

112TH CONGRESS  
1ST SESSION

**S.** \_\_\_\_\_

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

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IN THE SENATE OF THE UNITED STATES

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

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**A BILL**

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

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE;**

4 **TABLE OF CONTENTS.**

5 (a) SHORT TITLE.—This Act may be cited as the  
6 “Bipartisan Tax Fairness and Simplification Act of  
7 2011”.

8 (b) AMENDMENT OF 1986 CODE.—Except as other-  
9 wise expressly provided, whenever in this Act an amend-

1 ment or repeal is expressed in terms of an amendment  
 2 to, or repeal of, a section or other provision, the reference  
 3 shall be considered to be made to a section or other provi-  
 4 sion of the Internal Revenue Code of 1986.

5 (c) TABLE OF CONTENTS.—The table of contents for  
 6 this Act is as follows:

Sec. 1. Short title; amendment of 1986 Code; table of contents.

Sec. 2. Purpose.

#### TITLE I—INDIVIDUAL INCOME TAX REFORMS

Sec. 101. 3 progressive individual income tax rates.

Sec. 102. Increase in basic standard deduction.

Sec. 103. Permanent extension of expansion of earned income credit.

Sec. 104. Permanent extension of expansion of dependent care credit.

Sec. 105. Permanent extension of child tax credit.

Sec. 106. Permanent repeal of limitations on personal exemptions and itemized deductions.

Sec. 107. Elimination of individual miscellaneous itemized deductions.

Sec. 108. Treatment of capital gains and dividends as ordinary income.

Sec. 109. Partial exclusion of capital gains.

Sec. 110. Partial exclusion of dividends received by individuals.

Sec. 111. Nonrefundable personal credit for interest on State and local bonds.

Sec. 112. Retirement savings accounts.

Sec. 113. American Dream Accounts.

Sec. 114. Consolidation of tax credits and deductions for education expenses.

Sec. 115. Termination of various exclusions, exemptions, deductions, and credits.

Sec. 116. Simplified tax return preparation.

#### TITLE II—CORPORATE AND BUSINESS INCOME TAX REFORMS

Sec. 201. Corporate flat tax.

Sec. 202. Treatment of travel on corporate aircraft.

Sec. 203. Unlimited expensing of depreciable assets and inventories for certain small businesses.

Sec. 204. Termination of various preferential treatments.

Sec. 205. Pass-through business entity transparency.

Sec. 206. Modification of effective date of leasing provisions of the American Jobs Creation Act of 2004.

Sec. 207. Modifications of foreign tax credit rules applicable to large integrated oil companies which are dual capacity taxpayers.

Sec. 208. Repeal of lower of cost or market value of inventory rule.

Sec. 209. Reinstitution of per country foreign tax credit.

Sec. 210. Application of rules treating inverted corporations as domestic corporations to certain transactions occurring after March 20, 2002.

Sec. 211. Indexing corporate interest deduction for inflation.

Sec. 212. Prohibition of advance refunding of bonds.

Sec. 213. CBO study on government spending on businesses.

TITLE III—REPEAL OF ALTERNATIVE MINIMUM TAX

Sec. 301. Repeal of alternative minimum tax.

TITLE IV—IMPROVEMENTS IN TAX COMPLIANCE

Sec. 401. Increase in information return penalties.

Sec. 402. E-filing requirement for certain large organizations.

Sec. 403. Implementation of standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.

Sec. 404. Expansion of IRS access to information in National Directory of New Hires for tax administration purposes.

Sec. 405. Modification of criminal penalties for willful failures involving tax payments and filing requirements.

Sec. 406. Penalties for failure to file certain returns electronically.

Sec. 407. Reporting on identification of beneficial owners of certain foreign financial accounts.

TITLE V—MISCELLANEOUS PROVISIONS

Sec. 501. Allowance of deduction for dividends received from controlled foreign corporations for 2011.

Sec. 502. Denial of deduction for punitive damages.

Sec. 503. Application of medicare payroll tax to all State and local government employees.

Sec. 504. Corrections for CPI overstatement in cost-of-living indexation.

TITLE VI—TECHNICAL AND CONFORMING AMENDMENTS

Sec. 601. Technical and conforming amendments.

1 **SEC. 2. PURPOSE.**

2 The purpose of this Act is to amend the Internal Rev-  
3 enue Code of 1986—

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

7 (A) repealing the individual alternative  
8 minimum tax,

9 (B) increasing the basic standard deduc-  
10 tion and maintaining itemized deductions for

1 mortgage interest and charitable contributions,  
 2 and  
 3 (C) reducing the number of exclusions, ex-  
 4 emptions, deductions, and credits,  
 5 (2) to make the Federal corporate income tax  
 6 rate a flat 24 percent, repeal the corporate alter-  
 7 native minimum tax, and eliminate special tax pref-  
 8 erences that favor particular types of businesses or  
 9 activities, and  
 10 (3) to partially offset the Federal budget deficit  
 11 through the increased fiscal responsibility resulting  
 12 from these reforms.

13 **TITLE I—INDIVIDUAL INCOME**  
 14 **TAX REFORMS**

15 **SEC. 101. 3 PROGRESSIVE INDIVIDUAL INCOME TAX RATES.**

16 (a) MARRIED INDIVIDUALS FILING JOINT RETURNS  
 17 AND SURVIVING SPOUSES.—The table contained in sec-  
 18 tion 1(a) is amended to read as follows:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$75,000 .....	15% of taxable income.
Over \$75,000 but not over \$140,000.	\$11,250, plus 25% of the excess over \$75,000.
Over \$140,000 .....	\$27,500, plus 35% of the excess over \$140,000”.

19 (b) HEADS OF HOUSEHOLDS.—The table contained  
 20 in section 1(b) is amended to read as follows:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$56,250 .....	15% of taxable income.
Over \$56,250 but not over \$105,000.	\$8,437.50, plus 25% of the excess over \$56,250.

<b>“If taxable income is:</b>	<b>The tax is:</b>
Over \$105,000 .....	\$20,625, plus 35% of the excess over \$105,000”.

1 (c) UNMARRIED INDIVIDUALS (OTHER THAN SUR-  
 2 VIVING SPOUSES AND HEADS OF HOUSEHOLDS).—The  
 3 table contained in section 1(c) is amended to read as fol-  
 4 lows:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$37,500 .....	15% of taxable income.
Over \$37,500 but not over \$70,000.	\$5,625, plus 25% of the excess over \$37,500.
Over \$70,000 .....	\$13,750, plus 35% of the excess over \$70,000”.

5 (d) MARRIED INDIVIDUALS FILING SEPARATE RE-  
 6 TURNS.—The table contained in section 1(d) is amended  
 7 to read as follows:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$37,500 .....	15% of taxable income.
Over \$37,500 but not over \$70,000.	\$5,625, plus 25% of the excess over \$37,500.
Over \$70,000 .....	\$13,750, plus 35% of the excess over \$70,000”.

8 (e) REPEAL OF EGTRRA SUNSET.—

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

14 (2) CONFORMING AMENDMENTS.—

15 (A) Section 1 is amended by striking sub-  
 16 section (i).

1 (B) Section 1(g)(7)(B)(ii)(II) is amended  
2 by striking “10 percent” and inserting “15 per-  
3 cent”.

4 (C) Section 3402(p)(1)(B) is amended by  
5 striking “3 lowest”.

6 (D) Section 3402(p)(2) is amended by  
7 striking “10 percent” and inserting “15 per-  
8 cent”.

9 (E) Section 3402(q)(1) is amended by  
10 striking “third” and inserting “second”.

11 (F) Section 3402(r)(3) is amended by  
12 striking “fourth” and inserting “second”.

13 (G) Section 3406(a)(1) is amended by  
14 striking “fourth” and inserting “second”.

15 (H) Section 13273 of the Revenue Rec-  
16 onciliation Act of 1993 is amended by striking  
17 “third” and inserting “second”.

18 (f) CONFORMING AMENDMENTS TO INFLATION AD-  
19 JUSTMENT.—

20 (1) Section 1(f) is amended—

21 (A) by striking “1993” in paragraph (1)  
22 and inserting “2012”,

23 (B) by striking “except as provided in  
24 paragraph (8)” in paragraph (2)(A),

1 (C) by striking “1992” in paragraph  
2 (3)(B) and inserting “2011”,

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

5 (E) by striking “PHASEOUT OF MARRIAGE  
6 PENALTY IN 15-PERCENT BRACKET;” in the  
7 heading thereof.

8 (2) The Internal Revenue Code of 1986 is  
9 amended by striking “calendar year 1992” each  
10 place it appears and inserting “calendar year 2011”.

11 (g) EFFECTIVE DATES.—

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, 2011.

16 (2) AMENDMENTS TO WITHHOLDING PROVI-  
17 SIONS.—The amendments made by subparagraphs  
18 (C) through (H) of subsection (e)(2) shall apply to  
19 amounts paid after the 60th day after the date of  
20 the enactment of this Act.

21 **SEC. 102. INCREASE IN BASIC STANDARD DEDUCTION.**

22 (a) IN GENERAL.—Paragraph (2) of section 63(c) is  
23 amended to read as follows:

1           “(2) BASIC STANDARD DEDUCTION.—For pur-  
2           poses of paragraph (1), the basic standard deduction  
3           is—

4                   “(A) 200 percent of the dollar amount in  
5                   effect under subparagraph (C) for the taxable  
6                   year in the case of—

7                           “(i) a joint return, or

8                           “(ii) a surviving spouse (as defined in  
9                           section 2(a)),

10                   “(B) \$22,500 in the case of a head of  
11                   household (as defined in section 2(b)), or

12                   “(C) \$15,000 in any other case, reduced  
13                   by any deduction allowed under section  
14                   62(a)(22) for such taxable year.”.

15           (b) CONFORMING AMENDMENT TO INFLATION AD-  
16 JUSTMENT.—Section 63(c)(4)(B)(i) is amended by strik-  
17 ing “(2)(B), (2)(C), or”.

18           (c) REPEAL OF EGTRRA SUNSET.—Title IX of the  
19 Economic Growth and Tax Relief Reconciliation Act of  
20 2001 shall not apply to section 301 of such Act (relating  
21 to standard deduction).

22           (d) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 2011.



1 **SEC. 103. PERMANENT EXTENSION OF EXPANSION OF**  
2 **EARNED INCOME CREDIT.**

3 (a) REPEAL OF EGTRRA SUNSET.—Title IX of the  
4 Economic Growth and Tax Relief Reconciliation Act of  
5 2001 shall not apply to section 303 of such Act (relating  
6 to earned income tax credit).

7 (b) EFFECTIVE DATE.—Subsection (a) shall apply to  
8 taxable years beginning after December 31, 2011.

9 **SEC. 104. PERMANENT EXTENSION OF EXPANSION OF DE-**  
10 **PENDENT CARE CREDIT.**

11 (a) REPEAL OF EGTRRA SUNSET.—Title IX of the  
12 Economic Growth and Tax Relief Reconciliation Act of  
13 2001 shall not apply to section 204 of such Act (relating  
14 to dependent care credit).

15 (b) EFFECTIVE DATE.—Subsection (a) shall apply to  
16 taxable years beginning after December 31, 2011.

17 **SEC. 105. PERMANENT EXTENSION OF CHILD TAX CREDIT.**

18 (a) REPEAL OF EGTRRA SUNSET.—Title IX of the  
19 Economic Growth and Tax Relief Reconciliation Act of  
20 2001 shall not apply to section 201 (relating to modifica-  
21 tions to child tax credit) and section 203 (relating to re-  
22 funds disregarded in the administration of federal pro-  
23 grams and federally assisted programs) of such Act.

24 (b) EFFECTIVE DATE.—Subsection (a) shall apply to  
25 taxable years beginning after December 31, 2011.

1 **SEC. 106. PERMANENT REPEAL OF LIMITATIONS ON PER-**  
2 **SONAL EXEMPTIONS AND ITEMIZED DEDUC-**  
3 **TIONS.**

4 (a) REPEAL OF EGTRRA SUNSET.—Title IX of the  
5 Economic Growth and Tax Relief Reconciliation Act of  
6 2001 shall not apply to section 102 (relating to repeal of  
7 phaseout of personal exemptions) and 103 (relating to  
8 phaseout of overall limitation on itemized deductions) of  
9 such Act.

10 (b) EFFECTIVE DATE.—Subsection (a) shall apply to  
11 taxable years beginning after December 31, 2011.

12 **SEC. 107. ELIMINATION OF INDIVIDUAL MISCELLANEOUS**  
13 **ITEMIZED DEDUCTIONS.**

14 (a) IN GENERAL.—Subsection (a) of section 67 is  
15 amended to read as follows:

16 “(a) GENERAL RULE.—In the case of an individual,  
17 miscellaneous deductions shall not be allowed for any tax-  
18 able year beginning after December 31, 2011.”.

19 (b) CONFORMING AMENDMENTS.—

20 (1) The heading for section 67 is amended by  
21 striking “**2-PERCENT FLOOR ON**” and inserting  
22 “**TREATMENT OF**”.

23 (2) The item relating to section 67 in the table  
24 of sections for part I of subchapter B of chapter 1  
25 is amended by striking “2-percent floor on” and in-  
26 serting “Treatment of”.

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2011.

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

6 (a) ACCELERATION OF JGTRRA SUNSET.—Section  
7 303 of the Jobs and Growth Tax Relief Reconciliation Act  
8 of 2003, as amended by section 102(a) of the Tax Relief,  
9 Unemployment Insurance Reauthorization, and Job Cre-  
10 ation Act of 2010, is amended by striking “December 31,  
11 2012” and inserting “December 31, 2011”.

12 (b) TREATMENT OF CAPITAL GAINS AND DIVIDENDS  
13 AS ORDINARY INCOME.—Section 1(h), after the applica-  
14 tion of subsection (a), is amended by adding at the end  
15 the following new paragraph:

16 “(11) TERMINATION.—This subsection shall not  
17 apply to taxable years beginning after December 31,  
18 2011.”.

19 **SEC. 109. PARTIAL EXCLUSION OF CAPITAL GAINS.**

20 (a) PARTIAL EXCLUSION.—Part III of subchapter B  
21 of chapter 1 is amended by inserting before section 140  
22 the following new section:

23 **“SEC. 139F. CAPITAL GAINS PARTIAL EXCLUSION.**

24 “For any taxable year, gross income shall not in-  
25 clude—



1       “(b) QUALIFIED DIVIDEND INCOME.—For purposes  
2 of this subsection—

3           “(1) IN GENERAL.—The term ‘qualified divi-  
4 dend income’ means dividends received with respect  
5 to any share of stock of—

6           “(A) any domestic corporation, or

7           “(B) any foreign corporation but only if  
8 such share of stock is readily tradable on an es-  
9 tablished securities market.

10          “(2) CERTAIN DIVIDENDS EXCLUDED.—Such  
11 term shall not include—

12           “(A) any dividend from a corporation  
13 which for the taxable year of the corporation in  
14 which the distribution is made, or the preceding  
15 taxable year, is a corporation exempt from tax  
16 under section 501 or 521,

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

21           “(C) any dividend described in section  
22 404(k).

23          “(3) EXCLUSION OF DIVIDENDS OF CERTAIN  
24 FOREIGN CORPORATIONS.—Such term shall not in-  
25 clude any dividend from a foreign corporation which

1 for the taxable year of the corporation in which the  
2 distribution was made, or the preceding taxable  
3 year, is a foreign personal holding company (as de-  
4 fined in section 552), a foreign investment company  
5 (as defined in section 1246(b)), or a passive foreign  
6 investment company (as defined in section 1297).

7 “(4) COORDINATION WITH SECTION 246(c).—  
8 Such term shall not include any dividend on any  
9 share of stock—

10 “(A) with respect to which the holding pe-  
11 riod requirements of section 246(c) are not met,  
12 or

13 “(B) to the extent that the taxpayer is  
14 under an obligation (whether pursuant to a  
15 short sale or otherwise) to make related pay-  
16 ments with respect to positions in substantially  
17 similar or related property.

