

S.727

Bipartisan Tax Fairness and Simplification Act of 2011 (Introduced in Senate - IS)

S 727 IS

112th CONGRESS
1st Session
S. 727

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

IN THE SENATE OF THE UNITED STATES

April 5, 2011

Mr. WYDEN (for himself, Mr. COATS, and Mr. BEGICH) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

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

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

SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE; TABLE OF CONTENTS.

- (a) Short Title- This Act may be cited as the `Bipartisan Tax Fairness and Simplification Act of 2011'.
- (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 shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.
- (c) Table of Contents- The table of contents for this Act is as follows:
 - Sec. 1. Short title; amendment of 1986 Code; table of contents.
 - Sec. 2. Purpose.

TITLE I--INDIVIDUAL INCOME TAX REFORMS

Sec. 101. Three progressive individual income tax rates.

- Sec. 102. Increase in basic standard deduction.
- Sec. 103. Permanent extension of expansion of earned income credit.
- Sec. 104. Permanent extension of expansion of dependent care credit.
- Sec. 105. Permanent extension of child tax credit.
- Sec. 106. Permanent repeal of limitations on personal exemptions and itemized deductions.
- Sec. 107. Elimination of individual miscellaneous itemized deductions.
- Sec. 108. Treatment of capital gains and dividends as ordinary income.
- Sec. 109. Partial exclusion of capital gains.
- Sec. 110. Partial exclusion of dividends received by individuals.
- Sec. 111. Nonrefundable personal credit for interest on State and local bonds.
- Sec. 112. Retirement savings accounts.
- Sec. 113. American Dream Accounts.
- Sec. 114. Consolidation of tax credits and deductions for education expenses.
- Sec. 115. Termination of various exclusions, exemptions, deductions, and credits.
- Sec. 116. Simplified tax return preparation.

TITLE II--CORPORATE AND BUSINESS INCOME TAX REFORMS

- Sec. 201. Corporate flat tax.
- Sec. 202. Treatment of travel on corporate aircraft.
- Sec. 203. Unlimited expensing of depreciable assets and inventories for certain small businesses.
- Sec. 204. Termination of various preferential treatments.
- Sec. 205. Pass-through business entity transparency.
- Sec. 206. Modification of effective date of leasing provisions of the American Jobs Creation Act of 2004.
- Sec. 207. Modifications of foreign tax credit rules applicable to large integrated oil companies which are dual capacity taxpayers.
- Sec. 208. Repeal of lower of cost or market value of inventory rule.
- Sec. 209. Reinstitution of per country foreign tax credit.
- Sec. 210. Application of rules treating inverted corporations as domestic corporations to certain transactions occurring after March 20, 2002.
- Sec. 211. Indexing corporate interest deduction for inflation.
- Sec. 212. Prohibition of advance refunding of bonds.
- Sec. 213. CBO study on government spending on businesses.

TITLE III--REPEAL OF ALTERNATIVE MINIMUM TAX

- Sec. 301. Repeal of alternative minimum tax.

TITLE IV--IMPROVEMENTS IN TAX COMPLIANCE

- Sec. 401. Increase in information return penalties.
- Sec. 402. E-filing requirement for certain large organizations.

Sec. 403. Implementation of standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.
Sec. 404. Expansion of IRS access to information in National Directory of New Hires for tax administration purposes.
Sec. 405. Modification of criminal penalties for willful failures involving tax payments and filing requirements.
Sec. 406. Penalties for failure to file certain returns electronically.
Sec. 407. Reporting on identification of beneficial owners of certain foreign financial accounts.

TITLE V--MISCELLANEOUS PROVISIONS

Sec. 501. Allowance of deduction for dividends received from controlled foreign corporations for 2011.
Sec. 502. Denial of deduction for punitive damages.
Sec. 503. Application of Medicare payroll tax to all State and local government employees.
Sec. 504. Corrections for CPI overstatement in cost-of-living indexation.

TITLE VI--TECHNICAL AND CONFORMING AMENDMENTS

Sec. 601. Technical and conforming amendments.

SEC. 2. PURPOSE.

The purpose of this Act is to amend the Internal Revenue Code of 1986--

(1) to make the Federal individual income tax system simpler, fairer, and more transparent by, among other reforms--

(A) repealing the individual alternative minimum tax,

(B) increasing the basic standard deduction and maintaining itemized deductions for mortgage interest and charitable contributions, and

(C) reducing the number of exclusions, exemptions, deductions, and credits,

(2) to make the Federal corporate income tax rate a flat 24 percent, repeal the corporate alternative minimum tax, and eliminate special tax preferences that favor particular types of businesses or activities, and

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

TITLE I--INDIVIDUAL INCOME TAX REFORMS

SEC. 101. THREE PROGRESSIVE INDIVIDUAL INCOME TAX RATES.

(a) Married Individuals Filing Joint Returns and Surviving Spouses- The table contained in section 1(a) is amended to read as follows:

^If taxable income is:

The tax is:

Not over \$75,000

15% of taxable income.

Over \$75,000 but not over \$140,000

\$11,250, plus 25% of the excess over \$75,000.

Over \$140,000

\$27,500, plus 35% of the excess over \$140,000'.

(b) Heads of Households- The table contained in section 1(b) is amended to read as follows:

`If taxable income is:

The tax is:

Not over \$56,250

15% of taxable income.

Over \$56,250 but not over \$105,000

\$8,437.50, plus 25% of the excess over \$56,250.

Over \$105,000

\$20,625, plus 35% of the excess over \$105,000'.

(c) Unmarried Individuals (Other Than Surviving Spouses and Heads of Households)-
The table contained in section 1(c) is amended to read as follows:

`If taxable income is:

The tax is:

Not over \$37,500

15% of taxable income.

Over \$37,500 but not over \$70,000

\$5,625, plus 25% of the excess over \$37,500.

Over \$70,000

\$13,750, plus 35% of the excess over \$70,000'.

(d) Married Individuals Filing Separate Returns- The table contained in section 1(d) is amended to read as follows:

`If taxable income is:

The tax is:

Not over \$37,500

15% of taxable income.

Over \$37,500 but not over \$70,000

\$5,625, plus 25% of the excess over \$37,500.

Over \$70,000

\$13,750, plus 35% of the excess over \$70,000'.

(e) Repeal of EGTRRA Sunset-

(1) IN GENERAL- Title IX of the Economic Growth and Tax Relief Reconciliation Act of 2001 shall not apply to section 101 (relating to income tax rates for individuals) and section 302 (relating to 15 percent bracket) of such Act.

(2) CONFORMING AMENDMENTS-

(A) Section 1 is amended by striking subsection (i).

(B) Section 1(g)(7)(B)(ii)(II) is amended by striking `10 percent' and inserting `15 percent'.

(C) Section 3402(p)(1)(B) is amended by striking `3 lowest'.

(D) Section 3402(p)(2) is amended by striking `10 percent' and inserting `15 percent'.

(E) Section 3402(q)(1) is amended by striking `third' and inserting `second'.

(F) Section 3402(r)(3) is amended by striking `fourth' and inserting `second'.

(G) Section 3406(a)(1) is amended by striking `fourth' and inserting `second'.

(H) Section 13273 of the Revenue Reconciliation Act of 1993 is amended by striking `third' and inserting `second'.

(f) Conforming Amendments to Inflation Adjustment-

(1) Section 1(f) is amended--

(A) by striking `1993' in paragraph (1) and inserting `2012',

(B) by striking `except as provided in paragraph (8)' in paragraph (2)(A),

(C) by striking `1992' in paragraph (3)(B) and inserting `2011',

(D) by striking paragraphs (7) and (8), and

(E) by striking `Phaseout of Marriage Penalty in 15-Percent Bracket;' in the heading thereof.

(2) The Internal Revenue Code of 1986 is amended by striking `calendar year 1992' each place it appears and inserting `calendar year 2011'.

(g) Effective Dates-

(1) IN GENERAL- Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2011.

(2) AMENDMENTS TO WITHHOLDING PROVISIONS- The amendments made by subparagraphs (C) through (H) of subsection (e)(2) shall apply to amounts paid after the 60th day after the date of the enactment of this Act.

SEC. 102. INCREASE IN BASIC STANDARD DEDUCTION.

(a) In General- Paragraph (2) of section 63(c) is amended to read as follows:

`(2) BASIC STANDARD DEDUCTION- For purposes of paragraph (1), the basic standard deduction is--

`(A) 200 percent of the dollar amount in effect under subparagraph (C) for the taxable year in the case of--

`(i) a joint return, or

`(ii) a surviving spouse (as defined in section 2(a)),

`(B) \$22,500 in the case of a head of household (as defined in section 2(b)), or
`(C) \$15,000 in any other case, reduced by any deduction allowed under section 62(a)(22) for such taxable year.'

(b) Conforming Amendment to Inflation Adjustment- Section 63(c)(4)(B)(i) is amended by striking `(2)(B), (2)(C), or'.

(c) Repeal of EGTRRA Sunset- Title IX of the Economic Growth and Tax Relief Reconciliation Act of 2001 shall not apply to section 301 of such Act (relating to standard deduction).

(d) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 103. PERMANENT EXTENSION OF EXPANSION OF EARNED INCOME CREDIT.

(a) Repeal of EGTRRA Sunset- Title IX of the Economic Growth and Tax Relief Reconciliation Act of 2001 shall not apply to section 303 of such Act (relating to earned income tax credit).

(b) Effective Date- Subsection (a) shall apply to taxable years beginning after December 31, 2011.

SEC. 104. PERMANENT EXTENSION OF EXPANSION OF DEPENDENT CARE CREDIT.

(a) Repeal of EGTRRA Sunset- Title IX of the Economic Growth and Tax Relief Reconciliation Act of 2001 shall not apply to section 204 of such Act (relating to dependent care credit).

(b) Effective Date- Subsection (a) shall apply to taxable years beginning after December 31, 2011.

SEC. 105. PERMANENT EXTENSION OF CHILD TAX CREDIT.

(a) Repeal of EGTRRA Sunset- Title IX of the Economic Growth and Tax Relief Reconciliation Act of 2001 shall not apply to section 201 (relating to modifications to child tax credit) and section 203 (relating to refunds disregarded in the administration of Federal programs and federally assisted programs) of such Act.

(b) Effective Date- Subsection (a) shall apply to taxable years beginning after December 31, 2011.

SEC. 106. PERMANENT REPEAL OF LIMITATIONS ON PERSONAL EXEMPTIONS AND ITEMIZED DEDUCTIONS.

(a) Repeal of EGTRRA Sunset- Title IX of the Economic Growth and Tax Relief Reconciliation Act of 2001 shall not apply to section 102 (relating to repeal of phaseout

of personal exemptions) and 103 (relating to phaseout of overall limitation on itemized deductions) of such Act.

(b) Effective Date- Subsection (a) shall apply to taxable years beginning after December 31, 2011.

SEC. 107. ELIMINATION OF INDIVIDUAL MISCELLANEOUS ITEMIZED DEDUCTIONS.

(a) In General- Subsection (a) of section 67 is amended to read as follows:

`(a) General Rule- In the case of an individual, miscellaneous deductions shall not be allowed for any taxable year beginning after December 31, 2011.'

(b) Conforming Amendments-

(1) The heading for section 67 is amended by striking `2-percent floor on' and inserting `treatment of'.

(2) The item relating to section 67 in the table of sections for part I of subchapter B of chapter 1 is amended by striking `2-percent floor on' and inserting `Treatment of'.

(c) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 108. TREATMENT OF CAPITAL GAINS AND DIVIDENDS AS ORDINARY INCOME.

(a) Acceleration of JGTRRA Sunset- Section 303 of the Jobs and Growth Tax Relief Reconciliation Act of 2003, as amended by section 102(a) of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, is amended by striking `December 31, 2012' and inserting `December 31, 2011'.

(b) Treatment of Capital Gains and Dividends as Ordinary Income- Section 1(h), after the application of subsection (a), is amended by adding at the end the following new paragraph:

`(11) TERMINATION- This subsection shall not apply to taxable years beginning after December 31, 2011.'

