

TAX CUTS AND JOBS ACT

_____, 2017.—Ordered to be printed

Mr. Brady of Texas, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany H.R. 1]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 1), to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment, insert the following:

And the Senate agree to the same.

1 **TITLE I**

2 **SEC. 11000. SHORT TITLE, ETC.**

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

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

11 **Subtitle A—Individual Tax Reform**

12 **PART I—TAX RATE REFORM**

13 **SEC. 11001. MODIFICATION OF RATES.**

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

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

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

21 “(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 (6).

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 \$165,000	\$8,907, plus 22% of the excess over \$77,400.
Over \$165,000 but not over \$315,000	\$28,179, plus 24% of the excess over \$165,000.
Over \$315,000 but not over \$400,000	\$64,179, plus 32% of the excess over \$315,000.
Over \$400,000 but not over \$600,000	\$91,379, plus 35% of the excess over \$400,000.
Over \$600,000	\$161,379, plus 37% of the excess over \$600,000.

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 \$82,500	\$5,944, plus 22% of the excess over \$51,800.
Over \$82,500 but not over \$157,500	\$12,698, plus 24% of the excess over \$82,500.
Over \$157,500 but not over \$200,000	\$30,698, plus 32% of the excess over \$157,500.
Over \$200,000 but not over \$500,000	\$44,298, plus 35% of the excess over \$200,000.

“If taxable income is:	The tax is:
Over \$500,000	\$149,298, plus 37% 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 \$82,500	\$4,453.50, plus 22% of the excess over \$38,700.
Over \$82,500 but not over \$157,500	\$14,089.50, plus 24% of the excess over \$82,500.
Over \$157,500 but not over \$200,000	\$32,089.50, plus 32% of the excess over \$157,500.
Over \$200,000 but not over \$500,000	\$45,689.50, plus 35% of the excess over \$200,000.
Over \$500,000	\$150,689.50, plus 37% 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 \$82,500	\$4,453.50, plus 22% of the excess over \$38,700.
Over \$82,500 but not over \$157,500	\$14,089.50, plus 24% of the excess over \$82,500.
Over \$157,500 but not over \$200,000	\$32,089.50, plus 32% of the excess over \$157,500.

“If taxable income is:**The tax is:**

Over \$200,000 but not over \$300,000	\$45,689.50, plus 35% of the excess over \$200,000.
Over \$300,000	\$80,689.50, plus 37% of the excess over \$300,000.

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

“If taxable income is:**The tax 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 37% of the excess over \$12,500.

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

13 “(3) ADJUSTMENTS.—

14 “(A) NO ADJUSTMENT IN 2018.—The ta-
15 bles contained in paragraph (2) shall apply
16 without adjustment for taxable years beginning

1 after December 31, 2017, and before January
2 1, 2019.

3 “(B) SUBSEQUENT YEARS.—For taxable
4 years beginning after December 31, 2018, the
5 Secretary shall prescribe tables which shall
6 apply in lieu of the tables contained in para-
7 graph (2) in the same manner as under para-
8 graphs (1) and (2) of subsection (f) (applied
9 without regard to clauses (i) and (ii) of sub-
10 section (f)(2)(A)), except that in prescribing
11 such tables—

12 “(i) subsection (f)(3) shall be applied
13 by substituting ‘calendar year 2017’ for
14 ‘calendar year 2016’ in subparagraph
15 (A)(ii) thereof,

16 “(ii) subsection (f)(7)(B) shall apply
17 to any unmarried individual other than a
18 surviving spouse or head of household, and

19 “(iii) subsection (f)(8) shall not apply.

20 “(4) SPECIAL RULES FOR CERTAIN CHILDREN
21 WITH UNEARNED INCOME.—

22 “(A) IN GENERAL.—In the case of a child
23 to whom subsection (g) applies for the taxable
24 year, the rules of subparagraphs (B) and (C)

1 shall apply in lieu of the rule under subsection
2 (g)(1).

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

10 “(i) 24-PERCENT BRACKET.—The
11 maximum taxable income which is taxed at
12 a rate below 24 percent shall not be more
13 than the sum of—

14 “(I) the earned taxable income of
15 such child, plus

16 “(II) the minimum taxable in-
17 come for the 24-percent bracket in the
18 table under paragraph (2)(E) (as ad-
19 justed under paragraph (3)) for the
20 taxable year.

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

1 “(I) the earned taxable income of
2 such child, plus

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

8 “(iii) 37-PERCENT BRACKET.—The
9 maximum taxable income which is taxed at
10 a rate below 37 percent shall not be more
11 than the sum of—

12 “(I) the earned taxable income of
13 such child, plus

14 “(II) the minimum taxable in-
15 come for the 37-percent bracket in the
16 table under paragraph (2)(E) (as ad-
17 justed under paragraph (3)) for the
18 taxable year.

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

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

1 “(I) the earned taxable income of
2 such child, plus

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

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

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

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

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

21 “(5) APPLICATION OF CURRENT INCOME TAX
22 BRACKETS TO CAPITAL GAINS BRACKETS.—

23 “(A) IN GENERAL.—Section 1(h)(1) shall
24 be applied—

1 “(i) by substituting ‘below the max-
2 imum zero rate amount’ for ‘which would
3 (without regard to this paragraph) be
4 taxed at a rate below 25 percent’ in sub-
5 paragraph (B)(i), and

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

11 “(B) MAXIMUM AMOUNTS DEFINED.—For
12 purposes of applying section 1(h) with the
13 modifications described in subparagraph (A)—

14 “(i) MAXIMUM ZERO RATE
15 AMOUNT.—The maximum zero rate
16 amount shall be—

17 “(I) in the case of a joint return
18 or surviving spouse, \$77,200,

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

22 “(III) in the case of any other in-
23 dividual (other than an estate or
24 trust), an amount equal to $\frac{1}{2}$ of the

1 amount in effect for the taxable year
2 under subclause (I), and

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

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

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

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

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

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

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

25 “(i) such dollar amount, multiplied by

1 “(ii) the cost-of-living adjustment de-
2 termined under subsection (f)(3) for the
3 calendar year in which the taxable year be-
4 gins, determined by substituting ‘calendar
5 year 2017’ for ‘calendar year 2016’ in sub-
6 paragraph (A)(ii) thereof.

7 If any increase under this subparagraph is not
8 a multiple of \$50, such increase shall be round-
9 ed to the next lowest multiple of \$50.

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

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

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

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

1 “(2) eligibility for, or the amount of, the credit
2 allowable by section 24, 25A(a)(1), or 32,
3 shall pay a penalty of \$500 for each such failure.”.

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

7 **SEC. 11002. INFLATION ADJUSTMENTS BASED ON CHAINED**
8 **CPI.**

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

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

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

17 “(i) the C-CPI-U for the preceding
18 calendar year, exceeds

19 “(ii) the CPI for calendar year 2016,
20 multiplied by the amount determined
21 under subparagraph (B).

22 “(B) AMOUNT DETERMINED.—The
23 amount determined under this clause is the
24 amount obtained by dividing—

1 “(i) the C-CPI-U for calendar year
2 2016, by

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

4 “(C) SPECIAL RULE FOR ADJUSTMENTS
5 WITH A BASE YEAR AFTER 2016.—For purposes
6 of any provision of this title which provides for
7 the substitution of a year after 2016 for ‘2016’
8 in subparagraph (A)(ii), subparagraph (A) shall
9 be applied by substituting ‘the C-CPI-U for cal-
10 endar year 2016’ for ‘the CPI for calendar year
11 2016’ and all that follows in clause (ii) there-
12 of.”.

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

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

19 “(A) IN GENERAL.—The term ‘C-CPI-U’
20 means the Chained Consumer Price Index for
21 All Urban Consumers (as published by the Bu-
22 reau of Labor Statistics of the Department of
23 Labor). The values of the Chained Consumer
24 Price Index for All Urban Consumers taken
25 into account for purposes of determining the

1 cost-of-living adjustment for any calendar year
2 under this subsection shall be the latest values
3 so published as of the date on which such Bu-
4 reau publishes the initial value of the Chained
5 Consumer Price Index for All Urban Con-
6 sumers for the month of August for the pre-
7 ceding calendar year.

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

13 (c) APPLICATION TO PERMANENT TAX TABLES.—

14 (1) IN GENERAL.—Section 1(f)(2)(A) is amend-
15 ed to read as follows:

16 “(A) except as provided in paragraph (8),
17 by increasing the minimum and maximum dol-
18 lar amounts for each bracket for which a tax is
19 imposed under such table by the cost-of-living
20 adjustment for such calendar year, deter-
21 mined—

22 “(i) except as provided in clause (ii),
23 by substituting ‘1992’ for ‘2016’ in para-
24 graph (3)(A)(ii), and

1 “(ii) in the case of adjustments to the
2 dollar amounts at which the 36 percent
3 rate bracket begins or at which the 39.6
4 percent rate bracket begins, by sub-
5 stituting ‘1993’ for ‘2016’ in paragraph
6 (3)(A)(ii),”.

7 (2) CONFORMING AMENDMENTS.—Section 1(i)
8 is amended—

9 (A) by striking “for ‘1992’ in subpara-
10 graph (B)” in paragraph (1)(C) and inserting
11 “for ‘2016’ in subparagraph (A)(ii)”, and

12 (B) by striking “subsection (f)(3)(B) shall
13 be applied by substituting ‘2012’ for ‘1992’” in
14 paragraph (3)(C) and inserting “subsection
15 (f)(3)(A)(ii) shall be applied by substituting
16 ‘2012’ for ‘2016’”.

17 (d) APPLICATION TO OTHER INTERNAL REVENUE
18 CODE OF 1986 PROVISIONS.—

19 (1) The following sections are each amended by
20 striking “for ‘calendar year 1992’ in subparagraph
21 (B)” and inserting “for ‘calendar year 2016’ in sub-
22 paragraph (A)(ii)”:

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

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

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

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

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

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

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

9 (H) Section 45R(d)(3)(B)(ii).

10 (I) Section 55(d)(4)(A)(ii).

11 (J) Section 62(d)(3)(B).

12 (K) Section 63(c)(4)(B).

13 (L) Section 125(i)(2)(B).

14 (M) Section 135(b)(2)(B)(ii).

15 (N) Section 137(f)(2).

16 (O) Section 146(d)(2)(B).

17 (P) Section 147(c)(2)(H)(ii).

18 (Q) Section 151(d)(4)(B).

19 (R) Section 179(b)(6)(A)(ii).

20 (S) Subsections (b)(5)(C)(i)(II) and
21 (g)(8)(B) of section 219.

22 (T) Section 220(g)(2).

23 (U) Section 221(f)(1)(B).

24 (V) Section 223(g)(1)(B).

25 (W) Section 408A(c)(3)(D)(ii).

- 1 (X) Section 430(e)(7)(D)(vii)(II).
- 2 (Y) Section 512(d)(2)(B).
- 3 (Z) Section 513(h)(2)(C)(ii).
- 4 (AA) Section 831(b)(2)(D)(ii).
- 5 (BB) Section 877A(a)(3)(B)(i)(II).
- 6 (CC) Section 2010(c)(3)(B)(ii).
- 7 (DD) Section 2032A(a)(3)(B).
- 8 (EE) Section 2503(b)(2)(B).
- 9 (FF) Section 4261(e)(4)(A)(ii).
- 10 (GG) Section 5000A(c)(3)(D)(ii).
- 11 (HH) Section 6323(i)(4)(B).
- 12 (II) Section 6334(g)(1)(B).
- 13 (JJ) Section 6601(j)(3)(B).
- 14 (KK) Section 6651(i)(1).
- 15 (LL) Section 6652(c)(7)(A).
- 16 (MM) Section 6695(h)(1).
- 17 (NN) Section 6698(e)(1).
- 18 (OO) Section 6699(e)(1).
- 19 (PP) Section 6721(f)(1).
- 20 (QQ) Section 6722(f)(1).
- 21 (RR) Section 7345(f)(2).
- 22 (SS) Section 7430(c)(1).
- 23 (TT) Section 9831(d)(2)(D)(ii)(II).
- 24 (2) Sections 41(e)(5)(C)(ii) and 68(b)(2)(B) are
- 25 each amended—

1 (A) by striking “1(f)(3)(B)” and inserting
2 “1(f)(3)(A)(ii)”, and

3 (B) by striking “1992” and inserting
4 “2016”.

5 (3) Section 42(h)(6)(G) is amended—

6 (A) by striking “for ‘calendar year 1987’ ”
7 in clause (i)(II) and inserting “for ‘calendar
8 year 2016’ in subparagraph (A)(ii) thereof”,
9 and

10 (B) by striking “if the CPI for any cal-
11 endar year” and all that follows in clause (ii)
12 and inserting “if the C-CPI-U for any calendar
13 year (as defined in section 1(f)(6)) exceeds the
14 C-CPI-U for the preceding calendar year by
15 more than 5 percent, the C-CPI-U for the base
16 calendar year shall be increased such that such
17 excess shall never be taken into account under
18 clause (i). In the case of a base calendar year
19 before 2017, the C-CPI-U for such year shall
20 be determined by multiplying the CPI for such
21 year by the amount determined under section
22 1(f)(3)(B).”.

23 (4) Section 59(j)(2)(B) is amended by striking
24 “for ‘1992’ in subparagraph (B)” and inserting “for
25 ‘2016’ in subparagraph (A)(ii)”.

1 (5) Section 132(f)(6)(A)(ii) is amended by
2 striking “for ‘calendar year 1992’” and inserting
3 “for ‘calendar year 2016’ in subparagraph (A)(ii)
4 thereof”.

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

10 “(A) such amount, multiplied by

11 “(B) the cost-of-living adjustment deter-
12 mined under section 1(f)(3) for the calendar
13 year in which the taxable year begins, by sub-
14 stituting ‘calendar year 1990’ for ‘calendar year
15 2016’ in subparagraph (A)(ii) thereof”.

16 (7) So much of clause (ii) of section
17 213(d)(10)(B) as precedes the last sentence is
18 amended to read as follows:

19 “(ii) MEDICAL CARE COST ADJUST-
20 MENT.—For purposes of clause (i), the
21 medical care cost adjustment for any cal-
22 endar year is the percentage (if any) by
23 which—

24 “(I) the medical care component
25 of the C-CPI-U (as defined in section

1 1(f)(6)) for August of the preceding
2 calendar year, exceeds

3 “(II) such component of the CPI
4 (as defined in section 1(f)(4)) for Au-
5 gust of 1996, multiplied by the
6 amount determined under section
7 1(f)(3)(B).”.

8 (8) Subparagraph (B) of section 280F(d)(7) is
9 amended to read as follows:

10 “(B) AUTOMOBILE PRICE INFLATION AD-
11 JUSTMENT.—For purposes of this paragraph—

12 “(i) IN GENERAL.—The automobile
13 price inflation adjustment for any calendar
14 year is the percentage (if any) by which—

15 “(I) the C-CPI-U automobile
16 component for October of the pre-
17 ceding calendar year, exceeds

18 “(II) the automobile component
19 of the CPI (as defined in section
20 1(f)(4)) for October of 1987, multi-
21 plied by the amount determined under
22 1(f)(3)(B).

23 “(ii) C-CPI-U AUTOMOBILE COMPO-
24 NENT.—The term ‘C-CPI-U automobile
25 component’ means the automobile compo-

1 ment of the Chained Consumer Price Index
2 for All Urban Consumers (as described in
3 section 1(f)(6)).”.

4 (9) Section 911(b)(2)(D)(ii)(II) is amended by
5 striking “for ‘1992’ in subparagraph (B)” and in-
6 serting “for ‘2016’ in subparagraph (A)(ii)”.

7 (10) Paragraph (2) of section 1274A(d) is
8 amended to read as follows:

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

15 “(A) such amount, multiplied by

16 “(B) the cost-of-living adjustment deter-
17 mined under section 1(f)(3) for the calendar
18 year in which the taxable year begins, by sub-
19 stituting ‘calendar year 1988’ for ‘calendar year
20 2016’ in subparagraph (A)(ii) thereof.

21 Any increase under the preceding sentence shall be
22 rounded to the nearest multiple of \$100 (or, if such
23 increase is a multiple of \$50, such increase shall be
24 increased to the nearest multiple of \$100).”.

1 (11) Section 4161(b)(2)(C)(i)(II) is amended by
2 striking “for ‘1992’ in subparagraph (B)” and in-
3 sserting “for ‘2016’ in subparagraph (A)(ii)”.

4 (12) Section 4980I(b)(3)(C)(v)(II) is amended
5 by striking “for ‘1992’ in subparagraph (B)” and
6 inserting “for ‘2016’ in subparagraph (A)(ii)”.

7 (13) Section 6039F(d) is amended by striking
8 “subparagraph (B) thereof shall be applied by sub-
9 stituting ‘1995’ for ‘1992’” and inserting “subpara-
10 graph (A)(ii) thereof shall be applied by substituting
11 ‘1995’ for ‘2016’”.

12 (14) Section 7872(g)(5) is amended to read as
13 follows:

14 “(5) ADJUSTMENT OF LIMIT FOR INFLATION.—
15 In the case of any loan made during any calendar
16 year after 1986, the dollar amount in paragraph (2)
17 shall be increased by an amount equal to—

18 “(A) such amount, multiplied by

19 “(B) the cost-of-living adjustment deter-
20 mined under section 1(f)(3) for the calendar
21 year in which the taxable year begins, by sub-
22 stituting ‘calendar year 1985’ for ‘calendar year
23 2016’ in subparagraph (A)(ii) thereof.

24 Any increase under the preceding sentence shall be
25 rounded to the nearest multiple of \$100 (or, if such

1 increase is a multiple of \$50, such increase shall be
2 increased to the nearest multiple of \$100).”.

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

6 **PART II—DEDUCTION FOR QUALIFIED BUSINESS**
7 **INCOME OF PASS-THRU ENTITIES**

8 **SEC. 11011. DEDUCTION FOR QUALIFIED BUSINESS IN-**
9 **COME.**

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

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

14 “(a) IN GENERAL.—In the case of a taxpayer other
15 than a corporation, there shall be allowed as a deduction
16 for any taxable year an amount equal to the sum of—

17 “(1) the lesser of—

18 “(A) the combined qualified business in-
19 come amount of the taxpayer, or

20 “(B) an amount equal to 20 percent of the
21 excess (if any) of—

22 “(i) the taxable income of the tax-
23 payer for the taxable year, over

24 “(ii) the sum of any net capital gain
25 (as defined in section 1(h)), plus the ag-

1 aggregate amount of the qualified cooperative
2 dividends, of the taxpayer for the taxable
3 year, plus

4 “(2) the lesser of—

5 “(A) 20 percent of the aggregate amount
6 of the qualified cooperative dividends of the tax-
7 payer for the taxable year, or

8 “(B) taxable income (reduced by the net
9 capital gain (as so defined)) of the taxpayer for
10 the taxable year.

11 The amount determined under the preceding sentence
12 shall not exceed the taxable income (reduced by the net
13 capital gain (as so defined)) of the taxpayer for the taxable
14 year.

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

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

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

23 “(B) 20 percent of the aggregate amount
24 of the qualified REIT dividends and qualified

1 publicly traded partnership income of the tax-
2 payer for the taxable year.

3 “(2) DETERMINATION OF DEDUCTIBLE
4 AMOUNT FOR EACH TRADE OR BUSINESS.—The
5 amount determined under this paragraph with re-
6 spect to any qualified trade or business is the lesser
7 of—

8 “(A) 20 percent of the taxpayer’s qualified
9 business income with respect to the qualified
10 trade or business, or

11 “(B) the greater of—

12 “(i) 50 percent of the W–2 wages
13 with respect to the qualified trade or busi-
14 ness, or

15 “(ii) the sum of 25 percent of the W–
16 2 wages with respect to the qualified trade
17 or business, plus 2.5 percent of the
18 unadjusted basis immediately after acquisi-
19 tion of all qualified property.

20 “(3) MODIFICATIONS TO LIMIT BASED ON TAX-
21 ABLE INCOME.—

22 “(A) EXCEPTION FROM LIMIT.—In the
23 case of any taxpayer whose taxable income for
24 the taxable year does not exceed the threshold

1 amount, paragraph (2) shall be applied without
2 regard to subparagraph (B).

3 “(B) PHASE-IN OF LIMIT FOR CERTAIN
4 TAXPAYERS.—

5 “(i) IN GENERAL.—If—

6 “(I) the taxable income of a tax-
7 payer for any taxable year exceeds the
8 threshold amount, but does not exceed
9 the sum of the threshold amount plus
10 \$50,000 (\$100,000 in the case of a
11 joint return), and

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

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

1 “(ii) AMOUNT OF REDUCTION.—The
2 amount determined under this subpara-
3 graph is the amount which bears the same
4 ratio to the excess amount as—

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

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

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

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

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

21 “(4) WAGES, ETC.—

22 “(A) IN GENERAL.—The term ‘W-2
23 wages’ means, with respect to any person for
24 any taxable year of such person, the amounts
25 described in paragraphs (3) and (8) of section

1 6051(a) paid by such person with respect to
2 employment of employees by such person during
3 the calendar year ending during such taxable
4 year.

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

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

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

23 “(6) QUALIFIED PROPERTY.—For purposes of
24 this section:

1 “(A) IN GENERAL.—The term ‘qualified
2 property’ means, with respect to any qualified
3 trade or business for a taxable year, tangible
4 property of a character subject to the allowance
5 for depreciation under section 167—

6 “(i) which is held by, and available for
7 use in, the qualified trade or business at
8 the close of the taxable year,

9 “(ii) which is used at any point during
10 the taxable year in the production of quali-
11 fied business income, and

12 “(iii) the depreciable period for which
13 has not ended before the close of the tax-
14 able year.

15 “(B) DEPRECIABLE PERIOD.—The term
16 ‘depreciable period’ means, with respect to
17 qualified property of a taxpayer, the period be-
18 ginning on the date the property was first
19 placed in service by the taxpayer and ending on
20 the later of—

21 “(i) the date that is 10 years after
22 such date, or

23 “(ii) the last day of the last full year
24 in the applicable recovery period that
25 would apply to the property under section

1 168 (determined without regard to sub-
2 section (g) thereof).

3 “(c) QUALIFIED BUSINESS INCOME.—For purposes
4 of this section—

5 “(1) IN GENERAL.—The term ‘qualified busi-
6 ness income’ means, for any taxable year, the net
7 amount of qualified items of income, gain, deduc-
8 tion, and loss with respect to any qualified trade or
9 business of the taxpayer. Such term shall not include
10 any qualified REIT dividends, qualified cooperative
11 dividends, or qualified publicly traded partnership
12 income.

13 “(2) CARRYOVER OF LOSSES.—If the net
14 amount of qualified income, gain, deduction, and
15 loss with respect to qualified trades or businesses of
16 the taxpayer for any taxable year is less than zero,
17 such amount shall be treated as a loss from a quali-
18 fied trade or business in the succeeding taxable year.

19 “(3) QUALIFIED ITEMS OF INCOME, GAIN, DE-
20 DUCTION, AND LOSS.—For purposes of this sub-
21 section—

22 “(A) IN GENERAL.—The term ‘qualified
23 items of income, gain, deduction, and loss’
24 means items of income, gain, deduction, and
25 loss to the extent such items are—

1 “(i) effectively connected with the con-
2 duct of a trade or business within the
3 United States (within the meaning of sec-
4 tion 864(c), determined by substituting
5 ‘qualified trade or business (within the
6 meaning of section 199A)’ for ‘nonresident
7 alien individual or a foreign corporation’ or
8 for ‘a foreign corporation’ each place it ap-
9 pears), and

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

12 “(B) EXCEPTIONS.—The following invest-
13 ment items shall not be taken into account as
14 a qualified item of income, gain, deduction, or
15 loss:

16 “(i) Any item of short-term capital
17 gain, short-term capital loss, long-term
18 capital gain, or long-term capital loss.

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

22 “(iii) Any interest income other than
23 interest income which is properly allocable
24 to a trade or business.

1 “(iv) Any item of gain or loss de-
2 scribed in subparagraph (C) or (D) of sec-
3 tion 954(c)(1) (applied by substituting
4 ‘qualified trade or business’ for ‘controlled
5 foreign corporation’).

6 “(v) Any item of income, gain, deduc-
7 tion, or loss taken into account under sec-
8 tion 954(c)(1)(F) (determined without re-
9 gard to clause (ii) thereof and other than
10 items attributable to notional principal
11 contracts entered into in transactions
12 qualifying under section 1221(a)(7)).

13 “(vi) Any amount received from an
14 annuity which is not received in connection
15 with the trade or business.

16 “(vii) Any item of deduction or loss
17 properly allocable to an amount described
18 in any of the preceding clauses.

19 “(4) TREATMENT OF REASONABLE COMPENSA-
20 TION AND GUARANTEED PAYMENTS.—Qualified busi-
21 ness income shall not include—

22 “(A) reasonable compensation paid to the
23 taxpayer by any qualified trade or business of
24 the taxpayer for services rendered with respect
25 to the trade or business,

1 “(B) any guaranteed payment described in
2 section 707(c) paid to a partner for services
3 rendered with respect to the trade or business,
4 and

5 “(C) to the extent provided in regulations,
6 any payment described in section 707(a) to a
7 partner for services rendered with respect to the
8 trade or business.

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

11 “(1) IN GENERAL.—The term ‘qualified trade
12 or business’ means any trade or business other
13 than—

14 “(A) a specified service trade or business,
15 or

16 “(B) the trade or business of performing
17 services as an employee.

18 “(2) SPECIFIED SERVICE TRADE OR BUSI-
19 NESS.—The term ‘specified service trade or busi-
20 ness’ means any trade or business—

21 “(A) which is described in section
22 1202(e)(3)(A) (applied without regard to the
23 words ‘engineering, architecture,’) or which
24 would be so described if the term ‘employees or

1 owners' were substituted for 'employees' there-
2 in, or

3 "(B) which involves the performance of
4 services that consist of investing and investment
5 management, trading, or dealing in securities
6 (as defined in section 475(e)(2)), partnership
7 interests, or commodities (as defined in section
8 475(e)(2)).

9 "(3) EXCEPTION FOR SPECIFIED SERVICE BUSI-
10 NESSES BASED ON TAXPAYER'S INCOME.—

11 "(A) IN GENERAL.—If, for any taxable
12 year, the taxable income of any taxpayer is less
13 than the sum of the threshold amount plus
14 \$50,000 (\$100,000 in the case of a joint re-
15 turn), then—

16 "(i) any specified service trade or
17 business of the taxpayer shall not fail to be
18 treated as a qualified trade or business due
19 to paragraph (1)(A), but

20 "(ii) only the applicable percentage of
21 qualified items of income, gain, deduction,
22 or loss, and the W-2 wages and the
23 unadjusted basis immediately after acquisi-
24 tion of qualified property, of the taxpayer
25 allocable to such specified service trade or

1 business shall be taken into account in
2 computing the qualified business income,
3 W-2 wages, and the unadjusted basis im-
4 mediately after acquisition of qualified
5 property of the taxpayer for the taxable
6 year for purposes of applying this section.

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

12 “(i) the taxable income of the tax-
13 payer for the taxable year in excess of the
14 threshold amount, bears to

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

17 “(e) OTHER DEFINITIONS.—For purposes of this
18 section—

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

22 “(2) THRESHOLD AMOUNT.—

23 “(A) IN GENERAL.—The term ‘threshold
24 amount’ means \$157,500 (200 percent of such
25 amount in the case of a joint return).

1 “(B) INFLATION ADJUSTMENT.—In the
2 case of any taxable year beginning after 2018,
3 the dollar amount in subparagraph (A) shall be
4 increased by an amount equal to—

5 “(i) such dollar amount, multiplied by

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

12 The amount of any increase under the pre-
13 ceding sentence shall be rounded as provided in
14 section 1(f)(7).

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

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

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

23 “(4) QUALIFIED COOPERATIVE DIVIDEND.—
24 The term ‘qualified cooperative dividend’ means any
25 patronage dividend (as defined in section 1388(a)),

1 any per-unit retain allocation (as defined in section
2 1388(f)), and any qualified written notice of alloca-
3 tion (as defined in section 1388(c)), or any similar
4 amount received from an organization described in
5 subparagraph (B)(ii), which—

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

7 “(B) is received from—

8 “(i) an organization or corporation de-
9 scribed in section 501(c)(12) or 1381(a),
10 or

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

15 “(5) QUALIFIED PUBLICLY TRADED PARTNER-
16 SHIP INCOME.—The term ‘qualified publicly traded
17 partnership income’ means, with respect to any
18 qualified trade or business of a taxpayer, the sum
19 of—

20 “(A) the net amount of such taxpayer’s al-
21 locable share of each qualified item of income,
22 gain, deduction, and loss (as defined in sub-
23 section (c)(3) and determined after the applica-
24 tion of subsection (c)(4)) from a publicly traded
25 partnership (as defined in section 7704(a))

1 which is not treated as a corporation under sec-
2 tion 7704(c), plus

3 “(B) any gain recognized by such taxpayer
4 upon disposition of its interest in such partner-
5 ship to the extent such gain is treated as an
6 amount realized from the sale or exchange of
7 property other than a capital asset under sec-
8 tion 751(a).

9 “(f) SPECIAL RULES.—

10 “(1) APPLICATION TO PARTNERSHIPS AND S
11 CORPORATIONS.—

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

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

16 “(ii) each partner or shareholder shall
17 take into account such person’s allocable
18 share of each qualified item of income,
19 gain, deduction, and loss, and

20 “(iii) each partner or shareholder
21 shall be treated for purposes of subsection
22 (b) as having W-2 wages and unadjusted
23 basis immediately after acquisition of
24 qualified property for the taxable year in
25 an amount equal to such person’s allocable

1 share of the W-2 wages and the
2 unadjusted basis immediately after acquisi-
3 tion of qualified property of the partner-
4 ship or S corporation for the taxable year
5 (as determined under regulations pre-
6 scribed by the Secretary).

7 For purposes of clause (iii), a partner's or
8 shareholder's allocable share of W-2 wages
9 shall be determined in the same manner as the
10 partner's or shareholder's allocable share of
11 wage expenses. For purposes of such clause,
12 partner's or shareholder's allocable share of the
13 unadjusted basis immediately after acquisition
14 of qualified property shall be determined in the
15 same manner as the partner's or shareholder's
16 allocable share of depreciation. For purposes of
17 this subparagraph, in the case of an S corpora-
18 tion, an allocable share shall be the share-
19 holder's pro rata share of an item.

20 “(B) APPLICATION TO TRUSTS AND ES-
21 TATES.—Rules similar to the rules under sec-
22 tion 199(d)(1)(B)(i) (as in effect on December
23 1, 2017) for the apportionment of W-2 wages
24 shall apply to the apportionment of W-2 wages
25 and the apportionment of unadjusted basis im-

1 mediately after acquisition of qualified property
2 under this section.

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

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

14 “(ii) SPECIAL RULE FOR APPLYING
15 LIMIT.—In the case of any taxpayer de-
16 scribed in clause (i), the determination of
17 W-2 wages of such taxpayer with respect
18 to any qualified trade or business con-
19 ducted in Puerto Rico shall be made with-
20 out regard to any exclusion under section
21 3401(a)(8) for remuneration paid for serv-
22 ices in Puerto Rico.

23 “(2) COORDINATION WITH MINIMUM TAX.—For
24 purposes of determining alternative minimum tax-
25 able income under section 55, qualified business in-

1 come shall be determined without regard to any ad-
2 justments under sections 56 through 59.

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

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

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

13 “(B) for the application of this section in
14 the case of tiered entities.

15 “(g) DEDUCTION ALLOWED TO SPECIFIED AGRICUL-
16 TURAL OR HORTICULTURAL COOPERATIVES.—

17 “(1) IN GENERAL.—In the case of any taxable
18 year of a specified agricultural or horticultural coop-
19 erative beginning after December 31, 2017, there
20 shall be allowed a deduction in an amount equal to
21 the lesser of—

22 “(A) 20 percent of the excess (if any) of—

23 “(i) the gross income of a specified
24 agricultural or horticultural cooperative,
25 over

1 “(ii) the qualified cooperative divi-
2 dends (as defined in subsection (e)(4))
3 paid during the taxable year for the tax-
4 able year, or

5 “(B) the greater of—

6 “(i) 50 percent of the W-2 wages of
7 the cooperative with respect to its trade or
8 business, or

9 “(ii) the sum of 25 percent of the W-
10 2 wages of the cooperative with respect to
11 its trade or business, plus 2.5 percent of
12 the unadjusted basis immediately after ac-
13 quisition of all qualified property of the co-
14 operative.

15 “(2) LIMITATION.—The amount determined
16 under paragraph (1) shall not exceed the taxable in-
17 come of the specified agricultural or horticultural for
18 the taxable year.

19 “(3) SPECIFIED AGRICULTURAL OR HORTI-
20 CULTURAL COOPERATIVE.—For purposes of this
21 subsection, the term ‘specified agricultural or horti-
22 cultural cooperative’ means an organization to which
23 part I of subchapter T applies which is engaged in—

24 “(A) the manufacturing, production,
25 growth, or extraction in whole or significant

1 part of any agricultural or horticultural prod-
2 uct,

3 “(B) the marketing of agricultural or hor-
4 ticultural products which its patrons have so
5 manufactured, produced, grown, or extracted,
6 or

7 “(C) the provision of supplies, equipment,
8 or services to farmers or to organizations de-
9 scribed in subparagraph (A) or (B).

10 “(h) ANTI-ABUSE RULES.—The Secretary shall—

11 “(1) apply rules similar to the rules under sec-
12 tion 179(d)(2) in order to prevent the manipulation
13 of the depreciable period of qualified property using
14 transactions between related parties, and

15 “(2) prescribe rules for determining the
16 unadjusted basis immediately after acquisition of
17 qualified property acquired in like-kind exchanges or
18 involuntary conversions.

19 “(i) TERMINATION.—This section shall not apply to
20 taxable years beginning after December 31, 2025.”.

21 (b) TREATMENT OF DEDUCTION IN COMPUTING AD-
22 JUSTED GROSS AND TAXABLE INCOME.—

23 (1) DEDUCTION NOT ALLOWED IN COMPUTING
24 ADJUSTED GROSS INCOME.—Section 62(a) is amend-
25 ed by adding at the end the following new sentence:

1 “The deduction allowed by section 199A shall not be
2 treated as a deduction described in any of the pre-
3 ceding paragraphs of this subsection.”.

4 (2) DEDUCTION ALLOWED TO NON-
5 ITEMIZERS.—Section 63(b) is amended by striking
6 “and” at the end of paragraph (1), by striking the
7 period at the end of paragraph (2) and inserting “,
8 and”, and by adding at the end the following new
9 paragraph:

10 “(3) the deduction provided in section 199A.”.

11 (3) DEDUCTION ALLOWED TO ITEMIZERS WITH-
12 OUT LIMITS ON ITEMIZED DEDUCTIONS.—Section
13 63(d) is amended by striking “and” at the end of
14 paragraph (1), by striking the period at the end of
15 paragraph (2) and inserting “, and”, and by adding
16 at the end the following new paragraph:

17 “(3) the deduction provided in section 199A.”.

18 (4) CONFORMING AMENDMENT.—Section
19 3402(m)(1) is amended by inserting “and the esti-
20 mated deduction allowed under section 199A” after
21 “chapter 1”.

22 (c) ACCURACY-RELATED PENALTY ON DETERMINA-
23 TION OF APPLICABLE PERCENTAGE.—Section 6662(d)(1)
24 is amended by inserting at the end the following new sub-
25 paragraph:

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

7 (d) CONFORMING AMENDMENTS.—

8 (1) Section 172(d) is amended by adding at the
9 end the following new paragraph:

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

13 (2) Section 246(b)(1) is amended by inserting
14 “199A,” before “243(a)(1)”.

15 (3) Section 613(a) is amended by inserting
16 “and without the deduction under section 199A”
17 after “and without the deduction under section
18 199”.

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

24 “(C) any deduction allowable under section
25 199A.”.

1 (5) Section 170(b)(2)(D) is amended by strik-
2 ing “and” in clause (iv), by striking the period at
3 the end of clause (v), and by adding at the end the
4 following new clause:

5 “(vi) section 199A(g).”.

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

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

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

12 **SEC. 11012. LIMITATION ON LOSSES FOR TAXPAYERS**
13 **OTHER THAN CORPORATIONS.**

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

16 “(l) LIMITATION ON EXCESS BUSINESS LOSSES OF
17 NONCORPORATE TAXPAYERS.—

18 “(1) LIMITATION.—In the case of taxable year
19 of a taxpayer other than a corporation beginning
20 after December 31, 2017, and before January 1,
21 2026—

22 “(A) subsection (j) (relating to limitation
23 on excess farm losses of certain taxpayers) shall
24 not apply, and

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

3 “(2) DISALLOWED LOSS CARRYOVER.—Any loss
4 which is disallowed under paragraph (1) shall be
5 treated as a net operating loss carryover to the fol-
6 lowing taxable year under section 172.

7 “(3) EXCESS BUSINESS LOSS.—For purposes of
8 this subsection—

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

11 “(i) the aggregate deductions of the
12 taxpayer for the taxable year which are at-
13 tributable to trades or businesses of such
14 taxpayer (determined without regard to
15 whether or not such deductions are dis-
16 allowed for such taxable year under para-
17 graph (1)), over

18 “(ii) the sum of—

19 “(I) the aggregate gross income
20 or gain of such taxpayer for the tax-
21 able year which is attributable to such
22 trades or businesses, plus

23 “(II) \$250,000 (200 percent of
24 such amount in the case of a joint re-
25 turn).

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

6 “(i) such dollar amount, multiplied by

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

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

16 “(4) APPLICATION OF SUBSECTION IN CASE OF
17 PARTNERSHIPS AND S CORPORATIONS.—In the case
18 of a partnership or S corporation—

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

21 “(B) each partner’s or shareholder’s allo-
22 cable share of the items of income, gain, deduc-
23 tion, or loss of the partnership or S corporation
24 for any taxable year from trades or businesses
25 attributable to the partnership or S corporation

1 shall be taken into account by the partner or
2 shareholder in applying this subsection to the
3 taxable year of such partner or shareholder
4 with or within which the taxable year of the
5 partnership or S corporation ends.

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

9 “(5) ADDITIONAL REPORTING.—The Secretary
10 shall prescribe such additional reporting require-
11 ments as the Secretary determines necessary to
12 carry out the purposes of this subsection.

13 “(6) COORDINATION WITH SECTION 469.—This
14 subsection shall be applied after the application of
15 section 469.”.

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

19 **PART III—TAX BENEFITS FOR FAMILIES AND**
20 **INDIVIDUALS**

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

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

1 “(7) SPECIAL RULES FOR TAXABLE YEARS 2018
2 THROUGH 2025.—In the case of a taxable year begin-
3 ning after December 31, 2017, and before January
4 1, 2026—

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

7 “(i) by substituting ‘\$18,000’ for
8 ‘\$4,400’ in subparagraph (B), and

9 “(ii) by substituting ‘\$12,000’ for
10 ‘\$3,000’ in subparagraph (C).

11 “(B) ADJUSTMENT FOR INFLATION.—

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

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

21 “(I) such dollar amount, multi-
22 plied by

23 “(II) the cost-of-living adjust-
24 ment determined under section 1(f)(3)
25 for the calendar year in which the tax-

1 able year begins, determined by sub-
2 stituting ‘2017’ for ‘2016’ in subpara-
3 graph (A)(ii) thereof.

4 If any increase under this clause is not a
5 multiple of \$50, such increase shall be
6 rounded to the next lowest multiple of
7 \$50.”.

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

11 **SEC. 11022. INCREASE IN AND MODIFICATION OF CHILD**
12 **TAX CREDIT.**

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

15 “(h) **SPECIAL RULES FOR TAXABLE YEARS 2018**
16 **THROUGH 2025.**—

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

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

23 “(3) **LIMITATION.**—In lieu of the amount deter-
24 mined under subsection (b)(2), the threshold amount

1 shall be \$400,000 in the case of a joint return
2 (\$200,000 in any other case).

3 “(4) PARTIAL CREDIT ALLOWED FOR CERTAIN
4 OTHER DEPENDENTS.—

5 “(A) IN GENERAL.—The credit determined
6 under subsection (a) (after the application of
7 paragraph (2)) shall be increased by \$500 for
8 each dependent of the taxpayer (as defined in
9 section 152) other than a qualifying child de-
10 scribed in subsection (c).

11 “(B) EXCEPTION FOR CERTAIN NONCITI-
12 ZENS.—Subparagraph (A) shall not apply with
13 respect to any individual who would not be a
14 dependent if subparagraph (A) of section
15 152(b)(3) were applied without regard to all
16 that follows ‘resident of the United States’.

17 “(C) CERTAIN QUALIFYING CHILDREN.—
18 In the case of any qualifying child with respect
19 to whom a credit is not allowed under this sec-
20 tion by reason of paragraph (7), such child
21 shall be treated as a dependent to whom sub-
22 paragraph (A) applies.

23 “(5) MAXIMUM AMOUNT OF REFUNDABLE
24 CREDIT.—

1 “(A) IN GENERAL.—The amount deter-
2 mined under subsection (d)(1)(A) with respect
3 to any qualifying child shall not exceed \$1,400,
4 and such subsection shall be applied without re-
5 gard to paragraph (4) of this subsection.

6 “(B) ADJUSTMENT FOR INFLATION.—In
7 the case of a taxable year beginning after 2018,
8 the \$1,400 amount in subparagraph (A) shall
9 be increased by an amount equal to—

10 “(i) such dollar amount, multiplied by

11 “(ii) the cost-of-living adjustment de-
12 termined under section 1(f)(3) for the cal-
13 endar year in which the taxable year be-
14 gins, determined by substituting ‘2017’ for
15 ‘2016’ in subparagraph (A)(ii) thereof.

16 If any increase under this clause is not a mul-
17 tiple of \$100, such increase shall be rounded to
18 the next lowest multiple of \$100.

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

22 “(7) SOCIAL SECURITY NUMBER REQUIRED.—
23 No credit shall be allowed under this section to a
24 taxpayer with respect to any qualifying child unless
25 the taxpayer includes the social security number of

1 such child on the return of tax for the taxable year.
2 For purposes of the preceding sentence, the term
3 ‘social security number’ means a social security
4 number issued to an individual by the Social Secu-
5 rity Administration, but only if the social security
6 number is issued—

7 “(A) to a citizen of the United States or
8 pursuant to subclause (I) (or that portion of
9 subclause (III) that relates to subclause (I)) of
10 section 205(c)(2)(B)(i) of the Social Security
11 Act, and

12 “(B) before the due date for such return.”.

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

16 **SEC. 11023. INCREASED LIMITATION FOR CERTAIN CHARIT-**
17 **TABLE CONTRIBUTIONS.**

18 (a) IN GENERAL.—Section 170(b)(1) is amended by
19 redesignating subparagraph (G) as subparagraph (H) and
20 by inserting after subparagraph (F) the following new
21 subparagraph:

22 “(G) INCREASED LIMITATION FOR CASH
23 CONTRIBUTIONS.—

24 “(i) IN GENERAL.—In the case of any
25 contribution of cash to an organization de-

1 scribed in subparagraph (A), the total
2 amount of such contributions which may
3 be taken into account under subsection (a)
4 for any taxable year beginning after De-
5 cember 31, 2017, and before January 1,
6 2026, shall not exceed 60 percent of the
7 taxpayer's contribution base for such year.

8 “(ii) CARRYOVER.—If the aggregate
9 amount of contributions described in clause
10 (i) exceeds the applicable limitation under
11 clause (i) for any taxable year described in
12 such clause, such excess shall be treated
13 (in a manner consistent with the rules of
14 subsection (d)(1)) as a charitable contribu-
15 tion to which clause (i) applies in each of
16 the 5 succeeding years in order of time.

17 “(iii) COORDINATION WITH SUBPARA-
18 GRAPHS (A) AND (B).—

19 “(I) IN GENERAL.—Contribu-
20 tions taken into account under this
21 subparagraph shall not be taken into
22 account under subparagraph (A).

23 “(II) LIMITATION REDUCTION.—
24 For each taxable year described in
25 clause (i), and each taxable year to

1 which any contribution under this
2 subparagraph is carried over under
3 clause (ii), subparagraph (A) shall be
4 applied by reducing (but not below
5 zero) the contribution limitation al-
6 lowed for the taxable year under such
7 subparagraph by the aggregate con-
8 tributions allowed under this subpara-
9 graph for such taxable year, and sub-
10 paragraph (B) shall be applied by
11 treating any reference to subpara-
12 graph (A) as a reference to both sub-
13 paragraph (A) and this subpara-
14 graph.”.

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

18 **SEC. 11024. INCREASED CONTRIBUTIONS TO ABLE AC-**
19 **COUNTS.**

20 (a) **INCREASE IN LIMITATION FOR CONTRIBUTIONS**
21 **FROM COMPENSATION OF INDIVIDUALS WITH DISABIL-**
22 **ITIES.**—

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

1 “(B) except in the case of contributions
2 under subsection (e)(1)(C), if such contribution
3 to an ABLE account would result in aggregate
4 contributions from all contributors to the
5 ABLE account for the taxable year exceeding
6 the sum of—

7 “(i) the amount in effect under sec-
8 tion 2503(b) for the calendar year in which
9 the taxable year begins, plus

10 “(ii) in the case of any contribution
11 by a designated beneficiary described in
12 paragraph (7) before January 1, 2026, the
13 lesser of—

14 “(I) compensation (as defined by
15 section 219(f)(1)) includible in the
16 designated beneficiary’s gross income
17 for the taxable year, or

18 “(II) an amount equal to the
19 poverty line for a one-person house-
20 hold, as determined for the calendar
21 year preceding the calendar year in
22 which the taxable year begins.”.

23 (2) RESPONSIBILITY FOR CONTRIBUTION LIM-
24 TATION.—Paragraph (2) of section 529A(b) is
25 amended by adding at the end the following: “A des-

1 ignated beneficiary (or a person acting on behalf of
2 such beneficiary) shall maintain adequate records for
3 purposes of ensuring, and shall be responsible for
4 ensuring, that the requirements of subparagraph
5 (B)(ii) are met.”

6 (3) ELIGIBLE DESIGNATED BENEFICIARY.—
7 Section 529A(b) is amended by adding at the end
8 the following:

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

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

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

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

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

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

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

14 “(D) the amount of contributions made be-
15 fore January 1, 2026, by such individual to the
16 ABLE account (within the meaning of section
17 529A) of which such individual is the des-
18 ignated beneficiary.”

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

22 **SEC. 11025. ROLLOVERS TO ABLE PROGRAMS FROM 529**
23 **PROGRAMS.**

24 (a) IN GENERAL.—Clause (i) of section 529(c)(3)(C)
25 is amended by striking “or” at the end of subclause (I),

1 by striking the period at the end of subclause (II) and
2 inserting “, or”, and by adding at the end the following:

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

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

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

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

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

24 (1) Section 2(a)(3) (relating to special rule
25 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. TEMPORARY REDUCTION IN MEDICAL EXPENSE**
2 **DEDUCTION FLOOR.**

3 (a) IN GENERAL.—Subsection (f) of section 213 is
4 amended to read as follows:

5 “(f) SPECIAL RULES FOR 2013 THROUGH 2018.—
6 In the case of any taxable year—

7 “(1) beginning after December 31, 2012, and
8 ending before January 1, 2017, in the case of a tax-
9 payer if such taxpayer or such taxpayer’s spouse has
10 attained age 65 before the close of such taxable
11 year, and

12 “(2) beginning after December 31, 2016, and
13 ending before January 1, 2019, in the case of any
14 taxpayer,

15 subsection (a) shall be applied with respect to a taxpayer
16 by substituting ‘7.5 percent’ for ‘10 percent.’”.

17 (b) MINIMUM TAX PREFERENCE NOT TO APPLY.—
18 Section 56(b)(1)(B) is amended by adding at the end the
19 following new sentence:“This subparagraph shall not
20 apply to taxable years beginning after December 31, 2016,
21 and ending before January 1, 2019”.

22 (c) EFFECTIVE DATE.—The amendment made by
23 this section shall apply to taxable years beginning after
24 December 31, 2016.

1 **SEC. 11028. RELIEF FOR 2016 DISASTER AREAS.**

2 (a) IN GENERAL.—For purposes of this section, the
3 term “2016 disaster area” means any area with respect
4 to which a major disaster has been declared by the Presi-
5 dent under section 401 of the Robert T. Stafford Disaster
6 Relief and Emergency Assistance Act during calendar year
7 2016.

8 (b) SPECIAL RULES FOR USE OF RETIREMENT
9 FUNDS WITH RESPECT TO AREAS DAMAGED BY 2016
10 DISASTERS.—

11 (1) TAX-FAVORED WITHDRAWALS FROM RE-
12 TIREMENT PLANS.—

13 (A) IN GENERAL.—Section 72(t) of the In-
14 ternal Revenue Code of 1986 shall not apply to
15 any qualified 2016 disaster distribution.

16 (B) AGGREGATE DOLLAR LIMITATION.—

17 (i) IN GENERAL.—For purposes of
18 this subsection, the aggregate amount of
19 distributions received by an individual
20 which may be treated as qualified 2016
21 disaster distributions for any taxable year
22 shall not exceed the excess (if any) of—

23 (I) \$100,000, over

24 (II) the aggregate amounts treat-
25 ed as qualified 2016 disaster distribu-

1 tions received by such individual for
2 all prior taxable years.

3 (ii) TREATMENT OF PLAN DISTRIBUTIONS.—If a distribution to an individual
4 would (without regard to clause (i)) be a
5 qualified 2016 disaster distribution, a plan
6 shall not be treated as violating any re-
7 quirement of this title merely because the
8 plan treats such distribution as a qualified
9 2016 disaster distribution, unless the ag-
10 gregate amount of such distributions from
11 all plans maintained by the employer (and
12 any member of any controlled group which
13 includes the employer) to such individual
14 exceeds \$100,000.

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

21 (C) AMOUNT DISTRIBUTED MAY BE RE-
22 PAID.—

23 (i) IN GENERAL.—Any individual who
24 receives a qualified 2016 disaster distribu-
25

1 tion may, at any time during the 3-year
2 period beginning on the day after the date
3 on which such distribution was received,
4 make one or more contributions in an ag-
5 gregate amount not to exceed the amount
6 of such distribution to an eligible retire-
7 ment plan of which such individual is a
8 beneficiary and to which a rollover con-
9 tribution of such distribution could be
10 made under section 402(c), 403(a)(4),
11 403(b)(8), 408(d)(3), or 457(e)(16) of the
12 Internal Revenue Code of 1986, as the
13 case may be.

14 (ii) TREATMENT OF REPAYMENTS OF
15 DISTRIBUTIONS FROM ELIGIBLE RETIRE-
16 MENT PLANS OTHER THAN IRAS.—For
17 purposes of the Internal Revenue Code of
18 1986, if a contribution is made pursuant
19 to clause (i) with respect to a qualified
20 2016 disaster distribution from an eligible
21 retirement plan other than an individual
22 retirement plan, then the taxpayer shall, to
23 the extent of the amount of the contribu-
24 tion, be treated as having received the
25 qualified 2016 disaster distribution in an

1 eligible rollover distribution (as defined in
2 section 402(c)(4) of the Internal Revenue
3 Code of 1986) and as having transferred
4 the amount to the eligible retirement plan
5 in a direct trustee to trustee transfer with-
6 in 60 days of the distribution.

7 (iii) TREATMENT OF REPAYMENTS
8 FOR DISTRIBUTIONS FROM IRAS.—For
9 purposes of the Internal Revenue Code of
10 1986, if a contribution is made pursuant
11 to clause (i) with respect to a qualified
12 2016 disaster distribution from an indi-
13 vidual retirement plan (as defined by sec-
14 tion 7701(a)(37) of the Internal Revenue
15 Code of 1986), then, to the extent of the
16 amount of the contribution, the qualified
17 2016 disaster distribution shall be treated
18 as a distribution described in section
19 408(d)(3) of such Code and as having been
20 transferred to the eligible retirement plan
21 in a direct trustee to trustee transfer with-
22 in 60 days of the distribution.

23 (D) DEFINITIONS.—For purposes of this
24 paragraph—

1 (i) QUALIFIED 2016 DISASTER DIS-
2 TRIBUTION.—Except as provided in sub-
3 paragraph (B), the term “qualified 2016
4 disaster distribution” means any distribu-
5 tion from an eligible retirement plan made
6 on or after January 1, 2016, and before
7 January 1, 2018, to an individual whose
8 principal place of abode at any time during
9 calendar year 2016 was located in a dis-
10 aster area described in subsection (a) and
11 who has sustained an economic loss by rea-
12 son of the events giving rise to the Presi-
13 dential declaration described in subsection
14 (a) which was applicable to such area.

15 (ii) ELIGIBLE RETIREMENT PLAN.—
16 The term “eligible retirement plan” shall
17 have the meaning given such term by sec-
18 tion 402(c)(8)(B) of the Internal Revenue
19 Code of 1986.

20 (E) INCOME INCLUSION SPREAD OVER 3-
21 YEAR PERIOD.—

22 (i) IN GENERAL.—In the case of any
23 qualified 2016 disaster distribution, unless
24 the taxpayer elects not to have this sub-
25 paragraph apply for any taxable year, any

1 amount required to be included in gross in-
2 come for such taxable year shall be so in-
3 cluded ratably over the 3-taxable-year pe-
4 riod beginning with such taxable year.

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

9 (F) SPECIAL RULES.—

10 (i) EXEMPTION OF DISTRIBUTIONS
11 FROM TRUSTEE TO TRUSTEE TRANSFER
12 AND WITHHOLDING RULES.—For purposes
13 of sections 401(a)(31), 402(f), and 3405 of
14 the Internal Revenue Code of 1986, quali-
15 fied 2016 disaster distribution shall not be
16 treated as eligible rollover distributions.

17 (ii) QUALIFIED 2016 DISASTER DIS-
18 TRIBUTIONS TREATED AS MEETING PLAN
19 DISTRIBUTION REQUIREMENTS.—For pur-
20 poses of the Internal Revenue Code of
21 1986, a qualified 2016 disaster distribu-
22 tion shall be treated as meeting the re-
23 quirements of sections 401(k)(2)(B)(i),
24 403(b)(7)(A)(ii), 403(b)(11), and

1 457(d)(1)(A) of the Internal Revenue Code
2 of 1986.

3 (2) PROVISIONS RELATING TO PLAN AMEND-
4 MENTS.—

5 (A) IN GENERAL.—If this paragraph ap-
6 plies to any amendment to any plan or annuity
7 contract, such plan or contract shall be treated
8 as being operated in accordance with the terms
9 of the plan during the period described in sub-
10 paragraph (B)(ii)(I).

11 (B) AMENDMENTS TO WHICH SUBSECTION
12 APPLIES.—

13 (i) IN GENERAL.—This paragraph
14 shall apply to any amendment to any plan
15 or annuity contract which is made—

16 (I) pursuant to any provision of
17 this section, or pursuant to any regu-
18 lation under any provision of this sec-
19 tion, and

20 (II) on or before the last day of
21 the first plan year beginning on or
22 after January 1, 2018, or such later
23 date as the Secretary prescribes.

24 In the case of a governmental plan (as de-
25 fined in section 414(d) of the Internal Rev-

1 enue Code of 1986), subclause (II) shall be
2 applied by substituting the date which is 2
3 years after the date otherwise applied
4 under subclause (II).

5 (ii) CONDITIONS.—This paragraph
6 shall not apply to any amendment to a
7 plan or contract unless such amendment
8 applies retroactively for such period, and
9 shall not apply to any such amendment un-
10 less the plan or contract is operated as if
11 such amendment were in effect during the
12 period—

13 (I) beginning on the date that
14 this section or the regulation de-
15 scribed in clause (i)(I) takes effect (or
16 in the case of a plan or contract
17 amendment not required by this sec-
18 tion or such regulation, the effective
19 date specified by the plan), and

20 (II) ending on the date described
21 in clause (i)(II) (or, if earlier, the
22 date the plan or contract amendment
23 is adopted).

24 (c) SPECIAL RULES FOR PERSONAL CASUALTY
25 LOSSES RELATED TO 2016 MAJOR DISASTER.—

1 (1) IN GENERAL.—If an individual has a net
2 disaster loss for any taxable year beginning after
3 December 31, 2015, and before January 1, 2018—

4 (A) the amount determined under section
5 165(h)(2)(A)(ii) of the Internal Revenue Code
6 of 1986 shall be equal to the sum of—

7 (i) such net disaster loss, and

8 (ii) so much of the excess referred to
9 in the matter preceding clause (i) of sec-
10 tion 165(h)(2)(A) of such Code (reduced
11 by the amount in clause (i) of this sub-
12 paragraph) as exceeds 10 percent of the
13 adjusted gross income of the individual,

14 (B) section 165(h)(1) of such Code shall
15 be applied by substituting “\$500” for “\$500
16 (\$100 for taxable years beginning after Decem-
17 ber 31, 2009”),

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

21 (D) section 56(b)(1)(E) of such Code shall
22 not apply to so much of the standard deduction
23 as is attributable to the increase under sub-
24 paragraph (C) of this paragraph.

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

7 (3) QUALIFIED DISASTER-RELATED PERSONAL
8 CASUALTY LOSSES.—For purposes of this para-
9 graph, the term “qualified disaster-related personal
10 casualty losses” means losses described in section
11 165(c)(3) of the Internal Revenue Code of 1986
12 which arise in a disaster area described in subsection
13 (a) on or after January 1, 2016, and which are at-
14 tributable to the events giving rise to the Presi-
15 dential declaration described in subsection (a) which
16 was applicable to such area.