18 “(c) SPECIAL RULES.—

19 “(1) AMOUNTS TAKEN INTO ACCOUNT AS IN-  
20 VESTMENT INCOME.—Qualified dividend income  
21 shall not include any amount which the taxpayer  
22 takes into account as investment income under sec-  
23 tion 163(d)(4)(B).

24 “(2) COORDINATION WITH FOREIGN TAX CRED-  
25 IT AND DEDUCTION.—No credit shall be allowed

1 under section 901, and no deduction shall be allowed  
2 under this chapter, for any taxes paid or accrued  
3 with respect to any income excludable under this  
4 section.

5 “(3) EXTRAORDINARY DIVIDENDS.—If an indi-  
6 vidual receives, with respect to any share of stock,  
7 qualified dividend income from 1 or more dividends  
8 which are extraordinary dividends (within the mean-  
9 ing of section 1059(c)), any loss on the sale or ex-  
10 change of such share shall, to the extent of such  
11 dividends, be treated as long-term capital loss.

12 “(4) CERTAIN NONRESIDENT ALIENS INELI-  
13 GIBLE FOR EXCLUSION.—In the case of a non-  
14 resident alien individual, subsection (a) shall apply  
15 only in determining the tax imposed for the taxable  
16 year by sections 871(b)(1) and 877(b).

17 “(5) EXCLUSION DISREGARDED IN DETER-  
18 MINING INCOME FOR CERTAIN PURPOSES.—Sub-  
19 section (a) shall not apply for purposes of deter-  
20 mining amounts of income under sections 32(i),  
21 86(b), 135(b), 137(b), 219(g), 221(b), 408A(c)(3),  
22 469(i), and 530(c), or subpart A of part IV of sub-  
23 chapter A.

24 “(6) TREATMENT OF DIVIDENDS FROM REGU-  
25 LATED INVESTMENT COMPANIES AND REAL ESTATE

1 INVESTMENT TRUSTS.—A dividend from a regulated  
2 investment company or real estate investment trust  
3 shall be subject to the limitations prescribed in sec-  
4 tions 854 and 857.”.

5 (b) EXCLUSION OF DIVIDENDS FROM INVESTMENT  
6 INCOME.—The last sentence of subparagraph (B) of sec-  
7 tion 163(d)(4) is amended to read as follows:

8 “Such term shall include qualified dividend income  
9 (as defined in section 116(b)) only to the extent the tax-  
10 payer elects to treat such income as investment income  
11 for purposes of this subsection.”.

12 (c) TREATMENT OF DIVIDENDS FROM REGULATED  
13 INVESTMENT COMPANIES.—

14 (1) Subsection (a) of section 854 is amended by  
15 inserting “section 116 (relating to partial exclusion  
16 of dividends received by individuals) and” after “For  
17 purposes of”.

18 (2) Paragraph (1) of section 854(b) is amended  
19 by redesignating subparagraph (B) as subparagraph  
20 (C) and by inserting after subparagraph (A) the fol-  
21 lowing new subparagraph:

22 “(B) EXCLUSION UNDER SECTION 116.—

23 “(i) IN GENERAL.—If the aggregate  
24 dividends received by a regulated invest-  
25 ment company during any taxable year are



1 less than 95 percent of its gross income,  
2 then, in computing the exclusion under  
3 section 116, rules similar to the rules of  
4 subparagraph (A) shall apply.

5 “(ii) GROSS INCOME.—For purposes  
6 of clause (i), in the case of 1 or more sales  
7 or other dispositions of stock or securities,  
8 the term ‘gross income’ includes only the  
9 excess of—

10 “(I) the net short-term capital  
11 gain from such sales or dispositions,  
12 over

13 “(II) the net long-term capital  
14 loss from such sales or dispositions.”.

15 (3) Subparagraph (C) of section 854(b)(1), as  
16 redesignated by paragraph (2), is amended by strik-  
17 ing “subparagraph (A)” and inserting “subpara-  
18 graph (A) or (B)”.

19 (4) Paragraph (2) of section 854(b) is amended  
20 by inserting “the exclusion under section 116 and”  
21 after “for purposes of”.

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

24 “(5) COORDINATION WITH SECTION 116.—For  
25 purposes of paragraph (1)(B), an amount shall be

1 treated as a dividend only if the amount is qualified  
2 dividend income (within the meaning of section  
3 116(b)).”.

4 (d) TREATMENT OF DIVIDENDS RECEIVED FROM  
5 REAL ESTATE INVESTMENT TRUSTS.—Section 857(c) is  
6 amended to read as follows:

7 “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-  
8 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

9 “(1) SECTION 243.—For purposes of section  
10 243 (relating to deductions for dividends received by  
11 corporations), a dividend received from a real estate  
12 investment trust which meets the requirements of  
13 this part shall not be considered a dividend.

14 “(2) SECTION 116.—For purposes of section  
15 116 (relating to exclusion of dividends), rules similar  
16 to the rules of section 854(b)(1)(B) shall apply to  
17 dividends received from a real estate trust which  
18 meets the requirements of this part.”.

19 (e) CONFORMING AMENDMENTS.—

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

22 “(4) For partial exclusion from gross income of  
23 dividends received by individuals, see section 116.”.

1           (2) Paragraph (1) of section 306(a) is amended  
2           by adding at the end the following new subpara-  
3           graph:

4                     “(D) TREATMENT AS DIVIDEND.—For  
5           purposes of section 116, any amount treated as  
6           ordinary income under this paragraph shall be  
7           treated as a dividend received from the corpora-  
8           tion.”.

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

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

13          (ii) Sections 467(c)(5)(C), 1255(b)(2), and  
14          1257(d) are each amended by striking “,  
15          341(e)(12),”.

16          (iii) The table of subparts for part II of sub-  
17          chapter C of chapter 1 is amended by striking the  
18          item related to subpart C.

19          (4) Section 531(a) is amended by inserting “90  
20          percent (80 percent in the case of taxable years be-  
21          ginning after 2007) of” after “equal to”.

22          (5) Section 541(a) is amended by inserting “90  
23          percent (80 percent in the case of taxable years be-  
24          ginning after 2007) of” after “equal to”.

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

3           “The proportionate share of each participant in the  
4           amount of dividends received by the common trust fund  
5           and to which section 116 applies shall be considered for  
6           purposes of such paragraph as having been received by  
7           such participant.”.

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

11          “(7) EXCLUDED DIVIDENDS.—There shall be  
12          included the amount of any dividends excluded from  
13          gross income under section 116 (relating to partial  
14          exclusion of dividends).”.

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

17          “(5) dividends with respect to which section  
18          116 or part VII of subchapter B applies,”.

19          (f) EFFECTIVE DATE.—The amendments made by  
20          this section shall apply to taxable years beginning after  
21          December 31, 2011.

1 **SEC. 111. NONREFUNDABLE PERSONAL CREDIT FOR INTER-**  
2 **EST ON STATE AND LOCAL BONDS.**

3 (a) IN GENERAL.—Subpart A of part IV of sub-  
4 chapter A of chapter 1 is amended by adding at the end  
5 the following new section:

6 **“SEC. 25E. INTEREST ON STATE AND LOCAL BONDS.**

7 “(a) IN GENERAL.—If a taxpayer other than a cor-  
8 poration holds a State or local bond on one or more inter-  
9 est payment dates of the bond during any taxable year,  
10 there shall be allowed as a credit against the tax imposed  
11 by this chapter for the taxable year an amount equal to  
12 the sum of the credits determined under subsection (b)  
13 with respect to such dates.

14 “(b) AMOUNT OF CREDIT.—The amount of the credit  
15 determined under this subsection with respect to any in-  
16 terest payment date for a State or local bond is 25 percent  
17 of the amount of interest payable by the issuer with re-  
18 spect to such date.

19 “(c) STATE OR LOCAL BOND.—

20 “(1) IN GENERAL.—For purposes of this sec-  
21 tion, the term ‘State or local bond’ means any bond  
22 issued as part of an issue if the interest on such  
23 bond would (but for this section) be excludable from  
24 gross income under section 103.

25 “(2) APPLICABLE RULES.—For purposes of ap-  
26 plying paragraph (1)—

1           “(A) for purposes of section 149(b), a  
2           State or local bond shall not be treated as fed-  
3           erally guaranteed by reason of the credit al-  
4           lowed under subsection (a), and

5           “(B) for purposes of section 148, the yield  
6           on a State or local bond shall be determined  
7           without regard to the credit allowed under sub-  
8           section (a).

9           “(d) INTEREST PAYMENT DATE.—For purposes of  
10          this section, the term ‘interest payment date’ means any  
11          date on which the holder of record of the State or local  
12          bond is entitled to a payment of interest under such bond.

13          “(e) SPECIAL RULES.—

14                 “(1) INTEREST ON STATE OR LOCAL BONDS IN-  
15          CLUDIBLE IN GROSS INCOME FOR FEDERAL INCOME  
16          TAX PURPOSES.—For purposes of this title, interest  
17          on any State or local bond shall be includible in  
18          gross income.

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

23          “(f) REGULATIONS.—The Secretary may prescribe  
24          such regulations and other guidance as may be necessary  
25          or appropriate to carry out this section.”.

1 (b) CONFORMING AMENDMENTS.—

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

4 “(4) INTEREST FOR WHICH CREDIT IS ALLOW-  
5 ABLE.—The interest on any State or local bond for  
6 which a credit under section 25E is allowable.”.

7 (2) The table of sections for subpart A of part  
8 IV of subchapter A of chapter 1 is amended by add-  
9 ing at the end the following new item:

“Sec. 25E. Interest on State and local bonds.”.

10 (c) TRANSITIONAL COORDINATION WITH STATE  
11 LAW.—Except as otherwise provided by a State after the  
12 date of the enactment of this Act, the interest on any  
13 State or local bond (as defined in section 25E of the Inter-  
14 nal Revenue Code of 1986, as added by this section) and  
15 the amount of any credit determined under such section  
16 with respect to such bond shall be treated for purposes  
17 of the income tax laws of such State as being exempt from  
18 Federal income tax.

19 (d) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to obligations issued after Decem-  
21 ber 31, 2011.

22 **SEC. 112. RETIREMENT SAVINGS ACCOUNTS.**

23 (a) IN GENERAL.—Section 408A is amended to read  
24 as follows:

1 **“SEC. 408A. RETIREMENT SAVINGS ACCOUNTS.**

2 “(a) IN GENERAL.—Except as provided in this sec-  
3 tion, a retirement savings account shall be treated for pur-  
4 poses of this title in the same manner as an individual  
5 retirement plan.

6 “(b) RETIREMENT SAVINGS ACCOUNT.—For pur-  
7 poses of this title, the term ‘retirement savings account’  
8 means an individual retirement plan (as defined in section  
9 7701(a)(37)) which—

10 “(1) is designated (in such manner as the Sec-  
11 retary may prescribe) at the time of establishment  
12 of the plan as a retirement savings account, and

13 “(2) does not accept any contribution (other  
14 than a qualified rollover contribution) which is not  
15 in cash.

16 “(c) TREATMENT OF CONTRIBUTIONS.—

17 “(1) CONTRIBUTION LIMIT.—Notwithstanding  
18 subsections (a)(1) and (b)(2)(A) of section 408, the  
19 aggregate amount of contributions for any taxable  
20 year to all retirement savings accounts maintained  
21 for the benefit of an individual shall not exceed the  
22 lesser of—

23 “(A) \$5,000, or

24 “(B) the amount of compensation includ-  
25 ible in the individual’s gross income for such  
26 taxable year.



1           “(2) SPECIAL RULE FOR CERTAIN MARRIED IN-  
2           DIVIDUALS.—In the case of any individual who files  
3           a joint return for the taxable year, the amount taken  
4           into account under paragraph (1)(B) shall be in-  
5           creased by the excess (if any) of—

6                   “(A) the compensation includible in the  
7                   gross income of such individual’s spouse for the  
8                   taxable year, over

9                   “(B) the aggregate amount of contribu-  
10                  tions for the taxable year to all retirement sav-  
11                  ings accounts maintained for the benefit of such  
12                  spouse.

13           “(3) CONTRIBUTIONS PERMITTED AFTER AGE  
14           70½.—Contributions to a retirement savings ac-  
15           count may be made even after the individual for  
16           whom the account is maintained has attained age  
17           70½.

18           “(4) MANDATORY DISTRIBUTION RULES NOT  
19           TO APPLY BEFORE DEATH.—Notwithstanding sub-  
20           sections (a)(6) and (b)(3) of section 408 (relating to  
21           required distributions), the following provisions shall  
22           not apply to any retirement savings account:

23                   “(A) Section 401(a)(9)(A).

24                   “(B) The incidental death benefit require-  
25                  ments of section 401(a).

1 “(5) ROLLOVER CONTRIBUTIONS.—

2 “(A) IN GENERAL.—No rollover contribu-  
3 tion may be made to a retirement savings ac-  
4 count unless it is a qualified rollover contribu-  
5 tion.

6 “(B) COORDINATION WITH LIMIT.—A  
7 qualified rollover contribution shall not be taken  
8 into account for purposes of paragraph (1).

9 “(6) ROLLOVERS FROM PLANS WITH TAXABLE  
10 DISTRIBUTIONS.—

11 “(A) IN GENERAL.—Notwithstanding sec-  
12 tions 402(c), 403(a)(4), 403(b)(8), 408(d)(3),  
13 and 457(e)(16), in the case of any contribution  
14 to which this paragraph applies—

15 “(i) there shall be included in gross  
16 income any amount which would be includ-  
17 ible were it not part of a qualified rollover  
18 contribution,

19 “(ii) section 72(t) shall not apply, and

20 “(iii) unless the taxpayer elects not to  
21 have this clause apply for any taxable year,  
22 any amount required to be included in  
23 gross income for such taxable year by rea-  
24 son of this paragraph for any contribution  
25 before January 1, 2012, shall be so in-

1           cluded ratably over the 4-taxable year pe-  
2           riod beginning with such taxable year.

3           Any election under clause (iii) for any contribu-  
4           tions during a taxable year may not be changed  
5           after the due date (including extensions of  
6           time) for filing the taxpayer's return for such  
7           taxable year.

8           “(B) CONTRIBUTIONS TO WHICH PARA-  
9           GRAPH APPLIES.—This paragraph shall apply  
10          to any qualified rollover contribution to a retire-  
11          ment savings account (other than a rollover  
12          contribution from another such account).

13          “(C) CONVERSIONS OF IRAS.—The conver-  
14          sion of an individual retirement plan (other  
15          than a retirement savings account) to a retire-  
16          ment savings account shall be treated for pur-  
17          poses of this paragraph as a contribution to  
18          which this paragraph applies.

19          “(D) ADDITIONAL REPORTING REQUIRE-  
20          MENTS.—Trustees and plan administrators of  
21          eligible retirement plans (as defined in section  
22          402(c)(8)(B)) and retirement savings accounts  
23          shall report such information as the Secretary  
24          may require to ensure that amounts required to  
25          be included in gross income under subpara-

1 graph (A) are so included. Such reports shall be  
2 made at such time and in such form and man-  
3 ner as the Secretary may require. The Sec-  
4 retary may provide that such information be in-  
5 cluded as additional information in reports re-  
6 quired under section 408(i) or 6047.

7 “(E) SPECIAL RULES FOR CONTRIBUTIONS  
8 TO WHICH A 4-YEAR AVERAGING APPLIES.—In  
9 the case of a qualified rollover contribution to  
10 which subparagraph (A)(iii) applied, the fol-  
11 lowing rules shall apply:

12 “(i) ACCELERATION OF INCLUSION.—

13 “(I) IN GENERAL.—The amount  
14 required to be included in gross in-  
15 come for each of the first 3 taxable  
16 years in the 4-year period under sub-  
17 paragraph (A)(iii) shall be increased  
18 by the aggregate distributions from  
19 retirement savings accounts for such  
20 taxable year which are allocable under  
21 subsection (d)(3) to the portion of  
22 such qualified rollover contribution re-  
23 quired to be included in gross income  
24 under subparagraph (A)(i).

