

TITLE I

SEC. 11000. SHORT TITLE, ETC.

(a) SHORT TITLE.—This title may be cited as the “Tax Cuts and Jobs Act”.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this title 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.

Subtitle A—Individual Tax Reform

PART I—TAX RATE REFORM

SEC. 11001. MODIFICATION OF RATES.

(a) IN GENERAL.—Section 1 is amended by adding at the end the following new subsection:

“(j) MODIFICATIONS FOR TAXABLE YEARS 2018 THROUGH 2025.—

“(1) IN GENERAL.—In the case of a taxable year beginning after December 31, 2017, and before January 1, 2026—

“(A) subsection (i) shall not apply, and

1 “(B) this section (other than subsection
 2 (i)) shall be applied as provided in paragraphs
 3 (2) through (7).

4 “(2) RATE TABLES.—

5 “(A) MARRIED INDIVIDUALS FILING JOINT
 6 RETURNS AND SURVIVING SPOUSES.—The fol-
 7 lowing table shall be applied in lieu of the table
 8 contained in subsection (a):

“If taxable income is:**The tax is:**

Not over \$19,050	10% of taxable income.
Over \$19,050 but not over \$77,400.	\$1,905, plus 12% of the excess over \$19,050.
Over \$77,400 but not over \$140,000.	\$8,907, plus 22% of the excess over \$77,400.
Over \$140,000 but not over \$320,000.	\$22,679, plus 24% of the excess over \$140,000.
Over \$320,000 but not over \$400,000.	\$65,879, plus 32% of the excess over \$320,000.
Over \$400,000 but not over \$1,000,000.	\$91,479, plus 35% of the excess over \$400,000.
Over \$1,000,000	\$301,479 plus 38.5% of the excess over \$1,000,000.

9 “(B) HEADS OF HOUSEHOLDS.—The fol-
 10 lowing table shall be applied in lieu of the table
 11 contained in subsection (b):

“If taxable income is:**The tax is:**

Not over \$13,600	10% of taxable income.
Over \$13,600 but not over \$51,800.	\$1,360, plus 12% of the excess over \$13,600.
Over \$51,800 but not over \$70,000.	\$5,944, plus 22% of the excess over \$51,800.
Over \$70,000 but not over \$160,000.	\$9,948, plus 24% of the excess over \$70,000.
Over \$160,000 but not over \$200,000.	\$31,548, plus 32% of the excess over \$160,000.
Over \$200,000 but not over \$500,000.	\$44,348, plus 35% of the excess over \$200,000.
Over \$500,000	\$149,348, plus 38.5% of the excess over \$500,000.

1 “(C) UNMARRIED INDIVIDUALS OTHER
 2 THAN SURVIVING SPOUSES AND HEADS OF
 3 HOUSEHOLDS.—The following table shall be ap-
 4 plied in lieu of the table contained in subsection
 5 (c):

“If taxable income is:**The tax is:**

Not over \$9,525	10% of taxable income.
Over \$9,525 but not over \$38,700	\$952.50, plus 12% of the excess over \$9,525.
Over \$38,700 but not over \$70,000.	\$4,453.50, plus 22% of the excess over \$38,700.
Over \$70,000 but not over \$160,000.	\$11,339.50, plus 24% of the excess over \$70,000.
Over \$160,000 but not over \$200,000.	\$32,939.50, plus 32% of the excess over \$160,000.
Over \$200,000 but not over \$500,000.	\$45,739.50, plus 35% of the excess over \$200,000.
Over \$500,000	\$150,739.50, plus 38.5% of the excess over \$500,000.

6 “(D) MARRIED INDIVIDUALS FILING SEPA-
 7 RATE RETURNS.—The following table shall be
 8 applied in lieu of the table contained in sub-
 9 section (d):

“If taxable income is:**The tax is:**

Not over \$9,525	10% of taxable income.
Over \$9,525 but not over \$38,700	\$952.50, plus 12% of the excess over \$9,525.
Over \$38,700 but not over \$70,000.	\$4,453.50, plus 22% of the excess over \$38,700.
Over \$70,000 but not over \$160,000.	\$11,339.50, plus 24% of the excess over \$70,000.
Over \$160,000 but not over \$200,000.	\$32,939.50, plus 32% of the excess over \$160,000.
Over \$200,000 but not over \$500,000.	\$45,739.50, plus 35% of the excess over \$200,000.
Over \$500,000	\$150,739.50, plus 38.5% of the excess over \$500,000.

10 “(E) ESTATES AND TRUSTS.—The fol-
 11 lowing table shall be applied in lieu of the table
 12 contained in subsection (e):

“If taxable income is:

Not over \$2,550	10% of taxable income.
Over \$2,550 but not over \$9,150 ..	\$255, plus 24% of the excess over \$2,550.
Over \$9,150 but not over \$12,500	\$1,839, plus 35% of the excess over \$9,150.
Over \$12,500	\$3,011.50, plus 38.5% of the excess over \$12,500.

The tax is:

1 “(F) REFERENCES TO RATE TABLES.—

2 Any reference in this title to a rate of tax under
3 subsection (c) shall be treated as a reference to
4 the corresponding rate bracket under subpara-
5 graph (C) of this paragraph, except that the
6 reference in section 3402(q)(1) to the third low-
7 est rate of tax applicable under subsection (c)
8 shall be treated as a reference to the fourth
9 lowest rate of tax under subparagraph (C).

10 “(3) ADJUSTMENTS, ELIMINATION OF MAR-
11 RIAGE PENALTY; ETC.—

12 “(A) NO ADJUSTMENT IN 2018.—The ta-
13 bles contained in paragraph (2) shall apply
14 without adjustment for taxable years beginning
15 after December 31, 2017, and before January
16 1, 2019.

17 “(B) SUBSEQUENT YEARS.—For taxable
18 years beginning after December 31, 2018, the
19 Secretary shall prescribe tables which shall
20 apply in lieu of the tables contained in para-
21 graph (2) in the same manner as under para-

1 graphs (1) and (2) of subsection (f), except that
2 in prescribing such tables—

3 “(i) subsection (f)(3) shall be applied
4 by substituting ‘calendar year 2017’ for
5 ‘calendar year 2016’ in subparagraph
6 (A)(ii) thereof, and

7 “(ii) subsection (f)(7) shall not apply
8 and—

9 “(I) the maximum taxable in-
10 come in each of the rate brackets in
11 the table contained in paragraph
12 (2)(A) (and the minimum taxable in-
13 come in the next higher taxable in-
14 come bracket with respect to each
15 such bracket in such table) shall be
16 200 percent of the maximum taxable
17 income in the corresponding rate
18 bracket in the table contained in para-
19 graph (2)(C) (after any other adjust-
20 ment under paragraph (3)), and

21 “(II) the comparable taxable in-
22 come amounts in the table contained
23 in paragraph (2)(D) shall be $\frac{1}{2}$ of the
24 amounts determined under subpara-
25 graph (A).

1 “(4) SPECIAL RULES FOR CERTAIN CHILDREN
2 WITH UNEARNED INCOME.—

3 “(A) IN GENERAL.—In the case of a child
4 to whom subsection (g) applies for the taxable
5 year, the rules of subparagraphs (B) and (C)
6 shall apply in lieu of the rule under subsection
7 (g)(1).

8 “(B) MODIFICATIONS TO APPLICABLE
9 RATE BRACKETS.—In determining the amount
10 of tax imposed by this section for the taxable
11 year on a child described in subparagraph (A),
12 the income tax table otherwise applicable under
13 this subsection to the child shall be applied with
14 the following modifications:

15 “(i) 24-PERCENT BRACKET.—The
16 maximum taxable income which is taxed at
17 a rate below 24 percent shall not be more
18 than the earned taxable income of such
19 child.

20 “(ii) 35-PERCENT BRACKET.—The
21 maximum taxable income which is taxed at
22 a rate below 35 percent shall not be more
23 than the sum of—

24 “(I) the earned taxable income of
25 such child, plus

1 “(II) the minimum taxable in-
2 come for the 35-percent bracket in the
3 table under paragraph (2)(E) (as ad-
4 justed under paragraph (3)) for the
5 taxable year.

6 “(iii) 38.5-PERCENT BRACKET.—The
7 maximum taxable income which is taxed at
8 a rate below 38.5 percent shall not be
9 more than the sum of—

10 “(I) the earned taxable income of
11 such child, plus

12 “(II) the minimum taxable in-
13 come for the 38.5-percent bracket in
14 the table under paragraph (2)(E) (as
15 adjusted under paragraph (3)) for the
16 taxable year.

17 “(C) COORDINATION WITH CAPITAL GAINS
18 RATES.—For purposes of applying section 1(h)
19 (after the modifications under paragraph (5))—

20 “(i) the maximum zero rate amount
21 shall not be more than the sum of—

22 “(I) the earned taxable income of
23 such child, plus

1 “(II) the amount in effect under
2 paragraph (5)(B)(i)(IV) for the tax-
3 able year, and

4 “(ii) the maximum 15-percent rate
5 amount shall not be more than the sum
6 of—

7 “(I) the earned taxable income of
8 such child, plus

9 “(II) the amount in effect under
10 paragraph (5)(B)(ii)(IV) for the tax-
11 able year.

12 “(D) EARNED TAXABLE INCOME.—For
13 purposes of this paragraph, the term ‘earned
14 taxable income’ means, with respect to any
15 child for any taxable year, the taxable income
16 of such child reduced (but not below zero) by
17 the net unearned income (as defined in sub-
18 section (g)(4)) of such child.

19 “(5) APPLICATION OF CURRENT INCOME TAX
20 BRACKETS TO CAPITAL GAINS BRACKETS.—

21 “(A) IN GENERAL.—Section 1(h)(1) shall
22 be applied—

23 “(i) by substituting ‘below the max-
24 imum zero rate amount’ for ‘which would
25 (without regard to this paragraph) be

1 taxed at a rate below 25 percent’ in sub-
2 paragraph (B)(i), and

3 “(ii) by substituting ‘below the max-
4 imum 15-percent rate amount’ for ‘which
5 would (without regard to this paragraph)
6 be taxed at a rate below 39.6 percent’ in
7 subparagraph (C)(ii)(I).

8 “(B) MAXIMUM AMOUNTS DEFINED.—For
9 purposes of applying section 1(h) with the
10 modifications described in subparagraph (A)—

11 “(i) MAXIMUM ZERO RATE
12 AMOUNT.—The maximum zero rate
13 amount shall be—

14 “(I) in the case of a joint return
15 or surviving spouse, \$77,200 (½ such
16 amount in the case of a married indi-
17 vidual filing a separate return),

18 “(II) in the case of an individual
19 who is a head of household (as de-
20 fined in section 2(b)), \$51,700,

21 “(III) in the case of any other in-
22 dividual (other than an estate or
23 trust), an amount equal to ½ of the
24 amount in effect for the taxable year
25 under clause (i), and

1 “(IV) in the case of an estate or
2 trust, \$2,600.

3 “(ii) MAXIMUM 15-PERCENT RATE
4 AMOUNT.—The maximum 15-percent rate
5 amount shall be—

6 “(I) in the case of a joint return
7 or surviving spouse, \$479,000 ($\frac{1}{2}$
8 such amount in the case of a married
9 individual filing a separate return),

10 “(II) in the case of an individual
11 who is the head of a household (as de-
12 fined in section 2(b)), \$452,400,

13 “(III) in the case of any other in-
14 dividual (other than an estate or
15 trust), \$425,800, and

16 “(IV) in the case of an estate or
17 trust, \$12,700.

18 “(C) INFLATION ADJUSTMENT.—In the
19 case of any taxable year beginning after 2018,
20 each of the dollar amounts in clauses (i) and
21 (ii) of subparagraph (B) shall be increased by
22 an amount equal to—

23 “(i) such dollar amount, multiplied by

24 “(ii) the cost-of-living adjustment de-
25 termined under subsection (f)(3) for the

1 calendar year in which the taxable year be-
2 gins, determined by substituting ‘calendar
3 year 2017’ for ‘calendar year 2016’ in sub-
4 paragraph (A)(ii) thereof.

5 “(6) SECTION 15 NOT TO APPLY.—Section 15
6 shall not apply to any change in a rate of tax by rea-
7 son of this subsection.”.

8 (b) DUE DILIGENCE TAX PREPARER REQUIREMENT
9 WITH RESPECT TO HEAD OF HOUSEHOLD FILING STA-
10 TUS.—Subsection (g) of section 6695 is amended to read
11 as follows:

12 “(g) FAILURE TO BE DILIGENT IN DETERMINING
13 ELIGIBILITY FOR CERTAIN TAX BENEFITS.—Any person
14 who is a tax return preparer with respect to any return
15 or claim for refund who fails to comply with due diligence
16 requirements imposed by the Secretary by regulations with
17 respect to determining—

18 “(1) eligibility to file as a head of household (as
19 defined in section 2(b)) on the return, or

20 “(2) eligibility for, or the amount of, the credit
21 allowable by section 24, 25A(a)(1), or 32,

22 shall pay a penalty of \$500 for each such failure.”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 2017.

1 **SEC. 11002. INFLATION ADJUSTMENTS BASED ON CHAINED**
2 **CPI.**

3 (a) IN GENERAL.—Subsection (f) of section 1 is
4 amended by striking paragraph (3) and by inserting after
5 paragraph (2) the following new paragraph:

6 “(3) COST-OF-LIVING ADJUSTMENT.—For pur-
7 poses of this subsection—

8 “(A) IN GENERAL.—The cost-of-living ad-
9 justment for any calendar year is the percent-
10 age (if any) by which—

11 “(i) the C-CPI-U for the preceding
12 calendar year, exceeds

13 “(ii) the CPI for calendar year 2016,
14 multiplied by the amount determined
15 under subparagraph (B).

16 “(B) AMOUNT DETERMINED.—The
17 amount determined under this clause is the
18 amount obtained by dividing—

19 “(i) the C-CPI-U for calendar year
20 2016, by

21 “(ii) the CPI for calendar year 2016.

22 “(C) SPECIAL RULE FOR ADJUSTMENTS
23 WITH A BASE YEAR AFTER 2016.—For purposes
24 of any provision of this title which provides for
25 the substitution of a year after 2016 for ‘2016’
26 in subparagraph (A)(ii), subparagraph (A) shall

1 be applied by substituting ‘the C-CPI-U for cal-
2 endar year 2016’ for ‘the CPI for calendar year
3 2016’ and all that follows in clause (ii) there-
4 of.”.

5 (b) C-CPI-U.—Subsection (f) of section 1 is amended
6 by striking paragraph (7), by redesignating paragraph (6)
7 as paragraph (7), and by inserting after paragraph (5)
8 the following new paragraph:

9 “(6) C-CPI-U.—For purposes of this sub-
10 section—

11 “(A) IN GENERAL.—The term ‘C-CPI-U’
12 means the Chained Consumer Price Index for
13 All Urban Consumers (as published by the Bu-
14 reau of Labor Statistics of the Department of
15 Labor). The values of the Chained Consumer
16 Price Index for All Urban Consumers taken
17 into account for purposes of determining the
18 cost-of-living adjustment for any calendar year
19 under this subsection shall be the latest values
20 so published as of the date on which such Bu-
21 reau publishes the initial value of the Chained
22 Consumer Price Index for All Urban Con-
23 sumers for the month of August for the pre-
24 ceding calendar year.

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

6 (c) APPLICATION TO PERMANENT TAX TABLES.—
7 Section 1(f)(2)(A) is amended by inserting “, determined
8 by substituting ‘1992’ for ‘2016’ in paragraph (3)(A)(ii)”.

9 (d) APPLICATION TO OTHER INTERNAL REVENUE
10 CODE OF 1986 PROVISIONS.—

11 (1) The following sections are each amended by
12 striking “for ‘calendar year 1992’ in subparagraph
13 (B)” and inserting “for ‘calendar year 2016’ in sub-
14 paragraph (A)(ii)”:

15 (A) Section 23(h)(2).

16 (B) Paragraphs (1)(A)(ii) and (2)(A)(ii) of
17 section 25A(h).

18 (C) Section 25B(b)(3)(B).

19 (D) Subsection (b)(2)(B)(ii)(II), and
20 clauses (i) and (ii) of subsection (j)(1)(B), of
21 section 32.

22 (E) Section 36B(f)(2)(B)(ii)(II).

23 (F) Section 41(e)(5)(C)(i).

24 (G) Subsections (e)(3)(D)(ii) and
25 (h)(3)(H)(i)(II) of section 42.

- 1 (H) Section 45R(d)(3)(B)(ii).
- 2 (I) Section 62(d)(3)(B).
- 3 (J) Section 125(i)(2)(B).
- 4 (K) Section 135(b)(2)(B)(ii).
- 5 (L) Section 137(f)(2).
- 6 (M) Section 146(d)(2)(B).
- 7 (N) Section 147(c)(2)(H)(ii).
- 8 (O) Section 179(b)(6)(A)(ii).
- 9 (P) Subsections (b)(5)(C)(i)(II) and
- 10 (g)(8)(B) of section 219.
- 11 (Q) Section 220(g)(2).
- 12 (R) Section 221(f)(1)(B).
- 13 (S) Section 223(g)(1)(B).
- 14 (T) Section 408A(c)(3)(D)(ii).
- 15 (U) Section 430(c)(7)(D)(vii)(II).
- 16 (V) Section 512(d)(2)(B).
- 17 (W) Section 513(h)(2)(C)(ii).
- 18 (X) Section 831(b)(2)(D)(ii).
- 19 (Y) Section 877A(a)(3)(B)(i)(II).
- 20 (Z) Section 2010(c)(3)(B)(ii).
- 21 (AA) Section 2032A(a)(3)(B).
- 22 (BB) Section 2503(b)(2)(B).
- 23 (CC) Section 4261(e)(4)(A)(ii).
- 24 (DD) Section 5000A(c)(3)(D)(ii).
- 25 (EE) Section 6323(i)(4)(B).

1 (FF) Section 6334(g)(1)(B).

2 (GG) Section 6601(j)(3)(B).

3 (HH) Section 6651(i)(1).

4 (II) Section 6652(c)(7)(A).

5 (JJ) Section 6695(h)(1).

6 (KK) Section 6698(e)(1).

7 (LL) Section 6699(e)(1).

8 (MM) Section 6721(f)(1).

9 (NN) Section 6722(f)(1).

10 (OO) Section 7345(f)(2).

11 (PP) Section 7430(c)(1).

12 (QQ) Section 9831(d)(2)(D)(ii)(II).

13 (2) Section 41(e)(5)(C)(ii) is amended—

14 (A) by striking “1(f)(3)(B)” and inserting

15 “1(f)(3)(A)(ii)”, and

16 (B) by striking “1992” and inserting

17 “2016”.

18 (3) Section 42(h)(6)(G) is amended—

19 (A) by striking “for ‘calendar year 1987’ ”

20 in clause (i)(II) and inserting “for ‘calendar

21 year 2016’ in subparagraph (A)(ii) thereof”,

22 and

23 (B) by striking “if the CPI for any cal-

24 endar year” and all that follows in clause (ii)

25 and inserting “if the C-CPI-U for any calendar

1 year (as defined in section 1(f)(6)) exceeds the
2 C-CPI-U for the preceding calendar year by
3 more than 5 percent, the C-CPI-U for the base
4 calendar year shall be increased such that such
5 excess shall never be taken into account under
6 clause (i). In the case of a base calendar year
7 before 2017, the C-CPI-U for such year shall
8 be determined by multiplying the CPI for such
9 year by the amount determined under section
10 1(f)(3)(B).”.

11 (4) Section 132(f)(6)(A)(ii) is amended by
12 striking “for ‘calendar year 1992’” and inserting
13 “for ‘calendar year 2016’ in subparagraph (A)(ii)
14 thereof”.

15 (5) Section 162(o)(3) is amended by striking
16 “adjusted for changes in the Consumer Price Index
17 (as defined in section 1(f)(5)) since 1991” and in-
18 serting “adjusted by increasing any such amount
19 under the 1991 agreement by an amount equal to—

20 “(A) such amount, multiplied by

21 “(B) the cost-of-living adjustment deter-
22 mined under section 1(f)(3) for the calendar
23 year in which the taxable year begins, by sub-
24 stituting ‘calendar year 1990’ for ‘calendar year
25 2016’ in subparagraph (A)(ii) thereof”.

1 (6) So much of clause (ii) of section
2 213(d)(10)(B) as precedes the last sentence is
3 amended to read as follows:

4 “(ii) MEDICAL CARE COST ADJUST-
5 MENT.—For purposes of clause (i), the
6 medical care cost adjustment for any cal-
7 endar year is the percentage (if any) by
8 which—

9 “(I) the medical care component
10 of the C-CPI-U (as defined in section
11 1(f)(6)) for August of the preceding
12 calendar year, exceeds

13 “(II) such component of the CPI
14 (as defined in section 1(f)(4)) for Au-
15 gust of 1996, multiplied by the
16 amount determined under section
17 1(f)(3)(B).”.

18 (7) Section 877(a)(2) is amended by striking
19 “for ‘1992’ in subparagraph (B)” and inserting “for
20 ‘2016’ in subparagraph (A)(ii)”.

21 (8) Section 911(b)(2)(D)(ii)(II) is amended by
22 striking “for ‘1992’ in subparagraph (B)” and in-
23 serting “for ‘2016’ in subparagraph (A)(ii)”.

24 (9) Paragraph (2) of section 1274A(d) is
25 amended to read as follows:

1 “(2) ADJUSTMENT FOR INFLATION.—In the
2 case of any debt instrument arising out of a sale or
3 exchange during any calendar year after 1989, each
4 dollar amount contained in the preceding provisions
5 of this section shall be increased by an amount equal
6 to—

7 “(A) such amount, multiplied by

8 “(B) the cost-of-living adjustment deter-
9 mined under section 1(f)(3) for the calendar
10 year in which the taxable year begins, by sub-
11 stituting ‘calendar year 1988’ for ‘calendar year
12 2016’ in subparagraph (A)(ii) thereof.

13 Any increase under the preceding sentence shall be
14 rounded to the nearest multiple of \$100 (or, if such
15 increase is a multiple of \$50, such increase shall be
16 increased to the nearest multiple of \$100).”.

17 (10) Section 4161(b)(2)(C)(i)(II) is amended by
18 striking “for ‘1992’ in subparagraph (B)” and in-
19 serting “for ‘2016’ in subparagraph (A)(ii)”.

20 (11) Section 4980I(b)(3)(C)(v)(II) is amended
21 by striking “for ‘1992’ in subparagraph (B)” and
22 inserting “for ‘2016’ in subparagraph (A)(ii)”.

23 (12) Section 6039F(d) is amended by striking
24 “subparagraph (B) thereof shall be applied by sub-
25 stituting ‘1995’ for ‘1992’” and inserting “subpara-

1 graph (A)(ii) thereof shall be applied by substituting
2 ‘1995’ for ‘2016’ ”.

3 (13) Section 7872(g)(5) is amended to read as
4 follows:

5 “(5) ADJUSTMENT OF LIMIT FOR INFLATION.—

6 In the case of any loan made during any calendar
7 year after 1986, the dollar amount in paragraph (2)
8 shall be increased by an amount equal to—

9 “(A) such amount, multiplied by

10 “(B) the cost-of-living adjustment deter-
11 mined under section 1(f)(3) for the calendar
12 year in which the taxable year begins, by sub-
13 stituting ‘calendar year 1985’ for ‘calendar year
14 2016’ in subparagraph (A)(ii) thereof.

15 Any increase under the preceding sentence shall be
16 rounded to the nearest multiple of \$100 (or, if such
17 increase is a multiple of \$50, such increase shall be
18 increased to the nearest multiple of \$100).”.

19 (e) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 December 31, 2017.

1 **PART II—DEDUCTION FOR QUALIFIED BUSINESS**

2 **INCOME OF PASS-THRU ENTITIES**

3 **SEC. 11011. DEDUCTION FOR QUALIFIED BUSINESS IN-**

4 **COME.**

5 (a) IN GENERAL.—Part VI of subchapter B of chap-
6 ter 1 is amended by adding at the end the following new
7 section:

8 **“SEC. 199A. QUALIFIED BUSINESS INCOME.**

9 “(a) IN GENERAL.—In the case of a taxpayer other
10 than a corporation, there shall be allowed as a deduction
11 for any taxable year an amount equal to the lesser of—

12 “(1) the combined qualified business income
13 amount of the taxpayer, or

14 “(2) an amount equal to 17.4 percent of the ex-
15 cess (if any) of—

16 “(A) the taxable income of the taxpayer
17 for the taxable year, over

18 “(B) any net capital gain (as defined in
19 section 1(h)) of the taxpayer for the taxable
20 year.

21 “(b) COMBINED QUALIFIED BUSINESS INCOME
22 AMOUNT.—For purposes of this section—

23 “(1) IN GENERAL.—The term ‘combined quali-
24 fied business income amount’ means, with respect to
25 any taxable year, an amount equal to—

1 “(A) the sum of the amounts determined
2 under paragraph (2) for each qualified trade or
3 business carried on by the taxpayer, plus

4 “(B) 17.4 percent of the aggregate amount
5 of the qualified REIT dividends and qualified
6 cooperative dividends of the taxpayer for the
7 taxable year.

8 “(2) DETERMINATION OF DEDUCTIBLE
9 AMOUNT FOR EACH TRADE OR BUSINESS.—The
10 amount determined under this paragraph with re-
11 spect to any qualified trade or business is the lesser
12 of—

13 “(A) 17.4 percent of the taxpayer’s quali-
14 fied business income with respect to the quali-
15 fied trade or business, or

16 “(B) 50 percent of the W-2 wages with re-
17 spect to the qualified trade or business.

18 “(3) MODIFICATIONS TO THE WAGE LIMIT
19 BASED ON TAXABLE INCOME.—

20 “(A) EXCEPTION FROM WAGE LIMIT.—In
21 the case of any taxpayer whose taxable income
22 for the taxable year does not exceed the thresh-
23 old amount, paragraph (2) shall be applied
24 without regard to subparagraph (B).

1 “(B) PHASE-IN OF LIMIT FOR CERTAIN
2 TAXPAYERS.—

3 “(i) IN GENERAL.—If—

4 “(I) the taxable income of a tax-
5 payer for any taxable year exceeds the
6 threshold amount, but does not exceed
7 the sum of the threshold amount plus
8 \$50,000 (\$100,000 in the case of a
9 joint return), and

10 “(II) the amount determined
11 under paragraph (2)(B) (determined
12 without regard to this subparagraph)
13 with respect to any qualified trade or
14 business carried on by the taxpayer is
15 less than the amount determined
16 under paragraph (2)(A) with respect
17 such trade or business,

18 then paragraph (2) shall be applied with
19 respect to such trade or business without
20 regard to subparagraph (B) thereof and by
21 reducing the amount determined under
22 subparagraph (A) thereof by the amount
23 determined under clause (ii).

24 “(ii) AMOUNT OF REDUCTION.—The
25 amount determined under this subpara-

1 graph is the amount which bears the same
2 ratio to the excess amount as—

3 “(I) the amount by which the
4 taxpayer’s taxable income for the tax-
5 able year exceeds the threshold
6 amount, bears to

7 “(II) \$50,000 (\$100,000 in the
8 case of a joint return).

9 “(iii) EXCESS AMOUNT.—For pur-
10 poses of clause (ii), the excess amount is
11 the excess of—

12 “(I) the amount determined
13 under paragraph (2)(A) (determined
14 without regard to this paragraph),
15 over

16 “(II) the amount determined
17 under paragraph (2)(B) (determined
18 without regard to this paragraph).

19 “(4) WAGES, ETC.—

20 “(A) IN GENERAL.—The term ‘W-2 wages’
21 means, with respect to any person for any tax-
22 able year of such person, the amounts described
23 in paragraphs (3) and (8) of section 6051(a)
24 paid by such person with respect to employment

1 of employees by such person during the cal-
2 endar year ending during such taxable year.

3 “(B) LIMITATION TO WAGES ATTRIB-
4 UTABLE TO QUALIFIED BUSINESS INCOME.—
5 Such term shall not include any amount which
6 is not properly allocable to qualified business
7 income for purposes of subsection (c)(1).

8 “(C) RETURN REQUIREMENT.—Such term
9 shall not include any amount which is not prop-
10 erly included in a return filed with the Social
11 Security Administration on or before the 60th
12 day after the due date (including extensions)
13 for such return.

14 “(5) ACQUISITIONS, DISPOSITIONS, AND SHORT
15 TAXABLE YEARS.—The Secretary shall provide for
16 the application of this subsection in cases of a short
17 taxable year or where the taxpayer acquires, or dis-
18 poses of, the major portion of a trade or business or
19 the major portion of a separate unit of a trade or
20 business during the taxable year.

21 “(c) QUALIFIED BUSINESS INCOME.—For purposes
22 of this section—

23 “(1) IN GENERAL.—The term ‘qualified busi-
24 ness income’ means, for any taxable year, the net
25 amount of qualified items of income, gain, deduc-

1 tion, and loss with respect to any qualified trade or
2 business of the taxpayer.

3 “(2) CARRYOVER OF LOSSES.—If the net
4 amount of qualified income, gain, deduction, and
5 loss with respect to qualified trade or businesses of
6 the taxpayer amount for any taxable year is less
7 than zero, such amount shall be treated as a loss
8 from a qualified trade or business in the succeeding
9 taxable year.

10 “(3) QUALIFIED ITEMS OF INCOME, GAIN, DE-
11 DUCTION, AND LOSS.—For purposes of this sub-
12 section—

13 “(A) IN GENERAL.—The term ‘qualified
14 items of income, gain, deduction, and loss’
15 means items of income, gain, deduction, and
16 loss to the extent such items are—

17 “(i) effectively connected with the con-
18 duct of a trade or business within the
19 United States (within the meaning of sec-
20 tion 864(c), determined by substituting
21 ‘qualified trade or business (within the
22 meaning of section 199A)’ for ‘nonresident
23 alien individual or a foreign corporation’ or
24 for ‘a foreign corporation’ each place it ap-
25 pears), and

1 “(ii) included or allowed in deter-
2 mining taxable income for the taxable year.

3 “(B) EXCEPTIONS.—The following invest-
4 ment items shall not be taken into account as
5 a qualified item of income, gain, deduction, or
6 loss:

7 “(i) Any item of short-term capital
8 gain, short-term capital loss, long-term
9 capital gain, or long-term capital loss.

10 “(ii) Any dividend, income equivalent
11 to a dividend, or payment in lieu of divi-
12 dends described in section 954(c)(1)(G).

13 “(iii) Any interest income other than
14 interest income which is properly allocable
15 to a trade or business.

16 “(iv) Any item of gain or loss de-
17 scribed in subparagraph (C) or (D) of sec-
18 tion 954(c)(1) (applied by substituting
19 ‘qualified trade or business’ for ‘controlled
20 foreign corporation’).

21 “(v) Any item of income, gain, deduc-
22 tion, or loss taken into account under sec-
23 tion 954(c)(1)(F) (determined without re-
24 gard to clause (ii) thereof and other than
25 items attributable to notional principal

1 contracts entered into in transactions
2 qualifying under section 1221(a)(7)).

3 “(vi) Any amount received from an
4 annuity which is not received in connection
5 with the trade or business.

6 “(vii) Any item of deduction or loss
7 properly allocable to an amount described
8 in any of the preceding clauses.

9 “(4) TREATMENT OF REASONABLE COMPENSA-
10 TION AND GUARANTEED PAYMENTS.—Qualified busi-
11 ness income shall not include—

12 “(A) reasonable compensation paid to the
13 taxpayer by any qualified trade or business of
14 the taxpayer for services rendered with respect
15 to the trade or business,

16 “(B) any guaranteed payment described in
17 section 707(c) paid to a partner for services
18 rendered with respect to the trade or business,
19 and

20 “(C) to the extent provided in regulations,
21 any payment described in section 707(a) to a
22 partner for services rendered with respect to the
23 trade or business.

24 “(d) QUALIFIED TRADE OR BUSINESS.—For pur-
25 poses of this section—

1 “(1) IN GENERAL.—The term ‘qualified trade
2 or business’ means any trade or business other than
3 a specified service trade or business.

4 “(2) SPECIFIED SERVICE TRADE OR BUSI-
5 NESS.—

6 “(A) IN GENERAL.—The term ‘specified
7 service trade or business’ means—

8 “(i) any trade or business involving
9 the performance of services described in
10 section 1202(e)(3)(A), including investing
11 and investment management, trading, or
12 dealing in securities (as defined in section
13 475(c)(2)), partnership interests, or com-
14 modities (as defined in section 475(e)(2)).

15 “(3) EXCEPTION FOR SPECIFIED SERVICE BUSI-
16 NESSES BASED ON TAXPAYER’S INCOME.—

17 “(A) IN GENERAL.—If, for any taxable
18 year, the taxable income of any taxpayer is less
19 than the sum of the threshold amount plus
20 \$50,000 (\$100,000 in the case of a joint re-
21 turn), then—

22 “(i) the exception under paragraph
23 (1) shall not apply to specified service
24 trades or businesses of the taxpayer for the
25 taxable year, but

1 “(ii) only the applicable percentage of
2 qualified items of income, gain, deduction,
3 or loss, and the W-2 wages, of the tax-
4 payer allocable to such specified service
5 trades or businesses shall be taken into ac-
6 count in computing the qualified business
7 income and W-2 wages of the taxpayer for
8 the taxable year for purposes of applying
9 this section.

10 “(B) APPLICABLE PERCENTAGE.—For
11 purposes of subparagraph (A), the term ‘appli-
12 cable percentage’ means, with respect to any
13 taxable year, 100 percent reduced (not below
14 zero) by the percentage equal to the ratio of—

15 “(i) the taxable income of the tax-
16 payer for the taxable year in excess of the
17 threshold amount, bears to

18 “(ii) \$50,000 (\$100,000 in the case of
19 a joint return).

20 “(e) OTHER DEFINITIONS.—For purposes of this
21 section—

22 “(1) TAXABLE INCOME.—Taxable income shall
23 be computed without regard to the deduction allow-
24 able under this section.

25 “(2) THRESHOLD AMOUNT.—

1 “(A) IN GENERAL.—The term ‘threshold
2 amount’ means \$250,000 (200 percent of such
3 amount in the case of a joint return).

4 “(B) INFLATION ADJUSTMENT.—In the
5 case of any taxable year beginning after 2018,
6 the dollar amount in paragraph (1) shall be in-
7 creased by an amount equal to—

8 “(i) such dollar amount, multiplied by

9 “(ii) the cost-of-living adjustment de-
10 termined under section 1(f)(3) for the cal-
11 endar year in which the taxable year be-
12 gins.

13 If any amount as increased under the preceding
14 sentence is not a multiple of \$1,000, such
15 amount shall be rounded to the nearest multiple
16 of \$1,000.

17 “(3) QUALIFIED REIT DIVIDEND.—The term
18 ‘qualified REIT dividend’ means any dividend from
19 a real estate investment trust received during the
20 taxable year which—

21 “(A) is not a capital gain dividend, as de-
22 fined in section 857(b)(3), and

23 “(B) is not qualified dividend income, as
24 defined in section 1(h)(11).

1 “(4) QUALIFIED COOPERATIVE DIVIDEND.—

2 The term ‘qualified cooperative dividend’ means any
3 patronage dividend (as defined in section 1388(a)),
4 any per-unit retain allocation (as defined in section
5 1388(f)), and any qualified written notice of alloca-
6 tion (as defined in section 1388(c)), or any similar
7 amount received from an organization described in
8 subparagraph (B)(ii), which—

9 “(A) is includible in gross income, and

10 “(B) is received from—

11 “(i) an organization or corporation de-
12 scribed in section 501(c)(12) or 1381(a),
13 or

14 “(ii) an organization which is gov-
15 erned under this title by the rules applica-
16 ble to cooperatives under this title before
17 the enactment of subchapter T.

18 “(f) SPECIAL RULES.—

19 “(1) APPLICATION TO PARTNERSHIPS AND S
20 CORPORATIONS.—

21 “(A) IN GENERAL.—In the case of a part-
22 nership or S corporation—

23 “(i) this section shall be applied at the
24 partner or shareholder level,

1 “(ii) each partner or shareholder shall
2 take into account such person’s allocable
3 share of each qualified item of income,
4 gain, deduction, and loss, and

5 “(iii) each partner or shareholder
6 shall be treated for purposes of subsection
7 (b) as having W-2 wages for the taxable
8 year in an amount equal to such person’s
9 allocable share of the W-2 wages of the
10 partnership or S corporation for the tax-
11 able year (as determined under regulations
12 prescribed by the Secretary).

13 For purposes of clause (iii), a partner’s or
14 shareholder’s allocable share of W-2 wages shall
15 be determined in the same manner as the part-
16 ner’s or shareholder’s allocable share of wage
17 expenses. For purposes of this subparagraph, in
18 the case of an S corporation, an allocable share
19 shall be the shareholder’s pro rata share of an
20 item.

21 “(B) APPLICATION TO TRUSTS AND ES-
22 TATES.—This section shall not apply to any
23 trust or estate.

24 “(C) TREATMENT OF TRADES OR BUSI-
25 NESS IN PUERTO RICO.—

1 “(i) IN GENERAL.—In the case of any
2 taxpayer with qualified business income
3 from sources within the commonwealth of
4 Puerto Rico, if all such income is taxable
5 under section 1 for such taxable year, then
6 for purposes of determining the qualified
7 business income of such taxpayer for such
8 taxable year, the term ‘United States’ shall
9 include the Commonwealth of Puerto Rico.

10 “(ii) SPECIAL RULE FOR APPLYING
11 WAGE LIMITATION.—In the case of any
12 taxpayer described in clause (i), the deter-
13 mination of W-2 wages of such taxpayer
14 with respect to any qualified trade or busi-
15 ness conducted in Puerto Rico shall be
16 made without regard to any exclusion
17 under section 3401(a)(8) for remuneration
18 paid for services in Puerto Rico.

19 “(2) COORDINATION WITH MINIMUM TAX.—For
20 purposes of determining alternative minimum tax-
21 able income under section 55, qualified business in-
22 come shall be determined without regard to any ad-
23 justments under sections 56 through 59.

1 “(3) DEDUCTION LIMITED TO INCOME
2 TAXES.—The deduction under subsection (a) shall
3 only be allowed for purposes of this chapter.

4 “(4) REGULATIONS.—The Secretary shall pre-
5 scribe such regulations as are necessary to carry out
6 the purposes of this section, including regulations—

7 “(A) for requiring or restricting the alloca-
8 tion of items and wages under this section and
9 such reporting requirements as the Secretary
10 determines appropriate, and

11 “(B) for the application of this section in
12 the case of tiered entities.

13 “(g) TERMINATION.—This section shall not apply to
14 taxable years beginning after December 31, 2025.”.

15 (b) ACCURACY-RELATED PENALTY ON DETERMINA-
16 TION OF APPLICABLE PERCENTAGE.—Section 6662(d)(1)
17 is amended by inserting at the end the following new sub-
18 paragraph:

19 “(C) SPECIAL RULE FOR TAXPAYERS
20 CLAIMING SECTION 199A DEDUCTION.—In the
21 case of any taxpayer who claims the deduction
22 allowed under section 199A for the taxable
23 year, subparagraph (A) shall be applied by sub-
24 stituting ‘5 percent’ for ‘10 percent’.”.

25 (c) CONFORMING AMENDMENTS.—

1 (1) Section 170(b)(2)(D) is amended by strik-
2 ing “, and” at the end of clause (iv), by redesign-
3 nating clause (v) as clause (vi), and by inserting
4 after clause (iv) the following new clause:

5 “(v) section 199A, and”.

6 (2) Section 172(d) is amended by adding at the
7 end the following new paragraph:

8 “(8) QUALIFIED BUSINESS INCOME DEDUC-
9 TION.—The deduction under section 199A shall not
10 be allowed.”.

11 (3) Section 246(b)(1) is amended by inserting
12 “199A,” before “243(a)(1)”.

13 (4) Section 613(a) is amended by inserting
14 “and without the deduction under section 199A”
15 after “and without the deduction under section
16 199”.

17 (5) Section 613A(d)(1) is amended by redesign-
18 nating subparagraphs (C), (D), and (E) as subpara-
19 graphs (D), (E), and (F), respectively, and by in-
20 serting after subparagraph (B), the following new
21 subparagraph:

22 “(C) any deduction allowable under section
23 199A,”.

1 (6) The table of sections for part VI of sub-
2 chapter B of chapter 1 is amended by inserting at
3 the end the following new item:

 “Sec. 199A. Qualified business income.”.

4 (d) **EFFECTIVE DATE.**—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 2017.

7 **SEC. 11012. LIMITATION ON LOSSES FOR TAXPAYERS**
8 **OTHER THAN CORPORATIONS.**

9 (a) **IN GENERAL.**—Section 461 is amended by adding
10 at the end the following new subsection:

11 “(l) **LIMITATION ON EXCESS BUSINESS LOSSES OF**
12 **NONCORPORATE TAXPAYERS.**—

13 “(1) **LIMITATION.**—In the case of taxable year
14 of a taxpayer other than a corporation beginning
15 after December 31, 2017, and before January 1,
16 2026—

17 “(A) subsection (j) (relating to limitation
18 on excess farm losses of certain taxpayers) shall
19 not apply, and

20 “(B) any excess business loss of the tax-
21 payer for the taxable year shall not be allowed.

22 “(2) **DISALLOWED LOSS CARRYOVER.**—Any loss
23 which is disallowed under paragraph (1) shall be
24 treated as a net operating loss carryover to the fol-
25 lowing taxable year under section 172.

1 “(3) EXCESS BUSINESS LOSS.—For purposes of
2 this subsection—

3 “(A) IN GENERAL.—The term ‘excess busi-
4 ness loss’ means the excess (if any) of—

5 “(i) the aggregate deductions of the
6 taxpayer for the taxable year which are at-
7 tributable to trades or businesses of such
8 taxpayer (determined without regard to
9 whether or not such deductions are dis-
10 allowed for such taxable year under para-
11 graph (1)), over

12 “(ii) the sum of—

13 “(I) the aggregate gross income
14 or gain of such taxpayer for the tax-
15 able year which is attributable to such
16 trades or businesses, plus

17 “(II) \$250,000 (200 percent of
18 such amount in the case of a joint re-
19 turn).

20 “(B) ADJUSTMENT FOR INFLATION.—In
21 the case of any taxable year beginning after De-
22 cember 31, 2018, the \$250,000 amount in sub-
23 paragraph (A)(ii)(II) shall be increased by an
24 amount equal to—

25 “(i) such dollar amount, multiplied by

1 “(ii) the cost-of-living adjustment de-
2 termined under section 1(f)(3) for the cal-
3 endar year in which the taxable year be-
4 gins.

5 If any amount as increased under the pre-
6 ceding sentence is not a multiple of
7 \$1,000, such amount shall be rounded to
8 the nearest multiple of \$1,000.

9 “(4) APPLICATION OF SUBSECTION IN CASE OF
10 PARTNERSHIPS AND S CORPORATIONS.—In the case
11 of a partnership or S corporation—

12 “(A) this subsection shall be applied at the
13 partner or shareholder level, and

14 “(B) each partner’s or shareholder’s allo-
15 cable share of the items of income, gain, deduc-
16 tion, or loss of the partnership or S corporation
17 for any taxable year from trades or businesses
18 attributable to the partnership or S corporation
19 shall be taken into account by the partner or
20 shareholder in applying this subsection to the
21 taxable year of such partner or shareholder
22 with or within which the taxable year of the
23 partnership or S corporation ends.

1 For purposes of this paragraph, in the case of an S
2 corporation, an allocable share shall be the share-
3 holder's pro rata share of an item.

4 “(5) ADDITIONAL REPORTING.—The Secretary
5 shall prescribe such additional reporting require-
6 ments as the Secretary determines appropriate to
7 carry out the purposes of this subsection.

8 “(6) COORDINATION WITH SECTION 469.—This
9 subsection shall be applied after the application of
10 section 469.”.

11 (b) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to taxable years beginning after
13 December 31, 2017.

14 **PART III—TAX BENEFITS FOR FAMILIES AND**
15 **INDIVIDUALS**

16 **SEC. 11021. INCREASE IN STANDARD DEDUCTION.**

17 (a) IN GENERAL.—Subsection (c) of section 63 is
18 amended by adding at the end the following new para-
19 graph:

20 “(7) SPECIAL RULES FOR TAXABLE YEARS 2018
21 THROUGH 2025.—In the case of a taxable year begin-
22 ning after December 31, 2017, and before January
23 1, 2026—

24 “(A) INCREASE IN STANDARD DEDUC-
25 TION.—Paragraph (2) shall be applied—

1 “(i) by substituting ‘\$18,000’ for
2 ‘\$4,400’ in subparagraph (B), and

3 “(ii) by substituting ‘\$12,000’ for
4 ‘\$3,000’ in subparagraph (C).

5 “(B) ADJUSTMENT FOR INFLATION.—

6 “(i) IN GENERAL.—Paragraph (4)
7 shall not apply to the dollar amounts con-
8 tained in paragraphs (2)(B) and (2)(C).

9 “(ii) ADJUSTMENT OF INCREASED
10 AMOUNTS.—In the case of a taxable year
11 beginning after 2018, the \$18,000 and
12 \$12,000 amounts in subparagraph (A)
13 shall each be increased by an amount equal
14 to—

15 “(I) such dollar amount, multi-
16 plied by

17 “(II) the cost-of-living adjust-
18 ment determined under section 1(f)(3)
19 for the calendar year in which the tax-
20 able year begins, determined by sub-
21 stituting ‘2017’ for ‘2016’ in subpara-
22 graph (A)(ii) thereof.”.

23 (b) EFFECTIVE DATE.—The amendment made by
24 this section shall apply to taxable years beginning after
25 December 31, 2017.

1 **SEC. 11022. INCREASE IN AND MODIFICATION OF CHILD**
2 **TAX CREDIT.**

3 (a) IN GENERAL.—Section 24 is amended by adding
4 at the end the following new subsection:

5 “(h) SPECIAL RULES FOR TAXABLE YEARS 2018
6 THROUGH 2025.—

7 “(1) IN GENERAL.—In the case of a taxable
8 year beginning after December 31, 2017, and before
9 January 1, 2026, this section shall be applied as
10 provided in paragraphs (2) through (8).

11 “(2) CREDIT AMOUNT.—Subsection (a) shall be
12 applied by substituting ‘\$2,000’ for ‘\$1,000’.

13 “(3) LIMITATION.—In lieu of the amount deter-
14 mined under subsection (b)(2), the threshold amount
15 shall be \$500,000.

16 “(4) DEFINITION OF QUALIFYING CHILD.—
17 Paragraph (1) of subsection (c) shall be applied by
18 substituting ‘18’ for ‘17’.

19 “(5) PARTIAL CREDIT ALLOWED FOR CERTAIN
20 OTHER DEPENDENTS.—

21 “(A) IN GENERAL.—The credit determined
22 under subsection (a) (after the application of
23 paragraph (2)) shall be increased by \$500 for
24 each dependent of the taxpayer (as defined in
25 section 152) other than a qualifying child de-

1 scribed in subsection (c) (after the application
2 of paragraph (4)).

3 “(B) EXCEPTION FOR CERTAIN NONCITI-
4 ZENS.—Subparagraph (A) shall not apply with
5 respect to any individual who would not be a
6 dependent if subparagraph (A) of section
7 152(b)(3) were applied without regard to all
8 that follows ‘resident of the United States’.

9 “(6) MAXIMUM AMOUNT OF REFUNDABLE
10 CREDIT.—

11 “(A) IN GENERAL.—Subsection (d)(1)(A)
12 shall be applied without regard to paragraphs
13 (2) and (5) of this subsection.

14 “(B) ADJUSTMENT FOR INFLATION.—In
15 the case of a taxable year beginning after 2017,
16 subsection (d)(1)(A) shall be applied as if the
17 \$1,000 amount in subsection (a) were increased
18 (but not to exceed the amount under paragraph
19 (2) of this subsection) by an amount equal to—

20 “(i) such dollar amount, multiplied by

21 “(ii) the cost-of-living adjustment de-
22 termined under section 1(f)(3) for the cal-
23 endar year in which the taxable year be-
24 gins.

1 Any increase determined under the preceding
2 sentence shall be rounded to the next highest
3 multiple of \$100.

4 “(7) EARNED INCOME THRESHOLD FOR RE-
5 FUNDABLE CREDIT.—Subsection (d)(1)(B)(i) shall
6 be applied by substituting ‘\$2,500’ for ‘\$3,000’.

7 “(8) SOCIAL SECURITY NUMBER REQUIRED.—
8 No credit shall be allowed under subsection (d) to a
9 taxpayer with respect to any qualifying child unless
10 the taxpayer includes the social security number of
11 such child on the return of tax for the taxable year.
12 For purposes of the preceding sentence, the term
13 ‘social security number’ means a social security
14 number issued to an individual by the Social Secu-
15 rity Administration, but only if the social security
16 number is issued to a citizen of the United States
17 or is issued pursuant to subclause (I) (or that por-
18 tion of subclause (III) that relates to subclause (I))
19 of section 205(c)(2)(B)(i) of the Social Security
20 Act.”.

21 (b) EFFECTIVE DATE.—The amendment made by
22 this section shall apply to taxable years beginning after
23 December 31, 2017.

1 **SEC. 11023. INCREASED LIMITATION FOR CERTAIN CHARI-**
2 **TABLE CONTRIBUTIONS.**

3 (a) IN GENERAL.—Section 170(b)(1) is amended by
4 redesignating subparagraph (G) as subparagraph (H) and
5 by inserting after subparagraph (F) the following new
6 subparagraph:

7 “(G) INCREASED LIMITATION FOR CASH
8 CONTRIBUTIONS.—

9 “(i) IN GENERAL.—In the case of any
10 contribution of cash to an organization de-
11 scribed in subparagraph (A), the total
12 amount of such contributions which may
13 be taken into account under subsection (a)
14 for any taxable year beginning after De-
15 cember 31, 2017, and before January 1,
16 2026, shall not exceed 60 percent of the
17 taxpayer’s contribution base for such year.

18 “(ii) CARRYOVER.—If the aggregate
19 amount of contributions described in clause
20 (i) exceeds the applicable limitation under
21 clause (i) for any taxable year described in
22 such clause, such excess shall be treated
23 (in a manner consistent with the rules of
24 subsection (d)(1)) as a charitable contribu-
25 tion to which clause (i) applies in each of
26 the 5 succeeding years in order of time.

1 “(iii) COORDINATION WITH SUBPARA-
2 GRAPHS (A) AND (B).—

3 “(I) IN GENERAL.—Contribu-
4 tions taken into account under this
5 subparagraph shall not be taken into
6 account under subparagraph (A).

7 “(II) LIMITATION REDUCTION.—
8 Subparagraphs (A) and (B) shall be
9 applied for each taxable year de-
10 scribed in clause (i), and each taxable
11 year to which any contribution under
12 this subparagraph is carried over
13 under clause (ii), by reducing (but not
14 below zero) the aggregate contribution
15 limitation allowed for the taxable year
16 under each such subparagraph by the
17 aggregate contributions allowed under
18 this subparagraph for such taxable
19 year.”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to contributions in taxable years
22 beginning after December 31, 2017.

1 **SEC. 11024. INCREASED CONTRIBUTIONS TO ABLE AC-**
2 **COUNTS.**

3 (a) INCREASE IN LIMITATION FOR CONTRIBUTIONS
4 FROM COMPENSATION OF INDIVIDUALS WITH DISABIL-
5 ITIES.—

6 (1) IN GENERAL.—Section 529A(b)(2)(B) is
7 amended to read as follows:

8 “(B) except in the case of contributions
9 under subsection (c)(1)(C), if such contribution
10 to an ABLE account would result in aggregate
11 contributions from all contributors to the
12 ABLE account for the taxable year exceeding
13 the sum of—

14 “(i) the amount in effect under sec-
15 tion 2503(b) for the calendar year in which
16 the taxable year begins, plus

17 “(ii) in the case of any contribution
18 by a designated beneficiary described in
19 paragraph (7) before January 1, 2026, the
20 lesser of—

21 “(I) compensation (as defined by
22 section 219(f)(1)) includible in the
23 designated beneficiary’s gross income
24 for the preceding taxable year, or

25 “(II) an amount equal to the
26 poverty line for a one-person house-

1 hold, as determined for the calendar
2 year preceding the calendar year in
3 which the taxable year begins.”.

4 (2) ELIGIBLE DESIGNATED BENEFICIARY.—
5 Section 529A(b) is amended by adding at the end
6 the following:

7 “(7) SPECIAL RULES RELATED TO CONTRIBU-
8 TION LIMIT.—For purposes of paragraph
9 (2)(B)(ii)—

10 “(A) DESIGNATED BENEFICIARY.—A des-
11 ignated beneficiary described in this paragraph
12 is an employee (including an employee within
13 the meaning of section 401(c)) with respect to
14 whom—

15 “(i) no contribution is made for the
16 taxable year to a defined contribution plan
17 (within the meaning of section 414(i)) with
18 respect to which the requirements of sec-
19 tion 401(a) or 403(a) are met,

20 “(ii) no contribution is made for the
21 taxable year to an annuity contract de-
22 scribed in section 403(b), and

23 “(iii) no contribution is made for the
24 taxable year to an eligible deferred com-
25 pensation plan described in section 457(b).

1 “(B) POVERTY LINE.—The term ‘poverty
2 line’ has the meaning given such term by sec-
3 tion 673 of the Community Services Block
4 Grant Act (42 U.S.C. 9902).”.

5 (b) ALLOWANCE OF SAVER’S CREDIT FOR ABLE
6 CONTRIBUTIONS BY ACCOUNT HOLDER.—Section
7 25B(d)(1) is amended by striking “and” at the end of sub-
8 paragraph (B)(ii), by striking the period at the end of sub-
9 paragraph (C) and inserting “, and”, and by inserting at
10 the end the following:

11 “(D) the amount of contributions made be-
12 fore January 1, 2026, by such individual to the
13 ABLE account (within the meaning of section
14 529A) of which such individual is the des-
15 ignated beneficiary.”.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 the date of the enactment of this Act.

19 **SEC. 11025. ROLLOVERS TO ABLE PROGRAMS FROM 529**
20 **PROGRAMS.**

21 (a) IN GENERAL.—Clause (i) of section 529(c)(3)(C)
22 is amended by striking “or” at the end of subclause (I),
23 by striking the period at the end of subclause (II) and
24 inserting “, or”, and by adding at the end the following:

1 “(III) before January 1, 2026, to
2 an ABLE account (as defined in sec-
3 tion 529A(e)(6)) of the designated
4 beneficiary or a member of the family
5 of the designated beneficiary.

6 Subclause (III) shall not apply to so much
7 of a distribution which, when added to all
8 other contributions made to the ABLE ac-
9 count for the taxable year, exceeds the lim-
10 itation under section 529A(b)(2)(B).”.

11 (b) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to distributions after the date of
13 the enactment of this Act.

14 **SEC. 11026. TREATMENT OF CERTAIN INDIVIDUALS PER-**
15 **FORMING SERVICES IN THE SINAI PENIN-**
16 **SULA OF EGYPT.**

17 (a) IN GENERAL.—For purposes of the following pro-
18 visions of the Internal Revenue Code of 1986, with respect
19 to the applicable period, a qualified hazardous duty area
20 shall be treated in the same manner as if it were a combat
21 zone (as determined under section 112 of such Code):

22 (1) Section 2(a)(3) (relating to special rule
23 where deceased spouse was in missing status).

1 (2) Section 112 (relating to the exclusion of
2 certain combat pay of members of the Armed
3 Forces).

4 (3) Section 692 (relating to income taxes of
5 members of Armed Forces on death).

6 (4) Section 2201 (relating to members of the
7 Armed Forces dying in combat zone or by reason of
8 combat-zone-incurred wounds, etc.).

9 (5) Section 3401(a)(1) (defining wages relating
10 to combat pay for members of the Armed Forces).

11 (6) Section 4253(d) (relating to the taxation of
12 phone service originating from a combat zone from
13 members of the Armed Forces).

14 (7) Section 6013(f)(1) (relating to joint return
15 where individual is in missing status).

16 (8) Section 7508 (relating to time for per-
17 forming certain acts postponed by reason of service
18 in combat zone).

19 (b) **QUALIFIED HAZARDOUS DUTY AREA.**—For pur-
20 poses of this section, the term “qualified hazardous duty
21 area” means the Sinai Peninsula of Egypt, if as of the
22 date of the enactment of this section any member of the
23 Armed Forces of the United States is entitled to special
24 pay under section 310 of title 37, United States Code (re-
25 lating to special pay; duty subject to hostile fire or immi-

1 nent danger), for services performed in such location.
2 Such term includes such location only during the period
3 such entitlement is in effect.

4 (c) APPLICABLE PERIOD.—

5 (1) IN GENERAL.—Except as provided in para-
6 graph (2), the applicable period is—

7 (A) the portion of the first taxable year
8 ending after June 9, 2015, which begins on
9 such date, and

10 (B) any subsequent taxable year beginning
11 before January 1, 2026.

12 (2) WITHHOLDING.—In the case of subsection
13 (a)(5), the applicable period is—

14 (A) the portion of the first taxable year
15 ending after the date of the enactment of this
16 Act which begins on such date, and

17 (B) any subsequent taxable year beginning
18 before January 1, 2026.

19 (d) EFFECTIVE DATE.—

20 (1) IN GENERAL.—Except as provided in para-
21 graph (2), the provisions of this section shall take
22 effect on June 9, 2015.

23 (2) WITHHOLDING.—Subsection (a)(5) shall
24 apply to remuneration paid after the date of the en-
25 actment of this Act.

1 **SEC. 11027. EXTENSION OF WAIVER OF LIMITATIONS WITH**
2 **RESPECT TO EXCLUDING FROM GROSS IN-**
3 **COME AMOUNTS RECEIVED BY WRONGFULLY**
4 **INCARCERATED INDIVIDUALS.**

5 (a) IN GENERAL.—Section 304(d) of the Protecting
6 Americans from Tax Hikes Act of 2015 (26 U.S.C. 139F
7 note) is amended by striking “1-year” and inserting “2-
8 year”.

9 (b) EFFECTIVE DATE.—The amendments made by
10 this section shall take effect on the date of the enactment
11 of this Act.

12 **SEC. 11028. UNBORN CHILDREN ALLOWED AS 529 ACCOUNT**
13 **BENEFICIARIES.**

14 (a) IN GENERAL.—Section 529(e) is amended by
15 adding at the end the following new paragraph:

16 “(6) TREATMENT OF UNBORN CHILDREN.—

17 “(A) IN GENERAL.—Nothing shall prevent
18 an unborn child from being treated as a des-
19 ignated beneficiary or an individual under this
20 section.

21 “(B) UNBORN CHILD.—For purposes of
22 this paragraph—

23 “(i) IN GENERAL.—The term ‘unborn
24 child’ means a child in utero.

25 “(ii) CHILD IN UTERO.—The term
26 ‘child in utero’ means a member of the

1 species homo sapiens, at any stage of de-
2 velopment, who is carried in the womb.”.

3 (b) EFFECTIVE DATE.—The amendment made by
4 this section shall apply to contributions made after De-
5 cember 31, 2017.

6 **SEC. 11029. RELIEF FOR MISSISSIPPI RIVER DELTA FLOOD**
7 **DISASTER AREA.**

8 (a) IN GENERAL.—For purposes of this section, the
9 term “Mississippi River Delta flood disaster area” means
10 any area—

11 (1) with respect to which a major disaster has
12 been declared by the President under section 401 of
13 the Robert T. Stafford Disaster Relief and Emer-
14 gency Assistance Act before September 3, 2016, by
15 reason of severe storms and flooding occurring in
16 Louisiana during August of 2016, or

17 (2) with respect to which a major disaster has
18 been declared by the President under section 401 of
19 the Robert T. Stafford Disaster Relief and Emer-
20 gency Assistance Act before March 31, 2016, by rea-
21 son of severe storms and flooding occurring in Lou-
22 isiana, Texas, and Mississippi during March of
23 2016.

1 (b) SPECIAL RULES FOR USE OF RETIREMENT
2 FUNDS WITH RESPECT TO MISSISSIPPI DELTA AREAS
3 DAMAGED BY 2016 FLOODING.—

4 (1) TAX-FAVORED WITHDRAWALS FROM RE-
5 TIREMENT PLANS.—

6 (A) IN GENERAL.—Section 72(t) of the In-
7 ternal Revenue Code of 1986 shall not apply to
8 any qualified Mississippi River Delta flooding
9 distribution.

10 (B) AGGREGATE DOLLAR LIMITATION.—

11 (i) IN GENERAL.—For purposes of
12 this subsection, the aggregate amount of
13 distributions received by an individual
14 which may be treated as qualified Mis-
15 sissippi River Delta flooding distributions
16 for any taxable year shall not exceed the
17 excess (if any) of—

18 (I) \$100,000, over

19 (II) the aggregate amounts treat-
20 ed as qualified Mississippi River Delta
21 flooding distributions received by such
22 individual for all prior taxable years.

23 (ii) TREATMENT OF PLAN DISTRIBUTI-
24 TIONS.—If a distribution to an individual
25 would (without regard to clause (i)) be a

1 qualified Mississippi River Delta flooding
2 distribution, a plan shall not be treated as
3 violating any requirement of this title
4 merely because the plan treats such dis-
5 tribution as a qualified Mississippi River
6 Delta flooding distribution, unless the ag-
7 gregate amount of such distributions from
8 all plans maintained by the employer (and
9 any member of any controlled group which
10 includes the employer) to such individual
11 exceeds \$100,000.

12 (iii) CONTROLLED GROUP.—For pur-
13 poses of clause (ii), the term “controlled
14 group” means any group treated as a sin-
15 gle employer under subsection (b), (c),
16 (m), or (o) of section 414 of the Internal
17 Revenue Code of 1986.

18 (C) AMOUNT DISTRIBUTED MAY BE RE-
19 PAID.—

20 (i) IN GENERAL.—Any individual who
21 receives a qualified Mississippi River Delta
22 flooding distribution may, at any time dur-
23 ing the 3-year period beginning on the day
24 after the date on which such distribution
25 was received, make one or more contribu-

tions in an aggregate amount not to exceed the amount of such distribution to an eligible retirement plan of which such individual is a beneficiary and to which a rollover contribution of such distribution could be made under section 402(c), 403(a)(4), 403(b)(8), 408(d)(3), or 457(e)(16) of the Internal Revenue Code of 1986, as the case may be.

(ii) TREATMENT OF REPAYMENTS OF DISTRIBUTIONS FROM ELIGIBLE RETIREMENT PLANS OTHER THAN IRAS.—For purposes of this title, if a contribution is made pursuant to clause (i) with respect to a qualified Mississippi River Delta flooding distribution from an eligible retirement plan other than an individual retirement plan, then the taxpayer shall, to the extent of the amount of the contribution, be treated as having received the qualified Mississippi River Delta flooding distribution in an eligible rollover distribution (as defined in section 402(c)(4) of the Internal Revenue Code of 1986) and as having transferred the amount to the eligible retire-

1 ment plan in a direct trustee to trustee
2 transfer within 60 days of the distribution.

3 (iii) TREATMENT OF REPAYMENTS
4 FOR DISTRIBUTIONS FROM IRAS.—For
5 purposes of the Internal Revenue Code of
6 1986, if a contribution is made pursuant
7 to clause (i) with respect to a qualified
8 Mississippi River Delta flooding distribu-
9 tion from an individual retirement plan (as
10 defined by section 7701(a)(37) of the In-
11 ternal Revenue Code of 1986), then, to the
12 extent of the amount of the contribution,
13 the qualified Mississippi River Delta flood-
14 ing distribution shall be treated as a dis-
15 tribution described in section 408(d)(3) of
16 such Code and as having been transferred
17 to the eligible retirement plan in a direct
18 trustee to trustee transfer within 60 days
19 of the distribution.

20 (D) DEFINITIONS.—For purposes of this
21 paragraph—

22 (i) QUALIFIED MISSISSIPPI RIVER
23 DELTA FLOODING DISTRIBUTION.—Except
24 as provided in subparagraph (B), the term

1 “qualified Mississippi River Delta flooding
2 distribution” means—

3 (I) any distribution from an eligi-
4 ble retirement plan made on or after
5 August 11, 2016, and before January
6 1, 2018, to an individual whose prin-
7 cipal place of abode on August 11,
8 2016, was located in the portion of
9 Mississippi River Delta disaster area
10 described in subsection (a)(1) and
11 who has sustained an economic loss
12 by reason of the severe storms and
13 flooding giving rise to the Presidential
14 declaration described in subsection
15 (a)(1), or

16 (II) any distribution from an eli-
17 gible retirement plan made on or after
18 March 1, 2016, and before January 1,
19 2018, to an individual whose principal
20 place of abode on March 1, 2016, was
21 located in the portion of Mississippi
22 River Delta disaster area described in
23 subsection (a)(2) and who has sus-
24 tained an economic loss by reason of
25 the severe storms and flooding giving

1 rise to the Presidential declaration de-
2 scribed in subsection (a)(2).

3 (ii) ELIGIBLE RETIREMENT PLAN.—

4 The term “eligible retirement plan” shall
5 have the meaning given such term by sec-
6 tion 402(c)(8)(B) of the Internal Revenue
7 Code of 1986.

8 (E) INCOME INCLUSION SPREAD OVER 3-
9 YEAR PERIOD.—

10 (i) IN GENERAL.—In the case of any
11 qualified Mississippi River Delta flooding
12 distribution, unless the taxpayer elects not
13 to have this subparagraph apply for any
14 taxable year, any amount required to be
15 included in gross income for such taxable
16 year shall be so included ratably over the
17 3-taxable-year period beginning with such
18 taxable year.

19 (ii) SPECIAL RULE.—For purposes of
20 clause (i), rules similar to the rules of sub-
21 paragraph (E) of section 408A(d)(3) of the
22 Internal Revenue Code of 1986 shall apply.

23 (F) SPECIAL RULES.—

24 (i) EXEMPTION OF DISTRIBUTIONS
25 FROM TRUSTEE TO TRUSTEE TRANSFER

1 AND WITHHOLDING RULES.—For purposes
2 of sections 401(a)(31), 402(f), and 3405 of
3 the Internal Revenue Code of 1986, quali-
4 fied Mississippi River Delta flooding dis-
5 tributions shall not be treated as eligible
6 rollover distributions.

7 (ii) QUALIFIED MISSISSIPPI RIVER
8 DELTA FLOODING DISTRIBUTIONS TREAT-
9 ED AS MEETING PLAN DISTRIBUTION RE-
10 QUIREMENTS.—For purposes of the Inter-
11 nal Revenue Code of 1986, a qualified Mis-
12 sissippi River Delta flooding distribution
13 shall be treated as meeting the require-
14 ments of sections 401(k)(2)(B)(i),
15 403(b)(7)(A)(ii), 403(b)(11), and
16 457(d)(1)(A) of the Internal Revenue Code
17 of 1986.

18 (2) PROVISIONS RELATING TO PLAN AMEND-
19 MENTS.—

20 (A) IN GENERAL.—If this paragraph ap-
21 plies to any amendment to any plan or annuity
22 contract, such plan or contract shall be treated
23 as being operated in accordance with the terms
24 of the plan during the period described in sub-
25 paragraph (B)(ii)(I).

1 (B) AMENDMENTS TO WHICH SUBSECTION
2 APPLIES.—

3 (i) IN GENERAL.—This paragraph
4 shall apply to any amendment to any plan
5 or annuity contract which is made—

6 (I) pursuant to any provision of
7 this section, or pursuant to any regu-
8 lation under any provision of this sec-
9 tion; and

10 (II) on or before the last day of
11 the first plan year beginning on or
12 after January 1, 2018, or such later
13 date as the Secretary prescribes.

14 In the case of a governmental plan (as de-
15 fined in section 414(d) of the Internal Rev-
16 enue Code of 1986), subclause (II) shall be
17 applied by substituting the date which is 2
18 years after the date otherwise applied
19 under subclause (II).

20 (ii) CONDITIONS.—This paragraph
21 shall not apply to any amendment unless—

22 (I) during the period—

23 (aa) beginning on the date
24 that this section or the regulation
25 described in clause (i)(I) takes

1 effect (or in the case of a plan or
2 contract amendment not required
3 by this section or such regula-
4 tion, the effective date specified
5 by the plan); and

6 (bb) ending on the date de-
7 scribed in clause (i)(II) (or, if
8 earlier, the date the plan or con-
9 tract amendment is adopted),
10 the plan or contract is operated as if
11 such plan or contract amendment
12 were in effect; and

13 (II) such plan or contract amend-
14 ment applies retroactively for such pe-
15 riod.

16 (c) SPECIAL RULES FOR PERSONAL CASUALTY
17 LOSSES RELATED TO LOUISIANA SEVERE STORMS AND
18 FLOODING.—

19 (1) IN GENERAL.—If an individual has a net
20 disaster loss for any taxable year beginning after
21 December 31, 2017, and before January 1, 2026—

22 (A) the amount determined under section
23 165(h)(2)(A)(ii) of the Internal Revenue Code
24 of 1986 shall be equal to the sum of—

25 (i) such net disaster loss, and

1 (ii) so much of the excess referred to
2 in the matter preceding clause (i) of sec-
3 tion 165(h)(2)(A) of such Code (reduced
4 by the amount in clause (i) of this sub-
5 paragraph) as exceeds 10 percent of the
6 adjusted gross income of the individual,

7 (B) section 165(h)(1) of such Code shall
8 be applied by substituting “\$500” for “\$500
9 (\$100 for taxable years beginning after Decem-
10 ber 31, 2009)”,

11 (C) the standard deduction determined
12 under section 63(c) of such Code shall be in-
13 creased by the net disaster loss, and

14 (D) section 56(b)(1)(E) of such Code shall
15 not apply to so much of the standard deduction
16 as is attributable to the increase under sub-
17 paragraph (C) of this paragraph.