SEC. 109. PARTIAL EXCLUSION OF CAPITAL GAINS.

(a) Partial Exclusion- Part III of subchapter B of chapter 1 is amended by inserting before section 140 the following new section:

`SEC. 139F. CAPITAL GAINS PARTIAL EXCLUSION.

`For any taxable year, gross income shall not include--

`(1) 35 percent of so much of any gain from the sale or exchange during such taxable year of capital assets held for more than 6 months but not more than 1 year as does not exceed \$500,000, plus

`(2) 35 percent of any long-term capital gain for such taxable year (determined after the application of section 1202).'

(b) Clerical 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. 139F. Capital gains partial exclusion.’

(c) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 110. PARTIAL EXCLUSION OF DIVIDENDS RECEIVED BY INDIVIDUALS.

(a) General Rule- Part III of subchapter B of chapter 1 is amended by inserting after section 115 the following new section:

‘SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS RECEIVED BY INDIVIDUALS.

‘(a) Exclusion From Gross Income- Gross income does not include 35 percent of the qualified dividend income received during the taxable year by an individual.

‘(b) Qualified Dividend Income- For purposes of this subsection--

‘(1) IN GENERAL- The term ‘qualified dividend income’ means dividends received with respect to any share of stock of--

‘(A) any domestic corporation, or

‘(B) any foreign corporation but only if such share of stock is readily tradable on an established securities market.

‘(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) EXCLUSION OF DIVIDENDS OF CERTAIN FOREIGN

CORPORATIONS- Such term shall not include any dividend from a foreign corporation which for the taxable year of the corporation in which the distribution was made, or the preceding taxable year, is a foreign personal holding company (as defined in section 552), a foreign investment company (as defined in section 1246(b)), or a passive foreign investment company (as defined in section 1297).

‘(4) 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, 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.

‘(c) Special Rules-

`(1) AMOUNTS TAKEN INTO ACCOUNT AS INVESTMENT INCOME- Qualified dividend income shall not include any amount which the taxpayer takes into account as investment income under section 163(d)(4)(B).

`(2) COORDINATION WITH FOREIGN TAX CREDIT AND DEDUCTION- No credit shall be allowed under section 901, and no deduction shall be allowed under this chapter, for any taxes paid or accrued with respect to any income excludable under this section.

`(3) EXTRAORDINARY DIVIDENDS- If an individual receives, with respect to any share of stock, qualified dividend income from 1 or more dividends which are extraordinary dividends (within the meaning of section 1059(c)), any loss on the sale or exchange of such share shall, to the extent of such dividends, be treated as long-term capital loss.

`(4) CERTAIN NONRESIDENT ALIENS INELIGIBLE FOR EXCLUSION- In the case of a nonresident alien individual, subsection (a) shall apply only in determining the tax imposed for the taxable year by sections 871(b)(1) and 877(b).

`(5) EXCLUSION DISREGARDED IN DETERMINING INCOME FOR CERTAIN PURPOSES- Subsection (a) shall not apply for purposes of determining amounts of income under sections 32(i), 86(b), 135(b), 137(b), 219(g), 221(b), 408A(c)(3), 469(i), and 530(c), or subpart A of part IV of subchapter A.

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

(b) Exclusion of Dividends From Investment Income- The last sentence of subparagraph (B) of section 163(d)(4) is amended to read as follows:

`Such term shall include qualified dividend income (as defined in section 116(b)) only to the extent the taxpayer elects to treat such income as investment income for purposes of this subsection.'

(c) Treatment of Dividends From Regulated Investment Companies-

(1) Subsection (a) of section 854 is amended by inserting `section 116 (relating to partial exclusion of dividends received by individuals) and' after `For purposes of'.

(2) Paragraph (1) of section 854(b) is amended by redesignating subparagraph (B) as subparagraph (C) and by inserting after subparagraph (A) the following new subparagraph:

`(B) EXCLUSION UNDER SECTION 116-

`(i) IN GENERAL- If the aggregate dividends received by a regulated investment company during any taxable year are less than 95 percent of its gross income, then, in computing the exclusion under section 116, rules similar to the rules of subparagraph (A) shall apply.

`(ii) GROSS INCOME- For purposes of clause (i), in the case of 1 or more sales or other dispositions of stock or securities, the term `gross income' includes only the excess of--

`(I) the net short-term capital gain from such sales or dispositions, over

`(II) the net long-term capital loss from such sales or dispositions.'.

(3) Subparagraph (C) of section 854(b)(1), as redesignated by paragraph (2), is amended by striking `subparagraph (A)' and inserting `subparagraph (A) or (B)'.

(4) Paragraph (2) of section 854(b) is amended by inserting `the exclusion under section 116 and' after `for purposes of'.

(5) Subsection (b) of section 854 is amended by adding at the end the following new paragraph:

`(5) COORDINATION WITH SECTION 116- For purposes of paragraph (1)(B), an amount shall be treated as a dividend only if the amount is qualified dividend income (within the meaning of section 116(b)).'.

(d) Treatment of Dividends Received From Real Estate Investment Trusts- Section 857(c) is amended to read as follows:

`(c) Restrictions Applicable to Dividends Received From Real Estate Investment Trusts-

`(1) SECTION 243- For purposes of section 243 (relating to deductions for dividends received by corporations), a dividend received from a real estate investment trust which meets the requirements of this part shall not be considered a dividend.

`(2) SECTION 116- For purposes of section 116 (relating to exclusion of dividends), rules similar to the rules of section 854(b)(1)(B) shall apply to dividends received from a real estate trust which meets the requirements of this part.'.

(e) Conforming Amendments-

(1) Subsection (f) of section 301 is amended adding at the end the following new paragraph:

`(4) For partial exclusion from gross income of dividends received by individuals, see section 116.'.

(2) Paragraph (1) of section 306(a) is amended by adding at the end the following new subparagraph:

`(D) TREATMENT AS DIVIDEND- For purposes of section 116, any amount treated as ordinary income under this paragraph shall be treated as a dividend received from the corporation.'.

(3)(A) Subpart C of part II of subchapter C of chapter 1 is repealed.

(B)(i) Section 338(h) is amended by striking paragraph (14).

(ii) Sections 467(c)(5)(C), 1255(b)(2), and 1257(d) are each amended by striking ` , 341(e)(12),'.

(iii) The table of subparts for part II of subchapter C of chapter 1 is amended by striking the item related to subpart C.

(4) Section 531(a) is amended by inserting `90 percent (80 percent in the case of taxable years beginning after 2007) of' after `equal to'.

(5) Section 541(a) is amended by inserting `90 percent (80 percent in the case of taxable years beginning after 2007) of' after `equal to'.

(6) Section 584(c) is amended by adding at the end the following new flush sentence:

`The proportionate share of each participant in the amount of dividends received by the common trust fund and to which section 116 applies shall be considered for purposes of such paragraph as having been received by such participant.'

(7) Section 643(a) is amended by redesignating paragraph (7) as paragraph (8) and by inserting after paragraph (6) the following new paragraph:

`(7) EXCLUDED DIVIDENDS- There shall be included the amount of any dividends excluded from gross income under section 116 (relating to partial exclusion of dividends).'

(8) Paragraph (5) of section 702(a) is amended to read as follows:

`(5) dividends with respect to which section 116 or part VII of subchapter B applies,'

(f) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 111. NONREFUNDABLE PERSONAL CREDIT FOR INTEREST ON STATE AND LOCAL BONDS.

(a) In General- Subpart A of part IV of subchapter A of chapter 1 is amended by adding at the end the following new section:

`SEC. 25E. INTEREST ON STATE AND LOCAL BONDS.

`(a) In General- If a taxpayer other than a corporation holds a State or local bond on one or more interest payment dates of the bond during any taxable year, 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 the credits determined under subsection (b) with respect to such dates.

`(b) Amount of Credit- The amount of the credit determined under this subsection with respect to any interest payment date for a State or local bond is 25 percent of the amount of interest payable by the issuer with respect to such date.

`(c) State or Local Bond-

`(1) IN GENERAL- For purposes of this section, the term `State or local bond' means any bond issued as part of an issue if the interest on such bond would (but for this section) be excludable from gross income under section 103.

`(2) APPLICABLE RULES- For purposes of applying paragraph (1)--

`(A) for purposes of section 149(b), a State or local bond shall not be treated as federally guaranteed by reason of the credit allowed under subsection (a), and

`(B) for purposes of section 148, the yield on a State or local bond shall be determined without regard to the credit allowed under subsection (a).

`(d) Interest Payment Date- For purposes of this section, the term `interest payment date' means any date on which the holder of record of the State or local bond is entitled to a payment of interest under such bond.

`(e) Special Rules-

`(1) INTEREST ON STATE OR LOCAL BONDS INCLUDIBLE IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES- For purposes of this title, interest on any State or local bond shall be includible in gross income.

`(2) APPLICATION OF CERTAIN RULES- Rules similar to the rules of subsections (f), (g), (h), and (i) of section 54A shall apply for purposes of the credit allowed under subsection (a).

`(f) Regulations- The Secretary may prescribe such regulations and other guidance as may be necessary or appropriate to carry out this section.'

(b) Conforming Amendments-

(1) Section 103(b) is amended by adding at the end the following new paragraph:

`(4) INTEREST FOR WHICH CREDIT IS ALLOWABLE- The interest on any State or local bond for which a credit under section 25E is allowable.'

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

`Sec. 25E. Interest on State and local bonds.'

(c) Transitional Coordination With State Law- Except as otherwise provided by a State after the date of the enactment of this Act, the interest on any State or local bond (as defined in section 25E of the Internal Revenue Code of 1986, as added by this section) and the amount of any credit determined under such section with respect to such bond shall be treated for purposes of the income tax laws of such State as being exempt from Federal income tax.

(d) Effective Date- The amendments made by this section shall apply to obligations issued after December 31, 2011.

SEC. 112. RETIREMENT SAVINGS ACCOUNTS.

(a) In General- Section 408A is amended to read as follows:

`SEC. 408A. RETIREMENT SAVINGS ACCOUNTS.

`(a) In General- Except as provided in this section, a retirement savings account shall be treated for purposes of this title in the same manner as an individual retirement plan.

`(b) Retirement Savings Account- For purposes of this title, the term 'retirement savings account' means an individual retirement plan (as defined in section 7701(a)(37)) which--

`(1) is designated (in such manner as the Secretary may prescribe) at the time of establishment of the plan as a retirement savings account, and

`(2) does not accept any contribution (other than a qualified rollover contribution) which is not in cash.

`(c) Treatment of Contributions-

`(1) CONTRIBUTION LIMIT- Notwithstanding subsections (a)(1) and (b)(2)(A) of section 408, the aggregate amount of contributions for any taxable year to all retirement savings accounts maintained for the benefit of an individual shall not exceed the lesser of--

`(A) \$5,000, or

`(B) the amount of compensation includible in the individual's gross income for such taxable year.

`(2) SPECIAL RULE FOR CERTAIN MARRIED INDIVIDUALS- In the case of any individual who files a joint return for the taxable year, the amount taken into account under paragraph (1)(B) shall be increased by the excess (if any) of--

`(A) the compensation includible in the gross income of such individual's spouse for the taxable year, over

`(B) the aggregate amount of contributions for the taxable year to all retirement savings accounts maintained for the benefit of such spouse.

`(3) CONTRIBUTIONS PERMITTED AFTER AGE 70 1/2 - Contributions to a retirement savings account may be made even after the individual for whom the account is maintained has attained age 70 1/2 .

`(4) MANDATORY DISTRIBUTION RULES NOT TO APPLY BEFORE DEATH- Notwithstanding subsections (a)(6) and (b)(3) of section 408 (relating to required distributions), the following provisions shall not apply to any retirement savings account:

`(A) Section 401(a)(9)(A).

`(B) The incidental death benefit requirements of section 401(a).

`(5) ROLLOVER CONTRIBUTIONS-

`(A) IN GENERAL- No rollover contribution may be made to a retirement savings account unless it is a qualified rollover contribution.