1                   “(II) LIMITATION ON AGGRE-  
2                   GATE AMOUNT INCLUDED.—The  
3                   amount required to be included in  
4                   gross income for any taxable year  
5                   under subparagraph (A)(iii) shall not  
6                   exceed the aggregate amount required  
7                   to be included in gross income under  
8                   subparagraph (A)(iii) for all taxable  
9                   years in the 4-year period (without re-  
10                  gard to subclause (I)) reduced by  
11                  amounts included for all preceding  
12                  taxable years.

13                  “(ii) DEATH OF DISTRIBUTEE.—

14                  “(I) IN GENERAL.—If the indi-  
15                  vidual required to include amounts in  
16                  gross income under such subpara-  
17                  graph dies before all of such amounts  
18                  are included, all remaining amounts  
19                  shall be included in gross income for  
20                  the taxable year which includes the  
21                  date of death.

22                  “(II) SPECIAL RULE FOR SUR-  
23                  VIVING SPOUSE.—If the spouse of the  
24                  individual described in subclause (I)  
25                  acquires the individual’s entire inter-

1 est in any retirement savings account  
2 to which such qualified rollover con-  
3 tribution is properly allocable, the  
4 spouse may elect to treat the remain-  
5 ing amounts described in subclause  
6 (I) as includible in the spouse's gross  
7 income in the taxable years of the  
8 spouse ending with or within the tax-  
9 able years of such individual in which  
10 such amounts would otherwise have  
11 been includible. Any such election may  
12 not be made or changed after the due  
13 date (including extensions of time) for  
14 filing the spouse's return for the tax-  
15 able year which includes the date of  
16 death.

17 “(F) 5-YEAR HOLDING PERIOD RULES.—

18 If—

19 “(i) any portion of a distribution from  
20 a retirement savings account is properly al-  
21 locable to a qualified rollover contribution  
22 with respect to which an amount is includ-  
23 ible in gross income under subparagraph  
24 (A)(i),

1                   “(ii) such distribution is made during  
2                   the 5-taxable year period beginning with  
3                   the taxable year for which such contribu-  
4                   tion was made, and

5                   “(iii) such distribution is not de-  
6                   scribed in clause (i), (ii), or (iii) of sub-  
7                   section (d)(2)(A),

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

10                  “(7) TIME WHEN CONTRIBUTIONS MADE.—For  
11                  purposes of this section, a taxpayer shall be deemed  
12                  to have made a contribution to a retirement savings  
13                  account on the last day of the preceding taxable year  
14                  if the contribution is made on account of such tax-  
15                  able year and is made not later than the time pre-  
16                  scribed by law for filing the return for such taxable  
17                  year (not including extensions thereof).

18                  “(8) COST-OF-LIVING ADJUSTMENT.—

19                  “(A) IN GENERAL.—In the case of any  
20                  taxable year beginning in a calendar year after  
21                  2012, the \$5,000 amount under paragraph  
22                  (1)(A) shall be increased by an amount equal  
23                  to—

24                  “(i) such dollar amount, multiplied by

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

5                   “(B) ROUNDING RULES.—If any amount  
6                   after adjustment under subparagraph (A) is not  
7                   a multiple of \$500, such amount shall be  
8                   rounded to the next lower multiple of \$500.

9                   “(d) DISTRIBUTION RULES.—For purposes of this  
10                  title—

11                  “(1) EXCLUSION.—Any qualified distribution  
12                  from a retirement savings account shall not be in-  
13                  cludible in gross income.

14                  “(2) QUALIFIED DISTRIBUTION.—For purposes  
15                  of this subsection—

16                  “(A) IN GENERAL.—The term ‘qualified  
17                  distribution’ means any payment or distribu-  
18                  tion—

19                          “(i) made on or after the date on  
20                          which the individual attains age 58,

21                          “(ii) made to a beneficiary (or to the  
22                          estate of the individual) on or after the  
23                          death of the individual,



1                   “(iii) attributable to the individual’s  
2                   being disabled (within the meaning of sec-  
3                   tion 72(m)(7)), or

4                   “(iv) to which section 72(t)(2)(F) ap-  
5                   plies (if such payment or distribution is  
6                   made before January 1, 2015).

7                   “(B) DISTRIBUTIONS OF EXCESS CON-  
8                   TRIBUTIONS AND EARNINGS.—The term ‘quali-  
9                   fied distribution’ shall not include any distribu-  
10                  tion of any contribution described in section  
11                  408(d)(4) and any net income allocable to the  
12                  contribution.

13                  “(3) ORDERING RULES.—For purposes of ap-  
14                  plying this section and section 72 to any distribution  
15                  from a retirement savings account, such distribution  
16                  shall be treated as made—

17                  “(A) from contributions to the extent that  
18                  the amount of such distribution, when added to  
19                  all previous distributions from the retirement  
20                  savings account, does not exceed the aggregate  
21                  contributions to the retirement savings account,  
22                  and

23                  “(B) from such contributions in the fol-  
24                  lowing order:

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

5                   “(ii) Qualified rollover contributions  
6                   with respect to which an amount is includ-  
7                   ible in gross income under subsection  
8                   (c)(6)(A)(i) on a first-in, first-out basis.

9                   Any distribution allocated to a qualified rollover con-  
10                  tribution under subparagraph (B)(ii) shall be allo-  
11                  cated first to the portion of such contribution re-  
12                  quired to be included in gross income.

13                  “(4) AGGREGATION RULES.—Section 408(d)(2)  
14                  shall be applied separately with respect to retirement  
15                  savings accounts and other individual retirement  
16                  plans.

17                  “(e) QUALIFIED ROLLOVER CONTRIBUTION.—

18                  “(1) IN GENERAL.—For purposes of this sec-  
19                  tion, the term ‘qualified rollover contribution’  
20                  means—

21                  “(A) a rollover contribution to a retirement  
22                  savings account of an individual from another  
23                  such account of such individual or such individ-  
24                  ual’s spouse, or from an individual retirement  
25                  plan of such individual, but only if such rollover

1 contribution meets the requirements of section  
2 408(d)(3), and

3 “(B) a rollover contribution described in  
4 section 402(e), 402A(c)(3)(A), 403(a)(4),  
5 403(b)(8), or 457(e)(16).

6 “(2) COORDINATION WITH LIMITATION ON IRA  
7 ROLLOVERS.—For purposes of section 408(d)(3)(B),  
8 there shall be disregarded any qualified rollover con-  
9 tribution from an individual retirement plan (other  
10 than a retirement savings account) to a retirement  
11 savings account.

12 “(f) INDIVIDUAL RETIREMENT PLAN.—For purposes  
13 of this section—

14 “(1) a simplified employee pension or a simple  
15 retirement account may not be designated as a re-  
16 tirement savings account, and

17 “(2) contributions to any such pension or ac-  
18 count shall not be taken into account for purposes  
19 of subsection (c)(1).

20 “(g) COMPENSATION.—For purposes of this section,  
21 the term ‘compensation’ includes earned income (as de-  
22 fined in section 401(c)(2)). Such term does not include  
23 any amount received as a pension or annuity and does not  
24 include any amount received as deferred compensation.  
25 Such term shall include any amount includible in the indi-

1 individual's gross income under section 71 with respect to a  
2 divorce or separation instrument described in section  
3 71(b)(2)(A). For purposes of this subsection, section  
4 401(c)(2) shall be applied as if the term trade or business  
5 for purposes of section 1402 included service described in  
6 section 1402(c)(6).”.

7 (b) ROTH IRAS TREATED AS RETIREMENT SAVINGS  
8 ACCOUNTS.—In the case of any taxable year beginning  
9 after December 31, 2011, any Roth IRA (as defined in  
10 section 408A(b) of the Internal Revenue Code of 1986,  
11 as in effect on the day before the date of the enactment  
12 of this Act) shall be treated for purposes of such Code  
13 as having been designated at the time of the establishment  
14 of the plan as a retirement savings account under section  
15 408A(b) of such Code (as amended by this section).

16 (c) CONTRIBUTIONS TO OTHER INDIVIDUAL RETIRE-  
17 MENT PLANS PROHIBITED.—

18 (1) INDIVIDUAL RETIREMENT ACCOUNTS.—  
19 Paragraph (1) of section 408(a) is amended to read  
20 as follows:

21 “(1) Except in the case of a simplified employee  
22 pension, a simple retirement account, or a rollover  
23 contribution described in subsection (d)(3) or in sec-  
24 tion 402(c), 403(a)(4), 403(b)(8), or 457(e)(16), no  
25 contribution will be accepted on behalf of any indi-

1       vidual for any taxable year beginning after Decem-  
2       ber 31, 2011. In the case of any simplified employee  
3       pension or simple retirement account, no contribu-  
4       tion will be accepted unless it is in cash and con-  
5       tributions will not be accepted for the taxable year  
6       on behalf of any individual in excess of—

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

10              “(B) in the case of a simple retirement ac-  
11              count, the sum of the dollar amount in effect  
12              under subsection (p)(2)(A)(ii) and the employer  
13              contribution required under subparagraph  
14              (A)(iii) or (B)(i) of subsection (p)(2).”.

15              (2) INDIVIDUAL RETIREMENT ANNUITIES.—  
16       Paragraph (2) of section 408(b) is amended—

17              (A) by redesignating subparagraphs (A),  
18              (B), and (C) as subparagraphs (B), (C), and  
19              (D), respectively, and by inserting before sub-  
20              paragraph (B), as so redesignated, the following  
21              new subparagraph:

22              “(A) except in the case of a simplified em-  
23              ployee pension, a simple retirement account, or  
24              a rollover contribution described in subsection  
25              (d)(3) or in section 402(c), 403(a)(4),

1           403(b)(8), or 457(e)(16), a premium shall not  
2           be accepted on behalf of any individual for any  
3           taxable year beginning after December 31,  
4           2011,” and

5           (B) by amending subparagraph (C), as re-  
6           designated by subparagraph (A), to read as fol-  
7           lows:

8           “(C) the annual premium on behalf of any  
9           individual will not exceed—

10           “(i) in the case of a simplified em-  
11           ployee pension, the amount of the limita-  
12           tion in effect under section 415(c)(1)(A),  
13           and

14           “(ii) in the case of a simple retire-  
15           ment account, the sum of the dollar  
16           amount in effect under subsection  
17           (p)(2)(A)(ii) and the employer contribution  
18           required under subparagraph (A)(iii) or  
19           (B)(i) of subsection (p)(2), and”.

20           (d) CONFORMING AMENDMENTS.—

21           (1)(A) Section 219 is amended to read as fol-  
22           lows:

1 **“SEC. 219. CONTRIBUTIONS TO CERTAIN RETIREMENT**  
2 **PLANS ALLOWING ONLY EMPLOYEE CON-**  
3 **TRIBUTIONS.**

4 “(a) ALLOWANCE OF DEDUCTION.—In the case of an  
5 individual, there shall be allowed as a deduction the  
6 amount contributed on behalf of such individual to a plan  
7 described in section 501(c)(18).

8 “(b) MAXIMUM AMOUNT OF DEDUCTION.—The  
9 amount allowable as a deduction under subsection (a) to  
10 any individual for any taxable year shall not exceed the  
11 lesser of—

12 “(1) \$7,000, or

13 “(2) an amount equal to 25 percent of the com-  
14 pensation (as defined in section 415(c)(3)) includible  
15 in the individual’s gross income for such taxable  
16 year.

17 “(c) BENEFICIARY MUST BE UNDER AGE 70½.—  
18 No deduction shall be allowed under this section with re-  
19 spect to any contribution on behalf of an individual if such  
20 individual has attained age 70½ before the close of such  
21 individual’s taxable year for which the contribution was  
22 made.

23 “(d) SPECIAL RULES.—

24 “(1) MARRIED INDIVIDUALS.—The maximum  
25 deduction under subsection (b) shall be computed  
26 separately for each individual, and this section shall

1 be applied without regard to any community prop-  
2 erty laws.

3 “(2) REPORTS.—The Secretary shall prescribe  
4 regulations which prescribe the time and the manner  
5 in which reports to the Secretary and plan partici-  
6 pants shall be made by the plan administrator of a  
7 qualified employer or government plan receiving  
8 qualified voluntary employee contributions.

9 “(e) CROSS REFERENCE.—For failure to provide re-  
10 quired reports, see section 6652(g).”.

11 (B) Section 25B(d) is amended—

12 (i) in paragraph (1)(A), by striking “(as  
13 defined in section 219(e))”, and

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

16 “(3) QUALIFIED RETIREMENT CONTRIBU-  
17 TION.—The term ‘qualified retirement contribution’  
18 means—

19 “(A) any amount paid in cash for the tax-  
20 able year by or on behalf of an individual to an  
21 individual retirement plan for such individual’s  
22 benefit, and

23 “(B) any amount contributed on behalf of  
24 any individual to a plan described in section  
25 501(c)(18).”.



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

3 (D) Section 132(m)(3) is amended by inserting  
4 “(as in effect on the day before the date of the en-  
5 actment of the Retirement Savings Account Act)”  
6 after “section 219(g)(5)”.

7 (E) Subparagraphs (A), (B), and (C) of section  
8 220(d)(4) are each amended by inserting “, as in ef-  
9 fect on the day before the date of the enactment of  
10 the Retirement Savings Account Act” at the end.

11 (F) Section 408(b) is amended in the last sen-  
12 tence by striking “section 219(b)(1)(A)” and insert-  
13 ing “paragraph (2)(C)”.

14 (G) Section 408(p)(2)(D)(ii) is amended by in-  
15 serting “(as in effect on the day before the date of  
16 the enactment of the Retirement Savings Account  
17 Act)” after “section 219(g)(5)”.

18 (H) Section 409A(d)(2) is amended by insert-  
19 ing “(as in effect on the day before the date of the  
20 enactment of the Retirement Savings Account Act)”  
21 after “subparagraph (A)(iii)”.

22 (I) Section 501(c)(18)(D)(i) is amended by  
23 striking “section 219(b)(3)” and inserting “section  
24 219(b)”.

1           (J) Section 6652(g) is amended by striking  
2           “section 219(f)(4)” and inserting “section  
3           219(d)(2)”.

4           (K) The table of sections for part VII of sub-  
5           chapter B of chapter 1 is amended by striking the  
6           item relating to section 219 and inserting the fol-  
7           lowing new item:

          “Sec. 219. Contributions to certain retirement plans allowing only employee  
          contributions.”.

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

10           “(B) no amount is excludable from gross  
11           income under subsection (h) or (k) of section  
12           402 with respect to such contribution, and”.

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

15           “(A) IN GENERAL.—In the case of any in-  
16           dividual, if the aggregate contributions (other  
17           than rollover contributions) paid for any taxable  
18           year to an individual retirement account or for  
19           an individual retirement annuity do not exceed  
20           the dollar amount in effect under subsection  
21           (a)(1) or (b)(2)(C), as the case may be, para-  
22           graph (1) shall not apply to the distribution of  
23           any such contribution to the extent that such  
24           contribution exceeds the amount which is ex-

1           cludable from gross income under subsection  
2           (h) or (k) of section 402, as the case may be,  
3           for the taxable year for which the contribution  
4           was paid—

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

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

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

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

15                   “(7) CERTAIN TRANSFERS FROM SIMPLIFIED  
16                   EMPLOYEE PENSIONS PROHIBITED UNTIL DEFERRAL  
17                   TEST MET.—Notwithstanding any other provision of  
18                   this subsection or section 72(t), paragraph (1) and  
19                   section 72(t)(1) shall apply to the transfer or dis-  
20                   tribution from a simplified employee pension of any  
21                   contribution under a salary reduction arrangement  
22                   described in subsection (k)(6) (or any income allo-  
23                   cable thereto) before a determination as to whether  
24                   the requirements of subsection (k)(6)(A)(iii) are met  
25                   with respect to such contribution.”.

1           (E) Section 408 is amended by striking sub-  
2           section (j).

3           (F)(i) Section 408 is amended by striking sub-  
4           section (o).

5           (ii) Section 6693 is amended by striking sub-  
6           section (b) and by redesignating subsections (c) and  
7           (d) as subsections (b) and (c), respectively.

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

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

13                 “(1) an individual retirement plan,”.