18 (2) NET DISASTER LOSS.—For purposes of this
19 subsection, the term “net disaster loss” means the
20 excess of qualified disaster-related personal casualty
21 losses over personal casualty gains (as defined in
22 section 165(h)(3)(A) of the Internal Revenue Code
23 of 1986).

24 (3) QUALIFIED DISASTER-RELATED PERSONAL
25 CASUALTY LOSSES.—For purposes of this para-

1 graph, the term “qualified disaster-related personal
2 casualty losses” means losses described in section
3 165(c)(3) of the Internal Revenue Code of 1986
4 which arise—

5 (A) in the portion of the Mississippi River
6 Delta flood disaster area described in sub-
7 section (a)(1) on or after August 11, 2016, and
8 which are attributable to the severe storms and
9 flooding giving rise to the Presidential declara-
10 tion described in subsection (a)(1), or

11 (B) in the portion of the Mississippi River
12 Delta flood disaster area described in sub-
13 section (a)(2) on or after March 1, 2016, and
14 which are attributable to the severe storms and
15 flooding giving rise to the Presidential declara-
16 tion described in subsection (a)(2).

17 **PART IV—EDUCATION**

18 **SEC. 11031. TREATMENT OF STUDENT LOANS DISCHARGED**

19 **ON ACCOUNT OF DEATH OR DISABILITY.**

20 (a) IN GENERAL.—Section 108(f) is amended by
21 adding at the end the following new paragraph:

22 “(5) DISCHARGES ON ACCOUNT OF DEATH OR
23 DISABILITY.—

24 “(A) IN GENERAL.—In the case of an indi-
25 vidual, gross income for any taxable year begin-

ning after December 31, 2017, and before January 1, 2026, does not include any amount which (but for this subsection) would be includible in gross income for such taxable year by reasons of the discharge (in whole or in part) of any loan described in subparagraph (B) if such discharge was—

“(i) pursuant to subsection (a) or (d) of section 437 of the Higher Education Act of 1965 or the parallel benefit under part D of title IV of such Act (relating to the repayment of loan liability),

“(ii) pursuant to section 464(c)(1)(F) of such Act, or

“(iii) otherwise discharged on account of the death or total and permanent disability of the student.

“(B) LOANS DESCRIBED.—A loan is described in this subparagraph if such loan is—

“(i) a student loan (as defined in paragraph (2)), or

“(ii) a private education loan (as defined in section 140(7) of the Consumer Credit Protection Act (15 U.S.C. 1650(7))).”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to discharges of indebtedness after
3 December 31, 2017.

4 **SEC. 11032. INCREASE IN DEDUCTION FOR TEACHER EX-**
5 **PENSES.**

6 (a) IN GENERAL.—Subparagraph (D) of section
7 62(a)(2) is amended by striking “\$250” and inserting
8 “\$250 (\$500 in the case of taxable years beginning after
9 December 31, 2017, and before January 1, 2026)”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to taxable years beginning after
12 December 31, 2017.

13 **PART V—DEDUCTIONS AND EXCLUSIONS**

14 **SEC. 11041. SUSPENSION OF DEDUCTION FOR PERSONAL**
15 **EXEMPTIONS.**

16 (a) IN GENERAL.—Subsection (d) of section 151 is
17 amended—

18 (1) by striking “In the case of” in paragraph
19 (4) and inserting “Except as provided in paragraph
20 (5), in the case of”, and

21 (2) by adding at the end the following new
22 paragraph:

23 “(5) SPECIAL RULES FOR TAXABLE YEARS 2018
24 THROUGH 2025.—In the case of a taxable year begin-

1 ning after December 31, 2017, and before January
2 1, 2026—

3 “(A) EXEMPTION AMOUNT.—The term ‘ex-
4 emption amount’ means zero.

5 “(B) REFERENCES.—For purposes of any
6 other provision of this title, the reduction of the
7 exemption amount to zero under subparagraph
8 (A) shall not be taken into account in deter-
9 mining whether a deduction is allowed or allow-
10 able, or whether a taxpayer is entitled to a de-
11 duction, under this section.”.

12 (b) APPLICATION TO ESTATES AND TRUSTS.—Sec-
13 tion 642(b)(2)(C) is amended by adding at the end the
14 following new clause:

15 “(iii) YEARS WHEN PERSONAL EX-
16 EMPTION AMOUNT IS ZERO.—

17 “(I) IN GENERAL.—In the case
18 of any taxable year in which the ex-
19 emption amount under section 151(d)
20 is zero, clause (i) shall be applied by
21 substituting ‘\$4,150’ for ‘the exemp-
22 tion amount under section 151(d)’.

23 “(II) INFLATION ADJUST-
24 MENT.—In the case of any calendar
25 year beginning after 2018, the \$4,150

1 amount in subparagraph (A) shall be
2 increased by an amount equal to—

3 “(aa) such dollar amount,
4 multiplied by

5 “(bb) the cost-of-living ad-
6 justment determined under sec-
7 tion 1(f)(3) for the calendar year
8 in which the taxable year begins,
9 determined by substituting
10 ‘2017’ for ‘2016’ in subpara-
11 graph (A)(ii) thereof.

12 If any increase determined under the
13 preceding sentence is not a multiple of
14 \$100, such increase shall be rounded
15 to the next lowest multiple of \$100.”.

16 (c) EXCEPTION FOR WAGE WITHHOLDING RULES.—
17 Section 3402(a) is amended by adding at the end the fol-
18 lowing new paragraph:

19 “(3) YEARS WHEN PERSONAL EXEMPTION
20 AMOUNT IS ZERO.—

21 “(A) IN GENERAL.—In the case of any
22 taxable year in which the exemption amount
23 under section 151(d) is zero, paragraph (2)
24 shall be applied by substituting ‘\$4,150’ for ‘the

1 amount of one personal exemption provided in
2 section 151(b)’.

3 “(B) INFLATION ADJUSTMENT.—In the
4 case of any calendar year beginning after 2018,
5 the \$4,150 amount in subparagraph (A) shall
6 be increased by an amount equal to—

7 “(i) such dollar amount, multiplied by

8 “(ii) the cost-of-living adjustment de-
9 termined under section 1(f)(3) for the cal-
10 endar year in which the taxable year be-
11 gins, determined by substituting ‘2017’ for
12 ‘2016’ in subparagraph (A)(ii) thereof.

13 If any increase determined under the preceding
14 sentence is not a multiple of \$100, such in-
15 crease shall be rounded to the next lowest mul-
16 tiple of \$100.”.

17 (d) EXCEPTION FOR DETERMINING PROPERTY EX-
18 EMPT FROM LEVY.—Section 6334(d) is amended by add-
19 ing at the end the following new paragraph:

20 “(4) YEARS WHEN PERSONAL EXEMPTION
21 AMOUNT IS ZERO.—

22 “(A) IN GENERAL.—In the case of any
23 taxable year in which the exemption amount
24 under section 151(d) is zero, paragraph (2)
25 shall not apply and for purposes of paragraph

1 (1) the term ‘exempt amount’ means an amount
2 equal to—

3 “(i) the sum of the amount deter-
4 mined under subparagraph (B) and the
5 standard deduction, divided by

6 “(ii) 52.

7 “(B) AMOUNT DETERMINED.—For pur-
8 poses of subparagraph (A), the amount deter-
9 mined under this subparagraph is \$4,150 multi-
10 plied by the number of the taxpayer’s depend-
11 ents for the taxable year in which the levy oc-
12 curs.

13 “(C) INFLATION ADJUSTMENT.—In the
14 case of any taxable year beginning after 2018,
15 the \$4,150 amount in subparagraph (B) shall
16 be increased by an amount equal to—

17 “(i) such dollar amount, multiplied by

18 “(ii) the cost-of-living adjustment de-
19 termined under section 1(f)(3) for the cal-
20 endar year in which the taxable year be-
21 gins, determined by substituting ‘2017’ for
22 ‘2016’ in subparagraph (A)(ii) thereof.

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

1 crease shall be rounded to the next lowest mul-
2 tiple of \$100.

3 “(D) VERIFIED STATEMENT.—Unless the
4 taxpayer submits to the Secretary a written and
5 properly verified statement specifying the facts
6 necessary to determine the proper amount
7 under subparagraph (A), subparagraph (A)
8 shall be applied as if the taxpayer were a mar-
9 ried individual filing a separate return with no
10 dependents.”.

11 (e) PERSONS REQUIRED TO MAKE RETURNS OF IN-
12 COME.—Section 6012 is amended by adding at the end
13 the following new subsection:

14 “(f) SPECIAL RULE FOR TAXABLE YEARS 2018
15 THROUGH 2025.—In the case of a taxable year beginning
16 after December 31, 2017, and before January 1, 2026,
17 subsection (a)(1) shall not apply, and every individual who
18 has gross income for the taxable year shall be required
19 to make returns with respect to income taxes under sub-
20 title A, except that a return shall not be required of—

21 “(1) an individual who is not married (deter-
22 mined by applying section 7703) and who has gross
23 income for the taxable year which does not exceed
24 the standard deduction applicable to such individual
25 for such taxable year under section 63, or

1 “(2) an individual entitled to make a joint re-
2 turn if—

3 “(A) the gross income of such individual,
4 when combined with the gross income of such
5 individual’s spouse, for the taxable year does
6 not exceed the standard deduction which would
7 be applicable to the taxpayer for such taxable
8 year under section 63 if such individual and
9 such individual’s spouse made a joint return,

10 “(B) such individual and such individual’s
11 spouse have the same household as their home
12 at the close of the taxable year,

13 “(C) such individual’s spouse does not
14 make a separate return, and

15 “(D) neither such individual nor such indi-
16 vidual’s spouse is an individual described in sec-
17 tion 63(c)(5) who has income (other than
18 earned income) in excess of the amount in ef-
19 fect under section 63(c)(5)(A).

20 The amount specified in paragraph (1) or (2)(A)
21 shall be increased by the amount of 1 additional
22 standard deduction (within the meaning of section
23 63(c)(3)) in the case of an individual entitled to
24 such deduction by reason of section 63(f)(1)(A) (re-
25 lating to individuals age 65 or more), and by the

1 amount of each additional standard deduction to
2 which the individual or the individual's spouse is en-
3 titled by reason of section 63(f)(1).”.

4 (f) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 2017.

7 **SEC. 11042. SUSPENSION OF DEDUCTION FOR STATE AND**
8 **LOCAL, ETC. TAXES.**

9 (a) IN GENERAL.—Subsection (b) of section 164 is
10 amended by adding at the end the following new para-
11 graph:

12 “(6) SUSPENSION OF INDIVIDUAL DEDUCTIONS
13 FOR TAXABLE YEARS 2018 THROUGH 2025.—In the
14 case of an individual and a taxable year beginning
15 after December 31, 2017, and before January 1,
16 2026—

17 “(A) paragraphs (1) and (2) of subsection
18 (a) shall not apply to any real property or per-
19 sonal property taxes, other than taxes which are
20 paid or accrued in carrying on a trade or busi-
21 ness or an activity described in section 212, and

22 “(B) subsection (a)(3) shall not apply to
23 any State or local taxes.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to taxable years beginning after
3 December 31, 2017.

4 **SEC. 11043. SUSPENSION OF DEDUCTION FOR HOME EQ-**
5 **UITY INTEREST.**

6 (a) IN GENERAL.—Section 163(h)(3)(A)(ii) is
7 amended by inserting “in the case of taxable years begin-
8 ning before January 1, 2018, or after December 31,
9 2025,” before “home equity indebtedness”.

10 (b) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years ending after De-
12 cember 31, 2017.

13 **SEC. 11044. MODIFICATION OF DEDUCTION FOR PERSONAL**
14 **CASUALTY LOSSES.**

15 (a) IN GENERAL.—Subsection (h) of section 165 is
16 amended by adding at the end the following new para-
17 graph:

18 “(5) LIMITATION FOR TAXABLE YEARS 2018
19 THROUGH 2025.—In the case of any loss of an indi-
20 vidual described in subsection (c)(3) which (but for
21 this paragraph) would be deductible in a taxable
22 year beginning after December 31, 2017, and before
23 January 1, 2026 (without regard to any election
24 under subsection (i), such loss shall be allowed only
25 to the extent it is attributable to a Federally de-

1 clared disaster (as defined in subsection (i)(5)). The
2 preceding sentence shall not apply to any deduction
3 under section 172 which is carried to such a taxable
4 year from a taxable year beginning before January
5 1, 2018.”.

6 (b) EFFECTIVE DATE.—The amendment made by
7 this section shall apply to losses incurred in taxable years
8 beginning after December 31, 2017.

9 **SEC. 11045. SUSPENSION OF MISCELLANEOUS ITEMIZED**
10 **DEDUCTIONS.**

11 (a) IN GENERAL.—Section 67 is amended by adding
12 at the end the following new subsection:

13 “(g) SUSPENSION FOR TAXABLE YEARS 2018
14 THROUGH 2025.—Notwithstanding subsection (a), no
15 miscellaneous itemized deduction shall be allowed for any
16 taxable year beginning after December 31, 2017, and be-
17 fore January 1, 2026.”.

18 (b) EFFECTIVE DATE.—The amendment made by
19 this section shall apply to taxable years beginning after
20 December 31, 2017.

21 **SEC. 11046. SUSPENSION OF OVERALL LIMITATION ON**
22 **ITEMIZED DEDUCTIONS.**

23 (a) IN GENERAL.—Section 68 is amended by adding
24 at the end the following new subsection:

1 “(f) SECTION NOT TO APPLY.—This section shall not
2 apply to any taxable year beginning after December 31,
3 2017, and before January 1, 2026.”.

4 (b) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to taxable years beginning after
6 December 31, 2017.

7 **SEC. 11047. MODIFICATION OF EXCLUSION OF GAIN FROM**
8 **SALE OF PRINCIPAL RESIDENCE.**

9 (a) IN GENERAL.—Section 121 is amended by adding
10 at the end the following new subsection:

11 “(h) SPECIAL RULES FOR SALES OR EXCHANGES IN
12 TAXABLE YEARS 2018 THROUGH 2025.—

13 “(1) IN GENERAL.—In applying this section
14 with respect to sales or exchanges after December
15 31, 2017, and before January 1, 2026—

16 “(A) ‘8-year’ shall be substituted for ‘5-
17 year’ each place it appears in subsections (a),
18 (b)(5)(C)(ii)(I), and (c)(1)(B)(i)(I) and para-
19 graphs (7), (9), (10), and (12) of subsection
20 (d),

21 “(B) ‘5 years’ shall be substituted for ‘2
22 years’ each place it appears in subsections (a),
23 (b)(3), (b)(4), (b)(5)(C)(ii)(III), and
24 (c)(1)(B)(ii), and

1 “(C) ‘5-year’ shall be substituted for ‘2-
2 year’ in subsection (b)(3).

3 “(2) EXCEPTION FOR BINDING CONTRACTS.—
4 Paragraph (1) shall not apply to any sale or ex-
5 change with respect to which there was a written
6 binding contract in effect before January 1, 2018,
7 and at all times thereafter before the sale or ex-
8 change.”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to sales and exchanges after De-
11 cember 31, 2017.

12 **SEC. 11048. SUSPENSION OF EXCLUSION FOR QUALIFIED**
13 **BICYCLE COMMUTING REIMBURSEMENT.**

14 (a) IN GENERAL.—Section 132(f) is amended by
15 adding at the end the following new paragraph:

16 “(8) SUSPENSION OF QUALIFIED BICYCLE COM-
17 MUTING REIMBURSEMENT EXCLUSION.—Paragraph
18 (1)(D) shall not apply to any taxable year beginning
19 after December 31, 2017, and before January 1,
20 2026.”.

21 (b) EFFECTIVE DATE.—The amendment made by
22 this section shall apply to taxable years beginning after
23 December 31, 2017.

1 **SEC. 11049. SUSPENSION OF EXCLUSION FOR QUALIFIED**
2 **MOVING EXPENSE REIMBURSEMENT.**

3 (a) IN GENERAL.—Section 132(g) is amended—

4 (1) by striking “For purposes of this section,
5 the term” and inserting “For purposes of this sec-
6 tion—

7 “(1) IN GENERAL.—The term”, and

8 (2) by adding at the end the following new
9 paragraph:

10 “(2) SUSPENSION FOR TAXABLE YEARS 2018
11 THROUGH 2025.—Except in the case of a member of
12 the Armed Forces of the United States on active
13 duty who moves pursuant to a military order and in-
14 cident to a permanent change of station, subsection
15 (a)(6) shall not apply to any taxable year beginning
16 after December 31, 2017, and before January 1,
17 2026.”.

18 (b) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to taxable years beginning after
20 December 31, 2017.

21 **SEC. 11050. SUSPENSION OF DEDUCTION FOR MOVING EX-**
22 **PENSES.**

23 (a) IN GENERAL.—Section 217 is amended by adding
24 at the end the following new subsection:

25 “(k) SUSPENSION OF DEDUCTION FOR TAXABLE
26 YEARS 2018 THROUGH 2025.—Except in the case of an

1 individual to whom subsection (g) applies, this section
2 shall not apply to any taxable year beginning after Decem-
3 ber 31, 2017, and before January 1, 2026.”.

4 (b) EFFECTIVE DATE.—The amendment made by
5 this section shall apply to taxable years beginning after
6 December 31, 2017.

7 **SEC. 11051. LIMITATION ON WAGERING LOSSES.**

8 (a) IN GENERAL.—Section 165(d) is amended by
9 adding at the end the following: “For purposes of the pre-
10 ceding sentence, in the case of taxable years beginning
11 after December 31, 2017, and before January 1, 2026,
12 the term ‘losses from wagering transactions’ includes any
13 deduction otherwise allowable under this chapter incurred
14 in carrying on any wagering transaction.”.

15 (b) EFFECTIVE DATE.—The amendment made by
16 this section shall apply to taxable years beginning after
17 December 31, 2017.

18 **PART VI—INCREASE IN ESTATE AND GIFT TAX**

19 **EXEMPTION**

20 **SEC. 11061. INCREASE IN ESTATE AND GIFT TAX EXEMP-**
21 **TION.**

22 (a) IN GENERAL.—Section 2010(c)(3) is amended by
23 adding at the end the following new subparagraph:

24 “(C) INCREASE IN BASIC EXCLUSION
25 AMOUNT.—In the case of estates of decedents

1 dying or gifts made after December 31, 2017,
2 and before January 1, 2026, subparagraph (A)
3 shall be applied by substituting ‘\$10,000,000’
4 for ‘\$5,000,000’.”.

5 (b) CONFORMING AMENDMENT.—Subsection (g) of
6 section 2001 is amended to read as follows:

7 “(g) MODIFICATIONS TO TAX PAYABLE.—

8 “(1) MODIFICATIONS TO GIFT TAX PAYABLE TO
9 REFLECT DIFFERENT TAX RATES.—For purposes of
10 applying subsection (b)(2) with respect to 1 or more
11 gifts, the rates of tax under subsection (c) in effect
12 at the decedent’s death shall, in lieu of the rates of
13 tax in effect at the time of such gifts, be used both
14 to compute—

15 “(A) the tax imposed by chapter 12 with
16 respect to such gifts, and

17 “(B) the credit allowed against such tax
18 under section 2505, including in computing—

19 “(i) the applicable credit amount
20 under section 2505(a)(1), and

21 “(ii) the sum of the amounts allowed
22 as a credit for all preceding periods under
23 section 2505(a)(2).

24 “(2) MODIFICATIONS TO ESTATE TAX PAYABLE
25 TO REFLECT DIFFERENT BASIC EXCLUSION

1 AMOUNTS.—The Secretary shall prescribe such regu-
2 lations as may be necessary or appropriate to carry
3 out this section with respect to any difference be-
4 tween—

5 “(A) the basic exclusion amount under sec-
6 tion 2010(c)(3) applicable at the time of the de-
7 cedent’s death, and

8 “(B) the basic exclusion amount under
9 such section applicable with respect to any gifts
10 made by the decedent.”.

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to estates of decedents dying and
13 gifts made after December 31, 2017.

14 **PART VII—TAXPAYER RIGHTS AND TAX**

15 **ADMINISTRATION**

16 **SEC. 11071. EXTENSION OF TIME LIMIT FOR CONTESTING**
17 **IRS LEVY.**

18 (a) EXTENSION OF TIME FOR RETURN OF PROPERTY
19 SUBJECT TO LEVY.—Subsection (b) of section 6343 is
20 amended by striking “9 months” and inserting “2 years”.

21 (b) PERIOD OF LIMITATION ON SUITS.—Subsection
22 (c) of section 6532 is amended—

23 (1) by striking “9 months” in paragraph (1)
24 and inserting “2 years”, and

1 (2) by striking “9-month” in paragraph (2) and
2 inserting “2-year”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to—

5 (1) levies made after the date of the enactment
6 of this Act, and

7 (2) levies made on or before such date if the 9-
8 month period has not expired under section 6343(b)
9 of the Internal Revenue Code of 1986 (without re-
10 gard to this section) as of such date.

11 **SEC. 11072. INDIVIDUALS HELD HARMLESS ON IMPROPER**
12 **LEVY ON RETIREMENT PLANS.**

13 (a) IN GENERAL.—Section 6343 is amended by add-
14 ing at the end the following new subsection:

15 “(f) INDIVIDUALS HELD HARMLESS ON WRONGFUL
16 LEVY, ETC. ON RETIREMENT PLAN.—

17 “(1) IN GENERAL.—If the Secretary determines
18 that an individual’s account or benefit under an eli-
19 gible retirement plan (as defined in section
20 402(c)(8)(B)) has been levied upon in a case to
21 which subsection (b) or (d)(2)(A) applies and prop-
22 erty or an amount of money is returned to the indi-
23 vidual—

24 “(A) the individual may contribute such
25 property or an amount equal to the sum of—

1 “(i) the amount of money so returned
2 by the Secretary, and

3 “(ii) interest paid under subsection (c)
4 on such amount of money,
5 into such eligible retirement plan if such con-
6 tribution is permitted by the plan, or into an in-
7 dividual retirement plan (other than an endow-
8 ment contract) to which a rollover contribution
9 of a distribution from such eligible retirement
10 plan is permitted, but only if such contribution
11 is made not later than the due date (not includ-
12 ing extensions) for filing the return of tax for
13 the taxable year in which such property or
14 amount of money is returned, and

15 “(B) the Secretary shall, at the time such
16 property or amount of money is returned, notify
17 such individual that a contribution described in
18 subparagraph (A) may be made.

19 “(2) TREATMENT AS ROLLOVER.—The distribu-
20 tion on account of the levy and any contribution
21 under paragraph (1) with respect to the return of
22 such distribution shall be treated for purposes of
23 this title as if such distribution and contribution
24 were described in section 402(c), 402A(c)(3),

1 403(a)(4), 403(b)(8), 408(d)(3), 408A(d)(3), or
2 457(e)(16), whichever is applicable; except that—

3 “(A) the contribution shall be treated as
4 having been made for the taxable year in which
5 the distribution on account of the levy occurred,
6 and the interest paid under subsection (c) shall
7 be treated as earnings within the plan after the
8 contribution and shall not be included in gross
9 income, and

10 “(B) such contribution shall not be taken
11 into account under section 408(d)(3)(B).

12 “(3) REFUND, ETC., OF INCOME TAX ON
13 LEVY.—

14 “(A) IN GENERAL.—If any amount is in-
15 cludible in gross income for a taxable year by
16 reason of a distribution on account of a levy re-
17 ferred to in paragraph (1) and any portion of
18 such amount is treated as a rollover contribu-
19 tion under paragraph (2), any tax imposed by
20 chapter 1 on such portion shall not be assessed,
21 and if assessed shall be abated, and if collected
22 shall be credited or refunded as an overpayment
23 made on the due date for filing the return of
24 tax for such taxable year.

1 “(B) EXCEPTION.—Subparagraph (A)
2 shall not apply to a rollover contribution under
3 this subsection which is made from an eligible
4 retirement plan which is not a Roth IRA or a
5 designated Roth account (within the meaning of
6 section 402A) to a Roth IRA or a designated
7 Roth account under an eligible retirement plan.

8 “(4) INTEREST.—Notwithstanding subsection
9 (d), interest shall be allowed under subsection (c) in
10 a case in which the Secretary makes a determination
11 described in subsection (d)(2)(A) with respect to a
12 levy upon an individual retirement plan.

13 “(5) TREATMENT OF INHERITED ACCOUNTS.—
14 For purposes of paragraph (1)(A), section
15 408(d)(3)(C) shall be disregarded in determining
16 whether an individual retirement plan is a plan to
17 which a rollover contribution of a distribution from
18 the plan levied upon is permitted.”.

19 (b) EFFECTIVE DATE.—The amendment made by
20 this section shall apply to amounts paid under subsections
21 (b), (c), and (d)(2)(A) of section 6343 of the Internal Rev-
22 enue Code of 1986 in taxable years beginning after De-
23 cember 31, 2017.

1 **SEC. 11073. MODIFICATION OF USER FEE REQUIREMENTS**
2 **FOR INSTALLMENT AGREEMENTS.**

3 (a) IN GENERAL.—Section 6159 is amended by re-
4 designating subsection (f) as subsection (g) and by insert-
5 ing after subsection (e) the following new subsection:

6 “(f) INSTALLMENT AGREEMENT FEES.—

7 “(1) LIMITATION ON FEE AMOUNT.—The
8 amount of any fee imposed on an installment agree-
9 ment under this section may not exceed the amount
10 of such fee as in effect on the date of the enactment
11 of this subsection.

12 “(2) WAIVER OR REIMBURSEMENT.—In the
13 case of any taxpayer with an adjusted gross income,
14 as determined for the most recent year for which
15 such information is available, which does not exceed
16 250 percent of the applicable poverty level (as deter-
17 mined by the Secretary)—

18 “(A) if the taxpayer has agreed to make
19 payments under the installment agreement by
20 electronic payment through a debit instrument,
21 no fee shall be imposed on an installment agree-
22 ment under this section, and

23 “(B) if the taxpayer is unable to make
24 payments under the installment agreement by
25 electronic payment through a debit instrument,
26 the Secretary shall, upon completion of the in-

1 stallment agreement, pay the taxpayer an
2 amount equal to any such fees imposed.”.

3 (b) **EFFECTIVE DATE.**—The amendments made by
4 this section shall apply to agreements entered into on or
5 after the date which is 60 days after the date of the enact-
6 ment of this Act.

7 **SEC. 11074. FORM 1040SR FOR SENIORS.**

8 (a) **IN GENERAL.**—The Secretary of the Treasury (or
9 the Secretary’s delegate) shall make available a form, to
10 be known as “Form 1040SR”, for use by individuals to
11 file the return of tax imposed by chapter 1 of the Internal
12 Revenue Code of 1986. Such form shall be as similar as
13 practicable to Form 1040EZ, except that—

14 (1) the form shall be available only to individ-
15 uals who have attained age 65 as of the close of the
16 taxable year,

17 (2) the form may be used even if income for the
18 taxable year includes—

19 (A) social security benefits (as defined in
20 section 86(d) of the Internal Revenue Code of
21 1986),

22 (B) distributions from qualified retirement
23 plans (as defined in section 4974(c) of such
24 Code), annuities or other such deferred pay-
25 ment arrangements,

1 (C) interest and dividends, or

2 (D) capital gains and losses taken into ac-
3 count in determining adjusted net capital gain
4 (as defined in section 1(h)(3) of such Code),
5 and

6 (3) the form shall be available without regard
7 to the amount of any item of taxable income or the
8 total amount of taxable income for the taxable year.

9 (b) EFFECTIVE DATE.—The form required by sub-
10 section (a) shall be made available for taxable years begin-
11 ning after the date of the enactment of this Act and end-
12 ing before January 1, 2026.

13 **SEC. 11075. SENSE OF THE SENATE ON IMPROVING CUS-**
14 **TOMER SERVICE AND PROTECTIONS FOR**
15 **TAXPAYERS BY REINSTATING APPROPRIATE**
16 **FUNDING LEVELS.**

17 It is the sense of the Senate that politically motivated
18 budget cuts—

19 (1) are counterproductive to deficit reduction,

20 (2) diminish the ability of the Internal Revenue
21 Service to adequately serve taxpayers and protect
22 taxpayer information, and

23 (3) reduce the ability of the Internal Revenue
24 Service to enforce the law.

1 **SEC. 11076. RETURN PREPARATION PROGRAMS FOR LOW-**
2 **INCOME TAXPAYERS.**

3 (a) IN GENERAL.—Chapter 77 is amended by insert-
4 ing after section 7526 the following new section:

5 **“SEC. 7526A. RETURN PREPARATION PROGRAMS FOR LOW-**
6 **INCOME TAXPAYERS.**

7 “(a) VOLUNTEER INCOME TAX ASSISTANCE MATCH-
8 ING GRANT PROGRAM.—

9 “(1) ESTABLISHMENT OF PROGRAM.—The Sec-
10 retary, through the Internal Revenue Service, shall
11 establish a Community Volunteer Income Tax As-
12 sistance Matching Grant Program (hereinafter in
13 this section referred to as the ‘VITA grant pro-
14 gram’). Except as otherwise provided in this section,
15 the VITA grant program shall be administered in a
16 manner which is substantially similar to the Commu-
17 nity Volunteer Income Tax Assistance matching
18 grants demonstration program established under
19 title I of division D of the Consolidated Appropria-
20 tions Act, 2008.

21 “(2) MATCHING GRANTS.—

22 “(A) IN GENERAL.—The Secretary shall,
23 subject to the availability of appropriated funds,
24 make available grants under the VITA grant
25 program to provide matching funds for the de-
26 velopment, expansion, or continuation of quali-

1 fied return preparation programs assisting low-
2 income taxpayers and members of underserved
3 populations.

4 “(B) APPLICATION.—

5 “(i) IN GENERAL.—Subject to clause
6 (ii), in order to be eligible for a grant
7 under this section, a qualified return prep-
8 aration program shall submit an applica-
9 tion to the Secretary at such time, in such
10 manner, and containing such information
11 as the Secretary reasonably requires.

12 “(ii) ACCURACY REVIEW.—In the case
13 of any qualified return preparation pro-
14 gram which was awarded a grant under
15 this section and was subsequently subject
16 to a field site visit by the Internal Revenue
17 Service (including through the Stakeholder
18 Partnerships, Education, and Communica-
19 tion office) in which it was determined that
20 the average accuracy rate for preparation
21 of tax returns through such program was
22 less than 90 percent, such program shall
23 not be eligible for any additional grants
24 under this section unless such program
25 provides, as part of their application, suffi-

1 cient documentation regarding the correc-
2 tive measures established by such program
3 to address the deficiencies identified fol-
4 lowing the field site visit.

5 “(C) PRIORITY.—In awarding grants
6 under this section, the Secretary shall give pri-
7 ority to applications—

8 “(i) demonstrating assistance to low-
9 income taxpayers, with emphasis on out-
10 reach to and services for such taxpayers,

11 “(ii) demonstrating taxpayer outreach
12 and educational activities relating to eligi-
13 bility and availability of income supports
14 available through the Internal Revenue
15 Code of 1986, such as the earned income
16 tax credit, and

17 “(iii) demonstrating specific outreach
18 and focus on one or more underserved pop-
19 ulations.

20 “(D) DURATION OF GRANTS.—Upon appli-
21 cation of a qualified return preparation pro-
22 gram, the Secretary is authorized to award a
23 multi-year grant not to exceed 3 years.

24 “(3) AGGREGATE LIMITATION.—Unless other-
25 wise provided by specific appropriation, the Sec-

1 retary shall not allocate more than \$30,000,000 per
2 fiscal year (exclusive of costs of administering the
3 program) to carry out the purposes of this section.

4 “(b) USE OF FUNDS.—

5 “(1) IN GENERAL.—Qualified return prepara-
6 tion programs receiving a grant under this section
7 may use the grant for—

8 “(A) ordinary and necessary costs associ-
9 ated with program operation in accordance with
10 Cost Principles Circulars as set forth by the Of-
11 fice of Management and Budget, including—

12 “(i) for wages or salaries of persons
13 coordinating the activities of the program,

14 “(ii) to develop training materials,
15 conduct training, and perform quality re-
16 views of the returns for which assistance
17 has been provided under the program, and

18 “(iii) for equipment purchases and ve-
19 hicle-related expenses associated with re-
20 mote or rural tax preparation services,

21 “(B) outreach and educational activities
22 described in subsection (a)(2)(C)(ii), and

23 “(C) services related to financial education
24 and capability, asset development, and the es-

1 tablishment of savings accounts in connection
2 with tax return preparation.

3 “(2) USE OF GRANTS FOR OVERHEAD EX-
4 PENSES PROHIBITED.—No grant made under this
5 section may be used for overhead expenses that are
6 not directly related to any qualified return prepara-
7 tion program.

8 “(c) PROMOTION AND REFERRAL.—

9 “(1) PROMOTION.—The Secretary shall pro-
10 mote the benefits of, and encourage the use of, tax
11 preparation through qualified return preparation
12 programs through the use of mass communications,
13 referrals, and other means.

14 “(2) INTERNAL REVENUE SERVICE REFER-
15 RALS.—The Secretary shall refer taxpayers to quali-
16 fied return preparation programs receiving funding
17 under this section.

18 “(3) VITA GRANTEE REFERRAL.—Qualified re-
19 turn preparation programs receiving a grant under
20 this section are encouraged to refer, as appropriate,
21 to local or regional Low Income Taxpayer Clinics in-
22 dividuals who are eligible to receive services at such
23 clinics.

24 “(d) DEFINITIONS.—For purposes of this section—

1 “(1) QUALIFIED RETURN PREPARATION PRO-
2 GRAM.—The term ‘qualified return preparation pro-
3 gram’ means any program—

4 “(A) which provides assistance to individ-
5 uals, not less than 90 percent of whom are low-
6 income taxpayers, in preparing and filing Fed-
7 eral income tax returns,

8 “(B) which is administered by a qualified
9 entity,

10 “(C) in which all of the volunteers who as-
11 sist in the preparation of Federal income tax
12 returns meet the training requirements pre-
13 scribed by the Secretary, and

14 “(D) which uses a quality review process
15 which reviews 100 percent of all returns.

16 “(2) QUALIFIED ENTITY.—

17 “(A) IN GENERAL.—The term ‘qualified
18 entity’ means any entity which—

19 “(i) is an eligible organization (as de-
20 scribed in subparagraph (B)),

21 “(ii) is in compliance with Federal tax
22 filing and payment requirements,

23 “(iii) is not debarred or suspended
24 from Federal contracts, grants, or coopera-
25 tive agreements, and

1 “(iv) agrees to provide documentation
2 to substantiate any matching funds pro-
3 vided under the VITA grant program.

4 “(B) ELIGIBLE ORGANIZATION.—

5 “(i) IN GENERAL.—Subject to clause
6 (ii), the term ‘eligible organization’
7 means—

8 “(I) an institution of higher edu-
9 cation which is described in section
10 102 (other than subsection (a)(1)(C)
11 thereof) of the Higher Education Act
12 of 1965 (20 U.S.C. 1088), as in effect
13 on the date of the enactment of this
14 section, and which has not been dis-
15 qualified from participating in a pro-
16 gram under title IV of such Act,

17 “(II) an organization described
18 in section 501(c) of the Internal Rev-
19 enue Code of 1986 and exempt from
20 tax under section 501(a) of such
21 Code,

22 “(III) a local government agency,
23 including—

24 “(aa) a county or municipal
25 government agency, and

1 “(bb) an Indian tribe, as de-
2 fined in section 4(13) of the Na-
3 tive American Housing Assist-
4 ance and Self-Determination Act
5 of 1996 (25 U.S.C. 4103(13)),
6 including any tribally designated
7 housing entity (as defined in sec-
8 tion 4(22) of such Act (25
9 U.S.C. 4103(22))), tribal sub-
10 subsidiary, subdivision, or other
11 wholly owned tribal entity, or

12 “(IV) a local, State, regional, or
13 national coalition (with one lead orga-
14 nization which meets the eligibility re-
15 quirements of subclause (I), (II), or
16 (III) acting as the applicant organiza-
17 tion).

18 “(ii) ALTERNATIVE ELIGIBLE ORGANI-
19 ZATION.—If no eligible organization de-
20 scribed in clause (i) is available to assist
21 the targeted population or community, the
22 term ‘eligible organization’ shall include—

23 “(I) a State government agency,
24 and

1 “(II) a Cooperative Extension
2 Service office.

3 “(3) LOW-INCOME TAXPAYERS.—The term ‘low-
4 income taxpayer’ means a taxpayer who has income
5 for the taxable year which does not exceed an
6 amount equal to the completed phaseout amount
7 under section 32(b) for a married couple filing a
8 joint return with three or more qualifying children,
9 as determined in a revenue procedure or other pub-
10 lished guidance.

11 “(4) UNDERSERVED POPULATION.—The term
12 ‘underserved population’ includes populations of per-
13 sons with disabilities, persons with limited English
14 proficiency, Native Americans, individuals living in
15 rural areas, members of the Armed Forces and their
16 spouses, and the elderly.”.

17 (b) CLERICAL AMENDMENT.—The table of sections
18 for chapter 77 is amended by inserting after the item re-
19 lating to section 7526 the following new item:

 “7526A. Return preparation programs for low-income taxpayers.”.

20 **SEC. 11077. FREE FILE PROGRAM.**

21 (a) The Secretary of the Treasury, or the Secretary’s
22 delegate, shall continue to operate the IRS Free File Pro-
23 gram as established by the Internal Revenue Service and
24 published in the Federal Register on November 4, 2002

1 (67 Fed. Reg. 67247), including any subsequent agree-
2 ments and governing rules established pursuant thereto.

3 (b) The IRS Free File Program shall continue to pro-
4 vide free commercial-type online individual income tax
5 preparation and electronic filing services to the lowest 70
6 percent of taxpayers by income. The number of taxpayers
7 eligible to receive such services each year shall be cal-
8 culated by the Internal Revenue Service annually based
9 on prior year aggregate taxpayer adjusted gross income
10 data.

11 (c) In addition to the services described in subsection
12 (b), and in the same manner, the IRS Free File Program
13 shall continue to make available to all taxpayers (without
14 regard to income) a basic, online electronic fillable forms
15 utility.

16 (d) The IRS Free File Program shall continue to
17 work cooperatively with the private sector to provide the
18 free individual income tax preparation and the electronic
19 filing services described in subsections (b) and (c).

20 (e) The IRS Free File Program shall work coopera-
21 tively with State government agencies to enhance and ex-
22 pand the use of the program to provide needed benefits
23 to the taxpayer while reducing the cost of processing re-
24 turns.

1 (f) Nothing in this section is intended to impact the
2 continuity of services provided under Taxpayer Assistance
3 Centers, Tax Counseling for the Elderly, and Volunteer
4 Income Tax Assistance programs.

5 **SEC. 11078. ATTORNEYS' FEES RELATING TO AWARDS TO**
6 **WHISTLEBLOWERS.**

7 (a) IN GENERAL.—Paragraph (21) of section 62(a)
8 is amended to read as follows:

9 “(21) ATTORNEYS’ FEES RELATING TO AWARDS
10 TO WHISTLEBLOWERS.—

11 “(A) IN GENERAL.—Any deduction allow-
12 able under this chapter for attorney fees and
13 court costs paid by, or on behalf of, the tax-
14 payer in connection with any award under—

15 “(i) section 7623(b), or

16 “(ii) in the case of taxable years be-
17 ginning after December 31, 2017, and be-
18 fore January 1, 2026, any action brought
19 under—

20 “(I) section 21F of the Securities
21 Exchange Act of 1934 (15 U.S.C.
22 78u-6),

23 “(II) a State law relating to false
24 or fraudulent claims that meets the
25 requirements described in section

1 1909(b) of the Social Security Act (42
2 U.S.C. 1396h(b)), or

3 “(III) section 23 of the Com-
4 modity Exchange Act (7 U.S.C. 26).

5 “(B) MAY NOT EXCEED AWARD.—Sub-
6 paragraph (A) shall not apply to any deduction
7 in excess of the amount includible in the tax-
8 payer’s gross income for the taxable year on ac-
9 count of such award.”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to taxable years beginning after
12 December 31, 2017.

13 **SEC. 11079. CLARIFICATION OF WHISTLEBLOWER AWARDS.**

14 (a) DEFINITION OF PROCEEDS.—

15 (1) IN GENERAL.—Section 7623 is amended by
16 adding at the end the following new subsection:

17 “(c) PROCEEDS.—For purposes of this section, the
18 term ‘proceeds’ includes—

19 “(1) penalties, interest, additions to tax, and
20 additional amounts provided under the internal rev-
21 enue laws, and

22 “(2) any proceeds arising from laws for which
23 the Internal Revenue Service is authorized to admin-
24 ister, enforce, or investigate, including—

1 “(A) criminal fines and civil forfeitures,
2 and
3 “(B) violations of reporting require-
4 ments.”.

5 (2) CONFORMING AMENDMENTS.—Paragraphs
6 (1) and (2)(A) of section 7623(b) are each amended
7 by striking “collected proceeds (including penalties,
8 interest, additions to tax, and additional amounts)
9 resulting from the action” and inserting “proceeds
10 collected as a result of the action”.

11 (b) AMOUNT OF PROCEEDS DETERMINED WITHOUT
12 REGARD TO AVAILABILITY.—Paragraphs (1) and (2)(A)
13 of section 7623(b) are each amended by inserting “(deter-
14 mined without regard to whether such proceeds are avail-
15 able to the Secretary)” after “in response to such action”.

16 (c) DISPUTED AMOUNT THRESHOLD.—Section
17 7623(b)(5)(B) is amended by striking “tax, penalties, in-
18 terest, additions to tax, and additional amounts” and in-
19 serting “proceeds”.

20 (d) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to information provided before, on,
22 or after the date of the enactment of this Act with respect
23 to which a final determination for an award has not been
24 made before such date of enactment.

PART VIII—INDIVIDUAL MANDATE

**SEC. 11081. ELIMINATION OF SHARED RESPONSIBILITY
PAYMENT FOR INDIVIDUALS FAILING TO
MAINTAIN MINIMUM ESSENTIAL COVERAGE.**

(a) IN GENERAL.—Section 5000A(c) is amended—

(1) in paragraph (2)(B)(iii), by striking “2.5 percent” and inserting “Zero percent”, and

(2) in paragraph (3)—

(A) by striking “\$695” in subparagraph

(A) and inserting “\$0”, and

(B) by striking subparagraph (D).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to months beginning after December 31, 2018.

**Subtitle B—Alternative Minimum
Tax**

SEC. 12001. REPEAL OF TAX FOR CORPORATIONS.

(a) IN GENERAL.—Section 55(a) is amended by striking “There” and inserting “In the case of a taxpayer other than a corporation, there”.

(b) CONFORMING AMENDMENTS.—

(1) Section 38(c)(6) is amended by adding at the end the following new subparagraph:

“(E) CORPORATIONS.—In the case of a corporation, this subsection shall be applied by

1 treating the corporation as having a tentative
2 minimum tax of zero.”.

3 (2)(A) Section 55(b)(1) is amended to read as
4 follows:

5 “(1) AMOUNT OF TENTATIVE TAX.—

6 “(A) IN GENERAL.—The tentative min-
7 imum tax for the taxable year is the sum of—

8 “(i) 26 percent of so much of the tax-
9 able excess as does not exceed \$175,000,
10 plus

11 “(ii) 28 percent of so much of the tax-
12 able excess as exceeds \$175,000.

13 The amount determined under the preceding
14 sentence shall be reduced by the alternative
15 minimum tax foreign tax credit for the taxable
16 year.

17 “(B) TAXABLE EXCESS.—For purposes of
18 this subsection, the term ‘taxable excess’ means
19 so much of the alternative minimum taxable in-
20 come for the taxable year as exceeds the exemp-
21 tion amount.

22 “(C) MARRIED INDIVIDUAL FILING SEPA-
23 RATE RETURN.—In the case of a married indi-
24 vidual filing a separate return, subparagraph
25 (A) shall be applied by substituting 50 percent

1 of the dollar amount otherwise applicable under
2 clause (i) and cause (ii) thereof. For purposes
3 of the preceding sentence, marital status shall
4 be determined under section 7703.”.

5 (B) Section 59(a) is amended—

6 (i) by striking “subparagraph (A)(i) or
7 (B)(i) of section 55(b)(1) (whichever applies) in
8 lieu of the highest rate of tax specified in sec-
9 tion 1 or 11 (whichever applies)” in paragraph
10 (1)(C) and inserting “section 55(b)(1) in lieu of
11 the highest rate of tax specified in section 1”,
12 and

13 (ii) in paragraph (2), by striking “means”
14 and all that follows and inserting “means the
15 amount determined under the first sentence of
16 section 55(b)(1).”.

17 (C) Section 897(a)(2)(A) is amended by strik-
18 ing “section 55(b)(1)(A)” and inserting “section
19 55(b)(1)”.

20 (D) Section 911(f) is amended—

21 (i) in paragraph (1)(B)—

22 (I) by striking “section
23 55(b)(1)(A)(ii)” and inserting “section
24 55(b)(1)(B)”, and

1 (II) by striking “section
2 55(b)(1)(A)(i)” and inserting “section
3 55(b)(1)(A)”, and

4 (ii) in paragraph (2)(B), by striking “sec-
5 tion 55(b)(1)(A)(ii)” each place it appears and
6 inserting “section 55(b)(1)(B)”.

7 (3) Section 55(c)(1) is amended by striking “,
8 the section 936 credit allowable under section 27(b),
9 and the Puerto Rico economic activity credit under
10 section 30A”.

11 (4) Section 55(d) is amended—

12 (A) by striking paragraph (2) and redesign-
13 ating paragraphs (3) and (4) as paragraphs
14 (2) and (3), respectively,

15 (B) in paragraph (2) (as so redesignated),
16 by inserting “and” at the end of subparagraph
17 (B), by striking “, and” at the end of subpara-
18 graph (C) and inserting a period, and by strik-
19 ing subparagraph (D), and

20 (C) in paragraph (3) (as so redesign-
21 ated)—

22 (i) by striking “(b)(1)(A)(i)” in sub-
23 paragraph (B)(i) and inserting
24 “(b)(1)(A)”, and

1 (ii) by striking “paragraph (3)” in
2 subparagraph (B)(iii) and inserting “para-
3 graph (2)”.

4 (5) Section 55 is amended by striking sub-
5 section (e).

6 (6)(A) Section 56 is amended by striking sub-
7 sections (c) and (g).

8 (B) Section 847 is amended by striking the last
9 sentence of paragraph (9).

10 (C) Section 848 is amended by striking sub-
11 section (i).

12 (7) Section 58(a) is amended by striking para-
13 graph (3) and redesignating paragraph (4) as para-
14 graph (3).

15 (8) Section 59 is amended by striking sub-
16 sections (b) and (f).

17 (9) Section 11(d) is amended by striking “the
18 taxes imposed by subsection (a) and section 55” and
19 inserting “the tax imposed by subsection (a)”.

20 (10) Section 12 is amended by striking para-
21 graph (7).

22 (11) Section 168(k) is amended by striking
23 paragraph (4).

24 (12) Section 882(a)(1) is amended by striking
25 “, 55,”.

1 (13) Section 962(a)(1) is amended by striking
2 “sections 11 and 55” and inserting “section 11”.

3 (14) Section 1561(a) is amended—

4 (A) by inserting “and” at the end of para-
5 graph (1), by striking “, and” at the end of
6 paragraph (2) and inserting a period, and by
7 striking paragraph (3), and

8 (B) by striking the last sentence.

9 (15) Section 6425(c)(1)(A) is amended to read
10 as follows:

11 “(A) the tax imposed by section 11 or
12 1201(a), or subchapter L of chapter 1, which-
13 ever is applicable, over”.

14 (16) Section 6655(e)(2) is amended by striking
15 “and alternative minimum taxable income” each
16 place it appears in subparagraphs (A) and (B)(i).

17 (17) Section 6655(g)(1)(A) is amended by in-
18 serting “plus” at the end of clause (i), by striking
19 clause (ii), and by redesignating clause (iii) as clause
20 (ii).

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 2017.

1 **SEC. 12002. SUSPENSION OF TAX ON INDIVIDUALS.**

2 (a) IN GENERAL.—Section 55(a) is amended by add-
3 ing at the end the following new flush sentence:

4 “No tax shall be imposed by this section for any taxable
5 year beginning after December 31, 2017, and before Jan-
6 uary 1, 2026, and the tentative minimum tax of any tax-
7 payer for any such taxable year shall be zero for purposes
8 of this title.”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to taxable years beginning after
11 December 31, 2017.

12 **SEC. 12003. CREDIT FOR PRIOR YEAR MINIMUM TAX LI-**
13 **ABILITY.**

14 (a) CREDITS TREATED AS REFUNDABLE.—Section
15 53 is amended by adding at the end the following new
16 subsection:

17 “(e) PORTION OF CREDIT TREATED AS REFUND-
18 ABLE.—

19 “(1) IN GENERAL.—In the case of any taxable
20 year beginning in 2018, 2019, 2020, or 2021, the
21 limitation under subsection (c) shall be increased by
22 the AMT refundable credit amount for such year.

23 “(2) AMT REFUNDABLE CREDIT AMOUNT.—
24 For purposes of paragraph (1), the AMT refundable
25 credit amount is an amount equal to 50 percent

1 (100 percent in the case of a taxable year beginning
2 in 2021) of the excess (if any) of—

3 “(A) the minimum tax credit determined
4 under subsection (b) for the taxable year, over

5 “(B) the minimum tax credit allowed
6 under subsection (a) for such year (before the
7 application of this subsection for such year).

8 “(3) CREDIT REFUNDABLE.—For purposes of
9 this title (other than this section), the credit allowed
10 by reason of this subsection shall be treated as a
11 credit allowed under subpart C (and not this sub-
12 part).

13 “(4) SHORT TAXABLE YEARS.—In the case of
14 any taxable year of less than 365 days, the AMT re-
15 fundable credit amount determined under paragraph
16 (2) with respect to such taxable year shall be the
17 amount which bears the same ratio to such amount
18 determined without regard to this paragraph as the
19 number of days in such taxable year bears to 365.”.

20 (b) TREATMENT OF REFERENCES.—Section 53(d) is
21 amended by adding at the end the following new para-
22 graph:

23 “(3) AMT TERM REFERENCES.—In the case of
24 a corporation, any references in this subsection to
25 section 55, 56, or 57 shall be treated as a reference

1 to such section as in effect before the amendments
2 made by Tax Cuts and Jobs Act.”.

3 (c) CONFORMING AMENDMENT.—Section
4 1374(b)(3)(B) is amended by striking the last sentence
5 thereof.

6 (d) EFFECTIVE DATE.—

7 (1) IN GENERAL.—The amendments made by
8 this section shall apply to taxable years beginning
9 after December 31, 2017.

10 (2) CONFORMING AMENDMENT.—The amend-
11 ment made by subsection (c) shall apply to taxable
12 years beginning after December 31, 2021.

13 **Subtitle C—Business-related**
14 **Provisions**

15 **PART I—CORPORATE PROVISIONS**

16 **Subpart A—20-percent Tax Rate**

17 **SEC. 13001. 20-PERCENT CORPORATE TAX RATE.**

18 (a) IN GENERAL.—Subsection (b) of section 11 is
19 amended to read as follows:

20 “(b) AMOUNT OF TAX.—The amount of the tax im-
21 posed by subsection (a) shall be 20 percent of taxable in-
22 come.”.

23 (b) CONFORMING AMENDMENTS.—

1 (1) The following sections are each amended by
2 striking “section 11(b)(1)” and inserting “section
3 11(b)”:

4 (A) Section 280C(c)(3)(B)(ii)(II).

5 (B) Paragraphs (2)(B) and (6)(A)(ii) of
6 section 860E(e).

7 (C) Section 7874(e)(1)(B)

8 (2)(A) Part I of subchapter P of chapter 1 is
9 amended by striking section 1201 (and by striking
10 the item relating to such section in the table of sec-
11 tions for such part).

12 (B) Section 12 is amended by striking para-
13 graphs (4) and (6), and by redesignating paragraph
14 (5) as paragraph (4).

15 (C) Section 453A(c)(3) is amended by striking
16 “or 1201 (whichever is appropriate)”.

17 (D) Section 527(b) is amended—

18 (i) by striking paragraph (2), and

19 (ii) by striking all that precedes “is hereby
20 imposed” and inserting:

21 “(b) TAX IMPOSED.—A tax”.

22 (E) Sections 594(a) is amended by striking
23 “taxes imposed by section 11 or 1201(a)” and in-
24 serting “tax imposed by section 11”.

1 (F) Section 691(c)(4) is amended by striking
2 “1201,”.

3 (G) Section 801(a) is amended—

4 (i) by striking paragraph (2), and

5 (ii) by striking all that precedes “is hereby
6 imposed” and inserting:

7 “(a) TAX IMPOSED.—A tax”.

8 (H) Section 831(e) is amended by striking
9 paragraph (1) and by redesignating paragraphs (2)
10 and (3) as paragraphs (1) and (2), respectively.

11 (I) Sections 832(c)(5) and 834(b)(1)(D) are
12 each amended by striking “sec. 1201 and fol-
13 lowing,”.

14 (J) Section 852(b)(3)(A) is amended by strik-
15 ing “section 1201(a)” and inserting “section 11(b)”.

16 (K) Section 857(b)(3) is amended—

17 (i) by striking subparagraph (A) and re-
18 designating subparagraphs (B) through (F) as
19 subparagraphs (A) through (E), respectively,

20 (ii) in subparagraph (C), as so redesign-
21 nated—

22 (I) by striking “subparagraph (A)(ii)”
23 in clause (i) thereof and inserting “para-
24 graph (1)”,

1 (II) by striking “the tax imposed by
2 subparagraph (A)(ii)” in clauses (ii) and
3 (iv) thereof and inserting “the tax imposed
4 by paragraph (1) on undistributed capital
5 gain”,

6 (iii) in subparagraph (E), as so redesign-
7 nated, by striking “subparagraph (B) or (D)”
8 and inserting “subparagraph (A) or (C)”, and
9 (iv) by adding at the end the following new
10 subparagraph:

11 “(F) **UNDISTRIBUTED CAPITAL GAIN.**—
12 For purposes of this paragraph, the term ‘un-
13 distributed capital gain’ means the excess of the
14 net capital gain over the deduction for divi-
15 dends paid (as defined in section 561) deter-
16 mined with reference to capital gain dividends
17 only.”.

18 (L) Section 882(a)(1), as amended by section
19 12001, is amended by striking “or 1201(a)”.

20 (M) Section 904(b) is amended—

21 (i) by striking “or 1201(a)” in paragraph
22 (2)(C),

23 (ii) by striking paragraph (3)(D) and in-
24 serting the following:

1 “(D) CAPITAL GAIN RATE DIFFEREN-
2 TIAL.—There is a capital gain rate differential
3 for any year if subsection (h) of section 1 ap-
4 plies to such taxable year.”, and

5 (iii) by striking paragraph (3)(E) and in-
6 serting the following:

7 “(E) RATE DIFFERENTIAL PORTION.—The
8 rate differential portion of foreign source net
9 capital gain, net capital gain, or the excess of
10 net capital gain from sources within the United
11 States over net capital gain, as the case may
12 be, is the same proportion of such amount as—

13 “(i) the excess of—

14 “(I) the highest rate of tax set
15 forth in subsection (a), (b), (c), (d), or
16 (e) of section 1 (whichever applies),
17 over

18 “(II) the alternative rate of tax
19 determined under section 1(h), bears
20 to

21 “(ii) that rate referred to in subclause
22 (I).”.

23 (N) Section 1374(b) is amended by striking
24 paragraph (4).

1 (O) Section 1381(b) is amended by striking
2 “taxes imposed by section 11 or 1201” and inserting
3 “tax imposed by section 11”.

4 (P) Sections 6425(c)(1)(A), as amended by sec-
5 tion 12001, and 6655(g)(1)(A)(i) are each amended
6 by striking “or 1201(a),”.

7 (Q) Section 7518(g)(6)(A) is amended by strik-
8 ing “or 1201(a)”.

9 (3)(A) Section 1445(e)(1) is amended—

10 (i) by striking “35 percent” and inserting
11 “the highest rate of tax in effect for the taxable
12 year under section 11(b)”, and

13 (ii) by striking “of the gain” and inserting
14 “multiplied by the gain”.

15 (B) Section 1445(e)(2) is amended by striking
16 “35 percent of the amount” and inserting “the high-
17 est rate of tax in effect for the taxable year under
18 section 11(b) multiplied by the amount”.

19 (C) Section 1445(e)(6) is amended—

20 (i) by striking “35 percent” and inserting
21 “the highest rate of tax in effect for the taxable
22 year under section 11(b)”, and

23 (ii) by striking “of the amount” and in-
24 serting “multiplied by the amount”.

1 (D) Section 1446(b)(2)(B) is amended by strik-
2 ing “section 11(b)(1)” and inserting “section
3 11(b)”.

4 (4) Section 852(b)(1) is amended by striking
5 the last sentence.

6 (5)(A) Part I of subchapter B of chapter 5 is
7 amended by striking section 1551 (and by striking
8 the item relating to such section in the table of sec-
9 tions for such part).

10 (B) Section 535(c)(5) is amended to read as
11 follows:

12 “(5) CROSS REFERENCE.—For limitation on
13 credit provided in paragraph (2) or (3) in the case
14 of certain controlled corporations, see section
15 1561.”.

16 (6)(A) Section 1561, as amended by section
17 12001, is amended to read as follows:

18 **“SEC. 1561. LIMITATION ON ACCUMULATED EARNINGS**
19 **CREDIT IN THE CASE OF CERTAIN CON-**
20 **TROLLED CORPORATIONS.**

21 “(a) IN GENERAL.—The component members of a
22 controlled group of corporations on a December 31 shall,
23 for their taxable years which include such December 31,
24 be limited for purposes of this subtitle to one \$250,000
25 (\$150,000 if any component member is a corporation de-

1 scribed in section 535(c)(2)(B)) amount for purposes of
2 computing the accumulated earnings credit under section
3 535(c)(2) and (3). Such amount shall be divided equally
4 among the component members of such group on such De-
5 cember 31 unless the Secretary prescribes regulations per-
6 mitting an unequal allocation of such amount.

7 “(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-
8 poration has a short taxable year which does not include
9 a December 31 and is a component member of a controlled
10 group of corporations with respect to such taxable year,
11 then for purposes of this subtitle, the amount to be used
12 in computing the accumulated earnings credit under sec-
13 tion 535(c)(2) and (3) of such corporation for such taxable
14 year shall be the amount specified in subsection (a) with
15 respect to such group, divided by the number of corpora-
16 tions which are component members of such group on the
17 last day of such taxable year. For purposes of the pre-
18 ceding sentence, section 1563(b) shall be applied as if such
19 last day were substituted for December 31.”.

20 (B) The table of sections for part II of sub-
21 chapter B of chapter 5 is amended by striking the
22 item relating to section 1561 and inserting the fol-
23 lowing new item:

“Sec. 1561. Limitation on accumulated earnings credit in the case of certain
controlled corporations.”.

24 (7) Section 7518(g)(6)(A) is amended—

1 (A) by striking “With respect to the por-
2 tion” and inserting “In the case of a taxpayer
3 other than a corporation, with respect to the
4 portion”, and

5 (B) by striking “(34 percent in the case of
6 a corporation)”.

7 (c) EFFECTIVE DATE.—

8 (1) IN GENERAL.—Except as otherwise pro-
9 vided in this subsection, the amendments made by
10 this section shall apply to taxable years beginning
11 after December 31, 2018.

12 (2) WITHHOLDING.—The amendments made by
13 subsection (b)(3) shall apply to distributions made
14 after December 31, 2018.

15 (3) CERTAIN TRANSFERS.—The amendments
16 made by subsection (b)(6) shall apply to transfers
17 made after December 31, 2018.

18 (d) NORMALIZATION REQUIREMENTS.—

19 (1) IN GENERAL.—A normalization method of
20 accounting shall not be treated as being used with
21 respect to any public utility property for purposes of
22 section 167 or 168 of the Internal Revenue Code of
23 1986 if the taxpayer, in computing its cost of service
24 for ratemaking purposes and reflecting operating re-
25 sults in its regulated books of account, reduces the

1 excess tax reserve more rapidly or to a greater ex-
2 tent than such reserve would be reduced under the
3 average rate assumption method.

4 (2) ALTERNATIVE METHOD FOR CERTAIN TAX-
5 PAYERS.—If, as of the first day of the taxable year
6 that includes the date of enactment of this Act—

7 (A) the taxpayer was required by a regu-
8 latory agency to compute depreciation for public
9 utility property on the basis of an average life
10 or composite rate method, and

11 (B) the taxpayer's books and underlying
12 records did not contain the vintage account
13 data necessary to apply the average rate as-
14 sumption method,

15 the taxpayer will be treated as using a normalization
16 method of accounting if, with respect to such juris-
17 diction, the taxpayer uses the alternative method for
18 public utility property that is subject to the regu-
19 latory authority of that jurisdiction.

20 (3) DEFINITIONS.—For purposes of this sub-
21 section—

22 (A) EXCESS TAX RESERVE.—The term
23 “excess tax reserve” means the excess of—

24 (i) the reserve for deferred taxes (as
25 described in section 168(i)(9)(A)(ii) of the

1 Internal Revenue Code of 1986) as deter-
2 mined under the Internal Revenue Code of
3 1986 as in effect on the day before the
4 date of the enactment of this Act, over

5 (ii) the amount which would be the
6 balance in such reserve if the amount of
7 such reserve were determined by assuming
8 that the corporate rate reductions provided
9 in this Act were in effect for all prior peri-
10 ods.

11 (B) AVERAGE RATE ASSUMPTION METH-
12 OD.—The average rate assumption method is
13 the method under which the excess in the re-
14 serve for deferred taxes is reduced over the re-
15 maining lives of the property as used in its reg-
16 ulated books of account which gave rise to the
17 reserve for deferred taxes. Under such method,
18 if timing differences for the property reverse,
19 the amount of the adjustment to the reserve for
20 the deferred taxes is calculated by multi-
21 plying—

22 (i) the ratio of the aggregate deferred
23 taxes for the property to the aggregate
24 timing differences for the property as of
25 the beginning of the period in question, by

1 (ii) the amount of the timing dif-
2 ferences which reverse during such period.

3 (C) ALTERNATIVE METHOD.—The “alter-
4 native method” is the method in which the tax-
5 payer—

6 (i) computes the excess tax reserve on
7 all public utility property included in the
8 plant account on the basis of the weighted
9 average life or composite rate used to com-
10 pute depreciation for regulatory purposes,
11 and

12 (ii) reduces the excess tax reserve rat-
13 ably over the remaining regulatory life of
14 the property.

15 (4) TAX INCREASED FOR NORMALIZATION VIO-
16 LATION.—If, for any taxable year ending after the
17 date of the enactment of this Act, the taxpayer does
18 not use a normalization method of accounting, the
19 taxpayer’s tax for the taxable year shall be increased
20 by the amount by which it reduces its excess tax re-
21 serve more rapidly than permitted under a normal-
22 ization method of accounting.

1 **SEC. 13002. REDUCTION IN DIVIDEND RECEIVED DEDUC-**
2 **TIONS TO REFLECT LOWER CORPORATE IN-**
3 **COME TAX RATES.**

4 (a) DIVIDENDS RECEIVED BY CORPORATIONS.—

5 (1) IN GENERAL.—Section 243(a)(1) is amend-
6 ed by striking “70 percent” and inserting “50 per-
7 cent”.

8 (2) DIVIDENDS FROM 20-PERCENT OWNED COR-
9 PORATIONS.—Section 243(c)(1) is amended—

10 (A) by striking “80 percent” and inserting
11 “65 percent”, and

12 (B) by striking “70 percent” and inserting
13 “50 percent”.

14 (3) CONFORMING AMENDMENT.—The heading
15 for section 243(c) is amended by striking “RETEN-
16 TION OF 80-PERCENT DIVIDEND RECEIVED DEDUC-
17 TION” and inserting “INCREASED PERCENTAGE”.

18 (b) DIVIDENDS RECEIVED FROM FSC.—Section
19 245(c)(1)(B) is amended—

20 (1) by striking “70 percent” and inserting “50
21 percent”, and

22 (2) by striking “80 percent” and inserting “65
23 percent”.

24 (c) LIMITATION ON AGGREGATE AMOUNT OF DEDUC-
25 TIONS.—Section 246(b)(3) is amended—

1 (1) by striking “80 percent” in subparagraph
2 (A) and inserting “65 percent”, and

3 (2) by striking “70 percent” in subparagraph
4 (B) and inserting “50 percent”.

5 (d) REDUCTION IN DEDUCTION WHERE PORTFOLIO
6 STOCK IS DEBT-FINANCED.—Section 246A(a)(1) is
7 amended—

8 (1) by striking “70 percent” and inserting “50
9 percent”, and

10 (2) by striking “80 percent” and inserting “65
11 percent”.

12 (e) INCOME FROM SOURCES WITHIN THE UNITED
13 STATES.—Section 861(a)(2) is amended—

14 (1) by striking “100/70th” and inserting “100/
15 50th” in subparagraph (B), and

16 (2) in the flush sentence at the end—

17 (A) by striking “100/80th” and inserting
18 “100/65th”, and

19 (B) by striking “100/70th” and inserting
20 “100/50th”.

21 (f) EFFECTIVE DATE.—

22 (1) IN GENERAL.—The amendments made by
23 this section (other than subsection (c) thereof) shall
24 apply to dividends received by a corporation after

1 December 31, 2018, in taxable years ending after
2 such date.

3 (2) LIMITATION.—The amendments made by
4 section 102(c) shall apply to taxable years beginning
5 after December 31, 2018.

6 **Subpart B—Dividends Paid Deduction for Domestic**
7 **Corporations**

8 **SEC. 13011. DIVIDENDS PAID DEDUCTION.**

9 (a) GENERAL RULE.—Part VIII of subchapter B of
10 chapter 1 is amended by inserting after section 241 the
11 following:

12 **“Subpart B—Dividends Paid Deduction**

“Sec. 242. Dividends paid deduction.

13 **“SEC. 242. DIVIDENDS PAID DEDUCTION.**

14 “(a) ALLOWANCE OF DEDUCTION.—In the case of an
15 eligible corporation, there shall be allowed as a deduction
16 an amount equal to zero percent of the aggregate amount
17 of applicable dividends paid by the corporation during the
18 taxable year.

19 “(b) APPLICABLE DIVIDEND.—For purposes of this
20 section—

21 “(1) IN GENERAL.—The term ‘applicable divi-
22 dend’ means, with respect to an eligible corporation,
23 any distribution by the eligible corporation during a
24 taxable year which is—

1 “(A) treated as a dividend for purposes of
2 this chapter, and

3 “(B) paid out of its applicable earnings
4 and profits.

5 “(2) ORDERING RULE FOR DIVIDEND PAY-
6 MENTS.—For purposes of paragraph (1)(B), divi-
7 dends shall be treated as paid—

8 “(A) first, out of exempt earnings and
9 profits,

10 “(B) second, out of applicable earnings
11 and profits, and

12 “(C) finally, out of earnings and profits
13 not described in subparagraph (A) or (B).

14 “(3) COORDINATION WITH OTHER DEDUC-
15 TIONS.—Such term shall not include—

16 “(A) any amount allowed as a deduction
17 under section 591 (relating to deduction for
18 dividends paid by mutual savings banks, etc.),
19 and

20 “(B) any dividend described in paragraph
21 (2) of section 404(k) (relating to deduction for
22 dividends paid on certain employer securities).

23 “(4) ELECTION TO TREAT CERTAIN DISTRIBU-
24 TIONS PAID AFTER CLOSE OF YEAR AS PAID DURING
25 YEAR.—For purposes of this title, an eligible cor-

1 poration may elect on its return of tax for any tax-
2 able year to treat any distribution made on or before
3 the 15th day of the 4th month following the close of
4 the taxable year as having been made immediately
5 before the close of the taxable year. The preceding
6 sentence shall not apply for purposes of determining
7 the time the distribution was received by the share-
8 holder to whom the distribution was made.

9 “(5) APPLICABLE EARNINGS AND PROFITS.—

10 “(A) IN GENERAL.—The term ‘applicable
11 earnings and profits’ means, with respect to
12 any corporation for any taxable year, its earn-
13 ings and profits for the taxable year and its
14 earnings and profits accumulated in prior tax-
15 able years beginning after December 31, 2018.
16 For purposes of the preceding sentence, earn-
17 ings and profits for the taxable year shall be
18 determined without regard to the deduction
19 under this section for the taxable year.

