Differences between H.R. 4520 and H.R. 2896

1. **Transition relief was expanded**. Companies will get 100 percent of the FSC-ETI benefit in 2004 (instead of 80 percent under H.R. 2896). The bill provides $13 billion of transition relief over three years.

2. **Several international tax reforms were dropped**. Most significantly, a provision that would have expanded the ability to defer tax on income earned overseas (by allowing companies to treat the European Union as one country for purposes of the foreign base company rules) was dropped. The provisions that were retained focus on reducing double taxation.

3. **Most of the remaining international reforms were modified so they are identical to the provisions in the Senate-passed bill**. The modifications reflect effective date and technical drafting changes. Two attempts to strip these provisions from the Senate bill failed by votes of 22-77 and 23-74. One international provision in the House bill is different from the Senate bill. (The Senate bill has a comparable provision, but the House provision is preferred because it also simplifies the Tax Code.)

4. **Several provisions were added to the bill:**
   (dollar amounts reflect 11-year totals)
   - Extension of bonus depreciation through 2005 for small aircraft (no revenue effect)
   - 5.25 percent tax rate for one year on permanently repatriated income (-$3.5 billion)
   - Uncapped state and local income or sales tax deduction for 2004 and 2005 (-$3.6 billion)
   - Extension of expiring tax provisions (-$14.0 billion)
   - Repeal of the government tobacco support program (-$9.6 billion)
   - Modified taxation of small business investment companies related to certain indebtedness (-10 million)
   - Tonnage tax election for shipping income (-68 million)
   - Charitable deduction for expenses related to Native Alaska subsistence whaling (-4 million)
   - Temporary suspension of duties on ceiling fans, steam generators and nuclear reactor vessel heads (-36 million)
   - Several provisions to reduce the cost of the bill, including the fuel fraud and excise tax provisions passed by the House in April and a prospective version of the leasing provision included in the Senate bill and the Administration's budget ($41 billion)

5. **The interest stripping provision (section 163(j)) was dropped.** Interest stripping allows companies to arbitrage the U.S. tax code against a low-tax jurisdiction, such as Switzerland or Bermuda. The ability to interest strip is one of the reasons that companies may invert (i.e., move their headquarters overseas to avoid tax). Although the provision would reduce inversions, many Members raised concerns that the provision would reduce investment in the United States by foreign companies. As a result, the provision was dropped.

6. **The cost of the bill was reduced.** The cost of the bill was reduced from $60 billion over 10 years (in H.R. 2896) to $34 billion over 11 years (in HR. 4520).