14          (B) Section 4973(b) is amended to read as fol-  
15          lows:

16                 “(b) EXCESS CONTRIBUTIONS TO SIMPLIFIED EM-  
17          PLOYEE PENSIONS AND SIMPLE RETIREMENT AC-  
18          COUNTS.—For purposes of this section, in the case of sim-  
19          plified employee pensions or simple retirement accounts,  
20          the term ‘excess contributions’ means the sum of—

21                         “(1) the excess (if any) of—

22                                 “(A) the amount contributed for the tax-  
23                                 able year to the pension or account, over

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

4           “(2) the amount determined under this sub-  
5           section for the preceding taxable year, reduced by  
6           the sum of—

7           “(A) the distributions out of the account  
8           for the taxable year which were included in the  
9           gross income of the payee under section  
10          408(d)(1),

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

14          “(C) the excess (if any) of the maximum  
15          amount excludable from gross income for the  
16          taxable year under subsection (h) or (k) of sec-  
17          tion 402 over the amount contributed to the  
18          pension or account for the taxable year.

19 For purposes of this subsection, any contribution which  
20 is distributed from a simplified employee pension or simple  
21 retirement account in a distribution to which section  
22 408(d)(4) applies shall be treated as an amount not con-  
23 tributed.”.

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

1       “(h) EXCESS CONTRIBUTIONS TO CERTAIN INDI-  
2 VIDUAL RETIREMENT PLANS.—For purposes of this sec-  
3 tion, in the case of individual retirement plans (other than  
4 retirement savings accounts, simplified employee pensions,  
5 and simple retirement accounts), the term ‘excess con-  
6 tribution’ means the sum of—

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

9               “(2) the amount determined under this sub-  
10 section for the preceding taxable year, reduced by  
11 the sum of—

12                       “(A) the distributions out of the plans  
13 which were included in gross income under sec-  
14 tion 408(d)(1), and

15                       “(B) the distributions out of the plans for  
16 the taxable year to which section 408(d)(5) ap-  
17 plies.

18 For purposes of this subsection, any contribution which  
19 is distributed from the plan in a distribution to which sec-  
20 tion 408(d)(4) applies shall be treated as an amount not  
21 contributed.”.

22               (4)(A)               Sections               402(c)(8)(B),  
23               402A(c)(3)(A)(ii),   1361(c)(2)(A),   3405(e)(1)(B),  
24               and 4973(f) are each amended by striking “Roth

1 IRA” each place it appears and inserting “retire-  
2 ment savings account”.

3 (B) Section 4973(f)(1)(A) is amended by strik-  
4 ing “Roth IRAs” and inserting “retirement savings  
5 accounts”.

6 (C) Paragraphs (1)(B) and (2)(B) of section  
7 4973(f) are each amended by striking “sections  
8 408A(c)(2) and (c)(3)” and inserting “section  
9 408A(c)(1)”.

10 (D) Subsection (f) of section 4973 is amended  
11 in the heading by striking “**ROTH IRAS**” and insert-  
12 ing “**RETIREMENT SAVINGS ACCOUNTS**”.

13 (e) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to taxable years beginning after  
15 December 31, 2011.

16 **SEC. 113. AMERICAN DREAM ACCOUNTS.**

17 (a) IN GENERAL.—Subchapter F of Chapter 1 is  
18 amended by adding at the end the following new part:

19 **“PART IX—AMERICAN DREAM ACCOUNTS**

20 **“SEC. 530A. AMERICAN DREAM ACCOUNTS.**

21 “(a) GENERAL RULE.—An American Dream Account  
22 shall be exempt from taxation under this subtitle. Not-  
23 withstanding the preceding sentence, such account shall  
24 be subject to the taxes imposed by section 511 (relating

1 to imposition of tax on unrelated business income of chari-  
2 table organizations).

3 “(b) AMERICAN DREAM ACCOUNT.—For purposes of  
4 this section, the term ‘American Dream Account’ means  
5 a trust created or organized in the United States for the  
6 exclusive benefit of an individual or his beneficiaries and  
7 which is designated (in such manner as the Secretary shall  
8 prescribe) at the time of the establishment of the trust  
9 as an American Dream Account, but only if the written  
10 governing instrument creating the trust meets the fol-  
11 lowing requirements:

12 “(1) Except in the case of a qualified rollover  
13 contribution described in subsection (d)—

14 “(A) no contribution will be accepted un-  
15 less it is in cash, and

16 “(B) contributions will not be accepted for  
17 the calendar year in excess of the contribution  
18 limit specified in subsection (c)(1).

19 “(2) The trustee is a bank (as defined in sec-  
20 tion 408(n)) or another person who demonstrates to  
21 the satisfaction of the Secretary that the manner in  
22 which that person will administer the trust will be  
23 consistent with the requirements of this section or  
24 who has so demonstrated with respect to any indi-  
25 vidual retirement plan.



1           “(3) No part of the trust assets will be invested  
2           in life insurance contracts.

3           “(4) The interest of an individual in the bal-  
4           ance of his account is nonforfeitable.

5           “(5) The assets of the trust shall not be com-  
6           mingled with other property except in a common  
7           trust fund or common investment fund.

8           “(c) TREATMENT OF CONTRIBUTIONS AND DIS-  
9           TRIBUTIONS.—

10           “(1) CONTRIBUTION LIMIT.—

11           “(A) IN GENERAL.—The aggregate  
12           amount of contributions (other than qualified  
13           rollover contributions described in subsection  
14           (d)) for any calendar year to all American  
15           Dream Accounts maintained for the benefit of  
16           an individual shall not exceed \$2,000.

17           “(B) COST-OF-LIVING ADJUSTMENT.—

18           “(i) IN GENERAL.—In the case of any  
19           calendar year after 2012, the \$2,000  
20           amount under subparagraph (A) shall be  
21           increased by an amount equal to—

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

1                   “(II) the cost-of-living adjust-  
2                   ment determined under section 1(f)(3)  
3                   for the calendar year.

4                   “(ii) ROUNDING RULES.—If any  
5                   amount after adjustment under clause (i)  
6                   is not a multiple of \$500, such amount  
7                   shall be rounded to the next lower multiple  
8                   of \$500.

9                   “(2) DISTRIBUTIONS.—Any distribution from  
10                  an American Dream Account shall not be includible  
11                  in gross income.

12                  “(d) QUALIFIED ROLLOVER CONTRIBUTION.—For  
13                  purposes of this section, the term ‘qualified rollover con-  
14                  tribution’ means a contribution to an American Dream  
15                  Account—

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

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

25                   “(3) before January 1, 2012, from—

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

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

5           “(e) LOSS OF TAXATION EXEMPTION OF ACCOUNT  
6 WHERE BENEFICIARY ENGAGES IN PROHIBITED TRANS-  
7 ACTION.—Rules similar to the rules of paragraph (2) of  
8 section 408(e) shall apply to any American Dream Ac-  
9 count.

10           “(f) CUSTODIAL ACCOUNTS.—For purposes of this  
11 section, a custodial account or an annuity contract issued  
12 by an insurance company qualified to do business in a  
13 State shall be treated as a trust under this section if—

14                   “(1) the custodial account or annuity contract  
15                   would, except for the fact that it is not a trust, con-  
16                   stitute a trust which meets the requirements of sub-  
17                   section (b), and

18                   “(2) in the case of a custodial account, the as-  
19                   sets of such account are held by a bank (as defined  
20                   in section 408(n)) or another person who dem-  
21                   onstrates, to the satisfaction of the Secretary, that  
22                   the manner in which he will administer the account  
23                   will be consistent with the requirements of this sec-  
24                   tion.

1 For purposes of this title, in the case of a custodial ac-  
2 count or annuity contract treated as a trust by reason of  
3 the preceding sentence, the person holding the assets of  
4 such account or holding such annuity contract shall be  
5 treated as the trustee thereof.

6 “(g) REPORTS.—The trustee of an American Dream  
7 Account shall make such reports regarding such account  
8 to the Secretary and to the beneficiary of the account with  
9 respect to contributions, distributions, and such other  
10 matters as the Secretary may require. The reports re-  
11 quired by this subsection shall be filed at such time and  
12 in such manner and furnished to such individuals at such  
13 time and in such manner as may be required.”.

14 (b) TAX ON EXCESS CONTRIBUTIONS.—

15 (1) IN GENERAL.—Subsection (a) of section  
16 4973 is amended by striking “or” at the end of  
17 paragraph (4), by inserting “or” at the end of para-  
18 graph (5), and by inserting after paragraph (5) the  
19 following new paragraph:

20 “(6) an American Dream Account (as defined  
21 in section 530A),”.

22 (2) EXCESS CONTRIBUTION.—Section 4973 is  
23 amended by adding at the end the following new  
24 subsection:

1       “(h) EXCESS CONTRIBUTIONS TO AMERICAN DREAM  
2 ACCOUNTS.—For purposes of this section—

3           “(1) IN GENERAL.—In the case of American  
4 Dream Accounts (within the meaning of section  
5 530A), the term ‘excess contributions’ means the  
6 sum of—

7           “(A) the amount by which the amount con-  
8 tributed for the calendar year to such accounts  
9 (other than qualified rollover contributions (as  
10 defined in section 530A(d))) exceeds the con-  
11 tribution limit under section 530A(c)(1), and

12           “(B) the amount determined under this  
13 subsection for the preceding calendar year, re-  
14 duced by the excess (if any) of the maximum  
15 amount allowable as a contribution under sec-  
16 tion 530A(c)(1) for the calendar year over the  
17 amount contributed to the accounts for the cal-  
18 endar year.

19           “(2) SPECIAL RULE.—A contribution shall not  
20 be taken into account under paragraph (1) if such  
21 contribution (together with the amount of net in-  
22 come attributable to such contribution) is returned  
23 to the beneficiary before July 1 of the year following  
24 the year in which the contribution is made.”.

1           (c) FAILURE TO PROVIDE REPORTS ON AMERICAN  
2 DREAM ACCOUNTS.—Paragraph (2) of section 6693(a) is  
3 amended by striking “and” at the end of subparagraph  
4 (D), by striking the period at the end of subparagraph  
5 (E) and inserting “, and”, and by adding at the end the  
6 following new subparagraph:

7                   “(F) section 530A(g) (relating to Amer-  
8                   ican Dream Accounts).”.

9           (d) ROLLOVERS FROM CERTAIN OTHER TAX-FREE  
10 ACCOUNTS.—

11           (1) QUALIFIED STATE TUITION PLANS.—Para-  
12 graph (3) of section 529(c) is amended by adding at  
13 the end the following new subparagraph:

14                   “(E) ROLLOVERS TO AMERICAN DREAM  
15                   ACCOUNTS.—

16                           “(i) IN GENERAL.—Subparagraph (A)  
17                           shall not apply to the qualified portion of  
18                           any distribution which, before January 1,  
19                           2013, and within 60 days of such distribu-  
20                           tion, is transferred to an American Dream  
21                           Account (within the meaning of section  
22                           530A) of the designated beneficiary. This  
23                           subparagraph shall only apply to distribu-  
24                           tions in accordance with the previous sen-  
25                           tence from an account which was in exist-

1                   ence with respect to such designated bene-  
2                   ficiary on December 31, 2010.

3                   “(ii) QUALIFIED PORTION.—For pur-  
4                   poses of this subparagraph, the term  
5                   ‘qualified portion’ means the amount equal  
6                   to the sum of—

7                                 “(I) the lesser of \$50,000 or the  
8                                 amount which is in the account of the  
9                                 designated beneficiary on December  
10                                31, 2010,

11                               “(II) any contributions to such  
12                                account for the taxable year beginning  
13                                after December 31, 2010, and before  
14                                January 1, 2012, and

15                               “(III) any earnings of such ac-  
16                                count for such year.

17                               “(iii) LIMITATION.—The sum of the  
18                                amounts taken into account under clause  
19                                (ii)(II) with respect to all accounts of the  
20                                designated beneficiary plus any amounts  
21                                with respect to such designated beneficiary  
22                                taken into account under section  
23                                530(d)(9)(B)(ii) shall not exceed the sum  
24                                of \$2,000 plus the earnings attributable to  
25                                such amounts.”.

1           (2) COVERDELL EDUCATION SAVINGS AC-  
2           COUNTS.—Subsection (d) of section 530 is amended  
3           by inserting at the end the following new paragraph:

4           “(10) ROLLOVERS TO AMERICAN DREAM AC-  
5           COUNTS.—

6           “(A) IN GENERAL.—Paragraph (1) shall  
7           not apply to the qualified portion of any  
8           amount paid or distributed from a Coverdell  
9           education savings account to the extent that the  
10          amount received is paid, before January 1,  
11          2013, and not later than the 60th day after the  
12          date of such payment or distribution, into an  
13          American Dream Account (within the meaning  
14          of section 530A) for the benefit of the same  
15          beneficiary. This paragraph shall only apply to  
16          amounts paid or distributed in accordance with  
17          the preceding sentence from an account which  
18          was in existence with respect to such bene-  
19          ficiary on December 31, 2010.

20          “(B) QUALIFIED PORTION.—For purposes  
21          of this paragraph, the term ‘qualified portion’  
22          means the amount equal to the sum of—

23                  “(i) the amount which is in the ac-  
24                  count of the beneficiary on December 31,  
25                  2010,



1                   “(ii) any contributions to such ac-  
2                   count for the taxable year beginning after  
3                   December 31, 2010, and before January 1,  
4                   2012, and

5                   “(iii) any earnings of such account for  
6                   such year.

7                   “(C) LIMITATION.—The sum of the  
8                   amounts taken into account under subpara-  
9                   graph (B)(ii) with respect to all accounts of the  
10                  beneficiary plus any amounts with respect to  
11                  such beneficiary taken into account under sec-  
12                  tion 529(c)(3)(E)(ii)(II) shall not exceed the  
13                  sum of \$2,000 plus the earnings attributable to  
14                  such amounts.”.

15                  (e) CONFORMING AMENDMENT.—The table of parts  
16                  for subchapter F of chapter 1 is amended by adding at  
17                  the end the following new item:

                  “PART IX. AMERICAN DREAM ACCOUNTS”.

18                  (f) EFFECTIVE DATE.—The amendments made by  
19                  this section shall apply to taxable years beginning after  
20                  December 31, 2011.

21                  **SEC. 114. CONSOLIDATION OF TAX CREDITS AND DEDUC-**  
22                  **TIONS FOR EDUCATION EXPENSES.**

23                  (a) IN GENERAL.—Section 25A of the Internal Rev-  
24                  enue Code of 1986, after the application of section 901

1 of the Economic Growth and Tax Relief Reconciliation Act  
2 of 2001, is amended to read as follows:

3 **“SEC. 25A. QUALIFIED TUITION AND RELATED EXPENSES**  
4 **CREDIT.**

5 “(a) ALLOWANCE OF CREDIT.—

6 “(1) IN GENERAL.—In the case of any eligible  
7 individual for whom an election is in effect under  
8 this section, there shall be allowed as a credit  
9 against the tax imposed by this chapter for the tax-  
10 able year an amount equal to the applicable percent-  
11 age of so much of the qualified tuition and related  
12 expenses paid by the taxpayer during the taxable  
13 year (for education furnished to the eligible indi-  
14 vidual during any academic period beginning in such  
15 taxable year) as does not exceed \$10,000.

16 “(2) APPLICABLE PERCENTAGE.—For purposes  
17 of subsection (a), the applicable percentage is—

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

21 “(B) for the next 2 such taxable years, 15  
22 percent, and

23 “(C) notwithstanding subparagraph (A),  
24 for any taxable year such eligible individual at-

1 tends or is enrolled in only one academic period,  
2 15 percent.

3 “(b) LIMITATIONS.—

4 “(1) MODIFIED ADJUSTED GROSS INCOME LIM-  
5 TATION.—

6 “(A) IN GENERAL.—The amount which  
7 would (but for this paragraph) be taken into ac-  
8 count under subsection (a) for the taxable year  
9 shall be reduced (but not below zero) by the  
10 amount determined under paragraph (2).

11 “(B) AMOUNT OF REDUCTION.—The  
12 amount determined under this paragraph is the  
13 amount which bears the same ratio to the  
14 amount which would be so taken into account  
15 as—

16 “(i) the excess of—

17 “(I) the taxpayer’s modified ad-  
18 justed gross income for such taxable  
19 year, over

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

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



1                   “(iii) any dependent of the taxpayer  
2                   with respect to whom the taxpayer is al-  
3                   lowed a deduction under section 151,  
4                   at an eligible educational institution for courses  
5                   of instruction of such individual at such institu-  
6                   tion.