20 “(B) EXEMPT EARNINGS AND PROFITS
21 NOT TREATED AS APPLICABLE EARNINGS AND
22 PROFITS.—The applicable earnings and profits
23 of a corporation shall not include any exempt
24 earnings and profits (as defined in paragraph
25 (6)).

1 “(C) LOOK-THRU IN THE CASE OF DIVI-
2 DENDS RECEIVED FROM CONTROLLED FOREIGN
3 CORPORATION OR 10/50 CORPORATION.—If a
4 corporation which is a United States share-
5 holder in a controlled foreign corporation, or is
6 a shareholder in a foreign corporation with re-
7 spect to which the shareholder meets the stock
8 ownership requirements of section 902(a), re-
9 ceives a dividend (other than a dividend to
10 which subparagraph (B) applies) from such
11 controlled foreign corporation or such foreign
12 corporation, the earnings and profits from such
13 dividend shall not be treated as applicable earn-
14 ings and profits of the corporation receiving
15 such dividend to the extent of any portion of
16 the dividend not properly allocable (as deter-
17 mined under section 316, as modified by section
18 959(c) in the case of such controlled foreign
19 corporation) to applicable earnings and profits
20 of such controlled foreign corporation or such
21 foreign corporation.

22 “(6) EXEMPT EARNINGS AND PROFITS.—

23 “(A) IN GENERAL.—The term ‘exempt
24 earnings and profits’ means, with respect to
25 any corporation for any taxable year, its earn-

1 ings and profits for the taxable year and its
2 earnings and profits accumulated in prior tax-
3 able years beginning after December 31, 2018,
4 which are properly allocable to exempt amounts
5 received or accrued by the corporation.

6 “(B) EXEMPT AMOUNTS.—The term ‘ex-
7 empt amounts’ means, with respect to any cor-
8 poration—

9 “(i) any dividend to the extent of the
10 deduction allowable to the corporation
11 under section 243, 245, or 245A with re-
12 spect to the dividend,

13 “(ii) any foreign-derived intangible in-
14 come (as defined in section 250(b)) or
15 global intangible low-taxed income (as de-
16 fined in section 951A(b)) to the extent of
17 the deduction allowable to the corporation
18 under section 250 with respect to any such
19 income,

20 “(iii) any increase in subpart F in-
21 come by reason of section 965 to the ex-
22 tent of the deduction allowable to the cor-
23 poration under section 965(c)(1) with re-
24 spect to any such income, and

1 “(iv) any other amount to the extent
2 such amount is exempt from taxation
3 under this title.

4 “(7) PROPER ALLOCATION OF DIVIDENDS TO
5 EARNINGS AND PROFITS.—

6 “(A) IN GENERAL.—The Secretary shall
7 prescribe rules for the proper allocation of divi-
8 dends to earnings and profits for purposes of
9 applying this subsection.

10 “(B) LOOK THROUGH RULES.—For pur-
11 poses of paragraph (4)(C), such rules shall in-
12 clude rules requiring in appropriate cases the
13 look through to earnings and profits of mem-
14 bers of any affiliated group including a con-
15 trolled foreign corporation or foreign corpora-
16 tion described in such paragraph where the
17 earnings and profits of such controlled foreign
18 corporation or such foreign corporation are at-
19 tributable to distributions received from other
20 members of the group.

21 “(c) ELIGIBLE CORPORATION.—For purposes of this
22 section, the term ‘eligible corporation’ means any domestic
23 corporation other than—

24 “(1) a regulated investment company,

25 “(2) a real estate investment trust,

1 “(3) an S corporation,

2 “(4) a corporation which is exempt from tax
3 under section 501 or 521,

4 “(5) an organization taxable under subchapter
5 T of this chapter (relating to cooperative organiza-
6 tions),

7 “(6) a cooperative governed by the rules appli-
8 cable to cooperatives as in effect before the enact-
9 ment of subchapter T, or

10 “(7) a DISC or former DISC.

11 “(d) REPORTING REQUIREMENT.—

12 “(1) IN GENERAL.—Each eligible corporation
13 which makes payments of dividends during the re-
14 porting period for any taxable year shall make a re-
15 turn, according to the forms and regulations pre-
16 scribed by the Secretary, setting forth—

17 “(A) the aggregate amount of such divi-
18 dends,

19 “(B) the aggregate amount of such divi-
20 dends with respect to which the corporation is
21 claiming a deduction under this section for the
22 taxable year,

23 “(C) the aggregate amount of such divi-
24 dends which the corporation paid during the pe-
25 riod beginning on the 1st day of the reporting

1 taxable year and ending on the 15th day of the
2 4th month of such taxable year which the cor-
3 poration elected under subsection (b)(4) to treat
4 as paid in the preceding taxable year,

5 “(D) the aggregate amount of such divi-
6 dends which the corporation paid during the pe-
7 riod beginning on the 1st day of the taxable
8 year following the reporting taxable year and
9 ending on the 15th day of the 4th month of
10 such following taxable year which the corpora-
11 tion elected under subsection (b)(4) to treat as
12 paid in the reporting taxable year, and

13 “(E) such other information with respect
14 to such dividends as the Secretary shall require
15 for the administration of this section.

16 “(2) REPORTING PERIOD; DUE DATE.—For
17 purposes of this subsection—

18 “(A) REPORTING PERIOD.—The term ‘re-
19 porting period’ means with, respect to any tax-
20 able year, the period beginning on the 1st day
21 of the taxable year and ending on the 15th day
22 of the 4th month following the close of the tax-
23 able year.

24 “(B) DUE DATE.—Any return under para-
25 graph (1) with respect to any taxable year shall

1 be included with the return of income tax for
2 such taxable year.”.

3 (b) PENALTY FOR FAILURE TO REPORT.—Section
4 6652, as amended by subtitle E of this Act, is amended
5 by adding at the end the following new subsection:

6 “(r) FAILURE TO FILE RETURNS BY CORPORATIONS
7 ELIGIBLE FOR DIVIDENDS PAID DEDUCTION.—

8 “(1) PENALTY FOR FAILURE TO FILE RE-
9 TURN.—In the case of a failure to make a return re-
10 quired under section 242(d) containing the informa-
11 tion required by such section by the due date for the
12 return, the eligible corporation shall pay (on notice
13 and demand by the Secretary and in the same man-
14 ner as tax) a penalty of \$1,000 per day for each day
15 such failure continues unless it is shown that such
16 failure is due to reasonable cause. The maximum
17 amount of the penalty under this paragraph with re-
18 spect to any failure for a taxable year shall not ex-
19 ceed \$250,000.

20 “(2) ELIGIBLE CORPORATION.—For purposes
21 of this subsection, the term ‘eligible corporation’ has
22 the meaning given such term by section 242(c).”.

23 (c) DIVIDENDS PAID DEDUCTION ALLOWABLE ONLY
24 IN TAXABLE YEAR OF DIVIDEND PAYMENT.—

1 (1) IN GENERAL.—Subsection (d) of section
2 172, as amended by section 11011, is amended by
3 adding at the end the following new paragraph:

4 “(9) DIVIDENDS PAID DEDUCTION.—The de-
5 duction under section 242 shall not be allowed.”.

6 (2) TREATMENT OF CARRYBACKS AND
7 CARRYOVERS.—Subparagraph (A) of section
8 172(b)(2), as amended by section 13302, is amended
9 by striking “and (5)” and inserting “(5), and (8)”.

10 (d) OTHER CONFORMING AMENDMENTS.—Part VIII
11 of subchapter B of chapter 1 is amended—

12 (1) by striking the table of sections and insert-
13 ing the following:

14 **“PART VIII—SPECIAL DEDUCTIONS FOR**
15 **CORPORATIONS**

“SUBPART A. ALLOWANCE OF SPECIAL DEDUCTIONS.

“SUBPART B. DIVIDENDS PAID DEDUCTION.

“SUBPART C. DIVIDENDS RECEIVED DEDUCTIONS.

“SUBPART D. OTHER DEDUCTIONS.

16 **“Subpart A—Allowance of Special Deductions**

“Sec. 241. Allowance of special deductions.”,

17 (2) by inserting the following before section
18 243:

19 **“Subpart C—Dividends Received Deductions**

“Sec. 243. Dividends received by corporations.

“Sec. 245. Dividends received from certain foreign corporations.

“Sec. 245A. Deduction for foreign-source portion of dividends received by domestic corporations from specified 10-percent owned foreign corporations.

“Sec. 246. Rules applying to deductions for dividends received.

“Sec. 246A. Dividends received deduction reduced where portfolio stock is debt financed.”, and

1 (3) by inserting the following before section
2 248:

3 **“Subpart D—Other Deductions**

“Sec. 248. Organizational expenditures.

“Sec. 249. Limitation of deduction of bond premium on repurchase.

“Sec. 250. Foreign-derived intangible income and global intangible low-taxed income.”.

4 (e) **EFFECTIVE DATE.**—The amendments made by
5 this section shall apply to dividends paid in taxable years
6 of the payor beginning after December 31, 2018.

7 **SEC. 13012. TAX EQUIVALENT TO DIVIDENDS PAID DEDUC-**
8 **TION FOR CERTAIN FOREIGN CORPORA-**
9 **TIONS.**

10 (a) **DIVIDENDS PAID DEDUCTION.**—Paragraph (1) of
11 section 882(c) is amended by adding at the end the fol-
12 lowing new subparagraph:

13 “(C) **SPECIAL RULE FOR DIVIDENDS PAID**
14 **DEDUCTION.**—For purposes of subparagraph
15 (A)—

16 “(i) the deduction under section 242
17 shall not be allowed for any taxable year,
18 and

19 “(ii) there shall be allowed, in lieu of
20 such deduction, a deduction in an amount

1 equal to zero percent of the dividend equiv-
2 alent amount (as defined in section
3 884(b)) of the foreign corporation for the
4 taxable year.”.

5 (b) EFFECTIVE DATE.—The amendment made by
6 this section shall apply to taxable years beginning after
7 December 31, 2018.

8 **SEC. 13013. ALLOCATION OF DIVIDEND EXPENSE AMONG**
9 **MEMBERS OF WORLDWIDE AFFILIATED**
10 **GROUPS.**

11 (a) IN GENERAL.—Paragraph (6) of section 864(e)
12 is amended to read as follows:

13 “(6) ALLOCATION AND APPORTIONMENT OF
14 OTHER EXPENSES.—

15 “(A) IN GENERAL.—Except as provided in
16 subparagraph (B), expenses other than interest
17 which are not directly allocable or apportioned
18 to any specific income producing activity shall
19 be allocated and apportioned as if all members
20 of the affiliated group were a single corpora-
21 tion.

22 “(B) DIVIDEND EXPENSE.—The dividend
23 expense of any domestic corporation which is a
24 member of an affiliated group shall be allocated
25 and apportioned to income from sources with-

1 out the United States in the same proportion
2 which—

3 “(i) the aggregate amount of income
4 treated as from sources without the United
5 States by all domestic corporations which
6 are members of such group (determined
7 without regard to such dividend expense),
8 bears to

9 “(ii) the aggregate income of all such
10 domestic corporations from sources within
11 and without the United States (as so de-
12 termined).”.

13 (b) EFFECTIVE DATE.—The amendment made by
14 this section shall apply to taxable years beginning after
15 December 31, 2018.

16 **PART II—SMALL BUSINESS REFORMS**

17 **SEC. 13101. MODIFICATIONS OF RULES FOR EXPENSING DE-**
18 **PRECIABLE BUSINESS ASSETS.**

19 (a) INCREASE IN LIMITATION.—

20 (1) DOLLAR LIMITATION.—Section 179(b)(1) is
21 amended by striking “\$500,000” and inserting
22 “\$1,000,000”.

23 (2) REDUCTION IN LIMITATION.—Section
24 179(b)(2) is amended by striking “\$2,000,000” and
25 inserting “\$2,500,000”.

1 (3) INFLATION ADJUSTMENTS.—

2 (A) IN GENERAL.—Subparagraph (A) of
3 section 179(b)(6) is amended—

4 (i) by striking “2015” and inserting
5 “2018”, and

6 (ii) in clause (ii), by striking “cal-
7 endar year 2014” and inserting “calendar
8 year 2017”.

9 (B) SPORT UTILITY VEHICLES.—Section
10 179(b)(6) is amended—

11 (i) in subparagraph (A), by striking
12 “paragraphs (1) and (2)” and inserting
13 “paragraphs (1), (2), and (5)(A)”, and

14 (ii) in subparagraph (B), by inserting
15 “(\$100 in the case of any increase in the
16 amount under paragraph (5)(A))” after
17 “\$10,000”.

18 (b) SECTION 179 PROPERTY TO INCLUDE QUALIFIED
19 REAL PROPERTY.—

20 (1) IN GENERAL.—Subparagraph (B) of section
21 179(d)(1) is amended to read as follows:

22 “(B) which is—

23 “(i) section 1245 property (as defined
24 in section 1245(a)(3)), or

1 “(ii) qualified real property (as de-
2 fined in subsection (f)), and”.

3 (2) QUALIFIED REAL PROPERTY DEFINED.—

4 Subsection (f) of section 179 is amended to read as
5 follows:

6 “(f) QUALIFIED REAL PROPERTY.—For purposes of
7 this subsection, the term ‘qualified real property’ means—

8 “(1) any qualified improvement property de-
9 scribed in section 168(e)(6), and

10 “(2) any of the following improvements to non-
11 residential real property placed in service after the
12 date such property was first placed in service:

13 “(A) Roofs.

14 “(B) Heating, ventilation, and air-condi-
15 tioning property.

16 “(C) Fire protection and alarm systems.

17 “(D) Security systems.”.

18 (c) REPEAL OF EXCLUSION FOR CERTAIN PROP-
19 erty.—The last sentence of section 179(d)(1) is amended
20 by inserting “(other than paragraph (2) thereof)” after
21 “section 50(b)”.

22 (d) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to property placed in service in
24 taxable years beginning after December 31, 2017.

1 **SEC. 13102. MODIFICATIONS OF GROSS RECEIPTS TEST FOR**
2 **USE OF CASH METHOD OF ACCOUNTING BY**
3 **CORPORATIONS AND PARTNERSHIPS.**

4 (a) MODIFICATIONS OF GROSS RECEIPTS TEST.—

5 (1) IN GENERAL.—So much of section 448(c)
6 as precedes paragraph (2) is amended to read as fol-
7 lows:

8 “(c) GROSS RECEIPTS TEST.—

9 “(1) IN GENERAL.—A corporation or partner-
10 ship meets the gross receipts test of this subsection
11 for any taxable year if the average annual gross re-
12 cepts of such entity for the 3-taxable-year period
13 ending with the taxable year which precedes such
14 taxable year does not exceed the applicable dollar
15 limit.”.

16 (2) APPLICABLE DOLLAR LIMIT.—Subsection
17 (c) of section 448 is amended by adding at the end
18 the following new paragraph:

19 “(4) APPLICABLE DOLLAR LIMIT.—

20 “(A) IN GENERAL.—The applicable dollar
21 limit is \$15,000,000.

22 “(B) ADJUSTMENT FOR INFLATION.—In
23 the case of any taxable year beginning after De-
24 cember 31, 2018, the \$15,000,000 amount
25 under subparagraph (A) shall be increased by
26 an amount equal to—

1 “(i) such dollar amount, multiplied by
2 “(ii) the cost-of-living adjustment de-
3 termined under section 1(f)(3) for the cal-
4 endar year in which the taxable year be-
5 gins, by substituting ‘calendar year 2017’
6 for ‘calendar year 2016’ in subparagraph
7 (A)(ii) thereof.

8 If any amount as increased under the preceding
9 sentence is not a multiple of \$1,000, such
10 amount shall be rounded to the next lowest
11 multiple of \$1,000.”.

12 (3) CHANGE IN METHOD OF ACCOUNTING.—
13 Paragraph (7) of section 448(d) is amended—

14 (A) by striking “In the case of” and all
15 that follows up to subparagraph (A) and insert-
16 ing: “If a taxpayer changes its method of ac-
17 counting because the taxpayer is prohibited
18 from using the cash receipts and disbursement
19 method of accounting by reason of subsection
20 (a) or is no longer prohibited from using such
21 method by reason of such subsection—”, and

22 (B) by inserting “and” at the end of sub-
23 paragraph (A), by striking “, and” at the end
24 of subparagraph (B) and inserting a period,
25 and by striking subparagraph (C).

1 (4) CONFORMING AMENDMENT.—Paragraph (3)
2 of section 448(b) is amended to read as follows:

3 “(3) ENTITIES SATISFYING GROSS RECEIPTS
4 TEST.—Paragraphs (1) and (2) of subsection (a)
5 shall not apply to any corporation or partnership for
6 any taxable year if such entity meets the gross re-
7 ceipts test of subsection (c) for the taxable year.”.

8 (b) APPLICATION OF MODIFICATIONS TO FARMING
9 CORPORATIONS.—

10 (1) IN GENERAL.—Paragraph (1) of section
11 447(d) is amended to read as follows:

12 “(1) IN GENERAL.—A corporation meets the re-
13 quirements of this subsection for any taxable year
14 with respect to its gross receipts if the corporation
15 meets the gross receipts test of section 448(c) for
16 the taxable year.”.

17 (2) FAMILY CORPORATIONS.—Paragraph (2) of
18 section 447(d) is amended—

19 (A) by striking subparagraph (A) and in-
20 serting the following:

21 “(A) IN GENERAL.—In the case of a fam-
22 ily corporation, in applying section 448(c) for
23 purposes of paragraph (1)—

24 “(i) paragraph (1) of section 448(c)
25 shall be applied by substituting the appli-

1 cable family corporation limit for the appli-
2 cable dollar limit, and

3 “(ii) the rules of subparagraph (B)
4 shall apply in computing gross receipts.”,

5 (B) Clause (i) of section 447(d)(2)(B) is
6 amended by striking “the last sentence of para-
7 graph (1)” and inserting “paragraph (2) of sec-
8 tion 448(c)”, and

9 (C) by adding at the end the following new
10 subparagraph:

11 “(D) APPLICABLE FAMILY CORPORATION
12 LIMIT.—

13 “(i) IN GENERAL.—The applicable
14 family corporation limit is \$25,000,000.

15 “(ii) ADJUSTMENT FOR INFLATION.—
16 In the case of any taxable year beginning
17 after December 31, 2018, the \$25,000,000
18 amount under clause (i) shall be increased
19 by an amount equal to—

20 “(I) such dollar amount, multi-
21 plied by

22 “(II) the cost-of-living adjust-
23 ment determined under section 1(f)(3)
24 for the calendar year in which the tax-
25 able year begins, by substituting ‘cal-

1 endar year 2017’ for ‘calendar year
2 2016’ in subparagraph (A)(ii) thereof.

3 If any amount as increased under the pre-
4 ceding sentence is not a multiple of
5 \$1,000, such amount shall be rounded to
6 the next lowest multiple of \$1,000.”.

7 (3) EXCEPTION FOR CERTAIN CORPORA-
8 TIONS.—Subsection (c) of section 447 is amended by
9 inserting “for any taxable year” after “not being a
10 corporation”.

11 (4) CHANGE IN METHOD OF ACCOUNTING.—
12 Section 447(f) is amended—

13 (A) by striking “In the case of” and all
14 that follows up to paragraph (1) and inserting
15 the following: “If a taxpayer changes its method
16 of accounting because the taxpayer is required
17 to use an accrual method of accounting by rea-
18 son of subsection (a) or is no longer required to
19 use such method by reason of such subsection—
20 ”, and

21 (B) by striking paragraph (2) and insert-
22 ing the following:

23 “(2) such change shall be treated as initiated
24 by the taxpayer, and”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2017.

4 **SEC. 13103. CLARIFICATION OF INVENTORY ACCOUNTING**
5 **RULES FOR SMALL BUSINESSES.**

6 (a) CLARIFICATION OF INVENTORY RULES.—

7 (1) IN GENERAL.—Section 471 is amended by
8 redesignating subsection (c) as subsection (d) and by
9 inserting after subsection (b) the following new sub-
10 section:

11 “(c) SMALL BUSINESS TAXPAYERS NOT REQUIRED
12 TO USE INVENTORIES.—

13 “(1) IN GENERAL.—A qualified taxpayer shall
14 not be required to use inventories under this section
15 for a taxable year.

16 “(2) TREATMENT OF TAXPAYERS NOT USING
17 INVENTORIES.—A qualified taxpayer who is not re-
18 quired under this subsection to use inventories with
19 respect to any property for a taxable year beginning
20 after December 31, 2017, may treat such property—

21 “(A) as a non-incidental material or sup-
22 ply, or

23 “(B) in a manner which conforms to the
24 taxpayer’s method for accounting for such prop-
25 erty in—

1 “(i) an applicable financial statement
2 (as defined in section 451(b)(1)), or

3 “(ii) in the case of a taxpayer that
4 does not have an applicable financial state-
5 ment, their books and records used for
6 purposes of determining tax imposed by
7 this title.

8 “(3) QUALIFIED TAXPAYER.—For purposes of
9 this subsection, the term ‘qualified taxpayer’ means,
10 with respect to any taxable year, a taxpayer who
11 meets the gross receipts test of section 448(c) for
12 the taxable year (or, in the case of a sole proprietor-
13 ship, who would meet such test if such proprietor-
14 ship were a corporation). Such term shall not in-
15 clude a tax shelter prohibited from using the cash
16 receipts and disbursements method of accounting
17 under section 448(a)(3).

18 “(4) COORDINATION WITH SECTION 481.—If a
19 taxpayer changes its method of accounting because
20 the taxpayer is not required to use inventories by
21 reason of paragraph (1) or is required to use inven-
22 tories because such paragraph no longer applies to
23 the taxpayer—

24 “(A) such change shall be treated as initi-
25 ated by the taxpayer, and

1 “(B) such change shall be treated as made
2 with the consent of the Secretary.”.

3 (2) CONFORMING AMENDMENT.—Subsection (c)
4 of section 263A is amended by adding at the end the
5 following new paragraph:

6 “(8) EXCLUSION FROM INVENTORY RULES.—
7 Nothing in this section shall require the use of in-
8 ventories for any taxable year by a qualified tax-
9 payer (within the meaning of section 471(c)(3)) who
10 is not required to use inventories under section 471
11 for such taxable year.”.

12 (b) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 December 31, 2017.

15 **SEC. 13104. MODIFICATION OF RULES FOR UNIFORM CAP-**
16 **ITALIZATION OF CERTAIN EXPENSES.**

17 (a) IN GENERAL.—Section 263A(b) is amended by
18 striking all that follows paragraph (1) and inserting the
19 following new paragraphs:

20 “(2) PROPERTY ACQUIRED FOR RESALE.—Real
21 or personal property described in section 1221(a)(1)
22 which is acquired by the taxpayer for resale.

23 “(3) EXCEPTION FOR SMALL BUSINESSES.—
24 This section shall not apply to any taxpayer who
25 meets the gross receipts test under section 448(c)

1 for the taxable year (or, in the case of a sole propri-
2 etorship, who would meet such test if such propri-
3 etorship were a corporation), other than a tax shel-
4 ter prohibited from using the cash receipts and dis-
5 bursements method of accounting under section
6 448(a)(3).

7 “(4) FILMS, SOUND RECORDINGS, BOOKS,
8 ETC.—For purposes of this subsection, the term
9 ‘tangible personal property’ shall include a film,
10 sound recording, video tape, book, or similar prop-
11 erty.

12 “(5) COORDINATION WITH SECTION 481.—If a
13 taxpayer changes its method of accounting because
14 this section does not apply to the taxpayer by reason
15 of the exception under paragraph (3) or this section
16 applies to the taxpayer because such exception no
17 longer applies to the taxpayer—

18 “(A) such change shall be treated as initi-
19 ated by the taxpayer, and

20 “(B) such change shall be treated as made
21 with the consent of the Secretary.”.

22 (b) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to taxable years beginning after
24 December 31, 2017.

1 **SEC. 13105. INCREASE IN GROSS RECEIPTS TEST FOR CON-**
2 **STRUCTION CONTRACT EXCEPTION TO PER-**
3 **CENTAGE OF COMPLETION METHOD.**

4 (a) INCREASE.—

5 (1) IN GENERAL.—Section 460(e)(1)(B) is
6 amended—

7 (A) in the matter preceding clause (i), by
8 inserting “(other than a tax shelter prohibited
9 from using the cash receipts and disbursements
10 method of accounting under section 448(a)(3))”
11 after “taxpayer”, and

12 (B) by striking clause (ii) and inserting the
13 following:

14 “(ii) who meets the gross receipts test
15 of section 448(c) for the taxable year in
16 which such contract is entered into (or, in
17 the case of a sole proprietorship, who
18 would meet such test if such proprietorship
19 were a corporation).”.

20 (2) CONFORMING AMENDMENTS.—

21 (A) Section 460(e) is amended by striking
22 paragraphs (2) and (3) and by redesignating
23 paragraphs (4) through (6) as paragraphs (2)
24 through (4), respectively.

1 (B) The last sentence of section 56(a)(3) is
2 amended by striking “section 460(e)(6)” and
3 inserting “section 460(e)(4)”.

4 (b) COORDINATION WITH SECTION 481.—Section
5 460(e), as amended by subsection (a), is amended by add-
6 ing at the end the following:

7 “(5) COORDINATION WITH SECTION 481.—If a
8 taxpayer changes its method of accounting because
9 subsections (a), (b), (c)(1), and (c)(2) do not apply
10 by reason of the exception under paragraph (1)(B)
11 or such subsections apply to the taxpayer because
12 such exception no longer applies to the taxpayer—

13 “(A) such change shall be treated as initi-
14 ated by the taxpayer,

15 “(B) such change shall be treated as made
16 with the consent of the Secretary, and

17 “(C) such change shall be permitted only
18 on a cut-off basis for all similarly classified con-
19 tracts entered into on or after the year of
20 change and no adjustments under section
21 481(a) shall be made.”.

22 (c) EFFECTIVE DATE.—The amendment made by
23 this section shall apply to contracts entered into after De-
24 cember 31, 2017, in taxable years ending after such date.

1 **PART III—COST RECOVERY AND ACCOUNTING**

2 **METHODS**

3 **Subpart A—Cost Recovery**

4 **SEC. 13201. TEMPORARY 100-PERCENT EXPENSING FOR**
5 **CERTAIN BUSINESS ASSETS.**

6 (a) IN GENERAL.—

7 (1) 100 PERCENT EXPENSING.—Section 168(k)
8 is amended—

9 (A) in paragraph (1)(A), by striking “50
10 percent” and inserting “100 percent”, and

11 (B) in paragraph (5)(A)(i), by striking “50
12 percent” and inserting “100 percent”.

13 (2) EXTENSION THROUGH 2022.—Section
14 168(k) is amended—

15 (A) in the heading, by striking “DECEM-
16 BER 31, 2007, AND BEFORE JANUARY 1,
17 2020” and inserting “SEPTEMBER 27, 2017,
18 AND BEFORE JANUARY 1, 2023”,

19 (B) in paragraph (2)—

20 (i) in subparagraph (A)(iii), clauses
21 (i)(III) and (ii) of subparagraph (B), and
22 subparagraph (E)(i), by striking “January
23 1, 2020” each place it appears and insert-
24 ing “January 1, 2023”, and

25 (ii) in subparagraph (B)—

1 (I) in clause (i)(II), by striking
2 “January 1, 2021” and inserting
3 “January 1, 2024”, and

4 (II) in the heading of clause (ii),
5 by striking “PRE-JANUARY 1, 2020”
6 and inserting “PRE-JANUARY 1, 2023”,
7 and

8 (C) in paragraph (5)(A), by striking “Jan-
9 uary 1, 2020” and inserting “January 1,
10 2023”.

11 (3) EXCEPTION FOR PUBLIC UTILITIES.—Para-
12 graph (6) of section 168(k) is amended to read as
13 follows:

14 “(6) EXCEPTION FOR CERTAIN PUBLIC UTILITY
15 PROPERTY.—The term ‘qualified property’ shall not
16 include any property which is primarily used in a
17 trade or business described in clause (iv) of section
18 163(j)(7)(A).”.

19 (4) SPECIAL RULE.—Section 168(k) is amended
20 by adding at the end the following new paragraph:

21 “(8) SPECIAL RULE FOR PROPERTY PLACED IN
22 SERVICE DURING CERTAIN PERIODS.—

23 “(A) IN GENERAL.—In the case of quali-
24 fied property placed in service by the taxpayer
25 during the first taxable year ending after Sep-

1 tember 27, 2017, if the taxpayer elects to have
2 this paragraph apply for such taxable year,
3 paragraphs (1)(A) and (5)(A)(i) shall be ap-
4 plied by substituting ‘50 percent’ for ‘100 per-
5 cent’.

6 “(B) FORM OF ELECTION.—Any election
7 under this paragraph shall be made at such
8 time and in such form and manner as the Sec-
9 retary may prescribe.”.

10 (5) COORDINATION WITH SECTION 280F.—Sec-
11 tion 168(k)(2)(F) is amended by striking clause (iii).

12 (6) QUALIFIED FILM AND TELEVISION AND
13 LIVE THEATRICAL PRODUCTIONS.—

14 (A) IN GENERAL.—Clause (i) of section
15 168(k)(2)(A), as amended by section 13204, is
16 amended—

17 (i) in subclause (II), by striking “or”,

18 (ii) in subclause (III), by adding “or”

19 after the comma, and

20 (iii) by adding at the end the fol-
21 lowing:

22 “(IV) which is a qualified film or tele-
23 vision production (as defined in subsection
24 (d) of section 181) for which a deduction
25 would have been allowable under section

1 181 without regard to subsections (a)(2)
2 and (g) of such section or this subsection,
3 or

4 “(V) which is a qualified live theat-
5 rical production (as defined in subsection
6 (e) of section 181) for which a deduction
7 would have been allowable under section
8 181 without regard to subsections (a)(2)
9 and (g) of such section or this sub-
10 section,”.

11 (B) PRODUCTION PLACED IN SERVICE.—
12 Paragraph (2) of section 168(k) is amended by
13 adding at the end the following:

14 “(H) PRODUCTION PLACED IN SERVICE.—
15 For purposes of subparagraph (A)—

16 “(i) a qualified film or television pro-
17 duction shall be considered to be placed in
18 service at the time of initial release or
19 broadcast, and

20 “(ii) a qualified live theatrical produc-
21 tion shall be considered to be placed in
22 service at the time of the initial live staged
23 performance.”.

24 (7) CONFORMING AMENDMENTS.—

1 (A) Paragraph (5) of section 168(k) is
2 amended by striking subparagraph (F).

3 (B) Clause (ii) of section 460(c)(6)(B) is
4 amended by striking “January 1, 2020 (Janu-
5 ary 1, 2021” and inserting “January 1, 2023
6 (January 1, 2024”.

7 (b) EFFECTIVE DATES.—

8 (1) IN GENERAL.—Except as provided in para-
9 graph (2), the amendments made by subsection (a)
10 shall apply to property placed in service after Sep-
11 tember 27, 2017, in taxable years ending after such
12 date.

13 (2) CERTAIN PLANTS.—The amendments made
14 by paragraphs (1)(B) and (2)(C) of subsection (a)
15 shall apply to specified plants planted or grafted
16 after September 27, 2017, in taxable years ending
17 after such date.

18 **SEC. 13202. MODIFICATIONS TO DEPRECIATION LIMITA-**
19 **TIONS ON LUXURY AUTOMOBILES AND PER-**
20 **SONAL USE PROPERTY.**

21 (a) LUXURY AUTOMOBILES.—

22 (1) IN GENERAL.—280F(a)(1)(A) is amended—
23 (A) in clause (i), by striking “\$2,560” and
24 inserting “\$10,000”,

1 (B) in clause (ii), by striking “\$4,100”
2 and inserting “\$16,000”,

3 (C) in clause (iii), by striking “\$2,450”
4 and inserting “\$9,600”, and

5 (D) in clause (iv), by striking “\$1,475”
6 and inserting “\$5,760”.

7 (2) CONFORMING AMENDMENTS.—

8 (A) Clause (ii) of section 280F(a)(1)(B) is
9 amended by striking “\$1,475” in the text and
10 heading and inserting “\$5,760”.

11 (B) Paragraph (7) of section 280F(d) is
12 amended—

13 (i) in subparagraph (A), by striking
14 “1988” and inserting “2018”, and

15 (ii) in subparagraph (B)(i)(II), by
16 striking “1987” and inserting “2017”.

17 (b) REMOVAL OF COMPUTER EQUIPMENT FROM
18 LISTED PROPERTY.—

19 (1) IN GENERAL.—Section 280F(d)(4)(A) is
20 amended—

21 (A) by inserting “and” at the end of clause
22 (iii),

23 (B) by striking clause (iv), and

24 (C) by redesignating clause (v) as clause
25 (iv).

1 (2) CONFORMING AMENDMENT.—Section
2 280F(d)(4) is amended by striking subparagraph
3 (B) and by redesignating subparagraph (C) as sub-
4 paragraph (B).

5 (c) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to property placed in service after
7 December 31, 2017, in taxable years ending after such
8 date.

9 **SEC. 13203. MODIFICATIONS OF TREATMENT OF CERTAIN**
10 **FARM PROPERTY.**

11 (a) TREATMENT OF CERTAIN FARM PROPERTY AS 5-
12 YEAR PROPERTY.—Clause (vii) of section 168(e)(3)(B) is
13 amended by striking “after December 31, 2008, and which
14 is placed in service before January 1, 2010” and inserting
15 “after December 31, 2017”.

16 (b) REPEAL OF REQUIRED USE OF 150-PERCENT
17 DECLINING BALANCE METHOD.—Section 168(b)(2) is
18 amended by striking subparagraph (B) and by redesign-
19 ating subparagraphs (C) and (D) as subparagraphs (B)
20 and (C), respectively.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to property placed in service after
23 December 31, 2017, in taxable years ending after such
24 date.

1 **SEC. 13204. APPLICABLE RECOVERY PERIOD FOR REAL**
2 **PROPERTY.**

3 (a) RESIDENTIAL RENTAL PROPERTY AND NONRESI-
4 DENTIAL REAL PROPERTY.—

5 (1) REDUCTION OF RECOVERY PERIOD.—The
6 table contained in section 168(c) is amended—

7 (A) by striking “27.5 years” and inserting
8 “25 years”, and

9 (B) by striking “39 years” and inserting
10 “25 years”.

11 (2) STATUTORY RECOVERY PERIOD.—The table
12 contained in section 467(e)(3)(A) is amended—

13 (A) by inserting “(other than residential
14 rental property and nonresidential real prop-
15 erty)” after “15-year and 20-year property”,
16 and

17 (B) by striking “19 years” and inserting
18 “25 years”.

19 (3) CONFORMING AMENDMENT.—Clause (ii) of
20 section 168(e)(2)(B) is amended by striking “27.5
21 years” and inserting “25 years”.

22 (b) IMPROVEMENTS TO REAL PROPERTY.—

23 (1) CLASSIFICATION OF QUALIFIED IMPROVE-
24 MENT PROPERTY AS 10-YEAR PROPERTY.—Subpara-
25 graph (D) of section 168(e)(3) is amended—

26 (A) in clause (iii), by striking “and”,

1 (B) in clause (iv), by striking the period
2 and inserting “, and”, and

3 (C) by adding at the end the following new
4 clause:

5 “(v) any qualified improvement prop-
6 erty described in subsection (e)(6).”.

7 (2) ELIMINATION OF QUALIFIED LEASEHOLD
8 IMPROVEMENT, QUALIFIED RESTAURANT, AND
9 QUALIFIED RETAIL IMPROVEMENT PROPERTY.—Sub-
10 section (e) of section 168 is amended—

11 (A) in subparagraph (E) of paragraph
12 (3)—

13 (i) by striking clauses (iv), (v), and
14 (ix),

15 (ii) in clause (vii), by inserting “and”
16 at the end,

17 (iii) in clause (viii), by striking “,
18 and” and inserting a period, and

19 (iv) by redesignating clauses (vi),
20 (vii), and (viii), as so amended, as clauses
21 (iv), (v), and (vi), respectively, and

22 (B) by striking paragraphs (6), (7), and
23 (8).

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1 (3) APPLICATION OF STRAIGHT LINE METHOD
2 TO QUALIFIED IMPROVEMENT PROPERTY.—Para-
3 graph (3) of section 168(b) is amended—

4 (A) by striking subparagraphs (G), (H),
5 and (I), and

6 (B) by inserting after subparagraph (F)
7 the following new subparagraph:

8 “(G) Qualified improvement property de-
9 scribed in subsection (e)(6).”.

10 (4) ALTERNATIVE DEPRECIATION SYSTEM.—

11 (A) ELECTING REAL PROPERTY TRADE OR
12 BUSINESS.—Subsection (g) of section 168 is
13 amended—

14 (i) in paragraph (1)—

15 (I) in subparagraph (D), by
16 striking “and” at the end,

17 (II) in subparagraph (E), by in-
18 serting “and” at the end, and

19 (III) by inserting after subpara-
20 graph (E) the following new subpara-
21 graph:

22 “(F) any property described in paragraph
23 (8),”, and

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

1 “(8) ELECTING REAL PROPERTY TRADE OR
2 BUSINESS.—The property described in this para-
3 graph shall consist of any nonresidential real prop-
4 erty, residential rental property, and qualified im-
5 provement property held by an electing real property
6 trade or business (as defined in 163(j)(7)(B)).”.

(B) QUALIFIED IMPROVEMENT PROPERTY.—The table contained in subparagraph (B) of section 168(g)(3) is amended—

(i) by inserting after the item relating to subparagraph (D)(ii) the following new item:

“(D)(v) 20”.

13, and

(ii) by striking the item relating to
subparagraph (E)(iv) and all that follows
through the item relating to subparagraph
(E)(ix) and inserting the following:

“(E)(iv)	20
(E)(v)	30
(E)(vi)	35”.

(C) APPLICABLE RECOVERY PERIOD FOR
RESIDENTIAL RENTAL PROPERTY.—The table
contained in subparagraph (C) of section
168(g)(2) is amended by striking clauses (iii)
and (iv) and inserting the following:

“(iii) Residential rental property	30 years
(iv) Nonresidential real property	40 years
(v) Any railroad grading or tunnel bore or water utility prop- erty	50 years”

1 (5) CONFORMING AMENDMENTS.—

2 (A) Clause (i) of section 168(k)(2)(A) is
3 amended—

4 (i) in subclause (II), by inserting “or”
5 after the comma,

6 (ii) in subclause (III), by striking
7 “or” at the end, and

8 (iii) by striking subclause (IV).

9 (B) Section 168 is amended—

10 (i) in subsection (e), as amended by
11 paragraph (2)(B), by adding at the end
12 the following:

13 “(6) QUALIFIED IMPROVEMENT PROPERTY.—

14 “(A) IN GENERAL.—The term ‘qualified
15 improvement property’ means any improvement
16 to an interior portion of a building which is
17 nonresidential real property if such improve-
18 ment is placed in service after the date such
19 building was first placed in service.

20 “(B) CERTAIN IMPROVEMENTS NOT IN-
21 CLUDED.—Such term shall not include any im-
22 provement for which the expenditure is attrib-
23 utable to—

24 “(i) the enlargement of the building,

25 “(ii) any elevator or escalator, or

1 “(iii) the internal structural frame-
2 work of the building.”.

3 (ii) in subsection (k), by striking
4 paragraph (3).

5 (c) EFFECTIVE DATE.—

6 (1) APPLICATION.—The amendments made by
7 this section shall apply to property placed in service
8 after December 31, 2017.

9 (2) SHORTER RECOVERY PERIOD OR MORE AC-
10 CELERATED DEPRECIATION METHOD.—In the case
11 of property placed in service before January 1,
12 2018, if the amendments made by this section result
13 in—

14 (A) an applicable recovery period which is
15 less than the applicable recovery period for such
16 property before enactment of such amendments,
17 or

18 (B) an applicable depreciation method
19 which is more accelerated than the applicable
20 depreciation method for such property before
21 enactment of such amendments,
22 the depreciation deduction for such property shall,
23 for any taxable year beginning after December 31,
24 2017, be determined as if such property were placed
25 in service on January 1, 2018.

1 **SEC. 13205. USE OF ALTERNATIVE DEPRECIATION SYSTEM**
2 **FOR ELECTING FARMING BUSINESSES.**

3 (a) IN GENERAL.—Section 168(g)(1), as amended by
4 section 13204, is amended by striking “and” at the end
5 of subparagraph (E), by inserting “and” at the end of
6 subparagraph (F), and by inserting after subparagraph
7 (F) the following new subparagraph:

8 “(G) any property with a recovery period
9 of 10 years or more which is held by an electing
10 farming business (as defined in section
11 163(j)(7)(C)),”.

12 (b) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 December 31, 2017.

15 **SEC. 13206. AMORTIZATION OF RESEARCH AND EXPERI-**
16 **MENTAL EXPENDITURES.**

17 (a) IN GENERAL.—Section 174 is amended to read
18 as follows:

19 **“SEC. 174. AMORTIZATION OF RESEARCH AND EXPERI-**
20 **MENTAL EXPENDITURES.**

21 “(a) IN GENERAL.—In the case of a taxpayer’s speci-
22 fied research or experimental expenditures for any taxable
23 year—

24 “(1) except as provided in paragraph (2), no
25 deduction shall be allowed for such expenditures,
26 and

1 “(2) the taxpayer shall—

2 “(A) charge such expenditures to capital
3 account, and

4 “(B) be allowed an amortization deduction
5 of such expenditures ratably over the 5-year pe-
6 riod (15-year period in the case of any specified
7 research or experimental expenditures which are
8 attributable to foreign research (within the
9 meaning of section 41(d)(4)(F))) beginning
10 with the midpoint of the taxable year in which
11 such expenditures are paid or incurred.

12 “(b) SPECIFIED RESEARCH OR EXPERIMENTAL EX-
13 PENDITURES.—For purposes of this section, the term
14 ‘specified research or experimental expenditures’ means,
15 with respect to any taxable year, research or experimental
16 expenditures which are paid or incurred by the taxpayer
17 during such taxable year in connection with the taxpayer’s
18 trade or business.

19 “(c) SPECIAL RULES.—

20 “(1) LAND AND OTHER PROPERTY.—This sec-
21 tion shall not apply to any expenditure for the acqui-
22 sition or improvement of land, or for the acquisition
23 or improvement of property to be used in connection
24 with the research or experimentation and of a char-
25 acter which is subject to the allowance under section

1 167 (relating to allowance for depreciation, etc.) or
2 section 611 (relating to allowance for depletion); but
3 for purposes of this section allowances under section
4 167, and allowances under section 611, shall be con-
5 sidered as expenditures.

6 “(2) EXPLORATION EXPENDITURES.—This sec-
7 tion shall not apply to any expenditure paid or in-
8 curred for the purpose of ascertaining the existence,
9 location, extent, or quality of any deposit of ore or
10 other mineral (including oil and gas).

11 “(3) SOFTWARE DEVELOPMENT.—For purposes
12 of this section, any amount paid or incurred in con-
13 nection with the development of any software shall
14 be treated as a research or experimental expendi-
15 ture.

16 “(d) TREATMENT UPON DISPOSITION, RETIREMENT,
17 OR ABANDONMENT.—If any property with respect to
18 which specified research or experimental expenditures are
19 paid or incurred is disposed, retired, or abandoned during
20 the period during which such expenditures are allowed as
21 an amortization deduction under this section, no deduction
22 shall be allowed with respect to such expenditures on ac-
23 count of such disposition, retirement, or abandonment and
24 such amortization deduction shall continue with respect to
25 such expenditures.”.

1 (b) CHANGE IN METHOD OF ACCOUNTING.—The
2 amendments made by subsection (a) shall be treated as
3 a change in method of accounting for purposes of section
4 481 of the Internal Revenue Code of 1986 and—

5 (1) such change shall be treated as initiated by
6 the taxpayer,

7 (2) such change shall be treated as made with
8 the consent of the Secretary, and

9 (3) such change shall be applied only on a cut-
10 off basis for any research or experimental expendi-
11 tures paid or incurred in taxable years beginning
12 after December 31, 2025, and no adjustments under
13 section 481(a) shall be made.

14 (c) CLERICAL AMENDMENT.—The table of sections
15 for part VI of subchapter B of chapter 1 is amended by
16 striking the item relating to section 174 and inserting the
17 following new item:

“Sec. 174. Amortization of research and experimental expenditures.”.

18 (d) CONFORMING AMENDMENTS.—

19 (1) Section 41(d)(1)(A) is amended by striking
20 “expenses under section 174” and inserting “speci-
21 fied research or experimental expenditures under
22 section 174”.

23 (2) Subsection (c) of section 280C is amend-
24 ed—

1 (A) by striking paragraph (1) and insert-
2 ing the following:

3 “(1) IN GENERAL.—If—

4 “(A) the amount of the credit determined
5 for the taxable year under section 41(a)(1), ex-
6 ceeds

7 “(B) the amount allowable as a deduction
8 for such taxable year for qualified research ex-
9 penses or basic research expenses,
10 the amount chargeable to capital account for the
11 taxable year for such expenses shall be reduced by
12 the amount of such excess.”,

13 (B) by striking paragraph (2),

14 (C) by redesignating paragraphs (3) (as
15 amended by this Act) and (4) as paragraphs (2)
16 and (3), respectively, and

17 (D) in paragraph (2), as redesignated by
18 subparagraph (C), by striking “paragraphs (1)
19 and (2)” and inserting “paragraph (1)”.

20 (e) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to amounts paid or incurred in tax-
22 able years beginning after December 31, 2025.

1 **SEC. 13207. EXPENSING OF CERTAIN COSTS OF REPLANT-**
2 **ING CITRUS PLANTS LOST BY REASON OF**
3 **CASUALTY.**

4 (a) IN GENERAL.—Section 263A(d)(2) is amended
5 by adding at the end the following new subparagraph:

6 “(C) SPECIAL TEMPORARY RULE FOR CIT-
7 RUS PLANTS LOST BY REASON OF CASUALTY.—

8 “(i) IN GENERAL.—In the case of the
9 replanting of citrus plants, subparagraph
10 (A) shall apply to amounts paid or in-
11 curred by a person (other than the tax-
12 payer described in subparagraph (A)) if—

13 “(I) the taxpayer described in
14 subparagraph (A) has an equity inter-
15 est of not less than 50 percent in the
16 replanted citrus plants at all times
17 during the taxable year in which such
18 amounts were paid or incurred and
19 such other person holds any part of
20 the remaining equity interest, or

21 “(II) such other person acquired
22 the entirety of such taxpayer’s equity
23 interest in the land on which the lost
24 or damaged citrus plants were located
25 at the time of such loss or damage,
26 and the replanting is on such land.

1 “(ii) **TERMINATION.**—Clause (i) shall
2 not apply to any cost paid or incurred
3 after the date which is 10 years after the
4 date of the enactment of the Tax Cuts and
5 Jobs Act.”.

6 (b) **EFFECTIVE DATE.**—The amendment made by
7 this section shall apply to costs paid or incurred after the
8 date of the enactment of this Act.

9 **Subpart B—Accounting Methods**

10 **SEC. 13221. CERTAIN SPECIAL RULES FOR TAXABLE YEAR**
11 **OF INCLUSION.**

12 (a) **INCLUSION NOT LATER THAN FOR FINANCIAL**
13 **ACCOUNTING PURPOSES.**—Section 451 is amended by re-
14 designating subsections (b) through (i) as subsections (c)
15 through (j), respectively, and by inserting after subsection
16 (a) the following new subsection:

17 “(b) **INCLUSION NOT LATER THAN FOR FINANCIAL**
18 **ACCOUNTING PURPOSES.**—Notwithstanding part V of
19 subchapter P—

20 “(1) **FINANCIAL STATEMENT.**—

21 “(A) **IN GENERAL.**—In the case of a tax-
22 payer the taxable income of which is computed
23 under the accrual method of accounting, the
24 amount of any portion of any item of gross in-
25 come shall be included in gross income not later

1 than the taxable year with respect to which
2 such amount is taken into account as income
3 in—

4 “(i) an applicable financial statement
5 of the taxpayer, or

6 “(ii) such other financial statement as
7 the Secretary may specify for purposes of
8 this subsection.

9 “(B) EXCEPTION.—In the case of a tax-
10 payer which does not have a financial statement
11 described in clause (i) or (ii) of subparagraph
12 (A) for a taxable year, such subparagraph shall
13 not apply.

14 “(2) COORDINATION WITH SPECIAL RULES FOR
15 LONG-TERM CONTRACTS.—Paragraph (1) shall not
16 apply with respect to any item of income to which
17 section 460 applies.

18 “(3) APPLICABLE FINANCIAL STATEMENT.—
19 For purposes of this subsection, the term ‘applicable
20 financial statement’ means—

21 “(A) a financial statement which is cer-
22 tified as being prepared in accordance with gen-
23 erally accepted accounting principles and which
24 is—

1 “(i) a 10-K (or successor form), or
2 annual statement to shareholders, required
3 to be filed by the taxpayer with the United
4 States Securities and Exchange Commis-
5 sion,

6 “(ii) an audited financial statement of
7 the taxpayer which is used for—

8 “(I) credit purposes,

9 “(II) reporting to shareholders,
10 partners, or other proprietors, or to
11 beneficiaries, or

12 “(III) any other substantial
13 nontax purpose,

14 but only if there is no statement of the
15 taxpayer described in clause (i), or

16 “(iii) filed by the taxpayer with any
17 other Federal agency for purposes other
18 than Federal tax purposes, but only if
19 there is no statement of the taxpayer de-
20 scribed in clause (i) or (ii),

21 “(B) a financial statement which is made
22 on the basis of international financial reporting
23 standards and is filed by the taxpayer with an
24 agency of a foreign government which is equiva-
25 lent to the United States Securities and Ex-

1 change Commission and which has reporting
2 standards not less stringent than the standards
3 required by such Commission, but only if there
4 is no statement of the taxpayer described in
5 subparagraph (A), or

6 “(C) a financial statement filed by the tax-
7 payer with any other regulatory or govern-
8 mental body specified by the Secretary, but only
9 if there is no statement of the taxpayer de-
10 scribed in subparagraph (A) or (B).

11 “(4) ALLOCATION OF TRANSACTION PRICE.—
12 For purposes of this subsection, in the case of a con-
13 tract which contains multiple performance obliga-
14 tions, the allocation of the transaction price to each
15 performance obligation shall be equal to the amount
16 allocated to each performance obligation for pur-
17 poses of including such item in revenue in the appli-
18 cable financial statement of the taxpayer.

19 “(5) GROUP OF ENTITIES.—For purposes of
20 paragraph (1), if the financial results of a taxpayer
21 are reported on the applicable financial statement
22 (as defined in paragraph (3)) for a group of entities,
23 such statement may be treated as the applicable fi-
24 nancial statement of the taxpayer.”.

1 (b) TREATMENT OF ADVANCE PAYMENTS.—Section
2 451, as amended by subsection (a), is amended by redesignig-
3 nating subsections (c) through (j) as subsections (d)
4 through (k), respectively, and by inserting after subsection
5 (b) the following new subsection:

6 “(c) TREATMENT OF ADVANCE PAYMENTS.—

7 “(1) IN GENERAL.—A taxpayer which computes
8 taxable income under the accrual method of account-
9 ing, and receives any advance payment during the
10 taxable year, shall—

11 “(A) except as provided in subparagraph
12 (B), include such advance payment in gross in-
13 come for such taxable year, or

14 “(B) if the taxpayer elects the application
15 of this subparagraph with respect to the cat-
16 egory of advance payments to which such ad-
17 vance payment belongs, the taxpayer shall—

18 “(i) to the extent that any portion of
19 such advance payment is required under
20 subsection (b) to be included in gross in-
21 come in the taxable year in which such
22 payment is received, so include such por-
23 tion, and

24 “(ii) include the remaining portion of
25 such advance payment in gross income in

1 the taxable year following the taxable year
2 in which such payment is received.

3 “(2) ELECTION.—

4 “(A) IN GENERAL.—Except as otherwise
5 provided in this paragraph, the election under
6 paragraph (1)(B) shall be made at such time,
7 in such form and manner, and with respect to
8 such categories of advance payments, as the
9 Secretary may provide.

10 “(B) PERIOD TO WHICH ELECTION AP-
11 PLIES.—An election under paragraph (1)(B)
12 shall be effective for the taxable year with re-
13 spect to which it is first made and for all subse-
14 quent taxable years, unless the taxpayer secures
15 the consent of the Secretary to revoke such
16 election. For purposes of this title, the com-
17 putation of taxable income under an election
18 made under paragraph (1)(B) shall be treated
19 as a method of accounting.

20 “(3) TAXPAYERS CEASING TO EXIST.—Except
21 as otherwise provided by the Secretary, the election
22 under paragraph (1)(B) shall not apply with respect
23 to advance payments received by the taxpayer during
24 a taxable year if such taxpayer ceases to exist during
25 (or with the close of) such taxable year.

1 “(4) ADVANCE PAYMENT.—For purposes of this
2 subsection—

3 “(A) IN GENERAL.—The term ‘advance
4 payment’ means any payment—

5 “(i) the full inclusion of which in the
6 gross income of the taxpayer for the tax-
7 able year of receipt is a permissible method
8 of accounting under this section (deter-
9 mined without regard to this subsection),

10 “(ii) any portion of which is included
11 in revenue by the taxpayer in a financial
12 statement described in clause (i) or (ii) of
13 subsection (b)(1)(A) for a subsequent tax-
14 able year, and

15 “(iii) which is for goods, services, or
16 such other items as may be identified by
17 the Secretary for purposes of this clause.

18 “(B) EXCLUSIONS.—Except as otherwise
19 provided by the Secretary, such term shall not
20 include—

21 “(i) rent,

22 “(ii) insurance premiums governed by
23 subchapter L,

24 “(iii) payments with respect to finan-
25 cial instruments,

1 “(iv) payments with respect to war-
2 ranty or guarantee contracts under which
3 a third party is the primary obligor,

4 “(v) payments subject to section
5 871(a), 881, 1441, or 1442,

6 “(vi) payments in property to which
7 section 83 applies, and

8 “(vii) any other payment identified by
9 the Secretary for purposes of this subpara-
10 graph.

11 “(C) RECEIPT.—For purposes of this sub-
12 section, an item of gross income is received by
13 the taxpayer if it is actually or constructively
14 received, or if it is due and payable to the tax-
15 payer.

16 “(D) ALLOCATION OF TRANSACTION
17 PRICE.—For purposes of this subsection, rules
18 similar to subsection (b)(4) shall apply.”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 December 31, 2017.

22 (d) COORDINATION WITH SECTION 481.—

23 (1) IN GENERAL.—In the case of any qualified
24 change in method of accounting for the taxpayer’s

1 first taxable year beginning after December 31,
2 2017—

3 (A) such change shall be treated as initi-
4 ated by the taxpayer, and

5 (B) such change shall be treated as made
6 with the consent of the Secretary of the Treas-
7 ury.

8 (2) QUALIFIED CHANGE IN METHOD OF AC-
9 COUNTING.—For purposes of this subsection, the
10 term “qualified change in method of accounting”
11 means any change in method of accounting which—

12 (A) is required by the amendments made
13 by this section, or

14 (B) was prohibited under the Internal Rev-
15 enue Code of 1986 prior to such amendments
16 and is permitted under such Code after such
17 amendments.

18 **PART IV—BUSINESS-RELATED EXCLUSIONS AND**
19 **DEDUCTIONS**

20 **SEC. 13301. LIMITATION ON DEDUCTION FOR INTEREST.**

21 (a) IN GENERAL.—Section 163(j) is amended to read
22 as follows:

23 “(j) LIMITATION ON BUSINESS INTEREST.—

1 “(1) IN GENERAL.—The amount allowed as a
2 deduction under this chapter for any taxable year
3 for business interest shall not exceed the sum of—

4 “(A) the business interest income of such
5 taxpayer for such taxable year, plus

6 “(B) 30 percent of the adjusted taxable in-
7 come of such taxpayer for such taxable year.

8 The amount determined under subparagraph (B)
9 shall not be less than zero.

10 “(2) CARRYFORWARD OF DISALLOWED BUSI-
11 NESS INTEREST.—The amount of any business in-
12 terest not allowed as a deduction for any taxable
13 year by reason of paragraph (1) shall be treated as
14 business interest paid or accrued in the succeeding
15 taxable year.

16 “(3) EXEMPTION FOR CERTAIN SMALL BUSI-
17 NESSES.—In the case of any taxpayer (other than a
18 tax shelter prohibited from using the cash receipts
19 and disbursements method of accounting under sec-
20 tion 448(a)(3)) which meets the gross receipts test
21 of section 448(c) for any taxable year, paragraph (1)
22 shall not apply to such taxpayer for such taxable
23 year. In the case of any taxpayer which is not a cor-
24 poration or a partnership, the gross receipts test of
25 section 448(c) shall be applied in the same manner

1 as if such taxpayer were a corporation or partner-
2 ship.

3 “(4) APPLICATION TO PARTNERSHIPS, ETC.—

4 “(A) IN GENERAL.—In the case of any
5 partnership—

6 “(i) this subsection shall be applied at
7 the partnership level and any deduction for
8 business interest shall be taken into ac-
9 count in determining the non-separately
10 stated taxable income or loss of the part-
11 nership, and

12 “(ii) the adjusted taxable income of
13 each partner of such partnership—

14 “(I) shall be determined without
15 regard to such partner’s distributive
16 share of the non-separately stated tax-
17 able income or loss of such partner-
18 ship, and

19 “(II) shall be increased by such
20 partner’s distributive share of such
21 partnership’s excess taxable income.

22 For purposes of clause (ii)(II), a partner’s
23 distributive share of partnership excess
24 taxable income shall be determined in the
25 same manner as the partner’s distributive

1 share of nonseparately stated taxable in-
2 come or loss of the partnership.

3 “(B) SPECIAL RULES FOR
4 CARRYFORWARDS.—

5 “(i) IN GENERAL.—The amount of
6 any business interest not allowed as a de-
7 duction to a partnership for any taxable
8 year by reason of paragraph (1) for any
9 taxable year—

10 “(I) shall not be treated under
11 paragraph (2) as business interest
12 paid or accrued by the partnership in
13 the succeeding taxable year, and

14 “(II) shall, subject to clause (ii),
15 be treated as excess business interest
16 which is allocated to each partner in
17 the same manner as the non-sepa-
18 rately stated taxable income or loss of
19 the partnership.

20 “(ii) TREATMENT OF EXCESS BUSI-
21 NESS INTEREST ALLOCATED TO PART-
22 NERS.—If a partner is allocated any excess
23 business interest from a partnership under
24 clause (i) for any taxable year—

1 “(I) such excess business interest
2 shall be treated as business interest
3 paid or accrued by the partner in the
4 next succeeding taxable year in which
5 the partner is allocated excess taxable
6 income from such partnership, but
7 only to the extent of such excess tax-
8 able income, and

9 “(II) any portion of such excess
10 business interest remaining after the
11 application of subclause (I) shall, sub-
12 ject to the limitations of subclause (I),
13 be treated as business interest paid or
14 accrued in succeeding taxable years.

15 For purposes of applying this paragraph,
16 excess taxable income allocated to a part-
17 ner from a partnership for any taxable
18 year shall not be taken into account under
19 paragraph (1)(A) with respect to any busi-
20 ness interest other than excess business in-
21 terest from the partnership until all such
22 excess business interest for such taxable
23 year and all preceding taxable years has
24 been treated as paid or accrued under
25 clause (ii).

1 “(iii) BASIS ADJUSTMENTS.—

2 “(I) IN GENERAL.—The adjusted
3 basis of a partner in a partnership in-
4 terest shall be reduced (but not below
5 zero) by the amount of excess busi-
6 ness interest allocated to the partner
7 under clause (i)(II).

8 “(II) SPECIAL RULE FOR DIS-
9 POSITIONS.—If a partner disposes of
10 a partnership interest, the adjusted
11 basis of the partner in the partnership
12 interest shall be increased immediately
13 before the disposition by the amount
14 of the excess (if any) of the amount of
15 the basis reduction under subclause
16 (I) over the portion of any excess
17 business interest allocated to the part-
18 ner under clause (i)(II) which has pre-
19 viously been treated under clause (ii)
20 as business interest paid or accrued
21 by the partner. The preceding sen-
22 tence shall also apply to transfers of
23 the partnership interest (including by
24 reason of death) in a transaction in
25 which gain is not recognized in whole

1 or in part. No deduction shall be al-
2 lowed to the transferor or transferee
3 under this chapter for any excess
4 business interest resulting in a basis
5 increase under this subclause.

6 “(C) EXCESS TAXABLE INCOME.—The
7 term ‘excess taxable income’ means, with re-
8 spect to any partnership, the amount which
9 bears the same ratio to the partnership’s ad-
10 justed taxable income as—

11 “(i) the excess (if any) of—

12 “(I) the amount determined for
13 the partnership under paragraph
14 (1)(B), over

15 “(II) the amount (if any) by
16 which the business interest of the
17 partnership exceeds the business in-
18 terest income of the partnership,
19 bears to

20 “(ii) the amount determined for the
21 partnership under paragraph (1)(B).

22 “(D) APPLICATION TO S CORPORATIONS.—
23 Rules similar to the rules of subparagraphs (A)
24 and (B) shall apply with respect to any S cor-
25 poration and its shareholders.

1 “(5) BUSINESS INTEREST.—For purposes of
2 this subsection, the term ‘business interest’ means
3 any interest paid or accrued on indebtedness prop-
4 erly allocable to a trade or business. Such term shall
5 not include investment interest (within the meaning
6 of subsection (d)).

7 “(6) BUSINESS INTEREST INCOME.—For pur-
8 poses of this subsection, the term ‘business interest
9 income’ means the amount of interest includible in
10 the gross income of the taxpayer for the taxable year
11 which is properly allocable to a trade or business.
12 Such term shall not include investment income
13 (within the meaning of subsection (d)).

14 “(7) TRADE OR BUSINESS.—For purposes of
15 this subsection—

16 “(A) IN GENERAL.—The term ‘trade or
17 business’ shall not include—

18 “(i) the trade or business of per-
19 forming services as an employee,

20 “(ii) any electing real property trade
21 or business,

22 “(iii) any electing farming business,
23 or

24 “(iv) the trade or business of the fur-
25 nishing or sale of—

1 “(I) electrical energy, water, or
2 sewage disposal services,

3 “(II) gas or steam through a
4 local distribution system, or

5 “(III) transportation of gas or
6 steam by pipeline,

7 if the rates for such furnishing or sale, as
8 the case may be, have been established or
9 approved by a State or political subdivision
10 thereof, by any agency or instrumentality
11 of the United States, by a public service or
12 public utility commission or other similar
13 body of any State or political subdivision
14 thereof, or by the governing or ratemaking
15 body of an electric cooperative.

16 “(B) ELECTING REAL PROPERTY TRADE
17 OR BUSINESS.—For purposes of this paragraph,
18 the term ‘electing real property trade or busi-
19 ness’ means any trade or business which is de-
20 scribed in section 469(c)(7)(C) and which
21 makes an election under this subparagraph.
22 Any such election shall be made at such time
23 and in such manner as the Secretary shall pre-
24 scribe, and, once made, shall be irrevocable.

1 “(C) ELECTING FARMING BUSINESS.—For
2 purposes of this paragraph, the term ‘electing
3 farming business’ means a farming business (as
4 defined in section 263A(e)(4)) which makes an
5 election under this subparagraph. Any such
6 election shall be made at such time and in such
7 manner as the Secretary shall prescribe, and,
8 once made, shall be irrevocable.

9 “(8) ADJUSTED TAXABLE INCOME.—For pur-
10 poses of this subsection, the term ‘adjusted taxable
11 income’ means the taxable income of the taxpayer—

12 “(A) computed without regard to—

13 “(i) any item of income, gain, deduc-
14 tion, or loss which is not properly allocable
15 to a trade or business,

16 “(ii) any business interest or business
17 interest income,

18 “(iii) the amount of any net operating
19 loss deduction under section 172, and

20 “(iv) the amount of any deduction al-
21 lowed under section 199 or 199A, and

22 “(B) computed with such other adjust-
23 ments as provided by the Secretary.

24 “(9) CROSS REFERENCES.—

1 “(A) For requirement that an electing real
2 property trade or business use the alternative
3 depreciation system, see section 168(g)(1)(F).

4 “(B) For requirement that an electing
5 farming business use the alternative deprecia-
6 tion system, see section 168(g)(1)(G).”.

7 (b) TREATMENT OF CARRYFORWARD OF DIS-
8 ALLOWED BUSINESS INTEREST IN CERTAIN CORPORATE
9 ACQUISITIONS.—

10 (1) IN GENERAL.—Section 381(c) is amended
11 by inserting after paragraph (19) the following new
12 paragraph:

13 “(20) CARRYFORWARD OF DISALLOWED BUSI-
14 NESS INTEREST.—The carryover of disallowed busi-
15 ness interest described in section 163(j)(2) to tax-
16 able years ending after the date of distribution or
17 transfer.”.

18 (2) APPLICATION OF LIMITATION.—Section
19 382(d) is amended by adding at the end the fol-
20 lowing new paragraph:

21 “(3) APPLICATION TO CARRYFORWARD OF DIS-
22 ALLOWED INTEREST.—The term ‘pre-change loss’
23 shall include any carryover of disallowed interest de-
24 scribed in section 163(n) under rules similar to the
25 rules of paragraph (1).”.

1 (3) CONFORMING AMENDMENT.—Section
2 382(k)(1) is amended by inserting after the first
3 sentence the following: “Such term shall include any
4 corporation entitled to use a carryforward of dis-
5 allowed interest described in section 381(c)(20).”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to taxable years beginning after
8 December 31, 2017.

9 **SEC. 13302. MODIFICATION OF NET OPERATING LOSS DE-**
10 **DUCTION.**

11 (a) LIMITATION ON DEDUCTION.—

12 (1) IN GENERAL.—Section 172(a) is amended
13 to read as follows:

14 “(a) DEDUCTION ALLOWED.—There shall be allowed
15 as a deduction for the taxable year an amount equal to
16 the lesser of—

17 “(1) the aggregate of the net operating loss
18 carryovers to such year, plus the net operating loss
19 carrybacks to such year, or

20 “(2) 90 percent (80 percent in the case of tax-
21 able years beginning after December 31, 2022) of
22 taxable income computed without regard to the de-
23 duction allowable under this section.

1 For purposes of this subtitle, the term ‘net operating loss
2 deduction’ means the deduction allowed by this sub-
3 section.”.

4 (2) COORDINATION OF LIMITATION WITH
5 CARRYBACKS AND CARRYOVERS.—Section 172(b)(2)
6 is amended by striking “shall be computed—” and
7 all that follows and inserting “shall—

8 “(A) be computed with the modifications
9 specified in subsection (d) other than para-
10 graphs (1), (4), and (5) thereof, and by deter-
11 mining the amount of the net operating loss de-
12 duction without regard to the net operating loss
13 for the loss year or for any taxable year there-
14 after,

15 “(B) not be considered to be less than
16 zero, and

17 “(C) not exceed the amount determined
18 under subsection (a)(2) for such prior taxable
19 year.”.

20 (3) CONFORMING AMENDMENT.—Section
21 172(d)(6) is amended by striking “and” at the end
22 of subparagraph (A), by striking the period at the
23 end of subparagraph (B) and inserting “; and”, and
24 by adding at the end the following new subpara-
25 graph:

1 “(C) subsection (a)(2) shall be applied by
2 substituting ‘real estate investment trust tax-
3 able income (as defined in section 857(b)(2) but
4 without regard to the deduction for dividends
5 paid (as defined in section 561))’ for ‘taxable
6 income’.”.

7 (b) REPEAL OF NET OPERATING LOSS CARRYBACK;
8 INDEFINITE CARRYFORWARD.—

9 (1) IN GENERAL.—Section 172(b)(1)(A) is
10 amended—

11 (A) by striking “shall be a net operating
12 loss carryback to each of the 2 taxable years”
13 in clause (i) and inserting “except as otherwise
14 provided in this paragraph, shall not be a net
15 operating loss carryback to any taxable year”,
16 and

17 (B) by striking “to each of the 20 taxable
18 years” in clause (ii) and inserting “to each tax-
19 able year”.

20 (2) CONFORMING AMENDMENT.—Section
21 172(b)(1) is amended by striking subparagraphs (B)
22 through (F).

23 (c) TREATMENT OF FARMING LOSSES.—

24 (1) ALLOWANCE OF CARRYBACKS.—Section
25 172(b)(1), as amended by subsection (b)(2), is

1 amended by adding at the end the following new
2 subparagraph:

3 “(B) FARMING LOSSES.—

4 “(i) IN GENERAL.—In the case of any
5 portion of a net operating loss for the tax-
6 able year which is a farming loss with re-
7 spect to the taxpayer, such loss shall be a
8 net operating loss carryback to each of the
9 2 taxable years preceding the taxable year
10 of such loss.

11 “(ii) FARMING LOSS.—For purposes
12 of this section, the term ‘farming loss’
13 means the lesser of—

14 “(I) the amount which would be
15 the net operating loss for the taxable
16 year if only income and deductions at-
17 tributable to farming businesses (as
18 defined in section 263A(e)(4)) are
19 taken into account, or

20 “(II) the amount of the net oper-
21 ating loss for such taxable year.

