(1) is amended by striking ''subsection (a)(2)'' and inserting ''this section''.

(5) Section 954(e)(1) is amended by striking ''subsection (a)(3)'' and inserting ''this section''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4202. FOREIGN BASE COMPANY SALES INCOME.

(a) 50 PERCENT EXCLUSION FOR LOW-TAXED FOREIGN BASE COMPANY SALES INCOME.—

(1) IN GENERAL.—Subparagraph (B) of section 954(a)(1), as amended by the preceding provisions of this Act, is amended by inserting ''50 percent of'' before ''the foreign base company sales income''.

(2) PRESERVATION OF DEEMED PAID FOREIGN TAX CREDIT ON LOW-TAXED FOREIGN BASE COMPANY INCOME.—Section 960, as amended by this Act, is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

''(c) DEEMED PAID CREDIT DETERMINED WITHOUT REGARD TO CERTAIN EXCLUSIONS FROM SUBPART F INCOME.—Solely for purposes of subsection (a), section 954(a)(1)(B) shall be applied by substituting '100 percent' for '50 percent' in determining amounts included under section 951(a)(1).''.

(b) EXCEPTION FROM FOREIGN BASE COMPANY SALES INCOME FOR FOREIGN CORPORATIONS ELIGIBLE FOR BENEFITS UNDER COMPREHENSIVE INCOME TAX TREATIES.—Section 954(d) is amended by adding at the end the following new paragraph:

''(5) EXCEPTION FOR FOREIGN CORPORATIONS ELIGIBLE FOR BENEFITS UNDER COMPREHENSIVE

INCOME TAX TREATIES.—No portion of the gross income of a controlled foreign corporation shall be treated as foreign base company sales income if such controlled foreign corporation is eligible as a qualified resident for all of the benefits provided under a comprehensive income tax treaty with the United States.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4203. INFLATION ADJUSTMENT OF DE MINIMIS EXCEPTION FOR FOREIGN BASE COMPANY INCOME.

(a) IN GENERAL.—Paragraph (3) of section 954(b) is amended by adding at the end the following new subparagraph:

''(D) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2015, the dollar amount in subparagraph (A)(ii) shall be increased by an amount equal to—

''(i) such dollar amount, multiplied by

''(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which the taxable year be-

gins, determined by substituting 'calendar year 2014' for 'calendar year 2012' in clause (ii) thereof.

Any increase determined under the preceding sentence shall be rounded to the nearest multiple of $50,000.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4204. ACTIVE FINANCING EXCEPTION EXTENDED WITH LIMITATION FOR LOW-TAXED FOREIGN INCOME.

(a) EXTENSION OF ACTIVE FINANCING EXCEPTION.—

(1) IN GENERAL.—Paragraph (9) of section 954(h) is amended by striking ''January 1, 2014'' and inserting ''January 1, 2019''.

(2) EXEMPT INSURANCE INCOME.—Paragraph (10) of section 953(e) is amended—

(A) by striking ''January 1, 2014'' and inserting ''January 1, 2019'', and

(B) by striking ''December 31, 2013'' and inserting ''December 31, 2018''.

(b) LIMITATION FOR LOW-TAXED FOREIGN INCOME.—

(1) IN GENERAL.—Paragraph (1) of section 954(h) is amended to read as follows:

''(1) IN GENERAL.—For purposes of subsection (c)(1), in the case of an eligible controlled foreign corporation, foreign personal holding company income shall not include—

''(A) qualified banking or financing income which is subject to an effective rate of income tax imposed by a foreign country which is at least 50 percent of the maximum rate of tax specified in section 11, and

''(B) 50 percent of any other qualified banking or financing income of such eligible controlled foreign corporation.''.

(2) INSURANCE BUSINESS INCOME.—Paragraph (1) of section 954(i) is amended to read as follows:

''(1) IN GENERAL.—For purposes of subsection (c)(1), in the case of a qualifying insurance company, foreign personal holding company income shall not include—

''(A) any qualified insurance income which is subject to an effective rate of income tax imposed by a foreign country which is at least 50

percent of the maximum rate of tax specified in section 11, and

"(B) 50 percent of any other qualified insurance income of such qualifying insurance company.".

(3) PRESERVATION OF DEEMED PAID FOREIGN TAX CREDIT ON HIGH-TAXED FOREIGN INCOME.—Subsection (c) of section 960, as amended by the preceding provisions of this Act, is amended by striking "Solely for purposes of subsection (a)" and all that following and inserting the following: "Solely for purposes of subsection (a)—

"(1) section 954(a)(1)(B) shall be applied by substituting '100 percent' for '50 percent', and

"(2) the exclusions under subsections (h)(1)(B) and (i)(1)(B) of section 954 shall not apply,

in determining amounts included under section 951(a)(1).".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2013, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

SEC. 4205. REPEAL OF INCLUSION BASED ON WITHDRAWAL OF PREVIOUSLY EXCLUDED SUBPART F INCOME FROM QUALIFIED INVESTMENT.

(a) IN GENERAL.—Subpart F of part III of subchapter N of chapter 1 is amended by striking section 955.

(b) CONFORMING AMENDMENTS.—

(1)(A) Subparagraph (A) of section 951(a)(1), as amended by this Act, is amended to read as follows:

"(A) his pro rata share (determined under paragraph (2)) of the corporation's subpart F income for such year, and".

(B) Paragraph (3) of section 851(b) is amended by striking "section 951(a)(1)(A)(i)" in the flush language at the end and inserting "section 951(a)(1)(A)".

(C) Clause (i) of section 952(c)(1)(B) is amended by striking "section 951(a)(1)(A)(i)" and inserting "section 951(a)(1)(A)".

(D) Subparagraph (C) of section 953(c)(1) is amended by striking "section 951(a)(1)(A)(i)" and inserting "section 951(a)(1)(A)".

(2) Subsection (a) of section 951 is amended by striking paragraph (3).

(3) Subclause (II) of section 953(d)(4)(B)(iv) is amended by striking ''or amounts referred to in clause (ii) or (iii) of section 951(a)(1)(A)''.

(4) Subsection (b) of section 964 is amended by striking '', 955,''.

(5) Section 970 is amended by striking subsection (b).

(6) The table of sections for subpart F of part III of subchapter N of chapter 1 is amended by striking the item relating to section 955.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

PART 2—PREVENTION OF BASE EROSION

SEC. 4211. FOREIGN INTANGIBLE INCOME SUBJECT TO TAXATION AT REDUCED RATE; INTANGIBLE INCOME TREATED AS SUBPART F INCOME.

(a) FOREIGN BASE COMPANY INTANGIBLE INCOME TREATED AS SUBPART F INCOME.—

(1) TREATMENT AS SUBPART F INCOME.—Paragraph (1) of section 954(a), as amended by the preceding provisions of this Act, is amended by redesignating subparagraph (D) as subparagraph (E)

and by inserting after subparagraph (C) the following new subparagraph:

"(D) the foreign base company intangible income for the taxable year (determined under subsection (f) and reduced as provided in subsection (b)(5)), and".

(2) FOREIGN BASE COMPANY INTANGIBLE INCOME DEFINED.—Section 954 of such Code is amended by inserting after subsection (e) the following new subsection:

"(f) FOREIGN BASE COMPANY INTANGIBLE INCOME.—For purposes of this section—

"(1) IN GENERAL.—The term 'foreign base company intangible income' means, with respect to any corporation for any taxable year, the excess of—

"(A) so much of the adjusted gross income of the corporation as exceeds 10 percent of the corporation's qualified business asset investment, over

"(B) the applicable percentage of such corporation's foreign personal holding company income, foreign base company sales income, foreign base company services income, and foreign base company oil related income.

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the term 'applicable percentage' means, with respect to any corporation for any taxable year, the ratio (expressed as a percentage) of—

"(A) the excess described in paragraph (1)(A), divided by

"(B) the adjusted gross income of the corporation.

"(3) QUALIFIED BUSINESS ASSET INVESTMENT.—

"(A) IN GENERAL.—The term 'qualified business asset investment' means, with respect to any corporation for any taxable year, the aggregate of the corporation's adjusted bases (determined as of the close of such taxable year and after any adjustments with respect to such taxable year) in specified tangible property—

"(i) used in a trade or business of the corporation, and

"(ii) of a type with respect to which a deduction is allowable under section 168.

"(B) DETERMINATION OF ADJUSTED BASIS.—For purposes of subparagraph (A), the adjusted basis in any property shall be determined without regard to any provision of this

title (or any other provision of law) which is enacted after the date of the enactment of this section.

"(C) REGULATIONS.—The Secretary shall issue such regulations or other guidance as the Secretary determines appropriate to prevent the avoidance of the purposes of this paragraph, including regulations or other guidance which provide for the treatment of property if—

"(i) such property is transferred, or held, temporarily, or

"(ii) the avoidance of the purposes of this paragraph is a factor in the transfer or holding of such property.

"(4) ADJUSTED GROSS INCOME; SPECIFIED TANGIBLE PROPERTY.—For purposes of this subsection—

"(A) ADJUSTED GROSS INCOME.—

"(i) IN GENERAL.—The term 'adjusted gross income' means, with respect to any corporation, the gross income of such corporation reduced by such corporation's commodities gross income.

"(ii) COMMODITIES GROSS INCOME.—The term 'commodities gross income'

means, with respect to any corporation, the gross income of such corporation which is derived from commodities which are produced or extracted by such corporation.

''(B) SPECIFIED TANGIBLE PROPERTY.—The term 'specified tangible property' means any tangible property unless such property is used in the production of commodities gross income. In the case of property which is used in the production of commodities gross income and other gross income, such property shall be treated as specified tangible property in the same proportion that the adjusted gross income produced with respect to such property bears to the total gross income produced with respect to such property.

''(C) COMMODITY.—The term 'commodity' means any commodity described in section 475(e)(2).''.

(3) APPLICATION ONLY TO FOREIGN BASE COMPANY INTANGIBLE INCOME SUBJECT TO A LOW FOREIGN EFFECTIVE RATE OF TAX.—Paragraph (2) of section 954(a), as amended by preceding provisions of this Act, is amended by inserting ''or foreign base

company intangible income'' after ''foreign base company sales income''.

(4) CONFORMING AMENDMENT.—Paragraph (5) of section 954(b) is amended by inserting ''the foreign base company intangible income,'' before ''and the foreign base company oil related income''.

(b) DEDUCTION FOR FOREIGN INTANGIBLE INCOME.—

(1) IN GENERAL.—Part VIII of subchapter B of chapter 1 is amended by adding at the end the following new section:

''SEC. 250. FOREIGN INTANGIBLE INCOME.

''(a) IN GENERAL.—In the case of a domestic corporation for any taxable year, there shall be allowed as a deduction an amount equal to the applicable percentage of the lesser of—

''(1) the sum of—

''(A) the foreign percentage multiplied by the net imputed intangible income of such domestic corporation for such taxable year, plus

''(B) in the case of a domestic corporation which is a United States shareholder with respect to any controlled foreign corporation, the foreign percentage (determined with respect to such controlled foreign corporation) multiplied

by any foreign base company intangible income (as defined in section 954(f)) of such controlled foreign corporation which is included in the gross income of such domestic corporation under section 951 for such taxable year, or

''(2) taxable income of such domestic corporation (determined without regard to this section) for the taxable year.

''(b) NET IMPUTED INTANGIBLE INCOME.—For purposes of this subsection, the term 'net imputed intangible income' means the excess of—

''(1) the excess described in section 954(f)(1)(A), over

''(2) the deductions properly allocable to the amount described in paragraph (1).

''(c) FOREIGN PERCENTAGE.—For purposes of this section—

''(1) IN GENERAL.—The term 'foreign percentage' means, with respect to any corporation for any taxable year, the ratio (expressed as a percentage) of—

''(A) the foreign-derived adjusted gross income of such corporation for such taxable year, over

"(B) the adjusted gross income of such corporation for such taxable year.

"(2) FOREIGN-DERIVED ADJUSTED GROSS INCOME.—

"(A) IN GENERAL.—The term 'foreign-derived adjusted gross income' means, with respect to any corporation for any taxable year, any adjusted gross income of such corporation which is derived in connection with—

"(i) property which is sold for use, consumption, or disposition outside the United States, or

"(ii) services provided with respect to persons or property located outside the United States.

"(B) SPECIAL RULES.—

"(i) ULTIMATE DISPOSITION.—Property shall not be treated as sold for use, consumption, or disposition outside the United States if the taxpayer knew, or had reason to know, that such property would be ultimately sold for use, consumption, or disposition in the United States.

"(ii) SALES TO RELATED PARTIES.—If property is sold to a related party, such

sale shall not be treated as for use, consumption or disposition outside the United States unless—

"(I) such property is ultimately sold for use, consumption or disposition outside the United States, or

"(II) such property is resold to an unrelated party outside the United States and no related party knew or had reason to know that such property would be ultimately sold for use, consumption, or disposition in the United States.

"(iii) APPLICATION TO SERVICES.—Rules similar to the rules of clauses (i) and (ii) shall apply with respect to services described in subparagraph (A)(ii).

"(C) RELATED PARTY.—For purposes of this paragraph, the term 'related party' means any member of an affiliated group as defined in section 1504(a), determined—

"(i) by substituting 'more than 50 percent' for 'at least 80 percent' each place it appears, and

"(ii) without regard to paragraphs (2) and (3) of section 1504(b).

Any person (other than a corporation) shall be treated as a member of such group if such person is controlled by members of such group (including any entity treated as a member of such group by reason of this sentence) or controls any such member. For purposes of the preceding sentence, control shall be determined under the rules of section 954(d)(3).

"(3) ADJUSTED GROSS INCOME.—The term 'adjusted gross income' has the meaning given such term by section 954(f)(4).

"(d) APPLICABLE PERCENTAGE.—For purposes of this section, the term 'applicable percentage' means, with respect to any taxable year of the domestic corporation referred to in subsection (a), the percentage determined in accordance with the following table:

"In the case of any taxable year beginning in:	The applicable percentage is:
2015	55 percent
2016	52 percent
2017	48 percent
2018	44 percent
2019 or thereafter	40 percent.

"(e) REGULATIONS.—The Secretary may prescribe such regulations or other guidance as may be necessary or appropriate to carry out the provisions of this section.".

(2) CONFORMING AMENDMENTS.—

(A) Clause (i) of section 163(j)(6)(A), as amended by the preceding provisions of this Act, is amended by striking ''and'' at the end of subclause (II) and by adding at the end the following new subclause:

''(IV) any deduction allowable under section 250, and''.

(B) Subparagraph (C) of section 170(b)(2) is amended by striking ''and'' at the end of clause (iv), by redesignating clause (v) as clause (vi), and by inserting after clause (iv) the following new clause:

''(v) section 250, and''.

(C) Subsection (d) of section 172, as amended by the preceding provisions of this Act, is amended by adding at the end the following new paragraph:

''(7) DEDUCTION FOR FOREIGN INTANGIBLE INCOME.—The deduction under section 250 shall not be allowed.''.

(D) Paragraph (1) of section 246(b) is amended by striking ''and 247'' and inserting ''247, and 250''.

(E) Clause (iii) of section 469(i)(3)(D), as amended by the preceding provisions of this Act, is amended by striking ''and 222'' and inserting ''222, and 250''.

(c) EFFECTIVE DATE.—

(1) TREATMENT AS SUBPART F INCOME.—The amendments made by subsection (a) shall apply to taxable years of foreign corporations beginning after December 31, 2014, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

(2) DEDUCTION FOR FOREIGN INTANGIBLE INCOME.—The amendments made by subsection (b) shall apply to taxable years beginning after December 31, 2014.

SEC. 4212. DENIAL OF DEDUCTION FOR INTEREST EXPENSE OF UNITED STATES SHAREHOLDERS WHICH ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS WITH EXCESS DOMESTIC INDEBTEDNESS.

(a) IN GENERAL.—Section 163 is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

''(n) DISALLOWANCE OF DEDUCTION FOR INTEREST EXPENSE OF UNITED STATES SHAREHOLDERS WHICH

1 ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS
2 WITH EXCESS DOMESTIC INDEBTEDNESS.—
3 "(1) IN GENERAL.—In the case of any domestic
4 corporation which is a United States shareholder (as
5 defined in section 951(b)) with respect to any for-
6 eign corporation both of which are members of the
7 same worldwide affiliated group, the deduction al-
8 lowed under this chapter for interest paid or accrued
9 by such domestic corporation during the taxable year
10 shall be reduced by the lesser of—
11 "(A) the product of—
12 "(i) the net interest expense of such
13 domestic corporation, multiplied by
14 "(ii) the debt-to-equity differential
15 percentage of such worldwide affiliated
16 group, or
17 "(B) the excess (if any) of—
18 "(i) such net interest expense, over
19 "(ii) 40 percent of the adjusted tax-
20 able income (as defined in subsection
21 (j)(6)(A)) of such domestic corporation.
22 "(2) CARRYFORWARD.—Any amount disallowed
23 under paragraph (1) for any taxable year shall be
24 treated as interest paid or accrued in the succeeding

1 taxable year (and shall not be treated as disqualified
2 interest for purposes of applying subsection (j)).
3 ''(3) DEBT-TO-EQUITY DIFFERENTIAL PER-
4 CENTAGE.—
5 ''(A) IN GENERAL.—For purposes of this
6 subsection, the term 'debt-to-equity differential
7 percentage' means, with respect to any world-
8 wide affiliated group, the percentage which the
9 excess domestic indebtedness of such group
10 bears to the total indebtedness of the domestic
11 corporations which are members of such group.
12 ''(B) EXCESS DOMESTIC INDEBTED-
13 NESS.—For purposes of subparagraph (A), the
14 term 'excess domestic indebtedness' means, with
15 respect to any worldwide affiliated group, the
16 excess (if any) of—
17 ''(i) the total indebtedness of the do-
18 mestic corporations which are members of
19 such group, over
20 ''(ii) 110 percent of the amount which
21 the total indebtedness of such domestic
22 corporations would be if the ratio of such
23 indebtedness to the total equity of such do-
24 mestic corporations equaled the ratio
25 which—

1 "(I) the total indebtedness of
2 such group, bears to
3 "(II) the total equity of such
4 group.
5 "(C) TOTAL EQUITY.—For purposes of
6 subparagraph (B), the term 'total equity'
7 means, with respect to one or more corpora-
8 tions, the excess (if any) of—
9 "(i) the money and all other assets of
10 such corporations, over
11 "(ii) the total indebtedness of such
12 corporations.
13 "(D) SPECIAL RULES FOR DETERMINING
14 DEBT AND EQUITY.—For purposes of this para-
15 graph—
16 "(i) APPLICATION OF CERTAIN GEN-
17 ERAL RULES.—Rules similar to the rules
18 of clauses (i), (ii), and (iii) of subsection
19 (j)(2)(C) shall apply.
20 "(ii) INTRAGROUP DEBT AND EQUITY
21 INTERESTS DISREGARDED.—The total in-
22 debtedness, and the assets, of any group of
23 corporations shall be determined by treat-
24 ing all members of such group as one cor-
25 poration.