7                   “(B) STUDENT LOAN INTEREST.—

8                   “(i) IN GENERAL.—Such term shall  
9                   include so much of the interest paid on any  
10                  qualified education loan of such individual  
11                  as does not exceed \$2,500, reduced by any  
12                  amount taken into account under this sec-  
13                  tion for any preceding taxable year.

14                  “(ii) QUALIFIED EDUCATION LOAN.—  
15                  For purposes of clause (i), the term ‘quali-  
16                  fied education loan’ means any indebted-  
17                  ness incurred by the taxpayer solely to pay  
18                  qualified tuition and related expenses—

19                               “(I) which are incurred on behalf  
20                               of an eligible individual as of the time  
21                               the indebtedness was incurred,

22                               “(II) which are paid or incurred  
23                               within a reasonable period of time be-  
24                               fore or after the indebtedness is in-  
25                               curred, and

1                   “(III) which are attributable to  
2                   education furnished during a period  
3                   during which the recipient was an eli-  
4                   gible individual.

5                   Such term includes indebtedness used to  
6                   refinance indebtedness which qualifies as a  
7                   qualified education loan. Such term shall  
8                   not include any indebtedness owed to a  
9                   person who is related (within the meaning  
10                  of section 267(b) or 707(b)(1)) to the eligi-  
11                  ble individual or to any person by reason  
12                  of a loan under any qualified employer  
13                  plan (as defined in section 72(p)(4)) or  
14                  under any contract referred to in section  
15                  72(p)(5).

16                  “(C) BOOKS.—Such term shall include  
17                  books required for such individual’s academic  
18                  courses of instruction at the eligible educational  
19                  institution.

20                  “(D) EXCEPTION FOR EDUCATION INVOLV-  
21                  ING SPORTS, ETC.—Such term does not include  
22                  expenses with respect to any course or other  
23                  education involving sports, games, or hobbies,  
24                  unless such course or other education is part of  
25                  the individual’s degree program.

1           “(E) EXCEPTION FOR NONACADEMIC  
2 FEES.—Such term does not include student ac-  
3 tivity fees, athletic fees, insurance expenses, or  
4 other expenses unrelated to an individual’s aca-  
5 demic course of instruction.

6           “(3) ELIGIBLE EDUCATIONAL INSTITUTION.—  
7 The term ‘eligible educational institution’ means an  
8 institution—

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

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

16           “(d) SPECIAL RULES.—

17           “(1) IDENTIFICATION REQUIREMENT.—No  
18 credit shall be allowed under subsection (a) to a tax-  
19 payer with respect to an eligible student unless the  
20 taxpayer includes the name and taxpayer identifica-  
21 tion number of such student on the return of tax for  
22 the taxable year.

23           “(2) ADJUSTMENT FOR CERTAIN SCHOLAR-  
24 SHIPS.—The amount of qualified tuition and related  
25 expenses otherwise taken into account under sub-

1 section (a) with respect to an individual for an aca-  
2 demic period shall be reduced (before the application  
3 of subsections (a) and (b)) by the sum of any  
4 amounts paid for the benefit of such individual  
5 which are allocable to such period as—

6 “(A) a qualified scholarship which is ex-  
7 cludable from gross income under section 117,

8 “(B) an educational assistance allowance  
9 under chapter 30, 31, 32, 34, or 35 of title 38,  
10 United States Code, or under chapter 1606 of  
11 title 10, United States Code, and

12 “(C) a payment (other than a gift, be-  
13 quest, devise, or inheritance within the meaning  
14 of section 102(a)) for such student’s edu-  
15 cational expenses, or attributable to such indi-  
16 vidual’s enrollment at an eligible educational in-  
17 stitution, which is excludable from gross income  
18 under any law of the United States.

19 “(3) TREATMENT OF EXPENSES PAID BY DE-  
20 PENDENT.—If a deduction under section 151 with  
21 respect to an individual is allowed to another tax-  
22 payer for a taxable year beginning in the calendar  
23 year in which such individual’s taxable year begins—



1           “(A) no credit shall be allowed under sub-  
2           section (a) to such individual for such individ-  
3           ual’s taxable year, and

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

8           “(4) TREATMENT OF CERTAIN PREPAY-  
9           MENTS.—If qualified tuition and related expenses  
10          are paid by the taxpayer during a taxable year for  
11          an academic period which begins during the first 3  
12          months following such taxable year, such academic  
13          period shall be treated for purposes of this section  
14          as beginning during such taxable year.

15          “(5) DENIAL OF DOUBLE BENEFIT.—No credit  
16          shall be allowed under this section for any expense  
17          for which deduction is allowed under any other pro-  
18          vision of this chapter.

19          “(6) NO CREDIT FOR MARRIED INDIVIDUALS  
20          FILING SEPARATE RETURNS.—If the taxpayer is a  
21          married individual (within the meaning of section  
22          7703), this section shall apply only if the taxpayer  
23          and the taxpayer’s spouse file a joint return for the  
24          taxable year.

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

7           “(e) INFLATION ADJUSTMENT.—

8           “(1) IN GENERAL.—In the case of any taxable  
9           year beginning after 2012, the \$50,000 amount in  
10          subsection (b)(1)(B)(i)(II) shall be increased by an  
11          amount equal to—

12                   “(A) such dollar amount, multiplied by

13                   “(B) the cost-of-living adjustment deter-  
14                   mined under section 1(f)(3) for the calendar  
15                   year in which the taxable year begins.

16          “(2) ROUNDING.—If any amount as adjusted  
17          under paragraph (1) is not a multiple of \$1,000,  
18          such amount shall be rounded to the next lowest  
19          multiple of \$1,000.

20          “(f) REGULATIONS.—The Secretary may prescribe  
21          such regulations as may be necessary or appropriate to  
22          carry out this section, including regulations providing for  
23          a recapture of the credit allowed under this section in  
24          cases where there is a refund in a subsequent taxable year

1 of any expense which was taken into account in deter-  
2 mining the amount of such credit.”.

3 (b) REPEAL OF DEDUCTION FOR INTEREST ON EDU-  
4 CATION LOANS.—Part VII of subchapter B of chapter 1  
5 is amended by striking section 221.

6 (c) CONFORMING AMENDMENTS.—

7 (1) Section 62(a) is amended by striking para-  
8 graph (17).

9 (2) Subparagraph (A) of section 86(b)(2) is  
10 amended by striking “, 221”.

11 (3) Subparagraph (B) of section 72(t)(7) is  
12 amended by striking “section 25A(g)(2)” and insert-  
13 ing “section 25A(d)(2)”.

14 (4) Subparagraph (A) of section 135(c)(4) is  
15 amended by striking “, 221”.

16 (5) Subparagraph (A) of section 137(b)(3) is  
17 amended by striking “, 221”.

18 (6) Paragraph (2) of section 163(h) is amended  
19 by adding “and” at the end of subparagraph (D), by  
20 striking “, and” at the end of subparagraph (E) and  
21 inserting a period, and by striking subparagraph  
22 (F).

23 (7) Subparagraph (A) of section 199(d)(2) is  
24 amended by striking “, 221”.

1           (8) Clause (ii) of section 219(g)(3)(A) is  
2 amended by striking “, 221”.

3           (9) Clause (iii) of section 469(i)(3)(F) is  
4 amended by striking “, 221”.

5           (10) Subclause (I) of section 529(c)(3)(B)(v) is  
6 amended by striking “section 25A(g)(2)” and insert-  
7 ing “section 25A(d)(2)”.

8           (11) Paragraph (3) of section 529(e) is amend-  
9 ed—

10           (A) by striking “(as defined in section  
11 25A(b)(3))” in subparagraph (A), and

12           (B) by adding at the end the following new  
13 subparagraph:

14           “(C) ELIGIBLE STUDENT.—For purposes  
15 of this paragraph, the term ‘eligible student’  
16 means, with respect to any academic period, a  
17 student who—

18           “(i) meets the requirements of section  
19 484(a)(1) of the Higher Education Act of  
20 1965 (20 U.S.C. 1091(a)(1)), as in effect  
21 on the date of the enactment of the Tax-  
22 payer Relief Act of 1997, and

23           “(ii) is carrying at least  $\frac{1}{2}$  the normal  
24 full-time workload for the course of study  
25 the student is pursuing.”.

1           (12) Clause (iii) of section 530(d)(4)(B) is  
2           amended by striking “section 25A(g)(2)” and insert-  
3           ing “section 25A(d)(2)”.

4           (13) Section 1400O is amended by adding at  
5           the end the following flush sentence:

6           “For purposes of this section, any reference to section 25A  
7           shall be treated as a reference to such section as in effect  
8           on the day before the date of the enactment of this sen-  
9           tence.”.

10           (14) Subparagraph (J) of section 6213(g)(2) is  
11           amended by striking “section 25A(g)(1)” and insert-  
12           ing “section 25A(d)(1)”.

13           (15) Subsection (e) of section 6050S is amend-  
14           ed by inserting “(as in effect before the date of the  
15           enactment of the Bipartisan Tax Fairness and Sim-  
16           plification Act of 2011)” before the end period.

17           (d) CLERICAL AMENDMENTS.—

18           (1) The table of sections for subpart A of part  
19           IV of subchapter A of chapter 1 is amended by  
20           striking the item relating to section 25A and insert-  
21           ing the following:

“25A. Qualified tuition and related expenses credit.”.

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

1 (e) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to expenses paid after December  
3 31, 2011, for education furnished in academic periods be-  
4 ginning after such date.

5 **SEC. 115. TERMINATION OF VARIOUS EXCLUSIONS, EXEMP-**  
6 **TIONS, DEDUCTIONS, AND CREDITS.**

7 (a) IN GENERAL.—Subchapter C of chapter 90 is  
8 amended by adding at the end the following new section:

9 **“SEC. 7875. TERMINATION OF CERTAIN PROVISIONS.**

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

12 “(1) Section 74(c) (relating to exclusion of cer-  
13 tain employee achievement awards).

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

16 “(3) Section 119 (relating to exclusion of meals  
17 or lodging furnished for the convenience of the em-  
18 ployer).

19 “(4) Section 125 (relating to exclusion of cafe-  
20 teria plan benefits).

21 “(5) Section 132 (relating to certain fringe ben-  
22 efits), except with respect to subsection (a)(5) there-  
23 of (relating to exclusion of qualified transportation  
24 fringe).

1           “(6) Section 217 (relating to deduction for  
2 moving expenses).

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

5           “(8) Section 501(c)(9) (relating to tax-exempt  
6 status of voluntary employees’ beneficiary associa-  
7 tions).

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

11           “(10) Section 912 (relating to exemption for  
12 certain allowances).”.

13           (b) CONFORMING AMENDMENT.—The table of sec-  
14 tions for subchapter C of chapter 90 is amended by adding  
15 at the end the following new item:

          “Sec. 7875. Termination of certain provisions.”.

16 **SEC. 116. SIMPLIFIED TAX RETURN PREPARATION.**

17           Beginning on January 1, 2012, the Internal Revenue  
18 Service shall provide to any taxpayer who requests it a  
19 simplified “Easyfile” pre-prepared income tax return, on  
20 paper, compact disc, or through the Internet, based on  
21 data the Internal Revenue Service receives with respect  
22 to such taxpayer (including wages, self-employment in-  
23 come, and dividend, capital gains, and interest income).  
24 The Internal Revenue Service shall provide with every  
25 “Easyfile” a one-page summary of how the most recently

1 available fiscal year's tax revenue was spent, including  
2 spending on Social Security, Medicare, Medicaid, defense,  
3 and interest on the Federal debt.

4 **TITLE II—CORPORATE AND**  
5 **BUSINESS INCOME TAX RE-**  
6 **FORMS**

7 **SEC. 201. CORPORATE FLAT TAX.**

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

10 “(b) AMOUNT OF TAX.—The amount of tax imposed  
11 by subsection (a) shall be equal to 24 percent of the tax-  
12 able income.”.

13 (b) CONFORMING AMENDMENTS.—

14 (1) Section 280C(c)(3)(B)(ii)(II) is amended by  
15 striking “maximum rate of tax under section  
16 11(b)(1)” and inserting “rate of tax under section  
17 11(b)”.

18 (2) Sections 860E(e)(2)(B), 860E(e)(6)(A)(ii),  
19 860K(d)(2)(A)(ii), 860K(e)(1)(B)(ii),  
20 1446(b)(2)(B), and 7874(e)(1)(B) are each amended  
21 by striking “highest rate of tax specified in section  
22 11(b)(1)” and inserting “rate of tax specified in sec-  
23 tion 11(b)”.



1           (3) Section 904(b)(3)(D)(ii) is amended by  
2 striking “(determined without regard to the last sen-  
3 tence of section 11(b)(1))”.

4           (4) Section 962 is amended by striking sub-  
5 section (e) and by redesignating subsection (d) as  
6 subsection (e).

7           (5) Section 1561(a) is amended—

8               (A) by striking paragraph (1) and by re-  
9 designating paragraphs (2), (3), and (4) as  
10 paragraphs (1), (2), and (3), respectively,

11               (B) by striking “The amounts specified in  
12 paragraph (1), the” and inserting “The”,

13               (C) by striking “paragraph (2)” and in-  
14 serting “paragraph (1)”,

15               (D) by striking “paragraph (3)” both  
16 places it appears and inserting “paragraph  
17 (2)”,

18               (E) by striking “paragraph (4)” and in-  
19 serting “paragraph (3)”, and

20               (F) by striking the fourth sentence.

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

23           “(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-  
24 poration has a short taxable year which does not include  
25 a December 31 and is a component member of a controlled

1 group of corporations with respect to such taxable year,  
2 then for purposes of this subtitle, the amount to be used  
3 in computing the accumulated earnings credit under sec-  
4 tion 535(c) (2) and (3) of such corporation for such tax-  
5 able year shall be the amount specified in subsection  
6 (a)(1) divided by the number of corporations which are  
7 component members of such group on the last day of such  
8 taxable year. For purposes of the preceding sentence, sec-  
9 tion 1563(b) shall be applied as if such last day were sub-  
10 stituted for December 31.”.

11 (c) TREATMENT OF CAPITAL GAINS AS ORDINARY  
12 INCOME.—

13 (1) IN GENERAL.—Section 1201 is amended by  
14 adding at the end the following new subsection:

15 “(d) TERMINATION.—This section shall not apply to  
16 taxable years beginning after December 31, 2011.”.

17 (2) CONFORMING AMENDMENTS.—

18 (A) Section 527(b)(2) is amended by add-  
19 ing at the end the following new flush sentence:  
20 “This paragraph shall not apply to taxable years be-  
21 ginning after December 31, 2011.”.

22 (B) Section 801(a)(2) is amended by add-  
23 ing at the end the following new subparagraph:

1           “(D) TERMINATION.—This paragraph  
2 shall not apply to taxable years beginning after  
3 December 31, 2011.”.

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

8           (D) Section 857(b)(3)(A) is amended by  
9 adding at the end the following new flush sen-  
10 tence:

11           “‘This subparagraph shall not apply to taxable years  
12 beginning after December 31, 2011.’”.

13           (E) Section 904(b)(2)(B) is amended by  
14 adding at the end the following new flush sen-  
15 tence:

16           “‘This subparagraph shall not apply to taxable years  
17 beginning after December 31, 2011.’”.

18           (d) EFFECTIVE DATE.—The amendments made by  
19 this section shall apply to taxable years beginning after  
20 December 31, 2011.

21 **SEC. 202. TREATMENT OF TRAVEL ON CORPORATE AIR-**  
22 **CRAFT.**

23           (a) IN GENERAL.—Section 162 is amended by redес-  
24 ignating subsection (q) as subsection (r) and by inserting  
25 after subsection (p) the following new subsection:

1           “(q) TREATMENT OF TRAVEL ON CORPORATE AIR-  
2 CRAFT.—The rate at which an amount allowable as a de-  
3 duction under this chapter for the use of an aircraft owned  
4 by the taxpayer is determined shall not exceed the rate  
5 at which an amount paid or included in income by an em-  
6 ployee of such taxpayer for the personal use of such air-  
7 craft is determined.”.