22 “(iii) COORDINATION WITH PARA-
23 GRAPH (2).—For purposes of applying
24 paragraph (2), a farming loss for any tax-
25 able year shall be treated as a separate net

1 operating loss for such taxable year to be
2 taken into account after the remaining
3 portion of the net operating loss for such
4 taxable year.

5 “(iv) ELECTION.—Any taxpayer enti-
6 tled to a 2-year carryback under clause (i)
7 from any loss year may elect not to have
8 such clause apply to such loss year. Such
9 election shall be made in such manner as
10 prescribed by the Secretary and shall be
11 made by the due date (including extensions
12 of time) for filing the taxpayer’s return for
13 the taxable year of the net operating loss.
14 Such election, once made for any taxable
15 year, shall be irrevocable for such taxable
16 year.”.

17 (2) CONFORMING AMENDMENTS.—

18 (A) Section 172 is amended by striking
19 subsections (f), (g), and (h), and by redesign-
20 ating subsection (i) as subsection (f).

21 (B) Section 537(b)(4) is amended by in-
22 serting “(as in effect before the date of enact-
23 ment of the Tax Cuts and Jobs Act)” after “as
24 defined in section 172(f)”.

25 (d) TREATMENT OF CERTAIN INSURANCE LOSSES.—

1 (1) TREATMENT OF CARRYFORWARDS AND
2 CARRYBACKS.—Section 172(b)(1), as amended by
3 subsections (b)(2) and (c)(1), is amended by adding
4 at the end the following new subparagraph:

5 “(C) INSURANCE COMPANIES.—In the case
6 of an insurance company (as defined in section
7 816(a)) other than a life insurance company,
8 the net operating loss for any taxable year—

9 “(i) shall be a net operating loss
10 carryback to each of the 2 taxable years
11 preceding the taxable year of such loss,
12 and

13 “(ii) shall be a net operating loss car-
14 ryover to each of the 20 taxable years fol-
15 lowing the taxable year of the loss.”.

16 (2) EXEMPTION FROM LIMITATION.—Section
17 172, as amended by subsection (c)(2)(A), is amend-
18 ed by redesignating subsection (f) as subsection (g)
19 and inserting after subsection (e) the following new
20 subsection:

21 “(f) SPECIAL RULE FOR INSURANCE COMPANIES.—
22 In the case of an insurance company (as defined in section
23 816(a)) other than a life insurance company—

24 “(1) the amount of the deduction allowed under
25 subsection (a) shall be the aggregate of the net oper-

1 ating loss carryovers to such year, plus the net oper-
2 ating loss carrybacks to such year, and

3 “(2) subparagraph (C) of subsection (b)(2)
4 shall not apply.”.

5 (e) EFFECTIVE DATE.—

6 (1) NET OPERATING LOSS LIMITATION.—The
7 amendments made by subsections (a) and (d)(2)
8 shall apply to losses arising in taxable years begin-
9 ning after December 31, 2017.

10 (2) CARRYFORWARDS AND CARRYBACKS.—The
11 amendments made by subsections (b), (c), and
12 (d)(1) shall apply to net operating losses arising in
13 taxable years ending after December 31, 2017.

14 **SEC. 13303. LIKE-KIND EXCHANGES OF REAL PROPERTY.**

15 (a) IN GENERAL.—Section 1031(a)(1) is amended by
16 striking “property” each place it appears and inserting
17 “real property”.

18 (b) CONFORMING AMENDMENTS.—

19 (1) Paragraph (2) of section 1031(a) is amend-
20 ed to read as follows:

21 “(2) EXCEPTION FOR REAL PROPERTY HELD
22 FOR SALE.—This subsection shall not apply to any
23 exchange of real property held primarily for sale.”.

24 (2) Section 1031 is amended by striking sub-
25 sections (e).

1 (3) Section 1031, as amended by paragraph
2 (2), is amended by inserting after subsection (d) the
3 following new subsection:

4 “(e) APPLICATION TO CERTAIN PARTNERSHIPS.—
5 For purposes of this section, an interest in a partnership
6 which has in effect a valid election under section 761(a)
7 to be excluded from the application of all of subchapter
8 K shall be treated as an interest in each of the assets of
9 such partnership and not as an interest in a partnership.”.

10 (4) Section 1031(h) is amended to read as fol-
11 lows:

12 “(h) SPECIAL RULES FOR FOREIGN REAL PROP-
13 ERTY.—Real property located in the United States and
14 real property located outside the United States are not
15 property of a like kind.”.

16 (5) Section 1031(i) is amended to read as fol-
17 lows:

18 “(i) SPECIAL RULES FOR MUTUAL DITCH, RES-
19 ERVOIR, OR IRRIGATION COMPANY STOCK.—For purposes
20 of subsection (a), shares in a mutual ditch, reservoir, or
21 irrigation company shall be treated as real property if at
22 the time of the exchange—

23 “(1) the mutual ditch, reservoir, or irrigation
24 company is an organization described in section
25 501(c)(12)(A) (determined without regard to the

1 percentage of its income that is collected from its
2 members for the purpose of meeting losses and ex-
3 penses), and

4 “(2) the shares in such company have been rec-
5 ognized by the highest court of the State in which
6 such company was organized or by applicable State
7 statute as constituting or representing real property
8 or an interest in real property.”.

9 (6) The heading of section 1031 is amended by
10 striking “**PROPERTY**” and inserting “**REAL PROP-**
11 **ERTY**”.

12 (7) The table of sections for part III of sub-
13 chapter O of chapter 1 is amended by striking the
14 item relating to section 1031 and inserting the fol-
15 lowing new item:

“Sec. 1031. Exchange of real property held for productive use or investment.”.

16 (c) **EFFECTIVE DATE.**—

17 (1) **IN GENERAL.**—Except as otherwise pro-
18 vided in this subsection, the amendments made by
19 this section shall apply to exchanges completed after
20 December 31, 2017.

21 (2) **TRANSITION RULE.**—The amendments
22 made by this section shall not apply to any exchange
23 if—

1 (A) the property disposed of by the tax-
2 payer in the exchange is disposed of on or be-
3 fore December 31 2017, or

4 (B) the property received by the taxpayer
5 in the exchange is received on or before Decem-
6 ber 31, 2017.

7 **SEC. 13304. LIMITATION ON DEDUCTION BY EMPLOYERS OF**
8 **EXPENSES FOR FRINGE BENEFITS.**

9 (a) NO DEDUCTION ALLOWED FOR ENTERTAINMENT
10 EXPENSES.—

11 (1) IN GENERAL.—Section 274(a) is amend-
12 ed—

13 (A) in paragraph (1)(A), by striking “un-
14 less” and all that follows through “trade or
15 business,”,

16 (B) by striking the flush sentence at the
17 end of paragraph (1), and

18 (C) by striking paragraph (2)(C).

19 (2) CONFORMING AMENDMENTS.—

20 (A) Section 274(d) is amended—

21 (i) by striking paragraph (2) and re-
22 designating paragraphs (3) and (4) as
23 paragraphs (2) and (3), respectively, and

24 (ii) in the flush text following para-
25 graph (3) (as so redesignated)—

1 (I) by striking “, entertainment,
2 amusement, recreation, or use of the
3 facility or property,” in item (B), and

4 (II) by striking “(D) the business
5 relationship to the taxpayer of persons
6 entertained, using the facility or prop-
7 erty, or receiving the gift” and insert-
8 ing “(D) the business relationship to
9 the taxpayer of the person receiving
10 the benefit”,

11 (B) Section 274 is amended by striking
12 subsection (l).

13 (C) Section 274(n) is amended by striking
14 “AND ENTERTAINMENT” in the heading.

15 (D) Section 274(n)(1) is amended to read
16 as follows:

17 “(1) IN GENERAL.—The amount allowable as a
18 deduction under this chapter for any expense for
19 food or beverages shall not exceed 50 percent of the
20 amount of such expense which would (but for this
21 paragraph) be allowable as a deduction under this
22 chapter.”.

23 (E) Section 274(n)(2) is amended—

1 (i) in subparagraph (B), by striking
2 “in the case of an expense for food or bev-
3 erages,”,

4 (ii) by striking subparagraph (C) and
5 redesignating subparagraphs (D) and (E)
6 as subparagraphs (C) and (D), respec-
7 tively,

8 (iii) by striking “of subparagraph
9 (E)” the last sentence and inserting “of
10 subparagraph (D)”, and

11 (iv) by striking “in subparagraph
12 (D)” in the last sentence and inserting “in
13 subparagraph (C)”.

14 (F) Clause (iv) of section 7701(b)(5)(A) is
15 amended to read as follows:

16 “(iv) a professional athlete who is
17 temporarily in the United States to com-
18 pete in a sports event—

19 “(I) which is organized for the
20 primary purpose of benefiting an or-
21 ganization which is described in sec-
22 tion 501(c)(3) and exempt from tax
23 under section 501(a),

1 “(II) all of the net proceeds of
2 which are contributed to such organi-
3 zation, and,

4 “(III) which utilizes volunteers
5 for substantially all of the work per-
6 formed in carrying out such event.”.

7 (b) ONLY 50 PERCENT OF EXPENSES FOR MEALS
8 PROVIDED ON OR NEAR BUSINESS PREMISES ALLOWED
9 AS DEDUCTION.—Paragraph (2) of section 274(n), as
10 amended by subsection (a), is amended—

11 (1) by striking subparagraph (B),

12 (2) by redesignating subparagraphs (C) and
13 (D) as subparagraphs (B) and (C), respectively,

14 (3) by striking “of subparagraph (D)” in the
15 last sentence and inserting “of subparagraph (C)”,
16 and

17 (4) by striking “in subparagraph (C)” in the
18 last sentence and inserting “in subparagraph (B)”.

19 (c) TREATMENT OF TRANSPORTATION BENEFITS.—
20 Section 274, as amended by subsection (a), is amended—

21 (1) in subsection (a)—

22 (A) in the heading, by striking “OR
23 RECREATION” and inserting “RECREATION, OR
24 QUALIFIED TRANSPORTATION FRINGES”, and

202

1 (B) by adding at the end the following new
2 paragraph:

3 “(4) QUALIFIED TRANSPORTATION FRINGES.—
4 No deduction shall be allowed under this chapter for
5 the expense of any qualified transportation fringe
6 (as defined in section 132(f)) provided to an em-
7 ployee of the taxpayer.”, and

8 (2) by inserting after subsection (k) the fol-
9 lowing new subsection:

10 “(l) TRANSPORTATION AND COMMUTING BENE-
11 FITS.—No deduction shall be allowed under this chapter
12 for any expense incurred for providing any transportation,
13 or any payment or reimbursement, to an employee of the
14 taxpayer in connection with travel between the employee’s
15 residence and place of employment, except as necessary
16 for ensuring the safety of the employee.”.

17 (d) ELIMINATION OF DEDUCTION FOR MEALS PRO-
18 VIDED AT CONVENIENCE OF EMPLOYER.—Section 274, as
19 amended by subsection (c), is amended—

20 (1) by redesignating subsection (o) as sub-
21 section (p), and

22 (2) by inserting after subsection (n) the fol-
23 lowing new subsection:

1 “(o) MEALS PROVIDED AT CONVENIENCE OF EM-
2 PLOYER.—No deduction shall be allowed under this chap-
3 ter for—

4 “(1) any expense for the operation of a facility
5 described in section 132(e)(2), and any expense for
6 food or beverages, including under section 132(e)(1),
7 associated with such facility, or

8 “(2) any expense for meals described in section
9 119(a).”.

10 (e) EFFECTIVE DATE.—

11 (1) IN GENERAL.—Except as provided in para-
12 graph (2), the amendments made by this section
13 shall apply to amounts incurred or paid after De-
14 cember 31, 2017.

15 (2) EFFECTIVE DATE FOR ELIMINATION OF DE-
16 DUCTION FOR MEALS PROVIDED AT CONVENIENCE
17 OF EMPLOYER.—The amendments made by sub-
18 section (d) shall apply to amounts incurred or paid
19 after December 31, 2025.

20 **SEC. 13305. REPEAL OF DEDUCTION FOR INCOME ATTRIB-**
21 **UTABLE TO DOMESTIC PRODUCTION ACTIVI-**
22 **TIES.**

23 (a) IN GENERAL.—Part VI of subchapter B of chap-
24 ter 1 is amended by striking section 199 (and by striking

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

3 (b) CONFORMING AMENDMENTS.—

4 (1) Sections 74(d)(2)(B), 86(b)(2)(A),
5 135(c)(4)(A), 137(b)(3)(A), 219(g)(3)(A)(ii),
6 221(b)(2)(C), 222(b)(2)(C), 246(b)(1), and
7 469(i)(3)(F)(iii) are each amended by striking
8 “199.”.

9 (2) Section 170(b)(2)(D), as amended by sec-
10 tion 11011, is amended by striking clause (iv) and
11 by redesignating clauses (v) and (vi) as redesign-
12 ating clauses (iv) as clause (v), respectively.

13 (3) Section 172(d) is amended by striking para-
14 graph (7).

15 (4) Section 613(a) is amended by striking “and
16 without the deduction under section 199”.

17 (5) Section 613A(d)(1) is amended by striking
18 subparagraph (B) and by redesignating subpara-
19 graphs (C), (D), and (E) as subparagraphs (B), (C),
20 and (D).

21 (c) EFFECTIVE DATE.—The amendments made by
22 this subsection shall apply to taxable years beginning after
23 December 31, 2018.

1 **SEC. 13306. DENIAL OF DEDUCTION FOR CERTAIN FINES,**
2 **PENALTIES, AND OTHER AMOUNTS.**

3 (a) DENIAL OF DEDUCTION.—

4 (1) IN GENERAL.—Subsection (f) of section 162
5 is amended to read as follows:

6 “(f) FINES, PENALTIES, AND OTHER AMOUNTS.—

7 “(1) IN GENERAL.—Except as provided in the
8 following paragraphs of this subsection, no deduction
9 otherwise allowable shall be allowed under this chap-
10 ter for any amount paid or incurred (whether by
11 suit, agreement, or otherwise) to, or at the direction
12 of, a government or governmental entity in relation
13 to the violation of any law or the investigation or in-
14 quiry by such government or entity into the potential
15 violation of any law.

16 “(2) EXCEPTION FOR AMOUNTS CONSTITUTING
17 RESTITUTION OR PAID TO COME INTO COMPLIANCE
18 WITH LAW.—

19 “(A) IN GENERAL.—Paragraph (1) shall
20 not apply to any amount that—

21 “(i) the taxpayer establishes—

22 “(I) constitutes restitution (in-
23 cluding remediation of property) for
24 damage or harm which was or may be
25 caused by the violation of any law or
26 the potential violation of any law, or

1 “(II) is paid to come into compli-
2 ance with any law which was violated
3 or otherwise involved in the investiga-
4 tion or inquiry described in paragraph
5 (1),

6 “(ii) is identified as restitution or as
7 an amount paid to come into compliance
8 with such law, as the case may be, in the
9 court order or settlement agreement, and

10 “(iii) in the case of any amount of
11 restitution for failure to pay any tax im-
12 posed under this title in the same manner
13 as if such amount were such tax, would
14 have been allowed as a deduction under
15 this chapter if it had been timely paid.

16 The identification under clause (ii) alone shall
17 not be sufficient to make the establishment re-
18 quired under clause (i).

19 “(B) LIMITATION.—Subparagraph (A)
20 shall not apply to any amount paid or incurred
21 as reimbursement to the government or entity
22 for the costs of any investigation or litigation.

23 “(3) EXCEPTION FOR AMOUNTS PAID OR IN-
24 CURRED AS THE RESULT OF CERTAIN COURT OR-
25 DERS.—Paragraph (1) shall not apply to any

1 amount paid or incurred by reason of any order of
2 a court in a suit in which no government or govern-
3 mental entity is a party.

4 “(4) EXCEPTION FOR TAXES DUE.—Paragraph
5 (1) shall not apply to any amount paid or incurred
6 as taxes due.

7 “(5) TREATMENT OF CERTAIN NONGOVERN-
8 MENTAL REGULATORY ENTITIES.—For purposes of
9 this subsection, the following nongovernmental enti-
10 ties shall be treated as governmental entities:

11 “(A) Any nongovernmental entity which
12 exercises self-regulatory powers (including im-
13 posing sanctions) in connection with a qualified
14 board or exchange (as defined in section
15 1256(g)(7)).

16 “(B) To the extent provided in regulations,
17 any nongovernmental entity which exercises
18 self-regulatory powers (including imposing sanc-
19 tions) as part of performing an essential gov-
20 ernmental function.”.

21 (2) EFFECTIVE DATE.—The amendment made
22 by this subsection shall apply to amounts paid or in-
23 curred on or after the date of the enactment of this
24 Act, except that such amendments shall not apply to
25 amounts paid or incurred under any binding order

1 or agreement entered into before such date. Such ex-
2 ception shall not apply to an order or agreement re-
3 quiring court approval unless the approval was ob-
4 tained before such date.

5 (b) REPORTING OF DEDUCTIBLE AMOUNTS.—

6 (1) IN GENERAL.—Subpart B of part III of
7 subchapter A of chapter 61 is amended by inserting
8 after section 6050W the following new section:

9 **“SEC. 6050X. INFORMATION WITH RESPECT TO CERTAIN**
10 **FINES, PENALTIES, AND OTHER AMOUNTS.**

11 “(a) REQUIREMENT OF REPORTING.—

12 “(1) IN GENERAL.—The appropriate official of
13 any government or any entity described in section
14 162(f)(5) which is involved in a suit or agreement
15 described in paragraph (2) shall make a return in
16 such form as determined by the Secretary setting
17 forth—

18 “(A) the amount required to be paid as a
19 result of the suit or agreement to which para-
20 graph (1) of section 162(f) applies,

21 “(B) any amount required to be paid as a
22 result of the suit or agreement which con-
23 stitutes restitution or remediation of property,
24 and

1 “(C) any amount required to be paid as a
2 result of the suit or agreement for the purpose
3 of coming into compliance with any law which
4 was violated or involved in the investigation or
5 inquiry.

6 “(2) SUIT OR AGREEMENT DESCRIBED.—

7 “(A) IN GENERAL.—A suit or agreement is
8 described in this paragraph if—

9 “(i) it is—

10 “(I) a suit with respect to a vio-
11 lation of any law over which the gov-
12 ernment or entity has authority and
13 with respect to which there has been
14 a court order, or

15 “(II) an agreement which is en-
16 tered into with respect to a violation
17 of any law over which the government
18 or entity has authority, or with re-
19 spect to an investigation or inquiry by
20 the government or entity into the po-
21 tential violation of any law over which
22 such government or entity has author-
23 ity, and

24 “(ii) the aggregate amount involved in
25 all court orders and agreements with re-

1 spect to the violation, investigation, or in-
2 quiry is \$600 or more.

3 “(B) ADJUSTMENT OF REPORTING
4 THRESHOLD.—The Secretary shall adjust the
5 \$600 amount in subparagraph (A)(ii) as nec-
6 essary in order to ensure the efficient adminis-
7 tration of the internal revenue laws.

8 “(3) TIME OF FILING.—The return required
9 under this subsection shall be filed at the time the
10 agreement is entered into, as determined by the Sec-
11 retary.

12 “(b) STATEMENTS TO BE FURNISHED TO INDIVID-
13 UALS INVOLVED IN THE SETTLEMENT.—Every person re-
14 quired to make a return under subsection (a) shall furnish
15 to each person who is a party to the suit or agreement
16 a written statement showing—

17 “(1) the name of the government or entity, and

18 “(2) the information supplied to the Secretary
19 under subsection (a)(1).

20 The written statement required under the preceding sen-
21 tence shall be furnished to the person at the same time
22 the government or entity provides the Secretary with the
23 information required under subsection (a).

24 “(c) APPROPRIATE OFFICIAL DEFINED.—For pur-
25 poses of this section, the term ‘appropriate official’ means

1 the officer or employee having control of the suit, inves-
2 tigation, or inquiry or the person appropriately designated
3 for purposes of this section.”.

4 (2) CONFORMING AMENDMENT.—The table of
5 sections for subpart B of part III of subchapter A
6 of chapter 61 is amended by inserting after the item
7 relating to section 6050W the following new item:

“Sec. 6050X. Information with respect to certain fines, penalties, and other
amounts.”.

8 (3) EFFECTIVE DATE.—The amendments made
9 by this subsection shall apply to amounts paid or in-
10 curred on or after the date of the enactment of this
11 Act, except that such amendments shall not apply to
12 amounts paid or incurred under any binding order
13 or agreement entered into before such date. Such ex-
14 ception shall not apply to an order or agreement re-
15 quiring court approval unless the approval was ob-
16 tained before such date.

17 **SEC. 13307. DENIAL OF DEDUCTION FOR SETTLEMENTS**
18 **SUBJECT TO NONDISCLOSURE AGREEMENTS**
19 **PAID IN CONNECTION WITH SEXUAL HARASS-**
20 **MENT OR SEXUAL ABUSE.**

21 (a) DENIAL OF DEDUCTION.—Section 162 is amend-
22 ed by redesignating subsection (q) as subsection (r) and
23 by inserting after subsection (p) the following new sub-
24 section:

1 “(q) PAYMENTS RELATED TO SEXUAL HARASSMENT
2 AND SEXUAL ABUSE.—No deduction shall be allowed
3 under this chapter for—

4 “(1) any settlement or payment related to sex-
5 ual harassment or sexual abuse if such settlement or
6 payment is subject to a nondisclosure agreement, or

7 “(2) attorney’s fees related to such a settlement
8 or payment.”.

9 (b) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to amounts paid or incurred after
11 the date of the enactment of this Act.

12 **SEC. 13308. UNIFORM TREATMENT OF EXPENSES IN CON-**
13 **TINGENCY FEE CASES.**

14 (a) IN GENERAL.—Section 162, as amended by sec-
15 tion 13307, is amended by redesignating subsection (r) as
16 subsection (s) and by inserting after subsection (q) the
17 following new subsection:

18 “(r) EXPENSES IN CONTINGENCY FEE CASES.—No
19 deduction shall be allowed under subsection (a) to a tax-
20 payer for any expense—

21 “(1) paid or incurred in the course of the trade
22 or business of practicing law, and

23 “(2) resulting from a case for which the tax-
24 payer is compensated primarily on a contingent
25 basis,

1 until such time as such contingency is resolved.”.

2 (b) EFFECTIVE DATE.—The amendment made by
3 this section shall apply to expenses and costs paid or in-
4 curred in taxable years beginning after the date of the en-
5 actment of this Act.

6 **SEC. 13309. REPEAL OF DEDUCTION FOR LOCAL LOBBYING**
7 **EXPENSES.**

8 (a) IN GENERAL.—Section 162(e) is amended by
9 striking paragraphs (2) and (7) and by redesignating
10 paragraphs (3), (4), (5), (6), and (8) as paragraphs (2),
11 (3), (4), (5), and (6), respectively.

12 (b) CONFORMING AMENDMENT.—Section
13 6033(e)(1)(B)(ii) is amended by striking “section
14 162(e)(5)(B)(ii)” and inserting “section
15 162(e)(4)(B)(ii)”.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to amounts paid or incurred on
18 or after the date of the enactment of this Act.

19 **SEC. 13310. RECHARACTERIZATION OF CERTAIN GAINS IN**
20 **THE CASE OF PARTNERSHIP PROFITS INTER-**
21 **ESTS HELD IN CONNECTION WITH PERFORM-**
22 **ANCE OF INVESTMENT SERVICES.**

23 (a) IN GENERAL.—Part IV of subchapter O of chap-
24 ter 1 is amended—

1 (1) by redesignating section 1061 as section
2 1062, and

3 (2) by inserting after section 1060 the following
4 new section:

5 **“SEC. 1061. PARTNERSHIP INTERESTS HELD IN CONNEC-**
6 **TION WITH PERFORMANCE OF SERVICES.**

7 “(a) IN GENERAL.—If one or more applicable part-
8 nership interests are held by a taxpayer at any time during
9 the taxable year, the excess (if any) of—

10 “(1) the taxpayer’s net long-term capital gain
11 with respect to such interests for such taxable year,
12 over

13 “(2) the taxpayer’s net long-term capital gain
14 with respect to such interests for such taxable year
15 computed by applying paragraphs (3) and (4) of sec-
16 tions 1222 by substituting ‘3 years’ for ‘1 year’,
17 shall be treated as short-term capital gain, notwith-
18 standing section 83 or any election in effect under section
19 83(b).

20 “(b) SPECIAL RULE.—To the extent provided by the
21 Secretary, subsection (a) shall not apply to income or gain
22 attributable to any asset not held for portfolio investment
23 on behalf of third party investors.

24 “(c) APPLICABLE PARTNERSHIP INTEREST.—For
25 purposes of this section—

1 “(1) IN GENERAL.—Except as provided in this
2 paragraph or paragraph (4), the term ‘applicable
3 partnership interest’ means any interest in a part-
4 nership which, directly or indirectly, is transferred to
5 (or is held by) the taxpayer in connection with the
6 performance of substantial services by the taxpayer,
7 or any other related person, in any applicable trade
8 or business. The previous sentence shall not apply to
9 an interest held by a person who is employed by an-
10 other entity that is conducting a trade or business
11 (other than an applicable trade or business) and
12 only provides services to such other entity.

13 “(2) APPLICABLE TRADE OR BUSINESS.—The
14 term ‘applicable trade or business’ means any activ-
15 ity conducted on a regular, continuous, and substan-
16 tial basis which, regardless of whether the activity is
17 conducted in one or more entities, consists, in whole
18 or in part, of—

19 “(A) raising or returning capital, and

20 “(B) either—

21 “(i) investing in (or disposing of)
22 specified assets (or identifying specified as-
23 sets for such investing or disposition), or

24 “(ii) developing specified assets.

1 “(3) SPECIFIED ASSET.—The term ‘specified
2 asset’ means securities (as defined in section
3 475(c)(2) without regard to the last sentence there-
4 of), commodities (as defined in section 475(e)(2)),
5 real estate held for rental or investment, cash or
6 cash equivalents, options or derivative contracts with
7 respect to any of the foregoing, and an interest in
8 a partnership to the extent of the partnership’s pro-
9 portionate interest in any of the foregoing.

10 “(4) EXCEPTIONS.—The term ‘applicable part-
11 nership interest’ shall not include—

12 “(A) any interest in a partnership directly
13 or indirectly held by a corporation, or

14 “(B) any capital interest in the partner-
15 ship which provides the taxpayer with a right to
16 share in partnership capital commensurate
17 with—

18 “(i) the amount of capital contributed
19 (determined at the time of receipt of such
20 partnership interest), or

21 “(ii) the value of such interest subject
22 to tax under section 83 upon the receipt or
23 vesting of such interest.

24 “(5) THIRD PARTY INVESTOR.—The term ‘third
25 party investor’ means a person who—

1 “(A) holds an interest in the partnership
2 which does not constitute property held in con-
3 nection with an applicable trade or business;
4 and

5 “(B) is not (and has not been) actively en-
6 gaged, and is (and was) not related to a person
7 so engaged, in (directly or indirectly) providing
8 substantial services described in paragraph (1)
9 for such partnership or any applicable trade or
10 business.

11 “(d) TRANSFER OF APPLICABLE PARTNERSHIP IN-
12 TEREST TO RELATED PERSON.—

13 “(1) IN GENERAL.—If a taxpayer transfers any
14 applicable partnership interest, directly or indirectly,
15 to a person related to the taxpayer, the taxpayer
16 shall include in gross income (as short term capital
17 gain) the excess (if any) of—

18 “(A) so much of the taxpayer’s long-term
19 capital gains with respect to such interest for
20 such taxable year attributable to the sale or ex-
21 change of any asset held for not more than 3
22 years as is allocable to such interest, over

23 “(B) any amount treated as short term
24 capital gain under subsection (a) with respect
25 to the transfer of such interest.

1 “(2) RELATED PERSON.—For purposes of this
2 paragraph, a person is related to the taxpayer if—

3 “(A) the person is a member of the tax-
4 payer’s family within the meaning of section
5 318(a)(1), or

6 “(B) the person performed a service within
7 the current calendar year or the preceding three
8 calendar years in any applicable trade or busi-
9 ness in which or for which the taxpayer per-
10 formed a service.

11 “(e) REPORTING.—The Secretary shall require such
12 reporting (at the time and in the manner prescribed by
13 the Secretary) as is necessary to carry out the purposes
14 of this section.

15 “(f) REGULATIONS.—The Secretary shall issue such
16 regulations or other guidance as is necessary or appro-
17 priate to carry out the purposes of this section”.

18 (b) CLERICAL AMENDMENT.—The table of sections
19 for part IV of subchapter O of chapter 1 is amended by
20 striking the item relating to 1061 and inserting the fol-
21 lowing new items:

 “Sec. 1061. Partnership interests held in connection with performance of serv-
 ices.

 “Sec. 1062. Cross references.”.

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to taxable years beginning after
24 December 31, 2017.

1 **PART V—BUSINESS CREDITS**

2 **Subpart A—General Provisions**

3 **SEC. 13401. MODIFICATION OF ORPHAN DRUG CREDIT.**

4 (a) CREDIT RATE.—Subsection (a) of section 45C is
5 amended by striking “50 percent” and inserting “27.5
6 percent”.

7 (b) DISCLOSURE OF CREDITS.—Section 45C is
8 amended by adding at the end the following new sub-
9 section:

10 “(e) DISCLOSURE OF CREDITS.—The Secretary shall
11 publicly disclose the identity of any taxpayer (in the case
12 of a pass-thru entity, the name of the entity) to whom
13 a credit is allowed under this section, as well as the
14 amount of such credit, the drug with respect to which the
15 qualified clinical testing expenses were taken into account
16 under this section, and the rare disease or condition for
17 which such drug was being tested.”.

18 (c) ELECTION OF REDUCED CREDIT.—Subsection
19 (b) of section 280C is amended by redesignating para-
20 graph (3) as paragraph (4) and by inserting after para-
21 graph (2) the following new paragraph:

22 “(3) ELECTION OF REDUCED CREDIT.—

23 “(A) IN GENERAL.—In the case of any
24 taxable year for which an election is made
25 under this paragraph—

1 “(i) paragraphs (1) and (2) shall not
2 apply, and

3 “(ii) the amount of the credit under
4 section 45C(a) shall be the amount deter-
5 mined under subparagraph (B).

6 “(B) AMOUNT OF REDUCED CREDIT.—The
7 amount of credit determined under this sub-
8 paragraph for any taxable year shall be the
9 amount equal to the excess of—

10 “(i) the amount of credit determined
11 under section 45C(a) without regard to
12 this paragraph, over

13 “(ii) the product of—

14 “(I) the amount described in
15 clause (i), and

16 “(II) the maximum rate of tax
17 under section 11(b).

18 “(C) ELECTION.—An election under this
19 paragraph for any taxable year shall be made
20 not later than the time for filing the return of
21 tax for such year (including extensions), shall
22 be made on such return, and shall be made in
23 such manner as the Secretary shall prescribe.
24 Such an election, once made, shall be irrev-
25 ocable.”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2017.

4 **SEC. 13402. REHABILITATION CREDIT LIMITED TO CER-**
5 **TIFIED HISTORIC STRUCTURES.**

6 (a) IN GENERAL.—Subsection (a) of section 47 is
7 amended to read as follows:

8 “(a) GENERAL RULE.—

9 “(1) IN GENERAL.—For purposes of section 46,
10 for any taxable year during the 5-year period begin-
11 ning in the taxable year in which a qualified reha-
12 bilitated building is placed in service, the rehabilita-
13 tion credit for such year is an amount equal to the
14 ratable share for such year.

15 “(2) RATABLE SHARE.—For purposes of para-
16 graph (1), the ratable share for any taxable year
17 during the period described in such paragraph is the
18 amount equal to 20 percent of the qualified rehabili-
19 tation expenditures with respect to the qualified re-
20 habilitated building, as allocated ratably to each year
21 during such period.”.

22 (b) CONFORMING AMENDMENTS.—

23 (1) Section 47(c) is amended—

24 (A) in paragraph (1)—

1 (i) in subparagraph (A), by amending
2 clause (iii) to read as follows:

3 “(iii) such building is a certified his-
4 toric structure, and”,

5 (ii) by striking subparagraph (B), and

6 (iii) by redesignating subparagraphs
7 (C) and (D) as subparagraphs (B) and
8 (C), respectively, and

9 (B) in paragraph (2)(B), by amending
10 clause (iv) to read as follows:

11 “(iv) CERTIFIED HISTORIC STRUC-
12 TURE.—Any expenditure attributable to
13 the rehabilitation of a qualified rehabili-
14 tated building unless the rehabilitation is a
15 certified rehabilitation (within the meaning
16 of subparagraph (C)).”.

17 (2) Paragraph (4) of section 145(d) is amend-
18 ed—

19 (A) by striking “of section 47(c)(1)(C)”
20 each place it appears and inserting “of section
21 47(c)(1)(B)”, and

22 (B) by striking “section 47(c)(1)(C)(i)”
23 and inserting “section 47(c)(1)(B)(i)”.

24 (c) EFFECTIVE DATE.—

1 (1) IN GENERAL.—Except as provided in para-
2 graph (2), the amendments made by this section
3 shall apply to amounts paid or incurred after De-
4 cember 31, 2017.

5 (2) TRANSITION RULE.—In the case of quali-
6 fied rehabilitation expenditures with respect to any
7 building—

8 (A) owned or leased by the taxpayer dur-
9 ing the entirety of the period after December
10 31, 2017, and

11 (B) with respect to which the 24-month
12 period selected by the taxpayer under section
13 47(c)(1)(B) of the Internal Revenue Code of
14 1986 (as amended by subsection (b)) begins not
15 later than 180 days after the date of the enact-
16 ment of this Act,

17 the amendments made by this section shall apply to
18 such expenditures paid or incurred after the end of
19 the taxable year in which the 24-month period re-
20 ferred to in subparagraph (B) ends.

21 **SEC. 13403. REPEAL OF DEDUCTION FOR CERTAIN UNUSED**
22 **BUSINESS CREDITS.**

23 (a) IN GENERAL.—Part VI of subchapter B of chap-
24 ter 1 is amended by striking section 196 (and by striking

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

3 (b) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years beginning after
5 December 31, 2017.

6 **SEC. 13404. EMPLOYER CREDIT FOR PAID FAMILY AND**
7 **MEDICAL LEAVE.**

8 (a) IN GENERAL.—

9 (1) ALLOWANCE OF CREDIT.—Subpart D of
10 part IV of subchapter A of chapter 1 is amended by
11 adding at the end the following new section:

12 **“SEC. 45S. EMPLOYER CREDIT FOR PAID FAMILY AND MED-**
13 **ICAL LEAVE.**

14 “(a) ESTABLISHMENT OF CREDIT.—

15 “(1) IN GENERAL.—For purposes of section 38,
16 in the case of an eligible employer, the paid family
17 and medical leave credit is an amount equal to the
18 applicable percentage of the amount of wages paid
19 to qualifying employees during any period in which
20 such employees are on family and medical leave.

21 “(2) APPLICABLE PERCENTAGE.—For purposes
22 of paragraph (1), the term ‘applicable percentage’
23 means 12.5 percent increased (but not above 25 per-
24 cent) by 0.25 percentage points for each percentage

1 point by which the rate of payment (as described
2 under subsection (c)(1)(B)) exceeds 50 percent.

3 “(b) LIMITATION.—

4 “(1) IN GENERAL.—The credit allowed under
5 subsection (a) with respect to any employee for any
6 taxable year shall not exceed an amount equal to the
7 product of the normal hourly wage rate of such em-
8 ployee for each hour (or fraction thereof) of actual
9 services performed for the employer and the number
10 of hours (or fraction thereof) for which family and
11 medical leave is taken.

12 “(2) NON-HOURLY WAGE RATE.—For purposes
13 of paragraph (1), in the case of any employee who
14 is not paid on an hourly wage rate, the wages of
15 such employee shall be prorated to an hourly wage
16 rate under regulations established by the Secretary.

17 “(3) MAXIMUM AMOUNT OF LEAVE SUBJECT TO
18 CREDIT.—The amount of family and medical leave
19 that may be taken into account with respect to any
20 employee under subsection (a) for any taxable year
21 shall not exceed 12 weeks.

22 “(c) ELIGIBLE EMPLOYER.—For purposes of this
23 section—

1 “(1) IN GENERAL.—The term ‘eligible em-
2 ployer’ means any employer who has in place a pol-
3 icy that meets the following requirements:

4 “(A) The policy provides—

5 “(i) in the case of a qualifying em-
6 ployee who is not a part-time employee (as
7 defined in section 4980E(d)(4)(B)), not
8 less than 2 weeks of annual paid family
9 and medical leave, and

10 “(ii) in the case of a qualifying em-
11 ployee who is a part-time employee, an
12 amount of annual paid family and medical
13 leave that is not less than an amount
14 which bears the same ratio to the amount
15 of annual paid family and medical leave
16 that is provided to a qualifying employee
17 described in clause (i) as—

18 “(I) the number of hours the em-
19 ployee is expected to work during any
20 week, bears to

21 “(II) the number of hours an
22 equivalent qualifying employee de-
23 scribed in clause (i) is expected to
24 work during the week.

1 “(B) The policy requires that the rate of
2 payment under the program is not less than 50
3 percent of the wages normally paid to such em-
4 ployee for services performed for the employer.

5 “(2) SPECIAL RULE FOR CERTAIN EMPLOY-
6 ERS.—

7 “(A) IN GENERAL.—An added employer
8 shall not be treated as an eligible employer un-
9 less such employer provides paid family and
10 medical leave in compliance with a policy which
11 ensures that the employer—

12 “(i) will not interfere with, restrain,
13 or deny the exercise of or the attempt to
14 exercise, any right provided under the pol-
15 icy, and

16 “(ii) will not discharge or in any other
17 manner discriminate against any individual
18 for opposing any practice prohibited by the
19 policy.

20 “(B) ADDED EMPLOYER; ADDED EM-
21 PLOYEE.—For purposes of this paragraph—

22 “(i) ADDED EMPLOYEE.—The term
23 ‘added employee’ means a qualifying em-
24 ployee who is not covered by title I of the

1 Family and Medical Leave Act of 1993, as
2 amended.

3 “(ii) ADDED EMPLOYER.—The term
4 ‘added employer’ means an eligible em-
5 ployer (determined without regard to this
6 paragraph), whether or not covered by that
7 title I, who offers paid family and medical
8 leave to added employees.

9 “(3) AGGREGATION RULE.—All persons which
10 are treated as a single employer under subsections
11 (a) and (b) of section 52 shall be treated as a single
12 taxpayer.

13 “(4) TREATMENT OF BENEFITS MANDATED OR
14 PAID FOR BY STATE OR LOCAL GOVERNMENTS.—For
15 purposes of this section, any leave which is paid by
16 a State or local government or required by State or
17 local law shall not be taken into account in deter-
18 mining the amount of paid family and medical leave
19 provided by the employer.

20 “(5) NO INFERENCE.—Nothing in this sub-
21 section shall be construed as subjecting an employer
22 to any penalty, liability, or other consequence (other
23 than ineligibility for the credit allowed by reason of
24 subsection (a) or recapturing the benefit of such

1 credit) for failure to comply with the requirements
2 of this subsection.

3 “(d) QUALIFYING EMPLOYEES.—For purposes of
4 this section, the term ‘qualifying employee’ means any em-
5 ployee (as defined in section 3(e) of the Fair Labor Stand-
6 ards Act of 1938, as amended) who—

7 “(1) has been employed by the employer for 1
8 year or more, and

9 “(2) for the preceding year, had compensation
10 not in excess of an amount equal to 60 percent of
11 the amount applicable for such year under clause (i)
12 of section 414(q)(1)(B).

13 “(e) FAMILY AND MEDICAL LEAVE.—

14 “(1) IN GENERAL.—Except as provided in para-
15 graph (2), for purposes of this section, the term
16 ‘family and medical leave’ means leave for any 1 or
17 more of the purposes described under subparagraph
18 (A), (B), (C), (D), or (E) of paragraph (1), or para-
19 graph (3), of section 102(a) of the Family and Med-
20 ical Leave Act of 1993, as amended, whether the
21 leave is provided under that Act or by a policy of the
22 employer.

23 “(2) EXCLUSION.—If an employer provides paid
24 leave as vacation leave, personal leave, or medical or
25 sick leave (other than leave specifically for 1 or more

1 of the purposes referred to in paragraph (1)), that
2 paid leave shall not be considered to be family and
3 medical leave under paragraph (1).

4 “(3) DEFINITIONS.—In this subsection, the
5 terms ‘vacation leave’, ‘personal leave’, and ‘medical
6 or sick leave’ mean those 3 types of leave, within the
7 meaning of section 102(d)(2) of that Act.

8 “(f) WAGES.—For purposes of this section, the term
9 ‘wages’ has the meaning given such term by subsection
10 (b) of section 3306 (determined without regard to any dol-
11 lar limitation contained in such section). Such term shall
12 not include any amount taken into account for purposes
13 of determining any other credit allowed under this sub-
14 part.

15 “(g) ELECTION TO HAVE CREDIT NOT APPLY.—

16 “(1) IN GENERAL.—A taxpayer may elect to
17 have this section not apply for any taxable year.

18 “(2) OTHER RULES.—Rules similar to the rules
19 of paragraphs (2) and (3) of section 51(j) shall
20 apply for purposes of this subsection.

21 “(h) TERMINATION.—This section shall not apply to
22 wages paid in taxable years beginning after December 31,
23 2019.”.

24 (b) CREDIT PART OF GENERAL BUSINESS CREDIT.—
25 Section 38(b) is amended by striking “plus” at the end

1 of paragraph (35), by striking the period at the end of
2 paragraph (36) and inserting “, plus”, and by adding at
3 the end the following new paragraph:

4 “(37) in the case of an eligible employer (as de-
5 fined in section 45S(c)), the paid family and medical
6 leave credit determined under section 45S(a).”.

7 (c) CREDIT ALLOWED AGAINST AMT.—Subpara-
8 graph (B) of section 38(c)(4) is amended by redesignating
9 clauses (ix) through (xi) as clauses (x) through (xii), re-
10 spectively, and by inserting after clause (viii) the following
11 new clause:

12 “(ix) the credit determined under sec-
13 tion 45S,”.

14 (d) CONFORMING AMENDMENTS.—

15 (1) DENIAL OF DOUBLE BENEFIT.—Section
16 280C(a) is amended by inserting “45S(a),” after
17 “45P(a),”.

18 (2) ELECTION TO HAVE CREDIT NOT APPLY.—
19 Section 6501(m) is amended by inserting “45S(g),”
20 after “45H(g),”.

21 (3) CLERICAL AMENDMENT.—The table of sec-
22 tions for subpart D of part IV of subchapter A of
23 chapter 1 is amended by adding at the end the fol-
24 lowing new item:

“Sec. 45S. Employer credit for paid family and medical leave.”.

1 (e) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to wages paid in taxable years be-
3 ginning after December 31, 2017.

4 **Subpart B—Provisions Relating to Low-income**
5 **Housing Credit**

6 **SEC. 13411. RECONSTRUCTION OR REPLACEMENT PERIOD**
7 **AFTER CASUALTY LOSS.**

8 (a) IN GENERAL.—Subparagraph (E) of section
9 42(j)(4) is amended by striking “a reasonable period es-
10 tablished by the Secretary” and inserting “a reasonable
11 period established by the applicable housing credit agency
12 (not to exceed 25 months from the date on which the cas-
13 ualty loss arises). The determination under paragraph (1)
14 shall not be made with respect to a property the basis of
15 which is affected by a casualty loss until the period de-
16 scribed in the preceding sentence with respect to such
17 property has expired.”.

18 (b) EFFECTIVE DATE.—The amendment made by
19 this section shall apply to casualty losses arising after the
20 date of the enactment of this Act.

21 **SEC. 13412. MODIFICATION OF RIGHTS RELATING TO**
22 **BUILDING PURCHASE.**

23 (a) IN GENERAL.—Subparagraph (A) of section
24 42(i)(7) is amended—

1 (1) by striking “a right of 1st refusal” and in-
2 serting “an option”, and

3 (2) by striking “the property” and inserting
4 “the property or a partnership interest relating to
5 the property”.

6 (b) CONFORMING AMENDMENT.—Subparagraph (B)
7 of section 42(i)(7) is amended by adding at the end the
8 following new sentence: “In the case of a purchase of a
9 partnership interest, the minimum purchase price is an
10 amount equal to such interest’s ratable share of the
11 amount determined under the first sentence of this sub-
12 paragraph.”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to agreements entered into or
15 amended after the date of the enactment of this Act.

16 **SEC. 13413. DETERMINATION OF COMMUNITY REVITALIZA-**
17 **TION PLAN TO BE MADE BY HOUSING CREDIT**
18 **AGENCY.**

19 (a) IN GENERAL.—Subclause (III) of section
20 42(m)(1)(B)(ii) is amended by inserting “, as determined
21 by the housing credit agency according to criteria estab-
22 lished by such agency,” after “(d)(5)(C)) and”.

23 (b) CRITERIA.—Paragraph (1) of section 42(m) is
24 amended by adding at the end the following new subpara-
25 graph:

1 “(E) CRITERIA FOR DETERMINATION RE-
2 LATING TO CONCERTED COMMUNITY REVITAL-
3 IZATION PLAN.—For purposes of subparagraph
4 (B)(ii)(III), the criteria for determining wheth-
5 er the development of a project contributes to
6 a concerted community development plan shall
7 take into account any factors the agency deems
8 appropriate, including the extent to which the
9 proposed plan—

10 “(i) is geographically specific,

11 “(ii) outlines a clear plan for imple-
12 mentation and goals for outcomes,

13 “(iii) includes a strategy for applying
14 for or obtaining commitments of public or
15 private investment (or both) in nonhousing
16 infrastructure, amenities, or services, and

17 “(iv) demonstrates the need for com-
18 munity revitalization.”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to allocations of housing credit dol-
21 lar amounts made under qualified allocation plans (as de-
22 fined in section 42(m)(1)(B) of the Internal Revenue Code
23 of 1986) adopted after December 31, 2017.

1 **SEC. 13414. PROHIBITION OF LOCAL APPROVAL AND CON-**
2 **TRIBUTION REQUIREMENTS.**

3 (a) IN GENERAL.—Paragraph (1) of section 42(m),
4 as amended by section 13413, is further amended—

5 (1) by striking clause (ii) of subparagraph (A)
6 and by redesignating clauses (iii) and (iv) thereof as
7 clauses (ii) and (iii), and

8 (2) by adding at the end the following new sub-
9 paragraph:

10 “(F) LOCAL APPROVAL OR CONTRIBUTION
11 NOT TAKEN INTO ACCOUNT.—The selection cri-
12 teria under a qualified allocation plan shall not
13 include consideration of—

14 “(i) any support or opposition with re-
15 spect to the project from local or elected
16 officials, or

17 “(ii) any local government contribu-
18 tion to the project, except to the extent
19 such contribution is taken into account as
20 part of a broader consideration of the
21 project’s ability to leverage outside funding
22 sources, and is not prioritized over any
23 other source of outside funding.”.

24 (b) EFFECTIVE DATE.—The amendments made by
25 this section shall apply to allocations of housing credit dol-
26 lar amounts made after December 31, 2017.

1 **SEC. 13415. SELECTION CRITERIA UNDER QUALIFIED ALLO-**
2 **CATION PLANS.**

3 (a) IN GENERAL.—Subparagraph (C) of section
4 42(m)(1) is amended by striking “and” at the end of
5 clause (ix), by striking the period at the end of clause (x)
6 and inserting “, and”, and by adding at the end the fol-
7 lowing new clause:

8 “(xi) the affordable housing needs of
9 individuals in the State who are members
10 of Indian tribes (as defined in section
11 45A(c)(6)).”.

12 (b) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to allocations of credits under sec-
14 tion 42 of the Internal Revenue Code of 1986 made after
15 December 31, 2017.

16 **SEC. 13416. AFFORDABLE HOUSING TAX CREDIT.**

17 (a) IN GENERAL.—The heading of section 42 is
18 amended by striking “**LOW-INCOME**” and inserting “**AF-**
19 **FORDABLE**”.

20 (b) CONFORMING AMENDMENTS.—

21 (1) Subsection (a) of section 42 is amended by
22 striking “low-income” and inserting “affordable”.

23 (2) Paragraph (5) of section 38(b) is amended
24 by striking “low-income” and inserting “affordable”.

1 (3) The heading of subparagraph (D) of section
2 469(i)(3) is amended by striking “LOW-INCOME”
3 and inserting “AFFORDABLE”.

4 (4) The heading of subparagraph (B) of section
5 469(i)(6) is amended by striking “LOW-INCOME”
6 and inserting “AFFORDABLE”.

7 (5) Paragraph (7) of section 772(a) is amended
8 by striking “low-income” and inserting “affordable”.

9 (6) Paragraph (5) of section 772(d) is amended
10 by striking “low-income” and inserting “affordable”.

11 (c) CLERICAL AMENDMENT.—The item relating to
12 section 42 in the table of sections for subpart D of part
13 IV of subchapter A of chapter 1 is amended to read as
14 follows:

“Sec. 42. Affordable housing credit.”.

15 **PART VI—PROVISIONS RELATED TO SPECIFIC**
16 **ENTITIES AND INDUSTRIES**

17 **Subpart A—Partnership Provisions**

18 **SEC. 13501. TREATMENT OF GAIN OR LOSS OF FOREIGN**
19 **PERSONS FROM SALE OR EXCHANGE OF IN-**
20 **TERESTS IN PARTNERSHIPS ENGAGED IN**
21 **TRADE OR BUSINESS WITHIN THE UNITED**
22 **STATES.**

23 (a) IN GENERAL.—Section 864(c) is amended by
24 adding at the end the following:

1 “(8) GAIN OR LOSS OF FOREIGN PERSONS
2 FROM SALE OR EXCHANGE OF CERTAIN PARTNER-
3 SHIP INTERESTS.—

4 “(A) IN GENERAL.—Notwithstanding any
5 other provision of this subtitle, if a nonresident
6 alien individual or foreign corporation owns, di-
7 rectly or indirectly, an interest in a partnership
8 which is engaged in any trade or business with-
9 in the United States, gain or loss on the sale
10 or exchange of all (or any portion of) such in-
11 terest shall be treated as effectively connected
12 with the conduct of such trade or business to
13 the extent such gain or loss does not exceed the
14 amount determined under subparagraph (B).

15 “(B) AMOUNT TREATED AS EFFECTIVELY
16 CONNECTED.—The amount determined under
17 this subparagraph with respect to any partner-
18 ship interest sold or exchanged—

19 “(i) in the case of any gain on the
20 sale or exchange of the partnership inter-
21 est, is—

22 “(I) the portion of the partner’s
23 distributive share of the amount of
24 gain which would have been effectively
25 connected with the conduct of a trade

1 or business within the United States
2 if the partnership had sold all of its
3 assets at their fair market value as of
4 the date of the sale or exchange of
5 such interest, or

6 “(II) zero if no gain on such
7 deemed sale would have been so effec-
8 tively connected, and

9 “(ii) in the case of any loss on the
10 sale or exchange of the partnership inter-
11 est, is—

12 “(I) the portion of the partner’s
13 distributive share of the amount of
14 loss on the deemed sale described in
15 clause (i)(I) which would have been so
16 effectively connected, or

17 “(II) zero if no loss on such
18 deemed sale would be have been so ef-
19 fectively connected.

20 For purposes of this subparagraph, a part-
21 ner’s distributive share of gain or loss on
22 the deemed sale shall be determined in the
23 same manner as such partner’s distributive
24 share of the non-separately stated taxable
25 income or loss of such partnership.

1 “(C) COORDINATION WITH UNITED STATES
2 REAL PROPERTY INTERESTS.—If a partnership
3 described in subparagraph (A) holds any United
4 States real property interest (as defined in sec-
5 tion 897(c)) at the time of the sale or exchange
6 of the partnership interest, then the gain or loss
7 treated as effectively connected income under
8 subparagraph (A) shall be reduced by the
9 amount so treated with respect to such United
10 States real property interest under section 897.

11 “(D) SALE OR EXCHANGE.—For purposes
12 of this paragraph, an individual or corporation
13 shall be treated as having sold or exchanged
14 any interest in a partnership if, under any pro-
15 vision of this subtitle, gain or loss is realized
16 from the sale or exchange of such interest.

17 “(E) SECRETARIAL AUTHORITY.—The Sec-
18 retary shall prescribe such regulations as the
19 Secretary determines appropriate for the appli-
20 cation of this paragraph, including regulations
21 which provide that, notwithstanding subpara-
22 graph (D), this paragraph applies in a case
23 even if gain or loss from a sale or exchange
24 would not be realized under any other provision
25 of this subtitle.”.

1 (b) WITHHOLDING REQUIREMENTS.—Section 1446
2 is amended by redesignating subsection (f) as subsection
3 (g) and by inserting after subsection (e) the following:

4 “(f) SPECIAL RULES FOR WITHHOLDING ON SALES
5 OF PARTNERSHIP INTERESTS.—

6 “(1) IN GENERAL.—Except as provided in this
7 subsection, if any portion of the gain (if any) on any
8 disposition of an interest in a partnership would be
9 treated under section 864(c)(8) as effectively con-
10 nected with the conduct of a trade or business with-
11 in the United States, the transferee shall be required
12 to deduct and withhold a tax equal to 10 percent of
13 the amount realized on the disposition.

14 “(2) EXCEPTION IF NONFOREIGN AFFIDAVIT
15 FURNISHED.—

16 “(A) IN GENERAL.—No person shall be re-
17 quired to deduct and withhold any amount
18 under paragraph (1) with respect to any dis-
19 position if the transferor furnishes to the trans-
20 feree an affidavit by the transferor stating,
21 under penalty of perjury, the transferor’s
22 United States taxpayer identification number
23 and that the transferor is not a foreign person.

24 “(B) FALSE AFFIDAVIT.—Subparagraph
25 (A) shall not apply to any disposition if—

1 “(i) the transferee has actual knowl-
2 edge that the affidavit is false, or the
3 transferee receives a notice (as described in
4 section 1445(d)) from a transferor’s agent
5 or transferee’s agent that such affidavit or
6 statement is false, or

7 “(ii) the Secretary by regulations re-
8 quires the transferee to furnish a copy of
9 such affidavit or statement to the Sec-
10 retary and the transferee fails to furnish a
11 copy of such affidavit or statement to the
12 Secretary at such time and in such manner
13 as required by such regulations.

14 “(C) RULES FOR AGENTS.—The rules of
15 section 1445(d) shall apply to a transferor’s
16 agent or transferee’s agent with respect to any
17 affidavit described in subparagraph (A) in the
18 same manner as such rules apply with respect
19 to the disposition of a United States real prop-
20 erty interest under such section.

21 “(3) AUTHORITY OF SECRETARY TO PRESCRIBE
22 REDUCED AMOUNT.—At the request of the trans-
23 feror or transferee, the Secretary may prescribe a
24 reduced amount to be withheld under this section if
25 the Secretary determines that to substitute such re-

1 duced amount will not jeopardize the collection of
2 the tax imposed under this title with respect to gain
3 treated under section 864(c)(8) as effectively con-
4 nected with the conduct of a trade or business with
5 in the United States.

6 “(4) PARTNERSHIP TO WITHHOLD AMOUNTS
7 NOT WITHHELD BY THE TRANSFEREE.—If a trans-
8 feree fails to withhold any amount required to be
9 withheld under paragraph (1), the partnership shall
10 be required to deduct and withhold from distribu-
11 tions to the transferee a tax in an amount equal to
12 the amount the transferee failed to withhold (plus
13 interest under this title on such amount).

14 “(5) DEFINITIONS.—Any term used in this sub-
15 section which is also used under section 1445 shall
16 have the same meaning as when used in such sec-
17 tion.

18 “(6) REGULATIONS.—The Secretary shall pre-
19 scribe such regulations as may be necessary to carry
20 out the purposes of this subsection, including regula-
21 tions providing for exceptions from the provisions of
22 this subsection.”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to sales and exchanges on or after
25 November 27, 2017.

1 **SEC. 13502. MODIFY DEFINITION OF SUBSTANTIAL BUILT-IN**
2 **LOSS IN THE CASE OF TRANSFER OF PART-**
3 **NERSHIP INTEREST.**

4 (a) IN GENERAL.—Paragraph (1) of section 743(d)
5 is to read as follows:

6 “(1) IN GENERAL.—For purposes of this sec-
7 tion, a partnership has a substantial built-in loss
8 with respect to a transfer of an interest in the part-
9 nership if—

10 “(A) the partnership’s adjusted basis in
11 the partnership property exceeds by more than
12 \$250,000 the fair market value of such prop-
13 erty, or

14 “(B) the transferee partner would be allo-
15 cated a loss of more than \$250,000 if the part-
16 nership assets were sold for cash equal to their
17 fair market value immediately after such trans-
18 fer.”.

19 (b) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to transfers of partnership inter-
21 ests after December 31, 2017.

1 **SEC. 13503. CHARITABLE CONTRIBUTIONS AND FOREIGN**
2 **TAXES TAKEN INTO ACCOUNT IN DETER-**
3 **MINING LIMITATION ON ALLOWANCE OF**
4 **PARTNER'S SHARE OF LOSS.**

5 (a) IN GENERAL.—Subsection (d) of section 704 is
6 amended—

7 (1) by striking “A partner’s distributive share”
8 and inserting the following:

9 “(1) IN GENERAL.—A partner’s distributive
10 share”,

11 (2) by striking “Any excess of such loss” and
12 inserting the following:

13 “(2) CARRYOVER.—Any excess of such loss”,
14 and

15 (3) by adding at the end the following new
16 paragraph:

17 “(3) SPECIAL RULES.—

18 “(A) IN GENERAL.—In determining the
19 amount of any loss under paragraph (1), there
20 shall be taken into account the partner’s dis-
21 tributive share of amounts described in para-
22 graphs (4) and (6) of section 702(a).

23 “(B) EXCEPTION.—In the case of a chari-
24 table contribution of property whose fair mar-
25 ket value exceeds its adjusted basis, subpara-

1 graph (A) shall not apply to the extent of the
2 partner's distributive share of such excess.”.

3 (b) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to partnership taxable years begin-
5 ning after December 31, 2017.

6 **Subpart B—Insurance Reforms**

7 **SEC. 13511. NET OPERATING LOSSES OF LIFE INSURANCE**
8 **COMPANIES.**

9 (a) IN GENERAL.—Section 805(b) is amended by
10 striking paragraph (4) and by redesignating paragraph
11 (5) as paragraph (4).

12 (b) CONFORMING AMENDMENTS.—

13 (1) Part I of subchapter L of chapter 1 is
14 amended by striking section 810 (and by striking
15 the item relating to such section in the table of sec-
16 tions for such part).

17 (2)(A) Part III of subchapter L of chapter 1 is
18 amended by striking section 844 (and by striking
19 the item relating to such section in the table of sec-
20 tions for such part).

21 (B) Section 831(b)(3) is amended by striking
22 “except as provided in section 844,”

23 (3) Section 381 is amended by striking sub-
24 section (d).

1 (4) Section 805(a)(4)(B)(ii) is amended to read
2 as follows:

3 “(ii) the deduction allowed under sec-
4 tion 172,”.

5 (5) Section 805(a) is amended by striking para-
6 graph (5).

7 (6) Section 805(b)(2)(A)(iv) is amended to read
8 as follows:

9 “(iv) any net operating loss carryback
10 to the taxable year under section 172,
11 and”.

12 (7) Section 953(b)(1)(B) is amended to read as
13 follows:

14 “(B) So much of section 805(a)(8) as re-
15 lates to the deduction allowed under section
16 172.”.

17 (8) Section 1351(i)(3) is amended by striking
18 “or the operations loss deduction under section
19 810,”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to losses arising in taxable years
22 beginning after December 31, 2017.

1 **SEC. 13512. REPEAL OF SMALL LIFE INSURANCE COMPANY**
2 **DEDUCTION.**

3 (a) IN GENERAL.—Part I of subchapter L of chapter
4 1 is amended by striking section 806 (and by striking the
5 item relating to such section in the table of sections for
6 such part).

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 453B(e) is amended—

9 (A) by striking “(as defined in section
10 806(b)(3))” in paragraph (2)(B), and

11 (B) by adding at the end the following new
12 paragraph:

13 “(3) NONINSURANCE BUSINESS.—

14 “(A) IN GENERAL.—For purposes of this
15 subsection, the term ‘noninsurance business’
16 means any activity which is not an insurance
17 business.

18 “(B) CERTAIN ACTIVITIES TREATED AS IN-
19 SURANCE BUSINESSES.—For purposes of sub-
20 paragraph (A), any activity which is not an in-
21 surance business shall be treated as an insur-
22 ance business if—

23 “(i) it is of a type traditionally carried
24 on by life insurance companies for invest-
25 ment purposes, but only if the carrying on
26 of such activity (other than in the case of

1 real estate) does not constitute the active
2 conduct of a trade or business, or

3 “(ii) it involves the performance of ad-
4 ministrative services in connection with
5 plans providing life insurance, pension, or
6 accident and health benefits.”.

7 (2) Section 465(c)(7)(D)(v)(II) is amended by
8 striking “section 806(b)(3)” and inserting “section
9 453B(e)(3)”.

10 (3) Section 801(a)(2) is amended by striking
11 subparagraph (C).

12 (4) Section 804 is amended by striking
13 “means—” and all that follows and inserting
14 “means the general deductions provided in section
15 805.”.

16 (5) Section 805(a)(4)(B), as amended by this
17 Act, is amended by striking clause (i) and by redes-
18 ignating clauses (ii), (iii), and (iv) as clauses (i), (ii),
19 and (iii), respectively.

20 (6) Section 805(b)(2)(A), as amended by this
21 Act, is amended by striking clause (iii) and by redes-
22 ignating clauses (iv) and (v) as clauses (iii) and (iv),
23 respectively.

1 (7) Section 842(c) is amended by striking para-
2 graph (1) and by redesignating paragraphs (2) and
3 (3) as paragraphs (1) and (2), respectively.

4 (8) Section 953(b)(1), as amended by section
5 13511, is amended by striking subparagraph (A)
6 and by redesignating subparagraphs (B) and (C) as
7 subparagraphs (A) and (B), respectively.

8 (c) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to taxable years beginning after
10 December 31, 2017.

11 **SEC. 13513. ADJUSTMENT FOR CHANGE IN COMPUTING RE-**
12 **SERVES.**

13 (a) IN GENERAL.—Paragraph (1) of section 807(f)
14 is amended to read as follows:

15 “(1) TREATMENT AS CHANGE IN METHOD OF
16 ACCOUNTING.—If the basis for determining any item
17 referred to in subsection (c) as of the close of any
18 taxable year differs from the basis for such deter-
19 mination as of the close of the preceding taxable
20 year, then so much of the difference between—

21 “(A) the amount of the item at the close
22 of the taxable year, computed on the new basis,
23 and

24 “(B) the amount of the item at the close
25 of the taxable year, computed on the old basis,

1 as is attributable to contracts issued before the tax-
2 able year shall be taken into account under section
3 481 as adjustments attributable to a change in
4 method of accounting initiated by the taxpayer and
5 made with the consent of the Secretary.”.

6 (b) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to taxable years beginning after
8 December 31, 2017.

9 **SEC. 13514. REPEAL OF SPECIAL RULE FOR DISTRIBUTIONS**
10 **TO SHAREHOLDERS FROM PRE-1984 POLICY-**
11 **HOLDERS SURPLUS ACCOUNT.**

12 (a) IN GENERAL.—Subpart D of part I of subchapter
13 L is amended by striking section 815 (and by striking the
14 item relating to such section in the table of sections for
15 such subpart).

16 (b) CONFORMING AMENDMENT.—Section 801 is
17 amended by striking subsection (c).

18 (c) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to taxable years beginning after
20 December 31, 2017.

21 (d) PHASED INCLUSION OF REMAINING BALANCE OF
22 POLICYHOLDERS SURPLUS ACCOUNTS.—In the case of
23 any stock life insurance company which has a balance (de-
24 termined as of the close of such company’s last taxable
25 year beginning before January 1, 2018) in an existing pol-

1 icyholders surplus account (as defined in section 815 of
2 the Internal Revenue Code of 1986, as in effect before
3 its repeal), the tax imposed by section 801 of such Code
4 for the first 8 taxable years beginning after December 31,
5 2017, shall be the amount which would be imposed by
6 such section for such year on the sum of—

7 (1) life insurance company taxable income for
8 such year (within the meaning of such section 801
9 but not less than zero), plus

10 (2) $\frac{1}{8}$ of such balance.

11 **SEC. 13515. MODIFICATION OF PRORATION RULES FOR**
12 **PROPERTY AND CASUALTY INSURANCE COM-**
13 **PANIES.**

14 (a) IN GENERAL.—Section 832(b)(5)(B) is amend-
15 ed—

16 (1) by striking “15 percent” and inserting “the
17 applicable percentage”, and

18 (2) by inserting at the end the following new
19 sentence: “For purposes of this subparagraph, the
20 applicable percentage is 5.25 percent divided by the
21 highest rate in effect under section 11(b).”.

22 (b) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to taxable years beginning after
24 December 31, 2017.

1 **SEC. 13516. REPEAL OF SPECIAL ESTIMATED TAX PAY-**
2 **MENTS.**

3 (a) **IN GENERAL.**—Part III of subchapter L of chap-
4 ter 1 is amended by striking section 847 (and by striking
5 the item relating to such section in the table of sections
6 for such part).

7 (b) **EFFECTIVE DATE.**—The amendments made by
8 this section shall apply to taxable years beginning after
9 December 31, 2017.

10 **SEC. 13517. CAPITALIZATION OF CERTAIN POLICY ACQUISI-**
11 **TION EXPENSES.**

12 (a) **AMORTIZATION PERIOD.**—Section 848 is amend-
13 ed by striking “120-month” each place it appears in sub-
14 sections (a)(2) and (b)(1) and inserting “600-month”.

15 (b) **DETERMINATION OF EXPENSES.**—Paragraph (1)
16 of section 848(c) is amended—

17 (1) by striking “1.75 percent” in subparagraph
18 (A) and inserting “3.17 percent”,

19 (2) by striking “2.05 percent” in subparagraph
20 (B) and inserting “3.72 percent”, and

21 (3) by striking “7.7 percent” in subparagraph
22 (C) and inserting “13.97 percent”.

23 (c) **EFFECTIVE DATE.**—The amendments made by
24 this section shall apply to taxable years beginning after
25 December 31, 2017.

1 **SEC. 13518. TAX REPORTING FOR LIFE SETTLEMENT**
2 **TRANSACTIONS.**

3 (a) IN GENERAL.—Subpart B of part III of sub-
4 chapter A of chapter 61, as amended by section 13305,
5 is amended by adding at the end the following new section:

6 **“SEC. 6050Y. RETURNS RELATING TO CERTAIN LIFE INSUR-**
7 **ANCE CONTRACT TRANSACTIONS.**

8 “(a) REQUIREMENT OF REPORTING OF CERTAIN
9 PAYMENTS.—

10 “(1) IN GENERAL.—Every person who acquires
11 a life insurance contract or any interest in a life in-
12 surance contract in a reportable policy sale during
13 any taxable year shall make a return for such tax-
14 able year (at such time and in such manner as the
15 Secretary shall prescribe) setting forth—

16 “(A) the name, address, and TIN of such
17 person,

18 “(B) the name, address, and TIN of each
19 recipient of payment in the reportable policy
20 sale,

21 “(C) the date of such sale,

22 “(D) the name of the issuer of the life in-
23 surance contract sold and the policy number of
24 such contract, and

25 “(E) the amount of each payment.

1 “(2) STATEMENT TO BE FURNISHED TO PER-
2 SONS WITH RESPECT TO WHOM INFORMATION IS RE-
3 QUIRED.—Every person required to make a return
4 under this subsection shall furnish to each person
5 whose name is required to be set forth in such re-
6 turn a written statement showing—

7 “(A) the name, address, and phone num-
8 ber of the information contact of the person re-
9 quired to make such return, and

10 “(B) the information required to be shown
11 on such return with respect to such person, ex-
12 cept that in the case of an issuer of a life insur-
13 ance contract, such statement is not required to
14 include the information specified in paragraph
15 (1)(E).

16 “(b) REQUIREMENT OF REPORTING OF SELLER’S
17 BASIS IN LIFE INSURANCE CONTRACTS.—

18 “(1) IN GENERAL.—Upon receipt of the state-
19 ment required under subsection (a)(2) or upon no-
20 tice of a transfer of a life insurance contract to a
21 foreign person, each issuer of a life insurance con-
22 tract shall make a return (at such time and in such
23 manner as the Secretary shall prescribe) setting
24 forth—

1 “(A) the name, address, and TIN of the
2 seller who transfers any interest in such con-
3 tract in such sale,

4 “(B) the investment in the contract (as de-
5 fined in section 72(e)(6)) with respect to such
6 seller, and

7 “(C) the policy number of such contract.

8 “(2) STATEMENT TO BE FURNISHED TO PER-
9 SONS WITH RESPECT TO WHOM INFORMATION IS RE-
10 QUIRED.—Every person required to make a return
11 under this subsection shall furnish to each person
12 whose name is required to be set forth in such re-
13 turn a written statement showing—

14 “(A) the name, address, and phone num-
15 ber of the information contact of the person re-
16 quired to make such return, and

17 “(B) the information required to be shown
18 on such return with respect to each seller whose
19 name is required to be set forth in such return.