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 does not include any

1 amount which (but for this subsection) would
2 be includible in gross income for such taxable
3 year by reasons of the discharge (in whole or in
4 part) of any loan described in subparagraph
5 (B) after December 31, 2017, and before Janu-
6 ary 1, 2026, if such discharge was—

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

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

14 “(iii) otherwise discharged on account
15 of the death or total and permanent dis-
16 ability of the student.

17 “(B) LOANS DESCRIBED.—A loan is de-
18 scribed in this subparagraph if such loan is—

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

21 “(ii) a private education loan (as de-
22 fined in section 140(7) of the Consumer
23 Credit Protection Act (15 U.S.C.
24 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. 529 ACCOUNT FUNDING FOR ELEMENTARY AND**
5 **SECONDARY EDUCATION.**

6 (a) IN GENERAL.—

7 (1) IN GENERAL.—Section 529(c) is amended
8 by adding at the end the following new paragraph:

9 “(7) TREATMENT OF ELEMENTARY AND SEC-
10 ONDARY TUITION.—Any reference in this subsection
11 to the term ‘qualified higher education expense’ shall
12 include a reference to—

13 “(A) expenses for tuition in connection
14 with enrollment or attendance at an elementary
15 or secondary public, private, or religious school,
16 and

17 “(B) expenses for—

18 “(i) curriculum and curricular mate-
19 rials,

20 “(ii) books or other instructional ma-
21 terials,

22 “(iii) online educational materials,

23 “(iv) tuition for tutoring or edu-
24 cational classes outside of the home (but
25 only if the tutor or instructor is not related

1 (within the meaning of section 152(d)(2))
2 to the student),

3 “(v) dual enrollment in an institution
4 of higher education, and

5 “(vi) educational therapies for stu-
6 dents with disabilities,

7 in connection with a homeschool (whether treat-
8 ed as a homeschool or a private school for pur-
9 poses of applicable State law).”.

10 (2) LIMITATION.—Section 529(e)(3)(A) is
11 amended by adding at the end the following: “The
12 amount of cash distributions from all qualified tui-
13 tion programs described in subsection (b)(1)(A)(ii)
14 with respect to a beneficiary during any taxable year
15 shall, in the aggregate, include not more than
16 \$10,000 in expenses described in subsection (c)(7)
17 incurred during the taxable year.”.

18 (b) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to distributions made after Decem-
20 ber 31, 2017.

21 **PART V—DEDUCTIONS AND EXCLUSIONS**

22 **SEC. 11041. SUSPENSION OF DEDUCTION FOR PERSONAL** 23 **EXEMPTIONS.**

24 (a) IN GENERAL.—Subsection (d) of section 151 is
25 amended—

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

4 (2) by adding at the end the following new
5 paragraph:

6 “(5) SPECIAL RULES FOR TAXABLE YEARS 2018
7 THROUGH 2025.—In the case of a taxable year begin-
8 ning after December 31, 2017, and before January
9 1, 2026—

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

12 “(B) REFERENCES.—For purposes of any
13 other provision of this title, the reduction of the
14 exemption amount to zero under subparagraph
15 (A) shall not be taken into account in deter-
16 mining whether a deduction is allowed or allow-
17 able, or whether a taxpayer is entitled to a de-
18 duction, under this section.”.

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

22 “(iii) YEARS WHEN PERSONAL EX-
23 EMPTION AMOUNT IS ZERO.—

24 “(I) IN GENERAL.—In the case
25 of any taxable year in which the ex-

1 exemption amount under section 151(d)
2 is zero, clause (i) shall be applied by
3 substituting ‘\$4,150’ for ‘the exemp-
4 tion amount under section 151(d)’.

5 “(II) INFLATION ADJUST-
6 MENT.—In the case of any taxable
7 year beginning in a calendar year
8 after 2018, the \$4,150 amount in
9 subparagraph (A) shall be increased
10 in the same manner as provided in
11 section 6334(d)(4)(C).”.

12 (c) MODIFICATION OF WAGE WITHHOLDING
13 RULES.—

14 (1) IN GENERAL.—Section 3402(a)(2) is
15 amended by striking “means the amount” and all
16 that follows and inserting “means the amount by
17 which the wages exceed the taxpayer’s withholding
18 allowance, prorated to the payroll period.”.

19 (2) CONFORMING AMENDMENTS.—

20 (A) Section 3401 is amended by striking
21 subsection (e).

22 (B) Paragraphs (1) and (2) of section
23 3402(f) are amended to read as follows:

24 “(1) IN GENERAL.—Under rules determined by
25 the Secretary, an employee receiving wages shall on

1 any day be entitled to a withholding allowance deter-
2 mined based on—

3 “(A) whether the employee is an individual
4 for whom a deduction is allowable with respect
5 to another taxpayer under section 151;

6 “(B) if the employee is married, whether
7 the employee’s spouse is entitled to an allow-
8 ance, or would be so entitled if such spouse
9 were an employee receiving wages, under sub-
10 paragraph (A) or (D), but only if such spouse
11 does not have in effect a withholding allowance
12 certificate claiming such allowance;

13 “(C) the number of individuals with re-
14 spect to whom, on the basis of facts existing at
15 the beginning of such day, there may reason-
16 ably be expected to be allowable a credit under
17 section 24(a) for the taxable year under subtitle
18 A in respect of which amounts deducted and
19 withheld under this chapter in the calendar year
20 in which such day falls are allowed as a credit;

21 “(D) any additional amounts to which the
22 employee elects to take into account under sub-
23 section (m), but only if the employee’s spouse
24 does not have in effect a withholding allowance
25 certificate making such an election;

1 “(E) the standard deduction allowable to
2 such employee (one-half of such standard de-
3 duction in the case of an employee who is mar-
4 ried (as determined under section 7703) and
5 whose spouse is an employee receiving wages
6 subject to withholding); and

7 “(F) whether the employee has withholding
8 allowance certificates in effect with respect to
9 more than 1 employer.

10 “(2) ALLOWANCE CERTIFICATES.—

11 “(A) ON COMMENCEMENT OF EMPLOY-
12 MENT.—On or before the date of the com-
13 mencement of employment with an employer,
14 the employee shall furnish the employer with a
15 signed withholding allowance certificate relating
16 to the withholding allowance claimed by the em-
17 ployee, which shall in no event exceed the
18 amount to which the employee is entitled.

19 “(B) CHANGE OF STATUS.—If, on any day
20 during the calendar year, an employee’s with-
21 holding allowance is in excess of the with-
22 holding allowance to which the employee would
23 be entitled had the employee submitted a true
24 and accurate withholding allowance certificate
25 to the employer on that day, the employee shall

1 within 10 days thereafter furnish the employer
2 with a new withholding allowance certificate. If,
3 on any day during the calendar year, an em-
4 ployee's withholding allowance is greater than
5 the withholding allowance claimed, the employee
6 may furnish the employer with a new with-
7 holding allowance certificate relating to the
8 withholding allowance to which the employee is
9 so entitled, which shall in no event exceed the
10 amount to which the employee is entitled on
11 such day.

12 “(C) CHANGE OF STATUS WHICH AFFECTS
13 NEXT CALENDAR YEAR.—If on any day during
14 the calendar year the withholding allowance to
15 which the employee will be, or may reasonably
16 be expected to be, entitled at the beginning of
17 the employee's next taxable year under subtitle
18 A is different from the allowance to which the
19 employee is entitled on such day, the employee
20 shall, in such cases and at such times as the
21 Secretary shall by regulations prescribe, furnish
22 the employer with a withholding allowance cer-
23 tificate relating to the withholding allowance
24 which the employee claims with respect to such
25 next taxable year, which shall in no event ex-

1 ceed the withholding allowance to which the em-
2 ployee will be, or may reasonably be expected to
3 be, so entitled.”.

4 (C) Subsections (b)(1), (b)(2), (f)(3),
5 (f)(4), (f)(5), (f)(7) (including the heading
6 thereof), (g)(4), (l)(1), (l)(2), and (n) of section
7 3402 are each amended by striking “exemp-
8 tion” each place it appears and inserting “al-
9 lowance”.

10 (D) The heading of section 3402(f) is
11 amended by striking “EXEMPTIONS” and in-
12 serting “ALLOWANCE”.

13 (E) Section 3402(m) is amended by strik-
14 ing “additional withholding allowances or addi-
15 tional reductions in withholding under this sub-
16 section. In determining the number of addi-
17 tional withholding allowances” and inserting
18 “an additional withholding allowance or addi-
19 tional reductions in withholding under this sub-
20 section. In determining the additional with-
21 holding allowance”.

22 (F) Paragraphs (3) and (4) of section
23 3405(a) (and the heading for such paragraph
24 (4)) are each amended by striking “exemption”
25 each place it appears and inserting “allowance”.

1 (G) Section 3405(a)(4) is amended by
2 striking “shall be determined” and all that fol-
3 lows through “3 withholding exemptions” and
4 inserting “shall be determined under rules pre-
5 scribed by the Secretary”.

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

9 “(4) YEARS WHEN PERSONAL EXEMPTION
10 AMOUNT IS ZERO.—

11 “(A) IN GENERAL.—In the case of any
12 taxable year in which the exemption amount
13 under section 151(d) is zero, paragraph (2)
14 shall not apply and for purposes of paragraph
15 (1) the term ‘exempt amount’ means an amount
16 equal to—

17 “(i) the sum of the amount deter-
18 mined under subparagraph (B) and the
19 standard deduction, divided by

20 “(ii) 52.

21 “(B) AMOUNT DETERMINED.—For pur-
22 poses of subparagraph (A), the amount deter-
23 mined under this subparagraph is \$4,150 multi-
24 plied by the number of the taxpayer’s depend-

1 ents for the taxable year in which the levy oc-
2 curs.

3 “(C) INFLATION ADJUSTMENT.—In the
4 case of any taxable year beginning in a calendar
5 year after 2018, the \$4,150 amount in subpara-
6 graph (B) shall be increased by an amount
7 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, determined by substituting ‘2017’ for
13 ‘2016’ in subparagraph (A)(ii) thereof.

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

18 “(D) VERIFIED STATEMENT.—Unless the
19 taxpayer submits to the Secretary a written and
20 properly verified statement specifying the facts
21 necessary to determine the proper amount
22 under subparagraph (A), subparagraph (A)
23 shall be applied as if the taxpayer were a mar-
24 ried individual filing a separate return with no
25 dependents.”.

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

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

11 “(1) an individual who is not married (deter-
12 mined by applying section 7703) and who has gross
13 income for the taxable year which does not exceed
14 the standard deduction applicable to such individual
15 for such taxable year under section 63, or

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

18 “(A) the gross income of such individual,
19 when combined with the gross income of such
20 individual’s spouse, for the taxable year does
21 not exceed the standard deduction which would
22 be applicable to the taxpayer for such taxable
23 year under section 63 if such individual and
24 such individual’s spouse made a joint return,

1 “(B) such individual and such individual’s
2 spouse have the same household as their home
3 at the close of the taxable year,

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

6 “(D) neither such individual nor such indi-
7 vidual’s spouse is an individual described in sec-
8 tion 63(c)(5) who has income (other than
9 earned income) in excess of the amount in ef-
10 fect under section 63(c)(5)(A).”.

11 (f) EFFECTIVE DATE.—

12 (1) IN GENERAL.—Except as provided in para-
13 graph (2), the amendments made by this section
14 shall apply to taxable years beginning after Decem-
15 ber 31, 2017.

16 (2) WAGE WITHHOLDING.—The Secretary of
17 the Treasury may administer section 3402 for tax-
18 able years beginning before January 1, 2019, with-
19 out regard to the amendments made by subsections
20 (a) and (c).

21 **SEC. 11042. LIMITATION ON DEDUCTION FOR STATE AND**
22 **LOCAL, ETC. TAXES.**

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

1 “(6) LIMITATION ON INDIVIDUAL DEDUCTIONS
2 FOR TAXABLE YEARS 2018 THROUGH 2025.—In the
3 case of an individual and a taxable year beginning
4 after December 31, 2017, and before January 1,
5 2026—

6 “(A) foreign real property taxes shall not
7 be taken into account under subsection (a)(1),
8 and

9 “(B) the aggregate amount of taxes taken
10 into account under paragraphs (1), (2), and (3)
11 of subsection (a) and paragraph (5) of this sub-
12 section for any taxable year shall not exceed
13 \$10,000 (\$5,000 in the case of a married indi-
14 vidual filing a separate return).

15 The preceding sentence shall not apply to any for-
16 eign taxes described in subsection (a)(3) or to any
17 taxes described in paragraph (1) and (2) of sub-
18 section (a) which are paid or accrued in carrying on
19 a trade or business or an activity described in sec-
20 tion 212. For purposes of subparagraph (B), an
21 amount paid in a taxable year beginning before Jan-
22 uary 1, 2018, with respect to a State or local income
23 tax imposed for a taxable year beginning after De-
24 cember 31, 2017, shall be treated as paid on the last

1 day of the taxable year for which such tax is so im-
2 posed.”.

3 (b) **EFFECTIVE DATE.**—The amendment made by
4 this section shall apply to taxable years beginning after
5 December 31, 2016.

6 **SEC. 11043. LIMITATION ON DEDUCTION FOR QUALIFIED**
7 **RESIDENCE INTEREST.**

8 (a) **IN GENERAL.**—Section 163(h)(3) is amended by
9 adding at the end the following new subparagraph:

10 “(F) **SPECIAL RULES FOR TAXABLE YEARS**
11 **2018 THROUGH 2025.**—

12 “(i) **IN GENERAL.**—In the case of tax-
13 able years beginning after December 31,
14 2017, and before January 1, 2026—

15 “(I) **DISALLOWANCE OF HOME**
16 **EQUITY INDEBTEDNESS INTEREST.**—
17 Subparagraph (A)(ii) shall not apply.

18 “(II) **LIMITATION ON ACQUISITION INDEBTEDNESS.**—Subparagraph
19 (B)(ii) shall be applied by substituting
20 ‘\$750,000 (\$375,000’ for ‘\$1,000,000
21 (\$500,000’.

22 “(III) **TREATMENT OF INDEBT-**
23 **EDNESS INCURRED ON OR BEFORE**
24 **DECEMBER 15, 2017.**—Subclause (II)

1 shall not apply to any indebtedness in-
2 curred on or before December 15,
3 2017, and, in applying such subclause
4 to any indebtedness incurred after
5 such date, the limitation under such
6 subclause shall be reduced (but not
7 below zero) by the amount of any in-
8 debtedness incurred on or before De-
9 cember 15, 2017, which is treated as
10 acquisition indebtedness for purposes
11 of this subsection for the taxable year.

12 “(IV) BINDING CONTRACT EX-
13 CEPTION.—In the case of a taxpayer
14 who enters into a written binding con-
15 tract before December 15, 2017, to
16 close on the purchase of a principal
17 residence before January 1, 2018, and
18 who purchases such residence before
19 April 1, 2018, subclause (III) shall be
20 applied by substituting ‘April 1, 2018’
21 for ‘December 15, 2017’.

22 “(ii) TREATMENT OF LIMITATION IN
23 TAXABLE YEARS AFTER DECEMBER 31,
24 2025.—In the case of taxable years begin-
25 ning after December 31, 2025, the limita-

1 tion under subparagraph (B)(ii) shall be
2 applied to the aggregate amount of indebt-
3 edness of the taxpayer described in sub-
4 paragraph (B)(i) without regard to the
5 taxable year in which the indebtedness was
6 incurred.

7 “(iii) TREATMENT OF REFINANCINGS
8 OF INDEBTEDNESS.—

9 “(I) IN GENERAL.—In the case
10 of any indebtedness which is incurred
11 to refinance indebtedness, such refi-
12 nanced indebtedness shall be treated
13 for purposes of clause (i)(III) as in-
14 curred on the date that the original
15 indebtedness was incurred to the ex-
16 tent the amount of the indebtedness
17 resulting from such refinancing does
18 not exceed the amount of the refi-
19 nanced indebtedness.

20 “(II) LIMITATION ON PERIOD OF
21 REFINANCING.—Subclause (I) shall
22 not apply to any indebtedness after
23 the expiration of the term of the origi-
24 nal indebtedness or, if the principal of
25 such original indebtedness is not am-

1 ortized over its term, the expiration of
2 the term of the 1st refinancing of
3 such indebtedness (or if earlier, the
4 date which is 30 years after the date
5 of such 1st refinancing).

6 “(iv) COORDINATION WITH EXCLU-
7 SION OF INCOME FROM DISCHARGE OF IN-
8 DEBTEDNESS.—Section 108(h)(2) shall be
9 applied without regard to this subpara-
10 graph.”.

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

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

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

19 “(5) LIMITATION FOR TAXABLE YEARS 2018
20 THROUGH 2025.—

21 “(A) IN GENERAL.—In the case of an indi-
22 vidual, except as provided in subparagraph (B),
23 any personal casualty loss which (but for this
24 paragraph) would be deductible in a taxable
25 year beginning after December 31, 2017, and

1 before January 1, 2026, shall be allowed as a
2 deduction under subsection (a) only to the ex-
3 tent it is attributable to a Federally declared
4 disaster (as defined in subsection (i)(5)).

5 “(B) EXCEPTION RELATED TO PERSONAL
6 CASUALTY GAINS.—If a taxpayer has personal
7 casualty gains for any taxable year to which
8 subparagraph (A) applies—

9 “(i) subparagraph (A) shall not apply
10 to the portion of the personal casualty loss
11 not attributable to a Federally declared
12 disaster (as so defined) to the extent such
13 loss does not exceed such gains, and

14 “(ii) in applying paragraph (2) for
15 purposes of subparagraph (A) to the por-
16 tion of personal casualty loss which is so
17 attributable to such a disaster, the amount
18 of personal casualty gains taken into ac-
19 count under paragraph (2)(A) shall be re-
20 duced by the portion of such gains taken
21 into account under clause (i).”.

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

1 **SEC. 11045. SUSPENSION OF MISCELLANEOUS ITEMIZED**
2 **DEDUCTIONS.**

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

5 “(g) SUSPENSION FOR TAXABLE YEARS 2018
6 THROUGH 2025.—Notwithstanding subsection (a), no
7 miscellaneous itemized deduction shall be allowed for any
8 taxable year beginning after December 31, 2017, and be-
9 fore 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 **SEC. 11046. SUSPENSION OF OVERALL LIMITATION ON**
14 **ITEMIZED DEDUCTIONS.**

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

17 “(f) SECTION NOT TO APPLY.—This section shall not
18 apply to any taxable year beginning after December 31,
19 2017, and before January 1, 2026.”.

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

23 **SEC. 11047. SUSPENSION OF EXCLUSION FOR QUALIFIED**
24 **BICYCLE COMMUTING REIMBURSEMENT.**

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

1 “(8) SUSPENSION OF QUALIFIED BICYCLE COM-
2 MUTING REIMBURSEMENT EXCLUSION.—Paragraph
3 (1)(D) shall not apply to any taxable year beginning
4 after December 31, 2017, and before January 1,
5 2026.”.

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

9 **SEC. 11048. SUSPENSION OF EXCLUSION FOR QUALIFIED**
10 **MOVING EXPENSE REIMBURSEMENT.**

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

12 (1) by striking “For purposes of this section,
13 the term” and inserting “For purposes of this sec-
14 tion—

15 “(1) IN GENERAL.—The term”, and

16 (2) by adding at the end the following new
17 paragraph:

18 “(2) SUSPENSION FOR TAXABLE YEARS 2018
19 THROUGH 2025.—Except in the case of a member of
20 the Armed Forces of the United States on active
21 duty who moves pursuant to a military order and in-
22 cident to a permanent change of station, subsection
23 (a)(6) shall not apply to any taxable year beginning
24 after December 31, 2017, and before January 1,
25 2026.”.

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

4 **SEC. 11049. SUSPENSION OF DEDUCTION FOR MOVING EX-**
5 **PENSES.**

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

8 “(k) SUSPENSION OF DEDUCTION FOR TAXABLE
9 YEARS 2018 THROUGH 2025.—Except in the case of an
10 individual to whom subsection (g) applies, this section
11 shall not apply to any taxable year beginning after Decem-
12 ber 31, 2017, and before January 1, 2026.”.

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

16 **SEC. 11050. LIMITATION ON WAGERING LOSSES.**

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

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

4 **SEC. 11051. REPEAL OF DEDUCTION FOR ALIMONY PAY-**
5 **MENTS.**

6 (a) IN GENERAL.—Part VII of subchapter B is
7 amended by striking by striking section 215 (and by strik-
8 ing the item relating to such section in the table of sec-
9 tions for such subpart).

10 (b) CONFORMING AMENDMENTS.—

11 (1) CORRESPONDING REPEAL OF PROVISIONS
12 PROVIDING FOR INCLUSION OF ALIMONY IN GROSS
13 INCOME.—

14 (A) Subsection (a) of section 61 is amend-
15 ed by striking paragraph (8) and by redesign-
16 ating paragraphs (9) through (15) as para-
17 graphs (8) through (14), respectively.

18 (B) Part II of subchapter B of chapter 1
19 is amended by striking section 71 (and by strik-
20 ing the item relating to such section in the
21 table of sections for such part).

22 (C) Subpart F of part I of subchapter J
23 of chapter 1 is amended by striking section 682
24 (and by striking the item relating to such sec-
25 tion in the table of sections for such subpart).

1 (2) RELATED TO REPEAL OF SECTION 215.—

2 (A) Section 62(a) is amended by striking
3 paragraph (10).

4 (B) Section 3402(m)(1) is amended by
5 striking “(other than paragraph (10) thereof)”.

6 (C) Section 6724(d)(3) is amended by
7 striking subparagraph (C) and by redesignating
8 subparagraph (D) as subparagraph (C).

9 (3) RELATED TO REPEAL OF SECTION 71.—

10 (A) Section 121(d)(3) is amended—

11 (i) by striking “(as defined in section
12 71(b)(2))” in subparagraph (B), and

13 (ii) by adding at the end the following
14 new subparagraph:

15 “(C) DIVORCE OR SEPARATION INSTRU-
16 MENT.—For purposes of this paragraph, the
17 term ‘divorce or separation instrument’
18 means—

19 “(i) a decree of divorce or separate
20 maintenance or a written instrument inci-
21 dent to such a decree,

22 “(ii) a written separation agreement,
23 or

24 “(iii) a decree (not described in clause
25 (i)) requiring a spouse to make payments

1 for the support or maintenance of the
2 other spouse.”.

3 (B) Section 152(d)(5) is amended to read
4 as follows:

5 “(5) SPECIAL RULES FOR SUPPORT.—

6 “(A) IN GENERAL.—For purposes of this
7 subsection—

8 “(i) payments to a spouse of alimony
9 or separate maintenance payments shall
10 not be treated as a payment by the payor
11 spouse for the support of any dependent,
12 and

13 “(ii) in the case of the remarriage of
14 a parent, support of a child received from
15 the parent’s spouse shall be treated as re-
16 ceived from the parent.

17 “(B) ALIMONY OR SEPARATE MAINTENANCE PAYMENT.—For purposes of subparagraph (A), the term ‘alimony or separate maintenance payment’ means any payment in cash
20 if—

21 “(i) such payment is received by (or
22 on behalf of) a spouse under a divorce or
23 separation instrument (as defined in section
24 121(d)(3)(C)),
25

1 “(ii) in the case of an individual le-
2 gally separated from the individual’s
3 spouse under a decree of divorce or of sep-
4 arate maintenance, the payee spouse and
5 the payor spouse are not members of the
6 same household at the time such payment
7 is made, and

8 “(iii) there is no liability to make any
9 such payment for any period after the
10 death of the payee spouse and there is no
11 liability to make any payment (in cash or
12 property) as a substitute for such pay-
13 ments after the death of the payee
14 spouse.”.

15 (C) Section 219(f)(1) is amended by strik-
16 ing the third sentence.

17 (D) Section 220(f)(7) is amended by strik-
18 ing “subparagraph (A) of section 71(b)(2)” and
19 inserting “clause (i) of section 121(d)(3)(C)”.

20 (E) Section 223(f)(7) is amended by strik-
21 ing “subparagraph (A) of section 71(b)(2)” and
22 inserting “clause (i) of section 121(d)(3)(C)”.

23 (F) Section 382(l)(3)(B)(iii) is amended by
24 striking “section 71(b)(2)” and inserting “sec-
25 tion 121(d)(3)(C)”.

1 (G) Section 408(d)(6) is amended by strik-
2 ing “subparagraph (A) of section 71(b)(2)” and
3 inserting “clause (i) of section 121(d)(3)(C)”.

4 (4) ADDITIONAL CONFORMING AMENDMENTS.—
5 Section 7701(a)(17) is amended—

6 (A) by striking “sections 682 and 2516”
7 and inserting “section 2516”, and

8 (B) by striking “such sections” each place
9 it appears and inserting “such section”.

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

12 (1) any divorce or separation instrument (as de-
13 fined in section 71(b)(2) of the Internal Revenue
14 Code of 1986 as in effect before the date of the en-
15 actment of this Act) executed after December 31,
16 2018, and

17 (2) any divorce or separation instrument (as so
18 defined) executed on or before such date and modi-
19 fied after such date if the modification expressly
20 provides that the amendments made by this section
21 apply to such modification.

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

2 **EXEMPTION**

3 **SEC. 11061. INCREASE IN ESTATE AND GIFT TAX EXEMP-**
4 **TION.**

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

7 “(C) INCREASE IN BASIC EXCLUSION
8 AMOUNT.—In the case of estates of decedents
9 dying or gifts made after December 31, 2017,
10 and before January 1, 2026, subparagraph (A)
11 shall be applied by substituting ‘\$10,000,000’
12 for ‘\$5,000,000’.”.

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

15 “(g) MODIFICATIONS TO TAX PAYABLE.—

16 “(1) MODIFICATIONS TO GIFT TAX PAYABLE TO
17 REFLECT DIFFERENT TAX RATES.—For purposes of
18 applying subsection (b)(2) with respect to 1 or more
19 gifts, the rates of tax under subsection (c) in effect
20 at the decedent’s death shall, in lieu of the rates of
21 tax in effect at the time of such gifts, be used both
22 to compute—

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

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

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

3 “(ii) the sum of the amounts allowed
4 as a credit for all preceding periods under
5 section 2505(a)(2).

6 “(2) MODIFICATIONS TO ESTATE TAX PAYABLE
7 TO REFLECT DIFFERENT BASIC EXCLUSION
8 AMOUNTS.—The Secretary shall prescribe such regu-
9 lations as may be necessary or appropriate to carry
10 out this section with respect to any difference be-
11 tween—

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

15 “(B) the basic exclusion amount under
16 such section applicable with respect to any gifts
17 made by the decedent.”.

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

1 **PART VII—EXTENSION OF TIME LIMIT FOR**
2 **CONTESTING IRS LEVY**

3 **SEC. 11071. EXTENSION OF TIME LIMIT FOR CONTESTING**
4 **IRS LEVY.**

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

8 (b) **PERIOD OF LIMITATION ON SUITS.**—Subsection
9 (c) of section 6532 is amended—

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

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

14 (c) **EFFECTIVE DATE.**—The amendments made by
15 this section shall apply to—

16 (1) levies made after the date of the enactment
17 of this Act, and

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

22 **PART VIII—INDIVIDUAL MANDATE**

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

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

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

3 (2) in paragraph (3)—

4 (A) by striking “\$695” in subparagraph
5 (A) and inserting “\$0”, and

6 (B) by striking subparagraph (D).

7 (b) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to months beginning after Decem-
9 ber 31, 2018.

10 **Subtitle B—Alternative Minimum** 11 **Tax**

12 **SEC. 12001. REPEAL OF TAX FOR CORPORATIONS.**

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

16 (b) CONFORMING AMENDMENTS.—

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

19 “(E) CORPORATIONS.—In the case of a
20 corporation, this subsection shall be applied by
21 treating the corporation as having a tentative
22 minimum tax of zero.”.

23 (2) Section 53(d)(2) is amended by inserting “,
24 except that in the case of a corporation, the ten-

1 tentative minimum tax shall be treated as zero” before
2 the period at the end.

3 (3)(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 clause (ii) thereof. For purposes
3 of the preceding sentence, marital status shall
4 be determined under section 7703.”.

5 (B) Section 55(b)(3) is amended by striking
6 “paragraph (1)(A)(i)” and inserting “paragraph
7 (1)(A)”.

8 (C) Section 59(a) is amended—

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

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

20 (D) Section 897(a)(2)(A) is amended by strik-
21 ing “section 55(b)(1)(A)” and inserting “section
22 55(b)(1)”.

23 (E) Section 911(f) is amended—

24 (i) in paragraph (1)(B)—

1 (I) by striking “section
2 55(b)(1)(A)(ii)” and inserting “section
3 55(b)(1)(B)”, and

4 (II) by striking “section
5 55(b)(1)(A)(i)” and inserting “section
6 55(b)(1)(A)”, and

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

10 (4) Section 55(c)(1) is amended by striking “,
11 the section 936 credit allowable under section 27(b),
12 and the Puerto Rico economic activity credit under
13 section 30A”.

14 (5) Section 55(d), as amended by section
15 11002, is amended—

16 (A) by striking paragraph (2) and redesign-
17 ating paragraphs (3) and (4) as paragraphs
18 (2) and (3), respectively,

19 (B) in paragraph (2) (as so redesignated),
20 by inserting “and” at the end of subparagraph
21 (B), by striking “, and” at the end of subpara-
22 graph (C) and inserting a period, and by strik-
23 ing subparagraph (D), and

24 (C) in paragraph (3) (as so redesign-
25 ated)—

1 (i) by striking “(b)(1)(A)(i)” in sub-
2 paragraph (B)(i) and inserting
3 “(b)(1)(A)”, and

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

7 (6) Section 55 is amended by striking sub-
8 section (e).

9 (7) Section 56(b)(2) is amended by striking
10 subparagraph (C) and by redesignating subpara-
11 graph (D) as subparagraph (C).

12 (8)(A) Section 56 is amended by striking sub-
13 sections (c) and (g).

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

16 (C) Section 848 is amended by striking sub-
17 section (i).

18 (9) Section 58(a) is amended by striking para-
19 graph (3) and redesignating paragraph (4) as para-
20 graph (3).

21 (10) Section 59 is amended by striking sub-
22 sections (b) and (f).

23 (11) Section 11(d) is amended by striking “the
24 taxes imposed by subsection (a) and section 55” and
25 inserting “the tax imposed by subsection (a)”.

1 (12) Section 12 is amended by striking para-
2 graph (7).

3 (13) Section 168(k) is amended by striking
4 paragraph (4).

5 (14) Section 882(a)(1) is amended by striking
6 “, 55,”.

7 (15) Section 962(a)(1) is amended by striking
8 “sections 11 and 55” and inserting “section 11”.

9 (16) Section 1561(a) is amended—

10 (A) by inserting “and” at the end of para-
11 graph (1), by striking “, and” at the end of
12 paragraph (2) and inserting a period, and by
13 striking paragraph (3), and

14 (B) by striking the last sentence.

15 (17) Section 6425(c)(1)(A) is amended to read
16 as follows:

17 “(A) the tax imposed by section 11 or
18 1201(a), or subchapter L of chapter 1, which-
19 ever is applicable, over”.

20 (18) Section 6655(e)(2) is amended by striking
21 “and alternative minimum taxable income” each
22 place it appears in subparagraphs (A) and (B)(i).

23 (19) Section 6655(g)(1)(A) is amended by in-
24 serting “plus” at the end of clause (i), by striking

1 clause (ii), and by redesignating clause (iii) as clause
2 (ii).

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

6 **SEC. 12002. CREDIT FOR PRIOR YEAR MINIMUM TAX LI-**
7 **ABILITY OF CORPORATIONS.**

8 (a) CREDITS TREATED AS REFUNDABLE.—Section
9 53 is amended by adding at the end the following new
10 subsection:

11 “(e) PORTION OF CREDIT TREATED AS REFUND-
12 ABLE.—

13 “(1) IN GENERAL.—In the case of any taxable
14 year of a corporation beginning in 2018, 2019,
15 2020, or 2021, the limitation under subsection (c)
16 shall be increased by the AMT refundable credit
17 amount for such year.

18 “(2) AMT REFUNDABLE CREDIT AMOUNT.—
19 For purposes of paragraph (1), the AMT refundable
20 credit amount is an amount equal to 50 percent
21 (100 percent in the case of a taxable year beginning
22 in 2021) of the excess (if any) of—

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

1 “(B) the minimum tax credit allowed
2 under subsection (a) for such year (before the
3 application of this subsection for such year).

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

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

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

19 “(3) AMT TERM REFERENCES.—In the case of
20 a corporation, any references in this subsection to
21 section 55, 56, or 57 shall be treated as a reference
22 to such section as in effect before the amendments
23 made by Tax Cuts and Jobs Act.”.

1 (c) CONFORMING AMENDMENT.—Section
2 1374(b)(3)(B) is amended by striking the last sentence
3 thereof.

4 (d) EFFECTIVE DATE.—

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

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

11 **SEC. 12003. INCREASED EXEMPTION FOR INDIVIDUALS.**

12 (a) IN GENERAL.—Section 55(d), as amended by the
13 preceding provisions of this Act, is amended by adding at
14 the end the following new paragraph:

15 “(4) SPECIAL RULE FOR TAXABLE YEARS BE-
16 GINNING AFTER 2017 AND BEFORE 2026.—

17 “(A) IN GENERAL.—In the case of any
18 taxable year beginning after December 31,
19 2017, and before January 1, 2026—

20 “(i) paragraph (1) shall be applied—

21 “(I) by substituting ‘\$109,400’
22 for ‘\$78,750’ in subparagraph (A),
23 and

1 “(II) by substituting ‘\$70,300’
2 for ‘\$50,600’ in subparagraph (B),
3 and

4 “(ii) paragraph (2) shall be applied—
5 “(I) by substituting ‘\$1,000,000’
6 for ‘\$150,000’ in subparagraph (A),

7 “(II) by substituting ‘50 percent
8 of the dollar amount applicable under
9 subparagraph (A)’ for ‘\$112,500’ in
10 subparagraph (B), and

11 “(III) in the case of a taxpayer
12 described in paragraph (1)(D), with-
13 out regard to the substitution under
14 subclause (I).

15 “(B) INFLATION ADJUSTMENT.—

16 “(i) IN GENERAL.—In the case of any
17 taxable year beginning in a calendar year
18 after 2018, the amounts described in
19 clause (ii) shall each be increased by an
20 amount equal to—

21 “(I) such dollar amount, multi-
22 plied by

23 “(II) the cost-of-living adjust-
24 ment determined under section 1(f)(3)
25 for the calendar year in which the tax-

1 able year begins, determined by sub-
2 stituting ‘calendar year 2017’ for ‘cal-
3 endar year 2016’ in subparagraph
4 (A)(ii) thereof.

5 “(ii) AMOUNTS DESCRIBED.—The
6 amounts described in this clause are the
7 \$109,400 amount in subparagraph
8 (A)(i)(I), the \$70,300 amount in subpara-
9 graph (A)(i)(II), and the \$1,000,000
10 amount in subparagraph (A)(ii)(I).

11 “(iii) ROUNDING.—Any increased
12 amount determined under clause (i) shall
13 be rounded to the nearest multiple of
14 \$100.

15 “(iv) COORDINATION WITH CURRENT
16 ADJUSTMENTS.—In the case of any taxable
17 year to which subparagraph (A) applies, no
18 adjustment shall be made under paragraph
19 (3) to any of the numbers which are sub-
20 stituted under subparagraph (A) and ad-
21 justed under this subparagraph.”.

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

1 **Subtitle C—Business-related**
2 **Provisions**

3 **PART I—CORPORATE PROVISIONS**

4 **SEC. 13001. 21-PERCENT CORPORATE TAX RATE.**

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

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

10 (b) CONFORMING AMENDMENTS.—

11 (1) The following sections are each amended by
12 striking “section 11(b)(1)” and inserting “section
13 11(b)”:

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

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

17 (C) Section 7874(e)(1)(B).

18 (2)(A) Part I of subchapter P of chapter 1 is
19 amended by striking section 1201 (and by striking
20 the item relating to such section in the table of sec-
21 tions for such part).

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

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

3 (D) Section 527(b) is amended—

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

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

7 “(b) TAX IMPOSED.—A tax”.

8 (E) Sections 594(a) is amended by striking
9 “taxes imposed by section 11 or 1201(a)” and in-
10 sserting “tax imposed by section 11”.

11 (F) Section 691(c)(4) is amended by striking
12 “1201,”.

13 (G) Section 801(a) is amended—

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

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

17 “(a) TAX IMPOSED.—A tax”.

18 (H) Section 831(e) is amended by striking
19 paragraph (1) and by redesignating paragraphs (2)
20 and (3) as paragraphs (1) and (2), respectively.

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

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

1 (K) Section 857(b)(3) is amended—

2 (i) by striking subparagraph (A) and re-
3 designating subparagraphs (B) through (F) as
4 subparagraphs (A) through (E), respectively,

5 (ii) in subparagraph (C), as so redesign-
6 nated—

7 (I) by striking “subparagraph (A)(ii)”
8 in clause (i) thereof and inserting “para-
9 graph (1)”,

10 (II) by striking “the tax imposed by
11 subparagraph (A)(ii)” in clauses (ii) and
12 (iv) thereof and inserting “the tax imposed
13 by paragraph (1) on undistributed capital
14 gain”,

15 (iii) in subparagraph (E), as so redesign-
16 nated, by striking “subparagraph (B) or (D)”
17 and inserting “subparagraph (A) or (C)”, and

18 (iv) by adding at the end the following new
19 subparagraph:

20 “(F) **UNDISTRIBUTED CAPITAL GAIN.**—

21 For purposes of this paragraph, the term ‘un-
22 distributed capital gain’ means the excess of the
23 net capital gain over the deduction for divi-
24 dends paid (as defined in section 561) deter-

1 mined with reference to capital gain dividends
2 only.”.

3 (L) Section 882(a)(1), as amended by section
4 12001, is further amended by striking “or 1201(a)”.

5 (M) Section 904(b) is amended—

6 (i) by striking “or 1201(a)” in paragraph
7 (2)(C),

8 (ii) by striking paragraph (3)(D) and in-
9 serting the following:

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

14 (iii) by striking paragraph (3)(E) and in-
15 serting the following:

16 “(E) RATE DIFFERENTIAL PORTION.—The
17 rate differential portion of foreign source net
18 capital gain, net capital gain, or the excess of
19 net capital gain from sources within the United
20 States over net capital gain, as the case may
21 be, is the same proportion of such amount as—

22 “(i) the excess of—

23 “(I) the highest rate of tax set
24 forth in subsection (a), (b), (c), (d), or

1 (e) of section 1 (whichever applies),
2 over

3 “(II) the alternative rate of tax
4 determined under section 1(h), bears
5 to

6 “(ii) that rate referred to in subclause
7 (I).”.

8 (N) Section 1374(b) is amended by striking
9 paragraph (4).

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

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

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

18 (3)(A) Section 1445(e)(1) is amended—
19 (i) by striking “35 percent” and inserting
20 “the highest rate of tax in effect for the taxable
21 year under section 11(b)”, and

22 (ii) by striking “of the gain” and inserting
23 “multiplied by the gain”.

24 (B) Section 1445(e)(2) is amended by striking
25 “35 percent of the amount” and inserting “the high-

1 est rate of tax in effect for the taxable year under
2 section 11(b) multiplied by the amount”.

3 (C) Section 1445(e)(6) is amended—

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

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

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

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

14 (5)(A) Part I of subchapter B of chapter 5 is
15 amended by striking section 1551 (and by striking
16 the item relating to such section in the table of sec-
17 tions for such part).

18 (B) Section 535(c)(5) is amended to read as
19 follows:

20 “(5) CROSS REFERENCE.—For limitation on
21 credit provided in paragraph (2) or (3) in the case
22 of certain controlled corporations, see section
23 1561.”.

24 (6)(A) Section 1561, as amended by section
25 12001, is amended to read as follows:

1 **“SEC. 1561. LIMITATION ON ACCUMULATED EARNINGS**
2 **CREDIT IN THE CASE OF CERTAIN CON-**
3 **TROLLED CORPORATIONS.**

4 “(a) IN GENERAL.—The component members of a
5 controlled group of corporations on a December 31 shall,
6 for their taxable years which include such December 31,
7 be limited for purposes of this subtitle to one \$250,000
8 (\$150,000 if any component member is a corporation de-
9 scribed in section 535(c)(2)(B)) amount for purposes of
10 computing the accumulated earnings credit under section
11 535(c)(2) and (3). Such amount shall be divided equally
12 among the component members of such group on such De-
13 cember 31 unless the Secretary prescribes regulations per-
14 mitting an unequal allocation of such amount.

15 “(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-
16 poration has a short taxable year which does not include
17 a December 31 and is a component member of a controlled
18 group of corporations with respect to such taxable year,
19 then for purposes of this subtitle, the amount to be used
20 in computing the accumulated earnings credit under sec-
21 tion 535(c)(2) and (3) of such corporation for such taxable
22 year shall be the amount specified in subsection (a) with
23 respect to such group, divided by the number of corpora-
24 tions which are component members of such group on the
25 last day of such taxable year. For purposes of the pre-

1 ceding sentence, section 1563(b) shall be applied as if such
2 last day were substituted for December 31.”.

3 (B) The table of sections for part II of
4 subchapter B of chapter 5 is amended by strik-
5 ing the item relating to section 1561 and in-
6 serting the following new item:

“Sec. 1561. Limitation on accumulated earnings credit in the case of certain
controlled corporations.”.

7 (7) Section 7518(g)(6)(A) is amended—

8 (A) by striking “With respect to the por-
9 tion” and inserting “In the case of a taxpayer
10 other than a corporation, with respect to the
11 portion”, and

12 (B) by striking “(34 percent in the case of
13 a corporation)”.

14 (c) EFFECTIVE DATE.—

15 (1) IN GENERAL.—Except as otherwise pro-
16 vided in this subsection, the amendments made by
17 subsections (a) and (b) shall apply to taxable years
18 beginning after December 31, 2017.

19 (2) WITHHOLDING.—The amendments made by
20 subsection (b)(3) shall apply to distributions made
21 after December 31, 2017.

22 (3) CERTAIN TRANSFERS.—The amendments
23 made by subsection (b)(6) shall apply to transfers
24 made after December 31, 2017.

1 (d) NORMALIZATION REQUIREMENTS.—

2 (1) IN GENERAL.—A normalization method of
3 accounting shall not be treated as being used with
4 respect to any public utility property for purposes of
5 section 167 or 168 of the Internal Revenue Code of
6 1986 if the taxpayer, in computing its cost of service
7 for ratemaking purposes and reflecting operating re-
8 sults in its regulated books of account, reduces the
9 excess tax reserve more rapidly or to a greater ex-
10 tent than such reserve would be reduced under the
11 average rate assumption method.

12 (2) ALTERNATIVE METHOD FOR CERTAIN TAX-
13 PAYERS.—If, as of the first day of the taxable year
14 that includes the date of enactment of this Act—

15 (A) the taxpayer was required by a regu-
16 latory agency to compute depreciation for public
17 utility property on the basis of an average life
18 or composite rate method, and

19 (B) the taxpayer's books and underlying
20 records did not contain the vintage account
21 data necessary to apply the average rate as-
22 sumption method,

23 the taxpayer will be treated as using a normalization
24 method of accounting if, with respect to such juris-
25 diction, the taxpayer uses the alternative method for

1 public utility property that is subject to the regu-
2 latory authority of that jurisdiction.

3 (3) DEFINITIONS.—For purposes of this sub-
4 section—

5 (A) EXCESS TAX RESERVE.—The term
6 “excess tax reserve” means the excess of—

7 (i) the reserve for deferred taxes (as
8 described in section 168(i)(9)(A)(ii) of the
9 Internal Revenue Code of 1986) as of the
10 day before the corporate rate reductions
11 provided in the amendments made by this
12 section take effect, over

13 (ii) the amount which would be the
14 balance in such reserve if the amount of
15 such reserve were determined by assuming
16 that the corporate rate reductions provided
17 in this Act were in effect for all prior peri-
18 ods.

19 (B) AVERAGE RATE ASSUMPTION METH-
20 OD.—The average rate assumption method is
21 the method under which the excess in the re-
22 serve for deferred taxes is reduced over the re-
23 maining lives of the property as used in its reg-
24 ulated books of account which gave rise to the
25 reserve for deferred taxes. Under such method,

1 during the time period in which the timing dif-
2 ferences for the property reverse, the amount of
3 the adjustment to the reserve for the deferred
4 taxes is calculated by multiplying—

5 (i) the ratio of the aggregate deferred
6 taxes for the property to the aggregate
7 timing differences for the property as of
8 the beginning of the period in question, by

9 (ii) the amount of the timing dif-
10 ferences which reverse during such period.

11 (C) ALTERNATIVE METHOD.—The “alter-
12 native method” is the method in which the tax-
13 payer—

14 (i) computes the excess tax reserve on
15 all public utility property included in the
16 plant account on the basis of the weighted
17 average life or composite rate used to com-
18 pute depreciation for regulatory purposes,
19 and

20 (ii) reduces the excess tax reserve rat-
21 ably over the remaining regulatory life of
22 the property.

23 (4) TAX INCREASED FOR NORMALIZATION VIO-
24 LATION.—If, for any taxable year ending after the
25 date of the enactment of this Act, the taxpayer does

1 not use a normalization method of accounting for
2 the corporate rate reductions provided in the amend-
3 ments made by this section—

4 (A) the taxpayer's tax for the taxable year
5 shall be increased by the amount by which it re-
6 duces its excess tax reserve more rapidly than
7 permitted under a normalization method of ac-
8 counting, and

9 (B) such taxpayer shall not be treated as
10 using a normalization method of accounting for
11 purposes of subsections (f)(2) and (i)(9)(C) of
12 section 168 of the Internal Revenue Code of
13 1986.

14 **SEC. 13002. REDUCTION IN DIVIDEND RECEIVED DEDUC-**
15 **TIONS TO REFLECT LOWER CORPORATE IN-**
16 **COME TAX RATES.**

17 (a) DIVIDENDS RECEIVED BY CORPORATIONS.—

18 (1) IN GENERAL.—Section 243(a)(1) is amend-
19 ed by striking “70 percent” and inserting “50 per-
20 cent”.

21 (2) DIVIDENDS FROM 20-PERCENT OWNED COR-
22 PORATIONS.—Section 243(c)(1) is amended—

23 (A) by striking “80 percent” and inserting
24 “65 percent”, and

1 (B) by striking “70 percent” and inserting
2 “50 percent”.

3 (3) CONFORMING AMENDMENT.—The heading
4 for section 243(c) is amended by striking “RETEN-
5 TION OF 80-PERCENT DIVIDEND RECEIVED DEDUC-
6 TION” and inserting “INCREASED PERCENTAGE”.

7 (b) DIVIDENDS RECEIVED FROM FSC.—Section
8 245(c)(1)(B) is amended—

9 (1) by striking “70 percent” and inserting “50
10 percent”, and

11 (2) by striking “80 percent” and inserting “65
12 percent”.

13 (c) LIMITATION ON AGGREGATE AMOUNT OF DEDUC-
14 TIONS.—Section 246(b)(3) is amended—

15 (1) by striking “80 percent” in subparagraph
16 (A) and inserting “65 percent”, and

17 (2) by striking “70 percent” in subparagraph
18 (B) and inserting “50 percent”.

19 (d) REDUCTION IN DEDUCTION WHERE PORTFOLIO
20 STOCK IS DEBT-FINANCED.—Section 246A(a)(1) is
21 amended—

22 (1) by striking “70 percent” and inserting “50
23 percent”, and

24 (2) by striking “80 percent” and inserting “65
25 percent”.

1 (e) INCOME FROM SOURCES WITHIN THE UNITED
2 STATES.—Section 861(a)(2) is amended—

3 (1) by striking “100/70th” and inserting “100/
4 50th” in subparagraph (B), and

5 (2) in the flush sentence at the end—

6 (A) by striking “100/80th” and inserting
7 “100/65th”, and

8 (B) by striking “100/70th” and inserting
9 “100/50th”.

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

13 **PART II—SMALL BUSINESS REFORMS**

14 **SEC. 13101. MODIFICATIONS OF RULES FOR EXPENSING DE-** 15 **PRECIABLE BUSINESS ASSETS.**

16 (a) INCREASE IN LIMITATION.—

17 (1) DOLLAR LIMITATION.—Section 179(b)(1) is
18 amended by striking “\$500,000” and inserting
19 “\$1,000,000”.

20 (2) REDUCTION IN LIMITATION.—Section
21 179(b)(2) is amended by striking “\$2,000,000” and
22 inserting “\$2,500,000”.

23 (3) INFLATION ADJUSTMENTS.—

1 (A) IN GENERAL.—Subparagraph (A) of
2 section 179(b)(6), as amended by section
3 11002(d), 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 Real
19 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) at the election of the taxpayer,
2 qualified real property (as defined in sub-
3 section (f)), and”.

4 (2) QUALIFIED REAL PROPERTY DEFINED.—
5 Subsection (f) of section 179 is amended to read as
6 follows:

7 “(f) QUALIFIED REAL PROPERTY.—For purposes of
8 this section, the term ‘qualified real property’ means—

9 “(1) any qualified improvement property de-
10 scribed in section 168(e)(6), and

11 “(2) any of the following improvements to non-
12 residential real property placed in service after the
13 date such property was first placed in service:

14 “(A) Roofs.

15 “(B) Heating, ventilation, and air-condi-
16 tioning property.

17 “(C) Fire protection and alarm systems.

18 “(D) Security systems.”.

19 (c) REPEAL OF EXCLUSION FOR CERTAIN PROP-
20 PERTY.—The last sentence of section 179(d)(1) is amended
21 by inserting “(other than paragraph (2) thereof)” after
22 “section 50(b)”.

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

1 **SEC. 13102. SMALL BUSINESS ACCOUNTING METHOD RE-**
2 **FORM AND SIMPLIFICATION.**

3 (a) **MODIFICATION OF LIMITATION ON CASH METH-**
4 **OD OF ACCOUNTING.—**

5 (1) **INCREASED LIMITATION.—**So much of sec-
6 tion 448(c) as precedes paragraph (2) is amended to
7 read as follows:

8 “(c) **GROSS RECEIPTS TEST.—**For purposes of this
9 section—

10 “(1) **IN GENERAL.—**A corporation or partner-
11 ship meets the gross receipts test of this subsection
12 for any taxable year if the average annual gross re-
13 ceipts of such entity for the 3-taxable-year period
14 ending with the taxable year which precedes such
15 taxable year does not exceed \$25,000,000.”.

16 (2) **APPLICATION OF EXCEPTION ON ANNUAL**
17 **BASIS.—**Section 448(b)(3) is amended to read as fol-
18 lows:

19 “(3) **ENTITIES WHICH MEET GROSS RECEIPTS**
20 **TEST.—**Paragraphs (1) and (2) of subsection (a)
21 shall not apply to any corporation or partnership for
22 any taxable year if such entity (or any predecessor)
23 meets the gross receipts test of subsection (c) for
24 such taxable year.”.

1 (3) INFLATION ADJUSTMENT.—Section 448(c)
2 is amended by adding at the end the following new
3 paragraph:

4 “(4) ADJUSTMENT FOR INFLATION.—In the
5 case of any taxable year beginning after December
6 31, 2018, the dollar amount in paragraph (1) shall
7 be increased by an amount equal to—

8 “(A) such dollar amount, multiplied by

9 “(B) the cost-of-living adjustment deter-
10 mined under section 1(f)(3) for the calendar
11 year in which the taxable year begins, by sub-
12 stituting ‘calendar year 2017’ for ‘calendar year
13 2016’ in subparagraph (A)(ii) thereof.

14 If any amount as increased under the preceding sen-
15 tence is not a multiple of \$1,000,000, such amount
16 shall be rounded to the nearest multiple of
17 \$1,000,000.”.

18 (4) COORDINATION WITH SECTION 481.—Sec-
19 tion 448(d)(7) is amended to read as follows:

20 “(7) COORDINATION WITH SECTION 481.—Any
21 change in method of accounting made pursuant to
22 this section shall be treated for purposes of section
23 481 as initiated by the taxpayer and made with the
24 consent of the Secretary.”.

1 (5) APPLICATION OF EXCEPTION TO CORPORA-
2 TIONS ENGAGED IN FARMING.—

3 (A) IN GENERAL.—Section 447(c) is
4 amended—

5 (i) by inserting “for any taxable year”
6 after “not being a corporation” in the mat-
7 ter preceding paragraph (1), and

8 (ii) by amending paragraph (2) to
9 read as follows:

10 “(2) a corporation which meets the gross re-
11 ceipts test of section 448(c) for such taxable year.”.

12 (B) COORDINATION WITH SECTION 481.—

13 Section 447(f) is amended to read as follows:

14 “(f) COORDINATION WITH SECTION 481.—Any
15 change in method of accounting made pursuant to this
16 section shall be treated for purposes of section 481 as ini-
17 tiated by the taxpayer and made with the consent of the
18 Secretary.”.

19 (C) CONFORMING AMENDMENTS.—Section
20 447 is amended—

21 (i) by striking subsections (d), (e),
22 (h), and (i), and

23 (ii) by redesignating subsections (f)
24 and (g) (as amended by subparagraph (B))
25 as subsections (d) and (e), respectively.

1 (b) EXEMPTION FROM UNICAP REQUIREMENTS.—

2 (1) IN GENERAL.—Section 263A is amended by
3 redesignating subsection (i) as subsection (j) and by
4 inserting after subsection (h) the following new sub-
5 section:

6 “(i) EXEMPTION FOR CERTAIN SMALL BUSI-
7 NESSES.—

8 “(1) IN GENERAL.—In the case of any taxpayer
9 (other than a tax shelter prohibited from using the
10 cash receipts and disbursements method of account-
11 ing under section 448(a)(3)) which meets the gross
12 receipts test of section 448(c) for any taxable year,
13 this section shall not apply with respect to such tax-
14 payer for such taxable year.

15 “(2) APPLICATION OF GROSS RECEIPTS TEST
16 TO INDIVIDUALS, ETC.— In the case of any taxpayer
17 which is not a corporation or a partnership, the
18 gross receipts test of section 448(c) shall be applied
19 in the same manner as if each trade or business of
20 such taxpayer were a corporation or partnership.

21 “(3) COORDINATION WITH SECTION 481.—Any
22 change in method of accounting made pursuant to
23 this subsection shall be treated for purposes of sec-
24 tion 481 as initiated by the taxpayer and made with
25 the consent of the Secretary.”.

1 (2) CONFORMING AMENDMENT.—Section
2 263A(b)(2) is amended to read as follows:

3 “(2) PROPERTY ACQUIRED FOR RESALE.—Real
4 or personal property described in section 1221(a)(1)
5 which is acquired by the taxpayer for resale.”.

6 (c) EXEMPTION FROM INVENTORIES.—Section 471
7 is amended by redesignating subsection (c) as subsection
8 (d) and by inserting after subsection (b) the following new
9 subsection:

10 “(c) EXEMPTION FOR CERTAIN SMALL BUSI-
11 NESSES.—

12 “(1) IN GENERAL.—In the case of any taxpayer
13 (other than a tax shelter prohibited from using the
14 cash receipts and disbursements method of account-
15 ing under section 448(a)(3)) which meets the gross
16 receipts test of section 448(c) for any taxable year—

17 “(A) subsection (a) shall not apply with re-
18 spect to such taxpayer for such taxable year,
19 and

20 “(B) the taxpayer’s method of accounting
21 for inventory for such taxable year shall not be
22 treated as failing to clearly reflect income if
23 such method either—

24 “(i) treats inventory as non-incidental
25 materials and supplies, or

1 “(ii) conforms to such taxpayer’s
2 method of accounting reflected in an appli-
3 cable financial statement of the taxpayer
4 with respect to such taxable year or, if the
5 taxpayer does not have any applicable fi-
6 nancial statement with respect to such tax-
7 able year, the books and records of the
8 taxpayer prepared in accordance with the
9 taxpayer’s accounting procedures.

10 “(2) APPLICABLE FINANCIAL STATEMENT.—
11 For purposes of this subsection, the term ‘applicable
12 financial statement’ has the meaning given the term
13 in section 451(b)(3).

14 “(3) APPLICATION OF GROSS RECEIPTS TEST
15 TO INDIVIDUALS, ETC.—In the case of any taxpayer
16 which is not a corporation or a partnership, the
17 gross receipts test of section 448(c) shall be applied
18 in the same manner as if each trade or business of
19 such taxpayer were a corporation or partnership.

20 “(4) COORDINATION WITH SECTION 481.—Any
21 change in method of accounting made pursuant to
22 this subsection shall be treated for purposes of sec-
23 tion 481 as initiated by the taxpayer and made with
24 the consent of the Secretary.”.

1 (d) EXEMPTION FROM PERCENTAGE COMPLETION
2 FOR LONG-TERM CONTRACTS.—

3 (1) IN GENERAL.—Section 460(e)(1)(B) is
4 amended—

5 (A) by inserting “(other than a tax shelter
6 prohibited from using the cash receipts and dis-
7 bursements method of accounting under section
8 448(a)(3))” after “taxpayer” in the matter pre-
9 ceding clause (i), and

10 (B) by amending clause (ii) to read as fol-
11 lows:

12 “(ii) who meets the gross receipts test
13 of section 448(e) for the taxable year in
14 which such contract is entered into.”.