8           (b) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to taxable years beginning after  
10 December 31, 2011.

11 **SEC. 203. UNLIMITED EXPENSING OF DEPRECIABLE ASSETS**  
12 **AND INVENTORIES FOR CERTAIN SMALL**  
13 **BUSINESSES.**

14           (a) UNLIMITED EXPENSING.—Section 179 is amend-  
15 ed by adding at the end the following new subsection:

16           “(g) UNLIMITED EXPENSING FOR CERTAIN SMALL  
17 BUSINESS TAXPAYERS.—

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

21                   “(2) ELIGIBLE TAXPAYER.—For purposes of  
22 this subsection, a taxpayer is an eligible taxpayer  
23 with respect to any taxable year if for all prior tax-  
24 able years beginning after December 31, 2011, the  
25 taxpayer (or any predecessor) met the gross receipts

1 test of section 448(c) (determined by substituting  
2 ‘\$1,000,000’ for ‘\$5,000,000’ each place it ap-  
3 pears).”.

4 (b) CLARIFICATION OF INVENTORY RULES FOR  
5 SMALL BUSINESS.—Section 471 is amended by redesi-  
6 gating subsection (c) as subsection (d) and by inserting  
7 after subsection (b) the following new subsection:

8 “(c) SMALL BUSINESS TAXPAYERS NOT REQUIRED  
9 TO USE INVENTORIES.—

10 “(1) IN GENERAL.—An eligible taxpayer (as de-  
11 termined under section 179(g)(2)) shall not be re-  
12 quired to use inventories under this section for a  
13 taxable year.

14 “(2) TREATMENT OF TAXPAYERS NOT USING  
15 INVENTORIES.—If an eligible taxpayer does not use  
16 inventories with respect to any property for any tax-  
17 able year beginning after December 31, 2011, such  
18 property shall be treated as a material or supply  
19 which is not incidental.”.

20 (c) EFFECTIVE DATE AND SPECIAL RULES.—

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

24 (2) CHANGE IN METHOD OF ACCOUNTING.—In  
25 the case of any taxpayer changing the taxpayer’s

1 method of accounting for any taxable year under the  
2 amendments made by this section—

3 (A) such change shall be treated as initi-  
4 ated by the taxpayer,

5 (B) such change shall be treated as made  
6 with the consent of the Secretary of the Treas-  
7 ury, and

8 (C) the net amount of the adjustments re-  
9 quired to be taken into account by the taxpayer  
10 under section 481 of the Internal Revenue Code  
11 of 1986 shall be taken into account over a pe-  
12 riod (not greater than 4 taxable years) begin-  
13 ning with such taxable year.

14 **SEC. 204. TERMINATION OF VARIOUS PREFERENTIAL**  
15 **TREATMENTS.**

16 (a) IN GENERAL.—Section 7875, as added by this  
17 Act, is amended—

18 (1) by inserting “(or transactions in the case of  
19 sections referred to in paragraphs (13), (14), (15),  
20 (16), and (19))” after “taxable years beginning”,  
21 and

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

24 “(11) Section 43 (relating to enhanced oil re-  
25 covery credit).

1           “(12) Section 199 (relating to income attrib-  
2           utable to domestic production activities).

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

6           “(14) Section 451(i) (relating to special rules  
7           for sales or dispositions to implement Federal En-  
8           ergy Regulatory Commission or State electric re-  
9           structuring policy).

10           “(15) Section 453A (relating to special rules for  
11           nondealers), but only with respect to the dollar limi-  
12           tation under subsection (b)(1) thereof and sub-  
13           section (b)(3) thereof (relating to exception for per-  
14           sonal use and farm property).

15           “(16) Section 460(e)(1) (relating to special  
16           rules for long-term home construction contracts or  
17           other short-term construction contracts).

18           “(17) Section 613A (relating to percentage de-  
19           pletion in case of oil and gas wells).

20           “(18) Section 616 (relating to development  
21           costs).

22           “(19) Sections 861(a)(6), 862(a)(6), 863(b)(2),  
23           863(b)(3), and 865(b) (relating to inventory prop-  
24           erty sales source rule exception).”.

1 (b) FULL TAX RATE ON NUCLEAR DECOMMISS-  
2 SIONING RESERVE FUND.—Subparagraph (B) of section  
3 468A(e)(2) is amended to read as follows:

4 “(B) RATE OF TAX.—For purposes of sub-  
5 paragraph (A), the rate set forth in this sub-  
6 paragraph is 25 percent.”.

7 (c) DEFERRAL OF ACTIVE INCOME OF CONTROLLED  
8 FOREIGN CORPORATIONS.—Section 952 is amended by  
9 adding at the end the following new subsection:

10 “(d) SPECIAL APPLICATION OF SUBPART.—

11 “(1) IN GENERAL.—For taxable years begin-  
12 ning after December 31, 2011, notwithstanding any  
13 other provision of this subpart, the term ‘subpart F  
14 income’ means, in the case of any controlled foreign  
15 corporation, the income of such corporation derived  
16 from any foreign country.

17 “(2) APPLICABLE RULES.—Rules similar to the  
18 rules under the last sentence of subsection (a) and  
19 subsection (d) shall apply to this subsection.”.

20 (d) DEPRECIATION ON TANGIBLE PROPERTY IN EX-  
21 CESS OF ALTERNATIVE DEPRECIATION SYSTEM.—Section  
22 168(g)(1) is amended by striking “and” at the end of sub-  
23 paragraph (D), by adding “and” at the end of subpara-  
24 graph (E), and by inserting after subparagraph (E) the  
25 following new subparagraph:



1                   “(F) notwithstanding subsection (a), any  
2                   tangible property placed in service after Decem-  
3                   ber 31, 2011,”.

4           (e) EFFECTIVE DATE.—The amendments made by  
5           subsections (b) and (c) shall apply to taxable years begin-  
6           ning after December 31, 2011.

7   **SEC. 205. PASS-THROUGH BUSINESS ENTITY TRANS-**  
8                   **PARENCY.**

9           Not later than 90 days after the date of the enact-  
10          ment of this Act, the Secretary of the Treasury shall re-  
11          port to the Committee on Finance of the Senate and the  
12          Committee on Ways and Means of the House of Rep-  
13          resentatives regarding the implementation of additional  
14          reporting requirements with respect to any pass-through  
15          entity with the goal of the reduction of tax avoidance  
16          through the use of such entities. In addition, the Secretary  
17          shall develop procedures to share such report data with  
18          State revenue agencies under the disclosure requirements  
19          of section 6103(d) of the Internal Revenue Code of 1986.

20   **SEC. 206. MODIFICATION OF EFFECTIVE DATE OF LEASING**  
21                   **PROVISIONS OF THE AMERICAN JOBS CRE-**  
22                   **ATION ACT OF 2004.**

23          (a) LEASES TO FOREIGN ENTITIES.—Section 849(b)  
24          of the American Jobs Creation Act of 2004 is amended  
25          by adding at the end the following new paragraph:

1           “(5) LEASES TO FOREIGN ENTITIES.—In the  
2 case of tax-exempt use property leased to a tax-ex-  
3 empt entity which is a foreign person or entity, the  
4 amendments made by this part shall apply to taxable  
5 years beginning after December 31, 2011, with re-  
6 spect to leases entered into on or before March 12,  
7 2004.”.

8           (b) EFFECTIVE DATE.—The amendment made by  
9 this section shall take effect as if included in the enact-  
10 ment of the American Jobs Creation Act of 2004.

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

15           (a) IN GENERAL.—Section 901 is amended by redес-  
16 ignating subsection (n) as subsection (o) and by inserting  
17 after subsection (m) the following new subsection:

18           “(n) SPECIAL RULES RELATING TO LARGE INTE-  
19 GRATED OIL COMPANIES WHICH ARE DUAL CAPACITY  
20 TAXPAYERS.—

21           “(1) GENERAL RULE.—Notwithstanding any  
22 other provision of this chapter, any amount paid or  
23 accrued by a dual capacity taxpayer which is a large  
24 integrated oil company to a foreign country or pos-

1 session of the United States for any period shall not  
2 be considered a tax—

3 “(A) if, for such period, the foreign coun-  
4 try or possession does not impose a generally  
5 applicable income tax, or

6 “(B) to the extent such amount exceeds  
7 the amount (determined in accordance with reg-  
8 ulations) which—

9 “(i) is paid by such dual capacity tax-  
10 payer pursuant to the generally applicable  
11 income tax imposed by the country or pos-  
12 session, or

13 “(ii) would be paid if the generally ap-  
14 plicable income tax imposed by the country  
15 or possession were applicable to such dual  
16 capacity taxpayer.

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

21 “(2) DUAL CAPACITY TAXPAYER.—For pur-  
22 poses of this subsection, the term ‘dual capacity tax-  
23 payer’ means, with respect to any foreign country or  
24 possession of the United States, a person who—

1           “(A) is subject to a levy of such country or  
2 possession, and

3           “(B) receives (or will receive) directly or  
4 indirectly a specific economic benefit (as deter-  
5 mined in accordance with regulations) from  
6 such country or possession.

7           “(3) GENERALLY APPLICABLE INCOME TAX.—  
8 For purposes of this subsection—

9           “(A) IN GENERAL.—The term ‘generally  
10 applicable income tax’ means an income tax (or  
11 a series of income taxes) which is generally im-  
12 posed under the laws of a foreign country or  
13 possession on income derived from the conduct  
14 of a trade or business within such country or  
15 possession.

16           “(B) EXCEPTIONS.—Such term shall not  
17 include a tax unless it has substantial applica-  
18 tion, by its terms and in practice, to—

19                   “(i) persons who are not dual capacity  
20 taxpayers, and

21                   “(ii) persons who are citizens or resi-  
22 dents of the foreign country or possession.

23           “(4) LARGE INTEGRATED OIL COMPANY.—For  
24 purposes of this subsection, the term ‘large inte-  
25 grated oil company’ means, with respect to any tax-

1       able year, an integrated oil company (as defined in  
2       section 291(b)(4)) which—

3               “(A) had gross receipts in excess of  
4               \$1,000,000,000 for such taxable year, and

5               “(B) has an average daily worldwide pro-  
6               duction of crude oil of at least 500,000 barrels  
7               for such taxable year.”

8       (b) EFFECTIVE DATE.—

9               (1) IN GENERAL.—The amendments made by  
10       this section shall apply to taxes paid or accrued in  
11       taxable years beginning after the date of the enact-  
12       ment of this Act.

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

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

19       (a) IN GENERAL.—Subsection (a) of section 471 is  
20       amended to read as follows:

21              “(a) GENERAL RULE.—Whenever in the opinion of  
22       the Secretary the use of inventories is necessary in order  
23       clearly to determine the income of the taxpayer, inven-  
24       tories shall be valued at cost.”

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to taxable years beginning after  
3 the date of the enactment of this Act.

4 **SEC. 209. REINSTITUTION OF PER COUNTRY FOREIGN TAX**  
5 **CREDIT.**

6 (a) IN GENERAL.—Subsection (a) of section 904 is  
7 amended to read as follows:

8 “(a) LIMITATION.—The amount of the credit in re-  
9 spect of the tax paid or accrued to any foreign country  
10 or possession of the United States shall not exceed the  
11 same proportion of the tax against which such credit is  
12 taken which the taxpayer’s taxable income from sources  
13 within such country or possession (but not in excess of  
14 the taxpayer’s entire taxable income) bears to such tax-  
15 payer’s entire taxable income for the same taxable year.”.

16 (b) EFFECTIVE DATE.—The amendment made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 2011.

19 **SEC. 210. APPLICATION OF RULES TREATING INVERTED**  
20 **CORPORATIONS AS DOMESTIC CORPORA-**  
21 **TIONS TO CERTAIN TRANSACTIONS OCCUR-**  
22 **RING AFTER MARCH 20, 2002.**

23 (a) IN GENERAL.—Section 7874(b) is amended to  
24 read as follows:

1       “(b) INVERTED CORPORATIONS TREATED AS DO-  
2 MESTIC CORPORATIONS.—

3           “(1) IN GENERAL.—Notwithstanding section  
4 7701(a)(4), a foreign corporation shall be treated for  
5 purposes of this title as a domestic corporation if  
6 such corporation would be a surrogate foreign cor-  
7 poration if subsection (a)(2) were applied by sub-  
8 stituting ‘80 percent’ for ‘60 percent’.

9           “(2) SPECIAL RULE FOR CERTAIN TRANS-  
10 ACTIONS OCCURRING AFTER MARCH 20, 2002.—

11           “(A) IN GENERAL.—If—

12                   “(i) paragraph (1) does not apply to  
13 a foreign corporation, but

14                   “(ii) paragraph (1) would apply to  
15 such corporation if, in addition to the sub-  
16 stitution under paragraph (1), subsection  
17 (a)(2) were applied by substituting ‘March  
18 20, 2002’ for ‘March 4, 2003’ each place  
19 it appears,

20 then paragraph (1) shall apply to such corpora-  
21 tion but only with respect to taxable years of  
22 such corporation beginning after December 31,  
23 2011.

24           “(B) SPECIAL RULES.—Subject to such  
25 rules as the Secretary may prescribe, in the

1 case of a corporation to which paragraph (1)  
2 applies by reason of this paragraph—

3 “(i) the corporation shall be treated,  
4 as of the close of its last taxable year be-  
5 ginning before January 1, 2012, as having  
6 transferred all of its assets, liabilities, and  
7 earnings and profits to a domestic corpora-  
8 tion in a transaction with respect to which  
9 no tax is imposed under this title,

10 “(ii) the bases of the assets trans-  
11 ferred in the transaction to the domestic  
12 corporation shall be the same as the bases  
13 of the assets in the hands of the foreign  
14 corporation, subject to any adjustments  
15 under this title for built-in losses,

16 “(iii) the basis of the stock of any  
17 shareholder in the domestic corporation  
18 shall be the same as the basis of the stock  
19 of the shareholder in the foreign corpora-  
20 tion for which it is treated as exchanged,  
21 and

22 “(iv) the transfer of any earnings and  
23 profits by reason of clause (i) shall be dis-  
24 regarded in determining any deemed divi-  
25 dend or foreign tax creditable to the do-



1           mestic corporation with respect to such  
2           transfer.

3           “(C) REGULATIONS.—The Secretary may  
4           prescribe such regulations as may be necessary  
5           or appropriate to carry out this paragraph, in-  
6           cluding regulations to prevent the avoidance of  
7           the purposes of this paragraph.”.

8           (b) EFFECTIVE DATE.—The amendment made by  
9           this section shall apply to taxable years beginning after  
10          December 31, 2011.

11   **SEC. 211. INDEXING CORPORATE INTEREST DEDUCTION**  
12                           **FOR INFLATION.**

13          (a) IN GENERAL.—Section 163 is amended by redес-  
14          ignating subsection (n) as subsection (o) and by inserting  
15          after subsection (m) the following new subsection:

16          “(n) INDEXING CORPORATE INTEREST DEDUCTION  
17          FOR INFLATION.—

18                 “(1) IN GENERAL.—In the case of a corpora-  
19          tion, the deduction allowed under this chapter for in-  
20          terest paid for any taxable year with respect to any  
21          obligation shall be adjusted by multiplying the  
22          amount otherwise so allowed by 1 minus the frac-  
23          tional exclusion rate for such taxable year.

1           “(2) FRACTIONAL EXCLUSION RATE.—For any  
2 taxable year, the Secretary shall determine the frac-  
3 tional exclusion rate using—

4           “(A) a fraction—

5                   “(i) the numerator of which is the  
6 cost-of-living adjustment determined under  
7 section 1(f)(3) for the calendar year in  
8 which the taxable year begins by sub-  
9 stituting ‘the second preceding calendar  
10 year’ for ‘calendar year 2011’ in subpara-  
11 graph (B) thereof, and

12                   “(ii) the denominator of which is the  
13 nominal interest rate for such obligation,  
14 and

15           “(B) a constant real before tax rate of re-  
16 turn of 6 percent.”.