`(B) COORDINATION WITH LIMIT- A qualified rollover contribution shall not be taken into account for purposes of paragraph (1).

`(6) ROLLOVERS FROM PLANS WITH TAXABLE DISTRIBUTIONS-

`(A) IN GENERAL- Notwithstanding sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3), and 457(e)(16), in the case of any contribution to which this paragraph applies--

`(i) there shall be included in gross income any amount which would be includible were it not part of a qualified rollover contribution,

`(ii) section 72(t) shall not apply, and

`(iii) unless the taxpayer elects not to have this clause apply for any taxable year, any amount required to be included in gross income for such taxable year by reason of this paragraph for any contribution before January 1, 2012, shall be so included ratably over the 4-taxable year period beginning with such taxable year.

Any election under clause (iii) for any contributions during a taxable year may not be changed after the due date (including extensions of time) for filing the taxpayer's return for such taxable year.

`(B) CONTRIBUTIONS TO WHICH PARAGRAPH APPLIES- This paragraph shall apply to any qualified rollover contribution to a retirement savings account (other than a rollover contribution from another such account).

`(C) CONVERSIONS OF IRAS- The conversion of an individual retirement plan (other than a retirement savings account) to a retirement savings account shall be treated for purposes of this paragraph as a contribution to which this paragraph applies.

`(D) ADDITIONAL REPORTING REQUIREMENTS- Trustees and plan administrators of eligible retirement plans (as defined in section 402(c)(8)(B)) and retirement savings accounts shall report such information as the Secretary may require to ensure that amounts required

to be included in gross income under subparagraph (A) are so included. Such reports shall be made at such time and in such form and manner as the Secretary may require. The Secretary may provide that such information be included as additional information in reports required under section 408(i) or 6047.

`(E) SPECIAL RULES FOR CONTRIBUTIONS TO WHICH A 4-YEAR AVERAGING APPLIES- In the case of a qualified rollover contribution to which subparagraph (A)(iii) applied, the following rules shall apply:

`(i) ACCELERATION OF INCLUSION-

`(I) IN GENERAL- The amount required to be included in gross income for each of the first 3 taxable years in the 4-year period under subparagraph (A)(iii) shall be increased by the aggregate distributions from retirement savings accounts for such taxable year which are allocable under subsection (d)(3) to the portion of such qualified rollover contribution required to be included in gross income under subparagraph (A)(i).

`(II) LIMITATION ON AGGREGATE AMOUNT INCLUDED- The amount required to be included in gross income for any taxable year under subparagraph (A)(iii) shall not exceed the aggregate amount required to be included in gross income under subparagraph (A)(iii) for all taxable years in the 4-year period (without regard to subclause (I)) reduced by amounts included for all preceding taxable years.

`(ii) DEATH OF DISTRIBUTE-

`(I) IN GENERAL- If the individual required to include amounts in gross income under such subparagraph dies before all of such amounts are included, all remaining amounts shall be included in gross income for the taxable year which includes the date of death.

`(II) SPECIAL RULE FOR SURVIVING SPOUSE- If the spouse of the individual described in subclause (I) acquires the individual's entire interest in any retirement savings account to which such qualified rollover contribution is properly allocable, the spouse may elect to treat the remaining amounts described in subclause (I) as includible in the spouse's gross income in the taxable years of the spouse ending with or within the taxable years of such individual in which such amounts would otherwise have been includible. Any such election may not be made or changed after the due date (including extensions of time) for filing the spouse's return for the taxable year which includes the date of death.

`(F) 5-year HOLDING PERIOD RULES- If--

`(i) any portion of a distribution from a retirement savings account is properly allocable to a qualified rollover contribution with respect to which an amount is includible in gross income under subparagraph (A)(i),

`(ii) such distribution is made during the 5-taxable year period beginning with the taxable year for which such contribution was made, and

`(iii) such distribution is not described in clause (i), (ii), or (iii) of subsection (d)(2)(A),

then section 72(t) shall be applied as if such portion were includible in gross income.

`(7) TIME WHEN CONTRIBUTIONS MADE- For purposes of this section, a taxpayer shall be deemed to have made a contribution to a retirement 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).

`(8) COST-OF-LIVING ADJUSTMENT-

`(A) IN GENERAL- In the case of any taxable year beginning in a calendar year after 2012, the \$5,000 amount under paragraph (1)(A) shall be increased by an amount equal to--

`(i) such dollar amount, multiplied by

`(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins.

`(B) ROUNDING RULES- If any amount after adjustment under subparagraph (A) is not a multiple of \$500, such amount shall be rounded to the next lower multiple of \$500.

`(d) Distribution Rules- For purposes of this title--

`(1) EXCLUSION- Any qualified distribution from a retirement savings account shall not be includible in gross income.

`(2) QUALIFIED DISTRIBUTION- For purposes of this subsection--

`(A) IN GENERAL- The term 'qualified distribution' means any payment or distribution--

`(i) made on or after the date on which the individual attains age 58,

`(ii) made to a beneficiary (or to the estate of the individual) on or after the death of the individual,

`(iii) attributable to the individual's being disabled (within the meaning of section 72(m)(7)), or

`(iv) to which section 72(t)(2)(F) applies (if such payment or distribution is made before January 1, 2015).

`(B) DISTRIBUTIONS OF EXCESS CONTRIBUTIONS AND EARNINGS- The term 'qualified distribution' shall not include any distribution of any contribution described in section 408(d)(4) and any net income allocable to the contribution.

`(3) ORDERING RULES- For purposes of applying this section and section 72 to any distribution from a retirement savings account, such distribution shall be treated as made--

`(A) from contributions to the extent that the amount of such distribution, when added to all previous distributions from the retirement savings account, does not exceed the aggregate contributions to the retirement savings account, and

`(B) from such contributions in the following order:

`(i) Contributions other than qualified rollover contributions with respect to which an amount is includible in gross income under subsection (c)(6)(A)(i).

`(ii) Qualified rollover contributions with respect to which an amount is includible in gross income under subsection (c)(6)(A)(i) on a first-in, first-out basis.

Any distribution allocated to a qualified rollover contribution under subparagraph (B)(ii) shall be allocated first to the portion of such contribution required to be included in gross income.

`(4) AGGREGATION RULES- Section 408(d)(2) shall be applied separately with respect to retirement savings accounts and other individual retirement plans.

`(e) Qualified Rollover Contribution-

`(1) IN GENERAL- For purposes of this section, the term 'qualified rollover contribution' means--

`(A) a rollover contribution to a retirement savings account of an individual from another such account of such individual or such individual's spouse, or from an individual retirement plan of such individual, but only if such rollover contribution meets the requirements of section 408(d)(3), and

`(B) a rollover contribution described in section 402(c), 402A(c)(3)(A), 403(a)(4), 403(b)(8), or 457(e)(16).

`(2) COORDINATION WITH LIMITATION ON IRA ROLLOVERS- For purposes of section 408(d)(3)(B), there shall be disregarded any qualified rollover contribution from an individual retirement plan (other than a retirement savings account) to a retirement savings account.

`(f) Individual Retirement Plan- For purposes of this section--

`(1) a simplified employee pension or a simple retirement account may not be designated as a retirement savings account, and

`(2) contributions to any such pension or account shall not be taken into account for purposes of subsection (c)(1).

`(g) Compensation- For purposes of this section, the term 'compensation' includes earned income (as defined in section 401(c)(2)). Such term does not include any amount received as a pension or annuity and does not include any amount received as deferred compensation. Such term shall include any amount includible in the individual's gross income under section 71 with respect to a divorce or separation instrument described in section 71(b)(2)(A). For purposes of this subsection, section 401(c)(2) shall be applied as if the term trade or business for purposes of section 1402 included service described in section 1402(c)(6).'

(b) Roth IRAs Treated as Retirement Savings Accounts- In the case of any taxable year beginning after December 31, 2011, any Roth IRA (as defined in section 408A(b) of the Internal Revenue Code of 1986, as in effect on the day before the date of the enactment of this Act) shall be treated for purposes of such Code as having been designated at the time of the establishment of the plan as a retirement savings account under section 408A(b) of such Code (as amended by this section).

(c) Contributions to Other Individual Retirement Plans Prohibited-

(1) INDIVIDUAL RETIREMENT ACCOUNTS- Paragraph (1) of section 408(a) is amended to read as follows:

`(1) Except in the case of a simplified employee pension, a simple retirement account, or a rollover contribution described in subsection (d)(3) or in section 402(c), 403(a)(4), 403(b)(8), or 457(e)(16), no contribution will be accepted on behalf of any individual for any taxable year beginning after December 31, 2011. In the case of any simplified employee pension or simple retirement account, no contribution will be accepted unless it is in cash and contributions will not be accepted for the taxable year on behalf of any individual in excess of--

`(A) in the case of a simplified employee pension, the amount of the limitation in effect under section 415(c)(1)(A), and

`(B) in the case of a simple retirement account, the sum of the dollar amount in effect under subsection (p)(2)(A)(ii) and the employer contribution required under subparagraph (A)(iii) or (B)(i) of subsection (p)(2).'

(2) INDIVIDUAL RETIREMENT ANNUITIES- Paragraph (2) of section 408(b) is amended--

(A) by redesignating subparagraphs (A), (B), and (C) as subparagraphs (B), (C), and (D), respectively, and by inserting before subparagraph (B), as so redesignated, the following new subparagraph:

`(A) except in the case of a simplified employee pension, a simple retirement account, or a rollover contribution described in subsection (d)(3) or in section 402(c), 403(a)(4), 403(b)(8), or 457(e)(16), a premium shall not be accepted on behalf of any individual for any taxable year beginning after December 31, 2011,', and

(B) by amending subparagraph (C), as redesignated by subparagraph (A), to read as follows:

`(C) the annual premium on behalf of any individual will not exceed--

`(i) in the case of a simplified employee pension, the amount of the limitation in effect under section 415(c)(1)(A), and

`(ii) in the case of a simple retirement account, the sum of the dollar amount in effect under subsection (p)(2)(A)(ii) and the employer contribution required under subparagraph (A)(iii) or (B)(i) of subsection (p)(2), and'.

(d) Conforming Amendments-

(1)(A) Section 219 is amended to read as follows:

**`SEC. 219. CONTRIBUTIONS TO CERTAIN RETIREMENT PLANS
ALLOWING ONLY EMPLOYEE CONTRIBUTIONS.**

`(a) Allowance of Deduction- In the case of an individual, there shall be allowed as a deduction the amount contributed on behalf of such individual to a plan described in section 501(c)(18).

`(b) Maximum Amount of Deduction- The amount allowable as a deduction under subsection (a) to any individual for any taxable year shall not exceed the lesser of--

`(1) \$7,000, or

`(2) an amount equal to 25 percent of the compensation (as defined in section 415(c)(3)) includible in the individual's gross income for such taxable year.

`(c) Beneficiary Must Be Under Age 70 1/2 - No deduction shall be allowed under this section with respect to any contribution on behalf of an individual if such individual has attained age 70 1/2 before the close of such individual's taxable year for which the contribution was made.

`(d) Special Rules-

`(1) MARRIED INDIVIDUALS- The maximum deduction under subsection (b) shall be computed separately for each individual, and this section shall be applied without regard to any community property laws.

`(2) REPORTS- The Secretary shall prescribe regulations which prescribe the time and the manner in which reports to the Secretary and plan participants shall be made by the plan administrator of a qualified employer or government plan receiving qualified voluntary employee contributions.

`(e) Cross Reference- For failure to provide required reports, see section 6652(g).'

(B) Section 25B(d) is amended--

(i) in paragraph (1)(A), by striking `(as defined in section 219(e))', and

(ii) by adding at the end the following new paragraph:

`(3) QUALIFIED RETIREMENT CONTRIBUTION- The term `qualified retirement contribution' means--

`(A) any amount paid in cash for the taxable year by or on behalf of an individual to an individual retirement plan for such individual's benefit, and

`(B) any amount contributed on behalf of any individual to a plan described in section 501(c)(18).'

(C) Section 86(f)(3) is amended by striking `section 219(f)(1)' and inserting `section 408A(g).'