15 (2) CONFORMING AMENDMENTS.—Section
16 460(e) is amended by striking paragraphs (2) and
17 (3), by redesignating paragraphs (4), (5), and (6) as
18 paragraphs (3), (4), and (5), respectively, and by in-
19 sserting after paragraph (1) the following new para-
20 graph:

21 “(2) RULES RELATED TO GROSS RECEIPTS
22 TEST.—

23 “(A) APPLICATION OF GROSS RECEIPTS
24 TEST TO INDIVIDUALS, ETC.— For purposes of
25 paragraph (1)(B)(ii), in the case of any tax-

1 payer which is not a corporation or a partner-
2 ship, the gross receipts test of section 448(c)
3 shall be applied in the same manner as if each
4 trade or business of such taxpayer were a cor-
5 poration or partnership.

6 “(B) COORDINATION WITH SECTION 481.—
7 Any change in method of accounting made pur-
8 suant to paragraph (1)(B)(ii) shall be treated
9 as initiated by the taxpayer and made with the
10 consent of the Secretary. Such change shall be
11 effected on a cut-off basis for all similarly clas-
12 sified contracts entered into on or after the
13 year of change.”.

14 (e) EFFECTIVE DATE.—

15 (1) IN GENERAL.—Except as otherwise pro-
16 vided in this subsection, the amendments made by
17 this section shall apply to taxable years beginning
18 after December 31, 2017.

19 (2) PRESERVATION OF SUSPENSE ACCOUNT
20 RULES WITH RESPECT TO ANY EXISTING SUSPENSE
21 ACCOUNTS.—So much of the amendments made by
22 subsection (a)(5)(C) as relate to section 447(i) of
23 the Internal Revenue Code of 1986 shall not apply
24 with respect to any suspense account established

1 under such section before the date of the enactment
2 of this Act.

3 (3) EXEMPTION FROM PERCENTAGE COMPLE-
4 TION FOR LONG-TERM CONTRACTS.—The amend-
5 ments made by subsection (d) shall apply to con-
6 tracts entered into after December 31, 2017, in tax-
7 able years ending after such date.

8 **PART III—COST RECOVERY AND ACCOUNTING**

9 **METHODS**

10 **Subpart A—Cost Recovery**

11 **SEC. 13201. TEMPORARY 100-PERCENT EXPENSING FOR** 12 **CERTAIN BUSINESS ASSETS.**

13 (a) INCREASED EXPENSING.—

14 (1) IN GENERAL.—Section 168(k) is amend-
15 ed—

16 (A) in paragraph (1)(A), by striking “50
17 percent” and inserting “the applicable percent-
18 age”, and

19 (B) in paragraph (5)(A)(i), by striking “50
20 percent” and inserting “the applicable percent-
21 age”.

22 (2) APPLICABLE PERCENTAGE.—Paragraph (6)
23 of section 168(k) is amended to read as follows:

24 “(6) APPLICABLE PERCENTAGE.—For purposes
25 of this subsection—

1 “(A) IN GENERAL.—Except as otherwise
2 provided in this paragraph, the term ‘applicable
3 percentage’ means—

4 “(i) in the case of property placed in
5 service after September 27, 2017, and be-
6 fore January 1, 2023, 100 percent,

7 “(ii) in the case of property placed in
8 service after December 31, 2022, and be-
9 fore January 1, 2024, 80 percent,

10 “(iii) in the case of property placed in
11 service after December 31, 2023, and be-
12 fore January 1, 2025, 60 percent,

13 “(iv) in the case of property placed in
14 service after December 31, 2024, and be-
15 fore January 1, 2026, 40 percent, and

16 “(v) in the case of property placed in
17 service after December 31, 2025, and be-
18 fore January 1, 2027, 20 percent.

19 “(B) RULE FOR PROPERTY WITH LONGER
20 PRODUCTION PERIODS.—In the case of property
21 described in subparagraph (B) or (C) of para-
22 graph (2), the term ‘applicable percentage’
23 means—

1 “(i) in the case of property placed in
2 service after September 27, 2017, and be-
3 fore January 1, 2024, 100 percent,

4 “(ii) in the case of property placed in
5 service after December 31, 2023, and be-
6 fore January 1, 2025, 80 percent,

7 “(iii) in the case of property placed in
8 service after December 31, 2024, and be-
9 fore January 1, 2026, 60 percent,

10 “(iv) in the case of property placed in
11 service after December 31, 2025, and be-
12 fore January 1, 2027, 40 percent, and

13 “(v) in the case of property placed in
14 service after December 31, 2026, and be-
15 fore January 1, 2028, 20 percent.

16 “(C) RULE FOR PLANTS BEARING FRUITS
17 AND NUTS.—In the case of a specified plant de-
18 scribed in paragraph (5), the term ‘applicable
19 percentage’ means—

20 “(i) in the case of a plant which is
21 planted or grafted after September 27,
22 2017, and before January 1, 2023, 100
23 percent,

24 “(ii) in the case of a plant which is
25 planted or grafted after December 31,

1 2022, and before January 1, 2024, 80 per-
2 cent,

3 “(iii) in the case of a plant which is
4 planted or grafted after December 31,
5 2023, and before January 1, 2025, 60 per-
6 cent,

7 “(iv) in the case of a plant which is
8 planted or grafted after December 31,
9 2024, and before January 1, 2026, 40 per-
10 cent, and

11 “(v) in the case of a plant which is
12 planted or grafted after December 31,
13 2025, and before January 1, 2027, 20 per-
14 cent.”.

15 (3) CONFORMING AMENDMENT.—

16 (A) Paragraph (5) of section 168(k) is
17 amended by striking subparagraph (F).

18 (B) Section 168(k) is amended by adding
19 at the end the following new paragraph:

20 “(8) PHASE DOWN.—In the case of qualified
21 property acquired by the taxpayer before September
22 28, 2017, and placed in service by the taxpayer after
23 September 27, 2017, paragraph (6) shall be applied
24 by substituting for each percentage therein—

25 “(A) ‘50 percent’ in the case of—

1 “(i) property placed in service before
2 January 1, 2018, and

3 “(ii) property described in subpara-
4 graph (B) or (C) of paragraph (2) which
5 is placed in service in 2018,

6 “(B) ‘40 percent’ in the case of—

7 “(i) property placed in service in 2018
8 (other than property described in subpara-
9 graph (B) or (C) of paragraph (2)), and

10 “(ii) property described in subpara-
11 graph (B) or (C) of paragraph (2) which
12 is placed in service in 2019,

13 “(C) ‘30 percent’ in the case of—

14 “(i) property placed in service in 2019
15 (other than property described in subpara-
16 graph (B) or (C) of paragraph (2)), and

17 “(ii) property described in subpara-
18 graph (B) or (C) of paragraph (2) which
19 is placed in service in 2020, and

20 “(D) ‘0 percent’ in the case of—

21 “(i) property placed in service after
22 2019 (other than property described in
23 subparagraph (B) or (C) of paragraph
24 (2)), and

1 “(ii) property described in subpara-
2 graph (B) or (C) of paragraph (2) which
3 is placed in service after 2020.”.

4 (b) EXTENSION.—

5 (1) IN GENERAL.—Section 168(k) is amend-
6 ed—

7 (A) in paragraph (2)—

8 (i) in subparagraph (A)(iii), clauses
9 (i)(III) and (ii) of subparagraph (B), and
10 subparagraph (E)(i), by striking “January
11 1, 2020” each place it appears and insert-
12 ing “January 1, 2027”, and

13 (ii) in subparagraph (B)—

14 (I) in clause (i)(II), by striking
15 “January 1, 2021” and inserting
16 “January 1, 2028”, and

17 (II) in the heading of clause (ii),
18 by striking “PRE-JANUARY 1, 2020”
19 and inserting “PRE-JANUARY 1, 2027”,
20 and

21 (B) in paragraph (5)(A), by striking “Jan-
22 uary 1, 2020” and inserting “January 1,
23 2027”.

24 (2) CONFORMING AMENDMENTS.—

1 (A) Clause (ii) of section 460(c)(6)(B) is
2 amended by striking “January 1, 2020 (Janu-
3 ary 1, 2021” and inserting “January 1, 2027
4 (January 1, 2028”.

5 (B) The heading of section 168(k) is
6 amended by striking “ACQUIRED AFTER DE-
7 CEMBER 31, 2007, AND BEFORE JANUARY 1,
8 2020”.

9 (c) APPLICATION TO USED PROPERTY.—

10 (1) IN GENERAL.—Section 168(k)(2)(A)(ii) is
11 amended to read as follows:

12 “(ii) the original use of which begins
13 with the taxpayer or the acquisition of
14 which by the taxpayer meets the require-
15 ments of clause (ii) of subparagraph (E),
16 and”.

17 (2) ACQUISITION REQUIREMENTS.—Section
18 168(k)(2)(E)(ii) is amended to read as follows:

19 “(ii) ACQUISITION REQUIREMENTS.—
20 An acquisition of property meets the re-
21 quirements of this clause if—

22 “(I) such property was not used
23 by the taxpayer at any time prior to
24 such acquisition, and

1 “(II) the acquisition of such
2 property meets the requirements of
3 paragraphs (2)(A), (2)(B), (2)(C),
4 and (3) of section 179(d).”,

5 (3) ANTI-ABUSE RULES.—Section 168(k)(2)(E)
6 is further amended by amending clause (iii)(I) to
7 read as follows:

8 “(I) property is used by a lessor
9 of such property and such use is the
10 lessor’s first use of such property.”.

11 (d) EXCEPTION FOR CERTAIN PROPERTY.—Section
12 168(k), as amended by this section, is amended by adding
13 at the end the following new paragraph:

14 “(9) EXCEPTION FOR CERTAIN PROPERTY.—
15 The term ‘qualified property’ shall not include—

16 “(A) any property which is primarily used
17 in a trade or business described in clause (iv)
18 of section 163(j)(7)(A), or

19 “(B) any property used in a trade or busi-
20 ness that has had floor plan financing indebted-
21 ness (as defined in paragraph (9) of section
22 163(j)), if the floor plan financing interest re-
23 lated to such indebtedness was taken into ac-
24 count under paragraph (1)(C) of such section.”.

1 (e) SPECIAL RULE.—Section 168(k), as amended by
2 this section, is amended by adding at the end the following
3 new paragraph:

4 “(10) SPECIAL RULE FOR PROPERTY PLACED
5 IN SERVICE DURING CERTAIN PERIODS.—

6 “(A) IN GENERAL.—In the case of quali-
7 fied property placed in service by the taxpayer
8 during the first taxable year ending after Sep-
9 tember 27, 2017, if the taxpayer elects to have
10 this paragraph apply for such taxable year,
11 paragraphs (1)(A) and (5)(A)(i) shall be ap-
12 plied by substituting ‘50 percent’ for ‘the appli-
13 cable percentage’.

14 “(B) FORM OF ELECTION.—Any election
15 under this paragraph shall be made at such
16 time and in such form and manner as the Sec-
17 retary may prescribe.”.

18 (f) COORDINATION WITH SECTION 280F.—Clause
19 (iii) of section 168(k)(2)(F) is amended by striking
20 “placed in service by the taxpayer after December 31,
21 2017” and inserting “acquired by the taxpayer before Sep-
22 tember 28, 2017, and placed in service by the taxpayer
23 after September 27, 2017”.

24 (g) QUALIFIED FILM AND TELEVISION AND LIVE
25 THEATRICAL PRODUCTIONS.—

1 (1) IN GENERAL.—Clause (i) of section
2 168(k)(2)(A), as amended by section 13204, is
3 amended—

4 (A) in subclause (II), by striking “or”,

5 (B) in subclause (III), by adding “or”
6 after the comma, and

7 (C) by adding at the end the following:

8 “(IV) which is a qualified film or tele-
9 vision production (as defined in subsection
10 (d) of section 181) for which a deduction
11 would have been allowable under section
12 181 without regard to subsections (a)(2)
13 and (g) of such section or this subsection,
14 or

15 “(V) which is a qualified live theat-
16 rical production (as defined in subsection
17 (e) of section 181) for which a deduction
18 would have been allowable under section
19 181 without regard to subsections (a)(2)
20 and (g) of such section or this sub-
21 section,”.

22 (2) PRODUCTION PLACED IN SERVICE.—Para-
23 graph (2) of section 168(k) is amended by adding at
24 the end the following:

1 “(H) PRODUCTION PLACED IN SERVICE.—

2 For purposes of subparagraph (A)—

3 “(i) a qualified film or television pro-
4 duction shall be considered to be placed in
5 service at the time of initial release or
6 broadcast, and

7 “(ii) a qualified live theatrical produc-
8 tion shall be considered to be placed in
9 service at the time of the initial live staged
10 performance.”.

11 (h) EFFECTIVE DATE.—

12 (1) IN GENERAL.—Except as provided by para-
13 graph (2), the amendments made by this section
14 shall apply to property which—

15 (A) is acquired after September 27, 2017,

16 and

17 (B) is placed in service after such date.

18 For purposes of the preceding sentence, property
19 shall not be treated as acquired after the date on
20 which a written binding contract is entered into for
21 such acquisition.

22 (2) SPECIFIED PLANTS.—The amendments
23 made by this section shall apply to specified plants
24 planted or grafted after September 27, 2017.

1 **SEC. 13202. MODIFICATIONS TO DEPRECIATION LIMITA-**
2 **TIONS ON LUXURY AUTOMOBILES AND PER-**
3 **SONAL USE PROPERTY.**

4 (a) LUXURY AUTOMOBILES.—

5 (1) IN GENERAL.—280F(a)(1)(A) is amended—

6 (A) in clause (i), by striking “\$2,560” and
7 inserting “\$10,000”,

8 (B) in clause (ii), by striking “\$4,100”
9 and inserting “\$16,000”,

10 (C) in clause (iii), by striking “\$2,450”
11 and inserting “\$9,600”, and

12 (D) in clause (iv), by striking “\$1,475”
13 and inserting “\$5,760”.

14 (2) CONFORMING AMENDMENTS.—

15 (A) Clause (ii) of section 280F(a)(1)(B) is
16 amended by striking “\$1,475” in the text and
17 heading and inserting “\$5,760”.

18 (B) Paragraph (7) of section 280F(d) is
19 amended—

20 (i) in subparagraph (A), by striking
21 “1988” and inserting “2018”, and

22 (ii) in subparagraph (B)(i)(II), by
23 striking “1987” and inserting “2017”.

24 (b) REMOVAL OF COMPUTER EQUIPMENT FROM
25 LISTED PROPERTY.—

1 (1) IN GENERAL.—Section 280F(d)(4)(A) is
2 amended—

3 (A) by inserting “and” at the end of clause

4 (iii),

5 (B) by striking clause (iv), and

6 (C) by redesignating clause (v) as clause

7 (iv).

8 (2) CONFORMING AMENDMENT.—Section
9 280F(d)(4) is amended by striking subparagraph
10 (B) and by redesignating subparagraph (C) as sub-
11 paragraph (B).

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to property placed in service after
14 December 31, 2017, in taxable years ending after such
15 date.

16 **SEC. 13203. MODIFICATIONS OF TREATMENT OF CERTAIN**
17 **FARM PROPERTY.**

18 (a) TREATMENT OF CERTAIN FARM PROPERTY AS 5-
19 YEAR PROPERTY.—Clause (vii) of section 168(e)(3)(B) is
20 amended by striking “after December 31, 2008, and which
21 is placed in service before January 1, 2010” and inserting
22 “after December 31, 2017”.

23 (b) REPEAL OF REQUIRED USE OF 150-PERCENT
24 DECLINING BALANCE METHOD.—Section 168(b)(2) is
25 amended by striking subparagraph (B) and by redesi-

1 nating subparagraphs (C) and (D) as subparagraphs (B)
2 and (C), respectively.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to property placed in service after
5 December 31, 2017, in taxable years ending after such
6 date.

7 **SEC. 13204. APPLICABLE RECOVERY PERIOD FOR REAL**
8 **PROPERTY.**

9 (a) IMPROVEMENTS TO REAL PROPERTY.—

10 (1) ELIMINATION OF QUALIFIED LEASEHOLD
11 IMPROVEMENT, QUALIFIED RESTAURANT, AND
12 QUALIFIED RETAIL IMPROVEMENT PROPERTY.—Sub-
13 section (e) of section 168 is amended—

14 (A) in subparagraph (E) of paragraph

15 (3)—

16 (i) by striking clauses (iv), (v), and
17 (ix),

18 (ii) in clause (vii), by inserting “and”
19 at the end,

20 (iii) in clause (viii), by striking “,
21 and” and inserting a period, and

22 (iv) by redesignating clauses (vi),
23 (vii), and (viii), as so amended, as clauses
24 (iv), (v), and (vi), respectively, and

1 (B) by striking paragraphs (6), (7), and
2 (8).

3 (2) APPLICATION OF STRAIGHT LINE METHOD
4 TO QUALIFIED IMPROVEMENT PROPERTY.—Para-
5 graph (3) of section 168(b) is amended—

6 (A) by striking subparagraphs (G), (H),
7 and (I), and

8 (B) by inserting after subparagraph (F)
9 the following new subparagraph:

10 “(G) Qualified improvement property de-
11 scribed in subsection (e)(6).”.

12 (3) ALTERNATIVE DEPRECIATION SYSTEM.—

13 (A) ELECTING REAL PROPERTY TRADE OR
14 BUSINESS.—Subsection (g) of section 168 is
15 amended—

16 (i) in paragraph (1)—

17 (I) in subparagraph (D), by
18 striking “and” at the end,

19 (II) in subparagraph (E), by in-
20 sserting “and” at the end, and

21 (III) by inserting after subpara-
22 graph (E) the following new subpara-
23 graph:

24 “(F) any property described in paragraph
25 (8),”, and

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

3 “(8) ELECTING REAL PROPERTY TRADE OR
 4 BUSINESS.—The property described in this para-
 5 graph shall consist of any nonresidential real prop-
 6 erty, residential rental property, and qualified im-
 7 provement property held by an electing real property
 8 trade or business (as defined in 163(j)(7)(B)).”.

9 (B) QUALIFIED IMPROVEMENT PROP-
 10 erty.—The table contained in subparagraph
 11 (B) of section 168(g)(3) is amended—

12 (i) by inserting after the item relating
 13 to subparagraph (D)(ii) the following new
 14 item:

“(D)(v) 20”

15 , and

16 (ii) by striking the item relating to
 17 subparagraph (E)(iv) and all that follows
 18 through the item relating to subparagraph
 19 (E)(ix) and inserting the following:

“(E)(iv) 20
 (E)(v) 30
 (E)(vi) 35”.

20 (C) APPLICABLE RECOVERY PERIOD FOR
 21 RESIDENTIAL RENTAL PROPERTY.—The table
 22 contained in subparagraph (C) of section
 23 168(g)(2) is amended by striking clauses (iii)
 24 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 (4) 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 (1)(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—

1 “(i) the enlargement of the building,
2 “(ii) any elevator or escalator, or
3 “(iii) the internal structural frame-
4 work of the building.”, and
5 (ii) in subsection (k), by striking
6 paragraph (3).

7 (b) EFFECTIVE DATE.—

8 (1) IN GENERAL.—Except as provided in para-
9 graph (2), the amendments made by this section
10 shall apply to property placed in service after De-
11 cember 31, 2017.

12 (2) AMENDMENTS RELATED TO ELECTING
13 REAL PROPERTY TRADE OR BUSINESS.—The amend-
14 ments made by subsection (a)(3)(A) shall apply to
15 taxable years beginning after December 31, 2017.

16 **SEC. 13205. USE OF ALTERNATIVE DEPRECIATION SYSTEM**
17 **FOR ELECTING FARMING BUSINESSES.**

18 (a) IN GENERAL.—Section 168(g)(1), as amended by
19 section 13204, is amended by striking “and” at the end
20 of subparagraph (E), by inserting “and” at the end of
21 subparagraph (F), and by inserting after subparagraph
22 (F) the following new subparagraph:

23 “(G) any property with a recovery period
24 of 10 years or more which is held by an electing

1 farming business (as defined in section
2 163(j)(7)(C)),”.

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

6 **SEC. 13206. AMORTIZATION OF RESEARCH AND EXPERI-**
7 **MENTAL EXPENDITURES.**

8 (a) IN GENERAL.—Section 174 is amended to read
9 as follows:

10 **“SEC. 174. AMORTIZATION OF RESEARCH AND EXPERI-**
11 **MENTAL EXPENDITURES.**

12 “(a) IN GENERAL.—In the case of a taxpayer’s speci-
13 fied research or experimental expenditures for any taxable
14 year—

15 “(1) except as provided in paragraph (2), no
16 deduction shall be allowed for such expenditures,
17 and

18 “(2) the taxpayer shall—

19 “(A) charge such expenditures to capital
20 account, and

21 “(B) be allowed an amortization deduction
22 of such expenditures ratably over the 5-year pe-
23 riod (15-year period in the case of any specified
24 research or experimental expenditures which are
25 attributable to foreign research (within the

1 meaning of section 41(d)(4)(F))) beginning
2 with the midpoint of the taxable year in which
3 such expenditures are paid or incurred.

4 “(b) SPECIFIED RESEARCH OR EXPERIMENTAL EX-
5 PENDITURES.—For purposes of this section, the term
6 ‘specified research or experimental expenditures’ means,
7 with respect to any taxable year, research or experimental
8 expenditures which are paid or incurred by the taxpayer
9 during such taxable year in connection with the taxpayer’s
10 trade or business.

11 “(c) SPECIAL RULES.—

12 “(1) LAND AND OTHER PROPERTY.—This sec-
13 tion shall not apply to any expenditure for the acqui-
14 sition or improvement of land, or for the acquisition
15 or improvement of property to be used in connection
16 with the research or experimentation and of a char-
17 acter which is subject to the allowance under section
18 167 (relating to allowance for depreciation, etc.) or
19 section 611 (relating to allowance for depletion); but
20 for purposes of this section allowances under section
21 167, and allowances under section 611, shall be con-
22 sidered as expenditures.

23 “(2) EXPLORATION EXPENDITURES.—This sec-
24 tion shall not apply to any expenditure paid or in-
25 curred for the purpose of ascertaining the existence,

1 location, extent, or quality of any deposit of ore or
2 other mineral (including oil and gas).

3 “(3) SOFTWARE DEVELOPMENT.—For purposes
4 of this section, any amount paid or incurred in con-
5 nection with the development of any software shall
6 be treated as a research or experimental expendi-
7 ture.

8 “(d) TREATMENT UPON DISPOSITION, RETIREMENT,
9 OR ABANDONMENT.—If any property with respect to
10 which specified research or experimental expenditures are
11 paid or incurred is disposed, retired, or abandoned during
12 the period during which such expenditures are allowed as
13 an amortization deduction under this section, no deduction
14 shall be allowed with respect to such expenditures on ac-
15 count of such disposition, retirement, or abandonment and
16 such amortization deduction shall continue with respect to
17 such expenditures.”.

18 (b) CHANGE IN METHOD OF ACCOUNTING.—The
19 amendments made by subsection (a) shall be treated as
20 a change in method of accounting for purposes of section
21 481 of the Internal Revenue Code of 1986 and—

22 (1) such change shall be treated as initiated by
23 the taxpayer,

24 (2) such change shall be treated as made with
25 the consent of the Secretary, and

1 (3) such change shall be applied only on a cut-
2 off basis for any research or experimental expendi-
3 tures paid or incurred in taxable years beginning
4 after December 31, 2021, and no adjustments under
5 section 481(a) shall be made.

6 (c) CLERICAL AMENDMENT.—The table of sections
7 for part VI of subchapter B of chapter 1 is amended by
8 striking the item relating to section 174 and inserting the
9 following new item:

 “Sec. 174. Amortization of research and experimental expenditures.”.

10 (d) CONFORMING AMENDMENTS.—

11 (1) Section 41(d)(1)(A) is amended by striking
12 “expenses under section 174” and inserting “speci-
13 fied research or experimental expenditures under
14 section 174”.

15 (2) Subsection (c) of section 280C is amend-
16 ed—

17 (A) by striking paragraph (1) and insert-
18 ing the following:

19 “(1) IN GENERAL.—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-
25 penses or basic research expenses,

1 the amount chargeable to capital account for the
2 taxable year for such expenses shall be reduced by
3 the amount of such excess.”,

4 (B) by striking paragraph (2),

5 (C) by redesignating paragraphs (3) (as
6 amended by this Act) and (4) as paragraphs (2)
7 and (3), respectively, and

8 (D) in paragraph (2), as redesignated by
9 subparagraph (C), by striking “paragraphs (1)
10 and (2)” and inserting “paragraph (1)”.

11 (e) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to amounts paid or incurred in tax-
13 able years beginning after December 31, 2021.

14 **SEC. 13207. EXPENSING OF CERTAIN COSTS OF REPLANT-**
15 **ING CITRUS PLANTS LOST BY REASON OF**
16 **CASUALTY.**

17 (a) IN GENERAL.—Section 263A(d)(2) is amended
18 by adding at the end the following new subparagraph:

19 “(C) SPECIAL TEMPORARY RULE FOR CIT-
20 RUS PLANTS LOST BY REASON OF CASUALTY.—

21 “(i) IN GENERAL.—In the case of the
22 replanting of citrus plants, subparagraph
23 (A) shall apply to amounts paid or in-
24 curred by a person (other than the tax-
25 payer described in subparagraph (A)) if—

1 “(I) the taxpayer described in
2 subparagraph (A) has an equity inter-
3 est of not less than 50 percent in the
4 replanted citrus plants at all times
5 during the taxable year in which such
6 amounts were paid or incurred and
7 such other person holds any part of
8 the remaining equity interest, or

9 “(II) such other person acquired
10 the entirety of such taxpayer’s equity
11 interest in the land on which the lost
12 or damaged citrus plants were located
13 at the time of such loss or damage,
14 and the replanting is on such land.

15 “(ii) **TERMINATION.**—Clause (i) shall
16 not apply to any cost paid or incurred
17 after the date which is 10 years after the
18 date of the enactment of the Tax Cuts and
19 Jobs Act.”.

20 (b) **EFFECTIVE DATE.**—The amendment made by
21 this section shall apply to costs paid or incurred after the
22 date of the enactment of this Act.

1 **Subpart B—Accounting Methods**
2 **SEC. 13221. CERTAIN SPECIAL RULES FOR TAXABLE YEAR**
3 **OF INCLUSION.**

4 (a) INCLUSION NOT LATER THAN FOR FINANCIAL
5 ACCOUNTING PURPOSES.—Section 451 is amended by re-
6 designating subsections (b) through (i) as subsections (c)
7 through (j), respectively, and by inserting after subsection
8 (a) the following new subsection:

9 “(b) INCLUSION NOT LATER THAN FOR FINANCIAL
10 ACCOUNTING PURPOSES.—

11 “(1) INCOME TAKEN INTO ACCOUNT IN FINAN-
12 CIAL STATEMENT.—

13 “(A) IN GENERAL.—In the case of a tax-
14 payer the taxable income of which is computed
15 under an accrual method of accounting, the all
16 events test with respect to any item of gross in-
17 come (or portion thereof) shall not be treated as
18 met any later than when such item (or portion
19 thereof) is taken into account as revenue in—

20 “(i) an applicable financial statement
21 of the taxpayer, or

22 “(ii) such other financial statement as
23 the Secretary may specify for purposes of
24 this subsection.

25 “(B) EXCEPTION.—This paragraph shall
26 not apply to—

1 “(i) a taxpayer which does not have a
2 financial statement described in clause (i)
3 or (ii) of subparagraph (A) for a taxable
4 year, or

5 “(ii) any item of gross income in con-
6 nection with a mortgage servicing contract.

7 “(C) ALL EVENTS TEST.—For purposes of
8 this section, the all events test is met with re-
9 spect to any item of gross income if all the
10 events have occurred which fix the right to re-
11 ceive such income and the amount of such in-
12 come can be determined with reasonable accu-
13 racy.

14 “(2) COORDINATION WITH SPECIAL METHODS
15 OF ACCOUNTING.—Paragraph (1) shall not apply
16 with respect to any item of gross income for which
17 the taxpayer uses a special method of accounting
18 provided under any other provision of this chapter,
19 other than any provision of part V of subchapter P
20 (except as provided in clause (ii) of paragraph
21 (1)(B)).

22 “(3) APPLICABLE FINANCIAL STATEMENT.—
23 For purposes of this subsection, the term ‘applicable
24 financial statement’ means—

1 “(A) a financial statement which is cer-
2 tified as being prepared in accordance with gen-
3 erally accepted accounting principles and which
4 is—

5 “(i) a 10-K (or successor form), or
6 annual statement to shareholders, required
7 to be filed by the taxpayer with the United
8 States Securities and Exchange Commis-
9 sion,

10 “(ii) an audited financial statement of
11 the taxpayer which is used for—

12 “(I) credit purposes,

13 “(II) reporting to shareholders,
14 partners, or other proprietors, or to
15 beneficiaries, or

16 “(III) any other substantial
17 nontax purpose,

18 but only if there is no statement of the
19 taxpayer described in clause (i), or

20 “(iii) filed by the taxpayer with any
21 other Federal agency for purposes other
22 than Federal tax purposes, but only if
23 there is no statement of the taxpayer de-
24 scribed in clause (i) or (ii),

1 “(B) a financial statement which is made
2 on the basis of international financial reporting
3 standards and is filed by the taxpayer with an
4 agency of a foreign government which is equiva-
5 lent to the United States Securities and Ex-
6 change Commission and which has reporting
7 standards not less stringent than the standards
8 required by such Commission, but only if there
9 is no statement of the taxpayer described in
10 subparagraph (A), or

11 “(C) a financial statement filed by the tax-
12 payer with any other regulatory or govern-
13 mental body specified by the Secretary, but only
14 if there is no statement of the taxpayer de-
15 scribed in subparagraph (A) or (B).

16 “(4) ALLOCATION OF TRANSACTION PRICE.—
17 For purposes of this subsection, in the case of a con-
18 tract which contains multiple performance obliga-
19 tions, the allocation of the transaction price to each
20 performance obligation shall be equal to the amount
21 allocated to each performance obligation for pur-
22 poses of including such item in revenue in the appli-
23 cable financial statement of the taxpayer.

24 “(5) GROUP OF ENTITIES.—For purposes of
25 paragraph (1), if the financial results of a taxpayer

1 are reported on the applicable financial statement
2 (as defined in paragraph (3)) for a group of entities,
3 such statement shall be treated as the applicable fi-
4 nancial statement of the taxpayer.”.

5 (b) TREATMENT OF ADVANCE PAYMENTS.—Section
6 451, as amended by subsection (a), is amended by redesi-
7 nating subsections (c) through (j) as subsections (d)
8 through (k), respectively, and by inserting after subsection
9 (b) the following new subsection:

10 “(c) TREATMENT OF ADVANCE PAYMENTS.—

11 “(1) IN GENERAL.—A taxpayer which computes
12 taxable income under the accrual method of account-
13 ing, and receives any advance payment during the
14 taxable year, shall—

15 “(A) except as provided in subparagraph
16 (B), include such advance payment in gross in-
17 come for such taxable year, or

18 “(B) if the taxpayer elects the application
19 of this subparagraph with respect to the cat-
20 egory of advance payments to which such ad-
21 vance payment belongs, the taxpayer shall—

22 “(i) to the extent that any portion of
23 such advance payment is required under
24 subsection (b) to be included in gross in-
25 come in the taxable year in which such

1 payment is received, so include such por-
2 tion, and

3 “(ii) include the remaining portion of
4 such advance payment in gross income in
5 the taxable year following the taxable year
6 in which such payment is received.

7 “(2) ELECTION.—

8 “(A) IN GENERAL.—Except as otherwise
9 provided in this paragraph, the election under
10 paragraph (1)(B) shall be made at such time,
11 in such form and manner, and with respect to
12 such categories of advance payments, as the
13 Secretary may provide.

14 “(B) PERIOD TO WHICH ELECTION AP-
15 PLIES.—An election under paragraph (1)(B)
16 shall be effective for the taxable year with re-
17 spect to which it is first made and for all subse-
18 quent taxable years, unless the taxpayer secures
19 the consent of the Secretary to revoke such
20 election. For purposes of this title, the com-
21 putation of taxable income under an election
22 made under paragraph (1)(B) shall be treated
23 as a method of accounting.

24 “(3) TAXPAYERS CEASING TO EXIST.—Except
25 as otherwise provided by the Secretary, the election

1 under paragraph (1)(B) shall not apply with respect
2 to advance payments received by the taxpayer during
3 a taxable year if such taxpayer ceases to exist during
4 (or with the close of) such taxable year.

5 “(4) ADVANCE PAYMENT.—For purposes of this
6 subsection—

7 “(A) IN GENERAL.—The term ‘advance
8 payment’ means any payment—

9 “(i) the full inclusion of which in the
10 gross income of the taxpayer for the tax-
11 able year of receipt is a permissible method
12 of accounting under this section (deter-
13 mined without regard to this subsection),

14 “(ii) any portion of which is included
15 in revenue by the taxpayer in a financial
16 statement described in clause (i) or (ii) of
17 subsection (b)(1)(A) for a subsequent tax-
18 able year, and

19 “(iii) which is for goods, services, or
20 such other items as may be identified by
21 the Secretary for purposes of this clause.

22 “(B) EXCLUSIONS.—Except as otherwise
23 provided by the Secretary, such term shall not
24 include—

25 “(i) rent,

1 “(ii) insurance premiums governed by
2 subchapter L,

3 “(iii) payments with respect to finan-
4 cial instruments,

5 “(iv) payments with respect to war-
6 ranty or guarantee contracts under which
7 a third party is the primary obligor,

8 “(v) payments subject to section
9 871(a), 881, 1441, or 1442,

10 “(vi) payments in property to which
11 section 83 applies, and

12 “(vii) any other payment identified by
13 the Secretary for purposes of this subpara-
14 graph.

15 “(C) RECEIPT.—For purposes of this sub-
16 section, an item of gross income is received by
17 the taxpayer if it is actually or constructively
18 received, or if it is due and payable to the tax-
19 payer.

20 “(D) ALLOCATION OF TRANSACTION
21 PRICE.—For purposes of this subsection, rules
22 similar to subsection (b)(4) shall apply.”.

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

1 (d) COORDINATION WITH SECTION 481.—

2 (1) IN GENERAL.—In the case of any qualified
3 change in method of accounting for the taxpayer’s
4 first taxable year beginning after December 31,
5 2017—

6 (A) such change shall be treated as initi-
7 ated by the taxpayer, and

8 (B) such change shall be treated as made
9 with the consent of the Secretary of the Treas-
10 ury.

11 (2) QUALIFIED CHANGE IN METHOD OF AC-
12 COUNTING.—For purposes of this subsection, the
13 term “qualified change in method of accounting”
14 means any change in method of accounting which—

15 (A) is required by the amendments made
16 by this section, or

17 (B) was prohibited under the Internal Rev-
18 enue Code of 1986 prior to such amendments
19 and is permitted under such Code after such
20 amendments.

21 (e) SPECIAL RULES FOR ORIGINAL ISSUE DIS-
22 COUNT.—Notwithstanding subsection (c), in the case of
23 income from a debt instrument having original issue dis-
24 count—

1 (1) the amendments made by this section shall
2 apply to taxable years beginning after December 31,
3 2018, and

4 (2) the period for taking into account any ad-
5 justments under section 481 by reason of a qualified
6 change in method of accounting (as defined in sub-
7 section (d)) shall be 6 years.

8 **PART IV—BUSINESS-RELATED EXCLUSIONS AND**
9 **DEDUCTIONS**

10 **SEC. 13301. LIMITATION ON DEDUCTION FOR INTEREST.**

11 (a) IN GENERAL.—Section 163(j) is amended to read
12 as follows:

13 “(j) LIMITATION ON BUSINESS INTEREST.—

14 “(1) IN GENERAL.—The amount allowed as a
15 deduction under this chapter for any taxable year
16 for business interest shall not exceed the sum of—

17 “(A) the business interest income of such
18 taxpayer for such taxable year,

19 “(B) 30 percent of the adjusted taxable in-
20 come of such taxpayer for such taxable year,
21 plus

22 “(C) the floor plan financing interest of
23 such taxpayer for such taxable year.

24 The amount determined under subparagraph (B)
25 shall not be less than zero.

1 “(2) CARRYFORWARD OF DISALLOWED BUSI-
2 NESS INTEREST.—The amount of any business in-
3 terest not allowed as a deduction for any taxable
4 year by reason of paragraph (1) shall be treated as
5 business interest paid or accrued in the succeeding
6 taxable year.

7 “(3) EXEMPTION FOR CERTAIN SMALL BUSI-
8 NESSES.—In the case of any taxpayer (other than a
9 tax shelter prohibited from using the cash receipts
10 and disbursements method of accounting under sec-
11 tion 448(a)(3)) which meets the gross receipts test
12 of section 448(c) for any taxable year, paragraph (1)
13 shall not apply to such taxpayer for such taxable
14 year. In the case of any taxpayer which is not a cor-
15 poration or a partnership, the gross receipts test of
16 section 448(c) shall be applied in the same manner
17 as if such taxpayer were a corporation or partner-
18 ship.

19 “(4) APPLICATION TO PARTNERSHIPS, ETC.—

20 “(A) IN GENERAL.—In the case of any
21 partnership—

22 “(i) this subsection shall be applied at
23 the partnership level and any deduction for
24 business interest shall be taken into ac-
25 count in determining the non-separately

1 stated taxable income or loss of the part-
2 nership, and

3 “(ii) the adjusted taxable income of
4 each partner of such partnership—

5 “(I) shall be determined without
6 regard to such partner’s distributive
7 share of any items of income, gain,
8 deduction, or loss of such partnership,
9 and

10 “(II) shall be increased by such
11 partner’s distributive share of such
12 partnership’s excess taxable income.

13 For purposes of clause (ii)(II), a partner’s
14 distributive share of partnership excess
15 taxable income shall be determined in the
16 same manner as the partner’s distributive
17 share of nonseparately stated taxable in-
18 come or loss of the partnership.

19 “(B) SPECIAL RULES FOR
20 CARRYFORWARDS.—

21 “(i) IN GENERAL.—The amount of
22 any business interest not allowed as a de-
23 duction to a partnership for any taxable
24 year by reason of paragraph (1) for any
25 taxable year—

1 “(I) shall not be treated under
2 paragraph (2) as business interest
3 paid or accrued by the partnership in
4 the succeeding taxable year, and

5 “(II) shall, subject to clause (ii),
6 be treated as excess business interest
7 which is allocated to each partner in
8 the same manner as the non-sepa-
9 rately stated taxable income or loss of
10 the partnership.

11 “(ii) TREATMENT OF EXCESS BUSI-
12 NESS INTEREST ALLOCATED TO PART-
13 NERS.—If a partner is allocated any excess
14 business interest from a partnership under
15 clause (i) for any taxable year—

16 “(I) such excess business interest
17 shall be treated as business interest
18 paid or accrued by the partner in the
19 next succeeding taxable year in which
20 the partner is allocated excess taxable
21 income from such partnership, but
22 only to the extent of such excess tax-
23 able income, and

24 “(II) any portion of such excess
25 business interest remaining after the

1 application of subclause (I) shall, sub-
2 ject to the limitations of subclause (I),
3 be treated as business interest paid or
4 accrued in succeeding taxable years.

5 For purposes of applying this paragraph,
6 excess taxable income allocated to a part-
7 ner from a partnership for any taxable
8 year shall not be taken into account under
9 paragraph (1)(A) with respect to any busi-
10 ness interest other than excess business in-
11 terest from the partnership until all such
12 excess business interest for such taxable
13 year and all preceding taxable years has
14 been treated as paid or accrued under
15 clause (ii).

16 “(iii) BASIS ADJUSTMENTS.—

17 “(I) IN GENERAL.—The adjusted
18 basis of a partner in a partnership in-
19 terest shall be reduced (but not below
20 zero) by the amount of excess busi-
21 ness interest allocated to the partner
22 under clause (i)(II).

23 “(II) SPECIAL RULE FOR DIS-
24 POSITIONS.—If a partner disposes of
25 a partnership interest, the adjusted

1 basis of the partner in the partnership
2 interest shall be increased immediately
3 before the disposition by the amount
4 of the excess (if any) of the amount of
5 the basis reduction under subclause
6 (I) over the portion of any excess
7 business interest allocated to the part-
8 ner under clause (i)(II) which has pre-
9 viously been treated under clause (ii)
10 as business interest paid or accrued
11 by the partner. The preceding sen-
12 tence shall also apply to transfers of
13 the partnership interest (including by
14 reason of death) in a transaction in
15 which gain is not recognized in whole
16 or in part. No deduction shall be al-
17 lowed to the transferor or transferee
18 under this chapter for any excess
19 business interest resulting in a basis
20 increase under this subclause.

21 “(C) EXCESS TAXABLE INCOME.—The
22 term ‘excess taxable income’ means, with re-
23 spect to any partnership, the amount which
24 bears the same ratio to the partnership’s ad-
25 justed taxable income as—

1 “(i) the excess (if any) of—

2 “(I) the amount determined for
3 the partnership under paragraph
4 (1)(B), over

5 “(II) the amount (if any) by
6 which the business interest of the
7 partnership, reduced by the floor plan
8 financing interest, exceeds the busi-
9 ness interest income of the partner-
10 ship, bears to

11 “(ii) the amount determined for the
12 partnership under paragraph (1)(B).

13 “(D) APPLICATION TO S CORPORATIONS.—
14 Rules similar to the rules of subparagraphs (A)
15 and (C) shall apply with respect to any S cor-
16 poration and its shareholders.

17 “(5) BUSINESS INTEREST.—For purposes of
18 this subsection, the term ‘business interest’ means
19 any interest paid or accrued on indebtedness prop-
20 erly allocable to a trade or business. Such term shall
21 not include investment interest (within the meaning
22 of subsection (d)).

23 “(6) BUSINESS INTEREST INCOME.—For pur-
24 poses of this subsection, the term ‘business interest
25 income’ means the amount of interest includible in

1 the gross income of the taxpayer for the taxable year
2 which is properly allocable to a trade or business.
3 Such term shall not include investment income
4 (within the meaning of subsection (d)).

5 “(7) TRADE OR BUSINESS.—For purposes of
6 this subsection—

7 “(A) IN GENERAL.—The term ‘trade or
8 business’ shall not include—

9 “(i) the trade or business of per-
10 forming services as an employee,

11 “(ii) any electing real property trade
12 or business,

13 “(iii) any electing farming business,
14 or

15 “(iv) the trade or business of the fur-
16 nishing or sale of—

17 “(I) electrical energy, water, or
18 sewage disposal services,

19 “(II) gas or steam through a
20 local distribution system, or

21 “(III) transportation of gas or
22 steam by pipeline,

23 if the rates for such furnishing or sale, as
24 the case may be, have been established or
25 approved by a State or political subdivision

1 thereof, by any agency or instrumentality
2 of the United States, by a public service or
3 public utility commission or other similar
4 body of any State or political subdivision
5 thereof, or by the governing or ratemaking
6 body of an electric cooperative.

7 “(B) ELECTING REAL PROPERTY TRADE
8 OR BUSINESS.—For purposes of this paragraph,
9 the term ‘electing real property trade or busi-
10 ness’ means any trade or business which is de-
11 scribed in section 469(c)(7)(C) and which
12 makes an election under this subparagraph.
13 Any such election shall be made at such time
14 and in such manner as the Secretary shall pre-
15 scribe, and, once made, shall be irrevocable.

16 “(C) ELECTING FARMING BUSINESS.—For
17 purposes of this paragraph, the term ‘electing
18 farming business’ means—

19 “(i) a farming business (as defined in
20 section 263A(e)(4)) which makes an elec-
21 tion under this subparagraph, or

22 “(ii) any trade or business of a speci-
23 fied agricultural or horticultural coopera-
24 tive (as defined in section 199A(g)(2))
25 with respect to which the cooperative

1 makes an election under this subpara-
2 graph.

3 Any such election shall be made at such time
4 and in such manner as the Secretary shall pre-
5 scribe, and, once made, shall be irrevocable.

6 “(8) ADJUSTED TAXABLE INCOME.—For pur-
7 poses of this subsection, the term ‘adjusted taxable
8 income’ means the taxable income of the taxpayer—

9 “(A) computed without regard to—

10 “(i) any item of income, gain, deduc-
11 tion, or loss which is not properly allocable
12 to a trade or business,

13 “(ii) any business interest or business
14 interest income,

15 “(iii) the amount of any net operating
16 loss deduction under section 172,

17 “(iv) the amount of any deduction al-
18 lowed under section 199A, and

19 “(v) in the case of taxable years be-
20 ginning before January 1, 2022, any de-
21 duction allowable for depreciation, amorti-
22 zation, or depletion, and

23 “(B) computed with such other adjust-
24 ments as provided by the Secretary.

1 “(9) FLOOR PLAN FINANCING INTEREST DE-
2 FINED.—For purposes of this subsection—

3 “(A) IN GENERAL.—The term ‘floor plan
4 financing interest’ means interest paid or ac-
5 crued on floor plan financing indebtedness.

6 “(B) FLOOR PLAN FINANCING INDEBTED-
7 NESS.—The term ‘floor plan financing indebt-
8 edness’ means indebtedness—

9 “(i) used to finance the acquisition of
10 motor vehicles held for sale or lease, and

11 “(ii) secured by the inventory so ac-
12 quired.

13 “(C) MOTOR VEHICLE.—The term ‘motor
14 vehicle’ means a motor vehicle that is any of
15 the following:

16 “(i) Any self-propelled vehicle de-
17 signed for transporting persons or property
18 on a public street, highway, or road.

19 “(ii) A boat.

20 “(iii) Farm machinery or equipment.

21 “(10) CROSS REFERENCES.—

22 “(A) For requirement that an electing real
23 property trade or business use the alternative
24 depreciation system, see section 168(g)(1)(F).

1 “(B) For requirement that an electing
2 farming business use the alternative deprecia-
3 tion system, see section 168(g)(1)(G).”.

4 (b) TREATMENT OF CARRYFORWARD OF DIS-
5 ALLOWED BUSINESS INTEREST IN CERTAIN CORPORATE
6 ACQUISITIONS.—

7 (1) IN GENERAL.—Section 381(c) is amended
8 by inserting after paragraph (19) the following new
9 paragraph:

10 “(20) CARRYFORWARD OF DISALLOWED BUSI-
11 NESS INTEREST.—The carryover of disallowed busi-
12 ness interest described in section 163(j)(2) to tax-
13 able years ending after the date of distribution or
14 transfer.”.

15 (2) APPLICATION OF LIMITATION.—Section
16 382(d) is amended by adding at the end the fol-
17 lowing new paragraph:

18 “(3) APPLICATION TO CARRYFORWARD OF DIS-
19 ALLOWED INTEREST.—The term ‘pre-change loss’
20 shall include any carryover of disallowed interest de-
21 scribed in section 163(j)(2) under rules similar to
22 the rules of paragraph (1).”.

23 (3) CONFORMING AMENDMENT.—Section
24 382(k)(1) is amended by inserting after the first
25 sentence the following: “Such term shall include any

1 corporation entitled to use a carryforward of dis-
2 allowed interest described in section 381(c)(20).”.

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

6 **SEC. 13302. MODIFICATION OF NET OPERATING LOSS DE-**
7 **DUCTION.**

8 (a) LIMITATION ON DEDUCTION.—

9 (1) IN GENERAL.—Section 172(a) is amended
10 to read as follows:

11 “(a) DEDUCTION ALLOWED.—There shall be allowed
12 as a deduction for the taxable year an amount equal to
13 the lesser of—

14 “(1) the aggregate of the net operating loss
15 carryovers to such year, plus the net operating loss
16 carrybacks to such year, or

17 “(2) 80 percent of taxable income computed
18 without regard to the deduction allowable under this
19 section.

20 For purposes of this subtitle, the term ‘net operating loss
21 deduction’ means the deduction allowed by this sub-
22 section.”.

23 (2) COORDINATION OF LIMITATION WITH
24 CARRYBACKS AND CARRYOVERS.—Section 172(b)(2)

1 is amended by striking “shall be computed—” and
2 all that follows and inserting “shall—

3 “(A) be computed with the modifications
4 specified in subsection (d) other than para-
5 graphs (1), (4), and (5) thereof, and by deter-
6 mining the amount of the net operating loss de-
7 duction without regard to the net operating loss
8 for the loss year or for any taxable year there-
9 after,

10 “(B) not be considered to be less than
11 zero, and

12 “(C) not exceed the amount determined
13 under subsection (a)(2) for such prior taxable
14 year.”.

15 (3) CONFORMING AMENDMENT.—Section
16 172(d)(6) is amended by striking “and” at the end
17 of subparagraph (A), by striking the period at the
18 end of subparagraph (B) and inserting “; and”, and
19 by adding at the end the following new subpara-
20 graph:

21 “(C) subsection (a)(2) shall be applied by
22 substituting ‘real estate investment trust tax-
23 able income (as defined in section 857(b)(2) but
24 without regard to the deduction for dividends

1 paid (as defined in section 561))’ for ‘taxable
2 income’.”.

3 (b) REPEAL OF NET OPERATING LOSS CARRYBACK;
4 INDEFINITE CARRYFORWARD.—

5 (1) IN GENERAL.—Section 172(b)(1)(A) is
6 amended—

7 (A) by striking “shall be a net operating
8 loss carryback to each of the 2 taxable years”
9 in clause (i) and inserting “except as otherwise
10 provided in this paragraph, shall not be a net
11 operating loss carryback to any taxable year”,
12 and

13 (B) by striking “to each of the 20 taxable
14 years” in clause (ii) and inserting “to each tax-
15 able year”.

16 (2) CONFORMING AMENDMENT.—Section
17 172(b)(1) is amended by striking subparagraphs (B)
18 through (F).

19 (c) TREATMENT OF FARMING LOSSES.—

20 (1) ALLOWANCE OF CARRYBACKS.—Section
21 172(b)(1), as amended by subsection (b)(2), is
22 amended by adding at the end the following new
23 subparagraph:

24 “(B) FARMING LOSSES.—

1 “(i) IN GENERAL.—In the case of any
2 portion of a net operating loss for the tax-
3 able year which is a farming loss with re-
4 spect to the taxpayer, such loss shall be a
5 net operating loss carryback to each of the
6 2 taxable years preceding the taxable year
7 of such loss.

8 “(ii) FARMING LOSS.—For purposes
9 of this section, the term ‘farming loss’
10 means the lesser of—

11 “(I) the amount which would be
12 the net operating loss for the taxable
13 year if only income and deductions at-
14 tributable to farming businesses (as
15 defined in section 263A(e)(4)) are
16 taken into account, or

17 “(II) the amount of the net oper-
18 ating loss for such taxable year.

19 “(iii) COORDINATION WITH PARA-
20 GRAPH (2).—For purposes of applying
21 paragraph (2), a farming loss for any tax-
22 able year shall be treated as a separate net
23 operating loss for such taxable year to be
24 taken into account after the remaining

1 portion of the net operating loss for such
2 taxable year.

3 “(iv) ELECTION.—Any taxpayer enti-
4 tled to a 2-year carryback under clause (i)
5 from any loss year may elect not to have
6 such clause apply to such loss year. Such
7 election shall be made in such manner as
8 prescribed by the Secretary and shall be
9 made by the due date (including extensions
10 of time) for filing the taxpayer’s return for
11 the taxable year of the net operating loss.
12 Such election, once made for any taxable
13 year, shall be irrevocable for such taxable
14 year.”.

15 (2) CONFORMING AMENDMENTS.—

16 (A) Section 172 is amended by striking
17 subsections (f), (g), and (h), and by redesignig-
18 nating subsection (i) as subsection (f).

19 (B) Section 537(b)(4) is amended by in-
20 serting “(as in effect before the date of enact-
21 ment of the Tax Cuts and Jobs Act)” after “as
22 defined in section 172(f)”.

23 (d) TREATMENT OF CERTAIN INSURANCE LOSSES.—

24 (1) TREATMENT OF CARRYFORWARDS AND
25 CARRYBACKS.—Section 172(b)(1), as amended by

1 subsections (b)(2) and (c)(1), is amended by adding
2 at the end the following new subparagraph:

3 “(C) INSURANCE COMPANIES.—In the case
4 of an insurance company (as defined in section
5 816(a)) other than a life insurance company,
6 the net operating loss for any taxable year—

7 “(i) shall be a net operating loss
8 carryback to each of the 2 taxable years
9 preceding the taxable year of such loss,
10 and

11 “(ii) shall be a net operating loss car-
12 ryover to each of the 20 taxable years fol-
13 lowing the taxable year of the loss.”.

14 (2) EXEMPTION FROM LIMITATION.—Section
15 172, as amended by subsection (c)(2)(A), is amend-
16 ed by redesignating subsection (f) as subsection (g)
17 and inserting after subsection (e) the following new
18 subsection:

19 “(f) SPECIAL RULE FOR INSURANCE COMPANIES.—
20 In the case of an insurance company (as defined in section
21 816(a)) other than a life insurance company—

22 “(1) the amount of the deduction allowed under
23 subsection (a) shall be the aggregate of the net oper-
24 ating loss carryovers to such year, plus the net oper-
25 ating loss carrybacks to such year, and

1 “(2) subparagraph (C) of subsection (b)(2)
2 shall not apply.”.

3 (e) EFFECTIVE DATE.—

4 (1) NET OPERATING LOSS LIMITATION.—The
5 amendments made by subsections (a) and (d)(2)
6 shall apply to losses arising in taxable years begin-
7 ning after December 31, 2017.

8 (2) CARRYFORWARDS AND CARRYBACKS.—The
9 amendments made by subsections (b), (c), and
10 (d)(1) shall apply to net operating losses arising in
11 taxable years ending after December 31, 2017.

12 **SEC. 13303. LIKE-KIND EXCHANGES OF REAL PROPERTY.**

13 (a) IN GENERAL.—Section 1031(a)(1) is amended by
14 striking “property” each place it appears and inserting
15 “real property”.

16 (b) CONFORMING AMENDMENTS.—

17 (1)(A) Paragraph (2) of section 1031(a) is
18 amended to read as follows:

19 “(2) EXCEPTION FOR REAL PROPERTY HELD
20 FOR SALE.—This subsection shall not apply to any
21 exchange of real property held primarily for sale.”.

22 (B) Section 1031 is amended by striking sub-
23 section (i).

24 (2) Section 1031 is amended by striking sub-
25 section (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) The heading of section 1031 is amended by
17 striking “**PROPERTY**” and inserting “**REAL PROP-**
18 **ERTY**”.

19 (6) The table of sections for part III of sub-
20 chapter O of chapter 1 is amended by striking the
21 item relating to section 1031 and inserting the fol-
22 lowing new item:

“Sec. 1031. Exchange of real property held for productive use or investment.”.

23 (c) EFFECTIVE DATE.—

24 (1) IN GENERAL.—Except as otherwise pro-
25 vided in this subsection, the amendments made by

1 this section shall apply to exchanges completed after
2 December 31, 2017.

3 (2) TRANSITION RULE.—The amendments
4 made by this section shall not apply to any exchange
5 if—

6 (A) the property disposed of by the tax-
7 payer in the exchange is disposed of on or be-
8 fore December 31 2017, or

9 (B) the property received by the taxpayer
10 in the exchange is received on or before Decem-
11 ber 31, 2017.

12 **SEC. 13304. LIMITATION ON DEDUCTION BY EMPLOYERS OF**
13 **EXPENSES FOR FRINGE BENEFITS.**

14 (a) NO DEDUCTION ALLOWED FOR ENTERTAINMENT
15 EXPENSES.—

16 (1) IN GENERAL.—Section 274(a) is amend-
17 ed—

18 (A) in paragraph (1)(A), by striking “un-
19 less” and all that follows through “trade or
20 business,”,

21 (B) by striking the flush sentence at the
22 end of paragraph (1), and

23 (C) by striking paragraph (2)(C).

24 (2) CONFORMING AMENDMENTS.—

25 (A) Section 274(d) is amended—

1 (i) by striking paragraph (2) and re-
2 designating paragraphs (3) and (4) as
3 paragraphs (2) and (3), respectively, and

4 (ii) in the flush text following para-
5 graph (3) (as so redesignated)—

6 (I) by striking “, entertainment,
7 amusement, recreation, or use of the
8 facility or property,” in item (B), and

9 (II) by striking “(D) the business
10 relationship to the taxpayer of persons
11 entertained, using the facility or prop-
12 erty, or receiving the gift” and insert-
13 ing “(D) the business relationship to
14 the taxpayer of the person receiving
15 the benefit”,

16 (B) Section 274 is amended by striking
17 subsection (l).

18 (C) Section 274(n) is amended by striking
19 “AND ENTERTAINMENT” in the heading.

20 (D) Section 274(n)(1) is amended to read
21 as follows:

22 “(1) IN GENERAL.—The amount allowable as a
23 deduction under this chapter for any expense for
24 food or beverages shall not exceed 50 percent of the
25 amount of such expense which would (but for this

1 paragraph) be allowable as a deduction under this
2 chapter.”.

3 (E) Section 274(n)(2) is amended—

4 (i) in subparagraph (B), by striking
5 “in the case of an expense for food or bev-
6 erages,”,

7 (ii) by striking subparagraph (C) and
8 redesignating subparagraphs (D) and (E)
9 as subparagraphs (C) and (D), respec-
10 tively,

11 (iii) by striking “of subparagraph
12 (E)” the last sentence and inserting “of
13 subparagraph (D)”, and

14 (iv) by striking “in subparagraph
15 (D)” in the last sentence and inserting “in
16 subparagraph (C)”.