"(iii) DETERMINATION OF ASSETS OF DOMESTIC GROUP.—The assets of the domestic corporations which are members of any worldwide affiliated group shall be determined by disregarding any interest held by any such domestic corporation in any foreign corporation which is a member of such group.

"(4) OTHER DEFINITIONS.—For purposes of this subsection—

"(A) WORLDWIDE AFFILIATED GROUP.—The term 'worldwide affiliated group' has the meaning which would be given such term by section 864(f)(1)(C) if section 1504(a) were applied by substituting 'more than 50 percent' for 'at least 80 percent' each place it appears.

"(B) NET INTEREST EXPENSE.—The term 'net interest expense' has the meaning given such term by subsection (j)(6)(B).

"(5) TREATMENT OF AFFILIATED GROUP.—For purposes of this subsection, all members of the same affiliated group (within the meaning of section 1504(a) applied by substituting 'more than 50 percent' for 'at least 80 percent' each place it appears) shall be treated as 1 taxpayer.

"(6) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be appropriate to carry out the purposes of this subsection, including regulations or other guidance—

"(A) to prevent the avoidance of the purposes of this subsection,

"(B) providing such adjustments in the case of corporations which are members of an affiliated group as may be appropriate to carry out the purposes of this subsection,

"(C) providing for the coordination of this subsection with section 884, and

"(D) providing for the reallocation of shares of partnership indebtedness, or distributive shares of the partnership's interest income or interest expense.".

(b) COORDINATION WITH LIMITATION ON RELATED PARTY INDEBTEDNESS.—Paragraph (1) of section 163(j) is amended by adding at the end the following new subparagraph:

"(C) COORDINATION WITH LIMITATION ON EXCESS DOMESTIC INDEBTEDNESS.—The amount disallowed under subparagraph (A) with respect to any corporation for any taxable year shall be reduced by any amount disallowed

under subsection (n)(1) with respect to such corporation for such taxable year.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

TITLE V—TAX EXEMPT ENTITIES

Subtitle A—Unrelated Business Income Tax

SEC. 5001. CLARIFICATION OF UNRELATED BUSINESS INCOME TAX TREATMENT OF ENTITIES TREATED AS EXEMPT FROM TAXATION UNDER SECTION 501(a).

(a) IN GENERAL.—Subparagraph (A) of section 511(a)(2) is amended by adding at the end the following: ''For purposes of the preceding sentence, an organization shall not fail to be treated as exempt from taxation under this subtitle by reason of section 501(a) solely because such organization is also so exempt, or excludes amounts from gross income, by reason of any other provision of this title.''.

(b) CLERICAL AMENDMENT.—The heading for subparagraph (A) of section 511(a)(2) is amended to read as follows: ''ORGANIZATIONS EXEMPT FROM TAXATION BY REASON OF SECTION 501(a).''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 5002. NAME AND LOGO ROYALTIES TREATED AS UNRELATED BUSINESS TAXABLE INCOME.

(a) IN GENERAL.—Section 513 is amended by adding at the end the following new subsection:

''(k) NAME AND LOGO ROYALTIES.—Any sale or licensing by an organization of any name or logo of the organization (including any trademark or copyright relating to such name or logo) shall be treated as an unrelated trade or business regularly carried on by such organization.''.

(b) CALCULATION OF UNRELATED BUSINESS TAXABLE INCOME.—Subsection (b) of section 512 is amended by adding at the end the following new paragraph:

''(20) SPECIAL RULE FOR NAME AND LOGO ROYALTIES.—Notwithstanding paragraph (1), (2), (3), or (5), any income derived from any sale or licensing described in section 513(k) shall be included as an item of gross income derived from an unrelated trade or business.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 5003. UNRELATED BUSINESS TAXABLE INCOME SEPARATELY COMPUTED FOR EACH TRADE OR BUSINESS ACTIVITY.

(a) IN GENERAL.—Subsection (a) of section 512 is amended by adding at the end the following new paragraph:

"(6) SPECIAL RULE FOR ORGANIZATION WITH MORE THAN 1 UNRELATED TRADE OR BUSINESS.—In the case of any organization with more than 1 unrelated trade or business—

"(A) unrelated business taxable income shall be computed separately with respect to each such trade or business and without regard to subsection (b)(12),

"(B) the unrelated business taxable income of such organization shall be the sum of the unrelated business taxable income so computed with respect to each such trade or business, less a specific deduction under subsection (b)(12), and

"(C) for purposes of subparagraph (B), unrelated business taxable income with respect to any such trade or business shall not be less than zero, and

"(D) the net operating loss deduction shall only be allowed with respect to the trade or

business from which the net operating loss arose.''.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except to the extent provided in paragraph (2), the amendment made by this section shall apply to taxable years beginning after December 31, 2014.

(2) NET OPERATING LOSSES.—

(A) CERTAIN CARRYOVERS.—In the case of any net operating loss arising in a taxable year beginning before January 1, 2015, that is carried over to a taxable year beginning on or after such date, section 512(a)(6)(D) of the Internal Revenue Code of 1986, as added by this Act, shall not apply.

(B) CERTAIN CARRYBACKS.—In the case of any net operating loss arising in a taxable year beginning after December 31, 2014, and carried back to any taxable year beginning on or before such date, in computing unrelated business taxable income of an organization under section 512(a) of such Code for the taxable year, the net operating loss deduction shall be allowed only with respect to the trade or

business from which the net operating loss arose.

SEC. 5004. EXCLUSION OF RESEARCH INCOME LIMITED TO PUBLICLY AVAILABLE RESEARCH.

(a) IN GENERAL.—Paragraph (9) of section 512(b) is amended by striking ''from research'' and inserting ''from such research''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 5005. PARITY OF CHARITABLE CONTRIBUTION LIMITATION BETWEEN TRUSTS AND CORPORATIONS.

(a) IN GENERAL.—Paragraph (11) of section 512(b) is amended by striking the second sentence and inserting the following: ''The deduction allowed by this paragraph shall not exceed 10 percent of the unrelated business taxable income computed without the benefit of this paragraph.''

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 5006. INCREASED SPECIFIC DEDUCTION.

(a) IN GENERAL.—Paragraph (12) of section 512(b) is amended by striking ''$1,000'' each place it appears and inserting ''$10,000''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 5007. REPEAL OF EXCLUSION OF GAIN OR LOSS FROM DISPOSITION OF DISTRESSED PROPERTY.

(a) IN GENERAL.—Subsection (b) of section 512 is amended by striking paragraph (16).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to property acquired after December 31, 2014.

SEC. 5008. QUALIFIED SPONSORSHIP PAYMENTS.

(a) REPEAL OF USE OR ACKNOWLEDGMENT OF PRODUCT LINES FOR QUALIFIED SPONSORSHIP PAYMENTS.—Subparagraphs (A) and (B)(ii)(I) of section 513(i)(2) are each amended by striking ''(or product lines)''.

(b) USE OR ACKNOWLEDGMENT LIMITED IN CASE OF CERTAIN EVENTS.—Subparagraph (B) of section 513(i)(2) is amended by adding at the end the following new clause:

''(iii) USE OR ACKNOWLEDGMENT LIMITED IN CASE OF CERTAIN EVENTS.—In the case of an event with respect to which an organization receives an aggregate amount of qualified sponsorship pay-

ments greater than $25,000, a payment shall not be treated as a qualified sponsorship payment for purposes of paragraph (1) unless the use or acknowledgment of the sponsor's name or logo appears with, and in substantially the same manner as, the names of a significant portion of other donors to the organization. For purposes of the preceding sentence, whether a number of donors is a significant portion shall be determined based on the total number of donors and the total contributed with respect to the event, but in no event shall fewer than 2 other donors be treated as a significant portion of other donors.''.

(c) CLERICAL AMENDMENT.—The heading for clause (ii) of section 513(i)(2)(B) is amended to read as follows: ''PERIODICALS AND QUALIFIED CONVENTION AND TRADE SHOW ACTIVITIES.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

Subtitle B—Penalties

SEC. 5101. INCREASE IN INFORMATION RETURN PENALTIES.

(a) FAILURE TO FILE RETURN.—

(1) ORGANIZATION.—Subparagraph (A) of section 6652(c)(1) is amended—

(A) by striking ''$20'' each place it appears and inserting ''$40'',

(B) by striking ''$100'' and inserting ''$200''.

(2) MANAGERS.—Clause (ii) of section 6652(c)(1)(B) is amended by striking ''$10'' and inserting ''$20''.

(b) FAILURE TO MAKE RETURNS, REPORTS, AND APPLICATIONS AVAILABLE FOR PUBLIC INSPECTION.—Subparagraphs (C) and (D) of section 6652(c)(1) are each amended by striking ''$20'' and inserting ''$40''.

(c) FAILURE TO FILE RETURNS UNDER SECTION 6034 OR 6043.—Paragraph (2) of section 6652(c) is amended—

(1) by striking ''$10'' each place it appears in subparagraphs (A) and (B) and inserting ''$20'', and

(2) by striking ''substituting '$100' for '$20','' in subparagraph (C)(ii) and inserting ''substituting '$200' for '$40',''.

(d) FAILURE TO FILE DISCLOSURE UNDER SECTION 6033(a)(2).—

(1) ORGANIZATION.—Subparagraph (A) of section 6652(c)(3) is amended by striking ''$100'' and inserting ''$200''.

(2) MANAGERS.—Subparagraph (B) of section 6652(c)(3) is amended by striking ''$100'' and inserting ''$200''.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to information returns required to be filed on or after January 1, 2015.

SEC. 5102. MANAGER-LEVEL ACCURACY-RELATED PENALTY ON UNDERPAYMENT OF UNRELATED BUSINESS INCOME TAX.

(a) IN GENERAL.—Section 6662 is amended by adding at the end the following new subsection:

''(k) MANAGER-LEVEL PENALTY FOR SUBSTANTIAL UNDERPAYMENT OF UNRELATED BUSINESS INCOME TAX.—

''(1) IN GENERAL.—In the case of any substantial underpayment of income tax which is attributable to the tax imposed by section 511 on the un-

related business taxable income of an organization for the taxable year, there is hereby imposed a tax with respect to such organization an amount equal to 5 percent of such underpayment to which the underpayment relates. Such tax shall be paid by any manager of the organization.

''(2) MANAGER.—For purposes of this subsection, the term 'manager' means any officer, director, trustee, employee, or other individual who is under a duty to perform an act in respect of which the underpayment relates.

''(3) JOINT AND SEVERAL LIABILITY.—If more than one person is liable under paragraph (1) with respect to an underpayment, all such persons shall be jointly and severally liable under such paragraph with respect to such underpayment

''(4) LIMIT.—With respect to any substantial underpayment of income tax for a taxable year, the maximum amount of the tax added by paragraph (1) shall not exceed $20,000.''.

(b) REPORTABLE TRANSACTIONS.—Section 6662A is amended by adding at the end the following new subsection:

''(f) MANAGER-LEVEL PENALTY IN CASE OF UNRELATED BUSINESS INCOME TAX.—

"(1) IN GENERAL.—In the case of any portion of a reportable transaction understatement of the tax imposed by section 511 to which this section applies, there is hereby imposed a tax in an amount equal to 10 percent of such portion of the underpayment to which the reportable transaction understatement occurs. Such tax shall be paid by any manager of the organization.

"(2) MANAGER.—For purposes of this subsection, the term 'manager' means any officer, director, trustee, employee, or other individual who is under a duty to perform an act in respect of which such understatement occurs.

"(3) JOINT AND SEVERAL LIABILITY.—If more than one person is liable under paragraph (1) with respect to an understatement, all such persons shall be jointly and severally liable under such paragraph with respect to such understatement.

"(4) LIMIT.—With respect to any understatement of tax to which this section applies, the maximum amount of the tax added by paragraph (1) shall not exceed $40,000".

(c) COORDINATION.—Section 6662 is amended—

(1) by striking the flush matter at the end of subsection (b), and

(2) by adding at the end the following new subsection:

"(l) COORDINATION WITH OTHER PENALTIES.—This section shall not apply to any portion of an underpayment on which a penalty is imposed under section 6663. Except as provided in paragraph (1) or (2)(B) of section 6662A(e), this section shall not apply to the portion of any underpayment which is attributable to a reportable transaction understatement on which a penalty is imposed under section 6662A.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

Subtitle C—Excise Taxes

SEC. 5201. MODIFICATION OF INTERMEDIATE SANCTIONS.

(a) ORGANIZATION LEVEL TAX.—Subsection (a) of section 4958 is amended by adding at the end the following new paragraph:

"(3) ON THE ORGANIZATION.—In any case in which a tax is imposed by paragraph (1), there is hereby imposed on the organization a tax equal to 10 percent of the excess benefit.".

(b) MINIMUM STANDARDS OF ORGANIZATION DUE DILIGENCE.—Subsection (d) of section 4958 is amended by adding at the end the following new paragraph:

1 "(3) MINIMUM STANDARDS OF ORGANIZATION
2 DUE DILIGENCE.—
3 "(A) IN GENERAL.—Subsection (a)(3)
4 shall not apply to a transaction, if—
5 "(i) the organization establishes that
6 the minimum standards of due diligence
7 described in subparagraph (B) were met
8 with respect to the transaction, or
9 "(ii) the organization establishes to
10 the satisfaction of the Secretary that such
11 other reasonable procedures were used to
12 ensure that no excess benefit was provided.
13 "(B) MINIMUM STANDARDS.—An organiza-
14 tion shall be treated as satisfying the minimum
15 standards of due diligence described in this sub-
16 paragraph with respect to any transaction, if—
17 "(i) the transaction was approved in
18 advance by an authorized body of the orga-
19 nization composed entirely of individuals
20 who did not have a conflict of interest with
21 respect to the transaction,
22 "(ii) the authorized body obtained and
23 relied upon appropriate data as to com-
24 parability prior to approval of the trans-
25 action, and

"(iii) the authorizing body adequately and concurrently documented the basis for approving the transaction.

"(C) NO PRESUMPTION AS TO REASONABLENESS.—Meeting the requirements of clause (i) or (ii) of subparagraph (A) with respect to a transaction shall not give rise to a presumption of reasonableness for purposes of the taxes imposed by paragraphs (1) or (2) of subsection (a) and shall not, by itself, support a conclusion that a manager did not act knowingly for purposes of subsection (a)(2).".

(c) REPEAL OF EXCEPTION FOR MANAGER RELIANCE ON PROFESSIONAL ADVICE.—Section 4958 is amended by adding at the end the following new subsection:

"(g) NO SAFE HARBOR FOR RELIANCE ON PROFESSIONAL ADVICE.—An organization manager's reliance on a written opinion of a professional with respect to elements of a transaction within the professional's expertise shall not, by itself, preclude the manager from being treated as participating in the transaction knowingly.".

(d) ATHLETIC COACHES AND INVESTMENT MANAGERS TREATED AS DISQUALIFIED PERSONS.—

(1) ATHLETIC COACHES.—

(A) IN GENERAL.—Paragraph (1) of section 4958(f) is amended by striking ''and'' at the end of subparagraph (E), by striking the period at the end of subparagraph (F) and inserting '', and'', and by adding at the end the following new subparagraph:

''(G) any person who performs services as an athletic coach for the organization.''.

(B) FAMILY MEMBERS.—Subparagraph (B) of section 4958(f)(1) is amended by inserting ''or (G)'' after ''subparagraph (A)''.

(2) INVESTMENT ADVISORS.—

(A) IN GENERAL.—Subparagraph (F) of section 4958(f)(1) is amended—

(i) by striking ''which involves a sponsoring organization (as defined in section 4966(d)(1)),'', and

(ii) by striking ''such sponsoring organization (as so defined)'' and inserting ''the organization''.

(B) INVESTMENT ADVISOR DEFINITION.—Subparagraph (B) of section 4958(f)(8) is amended to read as follows:

"(B) INVESTMENT ADVISOR DEFINED.—For purposes of subparagraph (A), the term 'investment advisor' means—

"(i) with respect to any organization, any person who is compensated by such organization and is primarily responsible for managing the investment of, or providing investment advice with respect to, assets of such organization, and

"(ii) with respect to any sponsoring organization (as defined in section 4966(d)(1)), any person (other than an employee of such organization) compensated by such organization for managing the investment of, or providing investment advice with respect to, assets maintained in donor advised funds (as defined in section 4966(d)(2)) owned by such organization.".