20 “(c) REQUIREMENT OF REPORTING WITH RESPECT
21 TO REPORTABLE DEATH BENEFITS.—

22 “(1) IN GENERAL.—Every person who makes a
23 payment of reportable death benefits during any tax-
24 able year shall make a return for such taxable year

1 (at such time and in such manner as the Secretary
2 shall prescribe) setting forth—

3 “(A) the name, address, and TIN of the
4 person making such payment,

5 “(B) the name, address, and TIN of each
6 recipient of such payment,

7 “(C) the date of each such payment, and

8 “(D) the gross amount of each such pay-
9 ment.

10 “(E) such person’s estimate of the invest-
11 ment in the contract (as defined in section
12 72(e)(6)) with respect to the buyer.

13 “(2) STATEMENT TO BE FURNISHED TO PER-
14 SONS WITH RESPECT TO WHOM INFORMATION IS RE-
15 QUIRED.—Every person required to make a return
16 under this subsection shall furnish to each person
17 whose name is required to be set forth in such re-
18 turn a written statement showing—

19 “(A) the name, address, and phone num-
20 ber of the information contact of the person re-
21 quired to make such return, and

22 “(B) the information required to be shown
23 on such return with respect to each recipient of
24 payment whose name is required to be set forth
25 in such return.

1 “(d) DEFINITIONS.—For purposes of this section:

2 “(1) PAYMENT.—The term ‘payment’ means,
3 with respect to any reportable policy sale, the
4 amount of cash and the fair market value of any
5 consideration transferred in the sale.

6 “(2) REPORTABLE POLICY SALE.—The term
7 ‘reportable policy sale’ has the meaning given such
8 term in section 101(a)(3)(B).

9 “(3) ISSUER.—The term ‘issuer’ means any life
10 insurance company that bears the risk with respect
11 to a life insurance contract on the date any return
12 or statement is required to be made under this sec-
13 tion.

14 “(4) REPORTABLE DEATH BENEFITS.—The
15 term ‘reportable death benefits’ means amounts paid
16 by reason of the death of the insured under a life
17 insurance contract that has been transferred in a re-
18 reportable policy sale.”.

19 (b) CLERICAL AMENDMENT.—The table of sections
20 for subpart B of part III of subchapter A of chapter 61,
21 as amended by section 13305, is amended by inserting
22 after the item relating to section 6050X the following new
23 item:

“Sec. 6050Y. Returns relating to certain life insurance contract transactions.”.

24 (c) CONFORMING AMENDMENTS.—

1 (1) Subsection (d) of section 6724 is amend-
2 ed—

3 (A) by striking “or” at the end of clause
4 (xxiv) of paragraph (1)(B), by striking “and”
5 at the end of clause (xxv) of such paragraph
6 and inserting “or”, and by inserting after such
7 clause (xxv) the following new clause:

8 “(xxvi) section 6050Y (relating to re-
9 turns relating to certain life insurance con-
10 tract transactions), and”, and

11 (B) by striking “or” at the end of subpara-
12 graph (HH) of paragraph (2), by striking the
13 period at the end of subparagraph (II) of such
14 paragraph and inserting “, or”, and by insert-
15 ing after such subparagraph (II) the following
16 new subparagraph:

17 “(JJ) subsection (a)(2), (b)(2), or (c)(2) of
18 section 6050Y (relating to returns relating to
19 certain life insurance contract transactions).”.

20 (2) Section 6047 is amended—

21 (A) by redesignating subsection (g) as sub-
22 section (h),

23 (B) by inserting after subsection (f) the
24 following new subsection:

1 “(g) INFORMATION RELATING TO LIFE INSURANCE
2 CONTRACT TRANSACTIONS.—This section shall not apply
3 to any information which is required to be reported under
4 section 6050Y.”, and

5 (C) by adding at the end of subsection (h),
6 as so redesignated, the following new para-
7 graph:

8 “(4) For provisions requiring reporting of infor-
9 mation relating to certain life insurance contract
10 transactions, see section 6050Y.”.

11 (d) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to—

13 (1) reportable policy sales (as defined in section
14 6050Y(d)(2) of the Internal Revenue Code of 1986
15 (as added by subsection (a)) after December 31,
16 2017, and

17 (2) reportable death benefits (as defined in sec-
18 tion 6050Y(d)(4) of such Code (as added by sub-
19 section (a)) paid after December 31, 2017.

20 **SEC. 13519. CLARIFICATION OF TAX BASIS OF LIFE INSUR-**
21 **ANCE CONTRACTS.**

22 (a) CLARIFICATION WITH RESPECT TO ADJUST-
23 MENTS.—Paragraph (1) of section 1016(a) is amended by
24 striking subparagraph (A) and all that follows and insert-
25 ing the following:

1 “(A) for—

2 “(i) taxes or other carrying charges
3 described in section 266; or

4 “(ii) expenditures described in section
5 173 (relating to circulation expenditures),
6 for which deductions have been taken by the
7 taxpayer in determining taxable income for the
8 taxable year or prior taxable years; or

9 “(B) for mortality, expense, or other rea-
10 sonable charges incurred under an annuity or
11 life insurance contract;”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall apply to transactions entered into after
14 August 25, 2009.

15 **SEC. 13520. EXCEPTION TO TRANSFER FOR VALUABLE CON-**
16 **SIDERATION RULES.**

17 (a) IN GENERAL.—Subsection (a) of section 101 is
18 amended by inserting after paragraph (2) the following
19 new paragraph:

20 “(3) EXCEPTION TO VALUABLE CONSIDERATION
21 RULES FOR COMMERCIAL TRANSFERS.—

22 “(A) IN GENERAL.—The second sentence
23 of paragraph (2) shall not apply in the case of
24 a transfer of a life insurance contract, or any

1 interest therein, which is a reportable policy
2 sale.

3 “(B) REPORTABLE POLICY SALE.—For
4 purposes of this paragraph, the term ‘reportable
5 policy sale’ means the acquisition of an interest
6 in a life insurance contract, directly or indi-
7 rectly, if the acquirer has no substantial family,
8 business, or financial relationship with the in-
9 sured apart from the acquirer’s interest in such
10 life insurance contract. For purposes of the pre-
11 ceding sentence, the term ‘indirectly’ applies to
12 the acquisition of an interest in a partnership,
13 trust, or other entity that holds an interest in
14 the life insurance contract.”.

15 (b) CONFORMING AMENDMENT.—Paragraph (1) of
16 section 101(a) is amended by striking “paragraph (2)”
17 and inserting “paragraphs (2) and (3)”.

18 (c) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to transfers after December 31,
20 2017.

1 **Subpart C—Banks and Financial Instruments**

2 **SEC. 13531. LIMITATION ON DEDUCTION FOR FDIC PRE-**
3 **MIUMS.**

4 (a) IN GENERAL.—Section 162 is amended by redes-
5 ignating subsection (q) as subsection (r) and by inserting
6 after subsection (p) the following new subsection:

7 “(q) DISALLOWANCE OF FDIC PREMIUMS PAID BY
8 CERTAIN LARGE FINANCIAL INSTITUTIONS.—

9 “(1) IN GENERAL.—No deduction shall be al-
10 lowed for the applicable percentage of any FDIC
11 premium paid or incurred by the taxpayer.

12 “(2) EXCEPTION FOR SMALL INSTITUTIONS.—
13 Paragraph (1) shall not apply to any taxpayer for
14 any taxable year if the total consolidated assets of
15 such taxpayer (determined as of the close of such
16 taxable year) do not exceed \$10,000,000,000.

17 “(3) APPLICABLE PERCENTAGE.—For purposes
18 of this subsection, the term ‘applicable percentage’
19 means, with respect to any taxpayer for any taxable
20 year, the ratio (expressed as a percentage but not
21 greater than 100 percent) which—

22 “(A) the excess of—

23 “(i) the total consolidated assets of
24 such taxpayer (determined as of the close
25 of such taxable year), over

26 “(ii) \$10,000,000,000, bears to

1 “(B) \$40,000,000,000.

2 “(4) FDIC PREMIUMS.—For purposes of this
3 subsection, the term ‘FDIC premium’ means any as-
4 sessment imposed under section 7(b) of the Federal
5 Deposit Insurance Act (12 U.S.C. 1817(b)).

6 “(5) TOTAL CONSOLIDATED ASSETS.—For pur-
7 poses of this subsection, the term ‘total consolidated
8 assets’ has the meaning given such term under sec-
9 tion 165 of the Dodd-Frank Wall Street Reform and
10 Consumer Protection Act (12 U.S.C. 5365).

11 “(6) AGGREGATION RULE.—

12 “(A) IN GENERAL.—Members of an ex-
13 panded affiliated group shall be treated as a
14 single taxpayer for purposes of applying this
15 subsection.

16 “(B) EXPANDED AFFILIATED GROUP.—

17 “(i) IN GENERAL.—For purposes of
18 this paragraph, the term ‘expanded affili-
19 ated group’ means an affiliated group as
20 defined in section 1504(a), determined—

21 “(I) by substituting ‘more than
22 50 percent’ for ‘at least 80 percent’
23 each place it appears, and

24 “(II) without regard to para-
25 graphs (2) and (3) of section 1504(b).

1 “(ii) CONTROL OF NON-CORPORATE
2 ENTITIES.—A partnership or any other en-
3 tity (other than a corporation) shall be
4 treated as a member of an expanded affili-
5 ated group if such entity is controlled
6 (within the meaning of section 954(d)(3))
7 by members of such group (including any
8 entity treated as a member of such group
9 by reason of this clause).”.

10 (b) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years beginning after
12 December 31, 2017.

13 **SEC. 13532. REPEAL OF ADVANCE REFUNDING BONDS.**

14 (a) IN GENERAL.—Paragraph (1) of section 149(d)
15 is amended by striking “as part of an issue described in
16 paragraph (2), (3), or (4).” and inserting “to advance re-
17 fund another bond.”.

18 (b) CONFORMING AMENDMENTS.—

19 (1) Section 149(d) is amended by striking para-
20 graphs (2), (3), (4), and (6) and by redesignating
21 paragraphs (5) and (7) as paragraphs (2) and (3).

22 (2) Section 148(f)(4)(C) is amended by striking
23 clause (xiv) and by redesignating clauses (xv) to
24 (xvii) as clauses (xiv) to (xvi).

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to advance refunding bonds issued
3 after December 31, 2017.

4 **SEC. 13533. COST BASIS OF SPECIFIED SECURITIES DETER-**
5 **MINED WITHOUT REGARD TO IDENTIFICA-**
6 **TION.**

7 (a) IN GENERAL.—Section 1012 is amended by add-
8 ing at the end the following new subsection:

9 “(e) COST BASIS OF SPECIFIED SECURITIES DETER-
10 MINED WITHOUT REGARD TO IDENTIFICATION.—

11 “(1) IN GENERAL.—Unless the Secretary per-
12 mits the use of an average basis method for deter-
13 mining cost, in the case of the sale, exchange, or
14 other disposition of a specified security (within the
15 meaning of section 6045(g)(3)(B)), the basis (and
16 holding period) of such security shall be determined
17 on a first-in first-out basis.

18 “(2) EXCEPTION.—In the case of a sale, ex-
19 change, or other disposition of a specified security
20 by a regulated investment company (as defined in
21 section 851(a)), paragraph (1) shall not apply.”.

22 (b) CONFORMING AMENDMENTS.—

23 (1) Section 1012(c)(1) is amended by striking
24 “the conventions prescribed by regulations under

1 this section” and inserting “the method applicable
2 for determining the cost of such security”.

3 (2) Section 1012(c)(2)(A) is amended by insert-
4 ing “(as in effect prior to the enactment of the Tax
5 Cuts and Jobs Act)” after “this section”.

6 (3) Section 6045(g)(2)(B)(i)(I) is amended by
7 striking “unless the customer notifies the broker by
8 means of making an adequate identification of the
9 stock sold or transferred”.

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to sales, exchanges, and other dis-
12 positions after December 31, 2017.

13 **Subpart D—S Corporations**

14 **SEC. 13541. EXPANSION OF QUALIFYING BENEFICIARIES OF**
15 **AN ELECTING SMALL BUSINESS TRUST.**

16 (a) NO LOOK-THROUGH FOR ELIGIBILITY PUR-
17 POSES.—Section 1361(c)(2)(B)(v) is amended by adding
18 at the end the following new sentence: “This clause shall
19 not apply for purposes of subsection (b)(1)(C).”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall take effect on January 1, 2018.

1 **SEC. 13542. CHARITABLE CONTRIBUTION DEDUCTION FOR**
2 **ELECTING SMALL BUSINESS TRUSTS.**

3 (a) IN GENERAL.—Section 641(c)(2) is amended by
4 inserting after subparagraph (D) the following new sub-
5 paragraph:

6 “(E)(i) Section 642(c) shall not apply.

7 “(ii) For purposes of section 170(b)(1)(G),
8 adjusted gross income shall be computed in the
9 same manner as in the case of an individual,
10 except that the deductions for costs which are
11 paid or incurred in connection with the admin-
12 istration of the trust and which would not have
13 been incurred if the property were not held in
14 such trust shall be treated as allowable in arriv-
15 ing at adjusted gross income.”.

16 (b) EFFECTIVE DATE.—The amendment made by
17 this section shall apply to taxable years beginning after
18 December 31, 2017.

19 **PART VII—EMPLOYMENT**

20 **Subpart A—Compensation**

21 **SEC. 13601. MODIFICATION OF LIMITATION ON EXCESSIVE**
22 **EMPLOYEE REMUNERATION.**

23 (a) REPEAL OF PERFORMANCE-BASED COMPENSA-
24 TION AND COMMISSION EXCEPTIONS FOR LIMITATION ON
25 EXCESSIVE EMPLOYEE REMUNERATION.—

1 (1) IN GENERAL.—Paragraph (4) of section
2 162(m) is amended by striking subparagraphs (B)
3 and (C) and by redesignating subparagraphs (D),
4 (E), (F), and (G) as subparagraphs (B), (C), (D),
5 and (E), respectively.

6 (2) CONFORMING AMENDMENTS.—

7 (A) Paragraphs (5)(E) and (6)(D) of sec-
8 tion 162(m) are each amended by striking
9 “subparagraphs (B), (C), and (D)” and insert-
10 ing “subparagraph (B)”.

11 (B) Paragraphs (5)(G) and (6)(G) of sec-
12 tion 162(m) are each amended by striking “(F)
13 and (G)” and inserting “(D) and (E)”.

14 (b) MODIFICATION OF DEFINITION OF COVERED EM-
15 PLOYEES.—Paragraph (3) of section 162(m) is amend-
16 ed—

17 (1) in subparagraph (A), by striking “as of the
18 close of the taxable year, such employee is the chief
19 executive officer of the taxpayer or is” and inserting
20 “such employee is the principal executive officer or
21 principal financial officer of the taxpayer at any
22 time during the taxable year, or was”,

23 (2) in subparagraph (B)—

24 (A) by striking “4” and inserting “3”, and

1 (B) by striking “(other than the chief execu-
2 tive officer)” and inserting “(other than any
3 individual described in subparagraph (A))”, and
4 (3) by striking “or” at the end of subparagraph
5 (A), by striking the period at the end of subpara-
6 graph (B) and inserting “, or”, and by adding at the
7 end the following:

8 “(C) was a covered employee of the tax-
9 payer (or any predecessor) for any preceding
10 taxable year beginning after December 31,
11 2016.”.

12 (c) EXPANSION OF APPLICABLE EMPLOYER.—

13 (1) IN GENERAL.—Section 162(m)(2) is amend-
14 ed to read as follows:

15 “(2) PUBLICLY HELD CORPORATION.—For pur-
16 poses of this subsection, the term ‘publicly held cor-
17 poration’ means any corporation which is an issuer
18 (as defined in section 3 of the Securities Exchange
19 Act of 1934 (15 U.S.C. 78c))—

20 “(A) the securities of which are required to
21 be registered under section 12 of such Act (15
22 U.S.C. 78l), or

23 “(B) that is required to file reports under
24 section 15(d) of such Act (15 U.S.C. 78o(d)).”.

1 (2) CONFORMING AMENDMENT.—Section
2 162(m)(3), as amended by subsection (b), is amend-
3 ed by adding at the end the following flush sentence:
4 “Such term shall include any employee who would be
5 described in subparagraph (B) if the reporting de-
6 scribed in such subparagraph were required as so
7 described.”.

8 (d) SPECIAL RULE FOR REMUNERATION PAID TO
9 BENEFICIARIES, ETC.—Paragraph (4) of section 162(m),
10 as amended by subsection (a), is amended by adding at
11 the end the following new subparagraph:

12 “(F) SPECIAL RULE FOR REMUNERATION
13 PAID TO BENEFICIARIES, ETC.—Remuneration
14 shall not fail to be applicable employee remu-
15 neration merely because it is includible in the
16 income of, or paid to, a person other than the
17 covered employee, including after the death of
18 the covered employee.”.

19 (e) EFFECTIVE DATE.—

20 (1) IN GENERAL.—Except as provided in para-
21 graph (2), the amendments made by this section
22 shall apply to taxable years beginning after Decem-
23 ber 31, 2017.

24 (2) EXCEPTION FOR BINDING CONTRACTS.—
25 The amendments made by this section shall not

1 apply to remuneration which is pursuant to a writ-
2 ten binding contract which was in effect on Novem-
3 ber 2, 2017, and which was not modified in any ma-
4 terial respect on or after such date.

5 **SEC. 13602. EXCISE TAX ON EXCESS TAX-EXEMPT ORGANI-**
6 **ZATION EXECUTIVE COMPENSATION.**

7 (a) IN GENERAL.—Subchapter D of chapter 42 is
8 amended by adding at the end the following new section:

9 **“SEC. 4960. TAX ON EXCESS TAX-EXEMPT ORGANIZATION**
10 **EXECUTIVE COMPENSATION.**

11 “(a) TAX IMPOSED.—There is hereby imposed a tax
12 equal to 20 percent of the sum of—

13 “(1) so much of the remuneration paid (other
14 than any excess parachute payment) by an applica-
15 ble tax-exempt organization for the taxable year with
16 respect to employment of any covered employee in
17 excess of \$1,000,000, plus

18 “(2) any excess parachute payment paid by
19 such an organization to any covered employee.

20 For purposes of the preceding sentence, remuneration
21 shall be treated as paid when there is no substantial risk
22 of forfeiture of the rights to such remuneration.

23 “(b) LIABILITY FOR TAX.—The employer shall be lia-
24 ble for the tax imposed under subsection (a).

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

3 “(1) APPLICABLE TAX-EXEMPT ORGANIZA-
4 TION.—The term ‘applicable tax-exempt organiza-
5 tion’ means any organization which for the taxable
6 year—

7 “(A) is exempt from taxation under section
8 501(a),

9 “(B) is a farmers’ cooperative organization
10 described in section 521(b)(1),

11 “(C) has income excluded from taxation
12 under section 115(1), or

13 “(D) is a political organization described in
14 section 527(e)(1).

15 “(2) COVERED EMPLOYEE.—For purposes of
16 this section, the term ‘covered employee’ means any
17 employee (including any former employee) of an ap-
18 plicable tax-exempt organization if the employee—

19 “(A) is one of the 5 highest compensated
20 employees of the organization for the taxable
21 year, or

22 “(B) was a covered employee of the organi-
23 zation (or any predecessor) for any preceding
24 taxable year beginning after December 31,
25 2016.

1 “(3) REMUNERATION.—For purposes of this
2 section, the term ‘remuneration’ means wages (as
3 defined in section 3401(a)), except that such term
4 shall not include any designated Roth contribution
5 (as defined in section 402A(c)) and shall include
6 amounts required to be included in gross income
7 under section 457(f).

8 “(4) REMUNERATION FROM RELATED ORGANI-
9 ZATIONS.—

10 “(A) IN GENERAL.—Remuneration of a
11 covered employee by an applicable tax-exempt
12 organization shall include any remuneration
13 paid with respect to employment of such em-
14 ployee by any related person or governmental
15 entity.

16 “(B) RELATED ORGANIZATIONS.—A per-
17 son or governmental entity shall be treated as
18 related to an applicable tax-exempt organization
19 if such person or governmental entity—

20 “(i) controls, or is controlled by, the
21 organization,

22 “(ii) is controlled by one or more per-
23 sons which control the organization,

24 “(iii) is a supported organization (as
25 defined in section 509(f)(3)) during the

1 taxable year with respect to the organiza-
2 tion,

3 “(iv) is a supporting organization de-
4 scribed in section 509(a)(3) during the
5 taxable year with respect to the organiza-
6 tion, or

7 “(v) in the case of an organization
8 which is a voluntary employees’ beneficiary
9 association described in section 501(c)(9),
10 establishes, maintains, or makes contribu-
11 tions to such voluntary employees’ bene-
12 ficiary association.

13 “(C) LIABILITY FOR TAX.—In any case in
14 which remuneration from more than one em-
15 ployer is taken into account under this para-
16 graph in determining the tax imposed by sub-
17 section (a), each such employer shall be liable
18 for such tax in an amount which bears the
19 same ratio to the total tax determined under
20 subsection (a) with respect to such remunera-
21 tion as—

22 “(i) the amount of remuneration paid
23 by such employer with respect to such em-
24 ployee, bears to

1 “(ii) the amount of remuneration paid
2 by all such employers to such employee.

3 “(5) EXCESS PARACHUTE PAYMENT.—For pur-
4 poses of determining the tax imposed by subsection
5 (a)(2)—

6 “(A) IN GENERAL.—The term ‘excess
7 parachute payment’ means an amount equal to
8 the excess of any parachute payment over the
9 portion of the base amount allocated to such
10 payment.

11 “(B) PARACHUTE PAYMENT.—The term
12 ‘parachute payment’ means any payment in the
13 nature of compensation to (or for the benefit
14 of) a covered employee if—

15 “(i) such payment is contingent on
16 such employee’s separation from employ-
17 ment with the employer, and

18 “(ii) the aggregate present value of
19 the payments in the nature of compensa-
20 tion to (or for the benefit of) such indi-
21 vidual which are contingent on such sepa-
22 ration equals or exceeds an amount equal
23 to 3 times the base amount.

24 Such term does not include any payment de-
25 scribed in section 280G(b)(6) (relating to ex-

1 emption for payments under qualified plans) or
2 any payment made under or to an annuity con-
3 tract described in section 403(b) or a plan de-
4 scribed in section 457(b).

5 “(C) BASE AMOUNT.—Rules similar to the
6 rules of 280G(b)(3) shall apply for purposes of
7 determining the base amount.

8 “(D) PROPERTY TRANSFERS; PRESENT
9 VALUE.—Rules similar to the rules of para-
10 graphs (3) and (4) of section 280G(d) shall
11 apply.

12 “(6) COORDINATION WITH DEDUCTION LIMITA-
13 TION.—Remuneration the deduction for which is not
14 allowed by reason of section 162(m) shall not be
15 taken into account for purposes of this section.

16 “(d) REGULATIONS.—The Secretary shall prescribe
17 such regulations as may be necessary to prevent avoidance
18 of the tax under this section, including regulations pre-
19 venting employees from being misclassified as contractors
20 or from being compensated through a pass-through or
21 other entity to avoid such tax.”.

22 (b) CLERICAL AMENDMENT.—The table of sections
23 for subchapter D of chapter 42 is amended by adding at
24 the end the following new item:

“Sec. 4960. Tax on excess exempt organization executive compensation.”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2017.

4 **SEC. 13603. TREATMENT OF QUALIFIED EQUITY GRANTS.**

5 (a) IN GENERAL.—Section 83 is amended by adding
6 at the end the following new subsection:

7 “(i) QUALIFIED EQUITY GRANTS.—

8 “(1) IN GENERAL.—For purposes of this sub-
9 title—

10 “(A) TIMING OF INCLUSION.—If qualified
11 stock is transferred to a qualified employee who
12 makes an election with respect to such stock
13 under this subsection, subsection (a) shall be
14 applied by including the amount determined
15 under such subsection with respect to such
16 stock in income of the employee in the taxable
17 year determined under subparagraph (B) in lieu
18 of the taxable year described in subsection (a).

19 “(B) TAXABLE YEAR DETERMINED.—The
20 taxable year determined under this subpara-
21 graph is the taxable year of the employee which
22 includes the earliest of—

23 “(i) the first date such qualified stock
24 becomes transferable (including, solely for

1 purposes of this clause, becoming transfer-
2 able to the employer),

3 “(ii) the date the employee first be-
4 comes an excluded employee,

5 “(iii) the first date on which any stock
6 of the corporation which issued the quali-
7 fied stock becomes readily tradable on an
8 established securities market (as deter-
9 mined by the Secretary, but not including
10 any market unless such market is recog-
11 nized as an established securities market
12 by the Secretary for purposes of a provi-
13 sion of this title other than this sub-
14 section),

15 “(iv) the date that is 5 years after the
16 first date the rights of the employee in
17 such stock are transferable or are not sub-
18 ject to a substantial risk of forfeiture,
19 whichever occurs earlier, or

20 “(v) the date on which the employee
21 revokes (at such time and in such manner
22 as the Secretary provides) the election
23 under this subsection with respect to such
24 stock.

25 “(2) QUALIFIED STOCK.—

1 “(A) IN GENERAL.—For purposes of this
2 subsection, the term ‘qualified stock’ means,
3 with respect to any qualified employee, any
4 stock in a corporation which is the employer of
5 such employee, if—

6 “(i) such stock is received—

7 “(I) in connection with the exer-
8 cise of an option, or

9 “(II) in settlement of a restricted
10 stock unit, and

11 “(ii) such option or restricted stock
12 unit was granted by the corporation—

13 “(I) in connection with the per-
14 formance of services as an employee,
15 and

16 “(II) during a calendar year in
17 which such corporation was an eligible
18 corporation.

19 “(B) LIMITATION.—The term ‘qualified
20 stock’ shall not include any stock if the em-
21 ployee may sell such stock to, or otherwise re-
22 ceive cash in lieu of stock from, the corporation
23 at the time that the rights of the employee in
24 such stock first become transferable or not sub-
25 ject to a substantial risk of forfeiture.

1 “(C) ELIGIBLE CORPORATION.—For pur-
2 poses of subparagraph (A)(ii)(II)—

3 “(i) IN GENERAL.—The term ‘eligible
4 corporation’ means, with respect to any
5 calendar year, any corporation if—

6 “(I) no stock of such corporation
7 (or any predecessor of such corpora-
8 tion) is readily tradable on an estab-
9 lished securities market (as deter-
10 mined under paragraph (1)(B)(iii))
11 during any preceding calendar year,
12 and

13 “(II) such corporation has a writ-
14 ten plan under which, in such cal-
15 endar year, not less than 80 percent
16 of all employees who provide services
17 to such corporation in the United
18 States (or any possession of the
19 United States) are granted stock op-
20 tions, or restricted stock units, with
21 the same rights and privileges to re-
22 ceive qualified stock.

23 “(ii) SAME RIGHTS AND PRIVI-
24 LEGES.—For purposes of clause (i)(II)—

1 “(I) except as provided in sub-
2 clauses (II) and (III), the determina-
3 tion of rights and privileges with re-
4 spect to stock shall be made in a simi-
5 lar manner as under section
6 423(b)(5),

7 “(II) employees shall not fail to
8 be treated as having the same rights
9 and privileges to receive qualified
10 stock solely because the number of
11 shares available to all employees is not
12 equal in amount, so long as the num-
13 ber of shares available to each em-
14 ployee is more than a de minimis
15 amount, and

16 “(III) rights and privileges with
17 respect to the exercise of an option
18 shall not be treated as the same as
19 rights and privileges with respect to
20 the settlement of a restricted stock
21 unit.

22 “(iii) EMPLOYEE.—For purposes of
23 clause (i)(II), the term ‘employee’ shall not
24 include any employee described in section
25 4980E(d)(4) or any excluded employee.

1 “(iv) SPECIAL RULE FOR CALENDAR
2 YEARS BEFORE 2018.—In the case of any
3 calendar year beginning before January 1,
4 2018, clause (i)(II) shall be applied with-
5 out regard to whether the rights and privi-
6 leges with respect to the qualified stock are
7 the same.

8 “(3) QUALIFIED EMPLOYEE; EXCLUDED EM-
9 PLOYEE.—For purposes of this subsection—

10 “(A) IN GENERAL.—The term ‘qualified
11 employee’ means any individual who—

12 “(i) is not an excluded employee, and

13 “(ii) agrees in the election made
14 under this subsection to meet such require-
15 ments as are determined by the Secretary
16 to be necessary to ensure that the with-
17 holding requirements of the corporation
18 under chapter 24 with respect to the quali-
19 fied stock are met.

20 “(B) EXCLUDED EMPLOYEE.—The term
21 ‘excluded employee’ means, with respect to any
22 corporation, any individual—

23 “(i) who was a 1-percent owner (with-
24 in the meaning of section 416(i)(1)(B)(ii))

1 at any time during the 10 preceding cal-
2 endar years,

3 “(ii) who is or has been at any prior
4 time—

5 “(I) the chief executive officer of
6 such corporation or an individual act-
7 ing in such a capacity, or

8 “(II) the chief financial officer of
9 such corporation or an individual act-
10 ing in such a capacity,

11 “(iii) who bears a relationship de-
12 scribed in section 318(a)(1) to any indi-
13 vidual described in subclause (I) or (II) of
14 clause (ii), or

15 “(iv) who was for any of the 10 pre-
16 ceding taxable years one of the 4 highest
17 compensated officers of such corporation,
18 determined with respect to each such tax-
19 able year on the basis of the shareholder
20 disclosure rules for compensation under
21 the Securities Exchange Act of 1934 (as if
22 such rules applied to such corporation).

23 “(4) ELECTION.—

24 “(A) TIME FOR MAKING ELECTION.—An
25 election with respect to qualified stock shall be

1 made under this subsection no later than 30
2 days after the first date the rights of the em-
3 ployee in such stock are transferable or are not
4 subject to a substantial risk of forfeiture,
5 whichever occurs earlier, and shall be made in
6 a manner similar to the manner in which an
7 election is made under subsection (b).

8 “(B) LIMITATIONS.—No election may be
9 made under this section with respect to any
10 qualified stock if—

11 “(i) the qualified employee has made
12 an election under subsection (b) with re-
13 spect to such qualified stock,

14 “(ii) any stock of the corporation
15 which issued the qualified stock is readily
16 tradable on an established securities mar-
17 ket (as determined under paragraph
18 (1)(B)(iii)) at any time before the election
19 is made, or

20 “(iii) such corporation purchased any
21 of its outstanding stock in the calendar
22 year preceding the calendar year which in-
23 cludes the first date the rights of the em-
24 ployee in such stock are transferable or are

1 not subject to a substantial risk of for-
2 feiture, unless—

3 “(I) not less than 25 percent of
4 the total dollar amount of the stock so
5 purchased is deferral stock, and

6 “(II) the determination of which
7 individuals from whom deferral stock
8 is purchased is made on a reasonable
9 basis.

10 “(C) DEFINITIONS AND SPECIAL RULES
11 RELATED TO LIMITATION ON STOCK REDEMP-
12 TIONS.—

13 “(i) DEFERRAL STOCK.—For pur-
14 poses of this paragraph, the term ‘deferral
15 stock’ means stock with respect to which
16 an election is in effect under this sub-
17 section.

18 “(ii) DEFERRAL STOCK WITH RE-
19 SPECT TO ANY INDIVIDUAL NOT TAKEN
20 INTO ACCOUNT IF INDIVIDUAL HOLDS DE-
21 FERRAL STOCK WITH LONGER DEFERRAL
22 PERIOD.—Stock purchased by a corpora-
23 tion from any individual shall not be treat-
24 ed as deferral stock for purposes of sub-
25 paragraph (B)(iii) if such individual (im-

1 mediately after such purchase) holds any
2 deferral stock with respect to which an
3 election has been in effect under this sub-
4 section for a longer period than the elec-
5 tion with respect to the stock so pur-
6 chased.

7 “(iii) PURCHASE OF ALL OUT-
8 STANDING DEFERRAL STOCK.—The re-
9 quirements of subclauses (I) and (II) of
10 subparagraph (B)(iii) shall be treated as
11 met if the stock so purchased includes all
12 of the corporation’s outstanding deferral
13 stock.

14 “(iv) REPORTING.—Any corporation
15 which has outstanding deferral stock as of
16 the beginning of any calendar year and
17 which purchases any of its outstanding
18 stock during such calendar year shall in-
19 clude on its return of tax for the taxable
20 year in which, or with which, such calendar
21 year ends the total dollar amount of its
22 outstanding stock so purchased during
23 such calendar year and such other infor-
24 mation as the Secretary requires for pur-
25 poses of administering this paragraph.

1 “(5) CONTROLLED GROUPS.—For purposes of
2 this subsection, all persons treated as a single em-
3 ployer under section 414(b) shall be treated as 1
4 corporation.

5 “(6) NOTICE REQUIREMENT.—Any corporation
6 which transfers qualified stock to a qualified em-
7 ployee shall, at the time that (or a reasonable period
8 before) an amount attributable to such stock would
9 (but for this subsection) first be includible in the
10 gross income of such employee—

11 “(A) certify to such employee that such
12 stock is qualified stock, and

13 “(B) notify such employee—

14 “(i) that the employee may be eligible
15 to elect to defer income on such stock
16 under this subsection, and

17 “(ii) that, if the employee makes such
18 an election—

19 “(I) the amount of income recog-
20 nized at the end of the deferral period
21 will be based on the value of the stock
22 at the time at which the rights of the
23 employee in such stock first become
24 transferable or not subject to substan-
25 tial risk of forfeiture, notwithstanding

1 whether the value of the stock has de-
2 clined during the deferral period,

3 “(II) the amount of such income
4 recognized at the end of the deferral
5 period will be subject to withholding
6 under section 3401(i) at the rate de-
7 termined under section 3402(t), and

8 “(III) the responsibilities of the
9 employee (as determined by the Sec-
10 retary under paragraph (3)(A)(ii))
11 with respect to such withholding.

12 “(7) RESTRICTED STOCK UNITS.—This section
13 (other than this subsection), including any election
14 under subsection (b), shall not apply to restricted
15 stock units.”.

16 (b) WITHHOLDING.—

17 (1) TIME OF WITHHOLDING.—Section 3401 is
18 amended by adding at the end the following new
19 subsection:

20 “(i) QUALIFIED STOCK FOR WHICH AN ELECTION IS
21 IN EFFECT UNDER SECTION 83(i).—For purposes of sub-
22 section (a), qualified stock (as defined in section 83(i))
23 with respect to which an election is made under section
24 83(i) shall be treated as wages—

1 “(1) received on the earliest date described in
2 section 83(i)(1)(B), and

3 “(2) in an amount equal to the amount in-
4 cluded in income under section 83 for the taxable
5 year which includes such date.”.

6 (2) AMOUNT OF WITHHOLDING.—Section 3402
7 is amended by adding at the end the following new
8 subsection:

9 “(t) RATE OF WITHHOLDING FOR CERTAIN
10 STOCK.—In the case of any qualified stock (as defined in
11 section 83(i)(2)) with respect to which an election is made
12 under section 83(i)—

13 “(1) the rate of tax under subsection (a) shall
14 not be less than the maximum rate of tax in effect
15 under section 1, and

16 “(2) such stock shall be treated for purposes of
17 section 3501(b) in the same manner as a non-cash
18 fringe benefit.”.

19 (c) COORDINATION WITH OTHER DEFERRED COM-
20 PENSATION RULES.—

21 (1) ELECTION TO APPLY DEFERRAL TO STATU-
22 TORY OPTIONS.—

23 (A) INCENTIVE STOCK OPTIONS.—Section
24 422(b) is amended by adding at the end the fol-
25 lowing: “Such term shall not include any option

1 if an election is made under section 83(i) with
2 respect to the stock received in connection with
3 the exercise of such option.”.

4 (B) EMPLOYEE STOCK PURCHASE
5 PLANS.—Section 423 is amended—

6 (i) by adding at the end of subsection

7 (a) the following flush sentence:

8 “The preceding sentence shall not apply to any share of
9 stock with respect to which an election is made under sec-
10 tion 83(i).”, and

11 (ii) in subsection (b)(5), by striking

12 “and” before “the plan” and by inserting

13 “, and the rules of section 83(i) shall apply

14 in determining which employees have a

15 right to make an election under such sec-

16 tion” before the semicolon at the end.

17 (2) EXCLUSION FROM DEFINITION OF NON-

18 QUALIFIED DEFERRED COMPENSATION PLAN.—Sub-

19 section (d) of section 409A is amended by adding at

20 the end the following new paragraph:

21 “(7) TREATMENT OF QUALIFIED STOCK.—An

22 arrangement under which an employee may receive

23 qualified stock (as defined in section 83(i)(2)) shall

24 not be treated as a nonqualified deferred compensa-

25 tion plan solely because of an employee’s election, or

1 ability to make an election, to defer recognition of
2 income under section 83(i).”.

3 (d) INFORMATION REPORTING.—Section 6051(a) is
4 amended by striking “and” at the end of paragraph (13),
5 by striking the period at the end of paragraph (14) and
6 inserting a comma, and by inserting after paragraph (14)
7 the following new paragraphs:

8 “(15) the amount includible in gross income
9 under subparagraph (A) of section 83(i)(1) with re-
10 spect to an event described in subparagraph (B) of
11 such section which occurs in such calendar year, and

12 “(16) the aggregate amount of income which is
13 being deferred pursuant to elections under section
14 83(i), determined as of the close of the calendar
15 year.”.

16 (e) PENALTY FOR FAILURE OF EMPLOYER TO PRO-
17 VIDE NOTICE OF TAX CONSEQUENCES.—Section 6652 is
18 amended by adding at the end the following new sub-
19 section:

20 “(p) FAILURE TO PROVIDE NOTICE UNDER SECTION
21 83(i).—In the case of each failure to provide a notice as
22 required by section 83(i)(6), at the time prescribed there-
23 for, unless it is shown that such failure is due to reason-
24 able cause and not to willful neglect, there shall be paid,
25 on notice and demand of the Secretary and in the same

1 manner as tax, by the person failing to provide such no-
2 tice, an amount equal to \$100 for each such failure, but
3 the total amount imposed on such person for all such fail-
4 ures during any calendar year shall not exceed \$50,000.”.

5 (f) EFFECTIVE DATES.—

6 (1) IN GENERAL.—Except as provided in para-
7 graph (2), the amendments made by this section
8 shall apply to stock attributable to options exercised,
9 or restricted stock units settled, after December 31,
10 2017.

11 (2) REQUIREMENT TO PROVIDE NOTICE.—The
12 amendments made by subsection (e) shall apply to
13 failures after December 31, 2017.

14 (g) TRANSITION RULE.—Until such time as the Sec-
15 retary (or the Secretary’s delegate) issues regulations or
16 other guidance for purposes of implementing the require-
17 ments of paragraph (2)(C)(i)(II) of section 83(i) of the
18 Internal Revenue Code of 1986 (as added by this section),
19 or the requirements of paragraph (6) of such section, a
20 corporation shall be treated as being in compliance with
21 such requirements (respectively) if such corporation com-
22 plies with a reasonable good faith interpretation of such
23 requirements.

1 **SEC. 13604. INCREASE IN EXCISE TAX RATE FOR STOCK**
2 **COMPENSATION OF INSIDERS IN EXPATRI-**
3 **ATED CORPORATIONS.**

4 (a) IN GENERAL.—Section 4985(a)(1) is amended by
5 striking “section 1(h)(1)(C)” and inserting “section
6 1(h)(1)(D)”.

7 (b) EFFECTIVE DATE.—The amendment made by
8 this section shall apply to corporations first becoming ex-
9 patriated corporations (as defined in section 4985 of the
10 Internal Revenue Code of 1986) after the date of enact-
11 ment of this Act.

12 **Subpart B—Retirement Plans**

13 **SEC. 13611. CONFORMITY OF CONTRIBUTION LIMITS FOR**
14 **EMPLOYER-SPONSORED RETIREMENT PLANS.**

15 (a) 403(B) PLANS.—

16 (1) ELIMINATION OF SPECIAL CATCH-UP
17 RULE.—Subsection (g) of section 402 is amended by
18 striking paragraph (7) and by redesignating para-
19 graph (8) as paragraph (7).

20 (2) ELIMINATION OF POST TERMINATION NON-
21 ELECTIVE CONTRIBUTIONS.—Subsection (b) of sec-
22 tion 403 is amended—

23 (A) in paragraph (3), by striking “for the
24 most recent period” and all that follows
25 through “more than five years”, and

26 (B) by striking paragraph (4).

1 (3) ELIMINATION OF SEPARATE 415(C) LIM-
2 ITS.—Paragraph (4) of section 415(k) is amended
3 by striking “each employer with respect to which the
4 participant has the control required” and inserting
5 “the employer and each employer which is part of
6 the same controlled group or under common con-
7 trol”.

8 (b) 457(B) PLANS.—

9 (1) ELIMINATION OF SEPARATE DEFERRAL
10 LIMIT.—Paragraph (3) of section 402(g) is amended
11 by striking “and” at the end of subparagraph (C),
12 by striking the period at the end of subparagraph
13 (D) and inserting “, and”, and by inserting after
14 subparagraph (D) the following new subparagraph:

15 “(E) any amount deferred under an eligi-
16 ble deferred compensation plan (as defined in
17 section 457(b)) of an eligible employer de-
18 scribed in section 457(e)(1)(A).”.

19 (2) TAKEN INTO ACCOUNT UNDER LIMITATION
20 FOR DEFINED CONTRIBUTION PLANS.—

21 (A) IN GENERAL.—Paragraph (2) of sec-
22 tion 415(a) is amended—

23 (i) by striking “or” at the end of sub-
24 paragraph (B), by inserting “or” at the
25 end of subparagraph (C), and by inserting

1 after subparagraph (C) the following new
2 subparagraph:

3 “(D) an eligible deferred compensation
4 plan (as defined in section 457(b)) of an eligible
5 employer described in section 457(e)(1)(A),”,
6 and

7 (ii) by striking “or 408(k)” in the
8 flush language and inserting “408(k), or
9 457(b)”.

10 (B) DEFINITION.—Paragraph (1) of sec-
11 tion 415(k) is amended by striking “or” at the
12 end of subparagraph (C), by striking the period
13 at the end of subparagraph (D) and inserting
14 “, or”, and by adding at the end the following
15 new subparagraph:

16 “(E) an eligible deferred compensation
17 plan (as defined in section 457(b)) of an eligible
18 employer described in section 457(e)(1)(A).”.

19 (3) ELIMINATION OF SPECIAL CATCH-UP
20 RULE.—Paragraph (3) of section 457(b) is amended
21 by inserting “in the case of an eligible employer de-
22 scribed in subsection (e)(1)(B),” before “which”.

23 (c) CONFORMING AMENDMENTS.—

24 (1) Section 25B(d)(1)(B) is amended—

25 (A) by striking clause (ii), and

1 (B) by striking “the amount of—” and all
2 that follows through “any elective deferrals”
3 and inserting “the amount of any elective defer-
4 rals”.

5 (2) Section 402A(e)(2) is amended by striking
6 “means—” and all that follows and inserting
7 “means any elective deferral described in subpara-
8 graph (A), (C), or (E) of section 402(g)(3).”

9 (3) Section 457(e) is amended by striking para-
10 graph (18).

11 (4) Section 414(u)(2)(C) is amended by insert-
12 ing “of an eligible employer described in section
13 457(e)(1)(B)” after “(as defined in section
14 457(b))”.

15 (5) Section 414(v)(2)(D) is amended—

16 (A) by striking “clauses (i), (ii), and (iv)
17 of”, and

18 (B) by striking “, and plans described in
19 clause (iii)” and all that follows and inserting
20 a period.

21 (6) Section 414(v)(3)(A)(i) is amended by strik-
22 ing “(determined without regard to section
23 457(b)(3))”.

1 (7) Section 414(v)(6)(B) is amended by striking
2 “subsection (u)(2)(C)” and inserting “section
3 402(g)(3)”.

4 (8) Section 414(v)(6) is amended by striking
5 subparagraph (C).

6 (d) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to plan years and taxable years
8 beginning after December 31, 2017.

9 **SEC. 13612. REPEAL OF SPECIAL RULE PERMITTING RE-**
10 **CHARACTERIZATION OF ROTH IRA CON-**
11 **TRIBUTIONS AS TRADITIONAL IRA CON-**
12 **TRIBUTIONS.**

13 (a) IN GENERAL.—Section 408A(d) is amended by
14 striking paragraph (6) and by redesignating paragraph
15 (7) as paragraph (6).

16 (b) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 2017.

19 **SEC. 13613. MODIFICATION OF RULES APPLICABLE TO**
20 **LENGTH OF SERVICE AWARD PLANS.**

21 (a) MAXIMUM DEFERRAL AMOUNT.—Clause (ii) of
22 section 457(e)(11)(B) is amended by striking “\$3,000”
23 and inserting “\$6,000”.

1 (b) COST OF LIVING ADJUSTMENT.—Subparagraph
2 (B) of section 457(e)(11) is amended by adding at the
3 end the following:

4 “(iii) COST OF LIVING ADJUST-
5 MENT.—In the case of taxable years begin-
6 ning after December 31, 2017, the Sec-
7 retary shall adjust the \$6,000 amount
8 under clause (ii) at the same time and in
9 the same manner as under section 415(d),
10 except that the base period shall be the
11 calendar quarter beginning July 1, 2016,
12 and any increase under this paragraph
13 that is not a multiple of \$500 shall be
14 rounded to the next lowest multiple of
15 \$500.”.

16 (c) APPLICATION OF LIMITATION ON ACCRUALS.—
17 Subparagraph (B) of section 457(e)(11), as amended by
18 subsection (b), is amended by adding at the end the fol-
19 lowing:

20 “(iv) SPECIAL RULE FOR APPLICA-
21 TION OF LIMITATION ON ACCRUALS FOR
22 CERTAIN PLANS.—In the case of a plan de-
23 scribed in subparagraph (A)(ii) which is a
24 defined benefit plan (as defined in section
25 414(j)), the limitation under clause (ii)

shall apply to the actuarial present value of the aggregate amount of length of service awards accruing with respect to any year of service. Such actuarial present value with respect to any year shall be calculated using reasonable actuarial assumptions and methods, assuming payment will be made under the most valuable form of payment under the plan with payment commencing at the later of the earliest age at which unreduced benefits are payable under the plan or the participant's age at the time of the calculation.”.

(d) EFFECTIVE DATE.—The amendments made by this Act shall apply to taxable years beginning after December 31, 2017.

17 SEC. 13614. EXTENDED ROLLOVER PERIOD FOR PLAN LOAN
18 OFFSET AMOUNTS.

(a) IN GENERAL.—Paragraph (3) of section 402(c) is amended by redesignating subparagraph (B) as subparagraph (C) and by inserting after subparagraph (A) the following new subparagraph:

23 “(B) ROLLOVER OF CERTAIN PLAN LOAN
24 OFFSET AMOUNTS.—

1 “(i) IN GENERAL.—In the case of an
2 eligible rollover distribution of a qualified
3 plan loan offset amount, the requirements
4 of subparagraph (A) shall be treated as
5 met if such transfer occurs on or before
6 the due date (including extensions) for fil-
7 ing the return of tax for the taxable year
8 in which such amount is treated as distrib-
9 uted from a qualified employer plan.

10 “(ii) QUALIFIED PLAN LOAN OFFSET
11 AMOUNT.—For purposes of this subpara-
12 graph, the term ‘qualified plan loan offset
13 amount’ means a plan loan offset amount
14 which is treated as distributed from a
15 qualified employer plan to a participant or
16 beneficiary solely by reason of—

17 “(I) the termination of the quali-
18 fied employer plan, or

19 “(II) the failure to meet the re-
20 payment terms of the loan from such
21 plan because of the severance from
22 employment of the participant.

23 “(iii) PLAN LOAN OFFSET AMOUNT.—
24 For purposes of clause (ii), the term ‘plan
25 loan offset amount’ means the amount by

1 which the participant's accrued benefit
2 under the plan is reduced in order to repay
3 a loan from the plan.

4 “(iv) LIMITATION.—This subpara-
5 graph shall not apply to any plan loan off-
6 set amount unless such plan loan offset
7 amount relates to a loan to which section
8 72(p)(1) does not apply by reason of sec-
9 tion 72(p)(2).

10 “(v) QUALIFIED EMPLOYER PLAN.—
11 For purposes of this subsection, the term
12 ‘qualified employer plan’ has the meaning
13 given such term by section 72(p)(4).”.

14 (b) CONFORMING AMENDMENT.—Subparagraph (A)
15 of section 402(c)(3) is amended by striking “subpara-
16 graph (B)” and inserting “subparagraphs (B) and (C)”.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to plan loan offset amounts which
19 are treated as distributed in taxable years beginning after
20 December 31, 2017.

21 **PART VIII—EXEMPT ORGANIZATIONS**

22 **SEC. 13701. EXCISE TAX BASED ON INVESTMENT INCOME**
23 **OF PRIVATE COLLEGES AND UNIVERSITIES.**

24 (a) IN GENERAL.—Chapter 42 is amended by adding
25 at the end the following new subchapter:

1 **“Subchapter H—Excise Tax Based on Invest-**
2 **ment Income of Private Colleges and Uni-**
3 **versities**

“Sec. 4968. Excise tax based on investment income of private colleges and universities.

4 **“SEC. 4968. EXCISE TAX BASED ON INVESTMENT INCOME**
5 **OF PRIVATE COLLEGES AND UNIVERSITIES.**

6 “(a) TAX IMPOSED.—There is hereby imposed on
7 each applicable educational institution for the taxable year
8 a tax equal to 1.4 percent of the net investment income
9 of such institution for the taxable year.

10 “(b) APPLICABLE EDUCATIONAL INSTITUTION.—For
11 purposes of this subchapter—

12 “(1) IN GENERAL.—The term ‘applicable edu-
13 cational institution’ means an eligible educational in-
14 stitution (as defined in section 25A(f)(2))—

15 “(A) which had at least 500 tuition-paying
16 students during the preceding taxable year,

17 “(B) which is not described in the first
18 sentence of section 511(a)(2)(B) (relating to
19 State colleges and universities), and

20 “(C) the aggregate fair market value of
21 the assets of which at the end of the preceding
22 taxable year (other than those assets which are
23 used directly in carrying out the institution’s

1 exempt purpose) is at least \$250,000 per stu-
2 dent of the institution.

3 “(2) STUDENTS.—For purposes of paragraph
4 (1), the number of students of an institution shall
5 be based on the daily average number of full-time
6 students attending such institution (with part-time
7 students taken into account on a full-time student
8 equivalent basis).

9 “(c) NET INVESTMENT INCOME.—For purposes of
10 this section, net investment income shall be determined
11 under rules similar to the rules of section 4940(c).

12 “(d) ASSETS AND NET INVESTMENT INCOME OF RE-
13 LATED ORGANIZATIONS.—

14 “(1) IN GENERAL.—For purposes of sub-
15 sections (b)(1)(C) and (c), assets and net investment
16 income of any related organization with respect to
17 an educational institution shall be treated as assets
18 and net investment income, respectively, of the edu-
19 cational institution, except that—

20 “(A) no such amount shall be taken into
21 account with respect to more than 1 educational
22 institution, and

23 “(B) unless such organization is controlled
24 by such institution or is described in section
25 509(a)(3) with respect to such institution for

the taxable year, assets and net investment in-
come which are not intended or available for
the use or benefit of the educational institution
shall not be taken into account.

“(2) RELATED ORGANIZATION.—For purposes of this subsection, the term ‘related organization’ means, with respect to an educational institution, any organization which—

9 “(A) controls, or is controlled by, such in-

10 stitution,

11 “(B) is controlled by 1 or more persons
12 which also control such institution, or

“(C) is a supported organization (as defined in section 509(f)(3)), or an organization described in section 509(a)(3), during the taxable year with respect to such institution.”.

(b) CLERICAL AMENDMENT.—The table of sub-
chapters for chapter 42 is amended by adding at the end
the following new item:

“SUBCHAPTER H—EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE COLLEGES AND UNIVERSITIES”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2017.

1 **SEC. 13702. NAME AND LOGO ROYALTIES TREATED AS UN-**
2 **RELATED BUSINESS TAXABLE INCOME.**

3 (a) IN GENERAL.—Section 513 is amended by adding
4 at the end the following new subsection:

5 “(k) NAME AND LOGO ROYALTIES.—Any sale or li-
6 censing by an organization of any name or logo of the
7 organization (including any trademark or copyright relat-
8 ing to such name or logo) shall be treated as an unrelated
9 trade or business regularly carried on by such organiza-
10 tion.”.

11 (b) CALCULATION OF UNRELATED BUSINESS TAX-
12 ABLE INCOME.—Subsection (b) of section 512 is amended
13 by adding at the end the following new paragraph:

14 “(20) SPECIAL RULE FOR NAME AND LOGO
15 ROYALTIES.—Notwithstanding paragraph (1), (2),
16 (3), or (5), any income derived from any sale or li-
17 censing described in section 513(k) shall be included
18 as an item of gross income derived from an unre-
19 lated trade or business.”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years beginning after
22 December 31, 2017.

1 **SEC. 13703. UNRELATED BUSINESS TAXABLE INCOME SEPA-**
2 **RATELY COMPUTED FOR EACH TRADE OR**
3 **BUSINESS ACTIVITY.**

4 (a) IN GENERAL.—Subsection (a) of section 512 is
5 amended by adding at the end the following new para-
6 graph:

7 “(6) SPECIAL RULE FOR ORGANIZATION WITH
8 MORE THAN 1 UNRELATED TRADE OR BUSINESS.—

9 In the case of any organization with more than 1
10 unrelated trade or business—

11 “(A) unrelated business taxable income, in-
12 cluding for purposes of determining any net op-
13 erating loss deduction, shall be computed sepa-
14 rately with respect to each such trade or busi-
15 ness and without regard to subsection (b)(12),

16 “(B) the unrelated business taxable income
17 of such organization shall be the sum of the un-
18 related business taxable income so computed
19 with respect to each such trade or business, less
20 a specific deduction under subsection (b)(12),
21 and

22 “(C) for purposes of subparagraph (B),
23 unrelated business taxable income with respect
24 to any such trade or business shall not be less
25 than zero.”.

26 (b) EFFECTIVE DATE.—

1 (1) IN GENERAL.—Except to the extent pro-
2 vided in paragraph (2), the amendment made by this
3 section shall apply to taxable years beginning after
4 December 31, 2017.

5 (2) CARRYOVERS OF NET OPERATING
6 LOSSES.—If any net operating loss arising in a tax-
7 able year beginning before January 1, 2018, is car-
8 ried over to a taxable year beginning on or after
9 such date—

10 (A) subparagraph (A) of section 512(a)(6)
11 of the Internal Revenue Code of 1986, as added
12 by this Act, shall not apply to such net oper-
13 ating loss, and

14 (B) the unrelated business taxable income
15 of the organization, after the application of sub-
16 paragraph (B) of such section, shall be reduced
17 by the amount of such net operating loss.

18 **SEC. 13704. REPEAL OF TAX-EXEMPT STATUS FOR PROFES-**
19 **SIONAL SPORTS LEAGUES.**

20 (a) IN GENERAL.—Paragraph (6) of section 501(c)
21 is amended—

22 (1) by striking “, boards of trade, or profes-
23 sional” and all that follows through “players)” and
24 inserting “, or boards of trade”, and

1 (2) by adding at the end the following: “This
2 paragraph shall not apply to any professional sports
3 league (whether or not administering a pension fund
4 for players).”.

5 (b) **EFFECTIVE DATE.**—The amendments made by
6 this section shall apply to taxable years beginning after
7 December 31, 2017.

8 **SEC. 13705. MODIFICATION OF TAXES ON EXCESS BENEFIT**
9 **TRANSACTIONS.**

10 (a) **ORGANIZATION LEVEL TAX.**—Subsection (a) of
11 section 4958 is amended by adding at the end the fol-
12 lowing new paragraph:

13 “(3) **ON THE ORGANIZATION.**—In any case in
14 which a tax is imposed by paragraph (1), there is
15 hereby imposed on the organization a tax equal to
16 10 percent of the excess benefit, unless the partici-
17 pation of the organization in the excess benefit
18 transaction is not willful and is due to reasonable
19 cause.”.

20 (b) **MINIMUM STANDARDS OF ORGANIZATION DUE**
21 **DILIGENCE.**—Subsection (d) of section 4958 is amended
22 by adding at the end the following new paragraph:

23 “(3) **MINIMUM STANDARDS OF ORGANIZATION**
24 **DUE DILIGENCE.**—

1 “(A) IN GENERAL.—Subsection (a)(3)
2 shall not apply to a transaction, if—

3 “(i) the organization establishes that
4 the minimum standards of due diligence
5 described in subparagraph (B) were met
6 with respect to the transaction, or

7 “(ii) the organization establishes to
8 the satisfaction of the Secretary that other
9 reasonable procedures were used to ensure
10 that no excess benefit was provided.

11 “(B) MINIMUM STANDARDS.—An organiza-
12 tion shall be treated as satisfying the minimum
13 standards of due diligence described in this sub-
14 paragraph with respect to any transaction, if—

15 “(i) the transaction was approved in
16 advance by an authorized body of the orga-
17 nization composed entirely of individuals
18 who did not have a conflict of interest with
19 respect to the transaction,

20 “(ii) the authorized body obtained and
21 relied upon appropriate data as to com-
22 parability prior to approval of the trans-
23 action, and

1 “(iii) the authorized body adequately
2 and concurrently documented the basis for
3 approving the transaction.

4 “(C) NO PRESUMPTION AS TO REASON-
5 ABLENESS.—Meeting the requirements of
6 clause (i) or (ii) of subparagraph (A) with re-
7 spect to a transaction shall not give rise to a
8 presumption of reasonableness for purposes of
9 the taxes imposed by paragraphs (1) of (2) of
10 subsection (a) and shall not, by itself, support
11 a conclusion that a manager did not act know-
12 ingly for purposes of subsection (a)(2) or that
13 the organization did not act wilfully or without
14 reasonable cause for purposes of subsection
15 (a)(3).”.

16 (c) REPEAL OF EXCEPTION FOR MANAGER RELI-
17 ANCE ON PROFESSIONAL ADVICE.—Section 4958 is
18 amended by adding at the end the following new sub-
19 section:

20 “(g) NO SAFE HARBOR FOR RELIANCE ON PROFES-
21 SIONAL ADVICE.—An organization manager’s reliance on
22 a written opinion of a professional with respect to elements
23 of a transaction within the professional’s expertise shall
24 not, by itself, preclude the manager from being treated
25 as participating in the transaction knowingly.”.

1 (d) ATHLETIC COACHES AND INVESTMENT MAN-
2 AGERS TREATED AS DISQUALIFIED PERSONS.—

3 (1) ATHLETIC COACHES.—

4 (A) IN GENERAL.—Paragraph (1) of sec-
5 tion 4958(f) is amended by striking “and” at
6 the end of subparagraph (E), by striking the
7 period at the end of subparagraph (F) and in-
8 serting “, and”, and by adding at the end the
9 following new subparagraph:

10 “(G) which involves an eligible educational
11 institution (as defined in section 25A(f)(2)),
12 any person who performs services as an athletic
13 coach for the organization.”.

14 (B) FAMILY MEMBERS.—Subparagraph
15 (B) of section 4958(f)(1) is amended by insert-
16 ing “or (G)” after “subparagraph (A)”.

17 (2) INVESTMENT ADVISORS.—

18 (A) IN GENERAL.—Subparagraph (F) of
19 section 4958(f)(1) is amended—

20 (i) by striking “which involves a spon-
21 soring organization (as defined in section
22 4966(d)(1)),”, and

23 (ii) by striking “such sponsoring orga-
24 nization (as so defined)” and inserting
25 “the organization”.

1 (B) INVESTMENT ADVISOR DEFINITION.—
2 Subparagraph (B) of section 4958(f)(8) is
3 amended to read as follows:

4 “(B) INVESTMENT ADVISOR DEFINED.—
5 For purposes of subparagraph (A), the term
6 ‘investment advisor’ means—

7 “(i) with respect to any organization,
8 any person who is compensated by such or-
9 ganization and is primarily responsible for
10 managing the investment of, or providing
11 investment advice with respect to, assets of
12 such organization, and

13 “(ii) with respect to any sponsoring
14 organization (as defined in section
15 4966(d)(1)), any person (other than an
16 employee of such organization) com-
17 pensated by such organization for man-
18 aging the investment of, or providing in-
19 vestment advice with respect to, assets
20 maintained in donor advised funds (as de-
21 fined in section 4966(d)(2)) owned by such
22 organization.”.

23 (e) APPLICATION TO UNIONS AND TRADE ASSOCIA-
24 TIONS.—Paragraph (1) of section 4958(e) is amended by
25 inserting “(5), (6),” after “(4),”.

1 (f) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2017.

4 **SEC. 13706. EXCEPTION FROM PRIVATE FOUNDATION EX-**
5 **CESS BUSINESS HOLDING TAX FOR INDE-**
6 **PENDENTLY-OPERATED PHILANTHROPIC**
7 **BUSINESS HOLDINGS.**

8 (a) IN GENERAL.—Section 4943 is amended by add-
9 ing at the end the following new subsection:

10 “(g) EXCEPTION FOR CERTAIN HOLDINGS LIMITED
11 TO INDEPENDENTLY-OPERATED PHILANTHROPIC BUSI-
12 NESS.—

13 “(1) IN GENERAL.—Subsection (a) shall not
14 apply with respect to the holdings of a private foun-
15 dation in any business enterprise which meets the
16 requirements of paragraphs (2), (3), and (4) for the
17 taxable year.

18 “(2) OWNERSHIP.—The requirements of this
19 paragraph are met if—

20 “(A) 100 percent of the voting stock in the
21 business enterprise is held by the private foun-
22 dation at all times during the taxable year, and

23 “(B) all the private foundation’s ownership
24 interests in the business enterprise were ac-
25 quired by means other than by purchase.

1 “(3) ALL PROFITS TO CHARITY.—

2 “(A) IN GENERAL.—The requirements of
3 this paragraph are met if the business enter-
4 prise, not later than 120 days after the close of
5 the taxable year, distributes an amount equal to
6 its net operating income for such taxable year
7 to the private foundation.

8 “(B) NET OPERATING INCOME.—For pur-
9 poses of this paragraph, the net operating in-
10 come of any business enterprise for any taxable
11 year is an amount equal to the gross income of
12 the business enterprise for the taxable year, re-
13 duced by the sum of—

14 “(i) the deductions allowed by chapter
15 1 for the taxable year which are directly
16 connected with the production of such in-
17 come,

18 “(ii) the tax imposed by chapter 1 on
19 the business enterprise for the taxable
20 year, and

21 “(iii) an amount for a reasonable re-
22 serve for working capital and other busi-
23 ness needs of the business enterprise.

1 “(4) INDEPENDENT OPERATION.—The require-
2 ments of this paragraph are met if, at all times dur-
3 ing the taxable year—

4 “(A) no substantial contributor (as defined
5 in section 4958(c)(3)(C)) to the private founda-
6 tion or family member (as determined under
7 section 4958(f)(4)) of such a contributor is a
8 director, officer, trustee, manager, employee, or
9 contractor of the business enterprise (or an in-
10 dividual having powers or responsibilities simi-
11 lar to any of the foregoing),

12 “(B) at least a majority of the board of di-
13 rectors of the private foundation are persons
14 who are not—

15 “(i) directors or officers of the busi-
16 ness enterprise, or

17 “(ii) family members (as so deter-
18 mined) of a substantial contributor (as so
19 defined) to the private foundation, and

20 “(C) there is no loan outstanding from the
21 business enterprise to a substantial contributor
22 (as so defined) to the private foundation or to
23 any family member of such a contributor (as so
24 determined).

1 “(5) CERTAIN DEEMED PRIVATE FOUNDATIONS
2 EXCLUDED.—This subsection shall not apply to—

3 “(A) any fund or organization treated as a
4 private foundation for purposes of this section
5 by reason of subsection (e) or (f),

6 “(B) any trust described in section
7 4947(a)(1) (relating to charitable trusts), and

8 “(C) any trust described in section
9 4947(a)(2) (relating to split-interest trusts).”.

10 (b) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years beginning after
12 December 31, 2017.

13 **SEC. 13707. REPEAL OF DEDUCTION FOR AMOUNTS PAID IN**
14 **EXCHANGE FOR COLLEGE ATHLETIC EVENT**
15 **SEATING RIGHTS.**

16 (a) IN GENERAL.—Section 170(l)(1) is amended to
17 read as follows:

18 “(1) IN GENERAL.—No deduction shall be al-
19 lowed under this section for any amount described in
20 paragraph (2).”.

21 (b) EFFECTIVE DATE.—The amendment made by
22 this section shall apply to contributions made in taxable
23 years beginning after December 31, 2017.

1 **SEC. 13708. REPEAL OF SUBSTANTIATION EXCEPTION IN**
2 **CASE OF CONTRIBUTIONS REPORTED BY**
3 **DONEE.**

4 (a) IN GENERAL.—Section 170(f)(8) is amended by
5 striking subparagraph (D) and by redesignating subpara-
6 graph (E) as subparagraph (D).

7 (b) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to contributions made in taxable
9 years beginning after December 31, 2016.

10 **PART IX—OTHER PROVISIONS**

11 **Subpart A—Craft Beverage Modernization and Tax**
12 **Reform**

13 **SEC. 13801. RULE OF CONSTRUCTION.**

14 Nothing in this subpart, the amendments made by
15 this subpart, or any regulation promulgated under this
16 subpart or the amendments made by this subpart, shall
17 be construed to preempt, supersede, or otherwise limit or
18 restrict any State, local, or tribal law that prohibits or
19 regulates the production or sale of distilled spirits, wine,
20 or malt beverages.

21 **SEC. 13802. PRODUCTION PERIOD FOR BEER, WINE, AND**
22 **DISTILLED SPIRITS.**

23 (a) IN GENERAL.—Section 263A(f) is amended—

24 (1) by redesignating paragraph (4) as para-
25 graph (5), and

1 (2) by inserting after paragraph (3) the fol-
2 lowing new paragraph:

3 “(4) EXEMPTION FOR AGING PROCESS OF
4 BEER, WINE, AND DISTILLED SPIRITS.—

5 “(A) IN GENERAL.—For purposes of this
6 subsection, the production period shall not in-
7 clude the aging period for—

8 “(i) beer (as defined in section
9 5052(a)),

10 “(ii) wine (as described in section
11 5041(a)), or

12 “(iii) distilled spirits (as defined in
13 section 5002(a)(8)), except such spirits
14 that are unfit for use for beverage pur-
15 poses.

16 “(B) TERMINATION.—This paragraph
17 shall not apply to interest costs paid or accrued
18 after December 31, 2019.”.

19 (b) CONFORMING AMENDMENT.—Paragraph
20 (5)(B)(ii) of section 263A(f), as redesignated by this sec-
21 tion, is amended by inserting “except as provided in para-
22 graph (4),” before “ending on the date”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to interest costs paid or accrued
25 in calendar years beginning after December 31, 2017.

1 **SEC. 13803. REDUCED RATE OF EXCISE TAX ON BEER.**

2 (a) IN GENERAL.—Paragraph (1) of section 5051(a)
3 is amended to read as follows:

4 “(1) IN GENERAL.—

5 “(A) IMPOSITION OF TAX.—A tax is here-
6 by imposed on all beer brewed or produced, and
7 removed for consumption or sale, within the
8 United States, or imported into the United
9 States. Except as provided in paragraph (2),
10 the rate of such tax shall be the amount deter-
11 mined under this paragraph.

12 “(B) RATE.—Except as provided in sub-
13 paragraph (B), the rate of tax shall be \$18 for
14 per barrel.

15 “(C) SPECIAL RULE.—In the case of beer
16 removed after December 31, 2017, and before
17 January 1, 2020, the rate of tax shall be—

18 “(i) \$16 on the first 6,000,000 barrels
19 of beer—

20 “(I) brewed by the brewer and
21 removed during the calendar year for
22 consumption or sale, or

23 “(II) imported by the importer
24 into the United States during the cal-
25 endar year, and

1 “(ii) \$18 on any barrels of beer to
2 which clause (i) does not apply.

3 “(D) BARREL.—For purposes of this sec-
4 tion, a barrel shall contain not more than 31
5 gallons of beer, and any tax imposed under this
6 section shall be applied at a like rate for any
7 other quantity or for fractional parts of a bar-
8 rel.”.

9 (b) REDUCED RATE FOR CERTAIN DOMESTIC PRO-
10 Duction.—Subparagraph (A) of section 5051(a)(2) is
11 amended—

12 (1) in the heading, by striking “\$7 A BARREL”,
13 and

14 (2) by inserting “(\$3.50 in the case of beer re-
15 moved after December 31, 2017, and before January
16 1, 2020)” after “\$7”.