17 (F) Clause (iv) of section 7701(b)(5)(A) is
18 amended to read as follows:

19 “(iv) a professional athlete who is
20 temporarily in the United States to com-
21 pete in a sports event—

22 “(I) which is organized for the
23 primary purpose of benefiting an or-
24 ganization which is described in sec-

1 tion 501(c)(3) and exempt from tax
2 under section 501(a),

3 “(II) all of the net proceeds of
4 which are contributed to such organi-
5 zation, and,

6 “(III) which utilizes volunteers
7 for substantially all of the work per-
8 formed in carrying out such event.”.

9 (b) ONLY 50 PERCENT OF EXPENSES FOR MEALS
10 PROVIDED ON OR NEAR BUSINESS PREMISES ALLOWED
11 AS DEDUCTION.—Paragraph (2) of section 274(n), as
12 amended by subsection (a), is amended—

13 (1) by striking subparagraph (B),

14 (2) by redesignating subparagraphs (C) and
15 (D) as subparagraphs (B) and (C), respectively,

16 (3) by striking “of subparagraph (D)” in the
17 last sentence and inserting “of subparagraph (C)”,
18 and

19 (4) by striking “in subparagraph (C)” in the
20 last sentence and inserting “in subparagraph (B)”.

21 (c) TREATMENT OF TRANSPORTATION BENEFITS.—
22 Section 274, as amended by subsection (a), is amended—

23 (1) in subsection (a)—

1 (A) in the heading, by striking “OR
2 RECREATION” and inserting “RECREATION, OR
3 QUALIFIED TRANSPORTATION FRINGES”, and

4 (B) by adding at the end the following new
5 paragraph:

6 “(4) QUALIFIED TRANSPORTATION FRINGES.—
7 No deduction shall be allowed under this chapter for
8 the expense of any qualified transportation fringe
9 (as defined in section 132(f)) provided to an em-
10 ployee of the taxpayer.”, and

11 (2) by inserting after subsection (k) the fol-
12 lowing new subsection:

13 “(1) TRANSPORTATION AND COMMUTING BENE-
14 FITS.—

15 “(1) IN GENERAL.—No deduction shall be al-
16 lowed under this chapter for any expense incurred
17 for providing any transportation, or any payment or
18 reimbursement, to an employee of the taxpayer in
19 connection with travel between the employee’s resi-
20 dence and place of employment, except as necessary
21 for ensuring the safety of the employee.

22 “(2) EXCEPTION.—In the case of any qualified
23 bicycle commuting reimbursement (as described in
24 section 132(f)(5)(F)), this subsection shall not apply

1 for any amounts paid or incurred after December
2 31, 2017, and before January 1, 2026.”.

3 (d) ELIMINATION OF DEDUCTION FOR MEALS PRO-
4 VIDED AT CONVENIENCE OF EMPLOYER.—Section 274, as
5 amended by subsection (c), is amended—

6 (1) by redesignating subsection (o) as sub-
7 section (p), and

8 (2) by inserting after subsection (n) the fol-
9 lowing new subsection:

10 “(o) MEALS PROVIDED AT CONVENIENCE OF EM-
11 PLOYER.—No deduction shall be allowed under this chap-
12 ter for—

13 “(1) any expense for the operation of a facility
14 described in section 132(e)(2), and any expense for
15 food or beverages, including under section 132(e)(1),
16 associated with such facility, or

17 “(2) any expense for meals described in section
18 119(a).”.

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 amounts incurred or paid after De-
23 cember 31, 2017.

24 (2) EFFECTIVE DATE FOR ELIMINATION OF DE-
25 Duction FOR MEALS PROVIDED AT CONVENIENCE

1 OF EMPLOYER.—The amendments made by sub-
2 section (d) shall apply to amounts incurred or paid
3 after December 31, 2025.

4 **SEC. 13305. REPEAL OF DEDUCTION FOR INCOME ATTRIB-**
5 **UTABLE TO DOMESTIC PRODUCTION ACTIVI-**
6 **TIES.**

7 (a) IN GENERAL.—Part VI of subchapter B of chap-
8 ter 1 is amended by striking section 199 (and by striking
9 the item relating to such section in the table of sections
10 for such part).

11 (b) CONFORMING AMENDMENTS.—

12 (1) Sections 74(d)(2)(B), 86(b)(2)(A),
13 135(c)(4)(A), 137(b)(3)(A), 219(g)(3)(A)(ii),
14 221(b)(2)(C), 222(b)(2)(C), 246(b)(1), and
15 469(i)(3)(F)(iii) are each amended by striking
16 “199.”.

17 (2) Section 170(b)(2)(D), as amended by sub-
18 title A, is amended by striking clause (iv), and by
19 redesignating clauses (v) and (vi) as clauses (iv) and
20 (v).

21 (3) Section 172(d) is amended by striking para-
22 graph (7).

23 (4) Section 613(a), as amended by section
24 11011, is amended by striking “and without the de-
25 duction under section 199”.

1 (5) Section 613A(d)(1), as amended by section
2 11011, is amended by striking subparagraph (B)
3 and by redesignating subparagraphs (C), (D), (E),
4 and (F) as subparagraphs (B), (C), (D), and (E),
5 respectively.

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

9 **SEC. 13306. DENIAL OF DEDUCTION FOR CERTAIN FINES,**
10 **PENALTIES, AND OTHER AMOUNTS.**

11 (a) DENIAL OF DEDUCTION.—

12 (1) IN GENERAL.—Subsection (f) of section 162
13 is amended to read as follows:

14 “(f) FINES, PENALTIES, AND OTHER AMOUNTS.—

15 “(1) IN GENERAL.—Except as provided in the
16 following paragraphs of this subsection, no deduction
17 otherwise allowable shall be allowed under this chap-
18 ter for any amount paid or incurred (whether by
19 suit, agreement, or otherwise) to, or at the direction
20 of, a government or governmental entity in relation
21 to the violation of any law or the investigation or in-
22 quiry by such government or entity into the potential
23 violation of any law.

1 “(2) EXCEPTION FOR AMOUNTS CONSTITUTING
2 RESTITUTION OR PAID TO COME INTO COMPLIANCE
3 WITH LAW.—

4 “(A) IN GENERAL.—Paragraph (1) shall
5 not apply to any amount that—

6 “(i) the taxpayer establishes—

7 “(I) constitutes restitution (in-
8 cluding remediation of property) for
9 damage or harm which was or may be
10 caused by the violation of any law or
11 the potential violation of any law, or

12 “(II) is paid to come into compli-
13 ance with any law which was violated
14 or otherwise involved in the investiga-
15 tion or inquiry described in paragraph
16 (1),

17 “(ii) is identified as restitution or as
18 an amount paid to come into compliance
19 with such law, as the case may be, in the
20 court order or settlement agreement, and

21 “(iii) in the case of any amount of
22 restitution for failure to pay any tax im-
23 posed under this title in the same manner
24 as if such amount were such tax, would

1 have been allowed as a deduction under
2 this chapter if it had been timely paid.

3 The identification under clause (ii) alone shall
4 not be sufficient to make the establishment re-
5 quired under clause (i).

6 “(B) LIMITATION.—Subparagraph (A)
7 shall not apply to any amount paid or incurred
8 as reimbursement to the government or entity
9 for the costs of any investigation or litigation.

10 “(3) EXCEPTION FOR AMOUNTS PAID OR IN-
11 CURRED AS THE RESULT OF CERTAIN COURT OR-
12 DERS.—Paragraph (1) shall not apply to any
13 amount paid or incurred by reason of any order of
14 a court in a suit in which no government or govern-
15 mental entity is a party.

16 “(4) EXCEPTION FOR TAXES DUE.—Paragraph
17 (1) shall not apply to any amount paid or incurred
18 as taxes due.

19 “(5) TREATMENT OF CERTAIN NONGOVERN-
20 MENTAL REGULATORY ENTITIES.—For purposes of
21 this subsection, the following nongovernmental enti-
22 ties shall be treated as governmental entities:

23 “(A) Any nongovernmental entity which
24 exercises self-regulatory powers (including im-
25 posing sanctions) in connection with a qualified

1 board or exchange (as defined in section
2 1256(g)(7)).

3 “(B) To the extent provided in regulations,
4 any nongovernmental entity which exercises
5 self-regulatory powers (including imposing sanc-
6 tions) as part of performing an essential gov-
7 ernmental function.”.

8 (2) EFFECTIVE DATE.—The amendment 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 (b) REPORTING OF DEDUCTIBLE AMOUNTS.—

18 (1) IN GENERAL.—Subpart B of part III of
19 subchapter A of chapter 61 is amended by inserting
20 after section 6050W the following new section:

21 **“SEC. 6050X. INFORMATION WITH RESPECT TO CERTAIN**
22 **FINES, PENALTIES, AND OTHER AMOUNTS.**

23 **“(a) REQUIREMENT OF REPORTING.—**

24 **“(1) IN GENERAL.—**The appropriate official of
25 any government or any entity described in section

1 162(f)(5) which is involved in a suit or agreement
2 described in paragraph (2) shall make a return in
3 such form as determined by the Secretary setting
4 forth—

5 “(A) the amount required to be paid as a
6 result of the suit or agreement to which para-
7 graph (1) of section 162(f) applies,

8 “(B) any amount required to be paid as a
9 result of the suit or agreement which con-
10 stitutes restitution or remediation of property,
11 and

12 “(C) any amount required to be paid as a
13 result of the suit or agreement for the purpose
14 of coming into compliance with any law which
15 was violated or involved in the investigation or
16 inquiry.

17 “(2) SUIT OR AGREEMENT DESCRIBED.—

18 “(A) IN GENERAL.—A suit or agreement is
19 described in this paragraph if—

20 “(i) it is—

21 “(I) a suit with respect to a vio-
22 lation of any law over which the gov-
23 ernment or entity has authority and
24 with respect to which there has been
25 a court order, or

1 “(II) an agreement which is en-
2 tered into with respect to a violation
3 of any law over which the government
4 or entity has authority, or with re-
5 spect to an investigation or inquiry by
6 the government or entity into the po-
7 tential violation of any law over which
8 such government or entity has author-
9 ity, and

10 “(ii) the aggregate amount involved in
11 all court orders and agreements with re-
12 spect to the violation, investigation, or in-
13 quiry is \$600 or more.

14 “(B) ADJUSTMENT OF REPORTING
15 THRESHOLD.—The Secretary shall adjust the
16 \$600 amount in subparagraph (A)(ii) as nec-
17 essary in order to ensure the efficient adminis-
18 tration of the internal revenue laws.

19 “(3) TIME OF FILING.—The return required
20 under this subsection shall be filed at the time the
21 agreement is entered into, as determined by the Sec-
22 retary.

23 “(b) STATEMENTS TO BE FURNISHED TO INDIVID-
24 UALS INVOLVED IN THE SETTLEMENT.—Every person re-
25 quired to make a return under subsection (a) shall furnish

1 to each person who is a party to the suit or agreement
2 a written statement showing—

3 “(1) the name of the government or entity, and

4 “(2) the information supplied to the Secretary
5 under subsection (a)(1).

6 The written statement required under the preceding sen-
7 tence shall be furnished to the person at the same time
8 the government or entity provides the Secretary with the
9 information required under subsection (a).

10 “(c) APPROPRIATE OFFICIAL DEFINED.—For pur-
11 poses of this section, the term ‘appropriate official’ means
12 the officer or employee having control of the suit, inves-
13 tigation, or inquiry or the person appropriately designated
14 for purposes of this section.”.

15 (2) CONFORMING AMENDMENT.—The table of
16 sections for subpart B of part III of subchapter A
17 of chapter 61 is amended by inserting after the item
18 relating to section 6050W the following new item:

“Sec. 6050X. Information with respect to certain fines, penalties, and other
amounts.”.

19 (3) EFFECTIVE DATE.—The amendments made
20 by this subsection shall apply to amounts paid or in-
21 curred on or after the date of the enactment of this
22 Act, except that such amendments shall not apply to
23 amounts paid or incurred under any binding order
24 or agreement entered into before such date. Such ex-

1 ception shall not apply to an order or agreement re-
2 quiring court approval unless the approval was ob-
3 tained before such date.

4 **SEC. 13307. DENIAL OF DEDUCTION FOR SETTLEMENTS**
5 **SUBJECT TO NONDISCLOSURE AGREEMENTS**
6 **PAID IN CONNECTION WITH SEXUAL HARASS-**
7 **MENT OR SEXUAL ABUSE.**

8 (a) DENIAL OF DEDUCTION.—Section 162 is amend-
9 ed by redesignating subsection (q) as subsection (r) and
10 by inserting after subsection (p) the following new sub-
11 section:

12 “(q) PAYMENTS RELATED TO SEXUAL HARASSMENT
13 AND SEXUAL ABUSE.—No deduction shall be allowed
14 under this chapter for—

15 “(1) any settlement or payment related to sex-
16 ual harassment or sexual abuse if such settlement or
17 payment is subject to a nondisclosure agreement, or

18 “(2) attorney’s fees related to such a settlement
19 or payment.”.

20 (b) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to amounts paid or incurred after
22 the date of the enactment of this Act.

1 **SEC. 13308. REPEAL OF DEDUCTION FOR LOCAL LOBBYING**
2 **EXPENSES.**

3 (a) IN GENERAL.—Section 162(e) is amended by
4 striking paragraphs (2) and (7) and by redesignating
5 paragraphs (3), (4), (5), (6), and (8) as paragraphs (2),
6 (3), (4), (5), and (6), respectively.

7 (b) CONFORMING AMENDMENT.—Section
8 6033(e)(1)(B)(ii) is amended by striking “section
9 162(e)(5)(B)(ii)” and inserting “section
10 162(e)(4)(B)(ii)”.

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to amounts paid or incurred on
13 or after the date of the enactment of this Act.

14 **SEC. 13309. RECHARACTERIZATION OF CERTAIN GAINS IN**
15 **THE CASE OF PARTNERSHIP PROFITS INTER-**
16 **ESTS HELD IN CONNECTION WITH PERFORM-**
17 **ANCE OF INVESTMENT SERVICES.**

18 (a) IN GENERAL.—Part IV of subchapter O of chap-
19 ter 1 is amended—

20 (1) by redesignating section 1061 as section
21 1062, and

22 (2) by inserting after section 1060 the following
23 new section:

1 **“SEC. 1061. PARTNERSHIP INTERESTS HELD IN CONNEC-**
2 **TION WITH PERFORMANCE OF SERVICES.**

3 “(a) IN GENERAL.—If one or more applicable part-
4 nership interests are held by a taxpayer at any time during
5 the taxable year, the excess (if any) of—

6 “(1) the taxpayer’s net long-term capital gain
7 with respect to such interests for such taxable year,
8 over

9 “(2) the taxpayer’s net long-term capital gain
10 with respect to such interests for such taxable year
11 computed by applying paragraphs (3) and (4) of sec-
12 tions 1222 by substituting ‘3 years’ for ‘1 year’,
13 shall be treated as short-term capital gain, notwith-
14 standing section 83 or any election in effect under section
15 83(b).

16 “(b) SPECIAL RULE.—To the extent provided by the
17 Secretary, subsection (a) shall not apply to income or gain
18 attributable to any asset not held for portfolio investment
19 on behalf of third party investors.

20 “(c) APPLICABLE PARTNERSHIP INTEREST.—For
21 purposes of this section—

22 “(1) IN GENERAL.—Except as provided in this
23 paragraph or paragraph (4), the term ‘applicable
24 partnership interest’ means any interest in a part-
25 nership which, directly or indirectly, is transferred to
26 (or is held by) the taxpayer in connection with the

1 performance of substantial services by the taxpayer,
2 or any other related person, in any applicable trade
3 or business. The previous sentence shall not apply to
4 an interest held by a person who is employed by an-
5 other entity that is conducting a trade or business
6 (other than an applicable trade or business) and
7 only provides services to such other entity.

8 “(2) APPLICABLE TRADE OR BUSINESS.—The
9 term ‘applicable trade or business’ means any activ-
10 ity conducted on a regular, continuous, and substan-
11 tial basis which, regardless of whether the activity is
12 conducted in one or more entities, consists, in whole
13 or in part, of—

14 “(A) raising or returning capital, and

15 “(B) either—

16 “(i) investing in (or disposing of)
17 specified assets (or identifying specified as-
18 sets for such investing or disposition), or

19 “(ii) developing specified assets.

20 “(3) SPECIFIED ASSET.—The term ‘specified
21 asset’ means securities (as defined in section
22 475(c)(2) without regard to the last sentence there-
23 of), commodities (as defined in section 475(e)(2)),
24 real estate held for rental or investment, cash or
25 cash equivalents, options or derivative contracts with

1 respect to any of the foregoing, and an interest in
2 a partnership to the extent of the partnership's pro-
3 portionate interest in any of the foregoing.

4 “(4) EXCEPTIONS.—The term ‘applicable part-
5 nership interest’ shall not include—

6 “(A) any interest in a partnership directly
7 or indirectly held by a corporation, or

8 “(B) any capital interest in the partner-
9 ship which provides the taxpayer with a right to
10 share in partnership capital commensurate
11 with—

12 “(i) the amount of capital contributed
13 (determined at the time of receipt of such
14 partnership interest), or

15 “(ii) the value of such interest subject
16 to tax under section 83 upon the receipt or
17 vesting of such interest.

18 “(5) THIRD PARTY INVESTOR.—The term ‘third
19 party investor’ means a person who—

20 “(A) holds an interest in the partnership
21 which does not constitute property held in con-
22 nection with an applicable trade or business;
23 and

24 “(B) is not (and has not been) actively en-
25 gaged, and is (and was) not related to a person

1 so engaged, in (directly or indirectly) providing
2 substantial services described in paragraph (1)
3 for such partnership or any applicable trade or
4 business.

5 “(d) TRANSFER OF APPLICABLE PARTNERSHIP IN-
6 TEREST TO RELATED PERSON.—

7 “(1) IN GENERAL.—If a taxpayer transfers any
8 applicable partnership interest, directly or indirectly,
9 to a person related to the taxpayer, the taxpayer
10 shall include in gross income (as short term capital
11 gain) the excess (if any) of—

12 “(A) so much of the taxpayer’s long-term
13 capital gains with respect to such interest for
14 such taxable year attributable to the sale or ex-
15 change of any asset held for not more than 3
16 years as is allocable to such interest, over

17 “(B) any amount treated as short term
18 capital gain under subsection (a) with respect
19 to the transfer of such interest.

20 “(2) RELATED PERSON.—For purposes of this
21 paragraph, a person is related to the taxpayer if—

22 “(A) the person is a member of the tax-
23 payer’s family within the meaning of section
24 318(a)(1), or

1 (1) by striking “The term” and inserting the
2 following:

3 “(i) IN GENERAL.—The term”.

4 (2) by redesignating clauses (i), (ii), and (iii) as
5 subclauses (I), (II), and (III), respectively, and con-
6 forming the margins accordingly, and

7 (3) by adding at the end the following new
8 clause:

9 “(ii) TANGIBLE PERSONAL PROP-
10 erty.—For purposes of clause (i), the
11 term ‘tangible personal property’ shall not
12 include—

13 “(I) cash, cash equivalents, gift
14 cards, gift coupons, or gift certificates
15 (other than arrangements conferring
16 only the right to select and receive
17 tangible personal property from a lim-
18 ited array of such items pre-selected
19 or pre-approved by the employer), or

20 “(II) vacations, meals, lodging,
21 tickets to theater or sporting events,
22 stocks, bonds, other securities, and
23 other similar items.”.

1 (b) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to amounts paid or incurred after
3 December 31, 2017.

4 **SEC. 13311. ELIMINATION OF DEDUCTION FOR LIVING EX-**
5 **PENSES INCURRED BY MEMBERS OF CON-**
6 **GRESS.**

7 (a) IN GENERAL.—Subsection (a) of section 162 is
8 amended in the matter following paragraph (3) by striking
9 “in excess of \$3,000”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to taxable years beginning after
12 the date of the enactment of this Act.

13 **SEC. 13312. CERTAIN CONTRIBUTIONS BY GOVERNMENTAL**
14 **ENTITIES NOT TREATED AS CONTRIBUTIONS**
15 **TO CAPITAL.**

16 (a) IN GENERAL.—Section 118 is amended—

17 (1) by striking subsections (b), (c), and (d),

18 (2) by redesignating subsection (e) as sub-
19 section (d), and

20 (3) by inserting after subsection (a) the fol-
21 lowing new subsections:

22 “(b) EXCEPTIONS.—For purposes of subsection (a),
23 the term ‘contribution to the capital of the taxpayer’ does
24 not include—

1 “(1) any contribution in aid of construction or
2 any other contribution as a customer or potential
3 customer, and

4 “(2) any contribution by any governmental enti-
5 ty or civic group (other than a contribution made by
6 a shareholder as such).

7 “(c) REGULATIONS.—The Secretary shall issue such
8 regulations or other guidance as may be necessary or ap-
9 propriate to carry out this section, including regulations
10 or other guidance for determining whether any contribu-
11 tion constitutes a contribution in aid of construction.”.

12 (b) EFFECTIVE DATE.—

13 (1) IN GENERAL.—Except as provided in para-
14 graph (2), the amendments made by this section
15 shall apply to contributions made after the date of
16 enactment of this Act.

17 (2) EXCEPTION.—The amendments made by
18 this section shall not apply to any contribution,
19 made after the date of enactment of this Act by a
20 governmental entity, which is made pursuant to a
21 master development plan that has been approved
22 prior to such date by a governmental entity.

1 **SEC. 13313. REPEAL OF ROLLOVER OF PUBLICLY TRADED**
2 **SECURITIES GAIN INTO SPECIALIZED SMALL**
3 **BUSINESS INVESTMENT COMPANIES.**

4 (a) IN GENERAL.—Part III of subchapter O of chap-
5 ter 1 is amended by striking section 1044 (and by striking
6 the item relating to such section in the table of sections
7 of such part).

8 (b) CONFORMING AMENDMENTS.—Section
9 1016(a)(23) is amended—

10 (1) by striking “1044,” and

11 (2) by striking “1044(d),”.

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to sales after December 31, 2017.

14 **SEC. 13314. CERTAIN SELF-CREATED PROPERTY NOT**
15 **TREATED AS A CAPITAL ASSET.**

16 (a) PATENTS, ETC.—Section 1221(a)(3) is amended
17 by inserting “a patent, invention, model or design (wheth-
18 er or not patented), a secret formula or process,” before
19 “a copyright”.

20 (b) CONFORMING AMENDMENT.—Section
21 1231(b)(1)(C) is amended by inserting “a patent, inven-
22 tion, model or design (whether or not patented), a secret
23 formula or process,” before “a copyright”.

24 (c) EFFECTIVE DATE.—The amendments made by
25 this section shall apply to dispositions after December 31,
26 2017.

1 **PART V—BUSINESS CREDITS**

2 **SEC. 13401. MODIFICATION OF ORPHAN DRUG CREDIT.**

3 (a) CREDIT RATE.—Subsection (a) of section 45C is
4 amended by striking “50 percent” and inserting “25 per-
5 cent”.

6 (b) ELECTION OF REDUCED CREDIT.—Subsection
7 (b) of section 280C is amended by redesignating para-
8 graph (3) as paragraph (4) and by inserting after para-
9 graph (2) the following new paragraph:

10 “(3) ELECTION OF REDUCED CREDIT.—

11 “(A) IN GENERAL.—In the case of any
12 taxable year for which an election is made
13 under this paragraph—

14 “(i) paragraphs (1) and (2) shall not
15 apply, and

16 “(ii) the amount of the credit under
17 section 45C(a) shall be the amount deter-
18 mined under subparagraph (B).

19 “(B) AMOUNT OF REDUCED CREDIT.—The
20 amount of credit determined under this sub-
21 paragraph for any taxable year shall be the
22 amount equal to the excess of—

23 “(i) the amount of credit determined
24 under section 45C(a) without regard to
25 this paragraph, over

26 “(ii) the product of—

1 “(I) the amount described in
2 clause (i), and

3 “(II) the maximum rate of tax
4 under section 11(b).

5 “(C) ELECTION.—An election under this
6 paragraph for any taxable year shall be made
7 not later than the time for filing the return of
8 tax for such year (including extensions), shall
9 be made on such return, and shall be made in
10 such manner as the Secretary shall prescribe.
11 Such an election, once made, shall be irrev-
12 ocable.”.

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

16 **SEC. 13402. REHABILITATION CREDIT LIMITED TO CER-**
17 **TIFIED HISTORIC STRUCTURES.**

18 (a) IN GENERAL.—Subsection (a) of section 47 is
19 amended to read as follows:

20 “(a) GENERAL RULE.—

21 “(1) IN GENERAL.—For purposes of section 46,
22 for any taxable year during the 5-year period begin-
23 ning in the taxable year in which a qualified reha-
24 bilitated building is placed in service, the rehabilita-

1 tion credit for such year is an amount equal to the
2 ratable share for such year.

3 “(2) RATABLE SHARE.—For purposes of para-
4 graph (1), the ratable share for any taxable year
5 during the period described in such paragraph is the
6 amount equal to 20 percent of the qualified rehabili-
7 tation expenditures with respect to the qualified re-
8 habilitated building, as allocated ratably to each year
9 during such period.”.

10 (b) CONFORMING AMENDMENTS.—

11 (1) Section 47(c) is amended—

12 (A) in paragraph (1)—

13 (i) in subparagraph (A), by amending
14 clause (iii) to read as follows:

15 “(iii) such building is a certified his-
16 toric structure, and”,

17 (ii) by striking subparagraph (B), and

18 (iii) by redesignating subparagraphs
19 (C) and (D) as subparagraphs (B) and
20 (C), respectively, and

21 (B) in paragraph (2)(B), by amending
22 clause (iv) to read as follows:

23 “(iv) CERTIFIED HISTORIC STRUC-
24 TURE.—Any expenditure attributable to
25 the rehabilitation of a qualified rehabili-

1 tated building unless the rehabilitation is a
2 certified rehabilitation (within the meaning
3 of subparagraph (C)).”.

4 (2) Paragraph (4) of section 145(d) is amend-
5 ed—

6 (A) by striking “of section 47(c)(1)(C)”
7 each place it appears and inserting “of section
8 47(c)(1)(B)”, and

9 (B) by striking “section 47(c)(1)(C)(i)”
10 and inserting “section 47(c)(1)(B)(i)”.

11 (c) EFFECTIVE DATE.—

12 (1) IN GENERAL.—Except as provided in para-
13 graph (2), the amendments made by this section
14 shall apply to amounts paid or incurred after De-
15 cember 31, 2017.

16 (2) TRANSITION RULE.—In the case of quali-
17 fied rehabilitation expenditures with respect to any
18 building—

19 (A) owned or leased by the taxpayer dur-
20 ing the entirety of the period after December
21 31, 2017, and

22 (B) with respect to which the 24-month
23 period selected by the taxpayer under clause (i)
24 of section 47(c)(1)(B) of the Internal Revenue
25 Code (as amended by subsection (b)), or the

1 60-month period applicable under clause (ii) of
2 such section, begins not later than 180 days
3 after the date of the enactment of this Act,
4 the amendments made by this section shall apply to
5 such expenditures paid or incurred after the end of
6 the taxable year in which the 24-month period, or
7 the 60-month period, referred to in subparagraph
8 (B) ends.

9 **SEC. 13403. EMPLOYER CREDIT FOR PAID FAMILY AND**
10 **MEDICAL LEAVE.**

11 (a) IN GENERAL.—

12 (1) ALLOWANCE OF CREDIT.—Subpart D of
13 part IV of subchapter A of chapter 1 is amended by
14 adding at the end the following new section:

15 **“SEC. 45S. EMPLOYER CREDIT FOR PAID FAMILY AND MED-**
16 **ICAL LEAVE.**

17 “(a) ESTABLISHMENT OF CREDIT.—

18 “(1) IN GENERAL.—For purposes of section 38,
19 in the case of an eligible employer, the paid family
20 and medical leave credit is an amount equal to the
21 applicable percentage of the amount of wages paid
22 to qualifying employees during any period in which
23 such employees are on family and medical leave.

24 “(2) APPLICABLE PERCENTAGE.—For purposes
25 of paragraph (1), the term ‘applicable percentage’

1 means 12.5 percent increased (but not above 25 per-
2 cent) by 0.25 percentage points for each percentage
3 point by which the rate of payment (as described
4 under subsection (c)(1)(B)) exceeds 50 percent.

5 “(b) LIMITATION.—

6 “(1) IN GENERAL.—The credit allowed under
7 subsection (a) with respect to any employee for any
8 taxable year shall not exceed an amount equal to the
9 product of the normal hourly wage rate of such em-
10 ployee for each hour (or fraction thereof) of actual
11 services performed for the employer and the number
12 of hours (or fraction thereof) for which family and
13 medical leave is taken.

14 “(2) NON-HOURLY WAGE RATE.—For purposes
15 of paragraph (1), in the case of any employee who
16 is not paid on an hourly wage rate, the wages of
17 such employee shall be prorated to an hourly wage
18 rate under regulations established by the Secretary.

19 “(3) MAXIMUM AMOUNT OF LEAVE SUBJECT TO
20 CREDIT.—The amount of family and medical leave
21 that may be taken into account with respect to any
22 employee under subsection (a) for any taxable year
23 shall not exceed 12 weeks.

24 “(c) ELIGIBLE EMPLOYER.—For purposes of this
25 section—

1 “(1) IN GENERAL.—The term ‘eligible em-
2 ployer’ means any employer who has in place a writ-
3 ten policy 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 written pol-
11 icy which 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) DETERMINATIONS MADE BY SECRETARY OF
9 TREASURY.—For purposes of this section, any determina-
10 tion as to whether an employer or an employee satisfies
11 the applicable requirements for an eligible employer (as
12 described in subsection (c)) or qualifying employee (as de-
13 scribed in subsection (d)), respectively, shall be made by
14 the Secretary based on such information, to be provided
15 by the employer, as the Secretary determines to be nec-
16 essary or appropriate.

17 “(g) WAGES.—For purposes of this section, the term
18 ‘wages’ has the meaning given such term by subsection
19 (b) of section 3306 (determined without regard to any dol-
20 lar limitation contained in such section). Such term shall
21 not include any amount taken into account for purposes
22 of determining any other credit allowed under this sub-
23 part.

24 “(h) ELECTION TO HAVE CREDIT NOT APPLY.—

1 “(1) IN GENERAL.—A taxpayer may elect to
2 have this section not apply for any taxable year.

3 “(2) OTHER RULES.—Rules similar to the rules
4 of paragraphs (2) and (3) of section 51(j) shall
5 apply for purposes of this subsection.

6 “(i) TERMINATION.—This section shall not apply to
7 wages paid in taxable years beginning after December 31,
8 2019.”.

9 (b) CREDIT PART OF GENERAL BUSINESS CREDIT.—
10 Section 38(b) is amended by striking “plus” at the end
11 of paragraph (35), by striking the period at the end of
12 paragraph (36) and inserting “, plus”, and by adding at
13 the end the following new paragraph:

14 “(37) in the case of an eligible employer (as de-
15 fined in section 45S(c)), the paid family and medical
16 leave credit determined under section 45S(a).”.

17 (c) CREDIT ALLOWED AGAINST AMT.—Subpara-
18 graph (B) of section 38(c)(4) is amended by redesignating
19 clauses (ix) through (xi) as clauses (x) through (xii), re-
20 spectively, and by inserting after clause (viii) the following
21 new clause:

22 “(ix) the credit determined under sec-
23 tion 45S,”.

24 (d) CONFORMING AMENDMENTS.—

1 (1) DENIAL OF DOUBLE BENEFIT.—Section
2 280C(a) is amended by inserting “45S(a),” after
3 “45P(a),”.

4 (2) ELECTION TO HAVE CREDIT NOT APPLY.—
5 Section 6501(m) is amended by inserting “45S(h),”
6 after “45H(g),”.

7 (3) CLERICAL AMENDMENT.—The table of sec-
8 tions for subpart D of part IV of subchapter A of
9 chapter 1 is amended by adding at the end the fol-
10 lowing new item:

“Sec. 45S. Employer credit for paid family and medical leave.”.

11 (e) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to wages paid in taxable years be-
13 ginning after December 31, 2017.

14 **SEC. 13404. REPEAL OF TAX CREDIT BONDS.**

15 (a) IN GENERAL.—Part IV of subchapter A of chap-
16 ter 1 is amended by striking subparts H, I, and J (and
17 by striking the items relating to such subparts in the table
18 of subparts for such part).

19 (b) PAYMENTS TO ISSUERS.—Subchapter B of chap-
20 ter 65 is amended by striking section 6431 (and by strik-
21 ing the item relating to such section in the table of sec-
22 tions for such subchapter).

23 (c) CONFORMING AMENDMENTS.—

24 (1) Part IV of subchapter U of chapter 1 is
25 amended by striking section 1397E (and by striking

1 the item relating to such section in the table of sec-
2 tions for such part).

3 (2) Section 54(l)(3)(B) is amended by inserting
4 “(as in effect before its repeal by the Tax Cuts and
5 Jobs Act)” after “section 1397E(I)”.

6 (3) Section 6211(b)(4)(A) is amended by strik-
7 ing “, and 6431” and inserting “and” before
8 “36B”.

9 (4) Section 6401(b)(1) is amended by striking
10 “G, H, I, and J” and inserting “and G”.

11 (d) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to bonds issued after December
13 31, 2017.

14 **PART VI—PROVISIONS RELATED TO SPECIFIC**
15 **ENTITIES AND INDUSTRIES**

16 **Subpart A—Partnership Provisions**

17 **SEC. 13501. TREATMENT OF GAIN OR LOSS OF FOREIGN**
18 **PERSONS FROM SALE OR EXCHANGE OF IN-**
19 **TERESTS IN PARTNERSHIPS ENGAGED IN**
20 **TRADE OR BUSINESS WITHIN THE UNITED**
21 **STATES.**

22 (a) AMOUNT TREATED AS EFFECTIVELY CON-
23 NECTED.—

24 (1) IN GENERAL.—Section 864(c) is amended
25 by 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(e)) 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, the term ‘sale or exchange’
13 means any sale, exchange, or other disposition.

14 “(E) SECRETARIAL AUTHORITY.—The Sec-
15 retary shall prescribe such regulations or other
16 guidance as the Secretary determines appro-
17 priate for the application of this paragraph, in-
18 cluding with respect to exchanges described in
19 section 332, 351, 354, 355, 356, or 361.”.

20 (2) CONFORMING AMENDMENTS.—Section
21 864(c)(1) is amended—

22 (A) by striking “and (7)” in subparagraph
23 (A), and inserting “(7), and (8)”, and

24 (B) by striking “or (7)” in subparagraph
25 (B), and inserting “(7), or (8)”.

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 DIS-
5 POSITIONS 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 or other guidance as may be
20 necessary to carry out the purposes of this sub-
21 section, including regulations providing for excep-
22 tions from the provisions of this subsection.”.

23 (c) EFFECTIVE DATES.—

1 (1) SUBSECTION (a).—The amendments made
2 by subsection (a) shall apply to sales, exchanges, and
3 dispositions on or after November 27, 2017.

4 (2) SUBSECTION (b).—The amendment made
5 by subsection (b) shall apply to sales, exchanges,
6 and dispositions after December 31, 2017.

7 **SEC. 13502. MODIFY DEFINITION OF SUBSTANTIAL BUILT-IN**
8 **LOSS IN THE CASE OF TRANSFER OF PART-**
9 **NERSHIP INTEREST.**

10 (a) IN GENERAL.—Paragraph (1) of section 743(d)
11 is to read as follows:

12 “(1) IN GENERAL.—For purposes of this sec-
13 tion, a partnership has a substantial built-in loss
14 with respect to a transfer of an interest in the part-
15 nership if—

16 “(A) the partnership’s adjusted basis in
17 the partnership property exceeds by more than
18 \$250,000 the fair market value of such prop-
19 erty, or

20 “(B) the transferee partner would be allo-
21 cated a loss of more than \$250,000 if the part-
22 nership assets were sold for cash equal to their
23 fair market value immediately after such trans-
24 fer.”.

1 (b) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to transfers of partnership inter-
3 ests after December 31, 2017.

4 **SEC. 13503. CHARITABLE CONTRIBUTIONS AND FOREIGN**
5 **TAXES TAKEN INTO ACCOUNT IN DETER-**
6 **MINING LIMITATION ON ALLOWANCE OF**
7 **PARTNER'S SHARE OF LOSS.**

8 (a) IN GENERAL.—Subsection (d) of section 704 is
9 amended—

10 (1) by striking “A partner’s distributive share”
11 and inserting the following:

12 “(1) IN GENERAL.—A partner’s distributive
13 share”,

14 (2) by striking “Any excess of such loss” and
15 inserting the following:

16 “(2) CARRYOVER.—Any excess of such loss”,
17 and

18 (3) by adding at the end the following new
19 paragraph:

20 “(3) SPECIAL RULES.—

21 “(A) IN GENERAL.—In determining the
22 amount of any loss under paragraph (1), there
23 shall be taken into account the partner’s dis-
24 tributive share of amounts described in para-
25 graphs (4) and (6) of section 702(a).

1 “(B) EXCEPTION.—In the case of a chari-
2 table contribution of property whose fair mar-
3 ket value exceeds its adjusted basis, subpara-
4 graph (A) shall not apply to the extent of the
5 partner’s distributive share of such excess.”.

6 (b) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to partnership taxable years begin-
8 ning after December 31, 2017.

9 **SEC. 13504. REPEAL OF TECHNICAL TERMINATION OF**
10 **PARTNERSHIPS.**

11 (a) IN GENERAL.—Paragraph (1) of section 708(b)
12 is amended—

13 (1) by striking “, or” at the end of subpara-
14 graph (A) and all that follows and inserting a pe-
15 riod, and

16 (2) by striking “only if—” and all that follows
17 through “no part of any business” and inserting the
18 following: “only if no part of any business”.

19 (b) CONFORMING AMENDMENT.—

20 (1) Section 168(i)(7)(B) is amended by striking
21 the second sentence.

22 (2) Section 743(e) is amended by striking para-
23 graph (4) and redesignating paragraphs (5), (6),
24 and (7) as paragraphs (4), (5), and (6).

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to partnership taxable years begin-
3 ning after December 31, 2017.

4 **Subpart B—Insurance Reforms**

5 **SEC. 13511. NET OPERATING LOSSES OF LIFE INSURANCE**
6 **COMPANIES.**

7 (a) IN GENERAL.—Section 805(b) is amended by
8 striking paragraph (4) and by redesignating paragraph
9 (5) as paragraph (4).

10 (b) CONFORMING AMENDMENTS.—

11 (1) Part I of subchapter L of chapter 1 is
12 amended by striking section 810 (and by striking
13 the item relating to such section in the table of sec-
14 tions for such part).

15 (2)(A) Part III of subchapter L of chapter 1 is
16 amended by striking section 844 (and by striking
17 the item relating to such section in the table of sec-
18 tions for such part).

19 (B) Section 831(b)(3) is amended by striking
20 “except as provided in section 844,”

21 (3) Section 381 is amended by striking sub-
22 section (d).

23 (4) Section 805(a)(4)(B)(ii) is amended to read
24 as follows:

1 “(ii) the deduction allowed under sec-
2 tion 172,”.

3 (5) Section 805(a) is amended by striking para-
4 graph (5).

5 (6) Section 805(b)(2)(A)(iv) is amended to read
6 as follows:

7 “(iv) any net operating loss carryback
8 to the taxable year under section 172,
9 and”.

10 (7) Section 953(b)(1)(B) is amended to read as
11 follows:

12 “(B) So much of section 805(a)(8) as re-
13 lates to the deduction allowed under section
14 172.”.

15 (8) Section 1351(i)(3) is amended by striking
16 “or the operations loss deduction under section
17 810,”.

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

21 **SEC. 13512. REPEAL OF SMALL LIFE INSURANCE COMPANY**
22 **DEDUCTION.**

23 (a) IN GENERAL.—Part I of subchapter L of chapter
24 1 is amended by striking section 806 (and by striking the

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

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 453B(e) is amended—

5 (A) by striking “(as defined in section
6 806(b)(3))” in paragraph (2)(B), and

7 (B) by adding at the end the following new
8 paragraph:

9 “(3) NONINSURANCE BUSINESS.—

10 “(A) IN GENERAL.—For purposes of this
11 subsection, the term ‘noninsurance business’
12 means any activity which is not an insurance
13 business.

14 “(B) CERTAIN ACTIVITIES TREATED AS IN-
15 SURANCE BUSINESSES.—For purposes of sub-
16 paragraph (A), any activity which is not an in-
17 surance business shall be treated as an insur-
18 ance business if—

19 “(i) it is of a type traditionally carried
20 on by life insurance companies for invest-
21 ment purposes, but only if the carrying on
22 of such activity (other than in the case of
23 real estate) does not constitute the active
24 conduct of a trade or business, or

1 “(ii) it involves the performance of ad-
2 ministrative services in connection with
3 plans providing life insurance, pension, or
4 accident and health benefits.”.

5 (2) Section 465(c)(7)(D)(v)(II) is amended by
6 striking “section 806(b)(3)” and inserting “section
7 453B(e)(3)”.

8 (3) Section 801(a)(2) is amended by striking
9 subparagraph (C).

10 (4) Section 804 is amended by striking
11 “means—” and all that follows and inserting
12 “means the general deductions provided in section
13 805.”.

14 (5) Section 805(a)(4)(B), as amended by this
15 Act, is amended by striking clause (i) and by red-
16 esignating clauses (ii), (iii), and (iv) as clauses (i), (ii),
17 and (iii), respectively.

18 (6) Section 805(b)(2)(A), as amended by this
19 Act, is amended by striking clause (iii) and by red-
20 esignating clauses (iv) and (v) as clauses (iii) and (iv),
21 respectively.

22 (7) Section 842(e) is amended by striking para-
23 graph (1) and by redesignating paragraphs (2) and
24 (3) as paragraphs (1) and (2), respectively.

1 (8) Section 953(b)(1), as amended by section
2 13511, is amended by striking subparagraph (A)
3 and by redesignating subparagraphs (B) and (C) as
4 subparagraphs (A) and (B), respectively.

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

8 **SEC. 13513. ADJUSTMENT FOR CHANGE IN COMPUTING RE-**
9 **SERVES.**

10 (a) IN GENERAL.—Paragraph (1) of section 807(f)
11 is amended to read as follows:

12 “(1) TREATMENT AS CHANGE IN METHOD OF
13 ACCOUNTING.—If the basis for determining any item
14 referred to in subsection (c) as of the close of any
15 taxable year differs from the basis for such deter-
16 mination as of the close of the preceding taxable
17 year, then so much of the difference between—

18 “(A) the amount of the item at the close
19 of the taxable year, computed on the new basis,
20 and

21 “(B) the amount of the item at the close
22 of the taxable year, computed on the old basis,
23 as is attributable to contracts issued before the tax-
24 able year shall be taken into account under section
25 481 as adjustments attributable to a change in

1 method of accounting initiated by the taxpayer and
2 made with the consent of the Secretary.”.

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

6 **SEC. 13514. REPEAL OF SPECIAL RULE FOR DISTRIBUTIONS**
7 **TO SHAREHOLDERS FROM PRE-1984 POLICY-**
8 **HOLDERS SURPLUS ACCOUNT.**

9 (a) IN GENERAL.—Subpart D of part I of subchapter
10 L is amended by striking section 815 (and by striking the
11 item relating to such section in the table of sections for
12 such subpart).

13 (b) CONFORMING AMENDMENT.—Section 801 is
14 amended by striking subsection (e).

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

18 (d) PHASED INCLUSION OF REMAINING BALANCE OF
19 POLICYHOLDERS SURPLUS ACCOUNTS.—In the case of
20 any stock life insurance company which has a balance (de-
21 termined as of the close of such company’s last taxable
22 year beginning before January 1, 2018) in an existing pol-
23 icyholders surplus account (as defined in section 815 of
24 the Internal Revenue Code of 1986, as in effect before
25 its repeal), the tax imposed by section 801 of such Code

1 for the first 8 taxable years beginning after December 31,
2 2017, shall be the amount which would be imposed by
3 such section for such year on the sum of—

4 (1) life insurance company taxable income for
5 such year (within the meaning of such section 801
6 but not less than zero), plus

7 (2) $\frac{1}{8}$ of such balance.

8 **SEC. 13515. MODIFICATION OF PRORATION RULES FOR**
9 **PROPERTY AND CASUALTY INSURANCE COM-**
10 **PANIES.**

11 (a) IN GENERAL.—Section 832(b)(5)(B) is amend-
12 ed—

13 (1) by striking “15 percent” and inserting “the
14 applicable percentage”, and

15 (2) by inserting at the end the following new
16 sentence: “For purposes of this subparagraph, the
17 applicable percentage is 5.25 percent divided by the
18 highest rate in effect under section 11(b).”.

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

22 **SEC. 13516. REPEAL OF SPECIAL ESTIMATED TAX PAY-**
23 **MENTS.**

24 (a) IN GENERAL.—Part III of subchapter L of chap-
25 ter 1 is amended by striking section 847 (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. 13517. COMPUTATION OF LIFE INSURANCE TAX RE-**
7 **SERVES.**

8 (a) IN GENERAL.—

9 (1) APPROPRIATE RATE OF INTEREST.—The
10 second sentence of section 807(c) is amended to read
11 as follows: “For purposes of paragraph (3), the ap-
12 propriate rate of interest is the highest rate or rates
13 permitted to be used to discount the obligations by
14 the National Association of Insurance Commis-
15 sioners as of the date the reserve is determined.”.

16 (2) METHOD OF COMPUTING RESERVES.—Sec-
17 tion 807(d) is amended—

18 (A) by striking paragraphs (1), (2), (4),
19 and (5),

20 (B) by redesignating paragraph (6) as
21 paragraph (4),

22 (C) by inserting before paragraph (3) the
23 following new paragraphs:

24 “(1) DETERMINATION OF RESERVE.—

1 “(A) IN GENERAL.—For purposes of this
2 part (other than section 816), the amount of
3 the life insurance reserves for any contract
4 (other than a contract to which subparagraph
5 (B) applies) shall be the greater of—

6 “(i) the net surrender value of such
7 contract, or

8 “(ii) 92.81 percent of the reserve de-
9 termined under paragraph (2).

10 “(B) VARIABLE CONTRACTS.—For pur-
11 poses of this part (other than section 816), the
12 amount of the life insurance reserves for a vari-
13 able contract shall be equal to the sum of—

14 “(i) the greater of—

15 “(I) the net surrender value of
16 such contract, or

17 “(II) the portion of the reserve
18 that is separately accounted for under
19 section 817, plus

20 “(ii) 92.81 percent of the excess (if
21 any) of the reserve determined under para-
22 graph (2) over the amount in clause (i).

23 “(C) STATUTORY CAP.—In no event shall
24 the reserves determined under subparagraphs
25 (A) or (B) for any contract as of any time ex-

1 ceed the amount which would be taken into ac-
2 count with respect to such contract as of such
3 time in determining statutory reserves (as de-
4 fined in paragraph (4)).

5 “(D) NO DOUBLE COUNTING.—In no event
6 shall any amount or item be taken into account
7 more than once in determining any reserve
8 under this subchapter.

9 “(2) AMOUNT OF RESERVE.—The amount of
10 the reserve determined under this paragraph with
11 respect to any contract shall be determined by using
12 the tax reserve method applicable to such contract.”.

13 (D) by striking “(other than a qualified
14 long-term care insurance contract, as defined in
15 section 7702B(b)), a 2-year full preliminary
16 term method” in paragraph (3)(A)(iii) and in-
17 serting “, the reserve method prescribed by the
18 National Association of Insurance Commis-
19 sioners which covers such contract as of the
20 date the reserve is determined”,

21 (E) by striking “(as of the date of
22 issuance)” in paragraph (3)(A)(iv)(I) and in-
23 serting “(as of the date the reserve is deter-
24 mined)”,

1 (F) by striking “as of the date of the
2 issuance of” in paragraph (3)(A)(iv)(II) and in-
3 serting “as of the date the reserve is deter-
4 mined for”,

5 (G) by striking “in effect on the date of
6 the issuance of the contract” in paragraph
7 (3)(B)(i) and inserting “applicable to the con-
8 tract and in effect as of the date the reserve is
9 determined”, and

10 (H) by striking “in effect on the date of
11 the issuance of the contract” in paragraph
12 (3)(B)(ii) and inserting “applicable to the con-
13 tract and in effect as of the date the reserve is
14 determined”.

15 (3) SPECIAL RULES.—Section 807(e) is amend-
16 ed—

17 (A) by striking paragraphs (2) and (5),

18 (B) by redesignating paragraphs (3), (4),
19 (6), and (7) as paragraphs (2), (3), (4), and
20 (5), respectively,

21 (C) by amending paragraph (2) (as so re-
22 designated) to read as follows:

23 “(2) QUALIFIED SUPPLEMENTAL BENEFITS.—

24 “(A) QUALIFIED SUPPLEMENTAL BENE-
25 FITS TREATED SEPARATELY.—For purposes of

1 this part, the amount of the life insurance re-
2 serve for any qualified supplemental benefit
3 shall be computed separately as though such
4 benefit were under a separate contract.

5 “(B) QUALIFIED SUPPLEMENTAL BEN-
6 EFIT.—For purposes of this paragraph, the
7 term ‘qualified supplemental benefit’ means any
8 supplemental benefit described in subparagraph
9 (C) if—

10 “(i) there is a separately identified
11 premium or charge for such benefit, and

12 “(ii) any net surrender value under
13 the contract attributable to any other ben-
14 efit is not available to fund such benefit.

15 “(C) SUPPLEMENTAL BENEFITS.—For
16 purposes of this paragraph, the supplemental
17 benefits described in this subparagraph are
18 any—

19 “(i) guaranteed insurability,

20 “(ii) accidental death or disability
21 benefit,

22 “(iii) convertibility,

23 “(iv) disability waiver benefit, or

24 “(v) other benefit prescribed by regu-
25 lations,

1 which is supplemental to a contract for which
2 there is a reserve described in subsection (c).”,
3 and

4 (D) by adding at the end the following new
5 paragraph:

6 “(6) REPORTING RULES.—The Secretary shall
7 require reporting (at such time and in such manner
8 as the Secretary shall prescribe) with respect to the
9 opening balance and closing balance of reserves and
10 with respect to the method of computing reserves for
11 purposes of determining income.”.

12 (4) DEFINITION OF LIFE INSURANCE CON-
13 TRACT.—Section 7702 is amended—

14 (A) by striking clause (i) of subsection
15 (c)(3)(B) and inserting the following:

16 “(i) reasonable mortality charges
17 which meet the requirements prescribed in
18 regulations to be promulgated by the Sec-
19 retary or that do not exceed the mortality
20 charges specified in the prevailing commis-
21 sioners’ standard tables as defined in sub-
22 section (f)(10),” and

23 (B) by adding at the end of subsection (f)
24 the following new paragraph:

1 “(10) PREVAILING COMMISSIONERS’ STANDARD
2 TABLES.—For purposes of subsection (c)(3)(B)(i),
3 the term ‘prevailing commissioners’ standard tables’
4 means the most recent commissioners’ standard ta-
5 bles prescribed by the National Association of Insur-
6 ance Commissioners which are permitted to be used
7 in computing reserves for that type of contract
8 under the insurance laws of at least 26 States when
9 the contract was issued. If the prevailing commis-
10 sioners’ standard tables as of the beginning of any
11 calendar year (hereinafter in this paragraph referred
12 to as the ‘year of change’) are different from the
13 prevailing commissioners’ standard tables as of the
14 beginning of the preceding calendar year, the issuer
15 may use the prevailing commissioners’ standard ta-
16 bles as of the beginning of the preceding calendar
17 year with respect to any contract issued after the
18 change and before the close of the 3-year period be-
19 ginning on the first day of the year of change.”.

20 (b) CONFORMING AMENDMENTS.—

21 (1) Section 808 is amended by adding at the
22 end the following new subsection:

23 “(g) PREVAILING STATE ASSUMED INTEREST
24 RATE.—For purposes of this subchapter—

1 “(1) IN GENERAL.—The term ‘prevailing State
2 assumed interest rate’ means, with respect to any
3 contract, the highest assumed interest rate per-
4 mitted to be used in computing life insurance re-
5 serves for insurance contracts or annuity contracts
6 (as the case may be) under the insurance laws of at
7 least 26 States. For purposes of the preceding sen-
8 tence, the effect of nonforfeiture laws of a State on
9 interest rates for reserves shall not be taken into ac-
10 count.

11 “(2) WHEN RATE DETERMINED.—The pre-
12 vailing State assumed interest rate with respect to
13 any contract shall be determined as of the beginning
14 of the calendar year in which the contract was
15 issued.”.

16 (2) Paragraph (1) of section 811(d) is amended
17 by striking “the greater of the prevailing State as-
18 sumed interest rate or applicable Federal interest
19 rate in effect under section 807” and inserting “the
20 interest rate in effect under section 808(g)”.

21 (3) Subparagraph (A) of section 846(f)(6) is
22 amended by striking “except that” and all that fol-
23 lows and inserting “except that the limitation of
24 subsection (a)(3) shall apply, and”.

1 (4) Section 848(e)(1)(B)(iii) is amended by
2 striking “807(e)(4)” and inserting “807(e)(3)”.

3 (5) Subparagraph (B) of section 954(i)(5) is
4 amended by striking “shall be substituted for the
5 prevailing State assumed interest rate,” and insert-
6 ing “shall apply,”.

7 (c) EFFECTIVE DATE.—

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

11 (2) TRANSITION RULE.—For the first taxable
12 year beginning after December 31, 2017, the reserve
13 with respect to any contract (as determined under
14 section 807(d) of the Internal Revenue Code of
15 1986) at the end of the preceding taxable year shall
16 be determined as if the amendments made by this
17 section had applied to such reserve in such preceding
18 taxable year.

19 (3) TRANSITION RELIEF.—

20 (A) IN GENERAL.—If—

21 (i) the reserve determined under sec-
22 tion 807(d) of the Internal Revenue Code
23 of 1986 (determined after application of
24 paragraph (2)) with respect to any con-
25 tract as of the close of the year preceding

1 the first taxable year beginning after De-
2 cember 31, 2017, differs from

3 (ii) the reserve which would have been
4 determined with respect to such contract
5 as of the close of such taxable year under
6 such section determined without regard to
7 paragraph (2),

8 then the difference between the amount of the
9 reserve described in clause (i) and the amount
10 of the reserve described in clause (ii) shall be
11 taken into account under the method provided
12 in subparagraph (B).

13 (B) METHOD.—The method provided in
14 this subparagraph is as follows:

15 (i) If the amount determined under
16 subparagraph (A)(i) exceeds the amount
17 determined under subparagraph (A)(ii), 1/
18 8 of such excess shall be taken into ac-
19 count, for each of the 8 succeeding taxable
20 years, as a deduction under section
21 805(a)(2) or 832(c)(4) of such Code, as
22 applicable.

23 (ii) If the amount determined under
24 subparagraph (A)(ii) exceeds the amount
25 determined under subparagraph (A)(i), 1/8

1 of such excess shall be included in gross in-
2 come, for each of the 8 succeeding taxable
3 years, under section 803(a)(2) or
4 832(b)(1)(C) of such Code, as applicable.

5 **SEC. 13518. MODIFICATION OF RULES FOR LIFE INSUR-**
6 **ANCE PRORATION FOR PURPOSES OF DETER-**
7 **MINING THE DIVIDENDS RECEIVED DEDUC-**
8 **TION.**

9 (a) IN GENERAL.—Section 812 is amended to read
10 as follows:

11 **“SEC. 812. DEFINITION OF COMPANY’S SHARE AND POLICY-**
12 **HOLDER’S SHARE.**

13 “(a) COMPANY’S SHARE.—For purposes of section
14 805(a)(4), the term ‘company’s share’ means, with respect
15 to any taxable year beginning after December 31, 2017,
16 70 percent.

17 “(b) POLICYHOLDER’S SHARE.—For purposes of sec-
18 tion 807, the term ‘policyholder’s share’ means, with re-
19 spect to any taxable year beginning after December 31,
20 2017, 30 percent.”.

21 (b) CONFORMING AMENDMENT.—Section 817A(e)(2)
22 is amended by striking “, 807(d)(2)(B), and 812” and in-
23 serting “and 807(d)(2)(B)”.

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

4 **SEC. 13519. CAPITALIZATION OF CERTAIN POLICY ACQUI-**
5 **SION EXPENSES.**

6 (a) IN GENERAL.—

7 (1) Section 848(a)(2) is amended by striking
8 “120-month” and inserting “180-month”.

9 (2) Section 848(c)(1) is amended by striking
10 “1.75 percent” and inserting “2.09 percent”.

11 (3) Section 848(c)(2) is amended by striking
12 “2.05 percent” and inserting “2.45 percent”.

13 (4) Section 848(c)(3) is amended by striking
14 “7.7 percent” and inserting “9.2 percent”.

15 (b) CONFORMING AMENDMENTS.—Section 848(b)(1)
16 is amended by striking “120-month” and inserting “180-
17 month”.

18 (c) EFFECTIVE DATE.—

19 (1) IN GENERAL.—The amendments made by
20 this section shall apply to net premiums for taxable
21 years beginning after December 31, 2017.

22 (2) TRANSITION RULE.—Specified policy acqui-
23 sition expenses first required to be capitalized in a
24 taxable year beginning before January 1, 2018, will
25 continue to be allowed as a deduction ratably over

1 the 120-month period beginning with the first month
2 in the second half of such taxable year.