(D) Section 132(m)(3) is amended by inserting `(as in effect on the day before the date of the enactment of the Retirement Savings Account Act)' after `section 219(g)(5).'

(E) Subparagraphs (A), (B), and (C) of section 220(d)(4) are each amended by inserting `, as in effect on the day before the date of the enactment of the Retirement Savings Account Act' at the end.

(F) Section 408(b) is amended in the last sentence by striking `section 219(b)(1)(A)' and inserting `paragraph (2)(C).'

(G) Section 408(p)(2)(D)(ii) is amended by inserting `(as in effect on the day before the date of the enactment of the Retirement Savings Account Act)' after `section 219(g)(5).'

(H) Section 409A(d)(2) is amended by inserting '(as in effect on the day before the date of the enactment of the Retirement Savings Account Act)' after 'subparagraph (A)(iii)'.

(I) Section 501(c)(18)(D)(i) is amended by striking 'section 219(b)(3)' and inserting 'section 219(b)'.

(J) Section 6652(g) is amended by striking 'section 219(f)(4)' and inserting 'section 219(d)(2)'.

(K) The table of sections for part VII of subchapter B of chapter 1 is amended by striking the item relating to section 219 and inserting the following new item: 'Sec. 219. Contributions to certain retirement plans allowing only employee contributions.'

(2)(A) Section 408(d)(4)(B) is amended to read as follows:

'(B) no amount is excludable from gross income under subsection (h) or (k) of section 402 with respect to such contribution, and'.

(B) Section 408(d)(5)(A) is amended to read as follows:

'(A) IN GENERAL- In the case of any individual, if the aggregate contributions (other than rollover contributions) paid for any taxable year to an individual retirement account or for an individual retirement annuity do not exceed the dollar amount in effect under subsection (a)(1) or (b)(2)(C), as the case may be, paragraph (1) shall not apply to the distribution of any such contribution to the extent that such contribution exceeds the amount which is excludable from gross income under subsection (h) or (k) of section 402, as the case may be, for the taxable year for which the contribution was paid--

'(i) if such distribution is received after the date described in paragraph (4),

'(ii) but only to the extent that such excess contribution has not been excluded from gross income under subsection (h) or (k) of section 402.'

(C) Section 408(d)(5) is amended by striking the last sentence.

(D) Section 408(d)(7) is amended to read as follows:

'(7) CERTAIN TRANSFERS FROM SIMPLIFIED EMPLOYEE PENSIONS PROHIBITED UNTIL DEFERRAL TEST MET- Notwithstanding any other provision of this subsection or section 72(t), paragraph (1) and section 72(t)(1) shall apply to the transfer or distribution from a simplified employee pension of any contribution under a salary reduction arrangement described in subsection (k)(6) (or any income allocable thereto) before a determination as to whether the requirements of subsection (k)(6)(A)(iii) are met with respect to such contribution.'

(E) Section 408 is amended by striking subsection (j).

(F)(i) Section 408 is amended by striking subsection (o).

(ii) Section 6693 is amended by striking subsection (b) and by redesignating subsections (c) and (d) as subsections (b) and (c), respectively.

(G) Section 408(p) is amended by striking paragraph (8) and by redesignating paragraphs (9) and (10) as paragraphs (8) and (9), respectively.

(3)(A) Section 4973(a)(1) is amended to read as follows:

(1) an individual retirement plan,'

(B) Section 4973(b) is amended to read as follows:

(b) Excess Contributions to Simplified Employee Pensions and Simple Retirement Accounts- For purposes of this section, in the case of simplified employee pensions or simple retirement accounts, the term 'excess contributions' means the sum of--

(1) the excess (if any) of--

(A) the amount contributed for the taxable year to the pension or account, over

(B) the amount applicable to the pension or account under subsection (a)(1) or (b)(2) of section 408, and

(2) the amount determined under this subsection for the preceding taxable year, reduced by the sum of--

(A) the distributions out of the account for the taxable year which were included in the gross income of the payee under section 408(d)(1),

(B) the distributions out of the account for the taxable year to which section 408(d)(5) applies, and

(C) the excess (if any) of the maximum amount excludable from gross income for the taxable year under subsection (h) or (k) of section 402 over the amount contributed to the pension or account for the taxable year.

For purposes of this subsection, any contribution which is distributed from a simplified employee pension or simple retirement account in a distribution to which section 408(d)(4) applies shall be treated as an amount not contributed.'

(C) Section 4973 is amended by adding at the end the following new subsection:

(h) Excess Contributions to Certain Individual Retirement Plans- For purposes of this section, in the case of individual retirement plans (other than retirement savings accounts, simplified employee pensions, and simple retirement accounts), the term 'excess contribution' means the sum of--

(1) the aggregate amount contributed for the taxable year to the individual retirement plans, and

(2) the amount determined under this subsection for the preceding taxable year, reduced by the sum of--

(A) the distributions out of the plans which were included in gross income under section 408(d)(1), and

(B) the distributions out of the plans for the taxable year to which section 408(d)(5) applies.

For purposes of this subsection, any contribution which is distributed from the plan in a distribution to which section 408(d)(4) applies shall be treated as an amount not contributed.'

(4)(A) Sections 402(c)(8)(B), 402A(c)(3)(A)(ii), 1361(c)(2)(A), 3405(e)(1)(B), and 4973(f) are each amended by striking 'Roth IRA' each place it appears and inserting 'retirement savings account'.

(B) Section 4973(f)(1)(A) is amended by striking 'Roth IRAs' and inserting 'retirement savings accounts'.

(C) Paragraphs (1)(B) and (2)(B) of section 4973(f) are each amended by striking 'sections 408A(c)(2) and (c)(3)' and inserting 'section 408A(c)(1)'.

- (D) Subsection (f) of section 4973 is amended in the heading by striking 'roth iras' and inserting 'retirement savings accounts'.
- (e) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 113. AMERICAN DREAM ACCOUNTS.

- (a) In General- Subchapter F of Chapter 1 is amended by adding at the end the following new part:

PART IX--AMERICAN DREAM ACCOUNTS

SEC. 530A. AMERICAN DREAM ACCOUNTS.

- (a) General Rule- An American Dream Account shall be exempt from taxation under this subtitle. Notwithstanding the preceding sentence, such account shall be subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable organizations).
- (b) American Dream Account- For purposes of this section, the term 'American Dream Account' means a trust created or organized in the United States for the exclusive benefit of an individual or his beneficiaries and which is designated (in such manner as the Secretary shall prescribe) at the time of the establishment of the trust as an American Dream Account, but only if the written governing instrument creating the trust meets the following requirements:
- (1) Except in the case of a qualified rollover contribution described in subsection (d)--
 - (A) no contribution will be accepted unless it is in cash, and
 - (B) contributions will not be accepted for the calendar year in excess of the contribution limit specified in subsection (c)(1).
 - (2) The trustee is a bank (as defined in section 408(n)) or another person who demonstrates to the satisfaction of the Secretary that the manner in which that person will administer the trust will be consistent with the requirements of this section or who has so demonstrated with respect to any individual retirement plan.
 - (3) No part of the trust assets will be invested in life insurance contracts.
 - (4) The interest of an individual in the balance of his account is nonforfeitable.
 - (5) The assets of the trust shall not be commingled with other property except in a common trust fund or common investment fund.
- (c) Treatment of Contributions and Distributions-
- (1) CONTRIBUTION LIMIT-
 - (A) IN GENERAL- The aggregate amount of contributions (other than qualified rollover contributions described in subsection (d)) for any calendar year to all American Dream Accounts maintained for the benefit of an individual shall not exceed \$2,000.
 - (B) COST-OF-LIVING ADJUSTMENT-

(i) IN GENERAL- In the case of any calendar year after 2012, the \$2,000 amount under subparagraph (A) shall be increased by an amount equal to--

(I) such dollar amount, multiplied by

(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year.

(ii) ROUNDING RULES- If any amount after adjustment under clause (i) is not a multiple of \$500, such amount shall be rounded to the next lower multiple of \$500.

(2) DISTRIBUTIONS- Any distribution from an American Dream Account shall not be includible in gross income.

(d) Qualified Rollover Contribution- For purposes of this section, the term 'qualified rollover contribution' means a contribution to an American Dream Account--

(1) from another such account of the same beneficiary, but only if such amount is contributed not later than the 60th day after the distribution from such other account,

(2) from an American Dream Account of a spouse of the beneficiary of the account to which the contribution is made, but only if such amount is contributed not later than the 60th day after the distribution from such other account, and

(3) before January 1, 2012, from--

(A) a qualified tuition program pursuant to section 529(c)(3)(E), or

(B) a Coverdell education savings account pursuant to section 530(d)(9).

(e) Loss of Taxation Exemption of Account Where Beneficiary Engages in Prohibited Transaction- Rules similar to the rules of paragraph (2) of section 408(e) shall apply to any American Dream Account.

(f) Custodial Accounts- For purposes of this section, a custodial account or an annuity contract issued by an insurance company qualified to do business in a State shall be treated as a trust under this section if--

(1) the custodial account or annuity contract would, except for the fact that it is not a trust, constitute a trust which meets the requirements of subsection (b), and

(2) in the case of a custodial account, the assets of such account are held by a bank (as defined in section 408(n)) or another person who demonstrates, to the satisfaction of the Secretary, that the manner in which he will administer the account will be consistent with the requirements of this section.

For purposes of this title, in the case of a custodial account or annuity contract treated as a trust by reason of the preceding sentence, the person holding the assets of such account or holding such annuity contract shall be treated as the trustee thereof.

(g) Reports- The trustee of an American Dream Account shall make such reports regarding such account to the Secretary and to the beneficiary of the account with respect to contributions, distributions, and such other matters as the Secretary may require. The reports required by this subsection shall be filed at such time and in such manner and furnished to such individuals at such time and in such manner as may be required.'

(b) Tax on Excess Contributions-

(1) IN GENERAL- Subsection (a) of section 4973 is amended by striking 'or' at the end of paragraph (4), by inserting 'or' at the end of paragraph (5), and by inserting after paragraph (5) the following new paragraph:

`(6) an American Dream Account (as defined in section 530A),'

(2) EXCESS CONTRIBUTION- Section 4973 is amended by adding at the end the following new subsection:

`(h) Excess Contributions to American Dream Accounts- For purposes of this section--

`(1) IN GENERAL- In the case of American Dream Accounts (within the meaning of section 530A), the term `excess contributions' means the sum of--

`(A) the amount by which the amount contributed for the calendar year to such accounts (other than qualified rollover contributions (as defined in section 530A(d))) exceeds the contribution limit under section 530A(c)(1), and

`(B) the amount determined under this subsection for the preceding calendar year, reduced by the excess (if any) of the maximum amount allowable as a contribution under section 530A(c)(1) for the calendar year over the amount contributed to the accounts for the calendar year.

`(2) SPECIAL RULE- A contribution shall not be taken into account under paragraph (1) if such contribution (together with the amount of net income attributable to such contribution) is returned to the beneficiary before July 1 of the year following the year in which the contribution is made.'

(c) Failure To Provide Reports on American Dream Accounts- Paragraph (2) of section 6693(a) is amended by striking `and' at the end of subparagraph (D), by striking the period at the end of subparagraph (E) and inserting `, and', and by adding at the end the following new subparagraph:

`(F) section 530A(g) (relating to American Dream Accounts).'

(d) Rollovers From Certain Other Tax-Free Accounts-

(1) QUALIFIED STATE TUITION PLANS- Paragraph (3) of section 529(c) is amended by adding at the end the following new subparagraph:

`(E) ROLLOVERS TO AMERICAN DREAM ACCOUNTS-

`(i) IN GENERAL- Subparagraph (A) shall not apply to the qualified portion of any distribution which, before January 1, 2013, and within 60 days of such distribution, is transferred to an American Dream Account (within the meaning of section 530A) of the designated beneficiary. This subparagraph shall only apply to distributions in accordance with the previous sentence from an account which was in existence with respect to such designated beneficiary on December 31, 2010.