17       (b) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to taxable years beginning after  
19 December 31, 2011.

20 **SEC. 212. PROHIBITION OF ADVANCE REFUNDING OF**  
21 **BONDS.**

22       (a) IN GENERAL.—Subsection (d) of section 149 is  
23 amended—

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

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

3           (3) by inserting before paragraph (2) (as redesi-  
4 gnated by paragraph (2) the following new para-  
5 graph:

6           “(1) PROHIBITION.—Nothing in section 103(a)  
7 or in any other provision of law shall be construed  
8 to provide an exemption from Federal income tax for  
9 interest on any bond issued as part of an issue to  
10 advance refund a bond.”.

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

14 **SEC. 213. CBO STUDY ON GOVERNMENT SPENDING ON**  
15 **BUSINESSES.**

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

1 (b) REPORT.—The Congressional Budget Office shall  
2 report not later than one year after the date of the enact-  
3 ment of this Act on the results of the study required under  
4 subsection (a) and shall submit such report for the pur-  
5 pose of hearing by the Committee on the Budget of the  
6 House of Representatives and the Committee on the  
7 Budget of the Senate.

8 **TITLE III—REPEAL OF**  
9 **ALTERNATIVE MINIMUM TAX**

10 **SEC. 301. REPEAL OF ALTERNATIVE MINIMUM TAX.**

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

13 “For purposes of this title, the tentative minimum tax on  
14 any taxpayer for any taxable year beginning after Decem-  
15 ber 31, 2011, shall be zero.”.

16 (b) MODIFICATION OF LIMITATION ON USE OF  
17 CREDIT FOR PRIOR YEAR MINIMUM TAX LIABILITY.—  
18 Subsection (c) of section 53 is amended to read as follows:

19 “(c) LIMITATION.—

20 “(1) IN GENERAL.—Except as provided in para-  
21 graph (2), the credit allowable under subsection (a)  
22 for any taxable year shall not exceed the excess (if  
23 any) of—

24 “(A) the regular tax liability of the tax-  
25 payer for such taxable year reduced by the sum

1 of the credits allowable under subparts A, B, D,  
2 E, and F of this part, over

3 “(B) the tentative minimum tax for the  
4 taxable year.

5 “(2) TAXABLE YEARS BEGINNING AFTER  
6 2011.—In the case of any taxable year beginning  
7 after December 31, 2011, the credit allowable under  
8 subsection (a) to a taxpayer other than a corpora-  
9 tion for any taxable year shall not exceed 90 percent  
10 of the regular tax liability of the taxpayer for such  
11 taxable year reduced by the sum of the credits allow-  
12 able under subparts A, B, D, E, and F of this  
13 part.”.

14 (c) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 2011.

## 17 **TITLE IV—IMPROVEMENTS IN** 18 **TAX COMPLIANCE**

### 19 **SEC. 401. INCREASE IN INFORMATION RETURN PENALTIES.**

20 (a) FAILURE TO FILE CORRECT INFORMATION RE-  
21 TURNS.—

22 (1) IN GENERAL.—Section 6721(a)(1) is  
23 amended—

24 (A) by striking “\$100” and inserting  
25 “\$250”, and

1 (B) by striking “\$1,500,000” and insert-  
2 ing “\$3,000,000”.

3 (2) REDUCTION WHERE CORRECTION IN SPECI-  
4 FIED PERIOD.—

5 (A) CORRECTION WITHIN 30 DAYS.—Sec-  
6 tion 6721(b)(1) is amended—

7 (i) by striking “\$30” and inserting  
8 “\$50”,

9 (ii) by striking “\$100” and inserting  
10 “\$250”, and

11 (iii) by striking “\$250,000” and in-  
12 serting “\$500,000”.

13 (B) FAILURES CORRECTED ON OR BEFORE  
14 AUGUST 1.—Section 6721(b)(2) is amended—

15 (i) by striking “\$100” and inserting  
16 “\$250”,

17 (ii) by striking “\$60” and inserting  
18 “\$100”, and

19 (iii) by striking “\$500,000” and in-  
20 serting “\$1,500,000”.

21 (3) LOWER LIMITATION FOR PERSONS WITH  
22 GROSS RECEIPTS OF NOT MORE THAN \$5,000,000.—  
23 Section 6721(d)(1) is amended—

24 (A) in subparagraph (A)—

1 (i) by striking “\$500,000” and insert-  
2 ing “\$1,000,000”, and

3 (ii) by striking “\$1,500,000” and in-  
4 sserting “\$3,000,000”,

5 (B) in subparagraph (B)—

6 (i) by striking “\$75,000” and insert-  
7 ing “\$175,000”, and

8 (ii) by striking “\$250,000” and in-  
9 sserting “\$500,000”, and

10 (C) in subparagraph (C)—

11 (i) by striking “\$500,000” and insert-  
12 ing “\$1,500,000”, and

13 (ii) by striking “\$200,000” and in-  
14 sserting “\$500,000”.

15 (4) PENALTY IN CASE OF INTENTIONAL DIS-  
16 REGARD.—Section 6721(e) is amended—

17 (A) by striking “\$250” in paragraph (2)  
18 and inserting “\$500”, and

19 (B) by striking “\$1,500,000” in paragraph  
20 (3)(A) and inserting “\$3,000,000”.

21 (b) FAILURE TO FURNISH CORRECT PAYEE STATE-  
22 MENTS.—

23 (1) IN GENERAL.—Section 6722(a)(1) is  
24 amended by striking “\$100” and inserting “\$250”.

1           (2) REDUCTION WHERE CORRECTION IN SPECI-  
2           FIED PERIOD.—Section 6722(b) is amended—

3                   (A) in paragraph (1)(A)—

4                           (i) by striking “\$30” and inserting  
5                           “\$60”, and

6                           (ii) by striking “\$100” and inserting  
7                           “\$250”,

8                   (B) by striking “\$250,000” in paragraph  
9           (1)(B) and inserting “\$500,000”,

10                   (C) in paragraph (2)(A)—

11                           (i) by striking “\$60” and inserting  
12                           “\$100”, and

13                           (ii) by striking “\$100” and inserting  
14                           “\$250”, and

15                   (D) by striking “\$500,000” in paragraph  
16           (2)(B) and inserting “\$1,500,000”.

17           (3) LOWER LIMITATIONS.—Section 6722(d)(1)  
18           is amended—

19                   (A) in subparagraph (B)—

20                           (i) by striking “\$250,000” and insert-  
21                           ing “\$500,000”, and

22                           (ii) by striking “\$75,000” and insert-  
23                           ing “\$250,000”, and

24                   (B) in subparagraph (C)—



1 (i) by striking “\$500,000” and insert-  
2 ing “\$1,500,000”, and

3 (ii) by striking “\$200,000” and in-  
4 serting “\$500,000”.

5 (4) PENALTY IN CASE OF INTENTIONAL DIS-  
6 REGARD.—Section 6722(e(2)) is amended by strik-  
7 ing “\$250” and inserting “\$500”.

8 (c) FAILURE TO COMPLY WITH OTHER INFORMA-  
9 TION REPORTING REQUIREMENTS.—Section 6723 is  
10 amended—

11 (1) by striking “\$50” and inserting “\$250”,  
12 and

13 (2) by striking “\$100,000” and inserting  
14 “\$1,000,000”.

15 (d) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply with respect to information returns  
17 required to be filed on or after January 1, 2012.

18 **SEC. 402. E-FILING REQUIREMENT FOR CERTAIN LARGE**  
19 **ORGANIZATIONS.**

20 (a) IN GENERAL.—The first sentence of section  
21 6011(e)(2) is amended to read as follows: “In prescribing  
22 regulations under paragraph (1), the Secretary shall take  
23 into account (among other relevant factors) the ability of  
24 the taxpayer to comply at reasonable cost with the require-  
25 ments of such regulations.”.

1 (b) CONFORMING AMENDMENT.—Section 6724 is  
2 amended by striking subsection (e).

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years ending on or after  
5 December 31, 2011.

6 **SEC. 403. IMPLEMENTATION OF STANDARDS CLARIFYING**  
7 **WHEN EMPLOYEE LEASING COMPANIES CAN**  
8 **BE HELD LIABLE FOR THEIR CLIENTS' FED-**  
9 **ERAL EMPLOYMENT TAXES.**

10 With respect to employment tax returns required to  
11 be filed with respect to wages paid on or after January  
12 1, 2012, the Secretary of the Treasury shall issue regula-  
13 tions establishing—

14 (1) standards for holding employee leasing com-  
15 panies jointly and severally liable with their clients  
16 for Federal employment taxes under chapters 21,  
17 22, 23, and 24 of the Internal Revenue Code of  
18 1986, and

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

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

4 (a) IN GENERAL.—Paragraph (3) of section 453(i)  
5 of the Social Security Act (42 U.S.C. 653(i)) is amended  
6 to read as follows:

7 “(3) ADMINISTRATION OF FEDERAL TAX  
8 LAWS.—The Secretary of the Treasury shall have  
9 access to the information in the National Directory  
10 of New Hires for purposes of administering the In-  
11 ternal Revenue Code of 1986.”

12 (b) EFFECTIVE DATE.—The amendment made by  
13 this section shall take effect on the date of the enactment  
14 of this Act.

15 **SEC. 405. MODIFICATION OF CRIMINAL PENALTIES FOR**  
16 **WILLFUL FAILURES INVOLVING TAX PAY-**  
17 **MENTS AND FILING REQUIREMENTS.**

18 (a) INCREASE IN PENALTY FOR ATTEMPT TO EVADE  
19 OR DEFEAT TAX.—Section 7201 is amended—

20 (1) by striking “\$500,000” and inserting  
21 “\$1,000,000”,

22 (2) by striking “\$100,000” and inserting  
23 “\$500,000”, and

24 (3) by striking “5 years” and inserting “10  
25 years”.

1 (b) MODIFICATION OF PENALTIES FOR WILLFUL  
2 FAILURE TO FILE RETURN, SUPPLY INFORMATION, OR  
3 PAY TAX.—

4 (1) IN GENERAL.—Section 7203 is amended—

5 (A) in the first sentence—

6 (i) by striking “Any person” and in-  
7 serting the following:

8 “(a) IN GENERAL.—Any person”, and

9 (ii) by striking “\$25,000” and insert-  
10 ing “\$50,000”,

11 (B) in the third sentence, by striking “sec-  
12 tion” and inserting “subsection”, and

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

15 “(b) AGGRAVATED FAILURE TO FILE.—

16 “(1) IN GENERAL.—In the case of any failure  
17 described in paragraph (2), the first sentence of sub-  
18 section (a) shall be applied by substituting—

19 “(A) ‘felony’ for ‘misdemeanor’,

20 “(B) ‘\$250,000 (\$500,000’ for ‘\$50,000  
21 (\$100,000’, and

22 “(C) ‘5 years’ for ‘1 year’.

23 “(2) FAILURE DESCRIBED.—A failure described  
24 in this paragraph is—

1           “(A) a failure to make a return described  
2           in subsection (a) for any 3 taxable years occur-  
3           ring during any period of 5 consecutive taxable  
4           years if the aggregate tax liability for such pe-  
5           riod is not less than \$50,000, or

6           “(B) a failure to make a return if the tax  
7           liability giving rise to the requirement to make  
8           such return is attributable to an activity which  
9           is a felony under any State or Federal law.”.

10           (2) PENALTY MAY BE APPLIED IN ADDITION TO  
11           OTHER PENALTIES.—Section 7204 is amended by  
12           striking “the penalty provided in section 6674” and  
13           inserting “the penalties provided in sections 6674  
14           and 7203(b)”.

15           (c) FRAUD AND FALSE STATEMENTS.—Section 7206  
16           is amended—

17           (1) by striking “\$100,000” and inserting  
18           “\$500,000”,

19           (2) by striking “\$500,000” and inserting  
20           “\$1,000,000”, and

21           (3) by striking “3 years” and inserting “5  
22           years”.

23           (d) INCREASE IN MONETARY LIMITATION FOR UN-  
24           DERPAYMENT OR OVERPAYMENT OF TAX DUE TO

1 FRAUD.—Section 7206, as amended by subsection (c), is  
2 amended—

3 (1) by striking “Any person who—” and insert-  
4 ing “(a) IN GENERAL.—Any person who—”, and

5 (2) by adding at the end the following new sub-  
6 section:

7 “(b) INCREASE IN MONETARY LIMITATION FOR UN-  
8 DERPAYMENT OR OVERPAYMENT OF TAX DUE TO  
9 FRAUD.—If any portion of any underpayment (as defined  
10 in section 6664(a)) or overpayment (as defined in section  
11 6401(a)) of tax required to be shown on a return is attrib-  
12 utable to fraudulent action described in subsection (a), the  
13 applicable dollar amount under subsection (a) shall in no  
14 event be less than an amount equal to such portion. A  
15 rule similar to the rule under section 6663(b) shall apply  
16 for purposes of determining the portion so attributable.”.

17 (e) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to actions, and failures to act, oc-  
19 ccurring after the date of the enactment of this Act.

20 **SEC. 406. PENALTIES FOR FAILURE TO FILE CERTAIN RE-**  
21 **TURNS ELECTRONICALLY.**

22 (a) IN GENERAL.—Part I of subchapter A of chapter  
23 68 is amended by inserting after section 6652 the fol-  
24 lowing new section:

1 **“SEC. 6652A. FAILURE TO FILE CERTAIN RETURNS ELEC-**  
2 **TRONICALLY.**

3 “(a) IN GENERAL.—If a person fails to file a return  
4 described in section 6651 or 6652(c)(1) in electronic form  
5 as required under section 6011(e)—

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

9 “(2) the penalty imposed under section 6651 or  
10 6652(e), whichever is appropriate, shall be equal to  
11 the greater of—

12 “(A) the amount of the penalty under such  
13 section, determined without regard to this sec-  
14 tion, or

15 “(B) the amount determined under sub-  
16 section (b).

17 “(b) AMOUNT OF PENALTY.—

18 “(1) IN GENERAL.—Except as provided in para-  
19 graphs (2) and (3), the penalty determined under  
20 this subsection is equal to \$40 for each day during  
21 which a failure described under subsection (a) con-  
22 tinues. The maximum penalty under this paragraph  
23 on failures with respect to any 1 return shall not ex-  
24 ceed the lesser of \$20,000 or 10 percent of the gross  
25 receipts of the taxpayer for the year.

1           “(2) INCREASED PENALTIES FOR TAXPAYERS  
2 WITH GROSS RECEIPTS BETWEEN \$1,000,000 AND  
3 \$100,000,000.—

4           “(A) TAXPAYERS WITH GROSS RECEIPTS  
5 BETWEEN \$1,000,000 AND \$25,000,000.—In the  
6 case of a taxpayer having gross receipts exceed-  
7 ing \$1,000,000 but not exceeding \$25,000,000  
8 for any year—

9           “(i) the first sentence of paragraph  
10 (1) shall be applied by substituting ‘\$200’  
11 for ‘\$40’, and

12           “(ii) in lieu of applying the second  
13 sentence of paragraph (1), the maximum  
14 penalty under paragraph (1) shall not ex-  
15 ceed \$100,000.

16           “(B) TAXPAYERS WITH GROSS RECEIPTS  
17 OVER \$25,000,000.—Except as provided in para-  
18 graph (3), in the case of a taxpayer having  
19 gross receipts exceeding \$25,000,000 for any  
20 year—

21           “(i) the first sentence of paragraph  
22 (1) shall be applied by substituting ‘\$500’  
23 for ‘\$40’, and

24           “(ii) in lieu of applying the second  
25 sentence of paragraph (1), the maximum



1 penalty under paragraph (1) shall not ex-  
2 ceed \$250,000.