3 **SEC. 13520. TAX REPORTING FOR LIFE SETTLEMENT**
4 **TRANSACTIONS.**

5 (a) IN GENERAL.—Subpart B of part III of sub-
6 chapter A of chapter 61, as amended by section 13306,
7 is amended by adding at the end the following new section:

8 **“SEC. 6050Y. RETURNS RELATING TO CERTAIN LIFE INSUR-**
9 **ANCE CONTRACT TRANSACTIONS.**

10 **“(a) REQUIREMENT OF REPORTING OF CERTAIN**
11 **PAYMENTS.—**

12 **“(1) IN GENERAL.—**Every person who acquires
13 a life insurance contract or any interest in a life in-
14 surance contract in a reportable policy sale during
15 any taxable year shall make a return for such tax-
16 able year (at such time and in such manner as the
17 Secretary shall prescribe) setting forth—

18 **“(A)** the name, address, and TIN of such
19 person,

20 **“(B)** the name, address, and TIN of each
21 recipient of payment in the reportable policy
22 sale,

23 **“(C)** the date of such sale,

1 “(D) the name of the issuer of the life in-
2 surance contract sold and the policy number of
3 such contract, and

4 “(E) the amount of each payment.

5 “(2) STATEMENT TO BE FURNISHED TO PER-
6 SONS WITH RESPECT TO WHOM INFORMATION IS RE-
7 QUIRED.—Every person required to make a return
8 under this subsection shall furnish to each person
9 whose name is required to be set forth in such re-
10 turn a written statement showing—

11 “(A) the name, address, and phone num-
12 ber of the information contact of the person re-
13 quired to make such return, and

14 “(B) the information required to be shown
15 on such return with respect to such person, ex-
16 cept that in the case of an issuer of a life insur-
17 ance contract, such statement is not required to
18 include the information specified in paragraph
19 (1)(E).

20 “(b) REQUIREMENT OF REPORTING OF SELLER’S
21 BASIS IN LIFE INSURANCE CONTRACTS.—

22 “(1) IN GENERAL.—Upon receipt of the state-
23 ment required under subsection (a)(2) or upon no-
24 tice of a transfer of a life insurance contract to a
25 foreign person, each issuer of a life insurance con-

1 tract shall make a return (at such time and in such
2 manner as the Secretary shall prescribe) setting
3 forth—

4 “(A) the name, address, and TIN of the
5 seller who transfers any interest in such con-
6 tract in such sale,

7 “(B) the investment in the contract (as de-
8 fined in section 72(e)(6)) with respect to such
9 seller, and

10 “(C) the policy number of such contract.

11 “(2) STATEMENT TO BE FURNISHED TO PER-
12 SONS WITH RESPECT TO WHOM INFORMATION IS RE-
13 QUIRED.—Every person required to make a return
14 under this subsection shall furnish to each person
15 whose name is required to be set forth in such re-
16 turn a written statement showing—

17 “(A) the name, address, and phone num-
18 ber of the information contact of the person re-
19 quired to make such return, and

20 “(B) the information required to be shown
21 on such return with respect to each seller whose
22 name is required to be set forth in such return.

23 “(c) REQUIREMENT OF REPORTING WITH RESPECT
24 TO REPORTABLE DEATH BENEFITS.—

1 “(1) IN GENERAL.—Every person who makes a
2 payment of reportable death benefits during any tax-
3 able year shall make a return for such taxable year
4 (at such time and in such manner as the Secretary
5 shall prescribe) setting forth—

6 “(A) the name, address, and TIN of the
7 person making such payment,

8 “(B) the name, address, and TIN of each
9 recipient of such payment,

10 “(C) the date of each such payment,

11 “(D) the gross amount of each such pay-
12 ment, and

13 “(E) such person’s estimate of the invest-
14 ment in the contract (as defined in section
15 72(e)(6)) with respect to the buyer.

16 “(2) STATEMENT TO BE FURNISHED TO PER-
17 SONS WITH RESPECT TO WHOM INFORMATION IS RE-
18 QUIRED.—Every person required to make a return
19 under this subsection shall furnish to each person
20 whose name is required to be set forth in such re-
21 turn a written statement showing—

22 “(A) the name, address, and phone num-
23 ber of the information contact of the person re-
24 quired to make such return, and

1 “(B) the information required to be shown
2 on such return with respect to each recipient of
3 payment whose name is required to be set forth
4 in such return.

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

6 “(1) PAYMENT.—The term ‘payment’ means,
7 with respect to any reportable policy sale, the
8 amount of cash and the fair market value of any
9 consideration transferred in the sale.

10 “(2) REPORTABLE POLICY SALE.—The term
11 ‘reportable policy sale’ has the meaning given such
12 term in section 101(a)(3)(B).

13 “(3) ISSUER.—The term ‘issuer’ means any life
14 insurance company that bears the risk with respect
15 to a life insurance contract on the date any return
16 or statement is required to be made under this sec-
17 tion.

18 “(4) REPORTABLE DEATH BENEFITS.—The
19 term ‘reportable death benefits’ means amounts paid
20 by reason of the death of the insured under a life
21 insurance contract that has been transferred in a re-
22 portable policy sale.”.

23 (b) CLERICAL AMENDMENT.—The table of sections
24 for subpart B of part III of subchapter A of chapter 61,
25 as amended by section 13306, is amended by inserting

1 after the item relating to section 6050X the following new
2 item:

“Sec. 6050Y. Returns relating to certain life insurance contract transactions.”.

3 (c) CONFORMING AMENDMENTS.—

4 (1) Subsection (d) of section 6724 is amend-
5 ed—

6 (A) by striking “or” at the end of clause
7 (xxiv) of paragraph (1)(B), by striking “and”
8 at the end of clause (xxv) of such paragraph
9 and inserting “or”, and by inserting after such
10 clause (xxv) the following new clause:

11 “(xxvi) section 6050Y (relating to re-
12 turns relating to certain life insurance con-
13 tract transactions), and”, and

14 (B) by striking “or” at the end of subpara-
15 graph (HH) of paragraph (2), by striking the
16 period at the end of subparagraph (II) of such
17 paragraph and inserting “, or”, and by insert-
18 ing after such subparagraph (II) the following
19 new subparagraph:

20 “(JJ) subsection (a)(2), (b)(2), or (c)(2) of
21 section 6050Y (relating to returns relating to
22 certain life insurance contract transactions).”.

23 (2) Section 6047 is amended—

24 (A) by redesignating subsection (g) as sub-
25 section (h),

1 (B) by inserting after subsection (f) the
2 following new subsection:

3 “(g) INFORMATION RELATING TO LIFE INSURANCE
4 CONTRACT TRANSACTIONS.—This section shall not apply
5 to any information which is required to be reported under
6 section 6050Y.”, and

7 (C) by adding at the end of subsection (h),
8 as so redesignated, the following new para-
9 graph:

10 “(4) For provisions requiring reporting of infor-
11 mation relating to certain life insurance contract
12 transactions, see section 6050Y.”.

13 (d) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to—

15 (1) reportable policy sales (as defined in section
16 6050Y(d)(2) of the Internal Revenue Code of 1986
17 (as added by subsection (a)) after December 31,
18 2017, and

19 (2) reportable death benefits (as defined in sec-
20 tion 6050Y(d)(4) of such Code (as added by sub-
21 section (a)) paid after December 31, 2017.

22 **SEC. 13521. CLARIFICATION OF TAX BASIS OF LIFE INSUR-**
23 **ANCE CONTRACTS.**

24 (a) CLARIFICATION WITH RESPECT TO ADJUST-
25 MENTS.—Paragraph (1) of section 1016(a) is amended by

1 striking subparagraph (A) and all that follows and insert-
2 ing the following:

3 “(A) for—

4 “(i) taxes or other carrying charges
5 described in section 266; or

6 “(ii) expenditures described in section
7 173 (relating to circulation expenditures),
8 for which deductions have been taken by the
9 taxpayer in determining taxable income for the
10 taxable year or prior taxable years; or

11 “(B) for mortality, expense, or other rea-
12 sonable charges incurred under an annuity or
13 life insurance contract;”.

14 (b) EFFECTIVE DATE.—The amendment made by
15 this section shall apply to transactions entered into after
16 August 25, 2009.

17 **SEC. 13522. EXCEPTION TO TRANSFER FOR VALUABLE CON-**
18 **SIDERATION RULES.**

19 (a) IN GENERAL.—Subsection (a) of section 101 is
20 amended by inserting after paragraph (2) the following
21 new paragraph:

22 “(3) EXCEPTION TO VALUABLE CONSIDERATION
23 RULES FOR COMMERCIAL TRANSFERS.—

24 “(A) IN GENERAL.—The second sentence
25 of paragraph (2) shall not apply in the case of

1 a transfer of a life insurance contract, or any
2 interest therein, which is a reportable policy
3 sale.

4 “(B) REPORTABLE POLICY SALE.—For
5 purposes of this paragraph, the term ‘reportable
6 policy sale’ means the acquisition of an interest
7 in a life insurance contract, directly or indi-
8 rectly, if the acquirer has no substantial family,
9 business, or financial relationship with the in-
10 sured apart from the acquirer’s interest in such
11 life insurance contract. For purposes of the pre-
12 ceding sentence, the term ‘indirectly’ applies to
13 the acquisition of an interest in a partnership,
14 trust, or other entity that holds an interest in
15 the life insurance contract.”.

16 (b) CONFORMING AMENDMENT.—Paragraph (1) of
17 section 101(a) is amended by striking “paragraph (2)”
18 and inserting “paragraphs (2) and (3)”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to transfers after December 31,
21 2017.

1 **SEC. 13523. MODIFICATION OF DISCOUNTING RULES FOR**
2 **PROPERTY AND CASUALTY INSURANCE COM-**
3 **PANIES.**

4 (a) **MODIFICATION OF RATE OF INTEREST USED TO**
5 **DISCOUNT UNPAID LOSSES.**—Paragraph (2) of section
6 846(c) is amended to read as follows:

7 “(2) **DETERMINATION OF ANNUAL RATE.**—The
8 annual rate determined by the Secretary under this
9 paragraph for any calendar year shall be a rate de-
10 termined on the basis of the corporate bond yield
11 curve (as defined in section 430(h)(2)(D)(i), deter-
12 mined by substituting ‘60-month period’ for ‘24-
13 month period’ therein).”.

14 (b) **MODIFICATION OF COMPUTATIONAL RULES FOR**
15 **LOSS PAYMENT PATTERNS.**—Section 846(d)(3) is amend-
16 ed by striking subparagraphs (B) through (G) and insert-
17 ing the following new subparagraph:

18 “(B) **TREATMENT OF CERTAIN LOSSES.**—
19 “(i) **3-YEAR LOSS PAYMENT PAT-**
20 **TERN.**—In the case of any line of business
21 not described in subparagraph (A)(ii),
22 losses paid after the 1st year following the
23 accident year shall be treated as paid
24 equally in the 2nd and 3rd year following
25 the accident year.

1 “(ii) 10-YEAR LOSS PAYMENT PAT-
2 TERN.—

3 “(I) IN GENERAL.—The period
4 taken into account under subpara-
5 graph (A)(ii) shall be extended to the
6 extent required under subclause (II).

7 “(II) COMPUTATION OF EXTEN-
8 SION.—The amount of losses which
9 would have been treated as paid in the
10 10th year after the accident year shall
11 be treated as paid in such 10th year
12 and each subsequent year in an
13 amount equal to the amount of the
14 average of the losses treated as paid
15 in the 7th, 8th, and 9th years after
16 the accident year (or, if lesser, the
17 portion of the unpaid losses not there-
18 tofore taken into account). To the ex-
19 tent such unpaid losses have not been
20 treated as paid before the 24th year
21 after the accident year, they shall be
22 treated as paid in such 24th year.”.

23 (c) REPEAL OF HISTORICAL PAYMENT PATTERN
24 ELECTION.—Section 846, as amended by this Act, is
25 amended by striking subsection (e) and by redesignating

1 subsections (f) and (g) as subsections (e) and (f), respec-
2 tively.

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

6 (e) TRANSITIONAL RULE.—For the first taxable year
7 beginning after December 31, 2017—

8 (1) the unpaid losses and the expenses unpaid
9 (as defined in paragraphs (5)(B) and (6) of section
10 832(b) of the Internal Revenue Code of 1986) at the
11 end of the preceding taxable year, and

12 (2) the unpaid losses as defined in sections
13 807(c)(2) and 805(a)(1) of such Code at the end of
14 the preceding taxable year,

15 shall be determined as if the amendments made by this
16 section had applied to such unpaid losses and expenses
17 unpaid in the preceding taxable year and by using the in-
18 terest rate and loss payment patterns applicable to acci-
19 dent years ending with calendar year 2018, and any ad-
20 justment shall be taken into account ratably in such first
21 taxable year and the 7 succeeding taxable years. For sub-
22 sequent taxable years, such amendments shall be applied
23 with respect to such unpaid losses and expenses unpaid
24 by using the interest rate and loss payment patterns appli-
25 cable to accident years ending with calendar year 2018.

1 **Subpart C—Banks and Financial Instruments**

2 **SEC. 13531. LIMITATION ON DEDUCTION FOR FDIC PRE-**
3 **MIUMS.**

4 (a) IN GENERAL.—Section 162, as amended by sec-
5 tions 13307, is amended by redesignating subsection (r)
6 as subsection (s) and by inserting after subsection (q) the
7 following new subsection:

8 “(r) DISALLOWANCE OF FDIC PREMIUMS PAID BY
9 CERTAIN LARGE FINANCIAL INSTITUTIONS.—

10 “(1) IN GENERAL.—No deduction shall be al-
11 lowed for the applicable percentage of any FDIC
12 premium paid or incurred by the taxpayer.

13 “(2) EXCEPTION FOR SMALL INSTITUTIONS.—
14 Paragraph (1) shall not apply to any taxpayer for
15 any taxable year if the total consolidated assets of
16 such taxpayer (determined as of the close of such
17 taxable year) do not exceed \$10,000,000,000.

18 “(3) APPLICABLE PERCENTAGE.—For purposes
19 of this subsection, the term ‘applicable percentage’
20 means, with respect to any taxpayer for any taxable
21 year, the ratio (expressed as a percentage but not
22 greater than 100 percent) which—

23 “(A) the excess of—

24 “(i) the total consolidated assets of
25 such taxpayer (determined as of the close
26 of such taxable year), over

1 “(ii) \$10,000,000,000, bears to

2 “(B) \$40,000,000,000.

3 “(4) FDIC PREMIUMS.—For purposes of this
4 subsection, the term ‘FDIC premium’ means any as-
5 sessment imposed under section 7(b) of the Federal
6 Deposit Insurance Act (12 U.S.C. 1817(b)).

7 “(5) TOTAL CONSOLIDATED ASSETS.—For pur-
8 poses of this subsection, the term ‘total consolidated
9 assets’ has the meaning given such term under sec-
10 tion 165 of the Dodd-Frank Wall Street Reform and
11 Consumer Protection Act (12 U.S.C. 5365).

12 “(6) AGGREGATION RULE.—

13 “(A) IN GENERAL.—Members of an ex-
14 panded affiliated group shall be treated as a
15 single taxpayer for purposes of applying this
16 subsection.

17 “(B) EXPANDED AFFILIATED GROUP.—

18 “(i) IN GENERAL.—For purposes of
19 this paragraph, the term ‘expanded affili-
20 ated group’ means an affiliated group as
21 defined in section 1504(a), determined—

22 “(I) by substituting ‘more than
23 50 percent’ for ‘at least 80 percent’
24 each place it appears, and

1 “(II) without regard to para-
2 graphs (2) and (3) of section 1504(b).

3 “(ii) CONTROL OF NON-CORPORATE
4 ENTITIES.—A partnership or any other en-
5 tity (other than a corporation) shall be
6 treated as a member of an expanded affili-
7 ated group if such entity is controlled
8 (within the meaning of section 954(d)(3))
9 by members of such group (including any
10 entity treated as a member of such group
11 by reason of this clause).”.

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

15 **SEC. 13532. REPEAL OF ADVANCE REFUNDING BONDS.**

16 (a) IN GENERAL.—Paragraph (1) of section 149(d)
17 is amended by striking “as part of an issue described in
18 paragraph (2), (3), or (4).” and inserting “to advance re-
19 fund another bond.”.

20 (b) CONFORMING AMENDMENTS.—

21 (1) Section 149(d) is amended by striking para-
22 graphs (2), (3), (4), and (6) and by redesignating
23 paragraphs (5) and (7) as paragraphs (2) and (3).

1 (2) Section 148(f)(4)(C) is amended by striking
2 clause (xiv) and by redesignating clauses (xv) to
3 (xvii) as clauses (xiv) to (xvi).

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to advance refunding bonds issued
6 after December 31, 2017.

7 **Subpart D—S Corporations**

8 **SEC. 13541. EXPANSION OF QUALIFYING BENEFICIARIES OF**
9 **AN ELECTING SMALL BUSINESS TRUST.**

10 (a) NO LOOK-THROUGH FOR ELIGIBILITY PUR-
11 POSES.—Section 1361(c)(2)(B)(v) is amended by adding
12 at the end the following new sentence: “This clause shall
13 not apply for purposes of subsection (b)(1)(C).”.

14 (b) EFFECTIVE DATE.—The amendment made by
15 this section shall take effect on January 1, 2018.

16 **SEC. 13542. CHARITABLE CONTRIBUTION DEDUCTION FOR**
17 **ELECTING SMALL BUSINESS TRUSTS.**

18 (a) IN GENERAL.—Section 641(c)(2) is amended by
19 inserting after subparagraph (D) the following new sub-
20 paragraph:

21 “(E)(i) Section 642(c) shall not apply.

22 “(ii) For purposes of section 170(b)(1)(G),
23 adjusted gross income shall be computed in the
24 same manner as in the case of an individual,
25 except that the deductions for costs which are

1 paid or incurred in connection with the admin-
2 istration of the trust and which would not have
3 been incurred if the property were not held in
4 such trust shall be treated as allowable in arriv-
5 ing at adjusted gross income.”.

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

9 **SEC. 13543. MODIFICATION OF TREATMENT OF S CORPORA-**
10 **TION CONVERSIONS TO C CORPORATIONS.**

11 (a) ADJUSTMENTS ATTRIBUTABLE TO CONVERSION
12 FROM S CORPORATION TO C CORPORATION.—Section 481
13 is amended by adding at the end the following new sub-
14 section:

15 “(d) ADJUSTMENTS ATTRIBUTABLE TO CONVERSION
16 FROM S CORPORATION TO C CORPORATION.—

17 “(1) IN GENERAL.—In the case of an eligible
18 terminated S corporation, any adjustment required
19 by subsection (a)(2) which is attributable to such
20 corporation’s revocation described in paragraph
21 (2)(A)(ii) shall be taken into account ratably during
22 the 6-taxable year period beginning with the year of
23 change.

24 “(2) ELIGIBLE TERMINATED S CORPORA-
25 TION.—For purposes of this subsection, the term ‘el-

1 eligible terminated S corporation’ means any C cor-
2 poration—

3 “(A) which—

4 “(i) was an S corporation on the day
5 before the date of the enactment of the
6 Tax Cuts and Jobs Act, and

7 “(ii) during the 2-year period begin-
8 ning on the date of such enactment makes
9 a revocation of its election under section
10 1362(a), and

11 “(B) the owners of the stock of which, de-
12 termined on the date such revocation is made,
13 are the same owners (and in identical propor-
14 tions) as on the date of such enactment.”.

15 (b) CASH DISTRIBUTIONS FOLLOWING POST-TERMI-
16 NATION TRANSITION PERIOD FROM S CORPORATION STA-
17 TUS.—Section 1371 is amended by adding at the end the
18 following new subsection:

19 “(f) CASH DISTRIBUTIONS FOLLOWING POST-TERMI-
20 NATION TRANSITION PERIOD.—In the case of a distribu-
21 tion of money by an eligible terminated S corporation (as
22 defined in section 481(d)) after the post-termination tran-
23 sition period, the accumulated adjustments account shall
24 be allocated to such distribution, and the distribution shall
25 be chargeable to accumulated earnings and profits, in the

1 same ratio as the amount of such accumulated adjust-
2 ments account bears to the amount of such accumulated
3 earnings and profits.”.

4 **PART VII—EMPLOYMENT**

5 **Subpart A—Compensation**

6 **SEC. 13601. MODIFICATION OF LIMITATION ON EXCESSIVE** 7 **EMPLOYEE REMUNERATION.**

8 (a) REPEAL OF PERFORMANCE-BASED COMPENSA-
9 TION AND COMMISSION EXCEPTIONS FOR LIMITATION ON
10 EXCESSIVE EMPLOYEE REMUNERATION.—

11 (1) IN GENERAL.—Paragraph (4) of section
12 162(m) is amended by striking subparagraphs (B)
13 and (C) and by redesignating subparagraphs (D),
14 (E), (F), and (G) as subparagraphs (B), (C), (D),
15 and (E), respectively.

16 (2) CONFORMING AMENDMENTS.—

17 (A) Paragraphs (5)(E) and (6)(D) of sec-
18 tion 162(m) are each amended by striking
19 “subparagraphs (B), (C), and (D)” and insert-
20 ing “subparagraph (B)”.

21 (B) Paragraphs (5)(G) and (6)(G) of sec-
22 tion 162(m) are each amended by striking “(F)
23 and (G)” and inserting “(D) and (E)”.

1 (b) MODIFICATION OF DEFINITION OF COVERED EM-
2 PLOYEES.—Paragraph (3) of section 162(m) is amend-
3 ed—

4 (1) in subparagraph (A), by striking “as of the
5 close of the taxable year, such employee is the chief
6 executive officer of the taxpayer or is” and inserting
7 “such employee is the principal executive officer or
8 principal financial officer of the taxpayer at any
9 time during the taxable year, or was”,

10 (2) in subparagraph (B)—

11 (A) by striking “4” and inserting “3”, and

12 (B) by striking “(other than the chief execu-
13 tive officer)” and inserting “(other than any
14 individual described in subparagraph (A))”, and

15 (3) by striking “or” at the end of subparagraph
16 (A), by striking the period at the end of subpara-
17 graph (B) and inserting “, or”, and by adding at the
18 end the following:

19 “(C) was a covered employee of the tax-
20 payer (or any predecessor) for any preceding
21 taxable year beginning after December 31,
22 2016.”.

23 (c) EXPANSION OF APPLICABLE EMPLOYER.—

24 (1) IN GENERAL.—Section 162(m)(2) is amend-
25 ed to read as follows:

1 “(2) PUBLICLY HELD CORPORATION.—For pur-
2 poses of this subsection, the term ‘publicly held cor-
3 poration’ means any corporation which is an issuer
4 (as defined in section 3 of the Securities Exchange
5 Act of 1934 (15 U.S.C. 78c))—

6 “(A) the securities of which are required to
7 be registered under section 12 of such Act (15
8 U.S.C. 78l), or

9 “(B) that is required to file reports under
10 section 15(d) of such Act (15 U.S.C. 78o(d)).”.

11 (2) CONFORMING AMENDMENT.—Section
12 162(m)(3), as amended by subsection (b), is amend-
13 ed by adding at the end the following flush sentence:

14 “Such term shall include any employee who
15 would be described in subparagraph (B) if the re-
16 porting described in such subparagraph were re-
17 quired as so described.”.

18 (d) SPECIAL RULE FOR REMUNERATION PAID TO
19 BENEFICIARIES, ETC.—Paragraph (4) of section 162(m),
20 as amended by subsection (a), is amended by adding at
21 the end the following new subparagraph:

22 “(F) SPECIAL RULE FOR REMUNERATION
23 PAID TO BENEFICIARIES, ETC.—Remuneration
24 shall not fail to be applicable employee remu-
25 neration merely because it is includible in the

1 income of, or paid to, a person other than the
2 covered employee, including after the death of
3 the covered employee.”.

4 (e) EFFECTIVE DATE.—

5 (1) IN GENERAL.—Except as provided in para-
6 graph (2), the amendments made by this section
7 shall apply to taxable years beginning after Decem-
8 ber 31, 2017.

9 (2) EXCEPTION FOR BINDING CONTRACTS.—

10 The amendments made by this section shall not
11 apply to remuneration which is provided pursuant to
12 a written binding contract which was in effect on
13 November 2, 2017, and which was not modified in
14 any material respect on or after such date.

15 **SEC. 13602. EXCISE TAX ON EXCESS TAX-EXEMPT ORGANI-**
16 **ZATION EXECUTIVE COMPENSATION.**

17 (a) IN GENERAL.—Subchapter D of chapter 42 is
18 amended by adding at the end the following new section:

19 **“SEC. 4960. TAX ON EXCESS TAX-EXEMPT ORGANIZATION**
20 **EXECUTIVE COMPENSATION.**

21 “(a) TAX IMPOSED.—There is hereby imposed a tax
22 equal to the product of the rate of tax under section 11
23 and the sum of—

24 “(1) so much of the remuneration paid (other
25 than any excess parachute payment) by an applica-

1 ble tax-exempt organization for the taxable year with
2 respect to employment of any covered employee in
3 excess of \$1,000,000, plus

4 “(2) any excess parachute payment paid by
5 such an organization to any covered employee.

6 For purposes of the preceding sentence, remuneration
7 shall be treated as paid when there is no substantial risk
8 of forfeiture (within the meaning of section 457(f)(3)(B))
9 of the rights to such remuneration.

10 “(b) LIABILITY FOR TAX.—The employer shall be lia-
11 ble for the tax imposed under subsection (a).

12 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-
13 poses of this section—

14 “(1) APPLICABLE TAX-EXEMPT ORGANIZA-
15 TION.—The term ‘applicable tax-exempt organiza-
16 tion’ means any organization which for the taxable
17 year—

18 “(A) is exempt from taxation under section
19 501(a),

20 “(B) is a farmers’ cooperative organization
21 described in section 521(b)(1),

22 “(C) has income excluded from taxation
23 under section 115(1), or

24 “(D) is a political organization described in
25 section 527(e)(1).

1 “(2) COVERED EMPLOYEE.—For purposes of
2 this section, the term ‘covered employee’ means any
3 employee (including any former employee) of an ap-
4 plicable tax-exempt organization if the employee—

5 “(A) is one of the 5 highest compensated
6 employees of the organization for the taxable
7 year, or

8 “(B) was a covered employee of the organi-
9 zation (or any predecessor) for any preceding
10 taxable year beginning after December 31,
11 2016.

12 “(3) REMUNERATION.—For purposes of this
13 section:

14 “(A) IN GENERAL.—The term ‘remunera-
15 tion’ means wages (as defined in section
16 3401(a)), except that such term shall not in-
17 clude any designated Roth contribution (as de-
18 fined in section 402A(c)) and shall include
19 amounts required to be included in gross in-
20 come under section 457(f).

21 “(B) EXCEPTION FOR REMUNERATION FOR
22 MEDICAL SERVICES.—The term ‘remuneration’
23 shall not include the portion of any remunera-
24 tion paid to a licensed medical professional (in-
25 cluding a veterinarian) which is for the per-

1 formance of medical or veterinary services by
2 such professional.

3 “(4) REMUNERATION FROM RELATED ORGANI-
4 ZATIONS.—

5 “(A) IN GENERAL.—Remuneration of a
6 covered employee by an applicable tax-exempt
7 organization shall include any remuneration
8 paid with respect to employment of such em-
9 ployee by any related person or governmental
10 entity.

11 “(B) RELATED ORGANIZATIONS.—A per-
12 son or governmental entity shall be treated as
13 related to an applicable tax-exempt organization
14 if such person or governmental entity—

15 “(i) controls, or is controlled by, the
16 organization,

17 “(ii) is controlled by one or more per-
18 sons which control the organization,

19 “(iii) is a supported organization (as
20 defined in section 509(f)(3)) during the
21 taxable year with respect to the organiza-
22 tion,

23 “(iv) is a supporting organization de-
24 scribed in section 509(a)(3) during the

1 taxable year with respect to the organiza-
2 tion, or

3 “(v) in the case of an organization
4 which is a voluntary employees’ beneficiary
5 association described in section 501(c)(9),
6 establishes, maintains, or makes contribu-
7 tions to such voluntary employees’ bene-
8 ficiary association.

9 “(C) LIABILITY FOR TAX.—In any case in
10 which remuneration from more than one em-
11 ployer is taken into account under this para-
12 graph in determining the tax imposed by sub-
13 section (a), each such employer shall be liable
14 for such tax in an amount which bears the
15 same ratio to the total tax determined under
16 subsection (a) with respect to such remunera-
17 tion as—

18 “(i) the amount of remuneration paid
19 by such employer with respect to such em-
20 ployee, bears to

21 “(ii) the amount of remuneration paid
22 by all such employers to such employee.

23 “(5) EXCESS PARACHUTE PAYMENT.—For pur-
24 poses of determining the tax imposed by subsection
25 (a)(2)—

1 “(A) IN GENERAL.—The term ‘excess
2 parachute payment’ means an amount equal to
3 the excess of any parachute payment over the
4 portion of the base amount allocated to such
5 payment.

6 “(B) PARACHUTE PAYMENT.—The term
7 ‘parachute payment’ means any payment in the
8 nature of compensation to (or for the benefit
9 of) a covered employee if—

10 “(i) such payment is contingent on
11 such employee’s separation from employ-
12 ment with the employer, and

13 “(ii) the aggregate present value of
14 the payments in the nature of compensa-
15 tion to (or for the benefit of) such indi-
16 vidual which are contingent on such sepa-
17 ration equals or exceeds an amount equal
18 to 3 times the base amount.

19 “(C) EXCEPTION.—Such term does not in-
20 clude any payment—

21 “(i) described in section 280G(b)(6)
22 (relating to exemption for payments under
23 qualified plans),

1 “(ii) made under or to an annuity
2 contract described in section 403(b) or a
3 plan described in section 457(b),

4 “(iii) to a licensed medical profes-
5 sional (including a veterinarian) to the ex-
6 tent that such payment is for the perform-
7 ance of medical or veterinary services by
8 such professional, or

9 “(iv) to an individual who is not a
10 highly compensated employee as defined in
11 section 414(q).

12 “(D) BASE AMOUNT.—Rules similar to the
13 rules of 280G(b)(3) shall apply for purposes of
14 determining the base amount.

15 “(E) PROPERTY TRANSFERS; PRESENT
16 VALUE.—Rules similar to the rules of para-
17 graphs (3) and (4) of section 280G(d) shall
18 apply.

19 “(6) COORDINATION WITH DEDUCTION LIMITA-
20 TION.—Remuneration the deduction for which is not
21 allowed by reason of section 162(m) shall not be
22 taken into account for purposes of this section.

23 “(d) REGULATIONS.—The Secretary shall prescribe
24 such regulations as may be necessary to prevent avoidance
25 of the tax under this section, including regulations to pre-

1 vent avoidance of such tax through the performance of
2 services other than as an employee or by providing com-
3 pensation through a pass-through or other entity to avoid
4 such tax.”.

5 (b) CLERICAL AMENDMENT.—The table of sections
6 for subchapter D of chapter 42 is amended by adding at
7 the end the following new item:

“Sec. 4960. Tax on excess tax-exempt organization executive compensation.”.

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

11 **SEC. 13603. TREATMENT OF QUALIFIED EQUITY GRANTS.**

12 (a) IN GENERAL.—Section 83 is amended by adding
13 at the end the following new subsection:

14 “(i) QUALIFIED EQUITY GRANTS.—

15 “(1) IN GENERAL.—For purposes of this sub-
16 title—

17 “(A) TIMING OF INCLUSION.—If qualified
18 stock is transferred to a qualified employee who
19 makes an election with respect to such stock
20 under this subsection, subsection (a) shall be
21 applied by including the amount determined
22 under such subsection with respect to such
23 stock in income of the employee in the taxable
24 year determined under subparagraph (B) in lieu
25 of the taxable year described in subsection (a).

1 “(B) TAXABLE YEAR DETERMINED.—The
2 taxable year determined under this subpara-
3 graph is the taxable year of the employee which
4 includes the earliest of—

5 “(i) the first date such qualified stock
6 becomes transferable (including, solely for
7 purposes of this clause, becoming transfer-
8 able to the employer),

9 “(ii) the date the employee first be-
10 comes an excluded employee,

11 “(iii) the first date on which any stock
12 of the corporation which issued the quali-
13 fied stock becomes readily tradable on an
14 established securities market (as deter-
15 mined by the Secretary, but not including
16 any market unless such market is recog-
17 nized as an established securities market
18 by the Secretary for purposes of a provi-
19 sion of this title other than this sub-
20 section),

21 “(iv) the date that is 5 years after the
22 first date the rights of the employee in
23 such stock are transferable or are not sub-
24 ject to a substantial risk of forfeiture,
25 whichever occurs earlier, or

1 “(v) the date on which the employee
2 revokes (at such time and in such manner
3 as the Secretary provides) the election
4 under this subsection with respect to such
5 stock.

6 “(2) QUALIFIED STOCK.—

7 “(A) IN GENERAL.—For purposes of this
8 subsection, the term ‘qualified stock’ means,
9 with respect to any qualified employee, any
10 stock in a corporation which is the employer of
11 such employee, if—

12 “(i) such stock is received—

13 “(I) in connection with the exer-
14 cise of an option, or

15 “(II) in settlement of a restricted
16 stock unit, and

17 “(ii) such option or restricted stock
18 unit was granted by the corporation—

19 “(I) in connection with the per-
20 formance of services as an employee,
21 and

22 “(II) during a calendar year in
23 which such corporation was an eligible
24 corporation.

1 “(B) LIMITATION.—The term ‘qualified
2 stock’ shall not include any stock if the em-
3 ployee may sell such stock to, or otherwise re-
4 ceive cash in lieu of stock from, the corporation
5 at the time that the rights of the employee in
6 such stock first become transferable or not sub-
7 ject to a substantial risk of forfeiture.

8 “(C) ELIGIBLE CORPORATION.—For pur-
9 poses of subparagraph (A)(ii)(II)—

10 “(i) IN GENERAL.—The term ‘eligible
11 corporation’ means, with respect to any
12 calendar year, any corporation if—

13 “(I) no stock of such corporation
14 (or any predecessor of such corpora-
15 tion) is readily tradable on an estab-
16 lished securities market (as deter-
17 mined under paragraph (1)(B)(iii))
18 during any preceding calendar year,
19 and

20 “(II) such corporation has a writ-
21 ten plan under which, in such cal-
22 endar year, not less than 80 percent
23 of all employees who provide services
24 to such corporation in the United
25 States (or any possession of the

1 United States) are granted stock op-
2 tions, or are granted restricted stock
3 units, with the same rights and privi-
4 leges to receive qualified stock.

5 “(ii) SAME RIGHTS AND PRIVI-
6 LEGES.—For purposes of clause (i)(II)—

7 “(I) except as provided in sub-
8 clauses (II) and (III), the determina-
9 tion of rights and privileges with re-
10 spect to stock shall be made in a simi-
11 lar manner as under section
12 423(b)(5),

13 “(II) employees shall not fail to
14 be treated as having the same rights
15 and privileges to receive qualified
16 stock solely because the number of
17 shares available to all employees is not
18 equal in amount, so long as the num-
19 ber of shares available to each em-
20 ployee is more than a de minimis
21 amount, and

22 “(III) rights and privileges with
23 respect to the exercise of an option
24 shall not be treated as the same as
25 rights and privileges with respect to

1 the settlement of a restricted stock
2 unit.

3 “(iii) EMPLOYEE.—For purposes of
4 clause (i)(II), the term ‘employee’ shall not
5 include any employee described in section
6 4980E(d)(4) or any excluded employee.

7 “(iv) SPECIAL RULE FOR CALENDAR
8 YEARS BEFORE 2018.—In the case of any
9 calendar year beginning before January 1,
10 2018, clause (i)(II) shall be applied with-
11 out regard to whether the rights and privi-
12 leges with respect to the qualified stock are
13 the same.

14 “(3) QUALIFIED EMPLOYEE; EXCLUDED EM-
15 PLOYEE.—For purposes of this subsection—

16 “(A) IN GENERAL.—The term ‘qualified
17 employee’ means any individual who—

18 “(i) is not an excluded employee, and

19 “(ii) agrees in the election made
20 under this subsection to meet such require-
21 ments as are determined by the Secretary
22 to be necessary to ensure that the with-
23 holding requirements of the corporation
24 under chapter 24 with respect to the quali-
25 fied stock are met.

1 “(B) EXCLUDED EMPLOYEE.—The term
2 ‘excluded employee’ means, with respect to any
3 corporation, any individual—

4 “(i) who is a 1-percent owner (within
5 the meaning of section 416(i)(1)(B)(ii)) at
6 any time during the calendar year or who
7 was such a 1 percent owner at any time
8 during the 10 preceding calendar years,

9 “(ii) who is or has been at any prior
10 time—

11 “(I) the chief executive officer of
12 such corporation or an individual act-
13 ing in such a capacity, or

14 “(II) the chief financial officer of
15 such corporation or an individual act-
16 ing in such a capacity,

17 “(iii) who bears a relationship de-
18 scribed in section 318(a)(1) to any indi-
19 vidual described in subclause (I) or (II) of
20 clause (ii), or

21 “(iv) who is one of the 4 highest com-
22 pensated officers of such corporation for
23 the taxable year, or was one of the 4 high-
24 est compensated officers of such corpora-
25 tion for any of the 10 preceding taxable

1 years, determined with respect to each
2 such taxable year on the basis of the
3 shareholder disclosure rules for compensa-
4 tion under the Securities Exchange Act of
5 1934 (as if such rules applied to such cor-
6 poration).

7 “(4) ELECTION.—

8 “(A) TIME FOR MAKING ELECTION.—An
9 election with respect to qualified stock shall be
10 made under this subsection no later than 30
11 days after the first date the rights of the em-
12 ployee in such stock are transferable or are not
13 subject to a substantial risk of forfeiture,
14 whichever occurs earlier, and shall be made in
15 a manner similar to the manner in which an
16 election is made under subsection (b).

17 “(B) LIMITATIONS.—No election may be
18 made under this section with respect to any
19 qualified stock if—

20 “(i) the qualified employee has made
21 an election under subsection (b) with re-
22 spect to such qualified stock,

23 “(ii) any stock of the corporation
24 which issued the qualified stock is readily
25 tradable on an established securities mar-

1 ket (as determined under paragraph
2 (1)(B)(iii)) at any time before the election
3 is made, or

4 “(iii) such corporation purchased any
5 of its outstanding stock in the calendar
6 year preceding the calendar year which in-
7 cludes the first date the rights of the em-
8 ployee in such stock are transferable or are
9 not subject to a substantial risk of for-
10 feiture, unless—

11 “(I) not less than 25 percent of
12 the total dollar amount of the stock so
13 purchased is deferral stock, and

14 “(II) the determination of which
15 individuals from whom deferral stock
16 is purchased is made on a reasonable
17 basis.

18 “(C) DEFINITIONS AND SPECIAL RULES
19 RELATED TO LIMITATION ON STOCK REDEMP-
20 TIONS.—

21 “(i) DEFERRAL STOCK.—For pur-
22 poses of this paragraph, the term ‘deferral
23 stock’ means stock with respect to which
24 an election is in effect under this sub-
25 section.

1 “(ii) DEFERRAL STOCK WITH RE-
2 SPECT TO ANY INDIVIDUAL NOT TAKEN
3 INTO ACCOUNT IF INDIVIDUAL HOLDS DE-
4 FERRAL STOCK WITH LONGER DEFERRAL
5 PERIOD.—Stock purchased by a corpora-
6 tion from any individual shall not be treat-
7 ed as deferral stock for purposes of sub-
8 paragraph (B)(iii) if such individual (im-
9 mediately after such purchase) holds any
10 deferral stock with respect to which an
11 election has been in effect under this sub-
12 section for a longer period than the elec-
13 tion with respect to the stock so pur-
14 chased.

15 “(iii) PURCHASE OF ALL OUT-
16 STANDING DEFERRAL STOCK.—The re-
17 quirements of subclauses (I) and (II) of
18 subparagraph (B)(iii) shall be treated as
19 met if the stock so purchased includes all
20 of the corporation’s outstanding deferral
21 stock.

22 “(iv) REPORTING.—Any corporation
23 which has outstanding deferral stock as of
24 the beginning of any calendar year and
25 which purchases any of its outstanding

1 stock during such calendar year shall in-
2 clude on its return of tax for the taxable
3 year in which, or with which, such calendar
4 year ends the total dollar amount of its
5 outstanding stock so purchased during
6 such calendar year and such other infor-
7 mation as the Secretary requires for pur-
8 poses of administering this paragraph.

9 “(5) CONTROLLED GROUPS.—For purposes of
10 this subsection, all persons treated as a single em-
11 ployer under section 414(b) shall be treated as 1
12 corporation.

13 “(6) NOTICE REQUIREMENT.—Any corporation
14 which transfers qualified stock to a qualified em-
15 ployee shall, at the time that (or a reasonable period
16 before) an amount attributable to such stock would
17 (but for this subsection) first be includible in the
18 gross income of such employee—

19 “(A) certify to such employee that such
20 stock is qualified stock, and

21 “(B) notify such employee—

22 “(i) that the employee may be eligible
23 to elect to defer income on such stock
24 under this subsection, and

1 “(ii) that, if the employee makes such
2 an election—

3 “(I) the amount of income recog-
4 nized at the end of the deferral period
5 will be based on the value of the stock
6 at the time at which the rights of the
7 employee in such stock first become
8 transferable or not subject to substan-
9 tial risk of forfeiture, notwithstanding
10 whether the value of the stock has de-
11 clined during the deferral period,

12 “(II) the amount of such income
13 recognized at the end of the deferral
14 period will be subject to withholding
15 under section 3401(i) at the rate de-
16 termined under section 3402(t), and

17 “(III) the responsibilities of the
18 employee (as determined by the Sec-
19 retary under paragraph (3)(A)(ii))
20 with respect to such withholding.

21 “(7) RESTRICTED STOCK UNITS.—This section
22 (other than this subsection), including any election
23 under subsection (b), shall not apply to restricted
24 stock units.”.

25 (b) WITHHOLDING.—

1 (1) TIME OF WITHHOLDING.—Section 3401 is
2 amended by adding at the end the following new
3 subsection:

4 “(i) QUALIFIED STOCK FOR WHICH AN ELECTION IS
5 IN EFFECT UNDER SECTION 83(I).—For purposes of sub-
6 section (a), qualified stock (as defined in section 83(i))
7 with respect to which an election is made under section
8 83(i) shall be treated as wages—

9 “(1) received on the earliest date described in
10 section 83(i)(1)(B), and

11 “(2) in an amount equal to the amount in-
12 cluded in income under section 83 for the taxable
13 year which includes such date.”.

14 (2) AMOUNT OF WITHHOLDING.—Section 3402
15 is amended by adding at the end the following new
16 subsection:

17 “(t) RATE OF WITHHOLDING FOR CERTAIN
18 STOCK.—In the case of any qualified stock (as defined in
19 section 83(i)(2)) with respect to which an election is made
20 under section 83(i)—

21 “(1) the rate of tax under subsection (a) shall
22 not be less than the maximum rate of tax in effect
23 under section 1, and

1 “(2) such stock shall be treated for purposes of
2 section 3501(b) in the same manner as a non-cash
3 fringe benefit.”.

4 (c) COORDINATION WITH OTHER DEFERRED COM-
5 PENSATION RULES.—

6 (1) ELECTION TO APPLY DEFERRAL TO STATU-
7 TORY OPTIONS.—

8 (A) INCENTIVE STOCK OPTIONS.—Section
9 422(b) is amended by adding at the end the fol-
10 lowing: “Such term shall not include any option
11 if an election is made under section 83(i) with
12 respect to the stock received in connection with
13 the exercise of such option.”.

14 (B) EMPLOYEE STOCK PURCHASE
15 PLANS.—Section 423 is amended—

16 (i) in subsection (b)(5), by striking
17 “and” before “the plan” and by inserting
18 “, and the rules of section 83(i) shall apply
19 in determining which employees have a
20 right to make an election under such sec-
21 tion” before the semicolon at the end, and

22 (ii) by adding at the end the following
23 new subsection:

24 “(d) COORDINATION WITH QUALIFIED EQUITY
25 GRANTS.—An option for which an election is made under

1 section 83(i) with respect to the stock received in connec-
2 tion with its exercise shall not be considered as granted
3 pursuant an employee stock purchase plan.”.

4 (2) EXCLUSION FROM DEFINITION OF NON-
5 QUALIFIED DEFERRED COMPENSATION PLAN.—Sub-
6 section (d) of section 409A is amended by adding at
7 the end the following new paragraph:

8 “(7) TREATMENT OF QUALIFIED STOCK.—An
9 arrangement under which an employee may receive
10 qualified stock (as defined in section 83(i)(2)) shall
11 not be treated as a nonqualified deferred compensa-
12 tion plan with respect to such employee solely be-
13 cause of such employee’s election, or ability to make
14 an election, to defer recognition of income under sec-
15 tion 83(i).”.

16 (d) INFORMATION REPORTING.—Section 6051(a) is
17 amended by striking “and” at the end of paragraph
18 (14)(B), by striking the period at the end of paragraph
19 (15) and inserting a comma, and by inserting after para-
20 graph (15) the following new paragraphs:

21 “(16) the amount includible in gross income
22 under subparagraph (A) of section 83(i)(1) with re-
23 spect to an event described in subparagraph (B) of
24 such section which occurs in such calendar year, and

1 “(17) the aggregate amount of income which is
2 being deferred pursuant to elections under section
3 83(i), determined as of the close of the calendar
4 year.”.

5 (e) PENALTY FOR FAILURE OF EMPLOYER TO PRO-
6 VIDE NOTICE OF TAX CONSEQUENCES.—Section 6652 is
7 amended by adding at the end the following new sub-
8 section:

9 “(p) FAILURE TO PROVIDE NOTICE UNDER SECTION
10 83(I).—In the case of each failure to provide a notice as
11 required by section 83(i)(6), at the time prescribed there-
12 for, unless it is shown that such failure is due to reason-
13 able cause and not to willful neglect, there shall be paid,
14 on notice and demand of the Secretary and in the same
15 manner as tax, by the person failing to provide such no-
16 tice, an amount equal to \$100 for each such failure, but
17 the total amount imposed on such person for all such fail-
18 ures during any calendar year shall not exceed \$50,000.”.

19 (f) EFFECTIVE DATES.—

20 (1) IN GENERAL.—Except as provided in para-
21 graph (2), the amendments made by this section
22 shall apply to stock attributable to options exercised,
23 or restricted stock units settled, after December 31,
24 2017.

1 (2) REQUIREMENT TO PROVIDE NOTICE.—The
2 amendments made by subsection (e) shall apply to
3 failures after December 31, 2017.

4 (g) TRANSITION RULE.—Until such time as the Sec-
5 retary (or the Secretary’s delegate) issues regulations or
6 other guidance for purposes of implementing the require-
7 ments of paragraph (2)(C)(i)(II) of section 83(i) of the
8 Internal Revenue Code of 1986 (as added by this section),
9 or the requirements of paragraph (6) of such section, a
10 corporation shall be treated as being in compliance with
11 such requirements (respectively) if such corporation com-
12 plies with a reasonable good faith interpretation of such
13 requirements.

14 **SEC. 13604. INCREASE IN EXCISE TAX RATE FOR STOCK**
15 **COMPENSATION OF INSIDERS IN EXPATRI-**
16 **ATED CORPORATIONS.**

17 (a) IN GENERAL.—Section 4985(a)(1) is amended by
18 striking “section 1(h)(1)(C)” and inserting “section
19 1(h)(1)(D)”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to corporations first becoming ex-
22 patriated corporations (as defined in section 4985 of the
23 Internal Revenue Code of 1986) after the date of enact-
24 ment of this Act.

1 **Subpart B—Retirement Plans**

2 **SEC. 13611. REPEAL OF SPECIAL RULE PERMITTING RE-**
3 **CHARACTERIZATION OF ROTH CONVER-**
4 **SIONS.**

5 (a) **IN GENERAL.**—Section 408A(d)(6)(B) is amend-
6 ed by adding at the end the following new clause:

7 “(iii) **CONVERSIONS.**—Subparagraph
8 (A) shall not apply in the case of a quali-
9 fied rollover contribution to which sub-
10 section (d)(3) applies (including by reason
11 of subparagraph (C) thereof).”.

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

15 **SEC. 13612. MODIFICATION OF RULES APPLICABLE TO**
16 **LENGTH OF SERVICE AWARD PLANS.**

17 (a) **MAXIMUM DEFERRAL AMOUNT.**—Clause (ii) of
18 section 457(e)(11)(B) is amended by striking “\$3,000”
19 and inserting “\$6,000”.

20 (b) **COST OF LIVING ADJUSTMENT.**—Subparagraph
21 (B) of section 457(e)(11) is amended by adding at the
22 end the following:

23 “(iii) **COST OF LIVING ADJUST-**
24 **MENT.**—In the case of taxable years begin-
25 ning after December 31, 2017, the Sec-
26 retary shall adjust the \$6,000 amount

1 under clause (ii) at the same time and in
2 the same manner as under section 415(d),
3 except that the base period shall be the
4 calendar quarter beginning July 1, 2016,
5 and any increase under this paragraph
6 that is not a multiple of \$500 shall be
7 rounded to the next lowest multiple of
8 \$500.”.

9 (c) APPLICATION OF LIMITATION ON ACCRUALS.—
10 Subparagraph (B) of section 457(e)(11), as amended by
11 subsection (b), is amended by adding at the end the fol-
12 lowing:

13 “(iv) SPECIAL RULE FOR APPLICA-
14 TION OF LIMITATION ON ACCRUALS FOR
15 CERTAIN PLANS.—In the case of a plan de-
16 scribed in subparagraph (A)(ii) which is a
17 defined benefit plan (as defined in section
18 414(j)), the limitation under clause (ii)
19 shall apply to the actuarial present value
20 of the aggregate amount of length of serv-
21 ice awards accruing with respect to any
22 year of service. Such actuarial present
23 value with respect to any year shall be cal-
24 culated using reasonable actuarial assump-
25 tions and methods, assuming payment will

1 be made under the most valuable form of
2 payment under the plan with payment
3 commencing at the later of the earliest age
4 at which unreduced benefits are payable
5 under the plan or the participant's age at
6 the time of the calculation.”.

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

10 **SEC. 13613. EXTENDED ROLLOVER PERIOD FOR PLAN LOAN**
11 **OFFSET AMOUNTS.**

12 (a) **IN GENERAL.**—Paragraph (3) of section 402(c)
13 is amended by adding at the end the following new sub-
14 paragraph:

15 “(C) **ROLLOVER OF CERTAIN PLAN LOAN**
16 **OFFSET AMOUNTS.**—

17 “(i) **IN GENERAL.**—In the case of a
18 qualified plan loan offset amount, para-
19 graph (1) shall not apply to any transfer
20 of such amount made after the due date
21 (including extensions) for filing the return
22 of tax for the taxable year in which such
23 amount is treated as distributed from a
24 qualified employer plan.

1 “(ii) QUALIFIED PLAN LOAN OFFSET
2 AMOUNT.—For purposes of this subpara-
3 graph, the term ‘qualified plan loan offset
4 amount’ means a plan loan offset amount
5 which is treated as distributed from a
6 qualified employer plan to a participant or
7 beneficiary solely by reason of—

8 “(I) the termination of the quali-
9 fied employer plan, or

10 “(II) the failure to meet the re-
11 payment terms of the loan from such
12 plan because of the severance from
13 employment of the participant.

14 “(iii) PLAN LOAN OFFSET AMOUNT.—
15 For purposes of clause (ii), the term ‘plan
16 loan offset amount’ means the amount by
17 which the participant’s accrued benefit
18 under the plan is reduced in order to repay
19 a loan from the plan.

20 “(iv) LIMITATION.—This subpara-
21 graph shall not apply to any plan loan off-
22 set amount unless such plan loan offset
23 amount relates to a loan to which section
24 72(p)(1) does not apply by reason of sec-
25 tion 72(p)(2).

1 “(v) QUALIFIED EMPLOYER PLAN.—
2 For purposes of this subsection, the term
3 ‘qualified employer plan’ has the meaning
4 given such term by section 72(p)(4).”.

5 (b) CONFORMING AMENDMENTS.—Section 402(c)(3)
6 is amended—

7 (1) by striking “TRANSFER MUST BE MADE
8 WITHIN 60 DAYS OF RECEIPT” in the heading and
9 inserting “TIME LIMIT ON TRANSFERS”, and

10 (2) by striking “subparagraph (B)” in subpara-
11 graph (A) and inserting “subparagraphs (B) and
12 (C)”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to plan loan offset amounts which
15 are treated as distributed in taxable years beginning after
16 December 31, 2017.

17 **PART VIII—EXEMPT ORGANIZATIONS**

18 **SEC. 13701. EXCISE TAX BASED ON INVESTMENT INCOME**

19 **OF PRIVATE COLLEGES AND UNIVERSITIES.**

20 (a) IN GENERAL.—Chapter 42 is amended by adding
21 at the end the following new subchapter:

22 **“Subchapter H—Excise Tax Based on Invest-**
23 **ment Income of Private Colleges and Uni-**
24 **versities**

“Sec. 4968. Excise tax based on investment income of private colleges and uni-
versities.

1 **“SEC. 4968. EXCISE TAX BASED ON INVESTMENT INCOME**
2 **OF PRIVATE COLLEGES AND UNIVERSITIES.**

3 “(a) TAX IMPOSED.—There is hereby imposed on
4 each applicable educational institution for the taxable year
5 a tax equal to 1.4 percent of the net investment income
6 of such institution for the taxable year.

7 “(b) APPLICABLE EDUCATIONAL INSTITUTION.—For
8 purposes of this subchapter—

9 “(1) IN GENERAL.—The term ‘applicable edu-
10 cational institution’ means an eligible educational in-
11 stitution (as defined in section 25A(f)(2))—

12 “(A) which had at least 500 tuition-paying
13 students during the preceding taxable year,

14 “(B) more than 50 percent of the tuition-
15 paying students of which are located in the
16 United States,

17 “(C) which is not described in the first
18 sentence of section 511(a)(2)(B) (relating to
19 State colleges and universities), and

20 “(D) 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
24 exempt purpose) is at least \$500,000 per stu-
25 dent of the institution.

1 “(2) STUDENTS.—For purposes of paragraph
2 (1), the number of students of an institution (includ-
3 ing for purposes of determining the number of stu-
4 dents at a particular location) shall be based on the
5 daily average number of full-time students attending
6 such institution (with part-time students taken into
7 account on a full-time student equivalent basis).

8 “(c) NET INVESTMENT INCOME.—For purposes of
9 this section, net investment income shall be determined
10 under rules similar to the rules of section 4940(c).

11 “(d) ASSETS AND NET INVESTMENT INCOME OF RE-
12 LATED ORGANIZATIONS.—

13 “(1) IN GENERAL.—For purposes of sub-
14 sections (b)(1)(C) and (c), assets and net investment
15 income of any related organization with respect to
16 an educational institution shall be treated as assets
17 and net investment income, respectively, of the edu-
18 cational institution, except that—

19 “(A) no such amount shall be taken into
20 account with respect to more than 1 educational
21 institution, and

22 “(B) unless such organization is controlled
23 by such institution or is described in section
24 509(a)(3) with respect to such institution for
25 the taxable year, assets and net investment in-

1 come which are not intended or available for
2 the use or benefit of the educational institution
3 shall not be taken into account.

4 “(2) RELATED ORGANIZATION.—For purposes
5 of this subsection, the term ‘related organization’
6 means, with respect to an educational institution,
7 any organization which—

8 “(A) controls, or is controlled by, such in-
9 stitution,

10 “(B) is controlled by 1 or more persons
11 which also control such institution, or

12 “(C) is a supported organization (as de-
13 fined in section 509(f)(3)), or an organization
14 described in section 509(a)(3), during the tax-
15 able year with respect to such institution.”.

16 (b) CLERICAL AMENDMENT.—The table of sub-
17 chapters for chapter 42 is amended by adding at the end
18 the following new item:

 “SUBCHAPTER H—EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE
 COLLEGES AND UNIVERSITIES”.

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

1 **SEC. 13702. 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. 13703. UNRELATED BUSINESS TAXABLE INCOME IN-**
19 **CREASED BY AMOUNT OF CERTAIN FRINGE**
20 **BENEFIT EXPENSES FOR WHICH DEDUCTION**
21 **IS DISALLOWED.**

22 (a) IN GENERAL.—Section 512(a), as amended by
23 this Act, is further amended by adding at the end the fol-
24 lowing new paragraph:

1 “(7) INCREASE IN UNRELATED BUSINESS TAX-
2 ABLE INCOME BY DISALLOWED FRINGE.—Unrelated
3 business taxable income of an organization shall be
4 increased by any amount for which a deduction is
5 not allowable under this chapter by reason of section
6 274 and which is paid or incurred by such organiza-
7 tion for any qualified transportation fringe (as de-
8 fined in section 132(f)), any parking facility used in
9 connection with qualified parking (as defined in sec-
10 tion 132(f)(5)(C)), or any on-premises athletic facil-
11 ity (as defined in section 132(j)(4)(B)). The pre-
12 ceding sentence shall not apply to the extent the
13 amount paid or incurred is directly connected with
14 an unrelated trade or business which is regularly
15 carried on by the organization. The Secretary shall
16 issue such regulations or other guidance as may be
17 necessary or appropriate to carry out the purposes
18 of this paragraph, including regulations or other
19 guidance providing for the appropriate allocation of
20 depreciation and other costs with respect to facilities
21 used for parking or for on-premises athletic facili-
22 ties.”.

23 (b) EFFECTIVE DATE.—The amendment made by
24 this section shall apply to amounts paid or incurred after
25 December 31, 2017.