`(ii) QUALIFIED PORTION- For purposes of this subparagraph, the term `qualified portion' means the amount equal to the sum of--

`(I) the lesser of \$50,000 or the amount which is in the account of the designated beneficiary on December 31, 2010,

`(II) any contributions to such account for the taxable year beginning after December 31, 2010, and before January 1, 2012, and

`(III) any earnings of such account for such year.

`(iii) LIMITATION- The sum of the amounts taken into account under clause (ii)(II) with respect to all accounts of the designated

beneficiary plus any amounts with respect to such designated beneficiary taken into account under section 530(d)(9)(B)(ii) shall not exceed the sum of \$2,000 plus the earnings attributable to such amounts.'

(2) COVERDELL EDUCATION SAVINGS ACCOUNTS- Subsection (d) of section 530 is amended by inserting at the end the following new paragraph:

`(10) ROLLOVERS TO AMERICAN DREAM ACCOUNTS-

`(A) IN GENERAL- Paragraph (1) shall not apply to the qualified portion of any amount paid or distributed from a Coverdell education savings account to the extent that the amount received is paid, before January 1, 2013, and not later than the 60th day after the date of such payment or distribution, into an American Dream Account (within the meaning of section 530A) for the benefit of the same beneficiary. This paragraph shall only apply to amounts paid or distributed in accordance with the preceding sentence from an account which was in existence with respect to such beneficiary on December 31, 2010.

`(B) QUALIFIED PORTION- For purposes of this paragraph, the term 'qualified portion' means the amount equal to the sum of--

`(i) the amount which is in the account of the beneficiary on December 31, 2010,

`(ii) any contributions to such account for the taxable year beginning after December 31, 2010, and before January 1, 2012, and

`(iii) any earnings of such account for such year.

`(C) LIMITATION- The sum of the amounts taken into account under subparagraph (B)(ii) with respect to all accounts of the beneficiary plus any amounts with respect to such beneficiary taken into account under section 529(c)(3)(E)(ii)(II) shall not exceed the sum of \$2,000 plus the earnings attributable to such amounts.'

(e) Conforming Amendment- The table of parts for subchapter F of chapter 1 is amended by adding at the end the following new item:

`Part IX. American Dream Accounts'

(f) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 114. CONSOLIDATION OF TAX CREDITS AND DEDUCTIONS FOR EDUCATION EXPENSES.

(a) In General- Section 25A of the Internal Revenue Code of 1986, after the application of section 901 of the Economic Growth and Tax Relief Reconciliation Act of 2001, is amended to read as follows:

`SEC. 25A. QUALIFIED TUITION AND RELATED EXPENSES CREDIT.

`(a) Allowance of Credit-

`(1) IN GENERAL- In the case of any eligible individual for whom an election is in effect under this section, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the applicable percentage of so much of the qualified tuition and related expenses paid by the taxpayer during the taxable year (for education furnished to the eligible individual during any academic period beginning in such taxable year) as does not exceed \$10,000.

`(2) APPLICABLE PERCENTAGE- For purposes of subsection (a), the applicable percentage is--

`(A) for the first 2 taxable years such an election is in effect with respect to an eligible individual, 20 percent,

`(B) for the next 2 such taxable years, 15 percent, and

`(C) notwithstanding subparagraph (A), for any taxable year such eligible individual attends or is enrolled in only one academic period, 15 percent.

`(b) Limitations-

`(1) MODIFIED ADJUSTED GROSS INCOME LIMITATION-

`(A) IN GENERAL- The amount which would (but for this paragraph) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under paragraph (2).

`(B) AMOUNT OF REDUCTION- The amount determined under this paragraph is the amount which bears the same ratio to the amount which would be so taken into account as--

`(i) the excess of--

`(I) the taxpayer's modified adjusted gross income for such taxable year, over

`(II) \$50,000 (twice such amount in the case of a joint return), bears to

`(ii) \$40,000 (twice such amount in the case of a joint return).

`(C) MODIFIED ADJUSTED GROSS INCOME- The term `modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

`(2) CREDIT ALLOWED FOR ONLY 4 TAXABLE YEARS- An election to have this section apply with respect to any eligible individual 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 individual for any 4 prior taxable years.

`(c) Definitions- For purposes of this section--

`(1) ELIGIBLE INDIVIDUAL- The term `eligible individual' means any individual described in paragraph (2).

`(2) QUALIFIED TUITION AND RELATED EXPENSES-

`(A) IN GENERAL- The term `qualified tuition and related expenses' means tuition and fees required for the enrollment or attendance of--

`(i) taxpayer,

`(ii) the taxpayer's spouse, or

`(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151, at an eligible educational institution for courses of instruction of such individual at such institution.

`(B) STUDENT LOAN INTEREST-

`(i) IN GENERAL- Such term shall include so much of the interest paid on any qualified education loan of such individual as does not exceed \$2,500, reduced by any amount taken into account under this section for any preceding taxable year.

`(ii) QUALIFIED EDUCATION LOAN- For purposes of clause (i), the term 'qualified education loan' means any indebtedness incurred by the taxpayer solely to pay qualified tuition and related expenses--

`(I) which are incurred on behalf of an eligible individual as of the time the indebtedness was incurred,

`(II) which are paid or incurred within a reasonable period of time before or after the indebtedness is incurred, and

`(III) which are attributable to education furnished during a period during which the recipient was an eligible individual.

Such term includes indebtedness used to refinance indebtedness which qualifies as a qualified education loan. Such term shall not include any indebtedness owed to a person who is related (within the meaning of section 267(b) or 707(b)(1)) to the eligible individual or to any person by reason of a loan under any qualified employer plan (as defined in section 72(p)(4)) or under any contract referred to in section 72(p)(5).

`(C) BOOKS- Such term shall include books required for such individual's academic courses of instruction at the eligible educational institution.

`(D) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC-

Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such course or other education is part of the individual's degree program.

`(E) EXCEPTION FOR NONACADEMIC FEES- Such term does not include student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual's academic course of instruction.

`(3) ELIGIBLE EDUCATIONAL INSTITUTION- The term 'eligible educational institution' means an institution--

`(A) which is described in section 481 of the Higher Education Act of 1965, as in effect on the date of the enactment of the Taxpayer Relief Act of 1997, and

`(B) which is eligible to participate in a program under title IV of the Higher Education Act of 1965.

`(d) Special Rules-

`(1) IDENTIFICATION REQUIREMENT- No credit shall be allowed under subsection (a) to a taxpayer with respect to an eligible student unless the taxpayer

includes the name and taxpayer identification number of such student on the return of tax for the taxable year.

`(2) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS- 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 subsections (a) and (b)) by the sum of any amounts paid for the benefit of such individual which are allocable to such period as--

`(A) a qualified scholarship which is excludable from gross income under section 117,

`(B) 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

`(C) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for such student'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.

`(3) TREATMENT OF EXPENSES PAID BY DEPENDENT- If a deduction under section 151 with respect to an individual is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual's 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 expense for which 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.

`(e) Inflation Adjustment-

`(1) IN GENERAL- In the case of any taxable year beginning after 2012, the \$50,000 amount in subsection (b)(1)(B)(i)(II) shall be increased by an amount equal to--

- `(A) such dollar amount, multiplied by
- `(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins.

`(2) ROUNDING- If any amount as adjusted under paragraph (1) is not a multiple of \$1,000, such amount shall be rounded to the next lowest multiple of \$1,000.

`(f) Regulations- The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of the credit allowed under this section in cases where there is a refund in a subsequent taxable year of any expense which was taken into account in determining the amount of such credit.'

(b) Repeal of Deduction for Interest on Education Loans- Part VII of subchapter B of chapter 1 is amended by striking section 221.

(c) Conforming Amendments-

- (1) Section 62(a) is amended by striking paragraph (17).
- (2) Subparagraph (A) of section 86(b)(2) is amended by striking `, 221'.
- (3) Subparagraph (B) of section 72(t)(7) is amended by striking `section 25A(g)(2)' and inserting `section 25A(d)(2)'.
- (4) Subparagraph (A) of section 135(c)(4) is amended by striking `, 221'.
- (5) Subparagraph (A) of section 137(b)(3) is amended by striking `, 221'.
- (6) Paragraph (2) of section 163(h) is amended by adding `and' at the end of subparagraph (D), by striking `, and' at the end of subparagraph (E) and inserting a period, and by striking subparagraph (F).
- (7) Subparagraph (A) of section 199(d)(2) is amended by striking `, 221'.
- (8) Clause (ii) of section 219(g)(3)(A) is amended by striking `, 221'.
- (9) Clause (iii) of section 469(i)(3)(F) is amended by striking `, 221'.
- (10) Subclause (I) of section 529(c)(3)(B)(v) is amended by striking `section 25A(g)(2)' and inserting `section 25A(d)(2)'.
- (11) Paragraph (3) of section 529(e) is amended--
 - (A) by striking `(as defined in section 25A(b)(3))' in subparagraph (A), and
 - (B) by adding at the end the following new subparagraph:
 - `(C) ELIGIBLE STUDENT- For purposes of this paragraph, the term `eligible student' means, with respect to any academic period, a student who--
 - `(i) 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 the date of the enactment of the Taxpayer Relief Act of 1997, and
 - `(ii) is carrying at least 1/2 the normal full-time workload for the course of study the student is pursuing.'
- (12) Clause (iii) of section 530(d)(4)(B) is amended by striking `section 25A(g)(2)' and inserting `section 25A(d)(2)'.
- (13) Section 14000 is amended by adding at the end the following flush sentence:

`For purposes of this section, any reference to section 25A shall be treated as a reference to such section as in effect on the day before the date of the enactment of this sentence.'
- (14) Subparagraph (J) of section 6213(g)(2) is amended by striking `section 25A(g)(1)' and inserting `section 25A(d)(1)'.

(15) Subsection (e) of section 6050S is amended by inserting '(as in effect before the date of the enactment of the Bipartisan Tax Fairness and Simplification Act of 2011)' before the end period.

(d) Clerical Amendments-

(1) 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 25A and inserting the following: '25A. Qualified tuition and related expenses credit.'

(2) The table of sections for part VII of subchapter B of chapter 1 is amended by striking the item relating to section 221.

(e) Effective Date- The amendments made by this section shall apply to expenses paid after December 31, 2011, for education furnished in academic periods beginning after such date.

SEC. 115. TERMINATION OF VARIOUS EXCLUSIONS, EXEMPTIONS, DEDUCTIONS, AND CREDITS.

(a) In General- Subchapter C of chapter 90 is amended by adding at the end the following new section:

`SEC. 7875. TERMINATION OF CERTAIN PROVISIONS.

`The following provisions shall not apply to taxable years beginning after December 31, 2011:

`(1) Section 74(c) (relating to exclusion of certain employee achievement awards).

`(2) Section 79 (relating to exclusion of group-term life insurance purchased for employees).

`(3) Section 119 (relating to exclusion of meals or lodging furnished for the convenience of the employer).

`(4) Section 125 (relating to exclusion of cafeteria plan benefits).

`(5) Section 132 (relating to certain fringe benefits), except with respect to subsection (a)(5) thereof (relating to exclusion of qualified transportation fringe).

`(6) Section 217 (relating to deduction for moving expenses).

`(7) Section 454 (relating to deferral of tax on obligations issued at discount).

`(8) Section 501(c)(9) (relating to tax-exempt status of voluntary employees' beneficiary associations).

`(9) Section 911 (relating to exclusion of earned income of citizens or residents of the United States living abroad).

`(10) Section 912 (relating to exemption for certain allowances).'

(b) Conforming Amendment- The table of sections for subchapter C of chapter 90 is amended by adding at the end the following new item:

`Sec. 7875. Termination of certain provisions.'

SEC. 116. SIMPLIFIED TAX RETURN PREPARATION.

Beginning on January 1, 2012, the Internal Revenue Service shall provide to any taxpayer who requests it a simplified 'Easyfile' pre-prepared income tax return, on paper, compact disc, or through the Internet, based on data the Internal Revenue Service receives with respect to such taxpayer (including wages, self-employment income, and dividend, capital gains, and interest income). The Internal Revenue Service shall provide with every 'Easyfile' a one-page summary of how the most recently available fiscal year's tax revenue was spent, including spending on Social Security, Medicare, Medicaid, defense, and interest on the Federal debt.