(e) APPLICATION TO UNIONS AND TRADE ASSOCIATIONS.—Paragraph (1) of section 4958(e) is amended by inserting "(5), (6)," after "(4),".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 5202. MODIFICATION OF TAXES ON SELF-DEALING.

(a) ORGANIZATION LEVEL TAX.—Subsection (a) of section 4941 is amended by adding at the end the following new paragraph:

"(3) ON THE FOUNDATION.—In any case in which a tax is imposed by paragraph (1), there is hereby imposed on the foundation a tax equal to 2.5 percent (10 percent in the case payment of compensation) of the amount involved with respect to the act of self-dealing for each year (or part thereof) in the taxable period.".

(b) REPEAL OF EXCEPTION FOR MANAGER RELIANCE ON ADVICE FROM COUNSEL.—Section 4941 is amended by adding at the end the following new subsection:

"(f) NO SAFE HARBOR FOR RELIANCE ON ADVICE OF COUNSEL.—A foundation manager's reliance on a written legal opinion by legal counsel that an act is not an act of self-dealing shall not, by itself, preclude the manager from being treated as participating in the act knowingly.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 5203. EXCISE TAX ON FAILURE TO DISTRIBUTE WITHIN 5 YEARS CONTRIBUTION TO DONOR ADVISED FUND.

(a) IN GENERAL.—Subchapter G of chapter 42 is amended by adding at the end the following new section:

"SEC. 4968. FAILURE TO DISTRIBUTE CONTRIBUTIONS WITHIN 5 YEARS.

"(a) IN GENERAL.—In the case of a contribution which is held in a donor advised fund, there is hereby imposed a tax equal to 20 percent of so much of the portion of such contribution as has not been distributed by the sponsoring organization in an eligible distribution before the beginning of the 6th (or succeeding) taxable year beginning after the taxable year during which such contribution was made. The tax imposed by this subsection shall be paid by such sponsoring organization.

"(b) TREATMENT OF DISTRIBUTIONS.—For purposes of this section—

"(1) ELIGIBLE DISTRIBUTION.—The term 'eligible distribution' means any distribution to an organization described in section 170(b)(1)(A) (other than an organization described in section 509(a)(3) or any fund or account described in section 4966(d)(2).

"(2) ACCOUNTING.—Distributions shall be treated as made from contributions (and any earn-

ings attributable thereto) on a first-in, first-out basis.''.

(b) CONFORMING AMENDMENT.—The table of sections for subchapter G of chapter 42 is amended by adding at the end the following new item:

''Sec. 4968. Failure to distribute contributions within 5 years.''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to contributions made after December 31, 2014.

(2) TRANSITION RULE.—In the case of any contribution—

(A) which was made before January 1, 2015, and

(B) any portion of which (including any earnings attributable thereto) is held in a donor advised fund on such date,

such portion shall be treated as contributed on such date.

SEC. 5204. SIMPLIFICATION OF EXCISE TAX ON PRIVATE FOUNDATION INVESTMENT INCOME.

(a) RATE REDUCTION.—Subsection (a) of section 4940 is amended by striking ''2 percent'' and inserting ''1 percent''.

(b) REPEAL OF SPECIAL RULES FOR CERTAIN PRIVATE FOUNDATIONS.—Section 4940 is amended by striking subsections (d) and (e).

(c) CONFORMING AMENDMENT.—Section 4945(d)(4)(A) is amended by striking clause (iii) and by inserting ''or'' at the end of clause (i).

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 5205. REPEAL OF EXCEPTION FOR PRIVATE OPERATING FOUNDATION FAILURE TO DISTRIBUTE INCOME.

(a) IN GENERAL.—Subsection (a) of section 4942 is amended—

(1) by striking ''a private foundation—'' and all that follows through ''(2) to the extent'' and inserting ''a private foundation to the extent'', and

(2) by redesignating subparagraphs (A), (B), (C), and (D) as paragraphs (1), (2), (3), and (4), respectively, and by moving such paragraphs, as so redesignated, two ems to the left.

(b) CONFORMING AMENDMENTS.—

(1) Section 4942(j) is amended by striking paragraphs (3), (4), and (5).

(2) Section 170(b)(1)(F)(i) is amended by striking ''(as defined in section 4942(j)(3))'',

(3) Section 170(b)(1) is amended by adding at the end the following new subparagraphs:

''(H) PRIVATE OPERATING FOUNDATION.—For purposes of this paragraph, the term 'private operating foundation' means any organization—

''(i) which makes qualifying distributions (within the meaning of paragraph (1) or (2) of section 4942(g)) directly for the active conduct of the activities constituting the purpose or function for which it is organized and operated equal to substantially all of the lesser of—

''(I) its adjusted net income (as defined in subsection section 4942(f)), or

''(II) its minimum investment return, and

''(ii)(I) substantially more than half of the assets of which are devoted directly to such activities or to functionally related businesses, or to both, or are stock of a corporation which is controlled by the

foundation and substantially all of the assets of which are so devoted,

''(II) which normally makes qualifying distributions (within the meaning of paragraph (1) or (2) of section 4942(g)) directly for the active conduct of the activities constituting the purpose or function for which it is organized and operated in an amount not less than two-thirds of its minimum investment return (as defined in section 4942(e)), or

''(III) substantially all of the support (other than gross investment income as defined in section 509(e)) of which is normally received from the general public and from 5 or more exempt organizations which are not described in section 4946(a)(1)(H) with respect to each other or the recipient foundation; not more than 25 percent of the support (other than gross investment income) of which is normally received from any one such exempt organization; and not more than half of the support of which is normally received from gross investment income.

Notwithstanding the provisions of clause (i), if the qualifying distributions (within the meaning of paragraph (1) or (2) of section 4942(g)) of an organization for the taxable year exceed the minimum investment return for the taxable year, subclause (II) of clause (i) shall not apply unless substantially all of such qualifying distributions are made directly for the active conduct of the activities constituting the purpose or function for which it is organized and operated.

''(I) FUNCTIONALLY RELATED BUSINESS.—For purposes of subparagraph (H), the term 'functionally related business' means—

''(i) a trade or business which is not an unrelated trade or business (as defined in section 513), or

''(ii) an activity which is carried on within a larger aggregate of similar activities or within a larger complex of other endeavors which is related (aside from the need of the organization for income or funds or the use it makes of the profits derived) to the exempt purposes of the organization.''.

(4) Section 170(e)(3)(A) is amended by striking ''as defined in section 4942(j)(3)'' and inserting ''as defined in subsection (b)(1)(H)''.

(5) Section 150(b)(3)(F), as redesignated by this Act, is amended—

(A) by striking ''4942 (relating to the excise tax on a failure to distribute income) and'',

(B) by striking ''section 4942(j)(4)'' and inserting ''section 170(b)(1)(I)''.

(6) Section 2055(e)(4)(D) is amended by striking ''section 4942(j)(3)'' and inserting ''section 170(b)(1)(H)''.

(7) Section 2503(g)(2)(B) is amended by striking ''section 4942(j)(3)'' and inserting ''section 170(b)(1)(H)''.

(8) Section 4942(g)(1)(A) is amended by striking ''which is not an operating foundation (as defined in subsection (j)(3))''.

(9) Section 4942(g)(3)(A) is amended by striking ''which is not an operating foundation''.

(10) Section 4942(g)(4)(A) is amended by striking ''which is not an operating foundation''.

(11) Section 4943(d)(3)(A) is amended by striking ''section 4942(j)(4)'' and inserting ''section 170(b)(1)(I)''.

(12) Section 6110(l)(2)(A) is amended by striking ''section 4942(j)(3)'' and inserting ''section 170(b)(1)(H)''.

(13) Section 7428(a)(1)(C) is amended by striking ''section 4942(j)(3)'' and inserting ''section 170(b)(1)(H)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 5206. EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE COLLEGES AND UNIVERSITIES.

(a) IN GENERAL.—Chapter 42 is amended by adding at the end the following new subchapter:

''Subchapter H—Excise Tax Based on Investment Income of Private Colleges and Universities

''Sec. 4969. Excise tax based on investment income of private colleges and universities.

''SEC. 4969. EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE COLLEGES AND UNIVERSITIES.

''(a) TAX IMPOSED.—There is hereby imposed on each applicable educational institution for the taxable year a tax equal to 1 percent of the net investment income of such institution for the taxable year.

''(b) APPLICABLE EDUCATIONAL INSTITUTION.—For purposes of this subchapter—

1 "(1) IN GENERAL.—The term 'applicable edu-
2 cational institution' means an eligible educational in-
3 stitution (as defined in section 25A(e)(3))—
4 "(A) which is not described in the first
5 sentence of section 511(a)(2)(B) (relating to
6 State colleges and universities), and
7 "(B) the aggregate fair market value of
8 the assets of which at the end of the preceding
9 taxable year (other than those assets which are
10 used (or held for use) directly in carrying out
11 the institution's exempt purpose) is at least
12 $100,000 per student of the institution.
13 "(2) STUDENTS.—For purposes of paragraph
14 (1)(B), the number of students of an institution
15 shall be based on the daily average number of full-
16 time students attending such institution (with part-
17 time students taken into account on a full-time stu-
18 dent equivalent basis).
19 "(c) NET INVESTMENT INCOME.—For purposes of
20 this section, net investment income shall be determined
21 under rules similar to the rules of section 4940(c).".
22 (b) CLERICAL AMENDMENT.—The table of sub-
23 chapters for chapter 42 is amended by adding at the end
24 the following new item:

"SUBCHAPTER H—EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE COLLEGES AND UNIVERSITIES".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

Subtitle D—Requirements For Organizations Exempt From Tax

SEC. 5301. REPEAL OF TAX-EXEMPT STATUS FOR PROFESSIONAL SPORTS LEAGUES.

(a) IN GENERAL.—Paragraph (6) of section 501(c) is amended—

(1) by striking ‘‘, boards of trade, or professional’’ and all that follows through ‘‘players)’’ and inserting ‘‘, or boards of trade’’ , and

(2) by adding at the end the following: ‘‘This paragraph shall not apply to any professional sports league (whether or not administering a pension fund for players).’’.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

SEC. 5302. REPEAL OF EXEMPTION FROM TAX FOR CERTAIN INSURANCE COMPANIES AND CO-OP HEALTH INSURANCE ISSUERS.

(a) IN GENERAL.—Section 501(c) is amended by striking paragraphs (15) and (29).

(b) CONFORMING AMENDMENTS.—

(1) Section 831(d), as amended by the preceding provisions of this Act, is amended to read as follows:

''(d) CROSS REFERENCE.—For taxation of foreign corporations carrying on an insurance business within the United States, see section 842.''.

(2) Section 4958(e)(1) is amended by striking ''(4), or (29)'' and inserting ''or (4)''.

(3) Section 6033 is amended by striking subsection (m) and redesignating subsection (n) as subsection (m).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2014.

(d) TRANSITION RULES.—In the case of any organization described in paragraph (15) or (29) of section 501(c) of the Internal Revenue Code of 1986 (as in effect immediately before the enactment of this Act)—

(1) no adjustment shall be made under section 481 (or any other provision) of the Internal Revenue Code of 1986 on account of a change in its method of accounting for its 1st taxable year beginning after December 31, 2014, and

(2) for purposes of determining gain or loss, the adjusted basis of any asset held on the 1st day of

such taxable year shall be treated as equal to its fair market value as of such day.

SEC. 5303. IN-STATE REQUIREMENT FOR WORKMEN'S COMPENSATION INSURANCE ORGANIZATION.

(a) IN GENERAL.—Clause (ii) of section 501(c)(27)(B) is amended by inserting before the comma at the end the following: ", and must not offer any other insurance".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to insurance policies issued, and renewals, after December, 31, 2014.

SEC. 5304. REPEAL OF TYPE II AND TYPE III SUPPORTING ORGANIZATIONS.

(a) IN GENERAL.—Subparagraph (B) of section 509(a)(3) is amended—

(1) by inserting "and" at the end of clause (i),

(2) by striking clauses (ii) and (iii), and

(3) by striking "is—" and all that follows through "operated, supervised, or controlled" and inserting "is operated, supervised, or controlled".

(b) CONFORMING AMENDMENTS.—

(1) Section 170(f)(18)(A) is amended by striking "is not—" and all that follows through ", and" and inserting the following: "is not described in paragraph (3), (4), or (5) of subsection (c), and".

(2)(A)(i) Section 509(f) is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(ii) Section 4942(g)(4)(A)(ii)(I) is amended by striking ''section 509(f)(3)'' and inserting ''section 509(f)(2)''.

(iii) Section 4958(c)(3)(C)(ii)(II) is amended by striking ''section 509(f)(3)'' and inserting ''section 509(f)(2)''.

(iv) Section 4966(d)(4)(A)(ii)(I) is amended by striking ''section 509(f)(3)'' and inserting ''section 509(f)(2)''.

(B) Section 509(f)(1)(A), as so redesignated, is amended by striking ''shall not be considered to be—'' and all that follows through ''if such organization'' and inserting the following: ''shall not be considered to be operated, supervised, or controlled by any organization described in paragraph (1) or (2) of subsection (a), if such organization''.

(3) Section 2055(e)(5)(A) is amended by striking ''is not—'' and all that follows through '', and'' and inserting the following: ''is not described in paragraph (3) or (4) of subsection (a), and''.

(4) Section 2522(c)(5)(A) is amended by striking ''is not—'' and all that follows through '', and''

and inserting the following: ''is not described in paragraph (3) or (4) of subsection (a), and''.

(5)(A) Section 4942(g)(4)(A), as amended by the preceding provision of this Act, is amended—

(i) by redesignating subclauses (I) and (II) of clause (ii) as clauses (i) and (ii), respectively, and moving such redesignated clauses 2 ems to the left,

(ii) by striking ''paid by a private foundation to—'' and all that follows through ''any organization which'' and inserting the following: ''paid by a private foundation to any organization which'', and

(iii) by striking ''subparagraph (B) or (C)'' and inserting ''subparagraph (B)''.

(B) Section 4942(g)(4)(B) is amended—

(i) by striking clause (ii),

(ii) by striking ''section 509(a), or'' and inserting ''section 509(a).'',

(iii) by striking ''and is—'' and all that follows through ''operated, supervised, or controlled by'' and inserting the following: ''and is operated, supervised, or controlled by'', and

(iv) by striking ''TYPE I AND TYPE II'' in the heading thereof.

(C) Section 4942(g)(4) is amended by striking subparagraph (C).

(D) Section 4945(d)(4)(A)(ii) is amended by striking ''clause (i) or (ii) of section 4942(g)(4)(A)'' and inserting ''section 4942(g)(4)(A)''.

(6) Section 4943 is amended by striking subsection (f).

(7)(A) Section 4966(d)(4)(A), as amended by this Act, is amended—

(i) by redesignating subclauses (I) and (II) of clause (ii) as clauses (i) and (ii), respectively, and moving such redesignated clauses 2 ems to the left,

(ii) by striking ''with respect to any distribution—'' and all that follows through ''any organization which'' and inserting the following: ''with respect to any distribution, any organization which'', and

(iii) by striking ''subparagraph (B) or (C)'' and inserting ''subparagraph (B)''.

(B) Section 4966(d)(4)(B) is amended—

(i) by striking clause (ii),

(ii) by striking ''section 509(a), or'' and inserting ''section 509(a).'',

(iii) by striking ''and is—'' and all that follows through ''operated, supervised, or controlled by'' and inserting the following: ''and is operated, supervised, or controlled by'', and

(iv) by striking ''TYPE I AND TYPE II'' in the heading thereof.

(C) Section 4966(d)(4) is amended by striking subparagraph (C).

(8) Section 6033(l) is amended by inserting ''and'' at the end of paragraph (1), by striking paragraph (2), and by redesignating paragraph (3) as paragraph (2).

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) DELAY FOR CURRENT SUPPORTING ORGANIZATIONS.—In the case of an organization which, as of the date of the enactment of this Act, meets the requirements of subparagraphs (A) and (C) of section 509(a)(3) of the Internal Revenue Code of 1986 and is—

(A) supervised or controlled in connection with one or more organizations described in paragraph (1) or (2) of section 509(a) of such Code, or

(B) is operated in connection with one or more such organizations,

the amendments made by this section shall apply to taxable years beginning after December 31, 2015.

TITLE VI—TAX ADMINISTRATION AND COMPLIANCE

Subtitle A—IRS Investigation-Related Reforms

SEC. 6001. ORGANIZATIONS REQUIRED TO NOTIFY SECRETARY OF INTENT TO OPERATE AS 501(c)(4).

(a) IN GENERAL.—Part I of subchapter F of chapter 1 is amended by adding at the end the following new section:

"SEC. 506. ORGANIZATIONS REQUIRED TO NOTIFY SECRETARY OF INTENT TO OPERATE AS 501(c)(4).

"(a) IN GENERAL.—An organization described in section 501(c)(4) shall, not later than 60 days after the organization is established, notify the Secretary (in such manner as the Secretary shall by regulation prescribe) that it is operating as such.