1 **SEC. 13704. REPEAL OF DEDUCTION FOR AMOUNTS PAID IN**
2 **EXCHANGE FOR COLLEGE ATHLETIC EVENT**
3 **SEATING RIGHTS.**

4 (a) IN GENERAL.—Section 170(l) is amended—

5 (1) by striking paragraph (1) and inserting the
6 following:

7 “(1) IN GENERAL.—No deduction shall be al-
8 lowed under this section for any amount described in
9 paragraph (2).”, and

10 (2) in paragraph (2)(B), by striking “such
11 amount would be allowable as a deduction under this
12 section but for the fact that”.

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

16 **SEC. 13705. REPEAL OF SUBSTANTIATION EXCEPTION IN**
17 **CASE OF CONTRIBUTIONS REPORTED BY**
18 **DONEE.**

19 (a) IN GENERAL.—Section 170(f)(8) is amended by
20 striking subparagraph (D) and by redesignating subpara-
21 graph (E) as subparagraph (D).

22 (b) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to contributions made in taxable
24 years beginning after December 31, 2016.

1 **PART IX—OTHER PROVISIONS**
2 **Subpart A—Craft Beverage Modernization and Tax**
3 **Reform**
4 **SEC. 13801. PRODUCTION PERIOD FOR BEER, WINE, AND**
5 **DISTILLED SPIRITS.**

6 (a) IN GENERAL.—Section 263A(f) is amended—

7 (1) by redesignating paragraph (4) as para-
8 graph (5), and

9 (2) by inserting after paragraph (3) the fol-
10 lowing new paragraph:

11 “(4) EXEMPTION FOR AGING PROCESS OF
12 BEER, WINE, AND DISTILLED SPIRITS.—

13 “(A) IN GENERAL.—For purposes of this
14 subsection, the production period shall not in-
15 clude the aging period for—

16 “(i) beer (as defined in section
17 5052(a)),

18 “(ii) wine (as described in section
19 5041(a)), or

20 “(iii) distilled spirits (as defined in
21 section 5002(a)(8)), except such spirits
22 that are unfit for use for beverage pur-
23 poses.

24 “(B) TERMINATION.—This paragraph
25 shall not apply to interest costs paid or accrued
26 after December 31, 2019.”.

1 (b) CONFORMING AMENDMENT.—Paragraph
2 (5)(B)(ii) of section 263A(f), as redesignated by this sec-
3 tion, is amended by inserting “except as provided in para-
4 graph (4),” before “ending on the date”.

5 (c) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to interest costs paid or accrued
7 in calendar years beginning after December 31, 2017.

8 **SEC. 13802. REDUCED RATE OF EXCISE TAX ON BEER.**

9 (a) IN GENERAL.—Paragraph (1) of section 5051(a)
10 is amended to read as follows:

11 “(1) IN GENERAL.—

12 “(A) IMPOSITION OF TAX.—A tax is here-
13 by imposed on all beer brewed or produced, and
14 removed for consumption or sale, within the
15 United States, or imported into the United
16 States. Except as provided in paragraph (2),
17 the rate of such tax shall be the amount deter-
18 mined under this paragraph.

19 “(B) RATE.—Except as provided in sub-
20 paragraph (C), the rate of tax shall be \$18 for
21 per barrel.

22 “(C) SPECIAL RULE.—In the case of beer
23 removed after December 31, 2017, and before
24 January 1, 2020, the rate of tax shall be—

1 “(i) \$16 on the first 6,000,000 barrels
2 of beer—

3 “(I) brewed by the brewer and
4 removed during the calendar year for
5 consumption or sale, or

6 “(II) imported by the importer
7 into the United States during the cal-
8 endar year, and

9 “(ii) \$18 on any barrels of beer to
10 which clause (i) does not apply.

11 “(D) BARREL.—For purposes of this sec-
12 tion, a barrel shall contain not more than 31
13 gallons of beer, and any tax imposed under this
14 section shall be applied at a like rate for any
15 other quantity or for fractional parts of a bar-
16 rel.”.

17 (b) REDUCED RATE FOR CERTAIN DOMESTIC PRO-
18 DUCTION.—Subparagraph (A) of section 5051(a)(2) is
19 amended—

20 (1) in the heading, by striking “\$7 A BARREL”,
21 and

22 (2) by inserting “(\$3.50 in the case of beer re-
23 moved after December 31, 2017, and before January
24 1, 2020)” after “\$7”.

1 (c) APPLICATION OF REDUCED TAX RATE FOR FOR-
2 EIGN MANUFACTURERS AND IMPORTERS.—Subsection (a)
3 of section 5051 is amended—

4 (1) in subparagraph (C)(i)(II) of paragraph (1),
5 as amended by subsection (a), by inserting “but only
6 if the importer is an electing importer under para-
7 graph (4) and the barrels have been assigned to the
8 importer pursuant to such paragraph” after “during
9 the calendar year”, and

10 (2) by adding at the end the following new
11 paragraph:

12 “(4) REDUCED TAX RATE FOR FOREIGN MANU-
13 FACTURERS AND IMPORTERS.—

14 “(A) IN GENERAL.—In the case of any
15 barrels of beer which have been brewed or pro-
16 duced outside of the United States and im-
17 ported into the United States, the rate of tax
18 applicable under clause (i) of paragraph (1)(C)
19 (referred to in this paragraph as the ‘reduced
20 tax rate’) may be assigned by the brewer (pro-
21 vided that the brewer makes an election de-
22 scribed in subparagraph (B)(ii)) to any electing
23 importer of such barrels pursuant to the re-
24 quirements established by the Secretary under
25 subparagraph (B).

1 “(B) ASSIGNMENT.—The Secretary shall,
2 through such rules, regulations, and procedures
3 as are determined appropriate, establish proce-
4 dures for assignment of the reduced tax rate
5 provided under this paragraph, which shall in-
6 clude—

7 “(i) a limitation to ensure that the
8 number of barrels of beer for which the re-
9 duced tax rate has been assigned by a
10 brewer—

11 “(I) to any importer does not ex-
12 ceed the number of barrels of beer
13 brewed or produced by such brewer
14 during the calendar year which were
15 imported into the United States by
16 such importer, and

17 “(II) to all importers does not
18 exceed the 6,000,000 barrels to which
19 the reduced tax rate applies,

20 “(ii) procedures that allow the election
21 of a brewer to assign and an importer to
22 receive the reduced tax rate provided under
23 this paragraph,

24 “(iii) requirements that the brewer
25 provide any information as the Secretary

1 determines necessary and appropriate for
2 purposes of carrying out this paragraph,
3 and

4 “(iv) procedures that allow for revoca-
5 tion of eligibility of the brewer and the im-
6 porter for the reduced tax rate provided
7 under this paragraph in the case of any er-
8 roneous or fraudulent information provided
9 under clause (iii) which the Secretary
10 deems to be material to qualifying for such
11 reduced rate.

12 “(C) CONTROLLED GROUP.—For purposes
13 of this section, any importer making an election
14 described in subparagraph (B)(ii) shall be
15 deemed to be a member of the controlled group
16 of the brewer, as described under paragraph
17 (5).”.

18 (d) CONTROLLED GROUP AND SINGLE TAXPAYER
19 RULES.—Subsection (a) of section 5051, as amended by
20 this section, is amended—

21 (1) in paragraph (2)—

22 (A) by striking subparagraph (B), and

23 (B) by redesignating subparagraph (C) as
24 subparagraph (B), and

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

3 “(5) CONTROLLED GROUP AND SINGLE TAX-
4 PAYER RULES.—

5 “(A) IN GENERAL.—Except as provided in
6 subparagraph (B), in the case of a controlled
7 group, the 6,000,000 barrel quantity specified
8 in paragraph (1)(C)(i) and the 2,000,000 barrel
9 quantity specified in paragraph (2)(A) shall be
10 applied to the controlled group, and the
11 6,000,000 barrel quantity specified in para-
12 graph (1)(C)(i) and the 60,000 barrel quantity
13 specified in paragraph (2)(A) shall be appor-
14 tioned among the brewers who are members of
15 such group in such manner as the Secretary or
16 their delegate shall by regulations prescribe.
17 For purposes of the preceding sentence, the
18 term ‘controlled group’ has the meaning as-
19 signed to it by subsection (a) of section 1563,
20 except that for such purposes the phrase ‘more
21 than 50 percent’ shall be substituted for the
22 phrase ‘at least 80 percent’ in each place it ap-
23 pears in such subsection. Under regulations
24 prescribed by the Secretary, principles similar
25 to the principles of the preceding two sentences

1 shall be applied to a group of brewers under
2 common control where one or more of the brew-
3 ers is not a corporation.

4 “(B) FOREIGN MANUFACTURERS AND IM-
5 PORTERS.—For purposes of paragraph (4), in
6 the case of a controlled group, the 6,000,000
7 barrel quantity specified in paragraph (1)(C)(i)
8 shall be applied to the controlled group and ap-
9 portioned among the members of such group in
10 such manner as the Secretary shall by regula-
11 tions prescribe. For purposes of the preceding
12 sentence, the term ‘controlled group’ has the
13 meaning given such term under subparagraph
14 (A). Under regulations prescribed by the Sec-
15 retary, principles similar to the principles of the
16 preceding two sentences shall be applied to a
17 group of brewers under common control where
18 one or more of the brewers is not a corporation.

19 “(C) SINGLE TAXPAYER.—Pursuant to
20 rules issued by the Secretary, two or more enti-
21 ties (whether or not under common control)
22 that produce beer marketed under a similar
23 brand, license, franchise, or other arrangement
24 shall be treated as a single taxpayer for pur-
25 poses of the application of this subsection.”.

1 (e) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to beer removed after December
3 31, 2017.

4 **SEC. 13803. TRANSFER OF BEER BETWEEN BONDED FACILI-**
5 **TIES.**

6 (a) IN GENERAL.—Section 5414 is amended—

7 (1) by striking “Beer may be removed” and in-
8 serting “(a) IN GENERAL—Beer may be removed”,
9 and

10 (2) by adding at the end the following:

11 “(b) TRANSFER OF BEER BETWEEN BONDED FA-
12 CILITIES.—

13 “(1) IN GENERAL.—Beer may be removed from
14 one bonded brewery to another bonded brewery,
15 without payment of tax, and may be mingled with
16 beer at the receiving brewery, subject to such condi-
17 tions, including payment of the tax, and in such con-
18 tainers, as the Secretary by regulations shall pre-
19 scribe, which shall include—

20 “(A) any removal from one brewery to an-
21 other brewery belonging to the same brewer,

22 “(B) any removal from a brewery owned
23 by one corporation to a brewery owned by an-
24 other corporation when—

1 “(i) one such corporation owns the
2 controlling interest in the other such cor-
3 poration, or

4 “(ii) the controlling interest in each
5 such corporation is owned by the same per-
6 son or persons, and

7 “(C) any removal from one brewery to an-
8 other brewery when—

9 “(i) the proprietors of transferring
10 and receiving premises are independent of
11 each other and neither has a proprietary
12 interest, directly or indirectly, in the busi-
13 ness of the other, and

14 “(ii) the transferor has divested itself
15 of all interest in the beer so transferred
16 and the transferee has accepted responsi-
17 bility for payment of the tax.

18 “(2) TRANSFER OF LIABILITY FOR TAX.—For
19 purposes of paragraph (1)(C), such relief from liabil-
20 ity shall be effective from the time of removal from
21 the transferor’s bonded premises, or from the time
22 of divestment of interest, whichever is later.

23 “(3) TERMINATION.—This subsection shall not
24 apply to any calendar quarter beginning after De-
25 cember 31, 2019.”.

1 (b) REMOVAL FROM BREWERY BY PIPELINE.—Sec-
2 tion 5412 is amended by inserting “pursuant to section
3 5414 or” before “by pipeline”.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to any calendar quarters beginning
6 after December 31, 2017.

7 **SEC. 13804. REDUCED RATE OF EXCISE TAX ON CERTAIN**
8 **WINE.**

9 (a) IN GENERAL.—Section 5041(c) is amended by
10 adding at the end the following new paragraph:

11 “(8) SPECIAL RULE FOR 2018 AND 2019.—

12 “(A) IN GENERAL.—In the case of wine re-
13 moved after December 31, 2017, and before
14 January 1, 2020, paragraphs (1) and (2) shall
15 not apply and there shall be allowed as a credit
16 against any tax imposed by this title (other
17 than chapters 2, 21, and 22) an amount equal
18 to the sum of—

19 “(i) \$1 per wine gallon on the first
20 30,000 wine gallons of wine, plus

21 “(ii) 90 cents per wine gallon on the
22 first 100,000 wine gallons of wine to which
23 clause (i) does not apply, plus

1 “(iii) 53.5 cents per wine gallon on
2 the first 620,000 wine gallons of wine to
3 which clauses (i) and (ii) do not apply,
4 which are produced by the producer and re-
5 moved during the calendar year for consump-
6 tion or sale, or which are imported by the im-
7 porter into the United States during the cal-
8 endar year.

9 “(B) ADJUSTMENT OF CREDIT FOR HARD
10 CIDER.—In the case of wine described in sub-
11 section (b)(6), subparagraph (A) of this para-
12 graph shall be applied—

13 “(i) in clause (i) of such subpara-
14 graph, by substituting ‘6.2 cents’ for ‘\$1’,

15 “(ii) in clause (ii) of such subpara-
16 graph, by substituting ‘5.6 cents’ for ‘90
17 cents’, and

18 “(iii) in clause (iii) of such subpara-
19 graph, by substituting ‘3.3 cents’ for ‘53.5
20 cents’.”,

21 (b) CONTROLLED GROUP AND SINGLE TAXPAYER
22 RULES.—Paragraph (4) of section 5041(c) is amended by
23 striking “section 5051(a)(2)(B)” and inserting “section
24 5051(a)(5)”.

1 (c) ALLOWANCE OF CREDIT FOR FOREIGN MANU-
2 FACTURERS AND IMPORTERS.—Subsection (c) of section
3 5041, as amended by subsection (a), is amended—

4 (1) in subparagraph (A) of paragraph (8), by
5 inserting “but only if the importer is an electing im-
6 porter under paragraph (9) and the wine gallons of
7 wine have been assigned to the importer pursuant to
8 such paragraph” after “into the United States dur-
9 ing the calendar year”, and

10 (2) by adding at the end the following new
11 paragraph:

12 “(9) ALLOWANCE OF CREDIT FOR FOREIGN
13 MANUFACTURERS AND IMPORTERS.—

14 “(A) IN GENERAL.—In the case of any
15 wine gallons of wine which have been produced
16 outside of the United States and imported into
17 the United States, the credit allowable under
18 paragraph (8) (referred to in this paragraph as
19 the ‘tax credit’) may be assigned by the person
20 who produced such wine (referred to in this
21 paragraph as the ‘foreign producer’), provided
22 that such person makes an election described in
23 subparagraph (B)(ii), to any electing importer
24 of such wine gallons pursuant to the require-

1 ments established by the Secretary under sub-
2 paragraph (B).

3 “(B) ASSIGNMENT.—The Secretary shall,
4 through such rules, regulations, and procedures
5 as are determined appropriate, establish proce-
6 dures for assignment of the tax credit provided
7 under this paragraph, which shall include—

8 “(i) a limitation to ensure that the
9 number of wine gallons of wine for which
10 the tax credit has been assigned by a for-
11 eign producer—

12 “(I) to any importer does not ex-
13 ceed the number of wine gallons of
14 wine produced by such foreign pro-
15 ducer during the calendar year which
16 were imported into the United States
17 by such importer, and

18 “(II) to all importers does not
19 exceed the 750,000 wine gallons of
20 wine to which the tax credit applies,

21 “(ii) procedures that allow the election
22 of a foreign producer to assign and an im-
23 porter to receive the tax credit provided
24 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. 13805. 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. 13806. 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. 13807. 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 redesignating paragraph (3) as para-
5 graph (4) and by inserting after paragraph (2) the
6 following new paragraph:

7 “(3) REDUCED TAX RATE FOR FOREIGN MANU-
8 FACTURERS AND IMPORTERS.—

9 “(A) IN GENERAL.—In the case of any
10 proof gallons of distilled spirits which have been
11 produced outside of the United States and im-
12 ported into the United States, the rate of tax
13 applicable under paragraph (1) (referred to in
14 this paragraph as the ‘reduced tax rate’) may
15 be assigned by the distilled spirits operation
16 (provided that such operation makes an election
17 described in subparagraph (B)(ii)) to any elect-
18 ing importer of such proof gallons pursuant to
19 the requirements established by the Secretary
20 under subparagraph (B).

21 “(B) ASSIGNMENT.—The Secretary shall,
22 through such rules, regulations, and procedures
23 as are determined appropriate, establish proce-
24 dures for assignment of the reduced tax rate

1 provided under this paragraph, which shall in-
2 clude—

3 “(i) a limitation to ensure that the
4 number of proof gallons of distilled spirits
5 for which the reduced tax rate has been as-
6 signed by a distilled spirits operation—

7 “(I) to any importer does not ex-
8 ceed the number of proof gallons pro-
9 duced by such operation during the
10 calendar year which were imported
11 into the United States by such im-
12 porter, and

13 “(II) to all importers does not
14 exceed the 22,230,000 proof gallons of
15 distilled spirits to which the reduced
16 tax rate applies,

17 “(ii) procedures that allow the election
18 of a distilled spirits operation to assign
19 and an importer to receive the reduced tax
20 rate provided under this paragraph,

21 “(iii) requirements that the distilled
22 spirits operation provide any information
23 as the Secretary determines necessary and
24 appropriate for purposes of carrying out
25 this paragraph, and

1 “(iv) procedures that allow for revoca-
2 tion of eligibility of the distilled spirits op-
3 eration and the importer for the reduced
4 tax rate provided under this paragraph in
5 the case of any erroneous or fraudulent in-
6 formation provided under clause (iii) which
7 the Secretary deems to be material to
8 qualifying for such reduced rate.

9 “(C) CONTROLLED GROUP.—

10 “(i) IN GENERAL.—For purposes of
11 this section, any importer making an elec-
12 tion described in subparagraph (B)(ii)
13 shall be deemed to be a member of the
14 controlled group of the distilled spirits op-
15 eration, as described under paragraph (2).

16 “(ii) APPORTIONMENT.—For purposes
17 of this paragraph, in the case of a con-
18 trolled group, rules similar to section
19 5051(a)(5)(B) shall apply.”.

20 (d) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to distilled spirits removed after
22 December 31, 2017.

23 **SEC. 13808. BULK DISTILLED SPIRITS.**

24 (a) IN GENERAL.—Section 5212 is amended by add-
25 ing at the end the following sentence: “In the case of dis-

1 tilled spirits transferred in bond after December 31, 2017,
2 and before January 1, 2020, this section shall be applied
3 without regard to whether distilled spirits are bulk dis-
4 tilled spirits.”.

5 (b) EFFECTIVE DATE.—The amendments made by
6 this section shall apply distilled spirits transferred in bond
7 after December 31, 2017.

8 **Subpart B—Miscellaneous Provisions**

9 **SEC. 13821. MODIFICATION OF TAX TREATMENT OF ALASKA** 10 **NATIVE CORPORATIONS AND SETTLEMENT** 11 **TRUSTS.**

12 (a) EXCLUSION FOR ANCSA PAYMENTS ASSIGNED
13 TO ALASKA NATIVE SETTLEMENT TRUSTS.—

14 (1) IN GENERAL.—Part III of subchapter B of
15 chapter 1 is amended by inserting before section 140
16 the following new section:

17 **“SEC. 139G. ASSIGNMENTS TO ALASKA NATIVE SETTLE-** 18 **MENT TRUSTS.**

19 “(a) IN GENERAL.—In the case of a Native Corpora-
20 tion, gross income shall not include the value of any pay-
21 ments that would otherwise be made, or treated as being
22 made, to such Native Corporation pursuant to, or as re-
23 quired by, any provision of the Alaska Native Claims Set-
24 tlement Act (43 U.S.C. 1601 et seq.), including any pay-
25 ment that would otherwise be made to a Village Corpora-

1 tion pursuant to section 7(j) of the Alaska Native Claims
2 Settlement Act (43 U.S.C. 1606(j)), provided that any
3 such payments—

4 “(1) are assigned in writing to a Settlement
5 Trust, and

6 “(2) were not received by such Native Corpora-
7 tion prior to the assignment described in paragraph
8 (1).

9 “(b) INCLUSION IN GROSS INCOME.—In the case of
10 a Settlement Trust which has been assigned payments de-
11 scribed in subsection (a), gross income shall include such
12 payments when received by such Settlement Trust pursu-
13 ant to the assignment and shall have the same character
14 as if such payments were received by the Native Corpora-
15 tion.

16 “(c) AMOUNT AND SCOPE OF ASSIGNMENT.—The
17 amount and scope of any assignment under subsection (a)
18 shall be described with reasonable particularity and may
19 either be in a percentage of one or more such payments
20 or in a fixed dollar amount.

21 “(d) DURATION OF ASSIGNMENT; REVOCABILITY.—
22 Any assignment under subsection (a) shall specify—

23 “(1) a duration either in perpetuity or for a pe-
24 riod of time, and

25 “(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 a timely filed amendment or
18 supplement to the income tax return of such Native
19 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 a timely filed
19 amendment or supplement to the income tax re-
20 turn of 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-

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) EFFECTIVE DATE.—

9 (A) IN GENERAL.—The amendments made
10 by this subsection shall apply to taxable years
11 for which the period of limitation on refund or
12 credit under section 6511 of the Internal Rev-
13 enue Code of 1986 has not expired.

14 (B) ONE-YEAR WAIVER OF STATUTE OF
15 LIMITATIONS.—If the period of limitation on a
16 credit or refund resulting from the amendments
17 made by paragraph (1) expires before the end
18 of the 1-year period beginning on the date of
19 the enactment of this Act, refund or credit of
20 such overpayment (to the extent attributable to
21 such amendments) may, nevertheless, be made
22 or allowed if claim therefor is filed before the
23 close of such 1-year period.

1 (c) INFORMATION REPORTING FOR DEDUCTIBLE
2 CONTRIBUTIONS TO ALASKA NATIVE SETTLEMENT
3 TRUSTS.—

4 (1) IN GENERAL.—Section 6039H is amend-
5 ed—

6 (A) in the heading, by striking “**SPON-**
7 **SORING**”, and

8 (B) by adding at the end the following new
9 subsection:

10 “(e) DEDUCTIBLE CONTRIBUTIONS BY NATIVE COR-
11 PORATIONS TO ALASKA NATIVE SETTLEMENT TRUSTS.—

12 “(1) IN GENERAL.—Any Native Corporation (as
13 defined in subsection (m) of section 3 of the Alaska
14 Native Claims Settlement Act (43 U.S.C. 1602(m)))
15 which has made a contribution to a Settlement
16 Trust (as defined in subsection (t) of such section)
17 to which an election under subsection (e) of section
18 247 applies shall provide such Settlement Trust with
19 a statement regarding such election not later than
20 January 31 of the calendar year subsequent to the
21 calendar year in which the contribution was made.

22 “(2) CONTENT OF STATEMENT.—The state-
23 ment described in paragraph (1) shall include—

1 “(A) the total amount of contributions to
2 which the election under subsection (e) of sec-
3 tion 247 applies,

4 “(B) for each contribution, whether such
5 contribution was in cash,

6 “(C) for each contribution which consists
7 of property other than cash, the date that such
8 property was acquired by the Native Corpora-
9 tion and the adjusted basis and fair market
10 value of such property on the date such prop-
11 erty was contributed to the Settlement Trust,

12 “(D) the date on which each contribution
13 was made to the Settlement Trust, and

14 “(E) such information as the Secretary de-
15 termines to be necessary or appropriate for the
16 identification of each contribution and the accu-
17 rate inclusion of income relating to such con-
18 tributions by the Settlement Trust.”.

19 (2) CONFORMING AMENDMENT.—The item re-
20 lating to section 6039H in the table of sections for
21 subpart A of part III of subchapter A of chapter 61
22 is amended to read as follows:

 “Sec. 6039H. Information With Respect to Alaska Native Settlement Trusts
 and Native Corporations.”.

1 (3) EFFECTIVE DATE.—The amendments made
2 by this subsection shall apply to taxable years begin-
3 ning after December 31, 2016.

4 **SEC. 13822. AMOUNTS PAID FOR AIRCRAFT MANAGEMENT**
5 **SERVICES.**

6 (a) IN GENERAL.—Subsection (e) of section 4261 is
7 amended by adding at the end the following new para-
8 graph:

9 “(5) AMOUNTS PAID FOR AIRCRAFT MANAGE-
10 MENT SERVICES.—

11 “(A) IN GENERAL.—No tax shall be im-
12 posed by this section or section 4271 on any
13 amounts paid by an aircraft owner for aircraft
14 management services related to—

15 “(i) maintenance and support of the
16 aircraft owner’s aircraft, or

17 “(ii) flights on the aircraft owner’s
18 aircraft.

19 “(B) AIRCRAFT MANAGEMENT SERV-
20 ICES.—For purposes of subparagraph (A), the
21 term ‘aircraft management services’ includes—

22 “(i) assisting an aircraft owner with
23 administrative and support services, such
24 as scheduling, flight planning, and weather
25 forecasting,

1 “(ii) obtaining insurance,

2 “(iii) maintenance, storage and fuel-
3 ing of aircraft,

4 “(iv) hiring, training, and provision of
5 pilots and crew,

6 “(v) establishing and complying with
7 safety standards, and

8 “(vi) such other services as are nec-
9 essary to support flights operated by an
10 aircraft owner.

11 “(C) LESSEE TREATED AS AIRCRAFT
12 OWNER.—

13 “(i) IN GENERAL.—For purposes of
14 this paragraph, the term ‘aircraft owner’
15 includes a person who leases the aircraft
16 other than under a disqualified lease.

17 “(ii) DISQUALIFIED LEASE.—For pur-
18 poses of clause (i), the term ‘disqualified
19 lease’ means a lease from a person pro-
20 viding aircraft management services with
21 respect to such aircraft (or a related per-
22 son (within the meaning of section
23 465(b)(3)(C)) to the person providing such
24 services), if such lease is for a term of 31
25 days or less.

1 “(D) PRO RATA ALLOCATION.—In the case
2 of amounts paid to any person which (but for
3 this subsection) are subject to the tax imposed
4 by subsection (a), a portion of which consists of
5 amounts described in subparagraph (A), this
6 paragraph shall apply on a pro rata basis only
7 to the portion which consists of amounts de-
8 scribed in such subparagraph.”.

9 (b) EFFECTIVE DATE.—The amendment made by
10 this section shall apply to amounts paid after the date of
11 the enactment of this Act.

12 **SEC. 13823. OPPORTUNITY ZONES.**

13 (a) IN GENERAL.—Chapter 1 is amended by adding
14 at the end the following:

15 **“Subchapter Z—Opportunity Zones**

 “Sec. 1400Z-1. Designation.

 “Sec. 1400Z-2. Special rules for capital gains invested in opportunity zones.

16 **“SEC. 1400Z-1. DESIGNATION.**

17 “(a) QUALIFIED OPPORTUNITY ZONE DEFINED.—
18 For the purposes of this subchapter, the term ‘qualified
19 opportunity zone’ means a population census tract that
20 is a low-income community that is designated as a quali-
21 fied opportunity zone.

22 “(b) DESIGNATION.—

23 “(1) IN GENERAL.—For purposes of subsection
24 (a), a population census tract that is a low-income

1 community is designated as a qualified opportunity
2 zone if—

3 “(A) not later than the end of the deter-
4 mination period, the chief executive officer of
5 the State in which the tract is located—

6 “(i) nominates the tract for designa-
7 tion as a qualified opportunity zone, and

8 “(ii) notifies the Secretary in writing
9 of such nomination, and

10 “(B) the Secretary certifies such nomina-
11 tion and designates such tract as a qualified op-
12 portunity zone before the end of the consider-
13 ation period.

14 “(2) EXTENSION OF PERIODS.—A chief execu-
15 tive officer of a State may request that the Sec-
16 retary extend either the determination or consider-
17 ation period, or both (determined without regard to
18 this subparagraph), for an additional 30 days.

19 “(c) OTHER DEFINITIONS.—For purposes of this
20 subsection—

21 “(1) LOW-INCOME COMMUNITIES.—The term
22 ‘low-income community’ has the same meaning as
23 when used in section 45D(e).

24 “(2) DEFINITION OF PERIODS.—

1 “(A) CONSIDERATION PERIOD.—The term
2 ‘consideration period’ means the 30-day period
3 beginning on the date on which the Secretary
4 receives notice under subsection (b)(1)(A)(ii),
5 as extended under subsection (b)(2).

6 “(B) DETERMINATION PERIOD.—The term
7 ‘determination period’ means the 90-day period
8 beginning on the date of the enactment of the
9 Tax Cuts and Jobs Act, as extended under sub-
10 section (b)(2).

11 “(3) STATE.—For purposes of this section, the
12 term ‘State’ includes any possession of the United
13 States.

14 “(d) NUMBER OF DESIGNATIONS.—

15 “(1) IN GENERAL.—Except as provided by
16 paragraph (2), the number of population census
17 tracts in a State that may be designated as qualified
18 opportunity zones under this section may not exceed
19 25 percent of the number of low-income communities
20 in the State.

21 “(2) EXCEPTION.—If the number of low-income
22 communities in a State is less than 100, then a total
23 of 25 of such tracts may be designated as qualified
24 opportunity zones.

1 “(e) DESIGNATION OF TRACTS CONTIGUOUS WITH
2 LOW-INCOME COMMUNITIES.—

3 “(1) IN GENERAL.—A population census tract
4 that is not a low-income community may be des-
5 ignated as a qualified opportunity zone under this
6 section if—

7 “(A) the tract is contiguous with the low-
8 income community that is designated as a
9 qualified opportunity zone, and

10 “(B) the median family income of the tract
11 does not exceed 125 percent of the median fam-
12 ily income of the low-income community with
13 which the tract is contiguous.

14 “(2) LIMITATION.—Not more than 5 percent of
15 the population census tracts designated in a State as
16 a qualified opportunity zone may be designated
17 under paragraph (1).

18 “(f) PERIOD FOR WHICH DESIGNATION IS IN EF-
19 FECT.—A designation as a qualified opportunity zone
20 shall remain in effect for the period beginning on the date
21 of the designation and ending at the close of the 10th cal-
22 endar year beginning on or after such date of designation.

23 **“SEC. 1400Z-2. SPECIAL RULES FOR CAPITAL GAINS IN-**
24 **VESTED IN OPPORTUNITY ZONES.**

25 “(a) IN GENERAL.—

1 “(1) TREATMENT OF GAINS.—In the case of
2 gain from the sale to, or exchange with, an unre-
3 lated person of any property held by the taxpayer,
4 at the election of the taxpayer—

5 “(A) gross income for the taxable year
6 shall not include so much of such gain as does
7 not exceed the aggregate amount invested by
8 the taxpayer in a qualified opportunity fund
9 during the 180-day period beginning on the
10 date of such sale or exchange,

11 “(B) the amount of gain excluded by sub-
12 paragraph (A) shall be included in gross income
13 as provided by subsection (b), and

14 “(C) subsection (c) shall apply.

15 “(2) ELECTION.—No election may be made
16 under paragraph (1)—

17 “(A) with respect to a sale or exchange if
18 an election previously made with respect to such
19 sale or exchange is in effect, or

20 “(B) with respect to any sale or exchange
21 after December 31, 2026.

22 “(b) DEFERRAL OF GAIN INVESTED IN OPPOR-
23 TUNITY ZONE PROPERTY.—

1 “(1) YEAR OF INCLUSION.—Gain to which sub-
2 section (a)(1)(B) applies shall be included in income
3 in the taxable year which includes the earlier of—

4 “(A) the date on which such investment is
5 sold or exchanged, or

6 “(B) December 31, 2026.

7 “(2) AMOUNT INCLUDIBLE.—

8 “(A) IN GENERAL.—The amount of gain
9 included in gross income under subsection
10 (a)(1)(A) shall be the excess of—

11 “(i) the lesser of the amount of gain
12 excluded under paragraph (1) or the fair
13 market value of the investment as deter-
14 mined as of the date described in para-
15 graph (1), over

16 “(ii) the taxpayer’s basis in the in-
17 vestment.

18 “(B) DETERMINATION OF BASIS.—

19 “(i) IN GENERAL.—Except as other-
20 wise provided in this clause or subsection
21 (c), the taxpayer’s basis in the investment
22 shall be zero.

23 “(ii) INCREASE FOR GAIN RECOG-
24 NIZED UNDER SUBSECTION (a)(1)(B).—
25 The basis in the investment shall be in-

1 creased by the amount of gain recognized
2 by reason of subsection (a)(1)(B) with re-
3 spect to such property.

4 “(iii) INVESTMENTS HELD FOR 5
5 YEARS.—In the case of any investment
6 held for at least 5 years, the basis of such
7 investment shall be increased by an
8 amount equal to 10 percent of the amount
9 of gain deferred by reason of subsection
10 (a)(1)(A).

11 “(iv) INVESTMENTS HELD FOR 7
12 YEARS.—In the case of any investment
13 held by the taxpayer for at least 7 years,
14 in addition to any adjustment made under
15 clause (iii), the basis of such property shall
16 be increased by an amount equal to 5 per-
17 cent of the amount of gain deferred by rea-
18 son of subsection (a)(1)(A).

19 “(c) SPECIAL RULE FOR INVESTMENTS HELD FOR
20 AT LEAST 10 YEARS.—In the case of any investment held
21 by the taxpayer for at least 10 years and with respect to
22 which the taxpayer makes an election under this clause,
23 the basis of such property shall be equal to the fair market
24 value of such investment on the date that the investment
25 is sold or exchanged.

1 “(d) QUALIFIED OPPORTUNITY FUND.—For pur-
2 poses of this section—

3 “(1) IN GENERAL.—The term ‘qualified oppor-
4 tunity fund’ means any investment vehicle which is
5 organized as a corporation or a partnership for the
6 purpose of investing in qualified opportunity zone
7 property (other than another qualified opportunity
8 fund) that holds at least 90 percent of its assets in
9 qualified opportunity zone property, determined by
10 the average of the percentage of qualified oppor-
11 tunity zone property held in the fund as measured—

12 “(A) on the last day of the first 6-month
13 period of the taxable year of the fund, and

14 “(B) on the last day of the taxable year of
15 the fund.

16 “(2) QUALIFIED OPPORTUNITY ZONE PROP-
17 erty.—

18 “(A) IN GENERAL.—The term ‘qualified
19 opportunity zone property’ means property
20 which is—

21 “(i) qualified opportunity zone stock,

22 “(ii) qualified opportunity zone part-
23 nership interest, or

24 “(iii) qualified opportunity zone busi-
25 ness property.

1 “(B) QUALIFIED OPPORTUNITY ZONE
2 STOCK.—

3 “(i) IN GENERAL.—Except as pro-
4 vided in clause (ii), the term ‘qualified op-
5 portunity zone stock’ means any stock in a
6 domestic corporation if—

7 “(I) such stock is acquired by the
8 qualified opportunity fund after De-
9 cember 31, 2017, at its original issue
10 (directly or through an underwriter)
11 from the corporation solely in ex-
12 change for cash,

13 “(II) as of the time such stock
14 was issued, such corporation was a
15 qualified opportunity zone business
16 (or, in the case of a new corporation,
17 such corporation was being organized
18 for purposes of being a qualified op-
19 portunity zone business), and

20 “(III) during substantially all of
21 the qualified opportunity fund’s hold-
22 ing period for such stock, such cor-
23 poration qualified as a qualified op-
24 portunity zone business.

1 “(ii) REDEMPTIONS.—A rule similar
2 to the rule of section 1202(c)(3) shall
3 apply for purposes of this paragraph.

4 “(C) QUALIFIED OPPORTUNITY ZONE
5 PARTNERSHIP INTEREST.—The term ‘qualified
6 opportunity zone partnership interest’ means
7 any capital or profits interest in a domestic
8 partnership if—

9 “(i) such interest is acquired by the
10 qualified opportunity fund after December
11 31, 2017, from the partnership solely in
12 exchange for cash,

13 “(ii) as of the time such interest was
14 acquired, such partnership was a qualified
15 opportunity zone business (or, in the case
16 of a new partnership, such partnership was
17 being organized for purposes of being a
18 qualified opportunity zone business), and

19 “(iii) during substantially all of the
20 qualified opportunity fund’s holding period
21 for such interest, such partnership quali-
22 fied as a qualified opportunity zone busi-
23 ness.

24 “(D) QUALIFIED OPPORTUNITY ZONE
25 BUSINESS PROPERTY.—

1 “(i) IN GENERAL.—The term ‘quali-
2 fied opportunity zone business property’
3 means tangible property used in a trade or
4 business of the qualified opportunity fund
5 if—

6 “(I) such property was acquired
7 by the qualified opportunity fund by
8 purchase (as defined in section
9 179(d)(2)) after December 31, 2017,

10 “(II) the original use of such
11 property in the qualified opportunity
12 zone commences with the qualified op-
13 portunity fund or the qualified oppor-
14 tunity fund substantially improves the
15 property, and

16 “(III) during substantially all of
17 the qualified opportunity fund’s hold-
18 ing period for such property, substan-
19 tially all of the use of such property
20 was in a qualified opportunity zone.

21 “(ii) SUBSTANTIAL IMPROVEMENT.—
22 For purposes of subparagraph (A)(ii),
23 property shall be treated as substantially
24 improved by the qualified opportunity fund
25 only if, during any 30-month period begin-

1 ning after the date of acquisition of such
2 property, additions to basis with respect to
3 such property in the hands of the qualified
4 opportunity fund exceed an amount equal
5 to the adjusted basis of such property at
6 the beginning of such 30-month period in
7 the hands of the qualified opportunity
8 fund.

9 “(iii) RELATED PARTY.—For pur-
10 poses of subparagraph (A)(i), the related
11 person rule of section 179(d)(2) shall be
12 applied pursuant to paragraph (8) of this
13 subsection in lieu of the application of such
14 rule in section 179(d)(2)(A).

15 “(3) QUALIFIED OPPORTUNITY ZONE BUSI-
16 NESS.—

17 “(A) IN GENERAL.—The term ‘qualified
18 opportunity zone business’ means a trade or
19 business—

20 “(i) in which substantially all of the
21 tangible property owned or leased by the
22 taxpayer is qualified opportunity zone busi-
23 ness property (determined by substituting
24 ‘qualified opportunity zone business’ for

1 ‘qualified opportunity fund’ each place it
2 appears in paragraph (2)(D)),

3 “(ii) which satisfies the requirements
4 of paragraphs (2), (4), and (8) of section
5 1397C(b), and

6 “(iii) which is not described in section
7 144(c)(6)(B).

8 “(B) SPECIAL RULE.—For purposes of
9 subparagraph (A), tangible property that ceases
10 to be a qualified opportunity zone business
11 property shall continue to be treated as a quali-
12 fied opportunity zone business property for the
13 lesser of—

14 “(i) 5 years after the date on which
15 such tangible property ceases to be so
16 qualified, or

17 “(ii) the date on which such tangible
18 property is no longer held by the qualified
19 opportunity zone business.

20 “(e) APPLICABLE RULES.—

21 “(1) TREATMENT OF INVESTMENTS WITH
22 MIXED FUNDS.—In the case of any investment in a
23 qualified opportunity fund only a portion of which
24 consists of investments of gain to which an election
25 under subsection (a) is in effect—

1 “(A) such investment shall be treated as 2
2 separate investments, consisting of—

3 “(i) one investment that only includes
4 amounts to which the election under sub-
5 section (a) applies, and

6 “(ii) a separate investment consisting
7 of other amounts, and

8 “(B) subsections (a), (b), and (c) shall
9 only apply to the investment described in sub-
10 paragraph (A)(i).

11 “(2) RELATED PERSONS.—For purposes of this
12 section, persons are related to each other if such
13 persons are described in section 267(b) or 707(b)(1),
14 determined by substituting ‘20 percent’ for ‘50 per-
15 cent’ each place it occurs in such sections.

16 “(3) DECEDENTS.—In the case of a decedent,
17 amounts recognized under this section shall, if not
18 properly includible in the gross income of the dece-
19 dent, be includible in gross income as provided by
20 section 691.

21 “(4) REGULATIONS.—The Secretary shall pre-
22 scribe such regulations as may be necessary or ap-
23 propriate to carry out the purposes of this section,
24 including—

1 “(A) rules for the certification of qualified
2 opportunity funds for the purposes of this sec-
3 tion,

4 “(B) rules to ensure a qualified oppor-
5 tunity fund has a reasonable period of time to
6 reinvest the return of capital from investments
7 in qualified opportunity zone stock and quali-
8 fied opportunity zone partnership interests, and
9 to reinvest proceeds received from the sale or
10 disposition of qualified opportunity zone prop-
11 erty, and

12 “(C) rules to prevent abuse.

13 “(f) FAILURE OF QUALIFIED OPPORTUNITY FUND
14 TO MAINTAIN INVESTMENT STANDARD.—

15 “(1) IN GENERAL.—If a qualified opportunity
16 fund fails to meet the 90-percent requirement of
17 subsection (c)(1), the qualified opportunity fund
18 shall pay a penalty for each month it fails to meet
19 the requirement in an amount equal to the product
20 of—

21 “(A) the excess of—

22 “(i) the amount equal to 90 percent of
23 its aggregate assets, over

1 “(ii) the aggregate amount of quali-
2 fied opportunity zone property held by the
3 fund, multiplied by

4 “(B) the underpayment rate established
5 under section 6621(a)(2) for such month.

6 “(2) SPECIAL RULE FOR PARTNERSHIPS.—In
7 the case that the qualified opportunity fund is a
8 partnership, the penalty imposed by paragraph (1)
9 shall be taken into account proportionately as part
10 of the distributive share of each partner of the part-
11 nership.

12 “(3) REASONABLE CAUSE EXCEPTION.—No
13 penalty shall be imposed under this subsection with
14 respect to any failure if it is shown that such failure
15 is due to reasonable cause.”.

16 (b) BASIS ADJUSTMENTS.—Section 1016(a) is
17 amended by striking “and” at the end of paragraph (36),
18 by striking the period at the end of paragraph (37) and
19 inserting “, and”, and by inserting after paragraph (37)
20 the following:

21 “(38) to the extent provided in subsections
22 (b)(2) and (c) of section 1400Z-2.”.

23 (c) CLERICAL AMENDMENT.—The table of sub-
24 chapters for chapter 1 is amended by adding at the end
25 the following new item:

“SUBCHAPTER Z. OPPORTUNITY ZONES”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall take effect on the date of the enactment
3 of this Act.

4 **Subtitle D—International Tax** 5 **Provisions**

6 **PART I—OUTBOUND TRANSACTIONS**

7 **Subpart A—Establishment of Participation**

8 **Exemption System for Taxation of Foreign Income**

9 **SEC. 14101. DEDUCTION FOR FOREIGN-SOURCE PORTION**
10 **OF DIVIDENDS RECEIVED BY DOMESTIC COR-**
11 **PORATIONS FROM SPECIFIED 10-PERCENT**
12 **OWNED FOREIGN CORPORATIONS.**

13 (a) IN GENERAL.—Part VIII of subchapter B of
14 chapter 1 is amended by inserting after section 245 the
15 following new section:

16 **“SEC. 245A. DEDUCTION FOR FOREIGN SOURCE-PORION**
17 **OF DIVIDENDS RECEIVED BY DOMESTIC COR-**
18 **PORATIONS FROM SPECIFIED 10-PERCENT**
19 **OWNED FOREIGN CORPORATIONS.**

20 “(a) IN GENERAL.—In the case of any dividend re-
21 ceived from a specified 10-percent owned foreign corpora-
22 tion by a domestic corporation which is a United States
23 shareholder with respect to such foreign corporation, there
24 shall be allowed as a deduction an amount equal to the
25 foreign-source portion of such dividend.

1 “(b) SPECIFIED 10-PERCENT OWNED FOREIGN COR-
2 PORATION.—For purposes of this section—

3 “(1) IN GENERAL.—The term ‘specified 10-per-
4 cent owned foreign corporation’ means any foreign
5 corporation with respect to which any domestic cor-
6 poration is a United States shareholder with respect
7 to such corporation.

8 “(2) EXCLUSION OF PASSIVE FOREIGN INVEST-
9 MENT COMPANIES.—Such term shall not include any
10 corporation which is a passive foreign investment
11 company (as defined in section 1297) with respect to
12 the shareholder and which is not a controlled foreign
13 corporation.

14 “(c) FOREIGN-SOURCE PORTION.—For purposes of
15 this section—

16 “(1) IN GENERAL.—The foreign-source portion
17 of any dividend from a specified 10-percent owned
18 foreign corporation is an amount which bears the
19 same ratio to such dividend as—

20 “(A) the undistributed foreign earnings of
21 the specified 10-percent owned foreign corpora-
22 tion, bears to

23 “(B) the total undistributed earnings of
24 such foreign corporation.

1 “(2) **UNDISTRIBUTED EARNINGS.**—The term
2 ‘undistributed earnings’ means the amount of the
3 earnings and profits of the specified 10-percent
4 owned foreign corporation (computed in accordance
5 with sections 964(a) and 986)—

6 “(A) as of the close of the taxable year of
7 the specified 10-percent owned foreign corpora-
8 tion in which the dividend is distributed, and

9 “(B) without diminution by reason of divi-
10 dends distributed during such taxable year.

11 “(3) **UNDISTRIBUTED FOREIGN EARNINGS.**—
12 The term ‘undistributed foreign earnings’ means the
13 portion of the undistributed earnings which is attrib-
14 utable to neither—

15 “(A) income described in subparagraph (A)
16 of section 245(a)(5), nor

17 “(B) dividends described in subparagraph
18 (B) of such section (determined without regard
19 to section 245(a)(12)).

20 “(d) **DISALLOWANCE OF FOREIGN TAX CREDIT,**
21 **ETC.**—

22 “(1) **IN GENERAL.**—No credit shall be allowed
23 under section 901 for any taxes paid or accrued (or
24 treated as paid or accrued) with respect to any divi-

1 dend for which a deduction is allowed under this sec-
2 tion.

3 “(2) 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 “(e) SPECIAL RULES FOR HYBRID DIVIDENDS.—

10 “(1) IN GENERAL.—Subsection (a) shall not
11 apply to any dividend received by a United States
12 shareholder from a controlled foreign corporation if
13 the dividend is a hybrid dividend.

14 “(2) HYBRID DIVIDENDS OF TIERED CORPORA-
15 TIONS.—If a controlled foreign corporation with re-
16 spect to which a domestic corporation is a United
17 States shareholder receives a hybrid dividend from
18 any other controlled foreign corporation with respect
19 to which such domestic corporation is also a United
20 States shareholder, then, notwithstanding any other
21 provision of this title—

22 “(A) the hybrid dividend shall be treated
23 for purposes of section 951(a)(1)(A) as subpart
24 F income of the receiving controlled foreign cor-
25 poration for the taxable year of the controlled

1 foreign corporation in which the dividend was
2 received, and

3 “(B) the United States shareholder shall
4 include in gross income an amount equal to the
5 shareholder’s pro rata share (determined in the
6 same manner as under section 951(a)(2)) of the
7 subpart F income described in subparagraph
8 (A).

9 “(3) DENIAL OF FOREIGN TAX CREDIT, ETC.—
10 The rules of subsection (d) shall apply to any hybrid
11 dividend received by, or any amount included under
12 paragraph (2) in the gross income of, a United
13 States shareholder.

14 “(4) HYBRID DIVIDEND.—The term ‘hybrid
15 dividend’ means an amount received from a con-
16 trolled foreign corporation—

17 “(A) for which a deduction would be al-
18 lowed under subsection (a) but for this sub-
19 section, and

20 “(B) for which the controlled foreign cor-
21 poration received a deduction (or other tax ben-
22 efit) with respect to any income, war profits, or
23 excess profits taxes imposed by any foreign
24 country or possession of the United States.

1 “(f) SPECIAL RULE FOR PURGING DISTRIBUTIONS
2 OF PASSIVE FOREIGN INVESTMENT COMPANIES.—Any
3 amount which is treated as a dividend under section
4 1291(d)(2)(B) shall not be treated as a dividend for pur-
5 poses of this section.

6 “(g) REGULATIONS.—The Secretary shall prescribe
7 such regulations or other guidance as may be necessary
8 or appropriate to carry out the provisions of this section,
9 including regulations for the treatment of United States
10 shareholders owning stock of a specified 10 percent owned
11 foreign corporation through a partnership.”.

12 (b) APPLICATION OF HOLDING PERIOD REQUIRE-
13 MENT.—Subsection (c) of section 246 is amended—

14 (1) by striking “or 245” in paragraph (1) and
15 inserting “245, or 245A”, and

16 (2) by adding at the end the following new
17 paragraph:

18 “(5) SPECIAL RULES FOR FOREIGN SOURCE
19 PORTION OF DIVIDENDS RECEIVED FROM SPECIFIED
20 10-PERCENT OWNED FOREIGN CORPORATIONS.—

21 “(A) 1-YEAR HOLDING PERIOD REQUIRE-
22 MENT.—For purposes of section 245A—

23 “(i) paragraph (1)(A) shall be ap-
24 plied—

1 “(I) by substituting ‘365 days’
2 for ‘45 days’ each place it appears,
3 and

4 “(II) by substituting ‘731-day pe-
5 riod’ for ‘91-day period’, and

6 “(ii) paragraph (2) shall not apply.

7 “(B) STATUS MUST BE MAINTAINED DUR-
8 ING HOLDING PERIOD.—For purposes of apply-
9 ing paragraph (1) with respect to section 245A,
10 the taxpayer shall be treated as holding the
11 stock referred to in paragraph (1) for any pe-
12 riod only if—

13 “(i) the specified 10-percent owned
14 foreign corporation referred to in section
15 245A(a) is a specified 10-percent owned
16 foreign corporation at all times during
17 such period, and

18 “(ii) the taxpayer is a United States
19 shareholder with respect to such specified
20 10-percent owned foreign corporation at all
21 times during such period.”.

22 (c) APPLICATION OF RULES GENERALLY APPLICA-
23 BLE TO DEDUCTIONS FOR DIVIDENDS RECEIVED.—

24 (1) TREATMENT OF DIVIDENDS FROM CERTAIN
25 CORPORATIONS.—Paragraph (1) of section 246(a) is

1 amended by striking “and 245” and inserting “245,
2 and 245A”.

3 (2) 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 shareholder’s taxable in-
15 come from sources without the United States (and
16 entire taxable income) shall be determined without
17 regard to—

18 “(A) the foreign-source portion of any divi-
19 dend received from such foreign corporation,
20 and

21 “(B) any deductions properly allocable or
22 apportioned to—

23 “(i) income (other than amounts in-
24 cludible under section 951(a)(1) or
25 951A(a)) with respect to stock of such

1 specified 10-percent owned foreign cor-
2 poration, or

3 “(ii) such stock to the extent income
4 with respect to such stock is other than
5 amounts includible under section 951(a)(1)
6 or 951A(a).

7 Any term which is used in section 245A and in this
8 paragraph shall have the same meaning for purposes
9 of this paragraph as when used in such section.”.

10 (e) CONFORMING AMENDMENTS.—

11 (1) Subsection (b) of section 951 is amended by
12 striking “subpart” and inserting “title”.

13 (2) Subsection (a) of section 957 is amended by
14 striking “subpart” in the matter preceding para-
15 graph (1) and inserting “title”.

16 (3) The table of sections for part VIII of sub-
17 chapter B of chapter 1 is amended by inserting after
18 the item relating to section 245 the following new
19 item:

“Sec. 245A. Deduction for foreign source-portion of dividends received by do-
mestic corporations from certain 10-percent owned foreign cor-
porations.”.

20 (f) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to distributions made after (and,
22 in the case of the amendments made by subsection (d),
23 deductions with respect to taxable years ending after) De-
24 cember 31, 2017.

1 **SEC. 14102. SPECIAL RULES RELATING TO SALES OR**
2 **TRANSFERS INVOLVING SPECIFIED 10-PER-**
3 **CENT OWNED FOREIGN CORPORATIONS.**

4 (a) SALES BY UNITED STATES PERSONS OF
5 STOCK.—

6 (1) IN GENERAL.—Section 1248 is amended by
7 redesignating subsection (j) as subsection (k) and by
8 inserting after subsection (i) the following new sub-
9 section:

10 “(j) COORDINATION WITH DIVIDENDS RECEIVED
11 DEDUCTION.—In the case of the sale or exchange by a
12 domestic corporation of stock in a foreign corporation held
13 for 1 year or more, any amount received by the domestic
14 corporation which is treated as a dividend by reason of
15 this section shall be treated as a dividend for purposes
16 of applying section 245A.”.

17 (2) EFFECTIVE DATE.—The amendments made
18 by this subsection shall apply to sales or exchanges
19 after December 31, 2017.

20 (b) BASIS IN SPECIFIED 10-PERCENT OWNED FOR-
21 EIGN CORPORATION REDUCED BY NONTAXED PORTION
22 OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—

23 (1) IN GENERAL.—Section 961 is amended by
24 adding at the end the following new subsection:

25 “(d) BASIS IN SPECIFIED 10-PERCENT OWNED FOR-
26 EIGN CORPORATION REDUCED BY NONTAXED PORTION

1 OF DIVIDEND FOR PURPOSES OF DETERMINING LOSS.—
2 If a domestic corporation received a dividend from a speci-
3 fied 10-percent owned foreign corporation (as defined in
4 section 245A) in any taxable year, solely for purposes of
5 determining loss on any disposition of stock of such for-
6 eign corporation in such taxable year or any subsequent
7 taxable year, the basis of such domestic corporation in
8 such stock shall be reduced (but not below zero) by the
9 amount of any deduction allowable to such domestic cor-
10 poration under section 245A with respect to such stock
11 except to the extent such basis was reduced under section
12 1059 by reason of a dividend for which such a deduction
13 was allowable.”.

14 (2) EFFECTIVE DATE.—The amendments made
15 by this subsection shall apply to distributions made
16 after December 31, 2017.

17 (c) SALE BY A CFC OF A LOWER TIER CFC.—

18 (1) IN GENERAL.—Section 964(e) is amended
19 by adding at the end the following new paragraph:

20 “(4) COORDINATION WITH DIVIDENDS RE-
21 CEIVED DEDUCTION.—

22 “(A) IN GENERAL.—If, for any taxable
23 year of a controlled foreign corporation begin-
24 ning after December 31, 2017, any amount is
25 treated as a dividend under paragraph (1) by

1 reason of a sale or exchange by the controlled
2 foreign corporation of stock in another foreign
3 corporation held for 1 year or more, then, not-
4 withstanding any other provision of this title—

5 “(i) the foreign-source portion of such
6 dividend shall be treated for purposes of
7 section 951(a)(1)(A) as subpart F income
8 of the selling controlled foreign corporation
9 for such taxable year,

10 “(ii) a United States shareholder with
11 respect to the selling controlled foreign cor-
12 poration shall include in gross income for
13 the taxable year of the shareholder with or
14 within which such taxable year of the con-
15 trolled foreign corporation ends an amount
16 equal to the shareholder’s pro rata share
17 (determined in the same manner as under
18 section 951(a)(2)) of the amount treated
19 as subpart F income under clause (i), and

20 “(iii) the deduction under section
21 245A(a) shall be allowable to the United
22 States shareholder with respect to the sub-
23 part F income included in gross income
24 under clause (ii) in the same manner as if
25 such subpart F income were a dividend re-

1 ceived by the shareholder from the selling
2 controlled foreign corporation.

3 “(B) APPLICATION OF BASIS OR SIMILAR
4 ADJUSTMENT.—For purposes of this title, in
5 the case of a sale or exchange by a controlled
6 foreign corporation of stock in another foreign
7 corporation in a taxable year of the selling con-
8 trolled foreign corporation beginning after De-
9 cember 31, 2017, rules similar to the rules of
10 section 961(d) shall apply.

11 “(C) FOREIGN-SOURCE PORTION.—For
12 purposes of this paragraph, the foreign-source
13 portion of any amount treated as a dividend
14 under paragraph (1) shall be determined in the
15 same manner as under section 245A(c).”.

16 (2) EFFECTIVE DATE.—The amendments made
17 by this subsection shall apply to sales or exchanges
18 after December 31, 2017.

19 (d) TREATMENT OF FOREIGN BRANCH LOSSES
20 TRANSFERRED TO SPECIFIED 10-PERCENT OWNED FOR-
21 EIGN CORPORATIONS.—

22 (1) IN GENERAL.—Part II of subchapter B of
23 chapter 1 is amended by adding at the end the fol-
24 lowing new section:

1 **“SEC. 91. CERTAIN FOREIGN BRANCH LOSSES TRANS-**
2 **FERRED TO SPECIFIED 10-PERCENT OWNED**
3 **FOREIGN CORPORATIONS.**

4 “(a) IN GENERAL.—If a domestic corporation trans-
5 fers substantially all of the assets of a foreign branch
6 (within the meaning of section 367(a)(3)(C), as in effect
7 before the date of the enactment of the Tax Cuts and Jobs
8 Act) to a specified 10-percent owned foreign corporation
9 (as defined in section 245A) with respect to which it is
10 a United States shareholder after such transfer, such do-
11 mestic corporation shall include in gross income for the
12 taxable year which includes such transfer an amount equal
13 to the transferred loss amount with respect to such trans-
14 fer.

15 “(b) 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 “(c) 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 (b)(2)(B)).

13 “(d) 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 “(e) 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 (4) TRANSITION RULE.—The amount of gain
7 taken into account under section 91(c) of the Inter-
8 nal Revenue Code of 1986, as added by this sub-
9 section, shall be reduced by the amount of gain
10 which would be recognized under section
11 367(a)(3)(C) (determined without regard to the
12 amendments made by subsection (e)) with respect to
13 losses incurred before January 1, 2018.