TITLE II--CORPORATE AND BUSINESS INCOME TAX REFORMS

SEC. 201. CORPORATE FLAT TAX.

(a) In General- Subsection (b) of section 11 is amended to read as follows:

`(b) Amount of Tax- The amount of tax imposed by subsection (a) shall be equal to 24 percent of the taxable income.'

(b) Conforming Amendments-

(1) Section 280C(c)(3)(B)(ii)(II) is amended by striking 'maximum rate of tax under section 11(b)(1)' and inserting 'rate of tax under section 11(b)'.

(2) Sections 860E(e)(2)(B), 860E(e)(6)(A)(ii), 860K(d)(2)(A)(ii), 860K(e)(1)(B)(ii), 1446(b)(2)(B), and 7874(e)(1)(B) are each amended by striking 'highest rate of tax specified in section 11(b)(1)' and inserting 'rate of tax specified in section 11(b)'.

(3) Section 904(b)(3)(D)(ii) is amended by striking '(determined without regard to the last sentence of section 11(b)(1))'.

(4) Section 962 is amended by striking subsection (c) and by redesignating subsection (d) as subsection (c).

(5) Section 1561(a) is amended--

(A) by striking paragraph (1) and by redesignating paragraphs (2), (3), and (4) as paragraphs (1), (2), and (3), respectively,

(B) by striking 'The amounts specified in paragraph (1), the' and inserting 'The',

(C) by striking 'paragraph (2)' and inserting 'paragraph (1)',

(D) by striking 'paragraph (3)' both places it appears and inserting 'paragraph (2)',

(E) by striking 'paragraph (4)' and inserting 'paragraph (3)', and

(F) by striking the fourth sentence.

(6) Subsection (b) of section 1561 is amended to read as follows:

`(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)(1) 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.'

(c) Treatment of Capital Gains as Ordinary Income-

(1) IN GENERAL- Section 1201 is amended by adding at the end the following new subsection:

`(d) Termination- This section shall not apply to taxable years beginning after December 31, 2011.'.

(2) CONFORMING AMENDMENTS-

(A) Section 527(b)(2) is amended by adding at the end the following new flush sentence:

`This paragraph shall not apply to taxable years beginning after December 31, 2011.'.

(B) Section 801(a)(2) is amended by adding at the end the following new subparagraph:

`(D) TERMINATION- This paragraph shall not apply to taxable years beginning after December 31, 2011.'.

(C) Section 852(b)(3)(A) is amended by adding at the end the following new sentence: `This subparagraph shall not apply to taxable years beginning after December 31, 2011.'.

(D) Section 857(b)(3)(A) is amended by adding at the end the following new flush sentence:

`This subparagraph shall not apply to taxable years beginning after December 31, 2011.'.

(E) Section 904(b)(2)(B) is amended by adding at the end the following new flush sentence:

`This subparagraph shall not apply to taxable years beginning after December 31, 2011.'.

(d) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 202. TREATMENT OF TRAVEL ON CORPORATE AIRCRAFT.

(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) Treatment of Travel on Corporate Aircraft- The rate at which an amount allowable as a deduction under this chapter for the use of an aircraft owned by the taxpayer is determined shall not exceed the rate at which an amount paid or included in income by an employee of such taxpayer for the personal use of such aircraft is determined.'.

(b) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 203. UNLIMITED EXPENSING OF DEPRECIABLE ASSETS AND INVENTORIES FOR CERTAIN SMALL BUSINESSES.

(a) Unlimited Expensing- Section 179 is amended by adding at the end the following new subsection:

`(g) Unlimited Expensing for Certain Small Business Taxpayers-

`(1) IN GENERAL- In the case of any eligible taxpayer, this section shall be applied with respect to any taxable year without regard to subsection (b).

`(2) ELIGIBLE TAXPAYER- For purposes of this subsection, a taxpayer is an eligible taxpayer with respect to any taxable year if for all prior taxable years beginning after December 31, 2011, the taxpayer (or any predecessor) met the gross receipts test of section 448(c) (determined by substituting `\$1,000,000' for `\$5,000,000' each place it appears).'

(b) Clarification of Inventory Rules for Small Business- Section 471 is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

`(c) Small Business Taxpayers Not Required To Use Inventories-

`(1) IN GENERAL- An eligible taxpayer (as determined under section 179(g)(2)) shall not be required to use inventories under this section for a taxable year.

`(2) TREATMENT OF TAXPAYERS NOT USING INVENTORIES- If an eligible taxpayer does not use inventories with respect to any property for any taxable year beginning after December 31, 2011, such property shall be treated as a material or supply which is not incidental.'

(c) Effective Date and Special Rules-

(1) IN GENERAL- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

(2) CHANGE IN METHOD OF ACCOUNTING- In the case of any taxpayer changing the taxpayer's method of accounting for any taxable year under the amendments made by this section--

(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) 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 shall be taken into account over a period (not greater than 4 taxable years) beginning with such taxable year.

SEC. 204. TERMINATION OF VARIOUS PREFERENTIAL TREATMENTS.

(a) In General- Section 7875, as added by this Act, is amended--

(1) by inserting `(or transactions in the case of sections referred to in paragraphs (13), (14), (15), (16), and (19))' after `taxable years beginning', and

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

`(11) Section 43 (relating to enhanced oil recovery credit).

`(12) Section 199 (relating to income attributable to domestic production activities).

`(13) Section 382(l)(5) (relating to exception from net operating loss limitations for corporations in bankruptcy proceeding).

`(14) Section 451(i) (relating to special rules for sales or dispositions to implement Federal Energy Regulatory Commission or State electric restructuring policy).

`(5) LEASES TO FOREIGN ENTITIES- In the case of tax-exempt use property leased to a tax-exempt entity which is a foreign person or entity, the amendments made by this part shall apply to taxable years beginning after December 31, 2011, with respect to leases entered into on or before March 12, 2004.'

(b) Effective Date- The amendment made by this section shall take effect as if included in the enactment of the American Jobs Creation Act of 2004.

SEC. 207. MODIFICATIONS OF FOREIGN TAX CREDIT RULES APPLICABLE TO LARGE INTEGRATED OIL COMPANIES WHICH ARE DUAL CAPACITY TAXPAYERS.

(a) In General- Section 901 is amended by redesignating subsection (n) as subsection (o) and by inserting after subsection (m) the following new subsection:

`(n) Special Rules Relating to Large Integrated Oil Companies Which Are Dual Capacity Taxpayers-

`(1) GENERAL RULE- Notwithstanding any other provision of this chapter, any amount paid or accrued by a dual capacity taxpayer which is a large integrated oil company to a foreign country or possession of the United States for any period shall not be considered a tax--

`(A) if, for such period, the foreign country or possession does not impose a generally applicable income tax, or

`(B) to the extent such amount exceeds the amount (determined in accordance with regulations) which--

`(i) is paid by such dual capacity taxpayer pursuant to the generally applicable income tax imposed by the country or possession, or

`(ii) would be paid if the generally applicable income tax imposed by the country or possession were applicable to such dual capacity taxpayer.

Nothing in this paragraph shall be construed to imply the proper treatment of any such amount not in excess of the amount determined under subparagraph (B).

`(2) DUAL CAPACITY TAXPAYER- For purposes of this subsection, the term `dual capacity taxpayer' means, with respect to any foreign country or possession of the United States, a person who--

`(A) is subject to a levy of such country or possession, and

`(B) receives (or will receive) directly or indirectly a specific economic benefit (as determined in accordance with regulations) from such country or possession.

`(3) GENERALLY APPLICABLE INCOME TAX- For purposes of this subsection--

`(A) IN GENERAL- The term `generally applicable income tax' means an income tax (or a series of income taxes) which is generally imposed under the laws of a foreign country or possession on income derived from the conduct of a trade or business within such country or possession.

`(B) EXCEPTIONS- Such term shall not include a tax unless it has substantial application, by its terms and in practice, to--

- `(i) persons who are not dual capacity taxpayers, and
- `(ii) persons who are citizens or residents of the foreign country or possession.

`(4) LARGE INTEGRATED OIL COMPANY- For purposes of this subsection, the term `large integrated oil company' means, with respect to any taxable year, an integrated oil company (as defined in section 291(b)(4)) which--

- `(A) had gross receipts in excess of \$1,000,000,000 for such taxable year, and
- `(B) has an average daily worldwide production of crude oil of at least 500,000 barrels for such taxable year.'

(b) Effective Date-

(1) IN GENERAL- The amendments made by this section shall apply to taxes paid or accrued in taxable years beginning after the date of the enactment of this Act.

(2) CONTRARY TREATY OBLIGATIONS UPHELD- The amendments made by this section shall not apply to the extent contrary to any treaty obligation of the United States.

SEC. 208. REPEAL OF LOWER OF COST OR MARKET VALUE OF INVENTORY RULE.

(a) In General- Subsection (a) of section 471 is amended to read as follows:

`(a) General Rule- Whenever in the opinion of the Secretary the use of inventories is necessary in order clearly to determine the income of the taxpayer, inventories shall be valued at cost.'

(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. 209. REINSTITUTION OF PER COUNTRY FOREIGN TAX CREDIT.

(a) In General- Subsection (a) of section 904 is amended to read as follows:

`(a) Limitation- The amount of the credit in respect of the tax paid or accrued to any foreign country or possession of the United States shall not exceed the same proportion of the tax against which such credit is taken which the taxpayer's taxable income from sources within such country or possession (but not in excess of the taxpayer's entire taxable income) bears to such taxpayer's entire taxable income for the same taxable year.'

(b) Effective Date- The amendment made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 210. APPLICATION OF RULES TREATING INVERTED CORPORATIONS AS DOMESTIC CORPORATIONS TO CERTAIN TRANSACTIONS OCCURRING AFTER MARCH 20, 2002.

(a) In General- Section 7874(b) is amended to read as follows:

`(b) Inverted Corporations Treated as Domestic Corporations-

`(1) IN GENERAL- Notwithstanding section 7701(a)(4), a foreign corporation shall be treated for purposes of this title as a domestic corporation if such corporation would be a surrogate foreign corporation if subsection (a)(2) were applied by substituting `80 percent' for `60 percent'.

`(2) SPECIAL RULE FOR CERTAIN TRANSACTIONS OCCURRING AFTER MARCH 20, 2002-

`(A) IN GENERAL- If--

`(i) paragraph (1) does not apply to a foreign corporation, but

`(ii) paragraph (1) would apply to such corporation if, in addition to the substitution under paragraph (1), subsection (a)(2) were applied by substituting `March 20, 2002' for `March 4, 2003' each place it appears,

then paragraph (1) shall apply to such corporation but only with respect to taxable years of such corporation beginning after December 31, 2011.

`(B) SPECIAL RULES- Subject to such rules as the Secretary may prescribe, in the case of a corporation to which paragraph (1) applies by reason of this paragraph--

`(i) the corporation shall be treated, as of the close of its last taxable year beginning before January 1, 2012, as having transferred all of its assets, liabilities, and earnings and profits to a domestic corporation in a transaction with respect to which no tax is imposed under this title,

`(ii) the bases of the assets transferred in the transaction to the domestic corporation shall be the same as the bases of the assets in the hands of the foreign corporation, subject to any adjustments under this title for built-in losses,

`(iii) the basis of the stock of any shareholder in the domestic corporation shall be the same as the basis of the stock of the shareholder in the foreign corporation for which it is treated as exchanged, and

`(iv) the transfer of any earnings and profits by reason of clause (i) shall be disregarded in determining any deemed dividend or foreign tax creditable to the domestic corporation with respect to such transfer.

`(C) REGULATIONS- The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this paragraph, including regulations to prevent the avoidance of the purposes of this paragraph.'.

(b) Effective Date- The amendment made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 211. INDEXING CORPORATE INTEREST DEDUCTION FOR INFLATION.