1 ''(b) CONTENTS OF NOTICE.—The notice required
2 under subsection (a) shall include the following informa-
3 tion:
4 ''(1) The name, address, and taxpayer identi-
5 fication number of the organization.
6 ''(2) The date on which, and the State under
7 the laws of which, the organization was organized.
8 ''(3) A statement of the purpose of the organi-
9 zation.
10 ''(c) ACKNOWLEDGMENT OF RECEIPT.—Not later
11 than 60 days after receipt of such a notice, the Secretary
12 shall send to the organization an acknowledgment of such
13 receipt.
14 ''(d) EXTENSION FOR REASONABLE CAUSE.—The
15 Secretary may, for reasonable cause, extend the 60-day
16 period described in subsection (a).
17 ''(e) USER FEE.—The Secretary shall impose a rea-
18 sonable user fee for submission of the notice under sub-
19 section (a).
20 ''(f) REQUEST FOR DETERMINATION.—Upon request
21 by an organization to be treated as an organization de-
22 scribed in section 501(c)(4), the Secretary may issue a de-
23 termination with respect to such treatment. Such request
24 shall be treated for purposes of section 6104 as an applica-
25 tion for exemption from taxation under section 501(a).''.

(b) SUPPORTING INFORMATION WITH FIRST RETURN.—Paragraph (1) of section 6033(f) is amended—

(1) by striking the period at the end and inserting ", and",

(2) by striking "include on the return required under subsection (a) the information" and inserting the following: "include on the return required under subsection (a)—

"(1) the information", and

(3) by adding at the end the following new paragraph:

"(2) in the case of the first such return filed by such an organization after submitting a notice to the Secretary under section 506(a), such information as the Secretary shall by regulation require in support of the organization's treatment as an organization described in section 501(c)(4).".

(c) FAILURE TO FILE INITIAL NOTIFICATION.—Subsection (c) of section 6652 is amended by redesignating paragraphs (4) and (5) as paragraphs (5) and (6), respectively, and by inserting after paragraph (3) the following new paragraph:

"(4) NOTICES UNDER SECTION 506.—

"(A) PENALTY ON ORGANIZATION.—In the case of a failure to submit a notice required

under section 506(a) (relating to organizations required to notify Secretary of intent to operate as 501(c)(4)) on the date and in the manner prescribed therefor, there shall be paid by the organization failing to so submit $20 for each day during which such failure continues, but the total amount imposed under this subparagraph on any organization for failure to submit any one notice shall not exceed $5,000.

''(B) MANAGERS.—The Secretary may make written demand on an organization subject to penalty under subparagraph (A) specifying in such demand a reasonable future date by which the notice shall be submitted for purposes of this subparagraph. If such notice is not submitted on or before such date, there shall be paid by the person failing to so submit $20 for each day after the expiration of the time specified in the written demand during which such failure continues, but the total amount imposed under this subparagraph on all persons for failure to submit any one notice shall not exceed $5,000.''.

(d) CLERICAL AMENDMENT.—The table of sections for part I of subchapter F of chapter 1 is amended by adding at the end the following new item:

"Sec. 506. Organizations required to notify Secretary of intent to operate as 501(c)(4).".

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to organizations which are described in section 501(c)(4) of the Internal Revenue Code of 1986 and organized after December 31, 2014.

(2) CERTAIN EXISTING ORGANIZATIONS.—In the case of any other organization described in section 501(c)(4) of such Code, the amendments made by this section shall apply to such organization only if, on or before the date of the enactment of this Act—

(A) such organization has not applied for a written determination of recognition as an organization described in section 501(c)(4) of such Code, and

(B) such organization has not filed at least one annual return or notice required under subsection (a)(1) or (i) (as the case may be) of section 6033 of such Code.

In the case of any organization to which the amendments made by this section apply by reason of the preceding sentence, such organization shall submit the notice required by section 506(a) of such Code, as added by this Act, not later than 180 days after the date of the enactment of this Act.

SEC. 6002. DECLARATORY JUDGMENTS FOR 501(c)(4) ORGANIZATIONS.

(a) IN GENERAL.—Paragraph (1) of section 7428(a) is amended by striking ''or'' at the end of subparagraph (C) and by inserting after subparagraph (D) the following new subparagraph:

''(E) with respect to the initial classification or continuing classification of an organization described in section 501(c)(4) which is exempt from tax under section 501(a), or''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to pleadings filed after the date of the enactment of this Act.

SEC. 6003. RESTRICTION ON DONATION REPORTING FOR CERTAIN 501(c)(4) ORGANIZATIONS.

(a) IN GENERAL.—Subsection (f) of section 6033, as amended by this Act, is amended—

(1) by redesignating paragraphs (1) and (2) as subparagraphs (A) and (B), respectively, and by moving such subparagraphs 2 ems to the right,

(2) by striking ''IN SECTION 501(c)(4).—Every organization'' and inserting the following: ''IN SECTION 501(c)(4).—

''(1) IN GENERAL.—Every organization'', and

(3) by adding at the end the following new paragraph:

''(2) RESTRICTION ON DONATION REPORTING.—In the case of any such organization, information relating to contributions and gifts may only be required to be included on a return required under subsection (a) if the contribution or gift is made by an officer or director of the organization (or an individual having powers or responsibilities similar to those of officers or directors) or any covered employee (as defined in section 4960(c)(2)) of the organization.''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to returns for taxable years beginning after December 31, 2013.

SEC. 6004. MANDATORY ELECTRONIC FILING FOR ANNUAL RETURNS OF EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Section 6033, as amended by the preceding provisions of this Act, is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

''(m) MANDATORY ELECTRONIC FILING.—Any organization required to file a return under this section shall file such return in electronic form.''.

(b) INSPECTION OF ELECTRONICALLY FILED ANNUAL RETURNS.—Subsection (b) of section 6104 is amended by adding at the end the following: ''Any annual return required to be filed electronically under section 6033(m) shall be made available by the Secretary to the public in machine readable format as soon as practicable.''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

(2) TRANSITIONAL RELIEF.—

(A) SMALL ORGANIZATIONS.—

(i) IN GENERAL.—In the case of any small organizations, or any other organizations for which the Secretary determines

the application of the amendments made by subsection (a) would cause undue burden without a delay, the Secretary may delay the application of such amendments, but not later than taxable years beginning 2 years after the date of the enactment of this Act.

(ii) SMALL ORGANIZATION.—For purposes of clause (i), the term ''small organization'' means any organization—

(I) the gross receipts of which for the taxable year are less than $200,000, and

(II) the aggregate gross assets of which at the end of the taxable year are less than $500,000.

(B) ORGANIZATIONS FILING FORM 990-T.—In the case of any organization described in section 511(a)(2) of the Internal Revenue Code of 1986 which is subject to the tax imposed by section 511(a)(1) of such Code on its unrelated business taxable income, or any organization required to file a return under section 6033 of such Code and include information under subsection (e) thereof, the Secretary may

delay the application of the amendments made by this section, but not later than taxable years beginning 2 years after the date of the enactment of this Act.

SEC. 6005. DUTY TO ENSURE THAT IRS EMPLOYEES ARE FAMILIAR WITH AND ACT IN ACCORD WITH CERTAIN TAXPAYER RIGHTS.

Section 7803(a) is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

"(3) EXECUTION OF DUTIES IN ACCORD WITH TAXPAYER RIGHTS.—In discharging his duties, the Commissioner shall ensure that employees of the Internal Revenue Service are familiar with and act in accord with taxpayer rights as afforded by other provisions of this title, including—

"(A) the right to be informed,

"(B) the right to be assisted,

"(C) the right to be heard,

"(D) the right to pay no more than the correct amount of tax,

"(E) the right of appeal,

"(F) the right to certainty,

"(G) the right to privacy,

"(H) the right to confidentiality,

"(I) the right to representation, and

"(J) the right to a fair and just tax system.".

SEC. 6006. TERMINATION OF EMPLOYMENT OF IRS EMPLOYEES FOR TAKING OFFICIAL ACTIONS FOR POLITICAL PURPOSES.

Paragraph (10) of section 1203(b) of the Internal Revenue Service Restructuring and Reform Act of 1998 is amended to read as follows:

"(10) performing, delaying, or failing to perform (or threatening to perform, delay, or fail to perform) any official action (including any audit) with respect to a taxpayer for purpose of extracting personal gain or benefit or for a political purpose.".

SEC. 6007. RELEASE OF INFORMATION REGARDING THE STATUS OF CERTAIN INVESTIGATIONS.

(a) IN GENERAL.—Subsection (e) of section 6103 is amended by adding at the end the following new paragraph:

"(11) DISCLOSURE OF INFORMATION REGARDING STATUS OF INVESTIGATION OF VIOLATION OF THIS SECTION.—In the case of a person who provides to the Secretary information indicating a violation of section 7213, 7213A, or 7214 with respect to any return or return information of such person,

the Secretary may disclose to such person (or such person's designee)—

"(A) whether an investigation based on the person's provision of such information has been initiated and whether it is open or closed,

"(B) whether any such investigation substantiated such a violation by any individual, and

"(C) whether any action has been taken with respect to such individual (including whether a referral has been made for prosecution of such individual).".

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 6008. REVIEW OF IRS EXAMINATION SELECTION PROCEDURES.

(a) IN GENERAL.—The Comptroller General of the United States shall conduct a study of each Internal Revenue Service operating division to assess the process used for determining how enforcement cases are selected and processed. Such study shall include a review of the following:

(1) The standards each such operating division has established for enforcement case selection (in-

1 cluding any automated or discretionary selection
2 processes) and case work, and whether such stand-
3 ards meet the objectives of impartiality, objectivity,
4 compliance, and minimizing taxpayer burden.
5 (2) The extent to which any cases are initiated
6 by referrals or complaints from inside or outside of
7 the operating division (including from outside of the
8 Internal Revenue Service).
9 (3) The Internal Revenue Service controls (in-
10 cluding management reviews and regular updates)
11 for assuring that its standards for enforcement cases
12 (and handling of referrals and complaints) in each
13 operating division are sufficient for achieving the ob-
14 jectives described in paragraph (1).
15 (4) The Internal Revenue Service controls (in-
16 cluding training, monitoring, and quality assess-
17 ments) for assuring that its standards are adhered
18 to by all division personnel and the effectiveness of
19 such controls.
20 (5) Whether the existing standards and controls
21 provide reasonable assurance that each division's en-
22 forcement processes meet the Internal Revenue Serv-
23 ice objectives of impartiality, objectivity, compliance,
24 and minimizing taxpayer burden.

(b) INITIAL REPORT.—Not later than 1 year after the date of the enactment of this section, the Comptroller General shall submit to the Committee on Ways and Means of the House of Representatives, the Committee on Finance of the Senate, and the Secretary of the Treasury a report on the results of such study. Such report shall include such recommendations as the Comptroller General may deem advisable.

(c) FOLLOW-UP ON RECOMMENDATIONS.—Not later than 180 days after a report is submitted with respect to an operating division under subsection (b), the Comptroller General shall conduct a follow-up study, and submit to the Committee on Ways and Means of the House of Representatives, the Committee on Finance of the Senate, and the Secretary of the Treasury a report, on whether any recommendations to improve case selection and case work processes have been implemented and are working as intended.

(d) CONTINUING CASE MANAGEMENT STUDIES AND REPORTS.—

(1) IN GENERAL.—After a report is submitted under subsection (b), the Comptroller General shall conduct follow-up studies and reports in the same manner as provided in subsections (a) and (b) with respect to each operating division of the Internal

Revenue Service and shall include in such study and report a review of whether any previous recommendations to improve case selection and case work processes have been implemented and are working as intended.

(2) FREQUENCY.—Each such report with respect to an operating division shall be submitted not later than 4 years after the date the most recent report was submitted with respect to such operating division under subsection (b) or this subsection. The Comptroller General shall submit no fewer than 1 such report each year.

SEC. 6009. IRS EMPLOYEES PROHIBITED FROM USING PERSONAL EMAIL ACCOUNTS FOR OFFICIAL BUSINESS.

No officer or employee of the Internal Revenue Service may use a personal email account to conduct any official business of the Government.

SEC. 6010. MORATORIUM ON IRS CONFERENCES.

The Internal Revenue Service shall not hold any conference until the Treasury Inspector General for Tax Administration submits a report to Congress—

(1) certifying that the Internal Revenue Service has implemented all of the recommendations set out in such Inspector General's report titled "Review of

the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California'', and

(2) describing such implementation.

SEC. 6011. APPLICABLE STANDARD FOR DETERMINATIONS OF WHETHER AN ORGANIZATION IS OPERATED EXCLUSIVELY FOR THE PROMOTION OF SOCIAL WELFARE.

(a) IN GENERAL.—The standard and definitions as in effect on January 1, 2010, which are used to determine whether an organization is operated exclusively for the promotion of social welfare for purposes of section 501(c)(4) of the Internal Revenue Code of 1986 shall apply for purposes of determining the status of organizations under section 501(c)(4) of the Internal Revenue Code of 1986 after the date of the enactment of this Act.

(b) PROHIBITION ON MODIFICATION OF STANDARD.—The Secretary of the Treasury may not (nor may any delegate of such Secretary) issue, revise, or finalize any regulation (including the proposed regulations published at 78 Fed. Reg. 71535 (November 29, 2013)), revenue ruling, or other guidance not limited to a particular taxpayer relating to the standard and definitions specified in subsection (a).

(c) APPLICATION TO ORGANIZATIONS.—Except as provided in subsection (d), this section shall apply with

respect to any organization claiming tax exempt status under section 501(c)(4) of the Internal Revenue Code of 1986 which was created on, before, or after the date of the enactment of this Act.

(d) SUNSET.—This section shall not apply after the one-year period beginning on the date of the enactment of this Act.

Subtitle B—Taxpayer Protection and Service Reforms

SEC. 6101. EXTENSION OF IRS AUTHORITY TO REQUIRE TRUNCATED SOCIAL SECURITY NUMBERS ON FORM W-2.

(a) IN GENERAL.—Paragraph (2) of section 6051(a) is amended by striking ''his social security number'' and inserting ''an identifying number for the employee''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 6102. FREE ELECTRONIC FILING.

(a) IN GENERAL.—The Secretary of the Treasury shall, in cooperation with the private sector technology industry, maintain a program that provides free individual income tax preparation and electronic filing services to low-income taxpayers and elderly taxpayers.

(b) REQUIREMENTS OF PROGRAM.—The Secretary shall by regulation or other guidance prescribe with respect to the program—

(1) the qualifications, selection process, and contract term for businesses participating in the program,

(2) a process for periodic review of businesses participating in the program,

(3) procedures for terminating business participation in the program for failure to comply with any program requirements, and

(4) such other procedures as the Secretary determines are necessary or appropriate to carry out the purposes of the program.

(c) FREE FILE PROGRAM.—The Internal Revenue Service Free File program, as set forth in the notice published in the Federal Register on November 4, 2002 (67 Fed. Reg. 67247), shall be treated as meeting the requirements of subsection (a).

SEC. 6103. PRE-POPULATED RETURNS PROHIBITED.

Except to the extent provided in section 6014, 6020, or 6201(d) of the Internal Revenue Code of 1986, the Secretary of the Treasury shall not provide to any person a proposed final return or statement for use by such person

to satisfy a filing or reporting requirement under such Code.

SEC. 6104. FORM 1040SR FOR SENIORS.

(a) IN GENERAL.—The Secretary of the Treasury (or the Secretary's delegate) shall make available a form, to be known as "Form 1040SR", for use by individuals to file the return of tax imposed by chapter 1 of the Internal Revenue Code of 1986. Such form shall be as similar as practicable to Form 1040EZ, except that—

(1) the form shall be available to individuals who have attained age 65 as of the close of the taxable year,

(2) the form may be used even if income for the taxable year includes—

(A) social security benefits (as defined in section 86(d) of the Internal Revenue Code of 1986),

(B) distributions from qualified retirement plans (as defined in section 4974(c) of such Code), annuities or other such deferred payment arrangements,

(C) interest and dividends, or

(D) capital gains and losses taken into account in determining the deduction for adjusted

net capital gain under section 169 of such Code, and

(3) the form shall be available without regard to the amount of any item of taxable income or the total amount of taxable income for the taxable year.

(b) EFFECTIVE DATE.—The form required by subsection (a) shall be made available for taxable years beginning after December 31, 2014.

SEC. 6105. INCREASED REFUND AND CREDIT THRESHOLD FOR JOINT COMMITTEE ON TAXATION REVIEW OF C CORPORATION RETURN.

(a) IN GENERAL.—Subsections (a) and (b) of section 6405 are each amended by inserting ''($5,000,000 in the case of a C corporation)'' after ''$2,000,000''.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act, except that such amendment shall not apply with respect to any refund or credit with respect to a report that has been made before such date under section 6405 of the Internal Revenue Code of 1986.

Subtitle C—Tax Return Due Date Simplification

SEC. 6201. DUE DATES FOR RETURNS OF PARTNERSHIPS, S CORPORATIONS, AND C CORPORATIONS.

(a) PARTNERSHIPS AND S CORPORATIONS.—

(1) IN GENERAL.—So much of subsection (b) of 6072 as precedes the second sentence thereof is amended to read as follows:

''(b) RETURNS OF PARTNERSHIPS AND S CORPORATIONS.—Returns of partnerships under section 6031 and returns of S corporations under sections 6012 and 6037 made on the basis of the calendar year shall be filed on or before the 15th day of March following the close of the calendar year, and such returns made on the basis of a fiscal year shall be filed on or before the 15th day of the third month following the close of the fiscal year.''.

(2) CONFORMING AMENDMENT.—Section 6072(a) is amended by striking ''6017, or 6031'' and inserting ''or 6017''.

(b) CONFORMING AMENDMENTS RELATING TO C CORPORATION DUE DATE OF 15TH DAY OF FOURTH MONTH FOLLOWING TAXABLE YEAR.—

(1) Section 170(a)(3)(B), as redesignated by the preceding provisions of this Act, is amended by striking ''third month'' and inserting ''fourth month''.