14 (e) REPEAL OF ACTIVE TRADE OR BUSINESS EXCEP-
15 TION UNDER SECTION 367.—

16 (1) IN GENERAL.—Section 367(a) is amended
17 by striking paragraph (3) and redesignating para-
18 graphs (4), (5), and (6) as paragraphs (3), (4), and
19 (5), respectively.

20 (2) CONFORMING AMENDMENTS.—Section
21 367(a)(4), as redesignated by paragraph (1), is
22 amended—

23 (A) by striking “Paragraphs (2) and (3)”
24 and inserting “Paragraph (2)”, and

1 (B) by striking “PARAGRAPHS (2) AND (3)”
2 in the heading and inserting “PARAGRAPH (2)”.

3 (3) EFFECTIVE DATE.—The amendments made
4 by this subsection shall apply to transfers after De-
5 cember 31, 2017.

6 **SEC. 14103. TREATMENT OF DEFERRED FOREIGN INCOME**
7 **UPON TRANSITION TO PARTICIPATION EX-**
8 **EMPTION SYSTEM OF TAXATION.**

9 (a) IN GENERAL.—Section 965 is amended to read
10 as follows:

11 **“SEC. 965. TREATMENT OF DEFERRED FOREIGN INCOME**
12 **UPON TRANSITION TO PARTICIPATION EX-**
13 **EMPTION SYSTEM OF TAXATION.**

14 “(a) TREATMENT OF DEFERRED FOREIGN INCOME
15 AS SUBPART F INCOME.—In the case of the last taxable
16 year of a deferred foreign income corporation which begins
17 before January 1, 2018, the subpart F income of such
18 foreign corporation (as otherwise determined for such tax-
19 able year under section 952) shall be increased by the
20 greater of—

21 “(1) the accumulated post-1986 deferred for-
22 eign income of such corporation determined as of
23 November 2, 2017, or

1 “(2) the accumulated post-1986 deferred for-
2 eign income of such corporation determined as of
3 December 31, 2017.

4 “(b) REDUCTION IN AMOUNTS INCLUDED IN GROSS
5 INCOME OF UNITED STATES SHAREHOLDERS OF SPECI-
6 FIED FOREIGN CORPORATIONS WITH DEFICITS IN EARN-
7 INGS AND PROFITS.—

8 “(1) IN GENERAL.—In the case of a taxpayer
9 which is a United States shareholder with respect to
10 at least one deferred foreign income corporation and
11 at least one E&P deficit foreign corporation, the
12 amount which would (but for this subsection) be
13 taken into account under section 951(a)(1) by rea-
14 son of subsection (a) as such United States share-
15 holder’s pro rata share of the subpart F income of
16 each deferred foreign income corporation shall be re-
17 duced by the amount of such United States share-
18 holder’s aggregate foreign E&P deficit which is allo-
19 cated under paragraph (2) to such deferred foreign
20 income corporation.

21 “(2) ALLOCATION OF AGGREGATE FOREIGN E&P
22 DEFICIT.—The aggregate foreign E&P deficit of any
23 United States shareholder shall be allocated among
24 the deferred foreign income corporations of such

1 United States shareholder in an amount which bears
2 the same proportion to such aggregate as—

3 “(A) such United States shareholder’s pro
4 rata share of the accumulated post-1986 de-
5 ferred foreign income of each such deferred for-
6 eign income corporation, bears to

7 “(B) the aggregate of such United States
8 shareholder’s pro rata share of the accumulated
9 post-1986 deferred foreign income of all de-
10 ferred foreign income corporations of such
11 United States shareholder.

12 “(3) DEFINITIONS RELATED TO E&P DEFICI-
13 TIES.—For purposes of this subsection—

14 “(A) AGGREGATE FOREIGN E&P DEF-
15 ICIT.—

16 “(i) IN GENERAL.—The term ‘aggre-
17 gate foreign E&P deficit’ means, with re-
18 spect to any United States shareholder, the
19 lesser of—

20 “(I) the aggregate of such share-
21 holder’s pro rata shares of the speci-
22 fied E&P deficits of the E&P deficit
23 foreign corporations of such share-
24 holder, or

1 “(II) the amount determined
2 under paragraph (2)(B).

3 “(ii) ALLOCATION OF DEFICIT.—If
4 the amount described in clause (i)(II) is
5 less than the amount described in clause
6 (i)(I), then the shareholder shall designate,
7 in such form and manner as the Secretary
8 determines—

9 “(I) the amount of the specified
10 E&P deficit which is to be taken into
11 account for each E&P deficit corpora-
12 tion with respect to the taxpayer, and

13 “(II) in the case of an E&P def-
14 icit corporation which has a qualified
15 deficit (as defined in section 952), the
16 portion (if any) of the deficit taken
17 into account under subclause (I)
18 which is attributable to a qualified
19 deficit, including the qualified activi-
20 ties to which such portion is attrib-
21 utable.

22 “(B) E&P DEFICIT FOREIGN CORPORA-
23 TION.—The term ‘E&P deficit foreign corpora-
24 tion’ means, with respect to any taxpayer, any
25 specified foreign corporation with respect to

1 which such taxpayer is a United States share-
2 holder, if, as of November 2, 2017—

3 “(i) such specified foreign corporation
4 has a deficit in post-1986 earnings and
5 profits,

6 “(ii) such corporation was a specified
7 foreign corporation, and

8 “(iii) such taxpayer was a United
9 States shareholder of such corporation.

10 “(C) SPECIFIED E&P DEFICIT.—The term
11 ‘specified E&P deficit’ means, with respect to
12 any E&P deficit foreign corporation, the
13 amount of the deficit referred to in subpara-
14 graph (B).

15 “(4) TREATMENT OF EARNINGS AND PROFITS
16 IN FUTURE YEARS.—

17 “(A) REDUCED EARNINGS AND PROFITS
18 TREATED AS PREVIOUSLY TAXED INCOME
19 WHEN DISTRIBUTED.—For purposes of apply-
20 ing section 959 in any taxable year beginning
21 with the taxable year described in subsection
22 (a), with respect to any United States share-
23 holder of a deferred foreign income corporation,
24 an amount equal to such shareholder’s reduc-
25 tion under paragraph (1) which is allocated to

1 such deferred foreign income corporation under
2 this subsection shall be treated as an amount
3 which was included in the gross income of such
4 United States shareholder under section 951(a).

5 “(B) E&P DEFICITS.—For purposes of
6 this title, with respect to any taxable year be-
7 ginning with the taxable year described in sub-
8 section (a), a United States shareholder’s pro
9 rata share of the earnings and profits of any
10 E&P deficit foreign corporation under this sub-
11 section shall be increased by the amount of the
12 specified E&P deficit of such corporation taken
13 into account by such shareholder under para-
14 graph (1), and, for purposes of section 952,
15 such increase shall be attributable to the same
16 activity to which the deficit so taken into ac-
17 count was attributable.

18 “(5) NETTING AMONG UNITED STATES SHARE-
19 HOLDERS IN SAME AFFILIATED GROUP.—

20 “(A) IN GENERAL.—In the case of any af-
21 filiated group which includes at least one E&P
22 net surplus shareholder and one E&P net def-
23 icit shareholder, the amount which would (but
24 for this paragraph) be taken into account under
25 section 951(a)(1) by reason of subsection (a) by

1 each such E&P net surplus shareholder shall be
2 reduced (but not below zero) by such share-
3 holder's applicable share of the affiliated
4 group's aggregate unused E&P deficit.

5 “(B) E&P NET SURPLUS SHARE-
6 HOLDER.—For purposes of this paragraph, the
7 term ‘E&P net surplus shareholder’ means any
8 United States shareholder which would (deter-
9 mined without regard to this paragraph) take
10 into account an amount greater than zero
11 under section 951(a)(1) by reason of subsection
12 (a).

13 “(C) E&P NET DEFICIT SHAREHOLDER.—
14 For purposes of this paragraph, the term ‘E&P
15 net deficit shareholder’ means any United
16 States shareholder if—

17 “(i) the aggregate foreign E&P deficit
18 with respect to such shareholder (as de-
19 fined in paragraph (3)(A) without regard
20 to clause (i)(II) thereof), exceeds

21 “(ii) the amount which would (but for
22 this subsection) be taken into account by
23 such shareholder under section 951(a)(1)
24 by reason of subsection (a).

1 “(D) AGGREGATE UNUSED E&P DEFICIT.—

2 For purposes of this paragraph—

3 “(i) IN GENERAL.—The term ‘aggre-
4 gate unused E&P deficit’ means, with re-
5 spect to any affiliated group, the lesser
6 of—

7 “(I) the sum of the excesses de-
8 scribed in subparagraph (C), deter-
9 mined with respect to each E&P net
10 deficit shareholder in such group, or

11 “(II) the amount determined
12 under subparagraph (E)(ii).

13 “(ii) REDUCTION WITH RESPECT TO
14 E&P NET DEFICIT SHAREHOLDERS WHICH
15 ARE NOT WHOLLY OWNED BY THE AFFILI-
16 ATED GROUP.—If the group ownership per-
17 centage of any E&P net deficit shareholder
18 is less than 100 percent, the amount of the
19 excess described in subparagraph (C)
20 which is taken into account under clause
21 (i)(I) with respect to such E&P net deficit
22 shareholder shall be such group ownership
23 percentage of such amount.

24 “(E) APPLICABLE SHARE.—For purposes
25 of this paragraph, the term ‘applicable share’

1 means, with respect to any E&P net surplus
2 shareholder in any affiliated group, the amount
3 which bears the same proportion to such
4 group's aggregate unused E&P deficit as—

5 “(i) the product of—

6 “(I) such shareholder's group
7 ownership percentage, multiplied by

8 “(II) the amount which would
9 (but for this paragraph) be taken into
10 account under section 951(a)(1) by
11 reason of subsection (a) by such
12 shareholder, bears to

13 “(ii) the aggregate amount deter-
14 mined under clause (i) with respect to all
15 E&P net surplus shareholders in such
16 group.

17 “(F) GROUP OWNERSHIP PERCENTAGE.—

18 For purposes of this paragraph, the term
19 ‘group ownership percentage’ means, with re-
20 spect to any United States shareholder in any
21 affiliated group, the percentage of the value of
22 the stock of such United States shareholder
23 which is held by other includible corporations in
24 such affiliated group. Notwithstanding the pre-
25 ceding sentence, the group ownership percent-

1 age of the common parent of the affiliated
2 group is 100 percent. Any term used in this
3 subparagraph which is also used in section
4 1504 shall have the same meaning as when
5 used in such section.

6 “(c) APPLICATION OF PARTICIPATION EXEMPTION
7 TO INCLUDED INCOME.—

8 “(1) IN GENERAL.—In the case of a United
9 States shareholder of a deferred foreign income cor-
10 poration, there shall be allowed as a deduction for
11 the taxable year in which an amount is included in
12 the gross income of such United States shareholder
13 under section 951(a)(1) by reason of this section an
14 amount equal to the sum of—

15 “(A) the United States shareholder’s 8
16 percent rate equivalent percentage of the excess
17 (if any) of—

18 “(i) the amount so included as gross
19 income, over

20 “(ii) the amount of such United
21 States shareholder’s aggregate foreign cash
22 position, plus

23 “(B) the United States shareholder’s 15.5
24 percent rate equivalent percentage of so much
25 of the amount described in subparagraph (A)(ii)

1 as does not exceed the amount described in sub-
2 paragraph (A)(i).

3 “(2) 8 AND 15.5 PERCENT RATE EQUIVALENT
4 PERCENTAGES.—For purposes of this subsection—

5 “(A) 8 PERCENT RATE EQUIVALENT PER-
6 CENTAGE.—The term ‘8 percent rate equivalent
7 percentage’ means, with respect to any United
8 States shareholder for any taxable year, the
9 percentage which would result in the amount to
10 which such percentage applies being subject to
11 a 8 percent rate of tax determined by only tak-
12 ing into account a deduction equal to such per-
13 centage of such amount and the highest rate of
14 tax specified in section 11 for such taxable
15 year. In the case of any taxable year of a
16 United States shareholder to which section 15
17 applies, the highest rate of tax under section 11
18 before the effective date of the change in rates
19 and the highest rate of tax under section 11
20 after the effective date of such change shall
21 each be taken into account under the preceding
22 sentence in the same proportions as the portion
23 of such taxable year which is before and after
24 such effective date, respectively.

1 “(B) 15.5 PERCENT RATE EQUIVALENT
2 PERCENTAGE.—The term ‘15.5 percent rate
3 equivalent percentage’ means, with respect to
4 any United States shareholder for any taxable
5 year, the percentage determined under subpara-
6 graph (A) applied by substituting ‘15.5 percent
7 rate of tax’ for ‘8 percent rate of tax’.

8 “(3) AGGREGATE FOREIGN CASH POSITION.—
9 For purposes of this subsection—

10 “(A) IN GENERAL.—The term ‘aggregate
11 foreign cash position’ means, with respect to
12 any United States shareholder, the greater of—

13 “(i) the aggregate of such United
14 States shareholder’s pro rata share of the
15 cash position of each specified foreign cor-
16 poration of such United States shareholder
17 determined as of the close of the last tax-
18 able year of such specified foreign corpora-
19 tion which begins before January 1, 2018,
20 or

21 “(ii) one half of the sum of—

22 “(I) the aggregate described in
23 clause (i) determined as of the close of
24 the last taxable year of each such

1 specified foreign corporation which
2 ends before November 2, 2017, plus

3 “(II) the aggregate described in
4 clause (i) determined as of the close of
5 the taxable year of each such specified
6 foreign corporation which precedes the
7 taxable year referred to in subclause
8 (I).

9 “(B) CASH POSITION.—For purposes of
10 this paragraph, the cash position of any speci-
11 fied foreign corporation is the sum of—

12 “(i) cash held by such foreign cor-
13 poration,

14 “(ii) the net accounts receivable of
15 such foreign corporation, plus

16 “(iii) the fair market value of the fol-
17 lowing assets held by such corporation:

18 “(I) Personal property which is
19 of a type that is actively traded and
20 for which there is an established fi-
21 nancial market.

22 “(II) Commercial paper, certifi-
23 cates of deposit, the securities of the
24 Federal government and of any State
25 or foreign government.

1 “(III) Any foreign currency.

2 “(IV) Any obligation with a term
3 of less than one year.

4 “(V) Any asset which the Sec-
5 retary identifies as being economically
6 equivalent to any asset described in
7 this subparagraph.

8 “(C) NET ACCOUNTS RECEIVABLE.—For
9 purposes of this paragraph, the term ‘net ac-
10 counts receivable’ means, with respect to any
11 specified foreign corporation, the excess (if any)
12 of—

13 “(i) such corporation’s accounts re-
14 ceivable, over

15 “(ii) such corporation’s accounts pay-
16 able (determined consistent with the rules
17 of section 461).

18 “(D) PREVENTION OF DOUBLE COUNT-
19 ING.—Cash positions of a specified foreign cor-
20 poration described in clause (ii), (iii)(I), or
21 (iii)(IV) of subparagraph (B) shall not be taken
22 into account by a United States shareholder
23 under subparagraph (A) to the extent that such
24 United States shareholder demonstrates to the
25 satisfaction of the Secretary that such amount

1 is so taken into account by such United States
2 shareholder with respect to another specified
3 foreign corporation.

4 “(E) CASH POSITIONS OF CERTAIN NON-
5 CORPORATE ENTITIES TAKEN INTO ACCOUNT.—
6 An entity (other than a corporation) shall be
7 treated as a specified foreign corporation of a
8 United States shareholder for purposes of de-
9 termining such United States shareholder’s ag-
10 gregate foreign cash position if any interest in
11 such entity is held by a specified foreign cor-
12 poration of such United States shareholder (de-
13 termined after application of this subpara-
14 graph) and such entity would be a specified for-
15 eign corporation of such United States share-
16 holder if such entity were a foreign corporation.

17 “(F) ANTI-ABUSE.—If the Secretary deter-
18 mines that a principal purpose of any trans-
19 action was to reduce the aggregate foreign cash
20 position taken into account under this sub-
21 section, such transaction shall be disregarded
22 for purposes of this subsection.

23 “(d) DEFERRED FOREIGN INCOME CORPORATION;
24 ACCUMULATED POST-1986 DEFERRED FOREIGN IN-
25 COME.—For purposes of this section—

1 “(1) DEFERRED FOREIGN INCOME CORPORA-
2 TION.—The term ‘deferred foreign income corpora-
3 tion’ means, with respect to any United States
4 shareholder, any specified foreign corporation of
5 such United States shareholder which has accumu-
6 lated post-1986 deferred foreign income (as of the
7 date referred to in paragraph (1) or (2) of sub-
8 section (a)) greater than zero.

9 “(2) ACCUMULATED POST-1986 DEFERRED FOR-
10 EIGN INCOME.—The term ‘accumulated post-1986
11 deferred foreign income’ means the post-1986 earn-
12 ings and profits except to the extent such earnings—

13 “(A) are attributable to income of the
14 specified foreign corporation which is effectively
15 connected with the conduct of a trade or busi-
16 ness within the United States and subject to
17 tax under this chapter, or

18 “(B) in the case of a controlled foreign
19 corporation, if distributed, would be excluded
20 from the gross income of a United States share-
21 holder under section 959.

22 To the extent provided in regulations or other guid-
23 ance prescribed by the Secretary, in the case of any
24 controlled foreign corporation which has share-
25 holders which are not United States shareholders,

1 accumulated post-1986 deferred foreign income shall
2 be appropriately reduced by amounts which would be
3 described in subparagraph (B) if such shareholders
4 were United States shareholders.

5 “(3) POST-1986 EARNINGS AND PROFITS.—The
6 term ‘post-1986 earnings and profits’ means the
7 earnings and profits of the foreign corporation (com-
8 puted in accordance with sections 964(a) and 986,
9 and by only taking into account periods when the
10 foreign corporation was a specified foreign corpora-
11 tion) accumulated in taxable years beginning after
12 December 31, 1986, and determined—

13 “(A) as of the date referred to in para-
14 graph (1) or (2) of subsection (a), whichever is
15 applicable with respect to such foreign corpora-
16 tion, and

17 “(B) without diminution by reason of divi-
18 dends distributed during the taxable year de-
19 scribed in subsection (a) other than dividends
20 distributed to another specified foreign corpora-
21 tion.

22 “(e) SPECIFIED FOREIGN CORPORATION.—

23 “(1) IN GENERAL.—For purposes of this sec-
24 tion, the term ‘specified foreign corporation’
25 means—

1 “(A) any controlled foreign corporation,
2 and

3 “(B) any foreign corporation with respect
4 to which one or more domestic corporations is
5 a United States shareholder.

6 “(2) APPLICATION TO CERTAIN FOREIGN COR-
7 PORATIONS.—For purposes of sections 951 and 961,
8 a foreign corporation described in paragraph (1)(B)
9 shall be treated as a controlled foreign corporation
10 solely for purposes of taking into account the sub-
11 part F income of such corporation under subsection
12 (a) (and for purposes of applying subsection (f)).

13 “(3) EXCLUSION OF PASSIVE FOREIGN INVEST-
14 MENT COMPANIES.—Such term shall not include any
15 corporation which is a passive foreign investment
16 company (as defined in section 1297) with respect to
17 the shareholder and which is not a controlled foreign
18 corporation.

19 “(f) DETERMINATIONS OF PRO RATA SHARE.—

20 “(1) IN GENERAL.—For purposes of this sec-
21 tion, the determination of any United States share-
22 holder’s pro rata share of any amount with respect
23 to any specified foreign corporation shall be deter-
24 mined under rules similar to the rules of section
25 951(a)(2) by treating such amount in the same

1 manner as subpart F income (and by treating such
2 specified foreign corporation as a controlled foreign
3 corporation).

4 “(2) SPECIAL RULES.—The portion which is in-
5 cluded in the income of a United States shareholder
6 under section 951(a)(1) by reason of subsection (a)
7 which is equal to the deduction allowed under sub-
8 section (c) by reason of such inclusion—

9 “(A) shall be treated as income exempt
10 from tax for purposes of sections 705(a)(1)(B)
11 and 1367(a)(1)(A), and

12 “(B) shall not be treated as income exempt
13 from tax for purposes of determining whether
14 an adjustment shall be made to an accumulated
15 adjustment account under section
16 1368(e)(1)(A).

17 “(g) DISALLOWANCE OF FOREIGN TAX CREDIT,
18 ETC.—

19 “(1) IN GENERAL.—No credit shall be allowed
20 under section 901 for the applicable percentage of
21 any taxes paid or accrued (or treated as paid or ac-
22 crued) with respect to any amount for which a de-
23 duction is allowed under this section.

24 “(2) APPLICABLE PERCENTAGE.—For purposes
25 of this subsection, the term ‘applicable percentage’

1 means the amount (expressed as a percentage) equal
2 to the sum of—

3 “(A) 0.771 multiplied by the ratio of—

4 “(i) the excess to which subsection
5 (c)(1)(A) applies, divided by

6 “(ii) the sum of such excess plus the
7 amount to which subsection (c)(1)(B) ap-
8 plies, plus

9 “(B) 0.557 multiplied by the ratio of—

10 “(i) the amount to which subsection
11 (c)(1)(B) applies, divided by

12 “(ii) the sum described in subpara-
13 graph (A)(ii).

14 “(3) DENIAL OF DEDUCTION.—No deduction
15 shall be allowed under this chapter for any tax for
16 which credit is not allowable under section 901 by
17 reason of paragraph (1) (determined by treating the
18 taxpayer as having elected the benefits of subpart A
19 of part III of subchapter N).

20 “(4) COORDINATION WITH SECTION 78.—With
21 respect to the taxes treated as paid or accrued by a
22 domestic corporation with respect to amounts which
23 are includible in gross income of such domestic cor-
24 poration by reason of this section, section 78 shall

1 apply only to so much of such taxes as bears the
2 same proportion to the amount of such taxes as—

3 “(A) the excess of—

4 “(i) the amounts which are includible
5 in gross income of such domestic corpora-
6 tion by reason of this section, over

7 “(ii) the deduction allowable under
8 subsection (c) with respect to such
9 amounts, bears to

10 “(B) such amounts.

11 “(h) ELECTION TO PAY LIABILITY IN INSTALL-
12 MENTS.—

13 “(1) IN GENERAL.—In the case of a United
14 States shareholder of a deferred foreign income cor-
15 poration, such United States shareholder may elect
16 to pay the net tax liability under this section in 8
17 installments of the following amounts:

18 “(A) 8 percent of the net tax liability in
19 the case of each of the first 5 of such install-
20 ments,

21 “(B) 15 percent of the net tax liability in
22 the case of the 6th such installment,

23 “(C) 20 percent of the net tax liability in
24 the case of the 7th such installment, and

1 “(D) 25 percent of the net tax liability in
2 the case of the 8th such installment.

3 “(2) DATE FOR PAYMENT OF INSTALLMENTS.—

4 If an election is made under paragraph (1), the first
5 installment shall be paid on the due date (deter-
6 mined without regard to any extension of time for
7 filing the return) for the return of tax for the tax-
8 able year described in subsection (a) and each suc-
9 ceeding installment shall be paid on the due date (as
10 so determined) for the return of tax for the taxable
11 year following the taxable year with respect to which
12 the preceding installment was made.

13 “(3) ACCELERATION OF PAYMENT.—If there is
14 an addition to tax for failure to timely pay any in-
15 stallment required under this subsection, a liquida-
16 tion or sale of substantially all the assets of the tax-
17 payer (including in a title 11 or similar case), a ces-
18 sation of business by the taxpayer, or any similar
19 circumstance, then the unpaid portion of all remain-
20 ing installments shall be due on the date of such
21 event (or in the case of a title 11 or similar case,
22 the day before the petition is filed). The preceding
23 sentence shall not apply to the sale of substantially
24 all the assets of a taxpayer to a buyer if such buyer
25 enters into an agreement with the Secretary under

1 which such buyer is liable for the remaining install-
2 ments due under this subsection in the same manner
3 as if such buyer were the taxpayer.

4 “(4) PRORATION OF DEFICIENCY TO INSTALL-
5 MENTS.—If an election is made under paragraph (1)
6 to pay the net tax liability under this section in in-
7 stallments and a deficiency has been assessed with
8 respect to such net tax liability, the deficiency shall
9 be prorated to the installments payable under para-
10 graph (1). The part of the deficiency so prorated to
11 any installment the date for payment of which has
12 not arrived shall be collected at the same time as,
13 and as a part of, such installment. The part of the
14 deficiency so prorated to any installment the date
15 for payment of which has arrived shall be paid upon
16 notice and demand from the Secretary. This sub-
17 section shall not apply if the deficiency is due to
18 negligence, to intentional disregard of rules and reg-
19 ulations, or to fraud with intent to evade tax.

20 “(5) ELECTION.—Any election under paragraph
21 (1) shall be made not later than the due date for the
22 return of tax for the taxable year described in sub-
23 section (a) and shall be made in such manner as the
24 Secretary shall provide.

1 “(6) NET TAX LIABILITY UNDER THIS SEC-
2 TION.—For purposes of this subsection—

3 “(A) IN GENERAL.—The net tax liability
4 under this section with respect to any United
5 States shareholder is the excess (if any) of—

6 “(i) such taxpayer’s net income tax
7 for the taxable year in which an amount is
8 included in the gross income of such
9 United States shareholder under section
10 951(a)(1) by reason of this section, over

11 “(ii) such taxpayer’s net income tax
12 for such taxable year determined—

13 “(I) without regard to this sec-
14 tion, and

15 “(II) without regard to any in-
16 come or deduction properly attrib-
17 utable to a dividend received by such
18 United States shareholder from any
19 deferred foreign income corporation.

20 “(B) NET INCOME TAX.—The term ‘net
21 income tax’ means the regular tax liability re-
22 duced by the credits allowed under subparts A,
23 B, and D of part IV of subchapter A.

24 “(i) SPECIAL RULES FOR S CORPORATION SHARE-
25 HOLDERS.—

1 “(1) IN GENERAL.—In the case of any S cor-
2 poration which is a United States shareholder of a
3 deferred foreign income corporation, each share-
4 holder of such S corporation may elect to defer pay-
5 ment of such shareholder’s net tax liability under
6 this section with respect to such S corporation until
7 the shareholder’s taxable year which includes the
8 triggering event with respect to such liability. Any
9 net tax liability payment of which is deferred under
10 the preceding sentence shall be assessed on the re-
11 turn of tax as an addition to tax in the shareholder’s
12 taxable year which includes such triggering event.

13 “(2) TRIGGERING EVENT.—

14 “(A) IN GENERAL.—In the case of any
15 shareholder’s net tax liability under this section
16 with respect to any S corporation, the trig-
17 gering event with respect to such liability is
18 whichever of the following occurs first:

19 “(i) Such corporation ceases to be an
20 S corporation (determined as of the first
21 day of the first taxable year that such cor-
22 poration is not an S corporation).

23 “(ii) A liquidation or sale of substan-
24 tially all the assets of such S corporation
25 (including in a title 11 or similar case), a

1 cessation of business by such S corpora-
2 tion, such S corporation ceases to exist, or
3 any similar circumstance.

4 “(iii) A transfer of any share of stock
5 in such S corporation by the taxpayer (in-
6 cluding by reason of death, or otherwise).

7 “(B) PARTIAL TRANSFERS OF STOCK.—In
8 the case of a transfer of less than all of the tax-
9 payer’s shares of stock in the S corporation,
10 such transfer shall only be a triggering event
11 with respect to so much of the taxpayer’s net
12 tax liability under this section with respect to
13 such S corporation as is properly allocable to
14 such stock.

15 “(C) TRANSFER OF LIABILITY.—A trans-
16 fer described in clause (iii) of subparagraph (A)
17 shall not be treated as a triggering event if the
18 transferee enters into an agreement with the
19 Secretary under which such transferee is liable
20 for net tax liability with respect to such stock
21 in the same manner as if such transferee were
22 the taxpayer.

23 “(3) NET TAX LIABILITY.—A shareholder’s net
24 tax liability under this section with respect to any S
25 corporation is the net tax liability under this section

1 which would be determined under subsection (h)(6)
2 if the only subpart F income taken into account by
3 such shareholder by reason of this section were allo-
4 cations from such S corporation.

5 “(4) ELECTION TO PAY DEFERRED LIABILITY
6 IN INSTALLMENTS.—In the case of a taxpayer which
7 elects to defer payment under paragraph (1)—

8 “(A) subsection (h) shall be applied sepa-
9 rately with respect to the liability to which such
10 election applies,

11 “(B) an election under subsection (h) with
12 respect to such liability shall be treated as time-
13 ly made if made not later than the due date for
14 the return of tax for the taxable year in which
15 the triggering event with respect to such liabil-
16 ity occurs,

17 “(C) the first installment under subsection
18 (h) with respect to such liability shall be paid
19 not later than such due date (but determined
20 without regard to any extension of time for fil-
21 ing the return), and

22 “(D) if the triggering event with respect to
23 any net tax liability is described in paragraph
24 (2)(A)(ii), an election under subsection (h) with

1 respect to such liability may be made only with
2 the consent of the Secretary.

3 “(5) JOINT AND SEVERAL LIABILITY OF S COR-
4 PORATION.—If any shareholder of an S corporation
5 elects to defer payment under paragraph (1), such
6 S corporation shall be jointly and severally liable for
7 such payment and any penalty, addition to tax, or
8 additional amount attributable thereto.

9 “(6) EXTENSION OF LIMITATION ON COLLEC-
10 TION.—Any limitation on the time period for the col-
11 lection of a liability deferred under this subsection
12 shall not be treated as beginning before the date of
13 the triggering event with respect to such liability.

14 “(7) ANNUAL REPORTING OF NET TAX LIABIL-
15 ITY.—

16 “(A) IN GENERAL.—Any shareholder of an
17 S corporation which makes an election under
18 paragraph (1) shall report the amount of such
19 shareholder’s deferred net tax liability on such
20 shareholder’s return of tax for the taxable year
21 for which such election is made and on the re-
22 turn of tax for each taxable year thereafter
23 until such amount has been fully assessed on
24 such returns.

1 “(B) DEFERRED NET TAX LIABILITY.—
2 For purposes of this paragraph, the term ‘de-
3 ferred net tax liability’ means, with respect to
4 any taxable year, the amount of net tax liability
5 payment of which has been deferred under
6 paragraph (1) and which has not been assessed
7 on a return of tax for any prior taxable year.

8 “(C) FAILURE TO REPORT.—In the case of
9 any failure to report any amount required to be
10 reported under subparagraph (A) with respect
11 to any taxable year before the due date for the
12 return of tax for such taxable year, there shall
13 be assessed on such return as an addition to
14 tax 5 percent of such amount.

15 “(8) ELECTION.—Any election under paragraph
16 (1)—

17 “(A) shall be made by the shareholder of
18 the S corporation not later than the due date
19 for such shareholder’s return of tax for the tax-
20 able year which includes the close of the taxable
21 year of such S corporation in which the amount
22 described in subsection (a) is taken into ac-
23 count, and

24 “(B) shall be made in such manner as the
25 Secretary shall provide.

1 “(j) REPORTING BY S CORPORATION.—Each S cor-
2 poration which is a United States shareholder of a speci-
3 fied foreign corporation shall report in its return of tax
4 under section 6037(a) the amount includible in its gross
5 income for such taxable year by reason of this section and
6 the amount of the deduction allowable by subsection (c).
7 Any copy provided to a shareholder under section 6037(b)
8 shall include a statement of such shareholder’s pro rata
9 share of such amounts.

10 “(k) EXTENSION OF LIMITATION ON ASSESSMENT.—
11 Notwithstanding section 6501, the limitation on the time
12 period for the assessment of the net tax liability under
13 this section (as defined in subsection (h)(6)) shall not ex-
14 pire before the date that is 6 years after the return for
15 the taxable year described in such subsection was filed.

16 “(l) RECAPTURE FOR EXPATRIATED ENTITIES.—

17 “(1) IN GENERAL.—If a deduction is allowed
18 under subsection (c) to a United States shareholder
19 and such shareholder first becomes an expatriated
20 entity at any time during the 10-year period begin-
21 ning on the date of the enactment of the Tax Cuts
22 and Jobs Act (with respect to a surrogate foreign
23 corporation which first becomes a surrogate foreign
24 corporation during such period), 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 under subsection (c),
6 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 “(3) SURROGATE FOREIGN CORPORATION.—For
17 purposes of this subsection, the term ‘surrogate for-
18 eign corporation’ has the meaning given such term
19 in section 7874(a)(2)(B).

20 “(m) SPECIAL RULES FOR UNITED STATES SHARE-
21 HOLDERS WHICH ARE REAL ESTATE INVESTMENT
22 TRUSTS.—

23 “(1) IN GENERAL.—If a real estate investment
24 trust is a United States shareholder in 1 or more de-
25 ferred foreign income corporations—

1 “(A) any amount required to be taken into
2 account under section 951(a)(1) by reason of
3 this section shall not be taken into account as
4 gross income of the real estate investment trust
5 for purposes of applying paragraphs (2) and (3)
6 of section 856(c) to any taxable year for which
7 such amount is taken into account under sec-
8 tion 951(a)(1), and

9 “(B) if the real estate investment trust
10 elects the application of this subparagraph, not-
11 withstanding subsection (a), any amount re-
12 quired to be taken into account under section
13 951(a)(1) by reason of this section shall, in lieu
14 of the taxable year in which it would otherwise
15 be included in gross income (for purposes of the
16 computation of real estate investment trust tax-
17 able income under section 857(b)), be included
18 in gross income as follows:

19 “(i) 8 percent of such amount in the
20 case of each of the taxable years in the 5-
21 taxable year period beginning with the tax-
22 able year in which such amount would oth-
23 erwise be included.

1 “(ii) 15 percent of such amount in the
2 case of the 1st taxable year following such
3 period.

4 “(iii) 20 percent of such amount in
5 the case of the 2nd taxable year following
6 such period.

7 “(iv) 25 percent of such amount in
8 the case of the 3rd taxable year following
9 such period.

10 “(2) RULES FOR TRUSTS ELECTING DEFERRED
11 INCLUSION.—

12 “(A) ELECTION.—Any election under
13 paragraph (1)(B) shall be made not later than
14 the due date for the first taxable year in the 5-
15 taxable year period described in clause (i) of
16 paragraph (1)(B) and shall be made in such
17 manner as the Secretary shall provide.

18 “(B) SPECIAL RULES.—If an election
19 under paragraph (1)(B) is in effect with respect
20 to any real estate investment trust, the fol-
21 lowing rules shall apply:

22 “(i) APPLICATION OF PARTICIPATION
23 EXEMPTION.—For purposes of subsection
24 (c)(1)—

1 “(I) the aggregate amount to
2 which subparagraph (A) or (B) of
3 subsection (c)(1) applies shall be de-
4 termined without regard to the elec-
5 tion,

6 “(II) each such aggregate
7 amount shall be allocated to each tax-
8 able year described in paragraph
9 (1)(B) in the same proportion as the
10 amount included in the gross income
11 of such United States shareholder
12 under section 951(a)(1) by reason of
13 this section is allocated to each such
14 taxable year.

15 “(III) NO INSTALLMENT PAY-
16 MENTS.—The real estate investment
17 trust may not make an election under
18 subsection (g) for any taxable year de-
19 scribed in paragraph (1)(B).

20 “(ii) ACCELERATION OF INCLUSION.—
21 If there is a liquidation or sale of substan-
22 tially all the assets of the real estate in-
23 vestment trust (including in a title 11 or
24 similar case), a cessation of business by
25 such trust, or any similar circumstance,

1 then any amount not yet included in gross
2 income under paragraph (1)(B) shall be in-
3 cluded in gross income as of the day before
4 the date of the event and the unpaid por-
5 tion of any tax liability with respect to
6 such inclusion shall be due on the date of
7 such event (or in the case of a title 11 or
8 similar case, the day before the petition is
9 filed).

10 “(n) ELECTION NOT TO APPLY NET OPERATING
11 LOSS DEDUCTION.—

12 “(1) IN GENERAL.—If a United States share-
13 holder of a deferred foreign income corporation
14 elects the application of this subsection for the tax-
15 able year described in subsection (a), then the
16 amount described in paragraph (2) shall not be
17 taken into account—

18 “(A) in determining the amount of the net
19 operating loss deduction under section 172 of
20 such shareholder for such taxable year, or

21 “(B) in determining the amount of taxable
22 income for such taxable year which may be re-
23 duced by net operating loss carryovers or
24 carrybacks to such taxable year under section
25 172.

1 “(2) AMOUNT DESCRIBED.—The amount de-
2 scribed in this paragraph is the sum of—

3 “(A) the amount required to be taken into
4 account under section 951(a)(1) by reason of
5 this section (determined after the application of
6 subsection (c)), plus

7 “(B) in the case of a domestic corporation
8 which chooses to have the benefits of subpart A
9 of part III of subchapter N for the taxable
10 year, the taxes deemed to be paid by such cor-
11 poration under subsections (a) and (b) of sec-
12 tion 960 for such taxable year with respect to
13 the amount described in subparagraph (A)
14 which are treated as a dividends under section
15 78.

16 “(3) ELECTION.—Any election under this sub-
17 section shall be made not later than the due date
18 (including extensions) for filing the return of tax for
19 the taxable year and shall be made in such manner
20 as the Secretary shall prescribe.

21 “(o) REGULATIONS.—The Secretary shall prescribe
22 such regulations or other guidance as may be necessary
23 or appropriate to carry out the provisions of this section,
24 including—

1 **“SEC. 951A. GLOBAL INTANGIBLE LOW-TAXED INCOME IN-**
2 **CLUDED IN GROSS INCOME OF UNITED**
3 **STATES SHAREHOLDERS.**

4 “(a) IN GENERAL.—Each person who is a United
5 States shareholder of any controlled foreign corporation
6 for any taxable year of such United States shareholder
7 shall include in gross income such shareholder’s global in-
8 tangible low-taxed income for such taxable year.

9 “(b) GLOBAL INTANGIBLE LOW-TAXED INCOME.—
10 For purposes of this section—

11 “(1) IN GENERAL.—The term ‘global intangible
12 low-taxed income’ means, with respect to any United
13 States shareholder for any taxable year of such
14 United States shareholder, the excess (if any) of—

15 “(A) such shareholder’s net CFC tested in-
16 come for such taxable year, over

17 “(B) such shareholder’s net deemed tan-
18 gible income return for such taxable year.

19 “(2) NET DEEMED TANGIBLE INCOME RE-
20 TURN.—The term ‘net deemed tangible income re-
21 turn’ means, with respect to any United States
22 shareholder for any taxable year, the excess of—

23 “(A) 10 percent of the aggregate of such
24 shareholder’s pro rata share of the qualified
25 business asset investment of each controlled for-
26 eign corporation with respect to which such

1 shareholder is a United States shareholder for
2 such taxable year (determined for each taxable
3 year of each such controlled foreign corporation
4 which ends in or with such taxable year of such
5 United States shareholder), over

6 “(B) the amount of interest expense taken
7 into account under subsection (c)(2)(A)(ii) in
8 determining the shareholder’s net CFC tested
9 income for the taxable year to the extent the in-
10 terest income attributable to such expense is
11 not taken into account in determining such
12 shareholder’s net CFC tested income.

13 “(c) NET CFC TESTED INCOME.—For purposes of
14 this section—

15 “(1) IN GENERAL.—The term ‘net CFC tested
16 income’ means, with respect to any United States
17 shareholder for any taxable year of such United
18 States shareholder, the excess (if any) of—

19 “(A) the aggregate of such shareholder’s
20 pro rata share of the tested income of each con-
21 trolled foreign corporation with respect to which
22 such shareholder is a United States shareholder
23 for such taxable year of such United States
24 shareholder (determined for each taxable year
25 of such controlled foreign corporation which

1 ends in or with such taxable year of such
2 United States shareholder), over

3 “(B) the aggregate of such shareholder’s
4 pro rata share of the tested loss of each con-
5 trolled foreign corporation with respect to which
6 such shareholder is a United States shareholder
7 for such taxable year of such United States
8 shareholder (determined for each taxable year
9 of such controlled foreign corporation which
10 ends in or with such taxable year of such
11 United States shareholder).

12 “(2) TESTED INCOME; TESTED LOSS.—For pur-
13 poses of this section—

14 “(A) TESTED INCOME.—The term ‘tested
15 income’ means, with respect to any controlled
16 foreign corporation for any taxable year of such
17 controlled foreign corporation, the excess (if
18 any) of—

19 “(i) the gross income of such corpora-
20 tion determined without regard to—

21 “(I) any item of income described
22 in section 952(b),

23 “(II) any gross income taken into
24 account in determining the subpart F
25 income of such corporation,

1 “(III) any gross income excluded
2 from the foreign base company income
3 (as defined in section 954) and the in-
4 surance income (as defined in section
5 953) of such corporation by reason of
6 section 954(b)(4),

7 “(IV) any dividend received from
8 a related person (as defined in section
9 954(d)(3)), and

10 “(V) any foreign oil and gas ex-
11 traction income (as defined in section
12 907(c)(1)) of such corporation, over

13 “(ii) the deductions (including taxes)
14 properly allocable to such gross income
15 under rules similar to the rules of section
16 954(b)(5) (or to which such deductions
17 would be allocable if there were such gross
18 income).

19 “(B) TESTED LOSS.—

20 “(i) IN GENERAL.—The term ‘tested
21 loss’ means, with respect to any controlled
22 foreign corporation for any taxable year of
23 such controlled foreign corporation, the ex-
24 cess (if any) of the amount described in

1 subparagraph (A)(ii) over the amount de-
2 scribed in subparagraph (A)(i).

3 “(ii) COORDINATION WITH SUBPART F
4 TO DENY DOUBLE BENEFIT OF LOSSES.—
5 Section 952(c)(1)(A) shall be applied by
6 increasing the earnings and profits of the
7 controlled foreign corporation by the tested
8 loss of such corporation.

9 “(d) QUALIFIED BUSINESS ASSET INVESTMENT.—
10 For purposes of this section—

11 “(1) IN GENERAL.—The term ‘qualified busi-
12 ness asset investment’ means, with respect to any
13 controlled foreign corporation for any taxable year,
14 the average of such corporation’s aggregate adjusted
15 bases as of the close of each quarter of such taxable
16 year in specified tangible property—

17 “(A) used in a trade or business of the
18 corporation, and

19 “(B) of a type with respect to which a de-
20 duction is allowable under section 167.

21 “(2) SPECIFIED TANGIBLE PROPERTY.—

22 “(A) IN GENERAL.—The term ‘specified
23 tangible property’ means, except as provided in
24 subparagraph (B), any tangible property used
25 in the production of tested income.

1 “(B) DUAL USE PROPERTY.—In the case
2 of property used both in the production of test-
3 ed income and income which is not tested in-
4 come, such property shall be treated as speci-
5 fied tangible property in the same proportion
6 that the gross income described in subsection
7 (c)(1)(A) produced with respect to such prop-
8 erty bears to the total gross income produced
9 with respect to such property.

10 “(3) DETERMINATION OF ADJUSTED BASIS.—
11 For purposes of this subsection, notwithstanding any
12 provision of this title (or any other provision of law)
13 which is enacted after the date of the enactment of
14 this section, the adjusted basis in any property shall
15 be determined—

16 “(A) by using the alternative depreciation
17 system under section 168(g), and

18 “(B) by allocating the depreciation deduc-
19 tion with respect to such property ratably to
20 each day during the period in the taxable year
21 to which such depreciation relates.

22 “(3) PARTNERSHIP PROPERTY.—For purposes
23 of this subsection, if a controlled foreign corporation
24 holds an interest in a partnership at the close of
25 such taxable year of the controlled foreign corpora-

1 tion, such controlled foreign corporation shall take
2 into account under paragraph (1) the controlled for-
3 eign corporation's distributive share of the aggregate
4 of the partnership's adjusted bases (determined as
5 of such date in the hands of the partnership) in tan-
6 gible property held by such partnership to the extent
7 such property—

8 “(A) is used in the trade or business of the
9 partnership,

10 “(B) is of a type with respect to which a
11 deduction is allowable under section 167, and

12 “(C) is used in the production of tested in-
13 come (determined with respect to such con-
14 trolled foreign corporation's distributive share
15 of income with respect to such property).

16 For purposes of this paragraph, the controlled for-
17 eign corporation's distributive share of the adjusted
18 basis of any property shall be the controlled foreign
19 corporation's distributive share of income with re-
20 spect to such property.

21 “(4) REGULATIONS.—The Secretary shall issue
22 such regulations or other guidance as the Secretary
23 determines appropriate to prevent the avoidance of
24 the purposes of this subsection, including regulations

1 or other guidance which provide for the treatment of
2 property if—

3 “(A) such property is transferred, or held,
4 temporarily, or

5 “(B) the avoidance of the purposes of this
6 paragraph is a factor in the transfer or holding
7 of such property.

8 “(e) DETERMINATION OF PRO RATA SHARE, ETC.—
9 For purposes of this section—

10 “(1) IN GENERAL.—The pro rata shares re-
11 ferred to in subsections (b), (c)(1)(A), and (c)(1)(B),
12 respectively, shall be determined under the rules of
13 section 951(a)(2) in the same manner as such sec-
14 tion applies to subpart F income and shall be taken
15 into account in the taxable year of the United States
16 shareholder in which or with which the taxable year
17 of the controlled foreign corporation ends.

18 “(2) TREATMENT AS UNITED STATES SHARE-
19 HOLDER.—A person shall be treated as a United
20 States shareholder of a controlled foreign corpora-
21 tion for any taxable year of such person only if such
22 person owns (within the meaning of section 958(a))
23 stock in such foreign corporation on the last day in
24 the taxable year of such foreign corporation on

1 which such foreign corporation is a controlled for-
2 eign 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, 993(a)(1)(E), 996(f)(1),
20 1248(b)(1), 1248(d)(1), 6501(e)(1)(C),
21 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 subpart A
11 of this part, if any amount is includible in the gross
12 income of a domestic corporation under section
13 951A, such domestic corporation shall be deemed to
14 have paid foreign income taxes equal to 80 percent
15 of the 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—

18 “(i) the global intangible low-taxed in-
19 come amount (if any) which is included in
20 the gross income of such domestic corpora-
21 tion under section 951A for such taxable
22 year, and

23 “(ii) the amount treated as a dividend
24 received by such corporation under section
25 78 which is attributable to the amount de-
26 scribed in clause (i).

1 “(2) LIMITATION BASED ON TAXABLE IN-
2 COME.—

3 “(A) IN GENERAL.—If, for any taxable
4 year—

5 “(i) the sum of the foreign-derived in-
6 tangible income and the global intangible
7 low-taxed income amount otherwise taken
8 into account by the domestic corporation
9 under paragraph (1), exceeds

10 “(ii) the taxable income of the domes-
11 tic corporation (determined without regard
12 to this section),

13 then the amount of the foreign-derived intan-
14 gible income and the global intangible low-taxed
15 income amount so taken into account shall be
16 reduced as provided in subparagraph (B).

17 “(B) REDUCTION.—For purposes of sub-
18 paragraph (A)—

19 “(i) foreign-derived intangible income
20 shall be reduced by an amount which bears
21 the same ratio to the excess described in
22 subparagraph (A) as such foreign-derived
23 intangible income bears to the sum de-
24 scribed in subparagraph (A)(i), and

1 “(ii) the global intangible low-taxed
2 income amount shall be reduced by the re-
3 mainder of such excess.

4 “(3) REDUCTION IN DEDUCTION FOR TAXABLE
5 YEARS AFTER 2025.—In the case of any taxable year
6 beginning after December 31, 2025, paragraph (1)
7 shall be applied by substituting—

8 “(A) ‘21.875 percent’ for ‘37.5 percent’ in
9 subparagraph (A), and

10 “(B) ‘37.5 percent’ for ‘50 percent’ in sub-
11 paragraph (B).

12 “(b) FOREIGN-DERIVED INTANGIBLE INCOME.—For
13 purposes of this section—

14 “(1) IN GENERAL.—The foreign-derived intan-
15 gible income of any domestic corporation is the
16 amount which bears the same ratio to the deemed
17 intangible income of such corporation as—

18 “(A) the foreign-derived deduction eligible
19 income of such corporation, bears to

20 “(B) the deduction eligible income of such
21 corporation.

22 “(2) DEEMED INTANGIBLE INCOME.—For pur-
23 poses of this subsection—

24 “(A) IN GENERAL.—The term ‘deemed in-
25 tangible income’ means the excess (if any) of—

1 “(i) the deduction eligible income of
2 the domestic corporation, over

3 “(ii) the deemed tangible income re-
4 turn of the corporation.

5 “(B) DEEMED TANGIBLE INCOME RE-
6 TURN.—The term ‘deemed tangible income re-
7 turn’ means, with respect to any corporation,
8 an amount equal to 10 percent of the corpora-
9 tion’s qualified business asset investment (as
10 defined in section 951A(d), determined by sub-
11 stituting ‘deduction eligible income’ for ‘tested
12 income’ in paragraph (2) thereof and without
13 regard to whether the corporation is a con-
14 trolled foreign corporation).

15 “(3) DEDUCTION ELIGIBLE INCOME.—

16 “(A) IN GENERAL.—The term ‘deduction
17 eligible income’ means, with respect to any do-
18 mestic corporation, the excess (if any) of—

19 “(i) gross income of such corporation
20 determined without regard to—

21 “(I) any amount included in the
22 gross income of such corporation
23 under section 951(a)(1),

24 “(II) the global intangible low-
25 taxed income included in the gross in-

1 come of such corporation under sec-
2 tion 951A,

3 “(III) any financial services in-
4 come (as defined in section
5 904(d)(2)(D)) of such corporation,

6 “(IV) any dividend received from
7 a corporation which is a controlled
8 foreign corporation of such domestic
9 corporation,

10 “(V) any domestic oil and gas ex-
11 traction income of such corporation,
12 and

13 “(VI) any foreign branch income
14 (as defined in section 904(d)(2)(J)),
15 over

16 “(ii) the deductions (including taxes)
17 properly allocable to such gross income.

18 “(B) DOMESTIC OIL AND GAS EXTRACTION
19 INCOME.—For purposes of subparagraph (A),
20 the term ‘domestic oil and gas extraction in-
21 come’ means income described in section
22 907(c)(1), determined by substituting ‘within
23 the United States’ for ‘without the United
24 States’.

1 “(4) FOREIGN-DERIVED DEDUCTION ELIGIBLE
2 INCOME.—The term ‘foreign-derived deduction eligi-
3 ble income’ means, with respect to any taxpayer for
4 any taxable year, any deduction eligible income of
5 such taxpayer which is derived in connection with—

6 “(A) property—

7 “(i) which is sold by the taxpayer to
8 any person who is not a United States per-
9 son, and

10 “(ii) which the taxpayer establishes to
11 the satisfaction of the Secretary is for a
12 foreign use, or

13 “(B) services provided by the taxpayer
14 which the taxpayer establishes to the satisfac-
15 tion of the Secretary are provided to any per-
16 son, or with respect to property, not located
17 within the United States.

18 “(5) RULES RELATING TO FOREIGN USE PROP-
19 erty OR SERVICES.—For purposes of this sub-
20 section—

21 “(A) FOREIGN USE.—The term ‘foreign
22 use’ means any use, consumption, or disposition
23 which is not within the United States.

24 “(B) PROPERTY OR SERVICES PROVIDED
25 TO DOMESTIC INTERMEDIARIES.—

1 “(i) PROPERTY.—If a taxpayer sells
2 property to another person (other than a
3 related party) for further manufacture or
4 other modification within the United
5 States, such property shall not be treated
6 as sold for a foreign use even if such other
7 person subsequently uses such property for
8 a foreign use.

9 “(ii) SERVICES.—If a taxpayer pro-
10 vides services to another person (other
11 than a related party) located within the
12 United States, such services shall not be
13 treated as described in paragraph (4)(B)
14 even if such other person uses such serv-
15 ices in providing services which are so de-
16 scribed.

17 “(C) SPECIAL RULES WITH RESPECT TO
18 RELATED PARTY TRANSACTIONS.—

19 “(i) SALES TO RELATED PARTIES.—If
20 property is sold to a related party who is
21 not a United States person, such sale shall
22 not be treated as for a foreign use un-
23 less—

24 “(I) such property is ultimately
25 sold by a related party, or used by a

1 related party in connection with prop-
2 erty which is sold or the provision of
3 services, to another person who is an
4 unrelated party who is not a United
5 States person, and

6 “(II) the taxpayer establishes to
7 the satisfaction of the Secretary that
8 such property is for a foreign use.

9 For purposes of this clause, a sale of prop-
10 erty shall be treated as a sale of each of
11 the components thereof.

12 “(ii) SERVICE PROVIDED TO RELATED
13 PARTIES.—If a service is provided to a re-
14 lated party who is not located in the
15 United States, such service shall not be
16 treated described in subparagraph (A)(ii)
17 unless the taxpayer established to the sat-
18 isfaction of the Secretary that such service
19 is not substantially similar to services pro-
20 vided by such related party to persons lo-
21 cated within the United States.

22 “(D) RELATED PARTY.—For purposes of
23 this paragraph, the term ‘related party’ means
24 any member of an affiliated group as defined in
25 section 1504(a), determined—

1 “(i) by substituting ‘more than 50
2 percent’ for ‘at least 80 percent’ each place
3 it appears, and

4 “(ii) without regard to paragraphs (2)
5 and (3) of section 1504(b).

6 Any person (other than a corporation) shall be
7 treated as a member of such group if such per-
8 son is controlled by members of such group (in-
9 cluding any entity treated as a member of such
10 group by reason of this sentence) or controls
11 any such member. For purposes of the pre-
12 ceding sentence, control shall be determined
13 under the rules of section 954(d)(3).

14 “(E) SOLD.—For purposes of this sub-
15 section, the terms ‘sold’, ‘sells’, and ‘sale’ shall
16 include any lease, license, exchange, or other
17 disposition.

18 “(c) REGULATIONS.—The Secretary shall prescribe
19 such regulations or other guidance as may be necessary
20 or appropriate to carry out the provisions of this section.”.

21 (b) CONFORMING AMENDMENTS.—

22 (1) Section 172(d), as amended by this Act, is
23 amended by adding at the end the following new
24 paragraph:

1 “(9) DEDUCTION FOR FOREIGN-DERIVED IN-
2 TANGIBLE INCOME.—The deduction under section
3 250 shall not be allowed.”.

4 (2) Section 246(b)(1) is amended—

5 (A) by striking “and subsection (a) and (b)
6 of section 245” the first place it appears and
7 inserting “, subsection (a) and (b) of section
8 245, and section 250”,

9 (B) by striking “and subsection (a) and
10 (b) of section 245” the second place it appears
11 and inserting “subsection (a) and (b) of section
12 245, and 250”.

13 (3) Section 469(i)(3)(F)(iii) is amended by
14 striking “and 222” and inserting “222, and 250”.

15 (4) The table of sections for part VIII of sub-
16 chapter B of chapter 1 is amended by adding at the
17 end the following new item:

 “Sec. 250. Foreign-derived intangible income and global intangible low-taxed
 income.”.

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

1 **CHAPTER 2—OTHER MODIFICATIONS OF**
2 **SUBPART F PROVISIONS**

3 **SEC. 14211. ELIMINATION OF INCLUSION OF FOREIGN BASE**
4 **COMPANY OIL RELATED INCOME.**

5 (a) REPEAL.—Subsection (a) of section 954 is
6 amended—

7 (1) by inserting “and” at the end of paragraph

8 (2),

9 (2) by striking the comma at the end of para-
10 graph (3) and inserting a period, and

11 (3) by striking paragraph (5).

12 (b) CONFORMING AMENDMENTS.—

13 (1) Section 952(c)(1)(B)(iii) is amended by
14 striking subclause (I) and redesignating subclauses
15 (II) through (V) as subclauses (I) through (IV), re-
16 spectively.

17 (2) Section 954(b) is amended—

18 (A) by striking the second sentence of
19 paragraph (4),

20 (B) by striking “the foreign base company
21 services income, and the foreign base company
22 oil related income” in paragraph (5) and insert-
23 ing “and the foreign base company services in-
24 come”, and

25 (C) by striking paragraph (6).

1 (3) Section 954 is amended by striking sub-
2 section (g).

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to taxable years of foreign corpora-
5 tions beginning after December 31, 2017, and to taxable
6 years of United States shareholders with or within which
7 such taxable years of foreign corporations end.

8 **SEC. 14212. REPEAL OF INCLUSION BASED ON WITH-**
9 **DRAWAL OF PREVIOUSLY EXCLUDED SUB-**
10 **PART F INCOME FROM QUALIFIED INVEST-**
11 **MENT.**

12 (a) IN GENERAL.—Subpart F of part III of sub-
13 chapter N of chapter 1 is amended by striking section 955.

14 (b) CONFORMING AMENDMENTS.—

15 (1)(A) Section 951(a)(1)(A) is amended to read
16 as follows:

17 “(A) his pro rata share (determined under
18 paragraph (2)) of the corporation’s subpart F
19 income for such year, and”.

20 (B) Section 851(b) is amended by striking “sec-
21 tion 951(a)(1)(A)(i)” in the flush language at the
22 end and inserting “section 951(a)(1)(A)”.

23 (C) Section 952(c)(1)(B)(i) is amended by
24 striking “section 951(a)(1)(A)(i)” and inserting
25 “section 951(a)(1)(A)”.

1 (D) Section 953(c)(1)(C) is amended by strik-
2 ing “section 951(a)(1)(A)(i)” and inserting “section
3 951(a)(1)(A)”.

4 (2) Section 951(a) is amended by striking para-
5 graph (3).