(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) Indexing Corporate Interest Deduction for Inflation-

`(1) IN GENERAL- In the case of a corporation, the deduction allowed under this chapter for interest paid for any taxable year with respect to any obligation shall be adjusted by multiplying the amount otherwise so allowed by 1 minus the fractional exclusion rate for such taxable year.

`(2) FRACTIONAL EXCLUSION RATE- For any taxable year, the Secretary shall determine the fractional exclusion rate using--

`(A) a fraction--

`(i) the numerator of which is the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins by substituting `the second preceding calendar year' for `calendar year 2011' in subparagraph (B) thereof, and

`(ii) the denominator of which is the nominal interest rate for such obligation, and

`(B) a constant real before tax rate of return of 6 percent.'

(b) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

SEC. 212. PROHIBITION OF ADVANCE REFUNDING OF BONDS.

(a) In General- Subsection (d) of section 149 is amended--

(1) by striking paragraphs (1), (2), (3), (4), and (6),

(2) by redesignating paragraphs (5) and (7) as paragraphs (2) and (3), respectively, and

(3) by inserting before paragraph (2) (as redesignated by paragraph (2)) the following new paragraph:

`(1) PROHIBITION- Nothing in section 103(a) or in any other provision of law shall be construed to provide an exemption from Federal income tax for interest on any bond issued as part of an issue to advance refund a bond.'

(b) Effective Date- The amendments made by this section shall apply to refunding bonds issued on or after the date of the enactment of this Act.

SEC. 213. CBO STUDY ON GOVERNMENT SPENDING ON BUSINESSES.

(a) Study- The Congressional Budget Office shall identify the Federal Government's direct and indirect spending on businesses, using among other sources, the corporate welfare lists produced by the Cato Institute and the Bureau of Economic Analysis of the Department of Commerce, and, from that pool of spending, identify the least economically justifiable and suggest options for how Congress could potentially reduce Federal spending on the least justifiable programs by at least \$230,000,000,000 during a 10-year period.

(b) Report- The Congressional Budget Office shall report not later than one year after the date of the enactment of this Act on the results of the study required under subsection (a) and shall submit such report for the purpose of hearing by the Committee on the Budget of the House of Representatives and the Committee on the Budget of the Senate.

TITLE III--REPEAL OF ALTERNATIVE MINIMUM TAX

SEC. 301. REPEAL OF ALTERNATIVE MINIMUM TAX.

(a) In General- Section 55(a) is amended by adding at the end the following new flush sentence:

`For purposes of this title, the tentative minimum tax on any taxpayer for any taxable year beginning after December 31, 2011, shall be zero.'

(b) Modification of Limitation on Use of Credit for Prior Year Minimum Tax Liability- Subsection (c) of section 53 is amended to read as follows:

`(c) Limitation-

`(1) IN GENERAL- Except as provided in paragraph (2), the credit allowable under subsection (a) for any taxable year shall not exceed the excess (if any) of--

`(A) the regular tax liability of the taxpayer for such taxable year reduced by the sum of the credits allowable under subparts A, B, D, E, and F of this part, over

`(B) the tentative minimum tax for the taxable year.

`(2) TAXABLE YEARS BEGINNING AFTER 2011- In the case of any taxable year beginning after December 31, 2011, the credit allowable under subsection (a) to a taxpayer other than a corporation for any taxable year shall not exceed 90 percent of the regular tax liability of the taxpayer for such taxable year reduced by the sum of the credits allowable under subparts A, B, D, E, and F of this part.'

(c) Effective Date- The amendments made by this section shall apply to taxable years beginning after December 31, 2011.

TITLE IV--IMPROVEMENTS IN TAX COMPLIANCE

SEC. 401. INCREASE IN INFORMATION RETURN PENALTIES.

(a) Failure To File Correct Information Returns-

(1) IN GENERAL- Section 6721(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 6721(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 6721(b)(2) is amended--

(i) by striking '\$100' and inserting '\$250',

(ii) by striking '\$60' and inserting '\$100', 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 6721(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 `\$500,000' and inserting `\$1,500,000', and
 - (ii) by striking `\$200,000' and inserting `\$500,000'.
- (4) PENALTY IN CASE OF INTENTIONAL DISREGARD- Section 6721(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'.
- (b) Failure To Furnish Correct Payee Statements-
 - (1) IN GENERAL- Section 6722(a)(1) is amended by striking `\$100' and inserting `\$250'.
 - (2) REDUCTION WHERE CORRECTION IN SPECIFIED PERIOD- Section 6722(b) is amended--
 - (A) in paragraph (1)(A)--
 - (i) by striking `\$30' and inserting `\$60', and
 - (ii) by striking `\$100' and inserting `\$250',
 - (B) by striking `\$250,000' in paragraph (1)(B) and inserting `\$500,000',
 - (C) in paragraph (2)(A)--
 - (i) by striking `\$60' and inserting `\$100', and
 - (ii) by striking `\$100' and inserting `\$250', and
 - (D) by striking `\$500,000' in paragraph (2)(B) and inserting `\$1,500,000'.
 - (3) LOWER LIMITATIONS- Section 6722(d)(1) is amended--
 - (A) in subparagraph (B)--
 - (i) by striking `\$250,000' and inserting `\$500,000', and
 - (ii) by striking `\$75,000' and inserting `\$250,000', and
 - (B) in subparagraph (C)--
 - (i) by striking `\$500,000' and inserting `\$1,500,000', and
 - (ii) by striking `\$200,000' and inserting `\$500,000'.
 - (4) PENALTY IN CASE OF INTENTIONAL DISREGARD- Section 6722(e)(2) is amended by striking `\$250' and inserting `\$500'.
- (c) Failure To Comply With Other Information Reporting Requirements- Section 6723 is amended--
 - (1) by striking `\$50' and inserting `\$250', and
 - (2) by striking `\$100,000' and inserting `\$1,000,000'.
- (d) Effective Date- The amendments made by this section shall apply with respect to information returns required to be filed on or after January 1, 2012.

SEC. 402. E-FILED REQUIREMENT FOR CERTAIN LARGE ORGANIZATIONS.

- (a) In General- The first sentence of section 6011(e)(2) is amended to read as follows: `In prescribing regulations under paragraph (1), the Secretary shall take into account (among

other relevant factors) the ability of the taxpayer to comply at reasonable cost with the requirements of such regulations.'

(b) Conforming Amendment- Section 6724 is amended by striking subsection (c).

(c) Effective Date- The amendments made by this section shall apply to taxable years ending on or after December 31, 2011.

SEC. 403. IMPLEMENTATION OF STANDARDS CLARIFYING WHEN EMPLOYEE LEASING COMPANIES CAN BE HELD LIABLE FOR THEIR CLIENTS' FEDERAL EMPLOYMENT TAXES.

With respect to employment tax returns required to be filed with respect to wages paid on or after January 1, 2012, the Secretary of the Treasury shall issue regulations establishing--

(1) standards for holding employee leasing companies jointly and severally liable with their clients for Federal employment taxes under chapters 21, 22, 23, and 24 of the Internal Revenue Code of 1986, and

(2) standards for holding such companies solely liable for such taxes.

SEC. 404. EXPANSION OF IRS ACCESS TO INFORMATION IN NATIONAL DIRECTORY OF NEW HIRES FOR TAX ADMINISTRATION PURPOSES.

(a) In General- Paragraph (3) of section 453(i) of the Social Security Act (42 U.S.C. 653(i)) is amended to read as follows:

`(3) ADMINISTRATION OF FEDERAL TAX LAWS- The Secretary of the Treasury shall have access to the information in the National Directory of New Hires for purposes of administering the Internal Revenue Code of 1986.'

(b) Effective Date- The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 405. MODIFICATION OF CRIMINAL PENALTIES FOR WILLFUL FAILURES INVOLVING TAX PAYMENTS AND FILING REQUIREMENTS.

(a) Increase in Penalty for Attempt To Evade or Defeat Tax- Section 7201 is amended--

(1) by striking '\$500,000' and inserting '\$1,000,000',

(2) by striking '\$100,000' and inserting '\$500,000', and

(3) by striking '5 years' and inserting '10 years'.

(b) Modification of Penalties for Willful Failure To File Return, Supply Information, or Pay Tax-

(1) IN GENERAL- Section 7203 is amended--

(A) in the first sentence--

(i) by striking 'Any person' and inserting the following:

`(a) In General- Any person', and

(ii) by striking '\$25,000' and inserting '\$50,000',

(B) in the third sentence, by striking 'section' and inserting 'subsection', and

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

`(b) Aggravated Failure To File-

`(1) IN GENERAL- In the case of any failure described in paragraph (2), the first sentence of subsection (a) shall be applied by substituting--

`(A) 'felony' for 'misdemeanor',

`(B) '\$250,000 (\$500,000' for '\$50,000 (\$100,000', and

`(C) '5 years' for '1 year'.

`(2) FAILURE DESCRIBED- A failure described in this paragraph is--

`(A) a failure to make a return described in subsection (a) for any 3 taxable years occurring during any period of 5 consecutive taxable years if the aggregate tax liability for such period is not less than \$50,000, or

`(B) a failure to make a return if the tax liability giving rise to the requirement to make such return is attributable to an activity which is a felony under any State or Federal law.'

(2) PENALTY MAY BE APPLIED IN ADDITION TO OTHER PENALTIES-

Section 7204 is amended by striking 'the penalty provided in section 6674' and inserting 'the penalties provided in sections 6674 and 7203(b)'.

(c) Fraud and False Statements- Section 7206 is amended--

(1) by striking '\$100,000' and inserting '\$500,000',

(2) by striking '\$500,000' and inserting '\$1,000,000', and

(3) by striking '3 years' and inserting '5 years'.

(d) Increase in Monetary Limitation for Underpayment or Overpayment of Tax Due to Fraud- Section 7206, as amended by subsection (c), is amended--

(1) by striking 'Any person who--' and inserting '(a) In General- Any person who-', and

(2) by adding at the end the following new subsection:

`(b) Increase in Monetary Limitation for Underpayment or Overpayment of Tax Due to Fraud- If any portion of any underpayment (as defined in section 6664(a)) or overpayment (as defined in section 6401(a)) of tax required to be shown on a return is attributable to fraudulent action described in subsection (a), the applicable dollar amount under subsection (a) shall in no event be less than an amount equal to such portion. A rule similar to the rule under section 6663(b) shall apply for purposes of determining the portion so attributable.'

(e) Effective Date- The amendments made by this section shall apply to actions, and failures to act, occurring after the date of the enactment of this Act.

SEC. 406. PENALTIES FOR FAILURE TO FILE CERTAIN RETURNS ELECTRONICALLY.

(a) In General- Part I of subchapter A of chapter 68 is amended by inserting after section 6652 the following new section:

`SEC. 6652A. FAILURE TO FILE CERTAIN RETURNS ELECTRONICALLY.

`(a) In General- If a person fails to file a return described in section 6651 or 6652(c)(1) in electronic form as required under section 6011(e)--

`(1) such failure shall be treated as a failure to file such return (even if filed in a form other than electronic form), and

`(2) the penalty imposed under section 6651 or 6652(c), whichever is appropriate, shall be equal to the greater of--

`(A) the amount of the penalty under such section, determined without regard to this section, or

`(B) the amount determined under subsection (b).

`(b) Amount of Penalty-

`(1) IN GENERAL- Except as provided in paragraphs (2) and (3), the penalty determined under this subsection is equal to \$40 for each day during which a failure described under subsection (a) continues. The maximum penalty under this paragraph on failures with respect to any 1 return shall not exceed the lesser of \$20,000 or 10 percent of the gross receipts of the taxpayer for the year.

`(2) INCREASED PENALTIES FOR TAXPAYERS WITH GROSS RECEIPTS BETWEEN \$1,000,000 AND \$25,000,000-

`(A) TAXPAYERS WITH GROSS RECEIPTS BETWEEN \$1,000,000 AND \$25,000,000- In the case of a taxpayer having gross receipts exceeding \$1,000,000 but not exceeding \$25,000,000 for any year--

`(i) the first sentence of paragraph (1) shall be applied by substituting `200' for `40', and

`(ii) in lieu of applying the second sentence of paragraph (1), the maximum penalty under paragraph (1) shall not exceed \$100,000.