17 (c) APPLICATION OF REDUCED TAX RATE FOR FOR-
18 EIGN MANUFACTURERS AND IMPORTERS.—Subsection (a)
19 of section 5051 is amended—

20 (1) in subparagraph (C)(ii) of paragraph (1), as
21 amended by subsection (a), by inserting “but only if
22 the importer is an electing importer under para-
23 graph (4) and the barrels have been assigned to the
24 importer pursuant to such paragraph” after “during
25 the calendar year”, and

1 (2) by adding at the end the following new
2 paragraph:

3 “(4) REDUCED TAX RATE FOR FOREIGN MANU-
4 FACTURERS AND IMPORTERS.—

5 “(A) IN GENERAL.—In the case of any
6 barrels of beer which have been brewed or pro-
7 duced outside of the United States and im-
8 ported into the United States, the rate of tax
9 applicable under clause (i) of paragraph (1)(C)
10 (referred to in this paragraph as the ‘reduced
11 tax rate’) may be assigned by the brewer (pro-
12 vided that the brewer makes an election de-
13 scribed in subparagraph (B)(ii)) to any electing
14 importer of such barrels pursuant to the re-
15 quirements established by the Secretary under
16 subparagraph (B).

17 “(B) ASSIGNMENT.—The Secretary shall,
18 through such rules, regulations, and procedures
19 as are determined appropriate, establish proce-
20 dures for assignment of the reduced tax rate
21 provided under this paragraph, which shall in-
22 clude—

23 “(i) a limitation to ensure that the
24 number of barrels of beer for which the re-

1 duced tax rate has been assigned by a
2 brewer—

3 “(I) to any importer does not ex-
4 ceed the number of barrels of beer
5 brewed or produced by such brewer
6 during the calendar year which were
7 imported into the United States by
8 such importer, and

9 “(II) to all importers does not
10 exceed the 6,000,000 barrels to which
11 the reduced tax rate applies,

12 “(ii) procedures that allow the election
13 of a brewer to assign and an importer to
14 receive the reduced tax rate provided under
15 this paragraph,

16 “(iii) requirements that the brewer
17 provide any information as the Secretary
18 determines necessary and appropriate for
19 purposes of carrying out this paragraph,
20 and

21 “(iv) procedures that allow for revoca-
22 tion of eligibility of the brewer and the im-
23 porter for the reduced tax rate provided
24 under this paragraph in the case of any er-
25 roneous or fraudulent information provided

1 under clause (iii) which the Secretary
2 deems to be material to qualifying for such
3 reduced rate.

4 “(C) CONTROLLED GROUP.—For purposes
5 of this section, any importer making an election
6 described in subparagraph (B)(ii) shall be
7 deemed to be a member of the controlled group
8 of the brewer, as described under paragraph
9 (5).”.

10 (d) CONTROLLED GROUP AND SINGLE TAXPAYER
11 RULES.—Subsection (a) of section 5051, as amended by
12 this section, is amended—

13 (1) in paragraph (2)—

14 (A) by striking subparagraph (B), and

15 (B) by redesignating subparagraph (C) as
16 subparagraph (B), and

17 (2) by adding at the end the following new
18 paragraph:

19 “(5) CONTROLLED GROUP AND SINGLE TAX-
20 PAYER RULES.—

21 “(A) IN GENERAL.—Except as provided in
22 subparagraph (B), in the case of a controlled
23 group, the 6,000,000 barrel quantity specified
24 in paragraph (1)(C)(i) and the 2,000,000 barrel
25 quantity specified in paragraph (2)(A) shall be

1 applied to the controlled group, and the
2 6,000,000 barrel quantity specified in para-
3 graph (1)(C)(i) and the 60,000 barrel quantity
4 specified in paragraph (2)(A) shall be appor-
5 tioned among the brewers who are members of
6 such group in such manner as the Secretary or
7 their delegate shall by regulations prescribe.
8 For purposes of the preceding sentence, the
9 term ‘controlled group’ has the meaning as-
10 signed to it by subsection (a) of section 1563,
11 except that for such purposes the phrase ‘more
12 than 50 percent’ shall be substituted for the
13 phrase ‘at least 80 percent’ in each place it ap-
14 pears in such subsection. Under regulations
15 prescribed by the Secretary, principles similar
16 to the principles of the preceding two sentences
17 shall be applied to a group of brewers under
18 common control where one or more of the brew-
19 ers is not a corporation.

20 “(B) FOREIGN MANUFACTURERS AND IM-
21 PORTERS.—For purposes of paragraph (4), in
22 the case of a controlled group, the 6,000,000
23 barrel quantity specified in paragraph (1)(C)(i)
24 shall be applied to the controlled group and ap-
25 portioned among the members of such group in

1 such manner as the Secretary shall by regula-
2 tions prescribe. For purposes of the preceding
3 sentence, the term ‘controlled group’ has the
4 meaning given such term under subparagraph
5 (A). Under regulations prescribed by the Sec-
6 retary, principles similar to the principles of the
7 preceding two sentences shall be applied to a
8 group of brewers under common control where
9 one or more of the brewers is not a corporation.

10 “(C) SINGLE TAXPAYER.—Pursuant to
11 rules issued by the Secretary, two or more enti-
12 ties (whether or not under common control)
13 that produce beer marketed under a similar
14 brand, license, franchise, or other arrangement
15 shall be treated as a single taxpayer for pur-
16 poses of the application of this subsection.”.

17 (e) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to beer removed after December
19 31, 2017.

20 **SEC. 13804. SIMPLIFICATION OF RULES REGARDING**
21 **RECORDS, STATEMENTS, AND RETURNS.**

22 (a) IN GENERAL.—Subsection (a) of section 5555 is
23 amended by adding at the end the following: “For cal-
24 endar quarters beginning after December 31, 2017, and
25 before January 1, 2020, the Secretary shall permit a per-

1 son to employ a unified system for any records, state-
2 ments, and returns required to be kept, rendered, or made
3 under this section for any beer produced in the brewery
4 for which the tax imposed by section 5051 has been deter-
5 mined, including any beer which has been removed for
6 consumption on the premises of the brewery.”.

7 (b) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to any calendar quarters beginning
9 after December 31, 2017.

10 **SEC. 13805. TRANSFER OF BEER BETWEEN BONDED FACILI-**
11 **TIES.**

12 (a) IN GENERAL.—Section 5414 is amended—

13 (1) by striking “Beer may be removed” and in-
14 serting “(a) IN GENERAL.—Beer may be removed”,
15 and

16 (2) by adding at the end the following:

17 “(b) TRANSFER OF BEER BETWEEN BONDED FA-
18 CILITIES.—

19 “(1) IN GENERAL.—Beer may be removed from
20 one brewery to another bonded brewery, without
21 payment of tax, and may be mingled with beer at
22 the receiving brewery, subject to such conditions, in-
23 cluding payment of the tax, and in such containers,
24 as the Secretary by regulations shall prescribe,
25 which shall include—

1 “(A) any removal from one brewery to an-
2 other brewery belonging to the same brewer,

3 “(B) any removal from a brewery owned
4 by one corporation to a brewery owned by an-
5 other corporation when—

6 “(i) one such corporation owns the
7 controlling interest in the other such cor-
8 poration, or

9 “(ii) the controlling interest in each
10 such corporation is owned by the same per-
11 son or persons, and

12 “(C) any removal from one brewery to an-
13 other brewery when—

14 “(i) the proprietors of transferring
15 and receiving premises are independent of
16 each other and neither has a proprietary
17 interest, directly or indirectly, in the busi-
18 ness of the other, and

19 “(ii) the transferor has divested itself
20 of all interest in the beer so transferred
21 and the transferee has accepted responsi-
22 bility for payment of the tax.

23 “(2) TRANSFER OF LIABILITY FOR TAX.—For
24 purposes of paragraph (1)(C), such relief from liabil-
25 ity shall be effective from the time of removal from

1 the transferor's bonded premises, or from the time
2 of divestment of interest, whichever is later.

3 “(3) TERMINATION.—This subsection shall not
4 apply to any calendar quarter beginning after De-
5 cember 31, 2019.”.

6 (b) REMOVAL FROM BREWERY BY PIPELINE.—Sec-
7 tion 5412 is amended by inserting “pursuant to section
8 5414 or” before “by pipeline”.

9 (c) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to any calendar quarters beginning
11 after December 31, 2017.

12 **SEC. 13806. REDUCED RATE OF EXCISE TAX ON CERTAIN**
13 **WINE.**

14 (a) IN GENERAL.—Section 5041(c) is amended by
15 adding at the end the following new paragraph:

16 “(8) SPECIAL RULE FOR 2018 AND 2019.—

17 “(A) IN GENERAL.—In the case of wine re-
18 moved after December 31, 2017, and before
19 January 1, 2020, paragraphs (1) and (2) shall
20 not apply and there shall be allowed as a credit
21 against any tax imposed by this title (other
22 than chapters 2, 21, and 22) an amount equal
23 to the sum of—

24 “(i) \$1 per wine gallon on the first
25 30,000 wine gallons of wine, plus

1 “(ii) 90 cents per wine gallon on the
2 first 100,000 wine gallons of wine to which
3 clause (i) does not apply, plus

4 “(iii) 53.5 cents per wine gallon on
5 the first 620,000 wine gallons of wine to
6 which clauses (i) and (ii) do not apply,
7 which are produced by the producer and re-
8 moved during the calendar year for consump-
9 tion or sale, or which are imported by the im-
10 porter into the United States during the cal-
11 endar year.

12 “(B) ADJUSTMENT OF CREDIT FOR HARD
13 CIDER.—In the case of wine described in sub-
14 section (b)(6), subparagraph (A) of this para-
15 graph shall be applied—

16 “(i) in clause (i) of such subpara-
17 graph, by substituting ‘6.2 cents’ for ‘\$1’,

18 “(ii) in clause (ii) of such subpara-
19 graph, by substituting ‘5.6 cents’ for ‘90
20 cents’, and

21 “(iii) in clause (iii) of such subpara-
22 graph, by substituting ‘3.3 cents’ for ‘53.5
23 cents’.”,

24 (b) CONTROLLED GROUP AND SINGLE TAXPAYER
25 RULES.—Paragraph (4) of section 5041(c) is amended by

1 striking “section 5051(a)(2)(B)” and inserting “section
2 5051(a)(5)”.

3 (c) ALLOWANCE OF CREDIT FOR FOREIGN MANU-
4 FACTURERS AND IMPORTERS.—Subsection (c) of section
5 5041, as amended by subsection (a), is amended—

6 (1) in subparagraph (A) of paragraph (8), by
7 inserting “but only if the importer is an electing im-
8 porter under paragraph (9) and the wine gallons of
9 wine have been assigned to the importer pursuant to
10 such paragraph” after “into the United States dur-
11 ing the calendar year”, and

12 (2) by adding at the end the following new
13 paragraph:

14 “(9) ALLOWANCE OF CREDIT FOR FOREIGN
15 MANUFACTURERS AND IMPORTERS.—

16 “(A) IN GENERAL.—In the case of any
17 wine gallons of wine which have been produced
18 outside of the United States and imported into
19 the United States, the credit allowable under
20 paragraph (8) (referred to in this paragraph as
21 the ‘tax credit’) may be assigned by the person
22 who produced such wine (referred to in this
23 paragraph as the ‘foreign producer’), provided
24 that such person makes an election described in
25 subparagraph (B)(ii), to any electing importer

1 of such wine gallons pursuant to the require-
2 ments established by the Secretary under sub-
3 paragraph (B).

4 “(B) ASSIGNMENT.—The Secretary shall,
5 through such rules, regulations, and procedures
6 as are determined appropriate, establish proce-
7 dures for assignment of the tax credit provided
8 under this paragraph, which shall include—

9 “(i) a limitation to ensure that the
10 number of wine gallons of wine for which
11 the tax credit has been assigned by a for-
12 eign producer—

13 “(I) to any importer does not ex-
14 ceed the number of wine gallons of
15 wine produced by such foreign pro-
16 ducer during the calendar year which
17 were imported into the United States
18 by such importer, and

19 “(II) to all importers does not
20 exceed the 750,000 wine gallons of
21 wine to which the tax credit applies,

22 “(ii) procedures that allow the election
23 of a foreign producer to assign and an im-
24 porter to receive the tax credit provided
25 under this paragraph,

1 “(iii) requirements that the foreign
2 producer provide any information as the
3 Secretary determines necessary and appro-
4 priate for purposes of carrying out this
5 paragraph, and

6 “(iv) procedures that allow for revoca-
7 tion of eligibility of the foreign producer
8 and the importer for the tax credit pro-
9 vided under this paragraph in the case of
10 any erroneous or fraudulent information
11 provided under clause (iii) which the Sec-
12 retary deems to be material to qualifying
13 for such credit.

14 “(C) CONTROLLED GROUP.—For purposes
15 of this section, any importer making an election
16 described in subparagraph (B)(ii) shall be
17 deemed to be a member of the controlled group
18 of the foreign producer, as described under
19 paragraph (4).”.

20 (d) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to wine removed after December
22 31, 2017.

1 **SEC. 13807. ADJUSTMENT OF ALCOHOL CONTENT LEVEL**
2 **FOR APPLICATION OF EXCISE TAX RATES.**

3 (a) IN GENERAL.—Paragraphs (1) and (2) of section
4 5041(b) are each amended by inserting “(16 percent in
5 the case of wine removed after December 31, 2017, and
6 before January 1, 2020” after “14 percent”.

7 (b) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to wine removed after December
9 31, 2017.

10 **SEC. 13808. DEFINITION OF MEAD AND LOW ALCOHOL BY**
11 **VOLUME WINE.**

12 (a) IN GENERAL.—Section 5041 is amended—

13 (1) in subsection (a), by striking “Still wines”
14 and inserting “Subject to subsection (h), still
15 wines”, and

16 (2) by adding at the end the following new sub-
17 section:

18 “(h) MEAD AND LOW ALCOHOL BY VOLUME
19 WINE.—

20 “(1) IN GENERAL.—For purposes of sub-
21 sections (a) and (b)(1), mead and low alcohol by vol-
22 ume wine shall be deemed to be still wines con-
23 taining not more than 16 percent of alcohol by vol-
24 ume.

25 “(2) DEFINITIONS.—

1 “(A) MEAD.—For purposes of this section,
2 the term ‘mead’ means a wine—

3 “(i) containing not more than 0.64
4 gram of carbon dioxide per hundred milli-
5 liters of wine, except that the Secretary
6 shall by regulations prescribe such toler-
7 ances to this limitation as may be reason-
8 ably necessary in good commercial prac-
9 tice,

10 “(ii) which is derived solely from
11 honey and water,

12 “(iii) which contains no fruit product
13 or fruit flavoring, and

14 “(iv) which contains less than 8.5 per-
15 cent alcohol by volume.

16 “(B) LOW ALCOHOL BY VOLUME WINE.—
17 For purposes of this section, the term ‘low alco-
18 hol by volume wine’ means a wine—

19 “(i) containing not more than 0.64
20 gram of carbon dioxide per hundred milli-
21 liters of wine, except that the Secretary
22 shall by regulations prescribe such toler-
23 ances to this limitation as may be reason-
24 ably necessary in good commercial prac-
25 tice,

1 “(ii) which is derived—

2 “(I) primarily from grapes, or

3 “(II) from grape juice con-
4 centrate and water,

5 “(iii) which contains no fruit product
6 or fruit flavoring other than grape, and

7 “(iv) which contains less than 8.5 per-
8 cent alcohol by volume.

9 “(3) TERMINATION.—This subsection shall not
10 apply to wine removed after December 31, 2019.”.

11 (b) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to wine removed after December
13 31, 2017.

14 **SEC. 13809. REDUCED RATE OF EXCISE TAX ON CERTAIN**
15 **DISTILLED SPIRITS.**

16 (a) IN GENERAL.—Section 5001 is amended by re-
17 designating subsection (c) as subsection (d) and by insert-
18 ing after subsection (b) the following new subsection:

19 “(c) REDUCED RATE FOR 2018 AND 2019.—

20 “(1) IN GENERAL.—In the case of a distilled
21 spirits operation, the otherwise applicable tax rate
22 under subsection (a)(1) shall be—

23 “(A) \$2.70 per proof gallon on the first
24 100,000 proof gallons of distilled spirits, and

1 “(B) \$13.34 per proof gallon on the first
2 22,130,000 of proof gallons of distilled spirits
3 to which subparagraph (A) does not apply,
4 which have been distilled or processed by such oper-
5 ation and removed during the calendar year for con-
6 sumption or sale, or which have been imported by
7 the importer into the United States during the cal-
8 endar year.

9 “(2) CONTROLLED GROUPS.—

10 “(A) IN GENERAL.—In the case of a con-
11 trolled group, the proof gallon quantities speci-
12 fied under subparagraphs (A) and (B) of para-
13 graph (1) shall be applied to such group and
14 apportioned among the members of such group
15 in such manner as the Secretary or their dele-
16 gate shall by regulations prescribe.

17 “(B) DEFINITION.—For purposes of sub-
18 paragraph (A), the term ‘controlled group’ shall
19 have the meaning given such term by subsection
20 (a) of section 1563, except that ‘more than 50
21 percent’ shall be substituted for ‘at least 80
22 percent’ each place it appears in such sub-
23 section.

24 “(C) RULES FOR NON-CORPORATIONS.—

25 Under regulations prescribed by the Secretary,

1 principles similar to the principles of subpara-
2 graphs (A) and (B) shall be applied to a group
3 under common control where one or more of the
4 persons is not a corporation.

5 “(D) SINGLE TAXPAYER.—Pursuant to
6 rules issued by the Secretary, two or more enti-
7 ties (whether or not under common control)
8 that produce distilled spirits marketed under a
9 similar brand, license, franchise, or other ar-
10 rangement shall be treated as a single taxpayer
11 for purposes of the application of this sub-
12 section.

13 “(3) TERMINATION.—This subsection shall not
14 apply to distilled spirits removed after December 31,
15 2019.”.

16 (b) CONFORMING AMENDMENT.—Section 7652(f)(2)
17 is amended by striking “section 5001(a)(1)” and inserting
18 “subsection (a)(1) of section 5001, determined as if sub-
19 section (c)(1) of such section did not apply”.

20 (c) APPLICATION OF REDUCED TAX RATE FOR FOR-
21 EIGN MANUFACTURERS AND IMPORTERS.—Subsection (c)
22 of section 5001, as added by subsection (a), is amended—
23 (1) in paragraph (1), by inserting “but only if
24 the importer is an electing importer under para-
25 graph (3) and the proof gallons of distilled spirits

1 have been assigned to the importer pursuant to such
2 paragraph” after “into the United States during the
3 calendar year”, and

4 (2) by adding at the end the following new
5 paragraph:

6 “(3) REDUCED TAX RATE FOR FOREIGN MANU-
7 FACTURERS AND IMPORTERS.—

8 “(A) IN GENERAL.—In the case of any
9 proof gallons of distilled spirits which have been
10 produced outside of the United States and im-
11 ported into the United States, the rate of tax
12 applicable under paragraph (1) (referred to in
13 this paragraph as the ‘reduced tax rate’) may
14 be assigned by the distilled sprits operation
15 (provided that such operation makes an election
16 described in subparagraph (B)(ii)) to any elect-
17 ing importer of such proof gallons pursuant to
18 the requirements established by the Secretary
19 under subparagraph (B).

20 “(B) ASSIGNMENT.—The Secretary shall,
21 through such rules, regulations, and procedures
22 as are determined appropriate, establish proce-
23 dures for assignment of the reduced tax rate
24 provided under this paragraph, which shall in-
25 clude—

1 “(i) a limitation to ensure that the
2 number of proof gallons of distilled spirits
3 for which the reduced tax rate has been as-
4 signed by a distilled spirits operation—

5 “(I) to any importer does not ex-
6 ceed the number of proof gallons pro-
7 duced by such operation during the
8 calendar year which were imported
9 into the United States by such im-
10 porter, and

11 “(II) to all importers does not
12 exceed the 22,230,000 proof gallons of
13 distilled spirits to which the reduced
14 tax rate applies,

15 “(ii) procedures that allow the election
16 of a distilled spirits operation to assign
17 and an importer to receive the reduced tax
18 rate provided under this paragraph,

19 “(iii) requirements that the distilled
20 spirits operation provide any information
21 as the Secretary determines necessary and
22 appropriate for purposes of carrying out
23 this paragraph, and

24 “(iv) procedures that allow for revoca-
25 tion of eligibility of the distilled spirits op-

1 eration and the importer for the reduced
2 tax rate provided under this paragraph in
3 the case of any erroneous or fraudulent in-
4 formation provided under clause (iii) which
5 the Secretary deems to be material to
6 qualifying for such reduced rate.

7 “(C) CONTROLLED GROUP.—

8 “(i) IN GENERAL.—For purposes of
9 this section, any importer making an elec-
10 tion described in subparagraph (B)(ii)
11 shall be deemed to be a member of the
12 controlled group of the distilled spirits op-
13 eration, as described under paragraph (2).

14 “(ii) APPORTIONMENT.—For purposes
15 of this paragraph, in the case of a con-
16 trolled group, rules similar to section
17 5051(a)(5)(B) shall apply.”.

18 (d) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to distilled spirits removed after
20 December 31, 2017.

21 **SEC. 13810. BULK DISTILLED SPIRITS.**

22 (a) IN GENERAL.—Section 5212 is amended by add-
23 ing at the end the following sentence: “In the case of dis-
24 tilled spirits transferred in bond after December 31, 2017,
25 and before January 1, 2020, this section shall be applied

1 without regard to whether distilled spirits are bulk dis-
2 tilled spirits.”.

3 (b) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to distilled spirits transferred in bond
5 after December 31, 2017.

6 **Subpart B—Miscellaneous Provisions**

7 **SEC. 13821. MODIFICATION OF TAX TREATMENT OF ALASKA**
8 **NATIVE CORPORATIONS AND SETTLEMENT**
9 **TRUSTS.**

10 (a) EXCLUSION FOR ANCSA PAYMENTS ASSIGNED
11 TO ALASKA NATIVE SETTLEMENT TRUSTS.—

12 (1) IN GENERAL.—Part III of subchapter B of
13 chapter 1 is amended by inserting before section 140
14 the following new section:

15 **“SEC. 139G. ASSIGNMENTS TO ALASKA NATIVE SETTLE-**
16 **MENT TRUSTS.**

17 “(a) IN GENERAL.—In the case of a Native Corpora-
18 tion, gross income shall not include the value of any pay-
19 ments that would otherwise be made, or treated as being
20 made, to such Native Corporation pursuant to, or as re-
21 quired by, any provision of the Alaska Native Claims Set-
22 tlement Act (43 U.S.C. 1601 et seq.), including any pay-
23 ment that would otherwise be made to a Village Corpora-
24 tion pursuant to section 7(j) of the Alaska Native Claims

1 Settlement Act (43 U.S.C. 1606(j)), provided that any
2 such payments—

3 “(1) are assigned in writing to a Settlement
4 Trust, and

5 “(2) were not received by such Native Corpora-
6 tion prior to the assignment described in paragraph
7 (1).

8 “(b) INCLUSION IN GROSS INCOME.—In the case of
9 a Settlement Trust which has been assigned payments de-
10 scribed in subsection (a), gross income shall include such
11 payments when received by such Settlement Trust pursu-
12 ant to the assignment and shall have the same character
13 as if such payments were received by the Native Corpora-
14 tion.

15 “(c) AMOUNT AND SCOPE OF ASSIGNMENT.—The
16 amount and scope of any assignment under subsection (a)
17 shall be described with reasonable particularity and may
18 either be in a percentage of one or more such payments
19 or in a fixed dollar amount.

20 “(d) DURATION OF ASSIGNMENT; REVOCABILITY.—
21 Any assignment under subsection (a) shall specify—

22 “(1) a duration either in perpetuity or for a pe-
23 riod of time, and

24 “(2) whether such assignment is revocable.

1 “(e) PROHIBITION ON DEDUCTION.—Notwith-
2 standing section 247, no deduction shall be allowed to a
3 Native Corporation for purposes of any amounts described
4 in subsection (a).

5 “(f) DEFINITIONS.—For purposes of this section, the
6 terms ‘Native Corporation’ and ‘Settlement Trust’ have
7 the same meaning given such terms under section
8 646(h).”.

9 (2) CONFORMING AMENDMENT.—The table of
10 sections for part III of subchapter B of chapter 1
11 is amended by inserting before the item relating to
12 section 140 the following new item:

“Sec. 139G. Assignments to Alaska Native Settlement Trusts.”.

13 (3) EFFECTIVE DATE.—The amendments made
14 by this subsection shall apply to taxable years begin-
15 ning after December 31, 2016.

16 (b) DEDUCTION OF CONTRIBUTIONS TO ALASKA NA-
17 TIVE SETTLEMENT TRUSTS.—

18 (1) IN GENERAL.—Part VIII of subchapter B
19 of chapter 1 is amended by inserting before section
20 248 the following new section:

21 **“SEC. 247. CONTRIBUTIONS TO ALASKA NATIVE SETTLE-**
22 **MENT TRUSTS.**

23 “(a) IN GENERAL.—In the case of a Native Corpora-
24 tion, there shall be allowed a deduction for any contribu-
25 tions made by such Native Corporation to a Settlement

1 Trust (regardless of whether an election under section 646
2 is in effect for such Settlement Trust) for which the Na-
3 tive Corporation has made an annual election under sub-
4 section (e).

5 “(b) AMOUNT OF DEDUCTION.—The amount of the
6 deduction under subsection (a) shall be equal to—

7 “(1) in the case of a cash contribution (regard-
8 less of the method of payment, including currency,
9 coins, money order, or check), the amount of such
10 contribution, or

11 “(2) in the case of a contribution not described
12 in paragraph (1), the lesser of—

13 “(A) the Native Corporation’s adjusted
14 basis in the property contributed, or

15 “(B) the fair market value of the property
16 contributed.

17 “(c) LIMITATION AND CARRYOVER.—

18 “(1) IN GENERAL.—Subject to paragraph (2),
19 the deduction allowed under subsection (a) for any
20 taxable year shall not exceed the taxable income (as
21 determined without regard to such deduction) of the
22 Native Corporation for the taxable year in which the
23 contribution was made.

24 “(2) CARRYOVER.—If the aggregate amount of
25 contributions described in subsection (a) for any tax-

1 able year exceeds the limitation under paragraph
2 (1), such excess shall be treated as a contribution
3 described in subsection (a) in each of the 15 suc-
4 ceeding years in order of time.

5 “(d) DEFINITIONS.—For purposes of this section, the
6 terms ‘Native Corporation’ and ‘Settlement Trust’ have
7 the same meaning given such terms under section 646(h).

8 “(e) MANNER OF MAKING ELECTION.—

9 “(1) IN GENERAL.—For each taxable year, a
10 Native Corporation may elect to have this section
11 apply for such taxable year on the income tax return
12 or an amendment or supplement to the return of the
13 Native Corporation, with such election to have effect
14 solely for such taxable year.

15 “(2) REVOCATION.—Any election made by a
16 Native Corporation pursuant to this subsection may
17 be revoked pursuant to an amendment or supple-
18 ment to the income tax return which has been timely
19 filed by such Native Corporation.

20 “(f) ADDITIONAL RULES.—

21 “(1) EARNINGS AND PROFITS.—Notwith-
22 standing section 646(d)(2), in the case of a Native
23 Corporation which claims a deduction under this sec-
24 tion for any taxable year, the earnings and profits

1 of such Native Corporation for such taxable year
2 shall be reduced by the amount of such deduction.

3 “(2) GAIN OR LOSS.—No gain or loss shall be
4 recognized by the Native Corporation with respect to
5 a contribution of property for which a deduction is
6 allowed under this section.

7 “(3) INCOME.—Subject to subsection (g), a Set-
8 tlement Trust shall include in income the amount of
9 any deduction allowed under this section in the tax-
10 able year in which the Settlement Trust actually re-
11 ceives such contribution.

12 “(4) PERIOD.—The holding period under sec-
13 tion 1223 of the Settlement Trust shall include the
14 period the property was held by the Native Corpora-
15 tion.

16 “(5) BASIS.—The basis that a Settlement Trust
17 has for which a deduction is allowed under this sec-
18 tion shall be equal to the lesser of—

19 “(A) the adjusted basis of the Native Cor-
20 poration in such property immediately before
21 such contribution, or

22 “(B) the fair market value of the property
23 immediately before such contribution.

24 “(6) PROHIBITION.—No deduction shall be al-
25 lowed under this section with respect to any con-

1 tributions made to a Settlement Trust which are in
2 violation of subsection (a)(2) or (c)(2) of section 39
3 of the Alaska Native Claims Settlement Act (43
4 U.S.C. 1629e).

5 “(g) ELECTION BY SETTLEMENT TRUST TO DEFER
6 INCOME RECOGNITION.—

7 “(1) IN GENERAL.—In the case of a contribu-
8 tion which consists of property other than cash, a
9 Settlement Trust may elect to defer recognition of
10 any income related to such property until the sale or
11 exchange of such property, in whole or in part, by
12 the Settlement Trust.

13 “(2) TREATMENT.—In the case of property de-
14 scribed in paragraph (1), any income or gain real-
15 ized on the sale or exchange of such property shall
16 be treated as—

17 “(A) for such amount of the income or
18 gain as is equal to or less than the amount of
19 income which would be included in income at
20 the time of contribution under subsection (f)(3)
21 but for the taxpayer’s election under this sub-
22 section, ordinary income, and

23 “(B) for any amounts of the income or
24 gain which are in excess of the amount of in-
25 come which would be included in income at the

1 time of contribution under subsection (f)(3) but
2 for the taxpayer's election under this sub-
3 section, having the same character as if this
4 subsection did not apply.

5 “(3) ELECTION.—

6 “(A) IN GENERAL.—For each taxable year,
7 a Settlement Trust may elect to apply this sub-
8 section for any property described in paragraph
9 (1) which was contributed during such year.
10 Any property to which the election applies shall
11 be identified and described with reasonable par-
12 ticularity on the income tax return or an
13 amendment or supplement to the return of the
14 Settlement Trust, with such election to have ef-
15 fect solely for such taxable year.

16 “(B) REVOCATION.—Any election made by
17 a Settlement Trust pursuant to this subsection
18 may be revoked pursuant to an amended in-
19 come tax return which has been timely filed by
20 such Settlement Trust.

21 “(C) CERTAIN DISPOSITIONS.—

22 “(i) IN GENERAL.—In the case of any
23 property for which an election is in effect
24 under this subsection and which is dis-
25 posed of within the first taxable year sub-

350

1 sequent to the taxable year in which such
2 property was contributed to the Settlement
3 Trust—

4 “(I) this section shall be applied
5 as if the election under this subsection
6 had not been made,

7 “(II) any income or gain which
8 would have been included in the year
9 of contribution under subsection (f)(3)
10 but for the taxpayer’s election under
11 this subsection shall be included in in-
12 come for the taxable year of such con-
13 tribution, and

14 “(III) the Settlement Trust shall
15 pay any increase in tax resulting from
16 such inclusion, including any applica-
17 ble interest, and increased by 10 per-
18 cent of the amount of such increase
19 with interest.

20 “(ii) ASSESSMENT.—Notwithstanding
21 section 6501(a), any amount described in
22 subclause (III) of clause (i) may be as-
23 sessed, or a proceeding in court with re-
24 spect to such amount may be initiated
25 without assessment, within 4 years after

1 the date on which the return making the
2 election under this subsection for such
3 property was filed.”.

4 (2) CONFORMING AMENDMENT.—The table of
5 sections for part VIII of subchapter B of chapter 1
6 is amended by inserting before the item relating to
7 section 248 the following new item:

“Sec. 247. Contributions to Alaska Native Settlement Trusts.”.

8 (3) PERMISSIVE AMENDMENTS TO TRUST
9 AGREEMENTS ESTABLISHING SETTLEMENT
10 TRUSTS.—

11 (A) IN GENERAL.—Notwithstanding any
12 provision of law, including any provision of the
13 Alaska Native Claims Settlement Act (43
14 U.S.C. 1601 et seq.), Alaska State law, or the
15 terms of any trust agreement of a Settlement
16 Trust (as defined under section 3(t) of the
17 Alaska Native Claims Settlement Act (43
18 U.S.C. 1602(t))), the terms of any trust agree-
19 ment of a Settlement Trust may, within the 1-
20 year period following the date of the enactment
21 of this Act, be amended as necessary to allow
22 such Trust to make an election described in
23 subsection (g) of section 247 of the Internal
24 Revenue Code of 1986 (as added by paragraph
25 (1)).

1 (B) AMENDMENT.—An amendment de-
2 scribed in subparagraph (A) shall be enacted
3 pursuant to one or more agreements between
4 the Native Corporation that established the Set-
5 tlement Trust and the trustees of such Trust
6 and shall not require any vote by the bene-
7 ficiaries of such Trust or the shareholders of
8 such Native Corporation.

9 (C) REGISTRATION STATEMENT.—Any
10 Settlement Trust which was registered in ac-
11 cordance with Alaska State law prior to the
12 date of the enactment of an amendment de-
13 scribed in subparagraph (A) shall not be re-
14 quired to file a new or amended registration
15 statement to reflect such amendment.

16 (4) EFFECTIVE DATE.—

17 (A) IN GENERAL.—The amendments made
18 by this subsection shall apply to taxable years
19 for which the period of limitation on refund or
20 credit under section 6511 of the Internal Rev-
21 enue Code of 1986 has not expired.

22 (B) ONE-YEAR WAIVER OF STATUTE OF
23 LIMITATIONS.—If the period of limitation on a
24 credit or refund resulting from the amendments
25 made by paragraph (1) expires before the end

1 of the 1-year period beginning on the date of
2 the enactment of this Act, refund or credit of
3 such overpayment (to the extent attributable to
4 such amendments) may, nevertheless, be made
5 or allowed if claim therefor is filed before the
6 close of such 1-year period.

7 (c) INFORMATION REPORTING FOR DEDUCTIBLE
8 CONTRIBUTIONS TO ALASKA NATIVE SETTLEMENT
9 TRUSTS.—

10 (1) IN GENERAL.—Section 6039H is amend-
11 ed—

12 (A) in the heading, by striking “**SPON-**
13 **SORING**”, and

14 (B) by adding at the end the following new
15 subsection:

16 “(e) DEDUCTIBLE CONTRIBUTIONS BY NATIVE COR-
17 PORATIONS TO ALASKA NATIVE SETTLEMENT TRUSTS.—

18 “(1) IN GENERAL.—Any Native Corporation (as
19 defined in subsection (m) of section 3 of the Alaska
20 Native Claims Settlement Act (43 U.S.C. 1602(m)))
21 which has made a contribution to a Settlement
22 Trust (as defined in subsection (t) of such section)
23 to which an election under subsection (e) of section
24 247 applies shall provide such Settlement Trust with
25 a statement regarding such election not later than

1 January 31 of the calendar year subsequent to the
2 calendar year in which the contribution was made.

3 “(2) CONTENT OF STATEMENT.—The state-
4 ment described in paragraph (1) shall include—

5 “(A) the total amount of contributions to
6 which the election under subsection (e) of sec-
7 tion 247 applies,

8 “(B) for each contribution, whether such
9 contribution was in cash,

10 “(C) for each contribution which consists
11 of property other than cash, the date that such
12 property was acquired by the Native Corpora-
13 tion and the adjusted basis of such property on
14 the date such property was contributed to the
15 Settlement Trust,

16 “(D) the date on which each contribution
17 was made to the Settlement Trust, and

18 “(E) such information as the Secretary de-
19 termines to be necessary or appropriate for the
20 identification of each contribution and the accu-
21 rate inclusion of income relating to such con-
22 tributions by the Settlement Trust.”.

23 (2) CONFORMING AMENDMENT.—The item re-
24 lating to section 6039H in the table of sections for

1 subpart A of part III of subchapter A of chapter 61
2 is amended to read as follows:

“Sec. 6039H. Information With Respect to Alaska Native Settlement Trusts
and Native Corporations.”.

3 (3) EFFECTIVE DATE.—The amendments made
4 by this subsection shall apply to taxable years begin-
5 ning after December 31, 2016.

6 (d) STATUTORY CONSTRUCTION.—This section is re-
7 medial Indian legislation enacted under the plenary au-
8 thority of the Congress under the Constitution of the
9 United States to regulate Indian affairs, and any ambigu-
10 ities in section 139F or 247 of the Internal Revenue Code
11 of 1986, as added by this Act, shall be resolved in favor
12 of Native Corporations attempting to exclude income or
13 claim a deduction thereunder.

14 **SEC. 13822. AMOUNTS PAID FOR AIRCRAFT MANAGEMENT**
15 **SERVICES.**

16 (a) IN GENERAL.—Subsection (e) of section 4261 is
17 amended by adding at the end the following new para-
18 graph:

19 “(5) AMOUNTS PAID FOR AIRCRAFT MANAGE-
20 MENT SERVICES.—

21 “(A) IN GENERAL.—No tax shall be im-
22 posed by this section or section 4271 on any
23 amounts paid by an aircraft owner for aircraft
24 management services related to—

1 “(i) maintenance and support of the
2 aircraft owner’s aircraft, or

3 “(ii) flights on the aircraft owner’s
4 aircraft.

5 “(B) AIRCRAFT MANAGEMENT SERV-
6 ICES.—For purposes of subparagraph (A), the
7 term ‘aircraft management services’ includes—

8 “(i) assisting an aircraft owner with
9 administrative and support services, such
10 as scheduling, flight planning, and weather
11 forecasting,

12 “(ii) obtaining insurance,

13 “(iii) maintenance, storage and fuel-
14 ing of aircraft,

15 “(iv) hiring, training, and provision of
16 pilots and crew,

17 “(v) establishing and complying with
18 safety standards, and

19 “(vi) such other services as are nec-
20 essary to support flights operated by an
21 aircraft owner.

22 “(C) LESSEE TREATED AS AIRCRAFT
23 OWNER.—

24 “(i) IN GENERAL.—For purposes of
25 this paragraph, the term ‘aircraft owner’

1 includes a person who leases the aircraft
2 other than under a disqualified lease.

3 “(ii) DISQUALIFIED LEASE.—For pur-
4 poses of clause (i), the term ‘disqualified
5 lease’ means a lease from a person pro-
6 viding aircraft management services with
7 respect to such aircraft (or a related per-
8 son (within the meaning of section
9 465(b)(3)(C)) to the person providing such
10 services), if such lease is for a term of 31
11 days or less.

12 “(D) PRO RATA ALLOCATION.—In the case
13 of amounts paid to any person which (but for
14 this subsection) are subject to the tax imposed
15 by subsection (a), a portion of which consists of
16 amounts described in subparagraph (A), this
17 paragraph shall apply on a pro rata basis only
18 to the portion which consists of amounts de-
19 scribed in such subparagraph.”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to amounts paid after the date of
22 the enactment of this Act.

23 **SEC. 13823. OPPORTUNITY ZONES.**

24 (a) IN GENERAL.—Chapter 1 is amended by adding
25 at the end the following:

1 **“Subchapter Z—Opportunity Zones**

“Sec. 1400Z-1. Designation.

“Sec. 1400Z-2. Special rules for capital gains invested in opportunity zones.

2 **“SEC. 1400Z-1. DESIGNATION.**

3 “(a) QUALIFIED OPPORTUNITY ZONE DEFINED.—

4 For the purposes of this subchapter, the term ‘qualified
5 opportunity zone’ means a population census tract that
6 is a low-income community that is designated as a quali-
7 fied opportunity zone.

8 “(b) DESIGNATION.—

9 “(1) GOVERNOR.—

10 “(A) IN GENERAL.—For purposes of sub-
11 section (a), a population census tract that is a
12 low-income community is designated as a quali-
13 fied opportunity zone if—

14 “(i) not later than the end of the de-
15 termination period, the governor of the
16 State in which the tract is located—

17 “(I) nominates the tract for des-
18 ignation as a qualified opportunity
19 zone, and

20 “(II) notifies the Secretary in
21 writing of such nomination, and

22 “(ii) the Secretary certifies such nomi-
23 nation and designates such tract as a

1 qualified opportunity zone before the end
2 of the consideration period.

3 “(B) EXTENSION OF PERIODS.—A gov-
4 ernor may request that the Secretary extend ei-
5 ther the determination or consideration period,
6 or both (determined without regard to this sub-
7 paragraph), for an additional 30 days.

8 “(C) DEEMED DESIGNATION IF SEC-
9 RETARY FAILS TO ACT.—Unless the tracts are
10 ineligible for designation, if the Secretary de-
11 clines in writing to make such certification and
12 designation or fails to act before the end of the
13 consideration period, such nomination shall be
14 deemed to be certified and designated, effective
15 on the day after the last day of the consider-
16 ation period.

17 “(2) SECRETARY.—If a governor fails to make
18 the nominations and notifications by the end of the
19 periods referred to in paragraphs (1)(A) and (1)(B),
20 the Secretary shall designate and certify population
21 census tracts that are low-income communities as
22 qualified opportunity zones, as permitted by sub-
23 section (e).

24 “(c) OTHER DEFINITIONS.—For purposes of this
25 subsection—

1 “(1) LOW-INCOME COMMUNITIES.—The term
2 ‘low-income community’ has the same meaning as
3 when used in section 45D(e).

4 “(2) DEFINITION OF PERIODS.—

5 “(A) CONSIDERATION PERIOD.—The term
6 ‘consideration period’ means the 30-day period
7 beginning on the date on which the Secretary
8 receives notice under subsection
9 (b)(1)(A)(i)(II), as extended under subsection
10 (b)(1)(B).

11 “(B) DETERMINATION PERIOD.—The term
12 ‘determination period’ means the 90-day period
13 beginning on the date of the enactment of the
14 Tax Cuts and Jobs Act, as extended under sub-
15 section (b)(1)(B).

16 “(3) STATE.—For purposes of this section, the
17 term ‘State’ includes any possession of the United
18 States.

19 “(d) GUIDANCE FOR OPPORTUNITY ZONE NOMINA-
20 TIONS.—When considering the nomination of qualified op-
21 portunity zones, governors should strive for the creation
22 of qualified opportunity zones that are geographically con-
23 centrated and contiguous clusters of population census
24 tracts and should give particular consideration to areas
25 that—

1 “(1) are currently the focus of mutually rein-
2 forcing State, local, or private economic development
3 initiatives to attract investment and foster startup
4 activity,

5 “(2) have demonstrated success in geographi-
6 cally targeted development programs, such as prom-
7 ise zones, new market tax credit, empowerment
8 zones, and renewal communities, and

9 “(3) have recently experienced significant lay-
10 offs due to business closures or relocations.

11 “(e) NUMBER OF DESIGNATIONS.—

12 “(1) IN GENERAL.—Except as provided by
13 paragraph (2), the number of population census
14 tracts in a State that may be designated as qualified
15 opportunity zones under this section may not exceed
16 25 percent of the number of low-income communities
17 in the State.

18 “(2) EXCEPTION.—If the number of low-income
19 communities in a State is less than 100, then a total
20 of 25 of such tracts may be designated as qualified
21 opportunity zones.

22 “(f) DESIGNATION OF TRACTS CONTIGUOUS WITH
23 LOW-INCOME COMMUNITIES.—

24 “(1) IN GENERAL.—A population census tract
25 that is not a low-income community may be des-

1 ignated as a qualified opportunity zone under this
2 section if—

3 “(A) the tract is contiguous with the low-
4 income community that is designated as a
5 qualified opportunity zone, and

6 “(B) the median family income of the tract
7 does not exceed 125 percent of the median fam-
8 ily income of the low-income community with
9 which the tract is contiguous.

10 “(2) LIMITATION.—Not more than 5 percent of
11 the population census tracts designated in a State as
12 a qualified opportunity zone may be designated
13 under paragraph (1).

14 “(g) PERIOD FOR WHICH DESIGNATION IS IN EF-
15 fect.—A designation as a qualified opportunity zone
16 shall remain in effect for the period beginning on the date
17 of the designation and ending at the close of the 10th cal-
18 endar year beginning on or after such date of designation.

19 **“SEC. 1400Z-2. SPECIAL RULES FOR CAPITAL GAINS IN-**
20 **VESTED IN OPPORTUNITY ZONES.**

21 “(a) IN GENERAL.—In the case of gain from the sale
22 to, or exchange with, an unrelated person of any property
23 held by the taxpayer, at the election of the taxpayer—

24 “(1) gross income for the taxable year shall not
25 include so much of such gain as does not exceed the

1 aggregate amount invested by the taxpayer in a
2 qualified opportunity fund during the 180-day period
3 beginning on the date of such sale or exchange,

4 “(2) the amount of gain excluded by paragraph
5 (1) shall be included in gross income as provided by
6 subsection (b), and

7 “(3) subsection (c) shall apply.

8 No election may be made under the preceding sentence
9 with respect to a sale or exchange if an election previously
10 made with respect to such sale or exchange is in effect.

11 “(b) DEFERRAL OF GAIN INVESTED IN OPPOR-
12 TUNITY ZONE PROPERTY.—

13 “(1) YEAR OF INCLUSION.—Gain to which sub-
14 section (a)(2) applies shall be included in income in
15 the taxable year which includes the earlier of—

16 “(A) the date on which such investment is
17 sold or exchanged, or

18 “(B) December 31, 2026.

19 “(2) AMOUNT INCLUDIBLE.—

20 “(A) IN GENERAL.—The amount of gain
21 included in gross income under subsection
22 (a)(1) shall be the excess of—

23 “(i) the lesser of the amount of gain
24 excluded under paragraph (1) or the fair
25 market value of the property as of the de-

1 terminated as of the date described in para-
2 graph (1), over

3 “(ii) the taxpayer’s basis in the in-
4 vestment.

5 “(B) DETERMINATION OF BASIS.—

6 “(i) IN GENERAL.—Except as other-
7 wise provided in this clause or subsection
8 (c), the taxpayer’s basis in the investment
9 shall be zero.

10 “(ii) INCREASE FOR GAIN RECOG-
11 NIZED UNDER SUBSECTION (a)(2).—The
12 basis in the investment shall be increased
13 by the amount of gain recognized by rea-
14 son of subsection (a)(2) with respect to
15 such property.

16 “(iii) INVESTMENTS HELD FOR 5
17 YEARS.—In the case of any investment
18 held for at least 5 years, the basis of such
19 investment shall be increased by an
20 amount equal to 10 percent of the amount
21 of gain deferred by reason of subsection
22 (a)(1).

23 “(iv) INVESTMENTS HELD FOR 7
24 YEARS.—In the case of any investment
25 held by the taxpayer for at least 7 years,

1 in addition to any adjustment made under
2 clause (iii), the basis of such property shall
3 be increased by an amount equal to 5 per-
4 cent of the amount of gain deferred by rea-
5 son of subsection (a)(1).

6 “(c) SPECIAL RULE FOR INVESTMENTS HELD FOR
7 AT LEAST 10 YEARS.—In the case of any investment held
8 by the taxpayer for at least 10 years and with respect to
9 which the taxpayer makes an election under this clause,
10 the basis of such property shall be equal to the fair market
11 value of such investment on the date that the investment
12 is sold or exchanged.

13 “(d) QUALIFIED OPPORTUNITY FUND.—For pur-
14 poses of this section—

15 “(1) QUALIFIED OPPORTUNITY FUND.—The
16 term ‘qualified opportunity fund’ means any invest-
17 ment vehicle which is organized as a corporation or
18 a partnership for the purpose of investing in quali-
19 fied opportunity zone property (other than another
20 qualified opportunity fund) that holds at least 90
21 percent of its assets in qualified opportunity zone
22 property, determined—

23 “(A) on the last day of the first 6-month
24 period of the taxable year of the fund, and

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1 “(B) on the last day of the taxable year of
2 the fund.

3 “(2) QUALIFIED OPPORTUNITY ZONE PROP-
4 ERTY.—

5 “(A) IN GENERAL.—The term ‘qualified
6 opportunity zone property’ means property
7 which is—

8 “(i) qualified opportunity zone stock,

9 “(ii) qualified opportunity zone part-
10 nership interest, or

11 “(iii) qualified opportunity zone busi-
12 ness property.

13 “(B) QUALIFIED OPPORTUNITY ZONE
14 STOCK.—

15 “(i) IN GENERAL.—Except as pro-
16 vided in clause (ii), the term ‘qualified op-
17 portunity zone stock’ means any stock in a
18 domestic corporation if—

19 “(I) such stock is acquired by the
20 taxpayer after December 31, 2017, at
21 its original issue (directly or through
22 an underwriter) from the corporation
23 solely in exchange for cash,

24 “(II) as of the time such stock
25 was issued, such corporation was a

1 qualified opportunity zone business
2 (or, in the case of a new corporation,
3 such corporation was being organized
4 for purposes of being a qualified op-
5 portunity zone business), and

6 “(III) during substantially all of
7 the taxpayer’s holding period for such
8 stock, such corporation qualified as a
9 qualified opportunity zone business.

10 “(ii) REDEMPTIONS.—A rule similar
11 to the rule of section 1202(c)(3) shall
12 apply for purposes of this paragraph.

13 “(C) QUALIFIED OPPORTUNITY ZONE
14 PARTNERSHIP INTEREST.—The term ‘qualified
15 opportunity zone partnership interest’ means
16 any capital or profits interest in a domestic
17 partnership if—

18 “(i) such interest is acquired by the
19 taxpayer after December 31, 2017, from
20 the partnership solely in exchange for cash,

21 “(ii) as of the time such interest was
22 acquired, such partnership was a qualified
23 opportunity zone business (or, in the case
24 of a new partnership, such partnership was

1 being organized for purposes of being a
2 qualified opportunity zone business), and

3 “(iii) during substantially all of the
4 taxpayer’s holding period for such interest,
5 such partnership qualified as a qualified
6 opportunity zone business.

7 “(D) QUALIFIED OPPORTUNITY ZONE
8 BUSINESS PROPERTY.—

9 “(i) IN GENERAL.—The term ‘quali-
10 fied opportunity zone business property’
11 means tangible property used in a trade or
12 business of the taxpayer if—

13 “(I) such property was acquired
14 by the taxpayer by purchase (as de-
15 fined in section 179(d)(2)) after De-
16 cember 31, 2017,

17 “(II) the original use of such
18 property in the qualified opportunity
19 zone commences with the taxpayer or
20 the taxpayer substantially improves
21 the property, and

22 “(III) during substantially all of
23 the taxpayer’s holding period for such
24 property, substantially all of the use

1 of such property was in a qualified op-
2 portunity zone.

3 “(ii) SUBSTANTIAL IMPROVEMENT.—
4 For purposes of subparagraph (A)(ii),
5 property shall be treated as substantially
6 improved by the taxpayer only if, during
7 any 30-month period beginning after the
8 date of acquisition of such property, addi-
9 tions to basis with respect to such property
10 in the hands of the taxpayer exceed an
11 amount equal to the adjusted basis of such
12 property at the beginning of such 30-
13 month period in the hands of the taxpayer.

14 “(iii) RELATED PARTY.—For pur-
15 poses of subparagraph (A)(i), the related
16 person rule of section 179(d)(2) shall be
17 applied pursuant to paragraph (8) of this
18 subsection in lieu of the application of such
19 rule in section 179(d)(2)(A).

20 “(3) QUALIFIED OPPORTUNITY ZONE BUSI-
21 NESS.—

22 “(A) IN GENERAL.—The term ‘qualified
23 opportunity zone business’ means a trade or
24 business—

1 “(i) in which substantially all of the
2 tangible property owned or leased by the
3 taxpayer is qualified opportunity zone busi-
4 ness property,

5 “(ii) which satisfies the requirements
6 of paragraphs (2), (4), and (8) of section
7 1397C(b), and

8 “(iii) which is not described in section
9 144(c)(6)(B).

10 “(B) SPECIAL RULE.—For purposes of
11 subparagraph (A), tangible property that ceases
12 to be a qualified opportunity zone business
13 property shall continue to be treated as a quali-
14 fied opportunity zone business property for the
15 lesser of—

16 “(i) 5 years after the date on which
17 such tangible property ceases to be so
18 qualified, or

19 “(ii) the date on which such tangible
20 property is no longer held by the qualified
21 opportunity zone business.

22 “(e) APPLICABLE RULES.—

23 “(1) TREATMENT OF INVESTMENTS WITH
24 MIXED FUNDS.—In the case of any investment in a
25 qualified opportunity fund only a portion of which

1 consists of investments of gain to which an election
2 under subsection (a)(1) is in effect—

3 “(A) such investment shall be treated as 2
4 separate investments, consisting of—

5 “(i) one investment that only includes
6 amounts to which the election under sub-
7 section (a)(1) applies, and

8 “(ii) a separate investment consisting
9 of other amounts, and

10 “(B) subsections (a), (b), and (c) shall
11 only apply to the investment described in sub-
12 paragraph (A)(i).

13 “(2) RELATED PERSONS.—For purposes of this
14 section, persons are related to each other if such
15 persons are described in section 267(b) or 707(b)(1),
16 determined by substituting ‘20 percent’ for ‘50 per-
17 cent’ each place it occurs in such sections.

18 “(3) DECEDENTS.—In the case of a decedent,
19 amounts recognized under this section shall, if not
20 properly includible in the gross income of the dece-
21 dent, be includible in gross income as provided by
22 section 691.

23 “(4) REGULATIONS.—The Secretary shall pre-
24 scribe such regulations as may be necessary or ap-

1 appropriate to carry out the purposes of this section,
2 including—

3 “(A) rules for the certification of qualified
4 opportunity funds for the purposes of this sec-
5 tion, and

6 “(B) rules to prevent abuse.

7 “(f) FAILURE OF QUALIFIED OPPORTUNITY FUND
8 TO MAINTAIN INVESTMENT STANDARD.—

9 “(1) IN GENERAL.—If a qualified opportunity
10 fund fails to meet the 90-percent requirement of
11 subsection (c)(1), the qualified opportunity fund
12 shall pay a penalty for each month it fails to meet
13 the requirement in an amount equal to the product
14 of—

15 “(A) the excess of—

16 “(i) the amount equal to 90 percent of
17 its aggregate assets, over

18 “(ii) the aggregate amount of quali-
19 fied opportunity zone property held by the
20 fund, multiplied by

21 “(B) the underpayment rate established
22 under section 6621(a)(2) for such month.

23 “(2) SPECIAL RULE FOR PARTNERSHIPS.—In
24 the case that the qualified opportunity fund is a
25 partnership, the penalty imposed by paragraph (1)

1 shall be taken into account proportionately as part
2 of the distributive share of each partner of the part-
3 nership.

4 “(3) REASONABLE CAUSE EXCEPTION.—No
5 penalty shall be imposed under this subsection with
6 respect to any failure if it is shown that such failure
7 is due to reasonable cause.”.

8 (b) BASIS ADJUSTMENTS.—Section 1016(a) is
9 amended by striking “and” at the end of paragraph (36),
10 by striking the period at the end of paragraph (37) and
11 inserting “, and”, and by inserting after paragraph (37)
12 the following:

13 “(38) to the extent provided in subsections
14 (b)(2) and (c) of section 1400Z-2.”.

15 (c) REPORT TO CONGRESS.—The Secretary of the
16 Treasury, or the Secretary’s delegate, shall submit a re-
17 port to Congress on the opportunity zone incentives en-
18 acted by this section beginning 5 years after the date of
19 enactment of this Act and annually thereafter. The report
20 shall include an assessment of investments held by quali-
21 fied opportunity funds nationally and at the State level.
22 To the extent such information is available, the report
23 shall include the number of qualified opportunity funds,
24 the amount of assets held in qualified opportunity funds,
25 the composition of qualified opportunity fund investments

1 by asset class, the percentage of qualified opportunity zone
2 census tracts designated under subchapter Z of the Inter-
3 nal Revenue Code of 1986 (as added by this section) that
4 have received qualified opportunity fund investments. The
5 report shall also include an assessment of the impacts and
6 outcomes of the investments in those areas on economic
7 indicators including job creation, poverty reduction, and
8 new business starts, and other metrics as determined by
9 the Secretary.

10 (d) CLERICAL AMENDMENT.—The table of sub-
11 chapters for chapter 1 is amended by adding at the end
12 the following new item:

“SUBCHAPTER Z. OPPORTUNITY ZONES”.

13 (e) EFFECTIVE DATE.—The amendments made by
14 this section shall take effect on the date of the enactment
15 of this Act.

1 **Subtitle D—International Tax**
2 **Provisions**

3 **PART I—OUTBOUND TRANSACTIONS**

4 **Subpart A—Establishment of Participation**

5 **Exemption System for Taxation of Foreign Income**

6 **SEC. 14101. DEDUCTION FOR FOREIGN-SOURCE PORTION**
7 **OF DIVIDENDS RECEIVED BY DOMESTIC COR-**
8 **PORATIONS FROM SPECIFIED 10-PERCENT**
9 **OWNED FOREIGN CORPORATIONS.**

10 (a) IN GENERAL.—Part VIII of subchapter B of
11 chapter 1 is amended by inserting after section 245 the
12 following new section:

13 **“SEC. 245A. DEDUCTION FOR FOREIGN SOURCE-PORION**
14 **OF DIVIDENDS RECEIVED BY DOMESTIC COR-**
15 **PORATIONS FROM SPECIFIED 10-PERCENT**
16 **OWNED FOREIGN CORPORATIONS.**

17 “(a) IN GENERAL.—In the case of any dividend re-
18 ceived from a specified 10-percent owned foreign corpora-
19 tion by a domestic corporation which is a United States
20 shareholder with respect to such foreign corporation, there
21 shall be allowed as a deduction an amount equal to the
22 foreign-source portion of such dividend.

23 “(b) SPECIFIED 10-PERCENT OWNED FOREIGN COR-
24 PORATION.—For purposes of this section—

1 “(1) IN GENERAL.—The term ‘specified 10-per-
2 cent owned foreign corporation’ means any foreign
3 corporation with respect to which any domestic cor-
4 poration is a United States shareholder with respect
5 to such corporation.

6 “(2) EXCLUSION OF PASSIVE FOREIGN INVEST-
7 MENT COMPANIES.—Such term shall not include any
8 corporation which is a passive foreign investment
9 company (as defined in section 1297) with respect to
10 the shareholder and which is not a controlled foreign
11 corporation.

12 “(c) FOREIGN-SOURCE PORTION.—For purposes of
13 this section—

14 “(1) IN GENERAL.—The foreign-source portion
15 of any dividend from a specified 10-percent owned
16 foreign corporation is an amount which bears the
17 same ratio to such dividend as—

18 “(A) the undistributed foreign earnings of
19 the specified 10-percent owned foreign corpora-
20 tion, bears to

21 “(B) the total undistributed earnings of
22 such foreign corporation.

23 “(2) UNDISTRIBUTED EARNINGS.—The term
24 ‘undistributed earnings’ means the amount of the
25 earnings and profits of the specified 10-percent

1 owned foreign corporation (computed in accordance
2 with sections 964(a) and 986)—

3 “(A) as of the close of the taxable year of
4 the specified 10-percent owned foreign corpora-
5 tion in which the dividend is distributed, and

6 “(B) without diminution by reason of divi-
7 dends distributed during such taxable year.

8 “(3) UNDISTRIBUTED FOREIGN EARNINGS.—
9 The term ‘undistributed foreign earnings’ means the
10 portion of the undistributed earnings which is attrib-
11 utable to neither—

12 “(A) income described in subparagraph (A)
13 of section 245(a)(5), nor

14 “(B) dividends described in subparagraph
15 (B) of such section (determined without regard
16 to section 245(a)(12)).

17 “(d) DISALLOWANCE OF FOREIGN TAX CREDIT,
18 ETC.—

19 “(1) IN GENERAL.—No credit shall be allowed
20 under section 901 for any taxes paid or accrued (or
21 treated as paid or accrued) with respect to any dis-
22 tribution any portion of which constitutes a dividend
23 for which a deduction is allowed under this section.

24 “(2) DENIAL OF DEDUCTION.—No deduction
25 shall be allowed under this chapter for any tax for

1 which credit is not allowable under section 901 by
2 reason of paragraph (1) (determined by treating the
3 taxpayer as having elected the benefits of subpart A
4 of part III of subchapter N).

5 “(e) SPECIAL RULES FOR HYBRID DIVIDENDS.—

6 “(1) IN GENERAL.—Subsection (a) shall not
7 apply to any dividend received by a United States
8 shareholder from a controlled foreign corporation if
9 the dividend is a hybrid dividend.

10 “(2) HYBRID DIVIDENDS OF TIERED CORPORA-
11 TIONS.—If a controlled foreign corporation with re-
12 spect to which a domestic corporation is a United
13 States shareholder receives a hybrid dividend from
14 any other controlled foreign corporation with respect
15 to which such domestic corporation is also a United
16 States shareholder, then, notwithstanding any other
17 provision of this title—

18 “(A) the hybrid dividend shall be treated
19 for purposes of section 951(a)(1)(A) as subpart
20 F income of the receiving controlled foreign cor-
21 poration for the taxable year of the controlled
22 foreign corporation in which the dividend was
23 received, and

24 “(B) the United States shareholder shall
25 include in gross income an amount equal to the

1 shareholder's pro rata share (determined in the
2 same manner as under section 951(a)(2)) of the
3 subpart F income described in subparagraph
4 (A).

5 “(3) DENIAL OF FOREIGN TAX CREDIT, ETC.—
6 The rules of subsection (d) shall apply to any hybrid
7 dividend received by, or any amount included under
8 paragraph (2) in the gross income of, a United
9 States shareholder.

10 “(4) HYBRID DIVIDEND.—The term ‘hybrid
11 dividend’ means an amount received from a con-
12 trolled foreign corporation—

13 “(A) for which a deduction would be al-
14 lowed under subsection (a) but for this sub-
15 section, and

16 “(B) for which the controlled foreign cor-
17 poration received a deduction (or other tax ben-
18 efit) from taxes imposed by any foreign coun-
19 try.

20 “(f) SPECIAL RULE FOR PURGING DISTRIBUTIONS
21 OF PASSIVE FOREIGN INVESTMENT COMPANIES.—Any
22 amount which is treated as a dividend under section
23 1291(d)(2)(B) shall not be treated as a dividend for pur-
24 poses of this section.

1 “(g) REGULATIONS.—The Secretary shall prescribe
2 such regulations or other guidance as may be necessary
3 or appropriate to carry out the provisions of this section,
4 including regulations for the treatment of United States
5 shareholders owning stock of a specified 10 percent owned
6 foreign corporation through a partnership.”.

7 (b) APPLICATION OF HOLDING PERIOD REQUIRE-
8 MENT.—Subsection (c) of section 246 is amended—

9 (1) by striking “or 245” in paragraph (1) and
10 inserting “245, or 245A”, and

11 (2) by adding at the end the following new
12 paragraph:

13 “(5) SPECIAL RULES FOR FOREIGN SOURCE
14 PORTION OF DIVIDENDS RECEIVED FROM SPECIFIED
15 10-PERCENT OWNED FOREIGN CORPORATIONS.—

16 “(A) 1-YEAR HOLDING PERIOD REQUIRE-
17 MENT.—For purposes of section 245A—

18 “(i) paragraph (1)(A) shall be ap-
19 plied—

20 “(I) by substituting ‘365 days’
21 for ‘45 days’ each place it appears,
22 and

23 “(II) by substituting ‘731-day pe-
24 riod’ for ‘91-day period’, and

25 “(ii) paragraph (2) shall not apply.

1 “(B) STATUS MUST BE MAINTAINED DUR-
2 ING HOLDING PERIOD.—For purposes of apply-
3 ing paragraph (1) with respect to section 245A,
4 the taxpayer shall be treated as holding the
5 stock referred to in paragraph (1) for any pe-
6 riod only if—

7 “(i) the specified 10-percent owned
8 foreign corporation referred to in section
9 245A(a) is a specified 10-percent owned
10 foreign corporation at all times during
11 such period, and

12 “(ii) the taxpayer is a United States
13 shareholder with respect to such specified
14 10-percent owned foreign corporation at all
15 times during such period.”.

16 (c) APPLICATION OF RULES GENERALLY APPLICA-
17 BLE TO DEDUCTIONS FOR DIVIDENDS RECEIVED.—

18 (1) TREATMENT OF DIVIDENDS FROM CERTAIN
19 CORPORATIONS.—Paragraph (1) of section 246(a) is
20 amended by striking “and 245” and inserting “245,
21 and 245A”.

22 (2) ASSETS GENERATING TAX-EXEMPT PORTION
23 OF DIVIDEND NOT TAKEN INTO ACCOUNT IN ALLO-
24 CATING AND APPORTIONING DEDUCTIBLE EX-
25 PENSES.—Paragraph (3) of section 864(e) is amend-

1 ed by striking “or 245(a)” and inserting “, 245(a),
2 or 245A”.

3 (3) COORDINATION WITH SECTION 1059.—Sub-
4 paragraph (B) of section 1059(b)(2) is amended by
5 striking “or 245” and inserting “245, or 245A”.

6 (d) COORDINATION WITH FOREIGN TAX CREDIT
7 LIMITATION.—Subsection (b) of section 904 is amended
8 by adding at the end the following new paragraph:

9 “(5) TREATMENT OF DIVIDENDS FOR WHICH
10 DEDUCTION IS ALLOWED UNDER SECTION 245A.—
11 For purposes of subsection (a), in the case of a do-
12 mestic corporation which is a United States share-
13 holder with respect to a specified 10-percent owned
14 foreign corporation, such domestic corporation’s tax-
15 able income from sources without the United States
16 shall be determined without regard to—

17 “(A) the foreign-source portion of any divi-
18 dend received from such foreign corporation,
19 and

20 “(B) any deductions properly allocable to
21 such portion.

22 Any term which is used in section 245A and in this
23 paragraph shall have the same meaning for purposes
24 of this paragraph as when used in such section.”.

25 (e) CONFORMING AMENDMENTS.—

1 (1) Subsection (b) of section 951 is amended by
2 striking “subpart” and inserting “title”.

3 (2) Subsection (a) of section 957 is amended by
4 striking “subpart” in the matter preceding para-
5 graph (1) and inserting “title”.

6 (3) The table of sections for part VIII of sub-
7 chapter B of chapter 1 is amended by inserting after
8 the item relating to section 245 the following new
9 item:

 “Sec. 245A. Dividends received by domestic corporations from certain foreign
 corporations.”.

10 (f) **EFFECTIVE DATE.**—The amendments made by
11 this section shall apply to taxable years of foreign corpora-
12 tions beginning after December 31, 2017, and to taxable
13 years of United States shareholders in which or with which
14 such taxable years of foreign corporations end.

15 **SEC. 14102. SPECIAL RULES RELATING TO SALES OR**
16 **TRANSFERS INVOLVING SPECIFIED 10-PER-**
17 **CENT OWNED FOREIGN CORPORATIONS.**

18 (a) **SALES BY UNITED STATES PERSONS OF**
19 **STOCK.**—Section 1248 is amended by redesignating sub-
20 section (j) as subsection (k) and by inserting after sub-
21 section (i) the following new subsection:

22 “(j) **COORDINATION WITH DIVIDENDS RECEIVED**
23 **DEDUCTION.**—In the case of the sale or exchange by a
24 domestic corporation of stock in a foreign corporation held

1 for 1 year or more, any amount received by the domestic
2 corporation which is treated as a dividend by reason of
3 this section shall be treated as a dividend for purposes
4 of applying section 245A.”.

5 (b) BASIS IN SPECIFIED 10-PERCENT OWNED FOR-
6 EIGN CORPORATION REDUCED BY NONTAXED PORTION
7 OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—

8 (1) IN GENERAL.—Section 961 is amended by
9 adding at the end the following new subsection:

10 “(d) BASIS IN SPECIFIED 10-PERCENT OWNED FOR-
11 EIGN CORPORATION REDUCED BY NONTAXED PORTION
12 OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—

13 If a domestic corporation receives a dividend from a speci-
14 fied 10-percent owned foreign corporation (as defined in
15 section 245A) in any taxable year, solely for purposes of
16 determining loss on any disposition of stock of such for-
17 eign corporation in such taxable year or any subsequent
18 taxable year, the basis of such domestic corporation in
19 such stock shall be reduced (but not below zero) by the
20 amount of any deduction allowable to such domestic cor-
21 poration under section 245A with respect to such stock.”.

22 (2) EFFECTIVE DATE.—The amendments made
23 by this subsection shall apply to dividends received
24 in taxable years beginning after December 31, 2017.

1 (c) SALE BY A CFC OF A LOWER TIER CFC.—Sec-
2 tion 964(e) is amended by adding at the end the following
3 new paragraph:

4 “(4) COORDINATION WITH DIVIDENDS RE-
5 CEIVED DEDUCTION.—

6 “(A) IN GENERAL.—If, for any taxable
7 year of a controlled foreign corporation begin-
8 ning after December 31, 2017, any amount is
9 treated as a dividend under paragraph (1) by
10 reason of a sale or exchange by the controlled
11 foreign corporation of stock in another foreign
12 corporation held for 1 year or more, then, not-
13 withstanding any other provision of this title—

14 “(i) the foreign-source portion of such
15 dividend shall be treated for purposes of
16 section 951(a)(1)(A) as subpart F income
17 of the selling controlled foreign corporation
18 for such taxable year,

19 “(ii) a United States shareholder with
20 respect to the selling controlled foreign cor-
21 poration shall include in gross income for
22 the taxable year of the shareholder with or
23 within which such taxable year of the con-
24 trolled foreign corporation ends an amount
25 equal to the shareholder’s pro rata share

1 (determined in the same manner as under
2 section 951(a)(2)) of the amount treated
3 as subpart F income under clause (i), and
4 “(iii) the deduction under section
5 245A(a) shall be allowable to the United
6 States shareholder with respect to the sub-
7 part F income included in gross income
8 under clause (ii) in the same manner as if
9 such subpart F income were a dividend re-
10 ceived by the shareholder from the selling
11 controlled foreign corporation.