3 “(3) INCREASED PENALTIES FOR CERTAIN TAX-  
4 PAYERS WITH GROSS RECEIPTS EXCEEDING  
5 \$100,000,000.—In the case of a return described in  
6 section 6651—

7 “(A) TAXPAYERS WITH GROSS RECEIPTS  
8 BETWEEN \$100,000,000 AND \$250,000,000.—In the  
9 case of a taxpayer having gross receipts exceed-  
10 ing \$100,000,000 but not exceeding  
11 \$250,000,000 for any year—

12 “(i) the amount of the penalty deter-  
13 mined under this subsection shall equal the  
14 sum of—

15 “(I) \$50,000, plus

16 “(II) \$1,000 for each day during  
17 which such failure continues (twice  
18 such amount for each day such failure  
19 continues after the first such 60  
20 days), and

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

24 “(B) TAXPAYERS WITH GROSS RECEIPTS  
25 OVER \$250,000,000.—In the case of a taxpayer

1           having gross receipts exceeding \$250,000,000  
2           for any year—

3                   “(i) the amount of the penalty deter-  
4                   mined under this subsection shall equal the  
5                   sum of—

6                           “(I) \$250,000, plus

7                           “(II) \$2,500 for each day during  
8                   which such failure continues (twice  
9                   such amount for each day such failure  
10                  continues after the first such 60  
11                  days), and

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

15                  “(C) EXCEPTION FOR CERTAIN RE-  
16                  TURNS.—Subparagraphs (A) and (B) shall not  
17                  apply to any return of tax imposed under sec-  
18                  tion 511.”.

19           (b) CLERICAL AMENDMENT.—The table of sections  
20           for part I of subchapter A of chapter 68 is amended by  
21           inserting after the item relating to section 6652 the fol-  
22           lowing new item:

          “Sec. 6652A. Failure to file certain returns electronically.”.

23           (c) EFFECTIVE DATE.—The amendments made by  
24           this section shall apply to returns required to be filed on  
25           or after January 1, 2012.

1 **SEC. 407. REPORTING ON IDENTIFICATION OF BENEFICIAL**  
2 **OWNERS OF CERTAIN FOREIGN FINANCIAL**  
3 **ACCOUNTS.**

4 (a) IN GENERAL.—Subchapter A of chapter 3 is  
5 amended by adding at the end the following new section:

6 **“SEC. 1447. WITHHOLDABLE PAYMENTS TO CERTAIN FOR-**  
7 **EIGN FINANCIAL ACCOUNTS.**

8 “(a) IN GENERAL.—In the case of any withholdable  
9 payment to a foreign financial account, the withholding  
10 agent with respect to such payment shall deduct and with-  
11 hold from such payment a tax equal to 30 percent of the  
12 amount of such payment if such agent does not meet the  
13 reporting requirements under subsection (b) with respect  
14 to such payment.

15 “(b) REPORTING REQUIREMENTS.—The require-  
16 ments of this subsection are met with respect to any  
17 withholdable payment to a foreign financial account if the  
18 withholding agent with respect to such payment—

19 “(1) identifies—

20 “(A) the beneficial owner or owners of  
21 such account by name, address, TIN (if any),  
22 and

23 “(B) the account number,

24 “(2) obtains evidence of the nationality of such  
25 owner or owners,

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

5           “(4) reports such identification and evidence to  
6 the Secretary in such manner as the Secretary re-  
7 quires.

8           “(c) DEFINITIONS.—For purposes of this section—

9           “(1) WITHHOLDABLE PAYMENT.—Except as  
10 otherwise provided by the Secretary, the term  
11 ‘withholdable payment’ means—

12           “(A) any payment of interest (including  
13 any original issue discount), dividends, rents,  
14 and other fixed or determinable annual or peri-  
15 odical gains and profits, if such payment is  
16 from sources within the United States, and

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

21           “(2) WITHHOLDING AGENT.—The term ‘with-  
22 holding agent’ means all persons, in whatever capac-  
23 ity acting, having the control, receipt, custody, dis-  
24 posal, or payment of any withholdable payment.

25           “(3) FOREIGN FINANCIAL ACCOUNT.—



1           “(ii) is engaged primarily in the busi-  
2           ness of holding financial assets for the ac-  
3           count of others, or

4           “(iii) is engaged (or holding itself out  
5           as being engaged) primarily in the business  
6           of investing, reinvesting, or trading in se-  
7           curities (as defined in section 475(e)(2))  
8           without regard to the last sentence there-  
9           of), partnership interests, commodities (as  
10          defined in section 475(e)(2)), or any inter-  
11          est (including a futures or forward con-  
12          tract or option) in such securities, partner-  
13          ship interests, or commodities.

14          “(C) FOREIGN ENTITY.—The term ‘foreign  
15          entity’ means any entity which is not a United  
16          States person.

17          “(d) EXCEPTION FOR CERTAIN PAYMENTS.—Sub-  
18          section (a) shall not apply to any payment to the extent  
19          that the beneficial owner of such payment is—

20               “(1) any foreign government, any political sub-  
21               division of a foreign government, or any wholly  
22               owned agency or instrumentality of any one or more  
23               of the foregoing,

24               “(2) any international organization or any  
25               wholly owned agency or instrumentality thereof,

1 “(3) any foreign central bank of issue, or

2 “(4) any other class of persons identified by the  
3 Secretary for purposes of this subsection as posing  
4 a low risk of tax evasion.

5 “(e) CONFIDENTIALITY OF INFORMATION.—For pur-  
6 poses of this section, rules similar to the rules of section  
7 3406(f) shall apply.

8 “(f) COORDINATION WITH OTHER WITHHOLDING  
9 PROVISIONS.—The Secretary shall provide for the coordi-  
10 nation of this section with other withholding provisions  
11 under this title, including providing for the proper cred-  
12 iting of amounts deducted and withheld under this section  
13 against amounts required to be deducted and withheld  
14 under such other provisions.

15 “(g) REGULATIONS.—The Secretary shall prescribe  
16 such regulations or other guidance as may be necessary  
17 or appropriate to carry out the purposes of, and prevent  
18 the avoidance of, this section.”.

19 (b) CONFORMING AMENDMENT.—The table of sec-  
20 tions for subchapter A of chapter 3 is amended by adding  
21 at the end the following new item:

“Sec. 1447. Withholdable payments to certain foreign financial accounts.”.

22 (c) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to payments made after December  
24 31, 2011.

1           **TITLE V—MISCELLANEOUS**  
2                           **PROVISIONS**

3   **SEC. 501. ALLOWANCE OF DEDUCTION FOR DIVIDENDS RE-**  
4                           **CEIVED FROM CONTROLLED FOREIGN COR-**  
5                           **PORATIONS FOR 2011.**

6           (a) IN GENERAL.—Section 965 of the Internal Rev-  
7   enue Code of 1986 is amended by adding at the end the  
8   following new subsection:

9           “(g) ALLOWANCE FOR DEDUCTION FOR AN ADDI-  
10   TIONAL YEAR.—

11           “(1) IN GENERAL.—In the case of an election  
12   under this subsection, subsection (f)(1) shall be ap-  
13   plied by substituting ‘January 1, 2011,’ for ‘the date  
14   of the enactment of this section’.

15           “(2) SPECIAL RULES.—For purposes of para-  
16   graph (1)—

17           “(A) EXTRAORDINARY DIVIDENDS.—Sub-  
18   section (b)(2) shall be applied by substituting  
19   ‘June 30, 2010’ for ‘June 30, 2003’.

20           “(B) DETERMINATIONS RELATING TO RE-  
21   LATED PARTY INDEBTEDNESS.—Subsection  
22   (b)(3)(B) shall be applied by substituting ‘Octo-  
23   ber 3, 2011’ for ‘October 3, 2004’.

24           “(C) APPLICABLE FINANCIAL STATE-  
25   MENT.—Subsection (c)(1) shall be applied by



1 substituting ‘June 30, 2010’ for ‘June 30,  
2 2003’ each place it occurs.

3 “(D) DETERMINATIONS RELATING TO  
4 BASE PERIOD.—Subsection (c)(2) shall be ap-  
5 plied by substituting ‘June 30, 2010’ for ‘June  
6 30, 2003’.

7 “(E) REQUIREMENTS FOR INVESTMENT IN  
8 UNITED STATES.—Subsection (b)(4) shall be  
9 applied—

10 “(i) by inserting ‘deposited in 1 or  
11 more United States financial institutions  
12 and’ after ‘amount of the dividend’, and

13 “(ii) by striking subparagraph (B)  
14 thereof and inserting the following:

15 ““(B) provides for the reinvestment of  
16 such dividend in the United States (other than  
17 as payment for executive compensation) as a  
18 source of funding for only 1 or more of the fol-  
19 lowing purposes:

20 ““(i) worker hiring and training,

21 ““(ii) research and development,

22 ““(iii) capital improvements,

23 ““(iv) acquisitions of business entities  
24 for the purpose of retaining or creating  
25 jobs in the United States, and

1                   “(v) clean energy initiatives (such as  
2                   clean energy research and development, en-  
3                   ergy efficiency, clean energy start ups, and  
4                   clean energy jobs).

5                   For any purpose described in clause (i), (ii), or  
6                   (iii), funding shall qualify for purposes of this  
7                   paragraph only if such funding supplements but  
8                   does not supplant otherwise scheduled funding  
9                   for either taxable year described in subsection  
10                  (f) by the taxpayer for such purpose. Such  
11                  scheduled funding shall be certified by the indi-  
12                  vidual and entity approving the domestic rein-  
13                  vestment plan.’.

14                  “(3) AUDIT.—Not later than 2 years after the  
15                  date of the election under this subsection, the Inter-  
16                  nal Revenue Service shall conduct an audit of the  
17                  taxpayer with respect to any reinvestment trans-  
18                  action arising from such election.”.

19                  (b) EFFECTIVE DATE.—The amendment made by  
20                  subsection (a) shall apply to taxable years ending on or  
21                  after January 1, 2011.

22                  **SEC. 502. DENIAL OF DEDUCTION FOR PUNITIVE DAMAGES.**

23                  (a) DISALLOWANCE OF DEDUCTION.—

24                  (1) IN GENERAL.—Section 162(g) is amend-  
25                  ed—

1 (A) by redesignating paragraphs (1) and  
2 (2) as subparagraphs (A) and (B), respectively,  
3 (B) by striking “If” and inserting:

4 “(1) TREBLE DAMAGES.—If”, and

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

7 “(2) PUNITIVE DAMAGES.—No deduction shall  
8 be allowed under this chapter for any amount paid  
9 or incurred for punitive damages in connection with  
10 any judgment in, or settlement of, any action. This  
11 paragraph shall not apply to punitive damages de-  
12 scribed in section 104(c).”.

13 (2) CONFORMING AMENDMENT.—The heading  
14 for section 162(g) is amended by inserting “OR PU-  
15 NITIVE DAMAGES” after “LAWS”.

16 (b) INCLUSION IN INCOME OF PUNITIVE DAMAGES  
17 PAID BY INSURER OR OTHERWISE.—

18 (1) IN GENERAL.—Part II of subchapter B of  
19 chapter 1 is amended by adding at the end the fol-  
20 lowing new section:

21 **“SEC. 91. PUNITIVE DAMAGES COMPENSATED BY INSUR-**  
22 **ANCE OR OTHERWISE.**

23 “Gross income shall include any amount paid to or  
24 on behalf of a taxpayer as insurance or otherwise by rea-

1 son of the taxpayer's liability (or agreement) to pay puni-  
2 tive damages.”.

3 (2) REPORTING REQUIREMENTS.—Section 6041  
4 is amended by adding at the end the following new  
5 subsection:

6 “(h) SECTION TO APPLY TO PUNITIVE DAMAGES  
7 COMPENSATION.—This section shall apply to payments by  
8 a person to or on behalf of another person as insurance  
9 or otherwise by reason of the other person's liability (or  
10 agreement) to pay punitive damages.”.

11 (3) CONFORMING AMENDMENT.—The table of  
12 sections for part II of subchapter B of chapter 1 is  
13 amended by adding at the end the following new  
14 item:

“Sec. 91. Punitive damages compensated by insurance or otherwise.”.

15 (c) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to damages paid or incurred on  
17 or after the date of the enactment of this Act.

18 **SEC. 503. APPLICATION OF MEDICARE PAYROLL TAX TO**  
19 **ALL STATE AND LOCAL GOVERNMENT EM-**  
20 **PLOYEES.**

21 (a) IN GENERAL.—Paragraph (2) of section 3121(u)  
22 is amended—

23 (1) by striking “subparagraphs (B) and (C)” in  
24 subparagraph (A) and inserting “subparagraph  
25 (B)”, and

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

2 (b) ENTITLEMENT TO HOSPITAL INSURANCE BENE-  
3 FITS.—Subsection (p) of section 210 of the Social Security  
4 Act is amended—

5 (1) by striking “paragraphs (2) and (3)” in  
6 paragraph (1)(B) and inserting “paragraph (2)”,  
7 and

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

9 (c) CONFORMING AMENDMENT.—Paragraph (2) of  
10 section 218(v) of the Social Security Act is amended to  
11 read as follows:

12 “(2) This subsection shall apply only with re-  
13 spect to employees who are not otherwise covered  
14 under the State’s agreement under this section.”.

15 (d) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to services performed after the  
17 date of the enactment of this Act.

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

20 (a) IN GENERAL.—Paragraph (3) of section 1(f), as  
21 amended by this Act, is amended to read as follows:

22 “(3) COST-OF-LIVING ADJUSTMENT.—

23 “(A) IN GENERAL.—For purposes of para-  
24 graph (2), the cost-of-living adjustment for any  
25 calendar year is the product of—

1 “(i) the CPI fraction for calendar  
2 years before 2014, multiplied by

3 “(ii) the Chained CPI fraction for cal-  
4 endar years after 2013,  
5 reduced by 1.

6 “(B) CPI FRACTION FOR CALENDAR  
7 YEARS BEFORE 2014.—The CPI fraction for cal-  
8 endar years before 2014 is the fraction—

9 “(i) the numerator of which is the  
10 CPI for the calendar year 2012, and

11 “(ii) the denominator of which is the  
12 CPI for the calendar year 2011.

13 “(C) CHAINED CPI FRACTION FOR CAL-  
14 ENDAR YEARS AFTER 2013.—The Chained CPI  
15 fraction for calendar years after 2013 is the  
16 fraction—

17 “(i) the numerator of which is the  
18 Chained CPI for the preceding calendar  
19 year, and

20 “(ii) the denominator of which is the  
21 Chained CPI for the calendar year 2012.”.

22 (b) CONFORMING AMENDMENTS.—

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

1           “(4) CPI AND CHAINED CPI FOR ANY CAL-  
2           ENDAR YEAR.—For purposes of paragraph (3)—

3           “(A) CPI.—The CPI for any calendar year  
4           is the average of the Consumer Price Index as  
5           of the close of the 12-month period ending on  
6           August 31 of such calendar year.

7           “(B) CHAINED CPI.—The Chained CPI for  
8           any calendar year is the average of the Chained  
9           Consumer Price Index as of the close of the 12-  
10          month period ending on August 31 of such cal-  
11          endar year.”.

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

14          “(5) CONSUMER PRICE INDEX AND CHAINED  
15          CONSUMER PRICE INDEX.—For purposes of para-  
16          graph (4)—

17          “(A) CONSUMER PRICE INDEX.—The term  
18          ‘Consumer Price Index’ means the last Con-  
19          sumer Price Index for all-urban consumers pub-  
20          lished by the Department of Labor. For pur-  
21          poses of the preceding sentence, the revision of  
22          the Consumer Price Index which is most con-  
23          sistent with the Consumer Price Index for cal-  
24          endar year 1986 shall be used.

1                   “(B) CHAINED CONSUMER PRICE INDEX.—  
2                   The term ‘Chained Consumer Price Index’  
3                   means the initial Chained Consumer Price  
4                   Index for all-urban consumers published by the  
5                   Department of Labor.”.

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

9                   **TITLE VI—TECHNICAL AND**  
10                  **CONFORMING AMENDMENTS**

11                 **SEC. 601. TECHNICAL AND CONFORMING AMENDMENTS.**

12                 The Secretary of the Treasury or the Secretary’s del-  
13 egate shall not later than 90 days after the date of the  
14 enactment of this Act, submit to the Committee on Ways  
15 and Means of the House of Representatives and the Com-  
16 mittee on Finance of the Senate a draft of any technical  
17 and conforming changes in the Internal Revenue Code of  
18 1986 which are necessary to reflect throughout such Code  
19 the purposes of the provisions of, and amendments made  
20 by, this Act.