(2) Section 563 is amended by striking ''third month'' each place it appears and inserting ''fourth month''.

(3) Section 1354(d)(1)(B)(i) is amended by striking ''3d month'' and inserting ''4th month''.

(4) Subsection (a) and (c) of section 6167 are each amended by striking ''third month'' and inserting ''fourth month''.

(5) Section 6425(a)(1) is amended by striking ''third month'' and inserting ''fourth month''.

(6) Subsections (b)(2)(A), (g)(3), and (h)(1) of section 6655 are each amended by striking ''3rd month'' and inserting ''4th month''.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to returns for taxable years beginning after December 31, 2014.

(2) SPECIAL RULE FOR C CORPORATIONS WITH FISCAL YEARS ENDING ON JUNE 30.—In the case of any C corporation with a fiscal year ending on June 30, the amendments made by this section shall not apply to any taxable year beginning in 2022.

SEC. 6202. MODIFICATION OF DUE DATES BY REGULATION.

In the case of returns for taxable years beginning after December 31, 2014, the Secretary of the Treasury, or the Secretary's designee, shall modify appropriate regulations to provide as follows:

(1) The maximum extension for the returns of partnerships filing Form 1065 shall be a 6-month period ending on September 15 for calendar year taxpayers.

(2) The maximum extension for the returns of trusts filing Form 1041 shall be a 5½-month period ending on September 30 for calendar year taxpayers.

(3) The maximum extension for the returns of employee benefit plans filing Form 5500 shall be an automatic 3½-month period ending on November 15 for calendar year plans.

(4) The maximum extension for the returns of organizations exempt from income tax filing Form 990 shall be an automatic 6-month period ending on November 15 for calendar year filers.

(5) The due date of Form 3520–A (relating to the Annual Information Return of Foreign Trust with a United States Owner) for calendar year filers shall be April 15 with a maximum extension for a 6-month period ending on October 15.

(6) The due date of Form TD F 90–22.1 (relating to Report of Foreign Bank and Financial Accounts) shall be April 15 with a maximum extension for a 6-month period ending on October 15 and with provision for an extension under rules similar to the

rules in Treas. Reg. section 1.6081–5. For any taxpayer required to file such Form for the first time, any penalty for failure to timely request for, or file, an extension, may be waived by the Secretary.

SEC. 6203. CORPORATIONS PERMITTED STATUTORY AUTOMATIC 6-MONTH EXTENSION OF INCOME TAX RETURNS.

(a) IN GENERAL.—Section 6081(b) is amended by striking ''3 months'' and inserting ''6 months''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to returns for taxable years beginning after December 31, 2014.

Subtitle D—Compliance Reforms

SEC. 6301. PENALTY FOR FAILURE TO FILE.

(a) IN GENERAL.—Section 6651(a) is amended by striking ''$135'' in the flush material at the end and inserting ''$400''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to returns the due date for the filing of which (including extension) is after December 31, 2014.

SEC. 6302. PENALTY FOR FAILURE TO FILE CORRECT INFORMATION RETURNS AND PROVIDE PAYEE STATEMENTS.

(a) IN GENERAL.—Section 6721(a)(1) is amended—

(1) by striking ''$100'' and inserting ''$250'', and

(2) by striking ''$1,500,000'' and inserting ''$3,000,000''.

(b) REDUCTION WHERE CORRECTION IN SPECIFIED PERIOD.—

(1) CORRECTION WITHIN 30 DAYS.—Section 6721(b)(1) is amended—

(A) by striking ''$30'' and inserting ''$50'',

(B) by striking ''$100'' and inserting ''$250'', and

(C) by striking ''$250,000'' and inserting ''$500,000''.

(2) FAILURES CORRECTED ON OR BEFORE AUGUST 1.—Section 6721(b)(2) is amended—

(A) by striking ''$60'' and inserting ''$100'',

(B) by striking ''$100'' (prior to amendment by subparagraph (A)) and inserting ''$250'', and

(C) by striking ''$500,000'' and inserting ''$1,500,000''.

(c) LOWER LIMITATION FOR PERSONS WITH GROSS RECEIPTS OF NOT MORE THAN $5,000,000.—Section 6721(d)(1) is amended—

(1) in subparagraph (A)—

(A) by striking ''$500,000'' and inserting ''$1,000,000'', and

(B) by striking ''$1,500,000'' and inserting ''$3,000,000'',

(2) in subparagraph (B)—

(A) by striking ''$75,000'' and inserting ''$175,000'', and

(B) by striking ''$250,000'' and inserting ''$500,000'', and

(3) in subparagraph (C)—

(A) by striking ''$200,000'' and inserting ''$500,000'', and

(B) by striking ''$500,000'' (prior to amendment by subparagraph (A)) and inserting ''$1,500,000''.

(d) PENALTY IN CASE OF INTENTIONAL DISREGARD.—Section 6721(e) is amended—

(1) by striking ''$250'' in paragraph (2) and inserting ''$500'', and

(2) by striking ''$1,500,000'' in paragraph (3)(A) and inserting ''$3,000,000''.

(e) FAILURE TO FURNISH CORRECT PAYEE STATEMENTS.—

(1) IN GENERAL.—Section 6722(a)(1) is amended—

(A) by striking ''$100'' and inserting ''$250'', and

(B) by striking ''$1,500,000'' and inserting ''$3,000,000''.

(2) REDUCTION WHERE CORRECTION IN SPECIFIED PERIOD.—

(A) CORRECTION WITHIN 30 DAYS.—Section 6722(b)(1) is amended—

(i) by striking ''$30'' and inserting ''$50'',

(ii) by striking ''$100'' and inserting ''$250'', and

(iii) by striking ''$250,000'' and inserting ''$500,000''.

(B) FAILURES CORRECTED ON OR BEFORE AUGUST 1.—Section 6722(b)(2) is amended—

(i) by striking ''$60'' and inserting ''$100'',

(ii) by striking ''$100'' (prior to amendment by clause (i)) and inserting ''$250'', and

(iii) by striking "$500,000" and inserting "$1,500,000".

(3) LOWER LIMITATION FOR PERSONS WITH GROSS RECEIPTS OF NOT MORE THAN $5,000,000.—Section 6722(d)(1) is amended—

(A) in subparagraph (A)—

(i) by striking "$500,000" and inserting "$1,000,000", and

(ii) by striking "$1,500,000" and inserting "$3,000,000",

(B) in subparagraph (B)—

(i) by striking "$75,000" and inserting "$175,000", and

(ii) by striking "$250,000" and inserting "$500,000", and

(C) in subparagraph (C)—

(i) by striking "$200,000" and inserting "$500,000", and

(ii) by striking "$500,000" (prior to amendment by subparagraph (A)) and inserting "$1,500,000".

(4) PENALTY IN CASE OF INTENTIONAL DISREGARD.—Section 6722(e) is amended—

(A) by striking "$250" in paragraph (2) and inserting "$500", and

(B) by striking ''$1,500,000'' in paragraph (3)(A) and inserting ''$3,000,000''.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to returns and statements required to be filed after December 31, 2014.

SEC. 6303. CLARIFICATION OF 6-YEAR STATUTE OF LIMITATIONS IN CASE OF OVERSTATEMENT OF BASIS.

(a) IN GENERAL.—Subparagraph (B) of section 6501(e)(1) is amended—

(1) by striking ''and'' at the end of clause (i), by redesignating clause (ii) as clause (iii), and by inserting after clause (i) the following new clause:

''(ii) An understatement of gross income by reason of an overstatement of unrecovered cost or other basis is an omission from gross income; and'', and

(2) by inserting ''(other than in the case of an overstatement of unrecovered cost or other basis)'' in clause (iii) (as so redesignated) after ''In determining the amount omitted from gross income''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to—

(1) returns filed after the date of the enactment of this Act, and

(2) returns filed on or before such date if the period specified in section 6501 of the Internal Revenue Code of 1986 (determined without regard to such amendments) for assessment of the taxes with respect to which such return relates has not expired as of such date.

SEC. 6304. REFORM OF RULES RELATED TO QUALIFIED TAX COLLECTION CONTRACTS.

(a) REQUIREMENT TO COLLECT CERTAIN INACTIVE TAX RECEIVABLES UNDER QUALIFIED TAX COLLECTION CONTRACTS.—Section 6306 is amended by redesignating subsections (c) through (f) as subsections (d) through (g), respectively, and by inserting after subsection (b) the following new subsection:

''(c) COLLECTION OF INACTIVE TAX RECEIVABLES.—

''(1) IN GENERAL.—Notwithstanding any other provision of law, the Secretary shall enter into one or more qualified tax collection contracts for the collection of all outstanding inactive tax receivables.

''(2) INACTIVE TAX RECEIVABLES.—For purposes of this section—

''(A) IN GENERAL.—The term 'inactive tax receivable' means any tax receivable if—

"(i) at any time after assessment, the Internal Revenue Service removes such receivable from the active inventory for lack of resources or inability to locate the taxpayer,

"(ii) more than ⅓ of the period of the applicable statute of limitation has lapsed and no employee of the Internal Revenue Service has been assigned such receivable for collection, or

"(iii) in the case of a receivable which has been assigned for collection, more than 365 days have passed without interaction with the taxpayer or a third party for purposes of furthering the collection of such receivable.

"(B) TAX RECEIVABLE.—The term 'tax receivable' means any outstanding assessment which the Internal Revenue Service includes in potentially collectible inventory.".

(b) CERTAIN TAX RECEIVABLES NOT ELIGIBLE FOR COLLECTION UNDER QUALIFIED TAX COLLECTION CONTRACTS.—Section 6306, as amended by subsection (a), is amended by redesignating subsections (d) through (g) as

subsections (e) through (h), respectively, and by inserting after subsection (c) the following new subsection:

"(d) CERTAIN TAX RECEIVABLES NOT ELIGIBLE FOR COLLECTION UNDER QUALIFIED TAX COLLECTIONS CONTRACTS.—A tax receivable shall not be eligible for collection pursuant to a qualified tax collection contract if such receivable—

"(1) is subject to a pending or active offer-in-compromise or installment agreement,

"(2) is classified as an innocent spouse case,

"(3) involves a taxpayer identified by the Secretary as being—

"(A) deceased,

"(B) under the age of 18,

"(C) in a designated combat zone, or

"(D) a victim of identity theft,

"(4) is currently under examination, litigation, criminal investigation, or levy, or

"(5) is currently subject to a proper exercise of a right of appeal under this title.".

(c) CONTRACTING PRIORITY.—Section 6306, as amended by the preceding provisions of this section, is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

1 ''(h) CONTRACTING PRIORITY.—In contracting for
2 the services of any person under this section, the Secretary
3 shall give priority to private collection contractors and
4 debt collection centers on the schedule required under sec-
5 tion 3711(g) of title 31, United States Code, to the extent
6 such private collection contractors and debt collection cen-
7 ters are appropriate to carry out the purposes of this sec-
8 tion.''.

9 (d) DISCLOSURE OF RETURN INFORMATION.—Sec-
10 tion 6103(k) is amended by adding at the end the fol-
11 lowing new paragraph:

12 ''(11) QUALIFIED TAX COLLECTION CONTRAC-
13 TORS.—Persons providing services pursuant to a
14 qualified tax collection contract under section 6306
15 may, if speaking to a person who has identified him-
16 self or herself as having the name of the taxpayer
17 to which a tax receivable (within the meaning of
18 such section) relates, identify themselves as contrac-
19 tors of the Internal Revenue Service and disclose the
20 business name of the contractor, and the nature,
21 subject, and reason for the contact. Disclosures
22 under this paragraph shall be made only in such sit-
23 uations and under such conditions as have been ap-
24 proved by the Secretary.''.

(e) TAXPAYERS AFFECTED BY FEDERALLY DECLARED DISASTERS.—Section 6306, as amended by the preceding provisions of this section, is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

''(i) TAXPAYERS IN PRESIDENTIALLY DECLARED DISASTER AREAS.—The Secretary may prescribe procedures under which a taxpayer determined to be affected by a federally declared disaster (as defined by section 165(i)(5)) may request—

''(1) relief from immediate collection measures by contractors under this section, and

''(2) a return of the inactive tax receivable to the Internal Revenue Service for collection.''.

(f) REPORT TO CONGRESS.—

(1) IN GENERAL.—Section 6306, as amended by the preceding provisions of this section, is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

''(j) REPORT TO CONGRESS.—Not later than 90 days after each fiscal year ending on September 30, the Secretary shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a report with respect to qualified

1 tax collection contracts under this section which shall in-
2 clude—
3 ''(1) annually (with respect to each such fiscal
4 year beginning with the first such fiscal year ending
5 after the date of the enactment of this subsection)—
6 ''(A) the total number and amount of tax
7 receivables provided to each contractor for col-
8 lection under this section,
9 ''(B) the total amounts collected (and
10 amounts of installment agreements entered into
11 under subsection (b)(1)(B)) with respect to
12 each contractor and the collection costs in-
13 curred (directly and indirectly) by the Internal
14 Revenue Service with respect to such amounts,
15 ''(C) the impact of such contracts on the
16 total number and amount of unpaid assess-
17 ments, and on the number and amount of as-
18 sessments collected by Internal Revenue Service
19 personnel after initial contact by a contractor,
20 ''(D) the amount of fees retained by the
21 Secretary under subsection (e) and a descrip-
22 tion of the use of such funds, and
23 ''(E) a disclosure safeguard report in a
24 form similar to that required under section
25 6103(p)(5), and

"(2) biannually (beginning with the second report submitted under this subsection)—

"(A) an independent evaluation of contractor performance; and

"(B) a measurement plan that includes a comparison of the best practices used by the private collectors to the collection techniques used by the Internal Revenue Service and mechanisms to identify and capture information on successful collection techniques used by the contractors that could be adopted by the Internal Revenue Service.".

(2) REPEAL OF EXISTING REPORTING REQUIREMENTS WITH RESPECT TO QUALIFIED TAX COLLECTION CONTRACTS.—Section 881 of the American Jobs Creation Act of 2004 is amended by striking subsection (e).

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by subsections (a) and (b) shall apply to tax receivables identified by the Secretary after the date of the enactment of this Act.

(2) CONTRACTING PRIORITY.—The amendments made by subsection (c) shall apply to contracts and

agreements entered into after the date of the enactment of this Act.

(3) DISCLOSURES.—The amendments made by subsection (d) shall apply to disclosures made after the date of the enactment of this Act.

(4) PROCEDURES; REPORT TO CONGRESS.—The amendments made by subsections (e) and (f) shall take effect on the date of the enactment of this Act.

SEC. 6305. 100 PERCENT CONTINUOUS LEVY ON PAYMENTS TO MEDICARE PROVIDERS AND SUPPLIERS.

(a) IN GENERAL.—Paragraph (3) of section 6331(h) is amended by striking the period at the end and inserting ", or to a Medicare provider or supplier under title XVIII of the Social Security Act.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to levies issued after the date of the enactment of this Act.

SEC. 6306. TREATMENT OF REFUNDABLE CREDITS FOR PURPOSES OF CERTAIN PENALTIES.

(a) APPLICATION OF UNDERPAYMENT PENALTIES.—Section 6664(a) is amended by adding at the end the following: "A rule similar to the rule of section 6211(b)(4) shall apply for purposes of this subsection.".

(b) PENALTY FOR ERRONEOUS CLAIM OF CREDIT MADE APPLICABLE TO EARNED INCOME CREDIT.—Sec-

tion 6676(a) is amended by striking ''(other than a claim for a refund or credit relating to the earned income credit under section 32)''.

(c) EFFECTIVE DATES.—

(1) UNDERPAYMENT PENALTIES.—The amendment made by subsection (a) shall apply to—

(A) returns filed after February 26, 2014, and

(B) returns filed on or before such date if the period specified in section 6501 of the Internal Revenue Code of 1986 for assessment of the taxes with respect to which such return relates has not expired as of such date.

(2) PENALTY FOR ERRONEOUS CLAIM OF CREDIT.—The amendment made by subsection (b) shall apply to claims filed after February 26, 2014.

TITLE VII—EXCISE TAXES

SEC. 7001. REPEAL OF MEDICAL DEVICE EXCISE TAX.

(a) IN GENERAL.—Chapter 32 is amended by striking subchapter E.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 4221 is amended by striking the last sentence.

(2) Paragraph (2) of section 6416(b) is amended by striking the last sentence.

(c) CLERICAL AMENDMENT.—The table of subchapters for chapter 32 is amended by striking the item relating to subchapter E.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to sales after the date of the enactment of this Act.

SEC. 7002. MODIFICATIONS RELATING TO OIL SPILL LIABILITY TRUST FUND.

(a) EXTENSION OF OIL SPILL LIABILITY TRUST FUND FINANCING RATE.—Paragraph (2) of section 4611(f) is amended by striking ''December 31, 2017'' and inserting ''December 31, 2023''.

(b) APPLICATION WITH RESPECT TO BITUMEN AND BITUMINOUS MIXTURES AND SHALE OIL.—Paragraph (1) of section 4612(a) is amended to read as follows:

''(1) CRUDE OIL.—The term 'crude oil' includes crude oil condensates, natural gasoline, any bitumen or bituminous mixture, any oil derived from a bitumen or bituminous mixture, shale oil, and any oil derived from kerogen-bearing sources.''.

(c) CONFORMING AMENDMENT.—Paragraph (2) of section 4612(a) is amended by striking ''from a well located''.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to oil and petroleum products re-

ceived or entered during calendar quarters beginning more than 60 days after the date of the enactment of this Act.