12 “(B) EFFECT OF LOSS ON EARNINGS AND
13 PROFITS.—For purposes of this title, in the
14 case of a sale or exchange by a controlled for-
15 eign corporation of stock in another foreign cor-
16 poration in a taxable year of the selling con-
17 trolled foreign corporation beginning after De-
18 cember 31, 2017, to which this paragraph
19 would apply if gain were recognized, the earn-
20 ings and profits of the selling controlled foreign
21 corporation shall not be reduced by reason of
22 any loss from such sale or exchange.

23 “(C) FOREIGN-SOURCE PORTION.—For
24 purposes of this paragraph, the foreign-source
25 portion of any amount treated as a dividend

1 under paragraph (1) shall be determined in the
2 same manner as under section 245A(c).”.

3 (d) TREATMENT OF FOREIGN BRANCH LOSSES
4 TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOR-
5 EIGN CORPORATIONS.—

6 (1) IN GENERAL.—Part II of subchapter B of
7 chapter 1 is amended by adding at the end the fol-
8 lowing new section:

9 **“SEC. 91. CERTAIN FOREIGN BRANCH LOSSES TRANS-**
10 **FERRED TO SPECIFIED 10-PERCENT OWNED**
11 **FOREIGN CORPORATIONS.**

12 “(a) IN GENERAL.—If a domestic corporation trans-
13 fers substantially all of the assets of a foreign branch
14 (within the meaning of section 367(a)(3)(C), as in effect
15 before the date of the enactment of the Tax Cuts and Jobs
16 Act) to a specified 10-percent owned foreign corporation
17 (as defined in section 245A) with respect to which it is
18 a United States shareholder after such transfer, such do-
19 mestic corporation shall include in gross income for the
20 taxable year which includes such transfer an amount equal
21 to the transferred loss amount with respect to such trans-
22 fer.

23 “(b) LIMITATION AND CARRYFORWARD BASED ON
24 FOREIGN-SOURCE DIVIDENDS RECEIVED.—

1 “(1) IN GENERAL.—The amount included in
2 the gross income of the taxpayer under subsection
3 (a) for any taxable year shall not exceed the amount
4 allowed as a deduction under section 245A for such
5 taxable year (taking into account dividends received
6 from all specified 10-percent owned foreign corpora-
7 tions with respect to which the taxpayer is a United
8 States shareholder).

9 “(2) AMOUNTS NOT INCLUDED CARRIED FOR-
10 WARD.—Any amount not included in gross income
11 for any taxable year by reason of paragraph (1)
12 shall, subject to the application of paragraph (1) to
13 the succeeding taxable year, be included in gross in-
14 come for the succeeding taxable year.

15 “(c) TRANSFERRED LOSS AMOUNT.—For purposes
16 of this section, the term ‘transferred loss amount’ means,
17 with respect to any transfer of substantially all of the as-
18 sets of a foreign branch, the excess (if any) of—

19 “(1) the sum of losses—

20 “(A) which were incurred by the foreign
21 branch after December 31, 2017, and before
22 the transfer, and

23 “(B) with respect to which a deduction was
24 allowed to the taxpayer, over

25 “(2) the sum of—

1 “(A) any taxable income of such branch
2 for a taxable year after the taxable year in
3 which the loss was incurred and through the
4 close of the taxable year of the transfer, and

5 “(B) any amount which is recognized
6 under section 904(f)(3) on account of the trans-
7 fer.

8 “(d) REDUCTION FOR RECOGNIZED GAINS.—The
9 transferred loss amount shall be reduced (but not below
10 zero) by the amount of gain recognized by the taxpayer
11 on account of the transfer (other than amounts taken into
12 account under subsection (c)(2)(B)).

13 “(e) SOURCE OF INCOME.—Amounts included in
14 gross income under this section shall be treated as derived
15 from sources within the United States.

16 “(f) BASIS ADJUSTMENTS.—Consistent with such
17 regulations or other guidance as the Secretary shall pre-
18 scribe, proper adjustments shall be made in the adjusted
19 basis of the taxpayer’s stock in the specified 10-percent
20 owned foreign corporation to which the transfer is made,
21 and in the transferee’s adjusted basis in the property
22 transferred, to reflect amounts included in gross income
23 under this section.”.

24 (2) CLERICAL AMENDMENT.—The table of sec-
25 tions for part II of subchapter B of chapter 1 is

1 amended by adding at the end the following new
2 item:

 “Sec. 91. Certain foreign branch losses transferred to specified 10-percent
 owned foreign corporations.”.

3 (3) EFFECTIVE DATE.—The amendments made
4 by this subsection shall apply to transfers after De-
5 cember 31, 2017.

6 (e) REPEAL OF ACTIVE TRADE OR BUSINESS EXCEP-
7 TION UNDER SECTION 367.—

8 (1) IN GENERAL.—Section 367(a) is amended
9 by striking paragraph (3) and redesignating para-
10 graphs (4), (5), and (6) as paragraphs (3), (4), and
11 (5), respectively

12 (2) CONFORMING AMENDMENTS.—Section
13 367(a)(4), as redesignated by paragraph (1), is
14 amended—

15 (A) by striking “Paragraphs (2) and (3)”
16 and inserting “Paragraph (2)”, and

17 (B) by striking “PARAGRAPHS (2) AND (3)”
18 in the heading and inserting “PARAGRAPH (2)”.

19 (3) EFFECTIVE DATE.—The amendments made
20 by this subsection shall apply to transfers after De-
21 cember 31, 2017.

1 **SEC. 14103. TREATMENT OF DEFERRED FOREIGN INCOME**
2 **UPON TRANSITION TO PARTICIPATION EX-**
3 **EMPTION SYSTEM OF TAXATION.**

4 (a) IN GENERAL.—Section 965 is amended to read
5 as follows:

6 **“SEC. 965. TREATMENT OF DEFERRED FOREIGN INCOME**
7 **UPON TRANSITION TO PARTICIPATION EX-**
8 **EMPTION SYSTEM OF TAXATION.**

9 “(a) TREATMENT OF DEFERRED FOREIGN INCOME
10 AS SUBPART F INCOME.—In the case of the last taxable
11 year of a deferred income corporation which begins before
12 January 1, 2018, the subpart F income of such foreign
13 corporation (as otherwise determined for such taxable year
14 under section 952) shall be increased by the greater of—

15 “(1) the accumulated post-1986 deferred for-
16 eign income of such corporation determined as of
17 November 9, 2017, or

18 “(2) the accumulated post-1986 deferred for-
19 eign income of such corporation determined as of
20 December 31, 2017.

21 “(b) REDUCTION IN AMOUNTS INCLUDED IN GROSS
22 INCOME OF UNITED STATES SHAREHOLDERS OF SPECI-
23 FIED FOREIGN CORPORATIONS WITH DEFICITS IN EARN-
24 INGS AND PROFITS.—

25 “(1) IN GENERAL.—In the case of a taxpayer
26 which is a United States shareholder with respect to

1 at least one deferred foreign income corporation and
2 at least one E&P deficit foreign corporation, the
3 amount which would (but for this subsection) be
4 taken into account under section 951(a)(1) by rea-
5 son of subsection (a) as such United States share-
6 holder's pro rata share of the subpart F income of
7 each deferred foreign income corporation shall be re-
8 duced by the amount of such United States share-
9 holder's aggregate foreign E&P deficit which is allo-
10 cated under paragraph (2) to such deferred foreign
11 income corporation.

12 “(2) ALLOCATION OF AGGREGATE FOREIGN E&P
13 DEFICIT.—The aggregate foreign E&P deficit of any
14 United States shareholder shall be allocated among
15 the deferred foreign income corporations of such
16 United States shareholder in an amount which bears
17 the same proportion to such aggregate as—

18 “(A) such United States shareholder's pro
19 rata share of the accumulated post-1986 de-
20 ferred foreign income of each such deferred for-
21 eign income corporation, bears to

22 “(B) the aggregate of such United States
23 shareholder's pro rata share of the accumulated
24 post-1986 deferred foreign income of all de-

1 ferred foreign income corporations of such
2 United States shareholder.

3 “(3) DEFINITIONS RELATED TO E&P DEF-
4 CITS.—For purposes of this subsection—

5 “(A) AGGREGATE FOREIGN E&P DEF-
6 ICIT.—

7 “(i) IN GENERAL.—The term ‘aggre-
8 gate foreign E&P deficit’ means, with re-
9 spect to any United States shareholder, the
10 lesser of—

11 “(I) the aggregate of such share-
12 holder’s pro rata shares of the speci-
13 fied E&P deficits of the E&P deficit
14 foreign corporations of such share-
15 holder, or

16 “(II) the amount determined
17 under paragraph (2)(B).

18 “(ii) ALLOCATION OF DEFICIT.—If
19 the amount described in clause (i)(II) is
20 less than the amount described in clause
21 (i)(I), then the shareholder shall designate,
22 in such form and manner as the Secretary
23 determines—

24 “(I) the amount of the specified
25 E&P deficit which is to be taken into

1 account for each E&P deficit corpora-
2 tion with respect to the taxpayer, and

3 “(II) in the case of an E&P def-
4 icit corporation which has a qualified
5 deficit (as defined in section 952), the
6 portion (if any) of the deficit taken
7 into account under subclause (I)
8 which is attributable to a qualified
9 deficit, including the qualified activi-
10 ties to which such portion is attrib-
11 utable.

12 “(B) E&P DEFICIT FOREIGN CORPORA-
13 TION.—The term ‘E&P deficit foreign corpora-
14 tion’ means, with respect to any taxpayer, any
15 specified foreign corporation with respect to
16 which such taxpayer is a United States share-
17 holder, if—

18 “(i) such specified foreign corporation
19 has a deficit in post-1986 earnings and
20 profits, and

21 “(ii) as of November 9, 2017—

22 “(I) such corporation was a spec-
23 ified foreign corporation, and

1 “(II) such taxpayer was a United
2 States shareholder of such corpora-
3 tion.

4 “(C) SPECIFIED E&P DEFICIT.—The term
5 ‘specified E&P deficit’ means, with respect to
6 any E&P deficit foreign corporation, the
7 amount of the deficit referred to in subpara-
8 graph (B).

9 “(4) TREATMENT OF EARNINGS AND PROFITS
10 IN FUTURE YEARS.—

11 “(A) REDUCED EARNINGS AND PROFITS
12 TREATED AS PREVIOUSLY TAXED INCOME
13 WHEN DISTRIBUTED.—For purposes of apply-
14 ing section 959 in any taxable year beginning
15 after December 31, 2017, with respect to any
16 United States shareholder of a deferred foreign
17 income corporation, an amount equal to such
18 shareholder’s reduction under paragraph (1)
19 which is allocated to such deferred foreign in-
20 come corporation under this subsection shall be
21 treated as an amount which was included in the
22 gross income of such United States shareholder
23 under section 951(a).

24 “(B) E&P DEFICITS.—For purposes of this
25 title, a United States shareholder’s pro rata

1 share of the earnings and profits of any speci-
2 fied E&P deficit foreign corporation under this
3 subsection shall be increased by the amount of
4 the specified E&P deficit of such corporation
5 taken into account by such shareholder under
6 paragraph (1), and, for purposes of section 952,
7 such increase shall be attributable to the same
8 activity to which the deficit so taken into ac-
9 count was attributable.

10 “(c) APPLICATION OF PARTICIPATION EXEMPTION
11 TO INCLUDED INCOME.—

12 “(1) IN GENERAL.—In the case of a United
13 States shareholder of a deferred foreign income cor-
14 poration, there shall be allowed as a deduction for
15 the taxable year in which an amount is included in
16 the gross income of such United States shareholder
17 under section 951(a)(1) by reason of this section an
18 amount equal to the sum of—

19 “(A) 85.7 percent of the excess (if any)
20 of—

21 “(i) the amount so included as gross
22 income, over

23 “(ii) the amount of such United
24 States shareholder’s aggregate foreign cash
25 position, plus

1 “(B) 71.4 percent of so much of the
2 amount described in subparagraph (A)(ii) as
3 does not exceed the amount described in sub-
4 paragraph (A)(i).

5 “(2) AGGREGATE FOREIGN CASH POSITION.—
6 For purposes of this subsection—

7 “(A) IN GENERAL.—The term ‘aggregate
8 foreign cash position’ means, with respect to
9 any United States shareholder, the greater of—

10 “(i) the aggregate of such United
11 States shareholder’s pro rata share of the
12 cash position of each specified foreign cor-
13 poration of such United States shareholder
14 determined as of the close of the last tax-
15 able year of such specified foreign corpora-
16 tion which begins before January 1, 2018,
17 or

18 “(ii) one half of the sum of—

19 “(I) the aggregate described in
20 clause (i) determined as of the close of
21 the last taxable year of each such
22 specified foreign corporation which
23 ends before November 9, 2017, plus

24 “(II) the aggregate described in
25 clause (i) determined as of the close of

1 the taxable year of each such specified
2 foreign corporation which precedes the
3 taxable year referred to in subclause
4 (I).

5 “(B) CASH POSITION.—For purposes of
6 this paragraph, the cash position of any speci-
7 fied foreign corporation is the sum of—

8 “(i) cash and foreign currency held by
9 such foreign corporation,

10 “(ii) the net accounts receivable of
11 such foreign corporation, plus

12 “(iii) the fair market value of the fol-
13 lowing assets held by such corporation:

14 “(I) Personal property which is
15 of a type that is actively traded and
16 for which there is an established fi-
17 nancial market (other than stock in
18 the specified foreign corporation).

19 “(II) Commercial paper, certifi-
20 cates of deposit, the securities of the
21 Federal government and of any State
22 or foreign government.

23 “(III) Any obligation with a term
24 of less than one year.

1 “(IV) Any asset which the Sec-
2 retary identifies as being economically
3 equivalent to any asset described in
4 this subparagraph.

5 “(C) NET ACCOUNTS RECEIVABLE.—For
6 purposes of this paragraph, the term ‘net ac-
7 counts receivable’ means, with respect to any
8 specified foreign corporation, the excess (if any)
9 of—

10 “(i) such corporation’s accounts re-
11 ceivable, over

12 “(ii) such corporation’s accounts pay-
13 able (determined consistent with the rules
14 of section 461).

15 “(D) PREVENTION OF DOUBLE COUNT-
16 ING.—Cash positions of a specified foreign cor-
17 poration described in clause (ii) or (iii)(III) of
18 subparagraph (B) shall not be taken into ac-
19 count by a United States shareholder under
20 subparagraph (A) to the extent that such
21 United States shareholder demonstrates to the
22 satisfaction of the Secretary that such amount
23 is so taken into account by such United States
24 shareholder with respect to another specified
25 foreign corporation.

1 “(E) CASH POSITIONS OF CERTAIN NON-
2 CORPORATE ENTITIES TAKEN INTO ACCOUNT.—

3 An entity shall be treated as a specified foreign
4 corporation of a United States shareholder for
5 purposes of determining such United States
6 shareholder’s aggregate foreign cash position
7 if—

8 “(i) such entity is a foreign entity
9 which would be a specified foreign corpora-
10 tion of such United States shareholder if
11 such entity were a corporation, or

12 “(ii) any interest in such entity is held
13 by a specified foreign corporation of such
14 United States shareholder (determined
15 after application of clause (i)) and such en-
16 tity would be a specified foreign corpora-
17 tion of such United States shareholder if
18 such entity were a foreign corporation.

19 “(F) ANTI-ABUSE.—If the Secretary deter-
20 mines that a principal purpose of any trans-
21 action was to reduce the aggregate foreign cash
22 position taken into account under this sub-
23 section, such transaction shall be disregarded
24 for purposes of this subsection.

1 “(d) DEFERRED FOREIGN INCOME CORPORATION;
2 ACCUMULATED POST-1986 DEFERRED FOREIGN IN-
3 COME.—For purposes of this section—

4 “(1) DEFERRED FOREIGN INCOME CORPORA-
5 TION.—The term ‘deferred foreign income corpora-
6 tion’ means, with respect to any United States
7 shareholder, any specified foreign corporation of
8 such United States shareholder which has accumu-
9 lated post-1986 deferred foreign income (as of the
10 close of the taxable year referred to in subsection
11 (a)) greater than zero.

12 “(2) ACCUMULATED POST-1986 DEFERRED FOR-
13 EIGN INCOME.—The term ‘accumulated post-1986
14 deferred foreign income’ means the post-1986 earn-
15 ings and profits except to the extent such earnings—

16 “(A) are attributable to income of the
17 specified foreign corporation which is effectively
18 connected with the conduct of a trade or busi-
19 ness within the United States and subject to
20 tax under this chapter, or

21 “(B) in the case of a controlled foreign
22 corporation, if distributed, would be excluded
23 from the gross income of a United States share-
24 holder under section 959.

1 To the extent provided in regulations or other guid-
2 ance prescribed by the Secretary, in the case of any
3 controlled foreign corporation which has share-
4 holders which are not United States shareholders,
5 accumulated post-1986 deferred foreign income shall
6 be appropriately reduced by amounts which would be
7 described in subparagraph (B) if such shareholders
8 were United States shareholders.

9 “(3) POST-1986 EARNINGS AND PROFITS.—The
10 term ‘post-1986 earnings and profits’ means the
11 earnings and profits of the foreign corporation (com-
12 puted in accordance with sections 964(a) and 986,
13 and by only taking into account periods when the
14 foreign corporation was a specified foreign corpora-
15 tion) accumulated in taxable years beginning after
16 December 31, 1986, and determined—

17 “(A) as of the date of the taxable year re-
18 ferred to in paragraph (1) or (2) of subsection
19 (a), whichever is applicable with respect to such
20 foreign corporation, and

21 “(B) without diminution by reason of divi-
22 dends distributed during the taxable year end-
23 ing with or including such date.

24 “(e) SPECIFIED FOREIGN CORPORATION.—

1 “(1) IN GENERAL.—For purposes of this sec-
2 tion, the term ‘specified foreign corporation’
3 means—

4 “(A) any controlled foreign corporation,
5 and

6 “(B) any section 902 corporation (as de-
7 fined in section 909(d)(5) as in effect before the
8 date of the enactment of the Tax Cuts and Jobs
9 Act).

10 “(2) APPLICATION TO SECTION 902 CORPORA-
11 TIONS.—For purposes of sections 951 and 961, a
12 section 902 corporation (as so defined) shall be
13 treated as a controlled foreign corporation solely for
14 purposes of taking into account the subpart F in-
15 come of such corporation under subsection (a) (and
16 for purposes of applying subsection (e)).

17 “(3) EXCLUSION OF PASSIVE FOREIGN INVEST-
18 MENT COMPANIES.—Such term shall not include any
19 corporation which is a passive foreign investment
20 company (as defined in section 1297) with respect to
21 the shareholder and which is not a controlled foreign
22 corporation.

23 “(f) DETERMINATIONS OF PRO RATA SHARE.—For
24 purposes of this section, the determination of any United
25 States shareholder’s pro rata share of any amount with

1 respect to any specified foreign corporation shall be deter-
2 mined under rules similar to the rules of section 951(a)(2)
3 by treating such amount in the same manner as subpart
4 F income (and by treating such specified foreign corpora-
5 tion as a controlled foreign corporation).

6 “(g) DISALLOWANCE OF FOREIGN TAX CREDIT,
7 ETC.—

8 “(1) IN GENERAL.—No credit shall be allowed
9 under section 901 for the applicable percentage of
10 any taxes paid or accrued (or treated as paid or ac-
11 crued) with respect to any amount for which a de-
12 duction is allowed under this section.

13 “(2) APPLICABLE PERCENTAGE.—For purposes
14 of this subsection, the term ‘applicable percentage’
15 means the amount (expressed as a percentage) equal
16 to the sum of—

17 “(A) 0.857 multiplied by the ratio of—

18 “(i) the excess to which subsection
19 (c)(1)(A) applies, divided by

20 “(ii) the sum of such excess plus the
21 amount to which subsection (c)(1)(B) ap-
22 plies, plus

23 “(B) 0.714 multiplied by the ratio of—

24 “(i) the amount to which subsection
25 (c)(1)(B) applies, divided by

1 “(ii) the sum described in subpara-
2 graph (A)(ii).

3 “(3) DENIAL OF DEDUCTION.—No deduction
4 shall be allowed under this chapter for any tax for
5 which credit is not allowable under section 901 by
6 reason of paragraph (1) (determined by treating the
7 taxpayer as having elected the benefits of subpart A
8 of part III of subchapter N).

9 “(4) COORDINATION WITH SECTION 78.—Sec-
10 tion 78 shall not apply to any tax for which credit
11 is not allowable under section 901 by reason of para-
12 graph (1).

13 “(h) ELECTION TO PAY LIABILITY IN INSTALL-
14 MENTS.—

15 “(1) IN GENERAL.—In the case of a United
16 States shareholder of a deferred foreign income cor-
17 poration, such United States shareholder may elect
18 to pay the net tax liability under this section in 8
19 installments of the following amounts:

20 “(A) 8 percent of the net tax liability in
21 the case of each of the first 5 of such install-
22 ments,

23 “(B) 15 percent of the net tax liability in
24 the case of the 6th such installment,

1 “(C) 20 percent of the net tax liability in
2 the case of the 7th such installment, and

3 “(D) 25 percent of the net tax liability in
4 the case of the 8th such installment.

5 “(2) DATE FOR PAYMENT OF INSTALLMENTS.—

6 If an election is made under paragraph (1), the first
7 installment shall be paid on the due date (deter-
8 mined without regard to any extension of time for
9 filing the return) for the return of tax for the tax-
10 able year described in subsection (a) and each suc-
11 ceeding installment shall be paid on the due date (as
12 so determined) for the return of tax for the taxable
13 year following the taxable year with respect to which
14 the preceding installment was made.

15 “(3) ACCELERATION OF PAYMENT.—If there is
16 an addition to tax for failure to timely pay any in-
17 stallment required under this subsection, a liquida-
18 tion or sale of substantially all the assets of the tax-
19 payer (including in a title 11 or similar case), a ces-
20 sation of business by the taxpayer, or any similar
21 circumstance, then the unpaid portion of all remain-
22 ing installments shall be due on the date of such
23 event (or in the case of a title 11 or similar case,
24 the day before the petition is filed). The preceding
25 sentence shall not apply to the sale of substantially

1 all the assets of a taxpayer to a buyer if such buyer
2 enters into an agreement with the Secretary under
3 which such buyer is liable for the remaining install-
4 ments due under this subsection in the same manner
5 as if such buyer were the taxpayer.

6 “(4) PRORATION OF DEFICIENCY TO INSTALL-
7 MENTS.—If an election is made under paragraph (1)
8 to pay the net tax liability under this section in in-
9 stallments and a deficiency has been assessed with
10 respect to such net tax liability, the deficiency shall
11 be prorated to the installments payable under para-
12 graph (1). The part of the deficiency so prorated to
13 any installment the date for payment of which has
14 not arrived shall be collected at the same time as,
15 and as a part of, such installment. The part of the
16 deficiency so prorated to any installment the date
17 for payment of which has arrived shall be paid upon
18 notice and demand from the Secretary. This sub-
19 section shall not apply if the deficiency is due to
20 negligence, to intentional disregard of rules and reg-
21 ulations, or to fraud with intent to evade tax.

22 “(5) ELECTION.—Any election under paragraph
23 (1) shall be made not later than the due date for the
24 return of tax for the taxable year described in sub-

1 section (a) and shall be made in such manner as the
2 Secretary shall provide.

3 “(6) NET TAX LIABILITY UNDER THIS SEC-
4 TION.—For purposes of this subsection—

5 “(A) IN GENERAL.—The net tax liability
6 under this section with respect to any United
7 States shareholder is the excess (if any) of—

8 “(i) such taxpayer’s net income tax
9 for the taxable year in which an amount is
10 included in the gross income of such
11 United States shareholder under section
12 951(a)(1) by reason of this section, over

13 “(ii) such taxpayer’s net income tax
14 for such taxable year determined—

15 “(I) without regard to this sec-
16 tion, and

17 “(II) without regard to any in-
18 come or deduction properly attrib-
19 utable to a dividend received by such
20 United States shareholder from any
21 deferred foreign income corporation.

22 “(B) NET INCOME TAX.—The term ‘net
23 income tax’ means the regular tax liability re-
24 duced by the credits allowed under subparts A,
25 B, and D of part IV of subchapter A.

1 “(i) SPECIAL RULES FOR S CORPORATION SHARE-
2 HOLDERS.—

3 “(1) IN GENERAL.—In the case of any S cor-
4 poration which is a United States shareholder of a
5 deferred foreign income corporation, each share-
6 holder of such S corporation may elect to defer pay-
7 ment of such shareholder’s net tax liability under
8 this section with respect to such S corporation until
9 the shareholder’s taxable year which includes the
10 triggering event with respect to such liability. Any
11 net tax liability payment of which is deferred under
12 the preceding sentence shall be assessed on the re-
13 turn of tax as an addition to tax in the shareholder’s
14 taxable year which includes such triggering event.

15 “(2) TRIGGERING EVENT.—

16 “(A) IN GENERAL.—In the case of any
17 shareholder’s net tax liability under this section
18 with respect to any S corporation, the trig-
19 gering event with respect to such liability is
20 whichever of the following occurs first:

21 “(i) Such corporation ceases to be an
22 S corporation (determined as of the first
23 day of the first taxable year that such cor-
24 poration is not an S corporation).

1 “(ii) A liquidation or sale of substan-
2 tially all the assets of such S corporation
3 (including in a title 11 or similar case), a
4 cessation of business by such S corpora-
5 tion, such S corporation ceases to exist, or
6 any similar circumstance.

7 “(iii) A transfer of any share of stock
8 in such S corporation by the taxpayer (in-
9 cluding by reason of death, or otherwise).

10 “(B) PARTIAL TRANSFERS OF STOCK.—In
11 the case of a transfer of less than all of the tax-
12 payer’s shares of stock in the S corporation,
13 such transfer shall only be a triggering event
14 with respect to so much of the taxpayer’s net
15 tax liability under this section with respect to
16 such S corporation as is properly allocable to
17 such stock.

18 “(C) TRANSFER OF LIABILITY.—A trans-
19 fer described in clause (iii) of subparagraph (A)
20 shall not be treated as a triggering event if the
21 transferee enters into an agreement with the
22 Secretary under which such transferee is liable
23 for net tax liability with respect to such stock
24 in the same manner as if such transferee were
25 the taxpayer.

1 “(3) NET TAX LIABILITY.—A shareholder’s net
2 tax liability under this section with respect to any S
3 corporation is the net tax liability under this section
4 which would be determined under subsection (h)(6)
5 if the only subpart F income taken into account by
6 such shareholder by reason of this section were allo-
7 cations from such S corporation.

8 “(4) ELECTION TO PAY DEFERRED LIABILITY
9 IN INSTALLMENTS.—In the case of a taxpayer which
10 elects to defer payment under paragraph (1)—

11 “(A) subsection (h) shall be applied sepa-
12 rately with respect to the liability to which such
13 election applies,

14 “(B) an election under subsection (h) with
15 respect to such liability shall be treated as time-
16 ly made if made not later than the due date for
17 the return of tax for the taxable year in which
18 the triggering event with respect to such liabil-
19 ity occurs,

20 “(C) the first installment under subsection
21 (h) with respect to such liability shall be paid
22 not later than such due date (but determined
23 without regard to any extension of time for fil-
24 ing the return), and

1 “(D) if the triggering event with respect to
2 any net tax liability is described in paragraph
3 (2)(A)(ii), an election under subsection (h) with
4 respect to such liability may be made only with
5 the consent of the Secretary.

6 “(5) JOINT AND SEVERAL LIABILITY OF S COR-
7 PORATION.—If any shareholder of an S corporation
8 elects to defer payment under paragraph (1), such
9 S corporation shall be jointly and severally liable for
10 such payment and any penalty, addition to tax, or
11 additional amount attributable thereto.

12 “(6) EXTENSION OF LIMITATION ON COLLEC-
13 TION.—Any limitation on the time period for the col-
14 lection of a liability deferred under this subsection
15 shall not be treated as beginning before the date of
16 the triggering event with respect to such liability.

17 “(7) ANNUAL REPORTING OF NET TAX LIABIL-
18 ITY.—

19 “(A) IN GENERAL.—Any shareholder of an
20 S corporation which makes an election under
21 paragraph (1) shall report the amount of such
22 shareholder’s deferred net tax liability on such
23 shareholder’s return of tax for the taxable year
24 for which such election is made and on the re-
25 turn of tax for each taxable year thereafter

1 until such amount has been fully assessed on
2 such returns.

3 “(B) DEFERRED NET TAX LIABILITY.—

4 For purposes of this paragraph, the term ‘de-
5 ferred net tax liability’ means, with respect to
6 any taxable year, the amount of net tax liability
7 payment of which has been deferred under
8 paragraph (1) and which has not been assessed
9 on a return of tax for any prior taxable year.

10 “(C) FAILURE TO REPORT.—In the case of
11 any failure to report any amount required to be
12 reported under subparagraph (A) with respect
13 to any taxable year before the due date for the
14 return of tax for such taxable year, there shall
15 be assessed on such return as an addition to
16 tax 5 percent of such amount.

17 “(8) ELECTION.—Any election under paragraph
18 (1)—

19 “(A) shall be made by the shareholder of
20 the S corporation not later than the due date
21 for such shareholder’s return of tax for the tax-
22 able year which includes the close of the taxable
23 year of such S corporation in which the amount
24 described in subsection (a) is taken into ac-
25 count, and

1 “(B) shall be made in such manner as the
2 Secretary shall provide.

3 “(j) REPORTING BY S CORPORATION.—Each S cor-
4 poration which is a United States shareholder of a speci-
5 fied foreign corporation shall report in its return of tax
6 under section 6037(a) the amount includible in its gross
7 income for such taxable year by reason of this section and
8 the amount of the deduction allowable by subsection (b).
9 Any copy provided to a shareholder under section 6037(b)
10 shall include a statement of such shareholder’s pro rata
11 share of such amounts.

12 “(k) EXTENSION OF LIMITATION ON ASSESSMENT.—
13 Notwithstanding section 6501, the limitation on the time
14 period for the assessment of the net tax liability under
15 this section (as defined in subsection (h)(6)) shall not ex-
16 pire before the date that is 6 years after the return for
17 the taxable year described in such subsection was filed.

18 “(l) RECAPTURE FOR EXPATRIATED ENTITIES.—

19 “(1) IN GENERAL.—If a deduction is allowed
20 under subsection (c) to a United States shareholder
21 and such shareholder first becomes an expatriated
22 entity at any time during the 10-year period begin-
23 ning on the date of the enactment of the Tax Cuts
24 and Jobs Act, then—

1 “(A) the tax imposed by this chapter shall
2 be increased for the first taxable year in which
3 such taxpayer becomes an expatriated entity by
4 an amount equal to 35 percent of the amount
5 of the deduction allowed to the specified foreign
6 corporation under subsection (c), and

7 “(B) no credits shall be allowed against
8 the increase in tax under subparagraph (A).

9 “(2) EXPATRIATED ENTITY.—For purposes of
10 this subsection, the term ‘expatriated entity’ has the
11 same meaning given such term under section
12 7874(a)(2), except that such term shall not include
13 an entity if the surrogate foreign corporation with
14 respect to the entity is treated as a domestic cor-
15 poration under section 7874(b).

16 “(m) SPECIAL RULES FOR UNITED STATES SHARE-
17 HOLDERS WHICH ARE REAL ESTATE INVESTMENT
18 TRUSTS.—

19 “(1) IN GENERAL.—If a real estate investment
20 trust is a United States shareholder in 1 or more de-
21 ferred foreign income corporations—

22 “(A) any amount required to be taken into
23 account under section 951(a)(1) by reason of
24 this section shall not be taken into account as
25 gross income of the real estate investment trust

1 for purposes of applying paragraphs (2) and (3)
2 of section 856(c) to any taxable year for which
3 such amount is taken into account under sec-
4 tion 951(a)(1), and

5 “(B) if the real estate investment trust
6 elects the application of this subparagraph, not-
7 withstanding subsection (a), any amount re-
8 quired to be taken into account under section
9 951(a)(1) by reason of this section shall, in lieu
10 of the taxable year in which it would otherwise
11 be included in gross income (for purposes of the
12 computation of real estate investment trust tax-
13 able income under section 857(b)), be included
14 in gross income as follows:

15 “(i) 8 percent of such amount in the
16 case of each of the taxable years in the 5-
17 taxable year period beginning with the tax-
18 able year in which such amount would oth-
19 erwise be included.

20 “(ii) 15 percent of such amount in the
21 case of the 1st taxable year following such
22 period.

23 “(iii) 20 percent of such amount in
24 the case of the 2nd taxable year following
25 such period.

1 “(iv) 25 percent of such amount in
2 the case of the 3rd taxable year following
3 such period.

4 “(2) RULES FOR TRUSTS ELECTING DEFERRED
5 INCLUSION.—

6 “(A) ELECTION.—Any election under
7 paragraph (1)(B) shall be made not later than
8 the due date for the first taxable year in the 5-
9 taxable year period described in clause (i) of
10 paragraph (1)(B) and shall be made in such
11 manner as the Secretary shall provide.

12 “(B) SPECIAL RULES.—If an election
13 under paragraph (1)(B) is in effect with respect
14 to any real estate investment trust, the fol-
15 lowing rules shall apply:

16 “(i) APPLICATION OF PARTICIPATION
17 EXEMPTION.—For purposes of subsection
18 (c)(1)—

19 “(I) the aggregate amount to
20 which subparagraph (A) or (B) of
21 subsection (c)(1) applies shall be de-
22 termined without regard to the elec-
23 tion,

24 “(II) each such aggregate
25 amount shall be allocated to each tax-

1 able year described in paragraph
2 (1)(B) in the same proportion as the
3 amount included in the gross income
4 of such United States shareholder
5 under section 951(a)(1) by reason of
6 this section is allocated to each such
7 taxable year.

8 “(III) NO INSTALLMENT PAY-
9 MENTS.—The real estate investment
10 trust may not make an election under
11 subsection (g) for any taxable year de-
12 scribed in paragraph (1)(B).

13 “(ii) ACCELERATION OF INCLUSION.—
14 If there is a liquidation or sale of substan-
15 tially all the assets of the real estate in-
16 vestment trust (including in a title 11 or
17 similar case), a cessation of business by
18 such trust, or any similar circumstance,
19 then any amount not yet included in gross
20 income under paragraph (1)(B) shall be in-
21 cluded in gross income as of the day before
22 the date of the event and the unpaid por-
23 tion of any tax liability with respect to
24 such inclusion shall be due on the date of
25 such event (or in the case of a title 11 or

1 similar case, the day before the petition is
2 filed).

3 “(n) ELECTION NOT TO APPLY NET OPERATING
4 LOSS DEDUCTION.—

5 “(1) IN GENERAL.—If a United States share-
6 holder of a deferred foreign income corporation
7 elects the application of this subsection for the tax-
8 able year described in subsection (a), then the
9 amount described in paragraph (2) shall not be
10 taken into account—

11 “(A) in determining the amount of the net
12 operating loss deduction under section 172 of
13 such shareholder for such taxable year, or

14 “(B) in determining the amount of taxable
15 income for such taxable year which may be re-
16 duced by net operating loss carryovers or
17 carrybacks to such taxable year under section
18 172.

19 “(2) AMOUNT DESCRIBED.—The amount de-
20 scribed in this paragraph is the sum of—

21 “(A) the amount required to be taken into
22 account under section 951(a)(1) by reason of
23 this section (determined after the application of
24 subsection (c)), plus

1 “(B) in the case of a domestic corporation
2 which chooses to have the benefits of subpart A
3 of part III of subchapter N for the taxable
4 year, the taxes deemed to be paid by such cor-
5 poration under subsections (a) and (b) of sec-
6 tion 960 for such taxable year with respect to
7 the amount described in subparagraph (A)
8 which are treated as a dividends under section
9 78.

10 “(3) ELECTION.—Any election under this sub-
11 section shall be made not later than the due date
12 (including extensions) for filing the return of tax for
13 the taxable year and shall be made in such manner
14 as the Secretary shall prescribe.

15 “(o) REGULATIONS.—The Secretary shall prescribe
16 such regulations or other guidance as may be necessary
17 or appropriate to carry out the provisions of this section
18 or to prevent the avoidance of the purposes of this section,
19 including through a reduction in earnings and profits
20 through changes in entity classification, changes in ac-
21 counting methods, or otherwise.”.

22 (b) CLERICAL AMENDMENT.—The table of sections
23 for subpart F of part III of subchapter N of chapter 1
24 is amended by striking the item relating to section 965
25 and inserting the following:

“Sec. 965. Treatment of deferred foreign income upon transition to participation exemption system of taxation.”.

1 **Subpart B—Rules Related to Passive and Mobile**

2 **Income**

3 **CHAPTER 1—TAXATION OF FOREIGN-DE-**
4 **RIVED INTANGIBLE INCOME AND**
5 **GLOBAL INTANGIBLE LOW-TAXED IN-**
6 **COME**

7 **SEC. 14201. CURRENT YEAR INCLUSION OF GLOBAL INTAN-**
8 **GIBLE LOW-TAXED INCOME BY UNITED**
9 **STATES SHAREHOLDERS.**

10 (a) IN GENERAL.—Subpart F of part III of sub-
11 chapter N of chapter 1 is amended by inserting after sec-
12 tion 951 the following new section:

13 **“SEC. 951A. GLOBAL INTANGIBLE LOW-TAXED INCOME IN-**
14 **CLUDED IN GROSS INCOME OF UNITED**
15 **STATES SHAREHOLDERS.**

16 “(a) IN GENERAL.—Each person who is a United
17 States shareholder of any controlled foreign corporation
18 for any taxable year of such United States shareholder
19 shall include in gross income such shareholder’s global in-
20 tangible low-taxed income for such taxable year.

21 “(b) GLOBAL INTANGIBLE LOW-TAXED INCOME.—
22 For purposes of this section—

23 “(1) IN GENERAL.—The term ‘global intangible
24 low-taxed income’ means, with respect to any United

1 States shareholder for any taxable year of such
2 United States shareholder, the excess (if any) of—

3 “(A) such shareholder’s net CFC tested in-
4 come for such taxable year, over

5 “(B) such shareholder’s net deemed tan-
6 gible income return for such taxable year.

7 “(2) NET DEEMED TANGIBLE INCOME RE-
8 TURN.—The term ‘net deemed tangible income re-
9 turn’ means, with respect to any United States
10 shareholder for any taxable year, an amount equal
11 to 10 percent of the aggregate of such shareholder’s
12 pro rata share of the qualified business asset invest-
13 ment of each controlled foreign corporation with re-
14 spect to which such shareholder is a United States
15 shareholder for such taxable year (determined for
16 each taxable year of each such controlled foreign
17 corporation which ends in or with such taxable year
18 of such United States shareholder).

19 “(c) NET CFC TESTED INCOME.—For purposes of
20 this section—

21 “(1) IN GENERAL.—The term ‘net CFC tested
22 income’ means, with respect to any United States
23 shareholder for any taxable year of such United
24 States shareholder, the excess (if any) of—

1 “(A) the aggregate of such shareholder’s
2 pro rata share of the tested income of each con-
3 trolled foreign corporation with respect to which
4 such shareholder is a United States shareholder
5 for such taxable year of such United States
6 shareholder (determined for each taxable year
7 of such controlled foreign corporation which
8 ends in or with such taxable year of such
9 United States shareholder), over

10 “(B) the aggregate of such shareholder’s
11 pro rata share of the tested loss of each con-
12 trolled foreign corporation with respect to which
13 such shareholder is a United States shareholder
14 for such taxable year of such United States
15 shareholder (determined for each taxable year
16 of such controlled foreign corporation which
17 ends in or with such taxable year of such
18 United States shareholder).

19 “(2) TESTED INCOME; TESTED LOSS.—For pur-
20 poses of this section—

21 “(A) TESTED INCOME.—The term ‘tested
22 income’ means, with respect to any controlled
23 foreign corporation for any taxable year of such
24 controlled foreign corporation, the excess (if
25 any) of—

1 “(i) the gross income of such corpora-
2 tion determined without regard to—

3 “(I) any item of income described
4 in section 952(b),

5 “(II) any gross income taken into
6 account in determining the subpart F
7 income of such corporation,

8 “(III) any gross income excluded
9 from the foreign base company income
10 (as defined in section 954) and the in-
11 surance income (as defined in section
12 953) of such corporation by reason of
13 section 954(b)(4),

14 “(IV) any dividend received from
15 a related person (as defined in section
16 954(d)(3)), and

17 “(V) any foreign oil and gas ex-
18 traction income (as defined in section
19 907(c)(1)) of such corporation, over

20 “(ii) the deductions (including taxes)
21 properly allocable to such gross income
22 under rules similar to the rules of section
23 954(b)(5).

24 “(B) TESTED LOSS.—

1 “(i) IN GENERAL.—The term ‘tested
2 loss’ means, with respect to any controlled
3 foreign corporation for any taxable year of
4 such controlled foreign corporation, the ex-
5 cess (if any) of the amount described in
6 subparagraph (A)(ii) over the amount de-
7 scribed in subparagraph (A)(i).

8 “(ii) COORDINATION WITH SUBPART F
9 TO DENY DOUBLE BENEFIT OF LOSSES.—
10 Section 952(c)(1)(A) shall be applied by
11 increasing the earnings and profits of the
12 controlled foreign corporation by the tested
13 loss of such corporation.

14 “(d) QUALIFIED BUSINESS ASSET INVESTMENT.—
15 For purposes of this section—

16 “(1) IN GENERAL.—The term ‘qualified busi-
17 ness asset investment’ means, with respect to any
18 corporation for any taxable year of such controlled
19 foreign corporation, the average of the aggregate of
20 the corporation’s adjusted bases as of the close of
21 each quarter of such taxable year in specified tan-
22 gible property —

23 “(A) used in a trade or business of the
24 corporation, and

1 “(B) of a type with respect to which a de-
2 duction is allowable under section 167.

3 “(2) SPECIFIED TANGIBLE PROPERTY.—

4 “(A) IN GENERAL.—The term ‘specified
5 tangible property’ means, except as provided in
6 subparagraph (B), any tangible property used
7 in the production of tested income.

8 “(B) DUAL USE PROPERTY.—In the case
9 of property used both in the production of test-
10 ed income and income which is not tested in-
11 come, such property shall be treated as speci-
12 fied tangible property in the same proportion
13 that the gross income described in subsection
14 (c)(1)(A) produced with respect to such prop-
15 erty bears to the total gross income produced
16 with respect to such property.

17 “(3) DETERMINATION OF ADJUSTED BASIS.—

18 For purposes of this subsection, notwithstanding any
19 provision of this title (or any other provision of law)
20 which is enacted after the date of the enactment of
21 this section, the adjusted basis in any property shall
22 be determined using the alternative depreciation sys-
23 tem under section 168(g).

24 “(4) REGULATIONS.—The Secretary shall issue
25 such regulations or other guidance as the Secretary

1 determines appropriate to prevent the avoidance of
2 the purposes of this subsection, including regulations
3 or other guidance which provide for the treatment of
4 property if—

5 “(A) such property is transferred, or held,
6 temporarily, or

7 “(B) the avoidance of the purposes of this
8 paragraph is a factor in the transfer or holding
9 of such property.

10 “(e) DETERMINATION OF PRO RATA SHARE, ETC.—

11 For purposes of this section—

12 “(1) IN GENERAL.—The pro rata shares re-
13 ferred to in subsections (b), (c)(1)(A), and (c)(1)(B),
14 respectively, shall be determined under the rules of
15 section 951(a)(2) in the same manner as such sec-
16 tion applies to subpart F income and shall be taken
17 into account in the taxable year of the United States
18 shareholder in which or with which the taxable year
19 of the controlled foreign corporation ends.

20 “(2) TREATMENT AS UNITED STATES SHARE-
21 HOLDER.—For purposes of paragraph (1), a person
22 shall be treated as a United States shareholder of a
23 controlled foreign corporation for any taxable year
24 only if such person owns (within the meaning of sec-
25 tion 958(a)) stock in such foreign corporation on the

1 last day, in such year, on which such foreign cor-
2 poration is a controlled foreign corporation.

3 “(3) TREATMENT AS CONTROLLED FOREIGN
4 CORPORATION.—A foreign corporation shall be treat-
5 ed as a controlled foreign corporation for any tax-
6 able year if such foreign corporation is a controlled
7 foreign corporation at any time during such taxable
8 year.

9 “(f) TREATMENT AS SUBPART F INCOME FOR CER-
10 TAIN PURPOSES.—

11 “(1) IN GENERAL.—

12 “(A) APPLICATION.—Except as provided in
13 subparagraph (B), any global intangible low-
14 taxed income included in gross income under
15 subsection (a) shall be treated in the same
16 manner as an amount included under section
17 951(a)(1)(A) for purposes of applying sections
18 168(h)(2)(B), 535(b)(10), 851(b), 904(h)(1),
19 959, 961, 962(c), 962(d), 993(a)(1)(E),
20 996(f)(1), 1248(b)(1), 1248(d)(1),
21 6501(e)(1)(C), 6654(d)(2)(D), and 6655(e)(4).

22 “(B) EXCEPTION.—The Secretary shall
23 provide rules for the application of subpara-
24 graph (A) to other provisions of this title in any
25 case in which the determination of subpart F

1 income is required to be made at the level of
2 the controlled foreign corporation.

3 “(2) ALLOCATION OF GLOBAL INTANGIBLE
4 LOW-TAXED INCOME TO CONTROLLED FOREIGN COR-
5 PORATIONS.—For purposes of the sections referred
6 to in paragraph (1), with respect to any controlled
7 foreign corporation any pro rata amount from which
8 is taken into account in determining the global in-
9 tangible low-taxed income included in gross income
10 of a United States shareholder under subsection (a),
11 the portion of such global intangible low-taxed in-
12 come which is treated as being with respect to such
13 controlled foreign corporation is—

14 “(A) in the case of a controlled foreign
15 corporation with no tested income, zero, and

16 “(B) in the case of a controlled foreign
17 corporation with tested income, the portion of
18 such global intangible low-taxed income which
19 bears the same ratio to such global intangible
20 low-taxed income as—

21 “(i) such United States shareholder’s
22 pro rata amount of the tested income of
23 such controlled foreign corporation, bears
24 to

1 “(ii) the aggregate amount described
2 in subsection (c)(1)(A) with respect to
3 such United States shareholder.”.

4 (b) FOREIGN TAX CREDIT.—

5 (1) APPLICATION OF DEEMED PAID FOREIGN
6 TAX CREDIT.—Section 960 is amended adding at the
7 end the following new subsection:

8 “(d) DEEMED PAID CREDIT FOR TAXES PROPERLY
9 ATTRIBUTABLE TO TESTED INCOME.—

10 “(1) IN GENERAL.—For purposes of this sub-
11 part, if any amount is includible in the gross income
12 of a domestic corporation under section 951A, such
13 domestic corporation shall be deemed to have paid
14 foreign income taxes equal to 80 percent of the
15 product of—

16 “(A) such domestic corporation’s inclusion
17 percentage, multiplied by

18 “(B) the aggregate tested foreign income
19 taxes paid or accrued by controlled foreign cor-
20 porations.

21 “(2) INCLUSION PERCENTAGE.—For purposes
22 of paragraph (1), the term ‘inclusion percentage’
23 means, with respect to any domestic corporation, the
24 ratio (expressed as a percentage) of—

1 “(A) such corporation’s global intangible
2 low-taxed income (as defined in section
3 951A(b)), divided by

4 “(B) the aggregate amount described in
5 section 951A(c)(1)(A) with respect to such cor-
6 poration.

7 “(3) TESTED FOREIGN INCOME TAXES.—For
8 purposes of paragraph (1), the term ‘tested foreign
9 income taxes’ means, with respect to any domestic
10 corporation which is a United States shareholder of
11 a controlled foreign corporation, the foreign income
12 taxes paid or accrued by such foreign corporation
13 which are properly attributable to the tested income
14 of such foreign corporation taken into account by
15 such domestic corporation under section 951A.”.

16 (2) APPLICATION OF FOREIGN TAX CREDIT
17 LIMITATION.—

18 (A) SEPARATE BASKET FOR GLOBAL IN-
19 TANGIBLE LOW-TAXED INCOME.—Section
20 904(d)(1) is amended by redesignating subpara-
21 graphs (A) and (B) as subparagraphs (B) and
22 (C), respectively, and by inserting before sub-
23 paragraph (B) (as so redesignated) the fol-
24 lowing new subparagraph:

1 “(A) any amount includible in gross in-
2 come under section 951A (other than passive
3 category income),”.

4 (B) EXCLUSION FROM GENERAL CAT-
5 EGORY INCOME.—Section 904(d)(2)(A)(ii) is
6 amended by inserting “income described in
7 paragraph (1)(A) and” before “passive category
8 income”.

9 (C) NO CARRYOVER OR CARRYBACK OF EX-
10 CESS TAXES.—Section 904(c) is amended by
11 adding at the end the following: “This sub-
12 section shall not apply to taxes paid or accrued
13 with respect to amounts described in subsection
14 (d)(1)(A).”.

15 (c) CLERICAL AMENDMENT .—The table of sections
16 for subpart F of part III of subchapter N of chapter 1
17 is amended by inserting after the item relating to section
18 951 the following new item:

 “Sec. 951A. Global intangible low-taxed income included in gross income of
 United States shareholders.”.

19 (d) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years of foreign corpora-
21 tions beginning after December 31, 2017, and to taxable
22 years of United States shareholders in which or with which
23 such taxable years of foreign corporations end.

1 **SEC. 14202. DEDUCTION FOR FOREIGN-DERIVED INTAN-**
2 **GIBLE INCOME AND GLOBAL INTANGIBLE**
3 **LOW-TAXED INCOME.**

4 (a) IN GENERAL.—Part VIII of subchapter B of
5 chapter 1 is amended by adding at the end the following
6 new section:

7 **“SEC. 250. FOREIGN-DERIVED INTANGIBLE INCOME AND**
8 **GLOBAL INTANGIBLE LOW-TAXED INCOME.**

9 “(a) ALLOWANCE OF DEDUCTION.—

10 “(1) IN GENERAL.—In the case of a domestic
11 corporation for any taxable year, there shall be al-
12 lowed as a deduction an amount equal to the sum
13 of—

14 “(A) 37.5 percent of the foreign-derived in-
15 tangible income of such domestic corporation
16 for such taxable year, plus

17 “(B) 50 percent of the global intangible
18 low-taxed income amount (if any) which is in-
19 cluded in the gross income of such domestic
20 corporation under section 951A for such taxable
21 year.

22 “(2) LIMITATION BASED ON TAXABLE IN-
23 COME.—

24 “(A) IN GENERAL.—If, for any taxable
25 year—

1 “(i) the sum of the foreign-derived in-
2 tangible income and the global intangible
3 low-taxed income amount otherwise taken
4 into account by the domestic corporation
5 under paragraph (1), exceeds

6 “(ii) the taxable income of the domes-
7 tic corporation (determined without regard
8 to this section),

9 then the amount of the foreign-derived intan-
10 gible income and the global intangible low-taxed
11 income amount so taken into account shall be
12 reduced as provided in subparagraph (B).

13 “(B) REDUCTION.—For purposes of sub-
14 paragraph (A)—

15 “(i) foreign-derived intangible income
16 shall be reduced by an amount which bears
17 the same ratio to the excess described in
18 subparagraph (A) as such foreign-derived
19 intangible income bears to the sum de-
20 scribed in subparagraph (A)(i), and

21 “(ii) the global intangible low-taxed
22 income amount shall be reduced by the re-
23 mainder of such excess.

24 “(3) REDUCTION IN DEDUCTION FOR TAXABLE
25 YEARS AFTER 2025.—In the case of any taxable year

1 beginning after December 31, 2025, paragraph (1)
2 shall be applied by substituting—

3 “(A) ‘21.875 percent’ for ‘37.5 percent’ in
4 subparagraph (A), and

5 “(B) ‘37.5 percent’ for ‘50 percent’ in sub-
6 paragraph (B).

7 “(b) FOREIGN-DERIVED INTANGIBLE INCOME.—For
8 purposes of this section—

9 “(1) IN GENERAL.—The foreign-derived intan-
10 gible income of any domestic corporation is the
11 amount which bears the same ratio to the deemed
12 intangible income of such corporation as—

13 “(A) the foreign-derived deduction eligible
14 income of such corporation, bears to

15 “(B) the deduction eligible income of such
16 corporation.

17 “(2) DEEMED INTANGIBLE INCOME.—For pur-
18 poses of this subsection—

19 “(A) IN GENERAL.—The term ‘deemed in-
20 tangible income’ means the excess (if any) of—

21 “(i) the deduction eligible income of
22 the domestic corporation, over

23 “(ii) the deemed tangible income re-
24 turn of the corporation.

1 “(B) DEEMED TANGIBLE INCOME RE-
2 TURN.—The term ‘deemed tangible income re-
3 turn’ means, with respect to any corporation,
4 an amount equal to 10 percent of the corpora-
5 tion’s qualified business asset investment (as
6 defined in section 951A(d), determined by sub-
7 stituting ‘deduction eligible income’ for ‘tested
8 income’ in paragraph (2) thereof).

9 “(3) DEDUCTION ELIGIBLE INCOME.—

10 “(A) IN GENERAL.—The term ‘deduction
11 eligible income’ means, with respect to any do-
12 mestic corporation, the excess (if any) of—

13 “(i) gross income of such corporation
14 determined without regard to—

15 “(I) the subpart F income of
16 such corporation determined under
17 section 951,

18 “(II) the global intangible low-
19 taxed income determined under sec-
20 tion 951A,

21 “(III) any financial services in-
22 come (as defined in section
23 904(d)(2)(D)) of such corporation
24 which is not described in clause (ii),

1 “(IV) any dividend received from
2 a corporation which is a controlled
3 foreign corporation of such domestic
4 corporation,

5 “(V) any domestic oil and gas ex-
6 traction income of such corporation,
7 and

8 “(VI) any foreign branch income
9 (as defined in section 904(d)(2)(J)),
10 over

11 “(ii) the deductions (including taxes)
12 properly allocable to such gross income
13 under rules similar to the rules of section
14 954(b)(5).

15 “(B) DOMESTIC OIL AND GAS EXTRACTION
16 INCOME.—For purposes of subparagraph (A),
17 the term ‘domestic oil and gas extraction in-
18 come’ means income described in section
19 907(c)(1), determined by substituting ‘within
20 the United States’ for ‘without the United
21 States’.

22 “(4) FOREIGN-DERIVED DEDUCTION ELIGIBLE
23 INCOME.—The term ‘foreign-derived deduction eligi-
24 ble income’ means, with respect to any taxpayer for

1 any taxable year, any deduction eligible income of
2 such taxpayer which is derived in connection with—

3 “(A) property—

4 “(i) which is sold by the taxpayer to
5 any person who is not a United States per-
6 son, and

7 “(ii) which the taxpayer establishes to
8 the satisfaction of the Secretary is for a
9 foreign use, or

10 “(B) services provided by the taxpayer
11 which the taxpayer establishes to the satisfac-
12 tion of the Secretary are provided to any per-
13 son, or with respect to property, not located
14 within the United States.

15 “(5) RULES RELATING TO FOREIGN USE PROP-
16 ERTY OR SERVICES.—For purposes of this sub-
17 section—

18 “(A) FOREIGN USE.—The term ‘foreign
19 use’ means any use, consumption, or disposition
20 which is not within the United States.

21 “(B) PROPERTY OR SERVICES PROVIDED
22 TO DOMESTIC INTERMEDIARIES.—

23 “(i) PROPERTY.—If a taxpayer sells
24 property to another person (other than a
25 related party) for further manufacture or

1 other modification within the United
2 States, such property shall not be treated
3 as sold for a foreign use even if such other
4 person subsequently uses such property for
5 a foreign use.

6 “(ii) SERVICES.—If a taxpayer pro-
7 vides services to another person (other
8 than a related party) located within the
9 United States, such services shall not be
10 treated as described in paragraph (4)(B)
11 even if such other person uses such serv-
12 ices in providing services which are so de-
13 scribed.

14 “(C) SPECIAL RULES WITH RESPECT TO
15 RELATED PARTY TRANSACTIONS.—

16 “(i) SALES TO RELATED PARTIES.—If
17 property is sold to a related party who is
18 not a United States person, such sale shall
19 not be treated as for a foreign use unless
20 such property is sold by the related party
21 to another person who is an unrelated
22 party who is not a United States person
23 and the taxpayer establishes to the satis-
24 faction of the Secretary that such property
25 is for a foreign use.

1 “(ii) SERVICE PROVIDED TO RELATED
2 PARTIES.—If a service is provided to a re-
3 lated party who is not located in the
4 United States, such service shall be not be
5 treated described in subparagraph (A)(ii)
6 unless the taxpayer established to the sat-
7 isfaction of the Secretary that such service
8 is not substantially similar to services pro-
9 vided by such related party to persons lo-
10 cated within the United States.

11 “(D) RELATED PARTY.—For purposes of
12 this paragraph, the term ‘related party’ means
13 any member of an affiliated group as defined in
14 section 1504(a), determined—

15 “(i) by substituting ‘more than 50
16 percent’ for ‘at least 80 percent’ each place
17 it appears, and

18 “(ii) without regard to paragraphs (2)
19 and (3) of section 1504(b).

20 Any person (other than a corporation) shall be
21 treated as a member of such group if such per-
22 son is controlled by members of such group (in-
23 cluding any entity treated as a member of such
24 group by reason of this sentence) or controls
25 any such member. For purposes of the pre-

1 ceding sentence, control shall be determined
2 under the rules of section 954(d)(3).

3 “(E) SOLD.—For purposes of this sub-
4 section, the terms ‘sold’, ‘sells’, and ‘sale’ shall
5 include any lease, license, exchange, or other
6 disposition.

7 “(c) REGULATIONS.—The Secretary shall prescribe
8 such regulations or other guidance as may be necessary
9 or appropriate to carry out the provisions of this section.”.

10 (b) CONFORMING AMENDMENTS.—

11 (1) Section 172(d), as amended by section
12 13011, is amended by adding at the end the fol-
13 lowing new paragraph:

14 “(10) DEDUCTION FOR FOREIGN-DERIVED IN-
15 TANGIBLE INCOME.—The deduction under section
16 250 shall not be allowed.”.

17 (2) Section 246(b)(1) is amended—

18 (A) by striking “and subsection (a) and (b)
19 of section 245” the first place it appears and
20 inserting “, subsection (a) and (b) of section
21 245, and section 250”,

22 (B) by striking “and subsection (a) and
23 (b) of section 245” the second place it appears
24 and inserting “subsection (a) and (b) of section
25 245, and 250”.

1 (3) Section 469(i)(3)(F)(iii) is amended by
2 striking “and 222” and inserting “222, and 250”.

3 (4) The table of sections for part VIII of sub-
4 chapter B of chapter 1 is amended by adding at the
5 end the following new item:

 “Sec. 250. Foreign-derived intangible income and global intangible low-taxed
 income.”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to taxable years beginning after
8 December 31, 2017.

9 **SEC. 14203. SPECIAL RULES FOR TRANSFERS OF INTAN-**
10 **GIBLE PROPERTY FROM CONTROLLED FOR-**
11 **EIGN CORPORATIONS TO UNITED STATES**
12 **SHAREHOLDERS.**

13 (a) IN GENERAL.—Subpart F of part III of sub-
14 chapter N of chapter 1 is amended by adding at the end
15 the following new section:

16 **“SEC. 966. TRANSFERS OF INTANGIBLE PROPERTY TO**
17 **UNITED STATES SHAREHOLDERS.**

18 “(a) IN GENERAL.—In the case of any distribution
19 of intangible property which is held by a controlled foreign
20 corporation on the date of enactment of this section and
21 which is described in subsection (b)—

22 “(1) for purposes of part I of subchapter C and
23 any other provision of this title specified by the Sec-
24 retary, the fair market value of such property on the

1 date of such distribution shall be treated as not ex-
2 ceeding the adjusted basis of such property imme-
3 diately before such distribution, and

4 “(2) if the distribution is to a United States
5 shareholder and is not a dividend—

6 “(A) the United States shareholder’s ad-
7 justed basis in the stock of the controlled for-
8 eign corporation with respect to which such dis-
9 tribution is made shall be increased by the
10 amount (if any) of such distribution which
11 would (but for this subsection) be includible in
12 gross income, and

13 “(B) the adjusted basis of such property in
14 the hands of such United States shareholder
15 immediately after such distribution shall be
16 such adjusted basis immediately before such
17 distribution reduced by the amount of the in-
18 crease described in subparagraph (A).

19 “(b) DISTRIBUTION.—A distribution is described in
20 this section if the distribution is—

21 “(1) received by a domestic corporation from a
22 controlled foreign corporation with respect to which
23 such corporation is a United States shareholder, and

24 “(2) made by the controlled foreign corporation
25 before the last day of the third taxable year of the

1 controlled foreign corporation beginning after De-
2 cember 31, 2017.

3 “(c) INTANGIBLE PROPERTY.—For purposes of this
4 subsection, the term ‘intangible property’ has the meaning
5 given such term by section 936(h)(3)(B) or which is com-
6 puter software described in section 197(e)(3)(B).”.

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 197(f)(2)(B)(i) is amended by in-
9 serting “966(a),” after “731,”.

10 (2) The table of sections for subpart F of part
11 III of subchapter N of chapter 1 is amended by add-
12 ing at the end the following new item:

“Sec. 966. Transfers of intangible property to United States shareholders.”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to distributions made in taxable
15 years of foreign corporations beginning after December
16 31, 2017, and to taxable years of United States share-
17 holders in which or with which such taxable years of for-
18 eign corporations end.

19 **CHAPTER 2—OTHER MODIFICATIONS OF**
20 **SUBPART F PROVISIONS**

21 **SEC. 14211. ELIMINATION OF INCLUSION OF FOREIGN BASE**
22 **COMPANY OIL RELATED INCOME.**

23 (a) REPEAL.—Subsection (a) of section 954 is
24 amended—

1 (1) by inserting “and” at the end of paragraph

2 (2),

3 (2) by striking the comma at the end of para-

4 graph (3) and inserting a period, and

5 (3) by striking paragraph (5).

6 (b) CONFORMING AMENDMENTS.—

7 (1) Section 952(c)(1)(B)(iii) is amended by

8 striking subclause (I) and redesignating subclauses

9 (II) through (V) as subclauses (I) through (IV), re-

10 spectively.

11 (2) Section 954(b) is amended—

12 (A) by striking the second sentence of

13 paragraph (4),

14 (B) by striking “the foreign base company

15 services income, and the foreign base company

16 oil related income” in paragraph (5) and insert-

17 ing “and the foreign base company services in-

18 come”, and

19 (C) by striking paragraph (6).

20 (3) Section 954 is amended by striking sub-

21 section (g).

22 (c) EFFECTIVE DATE.—The amendments made by

23 this section shall apply to taxable years of foreign corpora-

24 tions beginning after December 31, 2017, and to taxable

1 years of United States shareholders with or within which
2 such taxable years of foreign corporations end.

3 **SEC. 14212. INFLATION ADJUSTMENT OF DE MINIMIS EX-**
4 **CEPTION FOR FOREIGN BASE COMPANY IN-**
5 **COME.**

6 (a) IN GENERAL.—Section 954(b)(3) is amended by
7 adding at the end the following new subparagraph:

8 “(D) INFLATION ADJUSTMENT.—In the
9 case of any taxable year beginning after 2017,
10 the dollar amount in subparagraph (A)(ii) shall
11 be increased by an amount equal to—

12 “(i) such dollar amount, multiplied by

13 “(ii) the cost-of-living adjustment de-
14 termined under section 1(f)(3) for the cal-
15 endar year in which the taxable year be-
16 gins.

17 Any increase determined under the preceding
18 sentence shall be rounded to the nearest mul-
19 tiple of \$50,000.”.

20 (b) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years of foreign corpora-
22 tions beginning after December 31, 2017, and to taxable
23 years of United States shareholders in which or with which
24 such taxable years of foreign corporations end.

1 **SEC. 14213. REPEAL OF INCLUSION BASED ON WITH-**
2 **DRAWAL OF PREVIOUSLY EXCLUDED SUB-**
3 **PART F INCOME FROM QUALIFIED INVEST-**
4 **MENT.**

5 (a) IN GENERAL.—Subpart F of part III of sub-
6 chapter N of chapter 1 is amended by striking section 955.

7 (b) CONFORMING AMENDMENTS.—

8 (1)(A) Section 951(a)(1)(A) is amended to read
9 as follows:

10 “(A) his pro rata share (determined under
11 paragraph (2)) of the corporation’s subpart F
12 income for such year, and”.

13 (B) Section 851(b) is amended by striking “sec-
14 tion 951(a)(1)(A)(i)” in the flush language at the
15 end and inserting “section 951(a)(1)(A)”.

16 (C) Section 952(c)(1)(B)(i) is amended by
17 striking “section 951(a)(1)(A)(i)” and inserting
18 “section 951(a)(1)(A)”.

19 (D) Section 953(c)(1)(C) is amended by strik-
20 ing “section 951(a)(1)(A)(i)” and inserting “section
21 951(a)(1)(A)”.

22 (2) Section 951(a) is amended by striking para-
23 graph (3).

24 (3) Section 953(d)(4)(B)(iv)(II) is amended by
25 striking “or amounts referred to in clause (ii) or (iii)
26 of section 951(a)(1)(A)”.

1 (4) Section 964(b) is amended by striking “,
2 955,”.

3 (5) Section 970 is amended by striking sub-
4 section (b).

5 (6) The table of sections for subpart F of part
6 III of subchapter N of chapter 1 is amended by
7 striking the item relating to section 955.

8 (c) **EFFECTIVE DATE.**—The amendments made by
9 this section shall apply to taxable years of foreign corpora-
10 tions beginning after December 31, 2017, and to taxable
11 years of United States shareholders in which or with which
12 such taxable years of foreign corporations end.

13 **SEC. 14214. MODIFICATION OF STOCK ATTRIBUTION RULES**
14 **FOR DETERMINING STATUS AS A CON-**
15 **TROLLED FOREIGN CORPORATION.**

16 (a) **IN GENERAL.**—Section 958(b) is amended—

17 (1) by striking paragraph (4), and

18 (2) by striking “Paragraphs (1) and (4)” in the
19 last sentence and inserting “Paragraph (1)”.

20 (b) **EFFECTIVE DATE.**—The amendments made by
21 this section shall apply to—

22 (1) the last taxable year of foreign corporations
23 beginning before January 1, 2018, and each subse-
24 quent taxable year of such foreign corporations, and

1 (2) taxable years of United States shareholders
2 in which or with which such taxable years of foreign
3 corporations end.

4 **SEC. 14215. MODIFICATION OF DEFINITION OF UNITED**
5 **STATES SHAREHOLDER.**

6 (a) IN GENERAL.—Section 951(b) is amended by in-
7 serting “, or 10 percent or more of the total value of
8 shares of all classes of stock of such foreign corporation”
9 after “such foreign corporation”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to taxable years of foreign corpora-
12 tions beginning after December 31, 2017, and to taxable
13 years of United States shareholders with or within which
14 such taxable years of foreign corporations end.

15 **SEC. 14216. ELIMINATION OF REQUIREMENT THAT COR-**
16 **PORATION MUST BE CONTROLLED FOR 30**
17 **DAYS BEFORE SUBPART F INCLUSIONS**
18 **APPLY.**

19 (a) IN GENERAL.—Section 951(a)(1) is amended by
20 striking “for an uninterrupted period of 30 days or more”
21 and inserting “at any time”.

22 (b) EFFECTIVE DATE.—The amendment made by
23 this section shall apply to taxable years of foreign corpora-
24 tions beginning after December 31, 2017, and to taxable

1 years of United States shareholders with or within which
2 such taxable years of foreign corporations end.

3 **SEC. 14217. LOOK-THRU RULE FOR RELATED CONTROLLED**
4 **FOREIGN CORPORATIONS MADE PERMA-**
5 **NENT.**

6 (a) IN GENERAL.—Paragraph (6) of section 954(c)
7 is amended by striking subparagraph (C).

8 (b) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to taxable years of foreign corpora-
10 tions beginning after December 31, 2017, and to taxable
11 years of United States shareholders in which or with which
12 such taxable years of foreign corporations end.

13 **SEC. 14218. CORPORATIONS ELIGIBLE FOR DEDUCTION**
14 **FOR DIVIDENDS FROM CONTROLLED FOR-**
15 **EIGN CORPORATIONS EXEMPT FROM SUB-**
16 **PART F INCLUSION FOR INVESTMENT IN**
17 **UNITED STATES PROPERTY.**

18 (a) IN GENERAL.—Section 956(a) is amended by in-
19 serting “(other than a corporation)” after “United States
20 shareholder” in the matter preceding paragraph (1).

21 (b) EFFECTIVE DATE.—The amendment made by
22 this section shall apply to taxable years of controlled for-
23 eign corporations ending after December 31, 2017, and
24 to taxable years of United States shareholders with or

1 within which such taxable years of controlled foreign cor-
2 porations end.