`(B) TAXPAYERS WITH GROSS RECEIPTS OVER \$25,000,000-

Except as provided in paragraph (3), in the case of a taxpayer having gross receipts exceeding \$25,000,000 for any year--

`(i) the first sentence of paragraph (1) shall be applied by substituting `500' for `40', and

`(ii) in lieu of applying the second sentence of paragraph (1), the maximum penalty under paragraph (1) shall not exceed \$250,000.

`(3) INCREASED PENALTIES FOR CERTAIN TAXPAYERS WITH GROSS RECEIPTS EXCEEDING \$100,000,000- In the case of a return described in section 6651--

`(A) TAXPAYERS WITH GROSS RECEIPTS BETWEEN \$100,000,000 AND \$250,000,000- In the case of a taxpayer having gross receipts exceeding \$100,000,000 but not exceeding \$250,000,000 for any year--

`(i) the amount of the penalty determined under this subsection shall equal the sum of--

`(I) \$50,000, plus

`(II) \$1,000 for each day during which such failure continues (twice such amount for each day such failure continues after the first such 60 days), and

`(ii) the maximum amount under clause (i)(II) on failures with respect to any 1 return shall not exceed \$200,000.

`(B) TAXPAYERS WITH GROSS RECEIPTS OVER \$250,000,000- In the case of a taxpayer having gross receipts exceeding \$250,000,000 for any year--

`(i) the amount of the penalty determined under this subsection shall equal the sum of--

`(I) \$250,000, plus

`(II) \$2,500 for each day during which such failure continues (twice such amount for each day such failure continues after the first such 60 days), and

`(ii) the maximum amount under clause (i)(II) on failures with respect to any 1 return shall not exceed \$250,000.

`(C) EXCEPTION FOR CERTAIN RETURNS- Subparagraphs (A) and (B) shall not apply to any return of tax imposed under section 511.'.

(b) Clerical Amendment- The table of sections for part I of subchapter A of chapter 68 is amended by inserting after the item relating to section 6652 the following new item:

`Sec. 6652A. Failure to file certain returns electronically.'.

(c) Effective Date- The amendments made by this section shall apply to returns required to be filed on or after January 1, 2012.

SEC. 407. REPORTING ON IDENTIFICATION OF BENEFICIAL OWNERS OF CERTAIN FOREIGN FINANCIAL ACCOUNTS.

(a) In General- Subchapter A of chapter 3 is amended by adding at the end the following new section:

`SEC. 1447. WITHHOLDABLE PAYMENTS TO CERTAIN FOREIGN FINANCIAL ACCOUNTS.

`(a) In General- In the case of any withholdable payment to a foreign financial account, the withholding agent with respect to such payment shall deduct and withhold from such payment a tax equal to 30 percent of the amount of such payment if such agent does not meet the reporting requirements under subsection (b) with respect to such payment.

`(b) Reporting Requirements- The requirements of this subsection are met with respect to any withholdable payment to a foreign financial account if the withholding agent with respect to such payment--

`(1) identifies--

`(A) the beneficial owner or owners of such account by name, address, TIN (if any), and

`(B) the account number,

`(2) obtains evidence of the nationality of such owner or owners,

`(3) complies with such verification and due diligence procedures as the Secretary may require with respect to such identification and obtaining of such evidence, and

`(4) reports such identification and evidence to the Secretary in such manner as the Secretary requires.

`(c) Definitions- For purposes of this section--

`(1) WITHHOLDABLE PAYMENT- Except as otherwise provided by the Secretary, the term `withholdable payment' means--

`(A) any payment of interest (including any original issue discount), dividends, rents, and other fixed or determinable annual or periodical gains and profits, if such payment is from sources within the United States, and

`(B) any gross proceeds from the sale or other disposition of any property of a type which can produce interest or dividends from sources within the United States.

`(2) WITHHOLDING AGENT- The term `withholding agent' means all persons, in whatever capacity acting, having the control, receipt, custody, disposal, or payment of any withholdable payment.

`(3) FOREIGN FINANCIAL ACCOUNT-

`(A) IN GENERAL- The term `foreign financial account' means any financial account maintained by a foreign financial institution.

`(B) FINANCIAL ACCOUNT- Except as otherwise provided by the Secretary, the term `financial account' means, with respect to any foreign financial institution--

`(i) any depository account maintained by such financial institution, and

`(ii) any custodial account maintained by such financial institution.

`(4) FOREIGN FINANCIAL INSTITUTION-

`(A) IN GENERAL- The term `foreign financial institution' means any financial institution which is a foreign entity. Except as otherwise provided by the Secretary, such term shall not include a financial institution which is organized under the laws of any possession of the United States.

`(B) FINANCIAL INSTITUTION- Except as otherwise provided by the Secretary, the term `financial institution' means any entity that--

`(i) accepts deposits in the ordinary course of a banking or similar business,

`(ii) is engaged primarily in the business of holding financial assets for the account of others, or

`(iii) is engaged (or holding itself out as being engaged) primarily in the business of investing, reinvesting, or trading in securities (as defined in section 475(c)(2) without regard to the last sentence thereof), partnership interests, commodities (as defined in section 475(e)(2)), or any interest (including a futures or forward contract or option) in such securities, partnership interests, or commodities.

`(C) FOREIGN ENTITY- The term `foreign entity' means any entity which is not a United States person.

`(d) Exception for Certain Payments- Subsection (a) shall not apply to any payment to the extent that the beneficial owner of such payment is--

`(1) any foreign government, any political subdivision of a foreign government, or any wholly owned agency or instrumentality of any one or more of the foregoing,

`(ii) by striking subparagraph (B) thereof and inserting the following:

`(B) provides for the reinvestment of such dividend in the United States (other than as payment for executive compensation) as a source of funding for only 1 or more of the following purposes:

`(i) worker hiring and training,

`(ii) research and development,

`(iii) capital improvements,

`(iv) acquisitions of business entities for the purpose of retaining or creating jobs in the United States, and

`(v) clean energy initiatives (such as clean energy research and development, energy efficiency, clean energy start ups, and clean energy jobs).

For any purpose described in clause (i), (ii), or (iii), funding shall qualify for purposes of this paragraph only if such funding supplements but does not supplant otherwise scheduled funding for either taxable year described in subsection (f) by the taxpayer for such purpose. Such scheduled funding shall be certified by the individual and entity approving the domestic reinvestment plan.'

`(3) AUDIT- Not later than 2 years after the date of the election under this subsection, the Internal Revenue Service shall conduct an audit of the taxpayer with respect to any reinvestment transaction arising from such election.'

(b) Effective Date- The amendment made by subsection (a) shall apply to taxable years ending on or after January 1, 2011.

SEC. 502. DENIAL OF DEDUCTION FOR PUNITIVE DAMAGES.

(a) Disallowance of Deduction-

(1) IN GENERAL- Section 162(g) is amended--

(A) by redesignating paragraphs (1) and (2) as subparagraphs (A) and (B), respectively,

(B) by striking `If' and inserting:

`(1) TREBLE DAMAGES- If, and

(C) by adding at the end the following new paragraph:

`(2) PUNITIVE DAMAGES- No deduction shall be allowed under this chapter for any amount paid or incurred for punitive damages in connection with any judgment in, or settlement of, any action. This paragraph shall not apply to punitive damages described in section 104(c).'

(2) CONFORMING AMENDMENT- The heading for section 162(g) is amended by inserting `Or Punitive Damages' after `Laws'.

(b) Inclusion in Income of Punitive Damages Paid by Insurer or Otherwise-

(1) IN GENERAL- Part II of subchapter B of chapter 1 is amended by adding at the end the following new section:

`SEC. 91. PUNITIVE DAMAGES COMPENSATED BY INSURANCE OR OTHERWISE.

`Gross income shall include any amount paid to or on behalf of a taxpayer as insurance or otherwise by reason of the taxpayer's liability (or agreement) to pay punitive damages.'

(2) REPORTING REQUIREMENTS- Section 6041 is amended by adding at the end the following new subsection:

`(h) Section To Apply to Punitive Damages Compensation- This section shall apply to payments by a person to or on behalf of another person as insurance or otherwise by reason of the other person's liability (or agreement) to pay punitive damages.'

(3) CONFORMING AMENDMENT- 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. Punitive damages compensated by insurance or otherwise.'

(c) Effective Date- The amendments made by this section shall apply to damages paid or incurred on or after the date of the enactment of this Act.

SEC. 503. APPLICATION OF MEDICARE PAYROLL TAX TO ALL STATE AND LOCAL GOVERNMENT EMPLOYEES.

(a) In General- Paragraph (2) of section 3121(u) is amended--

(1) by striking `subparagraphs (B) and (C)' in subparagraph (A) and inserting `subparagraph (B)', and

(2) by striking subparagraphs (C) and (D).

(b) Entitlement to Hospital Insurance Benefits- Subsection (p) of section 210 of the Social Security Act is amended--

(1) by striking `paragraphs (2) and (3)' in paragraph (1)(B) and inserting `paragraph (2)', and

(2) by striking paragraphs (3) and (4).

(c) Conforming Amendment- Paragraph (2) of section 218(v) of the Social Security Act is amended to read as follows:

`(2) This subsection shall apply only with respect to employees who are not otherwise covered under the State's agreement under this section.'

(d) Effective Date- The amendments made by this section shall apply to services performed after the date of the enactment of this Act.

SEC. 504. CORRECTIONS FOR CPI OVERSTATEMENT IN COST-OF-LIVING INDEXATION.

(a) In General- Paragraph (3) of section 1(f), as amended by this Act, is amended to read as follows:

`(3) COST-OF-LIVING ADJUSTMENT-

`(A) IN GENERAL- For purposes of paragraph (2), the cost-of-living adjustment for any calendar year is the product of--

`(i) the CPI fraction for calendar years before 2014, multiplied by

`(ii) the Chained CPI fraction for calendar years after 2013,

reduced by 1.

`(B) CPI FRACTION FOR CALENDAR YEARS BEFORE 2014- The CPI fraction for calendar years before 2014 is the fraction--

`(i) the numerator of which is the CPI for the calendar year 2012,
and

`(ii) the denominator of which is the CPI for the calendar year
2011.

`(C) CHAINED CPI FRACTION FOR CALENDAR YEARS AFTER
2013- The Chained CPI fraction for calendar years after 2013 is the
fraction--

`(i) the numerator of which is the Chained CPI for the preceding
calendar year, and

`(ii) the denominator of which is the Chained CPI for the calendar
year 2012.'

(b) Conforming Amendments-

(1) Paragraph (4) of section 1(f) is amended to read as follows:

`(4) CPI AND CHAINED CPI FOR ANY CALENDAR YEAR- For purposes of
paragraph (3)--

`(A) CPI- 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.

`(B) CHAINED CPI- The Chained CPI for any calendar year is the
average of the Chained Consumer Price Index as of the close of the 12-
month period ending on August 31 of such calendar year.'

(2) Paragraph (5) of section 1(f) is amended to read as follows:

`(5) CONSUMER PRICE INDEX AND CHAINED CONSUMER PRICE
INDEX- For purposes of paragraph (4)--

`(A) CONSUMER PRICE INDEX- 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) CHAINED CONSUMER PRICE INDEX- The term 'Chained
Consumer Price Index' means the initial Chained Consumer Price Index
for all-urban consumers published by the Department of Labor.'

(c) Effective Date- The amendments made by this section shall apply to taxable years
beginning after December 31, 2013.

TITLE VI--TECHNICAL AND CONFORMING AMENDMENTS

SEC. 601. TECHNICAL AND CONFORMING AMENDMENTS.

The Secretary of the Treasury or the Secretary's delegate shall not later than 90 days after the date of the enactment of this Act, submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a draft of any technical and conforming changes in the Internal Revenue Code of 1986 which are necessary to reflect throughout such Code the purposes of the provisions of, and amendments made by, this Act.

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