SEC. 7003. MODIFICATION RELATING TO INLAND WATERWAYS TRUST FUND FINANCING RATE.

(a) IN GENERAL.—Section 4042(b)(2)(A) is amended to read as follows:

"(A) The Inland Waterways Trust Fund financing rate is 26 cents per gallon.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to fuel used after December 31, 2014.

SEC. 7004. EXCISE TAX ON SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS.

(a) IN GENERAL.—Chapter 36 is amended by adding at the end the following new subchapter:

"Subchapter E—Tax on Systemically Important Financial Institutions

"Sec. 4491. Tax on systemically important financial institutions.

"SEC. 4491. TAX ON SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS.

"(a) IN GENERAL.—There is hereby imposed a tax on the excess total consolidated assets of any systemically important financial institution on the close of each calendar quarter.

1 ''(b) AMOUNT OF TAX.—The rate of tax imposed by
2 subsection (a) is 0.035 percent of such excess total consoli-
3 dated assets.
4 ''(c) BY WHOM PAID.—The tax imposed by sub-
5 section (a) shall be paid by the systemically important fi-
6 nancial institution.
7 ''(d) DUE DATE.—The tax imposed by subsection (a)
8 for a calendar quarter shall be due on the first day of
9 the third month beginning after the close of such quarter.
10 ''(e) SYSTEMICALLY IMPORTANT FINANCIAL INSTI-
11 TUTION.—For purposes of this section, the term 'system-
12 ically important financial institution' means any person
13 subject to section 165 of the Dodd-Frank Wall Street Re-
14 form and Consumer Protection Act.
15 ''(f) EXCESS TOTAL CONSOLIDATED ASSETS.—For
16 purposes of this section, the term 'excess total consoli-
17 dated assets' means the excess of—
18 ''(1) total consolidated assets (within the mean-
19 ing of section 165 of the Dodd-Frank Wall Street
20 Reform and Consumer Protection Act), over
21 ''(2) $500,000,000,000.
22 ''(g) ADJUSTMENT OF DOLLAR AMOUNT.—
23 ''(1) IN GENERAL.—In the case of any calendar
24 year beginning after 2015, there shall be substituted
25 for the dollar amount in subsection (f)(2) a dollar

amount which bears the same ratio to such amount (determined without regard to this subsection) as—

"(A) the GDP for the preceding calendar year, bears to

"(B) the GDP for 2014.

Any dollar amount determined under this paragraph for substitution in subsection (f)(2) which is not a multiple of $1,000,000,000 shall be rounded to the nearest multiple of $1,000,000,000.

"(2) GDP.—For purposes of this subsection, the GDP for any calendar year means the latest estimate of the gross domestic product published by the Department of Commerce for the preceding calendar year.

"(h) TREATMENT OF CERTAIN REFERENCES.—Any reference in this section to any provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act shall be treated as a reference to such provision as in effect on the date of the enactment of this section.".

(b) CLERICAL AMENDMENT.—The table of subchapters for chapter 36 is amended by adding at the end the following new item:

"SUBCHAPTER E. TAX ON SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar quarters beginning after December 31, 2014.

SEC. 7005. CLARIFICATION OF ORPHAN DRUG EXCEPTION TO ANNUAL FEE ON BRANDED PRESCRIPTION PHARMACEUTICAL MANUFACTURERS AND IMPORTERS.

(a) IN GENERAL.—Paragraph (3) of section 9008(e) of the Patient Protection and Affordable Care Act (Public Law 111–148) is amended to read as follows:

"(3) EXCLUSION OF ORPHAN DRUG SALES.—

"(A) IN GENERAL.—The term 'branded prescription drug sales' shall not include sales of any drug or biological product—

"(i) with respect to which a credit was allowed for any taxable year under section 45C of the Internal Revenue Code of 1986 (as in effect before its repeal by the Tax Reform Act of 2014); or

"(ii) which is approved or licensed by the Food and Drug Administration for marketing solely for one or more rare diseases or conditions.

"(B) LIMITATION.—Subparagraph (A) shall not apply with respect to any drug or bio-

1 logical product after the date on which the drug
2 or biological product is approved or licensed by
3 the Food and Drug Administration for mar-
4 keting for any indication other than the treat-
5 ment of a rare disease or condition.
6 ''(C) RARE DISEASE OR CONDITION.—
7 ''(i) IN GENERAL.—For purposes of
8 this paragraph, the term 'rare disease or
9 condition' means any disease or condition
10 which—
11 ''(I) affects less than 200,000
12 persons in the United States, or
13 ''(II) affects more than 200,000
14 persons in the United States but for
15 which there is no reasonable expecta-
16 tion that the cost of developing and
17 making available in the United States
18 a drug or biological product for such
19 disease or condition will be recovered
20 from sales in the United States of
21 such drug or biological product.
22 ''(ii) TIME OF DETERMINATION.—De-
23 terminations under the preceding sentence
24 with respect to any drug or biological prod-

uct shall be made on the basis of the facts and circumstances as of—

"(I) in the case a drug or biological product that has been designated under section 526 of the Federal Food, Drug, and Cosmetic Act for a particular indication, the date of such designation, and

"(II) in any other case, the date such drug or biological product is approved or licensed by the Food and Drug Administration for marketing for the treatment of the disease or condition referred to in clause (i).".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to fees imposed under section 9008(a)(1) of the Patient Protection and Affordable Care Act with annual payment dates after 2013.

TITLE VIII—DEADWOOD AND TECHNICAL PROVISIONS

Subtitle A—Repeal of Deadwood

SEC. 8001. REPEAL OF PUERTO RICO ECONOMIC ACTIVITY CREDIT.

Subpart B of part IV of subchapter A of chapter 1 is amended by striking section 30A (and by striking the

item relating to such section in the table of sections of such subpart).

SEC. 8002. REPEAL OF MAKING WORK PAY CREDIT.

(a) IN GENERAL.—Subpart C of part IV of subchapter A of chapter 1 is amended by striking section 36A (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 6211(b)(4)(A) is amended by striking "36A,".

(2) Section 6213(g)(2) is amended by striking subparagraph (N).

SEC. 8003. GENERAL BUSINESS CREDIT.

Subsection (d) of section 38 is amended by striking paragraph (3).

SEC. 8004. ENVIRONMENTAL TAX.

(a) IN GENERAL.—Subchapter A of chapter 1 is amended by striking part VII (and the table of parts for such chapter is amended by striking the item relating to part VII).

(b) CONFORMING AMENDMENTS.—

(1) Section 26(b)(2) is amended by striking subparagraph (B).

(2) Section 164(a) is amended by striking paragraph (5).

(3) Section 275(a) is amended by striking the last sentence.

(4) Section 882(a)(1) is amended by striking ''59A,''.

(5) Section 6425(c)(1)(A), as amended by the preceding provisions of this Act, is amended to read as follows:

''(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over''.

(6) Section 6655(g)(1)(A), as amended by the preceding provisions of this Act, is amended by adding ''plus'' at the end of clause (i) and by striking clause (ii).

SEC. 8005. ANNUITIES; CERTAIN PROCEEDS OF ENDOWMENT AND LIFE INSURANCE CONTRACTS.

Section 72 is amended—

(1) in subsection (c)(4) by striking ''; except that if such date was before January 1, 1954, then the annuity starting date is January 1, 1954'', and

(2) in subsection (g)(3) by striking ''January 1, 1954, or'' and '', whichever is later''.

SEC. 8006. UNEMPLOYMENT COMPENSATION.

Section 85 is amended by striking subsection (c).

SEC. 8007. FLEXIBLE SPENDING ARRANGEMENTS.

Section 106(c)(1) is amended by striking ''Effective on and after January 1, 1997, gross'' and inserting ''Gross''.

SEC. 8008. CERTAIN COMBAT ZONE COMPENSATION OF MEMBERS OF THE ARMED FORCES.

Subsection (c) of section 112 is amended—

(1) by striking ''(after June 24, 1950)'' in paragraph (2), and

(2) striking ''such zone;'' and all that follows in paragraph (3) and inserting ''such zone.''.

SEC. 8009. QUALIFIED GROUP LEGAL SERVICES PLANS.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 is amended by striking section 120 (and by striking the item relating to such section in the table of sections for such part).

(b) TAX-EXEMPTION OF GROUP LEGAL SERVICES PLANS.—Section 501(c) is amended by striking paragraph (20).

(c) CONFORMING AMENDMENTS.—

(1) Section 414(n)(3)(C) is amended by striking ''120,''.

(2) Section 414(t)(2) is amended by striking ''120,''.

(3) Section 3121(a) is amended by striking paragraph (17).

(4) Section 3231(e) is amended by striking paragraph (7).

(5) Section 3306(b) is amended by striking paragraph (12).

(6) Section 6039D(d)(1) is amended by striking ''120,''.

(7) Section 209(a)(14) of the Social Security Act is amended—

(A) by striking subparagraph (B), and

(B) by striking ''(14)(A)'' and inserting ''(14)''.

SEC. 8010. CERTAIN REDUCED UNIFORMED SERVICES RETIREMENT PAY.

Section 122(b)(1) is amended by striking ''after December 31, 1965,''.

SEC. 8011. GREAT PLAINS CONSERVATION PROGRAM.

Section 126(a) is amended by striking paragraph (6) and by redesignating paragraphs (7),(8), (9), and (10) as paragraphs (6), (7), (8), and (9), respectively.

SEC. 8012. STATE LEGISLATORS' TRAVEL EXPENSES AWAY FROM HOME.

Paragraph (4) of section 162(h) is amended by striking ''For taxable years beginning after December 31, 1980, this'' and inserting ''This''.

SEC. 8013. TREBLE DAMAGE PAYMENTS UNDER THE ANTITRUST LAW.

Section 162(g) is amended by striking the last sentence.

SEC. 8014. PHASE-IN OF LIMITATION ON INVESTMENT INTEREST.

Section 163(d) is amended by striking paragraph (6).

SEC. 8015. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.

Section 170 is amended by striking subsection (k).

SEC. 8016. AMORTIZABLE BOND PREMIUM.

(a) IN GENERAL.—Subparagraph (B) of section 171(b)(1) is amended to read as follows:

> ''(B)(i) with reference to the amount payable on maturity (or if it results in a smaller amortizable bond premium attributable to the period before the call date, with reference to the amount payable on the earlier call date), in the case of a bond described in subsection (a)(1), and
>
> ''(ii) with reference to the amount payable on maturity or on an earlier call date, in the case of a bond described in subsection (a)(2).''.

(b) CONFORMING AMENDMENTS.—Paragraphs (2)(B) and (3)(B) of section 171(b) are each amended by striking ''paragraph (1)(B)(ii)'' and inserting ''paragraph (1)(B)(i)''.

SEC. 8017. REPEAL OF DEDUCTION FOR CLEAN-FUEL VEHICLES AND CERTAIN REFUELING PROPERTY.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 179A (and by striking the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENT.—

(1) Section 62(a) is amended by striking paragraph (14).

(2) Section 280F(a)(1) is amended by striking subparagraph (C).

(3) Section 312(k)(3), as amended by this Act, is amended by striking ", 179A" each place it appears.

(4) Section 1016(a) is amended by striking paragraph (24).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after December 31, 2005.

SEC. 8018. REPEAL OF DEDUCTION FOR CAPITAL COSTS INCURRED IN COMPLYING WITH ENVIRONMENTAL PROTECTION AGENCY SULFUR REGULATIONS.

(a) IN GENERAL.—Part VI of subchapter B of chapter 1 is amended by striking section 179B (and by striking

the item relating to such section in the table of sections for such part).

(b) CONFORMING AMENDMENTS.—

(1) Section 312(k)(3), as amended by this Act, is amended by striking ", 179B" each place it appears.

(2) Section 1016(a) is amended by striking paragraph (30).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts paid or incurred after December 31, 2009.

SEC. 8019. ACTIVITIES NOT ENGAGED IN FOR PROFIT.

Section 183(e)(1) is amended by striking the last sentence.

SEC. 8020. DIVIDENDS RECEIVED ON CERTAIN PREFERRED STOCK; AND DIVIDENDS PAID ON CERTAIN PREFERRED STOCK OF PUBLIC UTILITIES.

(a) IN GENERAL.—Sections 244 and 247 are hereby repealed, and the table of sections for part VIII of subchapter B of chapter 1 is amended by striking the items relating to sections 244 and 247.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (5) of section 172(d) is amended to read as follows:

"(5) COMPUTATION OF DEDUCTION FOR DIVIDENDS RECEIVED.—The deductions allowed by section 243 (relating to dividends received by corporations) and 245 (relating to dividends received from certain foreign corporations) shall be computed without regard to section 246(b) (relating to limitation on aggregate amount of deductions).".

(2) Paragraph (1) of section 243(c) is amended to read as follows:

"(1) IN GENERAL.—In the case of any dividend received from a 20-percent owned corporation, subsection (a)(1) shall be applied by substituting '80 percent' for '70 percent' ".".

(3) Section 243(d) is amended by striking paragraph (4).

(4) Section 246 is amended—

(A) by striking ", 244," in subsection (a)(1),

(B) in subsection (b)(1)—

(i) by striking "sections 243(a)(1), 244(a)," the first place it appears and inserting "section 243(a)(1)",

(ii) by striking "244(a)," the second place it appears, and

(iii) by striking ''subsection (a) or (b) of section 245, and 247,'' and inserting ''and subsection (a) or (b) of section 245,'', and

(C) by striking '', 244,'' in subsection (c)(1).

(5) Section 246A is amended by striking '', 244,'' both places it appears in subsections (a) and (e).

(6) Sections 263(g)(2)(B)(iii), 277(a), 301(e)(2), 469(e)(4), 512(a)(3)(A), 805(a)(4)(A), (C), and (D), 805(b)(4) (as redesignated by this Act), 832(b)(5)(B)(ii), (D)(i), and (D)(ii)(I), 833(b)(3)(E), and 1059(b)(2)(B) are each amended by striking '', 244,'' each place it appears.

(7) Section 805(a)(4)(B) is amended by striking '', 244(a),'' each place it appears.

(8) Section 810(c)(2)(B) is amended by striking ''244 (relating to dividends on certain preferred stock of public utilities),''.

(9) Section 1244(c)(2)(C) is amended by striking ''244,''.

SEC. 8021. ACQUISITIONS MADE TO EVADE OR AVOID INCOME TAX.

Paragraphs (1) and (2) of section 269(a) are each amended by striking ''or acquired on or after October 8, 1940,''.

SEC. 8022. DISTRIBUTIONS OF PROPERTY.

Paragraph (3) of section 301(c) is amended to read as follows:

''(3) AMOUNTS IN EXCESS OF BASIS.—That portion of the distribution which is not a dividend, to the extent that it exceeds the adjusted basis of the stock, shall be treated as gain from the sale or exchange of property.''.

SEC. 8023. EFFECT ON EARNINGS AND PROFITS.

Subsection (d) of section 312 is amended by striking paragraph (2) and redesignating paragraph (3) as paragraph (2).

SEC. 8024. BASIS TO CORPORATIONS.

Section 362(a) is amended by striking ''on or after June 22, 1954,''.

SEC. 8025. TAX CREDIT EMPLOYEE STOCK OWNERSHIP PLANS.

Section 409 is amended by striking subsection (q).

SEC. 8026. EMPLOYEE STOCK PURCHASE PLANS.

Section 423(a) is amended by striking ''after December 31, 1963''.

SEC. 8027. TRANSITION RULES.

(a) Paragraph (5) of section 430(c) is amended by striking subparagraph (B) and by striking ''(A) IN GENERAL.—''.

(b) Paragraph (2) of section 430(h) is amended by striking subparagraph (G).

(c) Paragraph (3) of section 436(j) is amended by striking subparagraphs (B) and (C) and by striking ''(A) IN GENERAL.—''

(d) Section 436 is amended by striking subsection (m).

SEC. 8028. LIMITATION ON DEDUCTIONS FOR CERTAIN FARMING.

(a) IN GENERAL.—Section 464 is amended by striking ''any farming syndicate (as defined in subsection (c))'' both places it appears in subsections (a) and (b) and inserting ''any taxpayer to whom subsection (d) applies''.

(b) FARMING SYNDICATE.—

(1) Subsection (c) of section 464 is hereby moved to the end of section 461 and redesignated as subsection (j).

(2) Such subsection (j) is amended—

(A) by striking ''For purposes of this section'' in paragraph (1) and inserting ''For purposes of subsection (i)(4)'', and

(B) by adding at the end the following new paragraphs:

''(3) FARMING.—For purposes of this subsection, the term 'farming' has the meaning given to such term by section 464(e).

''(4) LIMITED ENTREPRENEUR.—For purposes of this subsection, the term 'limited entrepreneur' means a person who—

''(A) has an interest in an enterprise other than as a limited partner, and

''(B) does not actively participate in the management of such enterprise.''.

(C) Paragraph (4) of section 461(i) is amended by striking ''section 464(c)'' and inserting ''subsection (j)''.

(c) Section 464 is amended—

(1) by striking subsections (e) and (g) and redesignating subsections (d) and (f) as subsections (c) and (d), respectively, and

(2) by inserting after subsection (d) the following new subsection:

''(e) FARMING.—For purposes of this section, the term 'farming' means the cultivation of land or the raising or harvesting of any agricultural or horticultural commodity including the raising, shearing, feeding, caring for,

training, and management of animals. For purposes of the preceding sentence, trees (other than trees bearing fruit or nuts) shall not be treated as an agricultural or horticultural commodity.''.