3 **CHAPTER 3—PREVENTION OF BASE**
4 **EROSION**

5 **SEC. 14221. DENIAL OF DEDUCTION FOR INTEREST EX-**
6 **PENSE OF UNITED STATES SHAREHOLDERS**
7 **WHICH ARE MEMBERS OF WORLDWIDE AF-**
8 **FILIATED GROUPS WITH EXCESS DOMESTIC**
9 **INDEBTEDNESS.**

10 (a) IN GENERAL.—Section 163 is amended by redess-
11 ignating subsection (n) as subsection (o) and by inserting
12 after subsection (m) the following new subsection:

13 “(n) DISALLOWANCE OF DEDUCTION FOR INTEREST
14 EXPENSE OF UNITED STATES SHAREHOLDERS WHICH
15 ARE MEMBERS OF WORLDWIDE AFFILIATED GROUPS
16 WITH EXCESS DOMESTIC INDEBTEDNESS.—

17 “(1) IN GENERAL.—In the case of any domestic
18 corporation which is a member of a worldwide affili-
19 ated group, the deduction allowed under this chapter
20 for interest paid or accrued by such domestic cor-
21 poration during the taxable year shall be reduced by
22 the product of—

23 “(A) the net interest expense of such do-
24 mestic corporation, multiplied by

1 “(B) the debt-to-equity differential per-
2 centage of such worldwide affiliated group.

3 “(2) CARRYFORWARD.—Any amount disallowed
4 under paragraph (1) for any taxable year shall be
5 treated as interest paid or accrued in the succeeding
6 taxable year.

7 “(3) DEBT-TO-EQUITY DIFFERENTIAL PER-
8 CENTAGE.—

9 “(A) IN GENERAL.—For purposes of this
10 subsection, the term ‘debt-to-equity differential
11 percentage’ means, with respect to any world-
12 wide affiliated group, the percentage which the
13 excess domestic indebtedness of such group
14 bears to the total indebtedness of the domestic
15 corporations which are members of such group.

16 “(B) EXCESS DOMESTIC INDEBTED-
17 NESS.—For purposes of subparagraph (A), the
18 term ‘excess domestic indebtedness’ means, with
19 respect to any worldwide affiliated group, the
20 excess (if any) of—

21 “(i) the total indebtedness of the do-
22 mestic corporations which are members of
23 such group, over

24 “(ii) 110 percent of the amount which
25 the total indebtedness of such domestic

1 corporations would be if the ratio of such
2 indebtedness to the total equity of such do-
3 mestic corporations equaled the ratio
4 which—

5 “(I) the total indebtedness of
6 such group, bears to

7 “(II) the total equity of such
8 group.

9 “(C) TOTAL EQUITY.—For purposes of
10 subparagraph (B), the term ‘total equity’
11 means, with respect to one or more corpora-
12 tions, the excess (if any) of—

13 “(i) the money and all other assets of
14 such corporations, over

15 “(ii) the total indebtedness of such
16 corporations.

17 “(D) SPECIAL RULES FOR DETERMINING
18 DEBT AND EQUITY.—

19 “(i) IN GENERAL.—For purposes of
20 this paragraph—

21 “(I) the amount taken into ac-
22 count with respect to any asset shall
23 be the adjusted basis thereof for pur-
24 poses of determining gain,

1 “(II) the amount taken into ac-
2 count with respect to any indebted-
3 ness with original issue discount shall
4 be its issue price plus the portion of
5 the original issue discount previously
6 accrued as determined under the rules
7 of section 1272 (determined without
8 regard to subsection (a)(7) or (b)(4)
9 thereof), and

10 “(III) there shall be such other
11 adjustments as the Secretary shall by
12 regulations prescribe.

13 “(ii) INTRAGROUP DEBT AND EQUITY
14 INTERESTS DISREGARDED.—For purposes
15 of this paragraph, the total indebtedness,
16 and the assets, of any group of corpora-
17 tions shall be determined by treating all
18 members of such group as one corporation.

19 “(iii) DETERMINATION OF ASSETS OF
20 DOMESTIC GROUP.—For purposes of this
21 paragraph, the assets of the domestic cor-
22 porations which are members of any world-
23 wide affiliated group shall be determined
24 by disregarding any interest held by any
25 such domestic corporation in any foreign

1 corporation which is a member of such
2 group.

3 “(4) OTHER DEFINITIONS.—For purposes of
4 this subsection—

5 “(A) WORLDWIDE AFFILIATED GROUP.—
6 The term ‘worldwide affiliated group’ means a
7 group consisting of the includible members of
8 an affiliated group, as defined in section
9 1504(a), determined—

10 “(i) by substituting ‘more than 50
11 percent’ for ‘at least 80 percent’ each place
12 it appears in such section, and

13 “(ii) without regard to paragraphs
14 (2), (3), and (4) of section 1504(b).

15 “(B) NET INTEREST EXPENSE.—The term
16 ‘net interest expense’ means the excess (if any)
17 of

18 “(i) the interest paid or accrued by
19 the taxpayer during the taxable year, over

20 “(ii) the amount of interest includible
21 in the gross income of such taxpayer for
22 such taxable year.

23 The Secretary shall by regulations provide for
24 adjustments in determining the amount of net
25 interest expense if necessary.

1 “(5) TREATMENT OF AFFILIATED GROUP.—For
2 purposes of this subsection, all members of the same
3 affiliated group (within the meaning of section
4 1504(a) applied by substituting ‘more than 50 per-
5 cent’ for ‘at least 80 percent’ each place it appears)
6 shall be treated as one taxpayer.

7 “(6) REGULATIONS.—The Secretary shall pre-
8 scribe such regulations or other guidance as may be
9 appropriate to carry out the purposes of this sub-
10 section, including regulations or other guidance—

11 “(A) to prevent the avoidance of the pur-
12 poses of this subsection,

13 “(B) providing such adjustments in the
14 case of corporations which are members of an
15 affiliated group as may be appropriate to carry
16 out the purposes of this subsection,

17 “(C) providing for the coordination of this
18 subsection with section 884,

19 “(D) providing for the reallocation of
20 shares of partnership indebtedness, or distribu-
21 tive shares of the partnership’s interest income
22 or interest expense, and

23 “(E) providing for the coordination with
24 the limitation under subsection (j).”.

1 (b) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2017.

4 **SEC. 14222. LIMITATIONS ON INCOME SHIFTING THROUGH**
5 **INTANGIBLE PROPERTY TRANSFERS.**

6 (a) DEFINITION OF INTANGIBLE ASSET.—Section
7 936(h)(3)(B) is amended—

8 (1) by striking “or” at the end of clause (v),
9 (2) by striking clause (vi) and inserting the fol-
10 lowing:

11 “(vi) any goodwill, going concern
12 value, or workforce in place (including its
13 composition and terms and conditions
14 (contractual or otherwise) of its employ-
15 ment); or

16 “(vii) any other item the value or po-
17 tential value of which is not attributable to
18 tangible property or the services of any in-
19 dividual.”, and

20 (3) by striking the flush language after clause
21 (vii), as added by paragraph (2).

22 (b) CLARIFICATION OF ALLOWABLE VALUATION
23 METHODS.—

1 (1) FOREIGN CORPORATIONS.—Section
2 367(d)(2) is amended by adding at the end the fol-
3 lowing new subparagraph:

4 “(D) REGULATORY AUTHORITY.—For pur-
5 poses of the last sentence of subparagraph (A),
6 the Secretary shall require—

7 “(i) the valuation of transfers of in-
8 tangible property, including intangible
9 property transferred with other property or
10 services, on an aggregate basis, or

11 “(ii) the valuation of such a transfer
12 on the basis of the realistic alternatives to
13 such a transfer,

14 if the Secretary determines that such basis is
15 the most reliable means of valuation of such
16 transfers.”.

17 (2) ALLOCATION AMONG TAXPAYERS.—Section
18 482 is amended by adding at the end the following:

19 “For purposes of this section, the Secretary shall re-
20 quire the valuation of transfers of intangible prop-
21 erty (including intangible property transferred with
22 other property or services) on an aggregate basis or
23 the valuation of such a transfer on the basis of the
24 realistic alternatives to such a transfer, if the Sec-

1 retary determines that such basis is the most reli-
2 able means of valuation of such transfers.”.

3 (c) EFFECTIVE DATE.—

4 (1) IN GENERAL.—The amendments made by
5 this section shall apply to transfers in taxable years
6 beginning after December 31, 2017.

7 (2) NO INFERENCE.—Nothing in the amend-
8 ment made by subsection (a) shall be construed to
9 create any inference with respect to the application
10 of section 936(h)(3) of the Internal Revenue Code of
11 1986, or the authority of the Secretary of the Treas-
12 ury to provide regulations for such application, with
13 respect to taxable years beginning before January 1,
14 2018.

15 **SEC. 14223. CERTAIN RELATED PARTY AMOUNTS PAID OR**
16 **ACCRUED IN HYBRID TRANSACTIONS OR**
17 **WITH HYBRID ENTITIES.**

18 (a) IN GENERAL.—Part IX of subchapter B of chap-
19 ter 1 is amended by inserting after section 267 the fol-
20 lowing:

21 **“SEC. 267A. CERTAIN RELATED PARTY AMOUNTS PAID OR**
22 **ACCRUED IN HYBRID TRANSACTIONS OR**
23 **WITH HYBRID ENTITIES.**

24 “(a) IN GENERAL.—No deduction shall be allowed
25 under this chapter for any disqualified related party

1 amount paid or accrued pursuant to a hybrid transaction
2 or by, or to, a hybrid entity.

3 “(b) DISQUALIFIED RELATED PARTY AMOUNT.—For
4 purposes of this section—

5 “(1) DISQUALIFIED RELATED PARTY
6 AMOUNT.—The term ‘disqualified related party
7 amount’ means any interest or royalty paid or ac-
8 crued to a related party to the extent that—

9 “(A) such amount is not included in the
10 income of such related party under the tax law
11 of the country of which such related party is a
12 resident for tax purposes or is subject to tax,
13 or

14 “(B) such related party is allowed a deduc-
15 tion with respect to such amount under the tax
16 law of such country.

17 Such term shall not include any payment to the ex-
18 tent such payment is included in the gross income
19 of a United States shareholder under section 951(a).

20 “(2) RELATED PARTY.—The term ‘related
21 party’ means a related person as defined in section
22 954(d)(3), except that such section shall be applied
23 with respect to the person making the payment de-
24 scribed in paragraph (1) in lieu of the controlled for-

1 eign corporation otherwise referred to in such sec-
2 tion.

3 “(c) HYBRID TRANSACTION.—For purposes of this
4 section, the term ‘hybrid transaction’ means any trans-
5 action, series of transactions, agreement, or instrument
6 one or more payments with respect to which are treated
7 as interest or royalties for purposes of this chapter and
8 which are not so treated for purposes the tax law of the
9 foreign country of which the recipient of such payment
10 is resident for tax purposes or is subject to tax.

11 “(d) HYBRID ENTITY.—For purposes of this section,
12 the term ‘hybrid entity’ means any entity which is either—

13 “(1) treated as fiscally transparent for purposes
14 of this chapter but not so treated for purposes of the
15 tax law of the foreign country of which the entity is
16 resident for tax purposes or is subject to tax, or

17 “(2) treated as fiscally transparent for purposes
18 of such tax law but not so treated for purposes of
19 this chapter.

20 “(e) REGULATIONS.—The Secretary shall issue such
21 regulations or other guidance as may be necessary or ap-
22 propriate to carry out the purposes of this section, includ-
23 ing regulations or other guidance providing for—

1 “(1) rules for treating certain conduit arrange-
2 ments which involve a hybrid transaction or a hybrid
3 entity as subject to subsection (a),

4 “(2) rules for the application of this section to
5 foreign branches,

6 “(3) rules for treating certain structured trans-
7 actions as subject to subsection (a),

8 “(4) rules for treating a tax preference as an
9 exclusion from income for purposes of applying sub-
10 section (b)(1) if such tax preference has the effect
11 of reducing the generally applicable statutory rate by
12 25 percent or more,

13 “(5) rules for treating the entire amount of in-
14 terest or royalty paid or accrued to a related party
15 as a disqualified related party amount if such
16 amount is subject to a participation exemption sys-
17 tem or other system which provides for the exclusion
18 or deduction of a substantial portion of such
19 amount,

20 “(6) rules for determining the tax residence of
21 a foreign entity if the entity is otherwise considered
22 a resident of more than one country or of no coun-
23 try,

24 “(7) exceptions from subsection (a) with respect
25 to—

1 “(A) cases in which the disqualified related
2 party amount is taxed under the laws of a for-
3 eign country other than the country of which
4 the related party is a resident for tax purposes,
5 and

6 “(B) other cases which the Secretary de-
7 termines do not present a risk of eroding the
8 Federal tax base,

9 “(8) requirements for record keeping and infor-
10 mation reporting in addition to any requirements
11 imposed by section 6038A.”.

12 (b) CONFORMING AMENDMENT.—The table of sec-
13 tions for part IX of subchapter B of chapter 1 is amended
14 by inserting after the item relating to section 267 the fol-
15 lowing new item:

 “Sec. 267A. Certain related party amounts paid or accrued in hybrid trans-
 actions or with hybrid entities.”.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years beginning after
18 December 31, 2017.

19 **SEC. 14224. TERMINATION OF SPECIAL RULES FOR DOMES-**
20 **TIC INTERNATIONAL SALES CORPORATIONS.**

21 (a) IN GENERAL.—Part IV of subchapter N of chap-
22 ter 1 (relating to domestic international sales corpora-
23 tions) is amended by adding at the end the following new
24 subpart:

1 **“Subpart C—Termination**

“Sec. 998. Termination of domestic international sales corporation provisions.

2 **“SEC. 998. TERMINATION OF DOMESTIC INTERNATIONAL**
3 **SALES CORPORATION PROVISIONS.**

4 “(a) TERMINATION OF ELECTION.—Any election
5 under section 992(b) in effect for a corporation’s last tax-
6 able year beginning in 2018 shall be terminated effective
7 for such corporation’s next succeeding taxable year.

8 “(b) NO NEW ELECTION.—No election may be made
9 under section 992(b) for any taxable year beginning after
10 December 31, 2018.

11 “(c) EFFECT OF TERMINATION.—A shareholder of a
12 corporation whose election is terminated by reason of sub-
13 section (a) shall be deemed to have received a distribution
14 to which section 995(b)(2) applies for the first taxable
15 year for which the termination is effective. Such distribu-
16 tion (or any actual distribution after termination to the
17 extent paid out of the corporation’s accumulated DISC in-
18 come) shall not be treated as qualified dividend income
19 (within the meaning of section 1(h)(11)(B)).”.

20 (b) CONFORMING AMENDMENT.—The table of con-
21 tents for part IV of subchapter N of chapter 1 is amended
22 by adding at the end the following new item:

“SUBPART C—TERMINATION”.

1 **SEC. 14225. SHAREHOLDERS OF SURROGATE FOREIGN COR-**
2 **PORATIONS NOT ELIGIBLE FOR REDUCED**
3 **RATE ON DIVIDENDS.**

4 (a) IN GENERAL.—Section 1(h)(11)(C)(iii) is amend-
5 ed—

6 (1) by striking “shall not include any foreign
7 corporation” and inserting “shall not include—

8 “(I) any foreign corporation”,

9 (2) by striking the period at the end and insert-
10 ing “, and”, and

11 (3) by adding at the end the following new sub-
12 clause:

13 “(II) any corporation which is a
14 surrogate foreign corporation (as de-
15 fined in section 7874(a)(2)(B)) other
16 than a foreign corporation which is
17 treated as a domestic corporation
18 under section 7874(b).”.

19 (b) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to dividends paid in taxable years
21 beginning after December 31, 2017.

1 **Subpart C—Modifications Related to Foreign Tax**
2 **Credit System**

3 **SEC. 14301. REPEAL OF SECTION 902 INDIRECT FOREIGN**
4 **TAX CREDITS; DETERMINATION OF SECTION**
5 **960 CREDIT ON CURRENT YEAR BASIS.**

6 (a) REPEAL OF SECTION 902 INDIRECT FOREIGN
7 TAX CREDITS.—Subpart A of part III of subchapter N
8 of chapter 1 is amended by striking section 902.

9 (b) DETERMINATION OF SECTION 960 CREDIT ON
10 CURRENT YEAR BASIS.—Section 960, as amended by sec-
11 tion 14201, is amended—

12 (1) by striking subsection (c), by redesignating
13 subsection (b) as subsection (c), by striking all that
14 precedes subsection (c) (as so redesignated) and in-
15 serting the following:

16 **“SEC. 960. DEEMED PAID CREDIT FOR SUBPART F INCLU-**
17 **SIONS.**

18 “(a) IN GENERAL.—For purposes of this subpart, if
19 there is included in the gross income of a domestic cor-
20 poration any item of income under section 951(a)(1) with
21 respect to any controlled foreign corporation with respect
22 to which such domestic corporation is a United States
23 shareholder, such domestic corporation shall be deemed to
24 have paid so much of such foreign corporation’s foreign
25 income taxes as are properly attributable to such item of
26 income.

1 “(b) SPECIAL RULES FOR DISTRIBUTIONS FROM
2 PREVIOUSLY TAXED EARNINGS AND PROFITS.—For pur-
3 poses of this subpart—

4 “(1) IN GENERAL.—If any portion of a dis-
5 tribution from a controlled foreign corporation to a
6 domestic corporation which is a United States share-
7 holder with respect to such controlled foreign cor-
8 poration is excluded from gross income under section
9 959(a), such domestic corporation shall be deemed
10 to have paid so much of such foreign corporation’s
11 foreign income taxes as—

12 “(A) are properly attributable to such por-
13 tion, and

14 “(B) have not been deemed to have to been
15 paid by such domestic corporation under this
16 section for the taxable year or any prior taxable
17 year.

18 “(2) TIERED CONTROLLED FOREIGN CORPORA-
19 TIONS.—If section 959(b) applies to any portion of
20 a distribution from a controlled foreign corporation
21 to another controlled foreign corporation, such con-
22 trolled foreign corporation shall be deemed to have
23 paid so much of such other controlled foreign cor-
24 poration’s foreign income taxes as—

1 “(A) are properly attributable to such por-
2 tion, and

3 “(B) have not been deemed to have been
4 paid by a domestic corporation under this sec-
5 tion for any prior taxable year.”,

6 (2) and by adding after subsection (d) (as
7 added by section 14201) the following new sub-
8 sections:

9 “(e) FOREIGN INCOME TAXES.—The term ‘foreign
10 income taxes’ means any income, war profits, or excess
11 profits taxes paid or accrued to any foreign country or
12 possession of the United States.

13 “(f) REGULATIONS.—The Secretary shall prescribe
14 such regulations or other guidance as may be necessary
15 or appropriate to carry out the provisions of this section.”.

16 (c) CONFORMING AMENDMENTS.—

17 (1) Section 78, as amended by section 14201,
18 is amended to read as follows:

19 **“SEC. 78. GROSS UP FOR DEEMED PAID FOREIGN TAX**
20 **CREDIT.**

21 “If a domestic corporation chooses to have the bene-
22 fits of subpart A of part III of subchapter N (relating
23 to foreign tax credit) for any taxable year—

24 “(1) an amount equal to the taxes deemed to
25 be paid by such corporation under subsections (a)

1 and (b) of section 960 for such taxable year shall be
2 treated for purposes of this title (other than section
3 960) as an item of income required to be included
4 in the gross income of such domestic corporation
5 under section 951(a), and

6 “(2) an amount equal to the aggregate tested
7 foreign income taxes deemed paid by such corpora-
8 tion under section 960(d) (determined without re-
9 gard to the phrase ‘80 percent of’ in paragraph (1)
10 thereof) shall be treated for purposes of this title
11 (other than section 960) as an addition to the global
12 intangible low-taxed income of such domestic cor-
13 poration under section 951A(a) for such taxable
14 year.”.

15 (2) Paragraph (4) of section 245(a) is amended
16 to read as follows:

17 “(4) POST-1986 UNDISTRIBUTED EARNINGS.—
18 The term ‘post-1986 undistributed earnings’ means
19 the amount of the earnings and profits of the for-
20 eign corporation (computed in accordance with sec-
21 tions 964(a) and 986) accumulated in taxable years
22 beginning after December 31, 1986—

23 “(A) as of the close of the taxable year of
24 the foreign corporation in which the dividend is
25 distributed, and

1 “(B) without diminution by reason of divi-
2 dends distributed during such taxable year.”.

3 (3) Section 245(a)(10)(C) is amended by strik-
4 ing “902, 907, and 960” and inserting “907 and
5 960”.

6 (4) Sections 535(b)(1) and 545(b)(1) are each
7 amended by striking “section 902(a) or 960(a)(1)”
8 and inserting “section 960”.

9 (5) Section 814(f)(1) is amended—

10 (A) by striking subparagraph (B), and

11 (B) by striking all that precedes “No in-
12 come” and inserting the following:

13 “(1) TREATMENT OF FOREIGN TAXES.—”.

14 (6) Section 865(h)(1)(B) is amended by strik-
15 ing “902, 907,” and inserting “907”.

16 (7) Section 901(a) is amended by striking “sec-
17 tions 902 and 960” and inserting “section 960”.

18 (8) Section 901(e)(2) is amended by striking
19 “but is not limited to—” and all that follows
20 through “that portion” and inserting “but is not
21 limited to that portion”.

22 (9) Section 901(f) is amended by striking “sec-
23 tions 902 and 960” and inserting “section 960”.

24 (10) Section 901(j)(1)(A) is amended by strik-
25 ing “902 or”.

1 (11) Section 901(j)(1)(B) is amended by strik-
2 ing “sections 902 and 960” and inserting “section
3 960”.

4 (12) Section 901(k)(2) is amended by striking
5 “, 902,”.

6 (13) Section 901(k)(6) is amended by striking
7 “902 or”.

8 (14) Section 901(m)(1) is amended by striking
9 “relevant foreign assets—” and all that follows and
10 inserting “relevant foreign assets shall not be taken
11 into account in determining the credit allowed under
12 subsection (a).”.

13 (15) Section 904(d)(6)(A) is amended by strik-
14 ing “902, 907,” and inserting “907”.

15 (16) Section 904(h)(10)(A) is amended by
16 striking “sections 902, 907, and 960” and inserting
17 “sections 907 and 960”.

18 (17) Section 904(k) is amended to read as fol-
19 lows:

20 “(k) CROSS REFERENCES.—For increase of limita-
21 tion under subsection (a) for taxes paid with respect to
22 amounts received which were included in the gross income
23 of the taxpayer for a prior taxable year as a United States
24 shareholder with respect to a controlled foreign corpora-
25 tion, see section 960(c).”.

1 (18) Section 905(c)(1) is amended by striking
2 the last sentence.

3 (19) Section 905(c)(2)(B)(i) is amended to read
4 as follows:

5 “(i) shall be taken into account for
6 the taxable year to which such taxes relate,
7 and”.

8 (20) Section 906(a) is amended by striking “(or
9 deemed, under section 902, paid or accrued during
10 the taxable year)”.

11 (21) Section 906(b) is amended by striking
12 paragraphs (4) and (5).

13 (22) Section 907(b)(2)(B) is amended by strik-
14 ing “902 or”.

15 (23) Section 907(c)(3) is amended—

16 (A) by striking subparagraph (A) and re-
17 designating subparagraphs (B) and (C) as sub-
18 paragraphs (A) and (B), respectively, and

19 (B) by striking “section 960(a)” in sub-
20 paragraph (A) (as so redesignated) and insert-
21 ing “section 960”.

22 (24) Section 907(c)(5) is amended by striking
23 “902 or”.

24 (25) Section 907(f)(2)(B)(i) is amended by
25 striking “902 or”.

1 (26) Section 908(a) is amended by striking
2 “902 or”.

3 (27) Section 909(b) is amended—

4 (A) by striking “section 902 corporation”
5 in the matter preceding paragraph (1) and in-
6 serting “specified 10-percent owned foreign cor-
7 poration (as defined in section 245A(b))”,

8 (B) by striking “902 or” in paragraph (1),

9 (C) by striking “by such section 902 cor-
10 poration” and all that follows in the matter fol-
11 lowing paragraph (2) and inserting “by such
12 specified 10-percent owned foreign corporation
13 or a domestic corporation which is a United
14 States shareholder with respect to such speci-
15 fied 10-percent owned foreign corporation.”,
16 and

17 (D) by striking “SECTION 902 CORPORA-
18 TIONS” in the heading thereof and inserting
19 “SPECIFIED 10-PERCENT OWNED FOREIGN
20 CORPORATIONS”.

21 (28) Section 909(d) is amended by striking
22 paragraph (5).

23 (29) Section 958(a)(1) is amended by striking
24 “960(a)(1)” and inserting “960”.

1 (30) Section 959(d) is amended by striking
2 “Except as provided in section 960(a)(3), any” and
3 inserting “Any”.

4 (31) Section 959(e) is amended by striking
5 “section 960(b)” and inserting “section 960(c)”.

6 (32) Section 1291(g)(2)(A) is amended by
7 striking “any distribution—” and all that follows
8 through “but only if” and inserting “any distribu-
9 tion, any withholding tax imposed with respect to
10 such distribution, but only if”.

11 (33) Section 6038(c)(1)(B) is amended by
12 striking “sections 902 (relating to foreign tax credit
13 for corporate stockholder in foreign corporation) and
14 960 (relating to special rules for foreign tax credit)”
15 and inserting “section 960”.

16 (34) Section 6038(c)(4) is amended by striking
17 subparagraph (C).

18 (35) The table of sections for subpart A of part
19 III of subchapter N of chapter 1 is amended by
20 striking the item relating to section 902.

21 (36) The table of sections for subpart F of part
22 III of subchapter N of chapter 1 is amended by
23 striking the item relating to section 960 and insert-
24 ing the following:

“Sec. 960. Deemed paid credit for subpart F inclusions.”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years of foreign corpora-
3 tions beginning after December 31, 2017, and to taxable
4 years of United States shareholders in which or with which
5 such taxable years of foreign corporations end.

6 **SEC. 14302. SEPARATE FOREIGN TAX CREDIT LIMITATION**
7 **BASKET FOR FOREIGN BRANCH INCOME.**

8 (a) IN GENERAL.—Section 904(d)(1), as amended by
9 section 14201, is amended by redesignating subpara-
10 graphs (B) and (C) as subparagraphs (C) and (D), respec-
11 tively, and by inserting after subparagraph (A) the fol-
12 lowing new subparagraph:

13 “(B) foreign branch income,”.

14 (b) FOREIGN BRANCH INCOME.—

15 (1) IN GENERAL.—Section 904(d)(2) is amend-
16 ed by inserting after subparagraph (I) the following
17 new subparagraph:

18 “(J) FOREIGN BRANCH INCOME.—

19 “(i) IN GENERAL.—The term ‘foreign
20 branch income’ means the business profits
21 of such United States person which are at-
22 tributable to 1 or more qualified business
23 units (as defined in section 989(a)) in 1 or
24 more foreign countries. For purposes of
25 the preceding sentence, the amount of

1 business profits attributable to a qualified
2 business unit shall be determined under
3 rules established by the Secretary.

4 “(ii) EXCEPTION.—Such term shall
5 not include any income which is passive
6 category income.”.

7 (2) CONFORMING AMENDMENT.—Section
8 904(d)(2)(A)(ii), as amended by section 14201, is
9 amended by striking “income described in paragraph
10 (1)(A) and” and inserting “income described in
11 paragraph (1)(A), foreign branch income, and”.

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 December 31, 2017.

15 **SEC. 14303. ACCELERATION OF ELECTION TO ALLOCATE IN-**
16 **TEREST, ETC., ON A WORLDWIDE BASIS.**

17 (a) IN GENERAL.—Section 864(f)(6) is amended by
18 striking “December 31, 2020” and inserting “December
19 31, 2017”.

20 (b) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years beginning after
22 December 31, 2017.

1 **SEC. 14304. SOURCE OF INCOME FROM SALES OF INVEN-**
2 **TORY DETERMINED SOLELY ON BASIS OF**
3 **PRODUCTION ACTIVITIES.**

4 (a) IN GENERAL.—Section 863(b) is amended by
5 adding at the end the following: “Gains, profits, and in-
6 come from the sale or exchange of inventory property de-
7 scribed in paragraph (2) shall be allocated and appor-
8 tioned between sources within and without the United
9 States solely on the basis of the production activities with
10 respect to the property.”.

11 (b) EFFECTIVE DATE.—The amendment made by
12 this section shall apply to taxable years beginning after
13 December 31, 2017.

14 **PART II—INBOUND TRANSACTIONS**

15 **SEC. 14401. BASE EROSION AND ANTI-ABUSE TAX.**

16 (a) IMPOSITION OF TAX.—Subchapter A of chapter
17 1 is amended by adding at the end the following new part:

18 **“PART VII—BASE EROSION AND ANTI-ABUSE TAX**

“Sec. 59A. Tax on base erosion payments of taxpayers with substantial gross receipts.

19 **“SEC. 59A. TAX ON BASE EROSION PAYMENTS OF TAX-**
20 **PAYERS WITH SUBSTANTIAL GROSS RE-**
21 **CEIPTS.**

22 “(a) IMPOSITION OF TAX.—There is hereby imposed
23 on each applicable taxpayer for any taxable year a tax
24 equal to the base erosion minimum tax amount for the

1 taxable year. Such tax shall be in addition to any other
2 tax imposed by this subtitle.

3 “(b) BASE EROSION MINIMUM TAX AMOUNT.—For
4 purposes of this section—

5 “(1) IN GENERAL.—Except as provided in para-
6 graph (2), the term ‘base erosion minimum tax
7 amount’ means, with respect to any applicable tax-
8 payer for any taxable year, the excess (if any) of—

9 “(A) an amount equal to 10 percent of the
10 modified taxable income of such taxpayer for
11 the taxable year, over

12 “(B) an amount equal to the regular tax li-
13 ability (as defined in section 26(b)) of the tax-
14 payer for the taxable year, reduced (but not
15 below zero) by the excess (if any) of—

16 “(i) the credits allowed under this
17 chapter against such regular tax liability,
18 over

19 “(ii) the credit allowed under section
20 38 for the taxable year which is properly
21 allocable to the research credit determined
22 under section 41(a).

23 “(2) MODIFICATIONS FOR TAXABLE YEARS BE-
24 GINNING AFTER 2025.—In the case of any taxable

1 year beginning after December 31, 2025, paragraph
2 (1) shall be applied—

3 “(A) by substituting ‘12.5 percent’ for ‘10
4 percent’ in subparagraph (A) thereof, and

5 “(B) by reducing (but not below zero) the
6 regular tax liability (as defined in section
7 26(b)) for purposes of subparagraph (B) there-
8 of by the aggregate amount of the credits al-
9 lowed under this chapter against such regular
10 tax liability rather than the excess described in
11 such subparagraph.

12 “(c) MODIFIED TAXABLE INCOME.—For purposes of
13 this section—

14 “(1) IN GENERAL.—The term ‘modified taxable
15 income’ means the taxable income of the taxpayer
16 computed under this chapter for the taxable year,
17 determined without regard to—

18 “(A) any base erosion tax benefit with re-
19 spect to any base erosion payment, or

20 “(B) the base erosion percentage of any
21 net operating loss deduction allowed under sec-
22 tion 172 for the taxable year.

23 “(2) BASE EROSION TAX BENEFIT.—

24 “(A) IN GENERAL.—The term ‘base ero-
25 sion tax benefit’ means—

1 “(i) any deduction described in sub-
2 section (d)(1) which is allowed under this
3 chapter for the taxable year with respect to
4 any base erosion payment,

5 “(ii) in the case of a base erosion pay-
6 ment described in subsection (d)(2), any
7 deduction allowed under this chapter for
8 the taxable year for depreciation (or amor-
9 tization in lieu of depreciation) with re-
10 spect to the property acquired with such
11 payment, and

12 “(iii) in the case of a base erosion
13 payment described in subsection (d)(3),
14 any reduction in gross receipts with re-
15 spect to such payment in computing gross
16 income of the taxpayer for the taxable year
17 for purposes of this chapter.

18 “(B) TAX BENEFITS DISREGARDED IF TAX
19 WITHHELD ON BASE EROSION PAYMENT.—

20 “(i) IN GENERAL.—Except as pro-
21 vided in clause (ii), any base erosion tax
22 benefit attributable to any base erosion
23 payment—

24 “(I) on which tax is imposed by
25 section 871 or 881, and

1 “(II) with respect to which tax
2 has been deducted and withheld under
3 section 1441 or 1442,
4 shall not be taken into account in com-
5 puting modified taxable income under
6 paragraph (1)(A) or the base erosion per-
7 centage under paragraph (4).

8 “(ii) EXCEPTION.—The amount not
9 taken into account in computing modified
10 taxable income by reason of clause (i) shall
11 be reduced under rules similar to the rules
12 under section 163(j)(5)(B) (as in effect be-
13 fore the date of the enactment of the Tax
14 Cuts and Jobs Act).

15 “(3) SPECIAL RULES FOR DETERMINING INTER-
16 EST FOR WHICH DEDUCTION ALLOWED.—For pur-
17 poses of applying paragraph (1), in the case of a
18 taxpayer to which subsection (j) or (n) of section
19 163 applies for the taxable year, the reduction in the
20 amount of interest for which a deduction is allowed
21 by reason of such subsection shall be treated as allo-
22 cable first to interest paid or accrued to persons who
23 are not related parties with respect to the taxpayer
24 and then to such related parties.

1 “(4) BASE EROSION PERCENTAGE.—For pur-
2 poses of paragraph (1)(B)—

3 “(A) IN GENERAL.—The term ‘base ero-
4 sion percentage’ means, for any taxable year,
5 the percentage determined by dividing—

6 “(i) the aggregate amount of base
7 erosion tax benefits of the taxpayer for the
8 taxable year, by

9 “(ii) the aggregate amount of the de-
10 ductions allowable to the taxpayer under
11 this chapter for the taxable year.

12 “(B) SPECIAL RULES.—The amount under
13 subparagraph (A)(ii) shall be determined—

14 “(i) by taking into account base ero-
15 sion tax benefits described in clauses (i)
16 and (ii) of paragraph (2)(A), and

17 “(ii) by not taking into account any
18 deduction allowed under section 172,
19 245A, or 250 for the taxable year.

20 “(d) BASE EROSION PAYMENT.—For purposes of
21 this section—

22 “(1) IN GENERAL.—The term ‘base erosion
23 payment’ means any amount paid or accrued by the
24 taxpayer to a foreign person which is a related party

1 of the taxpayer and with respect to which a deduc-
2 tion is allowable under this chapter.

3 “(2) PURCHASE OF DEPRECIABLE PROPERTY.—

4 Such term shall also include any amount paid or ac-
5 crued by the taxpayer to a foreign person which is
6 a related party of the taxpayer in connection with
7 the acquisition by the taxpayer from such person of
8 property of a character subject to the allowance of
9 depreciation (or amortization in lieu of depreciation).

10 “(3) CERTAIN PAYMENTS TO EXPATRIATED EN-
11 TITIES.—

12 “(A) IN GENERAL.—Such term shall also
13 include any amount paid or accrued by the tax-
14 payer with respect to a person described in sub-
15 paragraph (B) which results in a reduction of
16 the gross receipts of the taxpayer.

17 “(B) PERSON DESCRIBED.—A person is
18 described in this subparagraph if such person is
19 a—

20 “(i) surrogate foreign corporation
21 which is a related party of the taxpayer,
22 but only if such person first became a sur-
23rogate foreign corporation after November
24 9, 2017, or

1 “(ii) foreign person which is a mem-
2 ber of the same expanded affiliated group
3 as the surrogate foreign corporation.

4 “(C) DEFINITIONS.—For purposes of this
5 paragraph—

6 “(i) SURROGATE FOREIGN CORPORA-
7 TION.—The term ‘surrogate foreign cor-
8 poration’ has the meaning given such term
9 by section 7874(a)(2) but does not include
10 a foreign corporation treated as a domestic
11 corporation under section 7874(b).

12 “(ii) EXPANDED AFFILIATED
13 GROUP.—The term ‘expanded affiliated
14 group’ has the meaning given such term by
15 section 7874(c)(1).

16 “(4) EXCEPTION FOR CERTAIN AMOUNTS WITH
17 RESPECT TO SERVICES.—Paragraph (1) shall not
18 apply to any amount paid or accrued by a taxpayer
19 for services if—

20 “(A) such services are services which meet
21 the requirements for eligibility for use of the
22 services cost method under section 482 (deter-
23 mined without regard to the requirement that
24 the services not contribute significantly to fun-

1 damental risks of business success or failure),
2 and

3 “(B) such amount constitutes the total
4 services cost with no markup.

5 “(e) APPLICABLE TAXPAYER.—For purposes of this
6 section—

7 “(1) IN GENERAL.—The term ‘applicable tax-
8 payer’ means, with respect to any taxable year, a
9 taxpayer—

10 “(A) which is a corporation other than a
11 regulated investment company, a real estate in-
12 vestment trust, or an S corporation,

13 “(B) the average annual gross receipts of
14 which for the 3-taxable-year period ending with
15 the preceding taxable year are at least
16 \$500,000,000, and

17 “(C) the base erosion percentage (as deter-
18 mined under subsection (c)(4)) of which for the
19 taxable year is 4 percent or higher.

20 “(2) GROSS RECEIPTS.—

21 “(A) SPECIAL RULE FOR FOREIGN PER-
22 SONS.—In the case of a foreign person the
23 gross receipts of which are taken into account
24 for purposes of paragraph (1)(B), only gross re-
25 ceipts which are taken into account in deter-

1 mining income which is effectively connected
2 with the conduct of a trade or business within
3 the United States shall be taken into account.
4 In the case of a taxpayer which is a foreign per-
5 son, the preceding sentence shall not apply to
6 the gross receipts of any United States person
7 which are aggregated with the taxpayer's gross
8 receipts by reason of paragraph (3).

9 “(B) OTHER RULES MADE APPLICABLE.—
10 Rules similar to the rules of subparagraphs (B),
11 (C), and (D) of section 448(c)(3) shall apply in
12 determining gross receipts for purposes of this
13 section.

14 “(3) AGGREGATION RULES.—All persons treat-
15 ed as a single employer under subsection (a) of sec-
16 tion 52 shall be treated as 1 person for purposes of
17 this subsection and subsection (c)(4), except that in
18 applying section 1563 for purposes of section 52, the
19 exception for foreign corporations under section
20 1563(b)(2)(C) shall be disregarded.

21 “(f) FOREIGN PERSON.—For purposes of this sec-
22 tion, the term ‘foreign person’ has the meaning given such
23 term by section 6038A(c)(3).

24 “(g) RELATED PARTY.—For purposes of this sec-
25 tion—

1 “(1) IN GENERAL.—The term ‘related party’
2 means, with respect to any applicable taxpayer—

3 “(A) any 25-percent owner of the taxpayer,

4 “(B) any person who is related (within the
5 meaning of section 267(b) or 707(b)(1)) to the
6 taxpayer or any 25-percent owner of the tax-
7 payer, and

8 “(C) any other person who is related (with-
9 in the meaning of section 482) to the taxpayer.

10 “(2) 25-PERCENT OWNER.—The term ‘25-per-
11 cent owner’ means, with respect to any corporation,
12 any person who owns at least 25 percent of—

13 “(A) the total voting power of all classes of
14 stock of a corporation entitled to vote, or

15 “(B) the total value of all classes of stock
16 of such corporation.

17 “(3) SECTION 318 TO APPLY.—Section 318
18 shall apply for purposes of paragraphs (1) and (2),
19 except that—

20 “(A) ‘10 percent’ shall be substituted for
21 ‘50 percent’ in section 318(a)(2)(C), and

22 “(B) subparagraphs (A), (B), and (C) of
23 section 318(a)(3) shall not be applied so as to
24 consider a United States person as owning

1 stock which is owned by a person who is not a
2 United States person.

3 “(h) REGULATIONS.—The Secretary shall prescribe
4 such regulations or other guidance as may be necessary
5 or appropriate to carry out the provisions of this section,
6 including regulations providing for such adjustments to
7 the application of this section as are necessary to prevent
8 the avoidance of the purposes of this section, including
9 through—

10 “(1) the use of unrelated persons, conduit
11 transactions, or other intermediaries, or

12 “(2) transactions or arrangements designed, in
13 whole or in part—

14 “(A) to characterize payments otherwise
15 subject to this section as payments not subject
16 to this section, or

17 “(B) to substitute payments not subject to
18 this section for payments otherwise subject to
19 this section.”.

20 (b) REPORTING REQUIREMENTS AND PENALTIES.—

21 (1) IN GENERAL.—Subsection (b) of section
22 6038A is amended to read as follows:

23 “(b) REQUIRED INFORMATION.—

24 “(1) IN GENERAL.—For purposes of subsection
25 (a), the information described in this subsection is

1 such information as the Secretary prescribes by reg-
2 ulations relating to—

3 “(A) the name, principal place of business,
4 nature of business, and country or countries in
5 which organized or resident, of each person
6 which—

7 “(i) is a related party to the reporting
8 corporation, and

9 “(ii) had any transaction with the re-
10 porting corporation during its taxable year,

11 “(B) the manner in which the reporting
12 corporation is related to each person referred to
13 in subparagraph (A), and

14 “(C) transactions between the reporting
15 corporation and each foreign person which is a
16 related party to the reporting corporation.

17 “(2) ADDITIONAL INFORMATION REGARDING
18 BASE EROSION PAYMENTS.—For purposes of sub-
19 section (a) and section 6038C, if the reporting cor-
20 poration or the foreign corporation to whom section
21 6038C applies is an applicable taxpayer, the infor-
22 mation described in this subsection shall include—

23 “(A) such information as the Secretary de-
24 termines necessary to determine the base ero-
25 sion minimum tax amount, base erosion pay-

1 ments, and base erosion tax benefits of the tax-
2 payer for purposes of section 59A for the tax-
3 able year, and

4 “(B) such other information as the Sec-
5 retary determines necessary to carry out such
6 section.

7 For purposes of this paragraph, any term used in
8 this paragraph which is also used in section 59A
9 shall have the same meaning as when used in such
10 section.”.

11 (2) INCREASE IN PENALTY.—Paragraphs (1)
12 and (2) of section 6038A(d) are each amended by
13 striking “\$10,000” and inserting “\$25,000”.

14 (c) DISALLOWANCE OF CREDITS AGAINST BASE
15 EROSION TAX.—Paragraph (2) of section 26(b) is amend-
16 ed by inserting after subparagraph (A) the following new
17 subparagraph:

18 “(B) section 59A (relating to base erosion
19 and anti-abuse tax),”.

20 (d) CONFORMING AMENDMENTS.—

21 (1) The table of parts for subchapter A of chap-
22 ter 1 is amended by adding after the item relating
23 to part VI the following new item:

 “Part VII. Base erosion and anti-abuse tax”.

1 (2) Paragraph (1) of section 882(a), as amend-
2 ed by this Act, is amended by inserting “ or 59A,”
3 after “section 11,”.

4 (3) Subparagraph (A) of section 6425(c)(1), as
5 amended by sections 12001 and 13001, is amended
6 to read as follows:

7 “(A) the sum of—

8 “(i) the tax imposed by section 11, or
9 subchapter L of chapter 1, whichever is
10 applicable, plus

11 “(ii) the tax imposed by section 59A,
12 over”.

13 (4)(A) Subparagraph (A) of section 6655(g)(1),
14 as amended by sections 12001 and 13001, is amend-
15 ed by striking “plus” at the end of clause (i), by re-
16 designating clause (ii) as clause (iii), and by insert-
17 ing after clause (i) the following new clause:

18 “(ii) the tax imposed by section 59A,
19 plus”.

20 (B) Subparagraphs (A)(i) and (B)(i) of section
21 6655(e)(2), as amended by section 13001, are each
22 amended by inserting “and modified taxable income”
23 after “taxable income”.

1 (C) Subparagraph (B) of section 6655(e)(2) is
2 amended by adding at the end the following new
3 clause:

4 “(iii) MODIFIED TAXABLE INCOME.—
5 The term ‘modified taxable income’ has the
6 meaning given such term by section
7 59A(c)(1).”.

8 (e) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to base erosion payments (as de-
10 fined in section 59A(d) of the Internal Revenue Code of
11 1986, as added by this section) paid or accrued in taxable
12 years beginning after December 31, 2017.

13 **PART III—OTHER PROVISIONS**

14 **SEC. 14501. TAXATION OF PASSENGER CRUISE GROSS IN-**
15 **COME OF FOREIGN CORPORATIONS AND**
16 **NONRESIDENT ALIEN INDIVIDUALS.**

17 (a) IN GENERAL.—Section 882 is amended by redes-
18 ignating subsection (f) as subsection (g) and by inserting
19 after subsection (e) the following new subsection:

20 “(f) TREATMENT OF PASSENGER CRUISE GROSS IN-
21 COME.—

22 “(1) IN GENERAL.—For purposes of this title,
23 the effectively connected passenger cruise gross in-
24 come of a foreign corporation shall be treated as

1 gross income which is effectively connected with the
2 conduct of a trade or business in the United States.

3 “(2) EFFECTIVELY CONNECTED PASSENGER
4 CRUISE GROSS INCOME.—For purposes of this sub-
5 section, the term ‘effectively connected passenger
6 cruise gross income’ means, with respect to the oper-
7 ation of any ship in a covered voyage, the United
8 States territorial waters percentage of the gross in-
9 come (determined without regard to section
10 883(a)(1)) derived from such operation, including
11 any amount received with respect to the provision of
12 any on- or off-board activities, services, or sales,
13 with respect to passengers incidental to such oper-
14 ation (or with respect to any agreement with any
15 person with respect to the provision of any such ac-
16 tivities, services, or sales).

17 “(3) UNITED STATES TERRITORIAL WATERS
18 PERCENTAGE.—For purposes of this subsection—

19 “(A) IN GENERAL.—The term ‘United
20 States territorial waters percentage’ means,
21 with respect to the operation of any ship in any
22 covered voyage, the ratio (expressed as a per-
23 centage) of—

24 “(i) the number of days during such
25 voyage such ship was operated in the terri-

1 torial waters of the United States, divided
2 by

3 “(ii) the total number of days of such
4 voyage.

5 “(B) CALENDAR DAY RULE.—If a ship—

6 “(i) is operated in a covered voyage,
7 or

8 “(ii) is operated in the territorial
9 waters of the United States during a cov-
10 ered voyage,

11 for any portion of a calendar day, such ship
12 shall be treated as having operated in a covered
13 voyage, or as having operated in such territorial
14 waters, respectively, for the entirety of such
15 day.

16 “(C) TERRITORIAL WATERS.—The terri-
17 torial waters of the United States shall be
18 treated as consisting of those waters which
19 are—

20 “(i) within the international boundary
21 line between the United States and any
22 contiguous foreign country, or

23 “(ii) within 12 nautical miles from low
24 tide on the coastline of the United States.

1 “(4) COVERED VOYAGE.—For purposes of this
2 subsection—

3 “(A) IN GENERAL.—The term ‘covered
4 voyage’ has the meaning given such term by
5 section 4472(1).

6 “(B) ANTI-ABUSE RULE.—Except as oth-
7 erwise provided by the Secretary, if passengers
8 embark a ship in the United States and more
9 than 10 percent of such passengers disembark
10 in the United States, the operation of such ship
11 at all times between such events shall be treat-
12 ed as a covered voyage. Nothing in the pre-
13 ceding sentence shall preclude any operation of
14 a ship (including any operation of a ship before
15 or after such events) which would otherwise be
16 treated as part of a covered voyage from being
17 so treated.

18 “(5) TREATMENT OF OTHERWISE EFFECTIVELY
19 CONNECTED INCOME.—Gross income which would,
20 without regard to this subsection, be gross income
21 which is effectively connected with the conduct of a
22 trade or business in the United States—

23 “(A) shall be so treated, and

24 “(B) shall not be taken into account as
25 gross income under paragraph (2).”.

1 (b) APPLICATION TO NONRESIDENT ALIEN INDIVID-
2 UALS.—Section 871 is amended by redesignating sub-
3 section (n) as subsection (o) and by inserting after sub-
4 section (m) the following new subsection:

5 “(n) TREATMENT OF PASSENGER CRUISE GROSS IN-
6 COME.—

7 “(1) IN GENERAL.—For purposes of this title,
8 the effectively connected passenger cruise gross in-
9 come of a nonresident alien individual shall be treat-
10 ed as gross income which is effectively connected
11 with the conduct of a trade or business in the
12 United States.

13 “(2) DEFINITIONS AND SPECIAL RULES.—For
14 purposes of this subsection—

15 “(A) DEFINITIONS.—Terms used in this
16 subsection which are also used in section 882(f)
17 shall have the same meaning as when used in
18 such section, except that section 882(f)(2) shall
19 be applied by substituting ‘section 872(b)(1)’
20 for ‘section 883(a)(1)’.

21 “(B) TREATMENT OF OTHERWISE EFFEC-
22 TIVELY CONNECTED INCOME.—Rules similar to
23 the rules of section 882(f)(5) shall apply for
24 purposes of this subsection.”.

1 (c) COORDINATION WITH RECIPROCAL EXEMPTIONS
2 FOR SHIPPING INCOME.—

3 (1) IN GENERAL.—Section 883(a)(1) is amend-
4 ed by striking “Gross income” and inserting “Ex-
5 cept as provided in section 882(f), gross income”.

6 (2) NONRESIDENT ALIEN INDIVIDUALS.—Sec-
7 tion 872(b)(1) is amended by striking “Gross in-
8 come” and inserting “Except as provided in section
9 871(n), gross income”.

10 (d) COORDINATION WITH TAX ON GROSS TRANSPOR-
11 TATION INCOME.—Section 887(b)(4) is amended by add-
12 ing at the end the following new flush text:

13 “The preceding sentence shall not apply to any
14 United States source gross transportation income
15 which is effectively connected passenger cruise gross
16 income (within the meaning of section 871(n) or
17 882(f)).”.

18 (e) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to taxable years beginning after
20 December 31, 2017.

21 **SEC. 14502. RESTRICTION ON INSURANCE BUSINESS EXCEP-**
22 **TION TO PASSIVE FOREIGN INVESTMENT**
23 **COMPANY RULES.**

24 (a) IN GENERAL.—Section 1297(b)(2)(B) is amend-
25 ed to read as follows:

1 “(B) derived in the active conduct of an in-
2 surance business by a qualifying insurance cor-
3 poration (as defined in subsection (f)),”.

4 (b) QUALIFYING INSURANCE CORPORATION DE-
5 FINED.—Section 1297 is amended by adding at the end
6 the following new subsection:

7 “(f) QUALIFYING INSURANCE CORPORATION.—For
8 purposes of subsection (b)(2)(B)—

9 “(1) IN GENERAL.—The term ‘qualifying insur-
10 ance corporation’ means, with respect to any taxable
11 year, a foreign corporation—

12 “(A) which would be subject to tax under
13 subchapter L if such corporation were a domes-
14 tic corporation, and

15 “(B) the applicable insurance liabilities of
16 which constitute more than 25 percent of its
17 total assets, determined on the basis of such li-
18 abilities and assets as reported on the corpora-
19 tion’s applicable financial statement for the last
20 year ending with or within the taxable year.

21 “(2) ALTERNATIVE FACTS AND CIR-
22 CUMSTANCES TEST FOR CERTAIN CORPORATIONS.—
23 If a corporation fails to qualify as a qualified insur-
24 ance corporation under paragraph (1) solely because
25 the percentage determined under paragraph (1)(B)

1 is 25 percent or less, a United States person that
2 owns stock in such corporation may elect to treat
3 such stock as stock of a qualifying insurance cor-
4 poration if—

5 “(A) the percentage so determined for the
6 corporation is at least 10 percent, and

7 “(B) under regulations provided by the
8 Secretary, based on the applicable facts and cir-
9 cumstances—

10 “(i) the corporation is predominantly
11 engaged in an insurance business, and

12 “(ii) such failure is due solely to run-
13 off-related or rating-related circumstances
14 involving such insurance business.

15 “(3) APPLICABLE INSURANCE LIABILITIES.—
16 For purposes of this subsection—

17 “(A) IN GENERAL.—The term ‘applicable
18 insurance liabilities’ means, with respect to any
19 life or property and casualty insurance busi-
20 ness—

21 “(i) loss and loss adjustment ex-
22 penses, and

23 “(ii) reserves (other than deficiency,
24 contingency, or unearned premium re-
25 serves) for life and health insurance risks

1 and life and health insurance claims with
2 respect to contracts providing coverage for
3 mortality or morbidity risks.

4 “(B) LIMITATIONS ON AMOUNT OF LIABIL-
5 ITIES.—Any amount determined under clause
6 (i) or (ii) of subparagraph (A) shall not exceed
7 the lesser of such amount—

8 “(i) as reported to the applicable in-
9 surance regulatory body in the applicable
10 financial statement described in paragraph
11 (4)(A) (or, if less, the amount required by
12 applicable law or regulation), or

13 “(ii) as determined under regulations
14 prescribed by the Secretary.

15 “(4) OTHER DEFINITIONS AND RULES.—For
16 purposes of this subsection—

17 “(A) APPLICABLE FINANCIAL STATE-
18 MENT.—The term ‘applicable financial state-
19 ment’ means a statement for financial reporting
20 purposes which—

21 “(i) is made on the basis of generally
22 accepted accounting principles,

23 “(ii) is made on the basis of inter-
24 national financial reporting standards, but

1 only if there is no statement that meets
2 the requirement of clause (i), or
3 “(iii) except as otherwise provided by
4 the Secretary in regulations, is the annual
5 statement which is required to be filed
6 with the applicable insurance regulatory
7 body, but only if there is no statement
8 which meets the requirements of clause (i)
9 or (ii).

10 “(B) APPLICABLE INSURANCE REGU-
11 LATORY BODY.—The term ‘applicable insurance
12 regulatory body’ means, with respect to any in-
13 surance business, the entity established by law
14 to license, authorize, or regulate such business
15 and to which the statement described in sub-
16 paragraph (A) is provided.”.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 2017.

20 **SEC. 14503. REPEAL OF FAIR MARKET VALUE METHOD OF**
21 **INTEREST EXPENSE APPORTIONMENT.**

22 (a) IN GENERAL.—Paragraph (2) of section 864(e)
23 is amended to read as follows:

24 “(2) GROSS INCOME AND FAIR MARKET VALUE
25 METHODS MAY NOT BE USED FOR INTEREST.—All

1 allocations and apportionments of interest expense
2 shall be determined using the adjusted bases of as-
3 sets rather than on the basis of the fair market
4 value of the assets or gross income.”.

5 (b) EFFECTIVE DATE.—The amendment made by
6 this section shall apply to taxable years beginning after
7 December 31, 2017.

8 **SEC. 14504. MODIFICATION TO SOURCE RULES INVOLVING**
9 **POSSESSIONS.**

10 (a) IN GENERAL.—Subsection (b)(2) of Section 937
11 of the Internal Revenue Code of 1986 is amended by in-
12 serting “, but only to the extent such income is attrib-
13 utable to an office or fixed place of business within the
14 United States (determined under the rules of Section
15 864(c)(5))” before the period at the end.

16 (b) SOURCE RULES FOR PERSONAL PROPERTY
17 SALES.—Subsection (j)(3) of section 865 of the Internal
18 Revenue Code of 1986 is amended by inserting “932,”
19 after “931,”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years beginning after
22 December 31, 2018.

1 **SEC. 14505. REPEAL OF EXCLUSION APPLICABLE TO CER-**
2 **TAIN PASSENGER AIRCRAFT OPERATED BY A**
3 **FOREIGN CORPORATION.**

4 (a) IN GENERAL.—Section 883 is amended—

5 (1) by striking “Gross income” in subsection
6 (a)(2) and inserting “Except as provided in sub-
7 section (d), gross income”, and

8 (2) by adding at the end the following new sub-
9 section:

10 “(d) EXCEPTION FOR AIRCRAFT OPERATED BY FOR-
11 EIGN CORPORATIONS.—

12 “(1) IN GENERAL.—Subsection (a)(2) shall not
13 apply to any corporation operating a passenger air-
14 line if—

15 “(A) the corporation is organized in a for-
16 eign country the residents of which are not eli-
17 gible for a reduced rate of tax or an exemption
18 from tax under section 881 or 882, and

19 “(B) such foreign country has fewer than
20 2 arrivals and departures, per week, from pas-
21 senger airline carriers which—

22 “(i) are organized under the laws of
23 the United States or any State, and

24 “(ii) have annual gross operational
25 revenues of more than \$1,000,000,000.

1 For purposes of subparagraph (B), an aircraft that
2 lands in one country and subsequently departs from
3 that country shall be treated as having engaged in
4 1 arrival and departure.

5 “(2) INFLATION ADJUSTMENT.—In the case of
6 any calendar year beginning after 2018, the dollar
7 amount in subparagraph (A)(ii) shall be increased
8 by an amount equal to—

9 “(A) such dollar amount, multiplied by

10 “(B) the cost-of-living adjustment deter-
11 mined under section 1(f)(3) for the calendar
12 year, determined by substituting ‘calendar year
13 2017’ for ‘calendar year 2016’ in subparagraph
14 (A)(ii) thereof.

15 Any increase determined under the preceding sen-
16 tence shall be rounded to the nearest multiple of
17 \$1,000,000.”.

18 (b) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to taxable years beginning after
20 December 31, 2017.

1 **Subtitle E—Revenue Dependent**
2 **Proposals**

3 **SEC. 15001. REPEAL OF INCREASED LIMITATION ON NET**
4 **OPERATING LOSSES.**

5 Section 172(a)(2), as amended by section 13302, is
6 amended by striking “(80 percent, in the case of taxable
7 years beginning after December 31, 2022)”.

8 **SEC. 15002. REPEAL OF LIMITATION ON DEDUCTION FOR**
9 **MEALS PROVIDED AT THE CONVENIENCE OF**
10 **THE EMPLOYER.**

11 Section 274, as amended by section 13304, is amend-
12 ed by striking subsection (o) and redesignating subsection
13 (p) as subsection (o).

14 **SEC. 15003. REPEAL OF REDUCED DEDUCTION FOR GLOBAL**
15 **INTANGIBLE LOW-TAXED INCOME AND FOR-**
16 **EIGN-DERIVED INTANGIBLE INCOME.**

17 Section 250(a), as added by section 14202, is amend-
18 ed by striking paragraph (3).

19 **SEC. 15004. REPEAL OF MODIFICATIONS TO THE BASE ERO-**
20 **SION AND ANTI-ABUSE TAX.**

21 Section 59A(b), as added by section 14401, is amend-
22 ed to read as follows:

23 “(b) **BASE EROSION MINIMUM TAX AMOUNT.**—For
24 purposes of this section, the term ‘base erosion minimum

1 tax amount’ means, with respect to any applicable tax-
2 payer for any taxable year, the excess (if any) of—

3 “(1) an amount equal to 10 percent of the
4 modified taxable income of such taxpayer for the
5 taxable year, over

6 “(2) an amount equal to the regular tax liabil-
7 ity (as defined in section 26(b)) of the taxpayer for
8 the taxable year, reduced (but not below zero) by the
9 excess (if any) of—

10 “(A) the credits allowed under this chapter
11 against such regular tax liability, over

12 “(B) the credit allowed under section 38
13 for the taxable year which is properly allocable
14 to the research credit determined under section
15 41(a).”.

16 **SEC. 15005. REPEAL OF AMORTIZATION OF RESEARCH AND**
17 **EXPERIMENTAL EXPENDITURES.**

18 (a) IN GENERAL.—Section 174, as amended by sec-
19 tion 13206, is amended to read as follows:

20 **“SEC. 174. RESEARCH AND EXPERIMENTAL EXPENDITURES.**

21 **“(a) TREATMENT AS EXPENSES.—**

22 **“(1) IN GENERAL.—**A taxpayer may treat re-
23 search or experimental expenditures which are paid
24 or incurred by him during the taxable year in con-
25 nection with his trade or business as expenses which

1 are not chargeable to capital account. The expendi-
2 tures so treated shall be allowed as a deduction.

3 “(2) WHEN METHOD MAY BE ADOPTED.—

4 “(A) WITHOUT CONSENT.—A taxpayer
5 may, without the consent of the Secretary,
6 adopt the method provided in this subsection
7 for his first taxable year for which expenditures
8 described in paragraph (1) are paid or incurred.

9 “(B) WITH CONSENT.—A taxpayer may,
10 with the consent of the Secretary, adopt at any
11 time the method provided in this subsection.

12 “(3) SCOPE.—The method adopted under this
13 subsection shall apply to all expenditures described
14 in paragraph (1). The method adopted shall be ad-
15 hered to in computing taxable income for the taxable
16 year and for all subsequent taxable years unless,
17 with the approval of the Secretary, a change to a
18 different method is authorized with respect to part
19 or all of such expenditures.

20 “(b) AMORTIZATION OF CERTAIN RESEARCH AND
21 EXPERIMENTAL EXPENDITURES.—

22 “(1) IN GENERAL.—At the election of the tax-
23 payer, made in accordance with regulations pre-
24 scribed by the Secretary, research or experimental
25 expenditures which are—

1 “(A) paid or incurred by the taxpayer in
2 connection with his trade or business,

3 “(B) not treated as expenses under sub-
4 section (a), and

5 “(C) chargeable to capital account but not
6 chargeable to property of a character which is
7 subject to the allowance under section 167 (re-
8 lating to allowance for depreciation, etc.) or sec-
9 tion 611 (relating to allowance for depletion),
10 may be treated as deferred expenses. In computing
11 taxable income, such deferred expenses shall be al-
12 lowed as a deduction ratably over such period of not
13 less than 60 months as may be selected by the tax-
14 payer (beginning with the month in which the tax-
15 payer first realizes benefits from such expenditures).
16 Such deferred expenses are expenditures properly
17 chargeable to capital account for purposes of section
18 1016(a)(1) (relating to adjustments to basis of prop-
19 erty).

20 “(2) TIME FOR AND SCOPE OF ELECTION.—The
21 election provided by paragraph (1) may be made for
22 any taxable year, but only if made not later than the
23 time prescribed by law for filing the return for such
24 taxable year (including extensions thereof). The
25 method so elected, and the period selected by the

1 taxpayer, shall be adhered to in computing taxable
2 income for the taxable year for which the election is
3 made and for all subsequent taxable years unless,
4 with the approval of the Secretary, a change to a
5 different method (or to a different period) is author-
6 ized with respect to part or all of such expenditures.

7 The election shall not apply to any expenditure paid
8 or incurred during any taxable year before the tax-
9 able year for which the taxpayer makes the election.

10 “(c) LAND AND OTHER PROPERTY.—This section
11 shall not apply to any expenditure for the acquisition or
12 improvement of land, or for the acquisition or improve-
13 ment of property to be used in connection with the re-
14 search or experimentation and of a character which is sub-
15 ject to the allowance under section 167 (relating to allow-
16 ance for depreciation, etc.) or section 611 (relating to al-
17 lowance for depletion); but for purposes of this section al-
18 lowances under section 167, and allowances under section
19 611, shall be considered as expenditures.

20 “(d) EXPLORATION EXPENDITURES.—This section
21 shall not apply to any expenditure paid or incurred for
22 the purpose of ascertaining the existence, location, extent,
23 or quality of any deposit of ore or other mineral (including
24 oil and gas).

1 “(e) ONLY REASONABLE RESEARCH EXPENDITURES
2 ELIGIBLE.—This section shall apply to a research or ex-
3 perimental expenditure only to the extent that the amount
4 thereof is reasonable under the circumstances.

5 “(f) CROSS REFERENCES.—

6 “(1) For adjustments to basis of property for
7 amounts allowed as deductions as deferred expenses
8 under subsection (b), see section 1016(a)(14).

9 “(2) For election of 10-year amortization of ex-
10 penditures allowable as a deduction under subsection
11 (a), see section 59(e).”.

12 (b) CHANGE IN METHOD OF ACCOUNTING.—The
13 amendments made by subsection (a) shall be treated as
14 a change in method of accounting for purposes of section
15 481 of the Internal Revenue Code of 1986 and—

16 (1) such change shall be treated as initiated by
17 the taxpayer,

18 (2) such change shall be treated as made with
19 the consent of the Secretary, and

20 (3) such change shall be applied only on a cut-
21 off basis for any research or experimental expendi-
22 tures paid or incurred in taxable years beginning
23 after December 31, 2025, and no adjustments under
24 section 481(a) shall be made.

25 (c) CONFORMING AMENDMENTS.—

1 (1) Section 41(d)(1)(A), as amended by section
2 13206, is amended by striking “specified research or
3 experimental expenditures under section 174” and
4 inserting “expenses under section 174”.

5 (2) Subsection (c) of section 280C, as amended
6 by section 13206, is amended—

7 (A) by redesignating paragraphs (2) and
8 (3) as paragraphs (3) and (4), respectively, and

9 (B) by striking paragraph (1) and insert-
10 ing the following:

11 “(1) IN GENERAL.—No deduction shall be al-
12 lowed for that portion of the qualified research ex-
13 penses (as defined in section 41(b)) or basic re-
14 search expenses (as defined in section 41(e)(2)) oth-
15 erwise allowable as a deduction for the taxable year
16 which is equal to the amount of the credit deter-
17 mined for such taxable year under section 41(a).

18 “(2) SIMILAR RULE WHERE TAXPAYER CAP-
19 ITALIZES RATHER THAN DEDUCTS EXPENSES.—If—

20 “(A) the amount of the credit determined
21 for the taxable year under section 41(a)(1), ex-
22 ceeds

23 “(B) the amount allowable as a deduction
24 for such taxable year for qualified research ex-

1 penses or basic research expenses (determined
2 without regard to paragraph (1)),
3 the amount chargeable to capital account for the
4 taxable year for such expenses shall be reduced by
5 the amount of such excess.”, and

6 (C) in paragraph (3)(A)(i), as redesignated
7 by subparagraph (A), by striking “paragraph
8 (1)” and inserting “paragraphs (1) and (2)”.

9 (3) The table of sections for part VI of sub-
10 chapter B of chapter 1, as amended by section
11 13206, is amended by striking the item related to
12 section 174 and inserting the following:

“Sec. 174. Research and experimental expenditures.”.

13 **SEC. 15006. REPORTING.**

14 (a) IN GENERAL.—Subpart B of part III of sub-
15 chapter A of chapter 61, as amended by this Act, is
16 amended by adding at the end the following new section:

17 **“SEC. 6050Z. TRANSACTION AFFECTING REVENUE DEPEND-**
18 **ENT PROPOSALS.**

19 “(a) RESEARCH AND EXPERIMENTAL EXPENDI-
20 TURES.—Any taxpayer who makes research and experi-
21 mental expenditures (within the meaning of section 174)
22 during a taxable year shall make a return according to
23 the forms and regulations prescribed by the Secretary, set-
24 ting forth the aggregate amount of such expenditures.

1 “(b) FOREIGN RELATED PARTY PAYMENTS.—Any
2 taxpayer who makes a payment to a foreign person which
3 is a related party (as such terms are defined in section
4 59A) of the taxpayer during the taxable year shall make
5 a return according to the forms and regulations prescribed
6 by the Secretary, setting forth—

7 “(1) the amount of such payments by type and
8 separately stated, and

9 “(2) any amount paid which results in a reduc-
10 tion of gross receipts to the taxpayer.

11 “(c) FOREIGN-DERIVED INTANGIBLE INCOME.—Any
12 taxpayer who has foreign-derived intangible income (as de-
13 fined in section 250(b)) for a taxable year shall make a
14 return according to the forms and regulations prescribed
15 by the Secretary, setting forth—

16 “(1) the aggregate amount of such income,

17 “(2) the amount of foreign-derived deduction el-
18 igible income (as defined in section 250(b)(4)), and

19 “(3) a certification that any income described
20 in paragraph (2) does not relate to the sale of prod-
21 ucts for any use, consumption, or disposition within
22 the United States.”.

23 (b) PENALTY.—Section 6652, as amended by section
24 13603, is amended by adding at the end the following new
25 subsection:

1 “(q) FAILURE TO FILE WITH RESPECT TO TRANS-
2 ACTIONS AFFECTING REVENUE DEPENDENT PRO-
3 POSALS.—In the case of any failure to make a return re-
4 quired under section 6050Z containing the information re-
5 quired by such section on the date prescribed therefor (de-
6 termined with regard to any extension of time for filing),
7 unless it is shown that such failure is due to reasonable
8 cause, there shall be paid (on notice and demand by the
9 Secretary and in the same manner as tax) by the person
10 failing to file such return, an amount equal to \$1,000 for
11 each day during which such failure continues, but the total
12 amount imposed under this subsection with respect to any
13 return shall not exceed \$250,000.”.

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years beginning after
16 December 31, 2024.

17 **SEC. 15007. EFFECTIVE DATE.**

18 (a) IN GENERAL.—The amendments made by this
19 subtitle shall apply to taxable years beginning after De-
20 cember 31, 2025.

21 (b) REVENUE REQUIREMENT.—Notwithstanding
22 subsection (a), the amendments made by this subtitle shall
23 not take effect unless—

24 (1) the excess of—

1 (A) the cumulative aggregate on-budget
2 Federal revenue from all sources for the period
3 beginning on October 1, 2017, and ending on
4 September 30, 2026, (as determined by the
5 Secretary of the Treasury based on amounts re-
6 ported in the Financial Report of the United
7 States), over
8 (B) \$27,487,000,000,000, is greater than
9 or equal to
10 (2) \$900,000,000,000.