6 (3) Section 953(d)(4)(B)(iv)(II) is amended by
7 striking “or amounts referred to in clause (ii) or (iii)
8 of section 951(a)(1)(A)”.

9 (4) Section 964(b) is amended by striking “,
10 955,”.

11 (5) Section 970 is amended by striking sub-
12 section (b).

13 (6) The table of sections for subpart F of part
14 III of subchapter N of chapter 1 is amended by
15 striking the item relating to section 955.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to taxable years of foreign corpora-
18 tions beginning after December 31, 2017, and to taxable
19 years of United States shareholders in which or with which
20 such taxable years of foreign corporations end.

21 **SEC. 14213. MODIFICATION OF STOCK ATTRIBUTION RULES**
22 **FOR DETERMINING STATUS AS A CON-**
23 **TROLLED FOREIGN CORPORATION.**

24 (a) IN GENERAL.—Section 958(b) is amended—

25 (1) by striking paragraph (4), and

1 (2) by striking “Paragraphs (1) and (4)” in the
2 last sentence and inserting “Paragraph (1)”.

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

5 (1) the last taxable year of foreign corporations
6 beginning before January 1, 2018, and each subse-
7 quent taxable year of such foreign corporations, and

8 (2) taxable years of United States shareholders
9 in which or with which such taxable years of foreign
10 corporations end.

11 **SEC. 14214. MODIFICATION OF DEFINITION OF UNITED**
12 **STATES SHAREHOLDER.**

13 (a) **IN GENERAL.**—Section 951(b) is amended by in-
14 serting “, or 10 percent or more of the total value of
15 shares of all classes of stock of such foreign corporation”
16 after “such foreign corporation”.

17 (b) **EFFECTIVE DATE.**—The amendment made by
18 this section shall apply to taxable years of foreign corpora-
19 tions beginning after December 31, 2017, and to taxable
20 years of United States shareholders with or within which
21 such taxable years of foreign corporations end.

1 **SEC. 14215. ELIMINATION OF REQUIREMENT THAT COR-**
2 **PORATION MUST BE CONTROLLED FOR 30**
3 **DAYS BEFORE SUBPART F INCLUSIONS**
4 **APPLY.**

5 (a) IN GENERAL.—Section 951(a)(1) is amended by
6 striking “for an uninterrupted period of 30 days or more”
7 and inserting “at any time”.

8 (b) EFFECTIVE DATE.—The amendment 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 with or within which
12 such taxable years of foreign corporations end.

13 **CHAPTER 3—PREVENTION OF BASE**
14 **EROSION**

15 **SEC. 14221. LIMITATIONS ON INCOME SHIFTING THROUGH**
16 **INTANGIBLE PROPERTY TRANSFERS.**

17 (a) DEFINITION OF INTANGIBLE ASSET.—Section
18 936(h)(3)(B) is amended—

19 (1) by striking “or” at the end of clause (v),
20 (2) by striking clause (vi) and inserting the fol-
21 lowing:

22 “(vi) any goodwill, going concern
23 value, or workforce in place (including its
24 composition and terms and conditions
25 (contractual or otherwise) of its employ-
26 ment); or

1 “(vii) any other item the value or po-
2 tential value of which is not attributable to
3 tangible property or the services of any in-
4 dividual.”, and

5 (3) by striking the flush language after clause
6 (vii), as added by paragraph (2).

7 (b) CLARIFICATION OF ALLOWABLE VALUATION
8 METHODS.—

9 (1) FOREIGN CORPORATIONS.—Section
10 367(d)(2) is amended by adding at the end the fol-
11 lowing new subparagraph:

12 “(D) REGULATORY AUTHORITY.—For pur-
13 poses of the last sentence of subparagraph (A),
14 the Secretary shall require—

15 “(i) the valuation of transfers of in-
16 tangible property, including intangible
17 property transferred with other property or
18 services, on an aggregate basis, or

19 “(ii) the valuation of such a transfer
20 on the basis of the realistic alternatives to
21 such a transfer,

22 if the Secretary determines that such basis is
23 the most reliable means of valuation of such
24 transfers.”.

1 (2) ALLOCATION AMONG TAXPAYERS.—Section
2 482 is amended by adding at the end the following:
3 “For purposes of this section, the Secretary shall re-
4 quire the valuation of transfers of intangible prop-
5 erty (including intangible property transferred with
6 other property or services) on an aggregate basis or
7 the valuation of such a transfer on the basis of the
8 realistic alternatives to such a transfer, if the Sec-
9 retary determines that such basis is the most reli-
10 able means of valuation of such transfers.”.

11 (c) EFFECTIVE DATE.—

12 (1) IN GENERAL.—The amendments made by
13 this section shall apply to transfers in taxable years
14 beginning after December 31, 2017.

15 (2) NO INFERENCE.—Nothing in the amend-
16 ment made by subsection (a) shall be construed to
17 create any inference with respect to the application
18 of section 936(h)(3) of the Internal Revenue Code of
19 1986, or the authority of the Secretary of the Treas-
20 ury to provide regulations for such application, with
21 respect to taxable years beginning before January 1,
22 2018.

1 **SEC. 14222. CERTAIN RELATED PARTY AMOUNTS PAID OR**
2 **ACCRUED IN HYBRID TRANSACTIONS OR**
3 **WITH HYBRID ENTITIES.**

4 (a) IN GENERAL.—Part IX of subchapter B of chap-
5 ter 1 is amended by inserting after section 267 the fol-
6 lowing:

7 **“SEC. 267A. CERTAIN RELATED PARTY AMOUNTS PAID OR**
8 **ACCRUED IN HYBRID TRANSACTIONS OR**
9 **WITH HYBRID ENTITIES.**

10 “(a) IN GENERAL.—No deduction shall be allowed
11 under this chapter for any disqualified related party
12 amount paid or accrued pursuant to a hybrid transaction
13 or by, or to, a hybrid entity.

14 “(b) DISQUALIFIED RELATED PARTY AMOUNT.—For
15 purposes of this section—

16 “(1) DISQUALIFIED RELATED PARTY
17 AMOUNT.—The term ‘disqualified related party
18 amount’ means any interest or royalty paid or ac-
19 crued to a related party to the extent that—

20 “(A) such amount is not included in the
21 income of such related party under the tax law
22 of the country of which such related party is a
23 resident for tax purposes or is subject to tax,
24 or

1 “(B) such related party is allowed a deduc-
2 tion with respect to such amount under the tax
3 law of such country.

4 Such term shall not include any payment to the ex-
5 tent such payment is included in the gross income
6 of a United States shareholder under section 951(a).

7 “(2) RELATED PARTY.—The term ‘related
8 party’ means a related person as defined in section
9 954(d)(3), except that such section shall be applied
10 with respect to the person making the payment de-
11 scribed in paragraph (1) in lieu of the controlled for-
12 eign corporation otherwise referred to in such sec-
13 tion.

14 “(c) HYBRID TRANSACTION.—For purposes of this
15 section, the term ‘hybrid transaction’ means any trans-
16 action, series of transactions, agreement, or instrument
17 one or more payments with respect to which are treated
18 as interest or royalties for purposes of this chapter and
19 which are not so treated for purposes the tax law of the
20 foreign country of which the recipient of such payment
21 is resident for tax purposes or is subject to tax.

22 “(d) HYBRID ENTITY.—For purposes of this section,
23 the term ‘hybrid entity’ means any entity which is either—

24 “(1) treated as fiscally transparent for purposes
25 of this chapter but not so treated for purposes of the

1 tax law of the foreign country of which the entity is
2 resident for tax purposes or is subject to tax, or

3 “(2) treated as fiscally transparent for purposes
4 of such tax law but not so treated for purposes of
5 this chapter.

6 “(e) REGULATIONS.—The Secretary shall issue such
7 regulations or other guidance as may be necessary or ap-
8 propriate to carry out the purposes of this section, includ-
9 ing regulations or other guidance providing for—

10 “(1) rules for treating certain conduit arrange-
11 ments which involve a hybrid transaction or a hybrid
12 entity as subject to subsection (a),

13 “(2) rules for the application of this section to
14 branches or domestic entities,

15 “(3) rules for treating certain structured trans-
16 actions as subject to subsection (a),

17 “(4) rules for treating a tax preference as an
18 exclusion from income for purposes of applying sub-
19 section (b)(1) if such tax preference has the effect
20 of reducing the generally applicable statutory rate by
21 25 percent or more,

22 “(5) rules for treating the entire amount of in-
23 terest or royalty paid or accrued to a related party
24 as a disqualified related party amount if such
25 amount is subject to a participation exemption sys-

1 tem or other system which provides for the exclusion
2 or deduction of a substantial portion of such
3 amount,

4 “(6) rules for determining the tax residence of
5 a foreign entity if the entity is otherwise considered
6 a resident of more than one country or of no coun-
7 try,

8 “(7) exceptions from subsection (a) with respect
9 to—

10 “(A) cases in which the disqualified related
11 party amount is taxed under the laws of a for-
12 eign country other than the country of which
13 the related party is a resident for tax purposes,
14 and

15 “(B) other cases which the Secretary de-
16 termines do not present a risk of eroding the
17 Federal tax base,

18 “(8) requirements for record keeping and infor-
19 mation reporting in addition to any requirements
20 imposed by section 6038A.”.

21 (b) CONFORMING AMENDMENT.—The table of sec-
22 tions for part IX of subchapter B of chapter 1 is amended
23 by inserting after the item relating to section 267 the fol-
24 lowing new item:

 “Sec. 267A. Certain related party amounts paid or accrued in hybrid trans-
 actions or with hybrid entities.”.

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

4 **SEC. 14223. SHAREHOLDERS OF SURROGATE FOREIGN COR-**
5 **PORATIONS NOT ELIGIBLE FOR REDUCED**
6 **RATE ON DIVIDENDS.**

7 (a) IN GENERAL.—Section 1(h)(11)(C)(iii) is amend-
8 ed—

9 (1) by striking “shall not include any foreign
10 corporation” and inserting “shall not include—

11 “(I) any foreign corporation”,

12 (2) by striking the period at the end and insert-
13 ing “, and”, and

14 (3) by adding at the end the following new sub-
15 clause:

16 “(II) any corporation which first
17 becomes a surrogate foreign corpora-
18 tion (as defined in section
19 7874(a)(2)(B)) after the date of the
20 enactment of this subclause, other
21 than a foreign corporation which is
22 treated as a domestic corporation
23 under section 7874(b).”.

1 (b) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to dividends received after the date
3 of the enactment of this Act.

4 **Subpart C—Modifications Related to Foreign Tax**
5 **Credit System**

6 **SEC. 14301. REPEAL OF SECTION 902 INDIRECT FOREIGN**
7 **TAX CREDITS; DETERMINATION OF SECTION**
8 **960 CREDIT ON CURRENT YEAR BASIS.**

9 (a) REPEAL OF SECTION 902 INDIRECT FOREIGN
10 TAX CREDITS.—Subpart A of part III of subchapter N
11 of chapter 1 is amended by striking section 902.

12 (b) DETERMINATION OF SECTION 960 CREDIT ON
13 CURRENT YEAR BASIS.—Section 960, as amended by sec-
14 tion 14201, is amended—

15 (1) by striking subsection (c), by redesignating
16 subsection (b) as subsection (c), by striking all that
17 precedes subsection (c) (as so redesignated) and in-
18 serting the following:

19 **“SEC. 960. DEEMED PAID CREDIT FOR SUBPART F INCLU-**
20 **SIONS.**

21 **“(a) IN GENERAL.—**For purposes of subpart A of
22 this part, if there is included in the gross income of a do-
23 mestic corporation any item of income under section
24 951(a)(1) with respect to any controlled foreign corpora-
25 tion with respect to which such domestic corporation is

1 a United States shareholder, such domestic corporation
2 shall be deemed to have paid so much of such foreign cor-
3 poration's foreign income taxes as are properly attrib-
4 utable to such item of income.

5 “(b) SPECIAL RULES FOR DISTRIBUTIONS FROM
6 PREVIOUSLY TAXED EARNINGS AND PROFITS.—For pur-
7 poses of subpart A of this part—

8 “(1) IN GENERAL.—If any portion of a dis-
9 tribution from a controlled foreign corporation to a
10 domestic corporation which is a United States share-
11 holder with respect to such controlled foreign cor-
12 poration is excluded from gross income under section
13 959(a), such domestic corporation shall be deemed
14 to have paid so much of such foreign corporation's
15 foreign income taxes as—

16 “(A) are properly attributable to such por-
17 tion, and

18 “(B) have not been deemed to have to been
19 paid by such domestic corporation under this
20 section for the taxable year or any prior taxable
21 year.

22 “(2) TIERED CONTROLLED FOREIGN CORPORA-
23 TIONS.—If section 959(b) applies to any portion of
24 a distribution from a controlled foreign corporation
25 to another controlled foreign corporation, such con-

1 trolled foreign corporation shall be deemed to have
2 paid so much of such other controlled foreign cor-
3 poration's foreign income taxes as—

4 “(A) are properly attributable to such por-
5 tion, and

6 “(B) have not been deemed to have been
7 paid by a domestic corporation under this sec-
8 tion for the taxable year or any prior taxable
9 year.”,

10 (2) and by adding after subsection (d) (as
11 added by section 14201) the following new sub-
12 sections:

13 “(e) FOREIGN INCOME TAXES.—The term ‘foreign
14 income taxes’ means any income, war profits, or excess
15 profits taxes paid or accrued to any foreign country or
16 possession of the United States.

17 “(f) REGULATIONS.—The Secretary shall prescribe
18 such regulations or other guidance as may be necessary
19 or appropriate to carry out the provisions of this section.”.

20 (c) CONFORMING AMENDMENTS.—

21 (1) Section 78 is amended to read as follows:

22 **“SEC. 78. GROSS UP FOR DEEMED PAID FOREIGN TAX**
23 **CREDIT.**

24 “If a domestic corporation chooses to have the bene-
25 fits of subpart A of part III of subchapter N (relating

1 to foreign tax credit) for any taxable year, an amount
2 equal to the taxes deemed to be paid by such corporation
3 under subsections (a), (b), and (d) of section 960 (deter-
4 mined without regard to the phrase ‘80 percent of’ in sub-
5 section (d)(1) thereof) for such taxable year shall be treat-
6 ed for purposes of this title (other than sections 245 and
7 245A) as a dividend received by such domestic corporation
8 from the foreign corporation.”.

9 (2) Paragraph (4) of section 245(a) is amended
10 to read as follows:

11 “(4) POST-1986 UNDISTRIBUTED EARNINGS.—
12 The term ‘post-1986 undistributed earnings’ means
13 the amount of the earnings and profits of the for-
14 eign corporation (computed in accordance with sec-
15 tions 964(a) and 986) accumulated in taxable years
16 beginning after December 31, 1986—

17 “(A) as of the close of the taxable year of
18 the foreign corporation in which the dividend is
19 distributed, and

20 “(B) without diminution by reason of divi-
21 dends distributed during such taxable year.”.

22 (3) Section 245(a)(10)(C) is amended by strik-
23 ing “902, 907, and 960” and inserting “907 and
24 960”.

1 (4) Sections 535(b)(1) and 545(b)(1) are each
2 amended by striking “section 902(a) or 960(a)(1)”
3 and inserting “section 960”.

4 (5) Section 814(f)(1) is amended—

5 (A) by striking subparagraph (B), and

6 (B) by striking all that precedes “No in-
7 come” and inserting the following:

8 “(1) TREATMENT OF FOREIGN TAXES.—”.

9 (6) Section 865(h)(1)(B) is amended by strik-
10 ing “902, 907,” and inserting “907”.

11 (7) Section 901(a) is amended by striking “sec-
12 tions 902 and 960” and inserting “section 960”.

13 (8) Section 901(e)(2) is amended by striking
14 “but is not limited to—” and all that follows
15 through “that portion” and inserting “but is not
16 limited to that portion”.

17 (9) Section 901(f) is amended by striking “sec-
18 tions 902 and 960” and inserting “section 960”.

19 (10) Section 901(j)(1)(A) is amended by strik-
20 ing “902 or”.

21 (11) Section 901(j)(1)(B) is amended by strik-
22 ing “sections 902 and 960” and inserting “section
23 960”.

24 (12) Section 901(k)(2) is amended by striking
25 “, 902,”.

1 (13) Section 901(k)(6) is amended by striking
2 “902 or”.

3 (14) Section 901(m)(1)(B) is amended to read
4 as follows:

5 “(B) in the case of a foreign income tax
6 paid by a foreign corporation, shall not be
7 taken into account for purposes of section
8 960.”.

9 (15) Section 904(d)(2)(E) is amended—

10 (A) by amending clause (i) to read as fol-
11 lows:

12 “(i) NONCONTROLLED 10-PERCENT
13 OWNED FOREIGN CORPORATION.—The
14 term ‘noncontrolled 10-percent owned for-
15 eign corporation’ means any foreign cor-
16 poration which is—

17 “(I) a specified 10-percent owned
18 foreign corporation (as defined in sec-
19 tion 245A(b)), or

20 “(II) a passive foreign invest-
21 ment company (as defined in section
22 1297(a)) with respect to which the
23 taxpayer meets the stock ownership
24 requirements of section 902(a) (or, for
25 purposes of applying paragraphs (3)

1 and (4), the requirements of section
2 902(b)).

3 A controlled foreign corporation shall not
4 be treated as a noncontrolled 10-percent
5 owned foreign corporation with respect to
6 any distribution out of its earnings and
7 profits for periods during which it was a
8 controlled foreign corporation. Any ref-
9 erence to section 902 in this clause shall be
10 treated as a reference to such section as in
11 effect before its repeal.”, and

12 (B) by striking “non-controlled section 902
13 corporation” in clause (ii) and inserting “non-
14 controlled 10-percent owned foreign corpora-
15 tion”.

16 (16) Section 904(d)(4) is amended—

17 (A) by striking “noncontrolled section 902
18 corporation” each place it appears and inserting
19 “noncontrolled 10-percent owned foreign cor-
20 poration”,

21 (B) by striking “NONCONTROLLED SEC-
22 TION 902 CORPORATIONS” in the heading there-
23 of and inserting “NONCONTROLLED 10-PERCENT
24 OWNED FOREIGN CORPORATIONS”.

1 (17) Section 904(d)(6)(A) is amended by strik-
2 ing “902, 907,” and inserting “907”.

3 (18) Section 904(h)(10)(A) is amended by
4 striking “sections 902, 907, and 960” and inserting
5 “sections 907 and 960”.

6 (19) Section 904(k) is amended to read as fol-
7 lows:

8 “(k) CROSS REFERENCES.—For increase of limita-
9 tion under subsection (a) for taxes paid with respect to
10 amounts received which were included in the gross income
11 of the taxpayer for a prior taxable year as a United States
12 shareholder with respect to a controlled foreign corpora-
13 tion, see section 960(c).”.

14 (20) Section 905(c)(1) is amended by striking
15 the last sentence.

16 (21) Section 905(c)(2)(B)(i) is amended to read
17 as follows:

18 “(i) shall be taken into account for
19 the taxable year to which such taxes relate,
20 and”.

21 (22) Section 906(a) is amended by striking “(or
22 deemed, under section 902, paid or accrued during
23 the taxable year)”.

24 (23) Section 906(b) is amended by striking
25 paragraphs (4) and (5).

1 (24) Section 907(b)(2)(B) is amended by strik-
2 ing “902 or”.

3 (25) Section 907(c)(3)(A) is amended—

4 (A) by striking subparagraph (A) and in-
5 serting the following:

6 “(A) interest, to the extent the category of
7 income of such interest is determined under
8 section 904(d)(3),”, and

9 (B) by striking “section 960(a)” in sub-
10 paragraph (B) and inserting “section 960”.

11 (26) Section 907(c)(5) is amended by striking
12 “902 or”.

13 (27) Section 907(f)(2)(B)(i) is amended by
14 striking “902 or”.

15 (28) Section 908(a) is amended by striking
16 “902 or”.

17 (29) Section 909(b) is amended—

18 (A) by striking “section 902 corporation”
19 in the matter preceding paragraph (1) and in-
20 serting “specified 10-percent owned foreign cor-
21 poration (as defined in section 245A(b) without
22 regard to paragraph (2) thereof)”,

23 (B) by striking “902 or” in paragraph (1),

24 (C) by striking “by such section 902 cor-
25 poration” and all that follows in the matter fol-

1 lowing paragraph (2) and inserting “by such
2 specified 10-percent owned foreign corporation
3 or a domestic corporation which is a United
4 States shareholder with respect to such speci-
5 fied 10-percent owned foreign corporation.”,
6 and

7 (D) by striking “SECTION 902 CORPORA-
8 TIONS” in the heading thereof and inserting
9 “SPECIFIED 10-PERCENT OWNED FOREIGN
10 CORPORATIONS”.

11 (30) Section 909(d) is amended by striking
12 paragraph (5).

13 (31) Section 958(a)(1) is amended by striking
14 “960(a)(1)” and inserting “960”.

15 (32) Section 959(d) is amended by striking
16 “Except as provided in section 960(a)(3), any” and
17 inserting “Any”.

18 (33) Section 959(e) is amended by striking
19 “section 960(b)” and inserting “section 960(c)”.

20 (34) Section 1291(g)(2)(A) is amended by
21 striking “any distribution—” and all that follows
22 through “but only if” and inserting “any distribu-
23 tion, any withholding tax imposed with respect to
24 such distribution, but only if”.

1 (35) Section 1293(f) is amended by striking
2 “and” at the end of paragraph (1), by striking the
3 period at the end of paragraph (2) and inserting “,
4 and”, and by adding at the end the following new
5 paragraph:

6 “(3) a domestic corporation which owns (or is
7 treated under section 1298(a) as owning) stock of a
8 qualified electing fund shall be treated in the same
9 manner as a United States shareholder of a con-
10 trolled foreign corporation (and such qualified elect-
11 ing fund shall be treated in the same manner as
12 such controlled foreign corporation) if such domestic
13 corporation meets the stock ownership requirements
14 of subsection (a) or (b) of section 902 (as in effect
15 before its repeal) with respect to such qualified elect-
16 ing fund.”.

17 (36) Section 6038(c)(1)(B) is amended by
18 striking “sections 902 (relating to foreign tax credit
19 for corporate stockholder in foreign corporation) and
20 960 (relating to special rules for foreign tax credit)”
21 and inserting “section 960”.

22 (37) Section 6038(c)(4) is amended by striking
23 subparagraph (C).

1 “(i) IN GENERAL.—The term ‘foreign
2 branch income’ means the business profits
3 of such United States person which are at-
4 tributable to 1 or more qualified business
5 units (as defined in section 989(a)) in 1 or
6 more foreign countries. For purposes of
7 the preceding sentence, the amount of
8 business profits attributable to a qualified
9 business unit shall be determined under
10 rules established by the Secretary.

11 “(ii) EXCEPTION.—Such term shall
12 not include any income which is passive
13 category income.”.

14 (2) CONFORMING AMENDMENT.—Section
15 904(d)(2)(A)(ii), as amended by section 14201, is
16 amended by striking “income described in paragraph
17 (1)(A) and” and inserting “income described in
18 paragraph (1)(A), foreign branch income, and”.

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

1 **SEC. 14303. 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 **SEC. 14304. ELECTION TO INCREASE PERCENTAGE OF DO-**
15 **MESTIC TAXABLE INCOME OFFSET BY OVER-**
16 **ALL DOMESTIC LOSS TREATED AS FOREIGN**
17 **SOURCE.**

18 (a) IN GENERAL.—Section 904(g) is amended by
19 adding at the end the following new paragraph:

20 “(5) ELECTION TO INCREASE PERCENTAGE OF
21 TAXABLE INCOME TREATED AS FOREIGN SOURCE.—

22 “(A) IN GENERAL.—If any pre-2018 un-
23 used overall domestic loss is taken into account
24 under paragraph (1) for any applicable taxable
25 year, the taxpayer may elect to have such para-
26 graph applied to such loss by substituting a

1 percentage greater than 50 percent (but not
2 greater than 100 percent) for 50 percent in
3 subparagraph (B) thereof.

4 “(B) PRE-2018 UNUSED OVERALL DOMES-
5 TIC LOSS.—For purposes of this paragraph, the
6 term ‘pre-2018 unused overall domestic loss’
7 means any overall domestic loss which—

8 “(i) arises in a qualified taxable year
9 beginning before January 1, 2018, and

10 “(ii) has not been used under para-
11 graph (1) for any taxable year beginning
12 before such date.

13 “(C) APPLICABLE TAXABLE YEAR.—For
14 purposes of this paragraph, the term ‘applicable
15 taxable year’ means any taxable year of the tax-
16 payer beginning after December 31, 2017, and
17 before January 1, 2028.”.

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

21 **PART II—INBOUND TRANSACTIONS**

22 **SEC. 14401. BASE EROSION AND ANTI-ABUSE TAX.**

23 (a) IMPOSITION OF TAX.—Subchapter A of chapter
24 1 is amended by adding at the end the following new part:

1 **“PART VII—BASE EROSION AND ANTI-ABUSE TAX**

“Sec. 59A. Tax on base erosion payments of taxpayers with substantial gross receipts.

2 **“SEC. 59A. TAX ON BASE EROSION PAYMENTS OF TAX-**
3 **PAYERS WITH SUBSTANTIAL GROSS RE-**
4 **CEIPTS.**

5 “(a) IMPOSITION OF TAX.—There is hereby imposed
6 on each applicable taxpayer for any taxable year a tax
7 equal to the base erosion minimum tax amount for the
8 taxable year. Such tax shall be in addition to any other
9 tax imposed by this subtitle.

10 “(b) BASE EROSION MINIMUM TAX AMOUNT.—For
11 purposes of this section—

12 “(1) IN GENERAL.—Except as provided in para-
13 graphs (2) and (3), the term ‘base erosion minimum
14 tax amount’ means, with respect to any applicable
15 taxpayer for any taxable year, the excess (if any)
16 of—

17 “(A) an amount equal to 10 percent (5
18 percent in the case of taxable years beginning
19 in calendar year 2018) of the modified taxable
20 income of such taxpayer for the taxable year,
21 over

22 “(B) an amount equal to the regular tax li-
23 ability (as defined in section 26(b)) of the tax-

1 payer for the taxable year, reduced (but not
2 below zero) by the excess (if any) of—

3 “(i) the credits allowed under this
4 chapter against such regular tax liability,
5 over

6 “(ii) the sum of—

7 “(I) the credit allowed under sec-
8 tion 38 for the taxable year which is
9 properly allocable to the research
10 credit determined under section 41(a),
11 plus

12 “(II) the portion of the applicable
13 section 38 credits not in excess of 80
14 percent of the lesser of the amount of
15 such credits or the base erosion min-
16 imum tax amount (determined with-
17 out regard to this subclause).

18 “(2) MODIFICATIONS FOR TAXABLE YEARS BE-
19 GINNING AFTER 2025.—In the case of any taxable
20 year beginning after December 31, 2025, paragraph
21 (1) shall be applied—

22 “(A) by substituting ‘12.5 percent’ for ‘10
23 percent’ in subparagraph (A) thereof, and

24 “(B) by reducing (but not below zero) the
25 regular tax liability (as defined in section

1 26(b)) for purposes of subparagraph (B) there-
2 of by the aggregate amount of the credits al-
3 lowed under this chapter against such regular
4 tax liability rather than the excess described in
5 such subparagraph.

6 “(3) INCREASED RATE FOR CERTAIN BANKS
7 AND SECURITIES DEALERS.—

8 “(A) IN GENERAL.—In the case of a tax-
9 payer described in subparagraph (B) who is an
10 applicable taxpayer for any taxable year, the
11 percentage otherwise in effect under paragraphs
12 (1)(A) and (2)(A) shall each be increased by
13 one percentage point.

14 “(B) TAXPAYER DESCRIBED.—A taxpayer
15 is described in this subparagraph if such tax-
16 payer is a member of an affiliated group (as de-
17 fined in section 1504(a)(1)) which includes—

18 “(i) a bank (as defined in section
19 581), or

20 “(ii) a registered securities dealer
21 under section 15(a) of the Securities Ex-
22 change Act of 1934.

23 “(4) APPLICABLE SECTION 38 CREDITS.—For
24 purposes of paragraph (1)(B)(ii)(II), the term ‘ap-
25 plicable section 38 credits’ means the credit allowed

1 under section 38 for the taxable year which is prop-
2 erly allocable to—

3 “(A) the low-income housing credit deter-
4 mined under section 42(a),

5 “(B) the renewable electricity production
6 credit determined under section 45(a), and

7 “(C) the investment credit determined
8 under section 46, but only to the extent prop-
9 erly allocable to the energy credit determined
10 under section 48.

11 “(c) MODIFIED TAXABLE INCOME.—For purposes of
12 this section—

13 “(1) IN GENERAL.—The term ‘modified taxable
14 income’ means the taxable income of the taxpayer
15 computed under this chapter for the taxable year,
16 determined without regard to—

17 “(A) any base erosion tax benefit with re-
18 spect to any base erosion payment, or

19 “(B) the base erosion percentage of any
20 net operating loss deduction allowed under sec-
21 tion 172 for the taxable year.

22 “(2) BASE EROSION TAX BENEFIT.—

23 “(A) IN GENERAL.—The term ‘base ero-
24 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,

12 “(iii) in the case of a base erosion
13 payment described in subsection (d)(3)—

14 “(I) any reduction under section
15 803(a)(1)(B) in the gross amount of
16 premiums and other consideration on
17 insurance and annuity contracts for
18 premiums and other consideration
19 arising out of indemnity insurance,
20 and

21 “(II) any deduction under section
22 832(b)(4)(A) from the amount of
23 gross premiums written on insurance
24 contracts during the taxable year for
25 premiums paid for reinsurance, and

1 “(iv) in the case of a base erosion
2 payment described in subsection (d)(4),
3 any reduction in gross receipts with re-
4 spect to such payment in computing gross
5 income of the taxpayer for the taxable year
6 for purposes of this chapter.

7 “(B) TAX BENEFITS DISREGARDED IF TAX
8 WITHHELD ON BASE EROSION PAYMENT.—

9 “(i) IN GENERAL.—Except as pro-
10 vided in clause (ii), any base erosion tax
11 benefit attributable to any base erosion
12 payment—

13 “(I) on which tax is imposed by
14 section 871 or 881, and

15 “(II) with respect to which tax
16 has been deducted and withheld under
17 section 1441 or 1442,

18 shall not be taken into account in com-
19 puting modified taxable income under
20 paragraph (1)(A) or the base erosion per-
21 centage under paragraph (4).

22 “(ii) EXCEPTION.—The amount not
23 taken into account in computing modified
24 taxable income by reason of clause (i) shall
25 be reduced under rules similar to the rules

1 under section 163(j)(5)(B) (as in effect be-
2 fore the date of the enactment of the Tax
3 Cuts and Jobs Act).

4 “(3) SPECIAL RULES FOR DETERMINING INTER-
5 EST FOR WHICH DEDUCTION ALLOWED.—For pur-
6 poses of applying paragraph (1), in the case of a
7 taxpayer to which section 163(j) applies for the tax-
8 able year, the reduction in the amount of interest for
9 which a deduction is allowed by reason of such sub-
10 section shall be treated as allocable first to interest
11 paid or accrued to persons who are not related par-
12 ties with respect to the taxpayer and then to such
13 related parties.

14 “(4) BASE EROSION PERCENTAGE.—For pur-
15 poses of paragraph (1)(B)—

16 “(A) IN GENERAL.—The term ‘base ero-
17 sion percentage’ means, for any taxable year,
18 the percentage determined by dividing—

19 “(i) the aggregate amount of base
20 erosion tax benefits of the taxpayer for the
21 taxable year, by

22 “(ii) the sum of—

23 “(I) the aggregate amount of the
24 deductions (including deductions de-
25 scribed in clauses (i) and (ii) of para-

1 graph (2)(A)) allowable to the tax-
2 payer under this chapter for the tax-
3 able year, plus

4 “(II) the base erosion tax bene-
5 fits described in clauses (iii) and (iv)
6 of paragraph (2)(A) allowable to the
7 taxpayer for the taxable year.

8 “(B) CERTAIN ITEMS NOT TAKEN INTO AC-
9 COUNT.—The amount under subparagraph
10 (A)(ii) shall be determined by not taking into
11 account—

12 “(i) any deduction allowed under sec-
13 tion 172, 245A, or 250 for the taxable
14 year,

15 “(ii) any deduction for amounts paid
16 or accrued for services to which the excep-
17 tion under subsection (d)(5) applies, and

18 “(iii) any deduction for qualified de-
19 rivative payments which are not treated as
20 a base erosion payment by reason of sub-
21 section (h).

22 “(d) BASE EROSION PAYMENT.—For purposes of
23 this section—

24 “(1) IN GENERAL.—The term ‘base erosion
25 payment’ means any amount paid or accrued by the

1 taxpayer to a foreign person which is a related party
2 of the taxpayer and with respect to which a deduc-
3 tion is allowable under this chapter.

4 “(2) PURCHASE OF DEPRECIABLE PROPERTY.—
5 Such term shall also include any amount paid or ac-
6 crued by the taxpayer to a foreign person which is
7 a related party of the taxpayer in connection with
8 the acquisition by the taxpayer from such person of
9 property of a character subject to the allowance for
10 depreciation (or amortization in lieu of depreciation).

11 “(3) REINSURANCE PAYMENTS.—Such term
12 shall also include any premium or other consider-
13 ation paid or accrued by the taxpayer to a foreign
14 person which is a related party of the taxpayer for
15 any reinsurance payments which are taken into ac-
16 count under sections 803(a)(1)(B) or 832(b)(4)(A).

17 “(4) CERTAIN PAYMENTS TO EXPATRIATED EN-
18 TITIES.—

19 “(A) IN GENERAL.—Such term shall also
20 include any amount paid or accrued by the tax-
21 payer with respect to a person described in sub-
22 paragraph (B) which results in a reduction of
23 the gross receipts of the taxpayer.

1 “(B) PERSON DESCRIBED.—A person is
2 described in this subparagraph if such person is
3 a—

4 “(i) surrogate foreign corporation
5 which is a related party of the taxpayer,
6 but only if such person first became a sur-
7rogate foreign corporation after November
8 9, 2017, or

9 “(ii) foreign person which is a mem-
10ber of the same expanded affiliated group
11as the surrogate foreign corporation.

12 “(C) DEFINITIONS.—For purposes of this
13paragraph—

14 “(i) SURROGATE FOREIGN CORPORA-
15TION.—The term ‘surrogate foreign cor-
16poration’ has the meaning given such term
17by section 7874(a)(2)(B) but does not in-
18clude a foreign corporation treated as a do-
19mestic corporation under section 7874(b).

20 “(ii) EXPANDED AFFILIATED
21GROUP.—The term ‘expanded affiliated
22group’ has the meaning given such term by
23section 7874(c)(1).

24 “(5) EXCEPTION FOR CERTAIN AMOUNTS WITH
25RESPECT TO SERVICES.—Paragraph (1) shall not

1 apply to any amount paid or accrued by a taxpayer
2 for services if—

3 “(A) such services are services which meet
4 the requirements for eligibility for use of the
5 services cost method under section 482 (deter-
6 mined without regard to the requirement that
7 the services not contribute significantly to fun-
8 damental risks of business success or failure),
9 and

10 “(B) such amount constitutes the total
11 services cost with no markup component.

12 “(e) APPLICABLE TAXPAYER.—For purposes of this
13 section—

14 “(1) IN GENERAL.—The term ‘applicable tax-
15 payer’ means, with respect to any taxable year, a
16 taxpayer—

17 “(A) which is a corporation other than a
18 regulated investment company, a real estate in-
19 vestment trust, or an S corporation,

20 “(B) the average annual gross receipts of
21 which for the 3-taxable-year period ending with
22 the preceding taxable year are at least
23 \$500,000,000, and

24 “(C) the base erosion percentage (as deter-
25 mined under subsection (c)(4)) of which for the

1 taxable year is 3 percent (2 percent in the case
2 of a taxpayer described in subsection (b)(3)(B))
3 or higher.

4 “(2) GROSS RECEIPTS.—

5 “(A) SPECIAL RULE FOR FOREIGN PER-
6 SONS.—In the case of a foreign person the
7 gross receipts of which are taken into account
8 for purposes of paragraph (1)(B), only gross re-
9 ceipts which are taken into account in deter-
10 mining income which is effectively connected
11 with the conduct of a trade or business within
12 the United States shall be taken into account.
13 In the case of a taxpayer which is a foreign per-
14 son, the preceding sentence shall not apply to
15 the gross receipts of any United States person
16 which are aggregated with the taxpayer’s gross
17 receipts by reason of paragraph (3).

18 “(B) OTHER RULES MADE APPLICABLE.—
19 Rules similar to the rules of subparagraphs (B),
20 (C), and (D) of section 448(c)(3) shall apply in
21 determining gross receipts for purposes of this
22 section.

23 “(3) AGGREGATION RULES.—All persons treat-
24 ed as a single employer under subsection (a) of sec-
25 tion 52 shall be treated as 1 person for purposes of

1 this subsection and subsection (c)(4), except that in
2 applying section 1563 for purposes of section 52, the
3 exception for foreign corporations under section
4 1563(b)(2)(C) shall be disregarded.

5 “(f) FOREIGN PERSON.—For purposes of this sec-
6 tion, the term ‘foreign person’ has the meaning given such
7 term by section 6038A(c)(3).

8 “(g) RELATED PARTY.—For purposes of this sec-
9 tion—

10 “(1) IN GENERAL.—The term ‘related party’
11 means, with respect to any applicable taxpayer—

12 “(A) any 25-percent owner of the taxpayer,

13 “(B) any person who is related (within the
14 meaning of section 267(b) or 707(b)(1)) to the
15 taxpayer or any 25-percent owner of the tax-
16 payer, and

17 “(C) any other person who is related (with-
18 in the meaning of section 482) to the taxpayer.

19 “(2) 25-PERCENT OWNER.—The term ‘25-per-
20 cent owner’ means, with respect to any corporation,
21 any person who owns at least 25 percent of—

22 “(A) the total voting power of all classes of
23 stock of a corporation entitled to vote, or

24 “(B) the total value of all classes of stock
25 of such corporation.

1 “(3) SECTION 318 TO APPLY.—Section 318
2 shall apply for purposes of paragraphs (1) and (2),
3 except that—

4 “(A) ‘10 percent’ shall be substituted for
5 ‘50 percent’ in section 318(a)(2)(C), and

6 “(B) subparagraphs (A), (B), and (C) of
7 section 318(a)(3) shall not be applied so as to
8 consider a United States person as owning
9 stock which is owned by a person who is not a
10 United States person.

11 “(h) EXCEPTION FOR CERTAIN PAYMENTS MADE IN
12 THE ORDINARY COURSE OF TRADE OR BUSINESS.—For
13 purposes of this section—

14 “(1) IN GENERAL.—Except as provided in para-
15 graph (3), any qualified derivative payment shall not
16 be treated as a base erosion payment.

17 “(2) QUALIFIED DERIVATIVE PAYMENT.—

18 “(A) IN GENERAL.—The term ‘qualified
19 derivative payment’ means any payment made
20 by a taxpayer pursuant to a derivative with re-
21 spect to which the taxpayer—

22 “(i) recognizes gain or loss as if such
23 derivative were sold for its fair market
24 value on the last business day of the tax-
25 able year (and such additional times as re-

1 required by this title or the taxpayer's meth-
2 od of accounting),

3 “(ii) treats any gain or loss so recog-
4 nized as ordinary, and

5 “(iii) treats the character of all items
6 of income, deduction, gain, or loss with re-
7 spect to a payment pursuant to the deriva-
8 tive as ordinary.

9 “(B) REPORTING REQUIREMENT.—No
10 payments shall be treated as qualified derivative
11 payments under subparagraph (A) for any tax-
12 able year unless the taxpayer includes in the in-
13 formation required to be reported under section
14 6038B(b)(2) with respect to such taxable year
15 such information as is necessary to identify the
16 payments to be so treated and such other infor-
17 mation as the Secretary determines necessary
18 to carry out the provisions of this subsection.

19 “(3) EXCEPTIONS FOR PAYMENTS OTHERWISE
20 TREATED AS BASE EROSION PAYMENTS.—This sub-
21 section shall not apply to any qualified derivative
22 payment if—

23 “(A) the payment would be treated as a
24 base erosion payment if it were not made pur-

1 suant to a derivative, including any interest,
2 royalty, or service payment, or

3 “(B) in the case of a contract which has
4 derivative and nonderivative components, the
5 payment is properly allocable to the nonderiva-
6 tive component.

7 “(4) DERIVATIVE DEFINED.—For purposes of
8 this subsection—

9 “(A) IN GENERAL.—The term ‘derivative’
10 means any contract (including any option, for-
11 ward contract, futures contract, short position,
12 swap, or similar contract) the value of which, or
13 any payment or other transfer with respect to
14 which, is (directly or indirectly) determined by
15 reference to one or more of the following:

16 “(i) Any share of stock in a corpora-
17 tion.

18 “(ii) Any evidence of indebtedness.

19 “(iii) Any commodity which is actively
20 traded.

21 “(iv) Any currency.

22 “(v) Any rate, price, amount, index,
23 formula, or algorithm.

24 Such term shall not include any item described
25 in clauses (i) through (v).

1 “(B) TREATMENT OF AMERICAN DEPOSI-
2 TORY RECEIPTS AND SIMILAR INSTRUMENTS.—
3 Except as otherwise provided by the Secretary,
4 for purposes of this part, American depository
5 receipts (and similar instruments) with respect
6 to shares of stock in foreign corporations shall
7 be treated as shares of stock in such foreign
8 corporations.

9 “(C) EXCEPTION FOR CERTAIN CON-
10 TRACTS.—Such term shall not include any in-
11 surance, annuity, or endowment contract issued
12 by an insurance company to which subchapter
13 L applies (or issued by any foreign corporation
14 to which such subchapter would apply if such
15 foreign corporation were a domestic corpora-
16 tion).

17 “(i) REGULATIONS.—The Secretary shall prescribe
18 such regulations or other guidance as may be necessary
19 or appropriate to carry out the provisions of this section,
20 including regulations—

21 “(1) providing for such adjustments to the ap-
22 plication of this section as are necessary to prevent
23 the avoidance of the purposes of this section, includ-
24 ing through—

1 “(A) the use of unrelated persons, conduit
2 transactions, or other intermediaries, or

3 “(B) transactions or arrangements de-
4 signed, in whole or in part—

5 “(i) to characterize payments other-
6 wise subject to this section as payments
7 not subject to this section, or

8 “(ii) to substitute payments not sub-
9 ject to this section for payments otherwise
10 subject to this section and

11 “(2) for the application of subsection (g), in-
12 cluding rules to prevent the avoidance of the excep-
13 tions under subsection (g)(3).”.

14 (b) REPORTING REQUIREMENTS AND PENALTIES.—

15 (1) IN GENERAL.—Subsection (b) of section
16 6038A is amended to read as follows:

17 “(b) REQUIRED INFORMATION.—

18 “(1) IN GENERAL.—For purposes of subsection
19 (a), the information described in this subsection is
20 such information as the Secretary prescribes by reg-
21 ulations relating to—

22 “(A) the name, principal place of business,
23 nature of business, and country or countries in
24 which organized or resident, of each person
25 which—

1 “(i) is a related party to the reporting
2 corporation, and

3 “(ii) had any transaction with the re-
4 porting corporation during its taxable year,

5 “(B) the manner in which the reporting
6 corporation is related to each person referred to
7 in subparagraph (A), and

8 “(C) transactions between the reporting
9 corporation and each foreign person which is a
10 related party to the reporting corporation.

11 “(2) ADDITIONAL INFORMATION REGARDING
12 BASE EROSION PAYMENTS.—For purposes of sub-
13 section (a) and section 6038C, if the reporting cor-
14 poration or the foreign corporation to whom section
15 6038C applies is an applicable taxpayer, the infor-
16 mation described in this subsection shall include—

17 “(A) such information as the Secretary de-
18 termines necessary to determine the base ero-
19 sion minimum tax amount, base erosion pay-
20 ments, and base erosion tax benefits of the tax-
21 payer for purposes of section 59A for the tax-
22 able year, and

23 “(B) such other information as the Sec-
24 retary determines necessary to carry out such
25 section.

1 For purposes of this paragraph, any term used in
2 this paragraph which is also used in section 59A
3 shall have the same meaning as when used in such
4 section.”.

5 (2) INCREASE IN PENALTY.—Paragraphs (1)
6 and (2) of section 6038A(d) are each amended by
7 striking “\$10,000” and inserting “\$25,000”.

8 (c) DISALLOWANCE OF CREDITS AGAINST BASE
9 EROSION TAX.—Paragraph (2) of section 26(b) is amend-
10 ed by inserting after subparagraph (A) the following new
11 subparagraph:

12 “(B) section 59A (relating to base erosion
13 and anti-abuse tax),”.

14 (d) CONFORMING AMENDMENTS.—

15 (1) The table of parts for subchapter A of chap-
16 ter 1 is amended by adding after the item relating
17 to part VI the following new item:

“PART VII. BASE EROSION AND ANTI-ABUSE TAX”.

18 (2) Paragraph (1) of section 882(a), as amend-
19 ed by this Act, is amended by inserting “ or 59A,”
20 after “section 11,”.

21 (3) Subparagraph (A) of section 6425(c)(1), as
22 amended by section 13001, is amended to read as
23 follows:

24 “(A) the sum of—

1 “(i) the tax imposed by section 11, or
2 subchapter L of chapter 1, whichever is
3 applicable, plus

4 “(ii) the tax imposed by section 59A,
5 over”.

6 (4)(A) Subparagraph (A) of section 6655(g)(1),
7 as amended by sections 12001 and 13001, is amend-
8 ed by striking “plus” at the end of clause (i), by re-
9 designating clause (ii) as clause (iii), and by insert-
10 ing after clause (i) the following new clause:

11 “(ii) the tax imposed by section 59A,
12 plus”.

13 (B) Subparagraphs (A)(i) and (B)(i) of section
14 6655(e)(2), as amended by sections 12001 and
15 13001, are each amended by inserting “and modi-
16 fied taxable income” after “taxable income”.

17 (C) Subparagraph (B) of section 6655(e)(2) is
18 amended by adding at the end the following new
19 clause:

20 “(iii) MODIFIED TAXABLE INCOME.—
21 The term ‘modified taxable income’ has the
22 meaning given such term by section
23 59A(c)(1).”.

24 (e) EFFECTIVE DATE.—The amendments made by
25 this section shall apply to base erosion payments (as de-

1 fined in section 59A(d) of the Internal Revenue Code of
2 1986, as added by this section) paid or accrued in taxable
3 years beginning after December 31, 2017.

4 **PART III—OTHER PROVISIONS**

5 **SEC. 14501. RESTRICTION ON INSURANCE BUSINESS EXCEP-**
6 **TION TO PASSIVE FOREIGN INVESTMENT**
7 **COMPANY RULES.**

8 (a) IN GENERAL.—Section 1297(b)(2)(B) is amend-
9 ed to read as follows:

10 “(B) derived in the active conduct of an in-
11 surance business by a qualifying insurance cor-
12 poration (as defined in subsection (f)),”.

13 (b) QUALIFYING INSURANCE CORPORATION DE-
14 FINED.—Section 1297 is amended by adding at the end
15 the following new subsection:

16 “(f) QUALIFYING INSURANCE CORPORATION.—For
17 purposes of subsection (b)(2)(B)—

18 “(1) IN GENERAL.—The term ‘qualifying insur-
19 ance corporation’ means, with respect to any taxable
20 year, a foreign corporation—

21 “(A) which would be subject to tax under
22 subchapter L if such corporation were a domes-
23 tic corporation, and

24 “(B) the applicable insurance liabilities of
25 which constitute more than 25 percent of its

1 total assets, determined on the basis of such li-
2 abilities and assets as reported on the corpora-
3 tion's applicable financial statement for the last
4 year ending with or within the taxable year.

5 “(2) ALTERNATIVE FACTS AND CIR-
6 CUMSTANCES TEST FOR CERTAIN CORPORATIONS.—
7 If a corporation fails to qualify as a qualified insur-
8 ance corporation under paragraph (1) solely because
9 the percentage determined under paragraph (1)(B)
10 is 25 percent or less, a United States person that
11 owns stock in such corporation may elect to treat
12 such stock as stock of a qualifying insurance cor-
13 poration if—

14 “(A) the percentage so determined for the
15 corporation is at least 10 percent, and

16 “(B) under regulations provided by the
17 Secretary, based on the applicable facts and cir-
18 cumstances—

19 “(i) the corporation is predominantly
20 engaged in an insurance business, and

21 “(ii) such failure is due solely to run-
22 off-related or rating-related circumstances
23 involving such insurance business.

24 “(3) APPLICABLE INSURANCE LIABILITIES.—

25 For purposes of this subsection—

1 “(A) IN GENERAL.—The term ‘applicable
2 insurance liabilities’ means, with respect to any
3 life or property and casualty insurance busi-
4 ness—

5 “(i) loss and loss adjustment ex-
6 penses, and

7 “(ii) reserves (other than deficiency,
8 contingency, or unearned premium re-
9 serves) for life and health insurance risks
10 and life and health insurance claims with
11 respect to contracts providing coverage for
12 mortality or morbidity risks.

13 “(B) LIMITATIONS ON AMOUNT OF LIABIL-
14 ITIES.—Any amount determined under clause
15 (i) or (ii) of subparagraph (A) shall not exceed
16 the lesser of such amount—

17 “(i) as reported to the applicable in-
18 surance regulatory body in the applicable
19 financial statement described in paragraph
20 (4)(A) (or, if less, the amount required by
21 applicable law or regulation), or

22 “(ii) as determined under regulations
23 prescribed by the Secretary.

24 “(4) OTHER DEFINITIONS AND RULES.—For
25 purposes of this subsection—

1 “(A) APPLICABLE FINANCIAL STATE-
2 MENT.—The term ‘applicable financial state-
3 ment’ means a statement for financial reporting
4 purposes which—

5 “(i) is made on the basis of generally
6 accepted accounting principles,

7 “(ii) is made on the basis of inter-
8 national financial reporting standards, but
9 only if there is no statement that meets
10 the requirement of clause (i), or

11 “(iii) except as otherwise provided by
12 the Secretary in regulations, is the annual
13 statement which is required to be filed
14 with the applicable insurance regulatory
15 body, but only if there is no statement
16 which meets the requirements of clause (i)
17 or (ii).

18 “(B) APPLICABLE INSURANCE REGU-
19 LATORY BODY.—The term ‘applicable insurance
20 regulatory body’ means, with respect to any in-
21 surance business, the entity established by law
22 to license, authorize, or regulate such business
23 and to which the statement described in sub-
24 paragraph (A) is provided.”.

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

4 **SEC. 14502. REPEAL OF FAIR MARKET VALUE METHOD OF**
5 **INTEREST EXPENSE APPORTIONMENT.**

6 (a) IN GENERAL.—Paragraph (2) of section 864(e)
7 is amended to read as follows:

8 “(2) GROSS INCOME AND FAIR MARKET VALUE
9 METHODS MAY NOT BE USED FOR INTEREST.—All
10 allocations and apportionments of interest expense
11 shall be determined using the adjusted bases of as-
12 sets rather than on the basis of the fair market
13 value of the assets or gross income.”.

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

17 **TITLE II**

18 **SEC. 20001. OIL AND GAS PROGRAM.**

19 (a) DEFINITIONS.—In this section:

20 (1) COASTAL PLAIN.—The term “Coastal
21 Plain” means the area identified as the 1002 Area
22 on the plates prepared by the United States Geologi-
23 cal Survey entitled “ANWR Map – Plate 1” and
24 “ANWR Map – Plate 2”, dated October 24, 2017,
25 and on file with the United States Geological Survey

1 and the Office of the Solicitor of the Department of
2 the Interior.

3 (2) SECRETARY.—The term “Secretary” means
4 the Secretary of the Interior, acting through the Bu-
5 reau of Land Management.

6 (b) OIL AND GAS PROGRAM.—

7 (1) IN GENERAL.—Section 1003 of the Alaska
8 National Interest Lands Conservation Act (16
9 U.S.C. 3143) shall not apply to the Coastal Plain.

10 (2) ESTABLISHMENT.—

11 (A) IN GENERAL.—The Secretary shall es-
12 tablish and administer a competitive oil and gas
13 program for the leasing, development, produc-
14 tion, and transportation of oil and gas in and
15 from the Coastal Plain.

16 (B) PURPOSES.—Section 303(2)(B) of the
17 Alaska National Interest Lands Conservation
18 Act (Public Law 96–487; 94 Stat. 2390) is
19 amended—

20 (i) in clause (iii), by striking “and” at
21 the end;

22 (ii) in clause (iv), by striking the pe-
23 riod at the end and inserting “; and”; and

24 (iii) by adding at the end the fol-
25 lowing:

1 “(v) to provide for an oil and gas pro-
2 gram on the Coastal Plain.”.

3 (3) MANAGEMENT.—Except as otherwise pro-
4 vided in this section, the Secretary shall manage the
5 oil and gas program on the Coastal Plain in a man-
6 ner similar to the administration of lease sales under
7 the Naval Petroleum Reserves Production Act of
8 1976 (42 U.S.C. 6501 et seq.) (including regula-
9 tions).

10 (4) ROYALTIES.—Notwithstanding the Mineral
11 Leasing Act (30 U.S.C. 181 et seq.), the royalty
12 rate for leases issued pursuant to this section shall
13 be 16.67 percent.

14 (5) RECEIPTS.—Notwithstanding the Mineral
15 Leasing Act (30 U.S.C. 181 et seq.), of the amount
16 of adjusted bonus, rental, and royalty receipts de-
17 rived from the oil and gas program and operations
18 on Federal land authorized under this section—

19 (A) 50 percent shall be paid to the State
20 of Alaska; and

21 (B) the balance shall be deposited into the
22 Treasury as miscellaneous receipts.

23 (c) 2 LEASE SALES WITHIN 10 YEARS.—

24 (1) REQUIREMENT.—

1 (A) IN GENERAL.—Subject to subpara-
2 graph (B), the Secretary shall conduct not
3 fewer than 2 lease sales area-wide under the oil
4 and gas program under this section by not later
5 than 10 years after the date of enactment of
6 this Act.

7 (B) SALE ACREAGES; SCHEDULE.—

8 (i) ACREAGES.—The Secretary shall
9 offer for lease under the oil and gas pro-
10 gram under this section—

11 (I) not fewer than 400,000 acres
12 area-wide in each lease sale; and

13 (II) those areas that have the
14 highest potential for the discovery of
15 hydrocarbons.

16 (ii) SCHEDULE.—The Secretary shall
17 offer—

18 (I) the initial lease sale under the
19 oil and gas program under this sec-
20 tion not later than 4 years after the
21 date of enactment of this Act; and

22 (II) a second lease sale under the
23 oil and gas program under this sec-
24 tion not later than 7 years after the
25 date of enactment of this Act.

1 (2) RIGHTS-OF-WAY.—The Secretary shall issue
2 any rights-of-way or easements across the Coastal
3 Plain for the exploration, development, production,
4 or transportation necessary to carry out this section.

5 (3) SURFACE DEVELOPMENT.—In admin-
6 istering this section, the Secretary shall authorize up
7 to 2,000 surface acres of Federal land on the Coast-
8 al Plain to be covered by production and support fa-
9 cilities (including airstrips and any area covered by
10 gravel berms or piers for support of pipelines) dur-
11 ing the term of the leases under the oil and gas pro-
12 gram under this section.

13 **SEC. 20002. LIMITATIONS ON AMOUNT OF DISTRIBUTED**
14 **QUALIFIED OUTER CONTINENTAL SHELF**
15 **REVENUES.**

16 Section 105(f)(1) of the Gulf of Mexico Energy Secu-
17 rity Act of 2006 (43 U.S.C. 1331 note; Public Law 109–
18 432) is amended by striking “exceed \$500,000,000 for
19 each of fiscal years 2016 through 2055.” and inserting
20 the following: “exceed—

21 “(A) \$500,000,000 for each of fiscal years
22 2016 through 2019;

23 “(B) \$650,000,000 for each of fiscal years
24 2020 and 2021; and

1 “(C) \$500,000,000 for each of fiscal years
2 2022 through 2055.”.

3 **SEC. 20003. STRATEGIC PETROLEUM RESERVE DRAWDOWN**
4 **AND SALE.**

5 (a) DRAWDOWN AND SALE.—

6 (1) IN GENERAL.—Notwithstanding section 161
7 of the Energy Policy and Conservation Act (42
8 U.S.C. 6241), except as provided in subsections (b)
9 and (c), the Secretary of Energy shall draw down
10 and sell from the Strategic Petroleum Reserve
11 7,000,000 barrels of crude oil during the period of
12 fiscal years 2026 through 2027.

13 (2) DEPOSIT OF AMOUNTS RECEIVED FROM
14 SALE.—Amounts received from a sale under para-
15 graph (1) shall be deposited in the general fund of
16 the Treasury during the fiscal year in which the sale
17 occurs.

18 (b) EMERGENCY PROTECTION.—The Secretary of
19 Energy shall not draw down and sell crude oil under sub-
20 section (a) in a quantity that would limit the authority
21 to sell petroleum products under subsection (h) of section
22 161 of the Energy Policy and Conservation Act (42 U.S.C.
23 6241) in the full quantity authorized by that subsection.

24 (c) LIMITATION.—The Secretary of Energy shall not
25 drawdown or conduct sales of crude oil under subsection

1 (a) after the date on which a total of \$600,000,000 has
2 been deposited in the general fund of the Treasury from
3 sales authorized under that subsection.