(d) Subsection (d) of section 464 of such Code, as redesignated by subsection (c), is amended—

(1) by striking paragraph (1) and redesignating paragraphs (2), (3), and (4) as paragraphs (1), (2), and (3), respectively, and

(2) by striking ''SUBSECTIONS (A) AND (B) TO APPLY TO'' in the subsection heading.

(e) Subparagraph (A) of section 58(a)(2) is amended by striking ''section 464(c)'' and inserting ''section 461(j)''.

SEC. 8029. DEDUCTIONS LIMITED TO AMOUNT AT RISK.

Paragraph (3) of section 465(c) is amended by striking ''In the case of taxable years beginning after December 31, 1978, this'' and inserting ''This''.

SEC. 8030. PASSIVE ACTIVITY LOSSES AND CREDITS LIMITED.

Section 469 is amended by striking subsection (m).

SEC. 8031. ADJUSTMENTS REQUIRED BY CHANGES IN METHOD OF ACCOUNTING.

Section 481(b)(3) is amended by striking subparagraph (C).

SEC. 8032. EXEMPTION FROM TAX ON CORPORATIONS, CERTAIN TRUSTS, ETC.

Section 501 is amended by striking subsection (s).

SEC. 8033. REQUIREMENTS FOR EXEMPTION.

(a) Section 503(a)(1) is amended to read as follows:

"(1) GENERAL RULE.—An organization described in paragraph (17) or (18) of section 501(c) or described in section 401(a) and referred to in section 4975(g)(2) or (3) shall not be exempt from taxation under section 501(a) if it has engaged in a prohibited transaction.".

(b) Paragraph (2) of section 503(a) is amended by striking "described in section 501(c)(17) or (18) or paragraph (a)(1)(B)" and inserting "described in paragraph (1)".

(c) Subsection (c) of section 503 is amended by striking "described in section 501(c)(17) or (18) or subsection (a)(1)(B)" and inserting "described in subsection (a)(1)".

SEC. 8034. REPEAL OF SPECIAL TREATMENT FOR RELIGIOUS BROADCASTING COMPANY.

(a) IN GENERAL.—Subsection (b) of section 512 is amended by striking paragraph (15).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 8035. REPEAL OF EXCLUSION OF GAIN OR LOSS FROM DISPOSITION OF BROWNFIELD PROPERTY.

(a) IN GENERAL.—Subsection (b) of section 512 is amended by striking paragraph (19).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to property acquired after December 31, 2009.

SEC. 8036. ACCUMULATED TAXABLE INCOME.

Paragraph (1) of section 535(b) and paragraph (1) of section 545(b) are each amended by striking ''section 531'' and all that follows and inserting ''section 531 or the personal holding company tax imposed by section 541.''.

SEC. 8037. CERTAIN PROVISIONS RELATED TO DEPLETION.

(a) Section 614(b)(3) (before being redesignated by title III) is amended by striking subparagraph (C).

(b) Section 614(b)(4) (before being redesignated by title III) is amended by striking ''whichever of the following taxable years is the later: The first taxable year beginning after December 31, 1963, or''.

(c) Section 614(b) (before being redesignated by title III) is amended by striking paragraph (5).

SEC. 8038. AMOUNTS RECEIVED BY SURVIVING ANNUITANT UNDER JOINT AND SURVIVOR ANNUITY CONTRACT.

Subparagraph (A) of section 691(d)(1) is amended by striking ''after December 31, 1953, and''.

SEC. 8039. INCOME TAXES OF MEMBERS OF ARMED FORCES ON DEATH.

Section 692(a)(1) is amended by striking ''after June 24, 1950''.

SEC. 8040. SPECIAL RULES FOR COMPUTING RESERVES.

Paragraph (7) of section 807(e) is amended by striking subparagraph (B) and redesignating subparagraph (C) as subparagraph (B).

SEC. 8041. INSURANCE COMPANY TAXABLE INCOME.

(a) Section 832(e) is amended by striking ''of taxable years beginning after December 31, 1966,''.

(b) Section 832(e)(6) is amended by striking ''In the case of any taxable year beginning after December 31, 1970, the'' and inserting ''The''.

SEC. 8042. CAPITALIZATION OF CERTAIN POLICY ACQUISITION EXPENSES.

Section 848 (as amended by title II) is amended by striking subsection (i).

SEC. 8043. REPEAL OF PROVISION ON EXPATRIATION TO AVOID TAX.

(a) IN GENERAL.—Subpart A of part II of subchapter N of chapter 1 is amended by striking section 877 (and by striking the item relating to such section in the table of sections for such subpart).

(b) CONFORMING AMENDMENTS.—

(1) Section 2(d) is amended by striking ''or 877''.

(2) Section 121 is amended by striking subsection (e).

(3) Section 865(j)(3) is amended by inserting ''as in effect before its repeal'' after ''section 877''.

(4) Paragraph (2) of section 871(o) (as amended by this Act) is amended to read as follows:

''(2) For taxation of covered expatriates, see section 877A.''.

(5)(A) Section 877A(g)(1)(A) is amended to read as follows:

''(A) IN GENERAL.—The term 'covered expatriate' means any expatriate if—

''(i) the average annual net income tax of such individual for the period of 5 taxable years ending before the date of the loss of United States citizenship is greater than $124,000,

"(ii) the net worth of the individual as of such date is $2,000,000 or more, or

"(iii) such individual fails to certify under penalty of perjury that he has met the requirements of this title for the 5 preceding taxable years or fails to submit such evidence of such compliance as the Secretary may require.".

(B) Section 877A(g)(1)(B) is amended by striking "shall not be treated as meeting the requirements of subparagraph (A) or (B) of section 877(a)(2)" and inserting "shall not be treated as described in clause (i) or (ii) of subparagraph (A)".

(C) Section 877A(g)(1) is amended by redesignating subparagraph (C) as subparagraph (D) and inserting after subparagraph (B) the following new subparagraph:

"(C) NET INCOME TAX.—For purposes of subparagraph (A), the term 'net income tax' means the regular tax liability reduced by the credits allowed under subparts A, B, and D of part IV of subchapter A.".

(D) Section 877A(g)(1), as amended by subparagraph (C), is amended by adding at the end the following new subparagraph:

"(E) INFLATION ADJUSTMENT.—In the case of the loss of United States citizenship in any calendar year after 2007, the dollar amount in subparagraph (A)(i) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(c)(2)(A) for the calendar year in which such loss of United States citizenship occurs determined by substituting 'calendar year 2003' for 'calendar year 2012' in clause (ii) thereof.

Any increase determined under the preceding sentence shall be rounded to the nearest multiple of $1,000.".

(E) Section 877A(g)(5) is amended to read as follows:

"(5) LONG-TERM RESIDENT.—The term 'long-term resident' means any individual (other than a citizen of the United States) who is a lawful permanent resident of the United States in at least 8 taxable years during the period of 15 taxable years ending with the taxable year during which the event described in subparagraph (A) or (B) of paragraph (2) occurs. For purposes of the preceding sentence, an

individual shall not be treated as a lawful permanent resident for any taxable year if such individual is treated as a resident of a foreign country for the taxable year under the provisions of a tax treaty between the United States and the foreign country and does not waive the benefits of such treaty applicable to residents of the foreign country.''.

(6) Section 894(b) is amended by striking the last sentence.

(7) Section 2107 is amended by striking subsection (e).

(8) Section 2501(a) is amended by striking paragraphs (3) and (5) and by redesignating paragraph (4) as paragraph (3).

(9) Section 3405(e)(13)(B) is amended by striking ''that such person is not—'' and all that follows and inserting ''that such person is not a United States citizen or a resident alien of the United States.''.

(10) Section 6039G(a) is amended by striking ''section 877(b) or 877A'' and inserting ''section 877A''.

(11) Section 6039G(d) is amended by striking ''section 877(a) or 877A'' and inserting ''section 877A''.

(12) Section 7701(b) is amended by striking paragraph (10) and by redesignating paragraph (11) as paragraph (10).

(c) EFFECTIVE DATE.—The amendments made by this subsection shall apply to individuals whose expatriation date (as defined in section 877A(g)(3) of the Internal Revenue Code of 1986) is on or after June 17, 2008.

SEC. 8044. REPEAL OF CERTAIN TRANSITION RULES ON INCOME FROM SOURCES WITHOUT UNITED STATES.

(a) LIMITATION ON CREDIT.—Paragraph (2) of section 904(d) is amended by striking subparagraph (J).

(b) FOREIGN EARNED INCOME.—Clause (i) of section 911(b)(2)(D) is amended to read as follows:

"(i) IN GENERAL.—The exclusion amount for any calendar year is $80,000.".

SEC. 8045. REPEAL OF PUERTO RICO AND POSSESSION TAX CREDIT.

(a) IN GENERAL.—Subpart D of part III of subchapter N of chapter 1 is amended by striking section 936 (and by striking the item relating to such section in the table of sections of such subpart).

(b) CONFORMING AMENDMENTS.—

(1)(A) Section 27 is amended to read as follows:

"SEC. 27. TAXES OF FOREIGN COUNTRIES AND POSSESSIONS OF THE UNITED STATES.

''The amount of taxes imposed by foreign countries and possessions of the United States shall be allowed as a credit against the tax imposed by this chapter to the extent provided in section 901.''.

(B) The item relating to section 27 in the table of sections for subpart B of part IV of subchapter A of chapter 1 is amended to read as follows:

''Sec. 27. Taxes of foreign countries and possessions of the United States.''.

(2) Section 243(b)(1)(B) is amended to read as follows:

''(B) if such dividend is distributed out of the earnings and profits of a taxable year of the distributing corporation which ends after December 31, 1963, and on each day of which the distributing corporation and the corporation receiving the dividend were members of such affiliated group.''.

(3) Section 246 is amended by striking subsection (e).

(4) Section 338(h)(6)(B)(i) is amended by striking '', a DISC, or a corporation to which an election under section 936 applies'' and inserting ''or a DISC''.

(5) Section 861(a)(2) is amended—

(A) by striking subparagraph (A) and by redesignating subparagraphs (B), (C), and (D) as subparagraphs (A), (B), and (C), respectively, and

(B) by striking ''subparagraph (B)'' each place it appears and inserting ''subparagraph (A)''.

(6) Section 864(d)(5) is amended to read as follows:

''(5) CERTAIN PROVISIONS NOT TO APPLY.—The following provisions shall not apply to any amount treated as interest under paragraph (1) or (6):

''(A) Section 904(d)(2)(B)(iii)(I) (relating to exceptions for export financing interest).

''(B) Subparagraph (A) of section 954(b)(3) (relating to exception where foreign base company income is less than 5 percent or $1,000,000).

''(C) Subparagraph (B) of section 954(c)(2) (relating to certain export financing).

''(D) Clause (i) of section 954(c)(3)(A) (relating to certain income received from related persons).''.

(7) Section 865(j)(3) is amended by striking ", 933, and 936" and inserting "and 933".

(8) Section 901(g)(2) is amended by inserting "(as in effect before its repeal)" after "936".

(9) Section 904(b) is amended by striking paragraph (4).

(10) Section 1202(e)(4) is amended by striking subparagraph (B) and by redesignating subparagraphs (C) and (D) as subparagraphs (B) and (C), respectively.

(11) Section 1361(b)(2) is amended by adding "or" at the end of subparagraph (B), by striking subparagraph (C), and by redesignating subparagraph (D) as subparagraph (C).

(12) Section 1504(b) is amended by striking paragraph (4).

(13) Section 6091(b)(2)(B) is amended by striking clause (ii) and by redesignating clauses (iii) and (iv) as clauses (ii) and (iii), respectively.

(14) Section 6654(d)(2)(D) is amended—

(A) by striking "936(h) or" in clause (i), and

(B) by striking "AND SECTION 936" in the heading.

(15) Section 6655(e)(4) is amended—

(A) by striking ''936(h) or'' in subparagraph (A), and

(B) by striking ''AND SECTION 936'' in the heading.

(16)(A) Section 367(d) is amended by adding at the end the following new paragraph:

''(4) INTANGIBLE PROPERTY.—For purposes of this subsection, the term 'intangible property' means any—

''(A) patent, invention, formula, process, design, pattern, or know-how,

''(B) copyright, literary, musical, or artistic composition,

''(C) trademark, trade name, or brand name,

''(D) franchise, license, or contract,

''(E) method, program, system, procedure, campaign, survey, study, forecast, estimate, customer list, or technical data, or

''(F) any similar item,

which has substantial value independent of the services of any individual.''.

(B) Section 367(a)(3)(B)(iv) is amended by striking ''section 936(h)(3)(B)'' and inserting ''subsection (d)(4)''.

(C) Sections 482 and 1298(e)(2)(A) are each amended by striking ''section 936(h)(4)(B)'' and inserting ''section 367(d)(4)''.

SEC. 8046. BASIS OF PROPERTY ACQUIRED FROM DECEDENT.

Section 1014 is amended—

(1) by striking ''either'' and by striking ''or section 811(j) of the Internal Revenue Code of 1939 where the decedent died after October 21, 1942'' in subsection (a)(2), and

(2) by striking paragraphs (7) and (8) of subsection (b).

SEC. 8047. PROPERTY ON WHICH LESSEE HAS MADE IMPROVEMENTS.

Section 1019 is amended by striking the last sentence.

SEC. 8048. INVOLUNTARY CONVERSION.

Section 1033 is amended by striking subsection (j) and by redesignating subsection (k) as subsection (j).

SEC. 8049. PROPERTY ACQUIRED DURING AFFILIATION.

Section 1051 is hereby repealed, and the table of sections for part IV of subchapter O of chapter 1 is amended by striking the item relating to section 1051.

SEC. 8050. REPEAL OF SPECIAL HOLDING PERIOD RULES FOR CERTAIN COMMODITY FUTURES TRANSACTIONS.

Section 1222 is amended by striking the last sentence.

SEC. 8051. HOLDING PERIOD OF PROPERTY.

(a) Paragraph (1) of section 1223 is amended by striking ", in the case of such exchanges after March 1, 1954,".

(b) Paragraph (4) of section 1223 is amended by striking "(or under so much of section 1052(c) as refers to section 113(a)(23) of the Internal Revenue Code of 1939)".

(c) Paragraph (6) of section 1223 is repealed.

(d) Paragraph (8) of section 1223 is repealed.

SEC. 8052. PROPERTY USED IN THE TRADE OR BUSINESS AND INVOLUNTARY CONVERSIONS.

Subparagraph (A) of section 1231(c)(2) is amended by striking "beginning after December 31, 1981".

SEC. 8053. SALE OF PATENTS.

Subsection (a) of section 1249 is amended by striking "after December 31, 1962,".

SEC. 8054. GAIN FROM DISPOSITION OF FARMLAND.

(a) Paragraph (1) of section 1252(a), as amended by the preceding provisions of this Act, is amended—

(1) by striking ''beginning after December 31, 1969'' in the matter preceding subparagraph (A), and

(2) by amending subparagraph (A) to read as follows:

''(A) the applicable percentage of the aggregate deductions allowed under section 175 (as in effect before its repeal by the Tax Reform Act of 2014) with respect to the farmland, or''.

(b) Paragraph (2) of section 1252(a) is amended by striking ''sections 175'' and all that follows and inserting ''section 175 (as in effect before its repeal by the Tax Reform Act of 2014).''.

SEC. 8055. TRANSITION RULES RELATED TO THE TREATMENT OF AMOUNTS RECEIVED ON RETIREMENT OR SALE OR EXCHANGE OF DEBT INSTRUMENTS.

(a) Section 1271 is amended by striking subsection (c).

(b) Section 1271(a)(2)(B) is amended by striking ''(and paragraph (2) of subsection (c))''.

SEC. 8056. CERTAIN RULES WITH RESPECT TO DEBT INSTRUMENTS ISSUED BEFORE JULY 2, 1982.

(a) Section 1272 is amended by striking subsection (b).

(b) Section 163(j)(2)(C)(ii) is amended by striking ''or (b)(4)''.

(c) Section 1271(a)(2)(A)(ii) is amended by striking ''subsection (a)(7) or (b)(4) of section 1272'' and inserting ''section 1272(a)(7)''.

(d) Section 1271(b)(1) is amended to read as follows:

''(1) IN GENERAL.—This section shall not apply to any obligation issued by a natural person before June 9, 1997.''.

(e) Section 1279(a)(4)(A)(ii), as amended by the preceding provisions of this Act, is amended by striking ''or (b)(4)''.

(f) The amendments made by this section shall apply to debt instruments issued after July 1, 1982.

SEC. 8057. CERTAIN RULES WITH RESPECT TO STRIPPED BONDS PURCHASED BEFORE JULY 2, 1982.

(a) Section 1286 is amended by striking subsection (c).

(b) Section 1286(e)(5) is amended by striking the last sentence.

(c) Subsections (a) and (b) of section 1286 are each amended by striking ''after July 1, 1982,''.

(d) The amendments made by this section shall apply to bonds and coupons purchased after July 1, 1982.

SEC. 8058. AMOUNT AND METHOD OF ADJUSTMENT.

Section 1314 is amended by striking subsection (d) and by redesignating subsection (e) as subsection (d).

SEC. 8059. OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.

Subsection (a) of section 1401 is amended by striking ''the following percent'' and all that follows and inserting ''12.4 percent of the amount of the self-employment income for such taxable year.''.

SEC. 8060. HOSPITAL INSURANCE.

Paragraph (1) of section 1401(b) is amended by striking ''the following percent''and all that follows and inserting ''2.9 percent of the amount of the self-employment income for such taxable year.''.

SEC. 8061. MINISTERS, MEMBERS OF RELIGIOUS ORDERS, AND CHRISTIAN SCIENCE PRACTITIONERS.

Paragraph (3) of section 1402(e) is amended by striking ''whichever of the following dates is later: (A)'' and by striking ''; or (B)'' and all that follows and inserting a period.

SEC. 8062. AFFILIATED GROUP DEFINED.

Subparagraph (A) of section 1504(a)(3) is amended by striking ''for a taxable year which includes any period

after December 31, 1984'' in clause (i) and by striking ''in a taxable year beginning after December 31, 1984'' in clause (ii).

SEC. 8063. CREDIT FOR STATE DEATH TAXES.

(a) Part II of subchapter A of chapter 11 is amended by striking section 2011 (and by striking the item relating to such section in the table of sections for such subpart).

(b) Subchapter A of chapter 13 is amended by striking section 2604 (and by striking the item relating to such section in the table of sections for such subpart).

SEC. 8064. FAMILY-OWNED BUSINESS INTEREST.

Part IV of subchapter A of chapter 11 is amended by striking section 2057 (and by striking the item relating to such section in the table of sections for such part).

SEC. 8065. PROPERTY WITHIN THE UNITED STATES.

Subsection (c) of section 2104 is amended by striking ''With respect to estates of decedents dying after December 31, 1969, deposits'' and inserting ''Deposits''.

SEC. 8066. REPEAL OF DEADWOOD PROVISIONS RELATING TO EMPLOYMENT TAXES.

(a) TAX ON EMPLOYEES.—Subsection (a) of section 3101 is amended by striking ''the following percentages'' and all that follows and inserting ''6.2 percent of the wages (as defined in section 3121(a)) received by him with respect to employment (as defined in section 3121(b)).''.

(b) TAX ON EMPLOYERS.—

(1) Subsection (a) of section 3111 is amended by striking ''the following percentages'' and all that follows and inserting ''6.2 percent of the wages (as defined in section 3121(a)) paid by him with respect to employment (as defined in section 3121(b)).''

(2) Subsection (b) of section 3111 is amended by striking ''the following percentages'' and all that follows and inserting ''1.45 percent of the wages (as defined in section 3121(a)) paid by him with respect to employment (as defined in section 3121(b)).''

(3) Section 3111 is amended by striking subsection (d) and redesignating subsection (e) as subsection (d).

(c) TIER 2 TAX ON EMPLOYEES.—Subsection (b) of section 3201 is amended to read as follows:

''(b) TIER 2 TAX.—In addition to other taxes, there is hereby imposed on the income of each employee a tax equal to the percentage determined under section 3241 for any calendar year of the compensation received during such calendar year by such employee for services rendered by such employee.''.

(d) RATE OF TIER 2 TAX ON EMPLOYEE REPRESENTATIVES.—Subsection (b) of section 3211 is amended to read as follows:

"(b) TIER 2 TAX.—In addition to other taxes, there is hereby imposed on the income of each employee representative a tax equal to the percentage determined under section 3241 for any calendar year of the compensation received during such calendar year by such employee representative for services rendered by such employee representative.".

(e) TIER 2 TAX ON EMPLOYERS.—

(1) Subsection (b) of section 3221 is amended to read as follows:

"(b) TIER 2 TAX.—In addition to other taxes, there is hereby imposed on the income of each employer a tax equal to the percentage determined under section 3241 for any calendar year of the compensation paid during such calendar year by such employer for services rendered for such employer.".

(2) Section 3221 is amended by striking subsection (d) and redesignating subsection (e) as subsection (d).

(f) EMPLOYEE UNDER RAILROAD RETIREMENT SYSTEM.—Subsection (b) of section 3231 is amended by is amended by striking "; except" and all that follows and inserting a period.

(g) DEFINITION OF WAGES.—

(1) Section 3121(b) is amended by striking paragraph (17).

(2) Section 210(a) of the Social Security Act is amended by striking paragraph (17).

(h) CREDITS AGAINST UNEMPLOYMENT TAX.—

(1) Paragraph (4) of section 3302(f) is amended—

(A) by striking ''subsection—'' and all that follows through '' (A) in general—The'' and inserting ''subsection, the'',

(B) by striking subparagraph (B),

(C) by redesignating clauses (i) and(ii) as subparagraphs (A) and (B), respectively, and

(D) by moving the text of such subparagraphs (as so redesignated) 2 ems to the left.

(2) Paragraph (5) of section 3302(f) is amended by striking subparagraph (D) and by redesignating subparagraph (E) as subparagraph (D).

(i) DOMESTIC SERVICE EMPLOYMENT TAXES.—Section 3510(b) is amended by striking paragraph (4).

SEC. 8067. LUXURY PASSENGER AUTOMOBILES.

(a) IN GENERAL.—Chapter 31 is amended by striking subchapter A (and by striking the item relating to such subchapter in the table of sections for such chapter).

(b) CONFORMING AMENDMENTS.—

(1) Section 4293 is amended by striking ''subchapter A of chapter 31,''.

(2) Section 4221 is amended—

(A) in subsections (a) and (d)(1), by striking ''subchapter A or'' and inserting ''subchapter'',

(B) in subsection (a), by striking ''In the case of taxes imposed by subchapter A of chapter 31, paragraphs (1), (3), (4), and (5) shall not apply.'', and

(C) in subsection (c), by striking ''4001(c), 4001(d)''.

(3) Section 4222 is amended by striking ''4001(c), 4001(d),''.

SEC. 8068. TRANSPORTATION BY AIR.

Section 4261(e) is amended—

(1) in paragraph (1) by striking subparagraph (C), and

(2) by striking paragraph (5).

SEC. 8069. TAXES ON FAILURE TO DISTRIBUTE INCOME.

(a) Paragraph (2) of section 4942(f) is amended by striking the semicolon at the end of subparagraph (B) and inserting '', and'', by striking ''; and'' at the end of subparagraph (C) and inserting a period, and by striking subparagraph (D).

(b) Subsection (g) of section 4942 (as amended by this Act) is amended—

(1) by striking ''For all taxable years beginning on or after January 1, 1975, subject'' in paragraph (2)(A) and inserting ''Subject'', and

(2) by striking paragraph (4).

(c) Section 4942(i)(2) is amended by striking ''beginning after December 31, 1969, and''.

SEC. 8070. TAXES ON TAXABLE EXPENDITURES.

Section 4945(f) is amended by striking ''(excluding therefrom any preceding taxable year which begins before January 1, 1970)''.

SEC. 8071. DEFINITIONS AND SPECIAL RULES.

Section 4682 is amended by striking subsection (h).

SEC. 8072. RETURNS.

Subsection (a) of section 6039D is amended by striking ''beginning after December 31, 1984,''.

SEC. 8073. INFORMATION RETURNS.

Subsection (c) of section 6060 is amended by striking ''year'' and all that follows and inserting ''year.''.

SEC. 8074. ABATEMENTS.

Section 6404(f) is amended by striking paragraph (3).

SEC. 8075. FAILURE BY CORPORATION TO PAY ESTIMATED INCOME TAX.

Clause (i) of section 6655(g)(4)(A) is amended by striking ''(or the corresponding provisions of prior law)''.

SEC. 8076. REPEAL OF 2008 RECOVERY REBATES.

(a) IN GENERAL.—Subchapter B of chapter 65 is amended by striking section 6428 (and by striking the item relating to such section in the table of sections for such subchapter).

(b) CONFORMING AMENDMENTS.—

(1) Section 6211(b)(4)(A) is amended by striking ''6428,''.

(2) Section 6213(g)(2)(L) is amended by striking ''32, or 6428'' and inserting ''or 32''.

(3) Paragraph (2) of section 1324(b) of title 31, United States Code, is amended by striking ''or 6428''.

SEC. 8077. REPEAL OF ADVANCE PAYMENT OF PORTION OF INCREASED CHILD CREDIT FOR 2003.

Subchapter B of chapter 65 is amended by striking section 6429 (and by striking the item relating to such section in the table of sections for such subchapter).

SEC. 8078. REPEAL OF PROVISIONS RELATED TO COBRA PREMIUM ASSISTANCE.

(a) IN GENERAL.—Subchapter B of chapter 65 is amended by striking section 6432 (and by striking the

item relating to such section in the table of sections for such subchapter).

(b) NOTIFICATION REQUIREMENT.—Part I of subchapter B of chapter 68 is amended by striking section 6720C (and by striking the item relating to such section in the table of sections for such part).

(c) EXCLUSION FROM GROSS INCOME.—Part III of subchapter B of chapter 1 is amended by striking section 139C (and by striking the item relating to such section in the table of sections for such part).

SEC. 8079. RETIREMENT.

Section 7447(i)(3)(B)(ii) is amended by striking ''at 4 percent per annum to December 31, 1947, and at 3 percent per annum thereafter'', and inserting ''at 3 percent per annum''.

SEC. 8080. ANNUITIES TO SURVIVING SPOUSES AND DEPENDENT CHILDREN OF JUDGES.

(a) Paragraph (2) of section 7448(a) is amended by striking ''or under section 1106 of the Internal Revenue Code of 1939'' and by striking ''or pursuant to section 1106(d) of the Internal Revenue Code of 1939''.

(b) Subsection (g) of section 7448 is amended by striking ''or other than pursuant to section 1106 of the Internal Revenue Code of 1939''.

(c) Subsections (g), (j)(1), and (j)(2) of section 7448 are each amended by striking ''at 4 percent per annum to December 31, 1947, and at 3 percent per annum thereafter'' and inserting ''at 3 percent per annum''.

SEC. 8081. MERCHANT MARINE CAPITAL CONSTRUCTION FUNDS.

Paragraph (4) of section 7518(g) is amended by striking ''any nonqualified withdrawal'' and all that follows through ''shall be determined'' and inserting ''any nonqualified withdrawal shall be determined''.

SEC. 8082. VALUATION TABLES.

(a) Subsection (c) of section 7520 is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

(b) Paragraph (2) of section 7520(c) of such Code, as so redesignated, is amended—

(1) by striking ''Not later than December 31, 1989, the'' and inserting ''The'', and

(2) by striking ''thereafter'' in the last sentence thereof.

SEC. 8083. DEFINITION OF EMPLOYEE.

Section 7701(a)(20) is amended by striking ''chapter 21'' and all that follows and inserting ''chapter 21.''.

SEC. 8084. EFFECTIVE DATE.

(a) GENERAL RULE.—Except as otherwise provided in subsection (b) of this section and the preceding sections of this subtitle, the amendments made by this subtitle shall take effect on the date of enactment of this Act.

(b) SAVINGS PROVISION.—If—

(1) any provision amended or repealed by the amendments made by this subtitle applied to—

(A) any transaction occurring before the date of the enactment of this Act,

(B) any property acquired before such date of enactment, or

(C) any item of income, loss, deduction, or credit taken into account before such date of enactment, and

(2) the treatment of such transaction, property, or item under such provision would (without regard to the amendments or repeals made by this subtitle) affect the liability for tax for periods ending after such date of enactment,

nothing in the amendments or repeals made by this subtitle shall be construed to affect the treatment of such transaction, property, or item for purposes of determining liability for tax for periods ending after such date of enactment.

Subtitle B—Conforming Amendments Related to Multiple Sections

SEC. 8101. CONFORMING AMENDMENTS RELATED TO MULTIPLE SECTIONS.

(a) GENERAL BUSINESS CREDIT.—Section 38(b), as amended by the preceding provisions of this Act, is amended—

(1) by redesignating paragraphs (4), (5), (7), (8), (13), (20), and (33) as paragraphs (3), (4), (5), (6), (7), (8), and (9), respectively,

(2) by adding ''plus'' at the end of paragraph (8) (as so redesignated), and

(3) by striking the comma at the end of paragraph (9) (as so redesignated) and inserting a period.

(b) ADJUSTMENTS TO BASIS.—Section 1016(a), as amended by the preceding provisions of this Act, is amended—

(1) by striking the last two sentences of paragraph (2),

(2) in paragraph (4) by striking ''(not including'' and all that follows through ''1921)'',

(3) by striking paragraph (12),

(4) by redesignating paragraphs (11), (14), (16), (17), (18), (21), (23), (26), (38), and (39) as paragraphs (9), (10), (11), (12), (13), (14), (15), (16), (17), and (18), respectively, and

(5) by adding ''and'' at the end of paragraph (17) (as so redesignated).

(c) HOLDING PERIOD OF PROPERTY.—Section 1223, as amended by the preceding provisions of this Act, is amended by redesignating paragraphs (9), (10), (11), (12), and (15) as paragraphs (6), (7), (8), (9) and (10), respectively.

(d) CORPORATE PREFERENCE ITEMS.—

(1) IN GENERAL.—Subchapter B of chapter 1, as amended by this Act, is amended by striking part XI (and by striking the item relating to such part from the table of parts for such subchapter).

(2) PRESERVATION OF SPECIAL RULE FOR TREATMENT OF INTANGIBLE DRILLING COSTS.—Section 263(c) is amended—

(A) by striking all that precedes ''and except as provided in subsection (i)'' and inserting the following:

''(c) INTANGIBLE DRILLING AND DEVELOPMENT COSTS IN THE CASE OF OIL AND GAS WELLS AND GEOTHERMAL WELLS.—

1 "(1) IN GENERAL.—Notwithstanding subsection
2 (a),", and
3 (B) by adding at the end the following new
4 paragraph:
5 "(2) REDUCTION FOR INTEGRATED OIL COMPA-
6 NIES.—
7 "(A) IN GENERAL.—In the case of a cor-
8 poration which is an integrated oil company,
9 the amount allowable as a deduction for any
10 taxable year (determined without regard to this
11 paragraph) under paragraph (1) shall be re-
12 duced by 30 percent.
13 "(B) AMORTIZATION OF DISALLOWED
14 AMOUNTS.—The amount not allowable as a de-
15 duction under paragraph (1) for any taxable
16 year by reason of subparagraph (A) shall be al-
17 lowable as a deduction ratably over the 60-
18 month period beginning with the month in
19 which the costs are paid or incurred.
20 "(C) DISPOSITIONS.—For purposes of sec-
21 tion 1254, any deduction under subparagraph
22 (B) shall be treated as a deduction allowable
23 under paragraph (1).
24 "(D) INTEGRATED OIL COMPANY.—For
25 purposes of this paragraph, the term 'inte-

grated oil company' means, with respect to any taxable year, any producer of crude oil to whom subsection (c) of section 613A does not apply by reason of paragraph (2) or (4) of section 613A(d) (as such provisions were in effect before their repeal by the Tax Reform Act of 2014).

"(E) COORDINATION WITH COST DEPLETION.—The portion of the adjusted basis of any property which is attributable to amounts to which subparagraph (A) applied shall not be taken into account for purposes of determining depletion under section 611.".

(3) PRESERVATION OF LIMITATION ON CERTAIN INTEREST ON INDEBTEDNESS OF FINANCIAL INSTITUTIONS.—

(A) IN GENERAL.—Section 163 is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

"(n) LIMITATION ON CERTAIN INTEREST ON INDEBTEDNESS OF FINANCIAL INSTITUTIONS.—

"(1) IN GENERAL.—For purposes of this subtitle, in the case of a corporation, the amount allowable as a deduction under this chapter (determined

without regard to this subsection) with respect to the amount described in paragraph (2) shall be reduced by 20 percent.

"(2) INTEREST ON DEBT TO CARRY TAX-EXEMPT OBLIGATIONS ACQUIRED AFTER DECEMBER 31, 1982, AND BEFORE AUGUST 8, 1986.—

"(A) IN GENERAL.—In the case of a financial institution which is a bank (as defined in section 585(a)(2)), the amount described in this paragraph is the amount of interest on indebtedness incurred or continued to purchase or carry obligations acquired after December 31, 1982, and before August 8, 1986, the interest on which is exempt from taxes for the taxable year, to the extent that a deduction would (but for this paragraph or section 265(b)) be allowable with respect to such interest for such taxable year.

"(B) DETERMINATION OF INTEREST ALLOCABLE TO INDEBTEDNESS ON TAX-EXEMPT OBLIGATIONS.—Unless the taxpayer (under regulations prescribed by the Secretary) establishes otherwise, the amount determined under subparagraph (A) shall be an amount which bears the same ratio to the aggregate amount allow-

able (determined without regard to this section and section 265(b)) to the taxpayer as a deduction for interest for the taxable year as—

"(i) the taxpayer's average adjusted basis (within the meaning of section 1016) of obligations described in subparagraph (A), bears to

"(ii) such average adjusted basis for all assets of the taxpayer.

"(C) INTEREST.—For purposes of this paragraph, the term 'interest' includes amounts (whether or not designated as interest) paid in respect of deposits, investment certificates, or withdrawable or repurchasable shares.

"(D) APPLICATION OF SUBPARAGRAPH TO CERTAIN OBLIGATIONS ISSUED AFTER AUGUST 7, 1986.—For application of this subparagraph to certain obligations issued after August 7, 1986, see section 265(b)(3) (as in effect before the enactment of the Tax Reform Act of 2014). That portion of any obligation not taken into account under paragraph (2)(A) of section 265(b) (as so in effect) by reason of paragraph (7) of such section shall be treated for purposes

of this section as having been acquired on August 7, 1986.''.

(B) CONFORMING AMENDMENTS.—

(i) Section 1277(c) is amended by striking ''section 291(e)(1)(B)(ii)'' and inserting ''section 163(n)(2)(B)''.

(ii) Section 1363(b)(3), as amended by the preceding provisions of this Act, is amended by striking ''section 291'' and inserting ''section 163(n)''.

(4) EFFECTIVE DATE.—Except as otherwise provided in this Act with respect to amendments made to section 291 of the Internal Revenue Code of 1986, the amendments made this subsection shall apply to taxable years beginning after December 31, 2014.